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NEW ZEALAND'S RELATIONS WITH NORTHEAST ASIA: LINKS AND INTERACTIONS UNDER GLOBALISATION

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ABSTRACT

In the mid-1980s New Zealand embarked on a path of radical economic reform. The changes that occurred and are still occurring in New Zealand are in part, of external origin and came about from an opening of the domestic economy to wider forces thereby re-incorporating New Zealand into the global economy.

Le Heron and Pawson (1996) propose that in the 1990s, economic globalization -- the process of integration, deepening and differentiation of economic activities throughout the world -- has lead to new links and interactions. In seeking to identify the external and internal forces leading to the development of new links and interactions between New Zealand and Northeast Asia (Japan, Taiwan and Korea), analysis is made of changes occurring within investment, production and trade connections. This thesis is informed by two bodies of literature: the world systems literature stresses the development of inter-country relationships in an historical context, and political economy literature links resource regimes to periods of capitalist accumulation.

In order to remain active participants in the global economy New Zealand entreprises and industries are pursuing strategies of linking into the Northeast Asian economies. Two key economic sectors, agro-food and forestry, have been chosen for investigation in order to examine changes as New Zealand industries, enterprises and local regions seek to achieve greater integration into the Northeast Asian region.

A re-articulation of production is occurring as New Zealand's agro-food sector is incorporated into a Northeast Asian food import complex. Changing patterns of production and consumption are examined within the context of the food regime perspective. While new opportunities are increasing for New Zealand agro-food exporters, trade still reflects New Zealand's traditional export base of first and second food regime products from the beef and dairy sectors. The expansion of a fresh fruit and vegetable complex represents an emerging third regime.
Since the mid-1980s the New Zealand forestry sector has become increasingly integrated into a national complex centered upon Japan. The dismantling of the national regulatory regime introduced a number of foreign investors and subsequently led to the reorganisation of trade and production networks. Prior to this time, forestry exports to Northeast Asia were inconsistent, comprising mostly logs and low value products with processing occurring in Japan. While unprocessed exports remain a significant composition of forestry trade there is a move away from low value products into more end-use-application specific production. This is accompanied by a shift in production facilities and an increase of economic surplus in New Zealand.

Land based industries in the Hawkes Bay provide examples of local adaptations of production to agro-food and forestry complexes centred upon Northeast Asia. Integration into these complexes has facilitated access to new markets and resulted in increasing degrees of added value. This has only been possible in the context of the gradual relaxation of regulatory regimes that has occurred over the past two decades. In some cases, integration is an outcome of Northeast Asian ownership of New Zealand based nodes along the commodity chain. In others, it is an outcome of New Zealand actors producing to meet 'site of consumption' demand.

In spite of New Zealand's adjustments to globalisation, it essentially remains a semi-peripheral production site.
ACKNOWLEDGEMENTS

It was the best of times, it was the worst of times,
It was the age of wisdom, it was the age of foolishness,...
It was the spring of hope, it was the winter of despair

A Tale of Two Cities
Charles Dickens

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CHAPTER ONE

INTRODUCTION

What global liberalism had promised was reform, amelioration, and the growing narrowing of the social and economic polarization of the capitalist world-system. It has lost its magic because of the widespread realization in the last twenty years that, in fact, not only has there been no narrowing of polarization, but that the story of the last 125 years...has been one of constant and growing polarization at a global level. And this polarization is continuing apace today.

Immanuel Wallerstein, Sir Douglas Robb Lectures, The University of Auckland
October 22, 1997

1.1 FROM 'ASIAN ECONOMIC MIRACLES' TO 'ASIAN FINANCIAL CRISIS'?

The world news of mid-1997 through early 1998 gave detailed coverage to an emerging financial crisis affecting a number of the Asian 'miracle' economies. The crisis which began in Thailand reverberated throughout Asia and ultimately globally to be perceived, by some, as a 'crisis of globalisation'. Thailand, Malaysia, the Philippines, South Korea (hereafter referred to as Korea), and Indonesia were affected most. Thailand's crisis grew from continual large current account deficits, a pegged exchange rate and private sector debt problems. The current account deficit, exceeding four per cent of GDP since 1990, concerned foreign lenders who doubted the ability of the borrowers to repay loans. The Thai government faced increased international pressure to devalue the baht. The competitiveness of products from Thailand eroded, signalling to the international market that Thailand's trade deficit could increase. Local and international currency dealers sold baht, transferring portfolio capital out of the economy, which lead to a financial and stockmarket crash and further pressure to devalue the baht. Thailand received emergency funds totalling $US17.2 billion from the IMF under conditions of fiscal restructuring and institutional reforms. Tight monetary and macroeconomic reform measures were introduced
including the setting of the exchange rate by market forces. The financial crisis spread to Indonesia, Malaysia and then the Philippines, all of which were experiencing similar fiscal and monetary problems: fixed exchange rates, large current account deficits, decreasing trade competitiveness and a high ratio of foreign debt to GDP. Indonesia and the Philippines received emergency funds from the International Monetary Fund (IMF) under conditions similar to Thailand.

In contrast to crisis conditions occurring in Southeast Asia, Korea's economic crisis arose neither from a fixed exchange rate nor a continual large capital account deficit. Although Korea's current account deficit had significantly increased from 1.7 per cent of GDP in 1995 to 4.7 per cent in 1996, by mid-1997 the deficit had improved to 2.5 per cent of GDP. Economic growth which had decreased from 33 per cent in 1995 to 3 percent in 1996 was partly attributed to the collapse of the semiconductor market and a loss of competitiveness due to the devaluation of the Japanese yen. Principal factors behind Korea's financial collapse were failure of the banking system and large external borrowings. A loss of confidence in the Korean market, coupled with political uncertainties, encouraged foreign lending institutions to view Korean companies and banks as a poor credit risk. Credit was restricted, debtors were pressured for payment and capital was withdrawn from the market. Capital outflows, coupled with a depreciating currency, led to a period of financial frailty during which time the government, in an effort to protect the won in foreign exchange markets, depleted the country's liquid foreign reserves.

Prior to the financial crisis Korea was recognised as the world's 11th largest economy, a country with persistently high growth rates (an average annual growth rate of 7 per cent since 1965), low inflation (below 5 per cent in 1995) and low rates of unemployment. In contrast, by late 1997 Korea was a country experiencing 'temporary illiquidity' (refer Appendix 1.1). In November 1997, the Korean government formally asked the IMF for assistance and in December 1997 announced its agreement to undertake an IMF directed economic reform package in exchange for receiving emergency funds totalling $US57 billion.

\footnote{Feldstein (1998) states that while Korea's foreign debt was around 30 per cent this was the lowest amongst the developing nations and hence Korea's financial crisis can not be termed one of fundamental insolvency.}

The reform packages were implemented in the attempt to restore conditions for economic growth and to oversee the sustainable integration of the affected economies into the global financial markets. The structural reforms which are exposing long-term social and institutional defects should bring about a breakdown within the state-bank-corporation nexus: a nexus prevalent within the countries impacted by the financial crisis. The reforms promote increased transparency, increased competition and a "more level playing field for private sector activity" (Camdessus 1998).

In contrast, countries within Asia with large foreign currency reserves including Hong Kong, Singapore, Taiwan and China have to-date emerged relatively unscathed from the crisis affecting the region. However, these countries have been affected in other ways as the financial crisis experienced by Thailand, Indonesia, Malaysia, the Philippines and Korea has reverberated throughout the rest of the world causing turmoil in the global stock markets.

Media reports gave to the recent regional crisis a feeling of considerable importance, as though it was a matter of great historical and geographical gravity. Indeed, the financial crisis has major implications for many parts of the world. The countries at the centre of the recent crisis have implemented economic austerity measures. Such measures are impacting trade and financial linkages with many parts of the world. For example, the Korean chaebol Samsung is currently reducing offshore investments by 30 per cent and is implementing stringent corporate restructuring measures. Similarly, other conglomerates are initiating retrenchment programmes. Following the rapid depreciation of a number of Asian currencies, import costs have increased leading to a decrease in demand from countries outside the region. Conversely, imports from within the crisis region have become more competitive. Spillover effects from the crisis are expected to slow growth in the world economy with neighbouring countries being particularly impacted. Following the collapse of the 'bubble economy' in 1991 the Japanese economy has experienced stagnant growth. Japan's economic difficulties have been exacerbated by the difficulties faced by many of its Asian trading partners. In June 1998, the Japanese government officially announced the economy had entered a period of recession, defined as two consecutive quarters of negative growth.

1.2 NEW ZEALAND AND ASIA

In recent years New Zealand has pursued a strategy of linking into the Asian miracle (Watters and McGee 1997). A diversification within New Zealand’s export base and
markets occurred as New Zealand companies sought to increase the geographic expanse of their operations in order to remain active participants in the global economy. In 1980, Great Britain was New Zealand's principal trading partner but by 1984 was surpassed by Australia, Japan and the United States. Northeast Asia has become a significant regional market; in 1996 Japan, Korea, and Taiwan ranked second, fifth and seventh respectively as top export markets. New Zealand's changing ties, and some may even state changing dependency, is supported by a former Prime Minister's political rhetoric, "We are a part of Asia".

Numerous New Zealand industries, enterprises and regions with connections to the crisis economies have been adversely affected by the regional crisis. New Zealand's export base to Asia has been weakened through a compression of demand; the New Zealand dollar which weakened in late-1997 reflected market concern about the loss of competitiveness vis-a-vis the crisis economies. In many sectors, particularly raw material, services, and consumer exports New Zealand enterprises face a loss of competitiveness as the crisis countries seek cheaper imports. While consumers have embarked on frugality campaigns targeting imports and conspicuous spending some commentators predict that New Zealand companies supplying raw materials for use in the value added process will not be as affected as other industry sectors. The raw materials include logs and timber, and hides and skins. Additionally, products which can maintain price competitiveness and which are niche market products or unique to the market may only be affected for a short period. Conversely, products and services subject to disposable incomes will be the most seriously impacted. This is, in part, highlighted by the sharp decline in Asian tourists travelling to New Zealand. The gul-yak (frugality) campaign implemented in Korea focusing on reducing foreign exchange expenditure is a contributing factor to a decrease in outbound travel. A number of Korean tour companies (both in Korea and New Zealand) have ceased business and Air New Zealand has reduced services between the two countries. Additionally, a decrease in inward foreign direct investment is expected as cash rich countries (i.e. Taiwan) seek opportunities elsewhere in Asia in order to take advantage of currency and asset depreciation. The deepening crisis in Asia also forced many Asian companies operating in a variety of industries in New Zealand to make rapid adjustments. Mitsubishi, Japan's fourth largest auto maker, announced the closure of plants in New Zealand and Thailand in response to economic problems in Japan.

Indeed, given the relatively recent deepening of links between New Zealand and Asia, and the increased recognition of the importance to New Zealand of its Asian links, any analysis of what is currently occurring needs to explore the construction of New Zealand-Asian
relationships and interactions. This thesis, commenced at the crest of a recent wave of closer links between New Zealand and three leading Northeast Asian nations (Japan, Korea, and Taiwan) provides interpretive background and empirical evidence about the economic and institutional processes at work.

1.3 THESIS APPROACH

The thesis explores the nature of the changing interactions and linkages between Northeast Asia and New Zealand within two key economic sectors: agro-food and forestry. An examination of the degree of re-scaling or re-connection occurring within the two sectors provides a lens on the level of integration and the degree of embeddedness of New Zealand's economy within the Northeast Asian region.

The thesis adopts a geopolitical and geoeconomic perspective to situate the recent developments in the context of capitalist historical geography (Taylor et al. 1995). It is influenced by the world systems perspective and political economy literature as interpreted by geographers. The world systems literature (Wallerstein 1974; 1979) stressing the development of inter-country relationships in the historical context proposes that the historical system of capitalism contains repeating tendencies. The world systems perspective as initially outlined focuses on three essential features: a single world market, a multi-state system, and a three tier hierarchy of economic and political relations. The hierarchical structure is comprised of core, semi-peripheral and peripheral activities and these activities are differentiated by their level of return. Core-like activities receive higher returns than peripheral-like activities. Semi-peripheral activities occupy an intermediary position. Furthermore, the literature provides broad suggestions about the direction of change within the global system recognising changes in the relative importance to the three circuits of capital at different times. While Wallerstein (1997) considers that capitalists are dependent on states and in particular strong states, he proposes that a major problem capitalist producers are presently facing is the declining importance of the nation-state. He argues that the delegitimation of the state system at the end of the twentieth century is leading to increased polarisation on a global scale.

Arrighi (1994a) contends that the financialisation of capital -- the expansion of capital on a global scale -- is currently the dominant component in the transformation to a new regime of accumulation. Money capital which has been diverted from trade and production is engaged in speculation, borrowing and lending as opposed to buying and selling and governments are
placed under greater pressure to reregulate their capital markets (Amin 1996; Harvey 1989; Thrift and Leyshon 1994; Thrift 1995). Thus, within the world systems framework the potential for financial crisis is theoretically grounded. In fact, Arrighi proposes that financial crisis are a recurring phenomena and that the major crisis of the 1970s was never fully resolved. Within the intervening time period from the 1970s to the present day other countries which have previously experienced rapid financial liberalisation and the creation of 'asset bubbles' have in turn encountered a period of crisis: Chile, Argentina and Uruguay in the early 1980s; Norway, Sweden and Finland during the late 1980s; and Mexico in the mid-1990s. The decline in economic activity (production and trade) during each financial crisis varies (IMF 1998), and while the crisis affecting the Asian region is not unique, the anomaly of this crisis is that it is expressed in the emerging epicentre (East Asia) of capital accumulation processes.

Part of the world systems thesis is that while the historical processes implies transformations in world capitalism "key aspects of these transformations are either not new at all or are new in degree but not in kind" (Arrighi 1997, 1). While some states are disempowered during the transformation processes other nation-states as key actors are simultaneously empowered (Arrighi 1997). Arrighi (1994b) argues that the 'Asian economic miracle', centred around the transborder expansion of the Japanese multi-layered subcontracting system coupled with the advantages of informal business networks, grew out of the accumulation crisis of the 1970s. The transborder expansion, which triumphed "over alternative and competing forms of transnational capitalist expansion" laid the groundwork for an economic 'miracle' and for the ascent of Japan and the Gang of Four (Korea, Taiwan, Hong Kong, Singapore) in the global hierarchy of wealth accumulation (Arrighi et al. 1993, 63). While the crisis of the 1970s permitted the 'Asian economic miracles' the speculative financial crisis of the 1990s centred within the region caused the miracles to falter and fracture.

In contrast to mainstream world-system theory, the political economy literature has placed greater emphasis on the organisation of global resource regimes while still recognising the centrality of the production, trade and finance circuits (Fagan and Le Heron 1994; Fagan and Webber 1994). Political economy theory reflects world systems insights. Two significant sub-themes within global resource regimes, namely global commodity chains (Gereffi 1994; 1995) and the food regime concept (McMichael 1994; 1995) have emerged out of the world systems school. In a broader context, the political economy literature stresses that patterns of integration, which are identifiable through analysis, comprise an important element of the present scene. The re-working of linkages, perhaps better
described as a re-scaling process involving the establishment and re-establishment of links, is an important part of the integration process in which global finance is a principle mechanism. A major proposition of the political economy literature is that while the process of capital accumulation occurs at the global scale it must be examined at the level of the nation-state and below (Britton, Le Heron and Pawson 1992; Conti, Malecki and Oinas 1995; Fagan and Le Heron 1994; Fagan and Webber 1994; Le Heron and Pawson 1996; Taylor and Conti 1997). In order to conceptualise linkages between nation-states, examination must occur at varying levels, incorporating industries, enterprises and regions. Use of the political economy literature enables the global-local nexus to be examined more effectively in terms of a two-way traffic of flows of people, capital, and ideas.

Against the background of the world systems perspective and the political economy literature New Zealand can be viewed as actively participating in the ongoing expansion of capitalism via inward and outward links. To reveal the dimensions of this participation, this thesis examines New Zealand's relationship to key economic and institutional dynamics. Two principal export sectors, namely agro-food trade and forestry, have been chosen as case studies for this purpose. Though other New Zealand export commodities (for example, aluminium, hides and skins) are of equal or greater importance in value terms, developments occurring within the agro-food and forestry sectors are of particular relevance when examined through the theoretical lenses of world systems and political economy writings. Northeast Asia is emerging as a trade and investment hub for the agro-food and forestry sectors – a regional import complex centred on Japan has important implications for New Zealand enterprises and industries. McMichael (1997, 15) states that "the concept of the 'import complex' describes a new organisational logic of the global political economy under market rule". A shifting of geographical ties to the more proximate of the Asian markets is occurring and subsequently leading to a geographic re-scaling of operations within New Zealand enterprises and industries.

1.4 OBJECTIVES

Since the implementation of economic restructuring reforms in the mid-1980s New Zealand has become increasingly integrated into the Northeast Asian economic realm (Watters and McGee 1997). Le Heron and Pawson (1996), Dicken (1998), Dicken et al. (1997) argue that in the 1990s economic globalisation -- the process of integration, deepening and differentiation of economic activities throughout the world -- has resulted in new links and interactions. New Zealand's integration into Northeast Asia, especially its nature and
degree, is the prime focus of the thesis. Integration in its many forms has occurred through the expansion of capital, both New Zealand and Northeast Asian, into trade and production. Furthermore, there is increased recognition within New Zealand of Northeast Asia's geopolitical and geo-economic importance. The thesis sets out to examine the nature of reorganisation occurring within selected New Zealand enterprises, industries and regions as part of increased links and interactions with Northeast Asia. The following objectives have been identified:

- To analyse the external and internal forces stimulating the flow of investment capital, production and trade connections between New Zealand and the Northeast Asian region.
- To examine how, and the degree to which, enterprises and industries in New Zealand are responding to opportunities inherent in the Northeast Asian region.
- To examine the degree of embeddedness of New Zealand's economy within the Northeast Asia region.
- To contribute to an increased understanding of New Zealand's participation in the global economy of which Northeast Asia is of fundamental importance.

Dicken et al. (1997, 162) maintains that one outcome of the globalisation process is the occurrence of a "qualitative reorganisation of the structural capacities and strategic emphases of the nation state". The process of globalisation "articulated through both firms and spaces operating in a complex interaction" (Dicken et al. 1997, 164) comprises two key sets of institutions: transnational corporations and nation-states. The nation-state remains as a key actor and general site for reproduction within the global economy. An examination of changes occurring within the regulatory process of the four countries under investigation is essential in the examination of changing links and interactions and is closely connected to globalisation processes. Commodity chain and food regime analyses are frameworks for examining the degree of integration and changes occurring within industries, enterprises and regions.

Developments occurring within agro-food trade from New Zealand to Northeast Asia are an extension of New Zealand's traditional colonial-derived export base of meat and dairy products. This is due, in part, to mechanisms within the Northeast Asian markets shaping the terms of entry. Conversely, the expansion of the forestry import complex centred on Northeast Asia is leading to an increased demand for timber which in turn is shaping production patterns within New Zealand. The integration of the forestry and agro-food...
sectors into the Northeast Asian region is ensuring, to a degree, New Zealand’s re-articulation into the globalising economy.

In order to investigate these objectives, the thesis focuses on two levels of analysis. First, developments are considered within the regulatory framework of each country in order to establish changes in state-economy relationships. An examination of the regulatory framework is achieved through an analysis of secondary sources. Second, adjustments by industries, enterprises, and a local region in re-regulated contexts are investigated. Semi-structured interviews conducted with key corporations, economic and government institutions were used to ascertain and explore the logic of integrative tendencies.

1.5 THESIS ORGANISATION

Chapter Two outlines the theoretical framework for examining the changing nature of New Zealand’s links and interactions with Northeast Asia. A synthesis of the world systems perspective and capitalist political economy literature provides a useful framework for examining the deepening economic involvement of New Zealand in Asia and Asia in New Zealand. Two subthemes of the world system school, food regimes and commodity chain analysis, are employed to explore developments within the agro-food and forestry sectors. Three empirical chapters (Five, Six and Seven) analyse New Zealand’s relationship to key

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2 World-systems theory initially evolved around Immanuel Wallerstein’s (1974, 1979, 1980) theoretical analysis of the world’s economic history from 1450 to the present. Early research using the world-systems framework saw the emergence of studies into the incorporation of precapitalist areas into a Eurocentric core areas (see Hopkins and Wallerstein 1987; Palat 1986; So 1986) and empirical analyses (and debate) centred around membership within the core-periphery zones of the world economy (Arrighi and Drangal 1986). A key component was that peripheral localities were shaped through their relationships with core localities. While the world-systems literature offered insight into macro-historical developments within the world-economy it was less informative about the actual processes influencing a country’s recent trajectory within the global hierarchical structure (Arrighi and Drangel 1986). The global commodity chains (Hopkins and Wallerstein 1986; Gereffi and Korzeniewicz 1990) and food regime premise (Friedmann 1982), sub-disciples within the world systems school, provide a strong theoretical and methodological base from which to conduct meso- and micro-scale research. The global commodity chain framework, international in its level of analysis examines the geographical embeddedness of production systems. The production process is analysed through a series of nodes or economic activities which cut across nation state borders. The food regime concept, a combination of regulation and world systems theories, “explores the role of agriculture in the development of the capitalist world economy, and in the trajectory of the state system (Friedmann and McMichael 1989, 96). Food regime proponents (i.e. Friedmann 1978) examine how peripheral regions are incorporated into production processes (initially wheat, intensive and durable foods) centred upon core countries. The commodity chain and food regime premise have emerged as important subfields highlighting the centrality of capital as the dominating organising force in linking transzonal production and consumption systems.
economic dynamics and develops specific themes from the world systems and political economy literature.

The world systems perspective and political economy literature each assert that the institutional or regulatory framework in which economic processes evolve is a central component to any explanation of capitalist history and geography. Arrighi (1994a) holds that within the transition from one cycle of accumulation to another, political and institutional networks are pivotal in leading the system towards expansion. Adopting his argument, national reregulation, in response to global pressures, enables countries to be reset into an expanded capitalist world economy. If Arrighi's logic is correct, then interactions between New Zealand and Northeast Asia may be aided by the changing internal regulatory environment within each of these nations; an environment which in turn could allow actors to begin to explore and deepen links and interactions with other places. New Zealand's future participation within the global economy is thus dependent, to some extent, on its current and expanding relationship with countries within Northeast Asia. An examination of the changing nature of the wider regulatory framework and that of different countries is addressed in Chapter Three.

This thesis examines the changing relationships and interactions amongst economic actors within the two chosen domains: agro-food and forestry. In order to investigate the qualitative and quantitative dimensions associated with linkages between New Zealand and Northeast Asia interviews were conducted in Northeast Asia. Any study of the changing linkages involving New Zealand and Northeast Asia which seeks to interpret the role of agency in the context of wider economic, political and cultural structures, must go beyond statistical sources and probe aspects of corporate decision-making and behaviour, and government legislative and policy processes. There are notable differences between the investigation of New Zealand into Asia and Asia into New Zealand. Chapter Four discusses methodological issues in relation to obtaining information dealing with corporate motivations, expectation, strategy and actual behaviour connected with the development of new links and interactions.

Food regimes which are linked to more general regimes of capital accumulation and regulation provide an important context for investigating New Zealand's insertion into the emerging Northeast Asian food complex. Transnational corporations implementing flexible sourcing patterns and operating under market rule are the central force within the emerging regime centred around the growing dependency of the Asian nations on food imports. Chapter Five examines the notion of food regimes before analysing the evolution of new
production-consumption relations pertaining to food. The relaxation of import barriers within Northeast Asia under the GATT Uruguay Round Agreement presents new market opportunities and challenges for the New Zealand agro-food sector. Furthermore, changing patterns of consumption reflective of increased discretionary income levels and the westernisation of consumer tastes are opening up new profit avenues centred around emerging import complexes.

Chapter Six examines the patterns and implications of penetration of overseas capital into the New Zealand forestry sector following the sale of New Zealand’s forestry resources. Over the past few decades, forestry trade between New Zealand and Northeast Asia has been intrinsically linked to Japan's increasing demand for timber. Korea and Taiwan have emerged as second tier participants in the integration of New Zealand’s forestry sector into the Northeast Asian realm. Emerging patterns of investment principally by Japanese finance capital and a reconstruction of production reflects the importance of the Northeast Asian markets and particular logic to sector development.

Chapter Seven shifts the focus of analysis to a local setting. Examination of local regions highlights varying degrees of integration and embeddedness into the Northeast Asian realm (Forbes 1997). The Hawkes Bay region in New Zealand, an important site for the agro-food and forestry sectors, has been selected for examination due to the emergence of production complexes servicing the Northeast Asian markets. Production principally geared towards servicing the Japanese market is a principal force behind changes occurring within the region.

Chapter Eight concludes the thesis by revisiting the core-periphery relationship and assessing how the evidence provided in the empirical chapters allows conclusions to be drawn as to the assertions of the world-system and political economy literature.

In summary, the principal proposition of this research is that a key outcome of New Zealand's recent restructuring process has been an accelerated and deepening relationship with Northeast Asian economies. The change in the broad nature of this relationship can be examined using world systems and geographic restructuring literature. In the specific context, the evolving relationship is examined using the food regime and global commodity chain frameworks. Using these frameworks this thesis investigates enterprises, industries and regional change to establish the evolving nature of the core-periphery relationship expressed in the agro-food and forestry sectors of New Zealand.
CHAPTER TWO
THEORETICAL FRAMEWORK:
GEO-ECONOMIC AND GEO-POLITICAL RELATIONS

2.1 INTRODUCTION

In the mid-1980s New Zealand embarked on a path of radical economic reform, furthering the internationalisation of its economy (Bollard and Buckle 1987; Britton 1991; Britton et al. 1992; Easton 1987; 1989). The reforms, an ideological and material revision of New Zealand’s position in the world economy, transformed New Zealand from a country with a long history of strong state intervention to a model of liberal market reform (Britton et al. 1992; Campbell 1994; Kelsey 1995; 1997). The implementation of a number of economic and institutional measures has further integrated some sectors of New Zealand’s economy into the global circuits of capital.

Japan, South Korea and Taiwan achieved industrialisation albeit at different stages through the implementation of export-oriented growth programmes under the auspice of authoritarian ‘protection’. Following the Japanese model of economic transformation the shift in Korea and Taiwan’s status from newly industrialising economies (NIE) to maturing industrialised nations is well documented, as is the transition from protected, traditional regimes to those more attuned to the global economy (Alvstam 1995; Cho 1994; McKay and Missen 1995; Rimmer 1995; SaKong 1993). In response to changing domestic and global conditions the governments of the Northeast Asian economies initiated policies under which the majority of market controls have been, or are in the process of being, liberalised. The economic restructuring in these countries is, in part, of external origin. In order to understand this one has to examine the global expansion of capital, along with internal
pressures for change. To conceptualise the shifting patterns of capital movement two frameworks for investigation are used. The first is Wallerstein's world systems perspective which proposes that the capitalist world system is a crisis-prone historical system. The second framework for investigation is the political economy literature with reference to the Geographic Restructuring (GR) model developed for the New Zealand context. In critically examining the world systems perspective a number of geographers (including Agnew and Corbridge 1995; Dicken 1998; Knox and Agnew 1994; Taylor 1993) recognise that a synthesis with the political economy literature provides a fuller framework for examining many changes within the world economy. A synthesis between the two bodies of literature presents a greater insight into understanding new interactions and to the identification of appropriate method for studies of different contexts. Additionally, use of the GR model allows examination of national and local occurrences which link New Zealand to Northeast Asia within the global circuits of capitalism. The world systems perspective is outlined first, followed by a summary of the political economy literature, and then a synthesis.

2.2 THE CAPITALIST WORLD ECONOMY: A WORLD SYSTEMS PERSPECTIVE

Wallerstein's development of the world systems perspective is influenced by Fernand Braudel (1976) and the French Annales school. Braudel's premise that historical change should be examined within la longue durée provides insight into historical change, "In that way, history would move away from the 'uniqueness of events' (eventism), and the social sciences would gain a historical perspective lacking in much of its attempts to formulate trans-historical theory" (Kaye, quoted in So 1990, 172). In order to examine la longue durée Braudel proposed that events should not be examined merely within a historical framework but other disciplines, such as geography, needed to be incorporated. Additionally, Braudel sought to ask questions such as the meaning of capitalism. Wallerstein's formulation of the world systems perspective is based on Braudel's admonition to examine the longue durée and the importance of asking 'big' questions.

In the mid-1970s Wallerstein headed a group of researchers in examining developmental issues from a broader perspective than the neoclassical and dependency schools allowed. Treating the world as a whole unit, Wallerstein proposed that developments were occurring in the capitalist world-economy that neither of the existing theories explained. The most significant development was rapid and unexplainable growth in the Northeast Asian region which was then beginning to challenge the preeminence of the United States. Out of this
Wallerstein proposed the world systems perspective based on the assumption that the appropriate unit of analysis is the world system. Wallerstein (quoted in So 1990, 196) stated:

Once we assume that the unit of analysis is such a world-system and not the state or the nation or the people, then much changes in the outcome of analysis. Most specifically we shift from a concern with the attributive characteristics of states to concern with the relational characteristics of states. We shift from seeing classes (and status groups) as groups within a state to seeing them as groups within a world-economy (emphasis added).

Wallerstein (1979) identifies three essential features of the historical system: a single world market, a multi-state system, and a three-tier structure of core, periphery and semi-periphery processes.

The following sections provide a brief overview of the world systems perspective and emerging sub-themes. In asking the 'big' questions Wallerstein's framework deals with the historical (geopolitical) perspective and thus gives an understanding of the broadest context in which economic actors operate. Indeed such an approach is a distinct divergence from neo-classical, Marxist and even Keynesian economic thinking which sought to establish general principles for the organisation of economic activities and which "have had difficulty coping with the role of the state in the capitalist economy" (Martin and Sunley 1997, 278).

2.2.1 FORMATION OF THE CAPITALIST WORLD SYSTEM

Wallerstein proposed that a single world system began to appear in sixteenth century Europe as a reaction to feudalism. Of this modern world system Wallerstein (1974, 37-38) writes:

It was to be based not on direct appropriation of agricultural surplus in the form of either tribute (as had been the case for the world-empires) or of feudal rents (as had been the system of European feudalism). Instead what would develop now is the appropriation of surplus which was based on more efficient and expanded productivity (first in agriculture and later in industry) by means of a world market mechanism with the 'artificial' (that is non market) assistance of state machineries, none of which controlled the world market in its entirety.

The European world-system expanded through the incorporation of outlying areas eventually to develop into a global world-system. Incorporation was especially seen to occur in response to periods of stagnation within the capitalist world-economy and the subsequent search for cheaper resources and labour. The system expanded through the
continual improvement of the means of production and development of the interstate system. No longer self-sufficient, the incorporated areas (periphery in Wallerstein terms) became reliant on political and economic links to the core economies and ultimately to the world economy. The emerging historical role of the periphery was to fuel growth in the core regions through the production and export of primary products to core localities. Integrated economies were constructed and reconstructed to suit market opportunities, usually emerging in the core.

The initial incorporation of marginal territories into the world economy concluded during the nineteenth century with the "end" of colonialism. The early world-wide incorporation process has been replaced by an intensification of the capitalist process through technological expansion, commodification, and the accumulation of capital. Capitalism, in existence since the sixteenth century, became a global system in the nineteenth century (Wallerstein 1979).

An essential element not pursued within the world systems school is the changing geography of re-incorporation as states withdrew, voluntarily or otherwise, from full participation in the capitalist world-economy, to pursue paths of self-reliant development (e.g. China, India, Cuba) and at a later point chose or were forced to reincorporate into the capitalist world-economy. The American led re-incorporation of Japan into the capitalist world-economy post-1945 opened the door for Japan's rise to core status and this had important implications for the subsequent economic development of Taiwan and Korea. In recent years we have witnessed a shifting of the economic centre of gravity to Northeast Asia.

The majority of studies conducted within the world systems framework are centred around the Western European countries and it is important to remember that the capitalist world-economy consists of a series of emerging processes centred on nation-states pursuing different trajectories. Re-incorporation is an on-going phenomena of the global system, a feature with important geographical dimensions. States are re-positioned within the three tier hierarchy based on economic and political relations.

2.2.1.a Core-Periphery Hierarchy

The modern world system as described by Wallerstein is based on a hierarchical structure of core, periphery and semi-peripheral activities organised in the broad framework of nation-states. An initial conception was the relationship between the core and the periphery as that of an unequal production and consumption process. Continual capitalist operation and
development was seen as dependent on the exploitative nature of the core-periphery relationship in which significant levels of surplus value are extracted from the periphery to benefit growth at the core.

The core-periphery relationship "designate[s] complementary portions of the world economy and only derivatively pertain[s] to its political divisions" (Hopkins and Wallerstein 1982, 11). The concepts of core and periphery are likened to links in commodity chains, whose economic activities flow across state boundaries (Arrighi and Drangel 1986). The nodes or economic activities, all of which are involved in the final product, are differentiated by their level of return: core-like activities receive higher returns than peripheral-like activities. The core-like activities involve skilled labour, proportionate wage levels, sophisticated technology, and a diversified production base. In comparison, periphery-like activities are distinguished by unskilled labour, elementary technology, and a simplistic production base (Knox and Agnew 1989). A core-like activity is an economic activity "which receives high returns regardless of what the substantial nature of the activity is" (Chase-Dunn 1989, 206). While the core-periphery relationship is based on processes and is not a direct relationship between nation-states, core and periphery terms are assigned to states and regions due to the proliferation of particular processes which dominate within that region (Taylor 1993).

Wallerstein contends, however, that the world is too complex to fit into a simplistic core-periphery dichotomy. He introduces a third category in his classification: the semi-periphery. There are no separate semi-peripheral processes but semi-peripheral activities are characterised by a mixture of core-like and peripheral-like activities. In its intermediary role the semi-periphery becomes both the exploiter and exploitee by exporting periphery commodities to core states and core commodities to peripheral states. Wallerstein views the role of the semi-periphery as political, a zone lending a level of stability to an otherwise crisis-ridden, bi-modal world economy.

In response to global mechanisms states can achieve upward mobility within the world system, likewise in response to unfavourable mechanisms downward mobility can occur. However, movement from the periphery to the semi-periphery, and from the semi-periphery to the core, are rare occurrences and can only be achieved through sustained strategic economic responses to global conditions. The semi-periphery performs an essential role in this movement. So (1990, 198) explains the semi-periphery in this manner:
With this immediate layer of semi-periphery in the model, the world system perspective is thus capable of studying the changing directions of the state in relation to the contradictions and crises that are built into the working world capitalist system.

However, Wallerstein was criticised for the perplexing mixture of states assigned to the semi-periphery. The list, comprising states occupying an intermediary position either in power or income levels, includes:

the economically stronger countries of Latin America: Brazil, Mexico, Argentina, Venezuela, possibly Chile and Cuba. It includes the whole outer rim of Europe: the southern tier of Portugal, Spain, Italy and Greece; most of Eastern Europe; parts of the northern tier such as Norway and Finland. It includes a series of Arab states: Algeria, Egypt and Saudi Arabia; and also Israel. It includes in Africa at least Nigeria and Zaire, and in Asia Turkey, Iran, India, Indonesia, China, Korea and Vietnam. And it includes the old white Commonwealth: Canada, Australia, South Africa, possibly New Zealand (Wallerstein 1979, 100).

Arrighi and Drangel (1986, 31) in seeking to theorise the semi-periphery, and eliminate much of the ambiguity associated with Wallerstein's classification, use GNP per capita "as an indirect and approximate measurement of the mix of core-peripheral activities that fall within the jurisdiction of a given state". In analysing the placement of states within the three tier hierarchy Arrighi and Drangel (1986; Arrighi et al. 1993) identify only two states that have made the transition from periphery to semi-periphery: Taiwan and Korea. Likewise, they identify two states as having made the transition from semi-periphery to core: Japan and Italy. Ghana is the only state which has decreased its mixture of core-periphery activities and experienced downward mobility from semi-periphery to periphery. Mobility can also occur within each separate hierarchy as each state seeks to improve its production, financial, and commercial output. Intra-core movement has important consequences to shifting global power and hegemonic leadership. The debate over which mechanism to use in classifying states within the semi-peripheral paradigm continues. New Zealand is identified as a semi-peripheral locality (Taylor and Thrift 1982; Wallerstein 1974) and also as a core locality (Arrighi and Drangel 1986; Palat 1998). Originally locating New Zealand within the core, Arrighi (pers. comm. 1995) speculates that during the economic crisis of the 1980s and early 1990s New Zealand experienced downward mobility to rank as one of the poorest of the core states.

2.2.1.b Multiple State System and Hegemonic Leadership

Periodically, within the capitalist world-system episodes of hegemonic leadership occur when one core locality gains internal and external capabilities superior to others within the
intra core system. Production efficiency coupled with commercial and financial advantage propel a state to hegemonic leadership (Chase-Dunn 1989). Superior advantage within these three areas does not have to occur simultaneously but is generally progressive. Of the hegemonic process Chase-Dunn et al. (1982, 81) comments:

All hegemonies, even the earliest, involve "industrial revolutions" in the sense that new, more economically efficient technologies were applied that allowed the production of mass consumption goods more cheaply than by competitors.

Additionally, the availability of abundant capital to invest in the development of new technology is essential.

According to Wallerstein there has been three periods of hegemonic leadership since the formation of the capitalist world-economy in sixteenth century Europe: the Dutch (mid seventeenth century), the British (mid nineteenth century), and the American (mid twentieth century). In contrast, geographers (Agnew and Corbridge 1995) have identified three geopolitical orders centred on capital accumulation and political regulation. Britain's achievement of geopolitical leadership (1815-75) arose from an expansionary period centred on comparative advantage and free trade. During the second period (1875-1945) Britain's hegemonic leadership was challenged by inter-imperial rivalries and the mechanisms of free trade were replaced by protectionism and the formation of exclusive economic blocs. Following World War II the United States and the Soviet Union divided the world into two domains of influence and subsequently competed in the third domain which comprised states emerging from colonial rule. American hegemony adopted a neo-liberalism agenda in the third stage (1945-1990) opening the world to more direct trade and investment and the establishment of institutional arrangements. Agnew and Corbridge (1995) speculate that the emerging fourth geopolitical order will emerge as a new model of transnational liberalism. Taylor's (1993) examination of hegemony, based on Wallerstein's framework, proposes that periods of hegemony are linked to Kondratieff A- and B-phases. The periods of British and American hegemonic leadership coincide with pairs of Kondratieff cycles. A Kondratieff upswing, referred to as an A-phase, equates with the rise of a rise of hegemonic power while the B-phase equates to hegemonic decline. Military strength and economic supremacy are considered prerequisites for hegemonic leadership.

Intra-core powers seek to challenge the role of hegemonic leadership by improving production, financial, and commercial output. This has been accompanied, in part, by the increase in economic interdependence apparent in recent decades. Both core and semi-periphery competitors have adopted technological innovations brought about by the initial
diffusion of technology. Due to increasing costs of production in home based countries, core powers have sought cheaper sources of supplies (both material and labour), thereby aiding the diffusion of technology and capital to and within other regions. Generally, it is such a diffusion that leads to the loss of competitive advantage for the hegemonic power.

A decline of economic superiority is generally equated with a decline in hegemonic leadership. Competitive advantage is lost, partly, through the dispersal of new technologies to competing producers within the intra-core region and the semi-periphery (Chase-Dunn *et al.* 1989). Initial investment in new innovations is considerable and it takes times to recoup this investment capital. In contrast, latecomers have the ability to adopt and expand technologies without the initial investment output. Faced with increasing costs of production in home based markets, increasing competition, and declining profits the hegemonic leader is also weakened through maintenance costs associated with its role as global superpower: military expenditure, international and domestic social costs. The power formerly associated with hegemonic leadership is replaced by an almost equal distribution of power within the intra-core network. The loss of economic advantage and a shifting in power distribution has an important geopolitical significance. However, hegemonic decline is not an absolute decline wherein the core experiences downward mobility to either the semi-periphery or periphery but is a relative decline to advantages obtained by other core states (Chase-Dunn 1989). The emergence of a new hegemonic power is generally equated with the beginning of another distinct phase of capitalist accumulation and the further expansion of the capitalist world-economy through increased competition and expansion of trade and production.

2.2.2 GLOBAL CAPITAL ACCUMULATION

Arrighi contends that the world-wide expansion of trade and production is punctuated by periods of global expansion of capital (money trade as opposed to commodity trade). This 'financialization of capital' as he calls it, "the moment when the leading business agencies of the preceding trade expansion switch their energies and resources from the commodity to the money trades" (Arrighi 1994a, 86), signifies the maturity level of the current cycle of accumulation and the transition into a new, yet undefined regime of accumulation, a cycle which historically is greater (in size and capability) than the previous one.

Historically, Arrighi identifies four systemic cycles in which capital has demonstrably expanded on a global scale and ended in a crisis of overaccumulation. The expansion of
capital is an essential element in the formation of a new cycle of accumulation and also in the emergence of a new hegemonic power. Each hegemonic period in Wallerstein's framework signifies a new accumulation cycle. Each successive cycle brings a greater intensification process facilitating the expansion of the world economy.

Following the Second World War, the United States of America emerged as leader of the new regime of capitalist accumulation. However, by the 1970s the "limits to the material expansion of capital" (Borrego 1995) were highlighted by the oil crises and withdrawal of American credit from the global market. It was recognised that expansionary policies of previous years were no longer possible. Arrighi perceives the financialization of capital as being a dominant factor during the economic crisis of the 1970s. The crisis evoked dramatic changes within the capitalist world-economy, initiating a period of reregulation and privatisation of economies (not occurring simultaneously in all countries or indeed to the same degree). The underlying policies to reregulate were, in part, a forerunner for a greater transborder expansion of capital and a change in the role of the nation-state. Reregulation provided the means for greater accumulation and in turn, further restructuring could lay the foundation for a new cycle of accumulation to begin. Borrego (1995) writes:

The continuing deregulation\(^1\) and privatization of the industrial countries, the structural adjustment of much of the developing countries, and the massive changes in Eastern Europe and the Soviet Union, are all part of the ongoing process of "creative destruction" - the destruction of structures of the earlier period and creation of the conditions for a new cycle of capitalist accumulation in the world system.

According to Arrighi we are currently in a 'financialization of capital' cycle and therefore in a transitional period from the American cycle of accumulation to a new undefined cycle. The changing role of the nation-state within this period has further opened up national borders to the capital accumulation process and further dimensions of incorporation into a capitalist world-economy. Capital is recognised as being globally as opposed to nationally bound, which Arrighi (1994a) terms as one of "geographical mobility of capital" in which production and markets have been restructured globally. Swyngedouw (1997) notes that any control nation-states have over the mobility of capital is constrained by the sheer volume of money transferred daily. In turn, Amin and Thrift (1997) argue that as a result of the collapse of the Bretton Woods regime, financial capital that has an autonomous strength has

\(^{1}\) The term reregulation is a more appropriate term than deregulation. The capitalist world system is an evolving system and what occurs is a dismantling of the old regulatory arrangements and the reconstruction of new forms of regulation.
obtained greater control over production. Global financial capital has created a new market environment and seeks to regulate "national economies and business transactions". The current speculative nature of capital is proving to be, in itself, a vehicle for accumulation (Lawrence 1996; Swyngedouw 1997).

While McMichael and Myhre (1991, 99) contend that transnational finance capital is laying the foundation of an imminent "globally-constructed regime of accumulation" they highlight the importance of viewing the present crisis conditions as a series of crises within the current regime of accumulation which are implicated in transforming the nation-state into a 'transnational' state. Financial capital thus plays a fundamental role within the transformation process evolving the nation-state through (McMichael and Myhre 1991, 83):

1. "a greater integration of the state in capital circuits with global dimensions,
2. a heightened responsiveness of the state as an instrument of regulation to the interests of transnational finance capital, and
3. a recasting of the operating principles of the state system away from a focus on national economic coherence".

The emergence of a transnational state coupled with reregulatory measures aimed at facilitating the mobility of capital is redirecting the state's capacity vis-a-vis global institutions to regulate the environment for capital accumulation (McMichael and Myhre 1991; Martin and Sunley 1997).

2.2.3 SUB-THEMES EMERGING FROM WITHIN THE WORLD SYSTEMS SCHOOL

A principal limitation associated with the world systems perspective was the presumption that core activities were automatically located in core economies; similarly that semi-peripheral and peripheral activities were contained within semi-periphery and peripheral economies. Edgington and Hayter (1997, 152) write that the "global stratification of place based on the nation-state system, do not capture the intricacies of globalization, especially the complex dispersion of production organized by transnational corporations (TNCs)". Two notable sub-themes, global commodity chains and the food regimes, have emerged from the world systems school in answer to such limitations.

The idea of global commodity chains and the food regime premise are briefly outlined within this section. The sub-themes are further developed in Chapters Five and Six in order
to interrupt changes occurring within the agro-food and forestry industries and the relevance of such to New Zealand's deepening linkages to Northeast Asia.

2.2.3.a Global Commodity Chains

World systems theorists Hopkins and Wallerstein (1986, 159) define a commodity chain as a "network of labour and production processes whose end result is a finished commodity". The commodity chain was conceptualised in order to address a fundamental obstacle within the world-systems perspective, that of how to "depict and investigate the relationships that sustain and reproduce core-periphery relations over time and space" (Korzeniewicz and Martin 1994, 68). In proposing the commodity chain as a means of analysing the structure of the world economy, Hopkins and Wallerstein suggest that "concentration and decentralization, or shifts in the zonal location of nodes (e.g. from core to periphery), are associated with cyclical rhythms of the world-economy" (Gereffi et al. 1994, 5).

Within the global commodity systems research the Gereffi and Korzeniewicz (1990) development of the Hopkins and Wallerstein model has perhaps gained the most prominence. Making the global commodity chain the central unit of analysis in examining global networks of production and marketing, Gereffi and Korzeniewicz parallel the work of Porter (1990) on value chains and Dicken (1992) on production chains.

Gereffi's (1994) industry specific work examines the relationship between raw materials, production, and consumption on a territorial scale (see also Gereffi 1993; 1995; Gereffi and Korzeniewicz, 1990; Gereffi et al. 1994; Korzeniewicz 1994; Le Heron and Roche 1996). Linking the commodity chain relationship to the concept of the core-periphery relationship Gereffi et al. (1994, 2) accentuate the linkages between various geographical locations involved in the production of a single commodity,

A GCC [global commodity chain] consists of sets of interorganizational networks clustered around one commodity or product, linking households, enterprises, and states to one another within the world economy. These networks are situationally specific, socially constructed, and locally integrated, underscoring the social embeddedness of economic organization.

Furthermore, it is suggested that profits accrue around the nodes (which comprise factors of production) in comparison to the nation-state and that differential profits are created at various nodes within the commodity chain system (Appelbaum et al. 1994, 188). In particular, core-like nodes generate a greater share of wealth than do commodities produced at peripheral-like nodes. While principally controlled by private economic agents (market
forces and hence financial capital), commodity chains are also influenced by the state policies of both the producing and consuming countries (Gereffi 1994, 95; Dicken 1998). Two types of commodity chains have been identified, namely 'producer-driven' and 'buyer-driven' chains. Within producer-driven chains TNCs or similar large scale enterprises based usually in core localities coordinate the production system with the capacity to formulate backward and forward linkages and also to diversify. By way of contrast, within buyer-driven chains large retailers and trading companies play a central role in "setting up decentralised production networks in a variety of exporting countries". Trade and production processes are linked across the zones of the world economy organised by large corporations involved in economic networks on a global scale. That the linkages are increasingly firm specific as opposed to territoriality based is leading to the "development of longer, more decentralized, and more flexible commodity chains" (Gereffi et al. Korzeniewicz 1994, 8).

2.2.3.b Food Regimes

The concept of food regimes (Friedmann 1982; Friedmann and McMichael 1989) emerged from within the political economy literature as a tool whereby transformations occurring within the agro-food sector may be conceptualised. While nodes within the agro-food network are geographically dispersed in line with the concept of global commodity chain proponents of the food regime concept link "international relations of food production and consumption to forms of accumulation characteristics of particular historical periods" (Ufkes 1993b, 217). Food regime literature uses the geographical and historical trajectory of the capitalist experience to analyse current restructuring within the global agro-food sector (Pritchard 1996).

A spatial reorganisation of patterns of production and consumption within the agro-food sector is occurring on a global scale in response to the breakdown of Fordist systems. Agriculture has shifted from production for the local and national markets to production for global markets (Janvry and Le Veen 1986);

the present situation is one in which the connotations of "farming" -- in particular, rurality and community, but also other categories that are limited to national economies, nation-states, and national societies -- are giving way to vertically and horizontally integrated production, processing and distribution of generic inputs for mass marketable foodstuffs (Friedland 1991, 3-4).

In defining a 'food regime' McMichael (1992, 344) states, "The essential features....are
found in the characteristics of large-scale food production and consumption, and their relation to the organisation of the state system". Le Heron (1993) views food regimes as relatively stable investment axes, supported by investor commitment and regulatory arrangements, which link production and consumption networks in sometimes distant locations. The investment/trade arrangements of a regime may remain intact over a long period but can be displaced in importance by the emergence of a new axis, through the result of economic and institutional agency.

An investigation of the restructuring of the global agricultural and food production industries in light of developments within the current regime of accumulation is occurring. Ufkes (1993a, 194) considers financial capital to be the major force shaping regional agriculture. McMichael and Myhre (1991, 91-92) argue, furthermore, that: (1) the internationalisation of agro-food systems is encouraged by the new international financial relations; (2) this process compromises the possibility of maintaining or constructing coherent national agricultural sectors; (3) this exemplifies the reorientation of the state away from the national project; and (4) this embrace of international economic liberalism is abetted internally by domestic classes (e.g. financiers, exporters) who gain from the 'de-nationalisation' process.

Currently, the reorganisation of the global agro-food sector is being driven largely by transnational corporations operating in a multi-polar world economy based on WTO rules, in a world economy that is less regulated than previously (Goodman and Watts 1994, 20; Le Heron and Roche forthcoming). McMichael (1994; 1995) highlights not only the dependency of the agro-food sector on the global economy but also the political impact of these developments and recognises that new forms of regulation will have unknown dimensions within the system.

2.3 POLITICAL ECONOMY LITERATURE

Harvey (1989, 147) observes that recent contradictions contained within capitalism (brought about through the rigidity of Fordism) have led to the emergence of a new regime of 'flexible' accumulation. On the question of the globalisation of financial capital, Harvey (1989, 165) suggests that while a delicate balance has always existed between financial and nation-state powers, the "breakdown of Fordism-Keynesianism evidently meant a shift towards the empowerment of finance capital vis-a-vis the nation state". For Thrift (1989, 19) this is a period of uncertainty where the process of the internationalisation of capital is
extended. The process has been characterised by increased integration (indeed of a complex nature) on a range of scales embracing trading, financial and production systems, facilitated in great measure by the expansion of transnational corporations operating beyond the nation-state. During the mid-1980s many states embarked on economic restructuring measures to encourage further involvement in the capitalist world-economy as evidenced by the deregulation of financial markets and the dismantling of trade barriers.

Geographers in Australasia began to re-examine the geography of economic restructuring in the 1980's in response to the re-evaluation and extension of ideas concerning the circulation of capital. The re-examination of economic restructuring from this perspective is most fully developed by Britton, Le Heron and Pawson (1992); Fagan and Le Heron (1994); Fagan and Webber (1994); Lawrence (1996); Le Heron (1993); Le Heron and Park (1995); Le Heron and Pawson (1996). Three main ideas of direct interest to my research have arisen from the re-examination of the geography of economic restructuring:

Firstly, the concepts of production, trade, and finance are integrated into one theoretical framework. While, this theoretical integration is not a totalising view, it does however highlight the tensions in the circulation of capital and differing forms of regulation that accompany and influence the movement of capital. Secondly, in light of New Zealand and Australia's role within the world system, it was necessary to conceptualise and theorise the changing nature of economic links and interactions with respect to nations, industries, enterprises and regions (Goodman and Watts 1994; Le Heron and Roche 1996). Thirdly, consideration of these matters enables global-local connections in any context to be examined more effectively in terms of a two-way traffic of flows of people and resources centred on the agency of private and public organisations of differing kinds.

These ideas prompt in the New Zealand context further theorising in various areas including:

- an examination of the role global restructuring takes in economic adjustment occurring in territories;
- how developments in a territory are connected with wider processes;
- the role of the multi-national companies in evaluating territory and attempting to coordinate outcomes to result in greater levels of profits;
- how New Zealand based companies are attempting to increase the geographic expanse of their operations in order to remain active participants in the global economy.
2.3.1 GEOGRAPHIC RESTRUCTURING MODEL

The Geographic Restructuring (GR) model was developed within the New Zealand community of geographers to help reveal New Zealand's constraints in the global economy and to rectify weak conceptualisation of a period of intensified restructuring. The process of restructuring was not seen as a simplistic one-time occurrence but as an ongoing and complex response to global and other changes. In recognition of this, it was deemed necessary to widen the matrix of study. The GR model consists of local, national, and global, and an essential element of the GR model is the concept that the "local is always the first site of action", (Britton et al. 1992, 6) not the national as had often been assumed. A greater understanding of the restructuring process follows from the examination of local, national and global processes. Hence, the GR model becomes "a framework, or a conceptual map, to guide investigation of actual material conditions and experiences" (Le Heron and Pawson 1996, 7) relating to the New Zealand context.

The Geographic Restructuring (GR) model (Le Heron and Pawson 1996) consists of six themes:

1. "Periods of restructuring are times of intensified change in a broader capitalist historical context.

2. Change in the organisations, industries and regions of a nation springs potentially from influences originating at all geographic scales.

3. Change is always a composite of the intersections of economic, cultural and environmental processes.

4. All processes are mediated by various kinds of regulatory arrangements prevailing over different territorial units.

5. The character of change in organisations, industries and regions comes from the particular mix and interactions of processed and regulatory structures operating within a nation.

6. The particular crisis conditions that lead to restructuring in each nation will differ."

The GR model recognises that processes are a product of agency. People and organisations are essential to the analysis at every stage of investigation. The GR model stresses the role of agency in its many forms in contrast to the world systems perspective which gives much less prominence to agency. The recognition of agency is essential to a greater understanding of local and national developments in the context of global activity.
The GR model begins to sketch how the interactions involving Australia and New Zealand to the Asia-Pacific region might be examined. The propelling claim of the GR model that the "local is always the first site of action" has implications for both the local and national response to changing global initiatives. The model allows us to examine responses, whether facilitative or not, to changing patterns of trade, investment, and production. As local regions within New Zealand seek economic growth they are increasingly looking at foreign investment as a mechanism to allow them to re-enter or remain in the globalizing economy as a competitive player. This in turn influences national level processes.

2.4 DEVELOPING A SYNTHESIS: THE WORLD SYSTEMS PERSPECTIVE AND THE GEOGRAPHIC RESTRUCTURING LITERATURE: APPLICATION FOR STUDY

Both the world-systems perspective and the geographic restructuring literature seek to make understandable various complexities within the circuits of capitalism. Although placing emphasis on a different combination of elements, they allow for a greater examination of New Zealand relations with Northeast Asia within the progression of capital circulation and expansion. The current cycle of accumulation has brought changes to New Zealand's external links, revealing new interactions between New Zealand and the rest of the world. A synthesis between the world-systems perspective and the geographic restructuring literature promises added insight into understanding these new interactions and to the identification of appropriate method for investigation of such interactions.

An important distinction between the world-systems perspective and the GR model is the attention given to both the local and national in relation to the global. It is the view of the world-systems school that data collected from the nation-state is too limiting and needs to be reinterpreted within the context of the previous cycles of capitalism. Geographers, who have increasingly recognised the limitations of the nation-state since the economic crisis of the 1970s, still view the nation-state as useful for study within the emerging global world economy. National policy plays a significant role in attracting or dissuading global capital and therefore is of fundamental relevance. Internal (both local and national) as well as external factors stimulate the flow of investment capital, production, and trade.

The nation-state is in various ways a filtering process between the local and the global. This signifies a degree of autonomy for the local. However, greater understanding can be gained when the local is considered through the lens of the GR model as opposed to the world-
systems perspective. It is the GR model that recognises that the "first site of action" is always the local, and that it is from the local that developments occur at other scales (Le Heron and Pawson 1996, 6).

A second important distinction between the GR literature and world-systems perspective is the conceptualisation of the formation of the capitalist world economy. As noted earlier Wallerstein proposes that the capitalist world economy formed in sixteenth-century Europe and was internationalised in the nineteenth century\(^2\). In comparison, geographers (Agnew and Corbridge 1995; Fagan and Webber 1994) date the European experience of capitalist internationalisation as the nineteenth and early twentieth centuries. However, there is consensus that capitalism has continued to exist because of periods of crisis and that capital has the ability to enter a new cycle of expansion.

The common notion of capitalist crises and its periodicity makes possible an integration between world systems theory and political economy literature. Such crises as those recognised as the economic crisis of the 1970s are in fact not stand-alone phenomena but are historically rooted in the capitalist world system, geographically specific and are tendencies that are repetitive. Situations that seem unique and totally unanticipated are recognised as recurrences of situations that have occurred before, once our 'time-space horizon' (Arrighi, pers. comm. 1995) is widened, and we look beyond the immediate.

2.5 CONCLUSION

The world systems paradigm assisted by the geography of restructuring literature offers a useful framework for investigating the changing geo-economic and geo-political relations amongst sets of nation-states. The world systems literature, stressing the development of inter-country relationships in the historical context, is complemented by the geography of restructuring literature which emphasises independencies between investor company behaviour and governance arrangements.

Northeast Asia was reincorporated into the capitalist world-economy under the period of US hegemony. The economic growth of this region has been dramatic allowing Japan, Taiwan, and Korea to achieve upward mobility within the world system. Led by Japan the rise of Northeast Asia as a regional hegemonic leader coincides with the world economic crisis and

\(^2\) Capital became transnational as early as the seventeenth century with the Dutch East India Company and the English East India Company (Chase-Dunn 1989).
financial expansion phenomena of the 1970s and 1980s. In the current transitional period from one accumulation regime to another, financial capital has moved to Northeast Asia in a period of multi-polar economic leadership. The movement of the financial capital has important implications in this transitionary period – which country, whether located within Northeast Asia or elsewhere, will assume the role of hegemonic leader? Additionally, how will the recent financial crisis impact upon this emerging center of accumulation?

The implementation of structural adjustment programmes in New Zealand has transformed the economy into a model of market liberalisation. The changes that have and are still taking place in New Zealand are, in part, of external origin and came about because of the necessity of opening the domestic economy to global forces, thereby making possible New Zealand's re-incorporation into the global economy. An understanding of the external forces can be gained through an examination of the global expansion of the three circuits of capital: production, trade, and finance. The world systems paradigm and the geography restructuring literature seek to conceptualise this expansion, which is not only geographical in nature but geographically formative.

This thesis examines New Zealand's incorporation into the Northeast Asian economic realm in response to a changing finance, production and trade agenda influenced by global forces. New Zealand's insertion is principally centred around the export of raw material and semi-processed goods to Northeast Asia for further value-adding. New Zealand is economically dependent on the Northeast Asian markets, as highlighted by the recent financial crisis. The degree of economic dependence and the composition of exports leads to a questioning of New Zealand's place within the world core-periphery hierarchy. A synthesis of the world systems perspective and political economy literature provides a theoretical abstraction for examining New Zealand's insertion into Northeast Asia realm.

3 Initial research within the world systems school centred on a macro-level approach to the development of conceptual tools to analysis core-periphery relations. The emergence of the commodity chain premise allowed for more meso- and micro-levels of analysis. In analysing New Zealand's relations with Northeast Asia the commodity chain allows me to examine the embeddedness of production and consumption networks within the forestry industry. Within my research I sought to understand the processes of production and accumulation; reasons behind the location of production facilities in New Zealand; and where the concentration of core-like (wealth creating) and peripheral-like processes are occurring. New Zealand is increasingly looking to Asia as an agricultural export market. A number of research threads linked closely to the food regime premise emerged: Can New Zealand's agro-food exports be linked to regimes of accumulation? How are developments in Asian markets impacting agri-food restructuring in New Zealand? How are exporters adapting to new market opportunities and constraints? Examining the institutional structure of the contemporary agro-food system provides a lens on processes of globalisation within the agro-food sector.
Transformations are occurring within the New Zealand agro-food and forestry sectors for instance, as a realignment of economic activity centred around the Northeast Asian markets occurs. Within the transition to a new mode of regulation a diminishing of state regulatory controls has resulted. The withdrawal of the state from the forestry sector in New Zealand coupled with the relaxation of regulatory frameworks permitted the movement of Northeast Asian financial capital into the timber production chain. Consequently, transnational investment capital has lead to a re-orientation and re-scaling within the New Zealand industry in order to principally service the Asian markets. Commodity chain linkages provide a lens by which to examine changes within the forestry complex and the core-periphery relationship (Gereffi et al. 1994).

In contrast to the transnational axes of investment centred on the forestry sector, Northeast Asian capital in the agro-food sector is limited because of the regulatory control granted to the state's producer-marketing boards: the New Zealand Dairy Board, the New Zealand Meat Producer Board, and Zespri International (formerly the Kiwifruit Marketing Board) (Moran et al. 1996a). However, both the regulatory structure and commercial roles of the agricultural boards are currently under modification. Actors within the New Zealand agro-food sector are seeking to overcome barriers in order to gain competitive advantage within the Northeast Asian markets. Nevertheless, a re-articulation of production within New Zealand is apparent as the agro-food sector is being increasingly integrated into a Northeast Asian food import complex based on increased consumer demand, diversified transnational sourcing patterns and financial capital. In response to increased investment capital, the Hawkes Bay region is developing agro-food and forestry production complexes servicing the Northeast Asian markets. Use of the food regime literature allows developments to be examined within "an emerging and fuller account of capitalist histories and rooted more firmly in territoriality" (Le Heron and Roche 1996, 77).

The three empirical chapters (Five, Six, and Seven) drawing upon information canvassed from interviews analyse New Zealand's relationship to key economic dynamics, and hence New Zealand's integration into the Northeast Asian realm. These chapters develop specific theoretical themes from within the political economy and world systems literature. Prior to doing so, an examination of the regulatory frameworks of Northeast Asia and New Zealand is made in the next chapter, in keeping with the centrality of regulation in both bodies of literature.
CHAPTER THREE

CONTEXTUAL FRAMEWORK: LIBERALISATION, REREGULATION AND NATIONAL DEVELOPMENT

3.1 INTRODUCTION

The economic policy framework of a nation-state -- both historical and current -- plays an important role in setting the context for the globalisation of production and investment capabilities in territory (Dicken 1998). The response of the national regulatory environments in liberalising capital controls became a precursor to a growing global movement of capital. This chapter examines the individual states' (Korea, Taiwan, Japan and New Zealand) responses to liberalisation as an economic philosophy and the implementation of policies designed to achieve greater integration within the capital accumulation process. An examination of the changes occurring within the regulatory framework is essential in order to understand the nature of changing linkages between New Zealand and the economies of Northeast Asia.

3.2 LIBERALISATION AS AN ECONOMIC PHILOSOPHY

Within the emerging global regulation regime a reorganisation of state structures has occurred in order to secure transnational trade, finance and production circuits. The collapse of the national regulatory structure associated with the Bretton Woods regime weakened the coordination of national economic policies permitting an extensive international movement of capital. This in turn, "restructured production, markets and class relations on a worldwide basis" (McMichael and Myhre 1991, 87; see also Amin and Thrift 1997; Dicken 1998).
The nation-state assists in the creation of conditions for accumulation through the regulation and management of capital flows (Leyshon 1994; Martin and Sunley 1997; O'Neill 1997). While capital, which is reproduced through the circulation of money and commodities, has no inherent political borders the production of value does require the state apparatus to govern "monetary, trade and investment controls" (McMichael and Myhre 1991, 92). Indeed, globalisation has enticed the nation-state to develop "initiatives designed explicitly to make the supply side of the domestic economy more attractive for inward investment, and to force macro-economic policy (especially monetary policy) to be attentive to externally influenced interest rates, monetary fluctuations and national indebtedness" (Amin and Thrift 1997, 150).

The rapid increase in trade, production and finance linkages between nation-states within the Asia-Pacific region has deepened the interdependency between states, thus necessitating the formation of appropriate institutional arrangements in order to discuss and coordinate economic policies (SaKong 1993). Poon and Pandit (1996, 274) indicate that the "economic health of nation states is increasingly linked to their position within larger economic units". Multilateral and regional institutional arrangements have become a liberalisation agenda forum in order that nations may more fully participate in a liberal economic environment.

3.2.1 MULTILATERALISM AND REGIONAL COOPERATION

Liberalisation is occurring in Northeast Asia against a backdrop of changes within the global economy. The General Agreement on Trade and Tariffs (GATT) system was established in 1948 as a mechanism to achieve freer international trade and has been augmented through successive rounds of negotiations; the Uruguay Round was the eighth. The purpose of GATT was to achieve "the substantial reduction of tariffs and other barriers to trade and the elimination of discriminatory treatment in international commerce" (Ekins 1994). The General Agreement on Trade and Tariffs (GATT) system was replaced by the World Trade Organisation (WTO) after the Uruguay Round. The WTO is designed to have more power in maintaining the rules of international trade and strengthening multilateralism (Bootanacin 1995, 131). Japan and Korea, contract members of the GATT since 1955 and 1967 respectively, ratified the Marrakesh Declaration to become founding members of the WTO from 1 January 1995. Membership signifies a political commitment to the agreements reached under the Uruguay Round of GATT which includes a commitment to a higher standard of openness and fairness in international trade and the implementation of a free trade and investment regime. Taiwan has not been a contract member since 1950.
However, through its current application for membership in GATT and through negotiations entered into with contracting members of GATT, Taiwan is systematically complying with the principles of liberalisation stipulated by GATT. Taiwan's application was screened by the multilateral working party in April 1998 and negotiations with 25 out of the 26 WTO signatories were completed.

Regionalism has become an increasingly global trend which is reflected, in part, through the integration of Asia-Pacific countries under the regional cooperation umbrella of Asia Pacific Economic Cooperation (APEC). The first APEC ministerial forum was held in Australia in 1989. In contrast to concepts such as the Pacific Free Trade Area (late 1960s) and the Organisation for Pacific Trade and Development (1970s) APEC has become an institutional vehicle for regional integration. The phenomenal growth occurring in Asia, increasing levels of Japanese and American investment in the region and the multilateral trade negotiations of the Uruguay Round encouraged the establishment of a new economic order (Murofushi 1996).

APEC's objectives include trade and investment liberalisation and facilitation, and economic and technical cooperation. While there is no formal criteria for membership in APEC, governments have to show commitment to the implementation of liberalisation measures. No consensus has been reached on the degree of liberalisation; some countries including New Zealand advocate an aggressive liberalisation agenda whereas other countries, in particular Asian countries, are seeking to implement a more conservative approach. Additionally, APEC contains no inherent binding mechanisms nor indeed any form of enforcement power. Commitments are considered voluntary and non-legally binding. The Bogor Declaration (1994) adopted a goal of free and open trade and investment between members by no later than 2020, or by 2010 for the industrialised economies of APEC. While essentially APEC is considered a mechanism to promote trade and investment interests through regional co-operation, in fact APEC "promotes a package deal of economic policies which extend beyond deregulation, liberalisation, harmonisation and privatisation to almost every element of macro-economic policy and micro-economic restructuring" (Kelsey 1998, 3). Support for the multilateral trading system (WTO) and other institutions and groupings (IMF, NAFTA) has been a pivotal theme of APEC since its inception, with

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1 Original membership comprised: Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, the United States, Canada, Japan, Korea, Australia and New Zealand. China, Taiwan, Hong Kong, Chile, Mexico, Papua New Guinea have since joined with Vietnam, Russia and Peru to be admitted in 1999.
member countries agreeing to "accelerate the implementation of GATT commitments and continue unilateral liberalisation" (Atkinson 1995, 7). National responses to liberalisation trends are examined in the next section, with particular reference to the key organisations and institutions implicated in adjustments and developments.

3.3 KEY FACILITATORS

Industrialisation in Korea and Japan has been dominated by the large conglomerates; the Korean chaebol and the Japanese sogo shosha. In comparison, Taiwan's industrialisation was centred around small and medium type enterprises and family-type networks. New Zealand's integration into the Northeast Asia region is largely organised by the sogo shosha and chaebol underscored by regulatory arrangements.

3.3.1 THE CHAEBOL

The chaebol have played a major role in Korea's domestic economy for many years. As agents of development they spearheaded the state-led industrialisation policies of the various governments and consequently Korea's rise in the global economy. The chaebol are defined as "a business group consisting of large companies which are owned and managed by family members or relatives in many diversified business areas" (Yoo and Lee 1987, 97). Prominent characteristics of these multi-company firms include patrilineal succession, a strong alumni network, centralised planning, and financial and entrepreneurial coordination resulting in economies of scale. The chaebol are highly diversified horizontally, and the relationship between firms within the same hierarchal structure is referred to in familial terms (sister and brother company) and strengthened by the observance of traditional Confucian values. Predominantly family owned and controlled, the chaebol reflect a top-down authoritarian management style (refer Figure 3-1).
The origins of many of the chaebol can be traced back prior to the 1950s. These small enterprises, which expanded in size and scope following the Korean War, form the mother companies within the current chaebol structure. Preferential treatment was given to selected chaebol, usually those with close political connections to the ruling regime: the distribution of former owned Japanese production facilities at competitively low prices, access to low interest loans, tax advantages, government subsidiaries and privileges.

During the early and middle stages of economic development, the state retained strict control over many aspects of the domestic economy, creating monopolistic conditions for the chaebol and granting them "preferential access to capital, forcing them to build industries and expand exports, and threatening to withdraw credit if they failed were the key measures of state empowerment" (Waitt 1994, 196). Consequently, the chaebol's objectives were consistent with the government's economic development goals.

The close working relationship between the private sector and the state, or merger between the political and economic sectors, was centred on the state nurtured industrial chaebol which were 'encouraged' to expand in conjunction with the government state-targeted development policies (refer Figure 3-2) (Bullard, Bello and Malhorta 1998; Rimmer 1995; McKay and Missen 1995) thus leading to the formation of a 'state-bank-chaebol nexus'. The collusive relationship between the chaebol and the state during the era of the industrialisation (1970s and early 1980s) laid the foundation for many chaebol to expand in dominance. This was particularly true for those chaebol who, through compliance with the state, adapted and dispersed their activities in line with the government's export-led development objectives. During the 1970s and 1980s the average growth rate for the chaebol was around 30 per cent a year (Lasserre and Schütte 1995).
While expansion occurred through adherence to government policy, the state-chaebol relationship was not always propitious. Economic difficulties and mismanagement by the ruling regimes was often blamed on the chaebol. The dismantling of the 'hegemonic pact' between the state and the chaebol was seen to be a transformation from one ruling regime to another (Moon 1994). The state had dominance over the chaebol and 'firm-specific state intervention' occurred. Selected chaebol were charged with corruption, illicit wealth accumulation, forced to consolidate their holdings, and sell land and subsidiaries. State-led intervention also included the revoking of licences permitting the manufacture of particular products. Through the control of financial systems and credit allocation the state provided the essential environment for capital accumulation thus maintaining a high degree of leverage over the chaebol. Jones and SaKong (1980, 296) argue that the government's control of the banks was "the single most important economic factor explaining the distinctly subordinate position of the private sector" in South Korea.

Following political democratisation in 1986 and the progressive liberalisation of the Korean economy a reshaping of the relationship between the state and chaebol began to emerge (Yoo 1995, 19). Preferential support for the chaebol was partially withdrawn and greater priority given to small and medium enterprises whose diverse array of production was perceived as the basis of relieving the "protectionist pressures from advanced industrial countries more effectively" (Moon 1994; see also Rimmer 1995). However, state-led intervention continued in the big business sector. In May 1990, the government instructed
49 leading business groups to sell their idle property holdings in an attempt to reduce real estate speculation. Companies, failing to comply, were faced with the loss of bank credit, immediate payment of outstanding bank loans and subject to taxation audits (Moon 1994). In 1991, the government announced a deconcentration policy -- the top 30 chaebol were instructed to select three core businesses for specialisation. Again control was held via the financial system; restrictions on bank lending for the core businesses were relaxed while restrictions for the non-core businesses tightened (Moon 1994).

A feature of the expansion of the chaebol until the political regime of Kim, Young-sam (1993-1998), was the payment of political contributions (kibukum) enabling the contributors to gain privileged access to direct financial incentives and institutional support. Although the chaebol are gaining increased autonomy, elements of government control over the conglomerates still exist. The Samsung Corporation applied for permission to manufacture passenger cars -- approval was granted on the condition a set percentage of production be destined for the export market (Shin, pers. comm. 1997).

As liberalisation of the Korean economy occurred, to a degree, the chaebol strategically increased in size and diversity and began to "operate independently of the state" (Rimmer 1995, 27). Seeking to improve their performance on the world markets the chaebol have became competitive players through the offshore movement of production facilities and investment in higher value-added sectors (refer Table 3-1). The chaebol were aided in expansion through the easy access to low-interest loans from the government owned banks: illustrative still of the state-bank-chaebol nexus that had been formed earlier.
Table 3-1: Korea's 30 Leading Conglomerates - 1 April 1997

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Name</th>
<th>Number of subsidiaries</th>
<th>Total asset (in billion won)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (1)</td>
<td>Hyundai</td>
<td>57 (46)</td>
<td>53,597 (43,743)</td>
</tr>
<tr>
<td>2 (2)</td>
<td>Samsung</td>
<td>80 (55)</td>
<td>51,651 (40,761)</td>
</tr>
<tr>
<td>3 (3)</td>
<td>LG</td>
<td>49 (48)</td>
<td>38,376 (31,395)</td>
</tr>
<tr>
<td>4 (4)</td>
<td>Daewoo</td>
<td>32 (25)</td>
<td>35,466 (31,313)</td>
</tr>
<tr>
<td>5 (5)</td>
<td>Sunkyong</td>
<td>46 (32)</td>
<td>22,927 (14,501)</td>
</tr>
<tr>
<td>6 (6)</td>
<td>Ssangyong</td>
<td>25 (23)</td>
<td>16,457 (13,927)</td>
</tr>
<tr>
<td>7 (7)</td>
<td>Hanjin</td>
<td>24 (24)</td>
<td>14,309 (12,246)</td>
</tr>
<tr>
<td>8 (8)</td>
<td>Kia*</td>
<td>28 (16)</td>
<td>14,287 (11,247)</td>
</tr>
<tr>
<td>9 (9)</td>
<td>Hanwha</td>
<td>31 (31)</td>
<td>10,967 (9,155)</td>
</tr>
<tr>
<td>10 (10)</td>
<td>Lotte</td>
<td>30 (28)</td>
<td>7,774 (7,090)</td>
</tr>
<tr>
<td>11 (11)</td>
<td>Kumho</td>
<td>26 (27)</td>
<td>7,486 (6,423)</td>
</tr>
<tr>
<td>12 (16)</td>
<td>Halla*</td>
<td>18 (17)</td>
<td>6,640 (4,771)</td>
</tr>
<tr>
<td>13 (14)</td>
<td>Dong-Ah*</td>
<td>19 (16)</td>
<td>6,458 (5,117)</td>
</tr>
<tr>
<td>14 (12)</td>
<td>Doosan</td>
<td>25 (26)</td>
<td>6,370 (5,756)</td>
</tr>
<tr>
<td>15 (13)</td>
<td>Daelim</td>
<td>21 (18)</td>
<td>6,177 (5,364)</td>
</tr>
<tr>
<td>16 (22)</td>
<td>Hansol</td>
<td>23 (19)</td>
<td>4,346 (2,956)</td>
</tr>
<tr>
<td>17 (17)</td>
<td>Hyosung</td>
<td>18 (16)</td>
<td>4,131 (3,574)</td>
</tr>
<tr>
<td>18 (19)</td>
<td>Dongkuk Steel</td>
<td>17 (16)</td>
<td>3,956 (3,433)</td>
</tr>
<tr>
<td>19 (18)</td>
<td>Jinro*</td>
<td>24 (14)</td>
<td>3,951 (3,331)</td>
</tr>
<tr>
<td>20 (20)</td>
<td>Kolon</td>
<td>24 (19)</td>
<td>3,910 (3,129)</td>
</tr>
<tr>
<td>21 (24)</td>
<td>Johap</td>
<td>13 (11)</td>
<td>3,690 (2,924)</td>
</tr>
<tr>
<td>22 (23)</td>
<td>Gongbu</td>
<td>34 (24)</td>
<td>3,677 (2,935)</td>
</tr>
<tr>
<td>23 (21)</td>
<td>Tongyang</td>
<td>24 (22)</td>
<td>3,445 (2,995)</td>
</tr>
<tr>
<td>24 (25)</td>
<td>Haitai*</td>
<td>15 (14)</td>
<td>3,398 (2,873)</td>
</tr>
<tr>
<td>25 (29)</td>
<td>New Core*</td>
<td>18 (18)</td>
<td>2,798 (1,966)</td>
</tr>
<tr>
<td>26 (-)</td>
<td>Anman</td>
<td>21 (-)</td>
<td>2,659 ( -)</td>
</tr>
<tr>
<td>27 (28)</td>
<td>Hanil</td>
<td>7 (8)</td>
<td>2,599 (2,145)</td>
</tr>
<tr>
<td>28 (-)</td>
<td>Kcopyong</td>
<td>22 (-)</td>
<td>2,477 ( -)</td>
</tr>
<tr>
<td>29 (-)</td>
<td>Miwon</td>
<td>25 (-)</td>
<td>2,238 ( -)</td>
</tr>
<tr>
<td>30 (-)</td>
<td>Shinho</td>
<td>25 (-)</td>
<td>2,158 ( -)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>821(669)</strong></td>
<td><strong>348,375 (286,924)</strong></td>
</tr>
</tbody>
</table>

Note: Parentheses is 1996 data.

* Conglomerates which have since declared bankruptcy or sought court protection (June 1998).

Source: supplied by Korea Fair Trade Commission 1997

However, this expansionary period was brought to a halt in the midst of the financial crisis as chaebol with high debt/equity ratios encountered economic difficulties: evidenced by announced bankruptcies, led firstly by Hanbo (1996), Sammi (March 1997), Jinro (April 1997), Daenong (May 1997), and Kia\(^2\) (July 1997). The bankruptcies which weakened the financial system are attributed to an over-extension and over-expansion by the corporate sector coupled with the realisation that the Korean government was no longer willing to back the 'losers'. Hence, foreign lending institutions became reluctant to lend money and

---

\(^2\) Other chaebol which have since applied for court protection/receivership include: Ssangbangwool Group, Taeil Media, the Haitai Group and the New Core Group.
raised interest rates. Also highlighted during the crisis was the ineffectiveness of the government's monitoring mechanisms (Mo and Moon 1998). In an effort to introduce greater transparency and accountability into the economic sector newly elected President Kim Daejung proposed a business reform package aimed at consolidating the role of the chaebol, still very family dominated.

The chaebol in meeting government demands have implemented restructuring measures which include a return to core business, a reduction in the number of subsidiaries, and attempts to attract foreign capital in order to improve their financial situation and lower their debt to equity ratios. Additionally, President Kim is urging the chaebol owners to donate personal assets to the group in the form of direct investment and to swap key businesses amongst themselves in order to concentrate on core businesses -- two measures the majority of chaebol are rejecting. Nevertheless, in January 1998 the chairman of Samsung announced his intention to donate personal assets of 128 billion won to the Samsung Group. Currently, the chaebol are in the process of scaling down or selling overseas operations due to difficulties in raising cash, "As a result, the chaebol will surely suffer huge drops in their international credit standing and lag behind foreign rivals in high-tech fields" (Korea Herald 19 May 1998). In early June 1998 President Kim instructed bankers to identify the most heavily indebted subsidiaries of the chaebol. Once identified, outstanding loans will be called in and the no longer viable subsidiaries effectively liquated (Associated Press 4 June 1998).

Although the role of the chaebol in the Korean economy is changing the chaebol remain, to a degree, a political tool. The impact of the financial crisis is such that structural adjustments are occurring at the heart of the Korean economy and impacting the business culture. Through compliance with IMF-government demands the economy, and hence the chaebol, is being transformed from one anchored in 'family capitalism' to an economy based upon 'shareholder capitalism'.

3.3.2 SOGO SHOSHA

'Everything from noodles to satellites' is a term frequently used to describe the Japanese highly diversified trading companies, the sogo shosha. Initially established as import-export agents for large companies, the sogo shosha are recognised as engines of growth in the Japanese economy and subsequently have spearheaded Japan's integration into the global
C. C. Turcotte, F. Faustorner (1984; Dicken and Miyamachi 1998). In defining the role of the *sogo shosha*, Burton and Saelens (1983, 249) state they:

played a critical role in the development of the Japanese economy over the past thirty years bearing, for example, the responsibility for the management of Japan's external economic links through their ability to procure raw materials, market Japan's finished goods, acquire foreign exchange and serve as the major vehicle for the implementation of Japan's foreign economic policy.

The term, *sogo shosha* is commonly applied to the nine largest trading companies (ranked in terms of 1996 turnover): Mitsubishi, Itochu, Sumitomo, Marubeni, Mitsui, Nissho Iwai, Tomen, Nichimen and Kanematsu. As an indication of their magnitude, the *sogo shosha* had a combined turnover of $US1033.6 billion for the year ended 31 March 1996.

Each *sogo shosha* belongs to a *keiretsu*, or industrial group. The *keiretsu* are divided in horizontal and vertical structures (refer Figure 3-3). Vertical *keiretsu* comprise large firms with multiple layers of subcontractors (Parker 1995). Horizontal *keiretsu* comprise three main components: 1) trading companies; 2) manufacturing; and 3) banking corporations (refer Table 3-2). The three components are linked through mutual stock ownership, supply and marketing arrangements, and directorates. Mitsubishi, Mitsui and Sumitomo emerged from the pre-war *zaibatsu* (large family based enterprises) while the remaining *sogo shosha* re-emerged during the economic upturn following the Korean war. As the Japanese industrial base made the transition from light to heavy and chemical industries cross-sectoral linkages between large-scale companies were strengthened. Fearing foreign acquisition by, and mergers with foreign companies, the cross-sectoral links were further deepened in response to the Japanese government's initiatives to liberalise the capital market (Dicken and Miyamachi 1998). The "six horizontal *keiretsu* form a network of many of the largest manufacturing and financial firms in Japan" (Parker 1995, 95).
Figure 3-3: Horizontal and Vertical Keiretsu

KEIRETSU
(Industrial / financial corporate groupings)

**HORIZONTALLY STRUCTURED**

- Mitsubishi Group
  - Tokyo Mitsubishi Bank
  - Mitsubishi Corp
- Mitsu Group
  - Sakura Bank
  - Mitsubishi
- Sumitomo Group
  - Sumitomo Bank
  - Sumitomo Corp
- Fuyo Group
  - Fuji Bank
  - Marubeni Corp
- DKB Group
  - Dai-Ichi Kangyo Bank
  - Mitsubishi
  - Nissho Iwai Corp
- Sanwa Group
  - Sanwa Bank
  - Nissho Iwai Corp
  - Nichimen
- Tokai Group
  - Tokai Bank
  - Nippon

**VERTICALLY STRUCTURED**

- Shizu Group
- Kajita Group
- Taisei Group
- Obayashi Group
- Kirin Brewery Group
- Asahi Chemical Group
- Toray Group
- Shin Cty Paper Group
- Mitsubishi Chemical Group
- Sumitomo Chemical Group
- Showa Denko Group
- Nippon Oil Group
- Showa Shell Sekiyu Group
- Nippon Steel Group
- NKK Group
- Kobe Steel Group
- Kawasaki Steel Group
- Sumitomo Metal Industries Group
- Mitsubishi Group
- Hitachi Group
- Toshiba Group
- NEC Group
- Mitsubishi Electric Group
- Fujitsu Group
- Sony Group
- Mitsubishi Heavy Industries Group
- Toyota Group
- Nissan Group
- Honda Group
- Mitsubishi Motors Group
- Mazda Group
- Isuzu Motors Group
- NTT Group

Source: Dicken and Miyamachi (1998, 57)
Initially established as import-export agents the function of the *sogo shosha* now encompasses transaction intermediations, information gathering, quasi banking and organisers of production systems (Kojima and Ozawa 1984). Historically, the *sogo shosha* were exempt from many of the Japanese government's restrictions on outward flows of investment capital thus facilitating the *sogo shosha* establishment of extensive global networks of branches, subsidiaries, representative/liaison offices. Regional centers have been established in key cities around the world with major offices being encouraged to become 'independent' and 'indigenised'. As highly diversified entities the *sogo shosha* networks span the globe and some estimate that each *sogo shosha* deals in the vicinity of some 20,000 different products (Dicken and Miyamachi 1998).

Japanese investment in New Zealand began with the entry of the *sogo shosha* (refer Table 3-3) and has diversified to incorporate a vast spectrum of financial involvement, including joint ventures with New Zealand companies.

**Table 3-2: Sogo Shosha in New Zealand**

<table>
<thead>
<tr>
<th>Name</th>
<th>Year Established</th>
<th>Location of Office</th>
<th>Paid-up capital (SNZ)</th>
<th>Type of company</th>
</tr>
</thead>
<tbody>
<tr>
<td>C. Itoh &amp; Co</td>
<td>1967</td>
<td>Auckland</td>
<td>600,000</td>
<td>Wholly-owned subsidiary</td>
</tr>
<tr>
<td>Kanematsu</td>
<td>1937</td>
<td>Auckland</td>
<td>2,500,000</td>
<td>Wholly-owned subsidiary</td>
</tr>
<tr>
<td>Marubeni</td>
<td>1970</td>
<td>Auckland</td>
<td>600,000</td>
<td>Wholly-owned subsidiary</td>
</tr>
<tr>
<td>Mitsubishi</td>
<td>1970</td>
<td>Auckland</td>
<td>900,000</td>
<td>Wholly-owned subsidiary</td>
</tr>
<tr>
<td>Mitsui &amp; Co</td>
<td>1969</td>
<td>Auckland</td>
<td>4,000,000</td>
<td>Wholly-owned subsidiary</td>
</tr>
<tr>
<td>Nichimen Co</td>
<td>1971</td>
<td>Auckland</td>
<td>900,000</td>
<td>Wholly-owned subsidiary</td>
</tr>
<tr>
<td>Nissho Iwai</td>
<td>1960</td>
<td>Auckland</td>
<td>900,000</td>
<td>Wholly-owned subsidiary</td>
</tr>
<tr>
<td>Sumitomo Co</td>
<td>1963</td>
<td>Wellington</td>
<td>-</td>
<td>Liaison Office</td>
</tr>
<tr>
<td>Tokomenka</td>
<td>1959</td>
<td>Auckland</td>
<td>600,000</td>
<td>Wholly-owned subsidiary</td>
</tr>
</tbody>
</table>

Note: During the 1930s Mitsui established a representative office in Auckland which was later closed due to the war.

Source: Nigo 1992, 144
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading company</td>
<td>Spread of overseas network to promote Japanese import-export trade</td>
<td>Loans and small equities in raw materials developments</td>
<td>Larger equities in energy resource developments, and raw-materials processing developing in consortium groups other Japanese and host country firms</td>
</tr>
<tr>
<td>Sogo shosha</td>
<td></td>
<td>Small equities in manufacturing joint ventures</td>
<td>Increase in 3rd country trade and world-wide sourcing and marketing</td>
</tr>
<tr>
<td>Manufacturing company</td>
<td>Home-centred economic expansion and exports to both developing countries and the US</td>
<td>Opening of representative offices in major markets</td>
<td>Opening of sales subsidiaries in major markets</td>
</tr>
<tr>
<td></td>
<td>Beginnings of small scale import substitution plants in conjunction with trading companies and host-country firms in Latin America and Southeast Asia</td>
<td>Increasing overseas production in developing countries for both local and export markets</td>
<td>Beginning of import-substitution investment in developed countries</td>
</tr>
<tr>
<td>Banking corporations</td>
<td>Foreign exchange operations connected with foreign trade</td>
<td>Minority equities in established banks of host countries</td>
<td>Strengthening of overseas banking network to take advantage of foreign capital markets</td>
</tr>
<tr>
<td></td>
<td>Limited number of overseas branches</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Edgington 1990, 26-27
3.4 LIBERALISATION AND NATIONAL RESPONSES

The post-World War Two economic development of Taiwan and Korea was initially centred on an import-substitution industrialisation (ISI) programme based on economic and military aid from the United States. The ISI programme was followed firstly by the implementation of export-orientated industrialisation (EOI) activity, secondly by a combination of inward- and outward-looking policies and finally by the implementation of liberalisation and internationalisation policies (Rimmer 1995). Throughout these various stages state policy has been influential in economic development.

The 1980s saw a significant shift in the importance of the Northeast Asian states as both suppliers and recipients of investment capital. In response to both international and national initiatives Japan, Korea and Taiwan implemented progressive financial liberalisation and reregulation programmes. The liberalisation of capital controls occurred at an earlier stage in Japan than in Korea and Taiwan.

This section examines the steady liberalisation of the regulatory framework of Northeast Asian investment controls. This section has two parts. The first subsection examines outward foreign direct investment from Korea, Taiwan and Japan respectively before briefly examining the geographical and sectoral patterns of investment. The second subsection examines inward foreign direct investment. An understanding of the liberalisation process and patterns of capital distribution is an essential element in understanding investment linkages between Northeast Asia and New Zealand.

3.4.1 OUTWARD FOREIGN DIRECT INVESTMENT

3.4.1.a Korea

In 1968, the government of Korea introduced regulations permitting outward foreign direct investment (refer Table 3-4). Strict criteria had to be met and only selected investments which assisted the country's EOI strategies were permitted. Initial, outward investment occurred in resource development projects, such as forestry and mining, in order to secure natural resources for domestic production requirements. In 1975, the Korean government defined guidelines for foreign direct investment under which overseas investment was permitted (Waitt 1994, 198) under the following criteria:
1. "for the development and the import of raw materials in order to sustain industrial production;
2. to overcome export restrictions;
3. to secure fisheries resources for the domestic market; and
4. investment in industries where competitiveness in the world market had been weakened because of changes to the nation's industrial structure."

While encouraging overseas investments through incentives such as favourable finance rates, double taxation agreements and other facilitative measures, government controls on overseas investments remained in place. Approval was still closely tied to facilitating the government's export-orientated strategies.

Table 3-4: Development of Outward FDI from Korea: A Summary

<table>
<thead>
<tr>
<th>Stage</th>
<th>Year</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>1968-1974</td>
<td>• FDI permitted in support of EOI -- resource development projects</td>
</tr>
<tr>
<td>Institutionalisation</td>
<td>1975-1980</td>
<td>• Establishment of an FDI framework system</td>
</tr>
<tr>
<td>Initial liberalisation</td>
<td>1981-1986</td>
<td>• Simplification of prerequisites and approval procedures for investors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Three tier qualification procedure based on project value introduced</td>
</tr>
<tr>
<td>Further liberalisation</td>
<td>1987-1989</td>
<td>• Implementation of a notification system</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Ceiling increased from $US3 million to $US5 million for investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>categories subject to approval</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Limits on investments by individuals abolished</td>
</tr>
<tr>
<td>Reorientation</td>
<td>1990-current</td>
<td>• Promotion of FDI</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Further simplification of procedures</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Five-Year FDI Liberalisation Plan announced</td>
</tr>
</tbody>
</table>

Source: Adapted from information provided by Kim (1993, 77)

In 1981, restrictions on outward foreign direct investment, including the qualification criteria potential investors had to meet, were simplified. This was partly in response to the implementation of a government policy of internationalisation and the lessening of state intervention in the economy (Jwa 1994). In response to an account surplus, the government in 1986 implemented macro economic reforms as a measure to reduce inflationary pressure and further liberalise the criteria surrounding the overseas investment market. The application procedure was simplified and a qualification process, determined by project value, was implemented. Small value projects (under $US300,000) require certification from foreign exchange banks; mid-value projects ($US300,000-$US10,000,000) involve a
notification process; and large-value projects are subject to screening and governmental approval (United Nations 1995; Woo, pers. comm. 1995). By 1987, the investment regime, albeit one still under administrative control, was significantly liberalised to allow the full participation of Korean firms in the globalisation phenomenon (refer Table 3-5).

Listed as a major goal within Korea's five year (1993-1997) economic plan, "Shifting towards the New Economy", was the continued relaxation of restrictions on overseas investment in order to promote further investment abroad. The plan encourages domestic firms to enter into strategic alliances with foreign firms to expand investment into such "major economic areas as the EC and NAFTA", and to carefully make "efforts to form a regional economic cooperation that includes Korea" (KIEP 1993, 23). In 1995, the government of Korea announced that with the exception of real estate, investments abroad were unrestricted (Korea Economy Weekly, 14 August 1995, 11). Korea was admitted as the 29th member of the Organisation for the Economic Cooperation and Development (OECD) in December 1996. Membership signifies the transfer from a government-led economy to an economy open to market forces. Through the continual deregulation of international capital flows the Korean government is realising the requirements of the GATT Uruguay Round agreement and OECD membership.
<table>
<thead>
<tr>
<th>Monetary Conditions</th>
<th>Early 1980s</th>
<th>Late 1980s</th>
<th>Early 1990s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current account deficit</td>
<td>Current account surplus</td>
<td>Current account deficit</td>
<td>Stock market opening (1992)</td>
</tr>
<tr>
<td>Capital account surplus</td>
<td>Low won exchange rate <em>vis-a-vis</em> yen</td>
<td>+ Increase in portfolio investment</td>
<td></td>
</tr>
<tr>
<td>Increasing foreign debt</td>
<td>+ Increase in FDI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation of won</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**International Environment**
- Low international interest rates
- Low oil prices
- Pressure to liberalise import and exchange rate regime leading to appreciation of the won

**Korean Government Response**
- Maintenance of tight foreign exchange regime
- Inward FDI seen as a source of finance
- Gradual deregulation of foreign exchange system
- Issuance of Monetary Stabilisation Bonds (MSBs) to combat the current account surplus
- Government sought to maintain the competitive level of the won through:
  - Active encouragement of capital outflows
  - Capital inflows controlled
  - High interest rate differential coupled with the deregulation of FDI system (adopted negative list)

- Capital outflows controlled
- Capital inflows encouraged
- Large net inflows
- Capital inflows dominated (1990-1992)
- FDI a major source of capital outflow

Adapted from Jwa 1994; 1995.
Geographical and Sectoral Patterns of Distribution

Investment outflows from Korea remained negligible until 1986, from which time outflows have grown at a significant rate (refer Figure 3-4). The number of investment projects increased from 50 in 1986 to 339 in 1990, while the total value increased from $US182.7 million to $US958.9 million (refer Table 3-6). The acceleration of outward investment flows following the progressive liberalisation of the capital market was such that the accumulated investment total for the three year period, 1988 to 1990 ($US1,744.4 million) surpassed the accumulative investment for the previous twenty-year period ($US1,138.6 million). The total accumulated value of Korean direct investment abroad in 1996 is reported to be $US16,091 million.

There are a number of significant factors at play behind the increase of foreign investment from 1986 onwards. Internal constraints such as the increasing costs of land, wages and labour shortages meant that in order for the chaebol to remain internationally competitive, labour-intensive production needed to be moved offshore (Lee 1992; McKay and Missen 1995; Waitt 1993; 1994; Yoo 1995). The appreciation of the won further affected the level of competitiveness, encouraging the relocation to competitive production sites. During the period 1985 through 1989, the won appreciated 23.6 per cent against the US dollar (refer Figure 3-5).

The geographical distribution of foreign direct investment from Korea reveals a heavy concentration in North America (32.4 per cent) and Southeast Asia (40.5 per cent). Of the remaining 27.1 per cent, 14.5 per cent is located in Europe. Investments in Southeast Asia are primarily in manufacturing and are reflective of the trend that in order to remain internationally competitive, companies began moving export-oriented manufacturing and low technology labour-intensive products to Southeast Asia. The cost of labour was an important locational determinant in addition to geographical proximity. The growth potential and development opportunities of the large domestic markets in this area are also important determinants. Moreover, Southeast Asia is perceived to be a region of similar cultural background where there is little or no xenophobia expressed (Kwon, pers. comm. 1995). In 1995, Korea became the largest foreign investor in China. The investment in China of LG International, the third largest chaebol, totalled 15 per cent of total Korean investment (Korea News Service, 4 April 1996).
Figure 3-4: Direct Investment Flows: Korea

Source: compiled from Bank of Korea unpublished data; Korea Ministry of Finance and Economy 1996; SaKong 1993
Figure 3-5: Exchange Rate Comparison against $US
Average Annual as at 31st December

Note: Refer Appendix 3.2 for comparison against $NZ.
Source: Compiled from information obtained from ANZ Bank; Bank of Korea; Central Bank of China; Reuters.
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<th>Central South America</th>
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Notes:
1. Figures may not total due to rounding.
2. Year distribution based on Bank of Korea data.
3. The figures shown are applications approved by the Ministry of Finance and Economy. No information is available for applications which do not eventuate.
4. Refer to Appendix 3.3 for data on investment from Korea to New Zealand.

In comparison, the primary motive behind Korean investment in North America is for trading purposes. In light of the protectionist policies within the regional economies, NAFTA and EU, Korea faces greater difficulties in obtaining market access, hence the government’s desire for increased investment within these regions. Trade barriers can be circumvented through strategic alliances. Additionally, greater facilitation is achieved in the export market where investment occurs in the retail and distribution sectors. Investment also allows access to technology and market information. Investments by Korean companies in the Middle East are concentrated in the construction industry and in the Oceania and African regions in order to secure continuous access to resources (OECD 1995, 33).

An examination of investment statistics during the 1990s reveals an increasing globalisation of Korean investments. Investments are diversified and reflect both a global sourcing network (cattle breeding in Australia to supply premium quality beef to the Korea market; forestry projects in New Zealand) and a global manufacturing network (industrial complexes in Vietnam; a motor assembly plant in Uzbekistan; a automobile plant in Romania; appliance manufacturing plants in Portugal, Germany, Spain, Ireland). In analysing Korean outward investment JETRO (1996, 9) states: "Behind this global increase in investment of Korean companies may be considered to be the (1) growing need for shifting production overseas due to rising domestic costs and (2) the management strategy of Korean firms of investing in regions not yet exploited by western or Japanese companies".

However, outward investment flows have been severely affected by the Asian financial crisis. The chaebol, the principal vehicle for offshore investment, have implemented economic austerity programmes. Overseas subsidiaries and holdings are being sold in a move to shrink debts-to-assets ratios. For example, the Samsung Corporation is in the process of selling assets in Australia, Russia, and the United States valued at $US150 million. Previous sales included overseas offices in Europe and Asia in addition to nine overseas subsidiaries of the real estate’s division (Korea Herald, 22 May 1998).

3.4.1.b Taiwan

The progressive liberalisation of the financial market and foreign exchange controls by the Taiwan government precipitated foreign investment abroad (refer Table 3-7) (Alvstam

---

3 Refer Dent and Randerson 1996
4 Japan External Trade Organisation
1995; McKay and Missen 1995). Relaxation of controls began in the 1960s in conjunction with national interest criteria. Further liberalisation occurred in the 1970s with a progressive reduction in the level of minimum paid-in capital requirement and the implementation of a number of incentives including tax exemption, financial assistance, and insurance. During the 1980s increasing wage costs\(^5\), lack of abundant land, the high appreciation of the New Taiwanese (NT) dollar vis-a-vis the US dollar\(^6\) (refer Figure 3-5) and increasing protectionism in the United States all contributed to the eroding of Taiwan's international competitiveness. These underlying economic forces forged a new era in the state's economic development and led to further capital flow liberalisation.

\(^5\) In 1984 an increase in labour costs occurred as a result of the introduction of the Labor Standards Law introduced to protect workers rights (Ito and Krueger 1994, 96).

\(^6\) In 1985 the government of Taiwan under pressure from the United States permitted the NT dollar to appreciate in the attempt to reduce trade imbalances.
Table 3-7: Evolution of Taiwan's Outward FDI Regime

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<th>1987</th>
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<td>• Minimum paid in capital NT $50 million</td>
<td>• Minimum paid in capital NT $20 million</td>
<td>• Relaxed exchange controls, lifted maximum capital contribution</td>
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<td>• Maximum total capital contribution 30% of parent firm's capital</td>
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<tr>
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<td>5 year income tax exemption</td>
<td>Relaxation for loss in outward investment</td>
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<tr>
<td></td>
<td></td>
<td>• Financial assistance</td>
<td>• Financial assistance</td>
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<td></td>
<td>• Outward investment insurance</td>
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<tr>
<td></td>
<td></td>
<td>• Government services</td>
<td>• Government support to outward investment to Latin America and the</td>
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<tr>
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<td>Caribbean</td>
<td></td>
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<td>• Seminars</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
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<td>• Transfer of technology</td>
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In 1987 the government of Taiwan relaxed exchange controls, abolished the maximum capital contribution and in an effort to actively promote outward investment simplified the application process for the majority of outward investment applications under $US5 million. Currently, the ceiling on investment flows is $US5 million for the individual and $US20 million for the corporation (Cheng 1996). Potential investors need to meet one of the following national interest criteria for project eligibility (United Nations 1995, 327):

1. acquire needed natural resources or component parts for domestic industries;
2. improve regional trade imbalances or maintain markets for domestic products;
3. induce imports of technical management or production know-how;
4. support technical cooperation without harming national security or domestic industries;
5. promote international economic cooperation;
6. assist domestic industrial restructuring and product-quality upgrading;
7. indirectly transfer technology to the island through venture-capital operations.

Geographical and Sectoral Patterns of Distribution

Outward investment flows remained almost negligible until the late 1980s (refer Figure 3-6). Between 1952 and 1986 there were only 250 recorded outward investment projects, totalling $US271.8 million. During the late 1980s and early 1990s Taiwan experienced a momentum similar to Korea in the increase of outward investment flows. The huge trade surpluses experienced in the 1980s "led to the accumulation of large foreign-exchange reserves....[and] funded an unprecedented level of outward investment" (Schive 1993, 98). The implementation of further reforms in 1987 in conjunction with the trade surpluses led to a sharp increase in outward investment projects -- a total of 14,382 cases valued at $US19,016 million occurred between 1987 to 1996 (refer Table 3-8).
Figure 3-6: Direct Investment Flows: Taiwan

Note: NT$ = New Taiwanese dollar; MLC = Mainland China
Table 3-8: Approved Outward Investment from Taiwan 1952-1996

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<th>East Asia</th>
<th>Southeast Asia</th>
<th>Europe</th>
<th>North America</th>
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<td>-</td>
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<td>62</td>
<td>150.4</td>
<td>108</td>
<td>409.1</td>
<td>21</td>
<td>22.2</td>
</tr>
<tr>
<td>1995</td>
<td>-</td>
<td>-</td>
<td>.3</td>
<td>64</td>
<td>111.1</td>
<td>111</td>
<td>356.3</td>
<td>16</td>
<td>59.8</td>
</tr>
<tr>
<td>1996</td>
<td>-</td>
<td>-</td>
<td>14.8</td>
<td>59</td>
<td>72.7</td>
<td>138</td>
<td>589.0</td>
<td>10</td>
<td>11.9</td>
</tr>
<tr>
<td>Total</td>
<td>1</td>
<td>1</td>
<td>20</td>
<td>55.6</td>
<td>500</td>
<td>895.5</td>
<td>992</td>
<td>3834.0</td>
<td>188</td>
</tr>
</tbody>
</table>

Notes:
1. 'Case' refers to the number of newly-applied investments, "Amount" is the total of both the new investment and additional investment projects. Totals may not add due to rounding.
2. No data is available for investments (principally by individuals and consortiums) which falls below the criteria guidelines. Refer to Appendix 3.4 for examples of such investments in New Zealand.
3. Other includes Central and South America, Oceania, and Africa.
4. Approved indirect investment. Investment in mainland China prior to 1990 was illegal and therefore not recognised (Wu 1997; van Grunsven et al. 1995, 159).
5. Year distribution based on Investment Commission data.
6. The figures shown are only for approved applications by the Investment Commission. No information is available for applications which do not eventuate.

Taiwan's investment activities target the Asian region with the relocation of labour-intensive and low-value-added industries to access lower production costs. Twenty per cent (US$661.7 million) of approved direct foreign investment in 1996 was directed toward Asia (excluding China) with US$1,229.3 million in approved indirect investment in mainland China. Approved indirect investments in mainland China between the period 1991 to 1996 reflect 53.6 per cent of total approved investments, with the Asia region as a whole commanding 65 per cent of approved direct and indirect investments. Key sectoral areas for investment include electronics, textiles, chemicals, food and beverage processing.

In 1987, the Taiwanese government initiated a progressive relaxation of restrictions on contact with mainland China. Investment in mainland China was legalised in 1990; however, investment outflows which began in 1987 totalled US$100 million (van Grunsven et al. 1995; Wu 1997). Investment by Taiwanese investors in mainland China accelerated rapidly, reflecting an informal sub regional integration initiated by the private sector, comprising small- and medium-sized companies. The incentive behind this offshore movement into China was economic survival in light of increasing costs. The offshore movement coincided with the subsequent availability of low-cost land, raw materials and labour, and incentives offered by the Chinese government for investments in special economic zones (SEZ) located in the southern provinces (van Grunsven et al. 1995). A substantial decrease in investment in mainland China was experienced in 1994 which was attributed to inconsistent host government policies, fear over personal safety, and experiences of low profitability and high risks. In 1995, outward investment from Taiwan to mainland China was again on the increase, though at a slower rate than was seen during the early 1990s.

Data from host countries reveal that the Taiwanese statistics underestimate the actual flow of investment capital — particularly investments within Asia. Hsu (1995, 8) claims that approved indirect investments in mainland China is only "the tip of the iceberg". According to the Ministry of Economic Affairs of Taiwan, approved investment in Indonesia in 1988 amounted to US$1.9 million; however, host country data claims that investments from Taiwan totalled US$910 million (Schive 1993). These underestimations are attributed to Taiwanese companies not registering their investment activity with the government, investing through subsidiary companies located offshore, or through relatives living abroad. Additionally, Taiwan's Council for External Trade Relations (CERTA) acknowledges that the outflow of foreign investment capital may be ten times higher than reported (Klintworth 1995). In May 1996, Formosa Plastics Group, one of Taiwan's largest industrial
conglomerates, announced its proposed intention to build a thermal power plant in China at an estimated cost of $US3.8 billion. An Economic Affairs Minister, in a subsequent newspaper article, announced that Formosa Plastics had failed to apply for approval from Taiwan's government and under government regulations must do so even if the proposed investment is from a United States subsidiary (China Post, 29 May 1996). The unauthorised investment proceeded with the Chairman of Formosa Plastic claiming "the erosion of Taiwan's competitiveness is caused by government restrictions on private business to go international" (China Post, 1 April 1997).

In May 1997, the Taiwanese government announced that domestic companies are prohibited from investing in infrastructure in mainland China although this decision may be reversed if China guarantees it will not take the island by force (Economist, 13-19 May, 1997). Fines of up to $US450,000 can be imposed for unauthorised mainland investments. Following the return of Hong Kong to mainland China's control investments in Hong Kong are permitted as long as the project does not "infringe on national security" or become detrimental to Taiwan's economic development (China Post, 29 March 1997).

In July 1993, the government of Taiwan sought to implement the 'Go South' (nan-hsiang cheng-ts'e) policy in an attempt to divert overseas investment from mainland China to ASEAN and to gain political influence (Wu 1997). Chan (1997) suggests the development of the policy was in response to regional and global developments (for example, APEC) and the desire by the government to capitalise on Taiwan's strategic location. Although there has been a substantial increase in investment within ASEAN following the announcement of this policy (total investment of $US2,829.3 million from 1991 to 1996), it is uncertain just how much can be directly attributed to the 'Go South' policy and how much can be attributed to the degree of comparative advantage Taiwanese companies maintain within the region. In analysing the impact of the 'Go South' policy, Wu (1997, 168) concludes, "It turned out, however, that only state enterprises and KMT corporations follow the lead of the government. Private investment continues to flow to mainland China".

In 1996, the 'Go South' policy was extended to 'Go Further South' at which time Australia and New Zealand were included as approved locations for foreign investment. The

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7 The translation of the Chinese term into English means that the 'Go South' policy is also referred to as the 'Look South' or 'Southward' Policy or 'Southern Investment Strategy'.

8 Association of Southeast Asian Nations (ASEAN) comprise Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.
government of Taiwan perceive Australia and New Zealand as having potential for development as a manufacturing base. In particular, New Zealand is viewed as a complementary market with huge potential (Shih, pers. comm. 1998). However, the Chairman of the General Chamber of Commerce in Taiwan opposed Australasia's inclusion, arguing that high wages, red tape, a small population base and a generous welfare system make Australasia an unsuitable location for investors (International Business Asia, 10 March 1997).

Geographical proximity, cultural familiarity and economic complementarity all influence the flow of trade and investment capital to mainland China and the wider Asian region. An important link in the investment process is the Chinese kinship network. Studies (Hamilton 1996; Kraar 1993; Schutte 1994; Thrift and Olds 1996; Yeung 1996; 1997) reveal that large overseas Chinese communities aid in the facilitation of the investment process and provide "a ready conduit for information and financial flows, and even acting as a substitute for commercial legal systems in the transition economies" (Petri 1995, 30). The overseas Chinese in the Asia-Pacific region are estimated to be approximately 31 million and Klintworth (1995, 148) suggests that this network gives Taiwan "important networks of influence that in many ways are more effective than orthodox levers of political and economic power, especially in Southeast Asia". However, there is little evidence to suggest the level of New Zealand's incorporation into such financial networks. In comparison to Korea and Japan, Taiwan does not have the large diversified enterprises and development has relied on small- and medium-size enterprises (SMEs), within which the family type network is essential.

The second area of concentration for outward investment is North America. By the end of 1996, official figures indicate that investments in North America totalled $US3,033.2 million of which 70.7 per cent was invested during the 1990s. This gives North America a 15.7 per cent share of accumulated outward investment between 1952 and 1996. This is in comparison to the ASEAN accumulated share of 19.9 per cent. In moving offshore to North America, Taiwanese companies have been able to facilitate trading relations and gain access to modern technology. Taiwanese companies have entered into joint venture operations with United States companies, concentrating on technology-intensive areas "such as information, communications, precision ceramics, aerospace, pharmaceuticals and semiconductors" (Klintworth 1992, 16). An increasing level of investment is occurring within Latin America. In 1996, investments in Latin America totalled $US1,170.6 million, 89.9 per cent of which was in trade and services.
In sectoral distribution, the manufacturing sector accounted for 63.4 per cent of accumulated outward direct investment between 1952 and 1996, while the trade and service sector share was 32.6 per cent. With the exception of investments in mainland China, offshore investment in the manufacturing sector is decreasing. In the non-manufacturing sector the share of service and trade has increased from 30.1 per cent for the five year period 1985 to 1989 to 50.8 per cent for the period 1990 to 1996.

Taiwanese investment in Southeast Asia decreased 75 per cent in January 1998 in comparison to January 1997 due to the uncertainty about long-term economic stability and the political environment following the Asian financial crises. Consequently, the Taiwanese government has allocated $NT40 million to assist companies to diversify into the depressed economies in order to take advantage of reduced costs (Tradenz 1998a). In turn, this may affect the level of investment by Taiwanese investors in New Zealand. The $NT dollar recorded an all time low in January 1998 (20 per cent depreciation over a six month period) and has since begun to rebound. In recent months the Taiwanese government has permitted greater flexibility in the exchange rate fluctuation of the $NT which was previously controlled within a tight margin (Baum 1998, 58).

3.4.1.c Japan

From the late 1940s to the early 1960s, the Japanese economy experienced a period of upgrading and re-integration into the capitalist world economy. During this period foreign direct investment remained negligible due to a severe trade deficit coupled with government restrictions on the outflow of capital (Yoshitomi 1991b). Investments were principally in mining and manufacture (Rimmer 1997a). In 1964, following Japan's admittance into the OECD, the government began gradually to liberalise capital controls. As part of this programme and in response to a current account surplus, the government initiated a four-stage liberalisation programme of the foreign direct investment market in 1971.

The introduction of a New Foreign Exchange and Foreign Trade Control Law in 1980 relaxed remaining restrictions on the outward flow of capital. The investment regime is fairly liberal and, with the exception of the banking and securities industries, is based on a notification system. Outward investment in fishing and pearl cultivation is restricted in order to protect the domestic industry (OECD 1993).

Japanese outward investment has occurred in three stages relative to industrial upgrading: early 70s, early 80s, late 80s. Following the oil crisis of the 1970s, outward investment has
pursued an upward trajectory with occasional fluctuations during periods of crisis within the accumulation regime.

The first stage (1969-1973) was characterised by the transborder expansion of labour-intensive industries (textiles and electrical machinery) to adjacent peripheral economies, particularly Taiwan and Korea where production costs were at a minimal level. Through transplanting labour-intensive activities and the implementation of a multi-layered subcontracting system centred around flexible accumulation, Japanese companies began to lay the foundation for the progressive transformation of the domestic economy to a level of technological sophistication.

The second investment stage (1978-1985) is characterised by the offshore movement of resource-intensive industries and assembly-type operations. Heavy and chemical industries, no longer competitive in the domestic economy and subject to increasing environmental concerns, were relocated to resource-supplying countries. During the 1970s Japan experienced periods of trade friction with the United States and as a result invoked "voluntary" restraints on the export of ferrous metals, colour televisions, and machine tools (JETRO 1996). These voluntary restraints gave momentum for investment to occur in the United States. In the early 1980s automobile and electronic production accounted for nearly two-thirds of manufactured exports (United Nations 1995) and Japan's trade surplus increased, leading to further friction. As a countermeasure to increased trade friction, Japanese companies relocated assembly-type operations to core markets, particularly North America and Europe (Rimmer 1997a). Economic and structural constraints within the Asian and Latin American markets also led to an increase in investment in the core markets. The second stage was also highlighted by investments in the commercial, finance and insurance sectors.

Prior to the implementation of the liberalisation programme, cumulative outward investment totalled $US3,577 million (1951-1970), the primary purpose of which was to secure raw materials for the domestic economy (Yoshitomi 1991b). From 1971 through 1980, outward investment totalled $US32,920 million and was "due primarily to the transborder expansion of the multi-layered subcontracting system aimed at recouping the cost advantages lost with the tightening of labour markets in Japan and the revaluation of the yen" (Arrighi 1994b, 22). The revaluation of the yen (endaka), vis-a-vis major currencies, following the Plaza Accord in 1985 (refer Figure 3-7) accelerated the rate of global expansion by Japanese capital into "what had suddenly become much cheaper investments" (Leyshon 1994, 131). The Louvre Accord in 1987 further facilitated the outflow of Japanese investment capital
In an attempt to stimulate Japan's domestic economy through macroeconomic adjustments, Japan was required by the Group of Seven (G7) nations to control domestic interest rates below international levels, thus creating a potential arena for accumulation. The relaxation of regulatory regimes, an outcome of the Plaza and Louvre Accords, propelled Japan into a period of financial innovation (Leyshon 1994). A rapid escalation in the degree of market-oriented investment concentrated within the core economies occurred, particularly in the service sectors: finance and insurance, commercial real estate, construction, and the leisure industry in support of the increased numbers of Japanese tourists. Additionally, in an effort to improve the cost competitiveness of production, there was a substantial increase in investment in the manufacturing sector within the NIEs of Asia, ASEAN, and China and Latin America (Borrego 1995; OECD 1995). Daly et al. (1996, 171) attribute the growth of Japanese investment during the 1980s to "a world-wide phenomenon aided by the climate of free trade engineered by the GATT and the cheap capital available in Japan as a result of Ministry of Finance controls over exchange rates, subsidised loans and tax breaks".

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9 United States, Canada, France, Great Britain, Italy, Germany and Japan
Figure 3-7: Direct Investment Flows: Japan

Source: Adapted from Dicken 1988, 634; OECD 1996a
Table 3-9: Development of Outward FDI from Japan: A Summary

<table>
<thead>
<tr>
<th>1950s, 1960s</th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Resource development</td>
<td>Early 1970s</td>
<td>- Market expansion strategies</td>
<td>- Cost reductions (appreciation of yen, international procurement, increase of intra-company trade)</td>
</tr>
<tr>
<td>- National programmes of industrialisation aimed at import substitution</td>
<td>(expansion of ability to export capital)</td>
<td>- Appreciation of yen strengthening of cost competitiveness and expansion of production in Asia (Plaza Accord 1985)</td>
<td>- Regional economic zones (liberalisation and rules of origin of European Union, Asian Free Trade Association, North America Free Trade Association, etc.)</td>
</tr>
<tr>
<td>- Trade friction (textiles)</td>
<td>Trade friction (ferrous metals, color TVs, machine tools)</td>
<td>- Trade friction (automobiles, video tape recorders)</td>
<td>- Severe recession -- end of the &quot;bubble economy&quot;</td>
</tr>
<tr>
<td>- Strict government controls over foreign exchange and FDI</td>
<td>Current account surplus</td>
<td>- Liberalisation of regulations governing overseas investment in financial services</td>
<td>- Declining current account surplus</td>
</tr>
<tr>
<td>Late 1970s</td>
<td>Liberalisation of capital outflows</td>
<td>Current account surplus</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Promotion of FDI</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Collapse of Bretton Woods Agreement</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Labour shortage</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Recession</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Current account deficit</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Re-implementation of foreign exchange controls</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: JETRO 1996, 22; Crow and Chadee 1996, 56.
### Geographical and Sectoral Patterns of Distribution

In 1988, Japan surpassed the United States to become the world’s largest direct investor in terms of investment flow, maintaining the position as top supplier through 1990 (OECD 1995; United Nations 1992; Yoshitomi 1991b). In 1989, the Bank of Japan began to intervene in the interest rate levels and by 1991 the official discount rate was 6 per cent in comparison to 2.5 per cent in 1987 and 1988 (Leyshon 1994). The appreciation in the cost of money led to the collapse of the ‘bubble economy’ (inflated real estate and stock markets). The yen appreciated by 38.3 per cent between 1985 and 1991. In 1991 Japanese foreign direct investment declined to rank fourth in 1994 as supplier of foreign direct investment capital. Investments in the core markets declined and to-date have not exceeded the 1990 figures. In comparison investments in Asia and the Middle East have steadily increased and surpassed the 1990 figures. Rimmer (1997a) proposes that Japanese companies have entered into a 'new Asianisation' strategy whereby there is increased economic involvement in Asia. Between 1985 and 1994 Japanese companies present in Asia increased by 62,000 in contrast to North America where the number of companies decreased by 14,000.

### Table 3-10: Japanese Direct Investment Abroad 1984-1994

<table>
<thead>
<tr>
<th>Amount ($US Million)</th>
<th>Europe</th>
<th>North America</th>
<th>Latin America</th>
<th>Middle East</th>
<th>Oceania</th>
<th>Asia</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>1940</td>
<td>3543</td>
<td>2290</td>
<td>273</td>
<td>155</td>
<td>1631</td>
<td>326</td>
<td>10158</td>
</tr>
<tr>
<td>1985</td>
<td>1939</td>
<td>5495</td>
<td>2616</td>
<td>45</td>
<td>525</td>
<td>1414</td>
<td>183</td>
<td>12217</td>
</tr>
<tr>
<td>1986</td>
<td>3471</td>
<td>10441</td>
<td>4737</td>
<td>44</td>
<td>993</td>
<td>2326</td>
<td>309</td>
<td>22321</td>
</tr>
<tr>
<td>1987</td>
<td>6582</td>
<td>15357</td>
<td>4816</td>
<td>62</td>
<td>1413</td>
<td>4868</td>
<td>266</td>
<td>33364</td>
</tr>
<tr>
<td>1988</td>
<td>9117</td>
<td>22327</td>
<td>6428</td>
<td>259</td>
<td>2669</td>
<td>5567</td>
<td>653</td>
<td>47020</td>
</tr>
<tr>
<td>1989</td>
<td>14809</td>
<td>33902</td>
<td>5238</td>
<td>66</td>
<td>4618</td>
<td>8238</td>
<td>671</td>
<td>67542</td>
</tr>
<tr>
<td>1990</td>
<td>14298</td>
<td>27192</td>
<td>3628</td>
<td>27</td>
<td>4166</td>
<td>7053</td>
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<td>1991</td>
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<td>3337</td>
<td>90</td>
<td>3278</td>
<td>5936</td>
<td>748</td>
<td>41586</td>
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<tr>
<td>1992</td>
<td>7029</td>
<td>14572</td>
<td>2726</td>
<td>709</td>
<td>2406</td>
<td>6425</td>
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<tr>
<td>1993</td>
<td>7928</td>
<td>15287</td>
<td>3370</td>
<td>217</td>
<td>2035</td>
<td>6637</td>
<td>551</td>
<td>36025</td>
</tr>
<tr>
<td>1994</td>
<td>6303</td>
<td>17823</td>
<td>5773</td>
<td>288</td>
<td>1380</td>
<td>9703</td>
<td>-219</td>
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<tr>
<td>Total</td>
<td>82790</td>
<td>184762</td>
<td>44959</td>
<td>2080</td>
<td>23638</td>
<td>59798</td>
<td>4310</td>
<td>402337</td>
</tr>
</tbody>
</table>

Note: Data refers to notification of investment approved by the Ministry of Finance. Source: OECD, 1996a

Analysis of Japan's foreign direct investment patterns reveals that in terms of accumulated investment between 1984 and 1994, North America was the largest recipient (45.9 per cent), followed by Europe (20.6 per cent), Asia (14.9 per cent), and the Latin-American-Caribbean region (11.2 per cent) while the Oceania region received only 5.8 per cent. The sectoral breakdown reveals that 68.7 per cent of foreign investment occurred in the non-manufacturing sector.
In analysing Japanese investment during the 1980s and early 1990s, Borrego (1995) attributes the global scope of investments to "large and powerful global corporations endowed with the capability to: 1) take the whole world as the relevant domain of their investment decisions; and 2) organise production processes throughout a world-wide network of territories and political jurisdictions. To these global corporations, investment in any particular nation, region or city of the world economy is a matter of choice rather than necessity".

3.4.2 INWARD FOREIGN DIRECT INVESTMENT

3.4.2.a Korea

As previously mentioned, the Korean government maintained a highly regulated financial market, emphasising foreign borrowing over foreign direct investment until the early 1980s (Jwa 1995). Only investments occurring in areas where foreign participation was "crucial to achieving foreign market access and procuring technology and manufacturing know-how" was permitted (Menon and Athukorala 1995, 56). During the 1980s a policy for economic liberalisation was introduced, and since 1983 the government has increasingly liberalised remaining restrictions on inward investments, implemented an incentive system and expanded support for inward foreign investment. The government in marketing Korea as a favourable investment climate is seeking to improve the "domestic investment environment by abolishing obstacles to foreign investment in Korea" (KIEP 1993, 22). Foreign investors are eligible for various benefits. For example, a manufacturing company establishing a high-technology operation can be granted tax exemptions on a progressive time-line based on profitability and subject to locational factors. Additionally, the company can receive corporate and income tax benefits (Woo pers. comm. 1995).

In August 1996 the Ministry of Finance and Economy proposed a number of amendments to the Foreign Capital Inducement Act. The draft proposes the implementation of the following (Korea Trade and Investment, September/October 1996; Woo pers. comm. 1995):

1. the implementation of a simple notification system effective 1 January 1997 to replace the approval system;
2. permitting foreign firms to acquire outstanding shares in Korean companies;
3. availability of long term loans;
4. rent exemption in areas specified for foreign investment.
The draft amendment proposes that restrictions can be placed on foreign direct investment where investment is detrimental to national security interests, public order and economic development. The amendment also prohibits investment that is of environmental concern. By 1997, 1,043 businesses were fully liberalised subject to the notification scheme; 49 businesses including general foreign trade have been partially liberalised, requiring a set criteria for approval; 56 business lines are scheduled for liberalisation primarily in 1997; and the remaining 47 are ineligible for foreign investment.

Prior to the introduction of foreign direct investment reforms in the 1980s, approved inward investment from 1962 through 1981 totalled $US1.9 million (refer Table 3-11). From 1982 to 1989, a further $US5.2 million was approved. In comparison, $US10,598 million, equalling sixty per cent of total approved foreign direct investment ($US17,669 million), was received from 1990 through 1996. Japan (32 per cent) is the leading investor in Korea followed by the United States (29 per cent). Both Japanese and American investment is concentrated in manufacturing: 50 per cent and 70 per cent respectively; however, recent trends indicate that the service sector is increasing in importance. Investment from the European Community, in particular the Netherlands, is increasing while investment from Japan is on a downward trend.
Table 3-11: Approved Inward Investment in Korea 1962-1996

<table>
<thead>
<tr>
<th>Year</th>
<th>North America</th>
<th>Japan</th>
<th>Asia</th>
<th>New Zealand</th>
<th>Australia</th>
<th>Europe</th>
<th>Other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cases</td>
<td>Amount</td>
<td>Cases</td>
<td>Amount</td>
<td>Cases</td>
<td>Amount</td>
<td>Cases</td>
<td>Amount</td>
</tr>
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<td>-</td>
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<tr>
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<td>148</td>
<td>371.6</td>
<td>871</td>
<td>927.9</td>
<td>17</td>
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<td>1982-86</td>
<td>174</td>
<td>582.8</td>
<td>276</td>
<td>876.2</td>
<td>27</td>
<td>69.4</td>
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<td>-</td>
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<tr>
<td>1987-88</td>
<td>204</td>
<td>537.5</td>
<td>384</td>
<td>1194.3</td>
<td>22</td>
<td>88.5</td>
<td>1</td>
<td>0.1</td>
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<tr>
<td>1989</td>
<td>99</td>
<td>320.4</td>
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<td>235.9</td>
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<td>226.2</td>
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<tr>
<td>1992</td>
<td>73</td>
<td>389.5</td>
<td>72</td>
<td>155.2</td>
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<td>1993</td>
<td>73</td>
<td>342.6</td>
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<td>285.9</td>
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<td>119</td>
<td>312.5</td>
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<td>428.4</td>
<td>73</td>
<td>140.0</td>
<td>-</td>
<td>0.6</td>
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<tr>
<td>1995</td>
<td>167</td>
<td>646.6</td>
<td>169</td>
<td>418.3</td>
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<td>174</td>
<td>877.3</td>
<td>154</td>
<td>254.6</td>
<td>145</td>
<td>958.0</td>
<td>-</td>
<td>1.7</td>
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<td>Total</td>
<td>1517</td>
<td>5126.5</td>
<td>2793</td>
<td>5566.9</td>
<td>535</td>
<td>1899.0</td>
<td>10</td>
<td>14.6</td>
</tr>
</tbody>
</table>

Notes:
1. Figures may not total due to rounding.
2. Year distribution based on Bank of Korea data.
3. The figures shown are for approved applications only. No information is available for applications which do not eventuate.
4. For information on New Zealand investment in Korea refer Appendix 3.5.

In conjunction with the IMF directed reform package the Korean government is implementing further measures to liberalise the economy and restore market confidence. Key components of the IMF reform package include fiscal and monetary policy reforms, financial sector reforms, restructuring of non-viable financial institutions and capital account liberalisation. Accordingly, the government has increased ceilings on foreign ownership, relaxed restriction controls, introduced assistance programmes and simplified applications in order to attract foreign investment which is perceived as a key to economic recovery and long term growth. In July 1998, the property market will open to foreign investors. Such a move will aid local banks as during the crisis there has been a significant increase in the number of properties seized as collateral for bad debts. However, efforts to attract increased inward investment have not yet been successful, "The threat of labour unrest and high interest rates are two major concerns but existing management practices, the bureaucracy, and lack of a user friendly environment are even greater deterrents to foreign investment" (Tradenz 1998h). The uncertainty that foreign investors place in the Korean economy coupled with high interest rates are leading some analysts to speculate that a second foreign exchange crisis is imminent (Tradenz 1998h).

3.4.2.b Taiwan

During the period of economic development and restructuring, Taiwan's government has encouraged foreign direct investment through progressive policy reforms, the introduction of export-processing zones and incentives. Restrictions on inward investment have been liberalised in conjunction with the differing stages of economic development: in the 1970s there was a concentration on basic and heavy industry and in the 1980s and 1990s an expansion within the technology- and capital-intensive sectors. Currently, inward investment operates on a negative list (those sectors which are not eligible for foreign investment) system last revised in 1995 when a number of previously restricted or prohibited investments were downgraded in status or removed from the list. The negative list was implemented in order to streamline the investment process and is designated as non-regulated, restricted, or prohibited. Unless detailed in the negative list there are no limitations on foreign equity.

The increased liberalisation of the capital regime coincided with the 1994 announcement of Taiwan as an 'Asian-Pacific Regional Operations Center' (APROC) (ya-t'ai ying-yun chung-hsin) (Wu 1997). Seeking to play a pivotal role in Asia-Pacific regional integration and in the proposed generation of a "second wave of economic miracle" (Chan 1997, 214), the government plans to develop Taiwan into a regional operations center. A macroeconomic
adjustment programme will progressively be implemented to facilitate the free flow of goods, personnel, capital and information. Six operational centers - namely manufacturing, sea transportation, air transportation, financial, telecommunications and media - will be established. Hsu (no date, 7) writes,

Taiwan's development as an Asia-Pacific Regional Operations Center means that they [foreign and local enterprises] can use Taiwan as a base for combining the required resources to be used by their Asia-Pacific business operations. From this base, the companies will be ideally placed to exploit opportunities in the booming Southeast Asian market, in the vast China market and in other parts of the dynamic Asia-Pacific market.

In order to accomplish the desired goal of transforming Taiwan into a Regional Operations Center, further liberalisation of the economy is being considered.

The total accumulated foreign investment in Taiwan from 1952 to 1996 is $US24,721.8 million (refer Table 3-12). This is in marked contrast to the 1984 accumulated total of $US4457.4 million and reflects a sharp increase within the last decade in conjunction with reforms implemented in 1986. Inflows between 1952 and 1984 were in the export-oriented manufacturing sector (77.9 per cent); however, during the 1990s a shift in the composition of inward investment occurred, reflecting an increase within the service (20 per cent) and trading (16.5 per cent) sectors and a decrease in the manufacturing sector (59.9 per cent).

A country-of-origin analysis reveals that direct investment from Japan and the United States accounts for 54 per cent of all approved investment from 1952 to 1996. The United States is the top investor in terms of value ($US835.5 million) and cases (1464), followed by Japan ($US6,570.6 million) and Hong Kong ($US2,608.9 million).

The increasing level of investment is attributed to a favourable global and national investment framework. Factors aiding the national framework include, most obviously, the liberalisation of capital controls and conducive government policies coupled with the degree of upward mobility Taiwan has achieved within the world economic system. Increased levels of foreign investment are seen as an assurance of Taiwan's political future (Wu, pers. comm. 1995). In turn, inflows have fluctuated in response to perceived negative factors: cross-strait tension with China and global recession.
## Table 3-12: Approved Inward Investment in Taiwan 1952-1996

<table>
<thead>
<tr>
<th>Year</th>
<th>New Zealand</th>
<th>Australia</th>
<th>Asia</th>
<th>Europe</th>
<th>North America</th>
<th>Other</th>
<th>Overseas Chinese</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cases</td>
<td>Amount</td>
<td>Cases</td>
<td>Amount</td>
<td>Cases</td>
<td>Amount</td>
<td>Cases</td>
<td>Amount</td>
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<td>1224.1</td>
<td>106</td>
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<td>475</td>
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</tr>
<tr>
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<td>-</td>
<td>-</td>
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<td>12</td>
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<td>-</td>
<td>-</td>
<td>6</td>
<td>50.1</td>
<td>116</td>
<td>321.6</td>
<td>23</td>
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</tr>
<tr>
<td>1986</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>.3</td>
<td>241</td>
<td>493.4</td>
<td>37</td>
<td>214.3</td>
</tr>
<tr>
<td>1987</td>
<td>-</td>
<td>-</td>
<td>.5</td>
<td>285</td>
<td>564.3</td>
<td>64</td>
<td>96.6</td>
<td>141.1</td>
</tr>
<tr>
<td>1988</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>6.9</td>
<td>310</td>
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<td>58</td>
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<td>-</td>
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<td>.8</td>
<td>239</td>
<td>1080.3</td>
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<td>-</td>
<td>-</td>
<td>3</td>
<td>5.4</td>
<td>198</td>
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<td>.2</td>
<td>3</td>
<td>6.4</td>
<td>192</td>
<td>635.3</td>
<td>44</td>
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</tr>
<tr>
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<td>.2</td>
<td>4</td>
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<td>150</td>
<td>489.9</td>
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<td>24.5</td>
<td>201</td>
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<td>40</td>
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<td>2</td>
<td>4.5</td>
<td>221</td>
<td>747.7</td>
<td>39</td>
<td>334.8</td>
</tr>
<tr>
<td>1995</td>
<td>1</td>
<td>.2</td>
<td>4</td>
<td>9.6</td>
<td>259</td>
<td>1013.3</td>
<td>55</td>
<td>197.0</td>
</tr>
<tr>
<td>1996</td>
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<td>.2</td>
<td>4</td>
<td>9.6</td>
<td>259</td>
<td>1013.3</td>
<td>55</td>
<td>197.0</td>
</tr>
<tr>
<td>Total</td>
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<td>9136.8</td>
<td>608</td>
<td>2903.5</td>
</tr>
</tbody>
</table>

Notes:
1. "Case" refers to the number of newly-applied investments. 'Amount' is the total of both the new investment and additional investment projects. Totals may not add due to rounding.
2. Other includes Central and South America, Oceania, and Africa.
3. Year distribution based on Investment Commission data.
4. The figures shown are for applications only. No information is available for applications which do not eventuate.

3.4.2.c Japan

Prior to Japan's admittance into the OECD in 1964, the Japanese government retained tight control on the inward flow of capital. Inward investment was permitted under certain criteria: (1) joint venture operations where foreign ownership was restricted to 50 per cent or less, or (2) where foreign investment was essential for Japanese corporations to acquire technology. Under OECD obligations Japan was required to liberalise its foreign control market. Liberalisation of the investment market began in 1967 in a series of stages. The most progressive and far-reaching liberalisation stage occurred in May 1973: 100 per cent foreign ownership was permitted in all but 22 industries (Yoshitomi 1991a). By 1976, an additional 18 restricted industries had been liberalised. The implementation of a progressive liberalisation schedule ensured that infant industries were protected and allowed to build up comparative advantage.

The offshore movement of Japanese industry coupled with the dismantling of the Bretton Wood's regime and the subsequent transition to a floating exchange rate initiated the progressive restructuring of Japan's financial system. Japanese banks sought to follow the offshore investment movement and in a strategic reciprocity move Japan was obligated to open the domestic market to the circulation of international financial capital.

Up until 1990, under the Foreign Exchange and Foreign Trade Control Law, the government had the right to restrict investment on the grounds that it may hinder the domestic economy. This right of restriction helped to retard inward investment inflows (United Nations 1993). In 1990 the Japanese Government, in reconfirming the important role of international investment in the "Statement on the Openness of the Foreign Direct Investment Policy", announced (JETRO 1995b, 82):

Direct investment by foreign enterprises in Japan remains at a low level compared with outward direct investment by Japanese enterprises. Foreign direct investment in this country, however, will surely enhance the internationalisation of our national economy, increase its interdependence with the rest of the world, and play a very useful role as we build a solid base for further progress of the economy.

In 1992, the Foreign Exchange and Foreign Trade Control Law was revised and a number of procedures associated with inward investment relaxed. Investment is based on an ex post facto system, with the exception of investments in the following sectors which require prior approval: (1) agriculture, forestry and fisheries, (2) mining (up to 50 per cent foreign
ownership permitted), (3) oil exploration, and (4) leather manufacturing (OECD \cite{1993} 101). Additionally, the government may prohibit investment in areas of national security and public safety or where a particular country places restrictions on the inward movement of Japanese capital (Yoshitomi \cite{1991a}, 125). A number of incentives, including the reduction of initial costs, the implementation of tax incentives and accelerated depreciation rates and low interest loans, have been introduced in an attempt to improve the investment climate.

Prior to the liberalisation of the investment market in the 1970s, there was a low penetration of foreign investment capital in Japan. Direct investment increased sharply in the late 1980s, slowed in the early 1990s and increased in both project numbers and amount in 1994 (refer Table 3-13). Inward investment in 1994 totalled $US4,155 million (JETRO \cite{1996a}, 32) of which $US2,190 million is in the non-manufacturing sector (52.7 per cent). On a cumulative basis, the United States is the largest investor in Japan (40.5 percent), principally in the non-manufacturing sector, followed by the Netherlands (8.2 percent) and Switzerland (6.8 per cent) (JETRO \cite{1995b}).

Table 3-13: Inward Investment in Japan 1984-1994

<table>
<thead>
<tr>
<th>Year</th>
<th>Europe</th>
<th>North America</th>
<th>Latin America</th>
<th>Middle East</th>
<th>Oceania</th>
<th>Asia</th>
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<td>-</td>
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<td>-</td>
<td>36</td>
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<td>-</td>
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<td>-</td>
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<tr>
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<td>-</td>
<td>-</td>
<td>31</td>
<td>234</td>
<td>157</td>
<td>3845</td>
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<tr>
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<td>12869</td>
<td>1008</td>
<td>14</td>
<td>45</td>
<td>1281</td>
<td>1832</td>
<td>26340</td>
</tr>
</tbody>
</table>

Note: Data refers to notification of investment approved by Ministry of Finance.
Source: OECD, 1996a

Following the collapse of the 'bubble' economy in 1991 Japan entered into a recessionary period. The economic difficulties have been intensified by concerns about spillover effects

\footnote{These sectors are reserved under the OECD Code of Liberalisation of Capital Movements}
from the Asian financial crisis and subsequent loss of markets -- the five Asian countries affected the most by the financial turmoil represent nearly 20 per cent of Japan's merchandise exports in 1996 (IMF 1998). In an attempt to improve economic conditions the Japanese government implemented structural reform policies in order to restore confidence in the financial market. This, in turn, has impacted on the outflow of foreign investment with companies reducing or postponing offshore investments.

3.4.3 DISCUSSION

The economic success of Northeast Asia has been, in part, an outcome of state intervention in economic processes. The implementation of co-ordinated networks between the state and enterprises "facilitated the rapid development of new sectors and promotion of export-led industrialization" (Martin and Sunley 1997, 287; see also Amsden 1989; Wade 1990). The investment regimes have been adjusted through progressive liberalisation stages, to meet national economic development goals. Initial outflows of capital from Korea, Taiwan and Japan were in resource development-type projects in conjunction with the governments' inward-oriented development strategies. The transformation and upgrading of national economic policies to outward-oriented development strategies has seen a marked transitional shift in investment outflows to the market-oriented and value-added sectors within technologically advanced countries.

In an attempt to protect domestic markets, during post-war industrialisation, strict controls over the inflow of investment capital were maintained. Since the 1980s these controls have been liberalised in response to both national and global forces signifying the emergence of an increasingly liberalised regulatory environment.

An essential determinant within the investment process is the national policy framework. As protectionist policies have lifted around the world a more open investment climate has been created. The removal of authorisation procedures (Japan, Taiwan and Korea) has made the notification procedures more transparent. The relaxation of government controls and the introduction of private sector initiatives, essential for sustained economic development, has allowed the offshore movement of large diversified conglomerates and small- and medium-sized enterprises (SMEs) (Jwa 1994). These firms are key actors in the inter-connectedness of the global economy and control elements within the flow of trade, technology and capital.

The progressive liberalisation of capital markets as defined is permitting an increased integration of the Northeast Asian states within the global economy. Globalisation has
resulted through the mobility of capital and offshore investment in production and distribution networks spanning the global economy. Push factors include the appreciation of national currencies, increasing costs of production, trade friction and labour shortages while pull factors include the ability to achieve cost competitiveness in production, market presence and access to technology. The inward-looking policies of the regional economic groupings, in particular NAFTA and EU, have encouraged Northeast Asian investment within these regions as a means of circumventing trade barriers. Outflows also reflect the inter-connectedness of the Asian region and are primarily the relocating of the lower value-added end of the production chain. Restructuring and liberalisation have freed capital, allowing it to integrate through the strategies of key organisations and supportive national institutions on a global level (Harris 1992).

3.5 REREGULATION OF NEW ZEALAND'S CAPITAL MARKET

The implementation of a liberal investment regime was initiated in 1984 as part of the newly elected Labour government's reform policy. Prior to 1984 severe exchange controls coupled with a policy of ensuring outward investments would be beneficial to the New Zealand economy effectively restricted the outward flow of capital. Likewise, inward investments were controlled to ensure that foreign ownership would be economically beneficial to the New Zealand economy. Changes implemented in order to increase the level of foreign direct investment in the economy have substantially improved the investment climate.

3.5.1 THE ESTABLISHMENT AND RELAXATION OF CONTROLS

As early as 1940 restrictions were placed on the flow of inward and outward capital. The wartime Finance Emergency Regulations establishing a framework for exchange controls required overseas companies to gain ministerial approval for the establishment of an operation in New Zealand and for the issuance of capital. Companies with capital not exceeding $NZ20,000 were exempt. Statutory regulations governing the inward flow of investment capital were further expanded in 1964 under the Overseas Takeover Regulation where potential investors seeking to obtain 25 per cent or more foreign ownership of a New Zealand company were required to notify the Reserve Bank. The regulations permitted the New Zealand government to intervene where investments were perceived to be harmful to public interest. Implementation of further controls included the requirement to obtain ministerial approval for the overseas borrowing of funds, applicable to both domestic and foreign companies.
In 1973, the Overseas Investment Act was implemented to "make better provision for the supervision and control of overseas investment in New Zealand" (New Zealand Statutes 1973/14, 61) Under this act, the Overseas Investment Commission (OIC) was established as a monitoring body and approval mechanism for investment applications. The purpose of the Overseas Investment Commission is to ensure proposed investments promote economic growth and development in New Zealand through contribution to employment, exports, and overall productivity through the transfer of both tangible and intangible assets (New Zealand Statutes 1973/14, 68). An acquisition threshold of SNZ100,000 was implemented. Although investment controls were progressively relaxed during the late 1970 and early 1980s regime no real impact was felt due to stringent foreign exchange controls.

By mid-1984 New Zealand's economy had been weakened through high inflation, slow growth and macro- and microeconomic instabilities. Immediately following the July 1984 election the newly elected Labour government, faced with a foreign exchange crisis and severe macroeconomic imbalances, announced a 20 per cent exchange rate devaluation and the removal of interest rate controls. Liberalisation of the financial market continued with the removal of international capital controls in December 1984, the introduction of a floating exchange rate in March 1985 and the removal of controls surrounding foreign participation in the domestic financial market in November 1985 (Bollard and Buckle 1987; Britton et al. 1992; Evans et al. 1996). An OECD (1993, 52) report states: "Within months, New Zealand's financial market had been transformed from one of the most highly regulated among the OECD countries to one of the most liberal" reflecting a financial market increasingly open to international market forces.

In contrast to the pre-reform regime, which was one of excessive protectionism and government intervention, the Labour government, and the National government that succeeded it in 1990, implemented a programme of market-oriented reforms, and in doing so created an economic regime less subject to interventionist measures and regulation. A significant sector of the government's strategy was designed to increase international interactions:

There are strong ties between having a stable macro-economy and better international links. The more stable the economy, the easier it will be to attract foreign capital and invest in developing overseas markets. A stable local economy helps firms perceive and adjust to the inevitable shocks from the world economy with the least disruption - perhaps even turning some of them to advantage by dealing with them between than do overseas competitors. Access to world sources of capital means that New Zealand is not limited to the levels of domestic savings (Richardson 1992, 12).
Part of the government's overall policy reform package was the redefining of state-owned enterprises (State-Owned Enterprise Act 1986) through the adoption of a user pays principle and commercialisation of operations. The introduction of the State Sectors Act in 1988 implemented a framework of accountability for the management of corporate entities by the chief executives reflecting a reduction in state intervention (Evans et al. 1996; New Zealand Statutes 1988/20). Following the 1987 election, many of the state owned enterprises were privatised so that they might "perform better within the framework of market disciplines" (Duncan and Bollard 1992, 43). Privatisation occurred through the selling of assets or shares: public issue of shares (Port Companies), the transferring of ownership to customers (Electricity Supply Authorities), sale of usage rights (Forestry Corporation), partial stock flotation (Air New Zealand). The privatisation of former state-owned assets attracted increased foreign equity capital (refer Appendix 3.6) into New Zealand and, coupled with reforms within the economic policy environment, integrated New Zealand more fully into the global circuits of capital, allowing capital to circulate freely within as well as across, New Zealand's national borders (Britton et al. 1992).

In 1984 the investment threshold was increased to $NZ500,000, increased further to $NZ2 million in 1987 and in 1989 raised to its current level of $NZ10 million. Continued reforms within the investment sector saw limits on foreign investment being abolished or relaxed substantially and in December 1995 the regulatory regime was fully liberalised, permitting 100 per cent foreign participation, subject to approval, within all sectors. Investments under the $NZ10 million threshold do not require approval except where the proposed investment is in land, regardless of the value, or involves 25 per cent or more ownership where the value of the New Zealand company's assets is greater than $NZ10 million. Above the threshold level overseas persons must obtain consent from the government's monitoring body (refer Appendix 3.7 for regulation details). The Overseas Investment Commission handles all 'non-sensitive' land applications for less than 10 hectares and all non-land applications. Sensitive land is defined as land exceeding 5 hectares in area or greater than 0.4 hectares where the land is an island, contains or is situated next to reserves, historic or heritage areas, and the foreshore of lakes (Statutory Regulations 1995/292, 1476; Overseas Investment Commission 1996). Applications involving sensitive land must obtain ministerial approval from the Minister of Lands and the Treasurer. Additionally, the Overseas Investment Commission may grant approval on a conditional basis; that is, retaining public access rights.
While the removal of restrictions on capital flows has allowed New Zealand to establish a very liberal foreign direct investment regime, legislative barriers remain within certain sectors. While statutory regulations ensure the overseas marketing and selling of New Zealand's primary products (dairy, apple and pears, and kiwifruit) remain under New Zealand producer control the government is indicating that it wishes to remove these regulations. Such a move could attract foreign investment within these sectors. Legislative regulations also govern the allocation of fishing quotas, the right of Maori to access resources subject to Treaty of Waitangi claims, plus a 45 per cent threshold remains in place for foreign ownership of opticians. The air transport industry was privatised; however, a 35 per cent foreign participation threshold was implemented with regard to Air New Zealand. Likewise, the telecommunications sector, with the exception of Telecom New Zealand, is open to 100 per cent foreign investment. No single foreign entity or consortium may hold greater than 49.9 per cent ownership of Telecom New Zealand without governmental approval (OECD 1993).

3.5.2 OUTWARD FOREIGN DIRECT INVESTMENT

Until the mid-1980s, the outflow of capital from New Zealand was negligible due to severe foreign exchange controls. Investments abroad reflected historical linkages (United Kingdom) and geographical proximity (Australia). The outflow of capital was affected by the removal of exchange controls and deregulation of the investment market. Since 1990 the level of outward investment has increased substantially (refer Figure 3-8) -- in 1990 $NZ3,961 million was invested abroad compared with $NZ54 million in 1984. In 1990 New Zealand experienced a net outflow of capital that exceeded inflows by more than $NZ1,100 million.

11 As there is no governing body monitoring the flow of New Zealand capital abroad, there is little information available on the sectoral distribution of these investment outflows. Therefore, for statistical purposes, reliance is placed on information obtained from the recipient countries for the level of New Zealand investment within Northeast Asia.
Figure 3-8: Direct Investment Flows: New Zealand

Source: Statistics New Zealand 1997
The principal destinations for direct investment capital between 1990 and 1995 were Australia ($NZ4,781 million), European Union ($NZ4,172 million) and the United Kingdom ($NZ1,987 million). A disinvestment of $NZ1,246 million occurred within the Asia and Oceania region (refer Table 3-14).

Table 3-14: New Zealand Direct Investment Abroad

<table>
<thead>
<tr>
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<th></th>
<th></th>
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</thead>
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<td>707</td>
<td>814</td>
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<td>-253</td>
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<td>715</td>
</tr>
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<td>-318</td>
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<td>-1029</td>
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<td></td>
</tr>
<tr>
<td>Other</td>
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<td>0</td>
<td>-2</td>
<td>2</td>
<td>13</td>
<td>46</td>
</tr>
<tr>
<td>Other EU</td>
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<td>1279</td>
<td>838</td>
<td>596</td>
<td>907</td>
<td>640</td>
</tr>
<tr>
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<td>-1</td>
<td>1</td>
<td>-1</td>
<td>0</td>
<td>-1</td>
</tr>
<tr>
<td>UK</td>
<td>-361</td>
<td>2082</td>
<td>-174</td>
<td>-42</td>
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<td>539</td>
</tr>
<tr>
<td>USA</td>
<td>37</td>
<td>-410</td>
<td>42</td>
<td>-89</td>
<td>-55</td>
<td>138</td>
</tr>
</tbody>
</table>

Note: A negative total indicates a net disinvestment of funds over that year.
Source: Statistics New Zealand 1997

3.5.3 INWARD FOREIGN DIRECT INVESTMENT

The relaxation of the capital market regime altered both the trend and source of foreign direct investment capital in New Zealand. Following the relaxation of exchange controls in 1984, inward direct investment increased intermittently until 1990, when substantial increases were recorded. Inward investment increased from $NZ205 million in 1984 to $NZ2,824 million in 1990, a 1277 per cent increase. Inward investment flows which have remained high throughout the 1990's (refer Table 3-15), have been affected by policy reforms and the sale of former state-owned enterprises (refer Appendix 3.6). The United States (29.6 per cent) is the single largest source of direct capital inflows between 1990 and 1995 as a result of several specific transactions primarily within the service sector, namely the purchase of Telecom New Zealand and Sky Network Television Ltd. Australia is the second largest investor (29.1 per cent) reflective of geographical proximity and the 1983 Australia New Zealand Closer Economic Relations Trade Agreement. Following privatisation large inflows of capital from Australian interests have included investment in

\[12 \text{ No distinction is made between these two regions} \]
Air New Zealand (Qantas 19.9 per cent) and the Bank of New Zealand (National Australia Bank 100 per cent). Investment flows from both Australia and the United States have fluctuated on an individual year basis with disinvestments occurring in some years reflective of investment occurring in response to privatisation measures. There has also been a significant increase in investment from Asia and Oceania, notably in 1992, reflecting the increasing importance of regional trade linkages.

Table 3-15: Foreign Direct Investment in New Zealand

<table>
<thead>
<tr>
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<tr>
<td>Asia-Oceania</td>
<td>110</td>
<td>160</td>
<td>894</td>
<td>323</td>
<td>651</td>
<td>619</td>
</tr>
<tr>
<td>Australia</td>
<td>1237</td>
<td>-728</td>
<td>879</td>
<td>3127</td>
<td>903</td>
<td>510</td>
</tr>
<tr>
<td>Canada</td>
<td>-26</td>
<td>3</td>
<td>39</td>
<td>305</td>
<td>169</td>
<td>258</td>
</tr>
<tr>
<td>Japan</td>
<td>379</td>
<td>107</td>
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<td>-46</td>
<td>54</td>
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</tr>
<tr>
<td>Latin America - Caribbean</td>
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<td>0</td>
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</tr>
<tr>
<td>Other</td>
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<td>-3</td>
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<td>-28</td>
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</tr>
<tr>
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<td>761</td>
<td>634</td>
<td>511</td>
<td>438</td>
</tr>
<tr>
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<td>3713</td>
<td>-835</td>
<td>-161</td>
<td>1387</td>
<td>1627</td>
</tr>
</tbody>
</table>

Note: A negative total indicates a net disinvestment of funds over that year.
Source: Statistics New Zealand 1997

Overseas Investment Commission statistics reflect the number of applications received and the proposed investment amount within the criteria detailed previously on a December year basis. Comprehensive quantitative data on the level of investments occurring can not be obtained, as the Commission has no mechanism for the collection of such. Likewise, the Commission has no mechanism for recording the actual investment amount or any disinvestments that may occur. The approved amount may be overstated, as several applications may be required for the purchase of the same asset (Dawe, pers. comm. 1996) or approval may be sought for investment in a joint venture operation with New Zealand interests with, the full value of the transaction being recorded as foreign investment capital (CAFCA 1997b). A second constraint in analysing data from the Overseas Investment Commission, particularly on a historical basis, is that as the investment regime has been liberalised, the threshold and criteria for investments subject to approval has changed, allowing little, if any, continuity.

A second source of information is Statistics New Zealand Balance of Payments (BOPs) data detailing the flow of investment capital in and out of New Zealand. Balance of payments
statistics report on the flow of equity control, retained earnings, long and short term capital on a March year basis. The Overseas Investment Commission data reports on the same categories, with the exception of retained earnings for investments subject to approval. While comparison of the two data sets is difficult, the Overseas Investment Commission data gives an important indication of trends not available from balance of payments data. For statistical purposes within this thesis, balance of payment data is used, and while reference is made throughout to Overseas Investment Commission data, greater emphasis is placed on statistics obtained from investor countries.

Statistics released by the Overseas Investment Commission reflect a number of trends. Changes in the regulatory environment have altered the geographical distribution of foreign direct investment in New Zealand. An increasing number of applicants are from non-traditional investors within the New Zealand economy. Between 1991 and 1995 overseas investors sought approval to invest $NZ6,151 million in the manufacturing sector (18.9 per cent), $NZ5,372.2 million in property (16.4 per cent), $NZ4,698.7 million in services (14.4 per cent) and $NZ4,234.5 million in the finance sector (13 per cent). Regional statistics list Asia (33 per cent) as the largest investor followed by North America (23 per cent), Oceania (22 per cent) and Europe (19 per cent).

The exchange rate crisis faced by the incoming New Zealand Labour government in 1984 was a major catalyst for change in the liberalisation of the financial sector. The implementation of a variable pegged exchange rate and the progressive relaxation of financial and economic controls which include the corporatisation and privatisation of former state-owned assets created attractive opportunities for foreign investment. Investment inflows within the former protected sectors of the economy reflect an increasing diversity of country of origin. New Zealand's linkages to the global economy have been profoundly reconstructed with the adoption of a more liberal financial and economic regime.

3.6 CONCLUSION

A redirection in state intervention in the four nation-states has occurred under globalisation pressures. Martin and Sunley (1997, 282-283) contend that while globalisation has "weakened the economic sovereignty and power of nation-states in certain spheres -- most notably in the realm of monetary policy -- individual states still exercise substantial independence and authority in the regulation and management of their domestic political economies". National economic development policies, in part, determine the strategies and
patterns behind investment flows. The relaxation of regulatory controls on foreign direct investment, a factor of the globalisation process, is affected by economic liberalisation (internal mechanism), macro-economic policies including exchange rates, and the host country's framework (external mechanism).

Harris (1992, 78) states, "As the world economy becomes increasingly integrated, the mark of maturity of a national capitalist class is that world competition drives it to operate internationally, to merge increasingly with global capital". Essential to this integrative process are the institutional and regulatory frameworks which permit and encourage foreign direct investment on a global scale: GATT and APEC being the most notable developments. Through the relaxation of the regulatory environment the role of the state in the regime of accumulation has become somewhat that of a "facilitator of the requirements of global capital...[indeed] there is a basic uncoupling of the state from banking capital and the control of international monetary relations" (McMichael and Myhre 1991, 99).

A reformulation of the regulatory regimes in Northeast Asia and New Zealand has allowed for significant expansion in the international and regional circulation of capital. The nature of the interaction between New Zealand and the economies of Northeast Asia has changed as an outcome of, and a response to, an emerging liberalisation process. Out of this process new links and interactions are forming. New Zealand in Asia and Asia in New Zealand has not occurred in isolation but is part of a globalisation process. Key facilitators within the deepening integration process and the subsequent organisation of industrial space are enterprises: chaebol, sogo shosha, small and medium enterprises (SME's), and producer boards. Chapter Four addresses issues of methodology and the challenge of examining international links and interactions between companies and organisations within multiple cultures.
CHAPTER FOUR
RESEARCH FRAMEWORK: QUALITATIVE INTERVIEW-BASED COMPANY AND GOVERNMENT RESEARCH

4.1 INTRODUCTION

Debates abound over the use of methodology in economic geography. During the 1980s various methodologies were examined, challenged and refined (Massey and Meegan 1985). Methods ranged from extensive empirical analysis to investigations of individual corporations to the incorporation of alternative approaches implementing wider frameworks which take into account capitalist social relations and changes within national and international political economies. While no consensus was reached over one 'correct' methodology the debates succeeded in introducing into the field of economic geography a greater awareness of different methods. Indeed, the debates extended to address "the issue of the relationship between theory, method, politics and policies" (Massey and Meegan 1985, 3). By the 1990s, political economists were faced with problems as to how to interpret changes and the subsequent restructuring occurring within national and global economies. Corporations and regulatory bodies are principle agents of change in the internationalisation of capital and the literature emphasises the importance of examining flexible networks within the capital accumulation process.

In order to conceptualise the nature of changing links and interactions I firstly examine recent work by Thrift and Olds (1996) in which they seek to illustrate the degree to which the

1 This chapter is based on Stringer (1997).
economy is embedded within networks. In calling for a redefinition of the 'economic in economic geography' Thrift and Olds (1996, 313) state that a "determined effort is being made to make a space for new kinds of economic geography that can supplement or even replace the older forms of economic geography" — a geography with a multiplicity of approaches that will probe other fields in search of the economic. They identify four topological premises which, when used in examining the modern space economies will produce "radically different means of framing the world" (Thrift and Olds 1996, 322). First the economy is represented as a bounded region where economic activity occurs within a defined territory encompassing diversified territorial entities from the nation-state to international regimes. Second, networks encompassing economic activity are present at varying levels: institutional, cultural and social. Third, the impact of the flow of people, capital, information etc. on economic activity is an important feature. Fourth, the economy is in two places at once "always virtual, never present" and becomes the preserve of a cybergeography. In proposing the reconstruction of the economic in economic geography it is their (Thrift and Olds 1996) premise that the most interesting research will emerge from the work conducted at the boundaries of these concepts.

While Thrift and Olds (1996, 322) maintain "there is no need to take topological sides, since each of these presuppositions coexists in intricate relation with the others", the application of their agenda to an examination of New Zealand-Northeast Asia interactions highlights, in particular, the utility of three of the above four concepts: bounded regions, flows and networks. To gain an understanding of the flow of financial capital and commodities between New Zealand and Northeast Asia necessitates the inclusion of the bounded region presupposition. The bounded region which includes nation-states and corporations can be further extended to include other agents within the international political economy. The flow of capital and commodities is set within the context of the bounded region which in turn is facilitated by the third topological presupposition—the network—which "can be used as a description of the form of governance of a whole range of institutions, from firms to markets, within whose nodes and vertices information, capital, etc., flows" (Thrift and Olds 1996, 322). The network has relevance to global commodity chains as different agents seek to manage various nodes along the production chain. "Networks can be interpreted as the only means through which business activities are coordinated and integrated along the production chain" (Yeung 1994, 477; see also Cooper et al. 1995).

Various forms of networks need to be in place for the establishment and continuation of the flow of capital and commodities between bounded regions. In part, the increasing level of
interactions between New Zealand and Northeast Asia is an outcome of the intensification of the network process in terms of governance arrangements, social and cultural networks underscored by financial and economic linkages. Thrift and Olds (1996) highlight the significance of social and cultural networks within strategic alliances.

When developing my research design I found the geographic literature contained little guidance on how to explore the processes of integration and rescaling of activities and enterprises which are a feature of economic globalisation. On a more personal level I also found that being a Caucasian woman presented further constraints. This chapter is designed to reveal my learning process in setting up and conducting interviews in conjunction with guidelines found in economic geography and the applicability of such guidelines in conducting research in cross-cultural contexts. This chapter consists of two main sections. The first deals with broad issues of research methods while the second deals with regional differences which must be accommodated in cross-cultural interviews in Northeast Asia.

Due to the nature of the research question and in light of the above considerations I needed to clarify my methodology. Prior to my field experience in Northeast Asia I consulted the methodological literature to gain insight to approaches I should take, what problems I might encounter in the field and what data gathering strategies could be employed. While Thrift and Olds (1996) make reference to different forms of methodology they offer no indication of adaptations that should occur in order to examine the new economic geography. Indeed, they are curiously silent on methodology. Thus, I was required to consult the wider economic geography. However, I found little published about the methodology experience (Cornwell 1988). I identified a number of elements in advance from various literatures and while in the field these were reworked and serve as future guidelines to include in methodological discussion. This chapter is designed to reveal my in-field research experience particularly in light of conducting research in other cultures.

4.2 RESEARCH METHODS

In analysing my research criteria it was apparent that I needed to select a methodology that would allow me to gain insight into the actual and/or potential activity by Northeast Asian companies and investors in New Zealand and vice versa. Such information, not obtainable from statistical data alone, relies heavily on interpretations of corporate behaviour, strategic decision-making factors, and market perception. The qualitative method offering "richly descriptive reports of individuals' perceptions" (Hakim 1987, 26) was selected as the primary
research tool. This initial selection however, does not discount the importance of the quantitative method and the final methodological selection was that of a multi-method approach: qualitative interview-based individual and company research and quantitative research using secondary data sources (company reports, statistical based government publications).

In selecting a methodological approach, I sought firstly to analyse the relative attributes of the qualitative research design method in comparison to those of the quantitative research method. An examination of the attributes of the two methodologies was important as I sought to determine which methodology was more applicable -- not only to my research objectives but also within the cultural environment in which I was conducting research. In comparing the two research methods McCracken (1988, 16) summarises:

qualitative research normally looks for patterns of interrelationship between many categories rather than the sharply delineated relationship between a limited set of them. This difference can be characterized as the trade-off between the precision of quantitative methods and the complexity-capturing ability of qualitative ones.

Within the qualitative methodological framework participants are usually selected in a non-random fashion based upon a causal relationship. Research is conducted using techniques which include participant observation, ethnographic studies and interviewing. Qualitative research allows the researcher "an opportunity to glimpse the complicated character, organisation, and logic of culture" (McCracken 1988, 17). In comparison, the quantitative paradigm is primarily concerned with theory verification and replication. Participants are selected randomly and a statistical analysis of patterns is often based on data generated through large-scale postal surveys, formal questionnaires, and secondary data. Thus, qualitative research is often viewed as being descriptive and subjective in contrast to the objective statistical focus of the quantitative paradigm.

The incorporation of a multi-method strategy becomes an effective tool allowing different sets of data to be collected and analysed, although Massey and Meegan (1985, 169) caution that "effort is needed to make them genuinely complementary". As more than one method of data collection was necessary in order to investigate the multi-dimensional level of relations between New Zealand and Northeast Asia it was imperative that I employed appropriate research tools. For this reason the selection of research techniques from both the qualitative and quantitative paradigms was essential and while qualitative techniques are used more intensively throughout my research agenda techniques from both methods are incorporated independently and simultaneously. Yeung (1995, 320) states "we need to appreciate...the
relative advantages of different methods and how to use them discriminately and flexibly under different research contexts. The multi-method strategy -- an interplay between qualitative and quantitative methodology -- allows a greater investigation and probing of the level of interactions occurring.

After selecting the multi-method strategy I needed firstly to determine the appropriate format the interviews should take. According to Healey and Rawlinson (1993), two recognised methods used in conducting corporate interviews are either of a standardised or non-standardised format. The format used is largely dependent on the chosen research design. Extensive research requires the use of the standardised research method. The purpose of the standardised research method is to collect information of a "factual or non-emotive" nature from "relatively homogenous groups". This method, comprising a number of identical, closed-ended questions conducted under controlled conditions, allows for ease in coding and analysing the responses. However, this method generally allows little if any scope for linkages to develop as a result of the interviewee's response.

In comparison, the non-standardised interview containing a "predominance of open-ended questions" (Schoenberger 1991, 180), which vary between interviews, is more suitable for intensive research methods. The non-standardised interview is less structured than that of the standardised method. Open-ended questions are most applicable when the purpose of the interview is to obtain results based on each individual company's decision-making process.

The interviews I conducted mostly followed a non-standardised format. The companies interviewed cover a wide spectrum of economic activity. There is, for example, little similarity in the level of involvement of the companies in the New Zealand economy. The large companies, in particular, have varying global strategies and to determine the importance (or lack there-of), perceived or otherwise, of the New Zealand economy within their strategic decision-making process, questions about the company's particular activity was essential. I began the interviews with a set of common questions concerning the structure of the home company and the history and policy of involvement in New Zealand before devolving to the non-standardised research format.

Real and perceived limitations of the non-standardised interview are contained within the following sections, which details and contrasts my qualitative research experience in Korea, Taiwan, and Japan.
4.3 THE FIELDWORK PROCESS

The overseas field work for this research was conducted in three time periods. The first field work period was for the duration of three-and-one-half months: August 1995 through November 1995. Two-and-one-half months were spent in Korea where I interviewed a total of sixty-two companies, individuals, and related organisations. Two weeks were spent each in Taiwan and Japan where I began initial fieldwork and data collection and, additionally, laid the foundation for my return to conduct more in-depth research. Interviews conducted during the first research period totalled twenty-three and fifteen respectively.

The second fieldwork period to Taiwan and Japan lasted one month. This second research trip was essential, not only to provide the necessary scope and quality for my research project but to ensure equality in data collection. My first research experience gave me a new perspective in my preparations for this trip and the strategies I needed to employ. I returned to Taiwan and Japan with a greater insight into the nature of investment linkages and the interconnections between such. This insight guided both my interview strategy and data collection procedures. My second research trip was under the sponsorship of APEC and with the assistance of Tradenz Investment Services Group\(^2\). Tradenz supplied contact information for Taiwanese and Japanese companies and individuals who have recently examined investment opportunities in New Zealand. In return, I administered a questionnaire on behalf of the Investment Services Group to assist them to better meet the needs of potential investors. On this occasion nineteen interviews were conducted in Taiwan and sixteen in Japan.

The third fieldwork period was for ten days in February 1997 when I interviewed the overseas offices of Korean chaebols and related organisations based in Sydney. A significant number of the representatives of these firms are assigned the responsibility for overseeing the New Zealand market. These representatives have the potential for providing insight into how the parent company views the New Zealand market -- insight that was not always obtainable in Seoul because of the complex nature of the chaebol's many divisions and decentralisation of authority. Nine interviews were conducted.

2 *Tradenz Investment Service Group assists potential offshore investors with enquires and/or forwards the inquiry on to the appropriate organisations who can facilitate the investment process: lawyers, accountants, regional and local development boards, etc.*
4.4 THE INTERVIEW PROCESS

4.4.1 THE 'FISHING METHOD'

While in Northeast Asia I interviewed a number of companies ranging from small enterprises to conglomerates. These companies cover various economic sectors. Contact details were obtained prior to leaving New Zealand through various networks, from third-party sources in the appropriate countries or through the 'fishing' method (Healey and Rawlinson 1993, 346), where initial contact is made over the telephone to determine who within the company structure is responsible for the Australia and New Zealand region.

In a majority of interviews in Korea where initial contact was made through the 'fishing' method, the interviewees appeared to be very suspicious of who I actually was and were not fully convinced that I did not work for, or at least report to, some of their competitors. Many interviewees would question me as to which other companies I was visiting, leaving me with the impression I was being tested as to the level of information I would give out, and therefore I was very circumspect in my response. This level of mistrust did not occur to the same degree when the contact came through a personal source versus the 'fishing' method.

Initially, I attempted to tape record my interviews. In some instances the respondent's voice would lower while discussing important or sensitive issues. At other times the interviewee would hesitate and glance at the tape recorder -- it was clear that the recorder inhibited their response. When the recorder was switched off, either at my instigation or theirs, greater insight was obtained and the interviewee would direct me as to when I could once again switch the recorder on. In many cases a tape recording was not acceptable and notes were taken. Concern was also expressed on one or two instances over the notes I was taking, and I had to stop taking notes and rely on memory to recall the relevant details. The closing of the notebook at the conclusion of the interview often facilitated a more in-depth response and reflection. Again, I relied on memory to record this information so as not to inhibit further response. At the conclusion of an interview with a Senior Manager of a Korean company based in Sydney, the interviewee in reflection (and perhaps a subtle warning in regards to the accuracy of information) commented that it was very difficult for them [referring to other companies as well] to provide me with correct information because of the level of competition with Japanese trading houses and other Korean companies.

During my field experience I became conscious of the importance of business networks because of the degree of cooperation received from interviewees whose contact details I
received from personal sources rather than the 'fishing' technique. While in Taiwan, I benefited from the assistance of the ANZ Bank. Staff members made the 'fishing' and 'difficult' phone calls where language proved problematic. When the company I sought to interview was either a client or known within the social network my correspondence was accompanied by a letter from the appropriate manager asking for the recipient's support for my project. Through networking I was able to interview a higher level executive at a prominent computer company than I was originally scheduled to meet with. The executive provided a very rich and detailed insight into the company's activities that may not have been obtainable to the same degree if I had used the 'fishing' method.

Japanese business etiquette dictates a person be introduced by a known contact and while in Japan I was assisted by the Tokyo office of the New Zealand Forestry Corporation. The administrative assistant from the Forestry Corporation's office, a Japanese woman, accompanied me to the appointments she had arranged. Her presence brought an added dimension to the interview and I gained valuable cultural insight. If the interviewee hesitated in expressing displeasure about circumstances relating to investment in New Zealand (i.e., problems with local authorities) she encouraged openness and honesty. At the conclusion of one appointment the assistant felt I could obtain greater insight from a second manager within the company. This second appointment was only possible through her presence and influence. Culture came to the forefront when the contact, who spoke excellent English, would only talk about the unofficial company policy in Japanese, feeling it would be inappropriate to tell me, a gai koku jin (foreigner), the unofficial company policy. He had no hesitation in doing so to a fellow Japanese, allowing her to quietly translate the conversation.

The feeling of distrust that I had previously encountered in Korea was absent, or at least not recognisable, in Taiwan and Japan. If necessary the Taiwanese and Japanese contacts openly declined to provide particular information, or as in one interview in Japan, I was required to sign a confidentiality agreement. I appreciated these open refusals in comparison to the situations encountered in Korea when I felt the interviewee was doing all he could to avoid answering my questions.

4.4.2 USE OF A QUESTION SHEET

A list of questions was sometimes requested prior to the interview so the contact could prepare in advance. Even if a questionnaire was not requested, I initially found it more effective to send one. Those with questionnaires tended to follow the outline very strictly
even when it was apparent that a section or two of the questionnaire did not relate to them. Occasionally, the questionnaire was too restrictive, thereby controlling the interview and inhibiting the development of a dialogue. After the initial few interviews in which a questionnaire was used, it became apparent that there was a need to reword the questionnaire for simplicity. In the interview situation when a question is not properly understood, the opportunity remains for the interviewer to rephrase the question until understanding is reached. The rephrasing of important concepts by the interviewer not only assures the interviewee's understanding but allows for further expansion by the interviewee.

For those contacts to whom no questionnaire was previously sent I began the interview process by asking the interviewee for a description of the firm and its activities. The discussion was guided from this point, allowing the interviewee to contribute "to shaping the content of the discussion without controlling it" (Schoenberger 1991, 182). Some interviewees were very relaxed in this type of situation and wider discussion ensued.

4.4.3 LANGUAGE AND CULTURE

Language proved to be the biggest obstacle to both the interview process and data collection. Problems were often experienced in the interpretation of either verbal or written questions and likewise with the answers. Sometimes the answers I received were ambiguous, oversimplified, or contradictory to previous answers given, and language barriers proved problematic when attempting to obtain clarification. At other times the ambiguity allowed a deeper discussion to occur.

The large enterprises generally publish company reports in the respective Asian languages and English. However, the availability of statistical data and research reports published in English is very restricted in comparison to that published in the native language. In some cases the data is a mere summary of the more extensive publications, and therefore there was a limit to the amount of research data I was able to collect.

For those interviews which involved an interpreter, there was the added factor of the interpreter's perception of both the question and answer and the translation of such. One interviewee whose English was "very limited" had two staff members acting as translators. Frequently during the course of the interview the translators disagreed over the English translation. On each occasion the interviewee corrected them in detail in English and was clearly capable of handling the interview himself. It was his concern about potential linguistic problems that was perceived as a barrier to the interview process.
Assesses with experience in the Asian markets stressed the importance of relationship building -- if a relationship was not established I was basically wasting my time. Additionally, I was also told that as a woman, I would be excluded from spaces considered 'exclusively male' where a significant element of the relationship building process occurs. To allow for relationship building the initial part of the interview was centred around personal issues. The time varied considerably from one interview to another, and I generally let the person I was interviewing instigate the interview process.

4.4.4 INTERVIEWEES AND COMPANY REPRESENTATION

The Korean conglomerates are structured so that there are many divisions or teams within the company. These are determined by commodity and/or region. The Haitai International Group has a series of teams which include Group Procurement, Livestock Team (a newly formed team in preparation for the liberalization of the beef market in 2001), Investment Team, etc. Such a large number of teams within one company was a difficulty I had to overcome. Often I was only put in contact with one team representative when in fact there were a number of teams with interests encompassing the Australia and New Zealand region. In talking to one team representative there was no guarantee they knew of other teams working the New Zealand market or indeed even what the other teams were.

In some instances the interviewee was clearly frustrated by some of the questions and his inability to answer, due, perhaps, to his limited knowledge of the firm's activity and background issues essential to decision-making. This was not a personal failure but rather reflected the sheer size of the firm, its many divisions, and complex changes connected within. Contrary to expectations I found the same to be true in Sydney -- again a factor of the size of the firm and also due to management changes and rotations. Additionally, I was not assured that the information was in fact a true representation of the firm's behaviour or subject to the interviewees own interpretation of such. This concept is highlighted by Markusen (1994, 478): "Individual informants, for instance, are often assumed to represent the firm's point of view, when they may only be one voice in it". For those interviews which involved an interpreter, there was the added factor of the interpreter's perception of both the question and answer and the translation of such.

Healey (1991) recognises the difficulty of determining the appropriate person to talk to, and occasionally it was apparent I was meeting with the wrong person. As an example, one interviewee claimed the company had no business dealings with New Zealand companies, yet
information provided from the Australian office contradicted this, as did later interviews with representatives of two different teams within the same company. Again, this is possibly a reflection of the sheer size of the firm.

The question of whether information gathered within the interview situation is the voice of the individual or representative of the voice of the company is a general methodological problem within the qualitative interview-centred situation.

4.4.5 MULTIPLE CONTACTS

One strategy, advocated by Markusen (1994), is multiple sourcing which, although desirable, was not always practical. One representative, when asked who else I could meet with in the company, became very defensive. He was of the impression I wished to check the information he had provided. In another interview I met firstly with the Managing Director for a few minutes before meeting with a member of the trade business team. Following the interview I again met with the Managing Director and attempted to clarify and expand upon a few points. The Managing Director appeared to be concerned I was checking the information I had been given previously and that I was undermining him.

My first interview with personnel of a joint venture operation between a New Zealand company and Korean interests was terminated because the interviewee felt I should obtain permission from the regional office in Japan for our interview to continue. Permission was obtained and the second interview conducted, this time with the General Manager. The contrast between the interviews was striking. Firstly, I could not pick up where I had left off in the first interview. This could have been due to language difficulties, as an interpreter was used, or to specialisation factors, the general manager verses an assistant manager from the marketing department. Secondly, conflicting information was provided, which could have been due to the first interviewee's own interpretation of the firm's activities.

4.4.6 REGIONAL DIFFERENCES

The implementation of qualitative interview-based individual and company research is essential in the investigation of interactions and relationships. What is detailed above is illustrative of the in-field experiences and problems I encountered and highlights, in part, what is viewed as a constraint of the intensive method. Interviewing is an interpretative process involving both the interviewer and the interviewee. The interpretative process within this research project is compounded by language, cultural, and social differences.
such as gender dynamics. Although what is presented is situated within the Northeast Asian cultural realm it is applicable to many other research contexts where the interviewer enters a different world from what they normally engage in.

Interview-based research was decidedly different in both Taiwan and Japan from Korea (refer Table 4-1). Companies and individuals interviewed in Taiwan and Japan were more receptive to the purpose of the study and its applications. However, it must be taken into consideration that the Taiwanese and Japanese contacts came through personal network sources, rather than the 'fishing' method used predominantly in Korea. While the contacts in Taiwan and Japan were more open to my research, relationship building was still an important cultural element. Time must be spent in the country developing and expanding upon networks even if contact has been made prior to arrival. As mentioned, I benefited tremendously from the assistance of the New Zealand Forestry Corporation office but I was constrained by time limitations. If I had been able to spend more time in Japan, the office would have been able to establish a series of relationship building opportunities prior to the formal appointment thus allowing the Japanese contacts to become 'at ease' with me and thus more open to providing the depth of insight required for my research. Thus the field-experience has to be adaptable to the norms of the cultural context in which it is being conducted.
## Table 4-1: Regional Differences: A Summary

<table>
<thead>
<tr>
<th>Method/Feature</th>
<th>Korea</th>
<th>Taiwan</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td>'Fishing' Method</td>
<td>Level of suspicion affecting the interview process</td>
<td>Personal networks</td>
<td>Personal networks</td>
</tr>
<tr>
<td>(Healey and Rawlinson 1993)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Questionnaires &amp; Language</td>
<td>Subject to a greater level of misinterpretation due to language barrier</td>
<td>Internal interpreter</td>
<td>Requested to bring own interpreter</td>
</tr>
<tr>
<td>(Schoenberger 1991)</td>
<td>Rephrasing of questionnaire for simplicity</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Internal interpreter</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relationship Building</td>
<td>Excluded from spaces considered 'exclusively male'</td>
<td>Often the relationship building process was instigated by the contact (i.e. social interaction)</td>
<td>Not such a great emphasis due to network process</td>
</tr>
<tr>
<td>Single Voice (Markusen 1994;</td>
<td>Limited knowledge of firm's activities due to sheer size of firm and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Healey and Rawlinson 1993)</td>
<td>many divisions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Multiple Sourcing (Markusen 1994)</td>
<td>Level of distrust (not necessarily linked only to the Korean context)</td>
<td>More specialised personnel</td>
<td>More specialised personnel</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Level of distrust not so apparent</td>
<td>Involvement of other team members</td>
</tr>
</tbody>
</table>
4.5 CONCLUSION

Links and interactions between individuals, companies, and regions of multiple cultures, different governmental systems, and historical experiences, pose very real challenges for economic geography research. Such challenges are highlighted within my own research experience as I seek to examine the changing nature of New Zealand's interactions with Northeast Asia within the current cycle of accumulation.

In conclusion, while the methodological literature proposes some guidelines for conducting research in economic geography these guidelines are not always workable in the cross-cultural context. There is a need for a greater awareness of in-field cross-cultural experiences in order that these elements may be reworked and serve as future guidelines to include in methodological discussion. The five methodological issues discussed in the chapter reveal how information dealing with corporate motivations, expectation, strategy and actual behaviour connected with the development of new links and interactions may be very dependent on the capacity of researchers to work within the cultural norms of business in different countries.

Encompassing ethnic groups and underlying cultural norms of behaviour the network is an essential area of consideration within cross-cultural research. Increasing levels of interactions are an outcome of the intensification of the network process in terms of governance, cultural and social arrangements. Comparable to the importance of networks is the importance of relationship building within the Asian cultural context. Time must be spent in each country developing and expanding these relations even if contact has been made prior to arrival.

As networks expand and relationships develop the interviewer is likely to obtain a greater depth and richness to the questions posed. In critical reflection, where those I interviewed clearly understood the objective and appreciated the importance of my research, primary data and contacts were generously supplied. In these situations I was assured of the authenticity of the data -- both verbal and written -- which allowed me to explore the patterns of interactions between industries, enterprises, and regions with confidence.

This thesis examines the reformulation process highlighted within two key economic sectors -- agro-food and forestry -- and the importance of these sectors within regional development. Using information collected through the non-standardised interview process and secondary
sources, Chapter Five examines the integration, and subsequent reorganisation, of New Zealand's agricultural production system into a Northeast Asian food import complex.
CHAPTER FIVE

AGRO-FOOD TRADE: NEW ZEALAND'S INCORPORATION INTO A NORTHEAST ASIAN IMPORT COMPLEX?¹

5.1 INTRODUCTION

New Zealand's agro-food sector has restructured in response to global forces and to local initiatives (Campbell 1996a; Le Heron and Pawson 1996; Le Heron and Roche 1996; Moran et al. 1996b). New Zealand, historically a food-exporting nation, is enmeshed in the globalization of the world economy and developments associated with the General Agreement on Tariffs and Trade (GATT) requirements. The Uruguay Round Agreement on Agriculture conducted under the auspices of the GATT concluded in December 1993. Prior to the Uruguay Round agreement the Korean and Japanese governments actively intervened in the agricultural sector (ABARE 1988; Moore 1985; 1986; Riethmuller et al. 1988) by providing incentives. These incentives included farm income support, stabilisation of consumer prices, and the purchasing and disposal of agricultural products. The agreements reached within the Uruguay Round introduced a new set of regulations associated with agricultural trade. These regulations focus on freer trade primarily through the reduction of governmental support and the elimination of non-tariff barriers. Under the principles of the Uruguay Round agreement participating countries are under obligation to convert non-tariff barriers to tariff barriers followed by a subsequent reduction in tariffs over the six year implementation period.

¹ Agro-food trade from New Zealand to Korea is based on Stringer (forthcoming).
Interactions between New Zealand and Northeast Asia have been in turn aided by the changing internal regulatory environment of these nations which allowed various actors to begin to explore prospects. National reregulation, in response to global initiatives, enabled each country to be reset into the global economy. The relaxation of import barriers by Northeast Asia, under the GATT Uruguay Round agreement, presents new market opportunities and challenges for the New Zealand agro-food sector; a re-articulation of production as producers adapt to new production-consumption relations. The transformations occurring in the agro-food sectors within the Northeast Asian countries in response to globalization policies and the emergence of an import complex centred upon Japan is leading to a demand for greater food variety and food quality. Changing patterns of consumption also reflect a relaxation of import barriers, increases in discretionary spending, and the westernisation of consumer tastes aided by an increase in international travel. As market liberalisation increases within Northeast Asia, both as a domestic mechanism and in response to global forces, new structural conditions underscore developments in New Zealand's agro-food linkages. Through the reduction of trade-distorting practices the Uruguay Round agreement is influencing the structure of production, trade, consumption and investment capital between New Zealand and Northeast Asia (Shin 1995).

Using background literature from the world-systems perspective and the food regime area, one is left contemplating why New Zealand's trade with Northeast Asia remains fundamentally that of traditional activities. This chapter examines New Zealand's integration into a Northeast Asian food import complex set within the context of the food regime perspective. Examination of New Zealand's agro-food trade reveals a presence of the first food regime (beef), production best ascribed to the second regime (dairy) and indicators highlighting an emerging third regime (kiwifruit) based on new consumption interests.

5.2 AGRO-FOOD REGIME LITERATURE

Proponents of the food regime concept identify two distinctive regimes set within the context of the capitalist world-system and linked to regimes of capitalist accumulation and regulation (Friedmann 1991, Friedmann and McMichael 1989). The literature identifies two regimes distinguished by structural features and a coarse chronology to their appearance. The first international food regime (roughly 1870-1914) occurred during the period of British hegemony. Fundamental to this regime was the export of cheap meat and grain from the white settler colonies to Europe. The expansion of the agricultural export market contributed to extensive capital accumulation by lowering the wage costs in
European countries and therefore aiding the expansion of the global economy (McMichael 1992). The erection of trade barriers as a mechanism to protect domestic markets from increasing competition from cheaper imported foods brought the expansionary period of the first regime to an end (Le Heron and Roche 1995).

The second food regime (c1947-1973), crystallising during the period of US hegemony, centred around specialised agro-industrial complexes and mass production techniques for mass markets. Mass consumption within this Fordist style regime was "realised through the growth of disposable incomes and increasingly global markets" (Lowe et al. 1994, 3). The second regime was also the era of surplus agricultural production within the United States and the establishment of US food aid programmes (Friedmann 1991; 1993). Food aid initiated the transformation of the national diet of recipient developing nations and became a transitional mechanism for the future market expansion by core producers into developing nations. Additionally, the second regime was highlighted by different international regulation; temporary economic stability derived from the Bretton Woods agreement and the General Agreement on Tariffs and Trade (GATT) framework. Friedmann (1991, 71) describes the agro-food sector as comprising a series of commodity chains woven into "complexes, which link enterprises making specific products as raw materials to enterprises processing or distributing final goods". Three agro-food complexes, operational on an international scale, are those of wheat, livestock/feed and durable food production. Significant changes occurring within these complexes during the second regime highlighted a change in the international division of labour and a consequential re-shaping of agricultural trade patterns.

Restructuring within the livestock complex led to the reorganisation and standardisation of production in order to produce meat for sale on international markets. Intensive feed complexes using specialised grains (sorghum and maize) were reorganised transnationally to extend "commodity chains across national frontiers, so that apparently national sectors, such as livestock, came to be tightly linked for inputs and sales to international trade" (Friedmann 1991, 67). Within the durable food complex major developments occurred in the production of manufactured ingredients. Core producing nations began to substitute imports of tropical raw materials with generically manufactured ingredients. Thus imports of sugar and vegetable oils were replaced by ingredients such as artificial sweeteners and margarine. The degree to which imported goods were replaced by substitutes affected the demand and price peripheral nations received for their exports. The livestock and durable food complexes became "important for accumulation; each were central to the social and transnational
restructuring of agriculture as a supplier of inputs" (Friedmann and McMichael 1989, 95).

Beef feedlotting units originally organised around cheap grains have become increasingly interlinked within the food complexes:

The livestock/feed and durable food complexes are each dominated by industries specializing in inputs to crops and livestock production and in mass production of durable foods from agricultural (and chemical) raw materials. These two complexes and the wheat complex are now becoming intertwined. Since agri-food complexes are centered on transnational, industrial capital, the splintering of production within national economies - that is, intra-sectoral integration across national boundaries - is a phenomenon increasingly general to all commodity chains, and to all nations with sectors linked into them (Friedmann 1991, 84).

Friedmann (1991) states that changes occurring within the wheat complex differ from the livestock and durable foods complexes. Consumers in North America and Europe began to purchase industrial pastries and breads (using inputs from the durable food complex) instead of the more traditional purchases of flour and artisanal breads. Conversely, peripheral nations and Japan increased their consumption of flour and artisanal breads. Friedmann (1991, 67) attributes the increase in consumption for allowing "for both the maintenance of the large wheat export sectors in the United States and later in Europe".

The general structural crisis of the 1970s, recognised as the collapse of the "Fordist mode of capital accumulation and regulation" (Whatmore 1995, 39), brought the expansionary period of the second food regime to a conclusion. The scale of Soviet grain purchases in 1972-73 and the consequential depletion of surpluses within capitalist nations coupled with escalating debt within peripheral and core regions propelled the food regime into a period of crisis. Efforts by nations seeking to expand production led to the reappearance of surpluses. Friedmann (1991, 85) defines the crisis as taking "the form of accelerating trade warfare, with serious social consequences". The accumulation crisis of the 1970s impacted agro-food restructuring as companies from major food exporting nations embarked on a global search for market expansion and new profit avenues. The structural crisis evoked dramatic changes within the global economy, initiating a period of reregulation and privatization of economies (not occurring simultaneously in all countries or indeed to the same degree). The underlying policies to reregulate became the forerunner for greater transborder expansion of capital and changes in the role of the nation-state.

Of an emerging regime Friedmann (1993, 31) writes that the alternatives "must be teased out from analysis of the social forces involved in global agro-food restructuring". McMichael (1992; forthcoming) proposes that from the latest restructuring crisis a third food regime is starting to cohere -- the anchor of which is most likely an East Asian food import complex
headed by Japan. The third food regime is highlighted by the transnational movement of capital in the interests of increased production and consumption opportunities and reflects the "shift from state to capital as the major force shaping regional agricultures" (Ufkes 1993, 194). Food regime writers (McMichael and Myhre 1991) argue that the transnational corporations (TNCs) from earlier accumulation phases are 'in control' of the "new accumulation spaces" (Bonanno et al. 1994, 2) and are aided by regulatory arrangements of GATT leaving the nation state as virtual "ciphers for transnational capital" (Goodman and Watts 1994, 20). Friedmann and McMichael (1989, 112) state moreover that:

the restructuring of agriculture in all countries is in response to the demand by transnational agro-food corporations for inputs to manufacturing and distribution networks, casts doubt on the very idea of nations as an organising principle of the world economy...National states are now reinforced by the international payments system and undercut by transnational restructuring of production.

Within this context, the emerging third regime is highlighted by the increasing globalization of production and consumption markets reflective, in part, by corporations which are "geared to the global or regional markets that are replacing national markets" (McMichael 1992, 347). The third regime is characterised by flexible production and adaptation to niche markets aided by research and development. Other researchers propose that the third food regime is centred around the expansion of the fresh fruit and vegetable complex (Friedland, 1994; Le Heron and Roche, 1991; 1995; Pritchard 1998).

This chapter now examines New Zealand's agro-food exports to Northeast Asia using the state-endorsed statutory marketing boards as case studies. Agro-food trade between New Zealand and Northeast Asia involves mainly products of the first and second regimes: New Zealand's industrialised exports from the beef and dairy sectors. The export of fruit, particularly kiwifruit, is indicative of a new high return sector connected to the emerging third regime. This chapter proposes that viewing agro-food trade from New Zealand to Northeast Asia within the food regime framework "fits only partially what would be expected" (Moran et al. 1996b, 245). Agro-food trade should not simply be compartmentalised in separate and distinct regimes. Empirical evidence in this chapter highlights the increasing complexities of the regimes, indicating sectoral realities which suggest the investment axes of regimes may be more complicated than first thought.
5.3 BEEF SECTOR

New Zealand's beef industry is highly export orientated. For the year ended September 1996, New Zealand exported 81 per cent of domestic beef production of which 18 per cent was exported to Northeast Asia (Statistics New Zealand 1997). In volume terms Korea is New Zealand's third largest beef market and is considered to be one of the industry's top three potential growth markets (Draper, pers. comm. 1995). Japan (excluding Okinawa) and Taiwan rank fourth and fifth respectively, however, in value terms Japan is a more important market (refer Figure 5-1). Beef exports to Korea predominantly comprise lower value bone-in frozen beef (production best ascribed to the first food regime) in contrast to exports to Japan and Taiwan which consist of higher value bone-out chilled and frozen products (second food regime) principally as a response to these markets developing more rapidly than the Korean market. This section examines some of the preconditions which allowed New Zealand greater access to the Northeast Asian beef market.

Figure 5-1: Beef Exports

Source: Statistics New Zealand 1998
5.3.1 PRECONDITIONS FOR NORTHEAST ASIAN-NEW ZEALAND INTERACTIONS

5.3.1.a Cairns Group

Formed in 1986 in response to increased subsidised exports from the European Union and the United States into non-traditional markets, the Cairns Group comprises fourteen middle-size and small nations all of whom are significant agricultural exporting nations. Unable to subsidise their own agricultural exports, the nations collectively joined together to advocate agricultural trade reform under the free market system (Higgott and Cooper 1990; Moran, pers. comm. 1997). Impacting the Uruguay Round of trade negotiations, the Cairns Group's agenda focused on a substantially more open regime for international agricultural trade. Proposing a non-discriminatory trade regime, the Cairns Group sought to implement tariff barriers to replace non-tariff access barriers and also introduce the progressive liberalisation of all tariff barriers and export subsidies (Higgott and Cooper 1990; Le Heron 1993). While the advocacy of the Cairns Group was advantageous to both New Zealand and Australia, it left these two countries in competition with each other for increased market share.

5.3.1.b Uruguay Round

The end of the Uruguay Round negotiations saw the implementation of a phased liberalisation programme for the Korean beef market, with full market liberalisation scheduled to occur in the year 2001. The Korean beef market has periodically been closed to the international market in response to domestic market pressures, most recently in 1984 when the government sought to protect declining domestic beef prices. The market was re-opened in 1988 subject to import regulations. The Record of Understanding established in 1993 and updated by the Uruguay Round established the minimum market access and tariff rates leading up to complete liberalisation.

2 Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji (a member of the Cairns Group but is not a contract member of GATT), Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand, and Uruguay.
3 The formation of the Cairns Group was initiated by New Zealand which in turn asked Australia to head the discussions (Moran, pers. comm. 1997).
As part of the Beef Liberalisation Program, the Korean government agreed to increase the yearly beef import quota from a minimum of 123,000 tonnes in 1995 to 225,000 tonnes in the year 2000. This reflects an average increase of 20,000 tonnes annually. In addition, to the quota increase a tariff reduction from 43.6 per cent in 1995 to 41.6 per cent in 2000 is scheduled (refer Table 5-1). With the implementation of a free trading system in 2001, the quota system will be replaced with a 41.2 per cent tariff. This tariff, which is the only remaining quantitative barrier, will be reduced to 40 per cent in 2004.

Table 5-1: Korean Beef Liberalisation Schedule and Importation Costs

<table>
<thead>
<tr>
<th>Year</th>
<th>Minimum Quota (Tonnes)</th>
<th>Tariff (%)</th>
<th>SBS Share (%)</th>
<th>SBS Mark-up* (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>99,000</td>
<td>20.0</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>1994</td>
<td>106,000</td>
<td>20.0</td>
<td>20</td>
<td>95</td>
</tr>
<tr>
<td>1995</td>
<td>123,000</td>
<td>43.6</td>
<td>30</td>
<td>70</td>
</tr>
<tr>
<td>1996</td>
<td>147,000</td>
<td>43.2</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>1997</td>
<td>167,000</td>
<td>42.8</td>
<td>50</td>
<td>40</td>
</tr>
<tr>
<td>1998</td>
<td>187,000</td>
<td>42.4</td>
<td>60</td>
<td>20</td>
</tr>
<tr>
<td>1999</td>
<td>206,000</td>
<td>42.0</td>
<td>70</td>
<td>10</td>
</tr>
<tr>
<td>2000</td>
<td>225,000</td>
<td>41.6</td>
<td>70</td>
<td>0</td>
</tr>
<tr>
<td>2001</td>
<td>Abolished</td>
<td>41.2</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2002</td>
<td>-</td>
<td>40.8</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2003</td>
<td>-</td>
<td>40.4</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2004</td>
<td>-</td>
<td>40.0</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Note: * mark-up payable by the SBS (simultaneous buy-sell) groups
Source: Korea Ministry of Foreign Affairs 1995 (unpublished data)

In 1988, the liberalisation of the Japanese beef market was initiated with the signing of the bilateral Beef Market Access Agreement (BMAA) between the governments of Japan and the United States followed shortly afterwards by Australia. The BMAA committed the Japanese government to a three year phasing-out period of the import quota and tariff system. During the interim period the global quota increased by 60,000 tonnes annually. The percentage of imports controlled by the simultaneous buy-sell (SBS) system also increased and by 1990 the SBS system controlled 60 per cent of imports. In 1991, the beef import quota system was abolished and replaced with a 70 per cent tariff which was subsequently reduced to 60 per cent in 1992 and to 50 per cent in 1993. As part of the GATT Uruguay Round agreement the Japanese government agreed to a 50 per cent bound tariff with progressive reductions in place. The bound tariff system which commenced in 1995 will be reduced to 38.5 per cent by the year 2001. The Temporary Tariffs Measure Law permits the Japanese government to implement a higher bound tariff of 50 per cent if imports of frozen
and chilled beef during a specified period are greater than 117 per cent of total imports during the same period of time in the preceding year (MAF 1996).

The New Zealand beef industry benefited from the Andreissen-Kerin Agreement (reaffirmed as part of the Uruguay Round) due to the exclusion of the European Union from exporting subsidised beef to the Asian markets. The Andreissen-Kerin Agreement reaffirmation makes the Northeast Asian markets some of the few markets New Zealand can compete in without competition from countries dumping subsidised meat products.

5.3.1. c Korea's import system

The importation of beef into Korea was originally controlled through a quota system administered by the Livestock Product Marketing Organisation (LPMO), a quasi-government agency. The quota system was established to protect the domestic market and to ensure a measure of control over the volume of beef imported. Import quotas reflect the projected difference between domestic supply and demand for beef. The quotas are advertised monthly and beef exporting countries tender for them. However, the projected quotas are established only as a guideline, for the volume imported reflects the true market situation which, of later years, has reflected an increasing demand for beef. The 1994 provisional quota was increased by 20,000 tonnes and the following year's quota by 23,000 tonnes (Bryan, pers. comm. 1995).

In 1993, the SBS quota system was introduced. Under the SBS system, eight organisations known as 'supergroups' acting in conjunction with the quota system administered by the LPMO essentially control foreign beef imports into the Korean market. The SBS system is allocated a yearly volume of imports which in turn is divided amongst the eight supergroups before being allocated to individual members within each supergroup. Two of the eight supergroups, Korean Cold Storage Corporation (KCSC) and the National Livestock Co-operative Federation (NLCF), are essentially Korean government agencies while the remaining supergroups represent commercial interests: supermarkets, hotels, restaurants, and processing companies (refer Figure 5-2). The supergroups, essentially representing a niche market, are restrained from selling directly to the domestic market, and negotiate between the end-user and supplier. Thus they fulfil an intermediary role within the commodity chain. However, the more powerful end-user may deal directly with the overseas supplier with regard to quantity, cut and price negotiations but the final purchase decision rests with the supergroup.
The SBS system has become the mechanism for the transition from a tightly controlled system to a free trading system. From 1995, the SBS import quota increases 10 per cent yearly to peak at 70 per cent of the total import quota in 1999 and 2000. Until the liberalisation programme is fully incorporated in 2000, the "market share of imported beef in Korea will largely depend on the market strategy of the SBS groups" (Kim 1994, 10).
Figure 5-2: Distribution of Imported Beef in Korea, 1996

**SUPER GROUPS**
- Wholesale markets (3)
  - Brokers purchase for registered users
  - KCSC (Korean Cold Storage Company)
  - NLCF (National Livestock Co-operatives Federation)
  - LPMO (General tender system)

**END USERS**
- Butcher shops
  - Supermarkets and department stores
  - Processing plants (4)
  - Registered imported beef butchers shops (4,200)
  - Franchise outlets of KOSCA member companies (13,300)

**CUSTOMERS**
- Restaurants
- KMIA members
- Sales agents
  - KCSC and NLCF butcher shops
  - Other supermarkets and department stores
  - Restaurants
- KIMDA members (imported distributors)
- Member tourist hotels and restaurants (420)
- Also fast food outlets
- Member processing companies (43)
- Member non-tourist restaurants (traditional Korean restaurants)
- Directly operated supermarket and department store members (433)
- 31,000 butchers (including 3,600 imported beef shops)
- NLCF Subsidiary for NLCF customers

**OVERSEAS SUPPLIERS**
- KTSCI (Korean Tourist Hotel Supply Centre)
- KMIA (Korean Meat Industries Association)
- KRSC (Korean Restaurant Supply Centre)
- KOSCA (Korean Super Chain Association)
- KFMP (Korean Federation of Meat Purveyors)
- KLMC (Korean Livestock Marketing Corporation)

**SOURCE:** New Zealand Meat Producers Board (unpublished data)
Cattle farming in Korea, dominated by family-owned farms with an average of 5.0 cattle per farm, accounts for approximately 30 per cent of livestock output (NZMPB 1996b). In the 1980s, due to increasing production costs coupled with a shortage of grazing land, Korean farmers moved towards intensive livestock production methods. The feedlot operations, dependent on imported grain, integrate production across national borders (ABARE 1994).

It is expected that domestic beef production will decrease significantly under the liberalisation scheme as small-scale producers increasingly are unable to supply beef at competitive levels due to increasing prices for livestock and imported feeds. Currently, in response to excess *hanwoo* production, the Korean government is purchasing cattle in order to protect the domestic market. The stockpile, estimated to be 14,800 head as at 28 February 1997, is increasing by about 400 head per day (NZMPB 1997b). Faced with a reduction in imported beef prices, the Korean market will increase the levels of imported beef at the expense of domestic producers.

### 5.3.1.d Japan's import system

Historically, the Japanese domestic beef market was highly protected through a quota and *ad valorem* tariff regime (ABARE 1994). Beef imports were controlled by the Livestock Promotion Corporation (LIPC), a quasi-government importing agency. Prior to 1988, the LIPC controlled the majority of imports (approximately 80 per cent) and in doing so determined the ratio of the different types (grass- or grain-fed) and cuts of beef imported. Ten per cent of the import quota, designated as special quota and not subject to LIPC intervention, was reserved for the prefecture of Okinawa. The balance of the import quota was controlled by the Japan Meat Conference on behalf of MITI and MAFF (Nottage 1989). In 1984, a SBS system was introduced in response to pressure from the United States government to allow direct negotiations between the end-users and suppliers. The SBS system, allocated ten per cent of the LIPC quota allotment, and which allowed direct negotiations between Japanese buyers and foreign exporters, "represented the first signs of competition into the Japanese beef import system" (Chadee and Mori 1993, 35). Grain-fed beef, a higher priced commodity principally imported from the United States, was the preferential requirement under the SBS system (Nottage 1989).
5.3.1.e Taiwan's import system

Prior to bi-lateral negotiations conducted in July 1997, New Zealand exporters faced a $NT30 per kilo tariff. This was in sharp contrast to the differential tariff for United States exporters of $NT20 per kilo for prime and choice cuts and $NT23.80 per kilo for all other cuts. In the WTO negotiations outstanding issues between New Zealand and Taiwan negotiators included the discriminatory tariff on beef exports and the prohibition of offal imports. In July 1997, the tariff placed on New Zealand imports was reduced to $NT27 with further reductions being implemented over a six year period to reach $NT10 a kilo.

5.3.2 NEW ZEALAND INITIATIVES IN AN EMERGING MARKET

Market liberalisation under the GATT Uruguay Round agreement coupled with a reduction in tariff duty has improved opportunities for New Zealand livestock exporters to expand the volume of beef exported to Japan and Korea. This, in turn, is leading to an increased level of competition as exporting nations seek to increase market share. Beef production is categorised as grain-fed or grass-fed. Within the New Zealand industry cattle are raised almost exclusively from weaning to slaughter by extensive grazing methods and therefore production is grass-fed. In contrast, within the grain-fed production system calves are placed in feedlots following weaning and fed an intensive grain-based diet until slaughtering -- a characteristic of the second food regime. Kerr et al. (1994, 89) state:

Cattle grow faster and reach slaughter weight at a much younger age on high-energy rations. Since meat tenderness declines with the age of the animal, grass-fed beef has tended to be tougher than grain-fed beef. Grass-based production does not foster marbling in animals, so carcasses tend to be extremely lean.

The exporting of grass-fed beef into Korea is dominated by Australia (cuts also known as table meat5, quarters6, and full sets of cuts7) and New Zealand (same products) and within the grain-fed beef sector the United States (cuts) and Australia (quarters) dominate (refer Table 5-2). The market is divided into two buying areas. The LPMO purchase grain-fed and grass-fed quarters, some grain-fed cuts (but not grass-fed), and grass-fed full sets. Due to market diversity and demand the SBS system purchase across the breadth of the meat trade

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5 Table meats comprising both bone-in and boneless cuts are prepared especially for hotel, restaurant and supermarket trade. Further processing can occur in the market eg the meat is cut into conventional sized pieces. Table meats exported from New Zealand include short ribs, shanks, and briskets (Lindsay, pers. comm. 1997).
6 The carcasses are split into four parts, packaged and exported. Further processing occurs in the market.
7 Fullset comprise 13 boneless cuts, a combination of both high and low quality cuts.
with the exception of quarters, a product of the first food regime, which the LPMO specialise in and have the capacity to handle (Richards, pers. comm. 1996). Further processing of quarter beef occurs in the market which from the Korean perspective, "is a useful way for the Korean government to maintain employment levels and protect the domestic market by holding the prices of imported product up thus encouraging demand for domestic hanwoo beef" (Lindsay, pers. comm. 1997). In 1996, New Zealand's market share of LPMO and SBS purchases were 16 and 11 per cent respectively (NZMPB 1997b). A spokesman from one supergroup (Unnamed Respondent, pers. comm. 1995) stated that the "customers know that US beef is better than New Zealand beef. The customers are looking for high quality beef, so they are looking for grain-fed whereas New Zealand and Australia are grass-fed" producers.

Dominated by the purchasing power of the LPMO, Korea remained a low-price frozen meat market. Beyond servicing the demands of the market there were few opportunities for New Zealand to expand the market. However, the tendering system allows New Zealand exporters "some control over the prices received. If they are not awarded any quota in a given tender they have the flexibility to look to other markets for quarter beef sales" (Lindsay, pers. comm. 1997). The increasing share of the market being allocated to the SBS system "emphasises the desire [for New Zealand companies] to get into the market with added value products...and to develop products and not just quarter beef" (Hundleby, pers. comm. 1995).

The Japanese beef market can be divided into four categories: wagyu (38 per cent of domestic beef production); domestic dairy (60 per cent) (Shin 1995); imported grain-fed cattle; and imported grass-fed cattle. The wagyu native cattle, considered a premium beef and reflective of the second food regime, are intensively grain-fed for between 18 to 24 months. The meat "is characterised by a bright red colour, sweetish taste, a high degree of marbling and pure white fat. Although dairy beef has less marbling, it also has the bright red colour and white fat associated with wagyu beef" (ABARE 1994, 27). In comparison, dairy cattle are intensively grain-fed for between 12 to 14 months. Under Japanese regulatory requirements imported grain-fed beef must be fed grain for a minimum of 100 days. The minimum requirement results in a less marbled meat which has a more yellow coloured fat than domestic production. Imported grain-fed beef is sourced predominantly from the United States with Australia and New Zealand each supplying a small quantity. Grass-fed beef, classed as a middle-premium meat in comparison to wagyu, is mostly used for manufacturing purposes. Chilled beef dominates the market.
### Table 5-2: Korean Beef Imports, 1 December 1995 - 30 June 1996

<table>
<thead>
<tr>
<th></th>
<th>United States</th>
<th>Australia</th>
<th>New Zealand</th>
<th>Canada</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tonnage $US 000</td>
<td>Tonnage $US 000</td>
<td>Tonnage $US 000</td>
<td>Tonnage $US 000</td>
<td>Tonnage $US 000</td>
</tr>
<tr>
<td>Grain-fed boxed beef</td>
<td>19482</td>
<td>1395</td>
<td>13</td>
<td>69</td>
<td>21159</td>
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<tr>
<td>Grain-fed carcass</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Grass-fed boxed beef</td>
<td>816</td>
<td>7108</td>
<td>4409</td>
<td>36</td>
<td>12369</td>
</tr>
<tr>
<td>Grass-fed carcass</td>
<td>0</td>
<td>116</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<td><strong>Subtotal</strong></td>
<td>20298</td>
<td>8636</td>
<td>4422</td>
<td>305</td>
<td>33661</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market Share %</th>
<th>United States</th>
<th>Australia</th>
<th>New Zealand</th>
<th>Canada</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grain-fed boxed beef</td>
<td>92.1</td>
<td>95.6</td>
<td>6.6</td>
<td>3.1</td>
<td>100</td>
</tr>
<tr>
<td>Grain-fed carcass</td>
<td>0.0</td>
<td>0.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100</td>
</tr>
<tr>
<td>Grass-fed boxed beef</td>
<td>6.6</td>
<td>9.9</td>
<td>57.5</td>
<td>52.4</td>
<td>100</td>
</tr>
<tr>
<td>Grass-fed carcass</td>
<td>0.0</td>
<td>0.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100</td>
</tr>
</tbody>
</table>

The New Zealand Meat Producers Board (NZMPB), a statutory body funded by a levy on slaughtered stock, assists in the market development and promotion of New Zealand beef abroad. Under the Meat Export Control Act of 1922 the Meat Producers Board statutory powers include licensing, grading and quality control standards, and aspects of control which underpin agreements such as the management of tariff rate quotas (NZMPB 1996a; 1997a). Export licences, subject to quarterly reporting requirements, are issued to meat processing companies by the board. The Meat Producers Board also has substantial commercial investments within the meat industry in New Zealand and overseas. One role of the Meat Producers Board is "helping New Zealand attain greater market access" (NZMPB 1995, 5). In 1994, the Meat Producers Board in conjunction with meat processing companies and Tradenz (New Zealand Trade Development Board) established a Joint-Action-Group (JAG) (Goldfinch and Perry 1997). The JAG is a promotional tool for the New Zealand industry as a whole -- individual meat companies work through their distributors and agents in Korea to obtain a share of the market quota. Each member of the JAG contributes financially to an umbrella marketing programme aimed at establishing a New Zealand brand presence in the Korean market and in the promotion of grass-fed beef to the end-users. Promotion of New Zealand grass-fed beef led to a targeting of sectors amongst the end-users to whom grass-fed beef is better suited. These sectors include "the manufacturing sector which is sort of synonymous with fast foods and processing" and the "casual dining and family restaurants which are rapidly expanding in numbers" (Bryan, pers. comm. 1995). The leanness of New Zealand's beef in comparison to grain-fed beef may give New Zealand a marketing edge entering the 21st century as health and dietary issues become an increasingly world-wide phenomenon and is, thus indicative of a possible movement into a third food regime. The continual branding of New Zealand grass-fed beef, both generically and also specific company branding, will increase recognition within the Korean market of New Zealand's high nutritional and hygiene standards (Richards, pers. comm. 1996). Similarly JAG programmes operate in Taiwan and Japan.

5.3.3 AGRO-FOOD CAPITAL AND RESCALING OF INTERACTIONS

Competition remains two-fold for the New Zealand beef industry in Northeast Asia. Principal competition comes from Australia, a major grass-fed exporting nation. Additionally, the market image of grain-fed beef versus grass-fed beef plays a significant role. Whether the increasing import demand is for grass or grain-fed beef remains a major constraint behind expansion of New Zealand's market share. Shin (1995, 141) writes:
Although Australia has a cost advantage in grain-fed beef production (three-quarters of U.S. production costs) (NCLF, 1995), its production capacity is not expanding fast enough to keep pace with the fast-growing world grain-fed beef market. As a result, Japanese firms enter the Australian feedlot industry to produce grain-fed beef by utilizing low production costs in Australia and Japanese grain-fed production technology, and then exporting back to Japan.

Australia is a major supplier of both grain-fed and grass-fed beef to the Northeast Asian markets. Traditionally, a grass-fed beef producing nation, Australian production patterns changed in response to off-shore investment capital. During the 1970s intensive feedlots were established and increased investment occurred following the liberalisation of the Japanese beef market in the 1980s. Australia, as a recipient of agro-food capital, is able to supply grain-fed beef to the Asian markets ensuring a geographical diversification of supply for the buyers. Additionally, investors are able to "influence the organisation of production and processing" (McMichael 1993, 112). Such investments signal changing regulatory arrangements and the mobility of off-shore investment capital as production is driven by Asian firms in response to new taste preferences.

5.3.3.a New Zealand investment capital

In December 1983, the New Zealand Meat Producers Board established a marketing subsidiary entitled Asian New Zealand Meat Company Limited (ANZCO). Under the Meat Producers Board statutory powers ANZCO was granted monopoly control of the sheepmeat export market and targeted the United States and Northeast Asian markets, particularly Japan. Following the establishment of ANZCO and the Board's subsequent establishment of Japan New Zealand Lamb Marketing Limited (JANMARK) to promote New Zealand lamb in Japan, New Zealand became a major exporter of sheepmeat to Japan. ANZCO established an operation in Pusan, Korea where bulk mutton imported from New Zealand is processed under bond and re-exported to Japan. The value added operation was established to take advantage of low-cost skilled labour and geographical proximity to the export market. Both operations permitted ANZCO to gain a market presence and facilitate beef exports.

In 1992, the Meat Producers Board reduced its shareholding in ANZCO to 64.9 per cent with the balance of shares held by Huttons Kiwi Limited (23.5 per cent) and ANZCO management (11.6 per cent). In 1995, the Meat Producers Board divested all remaining...
shares and ANZCO became a private company owned by JANZ Investment Ltd, Pacific Beef, and Itoham Foods Inc. JANZ Investment, a holding company established in 1995, is in turn owned by Itoham Foods (43.26 per cent), Nippon Suisan Kaisha (one of Japan's largest food manufacturers and distributors) (19.78 per cent), New Zealand interests (33.42 per cent) which include Rangatira (a private investment company) and ANZCO management, Australian (2.37 per cent) and Japanese (1.17 per cent) interests (CAFCA 1997b). In 1995, Huttons Kiwi was acquired by ANZCO and the smallgoods division of Huttons Kiwi sold to Brierley Investments. Following the divestment of the smallgoods operation Huttons Kiwi, comprising the Riverland Group -- three beef processing plants which produce seven per cent of the national beef export production -- and a 23.5 per cent shareholding in ANZCO, was renamed Pacific Beef Limited. Since the restructuring of the company JANZ has progressively increased its shareholding to acquire 100 per cent ownership and in October 1996, Pacific Beef was withdrawn from the stock exchange.

In March 1996 New Zealand Beef Holdings, a joint venture between ANZCO and AFFCO (a second major New Zealand meat company), announced a joint venture operation in Korea with Angliss Pacific Limited. The joint venture operation, ANZPAC Foods, is the distribution company in Korea for ANZCO, AFFCO, and Pacific Beef (New Zealand Herald 13 March 1996).

5.3.3.b Japanese investment capital

Established in 1928, Itoham Foods Inc. is the second largest beef distribution company in Japan. In the 1950s Itoham Foods pioneered the use of New Zealand mutton in the production of ham and sausages. Mutton, which was available at a competitive price, was not subject to import restrictions. A technique was developed whereby the smell associated with mutton could be dissipated allowing mutton to be used in ham and sausages. Through the import of New Zealand mutton, Itoham Foods established a long and personal relationship with the Meat Producers Board and were therefore keen to invest in New Zealand as a supply base (Nose, pers. comm. 1995; Singleton, pers. comm. 1995).

Under the former quota system Itoham Foods was restricted in the amount of beef it was permitted to import. In order to ensure a reliable supply of beef following the liberalisation of the beef market and in the endeavour to "become a comprehensive, global meat producer" Itoham Foods began to establish offshore production, processing and export facilities thus achieving progressive vertical integration within the beef chain (Itoham Foods 1995, 4).
Rockdale Beef Feedlot, a joint venture between Itoham Foods (75 per cent) and Mitsubishi (25 per cent), was established in Australia to source supplies of marbled, white-fat beef (Nose, pers. com. 1995). Additionally, Itoham Foods invested in an abattoir in Australia. In 1989, Itoham Foods established a joint venture operation in New Zealand. Five Star Beef Limited, a joint venture with ANZCO, was the first joint venture Itoham Foods entered into with a foreign company (Singleton, pers. comm. 1995). The production of marbled, tender beef under the second food regime is targeted solely to the Japanese market.

Five Star Beef Limited has a carrying capacity of 15,000 cattle on an average 220 day feeding regime. At around 15 to 24 months of age, stock of the selected Angus or Angus/Hereford cross which meet the required product quality for the Japanese market enter the complex. The annual barley requirement is around 60,000 tonnes and while local farmers are under contact to supply grain and stock to the complex the operation is not always able to source sufficient grain locally therefore both production and expansion are constrained (Nose, pers. comm. 1995). Through research and development, Itoham Foods are seeking to improve production methods and are continually seeking to further integrate the breeding and processing system.

In 1994, Canterbury Meat Packers, a joint venture between Phoenix Meats and Five Star Beef, purchased the Fortex Seafield meat works. Additionally, approval was granted for the purchase of 228 hectares of land for the construction of a chilled beef processing facility to "focus on servicing the North Asian table beef market...The property which is the subject of this consent is being acquired to assist in the grazing and cropping requirements of the applicants' feed processing facility" (CAFC 1995, 46). In 1995, ANZCO of Japan became the majority shareholder in Canterbury Meat Packers Limited (80 per cent) with the balance of shares being held by the Phoenix Meat Company (CAFC 1996a, 40). The chilled beef processing plant, which handles all of Five Star Beef's output (50 per cent of total capacity) has the capacity of processing 60,000 cattle per year. Top quality carcasses are air freighted to Japan, medium grade are chilled and air freighted while manufacturing cuts are frozen and exported to Japan and the United States.

In 1992, ANZCO Limited and Itoham Foods, Inc. formed Five Star Beef Holdings Limited, an investment company. ANZCO applied to the Overseas Investment Commission (OIC) in 1995 for approval to purchase Itoham Food's shares in Five Star Beef Holdings through the issuing of 931,162 ordinary shares to Itoham Foods Limited (CAFC 1996b, 49). The cross-share transfer, which gave ANZCO 100 per cent ownership of Five Star Beef Holdings Limited, further integrated Itoham Foods into the New Zealand meat industry through its
substantial shareholdings in ANZCO (13 per cent), Five Star Beef (50 per cent), and JANZ Investments (53.25 per cent) which in turn is the majority shareholder in ANZCO (approximately 66 per cent). In March 1997, JANZ Investments announced a change in name and the absorption of the shareholding of ANZCO; the new company ANZCO Foods Limited is the holding company for the group. The restructuring is viewed as a "step in the company's aim of building vertically-integrated business in farming cattle, feedlotting, beef, sheepmeat and casing processing, with value added food manufacturing and export, import and distribution of product" (NZPA, 25 March 1997).

In addition to a shareholding in JANZ Investments, the Japanese company Nippon Suisan Kaisha has a joint venture operation with ANZCO. Southern Nissui, an investment holding company, was formed in order to develop opportunities for processed beef items for the Japanese market. Southern Nissui owns a 74.9 per cent stake in Primex Meat (NZ). With Southern Nissui (90 per cent), ANZCO (10 per cent) has formed Southern Pastoral which owns substantial pastoral property in the Manawatu region.

In June 1997, ANZCO announced the New Zealand Casing Limited Group of Companies9 is to become a subsidiary of ANZCO Foods. New Zealand Casing, a multinational company owned by Eddie Tonks and Rangitara10, has sausage-casing processing and marketing operations in Japan, New Zealand, North America, Mexico, Germany, Britain and Australia (Dominion, 13 June 1997). New Zealand Casing owns 75 per cent of Crown Meat Export Limited, a company active in the Asian region, particularly Korea.

ANZCO's scale and diversity is also reflected in the substantial investments the company has in Japan, South Korea, Taiwan and Australia. Overseas investments include a beef feedlot and pet food manufacturing plant in Australia, an added value food processing company in Australia and Japan, and a casing company and the "first foreign owned meat processing plant" in Japan. Additionally, ANZCO has established overseas offices for trading purposes and ANZCO International (Australia) Pty Limited is a significant player in the Korean beef market. ANZCO has become very successful through reverse integration techniques. Established as a sheepmeat marketing company for the New Zealand Meat

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9 Additional company holdings include Independent Casings. New Zealand Casing is the "world's largest natural sausage casing company, with 700 employees, $230 million turnover" (CAFCA 1997, 47).
10 As noted above Rangitara was a shareholder in JANZ Investments. Eddie Tonks is a substantial shareholder in New Zealand Casings and Rangitara is a private investment company associated with the Tonks family.
Producers Board in Japan, market presence allowed ANZCO to respond to market demands through reverse integration into production facilities (Singleton, pers. comm. 1995). Through a series of acquisitions, mergers and rationalisation of activity coupled with Japanese investment capital ANZCO has achieved a vertically integrated system for the breeding, processing, and export of feedlot fattened beef, principally for the Japanese market. ANZCO’s diverse portfolio of holdings, financed in part by Japanese capital, reflects the increasing importance of the Asian table beef market.

Nippon Meat Packers, one of Japan’s five largest meat companies, established an export trading base in Australia in response to market liberalisation incentives and has achieved vertical integration within the Australian production sphere. In 1988, Nippon Meat Packers established a beef feedlot, Whyalla Feedlot, in Queensland with a carrying capacity of 50,000 cattle on a 150 day feeding rotation cycle. In addition to the Whyalla feedlot, Nippon Meat Packers, the second largest meat exporter in Australia, has established two other feedlot operations in Australia with carrying capacities of 2000 and 3000. Through subsidiary and associate companies in Australia, Nippon Meat Packers are involved in the feedlotting and processing of cattle and hence are able to "control the cattle from a weaner age through entry into the feedlot and dispatch to processing and final export" (Nippon Meat Packers n.d.).

In 1995, Nippon Meat Packers announced the establishment of an intensive, specialised livestock production facility in New Zealand. Oxford feedlot, located in Canterbury, was designed to carry a capacity of 2000 cattle. The construction of a second feedlot facility in South Canterbury was announced in 1996. Additionally, complex sites were being considered in the grain growing areas of South Otago and Southland. In April 1997, Nippon Meat Packers announced the closure of the Oxford feedlot and plans for subsequent production complexes were cancelled. Increasing grain costs coupled with the appreciation of the New Zealand dollar in relation to the Australian dollar and comparative advantages achieved within the Australian production complex were the major factors behind the disinvestment (Hidaka, pers. comm. 1997). Previously, a proposed $5 million investment in a beef plant in the Masterton area to supply chilled and frozen prime and manufactured beef products was also cancelled. In May 1997, following the closure of the New Zealand feedlot operation, Nippon Meat Packers announced that Whyalla’s operational capacity will be increased by 50 per cent effective March 1999 (Hidaka, pers. comm. 1997). Currently, operating a trading office in New Zealand, Nippon Meat Packers exports New Zealand beef to Japan and other Asian countries while continually looking for interrelated economic
opportunities in New Zealand, "we are not happy as a broker, we are a processor and need a base and supply source" (Hidaka, pers. comm. 1997).

5.3.3.c Taiwanese investment capital

While Japanese investment in the New Zealand meat industry is most prevalent, vertical integration is not restricted to Japanese investment capital. In 1995, Universal Beef Packers established a meat processing plant in Te Kuiti principally financed by a consortium of Taiwanese businessmen. The consortium is headed by Frank Lin, principal shareholder in Wellroc Enterprise Company Limited, Taiwan's largest meat importer (Lin, pers. comm. 1996). Wellroc Enterprise owns processing plants in Taiwan and mainland China, and a joint venture boning plant in the United States. The Te Kuiti investment arose out of two 'concerns'. Firstly, Wellroc Enterprise was not always able to obtain the correct cuts and packaging required for the Taiwanese market. Secondly, following the Uruguay Round agreement and the liberalisation of the Japanese and the United States beef markets, concern was expressed as to whether New Zealand meat companies would still be interested in supplying to the specifications of a smaller market (Lin, pers. comm. 1996). Thus, Lin established a factory over which Taiwanese interests had direct control.

Wellroc Enterprise sources fresh and frozen beef from Australia, New Zealand and the United States. Prior to the establishment of the Te Kuiti plant, Wellroc Enterprise imported less than 20 per cent of its import requirements from New Zealand. This has since increased to more than 30 per cent. The plant has the capability of processing 12,000 head annually -- 35 per cent of production is exported to Taiwan, 50 per cent to the United States and 15 per cent to Asia. In January 1997, the Taiwanese syndicate announced their intention to build a second meat processing plant in New Zealand and Lin proposes a third plant will be built. The second and potential third plant will target the consumption potential of mainland China (Lin, pers. comm. 1996)\(^\text{11}\).

\(^{11}\) Additionally, a dried beef jerky plant is being established alongside the Te Kuiti-based plant with production targeted to the Asian markets. Wellroc is also conducting research into the development of health foods. A liquid beef extract has been produced; marketing will focus on the health status of New Zealand cattle and New Zealand's clean green image (Lin, pers. comm. 1996).
5.3.3.d  **Korean investment capital**

The *chaebol* are in the process of establishing divisions to concentrate on developing both suppliers and the market following liberalisation. This will lead to a greater diversification of import products. While a number of *chaebol* are examining opportunities in Australia, there is little empirical evidence to suggest investment opportunities are being considered in New Zealand. Samsung (Aust) Pty Ltd has invested in a cattle station in Australia\(^\text{12}\) which has a carrying capacity of 9,000 cattle per year based on grass-fed production. Research and development is occurring to develop a special quality meat (taste-wise) suitable for the Korean market and as a replacement for USA grain-fed beef (Shin, pers. comm. 1997). However, the emphasis the *chaebol* are placing on beef production confirms the increasing importance of the Korean beef market as full market liberalisation occurs in 2001.

5.3.4  **THE IMPACT OF THE FINANCIAL CRISIS**

Initial indications arising from the Korean financial crisis show a decline in demand within the beef sector. Consumption within the hotel and restaurant sectors is expected to continue to decline due to decreased consumer spending coupled with a reduced demand for foreign items and/or luxury goods. The liquidity problems Korean companies are experiencing are affecting most sectors. Within the beef sector, no tenders were called for the beginning months of 1998 (the peak production season in New Zealand) under the LPMO system. Additionally, restructuring is occurring within the supergroup organisations: Korea Tourist Supply has announced downsizing measures while KLMC and KLTC (under the NLCF) are merging (Tradenz 1998c). For the period January to April 1998 beef imports declined 54 per cent. Exports from New Zealand declined 71 per cent (SUS3.8 million). An oversupply of local beef has drastically cut prices as buyers have switched to local beef due to price competitiveness and as a means of protecting the local market (Tradenz 1998f). Under WTO commitments the Korean government is required to abide by the liberalisation schedule and hence stockpile imported beef. Conversely, a return to market protection potentially means a loss of IMF loans *(New Zealand Herald 29 June 1998)*. Analysts predict that as the market recovers New Zealand beef exporters may benefit due to price competitiveness.

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\(^{12}\) In May 1998 the Samsung Corporation announced its intention to sell the Australian cattle station in a move to shrink its debts-to-assets ratio.
5.3.5 SUMMARY

Regulatory arrangements under the auspice of GATT have opened up the Northeast Asian markets to global forces through the dismantling of the national regulatory structure. Market liberalisation coupled with state-led restructuring within New Zealand's agricultural sector has permitted New Zealand meat companies, and in particular ANZCO and AFFCO, greater autonomy over production and market alternatives.

In examining New Zealand's beef exports to Korea components of both the first and second food regimes are evident. Exports of quarter beef within the LPMO system are essentially that of the first food regime. While New Zealand exporters have some measure of control over the price received for quarter beef sales, the Korean market basically remains a low-price market. In comparison, the development of the Korean market for added value products under the SBS system reflects the second food regime. As full liberalisation of the beef market approaches, the Korean firms and organisations involved within the SBS system are granted increased purchasing power. Additionally, the chaebol are investing capital offshore to produce and source beef for the Korean market thus highlighting the growth potential of the livestock complex.

Through the liberalisation of market controls, modifications within the beef production system have developed thus integrating New Zealand's beef sector into the Northeast Asian beef commodity chains. Intensive beef feedlot production, non-existent in New Zealand prior to the liberalisation of the Japanese beef market, has affected the technical conditions of production and its spatial feature. The offshore expansion of Northeast Asian capital into the value added cattle industry and in particular the production of marbled beef via the Fordist production technique (the sourcing of grain-fed beef for mass consumption), a principle product within the intensive feed complex (Friedmann's second regime), highlights the transnational nature of the commodity chains.

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13 Investment in the beef feedlot industry in New Zealand is not limited to Itoham Foods and the former investment by Nippon Meat Packers. In April 1997, the Overseas Investment Commission granted approval to a private investor to purchase approximately 998 hectares of land. It is the intention of the investor to establish a beef feedlot and raise beef for "processing and export for utilisation in the hospitals" the investor owns in Japan (CAFCA 1997a, 39).
5.4 DAIRY SECTOR

5.4.1 WORLD DAIRY SCENE AND NEW ZEALAND DAIRY BOARD'S PROMINENCE

Established in its current form in 1961, the New Zealand Dairy Board has transformed itself from a seller only of butter and cheese to the United Kingdom to become a transnational enterprise. The Dairy Board is owned by the co-operative dairy manufacturing companies in New Zealand. Under government legislation, the New Zealand Dairy Board is the sole exporter of dairy products and hence is the development, marketing and export arm of the New Zealand dairy industry. Exports of dairy products account for "some 20 per cent of total merchandise trade receipts" (Statistics New Zealand 1997, 443) and comprise four major product groups: cream products (butter, milkfat, ghee), milk powders, cheese and proteins (casein and caseinates). Additionally, the Dairy Board is involved in recombining, and product development of food products and beverages from non New Zealand milk (Le Heron 1993). For the 1995-1996 year the New Zealand Dairy Board exported 1,025,000 tonnes of dairy products valued at $NZ477 million. Asia is the top revenue market (33 per cent) (NZDB 1996).

During the 1970s the Dairy Board began to examine what was occurring globally. The late 1970s saw the movement into consumer marketing and the establishment of a number of subsidiary companies abroad allowing the Dairy Board to gain control over consumer marketing and sales. Initial movement occurred through the establishment of an agency or distributor for particular sectors or brands or a combination of both followed by a transition into a joint venture operation and then a subsidiary. Today, with eighty nine subsidiary and associate companies, the Dairy Board spans the globe controlling 25 per cent of the world dairy export trade (NZDB 1996; Betts 1993, 16) and is "the largest multinational dairy marketing organisation in the world" (Statistics New Zealand 1997, 443). In comparison to other multinationals, whose sourcing patterns are price driven, the Dairy Board's overseas operations display a strong preference to source products from New Zealand (Geard, pers. comm. 1995). This sourcing preference is in response to the marketing of New Zealand products as premium quality. When market demand is price driven, ingredients are sourced from elsewhere allowing the New Zealand industry to retain its strategically placed premium position (Lee, G. pers. comm. 1995).

Expansion and diversification of global markets has lead to the establishment of Regional Development Centres in strategic offshore locations. Market-orientated application research
is conducted within each center relative to location and consumer demand -- Singapore is primarily a recombining market and local research focuses on ice-cream (Lee, G. pers. comm. 1995). The Dairy Board continually readjusts its marketing and strategic planning in response to market demand.

5.4.2 MARKET PRESENCE

The presence of the New Zealand Dairy Board in Japan and Taiwan has followed the global pattern. Market access was originally established through either an agency or distributor and has since progressed to a joint venture or subsidiary operation. In 1981, the Dairy Board established New Zealand Milk Products (Japan), a joint venture operation with Nozawa Trading. Initial links with Nozawa were formed in 1955 when Nozawa Trading became the first Japanese company to import New Zealand cheese. In 1988, the New Zealand Dairy Board acquired 100 per cent ownership of New Zealand Milk Products (Japan) and became the first importer to establish complete "control over the marketing of its cheese products" into the "world's largest free market for the importation of cheese" (NZDB 1989, 16). The company supplies cheese, milk and other powders, and cream products in addition to developing specialised ingredients for the food industry. A second joint venture operation, Nippon Proteins Co Ltd was formed in 1982 with Nissei Kyoeki14, who had been the Board's casein agents in Japan for many years. Nippon Proteins markets protein and edible fat products and is currently pursuing "new high value-added product opportunities" (NZDB 1996, 19).

Similarly, the New Zealand Dairy Board has a market presence in Taiwan through two operations. New Tai Milk Products, a 50 per cent joint venture with YHL15, a Taiwanese trading company, was established in 1989. Preceding the joint venture arrangement YHL was designated as a sole distributor in 1986. New Tai Milk Products is an industrial ingredient based company "servicing the Board's bulk dairy product trade in Taiwan" (NZDB 1990, 19). The market is segmented by quality and price with New Tai sourcing ingredients from a number of countries for recombining into yoghurt, milk, ice-cream and other products. Ingredients obtained from countries other than New Zealand are used in the lower range of the market while ingredients from New Zealand are strategically marketed as

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14 New Zealand's first exports of casein, butter, condensed milk powder, cocoa butter and chocolate ingredients to Japan was initiated by the founder of Nissei Kyoeki in 1932.
15 YHL is a family run trading house. While YHL has no investments in New Zealand, individual family members do.
premium products. This pattern of sourcing allows New Tai to meet the diversity of customer requirements. The second operation in Taiwan, New Zealand Milk Products (Far East) Limited, a subsidiary company of the Dairy Board, operates "its own direct selling and distribution system for consumer pack own-brand milk powder" (NZDB 1990, 19). New Zealand Milk Products gained a strength in the market through a close trading relationship with YKH, a family owned and operated bakery operation. YKH began importing dairy products from New Zealand in the 1960s, and in the 1970s registered the Anchor Brand. Part of the success of the Dairy Board's operations in Taiwan must be attributed to the foundation laid by YKH (Launder, pers. comm. 1995).

Figure 5-3: Dairy Exports

![Dairy Exports Chart](image)

Source: Statistics New Zealand 1998

GATT is a major driving force behind changes in the international dairy market. The majority of dairy product imports into Japan are controlled through a quota system and under provisions of the Uruguay Round agreement tariffs will be reduced throughout the implementation period. Similarly, Taiwan has promised to reduce its tariff rates on dairy products following its admittance into the WTO. A 5 per cent tariff is to be implemented on butter and cheese; the former tariff was 10 per cent and 20 per cent respectively. The tariff on yoghurt will decrease from 32.5 per cent to 15 per cent. Additionally, negotiators secured a substantial quota for liquid milk products.
5.4.3 LIBERALISATION AND MARKET DEVELOPMENT: THE NEW ZEALAND DAIRY BOARD'S PRESENCE IN KOREA

The New Zealand Dairy Board entered the Korean market prior to the 1995 liberalisation of the dairy industry. The move allowed the Dairy Board to gain a stronghold in the market by becoming part of the local scene prior to the arrival of other entrants (Geard, pers. comm. 1995). Entry was gained by the establishment of two joint venture operations: Korea-New Zealand Cheese Company and Hanseng Foods.

5.4.3.a Korea-New Zealand Cheese Company

Korea-New Zealand Cheese Company (KNZCC), a joint venture operation between the New Zealand Dairy Board and Maeil Dairy Company, was established in 1989. KNZCC, a solely manufacturing and processing cheese company, produces a high quality cheese for sale under the Maeil Cheeseopia™ brand.

Initially, the importation of cheese was prohibited and in order for the KNZCC to produce a high quality cheese in Korea the company needed to obtain quality milk. KNZCC selected a number of local farmers who, by incorporating techniques from New Zealand, produce a top quality milk for sale to the KNZCC. The first product, Cheeseopia™ sliced cheese, was launched in May 1991.

By 1994, the joint venture operation ranked third in overall market share¹⁶ (18.6 per cent), third in both the natural (16.7 per cent) and processed (21.9 per cent) cheese markets, and controlled a significant market share in individual product segments. This achievement is attributed to the manufacturing technology and quality control requirements of the New Zealand Dairy Board coupled with the distribution and marketing network of Maeil. By 1996, the KNZCC controlled 20 per cent of the overall Korean market share (Martin, pers. comm. 1996).

Although imports of cheese are now permitted, significant domestic production still occurs. This is in response to consumer demand for locally produced cheese. Additionally, the Korean government placed a 40 per cent tariff on imported cheese to protect the local industry. Domestic cheese is more expensive to purchase than imported cheese due to the price of local milk -- three times as expensive as milk in New Zealand. When local milk is

¹⁶ Market share is for January-December 1994
used in the production of cheddar cheese the cost is $US7.98 per kilogram, compared with
cheddar cheese purchased from New Zealand at approximately $US2.41 per kilogram (Lee,
K. pers. comm. 1995). A contributing factor to the high cost of local cheese is that dairy
cattle are fed on imported grain, which increases production costs.

When local cheese is combined with imported cheese there is a tariff reduction from 40 per
cent to 20 per cent. Under the 20 per cent tariff guideline, for every one portion of local
cheese produced from local milk, the cheese manufacturer is permitted to use five portions
of imported cheese. In order to obtain the tax privilege, a company has to produce a
minimum of 1,000 metric tonnes of cheese but can not use greater than 5,000 metric tonnes
of imported cheese.

A major constraint faced by the KNZCC is the colour perception of cheese, in particular
mozzarella cheese. Koreans perceive mozzarella cheese as being white; milk from grass-fed
beef produces a cheese which is more yellow in colour in comparison to milk from grain-fed
beef which produces a considerably paler cheese. Combining imported cheeses from the
USA and New Zealand with locally produced cheese produces a cheese which is paler in
colour. Additionally, the colour perception image has been negatively influenced by
countries dumping cheese on the Korean market. For instance, a considerable amount of
Australian cheese with restricted shelf life was imported and sold at a cheap price. The
cheese, yellow in colour, was of poor quality and consumers gained the perception that
yellow cheese is of low quality (Ahn, pers. comm. 1995). Through strong advertising the
KNZCC is seeking to compensate for the negative image Koreans have of yellow cheese --
various advertising images abound, depending on market segmentation, but the main
message is the marketing of an image; the endorsement of New Zealand as a clean, green
country is an effective positioning and selling tool.

The KNZCC is proactive in responding to market development and segmentation as
illustrated by a company media release, "I think a company that does not launch at least two
new products a year will never survive. Customer's taste buds in Korea are changing very
fast, and we as a manufacturer have to keep up with this trend" (KNZCC media release, no
date). The KNZCC pioneered the introduction of pizza toast in 1992. Other companies
which followed KNZCC's lead in producing pizza toast have since dropped out of the
market in recognition of KNZCC's strong market hold. In August 1995, KNZCC launched

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17 The actual values given were in Korean won (6,600 and 2,000 respectively). Currency was
converted according to Reuters mid-rate of 826.60 won = $US1.00 (19 September 1996).
ONE TWO THREE™, a sliced cheese which targets child consumers. Increased levels of calcium, iron, and DHA\(^\text{18}\), claimed to be essential for brain development, are used in the manufacturing process (Lee, K. pers. comm. 1995). The KNZCC is not the pioneer of this segmentation but in following the market trend "has already achieved food market share despite heavy competition" (NZDB 1996, 17). The KNZCC commands an 80 per cent market share for slice-on-slice (SoS) cheese which allows quick and easy handling of cheese slices within the fast food market (Lee, K. pers. comm. 1995).

5.4.3.b Hanseng Foods

Hanseng Foods, the New Zealand Dairy Board's second joint venture operation, is in conjunction with Hanseng Limited, former agents of the Dairy Board in Korea. Initial links were formed in the 1970s for the export of casein into Korea for industrial uses. Business increased with the growth and sophistication of the Korean economy but was constrained by import controls (Geard, pers. comm. 1995). In 1989 the joint venture operation was formed to concentrate on the expansion of the industrial food ingredient market; protein, casein, caseinate, powder products, cheese for ingredient purposes. Shortly after the establishment of Hanseng Foods, an opportunity to develop the market for prepared edible fats (dairy fat and vegetable oil) used in the production of ice-cream and margarine was recognised — "This has grown into a pretty convincing business" (Worth, pers. comm. 1995).

5.4.4 SUMMARY

The New Zealand Dairy Board, having made strategic investments within Northeast Asia prior to liberalisation, is in a position to take advantage of the liberalising trade regimes and the changing demographic structure of this region. The export of milk powders and other manufactured ingredients to Northeast Asia for mass produced foods highlights the dominate role the durable food complex of the second regime plays in New Zealand's agro-food trade with Northeast Asia. Developments build on networks formed initially to expedite exports but more recently have involved the establishment of production operations and the creation of added value opportunities in order to become market segment leaders within the local market. Diversified sourcing patterns coupled with developments occurring in offshore centres highlights the Dairy Board's central role in the agro-commodity chain.

\(^\text{18}\) Docosahexaenoic Acid (DHA) is an essential fatty acid required not only for brain development but also for vision.
5.5 FRESH FRUIT AND VEGETABLE SECTOR

A third food regime centred around the fresh fruit and vegetable complex is emerging (Le Heron and Roche 1991, 1995). Increasing availability of new and exotic fruits and vegetables within global markets reflects changing patterns of production and consumption. The fresh fruit and vegetable complex is in contrast to the "conventional Fordist food production systems embodied in the "ordinary" fruits and vegetables" used in mass-produced fast foods (Friedland 1994, 219). Friedmann (1993, 53) refers to exotic fruits and vegetables as being "global from the outset". Globalization was achieved through: (1) the development of counter-seasonal production approximating year round supply; (2) the creation of mass clienteles for fresh produce consumption; (3) the creation of niche markets, a characteristic of post-Fordism; and (4) the search for value-adding (Friedland 1994, 212). Technological developments have further expanded the industry; the integration of capital-intensive global cool chains permitted the transition from the durable foods of the second regime (canned and frozen fruits and vegetables) and the expansion of core markets for speciality items from periphery countries (Friedland 1994). Increased usage of chemicals in order to produce the ideal commodity (in terms of naturalness and degree of ripening) for market (Le Heron and Roche 1995), and research and development throughout the commodity chain have also permitted the expansion of the industry. This section examines conditions pertaining to the export of New Zealand fresh fruit and vegetables to Northeast Asia.

5.5.1 DOMESTIC REGULATION

Traditionally, Japan, Taiwan and Korea were agrarian nations and protectionist measures were implemented in order to protect the agricultural sector. Liberalisation of the fruit and vegetables sectors was not totally voluntary but compelled by changes occurring within the global arena; principally that of the Uruguay Round agreement. As part of the Market Access commitment of the Uruguay Round agreement participating countries provide increased market access opportunities along with the conversion of all non-tariff barriers to a bound tariff. The average reduction of tariffs on the fruit and vegetable regime is 36 per cent over the six year period 1995 to 2000 (10 years for developing countries), or a minimum of 15 per cent for fresh commodities which are deemed either politically sensitive or highly protected. The Special Safeguard Provisions (SSP) allows a country to implement a higher tariff on imported fruits during the peak of the domestic harvest or when imports surpass the tariff-quota volume.
Liberalisation of the Korean fresh fruit and vegetable market is a gradual process which began in 1990 with full liberalisation scheduled to occur in 1997. Industrialisation in Korea has been recent and those living in urban areas retain sentimental ties to the land and see liberalisation as detrimental to the farming sector. Because of potential local resistance the Korean general trading companies (GTC) avoided importing sensitive items such as fruit and vegetables, concentrating instead on primary agricultural products including meat, cereals, and fish. Though unwilling to be directly involved in importing fresh fruit, some GTC’s established a small behind-the-scenes company for this purpose. Ownership was not disclosed to the general public. In response to strong internal resistance to liberalisation, and because of socio-political sensitivity, the government initiated an informal policy to restrict as much as possible the import of agricultural products (Cho, pers. comm. 1995). Import restrictions have been replaced by a tariff system which took effect in 1995. The tariff system, in many instances, reflects a higher tariff than the previous although the government does retain the right to apply the old tariff ("applied rates") (Cho, pers. comm. 1995). The tariff on kiwifruit, New Zealand's primary fruit export to Korea, was lowered from 50 per cent to 49 per cent in 1996 under this system and currently (1998) stands at 48 per cent. Under GATT agreements the tariff will be decrease to 45 per cent in the year 2004. The bound tariff agreement doesn't preclude bilateral negotiations aimed at reducing tariff rates further.

Liberalisation of Japan's agricultural market was initiated under the Kennedy Round of GATT (1963-67) and restrictions on a number of import commodities were considerably reduced during the 1960s and 1970s. The vegetable and fruit market was opened to imports during the 1970s and 1980s respectively, subject to tariff protection measures. Conversely, oranges\(^\text{19}\) remained highly protected and subject to intense anti-liberalisation pressures. Additionally, de facto import quota restrictions remained; health and quarantine regulations restricted the import of either particular commodities or commodities from a specified country. In compliance with the Uruguay Round agreement Japan continues to implement tariff conversions on non-tariff import restrictions and reduce tariffs on fresh and chilled fruit and vegetables (JETRO 1995a). Furthermore, Japan's ability to prohibit products under the WTO agreement is greatly constrained, "the requirements for scientific justification for quarantine measures has impacted heavily in Japan and many products formerly banned have been admitted" (Morton, pers. comm 1997).

\(^{19}\) Quota restrictions on oranges were removed in 1992
A number of protectionist measures, consisting of tariff and non-tariff barriers, price supports, subsidiaries and quantitative import restrictions, protect the Taiwanese market. Tariff protection on specified fresh fruit and vegetables is as high as 40 to 50 per cent; in 1995, the average nominal tariff rate was 33 per cent (Republic of China 1995). However, by its application for membership in GATT, and through negotiations entered into with contracting members of the WTO, Taiwan is systematically complying with the principles of liberalisation stipulated by GATT. Recent agricultural tariff concessions include the reduction, and in some cases the removal, of tariffs on apples, grapes, peaches, plums, papaya, lemons, and oranges (Republic of China 1996). Bilateral negotiations between New Zealand and Taiwan, conducted under the auspices of GATT, concluded in July 1997. Agriculture and horticulture were two items of specific concern to New Zealand negotiators. Following Taiwan's admittance into WTO restraints are to be lifted on New Zealand's export of peaches, plums, persimmons and nashi pears; the quota system for apples will cease and the tariff will subsequently decrease from 50 per cent to 20 per cent within a six year time frame. In the interim period, market access for apples has expanded by 4,000 tonnes and a quota system for peaches and plums has been implemented (Ministry of Agriculture media release, July 1997). While these negotiations partially assist New Zealand's horticultural exporters it is expected that Taiwan's bi- or pluri-lateral negotiations with a number of different countries, which are not yet concluded, may assist New Zealand exporters further (Fearnley pers. comm. 1997).

5.5.2 MARKET ACCESS

Northeast Asia is considered a tiered market in terms of the quality and quantity of fresh fruit and vegetables exported (refer Figure 5-4). Korea is perceived as a low cost market in comparison to Japan and Taiwan where buyers are prepared to pay premium prices for quality fruit. A major constraint New Zealand producers face in exporting to Northeast Asia is that the market demand is for a sweet fruit which "we can't produce" (Bly, pers. comm. 1996). Sweetness is a factor of soluble solids (sugar content) and climatic conditions: a long hot dry summer produces a sweeter fruit than does a wet summer. Due to climatic constraints New Zealand does not always have the amount of sunshine hours and warm temperatures needed during critical times. Fruits that grow especially well in New Zealand are apples, pears and kiwifruit. For sub-tropical fruits such as persimmons the lack of sweetness affects market demand. Persimmons need hot temperatures almost up to harvesting, then a temperature difference of cool nights and warm days is essential to bring the brix (sugar level) up to an acceptable level. On average New Zealand's climate is 2-to-3
degrees celsius too cold to obtain the level of sweetness in fruit the Northeast Asians are used to (MacDougall, pers. comm. 1996).

**Figure 5-4: Fruit and Vegetable Exports**

Imports of fresh produce are concentrated seasonally in order to fulfil market demand between domestic harvest periods and also to meet any shortfalls in domestic supply. New Zealand’s ‘window of opportunity’, the period when imports are permitted between domestic harvests, can place constraints on the New Zealand industry. For instance, New Zealand can only export onions to Taiwan outside of Taiwan’s domestic harvest period. However, this ‘window of opportunity’ does not always coincide with harvesting in New Zealand and consequently onions, which are exported from storage, may begin to sprout upon reaching the warmer climate (Bly, pers. comm. 1996). Additionally, Northeast Asian firms source low-cost vegetables such as carrots and onions for manufacturing purposes. Japanese importers in conjunction with New Zealand exporters have introduced Japanese style onions to New Zealand growers in order to ensure an off-season supply.

Adaptations are occurring in the production process in order to meet market specifications. As an illustration, viticulture is specifically tailored to the Japanese market. The New Zealand variety of grapes, black beauty and italia, traditionally produce small berries. In contrast, the Japanese market demands geometrically-stacked bunches of large colourful non-blemished grapes. In order to achieve the ‘perfect’ bunch severe thinning and pruning is
necessary. The bunches are trimmed at an early stage to allow the berries to swell in size and also to produce a perfectly formed oval shape bunch. This is in contrast to the natural triangular shape of a bunch which tappers down to a single berry. The care and attention involved in growing grapes for the Japanese market is very labour intensive. In order to meet strict phytosanitary requirements growers inspect each bunch individually for insects. A fine brush is used to remove insects from within the bunch. Care must be taken not to bruise the grape nor remove the highly prized smoky bloom associated with black beauty grapes. If either occurs the value of the grape is decreased. Italia grapes are susceptible to sun burn and in order to protect the grapes paper caps are placed over the top of each bunch. The Japanese market accepts four grades of table grapes determined primarily by contour and colour: (1) regular grade where uniformity in shape and form is not achieved; (2) first grade where the bunches have a fairly good shape; (3) fancy grade where near perfection is achieved, and; (4) super fancy where the bunches are deemed perfect. The fancy and super fancy grades earn premium prices. In contrast to the Japanese market where aesthetic quality is essential, the Korean market demands a lower price product. Following the liberalisation of the grape market in 1996 Korea has become a secondary market for regular grade grapes (Jellicich, pers. comm. 1997). In 1996, grape exports to Korea earned an average $11.52 per kilogram in comparison to $17.84 per kilogram in Japan (Statistics New Zealand 1997).

In 1996, Japan imported 1.1 million tonnes of vegetables, both fresh and frozen, and 1.5 million tonnes of fresh fruit. The principal sourcing nations for vegetables are: the United States (43 per cent), China (20 per cent), and New Zealand (14 per cent) (JETRO 1997). New Zealand's main produce exports to Japan are: onions, squash, asparagus, frozen peas, cherries, grapes, and kiwifruit. In comparison, Taiwan has become an increasingly important market for New Zealand summerfruit, "accounting for 30 per cent of summerfruit exports in the year to 30 June 1995" (Statistics New Zealand 1996, 391). Entry of New Zealand perishable products into Korea is limited due to quarantine restrictions. Produce is held in quarantine for residue testing for lengthy periods of time. With the lack of cool-store or other storage facilities at the ports of entry, produce will over ripen, sprout, or spoil and therefore not meet market specifications. The Managing Director of Purchasing and Sales (Unnamed Respondent pers. comm. 1995) of one Korean buying company commented, "quarantine restrictions are a problem because often produce takes sixteen days to clear customs. We fight every day with customs, they are not businessmen, they are government!" Kiwifruit is transported by charter vessels and remains in refrigerated storage until quarantine is cleared and is therefore not affected by the above spoilage problems to
the same degree. The challenge for the kiwifruit industry is correctly predicting the market eight weeks in advance allowing for packaging and delivery to the port in Korea (Woodyear-Smith, pers. comm. 1995).

5.5.2.a Phytosanitary Requirements

Safety concerns over the presence of chemicals and residues on agricultural commodities act as a major restraint to horticultural trade. The Plant Protection Law prohibits the import of certain produce due to strict phytosanitary regulations. In Korea "fruit of the rose family (most importantly apples), summerfruit, cherries, and potatoes" faced an outright ban (Ip, pers. comm. 1996). In response to requests from the international market, Korea is in the "process of aligning many of its phytosanitary regulations with international standards" (Ip, pers. comm. 1996). As a result, in 1998 entry approval was granted for the export of stonefruit from New Zealand\(^20\) to Korea.

An easing of phytosanitary regulations would benefit New Zealand’s produce that is currently restricted, but adversely affect New Zealand’s market share of kiwifruit sales. Currently, under the phytosanitary regulations, imports of kiwifruit from Australia are prohibited. In 1997, phytosanitary restrictions were eased on imports from Chile resulting in the import of 1.1 million trays; however, not all trays were sold with a number being dumped prior to custom clearance. In contrast in 1998 Chilean kiwifruit imports were reduced to 93,000 trays. Under phytosanitary regulations Chilean kiwifruit is required to undergo cold sterilisation, where the fruit sits at zero degrees for sixteen days in order to combat fruit fly. In 1999, the cold sterilisation process will be eliminated, permitting Chilean exporters access to the Korean market two weeks earlier. Chilean kiwifruit is not perceived to be of high quality and to date has not had a significant impact on the sale of New Zealand kiwifruit. However, USA companies are entering into joint venture arrangements with Chilean growers to improve the quality of the fruit and thus there is potential for Chilean exporters to become an aggressive competitor (Woodyear-Smith, pers. comm. 1998).

Although, the Japanese apple market was liberalised in 1971 strict phytosanitary restrictions remained in place prohibiting the import of New Zealand apples; a process which took 24 years to negotiate (Morton, pers. comm 1997). In 1993 following the development of

\(^{20}\) New Zealand was the second country to receive approval. The first was the United States.
fumigation technology, several varieties of New Zealand apples were permitted into Japan. While initial exports appeared promising tonnage has decreased to reflect a nominal value. In 1994, the New Zealand Apple and Pear Marketing Board exported 270 tonnes decreasing to 190 tonnes in 1995. Increased access to the Japanese market remains difficult due to strict phytosanitary requirements. While New Zealand produces and exports Nashi, a Japanese style pear, the presence of fireblight within New Zealand acts as a barrier to entry to the Japanese market (Le Heron and Roche 1996).

Stringent phytosanitary protocols act as a barrier to trade. In order to prevent fumigation or the disposal of produce in the importing country, periodic random tests are completed by New Zealand authorities. The tests determine the chemical residue level on the produce, the focus of which is from a human health perspective. When fumigation occurs chemicals, such as methyl bromide, a light molecular gas, are used in the fumigation process. Various fruits and even different varieties of the same fruit manifest varying levels of resistance to the fumigation process. Fumigation of fruit which has a low resistance level can result in enhanced ripening and hence a reduced shelf life, discolouration of the flesh under the skin, surface blistering or blemishing, or affect the taste. A critical issue arising from the fumigation process is that a cool-chain system is implemented from the packaging stage until arrival in the destination market in order to maintain optimum shelf life. Fumigation necessitates the breaking of the cool-chain system and the warmer environment has a dramatic effect on quality, leading to dehydration, discolouration, and the loss of crispness. Consequently, the produce becomes unappealing to the consumer. Pre-clearance programmes have been established for some high value and high commodity products. On-arrival quarantine procedures have been transferred to New Zealand in order to facilitate the produce arriving in the export market. Japanese inspectors, funded by the exporters and/or industry, conduct quarantine inspections in New Zealand. This level of facilitation is market specific based on volume and value in addition to the level of understanding and acceptance by quarantine officials.

5.5.3 KIWIFRUIT

The Kiwifruit Authority was formed in 1977 under the Primary Products Marketing Act 1953 to oversee the development and expansion of the kiwifruit industry while the export of kiwifruit was conducted by competing licensed exporters (ACIL 1992). In 1988, the Kiwifruit Marketing Board (NZKMB) was established and was granted monopoly control over export markets with the exception of the Australian market. The implementation of a single desk seller arose from concern within the industry of declining profits and the
marketing board was established to monitor production standards from the orchard through to market sales. In January 1997, the Kiwifruit Marketing Board was separated into two companies. Kiwifruit New Zealand, a statutory board which is grower-owned and financed, oversees governance and grower issues. ZESPRI International, a subsidiary of Kiwifruit New Zealand, is responsible for the marketing of New Zealand kiwifruit around the world (refer Table 5-3).

<table>
<thead>
<tr>
<th>Years</th>
<th>Marketing Structure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before 1970</td>
<td>No coordinated marketing</td>
</tr>
<tr>
<td>1970</td>
<td>Kiwifruit Export Promotion Council</td>
</tr>
<tr>
<td>1977</td>
<td>Kiwifruit Authority (exporter licensing role)</td>
</tr>
<tr>
<td>1987</td>
<td>Seven licensed exporters</td>
</tr>
<tr>
<td>1988</td>
<td>Four licensed exporters</td>
</tr>
<tr>
<td>1989</td>
<td>Kiwifruit Marketing Board (monopoly exporter except to Australia)</td>
</tr>
<tr>
<td>1997</td>
<td>Kiwifruit New Zealand (governance and grower issues)</td>
</tr>
<tr>
<td></td>
<td>ZESPRI International (responsible for marketing)</td>
</tr>
</tbody>
</table>

Sources: Moran et al. 1996a; ZESPRI International 1997.

In what has become a global industry, the NZKMB (empirical information was obtained prior to the restructuring of the marketing board and therefore NZKMB is referred to throughout) has sought to become the "world's dominant, year-round marketer of kiwifruit" (NZKMB 1995, 8). Bonanno et al. (1994, 10) refers to the kiwifruit as manifesting true globalization; a process achieved through the aggressive marketing campaign of the NZKMB:

New Zealand's placement of kiwifruit into the consciousness of consumers represented only the beginning of its globalization. As consumption skyrocketed, other national producers clamoured to get on the kiwi bandwagon. Thousands of hectares of vines were planted in Italy, France, Spain, the United States and Chile. And almost before anybody realised it, kiwifruit was being produced in dozens of locations for distribution in markets all over the western capitalist world. The result has been the usual case of overproduction....Thus, a socially created global market was rapidly transformed into a global production system.

The parallel expansion in production and trade coupled with the very rapid acceptance by consumers is unparalleled in the history of international fruit marketing (OECD 1996b, 48). One outcome of this globalisation has been the transition for kiwifruit from an "exotic" to a mass-consumption fruit. Recognising the transition to a mass-consumption fruit, and in the attempt to reposition and differentiate New Zealand kiwifruit in the global marketplace, ZESPRI International announced that New Zealand kiwifruit would be marketed under the
brand name ZESPRI™. Such a distinctive brand name was chosen "because it is strong and distinctive, can be well positioned, is attractive and appealing, is linguistically and culturally acceptable, and is registrable and protectable" (media release, January 1997). Through branding ZESPRI International is building on the concept of New Zealand being the grower of the "the world's finest kiwifruit".

5.5.3.a Distribution Channels

Careful consideration was given to the socio-political situation when the NZKMB began exporting to Korea. In comparison to the majority of imported fruit, consumer resistance to New Zealand kiwifruit was slight as kiwifruit held a very small market share of the overall fruit market. The Korean Kiwifruit Growers Association (KKGA) initially welcomed the entry of New Zealand kiwifruit into the market, perceiving the complementary growing seasons and promotional campaigns employed by the NZKMB as beneficial to total kiwifruit sales. A slight overlapping of domestic sales and imports from New Zealand occurs and initial difficulties with the KKGA have been resolved (Woodyear-Smith, pers. comm. 1995). Presently, competition for New Zealand kiwifruit comes from domestic production, and imports from the USA and Chile.

In seeking a distributor the NZKMB had a choice of two distribution systems: chaebol with both the financial backing and the distribution network or a small fruit company with a working knowledge of the market. A small company with excellent knowledge of industry specifics and an established relationship with kiwifruit growers and the wholesale network was chosen. The distributor deals with 40-50 large wholesaling companies which in turn deal with a selected number of secondary companies, trickling down to the level of the consumer (refer Figure 5-5). Department stores and higher class supermarkets were chosen as selling points over the more traditional Momma and Poppa stores or hawkers. Even though the latter group controls a large section of the market they are often disloyal to product type (Woodyear-Smith, pers. comm. 1995). In 1997, a further three companies were selected as distributors, however as a result of the financial crisis one has entered bankruptcy.

In 1994, the NZKMB appointed Dole Japan, "the market's leading fresh produce importer and distributor" as its sole selling and distribution agent in Japan (NZKMB 1994, 13). Previously, the NZKMB had sold through nine importing companies but found there were barriers and little feedback as to market conditions. The transition was seen as the means to clearly identify customers thereby, allowing greater penetration of the Japanese market.
Additionally, the transition expanded the customer base to over 300 wholesalers (NZKMB 1995, 1). In 1996, the number of distributors was increased to four with Dole Japan acting as the principal agent (Knapp, pers. comm. 1997) (refer Figure 5-5). Similarly, the distribution system in Taiwan has changed over the years. Originally there were fourteen importers; this has since decreased to four companies importing New Zealand kiwifruit.
Figure 5-5: ZESPRI International Distribution System

Taiwan
- ZESPRI Intl.
  - DIRECT INVOICING
  - IMPORTERS
    - Wholesalers
      - Supermarket
        - Hypermrket
          - Conventional Retail
      - Wet Market
        - Fruit Shops
          - Traditional Retail
  - Hotels - Restaurants
    - Catering
      - Food Service

Korea
- ZESPRI Intl.
  - IMPORTERS
    - Primary Wholesalers
    - Secondary Wholesalers/Jobbers
      - Supermarket
        - Department Store
          - Conventional Retail
      - Mom & Pop / Fruit Shops / Wet Markets
        - Traditional Retail
  - Hotels - Restaurants
    - Catering
      - Food Service

Japan
- ZESPRI Intl. / DOLE
  - Receivers
  - Brokers
  - Jobbers
  - Ripeners & Repackers
  - Other Fruit Distributors
    - Mom & Pop Stores
      - (Individuals)
    - Small Chains
      - (up to about 20 stores)
    - Commercial Sectors
      - (Food Service & Processing)
    - Medium Chains
      - (from about 30 stores)
    - Large Chains
      - (from about 100 stores)

CONSUMERS

Japan is the largest single-country importer of kiwifruit (OECD 1996b) importing 47,600 tonnes of kiwifruit in 1996 and 49,600 in 1995. Domestic production was 33,000 tonnes and 37,000 tonnes respectively. In 1996, New Zealand commanded a 89 per cent share of the import market and a 50 per cent share of the total market including domestic production. In Taiwan, there was little consumer awareness of New Zealand kiwifruit prior to 1995; in 1990 a total of 2300 tonnes were exported to Taiwan. In 1995, the NZKMB implemented media advertising to create brand awareness of New Zealand kiwifruit. Exports increased by 195 per cent between 1990 and 1995 with a subsequent increase of 43 per cent in 1996; this is in comparison to a 115 per cent increase for all other exporting nations within the same six year period. In 1996, New Zealand kiwifruit commanded a 69 per cent market share. Likewise, New Zealand kiwifruit has a strong marketshare of the Korean import market: 71 per cent in 1996. A new variety of kiwifruit, Hort 16A, has been developed which is elongated and is a golden colour. In 1997, Zespri trialed in the vicinity of 700 trays in the Japanese market. Initial indications proved very favourable and in 1998 a contract was signed for the export of 5000 trays.

A characteristic of the kiwifruit industry is the partial overlapping of the marketing periods between northern and southern hemisphere producers (OECD 1996b). Chile has become a significant producer of kiwifruit in the Southern Hemisphere and has obtained an advantage in Northern Hemisphere markets by harvesting the fruit a month prior to New Zealand producers and saturating the market. Chile is an aggressive marketer in Japan, introducing low cost kiwifruit of a lesser quality without branding.

The marketing strategy for New Zealand kiwifruit in Northeast Asia is very diverse. Emphasis is placed on the nutritional value (Vitamins C and E) of the fruit and consumers are educated in how to choose, eat, and incorporate kiwifruit in recipes. Niche products which include two-fruit snack packs have been introduced. One significant advantage for New Zealand kiwifruit is, once again, the marketing of New Zealand as a clean green country as Northeast Asians are becoming increasing conscious of chemical residue. In seeking to be innovative and creative in promoting kiwifruit the advertising campaigns commissioned by Zespri’s Taiwanese office have won domestic and international print media awards (Woodyear-Smith, pers. comm 1998).

5.5.4 THE IMPACT OF THE FINANCIAL CRISIS

Within the fruit and vegetable sector, analysts predict the financial crisis will lead to increased "resistance from consumers towards imported horticultural products" (Tradenz
Conversely, New Zealand's principal fruit export, kiwifruit, may not be so drastically affected due to counter seasonal production and the low consumer perception of kiwifruit as an imported fruit (Tradenz 1998c). While agro-food exports to Taiwan are expected to remain steady for the next two to three years, analysts predict that importers will seek to negotiate better prices due to New Zealand's increasing supplies resulting from the industries difficulties in exporting to other Asian markets (Tradenz 1998g). For the first four months of 1998 fresh fruit and vegetable exports increased by 31 and 12 per cent respectively due to strong prices obtained for kiwifruit and squash.

5.5.5 SUMMARY

Until 1997 and with the exception of kiwifruit, New Zealand produce was not directly sold on the Korean consumer market (Gardner, pers. comm. 1996). Through the relaxation of market controls New Zealand exporters are gaining increased access to this market. While phytosanitary requirements remain a barrier to entry the Korean government is in the process of revising the regulations and in 1996 announced the possible introduction of more efficient procedures such as random sampling and the abandonment of the zero decay requirements. To date, no indication has been made of when these changes may be implemented (Ip, pers. comm. 1996). Smoother procedures for the clearance of perishable produce will open the market further for New Zealand exporters. National regulatory arrangements remain a major constraint to increasing imports from New Zealand and therefore it is difficult to determine the impact of an emerging third regime when examining New Zealand's fruit and vegetable exports to Korea.

The adaptations occurring within the New Zealand industry are in response to, and in recognition of, the growing Japanese market (and to a lesser degree the Taiwanese market) and the willingness of this market to pay premium prices; signifying the transition into the third food regime. While niche market products (for example, large-size contoured fruits and new varieties of kiwifruit) are being developed, mass market commodities (low-cost onions and carrots) are still a predominant commodity. In summary, New Zealand's integration into the Northeast Asian agri-commodity chains appears limited within the fresh fruit and vegetable sector. While, New Zealand is currently a multi-sourcing site for Taiwanese and Japanese transnationals there is little indication that Northeast Asian
transnational capital\textsuperscript{21} is fully incorporating New Zealand into the production sphere and hence the Northeast Asian regional food commodity chain.

\subsection*{5.6 AGRO-FOOD TRADE AND THE FOOD REGIMES CONCEPT}

Agro-food trade between New Zealand and Northeast Asia involves mainly products of the first and second regimes: New Zealand's industrialised, minimally-processed exports from the beef and dairy sectors. The export of fruit, particularly kiwifruit, is indicative of a new high return sector connected to the emerging third regime. Examination of the degree of new linkages occurring within the agro-food sector suggests that New Zealand's role is that of a semi-periphery servicing consumption demands within core localities. Lawrence (1996, 53) is of the opinion that the agro-food sector in New Zealand is concentrating on "the production and delivery of cheap foodstuffs to a burgeoning Asian population" instead of developing a processed food sector selling higher value foodstuffs to Asia. The exporting of raw materials and semi-processed food items (dairy and beef) for value adding that occurs in Asia reinforces economic dependency and hence the core/periphery relationship.

Within New Zealand's agro-food export sector, the role of the company (whether Northeast Asian or New Zealand) is of fundamental importance. A reorientation of the state is occurring as the New Zealand government withdraws from direct support and control of the Producer Boards in order to encourage greater commercial accountability. Through the investment of off-shore capital into joint venture arrangements the Dairy Board endeavoured to gain a market presence during "selective import protection regimes". Likewise, the Meat Producers Board, individual meat companies and ZESPRI International are investing capital to facilitate increased access to the Northeast Asian markets and establish a presence (both market and brand) that will allow the New Zealand industry to expand on market opportunities. While New Zealand actors are involved in establishing and building upon connections at the consumption end, the capacity to do anything significantly different is often greatly constrained as evidenced by Korean negotiations within the fresh fruit and

\textsuperscript{21} In 1988, a Japanese company, Sanyo General, obtained a 50 per cent holding in Grocorp Pacific Limited. The company was initially involved in the growing, processing and marketing of fruit and vegetables, principally squash to the Japanese market. In 1996, Grocorp withdrew from processing and marketing to concentrate on growing apples for sale through ENZA. Sanyo General remain as a principal shareholder in the company.
vegetable industry. This lack of facilitative arrangements, a measure of market protection at the national level, is contrasted against the adaptations and realignment occurring within New Zealand in response to Japanese sourced production and consumption preferences.

While this chapter presents a grounded discussion on New Zealand's agro-food trade to Northeast Asia, set within the food regime perspective, there has not been an indepth examination of Northeast Asia's articulation into the food regimes. The increasing level of agro-food trade from New Zealand to Northeast Asia is a direct response to the changing regulatory arrangements and there appears to be little evidence linking changes in Northeast Asia's national agricultural policy to a food regime transition. Indeed Moran et al. (1996b, 247) argue that the experience of food regimes "varies because of differences between countries in regulation and social norms, the resources of different regions and of farming systems".

There is clear evidence of integrative trends which are suggestive of structural relationships characterising both the second and third regimes. The evidence indicates considerable depth and complexity in the ways in which investment axes are developed and the implications that may follow from such interactions. To attempt to examine the agro-food trade between New Zealand and Northeast Asia and place such findings into one food-regime is too simplistic a conception. The characteristics of food regimes are much more complicated and complex than generally noted. The emergence of a new regime does not necessarily involve the dismantling or elimination of the old but rather a submergence or displacement. This is supported, to a degree, by my empirical work, revealing the co-presence of investment axes representative of all three regimes. Indeed, some distinguishing elements of the second regime, namely value-added feedlots, have only recently been introduced. The traditional exports of beef and dairy remain of fundamental importance to the New Zealand export sector. In essence, agro-food trade between New Zealand and Northeast Asia can not be discussed as a shift from one regime to another. Instead the situation is best described as simultaneous development in two regimes, the emergence of a third, and a reworking of each consequent upon market liberalisation.
CHAPTER SIX

GLOBALISATION OF THE NEW ZEALAND FORESTRY INDUSTRY: THE IMPACT OF NORTHEAST ASIAN LINKAGES

6.1 INTRODUCTION

Since the mid-1980s, the New Zealand forestry sector has become increasingly integrated into the Pacific Rim forest industry (Le Heron and Pawson 1996). Prior to this time exports to Northeast Asia were intermittent. However, an extensive reorganisation of production and a strengthening of trade linkages has occurred in response to national restructuring. The privatisation of plantation ownership by the New Zealand government introduced foreign investors into the forestry sector and a reorientation within the production system is occurring in response to the flow of international capital and the subsequent establishment of production facilities by globally oriented forestry companies. Foreign ownership is leading to the integration of the forestry sector into an evolving national complex centred upon Japan. Additionally, a deepening of existing relationships between New Zealand and Japan is occurring. Indeed, an examination of Northeast Asian investment in the New Zealand forestry sector highlights the interdependence between foreign direct investment and trade linkages and the importance of inter-firm relationships. This chapter examines changes occurring within the forestry sector in New Zealand using the commodity chain concept as an analytical framework.

6.2 COMMODITY CHAINS

The concept of the commodity chain which studies the geography of capitalism (Gereffi 1995) comprises a network of labour and production steps resulting in a finished
commodity. Transcending national boundaries the commodity chain framework provides an analytical lens (as does food regimes) on the core-periphery dichotomy within the global economy (Gereffi and Korzeniewicz 1990).

Gereffi (1994, 96-97) proposes that global commodity chains comprise three main dimensions. First, an input-output structure consisting of a set of products, services and resources linked together in a value-adding sequence. The added value sequence comprises six functions (decision making, research and development, production, distribution, marketing and business services) (refer Figure 6-1). Territoriality, the second dimension, examines the geographical dispersion and/or concentration of enterprises in production and distribution networks and the desire of each region to control value-added activity (Edginton and Hayter 1997). In turn, networks are comprised of enterprises of different sizes and types. The third dimension, geographical structure, is defined by Gereffi (1994, 97) as "authority and power relationships that determine how financial, material, and human resources are allocated and flow within a chain". Production chains are principally coordinated by enterprises, such as the sogo shosha, through intra-firm and inter-organizational relationships (Dicken 1998). Additionally, the governance structure comprises an institutional framework wherein each stage of the chain is politically regulated by a variety of bodies comprising the nation-state, regional economic groupings such as APEC, and supranational institutions such as WTO (Dicken 1998, 9).

As discussed in Chapter Two there are two principal coordinators or 'drivers' within the production process, which Gereffi identifies as buyer-driven and producer-driven. Within buyer-driven chains large retailers, name-brand merchandisers, and trading companies play a central role in the establishment of de-centralised networks centred around the production of garments, toys, and footwear etc. Transnational corporations play the central role in the coordination of producer-driven chains, including backward and forward linkages. Producer-driven chains "most characteristic of capital- and technology-intensive industries such as automobiles, computers, aircraft, and electrical machinery" (Gereffi 1994, 97) also encompass the wood fibre industry. A central characteristic of producer-driven chains is the level of control the administrative headquarters of the TNCs exercise (Gereffi 1994).
Figure 6-1: Production Chains in Geographical and Organisational Context

Source: Edgington and Hayter 1997, 153
Through the establishment of a globally integrated network, and hence nodes along the production chain, the Japanese sogo shosha play a fundamental role in Japan's resource related trade. Foreign affiliates and trade offices facilitate the procurement of raw materials and technology for the Japanese market. The sogo shosha, in turn, act as marketing agents in selling Japanese finished goods overseas. For overseas raw material suppliers the sogo shosha may be the only vehicle by which they are able to penetrate the Japanese market (Edgington and Hayter 1997). In the 1980s the fastest growing segment of sogo shosha activity was third-country trade, where the trading houses facilitate trade between countries other than Japan (Edgington 1990). In relation to the global timber trade, Marchak (1995, 4) reflects that "perhaps it is to Japan that we should attribute the current phase of globalisation; certainly, it has been Japanese companies, urgently scouring the world for wood, who have pioneered global sourcing patterns...and Japan's Asian neighbours are not far behind". New Zealand has long been a site for the international activities of the timber and log sourcing divisions of the sogo shosha most of which have established branch offices in New Zealand. Conversely, while the Korean chaebol are beginning to expand along the commodity chain in New Zealand there is no Taiwanese interest.

This chapter examines the changing structure of commodity chain linkages from forestry to the end-overseas-user as a response to the state led commodification of the New Zealand forestry sector. The role of the sogo shosha and inter-firm relationships within the New Zealand forestry sector is examined. Firstly, I briefly examine the privatisation of state owned assets which laid the foundation for increased investment in the wood fibre regime.

6.3 THE NEW ZEALAND FORESTRY SCENE

Prior to the 1980s the state retained a strong presence in forest ownership; the rudiments of an afforestation programme in the form of experimental nurseries was established in the late 1800s followed by much larger planting booms in the early to mid-1900s (Roche 1990; Roche 1992). To increase forestry output and as a means of improving the economic performance and international competitiveness of the forestry sector it was deemed necessary to privatise the state owned forestry assets. Commercial principles, introduced into forest management, were followed by the subsequent sale of Crown forest assets. Andrew Kirkland (1990, 4), Chief Executive of the New Zealand Forestry Corporation identifies the justification behind the government's decision to sell the state forests as being: (1) the forests established during the second planting boom of the 1960s had always been earmarked for export development; (2) the forests were nearing maturity and the transfer of
cutting rights to the private sector was timely; (3) that approximately $7 billion investment in the forest processing sector would be required to harvest the maturing forests, and the government had no desire to move into forestry processing; (4) that outright sales at the right prices would return many years of public investment in forests to the taxpayer; and (5) debt reduction was a major government objective.

In April 1987, as part of the government's economic reform package and in conjunction with the State-Owned Enterprise Act 1986 (refer Chapter Three) the New Zealand Forest Service, formed in 1919 and formerly commissioned with the managing of state forests, was dissolved and three State-Owned Enterprises formed. The mandate of one of these, the Department of Conservation (DOC) is the preservation and control of native forests and forest reserves. The Ministry of Forestry (MoF) provides an advisory/regulatory role, administering statutes and controls, providing policy advice, conducting research, and overseeing the afforestation programmes of Maori land leases. The third State-Owned Enterprise, the New Zealand Forestry Corporation (NZFC) was charged with the management of the State's commercial forestry assets (Roche 1993). In 1990, the New Zealand Forestry Corporation was dissolved and replaced by three new State-Owned Enterprises responsible for the management of state forests: Forestry Corporation of New Zealand, Timberlands (West Coast) Limited, and New Zealand Timberlands (Bilek and Horgan 1992).

Privatisation of the state owned plantations forests began in 1989 with the assets (mostly the trees) associated with approximately 550,000 hectares of plantation forest (90 forests) and two state owned sawmills being tendered for sale. On October 29, 1989 the Crown Forest Act was passed into law permitting the sale of Crown Forest Licences -- the cutting and management rights over the forestry assets. The Crown's retention of land ownership was necessary due to Maori land claimants and on-going grievances over the legality of the Crown obtaining land from the Maori. Successful Treaty of Waitangi claimants are required to honour the conditions of the Crown Forest Licence as negotiated by the Crown. During the 1990 sale period and the subsequent second round sale process, a number of forests,
subject to Maori land claims before the Waitangi Tribunal\(^3\) and settlements under negotiation\(^4\), were withdrawn from the sale process; during the first sale period 225,000 hectares (approximately 41 per cent) were withdrawn (Bilek and Horgan 1992). In 1996, the government announced the sale of Forestry Corporation of New Zealand thereby signifying the conclusion of the privatisation of state-owned forests. Unresolved Maori land issues had implications during this final round of forest bidding. One sogo shosha, with considerable investments in New Zealand was reluctant to enter into the bidding process as it viewed the Maori as an "invisible cost and liability" and a problem only the government can control (Unnamed Respondent, pers. comm. 1996). Similarly, a representative within a Korean chaebol expressed reservations about unresolved Maori land claims and hinted that further investment would occur once the Maori problem is resolved (Unnamed Respondent, pers. comm. 1995).

Successful purchasers obtained assets on the land and land use rights for a minimum period of seventy years or two rotations which ever is the longer. An annual fee, initially set at 7 per cent of the unimproved value of the land, is subject to revaluation on a three yearly basis\(^5\) with the rental system being subject to review in 2000-2001 (Bilek and Horgan 1992). Land use rights remain in perpetuity except where otherwise notified i.e., in order to redress a successful Treaty of Waitangi claim, whereupon the land use period will be reduced. "The term of this requirement is variable depending upon when in the life of the Crown Forest Licence the successful claim is made, but could be for as long as forty years" (Bilek and Horgan 1992, 6).

By March 1991, approximately 45 per cent of the forests originally offered for tender were sold. Fletcher Challenge Forests and Carter Holt Harvey\(^6\), two New Zealand domiciled companies, were dominant amongst the successful contenders purchasing 60 per cent of the forests sold; the remaining 40 per cent was sold to Asian companies (39 per cent) and domestic (1 per cent) (refer Table 6-1). In 1992, some 97,000 hectares of state-owned

\(^3\) The Waitangi Tribunal was established to oversee Treaty grievances. "There are more than 80 claims lodged over the 90 former state forests, with some forests having multiple claims (e.g., Kaingaroa Forest alone has 10 competing claims)" (Ministry of Forestry 1996b, 23).

\(^4\) Carter Holt Harvey and Fletcher Challenge filed separate claims before the High Court in the attempt to stop the sale of the forests for which they had a government guarantee of long term supply (see Goudge, J. 1990: 'Forest sell-off upset by claim' National Business Review 8 February 1990; Helm, J. 1990: 'Fletcher seeks to halt forest sales' New Zealand Herald 24 March 1990).

\(^5\) The Consumer Price Index is used to take into account inflation within the three year period.

\(^6\) Carter Holt Harvey is 51 per cent owned by International Paper of the United States; and while Fletcher Challenge Forests is overseas owned (54.2 per cent) it is New Zealand controlled.
forests managed by New Zealand Timberlands Limited were sold to ITT Rayonier, an American owned transnational company, for $NZ366 million. ITT Rayonier, as a new competitor in the forest growing sector, was perceived as spreading New Zealand's forestry risk away from Asian markets (Bilek and Horgan 1992). Privatisation of the state-owned forests concluded in 1996 with the $NZ2.026 billion acquisition by Fletcher Challenge Forests Limited (37.5 per cent) in association with Brierley Investment (25 per cent) and Citifor (China International Trust and Investment Corporation) (37.5 per cent) of Forestry Corporation of New Zealand. Citifor, a Chinese state-owned investment company has substantial forestry investments in the Pacific Northwest (USA and Canada) and Chile in addition to having a strong market presence in Japan, Korea, and Taiwan (Dey 1996). Forestry assets which remained unsold due to unfavourable geographical location, environmental issues and Treaty of Waitangi claims are subsequently being managed by Crown Forestry Management Limited, a state-owned enterprise (Ministry of Forestry 1996b).
Table 6-1: Crown Forest Sales

<table>
<thead>
<tr>
<th>Buyer (country)</th>
<th>Location(s)</th>
<th>Assets at 31-03-90 (hectare)</th>
<th>Purchase Price ($NZ million)</th>
<th>Settlement Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fletcher Challenge (NZ)</td>
<td>Nelson, Central NI</td>
<td>48852</td>
<td>262</td>
<td>31 Oct 90</td>
</tr>
<tr>
<td>Carter Holt Harvey (NZ)</td>
<td>Auckland, Christchurch, Hawkes Bay</td>
<td>92704</td>
<td>383</td>
<td>31 Mar 91</td>
</tr>
<tr>
<td>Juken Nissho (Japan)</td>
<td>Wairarapa, Northland, Gisborne</td>
<td>43531</td>
<td>125.5</td>
<td>31 Oct 90, 30 Dec 90</td>
</tr>
<tr>
<td>Ernslaw One (Malaysia)</td>
<td>Coromandel, Wanganui, Otago</td>
<td>23801</td>
<td>102</td>
<td>31 Oct 90</td>
</tr>
<tr>
<td>Wenita Forestry Ltd (Hong Kong)</td>
<td>Otago</td>
<td>20521</td>
<td>115</td>
<td>30 Nov 90</td>
</tr>
<tr>
<td>Winstone Pulp International Ltd (Indonesia)</td>
<td>Ohakune</td>
<td>8331</td>
<td>12</td>
<td>30 Nov 90</td>
</tr>
<tr>
<td>Russell/Shand/Fox (NZ)</td>
<td>Canterbury</td>
<td>181</td>
<td>.305</td>
<td>30 Nov 90</td>
</tr>
<tr>
<td>Gibbon Holdings (NZ)</td>
<td>Canterbury</td>
<td>965</td>
<td>.35</td>
<td>31 Feb 91</td>
</tr>
<tr>
<td>Golden Bay Forest Industries (NZ)</td>
<td>Nelson</td>
<td>316</td>
<td>.15</td>
<td>30 Nov 90</td>
</tr>
<tr>
<td>Carter Holt Harvey Ltd (NZ)</td>
<td>Nelson</td>
<td>7504</td>
<td>26.8</td>
<td>31 Mar 91</td>
</tr>
<tr>
<td>Total Sales</td>
<td></td>
<td>511706</td>
<td>3419</td>
<td></td>
</tr>
</tbody>
</table>

Note: Carter Holt Harvey has since sold cutting rights for 29,964 hectares to its Japanese partner in the Whirinaki pulp mill. The sale was made in conjunction with a reduction in Carter Holt Harvey’s shareholding from 50 to 10 per cent (refer New Oji Paper section).
Source: Bilek and Horgan 1992, 35-36; Fletcher Challenge Forests 1997

Privatisation of the former state-owned forests coupled with changes occurring in the global forestry complex proved to be a catalyst for change within the forest ownership patterns in New Zealand. A redefinition of the wood-fibre industry in New Zealand occurred, accompanied by the further insertion of the New Zealand forestry sector into the global wood-fibre regime. The following section examines the level of rescaling occurring within the forestry sector in New Zealand in response to Northeast Asian trade and investment capital.
6.4 TRADE, PRODUCTION AND FINANCE LINKAGES

Exports of forestry products for the year ended 30 June 1998 totalled $NZ2242 million. In value terms Australia (31.1 per cent), Japan (25.7 per cent), and Korea (11.3 per cent) are New Zealand's principal markets for forestry product exports. Taiwan is New Zealand's fifth largest market (4.6 per cent). While low-value-added logs comprise a significant portion of exports to both Japan (33 per cent) and Korea (80 per cent) there is an increasing demand from Japanese customers for plywood and other value added products (Ministry of Forestry 1998).

Tariffs have encouraged the importation of logs into Northeast Asia, as value-added products warrant a higher tariff or non-tariff barrier. In 1984, the Korean government introduced a progressive tariff reduction schedule; the tariff on softwood log imports is currently 2 per cent, compared to a 5 per cent tariff on sawn timber and 8 per cent on value-added products (Korea Trade Association 1997). In contrast, there are no tariffs on log imports and sawn timber into Taiwan, while particle and fibre board command a 5 per cent tariff and tariffs on plywood range from 10 to 25 per cent. Under the Uruguay Round agreement Japan committed to eliminate tariffs on pulp and paper, to reduce the tariffs on solid wood products by 50 per cent and to bind the tariffs on sawn timber (this applies to radiata pine) to 4.8 per cent. Previously the tariff on rough sawn timber was 4.8 per cent while the tariff on planed and sanded timber was 8 per cent. Additionally, gains were achieved on the tariff levels on panel products (Ministry of Forestry 1996b, 33). The tariff reductions and eliminations have a ten year phase-in period. A phytosanitary agreement was concluded within the Uruguay Round agreement whereby countries are required to "scientifically justify quarantine barriers imposed at their borders. This is to ensure that phytosanitary barriers are not imposed on exports as a trade protection rather than biological protection mechanism" (Ministry of Forestry 1996, 33). Further developments occurred in November 1997 at the Asia Pacific Economic Co-operation (APEC) summit in Vancouver where APEC members agreed to fast track tariff reductions in forestry.

Traditionally, Japan has been a recipient of low grade timber exports from New Zealand; logs and flitches used in low value end uses such as the plywood and packaging industries influenced consumer perception of radiata pine as an inferior wood. A similar scenario has occurred in Korea where a large percentage of exports comprise lower-grade logs (refer Tables 6-2, 6-3, 6-4) for the temporary construction market where the timber is ungraded and neither dried nor preservative treated. New Zealand exporters, in an effort to reposition
radiata pine as a higher value species, are seeking to establish niche markets particularly in the construction and appearance grade markets.

Table 6-2: Exports of Logs and Poles

<table>
<thead>
<tr>
<th></th>
<th>Japan Qty (000 m3)</th>
<th>Japan Value ($NZ000)</th>
<th>Korea Qty (000 m3)</th>
<th>Korea Value ($NZ000)</th>
<th>Taiwan Qty (000 m3)</th>
<th>Taiwan Value ($NZ000)</th>
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<td>42786</td>
<td>36</td>
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<td>434</td>
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Note: p = provisional data
Source: Ministry of Forestry 1997b, 1998 (unpublished data)

Table 6-3: Exports of Sawn Timber

<table>
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<tr>
<th></th>
<th>Japan Qty (000 m3)</th>
<th>Japan Value ($NZ000)</th>
<th>Korea Qty (000 m3)</th>
<th>Korea Value ($NZ000)</th>
<th>Taiwan Qty (000 m3)</th>
<th>Taiwan Value ($NZ000)</th>
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<td>1100</td>
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<tr>
<td>1988</td>
<td>124</td>
<td>23519</td>
<td>-</td>
<td>15</td>
<td>4</td>
<td>965</td>
</tr>
<tr>
<td>1989</td>
<td>113</td>
<td>21174</td>
<td>7</td>
<td>796</td>
<td>7</td>
<td>1813</td>
</tr>
<tr>
<td>1990</td>
<td>146</td>
<td>32481</td>
<td>1</td>
<td>146</td>
<td>17</td>
<td>3729</td>
</tr>
<tr>
<td>1991</td>
<td>227</td>
<td>49964</td>
<td>8</td>
<td>1577</td>
<td>28</td>
<td>7207</td>
</tr>
<tr>
<td>1992</td>
<td>253</td>
<td>57613</td>
<td>33</td>
<td>6492</td>
<td>49</td>
<td>12739</td>
</tr>
<tr>
<td>1993</td>
<td>261</td>
<td>81257</td>
<td>28</td>
<td>6893</td>
<td>67</td>
<td>22248</td>
</tr>
<tr>
<td>1994</td>
<td>200</td>
<td>76297</td>
<td>35</td>
<td>10050</td>
<td>49</td>
<td>21969</td>
</tr>
<tr>
<td>1995</td>
<td>284</td>
<td>93501</td>
<td>43</td>
<td>11267</td>
<td>66</td>
<td>23605</td>
</tr>
<tr>
<td>1996</td>
<td>277</td>
<td>90303</td>
<td>85</td>
<td>23150</td>
<td>77</td>
<td>19971</td>
</tr>
<tr>
<td>1997</td>
<td>311</td>
<td>92043</td>
<td>85</td>
<td>22683</td>
<td>103</td>
<td>26181</td>
</tr>
<tr>
<td>1998p</td>
<td>316</td>
<td>79989</td>
<td>55</td>
<td>13571</td>
<td>124</td>
<td>31675</td>
</tr>
</tbody>
</table>

Note: p = provisional data
Source: Ministry of Forestry 1997b, 1998 (unpublished data)
Japan is a significant world market for sawn timber (principally for the packaging industry), fibreboard, plywood and panel products. Exports of panel products (fibreboard, plywood, veneer and particleboard) increased significantly in the mid-1990s in response to increased investment by Japanese corporations in production facilities. Imports of New Zealand log and timber are dominated by the sogo shosha (88.5 per cent) (refer Table 6-5). This is in contrast to North America (54 per cent) where the role of the trading house is to a degree being circumvented (Edgington and Hayter 1997). Total round wood consumption in Japan is around 100 million cubic metres of which approximately 25 per cent is harvested domestically. While Japan has forest resources, it is still more economical to import lumber and logs due to high extraction and harvest costs. This is in contrast to the global log trade which has been on the decline during the past decade due in part to increasing costs.

Increased trade with Korea has been in response to economic re-regulation coupled with supply and demand dynamics which is reflected through the increasing unavailability of South Sea logs. In 1994, New Zealand's exports comprised a 6.3 per cent share of Korea's

## Table 6-4: Exports of Panel Products

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>Korea</th>
<th>Taiwan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Qty (m3)</td>
<td>Value ($NZ000)</td>
<td>Qty (m3)</td>
</tr>
<tr>
<td>1981</td>
<td>11845</td>
<td>2247</td>
<td>138</td>
</tr>
<tr>
<td>1982</td>
<td>7423</td>
<td>1472</td>
<td>2135</td>
</tr>
<tr>
<td>1983</td>
<td>11467</td>
<td>2349</td>
<td>10084</td>
</tr>
<tr>
<td>1984</td>
<td>9535</td>
<td>2097</td>
<td>3144</td>
</tr>
<tr>
<td>1985</td>
<td>5870</td>
<td>1378</td>
<td>2676</td>
</tr>
<tr>
<td>1986</td>
<td>9173</td>
<td>2710</td>
<td>2817</td>
</tr>
<tr>
<td>1987</td>
<td>22673</td>
<td>9603</td>
<td>4171</td>
</tr>
<tr>
<td>1988</td>
<td>41234</td>
<td>18399</td>
<td>7537</td>
</tr>
<tr>
<td>1989</td>
<td>52628</td>
<td>22681</td>
<td>9729</td>
</tr>
<tr>
<td>1990</td>
<td>67230</td>
<td>27179</td>
<td>24957</td>
</tr>
<tr>
<td>1991</td>
<td>102653</td>
<td>41157</td>
<td>16136</td>
</tr>
<tr>
<td>1992</td>
<td>111565</td>
<td>50756</td>
<td>8897</td>
</tr>
<tr>
<td>1993</td>
<td>145885</td>
<td>86230</td>
<td>21678</td>
</tr>
<tr>
<td>1994</td>
<td>184929</td>
<td>127498</td>
<td>18344</td>
</tr>
<tr>
<td>1995</td>
<td>332310</td>
<td>231623</td>
<td>24856</td>
</tr>
<tr>
<td>1996</td>
<td>318062</td>
<td>224700</td>
<td>17822</td>
</tr>
<tr>
<td>1997</td>
<td>315344</td>
<td>233387</td>
<td>10897</td>
</tr>
<tr>
<td>1998p</td>
<td>253447</td>
<td>171621</td>
<td>9227</td>
</tr>
</tbody>
</table>

Note: p = provisional data
Source: Ministry of Forestry 1997b, 1998 (unpublished data)
forestry import market in value terms\textsuperscript{7}. More significantly New Zealand logs commanded a 40.5 per cent market share in comparison to a 3 per cent market share in 1987 (FAO 1994). Since 1988, Korea's imports of softwood logs have increased steadily, corresponding with a decrease in hardwood log imports. Australia, New Zealand and Chile are the producers of plantation-grown softwoods.

\textsuperscript{7} In 1994, Korea was ranked as the tenth (2.9 per cent) largest global importer of forest products (in volume terms); imports from North America dominated the market (36.1 per cent volume wise) (FAO 1994, 237).
Table 6-5: Import Volume of Logs and Timber into Japan 1995 by Major Trading Houses

<table>
<thead>
<tr>
<th></th>
<th>South Sea Log</th>
<th>USA/Canada</th>
<th>Russia</th>
<th>New Zealand</th>
<th>Europe</th>
<th>Plywood</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Log</td>
<td>Timber</td>
<td>Log</td>
<td>Timber</td>
<td>Log/Timber</td>
<td>Log</td>
<td>Timber</td>
</tr>
<tr>
<td>Nissho Iwai</td>
<td>682</td>
<td>72</td>
<td>676</td>
<td>400</td>
<td>713</td>
<td>444</td>
<td>92</td>
</tr>
<tr>
<td>Nichimen</td>
<td>586</td>
<td>15</td>
<td>711</td>
<td>533</td>
<td>791</td>
<td>446</td>
<td>6</td>
</tr>
<tr>
<td>Sumitomo Forest</td>
<td>377</td>
<td>10</td>
<td>367</td>
<td>465</td>
<td>-</td>
<td>373</td>
<td>-</td>
</tr>
<tr>
<td>Mitsubishi</td>
<td>52</td>
<td>65</td>
<td>487</td>
<td>423</td>
<td>94</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>Itochu</td>
<td>506</td>
<td>45</td>
<td>229</td>
<td>395</td>
<td>187</td>
<td>5</td>
<td>-</td>
</tr>
<tr>
<td>Tomen</td>
<td>342</td>
<td>5</td>
<td>336</td>
<td>367</td>
<td>-</td>
<td>197</td>
<td>49</td>
</tr>
<tr>
<td>Yuwasa</td>
<td>600</td>
<td>42</td>
<td>274</td>
<td>-</td>
<td>183</td>
<td>60</td>
<td>6</td>
</tr>
<tr>
<td>Marubeni</td>
<td>459</td>
<td>15</td>
<td>200</td>
<td>185</td>
<td>153</td>
<td>76</td>
<td>-</td>
</tr>
<tr>
<td>Kawasho</td>
<td>79</td>
<td>5</td>
<td>865</td>
<td>76</td>
<td>-</td>
<td>62</td>
<td>39</td>
</tr>
<tr>
<td>Sumitomo Corporation</td>
<td>152</td>
<td>36</td>
<td>190</td>
<td>228</td>
<td>286</td>
<td>18</td>
<td>-</td>
</tr>
<tr>
<td>Mitsui</td>
<td>101</td>
<td>30</td>
<td>117</td>
<td>116</td>
<td>290</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td>Ataka</td>
<td>217</td>
<td>6</td>
<td>117</td>
<td>-</td>
<td>117</td>
<td>180</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total of 12 Companies</strong></td>
<td><strong>4,153</strong></td>
<td><strong>346</strong></td>
<td><strong>4,569</strong></td>
<td><strong>3,188</strong></td>
<td><strong>2,697</strong></td>
<td><strong>1,798</strong></td>
<td><strong>387</strong></td>
</tr>
<tr>
<td><strong>Total Volume Imported</strong></td>
<td><strong>6,447</strong></td>
<td><strong>1,340</strong></td>
<td><strong>6,878</strong></td>
<td><strong>7,369</strong></td>
<td><strong>5,407</strong></td>
<td><strong>2,030</strong></td>
<td><strong>521</strong></td>
</tr>
</tbody>
</table>

Source: Nissho Iwai Limited n.d. unpublished data
While the chaebols perform a similar role to the sogo shosha it is on a much lesser scale. Branch offices have been established in New Zealand and Australia to facilitate forest product trade between New Zealand and Korea. A number of Korean companies examining the expansion of trade activities are considering resource ownership investment in New Zealand if an appropriate investment can be found (Unnamed Respondent pers. comm. 1996). In 1981, D.K. Korea Limited was the first Korean company to import radiata pine from New Zealand. Competing with the hemlock market, the dominant species used in the construction industry in Korea, it took around seven to eight years for radiata pine to be viewed by the sawmilling industry as an acceptable and marketable alternative; in comparison to hemlock, radiata pine bruises easily. Radiata pine exports to Korea remained insignificant until 1986-87 with a sharp increase occurring from 1989 onwards; a 108.2 per cent increase over the previous year (refer Fletcher Challenge Forest section). In 1995, 75 to 80 per cent of D.K. Korea's imports were from New Zealand and comprised principally rough sawn lumber, kiln-dried lumber and other value added products. In that same year a subsidiary company was formed in New Zealand in order to facilitate trade between the two countries -- D.K. New Zealand Forestry Limited with an initial investment of $US1 million (Lee, J. pers. comm. 1995). Dongwha Enterprise Co. Limited has also established a branch office in New Zealand and imports between 60 to 65 per cent of the company's log requirements from New Zealand.

However, imports of New Zealand timber products have been drastically affected by the Korean financial crisis. For the first two months of 1998 New Zealand log exports to Korea decreased 56 per cent (in volume terms) in comparison to the same period in 1997. The import price for logs in March 1998 was $67/m3, a $30/m3 decrease from October 1997. Log imports are used principally in the plywood and medium density fibreboard (MDF) manufacturing sectors which are currently suffering a decline. Additionally, there has been a substantial decrease within the sawn timber export market with Korean sawmills facing continual economic problems highlighted by a downturn in the construction industry, sluggish demand, credit problems and the closure (both permanent and temporary) of a number of sawmills. Conversely, lumber is used in the packaging and pallet manufacturing sectors which have the potential of increasing (Tradenz 1998b). The finger jointed, wood pulp and particle board sectors have all experienced market decline. The bankruptcy of Dong Hee Co, one of Korea's largest solid wood furniture manufacturers, will significantly affect the import of finger jointed and edge glue panel products from New Zealand. Tradenz (1998b), predicts that the export of New Zealand timber products, while dependent on the
recovery of Korea's manufacturing and construction industries, will initially continue to decline.

Levels of trade between New Zealand and Taiwan began to increase in the late 1980s in response to supply constraints placed on hardwoods normally sourced from Malaysia and Indonesia. In 1990, $NZ65.7 million of forest products were exported to Taiwan; by 1995 this had increased to $NZ145.4 million, a 121.3 per cent increase. Exports of panel products substantially increased from 1987 onwards in comparison to exports of logs and sawn timber which did not increase until 1992. While the decline in availability of hardwood logs was a major catalyst, increased levels of trade were also a response to increased investment in plant and machinery (Hayward, pers. comm. 1997). However, as a result of the Asian financial crises the price of hardwood logs has decreased by up to 50 per cent and hence an increase in hardwood logs is expected which will affect the importing of softwood logs from New Zealand (Tradenz 1998g). Likewise, it is predicted that there will be a sharp decrease in demand for wood panels from New Zealand. New Zealand's principal competition comes from Southeast Asian exporters whose prices have decreased by 30 to 40 per cent.

Prior to the privatisation of the forestry sector, two New Zealand domiciled companies, Fletcher Challenge Limited (a separate company has since been formed -- Fletcher Challenge Forests) and Carter Holt Harvey dominated the industry along with the New Zealand Forest Service (government owned). During the 1980s, an extensive offshore movement of capital occurred as part of New Zealand's internationalisation process. Britton (1991) comments that the internationalisation movement occurred in order for New Zealand companies to penetrate overseas markets, to increase competitiveness, to escape the restrictions associated with a small market, and to diversify risk. During this period Carter Holt Harvey invested in forestry in Australia in order to fulfil demand by the Japanese pulp market. Additionally, the Carter Holt Harvey invested in South America while Fletcher Challenge's investment strategy included Chile, Argentina and Canada. During the late 1980s increasing opportunities within the Northeast Asian markets became apparent. Trade linkages were increasing in conjunction with the relaxation of regulatory regimes and the substitution of softwood logs for hardwood logs. During the 1990s, in order to develop forestry trade which was becoming increasing focused on the Northeast Asian markets, Fletcher Challenge Forests, Forestry Corporation of New Zealand and Carter Holt Harvey established regional offices in Tokyo. The offices were established mainly to facilitate market entry and to promote marketing initiatives as the companies sought to develop and diversify these markets for a range of higher-value products (Palmer, pers. comm. 1995).
Following Fletcher Challenge Forest's purchase of Forestry Corporation the two Tokyo operations have been consolidated. Fletcher Challenge Forests' strategy highlights the degree of export diversification that is occurring in the search for a value added transformation of the industry.

6.4.1 FLETCHER CHALLENGE FORESTS

Fletcher Challenge Forests' (FCF) 1996 purchase of state-owned forests in the central North Island ensures a long term timber supply for the company in addition to an increased volume of timber being available for immediate harvest. The purchase of 168,000 hectares of radiata pine plantation combined with the adjacent 117,000 hectares of FCF owned or managed forest "form the largest single radiata pine plantation in the world...with the capacity to produce six million cubic metres of wood per year" (Fletcher Challenge Forests 1997, 10). Through the amalgamation of processing facilities, production (plywood, remanufacturing, sawmill, moulding and laminating plants) is concentrated around the central North Island and hence FCF has divested its more distant plantations in the Nelson, South Auckland and Northland areas.

FCF's customer base in Japan has historically been comprised of trading houses and sawmills, principally in the log and raw material trade. In particular, FCF has a long established relationship with the Sumitomo8 and Nichimen Corporations. Currently, 17 per cent of FCF’s exports, comprising logs for packaging and laminated lumber for the housing and construction markets, are destined for the Japanese market (Fletcher Challenge Forests 1997).

With an increasing global supply of logs coupled with finite markets in which prices are likely to become leviable due to market saturation, FCF is evaluating how to succeed in an international manufacturing industry. Currently, the company is targeting the large scale value-added down-stream markets in order to control the commodity chain from forest through to consumer (Hayward, pers. comm. 1997). Historically, radiata pine has not been permitted to compete in the Japanese housing market due to consumer perception of radiata pine as a low quality packaging material. Considerable progress has been made to position radiata pine as a high-value structural product (Fletcher Challenge Forests 1995). With an

8 In 1996, Fletcher Challenge Forests celebrated 25 years of association with the Sumitomo Corporation.
increased volume of radiata pine being exported from both Chile and New Zealand, FCF recognised a need to create high value markets and hence their entry into the Japanese housing market\(^9\) and other finished type applications for the Asian market. The Kawerau laminating plant commissioned in 1996 (SNZ15 million) with production capacity of 16,000 m\(^3\) per year was designed to meet the Japanese specifications (Fletcher Challenge Forests 1997). Laminated lumber and finger jointed products are produced solely for the Japanese housing market using lower quality logs which are transformed into high-value laminated products. Product development is occurring in conjunction with the Japanese company Sumitomo House in order to meet very rigorous JAS (Japan Agricultural Standards). FCF's 'house maker' customers require stricter JAS certification standards than do the trading houses. Additionally, FCF has obtained AQ (Approved Quality) certification involving quality control and chemical treating requirements. The AQ certification, the first issued to a non-Japanese production facility, has allowed the company to expand into the laminated lumber market.

\(^9\) Aided by changing nature of the internal distribution channels
Figure 6-2: Fletcher Challenge Forests: Production Chain Components
By moving further downstream, in order to meet the particular quality standard of the 'house makers', and thus circumventing the trading houses, FCF have removed a former perceived barrier (Hayward, pers. comm. 1997) (refer Figure 6-2). A direct line operating between the Kawerau manufacturing facility and the Japanese 'house maker' consumers which was not possible ten years ago (Hayward, pers. comm. 1997), is reflective of the diminishing role of the sogo shosha in the production chain and the movement of building companies into the timber production chain (Edginton and Hayter 1997). However, difficulties arise when dealing with the end user instead of the sogo shosha for in order for a bank to issue a LC (letter of credit) the end user must have financial backing. Due to the structure of the keiretsu (refer Chapter Three) it is often easier for FCF to deal through the sogo shosha rather than the end user.

In contrast, Korea and Taiwan are more recently developed markets. In 1997, Korea comprised 23 per cent of FCF sales market by value (Fletcher Challenge Forests 1997). As a result of the financial crisis log exports to Korea have substantially decreased (Press 8 January 1998) and in April 1998, FCF announced a 30 per cent reduction in harvesting due to lower prices received from the Asian markets.

Prior to 1988 radiata pine exports to Korea were minimal but increased dramatically in 1988 when, as a result of Cyclone Bola, FCF had a surplus of low grade material. Since this time, radiata pine has become a cost effective substitute for hemlock. A niche market was formed in the temporary construction industry to which FCF principally supplies logs to sawmills and plymills. Within this market radiata pine commands a 70 per cent market share (Hayward, pers. comm. 1997). FCF is seeking direct access for finished products where lumber is used in boxing and bracing applications and plywood is used in forming panels which produce a surface on the concrete. Viewing the construction market as being very unsophisticated, FCF perceive there are inherent opportunities available to impact the building process in conjunction with construction companies amenable to change. Bypassing the trading houses, which due to a period of internal 'constructive destruction' have little or no role within the distribution channel, FCF are actively working with engineers and construction companies further down the commodity chain (Hayward, pers. comm. 1997). In contrast to Korea, FCF view Taiwan as a low cost manufacturing base, a 'feeding house' to supply other markets within the region. While FCF predominantly supplies logs to Taiwan exports of plywood for use in the construction and furniture industries are increasing (Fletcher Challenge Forests 1997).
6.5 FINANCE AND PRODUCTION LINKAGES

This section examines the principle Northeast Asian investors in the New Zealand forest products industry (refer Table 6-6). The manner in which Japanese enterprises are entering the New Zealand market is examined and highlights the importance of inter-relationship networks between Japanese firms in the organisation of production links. Korea and Taiwan are second-tier participants in the integration of New Zealand's forestry resources into Northeast Asian networks. An overview of Northeast Asia investment within resource and non-resource ownership categories is provided.

Table 6-6: Major Investment by Northeast Asian Companies in the Forestry Sector in New Zealand

<table>
<thead>
<tr>
<th>New Zealand Company</th>
<th>Country of Head Office</th>
<th>Parent Company(ies)</th>
<th>F</th>
<th>WP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Juken Nissho</td>
<td>Japan</td>
<td>Juken Sangyo</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Nelson Pine Industries</td>
<td>Japan</td>
<td>Nissho Iwai</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pan Pacific Forest Industry</td>
<td>Japan</td>
<td>Sumitomo Forestry</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Panahome Innosho NZ</td>
<td>Japan</td>
<td>Nippon Paper</td>
<td></td>
<td></td>
</tr>
<tr>
<td>South Wood Exports</td>
<td>Japan</td>
<td>Innosho Woods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Southland Plantation Forest</td>
<td>Japan</td>
<td>National House Industrial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tachikawa Forest Products</td>
<td>Japan</td>
<td>Itochu</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grand Pine Enterprises NZ</td>
<td>Japan</td>
<td>Nichimen</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hansol NZ</td>
<td>Korea</td>
<td>Tachikawa Forest Products</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Grand Pine Enterprises</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hansol Forem</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: F - invested in forest growing; WP - invested in wood processing

6.5.1 RESOURCE OWNERSHIP

6.5.1.a Juken Nissho Limited

In 1990, Juken Nissho was established in New Zealand in order to purchase the cutting rights to five former state owned forests totalling 43,531 hectares for $NZ125 million: Ngaumu (Wairarapa), Patunamu (near Gisborne), Wharerata (East Coast), Aupouri and Otangaroa (Northland). Juken Nissho Limited is jointly owned by the Japanese general trading house Nissho Iwai (15 per cent) and a major Japanese wood products manufacturer, Juken Sangyo Limited (85 per cent). Nissho Iwai are importers of forest products:
approximately 35 million cubic metres of wood is imported yearly into Japan of which Nissho Iwai handles 2.3 to 4 million cubic metres (Kase, pers. comm. 1996).

Through an established presence in the New Zealand market, Nissho Iwai perceived a sustainable forest plantation as being an attractive investment in order to secure timber supply. Juken Sangyo were approached as a potential joint venture partner due, in part, to a long established trading relationship between the two companies. More importantly, Juken Sangyo has expertise in forestry management and operates several mills in Japan. A principle factor aiding the establishment of the joint venture operation was Juken Sangyo's need for alternative sources of secure wood supplies from good forests due to an increasing scarcity of South Sea logs coupled with an increase in price of Douglas Fir logs from North America (Kase, pers. comm. 1996).

The substitution of softwood logs for hardwood logs has occurred in response to the increasing unavailability of South Sea logs (hardwood). During the 1980s Juken Sangyo successfully developed techniques permitting the use of softwood in the laminated veneer lumber (LVL) process leading to an increase in demand for softwoods. Juken Sangyo is the leading Japanese manufacturer of "stepping boards for stairways using laminated veneer timber" and is a major producer of high value end uses such as flooring, fittings, and doors (Gresham 1991, 14). The joint venture operation in New Zealand is the company's second offshore investment, Juken Sangyo initially invested in a small laminated veneer lumber plant in the United States (Raper 1993, 124).

As owners of cutting rights over forests the joint venture partners determined that on-selling of wood for processing was not a profitable venture and therefore processing should occur in-house. New Zealand is recognised as a source for fast rotation clearwood and the economic benefits of processing the wood in New Zealand versus shipping the logs (and

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10 In 1967, Nissho Iwai established a representative office in Mt Maunganui in order to facilitate the export of radiata pine to Japan. Currently, Nissho Iwai has a subsidiary head office in Auckland and a branch office in Mt Maunganui. Nissho Iwai is involved in a second joint venture in New Zealand -- Nissho Roberts (NZ) Limited -- a wool brokering company. In addition, Nissho Iwai is considering an investment in the chemical industry (Kase 1996, pers. comm).
11 This was of concern to the Japan Plywood Manufacturing Association which in 1991 established an industry goal to increase the percentage of softwood logs (including radiata pine) used in production to 30 per cent by 1996 and to 50 per cent by 2001 (New Zealand Forest Industries Report, 1994, 43).
12 Following the formation of the joint venture operation in New Zealand, Nissho Iwai and Juken Sangyo formed a second joint venture in Shanghai China in 1995.
consequently waste volume) are such that it is essential that primary processing occurs in New Zealand.

Since its establishment, Juken Nissho has committed a conservative estimate of 30 billion yen (about $NZ400 million) to increase production output and Kase (pers. comm. 1996) estimates that a further $NZ300 million investment is needed for the establishment and expansion of processing facilities. Processing plants producing sawn lumber, LVL (laminated veneer lumber), and LL (laminated lumber) operate in Masterton and Gisborne sourcing logs from the nearby Juken Nissho owned forests. In 1991, Juken Nissho purchased the Kaitaia Triboard Mill and has upgraded and expanded the facility. With a maximum production capacity of 140,000 cubic meters per year the mill cannot keep up with demand (Kase, pers. comm. 1996). Currently, Juken Nissho produces 100,000m3 of triboard, 100,000m3 of LVL, 20,000m3 of LL and 10,000m3 of sawn lumber from its three localities (New Zealand Forestry 1997). Future investments under consideration, and subject to both economic conditions and market demand, include triboard and plywood mills in Gisborne and mills in Northland for the production of sawn lumber, laminated lumber, veneer and plywood.

Following the establishment of production facilities in New Zealand, Juken Sangyo began closing mills in Japan (Press 24 September 1992). While the second level of processing (advanced finished products) currently occurs in Japan at the Juken Sangyo mills there is potential for advanced processing to occur in New Zealand or elsewhere in Asia (Kase, pers. comm. 1996). The export of radiata pine products (via the Nissho Iwai shipping line), in semi-processed form, is principally to Japan while a small amount of triboard is sold on the New Zealand domestic market and small quantities of product are sold in Korea. Approximately 70 per cent of Juken Sangyo’s products are made from New Zealand pine and marketed under the brand "Jupino" -- by 1999 the company estimates that production will comprise 90 per cent radiata pine (Jayne 1996). Through backward integration Juken Sangyo and Nissho Iwai control the commodity chain from the natural resource through marketing and sales (refer Figure 6-3). As such the company is instrumental in repositioning radiata pine within the Japanese market where wood is valued for its aesthetic

13 The purchase of the Kaitaia Triboard Mill in 1991 was a controversial acquisition. While Juken Nissho was approached by local and central government to consider purchasing the Kaitaia Triboard Mill the Muriwhenua Corporation (Northern Maori Tribal group comprising both Maori and pakeha interests) opposed the purchase as they perceived the mill as being a suitable development project for local Maori.
appearance. Thus, there is a move away from the raw log trade into processed materials (Hayward, pers. comm. 1997).
Figure 6-3: Juken Nissho: Production Chain Components
6.5.1.b New Oji Paper Co.

While the sale of New Zealand's state owned forests saw the entry of two major Japanese corporations into the production end of the industry, Japanese presence in the New Zealand industry dates back to 1972 with the establishment of an integrated sawmill and pulpmill.

New Oji Paper, a Japanese company ranked amongst the top ten paper manufacturing companies in the world, has substantial investments in New Zealand. The company's principle interest is in Pan Pacific Forest Industries (NZ) Limited and the associated company, Hawkes Bay Forest Limited. A combined pulpmill and sawmill was established in 1971 as a joint venture (Carter Oji Kokusaku Pan Pacific Limited) between Carter Consolidated Limited (now Carter Holt Harvey) and Oji Sankoku (Oji Paper\textsuperscript{14} and Sanyo Kokusaku Pulp Co\textsuperscript{15}). In 1991, Carter Holt Harvey downsold its shareholding for $NZ75 million, in order to reduce its debt burden, from 60 to 10 per cent in favour of Oji Sankoku. A year previously Carter Holt Harvey had acquired the Crown cutting rights and assets for four forests (39,208 hectares) in Hawkes Bay, these cutting rights were in turn sold to Oji Sankoku and a new company was formed -- Hawkes Bay Forest Limited. While Carter Holt Harvey retained the right to purchase back 50 per cent of both companies at the end of a two year period the buy back option was not invoked. In 1993, Carter Holt Harvey divested all remaining shares to Oji Sankoku and the name of the company changed to Pan Pacific Forest Industries (NZ) Limited. Their Hawke's Bay operation is further discussed in Chapter Seven.

In addition to the above listed investments in the Hawkes Bay Forest and Pan Pacific, New Oji Paper has a joint venture operation with the Itochu Corporation (39 per cent) and Fuji Xerox (10 per cent). Southland Plantation Forest is actively acquiring land\textsuperscript{16} in the Southland region for the planting of eucalyptus for chipping and export to Japan; forestry activity is under contract to South Wood Export Ltd (another Itochu venture) (CAFCA 1993). New Oji and Itochu's various joint venture operations highlight the inter-relationship networks being formed by Japanese conglomerates in New Zealand (refer Figure 7-4).

\textsuperscript{14} On 1 October 1993 Oji Paper and Kanzaki Paper merged to form New Oji Paper

\textsuperscript{15} On 1 April 1993 Sanyo Kokusaku Pulp and Jujo Paper merged to form Nippon Paper Industries

\textsuperscript{16} For the period from 1 January 1994 to 31 December 1996 land purchases by Southland Plantation Forests in the vicinity of $NZ29.2 million were approved by the OIC.
Figure 6.4: Inter-relationships, Networks

- **New Zealand Company Ownership**: Nippon Paper Industries owns 13% of Pan Pacific.
- **New Oji Paper**: Owns 87% of Hawkes Bay Forests Ltd.
- **Fuji Xerox**: Owns 51% of Southland Plantation Forest Co.
- **Itochu Corporation**: Owns 100% of South Wood Exports Ltd.
- **Itochu New Zealand**: Owns 100% of Ataidar Forests.
- **Pan Pacific** outputs:
  - Lumber
  - Pulp
- **Hawkes Bay Forests Ltd.** outputs:
  - Low and medium grade logs (80%)
  - High grade logs (20%)
- **Southland Plantation Forest Co.**
  - Contractual agreement
  - Eucalyptus logs
- **South Wood Exports Ltd.**
  - Woodchips
- **DISTRIBUTION**:
  - Japan - Nippon Paper: 50%
  - Japan - New Oji Paper: 15%
  - Domestic market: 50%
  - Other markets (Australia and Southeast Asia): 15%
  - Domestic sawmills

**Chapter Six: Forestry**
6.5.1.c Itochu Corporation

Itochu New Zealand Limited, a subsidiary of Itochu in Japan, established a joint venture operation in 1980 with the Auckland-based MK Hunt Foundation (49 per cent). South Wood Export Limited (formerly Wood Export (Tokanui) Limited) purchases and exports wood chips to Japan for pulp and paper production. The current production volume is 100,000 tones per year (Morimoto, pers. comm. 1996). In September 1996, South Wood Exports (19.9 per cent) and Itochu New Zealand (2.1 per cent) in conjunction with Carter Holt Harvey (78 per cent) formed Ataidar Forests for the purpose of leasing land in Northland, "with associated forestry rights" (CAFCA 1997b, 56). In 1997, permission was obtained from the OIC for Itochu to acquire 100 per cent ownership of South Wood Export Limited.

Itochu is currently developing substitute materials for tropical timber products which include medium density fibreboard (MDF), particle board and oriented strand board (OSB). Recognising a moving trend from a labour intensive to a capital intensive wood-based industry coupled with the increasing difficulty of sourcing tropical hardwood, Itochu view waste wood as the material of the future (Morimoto, pers. comm. 1996). Itochu has established a project in Sarawak, Malaysia, where waste materials from sawmills and plants is collected and through the addition of technology and engineering skills a low value waste product is transformed into MDF, a high value structural product. Currently, Itochu is seeking to establish a plantation of approximately 10,000-15,000 hectares of timber with a good fibre and/or chip content, "I don't think that materials and price can be guaranteed so our vision is to, as soon as possible, have a plantation in a timber producing country" (pers. comm. 1996). High quality oriented strand board suitable for the Japanese market using advanced technology will be produced. New Zealand is one location being considered.

6.5.1.d Hansol Forem Limited

In February 1996 a joint venture agreement between the Korean chaebol Hansol Forem Co. Ltd and Ngati Porou Whanui Forests Ltd (Wall and Cocklin 1996) was announced. The joint venture operation involves the planting of 10,000 hectares (with an option for

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17 Itochu Corporation is also known as C. Itoh & Co. Limited
expansion after five years) of radiata pine on Ngati Porou\(^{18}\) tribal land, north of Gisborne. The venture, estimated to be worth between $NZ50 and $NZ60 million, has the potential to generate $NZ500 million (Wharawhara 1996) and is recognised as being the largest Korean investment to-date in New Zealand. Planting which began in 1996 will continue over the next five years with harvesting occurring approximately 28 years later. Potential future investments include a pulp and paper mill and MDF plants (Lyu, pers. comm. 1995). In May 1997, a memorandum of understanding was signed between Hansol Forem and the New Zealand Forest Research Institute (FRI) for research and consultation with regard to the joint venture operation (Radiata Bulletin 20 May 1997, 1).

Hansol Forem Co. Ltd, Korea's leading paper manufacturer, was founded in 1965 under the name of Saehan Paper Mfg Co. Ltd. In 1968, due to financial difficulties the Saehan company was acquired by the Samsung Group and renamed the Chonju Paper Manufacturing Company. In 1991, Chonju separated from the Samsung Group, and a subsequent restructuring move saw the separation of the Forestry Division from Chonju Paper Manufacturing to become Chonju Forest Products Co. Limited. Succeeding name changes saw the company being renamed Hansol Forest Products in 1992 and Hansol Forem Limited in 1995. The joint venture operation with Ngati Porou is Hansol's second investment in New Zealand. In 1975, Chonju Paper Manufacturing in conjunction with Samsung entered into a joint venture with Winstone Limited, a New Zealand company, to form Winstone Samsung Industries Limited, which established a pulp mill in the central North Island which was allocated state timber (Le Heron 1990, 201). However, Chonju withdrew their investment ten years later due to a lack of financial payback (Lyu, pers. comm. 1995) -- principally an outcome of the failure of Chonju to market 70 per cent of the output of pulp products (Le Heron 1988).

Hansol Forem has invested strongly in the forestry industry: offshore afforestation projects have been established in Western Australia, New Zealand, Vietnam and Chile in order to supply logs for its state-of-the-art production facilities in Korea. Hansol views its afforestation programme as being "a great help to the nation's international competitiveness as well as to the stable supply of raw materials" (Hansol Forum n.d.). The plantations in Australia and New Zealand are softwood while the remaining countries are hardwood plantations.

\(^{18}\) East Coast Maori
6.5.1.e Other Investments

Wenita Forest Products\(^{19}\) was formed in order to purchase Crown forest trees in Otago. Ninety-five per cent of production is exported; mostly logs principally to Japan and Korea with China and Taiwan forming a second-tier market. Australia, the United States, Japan, Korea, Taiwan and China are important markets for lumber exports. The importance of the Northeast markets is highlighted by the following statement "the international market is Japan and Korea - that's it, everything else is a sideshow" (Hill, pers. comm. 1996). Viewing the international log market as being finite, Wenita Forest Products plan to progressively expand into "further value added processing, hence contributing to improved future international competitiveness" (Wenita Forest Products, n.d.).

6.5.2 NON-RESOURCE OWNERSHIP

6.5.2.a Tachikawa Forest Products Limited

Tachikawa Forest Products Limited, a prominent end-user of radiata, has imported radiata pine from New Zealand for around 30 years. In the early 1980s, Tachikawa sought to establish a sawmill in Nelson in conjunction with Sumitomo Ringyo Limited but the project was suspended due to a shortage of logs\(^{20}\). In 1988, Tachikawa obtained approval from the OIC to invest in a sawmill operation in New Zealand. The availability and cost competitiveness of log supplies coupled with the advantages of lower production costs made New Zealand an attractive investment location. In comparison to Japan, log prices are 50 to 60 per cent less in New Zealand, likewise wood chip (used in the pulp and paper industry) and processing costs are considerably lower (Tachikawa, pers. comm. 1996).

Land for the sawmill was purchased initially in the Mt Maunganui area within close proximity to the port. However, planning approval delays by the Tauranga District Council became detrimental and a new site, more central to the forests, was located in Rotorua (Tachikawa, pers. comm. 1996). Tachikawa entered the New Zealand market in conjunction

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\(^{19}\) The shareholders in Wenita Forest Products are Togen Holdings Limited (45 per cent) and Sinotrans (45 per cent) a Beijing Shipping Company, while the remaining ten per cent is owned by an individual. Togen Holdings comprises a Japanese-Hong Kong based family who originally achieved their wealth from tropical rainforest logging in Sabah. In 1982 Togen Holdings invested in the tourism industry in New Zealand and hence they had an established presence in the New Zealand market when the sale of Crown Forest licences were announced (Hill, pers. comm. 1996).

\(^{20}\) Sumitomo Ringyo has since established a medium density fibreboard -- Nelson Pine Industries
with the Nichimen Corporation (40 per cent), a major importer of logs and lumber. Advantages to the joint venture included an established presence by Nichimen\textsuperscript{21} in the New Zealand market, as a long time buyer of wood and the operator of a shipping line allowing production to be shipped at cheaper costs.

A single site operation, Tachikawa Forests own approximately seven hectares of land -- half of which is zoned as residential and used as a buffer zone. Two state-of-the-art sawmills (vacuum kiln), kiln-drying facilities, and warehouses for dry storage have been established on the industrial site. A lack of space permits only a two day log inventory in comparison to other sawmills which generally hold one to two weeks inventory. Hence the implementation of a just-in-time system has been necessary which Koji Tachikawa (pers. comm. 1996) perceives as making the operation "more efficient and more productive; otherwise it would be an impossible situation". In April 1996, consumption was estimated to be 300,000 tonnes of logs per year. The timber is dried and treated for stabilisation and further strengthened for use as posts and beams. Between 40 to 45 per cent of production is exported to Japan mostly as packaging lumber to make boxes, crates and pallets. Thirty five to forty per cent remains in the domestic market for remanufacturing purposes, and the balance is exported to various markets within the Pacific Rim including the Philippines, Hong Kong, Indonesia, Taiwan, Korea, Thailand and USA.

Tachikawa Forest Products has invested in the vicinity of $NZ30 million and while the plant has been expanded three times since 1990 further expansion is constrained by a shortage of industrial space. Currently, residential land subject to a number of conditions\textsuperscript{22} is used for dry timber storage. Increased investment for capitalisation and increased equity is being considered as is investment in added-value downstream packaging (Tachikawa, pers. comm. 1996).

In turn, Tachikawa (pers. comm. 1996) attributes the presence of Panahome Industries, a joint venture between the Panasonic Group (80 per cent) and Innosho Woods (20 per cent) in Rotorua, to his personal recommendation. Panahome Industries produces housing materials including door frames and laminated beams for the Japanese market utilising output from the Tachikawa mill.

\textsuperscript{21} Nichimen Co (NZ) Ltd, a subsidiary of the Nichimen Corporation of Japan exports lumber, foodstuffs, and processed products to Japan and various countries within Asia.

\textsuperscript{22} Permission was granted on the condition that the site was landscaped with embankments, there were limited hours of operation and the height of the timber did not exceed 5 metres in height.
6.5.2.b Other Investments

Japan's Sumitomo Forestry Co. owns 100 per cent of Nelson Pine Industries Limited, a medium density fibre board operation. Nelson Pine Industries, is the "largest single site producer of medium density fibre board in the world" and the announcement of a third production line in 1996 is expected to increase output to 350,000 m³ a year (Ministry of Forestry 1996c, 1). Nelson Pine Industries supplies 45 per cent of Japan's imported medium density fibre board; other major markets include New Zealand, Australia and Southeast Asia.

Located at Portland (south of Whangarei) the Marusumi Whangarei Company is a joint venture between Marubeni Corporation (49 per cent) and Marusumi Paper Manufacturing Company Ltd (51 per cent). Marusumi Whangarei has established a chipmill ($NZ4 million) and chip-loading facilities ($NZ6 million) at the port of Whangarei in order to export chips for use in the Japanese paper manufacturing industry (Ministry of Forestry 1997a, 5). Utilising residue woods, the Marusumi Whangarei Company sources wood from throughout the upper half of the North Island.

In contrast to Japanese investment, Korean investment is of a moderate capacity and is centred on a primary commodity export base trade. Grand Pine Enterprises has established a $NZ2 million sawmill in Moerewa, International Pine Traders has obtained permission from the Korean government to invest $US270,000 in log trading in New Zealand and Greenfor MRT Limited, a joint venture operation between Korea interests and a New Zealand merchant bank exports logs and timber to Korea. Furthermore, in comparison to both Korean and Japanese investment in the forestry sector, Taiwanese investment appears to be limited to individual and private consortiums investing in blocks of land for forestry development, particularly in Northland. While an approach was made to Taiwanese officials (government and bank) on behalf of the New Zealand government during the 1996 sale process, Taiwanese officials were unable to generate sufficient interests from various organisations in order to form a consortium to enter into the bidding process (Fu, pers. comm. 1996).

23 Nelson Pine Industries was originally established as a joint venture operation with Odlins (30 per cent) and Newmans (35 per cent). Corporate Investments Limited acquired 50 per cent ownership who later sold their shares to Sumitomo for $100 million.
24 The average investment ranges in size between 20 to 40 hectares.
6.6 CONCLUSION

Considerable changes have occurred in the patterns of plantation ownership in New Zealand during the 1990s. Roche (1992, 151) is of the opinion that:

From a theoretical perspective, the sale is interesting because it represents an instance where a nation state's government has actively encouraged the internationalization process by seeking to withdraw from forest processing and ownership.

Economic restructuring measures have propelled the forestry industry in New Zealand into a more competitive international environment. This was achieved through the offshore movement and expansion of New Zealand domiciled companies coupled with the sale of former state-owned forests. Privatisation measures aided in the restructuring of the industry, permitting the formation of more in depth trading linkages with Northeast Asian markets. Changes that were occurring within the forestry industry in New Zealand occurred alongside changing supply-demand market forces in Asian markets and were aided by progressive changes occurring within the regulatory regimes at national levels. Le Heron (1997, 64) argues that "the mix of companies (now mostly overseas owned) currently involved in New Zealand are attempting to align forest resources of the country into evolving wood supply and distribution networks centred mainly in Northeast Asia".

Over the past few decades, forestry trade between New Zealand and Northeast Asia has been intrinsically linked principally to Japan's increasing demands for timber. Korea and Taiwan have emerged as second-tier participants in the integration of New Zealand's forestry sector into the Northeast Asian realm. While unprocessed exports are still a significant composition of forestry trade, there is a move away from low value products (periphery activity) into more end application specific products highlighting a move further down the commodity chain and an increasing concentration of economic surplus (core activity) in New Zealand, albeit due to Japanese investment. Nevertheless, the marketing and business service links of the commodity chain, both of which are core activities, remain concentrated in Japan.

Due to increasing costs of production coupled with an archaic, declining sawmilting industry (Hayward, pers. comm. 1997), Japanese entities are moving closer to sources of raw material and hence gaining control of the value added chain from New Zealand to Japan. New entrants in the forestry processing industry in New Zealand, predominantly buyer-driven, have shaped production networks and shortened the commodity chain.
linkages. The *sogo shosha* are significant investors in New Zealand, often controlling a vertically integrated operation from the forest to the end market, in order to secure the procurement of raw materials and through the establishment of processing activities for low value-added products principally to supply the Japanese market. The *sogo shosha* have entered the New Zealand market principally through traditional joint venture arrangement highlighting the nature of the embedded inter-firm relations within Japanese corporations (Hayter and Edgington 1997).

The most visible of Japanese investors is Juken Nissho whose control of the production chain ensures quality control and encompasses "the full production-consumption cycle: raw material supply, the design and manufacture of components and finished goods, exporting, distribution, and retailing. These products and services are connected in a sequence of value adding economic activities" (Gereffi 1995, 47). Moreover, Juken Nissho's successful marketing of radiata pine as a high value commodity in the Japanese market benefits the New Zealand industry as a whole:

To bring Nissho, one of the largest of the Japanese forestry trading houses, into direct contact with forest growing and processing in New Zealand has been a major breakthrough, providing an invaluable bridgehead into one of the world's most difficult but rewarding markets (Birchfield and Grant 1993, 243).

In contrast to ownership of forest resources that Juken Nissho, Itochu and New Oji have embarked on, Tachikawa Forest Products has not seen resource ownership as necessary for value added transformation. Although the company is constrained from expanding, further downstream investment in New Zealand is being considered actively and in the interim Tachikawa has become an essential supplier to Panahome Industries in Rotorua which produces value added products for the Japanese market. While Japanese companies are dominant within the production chain Fletcher Challenge Forests has developed forward linkages within the Japanese market through the establishment of a mill solely to meet Japanese consumer demand. Additionally, the development permits Fletcher Challenge Forests greater control of the value-added chain in conjunction with established networks and highlights an alteration to the former *sogo shosha* dominated production chains.

The *chaebols* are increasingly showing an interest in sourcing and investment opportunities in the New Zealand market, principally in the resource ownership end. With the exception of Hansol Forem, however, there is little substantial Korean investment in the forestry sector in New Zealand and Fletcher Challenge Forests have been able to circumvent the traditional intermediary role of the trading houses within the production chain. Similarly, there is little
discernible investment from Taiwanese sources. Hence, Taiwanese and Korean companies have a lesser impact on the control of commodity chain linkages between New Zealand and Northeast Asia.

Through the reorganisation of production and trade linkages the forestry sector in New Zealand is becoming increasingly embedded in a global commodity chain centred upon Japan. The distribution and marketing components of the commodity chain are imposed on the initial transformation stages of the chain as production is adapted to meet market demand with control of the chain dominated by Japanese interests. The production market is changing to become a customer-led system in contrast to a former resource-led system. Through financial linkages the production process is becoming an integrated system evidenced by the reduction in the number of nodes within the commodity chain process.
CHAPTER SEVEN

RE-SCALING OF GEOGRAPHIC RELATIONS IN AGRO-FOOD AND FORESTRY PRODUCTION: A REGIONAL EXAMPLE

7.1 INTRODUCTION

While the nation-state remains a principal actor within the global economy, it is at the local level that the impact of re-regulation and hence the transition into a more competitive market place is felt. The mid-1980s witnessed the beginning of a period of economic re-alteration within New Zealand. Re-regulation opened up the economy to global forces and following the withdrawal of the central state from border controls, local regions have been affected to a greater degree by processes occurring on the global scale. Le Heron and Pawson (1996) view changes occurring within organisations, industries and regions as potentially originating from influences operating at all geographic scales.

Chapter Three examined the role of regional trade alliances and the nation-state as vehicles for regulatory processes occurring at different spatial scales. Chapters Five and Six examined adaptations occurring within two economic sectors as companies seek to achieve greater integration within the Northeast Asian economy. Producer Marketing Boards principally control the exporting, marketing and distribution of New Zealand agro-food products to Northeast Asia. In contrast, within the forestry sector Northeast Asian capital is instrumental in controlling and coordinating production chain linkages across nation state boundaries. This chapter explores the dynamic interaction of the local and the level of rescaling that is evident within this spatial scale and builds upon the information about global and national interactions contained in Chapters Three, Five and Six. National re-
regulation has permitted the establishment of new relations and the re-formulation of existing relationships at different scales.

This chapter takes a different perspective from the previous two chapters, examining export-oriented industries within key economic sectors (horticulture, food processing, beef production, and forestry) in a region, the Hawkes Bay (refer Figure 7-1). An examination of intra-regional and external linkages associated with the Hawkes Bay region will provide an analytical lens to interpret how New Zealand is being integrated into the Northeast Asian realm. Hawkes Bay was selected due to the region's prominence as a site for forestry and agro-food production. Three principal entities -- Heinz-Wattie Ltd, Richmond Ltd and Pan Pac Ltd -- all have linkages with the Northeast Asian region and are adapting production, albeit to varying degrees, in order to meet changing market demand. The local horticultural sector is linked to global markets through the development of niche markets for fresh fruit and vegetable exports. The agro-processing sector which is being incorporated into the emerging food import complex is dominated by transnational agro-food corporations. The presence of Japanese investment capital within specific activity stages of forestry in Hawkes Bay highlights the Japanese control of the commodity chain with production increasingly geared towards the Japanese market.
Figure 7-1: Hawkes Bay Region
7.2 AGRO-FOOD RE-SCALING

As discussed in Chapter Five changing patterns of consumption coupled with the emergence of a new form of flexible global sourcing is leading to the emergence of an East Asian food import complex centred upon Japan which McMichael (forthcoming) proposes is a feature of the emerging third food regime. The import complex established around nodes of affluent consumption has emerged alongside the "rise of East Asian capitalism as a growth pole of the global economy" (McMichael 1997, 17). Agro-export platforms which are being established by transnational capital are qualitatively transforming regional agricultures in different countries (McMichael forthcoming). Japan's dependency on food imports is a principal factor behind the Japanese led corporate reconstruction of regional agricultural production. High-value goods produced under corporate contract are altering the "balance from site of production to site of consumption" (McMichael forthcoming).

A diversification in patterns of offshore sourcing is occurring as the Northeast Asian agrarian regimes are reconstructed in conformity with WTO requirements. As agricultural barriers are removed a transition from low-value mass goods to high value non-traditional exports is occurring. Changing demographics and an increase in urban middle class is leading to a diversification of commodity flows. In recognition of the growth potential within the Asian markets suppliers are strategically targeting these markets. Transnational food companies are positioning themselves within the region through the establishment of new production facilities often in conjunction with local companies. Increased production targets the Japanese and the newly industrialised economies (NIEs) (Fagan 1996).

McMichael (1994, 284) proposes that the "local scale is the likely arena for response to the regional and global movements". Japan has emerged as a significant export market for New Zealand agro-food exporters and corporate restructuring of production is occurring within Hawkes Bay in order to supply the affluent diet and demands of the Japanese consumer. This section examines the manner in which the Hawkes Bay is being incorporated into the Northeast Asian food import complex and the implications for the region as an agro-export zone servicing the Japanese market. Indeed, one may ask whether New Zealand is emerging as an agricultural periphery servicing the expanding Japanese import complex.

Three principal agro-food industries are located within Hawkes Bay: food processing, horticulture, and beef production. The food processing sector is dominated by transnational corporations, subsidiaries of the H.J. Heinz and McCain Foods corporations, American and
Canadian companies respectively. The dominant beef processor, Richmond Limited, is a New Zealand owned and operated transnational corporation. Within the horticultural sector two produce types dominate exports to Japan: squash and asparagus. Furthermore, a number of interlinkages are present within the region as produce is grown under contract to Heinz-Wattie and McCain Foods for processing and export to Asia. The production of added-value products determined by the site of consumption is influencing growing patterns within the region. Within the Hawkes Bay region transnational corporations are reorganising production and consumption linkages and supplying 'brands' adapted to consumer demand in terms of taste and quality requirements. Additionally, the transnational corporations are seeking to develop quality value added niche market opportunities, i.e. organic and quality products, which some propose is a component of an emerging third regime (see Le Heron and Roche 1995; Marsden and Arce 1995).

7.2.1 PROCESSED FOOD

A re-orientation of processed food products towards the Asian markets is occurring in response to the emergence of an import-oriented processed food sector. The increasing diversification of consumption patterns coupled with an increase in per capita income is leading to a growing demand for convenience foods, such as frozen produce.

For Heinz-Wattie Limited, the New Zealand-based subsidiary of H.J. Heinz and Co, the growth of the company is centred around the Asian markets. Japan is the company's largest export market with annual sales of over $NZ100 million1 (White pers. comm. 1995). Heinz's 1992 acquisition of J Wattie Limited was seen as a means for the company to facilitate "an export drive into Japan and other parts of Asia" (Barber 1993, 8) through Wattie's established networks (McKenna et al. 1998). Rationalisation has since occurred with the merger of all divisions (J Wattie Foods, Wattie Frozen Foods, Best Friend Pet Food, Tip Top Ice Cream2 and Tegel Chicken) into Heinz-Wattie Limited3 and the acquisition of food manufacturing companies (Craig's Jam and Shortland Cannery4 Limited)

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1 This figure includes exports from Tip Top Ice Cream for which Japan was a premium export market.
2 In 1997, Tip Top Ice Cream was sold to Peters and Brownes Food, a Western Australian private company of which the Japanese Itochu Corporation is a shareholder.
3 While the companies were initially absorbed into the Heinz Group in 1992 they retained their separate names. In 1996, under corporate restructuring measures all divisions were merged into Heinz-Wattie Limited. While empirical data was obtained prior to and following the rationalisation process reference is made only to Heinz-Wattie Limited.
and the Eta brand of dressings and peanut butter (H.J. Heinz 1998). Similarly, processing plants are being realigned between New Zealand and Australia (McKenna et al. 1998).

Principally located in Hawkes Bay, the Heinz-Wattie complex is a 'source-to-market' site supplying the growing food sector within the Asia-Pacific Rim. Re-scaling including the introduction of new contractual arrangements for growers and key services and the implementation of a more market driven culture (McKenna et al. 1998), is occurring as Heinz-Wattie expands into the Asian markets through the development of added value products tailored to meet Asian consumer preferences.

In 1996, Heinz-Wattie and Heinz-Japan jointly purchased the former Tomoana Freezing Works (refer Section 7.2.3) property in Hawkes Bay. This was a strategic move by the company in order to maintain competitiveness amongst Heinz's established centres located in Thailand, Australia, Japan, and Korea. The purchase consolidated Hawkes Bay as a centre for production drawing upon the regional availability of beef, dairy and vegetable products (Hayward et al. 1996). Following the initial investment of $NZ2 million for the Tomoana property the company has substantially invested in upgrading the facilities and introducing new processing technology and equipment. Additionally, the Frederick Street site located in Hastings has been expanded. Various Heinz-Wattie's operations have been relocated to Hawkes Bay, including the petfood and prepared frozen foods operations from Gisborne, the acquisition and subsequent transfer of Craig's Jam from Auckland, and a vegetable processing plant from Feilding. One factor behind the consolidation of processing facilities in Hawkes Bay is that the Hastings plant is organically certified, by BIO-GRO New Zealand an independent certifying agent, for export to Japan.

The Hawkes Bay operation, recognised as a international production base, was designated by the Heinz Corporation as one of eight centres worldwide to be developed under the Project Millennia restructuring plan. Seeking to become a globally pre-eminent branded food company Heinz is aiming for "rapid expansion into the fast-growing markets of Eastern Europe, Asia, the India sub-continent and South America" (Mandow 1997). In 1997, Heinz announced its intention to double exports to Japan within a three to five year time frame.

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4 Shortland Cannery manufacturers corn beef and other meat products for export to USA, Asia and the Pacific.
5 Gisborne's Kaiti Freezing works, a major supplier to the 'Best Foods' operation was closed two years previously. Prior to the transfer off-cuts were being sourced from Hawkes Bay and other locations. The transfer to Hawkes Bay ensured the processing plant was closer to supply sources.
with low-cost, high-quality products from New Zealand leading this drive (Stockdill 1997). Increased penetration into the Japanese market by Heinz-Wattie is facilitated by Heinz Japan, a manufacturing and trading company.

Heinz-Wattie has achieved comparative advantage within the Asian markets due to the company's long history of growing and processing vegetables coupled with the company's ability to access high quality low cost raw materials: dairy and meat (White pers. comm. 1995). Competitive advantage is aided by the flexibility and responsiveness of production facilities. By New Zealand standards Heinz-Wattie is a large and sophisticated processor of food products, conversely by global standards the processing plant is a small producer. While the technology is equal to that of the large producers the relatively smaller size of the company permits Heinz-Wattie to operate smaller runs, implement different recipes and packaging techniques, and tailor make products within a sophisticated manufacturing background (White pers. comm. 1995).

In search of higher value-added exports, testing regimes and quality standards are being driven by the Asian consumer markets. A key element in the development of Northeast Asian markets has been the establishment of linkages with principal food industry companies in developing products to consumer preferences. Heinz-Wattie's research and development team works closely with product development staff from Japanese, Korean and Taiwanese companies in order to meet market demand. The size, shape and texture of vegetables for re-hydration and the texture and taste of sauces are essential components. Within the frozen food range the Taiwanese market prefers a larger harder pea thus growers split the crop obtaining a higher margin for peas designated for the Taiwanese market versus local production. Similarly, the market demands large gluttonous corn kernels which are achieved through late harvesting and therefore sold at higher margins (Lambert pers. comm. 1995).

Heinz-Wattie's Technical Development Manager attributes the company's success in the Japanese market to the ability of the company to adapt to the Japanese system through the use of equipment, ingredients, and packaging materials sourced from Japan (Dallimore pers. comm. 1996). Once market penetration has been achieved then cost improvement exercises are implemented -- packaging and other forms of supplies sourced from local suppliers. The creation of a new product and subsequent testing, verification and customer acceptance can

6 A joint venture arrangement has been established between Heinz Japan and Heinz-Wattie in order to facilitate firstly, the transfer of personnel; and secondly, taxation laws (Norton pers. comm. 1998).
take up to two years and hence evolves into an expensive venture. Consequently, Heinz-Wattie seeks to develop products which meet market demand. Exchange of technical staff occurs with Japanese staff spending time at the Hawkes Bay complex and New Zealand staff being trained in Japan (White pers. comm. 1995). The production range is broadened through the sourcing of vegetable preferences (dried mushrooms) and added value products (spices) from Asia for inclusion in the production process. Chilled and frozen meal products, sauces and jams are processed in Hawkes Bay for export to Japan. Additionally, soups, meat-based sauces and products, and sealed plastic pouch products are being developed for the Japanese market. Product development work for Korea and Taiwan draws upon work done for Japan. Furthermore, Heinz-Wattie is involved in contract manufacturing and product development for items which do not feature the Heinz-Wattie's brand name.

Frozen food imports increased during the 1990s in response to an increased presence of western fast food operators and the increasing availability of refrigeration within average households. The most profound change in the consumption of frozen products occurred in the mid-1990s as a result of the burgeoning of international travel by Koreans. As a result, Heinz-Wattie's frozen food division engaged in negotiations with, and subsequent sale to, companies at the cutting edge of change within the food sector in Korea. Frozen vegetables are supplied to catering firms for use in pre-trayed precooked foods. A similar scenario emerged in Taiwan and Japan albeit during an earlier period. YKH, a manufacturing and retailing company with which the Dairy Board is closely connected (refer Chapter Five) facilitated Wattie's presence in the Taiwanese market (Lambert pers. comm. 1995). Frozen food exports to Taiwan comprise mainly peas, as corn and carrots are grown domestically (Lambert pers. comm. 1995). Wattie's long trading history in Japan has evolved around the frozen vegetable sector. Thus established networks were in place for the export of canned foods. Additionally, Heinz-Japan's market knowledge enables the New Zealand operation to manufacture to consumer preferences (White pers. comm. 1995).

Approximately 3500 tonnes of recipe based products, comprising meat sauces, corn soups and purees, are exported yearly from the Hawkes Bay complex to Japan. While these

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7 YKH has entered into joint venture arrangements with a number of overseas companies and in doing so have diversified into six or seven different food areas (Lambert pers. comm. 1995).

8 Wattie (Japan) Limited, a joint marketing and importing company, was established in 1975 between Wattie Industries Limited (50 per cent) and Maruichi Shoji Co. Limited (20 per cent), Hiroyasu Tani (10 per cent) and Mitsubishi Corporation (20 per cent). Maruichi Shoji and Mitsubishi Corporation were former trading associates in the frozen food market. Wattie (Japan) was established in order to further develop the export base (Wattie Industries Limited 1975).
products are principally for the restaurant trade Heinz-Wattie do export some retail products in the meat sauce and corn soup range. Frozen vegetables exports are in the vicinity of 7000 tonnes per year principally in the food service trade with daily portion sizes (150 grams, branded and high resolution graphics packets) destined for the supermarket shelves. The frozen products are branded for either the retail or food service chain. Additionally, Heinz-Wattie exports 2000 tonnes of packed fuji apple pulp to customers in the apple juice market. In contrast little volume is exported to Taiwan and Korea (Norton pers. comm. 1998).

Responding to the internationalisation of organic agriculture Heinz-Wattie has been instrumental in the implementation of an organic commodity system. The conversion of land from conventional growing methods to certified organic production is a minimum three year process. In 1994, Heinz-Wattie implemented its organic programme in Hawkes Bay entering into contractual arrangements with organic farmers. Approximately 648.9 hectares of land under contract to Heinz-Wattie nationally is certified for organic production. Within Hawkes Bay there are 3 to 4 organic farmers growing approximately 750 tonnes of sweetcorn for the Hastings' plant. Additionally, there is a similar number in Hawkes Bay growing potatoes and peas for the Feilding plant (McDougall pers. comm. 1998). Some of the sweetcorn is processed at the Hastings' site into canned products. Alternatively, the raw crop is transported to Feilding, processed into bulk form and transported back to Hastings for packaging. Bulk products are also transported to Hastings from Gisborne and Canterbury for packaging (Snowdon pers. comm. 1998).

The organic production of high value products within a low cost input-cost system (Campbell 1996b) principally targets the Japanese market. The Heinz-Wattie complex in Hawkes Bay exports in the vicinity of 2000 tonnes of frozen and canned organic products per year to Japan (Snowdon pers. comm. 1998). Exports are increasing rapidly although demand outstrips supply. Preliminary research has been conducted for the Korean market but due to a lack of supply Heinz-Wattie has not sought to export organic products to Korea (Snowdon pers. comm. 1998). However, Coombes et al. (1998, 8) note that "organic products could act as a 'keyhole product' improving the market standing of mainstream products, and gaining access to new, previously disinterested buyers".

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9 Permanent pasture 364 hectares, mixed cropping 276 hectares, orchards 8 hectares, market gardening 0.6 hectares and other 0.3 hectares. There is approximately 7,400 hectares of land certified for New Zealand as a whole (Snowdon pers. comm. 1998).

10 Due to commercial sensitivity Heinz-Wattie would not confirm the amount of land under contract in Hawkes Bay. One company representative said there were 42 hectares of land under contract in the Hawkes Bay region while a second suggested that Heinz-Wattie control a significant percent of the 276 hectares of mixed cropping (Unnamed Respondents pers. comm. 1998).
McCain Foods, a major competitor of Heinz-Wattie, is also present in Hawkes Bay. Frozen vegetables exports to Japan and Taiwan are in the vicinity of 5000 and 300 tonnes respectively. For the Hawkes Bay operation of McCain Foods, Japan is the second highest export market (25 per cent) following Australia, with exports to Taiwan comprising only 1.5 per cent (Ledbetter pers. comm. 1998). McCain Foods also has contract organic growers in the region and organic produce is an important component of exports to the Japanese market.

New Zealand’s "relative isolation from the environment problems of the northern hemisphere presented New Zealand with the ability to market itself as a 'green' country producing healthy food" (Coombes et al. 1998, 4). Recognising New Zealand’s natural comparative advantage, Heinz-Wattie seeks to utilise the ‘clean green’ image within a global market environment. Building upon the longevity of this positioning Heinz-Wattie is implementing the ‘clean green’ image within a wider perimeter: factory sites, packaging and sustainable agricultural production (White pers. comm. 1995).

The Hawkes Bay Heinz-Wattie complex is increasingly integrated into the Northeast Asian region, an expansion facilitated by Heinz global networks (McKenna et al. 1998). Between $30-40 million per annum is invested into Heinz-Wattie by the parent company allowing for further expansion (Norton pers. comm. 1997). By the year 2000, products which can be more efficiently and competitively manufactured in New Zealand will be transferred from Heinz Japan to Hawkes Bay with the strategic intent of manufacturing within the site that is most effective in meeting consumer needs. Currently, the transfer of manufacturing products from Japan to New Zealand is slowly occurring as the Hawkes Bay complex successfully duplicates existing products using New Zealand ingredients. These products are recipe based using non-seasonal ingredients (Norton pers. comm. 1998). Additionally, the Hawkes Bay complex has linkages with Heinz affiliates in Korea and Singapore, in addition to joint ventures in China in the snack food and potato base lines (McDougall pers. comm. 1998). Heinz staff in the office in Korea act as commodity buyers for Heinz-Wattie in the development of new products and customers.

11 Other sectors which build upon and market emphasis New Zealand’s ‘clean green’ image include the dairy industry, cosmetic and water bottling companies.
7.2.2 FRESH FRUIT AND VEGETABLES

The Hawkes Bay horticultural sector is centred on the Heretaunga Plain (refer Figure 7-1), a principal growing area for apples, grapes, squash, asparagus and tomatoes (Cooper et al. 1995). Apples, asparagus and squash are the principal products exported from the region to Northeast Asia.

Squash

The fresh fruit and vegetable commodity chain is tightly controlled by the importing country in terms of colour, shape and size (refer Chapter Five). In response to consumer demand within Japan and Taiwan, produce is being grown under corporate contract in New Zealand in accordance with consumer preferences. Hayward et al. (1998, in press) describes consumer demands as being a new form of governance within the commodity chain. Seeds are imported from Japan in order to grow a product suitable for the Japanese market. For example, the buttercup squash industry is a developed export market growing Japanese squash seeds for export during the Japanese off-season with the commodity chain controlled by Japanese importing agents. Traditionally, the ebisu variety of squash has been grown for the Japanese market, however other varieties with a drier texture and higher brix\(^\text{12}\) level are becoming more favourable leading to a shift from ebisu to new varieties. Only squash grown from Japanese-imported seeds and meeting phytosanitary requirements meet the strict import requirements.

In 1996, 99 per cent of squash exports from New Zealand (75,045 tonne) were destined for the Japanese market (refer Figure 7-2), "Japan is vitally important, without Japan there would not be an industry" (Brownrigg pers. comm. 1998). Squash grown in New Zealand comprised 52 per cent of the Japanese squash import market.

\(^{12}\) Sugar level refer Chapter 5.5.2.
In 1998, twenty-four per cent of planted squash in land area is located in the Hawkes Bay region (refer Table 7-1). Currently all of Hawkes Bay production, with the exception of that which does not meet market standards, is destined for the Japanese market. While no export data is collected for Hawkes Bay, in 1997 and 1998, an estimated 15,000 to 20,000 tonnes (19 to 25 per cent) were exported to Japan from the Hawkes Bay region (Brownrigg pers. comm. 1998).

Table 7-1: Buttercup Squash: Land Area and Grower Data 1990-1998

<table>
<thead>
<tr>
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<td>Hawkes Bay</td>
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</tr>
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<td>279</td>
<td>219</td>
<td>286</td>
<td>212</td>
<td>225</td>
<td>203</td>
<td>151</td>
</tr>
</tbody>
</table>

Note: The table summarises Buttercup Squash growers planting intentions as provided to the Council; growers do not always plant the area they intended to plant.


Asparagus

For asparagus to be exported to Japan it must also meet strict criteria in terms of spear size and colour are exported to Japan. The success of the export market depends on the speediness of the intermediary operators. Freshness is an important requirement, the
asparagus which is immediately sorted, packed and cooled after picking is airfreighted to
Japan. Research and development is occurring to develop varieties of asparagus suitable for
the Japanese market that grow well in Hawkes Bay. Approximately, 25 per cent of fresh
asparagus grown in Hawkes Bay is destined for the Japanese market and while national
asparagus exports to Taiwan are increasing (from 2,125 kg in 1992 to 20,218 kg in 1996) a
minimal amount is from Hawkes Bay (Peterson pers. comm. 1998).

Figure 7-3: New Zealand Asparagus Exports to Japan

![Graph showing asparagus exports to Japan from 1990 to 1997]

Source: Statistics New Zealand 1998

Apples

The Hawkes Bay is an important apple growing region. In 1998, 48.5 per cent of paid apple
crop was from Hawkes Bay (refer Figure 7-5). The principal varieties grown in Hawkes
Bay are Braeburn (40 per cent), Red Gala (29 per cent) and Fuji (11 per cent). Fuji is a
Japanese developed variety with production concentrated in the Hawkes Bay region (53.6
per cent).
Access to the Japanese market remains difficult due to strict phytosanitary requirements. Apple exports to Korea are banned due to the Korean Plant Protection Law (refer Chapter Five). In contrast, apple exports to Taiwan operate under a quota system. Exports to Taiwan peaked in 1995 but fell in the subsequent two seasons due to quarantine issues (refer Figure 7-4). In 1998, the quota was increased to 8000 tonnes. Varieties exported to Taiwan principally comprise Fuji (45.7 per cent) and Royal Gala (44.5 per cent).

Figure 7-5: New Zealand Apple Exports to Japan and Taiwan

Source: Statistics New Zealand 1998
While fuji is a sweet tasting apple, able to be stored for long periods of time and withstand the heat of the wet markets in Asia, when grown under conventional methods the apples is a very unattractive muddy brown colour. In order to produce a reddish-pink and hence a aesthetically pleasing fruit, individual growers in the Hawkes Bay have implemented a bagging technique. The Japanese have grown bagged fuji apples for a number of years. During the growing process bags are placed over the apples to exclude light and stop chlorophyll production. Within two to three weeks of harvesting the bags are removed from the fruit and the subsequent exposure to light produces a reddish-pink fruit. Although the bagged fruit is aesthetically pleasing to the Asian consumers and can command higher prices, exports to date have been constrained by the Apple and Pear Marketing Board's consent process. A second niche market opportunity, that of growing 70 count (80 to 85 mm in diameter) or larger apples is also being constrained due to the Marketing Board regulations. This is because the Board has established that apple exports be restricted to 60 count. These attempts by growers in the Hawkes Bay to grow fruit that is aesthetically pleasing is an indication of their desire to move into production associated with the third food regime.

7.2.3 BEEF INDUSTRY

The meat industry in Hawkes Bay for many years was dominated by the presence of three major companies: Richmonds Limited, Vestey, and Wattie Industries Limited. At the centre of the Hawkes Bay industry were two major meat works: Tomoana and Whakatu established in 1880 and 1912 respectively.

In 1911, Vestey set up a subsidiary company, W. Weddel and Co in New Zealand to process beef and sheep meat for the British market. Part of the company's holdings was the Tomoana plant. In 1986, Weddel merged with the Crown Corporation to become Weddel Crown. Richmond Limited was established in 1930 as a public (unlisted) company in Hawkes Bay and has since expanded to own and operate plants throughout the North Island. Wattie's involvement in the meat industry began in 1977 with the purchase of 50 per cent of Advanced Meats in Gisborne, further extended in 1982 through the acquisition of shares (initially 24.9 per cent) in Waitaki NZ Refrigerating Limited and in 1984 with the purchase of 33 per cent shares in Hawkes Bay Farmers Meat Company (HBFMC). By 1986, Wattie's had increased its shareholding in Waitaki to 51 per cent, and began the consolidation of its meat activities under Waitaki through the transfer of HBFMC shares to Waitaki. In addition, Waitaki acquired the remaining 50 per cent of Advanced Meats (refer Figure 7-6).
Prior to the 1980s the meat industry was heavily protected through licensing and government subsidies. The de-licensing which occurred in 1980 allowed competition between plants in order to procure stock for slaughter and in addition saw new entrants emerge within the industry. Furthermore, the meat industry was at the vanguard of the comprehensive macro- and micro-economic reforms introduced in 1984 by the incoming Labour government. Subsidies were withdrawn, regulatory barriers removed and internal measures introduced to increase efficiency and reduce the pressure of over capacity.
Figure 7-6: Changes Occurring within the Hawkes Bay Meat Industry: An Overview

Note: HBFM = Hawkes Bay Farmers Meat Co.
Source: Le Heron 1991; additional data obtained from Company Reports, various years; and interview data.
The meat industry was being forced to adapt to shifting market demand from traditional bulk meat to processed added value products. Subsequently, the older plants were ill suited to change and some were closed. The age of the plant, the necessary capital expenditure needed to upgrade the plant and productivity levels were some of the factors taken into consideration\(^\text{13}\) when closing plants (Waitaki International Ltd 1986). In 1986, the Whakatu plant was closed as a result of a series of rationalisation and retrenchment measures implemented by the corporate meat companies. Whakatu's closure involved an intricate series of manoeuvres in which the companies (refer Figure 7-6) involved agreed not to reopen the plant. HBFMC shares were sold to Richmond and the physical assets of Whakatu sold to Weddel Crown. The costs associated with the closure of Whakatu were shared between Waitaki International, Weddel Crown and Richmond Limited in accordance with the market share each company held in the southern half of the North Island.

The restructuring of the meat industry became synonymous with the closure of Whakatu (Le Heron 1991). The traditional large scale, unionised meatworks which previously had dominated the industry were replaced by firms with more flexible labour contracts and efficient work practices in addition to the introduction of technological developments. Out of this period of rationalisation two new operators emerged in the Hawkes Bay: Lowe Walker and Hill Country Beef.

Between 1987 and 1990, Wattie's\(^\text{14}\) progressively sold shares in Waitaki International to Freesia Investment Limited and effectively withdrew from the meat industry. Freesia Investments was established as a wholly owned subsidiary of the New Zealand Meat Producers Board to assist in the rationalisation of the meat industry. In turn, Waitaki International was absorbed by the AFFCO and Alliance corporations. In 1994, Weddel Crown was placed into receivership and Tomoana closed, leaving Richmond, Lowe Walker and Hill Country Beef as the principal operators within the Hawkes Bay region. Additionally, AFFCO operates the former Waitaki plant at Wairoa.

In January 1998 the Hill Country Group\(^\text{15}\) comprising Hill Country Lamb and Hill Country Beef was dissolved. Hill Country Lamb was taken over by Lowe Walker and the Hill

\(^{13}\) Advanced Meats was also closed at this time for similar reasons to Whakatu.

\(^{14}\) Now Goodman Fielder Wattie Limited of which Wattie Industries Limited was a wholly owned subsidiary

\(^{15}\) In 1993 Hill Country Beef was established by Andrew Lowe, son of Graham Lowe, Managing Director of Lowe Walker Limited. Hill Country Beef was responsible for attracting SH Hide and Skins, a Korean company (Lowe pers. comm., 1996). Initially established in Taupo in 1992 SH Hide and Skins relocated one year later to Hawkes Bay. Relocation to Hawkes Bay meant the company was
Country Beef operation closed. In March 1998, Lowe Walker NZ Limited, formerly ranked as the second largest beef meat producer and exporter in New Zealand, announced the sale of the company's beef and sheep procurement and slaughtering assets to Richmond Limited. The sale of assets included a beef processing plant in Hawkes Bay, the two processing plants formerly owned by the Hill Country Group, Lowe Walker's brand names and export quotas. The sale saw Richmond move to become the country's largest beef processor and marketeer, giving Richmond "the size and product mix needed for greater market penetration" (Dominion 5 February 1998). Prior to the acquisition of Lowe Walker's Richmond's Hawkes Bay assets included a beef processing plant, food processing operation and tannery.

Due to the nature of the Northeast Asian beef import market there are limited opportunities for immediate developments. While Lowe Walker and Hill Country Beef were prominent in seeking further expansion into the Northeast Asian markets Richmond's exports are primarily to Europe and North America. The Northeast Asian market comprises about 10 per cent of Richmond's exports (Little pers. comm. 1998). The exports, principally the lower to middle end of the quality scale, highlight the company's, and hence the industry's, position within the second food regime. Although registering an interest within the Korean tender system, Richmond is not currently undertaking any major initiatives to develop the Northeast Asian markets. This is partly a response to a decrease in industry-wide exports to Asia and also reflective of a transitional period within the company following the recent takeover of Lowe Walker. However, Richmond is a major supplier to Heinz-Wattie, supplying in the vicinity of 1500 tonnes of meat products annually for incorporation into the edible meat business destined for the Asian markets (Norton pers. comm. 1998). In conclusion, the beef sector in Hawkes Bay can not be said to have integrated within a Northeast Asian production complex through direct exports and is partially incorporated as a supplier to Heinz-Wattie.

closer to ports and suppliers (Hill Country Beef, Richmond, and Lowe Walker) in addition to having access to a more skilled labour base. SH Hide and Skins processed bull hides for export to Shin Hwa, the parent company in Korea, where finished leather is produced. In 1995, 100,000 bull hides were exported to Korea (Moradi pers. comm., 1996). In late 1997 as an outcome of the Korean financial crisis and the demise of Hill Country Beef, SH Hide and Skin ceased operation.
7.3 FORESTRY LINKAGES

As discussed in Chapter Six, New Zealand is becoming increasingly integrated into a production complex centred upon Japan, firstly through low value exports and more recently through substantial investment by Japanese corporations in forestry ownership and processing facilities. This section examines the second main dimension of global commodity chains: that of territoriality as a reformulation of links and interactions is occurring in the Hawkes Bay region. Hawkes Bay contains nearly seven per cent of New Zealand's planted production forests (103,101 hectares). Japanese corporations are prominent investors within the region both as owners and processors (refer Figure 7-7).

**Figure 7-7: Planted Forest Owners and Managers in Hawkes Bay**

![Pie chart showing forest owners and managers in Hawkes Bay]

Note: Japanese owned companies in bold
Source: Ministry of Forestry, 1997

New Oji Paper (refer Chapter Six), a Japanese company, ranked amongst the top ten paper manufacturing companies in the world, has substantial investments in New Zealand. The company's principal interest, in conjunction with Nippon Paper Industries, is in Pan Pacific Forest Industries (NZ) Limited and sister company Hawkes Bay Forest Limited (refer Figure 6-4). Pan Pac is located at Whirinaki, twelve miles from Napier.

In 1969, a surplus of wood was identified in the Kaingaroa Forest. The New Zealand government, seeking to establish a new player in the pulp and paper industry, offered the wood for sale with stipulations: (1) the timber was not permitted to be sold in log form; (2) the timber was to be processed onshore and; (3) the final product was to be exported. Carter Consolidated in association with Oji Sankoku was successful in obtaining 2.2 million cubic
feet from the forest sale. While Carter Consolidated had the necessary expertise to establish the timber processing plant, Oji Sankoku provided technical expertise and guaranteed markets in Japan (Pritchard pers. comm. 1997). An integrated operation was formed with the by-products from the sawmill being used in the mechanical pulp process. The sawmill mainly produced wood in flitch form for the Japanese packing industry. In response to changes in the Japanese paper market the pulp mill was converted from a refined ground wood process to a thermo-mechanical pulping process, a conversion dependent on Japanese technology. Semi-processed pulp is exported to Japan where it is repulped, further refined, and blended with other mechanical pulp to produce a paper suitable for the Japanese newspaper industry.

The acquisition of assets and cutting rights to the former state forests (approximately 30,000 hectares) and the subsequent formation of Hawkes Bay Forest Limited removed concerns about a wood supply shortage and the company entered a new expansionary phase. Upgrading and expansion has occurred allowing the pulp mill to move further along the value-added chain and examine other markets opportunities; currently there is a limited amount of product sold to Australia, USA and Asia. Since 1993, the Overseas Investment Commission has approved $NZ74.1 million for the upgrading, expansion and equipment of the operation (refer Table 7-2). Pan Pac currently owns 3200 hectares of forest at Whirinaki with the sawmill processing approximately 550,000 tonnes of logs annually with an additional 100,000 tonnes of wood chips being sourced outside the region (Ministry of Forestry 1997).

Table 7-2: Pan Pacific's Publicly Announced Investment Intentions

<table>
<thead>
<tr>
<th>Amount</th>
<th>Year of Completion</th>
<th>Investment Details</th>
</tr>
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<tbody>
<tr>
<td>$1.9</td>
<td>1993</td>
<td>Installation of kilns at Whirinaki sawmill</td>
</tr>
<tr>
<td>$4.2</td>
<td>1993</td>
<td>Sawmill modernisation alongside Whirinaki pulpmill</td>
</tr>
<tr>
<td>$8.0</td>
<td>1996</td>
<td>Upgrade of Whirinaki pulpmill</td>
</tr>
<tr>
<td>$50.0</td>
<td>1998</td>
<td>Doubling capacity of Whirinaki sawmill</td>
</tr>
<tr>
<td>$10.0</td>
<td>1998</td>
<td>Seven drying kilns for Whirinaki mill</td>
</tr>
</tbody>
</table>

Source: Ministry of Forestry, compiled 1998

Pan Pac continues to be an integrated operation within an industry where the general tendency is to separate the solid-wood processing from the fibre/residual processing operations -- "The nature of the forest has meant we have had to develop our solid wood side to remain profitable" (Pritchard pers. comm. 1997). The $50 million upgrade announced at the beginning of 1996 involved the remodelling of the former sawmill and the
introduction of new state-of-the-art technology in order to remain internationally competitive. Following the completion of the upgrade in 1998 production is estimated to be 200,000 cubic metres annually (Ministry of Forestry 1997a).

Hawkes Bay Forest's output is in the vicinity of 490,000 tonnes of logs a year; approximately 80 percent of which goes to Pan Pac where poorer quality logs are transformed into pulp and exported to Nippon Industries and New Oji Paper in Japan. Pan Pac supplies around 20 per cent of New Oji's fibre requirements (Keating pers. comm. 1997) and the relationship between New Oji's mill and the "Whirinaki Mill is very close and inseparable, as if they were the same mill but connected by a 10,000 kilometre pipeline" (Pan Pac 1993, 14). Medium quality logs, used for building and packaging crates, are semi-processed at Pan Pac with final processing occurring in Japan; high grade logs are sold to domestic sawmills. Pan Pac is New Zealand's largest exporter of sawn timber -- in 1997, the company exported $30 million to Japan out of total industry wide exports of $90 million (Dominion 8 May 1998). Nippon Paper Industries distributes approximately 50 per cent of Pan Pac's export lumber (Pan Pac 1993, 15).

While Juken Nissho (refer Chapter 6) owns cutting rights to the Patunamu forest and a small part of the Wharerata forest in northern Hawkes Bay, processing occurs in the Bay of Plenty. Thus Juken Nissho is not a significant player in the integration of forestry in Hawkes Bay with Japan.

7.4 CONCLUSION

Hawkes Bay's integration into the Northeast Asian food import complex is dominated by the processed food sector which draws upon the regional availability of fruit and vegetables. The level of integration is further sustained by Heinz-Wattie's integration through H.J. Heinz's global networks. Production is becoming increasingly adapted to demands from within the site of consumption -- an economic process of globalisation. The full transfer of manufacturing from Heinz Japan to Heinz-Wattie will further cement the importance of New Zealand as a production base servicing the Asian markets. Corporate entities dictate the specifications for produce grown thus highlighting the importance of Northeast Asia, and principally Japan as a site of consumption. Outside of the Heinz-Wattie's production process squash and asparagus are the main products destined for the Japanese market. Conversely, there are few developments within the beef sector. While there is limited Northeast Asian capital within the Hawkes Bay agro-food sector, investment capital from
other countries is present in developing the region as a export-platform in order to increase access to the Northeast Asian markets.

Pan Pac's control of the primary and secondary production stages has ensured the integration of forestry in the Hawkes Bay into commodity chain linkages centred on Japan. The company's core business is centred on the production of wood pulp for the owners' paper making plants in Japan and the manufacture of lumber mostly for the Japanese market. Originally established to produce wood pulp, the pulp mill has been expanded and upgraded to become a thermo-mechanical operation, an extension of New Oji's Japanese-based operation. Similarly, developments have occurred in the sawmill operation as the company has sought to move further down the value-added chain away from the constraints associated with production purely for packaging. Greater integration was aided by the state's withdrawal from forestry ownership. In essence, investment by Japanese companies in forestry and processing have opened the Japanese market to the New Zealand industry thus strengthening the industry's, and Hawkes Bay's, integration into the Asian markets.

Le Heron (1997, 67) states "commodity production or consumption in a territory automatically implies connections and interactions with other territories". A relaxation of regulatory regimes at the national and global levels has been instrumental in encouraging economic agents to reorganise trade and production linkages between New Zealand and Japan. Production within the agro-food and forestry sectors in Hawkes Bay is increasingly geared towards the primary site of consumption -- Japan. Hence, Hawkes Bay is becoming integrated, albeit at varying levels within selected sectors, into the Northeast Asian realm. The empirical evidence provided within this chapter outlines broad trends of investigation which provides useful evidence in which to examine New Zealand's embeddedness within the Northeast Asia region. Economic globalisation, discussed in Chapter One as the integration, deepening and differentiation of economic activities is evidenced by export orientated production occurring within Hawkes Bay in order to service Northeast Asian import complexes.
CHAPTER EIGHT

CONCLUSION: THE CORE-PERIPHERY HIERARCHY REVISITED

8.1 CHANGING LINKS AND INTERACTIONS

In this thesis I have examined the nature of New Zealand's economic integration with the Northeast Asian region within two key economic sectors: agro-food and forestry. Market liberalisation in the Asia-Pacific region, coupled with increased and diversified transnational capital sourcing patterns, has created new structural conditions. A geographic re-scaling of enterprises, industries and local regions in New Zealand is underway as agents seek to remain or become active participants in the global economy, especially the Asian-Pacific component.

In the mid-1980s, the New Zealand government implemented a liberal reform programme which transformed the economy, from one of strong state intervention, into a model of market liberalism. In doing so the government encouraged policies associated with globalisation, creating a regulatory environment that would facilitate New Zealand's further integration within the global economic system. Allen (1995, 60-61) proposes that globalisation involves "an interpenetration of economic activities: that is, an ever-tightening mesh of networks which strengthens the interdependencies between different parts of the globe". New Zealand's relations with Northeast Asia have evolved rapidly within the past decade, facilitated by the relaxation of regulatory regimes as New Zealand companies and enterprises make efforts to share in the growth of the Northeast Asian region through an expansion of production, trade and finance linkages. A reformulation of linkages between New Zealand and Northeast Asia is resulting in a re-working of New Zealand's economic
dependency and the emergence of a historically new context to the core-periphery hierarchy in which New Zealand is set.

In order to examine the changing and diverse nature of New Zealand's economic relations with Northeast Asia a combination of the world-systems perspective and political economy literatures was used. The world systems literature introduces the notion of a three layer examination of the world economy based on a core/semi-periphery/periphery framework. Two principal subthemes that have emerged out of the world systems school are those of the global commodity chain (Gereffi 1994; 1995) and food regime perspectives (McMichael 1994; 1995). Gereffi et al. (1994, 9) describe global commodity chains as providing a bridge between the historical nature of the "world-systems literature, and the micro-organizational and state-centred issues that have stimulated recent studies in international political economy." Similarly the food regime literature provides a lens of investigation which transcends national boundaries but which focuses on relationships in the economic and political spheres centred on food production and consumption.

Global commodity chains comprise a series of production nodes linked together in networks. An analysis of the nodes enables any core-periphery relationship to be discerned with core-like nodes commanding a greater share of wealth creation and wealth retention than peripheral nodes. Use of the global commodity chain framework permits an examination of the inter-locational dimensions of core/semi-periphery/periphery activities. Similarly, the food regime concept proposes a hierarchy of food production-consumption arrangements that has emerged from the geographical trajectory of capitalism. In this thesis, New Zealand-Northeast Asia relationships have been examined through two sector studies. While the primary intention has been to establish the implications for New Zealand of developments in the New Zealand-Northeast Asia relationship, every effort has been made to unpack the core-periphery hierarchy by examining evidence through the theoretical lenses of global commodity chains and food regime literature. Within this thesis I have not sought to extend the theoretical base in a major way. Instead, I have sought to examine the usefulness of the frameworks as lenses to examine the degree of re-scaling occurring within New Zealand industries, enterprises and regions. Thus, the global commodity chain and food regime frameworks have proved to be useful tools for interpreting empirical data in order to determine the degree of integration.

In Chapter Three, I explored regulatory forces as a key mechanism in the re-regulation of the nation-state economy and the re-working of a suitable environment for the capital
accumulation process. The re-formulation of the regulatory environment, part of the globalisation process, provides an environment for the deepening of economic linkages between New Zealand and Northeast Asia. Liberalisation of trade and finance regimes has permitted the offshore expansion of capital with production, trade and finance networks increasingly integrated across nation-state borders.

The financial crisis reverberating around Asia emphasised New Zealand's increasing dependency upon this region. In the March 1998 quarter, the New Zealand economy contracted by 0.9 per cent and this was followed by volatility on the financial markets. The New Zealand dollar fell against major currencies, reaching a twelve year low against the United States dollar. The Governor of the Reserve Bank expressed concern that New Zealand may be on the verge of its most serious economic crisis since the oil crisis of the 1970s (Dominion 27 June 1998). New Zealand was not alone. Across the Tasman, Australia also very dependent on Asian trade and investment linkages, experienced an economic downturn. In June 1998, the Reserve Bank of Australia intervened, spending up to an estimated $A3 billion to prop up the Australian dollar which had also fallen to a twelve year low against the United States dollar (Beams 1998).

For New Zealand, the contractionary impact of the Asian crisis has been felt within numerous export sectors. Due to the implementation of domestic austerity programmes to reduce conspicuous consumption, imports to the region have decreased. Analysts predict that overall exports to Korea will decline by 50 per cent (in value terms) for 1998 (Tradenz 1998f). Similarly, overall exports to Japan have steadily declined, although in some sectors New Zealand exporters increased market share vis-a-vis other countries (Tradenz 1998d). While Taiwan has not experienced a similar financial downturn trade, linkages have been affected, particularly in the forestry sector, reflecting the availability of Southeast Asian logs and wood products at prices roughly 50 per cent lower than pre-crisis prices (Tradenz 1998e; 1998g).

The Asian financial crisis is part of an ongoing and wider crisis within the capitalist system (Arrighi 1994). Debates over the cause of the crisis abound with some critics of the IMF viewing the crisis as one of illiquidity due, in part, to the rapid liberalisation of financial regimes. In contrast, those of the opposing view propose that the implementation of further liberalisation measures is essential in order to restore economic confidence and to achieve the necessary foreign investment needed to finance current account deficits. Essentially, the IMF's directed economic reforms advocating financial liberalisation re-emphasises the
importance placed on liberalisation within the WTO agreement. Relaxation of foreign exchange controls permitted the expansion of production and investment linkages and through adherence to the WTO and APEC agreements tariff barriers are being dismantled, influencing exports from New Zealand to Northeast Asia. Additionally, APEC's advancement of open regionalism is accelerating trade liberalisation procedures through a continual commitment to achieve free trade within the next two decades. Such procedures are seen by many to provide increased opportunities for the agro-food and forestry sectors.

The food regime concept links the production and consumption of particular foods to periods of capitalist accumulation. Two food regimes have been identified, the first based upon colonial trade, the second on durable foods and the restructuring of the agro-food industry by transnational capital. Consensus has not been reached amongst the proponents of the food regime thesis on the presence of a third food regime. While Friedmann (1993b, 221) claims the "contending rules for a third regime is still open" and McMichael (forthcoming) holds that the third regime based on a Northeast Asian import complex is beginning to cohere, others (Friedland 1994; Le Heron and Roche 1995) are more emphatic that a third regime is already in place centred upon premium value associated with the globalising fresh fruit and vegetable complex geared towards differentiated consumer markets. While I identified some evidence of a third food regime my research, due in part to the methodology used, did not explore patterns of consumption. An examination of patterns of consumption is an important additional aspect to resolving the debate on the emergence of a third food regime.

Japan, Taiwan, and Korea's dependency on imported foods, a factor of the second food regime, arose through the export of surplus, and hence subsidized, agricultural products from the United States (Friedmann 1993b). Reregulation of national agriculture within Northeast Asia has allowed actors to explore global sourcing possibilities and create new conditions for agro-food capital with elements of production allocated across core, semi-periphery and periphery localities. Agro-food transnationals are the primary unifying agents in control of the global commodity chains. In order to facilitate trade links, through the establishment of subsidiaries and joint venture operations in Northeast Asia the New Zealand Dairy Board (a producer board TNC) controls the commodity chain from research and development through marketing and distribution.

Agro-food trade from New Zealand to Korea is presently an extension of New Zealand's traditional colonial-derived export base of meat and dairy products resulting, in part, from
mechanisms within the Korean market, which shaped the terms of entry. In contrast, agro-food trade to Taiwan and Japan comprise a combination of New Zealand's colonial-derived exports and 'luxury food' items which have developed in response to increased market opportunities and dietary affluence.

Under the first food regime the economic landscape of New Zealand was developed to suit market opportunities in Great Britain. Today, the advantages that moulded this landscape are being reproduced within the period of contemporary restructuring as the New Zealand agro-food sector responds to opportunities inherent within the Northeast Asian markets. Beef exports from New Zealand to Northeast Asia are restricted to low value added products due in part to the beef importing agents favouring imports from a core producer (USA). Within the beef and dairy sectors one is left wondering if New Zealand is "being assigned a Fordist role in a world moving towards post-Fordism?" (Lawrence 1996, 61), with the continued appearance of high volume, low value added production, a possible sign of peripheral status within the global beef and dairy complexes.

Changes occurring within the agro-commodity chains of the fresh fruit and vegetable sector are leading to a re-articulation of relationships between the local agro-food and global sectors. Growers have shifted from production for local markets to production for an emerging food import complex centred upon the lucrative Northeast Asian markets (Chapters Five and Seven). Technological development, capital intensive cool chains, and increasing health concerns are factors behind an increased consumption of fresh fruits and vegetables. In some sectors (e.g. organic produce), New Zealand exporters are achieving a competitive advantage based on the country's 'clean green image' and "catering especially for differentiated high income and ethnic consumers" (Le Heron 1993, 38).

The state-led commodification of the forestry sector led to New Zealand's increased integration into a national complex centred upon Japan. The sale of state-owned forests introduced a number of foreign investors and subsequently led to the reorganisation of trade and production networks. Prior to the dismantling of the national regulatory regime, forestry exports to Northeast Asia were periodic and comprised mostly logs and low value products with processing occurring in the core market of Japan.

Japanese enterprises have invested in both resource ownership and initial processing stages within the forestry sector. The producer-driven timber chain is controlled principally by the sogo shosha and highlighted by a network of inter-firm ownership patterns. Vertical
integration has occurred with Japanese agents controlling the nodes along the commodity chain, pivotal within the production process: raw material supply, production, exporting and marketing networks (Gereffi and Korzeniewicz 1990). Access to raw materials associated with manufacturing has led to a zonal shift in the location of production facilities from core to semi-periphery. Through investment in ownership and processing, Japanese entities have been influential in introducing new technology and market opportunities to the New Zealand forestry regime. Development of higher-value products for the Northeast Asian market, and in particular the Japanese market, has occurred and is further exemplified by Fletcher Challenge Forests' movement into the higher value commodity chain nodes.

The commodity chain framework was considered especially useful to investigate the forestry sector. This framework enabled the study of "the relationships that sustain and reproduce core-peripheral relations over time and space" (Korzeniewicz and Martin 1994, 68), especially New Zealand's role as a semi-peripheral node within the chain. The commodity chain framework highlights the flow of commodities as comprising the production of semi-peripheral commodities (e.g., raw materials and semi-processed goods) for a core market. Through a trans-zonal production network the forestry regime in New Zealand has become increasingly integrated with the Japanese national forestry complex. Additionally, a further re-scaling of existing relationships of forestry enterprises operating in New Zealand has followed the dismantling of regulatory barriers.

An examination of developments occurring within local regions provides an analytical lens on the degree of New Zealand's economic embeddedness within the Northeast Asia region. According to Le Heron and Pawson (1996), the local is always the first site of action and thus provides a window on what is happening at a wider spatial scale. Re-regulation by the state has permitted local regions to seek advantage in new and expanding market opportunities in order to remain competitive within a changing global environment. Chapter Seven illustrates how local agents have fared as they strive to increase their level of involvement in global networks. Production of squash and asparagus within the Hawkes Bay region, for instance, is being reorientated towards the Asian consumer in order to meet 'site of consumption' demands, though the long-term stability of these new relationships is unclear.

New Zealand's semi-peripheral state is reinforced through the presence of multinational capital using New Zealand as a production base in order to gain access to Northeast Asian markets. Chapter Seven examines how developments occurring in one territory are
connected to wider processes. The presence of two multinational food processing firms (Heinz-Wattie and McCain Foods) is re-organising commodity chain linkages in a manner which suggests New Zealand is seen as a strategic production site for Northeast Asia. Chapter Seven details the Heinz-Wattie operation where more of the production in Hawkes Bay is geared towards the Asian markets. The Hawkes Bay complex is being developed as a production complex servicing the expanding and often lucrative Japanese market for commodified foods allied with the second and third food regimes. This has involved establishing new links, including the transfer of manufacturing from Heinz-Japan to Hawkes Bay. New Zealand's strategic comparative and competitive advantage within the Pacific Rim as a 'clean green' nation is evidenced through the increasing demand for environmentally sustainable products. Under Heinz-Wattie's and McCain's encouragement a conversion of further acreages to organic production is underway. However, disintegration of vertical linkages is occurring as Heinz-Wattie moves out of the peripheral node of growing fruits and vegetables to concentrate on the semi-peripheral and core nodes within the commodity chain: activities such as processing, research and development, and exporting. Furthermore, aspects of the core nodes remain under Japanese control: marketing and consumptive activities.

8.2 A DEEPPING AND INTEGRATING OF ECONOMIC LINKAGES?

This thesis provides an overview of New Zealand-Northeast Asian relations within the agro-food and forestry sectors and highlights the multi-dimensional level of interactions found within the global capitalist system. Actors within the New Zealand agro-food and forestry sectors are seeking to overcome barriers in order to gain competitive advantage within Northeast Asian markets.

The global commodity chain and food regimes premise provide differing theoretical foundations for an analysis of the empirical data gathered for this research. While the two frameworks have been used separately they can also be used interchangeably to examine New Zealand's position within the core-periphery hierarchy.

Patterns of production and consumption have been reworked within the post-war period in a transition towards market based forms of regulation. As the state increasingly withdraws from involvement in the agro-food sector, transnational corporations are intensifying global sourcing arrangements. The agro-food industry is becoming increasingly globalized through vertically and horizontally integrated production, processing and distribution networks. The
Central foci of the commodity chain approach is the organisational feature of the chain, internal and external economic networks and the geographical scope of the chain. Thus, the commodity chain framework can be used to analyse the creation and geographical distribution of value between periphery, semi-periphery and core nodes within production and distribution networks. While the examination of agro-food trade from New Zealand to Northeast Asia was set within the food regime premise the research data can also be examined through the commodity chain lens. The use of the commodity chain framework is illustrated in the fresh fruit and vegetable discussion in Chapter 5 and further developed in Chapter 7 to analyse the integration of locally embedded nodes into regional sourcing networks centred upon Japan. A major strength of the commodity chain approach is its applicability in examining developments within regional sectors, for example, Hawkes Bay where production is structured towards the affluent Japanese market.

Similarly, the concept of regimes -- illustrative of processes of capital accumulation -- can be used to examine the articulation between the local and regional within the forestry sector. There are two distinct periods of accumulation within the New Zealand forestry industry. The first forestry regime is centred around state ownership and management of the forestry sector. Trade to Northeast Asia was intermittent and principally comprised of low value exports typical of the fordist era. During the 1980s the privatisation of the state-owned forests indicated a transition into a second regime of accumulation. The second regime formulating around an investment axes centred upon Japan has lead to a spatial reorganisation of production. Critical to this regime was the removal of constraints on foreign investment by the New Zealand and Northeast Asian governments leading to a redistribution of power to corporations. Regulatory changes leading to a repositioning of forestry (and also agro-food) have been accelerated through WTO negotiations. Vertically integrated production networks emerged as New Zealand and Japanese companies pursued new profit arenas.

Within the second forestry regime New Zealand has become increasingly integrated into an import complex centred upon Japan. Commodity flows have expanded in response to the territorial expansion of production and processing facilities by Japanese companies in New Zealand. While unprocessed logs remain a principal component of export trade there has been a sharp increase in exports of value added products. Furthermore, New Zealand companies are gaining greater control within the Japanese market as illustrated by the elimination of wholesale tiers by Fletcher Challenge. Exports to Taiwan while minimal in
value reflect the transition into the second regime, in contrast to Korea where exports remain essentially those of the first regime.

Global commodity chains and the food regime premise examine aspects of the institutional structure of the contemporary agro-food and forestry systems. Both frameworks recognise that changes in economic conditions permit and stabilise new regimes of accumulation. Commodity chains provide the tools to examine the embeddedness of production networks in core-peripheral relations. The applicability of this approach to my research is that it allows me to examine processes of production and accumulation within sectors, how production is organised and where the concentration of core-like (wealth creating) processes occur. The regime approach provides a lens on the uneven development of capital within a wide historical framework in order to examine commodity flows within periods of intensive and extensive accumulation. Use of both frameworks is applicable within the forestry and agro-food sectors.

Table 8-1 provides a synthesis of the empirical data contained within this thesis and highlights dimensions of the present hierarchy of core-periphery economic in two sector relations between New Zealand and Northeast Asia. The table emphasises the mobility of capital between production, trade and finance circuits principally within the dairy and forestry sectors.
<table>
<thead>
<tr>
<th>1. Strategic activity of government</th>
<th>Forestry</th>
<th>Beef</th>
<th>Dairy</th>
<th>Fresh Fruit and Vegetables</th>
<th>Processed Food</th>
</tr>
</thead>
<tbody>
<tr>
<td>• sale of state owned forests in NZ</td>
<td>• NZ government's encouragement to the Producer Boards to achieve greater commercial behaviour</td>
<td>• NZ government's encouragement to the Producer Boards to achieve greater commercial behaviour</td>
<td>• NZ government's encouragement to the Producer Boards to achieve greater commercial behaviour</td>
<td>• limited, historical relations with TNC presence continued</td>
<td></td>
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<tr>
<td>• APEC promotion by NZ government</td>
<td>• Northeast Asia - commitment to the GATT Uruguay Round</td>
<td>• Northeast Asia: commitment to the GATT Uruguay Round</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2. Ownership changes</td>
<td>• further Japanese movement into resource ownership and processing facilities</td>
<td>• Taiwanese purchase of processing facilities</td>
<td>• no change</td>
<td>• Heinz takeover of Wattie</td>
<td></td>
</tr>
<tr>
<td>• Korean investment in resource ownership and processing facilities</td>
<td></td>
<td>• Japanese establishment of a beef feed lot</td>
<td></td>
<td>• presence of McCain Foods</td>
<td></td>
</tr>
<tr>
<td>3. Production</td>
<td>• integrated operations occurring - from forestry to distribution (FCF), and distribution (Jaken Nissho)</td>
<td>• New Zealand based feedlot</td>
<td>• value added production occurring in joint venture operations in Northeast Asia i.e. ingredients used for recombining purposes</td>
<td>• adaptations to market requirements i.e. size and colour</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• added value production of NZ lamb is occurring in Korea for export to Japan</td>
<td></td>
<td>• adaptations to market requirements i.e. sourcing of Asian products, meeting taste requirements</td>
<td></td>
</tr>
<tr>
<td>4. Trade</td>
<td>• tiered markets with increased movement by Japan and Taiwan into value added exports</td>
<td>• Korea - quota system controlled by Supergrupos</td>
<td>• market presence prior to liberalisation</td>
<td>• source to market site relationships extended</td>
<td></td>
</tr>
<tr>
<td>• Japan-low value added exports 33%</td>
<td>• Taiwan - discriminatory tariffs</td>
<td>• trade links established through networks permitting the NZDB to gain a market stronghold</td>
<td>• Korea - low value market hindered by informal barriers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Taiwan-low value exports 44%</td>
<td>• Imports by three countries are pro-core market (USA)</td>
<td></td>
<td>• Taiwan - premium market with high tariff protection</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Korea-low value exports 80%</td>
<td>• low value added exports</td>
<td></td>
<td>• Japan - premium market opens</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Finance</td>
<td>• branch offices established to facilitate trade: NZ in Asia and Asia in NZ</td>
<td>• Itoham Foods - Japan</td>
<td>• establishment of joint venture operations by NZDB in Asia</td>
<td>• New Zealand exports to Taiwan and Japan considered core products</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Universal Beef Packers - Taiwan</td>
<td>• New Zealand companies offshore</td>
<td></td>
<td>• North American capital</td>
<td></td>
</tr>
</tbody>
</table>
Table 8-1(continued): Examination of New Zealand-Northeast Asia Core-Periphery Relations

<table>
<thead>
<tr>
<th>6. Strategic activity of economic agents</th>
<th>Forestry</th>
<th>Beef</th>
<th>Dairy</th>
<th>Fresh Fruit and Vegetables</th>
<th>Processed Food</th>
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</thead>
<tbody>
<tr>
<td>• repositioning of radiata pine</td>
<td>• Supergroups - mechanism to free trading system</td>
<td>• networking</td>
<td>• corporate restructuring of production</td>
<td>• integration into Japanese import complex through global networks</td>
<td></td>
</tr>
<tr>
<td>• circumventing of traditional commodity chain linkages</td>
<td>• Joint Action Groups promotion of NZ beef to counter core market promotions</td>
<td>• Regional Development Centers</td>
<td>• niche market positioning</td>
<td>• adaptation to market requirements through R&amp;D, product development etc</td>
<td></td>
</tr>
<tr>
<td>• inter-relationship networks established to control commodity chain</td>
<td></td>
<td>• Dairy Board's control of export, marketing and distribution</td>
<td>• contractual arrangements</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>7. Basis of comparative advantage</th>
<th>Forestry</th>
<th>Beef</th>
<th>Dairy</th>
<th>Fresh Fruit and Vegetables</th>
<th>Processed Food</th>
</tr>
</thead>
<tbody>
<tr>
<td>• growing conditions</td>
<td>• clean green environment</td>
<td>• clean green environment</td>
<td>• clean green environment</td>
<td></td>
<td></td>
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<tr>
<td>• pinus radiata</td>
<td>• physical conditions for livestock rearing</td>
<td>• physical conditions for livestock rearing</td>
<td>• physical conditions for growing plants</td>
<td>low cost raw materials</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>8. Basis of competitive advantage</th>
<th>Forestry</th>
<th>Beef</th>
<th>Dairy</th>
<th>Fresh Fruit and Vegetables</th>
<th>Processed Food</th>
</tr>
</thead>
<tbody>
<tr>
<td>• regional forestry complex</td>
<td>• limited</td>
<td>• import complex centred in Japan</td>
<td>• import complex centred in Japan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• research and development</td>
<td>• some advantage achieved through production of grain-fed beef</td>
<td>• research and development</td>
<td>• research and development</td>
<td>flexibility of production</td>
<td></td>
</tr>
</tbody>
</table>

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<thead>
<tr>
<th>9. Global commodity chains dimensions</th>
<th>Forestry</th>
<th>Beef</th>
<th>Dairy</th>
<th>Fresh Fruit and Vegetables</th>
<th>Processed Food</th>
</tr>
</thead>
<tbody>
<tr>
<td>• increasing concentration of semi-periphery production activities located in New Zealand</td>
<td>• peripheral production concentrated in New Zealand</td>
<td>• NZ production broadly controlled by NZDB</td>
<td>• principally controlled by importing and supermarket distributors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• core activities principally controlled by Japanese trading houses</td>
<td></td>
<td>• NZDB creating sourcing regions around the world</td>
<td></td>
<td>marketing and distribution concentrated in Japan, production nodes in New Zealand</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>10. Food regime dimensions</th>
<th>Forestry</th>
<th>Beef</th>
<th>Dairy</th>
<th>Fresh Fruit and Vegetables</th>
<th>Processed Food</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Korea-first food regime, elements of second regime present in hotel trade</td>
<td>• mass produced foods of second food regime</td>
<td>• quality value added exports-feature of the third regime</td>
<td></td>
<td>transition from second into third food regime via organic produce</td>
<td></td>
</tr>
<tr>
<td>• Taiwan-higher value added products illustrating second regime products</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>• Japan-second food regime products</td>
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</table>
Activities occurring within the New Zealand beef sector for market development in Northeast Asia are constrained by pro-core market (USA) tendencies within the purchasing markets. Indeed, the dichotomy associated with core-periphery relations is being reproduced within the beef sector. Promotional activities have been established to promote New Zealand beef in a systematic attempt to move production destined for Northeast Asian markets out of the peripheral production mode. While dairy exports are those of the durable food regime the Dairy Board's control of the commodity chain from research and development through marketing and distribution inserts New Zealand as a core-like node in the global dairy complex. However, due to reliance on joint venture arrangements in which added value occurs within the country of distribution, activities in New Zealand effectively remain those of a semi-peripheral nature. While the timber trade has traditionally been of a peripheral nature, developments are occurring which are central to the regional complex centred upon Japan and are illustrative of the contemporary industry's re-construction within New Zealand into semi-peripheral production. While greater value adding is occurring in New Zealand, the core nodes are essentially controlled by Japanese agents, emphasising the embeddedness of production under Japanese control. In response to rapidly expanding fresh fruit and vegetable markets in Japan and Taiwan and a pro-active stance by producers to adapt production to market requirements, premium exports from New Zealand have achieved core market status. Changes in productive technologies aided by transnational capital and market access have permitted the food processing sector in Hawkes Bay centred on Heinz-Wattie to position itself in the transition from the second to third food regime.

In summary, during the period researched, trade and production linkages between New Zealand and Northeast Asia have been reworked in a liberalised environment, very much in response to liberalisation measures. In examining New Zealand's relations with Northeast Asia within the core-periphery hierarchy a regional approach is inadequate. Links between New Zealand and Northeast Asia are based on a variety of export roles which command varying positions within the general core-periphery hierarchy. As illustrated in Chapters Five, Six and Seven there are significant differences present when examining agro-food and forestry exports from New Zealand to Japan in contrast to Korea and Taiwan. Japan's emergence as a trade and investment hub for the agro-food and forestry sectors is highlighted by developments occurring within the production circuit in order to meet site of consumption demand. Value added nodes are increasingly been established within New Zealand albeit managed by Japanese economic agents.
Consensus has not been reached amongst proponents of the world systems school as to New Zealand's location as either a core or semi-periphery locality (refer Chapter Two). Using the food regime and commodity chain frameworks this research explored the nature of changing links and interactions and the contention about the world systems status of New Zealand. Empirical evidence presented in this thesis strongly suggests that at least in terms of agro-food and forestry development New Zealand's role can be summarised as that of a semi-periphery (mixture of core-like and periphery-like activities) locality servicing emerging import complexes centred on the Northeast Asian region. The commodity chain concept links geographic locations involved in the production and consumption of commodities. As illustrated linkages that are occurring are increasingly firm specific.

The success of the East Asian miracle economies coupled with New Zealand's concerns about increased polarization following the loss of core European markets led to a strategy of linking into the miracle economies. Industries and enterprises within New Zealand sought to deepen trade, production and financial connections with the Northeast Asia region. In this they were aided by regulatory reforms implemented to increase participation in a globalising economy. However, Wallerstein (1997) argues that instead of decreasing economic polarisation, liberalisation is in fact leading to increased polarization at the level of the nation-state and within chains of economic activity. The changing conditions of accumulation revealed that the thesis findings, coupled with Asia's recent economic turmoil, brings into question New Zealand's continued integration within the Northeast Asian region, and its consequential positioning within the global hierarchy of nation-states and the coordinating capacity of its enterprises, industries and regions.
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**PERSONAL COMMUNICATION AND OTHER KEY INFORMANTS**


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REFERENCES


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This study also draws upon the responses from interviews undertaken by:


## APPENDIX 1.1

### Timeline of Korean Economic Crisis Events: May 1997-May 1998

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>May 1998</td>
<td>South Korea and IMF agree new economic reform targets.</td>
</tr>
<tr>
<td>March 1998</td>
<td>Government lifts restrictions on foreign land ownership.</td>
</tr>
<tr>
<td>January 28</td>
<td>Government and international banks reach agreement on rescheduling Korea's short-term debt. Under the deal, 10 Korean banks are closed.</td>
</tr>
<tr>
<td>December 31</td>
<td>IMF announces that $10bn of the $57bn release package will be released in January.</td>
</tr>
<tr>
<td>December 11</td>
<td>Economy on verge of collapse as won falls 10% in four minutes of trading.</td>
</tr>
<tr>
<td>November 20-23</td>
<td>Won plunges 10% on rumours that Korea needs $100bn to cover debts.</td>
</tr>
<tr>
<td>November 1-18</td>
<td>Won plummets as fears grow that Korea may default on foreign debt.</td>
</tr>
<tr>
<td>April 1998</td>
<td>South Korea issues government bond, raising $12bn.</td>
</tr>
<tr>
<td>February 1998</td>
<td>Restrictions on foreign ownership of complies lifted.</td>
</tr>
<tr>
<td>January 2 1998</td>
<td>Negotiations begin on rescheduling Korea's short-term debt</td>
</tr>
<tr>
<td>December 1997</td>
<td>Kim Dae-jung elected president</td>
</tr>
<tr>
<td>December 6 1997</td>
<td>Korea and IMF agree rescue package</td>
</tr>
<tr>
<td>August 1997</td>
<td>Currency contagion spreads to Korea. Won falls to new low against the dollar.</td>
</tr>
</tbody>
</table>

Source: Financial Times 1998
## APPENDIX 3.1

1996 Comparative Ranking of the Top 10 Companies each from New Zealand and Northeast Asia

<table>
<thead>
<tr>
<th>Company</th>
<th>Main Business</th>
<th>Turnover US$B</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Mitsubishi Corp</td>
<td>General trading</td>
<td>172.30</td>
<td>Japan</td>
</tr>
<tr>
<td>2  Itochu Corp</td>
<td>General trading</td>
<td>158.10</td>
<td>Japan</td>
</tr>
<tr>
<td>3  Sumitomo Corp</td>
<td>General trading</td>
<td>156.60</td>
<td>Japan</td>
</tr>
<tr>
<td>4  Maruheni Corp</td>
<td>General trading</td>
<td>150.60</td>
<td>Japan</td>
</tr>
<tr>
<td>5  Mitsui &amp; Co</td>
<td>General trading</td>
<td>147.00</td>
<td>Japan</td>
</tr>
<tr>
<td>6  Toyota Motor Corp</td>
<td>Cars, trucks</td>
<td>103.80</td>
<td>Japan</td>
</tr>
<tr>
<td>7  Nissho Iwai</td>
<td>General trading</td>
<td>91.50</td>
<td>Japan</td>
</tr>
<tr>
<td>8  Hitachi Ltd</td>
<td>Electronics, machinery</td>
<td>78.70</td>
<td>Japan</td>
</tr>
<tr>
<td>9  Nippon T&amp;T</td>
<td>Telecoms</td>
<td>76.60</td>
<td>Japan</td>
</tr>
<tr>
<td>10 Matsushita Elec. Indust</td>
<td>Appliances, electronics</td>
<td>63.50</td>
<td>Japan</td>
</tr>
<tr>
<td>11 Samsung Corp</td>
<td>Investment, trading</td>
<td>24.60</td>
<td>Korea</td>
</tr>
<tr>
<td>12 Hyundai Corp</td>
<td>Investment, trading</td>
<td>21.38</td>
<td>Korea</td>
</tr>
<tr>
<td>13 Samsung Electronics</td>
<td>Electronics</td>
<td>20.68</td>
<td>Korea</td>
</tr>
<tr>
<td>14 Daewoo Corp</td>
<td>Trading, investment</td>
<td>19.20</td>
<td>Korea</td>
</tr>
<tr>
<td>15 Pohang Iron &amp; Steel</td>
<td>Steel</td>
<td>17.80</td>
<td>Korea</td>
</tr>
<tr>
<td>16 LG International Corp</td>
<td>Investment, trading</td>
<td>16.30</td>
<td>Korea</td>
</tr>
<tr>
<td>17 Hyundai Motor Co</td>
<td>Autos</td>
<td>13.20</td>
<td>Korea</td>
</tr>
<tr>
<td>18 Korea Electric Power Co</td>
<td>Energy</td>
<td>12.79</td>
<td>Korea</td>
</tr>
<tr>
<td>19 Formosa Plastics Corp</td>
<td>Plastics</td>
<td>11.02</td>
<td>Taiwan</td>
</tr>
<tr>
<td>20 LG Electronics</td>
<td>Consumer electronics</td>
<td>9.70</td>
<td>Korea</td>
</tr>
<tr>
<td>21 Yukong Ltd</td>
<td>Oil refining</td>
<td>8.42</td>
<td>Korea</td>
</tr>
<tr>
<td>22 Taiwan Power</td>
<td>Power Generation</td>
<td>8.24</td>
<td>Taiwan</td>
</tr>
<tr>
<td>23 Cathay Life</td>
<td>Insurance</td>
<td>8.11</td>
<td>Taiwan</td>
</tr>
<tr>
<td>24 Fletcher Challenge</td>
<td>Forestry &amp; Related Products</td>
<td>6.45</td>
<td>NZ</td>
</tr>
<tr>
<td>25 Chunghwa Telecom</td>
<td>Telecoms</td>
<td>5.94</td>
<td>Taiwan</td>
</tr>
<tr>
<td>26 Acer Inc</td>
<td>Computers</td>
<td>5.71</td>
<td>Taiwan</td>
</tr>
<tr>
<td>27 Taiwan Tobacco &amp; Wine</td>
<td>Trading and distribution</td>
<td>3.92</td>
<td>Taiwan</td>
</tr>
<tr>
<td>28 Nan Ya Plastics Corp</td>
<td>Petrochemicals</td>
<td>3.85</td>
<td>Taiwan</td>
</tr>
<tr>
<td>29 New Zealand Dairy Board</td>
<td>Dairy Products</td>
<td>3.77</td>
<td>NZ</td>
</tr>
<tr>
<td>30 Shin Kong Life</td>
<td>Insurance</td>
<td>3.67</td>
<td>Taiwan</td>
</tr>
<tr>
<td>31 Telecom Corporation*</td>
<td>Telecom</td>
<td>2.27</td>
<td>NZ</td>
</tr>
<tr>
<td>32 Carter Holt Harvey*</td>
<td>Forestry &amp; Related Products</td>
<td>2.21</td>
<td>NZ</td>
</tr>
<tr>
<td>33 Air New Zealand</td>
<td>Tourism</td>
<td>2.16</td>
<td>NZ</td>
</tr>
<tr>
<td>34 Brierley Investments</td>
<td>Investment</td>
<td>2.15</td>
<td>NZ</td>
</tr>
<tr>
<td>35 Lion Nathan</td>
<td>Beer Expr &amp; Licensed</td>
<td>1.82</td>
<td>NZ</td>
</tr>
<tr>
<td>36 NZ Dairy Board of Companies</td>
<td>Dairy Products</td>
<td>1.66</td>
<td>NZ</td>
</tr>
<tr>
<td>37 Progressive Enterprises*</td>
<td>Food Retailer &amp; Wholesaler</td>
<td>1.59</td>
<td>NZ</td>
</tr>
<tr>
<td>38 Foodstuffs (Auckland)</td>
<td>Food Wholesaler</td>
<td>1.05</td>
<td>NZ</td>
</tr>
</tbody>
</table>

Notes: * A ranking was available for only 8 Taiwanese companies
* more than 50% overseas controlled

Actual amounts given for New Zealand companies were in $NZ. Converted to $US according to Reuters December 31, 1996 mid rate of $US.7054 to $NZ1.

Source: International Business Asia, 1997; Management, December 1996.
APPENDIX 3.2

Exchange Rate Comparison against $NZ -- Monthly Average of Daily Data

Source: compiled from information obtained from National Bank and Reuters

1 Exchange Rate data for Taiwan is not available.
# APPROVED INVESTMENT BY KOREAN INTERESTS IN NEW ZEALAND

<table>
<thead>
<tr>
<th>Company</th>
<th>Approval Date</th>
<th>Economic Sector</th>
<th>Ownership %</th>
<th>Permission Amount</th>
<th>Actual Investment</th>
<th>Source: Bank of Korea Overseas Investment Division, 1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA</td>
<td>1995</td>
<td>Tools</td>
<td>100.0</td>
<td>99</td>
<td>199</td>
<td></td>
</tr>
<tr>
<td>Ariam Restaurant</td>
<td>1994</td>
<td>Food</td>
<td>100.0</td>
<td>230</td>
<td>230</td>
<td></td>
</tr>
<tr>
<td>D.K. New Zealand Ltd</td>
<td>1995</td>
<td>General Merchandise</td>
<td>100.0</td>
<td>95</td>
<td>95</td>
<td></td>
</tr>
<tr>
<td>Daehyun NZ Limited</td>
<td>1994</td>
<td>Fisheries</td>
<td>100.0</td>
<td>1.000</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Ecomist Systems</td>
<td>1996</td>
<td>Misc Manufacturing</td>
<td>142.0</td>
<td>95</td>
<td>95</td>
<td></td>
</tr>
<tr>
<td>Greenfor MRT Ltd</td>
<td>1995</td>
<td>Timber &amp; Furniture</td>
<td>471.0</td>
<td>1.000</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Hansol NZ Ltd</td>
<td>1995</td>
<td>Timber &amp; Furniture</td>
<td>664.0</td>
<td>1.000</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>International Pine Trailers</td>
<td>1994</td>
<td>Fisheries</td>
<td>270.0</td>
<td>1.000</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Jinho Marine Ltd</td>
<td>1991</td>
<td>Assembly</td>
<td>44.0</td>
<td>1.000</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Kiwi Auckland Motors</td>
<td>1994</td>
<td>Trade</td>
<td>120.0</td>
<td>1.000</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>L.Y. Timber Co Ltd</td>
<td>1996</td>
<td>General Tools</td>
<td>311.0</td>
<td>1.000</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Mido Import and Export Ltd</td>
<td>1994</td>
<td>Food Processing</td>
<td>400.0</td>
<td>1.000</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Otegoi NZ</td>
<td>1996</td>
<td>Leather</td>
<td>500.0</td>
<td>1.000</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>S.H. Hide &amp; Skins (NZ) Ltd</td>
<td>1996</td>
<td>Transport Storage</td>
<td>347.0</td>
<td>1.000</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Sejong NZ Corporation</td>
<td>1996</td>
<td>Real Estate Develop</td>
<td>357.0</td>
<td>1.000</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Shone Merchant Houses</td>
<td>1994</td>
<td>Fisheries</td>
<td>751.0</td>
<td>1.000</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Sur Est NZ Ltd</td>
<td>1995</td>
<td>Fisheries</td>
<td>190.0</td>
<td>1.000</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Willing Trading Ltd</td>
<td>1996</td>
<td>Misc. Manufacturing</td>
<td>205.0</td>
<td>1.000</td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>9,064.0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
APPENDIX 3.4

OIC APPROVED INVESTMENT APPLICATIONS: ARBITRARY SELECTED PERIOD 1 JANUARY 1994 TO 30 JUNE 1996

<table>
<thead>
<tr>
<th>Japan</th>
<th>Korea</th>
<th>Taiwan</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Applications</td>
<td>NZ$1,000</td>
<td># of Applications</td>
</tr>
<tr>
<td>Amusement/Entertainment</td>
<td>2</td>
<td>6679.9</td>
</tr>
<tr>
<td>Beef Farming</td>
<td>1</td>
<td>775.0</td>
</tr>
<tr>
<td>Coal</td>
<td>1</td>
<td>788.6</td>
</tr>
<tr>
<td>Commercial Leasing</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Crop Farming</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Deer Farming</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Educational</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Farm Stay</td>
<td>1</td>
<td>615.0</td>
</tr>
<tr>
<td>Financial</td>
<td>3</td>
<td>82280.0</td>
</tr>
<tr>
<td>Forestry</td>
<td>24</td>
<td>128277.7</td>
</tr>
<tr>
<td>Hotel/Motel/Lodge</td>
<td>3</td>
<td>5400.0</td>
</tr>
<tr>
<td>Lifestyle</td>
<td>1</td>
<td>400</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>15</td>
<td>93408.1</td>
</tr>
<tr>
<td>Market Garden</td>
<td>1</td>
<td>215</td>
</tr>
<tr>
<td>Mixed Farming</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Residential</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Construction/Subdivision</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sheep Farm</td>
<td>1</td>
<td>1200</td>
</tr>
<tr>
<td>Tourism</td>
<td>2</td>
<td>6145</td>
</tr>
<tr>
<td>Viticulture</td>
<td>1</td>
<td>401</td>
</tr>
<tr>
<td>Wholesale and Retail Trade</td>
<td>2</td>
<td>13001</td>
</tr>
<tr>
<td>Total for Period including all confidencials</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Period selected is arbitrary based on available data. For data limitations refer to Chapter Three.
Source: Overseas Investment Commission
## APPENDIX 3.5

### NEW ZEALAND INVESTMENT IN KOREA

<table>
<thead>
<tr>
<th>Company</th>
<th>Approval Date</th>
<th>Company Name in Korea</th>
<th>Economic Sector</th>
<th>Invested Amount $US1,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brigit Blair</td>
<td>1995</td>
<td>Lindon Libes</td>
<td>Trading</td>
<td>65</td>
</tr>
<tr>
<td>Fledgeling Nominees NZ Ltd</td>
<td>1989</td>
<td>MyungSung Electronics</td>
<td>Electronic Products</td>
<td>752</td>
</tr>
<tr>
<td>Fledgeling Nominees NZ Ltd</td>
<td>1990</td>
<td>Hwashin Cable</td>
<td>Electric Cable</td>
<td>743</td>
</tr>
<tr>
<td>James Cameron Ross</td>
<td>1995</td>
<td>Korea Metal Tile</td>
<td>Metal Plate, Trading</td>
<td>245</td>
</tr>
<tr>
<td>John Malcolm Geddes</td>
<td>1993</td>
<td>International Development Corp</td>
<td>Trading</td>
<td>128</td>
</tr>
<tr>
<td>New Zealand Dairy Board</td>
<td>1991</td>
<td>Korea New Zealand Cheese</td>
<td>Cheese</td>
<td>8,922</td>
</tr>
<tr>
<td>New Zealand Dairy Board</td>
<td>1989</td>
<td>HanSaeng Foods</td>
<td>Trading</td>
<td>138</td>
</tr>
<tr>
<td>Park Young Tae</td>
<td>1987</td>
<td>Korea Shindrer</td>
<td>Elevator &amp; Escalator</td>
<td>419</td>
</tr>
</tbody>
</table>

**Total** 11,412

Source: Bank of Korea Overseas Investment Division, 1996
## APPENDIX 3.6

### NEW ZEALAND STATE-OWNED ASSET SALE (DECEMBER 1995)

<table>
<thead>
<tr>
<th>Business</th>
<th>Sale Price ($Million)</th>
<th>Settlement Date</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>NZ Steel Limited</td>
<td>327.22</td>
<td>22 Mar 1988</td>
<td>Equiticorp (90%) Resold to BHP et al.</td>
</tr>
<tr>
<td>Petrocorp*</td>
<td>801.06</td>
<td>31 Mar 1988</td>
<td>Rossport Investment Ltd</td>
</tr>
<tr>
<td>Health Computing Service</td>
<td>4.25</td>
<td>7 Nov 1988</td>
<td>Paxis Information Services</td>
</tr>
<tr>
<td>Development Finance Corp</td>
<td>111.28</td>
<td>18 Nov 1988</td>
<td>National Provident Fund (80%), Salomon Brothers (20%)</td>
</tr>
<tr>
<td>Post Office Bank Limited*</td>
<td>665.40</td>
<td>28 Feb-31 Oct 1989</td>
<td>ANZ Bank</td>
</tr>
<tr>
<td>Shipping Corporation of NZ*</td>
<td>13.08</td>
<td>31 Oct 1989</td>
<td>ACT (NZ) Ltd</td>
</tr>
<tr>
<td>Air New Zealand*</td>
<td>660.00</td>
<td>17 Apr 1989</td>
<td>BIL (65%) [30% of BIL’s holding is now held by the public and Air New Zealand staff], Qantas (19.9%), Japan Airlines (7.5%), American Airlines (7.5%)</td>
</tr>
<tr>
<td>Landcorp Financial Instruments</td>
<td>15.74</td>
<td>20 Mar 1989</td>
<td>Mortgagors</td>
</tr>
<tr>
<td></td>
<td>34.26</td>
<td>5 Oct 1989</td>
<td>Mortgagors</td>
</tr>
<tr>
<td></td>
<td>27.00</td>
<td>5 Feb 1990</td>
<td>Mortgagors</td>
</tr>
<tr>
<td>Rural Bank</td>
<td>550.00</td>
<td>31 Oct 1989</td>
<td>Magneton Holdings Ltd</td>
</tr>
<tr>
<td>- Clawback</td>
<td>137.50</td>
<td>30 Sept 1992</td>
<td></td>
</tr>
<tr>
<td>Communicate NZ</td>
<td>0.06</td>
<td>8 Dec 1990</td>
<td>DAC Group Ltd</td>
</tr>
<tr>
<td>Government Printing Office</td>
<td>18.16</td>
<td>1990/91</td>
<td>Rank Group</td>
</tr>
<tr>
<td></td>
<td>0.43</td>
<td>31 Mar 93</td>
<td>Various</td>
</tr>
<tr>
<td></td>
<td>20.00</td>
<td>1989/90</td>
<td></td>
</tr>
<tr>
<td>National Film Unit</td>
<td>2.50</td>
<td>23 Mar-21 Sept 1990</td>
<td>TVNZ (Television SOE)</td>
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<tr>
<td>State Insurance Office</td>
<td>735.00</td>
<td>28 Jun 1990</td>
<td>Norwich Union Holdings</td>
</tr>
<tr>
<td>Tourist Hotel Corporation*¹</td>
<td>71.85</td>
<td>15 Jun 1990</td>
<td>Southern Pacific Hotels (US company)</td>
</tr>
<tr>
<td>Synfuels Stocks and Current Assets - Clawbacks 1991/92</td>
<td>29.16</td>
<td>6 Jul 1990</td>
<td>Fletcher Challenge Ltd</td>
</tr>
<tr>
<td>- 1992/93</td>
<td>91.85</td>
<td></td>
<td></td>
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<tr>
<td>- 1993/94</td>
<td>45.57</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- 1994/95</td>
<td>35.26</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- 1995/06</td>
<td>2.10</td>
<td></td>
<td></td>
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<tr>
<td>Maui Gas*²</td>
<td>240.00</td>
<td>6 Jul 1990</td>
<td>Generate Development Ltd</td>
</tr>
<tr>
<td>NZ Liquid Fuel Investment Ltd</td>
<td>-203.00</td>
<td>6 Jul 1990</td>
<td>Fletcher Challenge Canadian Investment Ltd</td>
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<tr>
<td>Telecom Corporation*</td>
<td>4,250.00</td>
<td>12 Sept 1990</td>
<td>Bell Atlantic &amp; Ameritech (90%) [now sold down] (US companies), Fay Richwhite (NZ company)</td>
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<tr>
<td>Forestry Cutting Rights</td>
<td>102.00</td>
<td>24 Jul 1990</td>
<td>Earnslaw One Ltd</td>
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<tr>
<td></td>
<td>262.00</td>
<td>24 Jul 1990</td>
<td>Fletcher Challenge Ltd</td>
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<tr>
<td></td>
<td>382.90</td>
<td>30 Aug 1990</td>
<td>Carter Holt Harvey</td>
</tr>
<tr>
<td></td>
<td>0.31</td>
<td>30 Aug 1990</td>
<td>Consortium of NZ Investors</td>
</tr>
<tr>
<td></td>
<td>115.00</td>
<td>18 Sept 1990</td>
<td>Wenita Forestry (Chinese)</td>
</tr>
<tr>
<td></td>
<td>40.55</td>
<td>19 Sept 1990</td>
<td>Juku Nissho Ltd (Japanese)</td>
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<tr>
<td></td>
<td>26.80</td>
<td>19 Sept 1990</td>
<td>Baigent/Shell (NZ) Ltd</td>
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<tr>
<td></td>
<td>0.15</td>
<td>19 Sept 1990</td>
<td>Golden Bay Forests</td>
</tr>
<tr>
<td></td>
<td>41.50</td>
<td>19 Sept 1990</td>
<td></td>
</tr>
<tr>
<td></td>
<td>43.50</td>
<td>24 Oct 1990</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.35</td>
<td>26 Oct 1990</td>
<td></td>
</tr>
<tr>
<td></td>
<td>12.0</td>
<td>26 Oct 1990</td>
<td></td>
</tr>
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### NEW ZEALAND STATE-OWNED ASSET SALE (DECEMBER 1995) (cont.)

<table>
<thead>
<tr>
<th>Business</th>
<th>Sale Price ($Million)</th>
<th>Settlement Date</th>
<th>Purchaser</th>
</tr>
</thead>
<tbody>
<tr>
<td>NZ Timberlands Limited</td>
<td>366.00</td>
<td>15 May 1992</td>
<td>ITT Rayonier</td>
</tr>
<tr>
<td>Government Supply Brokerage</td>
<td>3.20</td>
<td>30 Jan 1992</td>
<td>Professional Services Ltd</td>
</tr>
<tr>
<td>Taranaki Petroleum Mining Licences</td>
<td>118.84</td>
<td>6 Apr 1992</td>
<td>Petrocorp, Southern Petroleum, Nomeco, Bligh Carpenteria</td>
</tr>
<tr>
<td>- Clawbacks 1992-93</td>
<td>2.30</td>
<td>1 Mar 93</td>
<td></td>
</tr>
<tr>
<td>Bank of New Zealand</td>
<td>849.95</td>
<td>9 Nov 1992</td>
<td>National Australia Bank</td>
</tr>
<tr>
<td>New Zealand Rail Limited*</td>
<td>328.19</td>
<td>30 Sept 1993</td>
<td>Wisconsin Central, Berkshire Partners, Fay Richwhite</td>
</tr>
<tr>
<td>Fletcher Challenge Limited</td>
<td>418.06</td>
<td>25 Nov-23 Dec 1993</td>
<td>Domestic and International Institutions</td>
</tr>
<tr>
<td>Ordinary Division and Forest Division Share</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GCS Limited*</td>
<td>46.99</td>
<td>18 Nov 1994</td>
<td>EDS Holdings Ltd</td>
</tr>
<tr>
<td>Wrightson Rights</td>
<td>3.45</td>
<td>25 Nov 1993</td>
<td>Domestic and International Institutions</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>13,233.61</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Notes:**

1. The Sale and Purchase Agreement referred to a sales price of $73.85 million, however, the resolution of the settlement accounts have resulted in the Crown receiving $2 million less. Prior to the sale and as a condition of the sale, the Crown assumed THC's term liabilities which had a book value of about $73 million at the time.

2. In addition to the Maui Gas sale proceeds, the Government receives profits under the Electricorp gas contract.

Source: Treasury 1997
THE FOREIGN INVESTMENT POLICIES OF NEW ZEALAND - A SUMMARY -

New Zealand welcomes and encourages foreign investment from all countries. This is reflected by the facilitating nature of the Government's foreign investment policies. While 100 per overseas ownership can be approved in all industry sectors under the Overseas Investment Regulations there are two pieces of industry specific legislative restrictions relating to foreign ownership. These are:

- The Fisheries Act 1983 prohibits the allocation of fishing quota to overseas individuals or companies without the prior consent of the Director-General of fisheries;
- The NZ Optometrist and Dispensing Opticians Act 1976 restricts foreign ownership of opticians to 45 per cent of shareholding;

In addition, some companies have restrictions within their articles of association relating to foreign ownership.¹

The Government's foreign investment policies are administered by the Overseas Investment Commission (OIC). The Overseas Investment Commission was established by the Overseas Investment Act 1973. The Commission comprises four members; two from the private sector and two ex officio, one each from the Reserve Bank of New Zealand and Ministry of Commerce. The Reserve Bank also provides the Secretariat for the OIC.

The OIC administers the Overseas Investment Regulation 1995. The Overseas Investment Regulations provide an avenue for monitoring the nature and extent of significant overseas investment into New Zealand.

The Commission deals with all non-land applications and applications involving land which is less than 10 hectares and not sensitive under delegated authority. All other land applications are referred on for Ministerial consideration. The Commission currently processes applications within 10 working days of having all information relevant to the application. This is expected to continue under the new arrangements in most cases.

Applications for consent under the regulations should be made in writing to the Secretary of the Overseas Investment Commission. There is no formal application form. More information on how to apply for consent and what information is required is set out in the Commission's guide to making an application.

Scheme of the new regulations
An "overseas person" must obtain consent under the regulations to acquire or take "control" of "significant" assets in New Zealand. The significant assets relate to:

- businesses or property worth more than $10 million;
- land over 5 hectares or worth more than $10 million;

¹ These include Telecom Corporation of New Zealand Limited. Its articles of association limit overseas investment by any single foreign entity to 49.9 percent. This was one of the terms and conditions on which the Government sold Telecom.
• certain sensitive land over 0.4 hectares (e.g., on islands; containing or next to reserves, historic or heritage areas, the foreshore or lakes).

Control is generally associated with an overseas person obtaining a 25 percent ownership or control interest in an asset.

The Regulations are divided into parts. One part deals with significant non-land investment while the second deals with land investments.

**Overseas Person**
The legislation treats the following as "overseas persons":

- a company formed overseas and any of its subsidiaries;
- any individual who is not a citizen of, nor ordinarily resident, in New Zealand;
- a New Zealand company with 25 percent or more of its shares or voting power held by overseas persons;
- a trust where 25 percent or more of:
  - the trustees are overseas persons; or
  - the persons having power to appoint the trustees are overseas persons; or
  - the trust property is held for the benefit of overseas persons;
- a partnership or joint venture containing 25 percent or more overseas persons or where overseas persons control 25 percent or more of the voting power;
- a unit trust where the manager or trustee is an overseas person or where overseas persons hold 25 percent or more of the beneficial interests;
- any other entity owned or controlled more than 25 percent by overseas persons.

**Non-land transactions**
For non-land investments an overseas person must obtain consent under the regulations to:

- establish a new business where the total expenditure to be incurred in setting up the business exceeds $10 million;
- acquire 25 percent or more ownership or control of a New Zealand company where the consideration for the transfer or the value of the New Zealand company's assets exceeds $10 million;
- increase their proportion of ownership or control of a New Zealand company where the overseas person already has 25 percent or more ownership or control and the consideration for the acquisition of the extra securities or the value of the New Zealand company's assets or the value of the extra securities exceeds $10 million;
- acquire property used in carrying on a business where the cost of the acquisition exceeding $10 million.

**Land Transactions**
For land investment an overseas person must obtain consent under the regulation to:

- acquire any land or any estate interest in land regardless of the land's value;
- acquire securities in any person that owns or controls any land or any estate or interest in land, regardless of the dollar value involved, that will result in:
  - the land owning person being owned or controlled by overseas persons;
  - the overseas person acquiring 25 percent or more of the ownership or control of the land owning person or increase their ownership or control if the overseas person already has 25 percent or more ownership or control.
The land coverage also extends to associated land. Associated land is any land contiguous or adjacent to the land being acquired or, if on an island, any other land on the same island, owned or controlled by that overseas person or any associated person.

Some important points to note about the land coverage are:

- it covers both rural and urban land;
- land is included no matter what purpose it is used for or whether it is purchased directly or through a body corporate;
- consent will be needed where overseas landowners or persons associated with them purchase a piece of land adjoining land they already own and the combined area is greater than five hectares on the mainland, or greater than 0.4 hectares on some islands;
- any subsequent purchase of land on an island whether adjoining the original land or not by an overseas landowner (or their associates) will require consent;
- purchases of urban land over 0.4 hectares on the foreshore require consent.

Exemptions

The Overseas Investment Regulations 1995 exempt a number of types of non-land and land transactions. These transactions are largely ones where there is no underlying transfer or ownership or control of significant New Zealand assets to overseas persons. They include:

- transactions where there is no charge in the ultimate beneficial ownership;
- certain financing transactions, including the transfer of property to the mortgagee in the event of default;
- certain transactions involving trusts;
- transfers of assets to overseas beneficiaries from deceased persons' estates;
- transactions by life insurance companies and superannuation schemes where the investment is for the benefit of policy holders or scheme members of whom at least 75 percent are New Zealand citizens or ordinarily resident in New Zealand;
- leases and other non-freehold land transactions of less than three years duration (including rights of renewal) where the expenditure incurred is less than 10 million;
- the alienation of any interest in Maori freehold land where that alienation has been granted confirmation of the Maori Land Court under section 153 of the Te Ture Whenua Maori Act 1993;
- an easement over land solely for the purpose of right of way.

The regulations require an overseas person to notify the Commission in writing within 28 days if they acquire ownership or control of significant New Zealand assets under the exemptions applying to certain financing transactions or where confirmation has been granted by the Maori Land Court.

The regulations also provide for certain transactions or persons to be exempted from the requirements of the regulations. Presently there are two types of exemption in place. One related to portfolio investors. The other relates to certain companies which are essentially New Zealand controlled despite having more than 25 percent overseas ownership. Both types of exemption continue under the new regime. The Overseas Investment Exemption Notice 1995 (SR 1995/327) comes into effect on 15 January 1996.

The 25 per cent threshold as it relates to overseas persons is not an indication of preferred levels of investment; it is merely a trigger point for official involvement.

In assessing all applications for foreign investment, consideration is given as to whether:

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(a) The overseas person has, or, where the overseas person is not an individual, the individuals exercising control over the overseas person have, business experience and acumen relevant to that overseas investment; and
(b) The overseas person has demonstrated financial commitment to the overseas investment; and
(c) Every person who will have not less than a 25 per cent beneficial interest in the overseas investment is, or, where the overseas person is not an individual, the individuals exercising control over the overseas person are, of good character and no such person is a person of the kind referred to in section 7(1) of the Immigration Act 1987.

In relation to foreign investment applications involving land *(see below for definition) in addition to the criteria above, consideration is given as to whether the investment would be in the national interest.

In assessing whether the investment is in the national interest the following matters must be considered:

(a) Whether the overseas investment will or is likely to result in-

   (i) The creation of new job opportunities in New Zealand or the retention of existing jobs in New Zealand that would or might otherwise be lost; or
   (ii) The introduction into New Zealand of new technology or business skills; or
   (iii) The development of new export markets or increased export market access for New Zealand exporters; or
   (iv) Added market competition, greater efficiency or productivity, or enhanced domestic services, in New Zealand; or
   (v) The introduction into New Zealand of additional investment for development purposes; or
   (vi) Increased processed in New Zealand of New Zealand's primary products:

(b) Where land is currently being used for agricultural purposes,-

   (i) Whether experimental or research work will be carried out on the land:
   (ii) The proposed use of the land by the applicant:
   (iii) If the overseas person is an individual, whether overseas person intends to farm the land for his or her own use and benefit and is capable of doing so:

(c) Whether the overseas person or, if the overseas person is not an individual, any individual who exercises control over the overseas person, intends to reside permanently in New Zealand:

(d) Such other matters as thought for having regard to the circumstances of the particular overseas investment.

Land means

Land over 5 hectares
Any land that, together with any associated land, exceeds 5 hectares in area.

Islands
Any land that is or that forms part of, an island (other then an island listed below)
Any land that, together with any associated land, exceeds 0.4 hectares in area and that forms part of the following islands:

- Arapawa Island
- Best Island
- Great Barrier Island
- Great Mercury Island
- Jackett Island
- Kaua I Island
- Matakana Island
- Mayor Island
- Motiti Island
- Motuhoa Island
- Rakino Island
- Rangiwaea Island
- Slipper Island
- Stewart Island
- Waiheke Island
- Whanganui Island

Any land that is, or that forms part of, an island of the Chatham Islands.

**Foreshores, lakes, and reserves**

Any land that, together with any associated land, that exceeds 0.4 hectares in area and that includes or adjoins—

(a) The foreshore; or
(b) Any lake the bed of which exceeds 8 hectares in area; or
(c) Any land that exceeds 0.4 hectares in area and is:
   (i) provided as a reserve
   (ii) held for a conservation purposes
   (iii) deemed a heritage or historic area

**Other land**

Any land, other than land specified above if the consideration for the land exceeds $10,000,000.

**Associated land** means any land that is contiguous or adjacent to the land being acquired or, where that land forms part of an island, any other land on the same island in which any estate or interest is owned or controlled by that overseas person or any overseas person.

**Fees**

The regulations provide the OIC with the power to charge for processing applications. The cost for a non-land application has been set at $1,100 while a land application will cost $2,700.

**Monitoring**

Under the Overseas Investment Act 1973 the Commission is required to undertake a post consent monitoring function. Such monitoring will cover two facets. The first will relate to a requirement for the Commission to be advised if and when an investment proposal proceeded. The second will involve the monitoring of compliance with the conditions under which any consent may have been granted.

**Penalties for Non-Compliance**
The Overseas Investment Amendment Act 1995 provides for penalties for any person who commits an offence against the Act. In the case of an individual a prison term not exceeding 12 months or a fine of up to $30,000 can be imposed. In relation to a company the penalty is a fine not exceeding $100,000.

Furthermore, the Act also provides that the High Court can order the disposal of any property which was acquired in contravention of the Act or where the "overseas person" failed to comply with any conditions of any approval.

15 January 1996
Wattie's promotional brochure for Taiwan: utilisation of New Zealand's 'clean green' image
(Source: Wattie Frozen Foods Limited)
Advertisement promoting bone-building cheese using ‘natural’ New Zealand cheese ingredients
(Source: KNZCC)
Translation: Cheese is produced using clean and high quality cheese from New Zealand
(Source: KNZCC)