1-1-2009

Venture Capital in New Zealand: A Struggling Enterprise

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Introduction

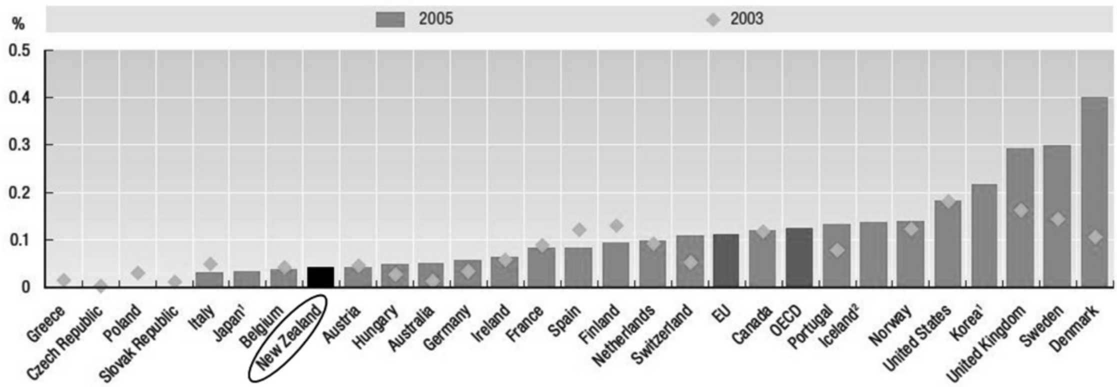
For a small economy, maintaining a presence on the global stage is challenging. New Zealand (NZ), however, is not a country to be left behind. After seeing venture-capital-backed firms across the globe achieve public listings sooner, experience faster growth, have higher revenues, and stimulate economic activity, NZ has created a fledgling venture capital[1] (VC) market of its own. ("Venture Capital Fund . . .") Albeit in its early stages of development, NZ's venture capital market has the potential to both create private wealth and to contribute to wider social benefits in NZ. VC encourages innovation while assisting in commercializing the results of research and development — both of which lead to economic growth. With its societal benefits and its alignment with NZ's policy strategy for long-term sustainable growth, venture capital has taken a front seat in the NZ government's growth and innovation framework.

Building a thriving VC market in NZ has only recently become a government priority, and as a result New Zealand's VC investment levels are still relatively low. As of 2006 venture capital in NZ as a percent of gross domestic product (GDP) was 0.05 percent, compared to 0.12 percent for the Organization for Economic Co-operation and Development's (OECD) top quartile. Figure 1 shows the immaturity of New Zealand's venture capital market, comparing NZ with worldwide trends from 2003–2005. ("OECD Science . . . ," pp. 142–43) Confirming the market's youth, NZ Venture Investment Fund Chairman Peter Taylor stated in 2007:

[1]Venture capital, often classified as a subset of private equity, is equity investment in privately held high-risk high-growth firms — firms too small or too immature to raise public capital or to secure bank loans. Venture capitalists invest alongside management when firms are in their seed, start-up, or early-expansion phases of development, with the intent of producing a return later through an initial public offering or company trade sale.

Figure 1

2003–05 Trends in Venture Capital Investment As a Percentage of GDP



1. Numbers for Japan and Korea are from 2001; for Iceland, 2002. For European countries, total venture capital investment includes early-stage, expansion, buy-outs, and other sectors.

Source: "OECD Science, Technology and Industry Scoreboard 2007."

> Despite the excellent progress to date, the industry is in its formative years. . . . For New Zealand to create a venture capital industry that is on par with similar OECD countries, we believe requires a threefold increase in the size of the industry, including both expertise and funds under management. Until that occurs, many promising New Zealand businesses with high growth potential will struggle to attract capital from within New Zealand. ("NZVIF Annual Report 2007," p. 4)

In short, progress is being made, but NZ's venture capital industry remains immature relative to world standards.

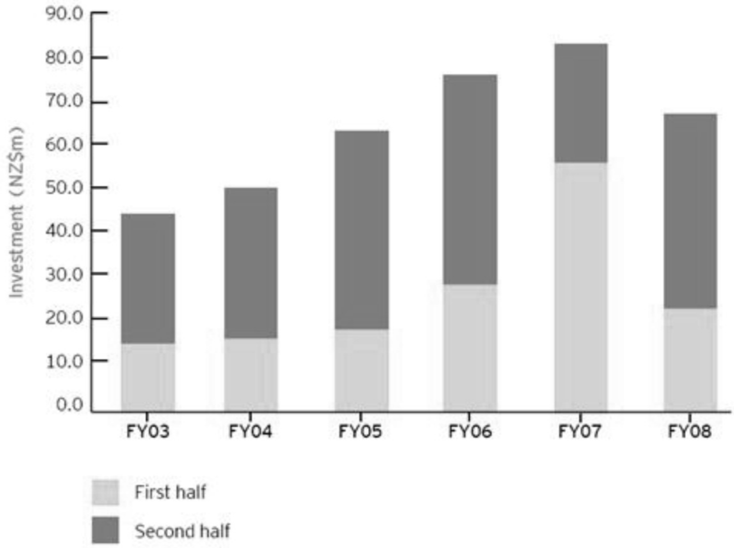
In this article I assess the status of NZ's venture capital market, examining the industry's recent accomplishments, its most pertinent challenges, and its potential for future development. In the first section I discuss the VC market's recent performance and the impact of the global financial crisis. I then examine the structural and cultural barriers affecting the market and explore the limitations that these obstacles place on VC's ability to fuel significant economic growth. In the final section I suggest opportunities for positive change and conclude that to promote and support VC the government needs to focus on developing the whole financial system, rather than simply depending on VC to lead the way.

Building an Industry: Recent Developments in NZ's Venture Capital Market

Venture capital in New Zealand is a relatively new phenomenon. The VC industry was not established until 2002, when it gained governmental support. Although the government has encouraged VC investment in the past, creating the Development Finance Corporation in 1964 and the Greenstone Fund in 1993, neither project was able to successfully launch an organized VC market. (Lerner et al., pp. 64–65) Throughout the 1990s, the VC market had limited funds, little available information, and regulations that were not aligned with global standards. To address both the gap in the provision of capital and expertise for early stage high-growth companies and the VC market's minute size, the government took action in 2002, establishing both the Venture Investment Fund (VIF) venture capital program and the New Zealand Venture Investment Fund (NZVIF). The VIF is a venture capital investment program to which the government has contributed \$160 million

Figure 2

Venture Capital Investment Summary



Source: "The New Zealand Private Equity and Venture Capital Monitor 2008."

for investment alongside of private sector co-investors. The NZVIF is the VIF's investment manager, created for the primary purpose of helping develop the VC industry while overseeing the VIF. Since its inception the NZVIF has been a catalyst for the emerging VC market, bringing organization, stimulating funding, and promoting progress. With the NZVIF's help, the industry's total VC investment levels experienced steady growth between 2002 and 2006, as displayed in Figure 2. Figure 2, however, also reveals a leveling off. Total investment levels increased by only 8 percent in 2007 and actually declined by 19 percent in 2008, compared to annual increases of 26 percent in 2005 and 21 percent in 2006. Furthermore, during 2007 and continuing through 2008, VC deal volume slipped by 19 percent. Limited capital was invested in new deals, and no significant divestments[2] occurred, as global credit markets dried up and access was reduced due to spiking prices. ("The New Zealand Private Equity and Venture Capital Monitor 2008," pp. 5–6) Thus, despite initial optimism and success, the recent global credit and liquidity crunch has threatened to disrupt the progress of an already struggling industry.

The timing of the global financial crisis has also had negative implications for NZ's venture capital market. Fiscal years 2007–2008 signaled the end of active investing for many of the VIF's initial funds. The managers are thereby approaching a significant point, where they are looking to divest initial investments and raise funds for the next stage in the investment cycle. As noted by NZ Venture Capital Association Chairman Hamish Bell, "These successes are important in both demonstrating the value these investors bring to the table and in broadening investor interest in the asset class." (Bell) Investors need to know that there are exit opportunities from invested companies in order to feel confident that their investment will produce a profitable return; thus in NZ investors need to see funds seeded in 2002–2003 produce favorable returns to feel secure about committing to further investments. The tightening in the global credit markets, however, is reducing the VC market's ability to raise capital and establish exit investments and is thereby challenging continued development.

[2]Divestments are synonymous with exits — the times when an investor cashes out from an invested company, either through an initial public offering or through an acquisition, and realizes a return or profit.

In addition to interfering with exit opportunities and reducing the performance of NZ's market, the financial crisis is also deterring firm investment, resulting in reduced VC investment opportunities. NZ businesses are facing higher financing costs, tighter credit terms, and greater difficulties obtaining new financing. (Jensen, p. 11) The NZ Venture Capital Association (NZVCA) has reported that "the [global] situation is concerning enough to be characterized as a capital markets crisis for the start-up community." ("No Venture-Backed . . .") With predictions that investment pressures will increase in 2009, there may be a prolonged period of slow growth in firm investment and thus stagnant growth in the VC community. (Jensen, p. 11)

External Challenges

The volatile global economy is only one of many external barriers challenging New Zealand's VC industry. New Zealand's trifling domestic savings levels and underdeveloped capital markets are negatively influencing the VC market's growth potential, while a lack of foreign investment and limited domestic investor diversity are making development increasingly difficult. Altogether, the cards are stacked against NZ's venture capital market.

A Lack of Domestic Savings

At the heart of NZ's problems is a lack of domestic savings. NZ's savings rate is well below the OECD average — and declining — suggesting that NZ may not have the capital necessary for its VC industry to fuel economic growth or reach sustainability. Savings fell from 4 percent of national disposable income in 2005 to 1.6 percent in 2006, and both direct equity and indirect equity[3] holdings are low. Direct equity holdings account for less than 4 percent of assets, compared to 17 percent in the U.S., 9 percent in France, and 6 percent in Australia. (Bollard) With the financial channels, such as banks, institutions, and pensions, responsible for transferring money across the business sectors not receiving investments, there is less capital in the financial markets — and therefore fewer funds in the VC market.

The Underdeveloped Capital Markets

Further complicating the problems associated with a lack of domestic savings are NZ's underdeveloped capital markets. Quality financial systems are essential for VC investment growth, as they channel capital to the firms that put forward attractive returns. Efficient markets also provide the infrastructure for processing entrepreneurs' capital demands by mobilizing savings and allocating credit. NZ's capital markets, however, are thin — the consequence of unbalanced growth and a large external deficit, both of which stem from low domestic savings and strong inflation pressures. ("The OECD Policy Brief . . . ," p. 11)

Although NZ's banking sector is aligned with some of the world's greatest economies, capital markets are interconnected; and NZ's debt, VC, and equity markets are not mature in size, depth, liquidity, or worker skill base. To begin with, the domestic corporate bond market is thin; at less than 5 percent of GDP, it falls short of the OECD's average 39 percent. ("Deepening . . . ," p. 86) One reason for this is high interest rates. Kiwis pay progressively higher bond interest rates than those in other OECD countries, causing high costs of capital while curbing investment at the margin, and thus limiting VC opportunity. ("The OECD Policy Brief . . ." p. 11)

Like the domestic bond market, NZ's securities market is immature. As portrayed in Figure 3, NZ's stock market capitalization is around 40 percent of GDP, well below the OECD's average of 65 percent. The small size of the securities market suggests that NZ will not provide invested firms with an exit route. ("Deepening . . . ," p. 86) With only 174 firms listed on the main NZ Stock Exchange, 29 on the Alternative Market,[4] and 47 with publicly listed debt, it is clear that a significant proportion of NZ enterprise is unlisted, indicating that a vibrant VC market is essential for investors

[3]Direct equity refers to equity investment made independently by an investor. Indirect equity refers to equity investment made through a third party, such as a financial intermediary, superannuation fund, or other managed fund.

[4]The Alternative Market is designed for small to medium high-growth companies.

Figure 3

Market Capitalization of Listed Stocks as a Percentage of Annual GDP: 2002–2006

	2002	2003	2004	2005	2006
New Zealand	32.08%	36.94%	41.17%	38.72%	39.93%
Ireland	44.28%	48.54%	56.88%	60.02%	70.01%
Australia	88.62%	96.00%	114.11%	117.51%	138.76%
United Kingdom	107.12%	123.77%	126.86%	145.38%	150.48%
United States	105.60%	130.16%	139.37%	136.49%	147.75%

Source: "Private Equity and Venture Capital in New Zealand: A Snapshot at September 2008."

to take advantage of the economy's key drivers. ("Deepening . . . ," p. 96)

Given NZ's underdeveloped capital markets, however, a thriving VC market may not be achievable. Without the support of a robust financial system, VC becomes increasingly risky, as weak capital markets limit both public and private exit opportunities. Exit or divestment opportunities from invested firms are important because they provide venture capitalists with a return on their investments; a lack of such channels reduces investment liquidity and increases associated risk, ultimately causing risk-averse investors to turn away from VC. Without the structure of an established financial system and a well-defined stock market to assist efficient growth and development, the VC community will not reach a size where high-growth firms have funding access — at least not in the near future — and even then, the VC market most likely will neither reach sustainability nor evolve into a significant economic leader.

Lack of Foreign Investment Interest

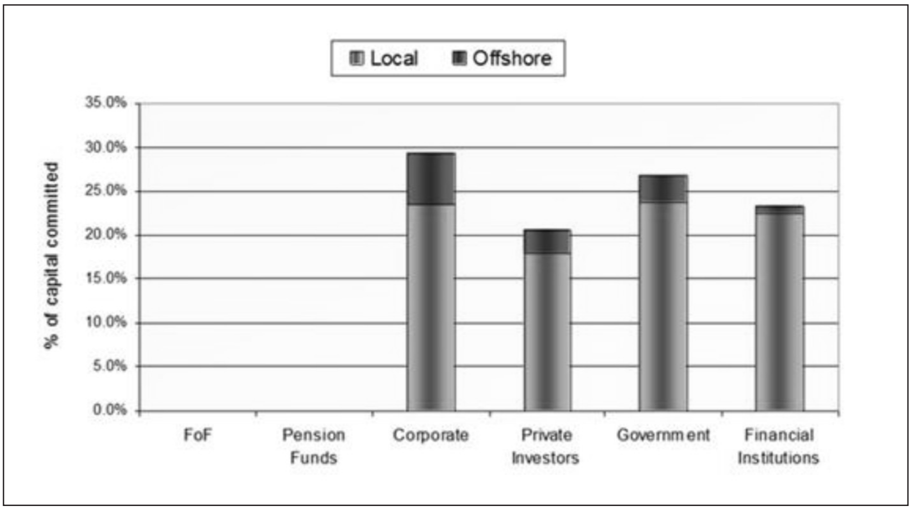
In addition to not having the domestic financial market structure necessary to support a thriving VC community, NZ's venture capital market is also not attracting necessary offshore funding, as displayed in Figure 4. As of 2006 fewer than four percent of international investors were interested in exploring NZ's market, due in part to NZ's isolated location, the small size of many of NZ's funds, and NZ's economic structure, as well as a global perception that investment in New Zealand VC funds is unwise. ("Global Trends . . . ," p. 42) Continued failure to attract offshore investment will further limit the availability of capital in the VC market, causing some VC portfolio companies to fail due to a lack of funding, while restricting the VC industry's growth capacity. ("The New Zealand Private Equity . . . ," p. 20) However, with only limited research, a lack of a favorable returns record, and limited national interest, changing the global community's negative opinion is difficult. (Lerner et al., pp. 108–109)

One of the most basic factors deterring global investors from New Zealand's VC market is NZ's geographical location. When providing VC funds, it is important for the investor to be relatively close to the portfolio company to monitor the invested company's daily development. Without a local presence, foreign investors face a disadvantage relative to the locals in analyzing potential investment opportunities, particularly since information is not easily standardized or assessed remotely. With its isolated geographical location, NZ's ability to attract international investment into the VC market outside of Australia may be limited.

The size of New Zealand's VC funds also diminishes offshore interest. In 2005 many of NZ's funds were only about $50 million, which after administration costs are considered suggests that foreign investment in NZ is not practical. (Lerner et al., p. 108) To put NZ's fund size into a global context, British VC funds in 2002 averaged over $900 million, Japanese funds

Figure 4

NZ Venture Capital Funds — Investor Base 2006



Source: "New Zealand Venture Capital 2011."

about $115 million, and Israeli funds $73 million. Not only are the amounts of capital larger, but these other funds also do not have extensive travel and transaction costs. (Mayer et al., p. 10) So despite growth, New Zealand VC funds are simply not large enough to attract the attention of the major players. This places the VC industry in a difficult position. Offshore investment is a critical ingredient for achieving individual portfolio size and depth, as well as for developing New Zealand's domestic VC market; however, it is the VC market's small size that is a key deterrent to attracting foreign investor's attention.

Offshore investors are also wary of investing in NZ due to underlying macroeconomic factors. In 2006 NZ had a current account deficit of over 9 percent of GDP, which contributed to its having the second highest international liabilities ratio in the OECD at over 80 percent of GDP. ("Deepening . . . ," pp. 11, 87) NZ's indebtedness is indicative of its poor national savings levels and has become particularly significant with the deepening of the global recession. High debt levels make NZ susceptible to foreign investor shifts in sentiment and risk profiles, compounded by the fact that NZ's external liabilities consist mainly of short-term debts. ("Deepening . . . ," p. 87) In December 2008, the NZ dollar had fallen 35 percent from February 2008, mirrored by the NZSE50's 37 percent plummet from May 2007. (Jensen, p. 2) In short, offshore investors may be uncomfortable with the NZ market's volatility, further limiting NZ's ability to attract foreign investment.

Limited Domestic Investor Diversity

As with the lack of international investment interest, research indicates that New Zealand's VC industry is also not attracting the necessary range of domestic investors, as illustrated in Figure 4. To begin with, the figure reveals heavy reliance on government funding, a feature common during the initial development of a VC market. (Lerner et al., p. 61) Global trends, however, suggest that continued dependence on government funding inhibits a VC market's ability to reach sustainability. It is important to note that government funding is low in Europe and non-existent in the U.S. Yet the combination of a limited amount of domestic capital available in NZ's economy for VC investment and a lack of international interest may result in New Zealand's VC market always having to rely on government funding.

Figure 4 also illustrates the virtual absence of institutional investors, such as fund-of-funds[5] and pension funds, in New Zealand's VC market. Institutions generally represent a key source of funding for VC communities. Banks are important to VC in Germany, corporations in Israel, insurance companies in Japan, and pension funds in the U.S. and U.K. Australia projected in 2006 that over 55 percent of VC and private equity (PE) investment was sourced from institutional investors. ("NZVIF Annual Report 2007," p. 8) Estimates in 2007, however, suggest that NZ institutions accounted for only 20 percent of VC and PE funds. Thus it appears that NZ's venture capital market is not receiving the funding and support of an important category of investors, a group that often plays a significant role in the development of a sustainable and mature market.

In addition to a lack of participation among institutions, there is also a large difference between the amount that NZ and foreign institutions commit to VC. In 2005 the average strategic portfolio investment allocation of endowment and pension funds in private equity was 4.5 percent in Europe, 6.3 percent in Australia, and 8.2 percent in North America. (Tregaskis, pp. 11–12) Melville Weaver's 2007 survey, however, found that NZ institutional fund managers allocated an average of less than 1.8 percent of funds to private equity, of which allocations were often concentrated in a small number of funds investing offshore. (Tregaskis, p. 12) In view of the more mature VC industries' heavy reliance on institutional investment, NZ will not be able to sustain the growth and development of its fledgling VC market with only the minimal contributions of a few institutions.

The reasons that institutions are turning away from VC include a lack of capital and VC's illiquid nature. Research on NZ institutions' asset allocations by the NZVIF during 2006–2007 revealed that the NZ institutional investment market is small. The majority of NZ institutions had less than $5 billion of assets; and of New Zealand's 576 registered superannuation funds, only 77 had assets larger than $50 million. (Tregaskis, pp. 12–13) When NZ pension fund assets and life insurance investments as a percentage of GDP were compared to other OECD countries, NZ was fourth from the bottom of the rankings. ("Deepening . . . ," p. 89) Overall, the small size of NZ institutions suggests that institutions have a lack of funds to dedicate toward VC and a lack of resources for employing in-house VC expertise. (Palmer)

VC's inherent illiquidity is another concern for institutional investors. Investment products in NZ have early redemption options that allow investors to remove capital on demand. This retail nature forces managers to allocate a large percentage of capital to more liquid assets to account for potential redemptions. Investing in VC is thereby difficult because VC requires a long-term investment, which limits a manager's ability to withdraw capital early. Including a high percentage of long-term assets or VC thus generates volatility in a portfolio's liquidity, because early conversions of liquid assets increases the percent of capital dedicated to VC, which reduces the ability to provide future early redemptions. Without more long-term plans, the need to maintain a liquid portfolio will limit NZ institutional investment in VC. (Tregaskis, p. 12)

Internal and Cultural Barriers

In addition to the many external barriers impeding the development of New Zealand's VC market, internal growth barriers are also prevalent. One example is inexperienced fund managers. Venture capitalists are not matching firm's investment expectations, creating internal tension among participants and contributing to the lack of international and local support. According to LECG Consulting's 2005 Report, "Inexperience is prevalent. . . . Almost every [survey] participant cited 'experience' as a significant barrier to growth." (Lerner et al., p. 92) There is a lack of alternative investment understanding among both investors and managers and limited resources for accessing investment opportunities. ("NZVIF Annual Report 2007," p. 8) Until managers gain investing experience and earn a respected reputation, the VC industry faces the challenge of providing an acceptable service to firms.

A cultural barrier also exists in NZ, present in the self-imposed glass ceiling referred

[5]A fund-of-funds is an investment fund that holds a portfolio of other VC funds rather than investing in individual high-growth firms. ("NZ Private Equity . . .")

to as the "Three B's." The "Bach, Boat, and BMW" mentality is a cultural tendency for Kiwis to grow their business to a set sales level, generally to several million dollars, and then lose interest in further development. (Bollard) According to Waikato University academic Ed Vos:

> Nine out of ten of these [small and medium enterprises (SMEs)] just want to be happy and see chasing an extra dollar by growing their business as getting in the way of that pursuit. . . . They expand to a self-imposed plateau . . . then contentedly trundle in their BMWs, taking holidays in their baches[6] and making waves in their boats. (Vos, as quoted in Booker and Hurman)

Consistent with Vos's assertion, a Massey University survey confirmed that SMEs valued stability and quality of life over firm growth. (Booker and Hurman) Such apathy toward firm growth suggests that Kiwis are not pursuing innovative ventures or growth initiatives — an unfavorable situation for NZ's venture capital community because these are the pursuits that rely on VC funding. The "OECD Reviews of Innovation Policy New Zealand" recommended that the NZ government use tax incentives to move SMEs beyond the "Three B's." ("OECD Reviews . . . ," p. 94) Such indifference is difficult to change, however, because it is part of NZ's psyche; but with only two percent of SMEs interested in high growth and achievement, the Three B's mentality has far-reaching implications for both the economy and the VC industry. (Booker and Hurman)

The Investment Environment: Recent Regulatory Changes

One way that NZ can begin to address the aforementioned challenges while also supporting VC development is for NZ policymakers to create an investment environment conducive to alternative investment. Since the release of LECG's 2005 report — which identified unfavorable tax and regulatory policies as hindering the development of the VC market — legislation has been introduced to encourage business investment, innovation, and savings. With regard to improving the wider investment market, a business tax reform package was enacted for the 2008–2009 tax year. The reform package cut company tax rates, reduced domestic savings vehicles tax rates (including those of superannuation schemes, unit trusts, and other managed funds), and installed a 15 percent R&D tax credit. The most promising legislation for the New Zealand VC investment environment, however, was the passing of the Limited Partnership[7] Bill in May 2008. Introducing limited partnerships removed the largest regulatory barrier to attracting foreign funding, while demonstrating the government's commitment to promoting the investment community's development. ("Incentives . . .")

An additional policy initiative that will positively affect the VC industry occurred in April 2008 with the implementation of KiwiSaver, a voluntary private contributory saving scheme discussed in Andrew Remis's essay in this volume. KiwiSaver may increase both national savings and household savings of financial assets. These in turn would increase domestic capital, reduce NZ's high cost of capital, and stimulate business investment, thereby creating VC opportunities. In addition, as a pension scheme KiwiSaver funds can be invested in less liquid long-term assets, such as VC. Investment by KiwiSaver in VC would diversify the VC market's investor base while also expanding the amount of capital available to the VC industry. In the long term, KiwiSaver may alleviate the current shortage of domestic capital available for VC funding, thereby helping to provide the tools to create a mature VC industry.

Policy changes have also been occurring in the VC industry. When the NZVIF's venture capital program was established, it matched private sector seed funding and start-up investors' investment at a 1:2 ratio; the ratio is now 1:1. The increased fund commitment should help attract additional private capital into the market, while also increasing the speed with which committed funds are invested. As NZ's Economic Development Minister Trevor Mallard stated:

[6]"Baches" are small vacation or beach homes in New Zealand.

[7]Limited partnerships (LP) are the international standard legal and tax structure for VC investment. In an LP, the limited partner's exposure to firm debt is limited to the amount of money the limited partner has invested in the firm.

> The changes to VIF were important if VC was to continue to contribute to New Zealand's economic transformation into a high-wage export-led and innovative economy. The initial investment momentum generated by VIF has slowed and it appears the current structure is not attractive enough to encourage further private investment co-investment in new VIF funds. (Mallard)

In short, NZVIF's new investment mandate should generate a greater flow of capital into the VC market, allowing a greater number of firms to receive funding while also sustaining growth.

Domestic Prospects for the Future: A Fund-of-Funds Investment Vehicle

In addition to re-evaluating its current policy, NZ can also improve the investment environment by implementing a fund-of-funds (FOF) venture capital investment vehicle (see footnote 5). NZVIF research has verified institutional interest in a NZ Private Equity FOF, an unlisted PE investment product targeting domestic investors. FOFs are attractive to both larger institutions and to smaller investors with limited resources. They address scale issues by pooling capital, manage risk through diversification, and address NZ funds' liquidity needs by enabling investors to stagger investments into multiple FOF products. (Palmer) Private equity FOFs give investors exposure to the unlisted sector and access to diversified portfolios without investors having to employ a costly investment program, providing an attractive solution for institutions, offshore investors, and wealthy individuals interested in the VC market. In short, such an investment vehicle would provide new investors with the tools to capitalize on the VC industry, bringing a greater flow of capital and investors to the VC community. ("NZ Private Equity . . .")

Establishing a FOF was at the top of the NZVIF's agenda for 2008–2009. The NZVIF began addressing the FOF structure, with plans to launch it in 2008; however, the poor domestic economy and struggling global market interfered. In 2008 the FOF was put on hold, with no plans of resuming implementation until the investment climate improves. ("Statement of Intent . . .") Although stalled, the FOF must not be forgotten, as it will enable access to and participation in the VC market by important domestic investors.

A Trans-Tasman Approach

In addition to domestic initiatives, there are also opportunities for global endeavors. For example, NZ needs to determine whether continuing to build an independent VC market is its best option. Moving forward, NZ's VC industry should consider developing a comprehensive partnership with the Australian market. Collaboration would give NZ the scale and resources to enjoy the associated benefits of a mature VC industry, benefits that NZ may not be able to bring about alone. Investment levels from NZ into Australia and vice versa have increased since 2003, suggesting that strengthening financial ties through shared ventures would be both viable and beneficial. (Bascand) Furthermore, of the highly developed economies, entrepreneurial activity rates are highest in Oceania (i.e., Australia and New Zealand). (Autio, p. 12) With NZ already considered to be a part of the larger Australasian market, establishing a joint market with Australia may be the solution to the difficulties facing New Zealand's VC industry.

The advantages of a joint market extend to both countries. For New Zealand's VC market, access to Australia's wide investor base, which includes pension funds and FOFs, would provide NZ with a more diversified investor base. A more diversified investor base is favorable because it increases available funding, provides investors to match already committed capital, and reduces heavy reliance on other domestic investor groups. Combining markets would also expand NZ's investment networks and contacts, bringing experienced fund managers and investor confidence to NZ's venture capital community. Overcoming the basic hurdles present in the market's youth would allow NZ to capitalize on the benefits of a thriving VC market.

Collaboration benefits apply to Australia as well. Australia's VC market is at the lower end of OECD countries with respect to VC invested as a percent of GDP and is feeling the full force of the 2008 global financial recession. For example, Australia's biotech sector is suffering from a funds crisis, with private investment capital falling 80 percent during 2008. (Cresswell) NZ's biotech community, on the other hand, received over 50 percent of all NZ venture capital funds in 2008 and 25 percent of government research funding, both larger shares than in the U.S. or Europe. (Giovanetti and Jaggi) A joint market — and access to additional funding — would thus put Australia's VC community on a playing field closer to international expectations.

Altogether, a joint VC market would augment the scale of both markets, attract international funding, bring greater flows of capital, enable access to a wider spectrum of firms, and further diversify the investor base of both markets. Additionally, both Australia and NZ would gain the resources to be able to provide firms with funding access throughout the business cycle. In short, the advantages promoted by trans-Tasman VC collaboration suggest that it would be attractive to both countries.

The Free Trade Agreement with China

As does Australia, China also offers opportunity for New Zealand's VC market. China is an international funding hotbed, and NZ has an opportunity to capitalize on China's VC market by taking advantage of the recent Free Trade Agreement (FTA) between the two countries, discussed in detail in Stuart Schnabolk's essay in this volume. In addition to enabling Chinese technology to be commercialized in NZ, provisions of the FTA relative to NZ's VC market include establishment of both national treatment and most-favored-nation (MFN) non-discrimination status with respect to market access and protection for investment, as well as agreement to free transfer of funds. National treatment alleviates the intellectual property and quality control issues that NZ firms had previously faced in China by committing China to providing NZ investments with treatment and protection equal to that of Chinese nationals. Alleviating these issues made business expansion into China more attractive while also increasing the demand for VC to sponsor such growth. MFN nondiscrimination status is also desirable as it guarantees that market access and investment protection will remain at the highest standards, enabling continued VC investments in China in the future. Such status guarantees that, if China should offer more favorable investment treatment to a third country than what is currently extended to NZ, the treatment will also apply to NZ. In other words, NZ has secured and will continue to be granted the most favorable investment treatment offered by China. Like MFN non-discrimination status, free transfer of investment funds is also beneficial for New Zealand's VC community. Unlike Western countries, China taxes offshore fund gains at higher rates than it taxes domestic funds. (Pukthuanthong and Walker, p. 723) Free transfer of funds means that NZ firms will no longer face capital gains taxes, giving NZ firms and the VC industry an advantage over much of the global community.

One way that the VC community can capitalize on access to China is by forming syndicates with Chinese VC firms. The FTA has already encouraged the New Zealand VC firm Endeavour Capital and the Chinese VC firm Wuhan Huagong Venture Capital Company to form a syndicate. The deal requires that each company contribute $50 million for science and technology investment in both NZ and China. The syndicate is the first of its kind, but illustrates that collaboration between VC firms in both countries is possible. ("Venture Capital Firm . . .") Syndicates between Chinese and NZ firms benefit NZ's venture capital community by bringing access to additional capital and by expanding venture capitalists' exit opportunities and could offer an alternative means for expanding NZ's domestic venture capital industry in the future.

NZ also needs to advertise Chinese opportunities to the global VC community to attract foreign satellite offices. The FTA's provisions make NZ an attractive location for foreign VC firms to set up headquarters for Asian investment. Establishing a local office in NZ removes the capital gains tax faced by offshore investors and diminishes long-distance investment problems, due to NZ's geographical proximity to China. Having offshore investors use NZ as a base for Chinese investment benefits the New Zealand VC market because it will bring additional capital to the economy, some of which should then flow into VC. In short, the opportunities created from relations with China have the potential to greatly assist the VC market's development.

Conclusion

The NZ government's recent implementation of the NZVIF and dedicated focus to improving the investment environment have been invaluable, resulting in the VC community experiencing initial growth. It will be a long and difficult road, however, before New Zealand VC is on par with global standards and can provide the benefits of a thriving VC market. As stated by LECG Consulting's 2005 study, "Interviewees were concerned that even if New Zealand venture capital grew significantly and performed well, it would inevitably be difficult (or nearly impossible) to outperform other international countries." (Lerner et al., p. 92) Distance from major markets makes keeping the international connections essential to innovation and growth difficult, while domestically the combination of institutions' reluctance to invest in VC and entrepreneurs' preference for a "lifestyle business" under the conditions of the "Three B's" are significant hurdles to building a mature VC market.

Adding to already difficult conditions are the underdeveloped capital markets and their components, which ultimately may be the largest constraint on the VC market's development. The NZ stock market lacks breadth and depth, its domestic bond market is illiquid, and Kiwis pay high bond interest rates relative to other OECD countries. NZ needs a deeper and more sophisticated financial system — markets that can offer the comprehensive menu of services that firms require, including providing the channels for firms to raise funds and pursue the commercialization of innovative ideas — if the VC industry is expected to reach its full potential.

Moving forward, the VC industry should continue to improve the investment environment. Even with positive change, however, the challenges ahead suggest that the VC market is not going to be the strategic element for stimulating NZ's economy nor the leader for developing the capital markets. Instead, due to the many difficulties inhibiting the VC market's expansion, NZ's venture capital industry will only reach its own potential as the other financial market segments align with international standards as well.

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THE FOLLY OF LOOKING ONLY IN THE MIRROR

Ashley E. Pritchard[1]

Introduction

New Zealand's immigration policy has undergone important changes in the past several years. The 1990s saw short-lived surges amounting to the highest net migration gains in over one hundred years (the so-called "Asian invasion" of the mid-1990s), some of the highest net migration losses of New Zealanders on record (the oft-noted "brain drain" of the late 1990s), and belated recognition that much of what is called "permanent and long-term migration" is not, in fact, permanent or long-term at all. (Bedford et al., p. 1)

New Zealand's future economic success is uncertain because it lacks within its current population some of the labor and technological skills needed to sustain economic growth. It is necessary, then, that it maintain an immigration policy that works to import these skills, logically from its skilled neighbors: Asians and Pacific Islanders. New Zealand has been and continues to be largely accepting of peoples from the United Kingdom, the United States, and Canada. However, New Zealand remains constantly uninviting to the "others" — its Asian neighbors — despite the considerable skills that they possess. Even though its immigration policies and initiatives have changed to no longer prohibit Asian immigration, attitudes toward settlement have not. It is because of this latent xenophobia that New Zealand's immigration policy is arguably the country's most contentious social issue. Each shift in policy has been met with harsh anti-immigration backlash and debate. (Grbic, p. 1) In fact, the unintended consequence of two immigration

[1]With sincere appreciation to Professor Pinaire for tossing the first draft and imploring me to write with my soul.

acts that were passed in the late 1980s and early 1990s was to effectively restrict immigration policy.

In the last few decades, the composition of immigrants in New Zealand has shifted away from traditional source countries and toward individual applicants with skills that can benefit New Zealand's economy. (Winkelmann) By the late 1980s, economists and government officials realized that, in order for New Zealand to remain competitive in the global market, it needed to import skilled workers. The Immigration Acts of 1987 and 1991 worked to solve this skill shortage, bringing in immigrants from all around the world under a modified open door policy. More immigrants entered New Zealand from countries whose immigrants were rarely before seen in New Zealand — such as China, India, and Japan. However, New Zealand's covert xenophobia was awakened with the passing of the two immigration acts and continues as a dominant force in today's political life.

New Zealand's xenophobia has stunted the country both economically and socially. Gordon McLauchlan, a prominent commentator from the *New Zealand Herald,* notes that this "nervous xenophobia that afflicts island peoples" has prevented New Zealand from truly developing as a country. He also argues that New Zealand society "lacks diversity and size in the modern world. We have an economy smaller than many corporations in the United States and Europe, smaller than many American investment funds — about the same size as the Coca-Cola franchise in Biloxi." (McLauchlan, quoted in Bedford et al., p. 13)

This article attempts to explain how New Zealand's xenophobic immigration policies have hindered its economic growth and development in the global community. Following the 1987 and 1991 Immigration Acts that opened New Zealand borders to non-traditional source countries, the record shows rising conflict between native New Zealanders and "the others." This conflict has manifested itself in the rise of the political party New Zealand First, as well as through unfavorable media coverage of New Zealand's policies toward immigration and public opinion toward immigration. In fact, today's immigration policy largely reflects the same closed-door opinion that New Zealand has held about foreigners for centuries.

A History of Immigration in New Zealand

New Zealand was first settled by the Māori, who arrived by canoe between 750 and 1350 AD from various eastern Polynesian Islands. Although the first European contact was not made until the late eighteenth century, the Treaty of Waitangi in 1840 established British sovereignty over the country. (Winkelmann, p. 2) All British citizens were entitled to unrestricted access into New Zealand, along with the status of "instant citizen." No legal or cultural distinctions were made between the British and New Zealand residents. (Fleras and Spoonley, p. 152) The continuing immigration of the British (and later their Irish neighbors) was aided by an unofficial "white-only" immigration policy framework, which was maintained until the late 1980s. (Grbic, p. 2)

Between 1881 and 1921, more than eleven acts were passed in New Zealand's Parliament with the express purpose of restricting the entry of Chinese and other Asian "races." (Fleras and Spoonley, p. 159) In fact, New Zealand's early immigration policy made it legally possible for the country to keep out its Pacific Island and Asian neighbors. Therefore, it was not surprising that the 1921 census showed that 99 percent of New Zealand's 1.2 million population, excluding the Māori population, claimed British nationality. (Grbic, p. 2)

In the late 1800s while the country was being settled, the New Zealand government offered assisted passage schemes, by which the government paid travel fares for immigrants from the British Isles to move to New Zealand. (Winkelmann) In the 1950s and 1960s, New Zealand re-opened these assisted passage schemes in an attempt to regain the previously substantial immigrant population from the British Isles that was beginning to decrease noticeably. While the overall net migration gain remained relatively stable at 10 to 20 thousand per year throughout the 1960s, these annual flows constituted less than 1 percent of the population at the time. Immigration had thus become a relatively small component of New Zealand's population growth compared to the early years of colonization. (Winkelmann, p. 3)

A memorandum produced by the Department of Internal Affairs in 1953 summarizes New Zealand's immigration policy at the time:

> Our immigration is based firmly on the principle that we are and intend to remain a country of European development. It is inevitably discriminatory against Asians — indeed against all persons who are not wholly of European race and color. Whereas we have done much to encourage immigration from Europe, we do everything to discourage from Asia. (Fleras and Spoonley, p. 160)

Later on, during the 1970s and 1980s, turbulent times began to characterize New Zealand's immigration policy. Ups and downs in net migration flows occurred, the result of cyclical changes in immigration policy decisions. (Winkelmann) For example, a typical policy cycle consisted of a promotion of immigration during times of labor market shortages. However, delays between the recruitment and the arrival of immigrants meant that immigrants sometimes arrived after the labor shortage disappeared. This produced hostile attitudes towards immigrants in the native population and a subsequent restriction of immigration. (Winkelmann, p. 5) Furthermore, New Zealand's immigration policy had followed a traditional-source-country list ever since the 1840s, but after 1976 immigration became subject to both an occupational priority list and to a preferred-source-country list. (Winkelmann, p. 11) The preferred-source-country list looked much like New Zealand's previous traditional-source-country list, however. This meant that if an employer wanted an immigrant from a country that was not on the preferred list, he had to *prove* that it was impossible to acquire those skills from one of New Zealand's preferred-source countries.

In 1986 a long-awaited review of immigration policy was introduced in Parliament by the Labour Government. (Bedford et al., p. 6) With the consequent passage of the Immigration Act of 1987, race, culture, and national origin were removed as criteria for immigrant selection, making New Zealand the last country in the world founded by immigrants to discard such discriminatory provisions. (Fleras and Spoonley, p. 161) Moreover, by the early 1990s official policy had identified Asian markets as engines for growth, Asian investments as pivotal in internationalizing New Zealand's economy, and Asian immigrants as catalysts for expanding the country's pool of human capital. (Fleras and Spoonley, p. 155) Asia had cutting-edge technology, ongoing research, and trained technicians that could greatly aid New Zealand. But in order to gain access to Asia's technologies and investments, New Zealand had to change its "white-only" immigration policy.

In 1991 the Immigration Amendment Act was passed and the current point system was established. The new act granted entry into New Zealand if an immigrant's skills matched the needs of the New Zealand economy. Since the labor market had a relatively high proportion of unskilled New Zealand-born workers, importing skilled workers seemed a relatively inexpensive and immediate way to overcome a shortage of skilled labor. In theory, this change would benefit both unskilled New Zealand-born persons and, in particular, owners of New Zealand's capital. (Winkelmann, p. 18)

The 1991 act established four main categories for obtaining permanent residence in New Zealand: the General Skills, Business Investment, Family, and Humanitarian categories. In 1996, 61 percent of all immigration approvals came from the General Skills category, 25 percent from the Family category, 10 percent from the Humanitarian category, and 4 percent from the Business Investment category. This breakdown is different from that of most countries (such as Australia) where family reunification is the major reason for migration. Table 1 lists the elements of New Zealand's General Skills point system, according to which points are awarded depending on the characteristics of the worker.[2] In the category labeled "Employability," there are several different factors. The factor "Work Experience" measures how many years the applicant has been working in his/her prospective field. The "Offer of Employment" factor indicates whether or not the immigrant applicant has received an offer of employment in New Zealand prior to his/her approval. The factor also assigns a point value to the age of the applicant, with the age range of 25–29 years being the "most desired." In the second column under "Qualifications" the

[2] As of October 1995.

Table 1

Summary of Points System in General Skills Category

Employability		Qualifications	
Work Experience		Base Qualification	10
2 years	1	Advanced Qualification	11
4 years	2	Masters Degree or Higher	12
6 years	3	**Settlement Factors**	
8 years	4	*Settlement Funds*	
10 years	5	$100,000	1
12 years	6	$200,000	2
14 years	7	*Partner's qualification*	
16 years	8	Base qualification	1
18 years	9	Advanced qualification	2
20 years	10	*New Zealand work experience*	
Offer of Employment	5	1 year	1
Age		2 years	2
18–24 years	8	*Family Sponsorship*	3
25–29 years	10	*Maximum Settlement Points: 7*	
30–34 years	8		
18–39 years	6		
8–44 years	4		
18–49 years	2		
Maximum Age: 55 years			

Source: Winkelmann and Winkelmann.

applicant's educational credentials are assessed. Individuals who have attended a university or who have continued on to receive a Masters or PhD degree are awarded more points in this category. In the "Settlement Factors" category, more points are awarded if an immigrant is judged to be easily able to adjust to a new life in New Zealand. Partner qualifications are also taken into account in this category in judging whether the immigrant's partner will also be able to find work and have an easy transition. The "Family Sponsorship" factor takes into account whether an immigrant already has family living in New Zealand and whether the family is sponsoring its family member to come to New Zealand. There are additional base qualifications that must be met in New Zealand's point system, but generally speaking, immigrants had to maintain a minimum 25 points in order to gain residency in New Zealand in the General Skills category.

Judging by the evidence (e.g., see Winklemann and Winklemann, as well as the Hudson Report), the radically different policy was considered to be quite successful, especially since immigrants had significantly higher education levels than the New Zealand-born population. (Winkelmann, p. 18) Unlike in the United States, where most immigrants are low-skilled, in New Zealand immigrants (in the 1990s) had much higher educational levels than native born workers, with 44 percent of immigrants in 1996, for example, having obtained university degrees versus only 10 percent of the New Zealand-born. (Department of Labour) Yet many New Zealand natives did not seem to be concerned with the positive economic impact that these immigrants would make; instead, they seemed more concerned about their ethnicity. The resulting boom in immigration from 1994–1996 became controversial not only for its sheer magnitude, but also because of its composition. The countries from which most immigration requests were approved in 1996 included Taiwan, China, India, South Korea, Hong Kong, and the Philippines. And in the 1996 census, the proportion of recently arrived foreign-born residents from Asia was 47 percent. (Ho et al.) In short, the new immigration policy was successful in acquiring the much-needed skills for New Zealand's economy; yet the source countries of recent immigrants were radically different from those of any immigration initiative in the past.

The Promulgation of Racism during the 1990s

The 1987 and 1991 immigration acts were an attempt to deal with New Zealand's struggle with the acceptance of "the other," yet the attitudes remained. New Zealand's continued xenophobic attitudes were expressed in a 1996 poll showing that 60 percent of New Zealanders believed that it was necessary to reduce immigration. (Fleras and Spoonley, p. 178) Likewise, the lives of the immigrants themselves were affected by such attitudes. According to an Auckland survey taken during the same year, one in four immigrants felt "fairly or very unwelcome," while one in five was concerned about "overt racism." (Fleras and Spoonley, p. 187)

Peters and New Zealand First

The most outspoken individual regarding immigration policy has been Winston Peters, leader of the New Zealand First party. Under the headline "Whose Country Is It Anyway?" Peters' leaflets have railed against Asian immigrants, falsely claiming that hundreds of thousands of Asian immigrants are coming into New Zealand and blaming them for, among other things, traffic problems in Auckland. These immigrants are, according to Peters, poor enough to be leeches on the welfare system yet rich enough to drive up the cost of housing. (Fickling, p. 3) When the Malaysian prime minister Dr. Mahathir bin Mohamad warned that Peters' opinions would be interpreted by Asian countries as a sign that New Zealand did not want to be a part of Asia, Peters stated that "New Zealand was not part of Asia, nor did New Zealanders want it to be." (Peters, as quoted in Miller, p. 206)

While radical opinions might take hold in any political spectrum, New Zealand First is not a political anomaly. It was the third-largest party in Wellington's Parliament; and, until 1999, Mr. Peters was the country's deputy prime minister. (Fickling, p. 2) In fact, Mr. Peters' 1996 election-year immigration-policy platform that would cap immigration at 10,000 per year was later adopted as official New Zealand policy in December 1997.

Media Promotions of Racism during the 1990s

During the period from 1993 to 2003, several reports were put out that analyzed media coverage of immigration in New Zealand. The findings of these reports showed overwhelmingly negative attitudes towards immigration, suggesting that the content of the print media during this time articulated certain stereotypical and negative images about "Asian" immigrants. (Spoonley and Trlin) Certain media phrases were repeated over and over such as "Inv-Asian" and "Asianisation" [of New Zealand], creating a negative depiction of the immigration flows during the late 1990s. The media also gave widespread coverage to the views of Winston Peters and New Zealand First. Peters himself focused on certain negative aspects of immigration, such as Asian driving habits or the pressures placed on infrastructures and services (e.g., education) by immigrants. (Spoonley and Trlin)

Ultimately, the media influence the way in which political agendas are constructed and understood, as well as the ways in which the images and language of public and private debates are formed. (Spoonley and Trlin, p. 11) For New Zealand, a negative portrayal of immigration was detrimental to the social cohesion of the country. Many Kiwis bought into the New Zealand First campaign, believing and spreading the negative media stories on immigration, which in turn created more division within the country.

Public Opinion Polls

In 1995 a survey[3] was conducted to measure attitudes towards immigration. A total of

[3]Survey conducted by Douglas Grbic and referenced in his "Social and Cultural Meanings of Tolerance: Immigration, Incorporation, and Identity in Aotearoa New Zealand."

1,043 New Zealanders were asked to rank their stance on immigration based on five questions. The results were then compiled into a single additive variable measuring anti-immigration sentiment. The possible values of the variable ranged from 5 (extremely pro-immigration) to 25 (extremely anti-immigration). The average response was 14.46. (Grbic, p. 7) Other public opinion polls similarly found a strong dislike towards immigration, with one poll in March 1996 revealing that 78 percent of New Zealanders wanted the number of Asian immigrants reduced. (Miller, p. 206)

Discrimination toward Immigrants in the Job Market during the 1990s

Public attitudes toward immigration expressed in the media also extended to the job market. Immigrants often complained of discrimination in employment and of difficulties in finding a job, despite their high skill levels and certifications. Various employment studies indeed showed that Asian immigrants had a lower probability of finding employment and lower incomes, if employed, than New Zealand-born workers of the same age and education. (Winkelmann and Winkelmann, p. viii)

In each of the census years (1981, 1986, 1991, 1996, and 2001) disparities in educational attainment between the immigrants and natives were seen. (Winkelmann and Winkelmann) In 1996, for example, 44 percent of recent immigrants (36 percent in 2001) had university degrees versus only 10 percent of the NZ-born (12 percent in 2001). (Department of Labour, p. 6) Immigrants entering New Zealand in 1996 without any qualifications represented 23 percent of the total population of all immigrants (14 percent of recent immigrants), compared with 30 percent of the New Zealand-born. (Winkelmann and Winkelmann, p. vii) Overall, immigrants coming into New Zealand in the late 1990s were much more likely to hold a university qualification and, at the other end of the spectrum, much less likely to have no qualifications than the native New Zealand population.

To a large degree, the employment patterns appeared to depend not on skill or qualification but on ethnicity and country-of-origin. For Pacific Islanders in the late 1980s, employment opportunities were particularly grim. In one study,[4] Poot and his colleagues show that in 1981 recent immigrants from the UK, Australia, and North America had unemployment rates that were relatively similar to those of the New Zealand-born. By contrast, unemployment rates among recent immigrants from the Pacific Islands were several times higher than those of New Zealand-born workers, as well as other immigrant groups. (Winkelmann, "Immigration . . .") Moreover, unemployment rates of immigrants born in the Pacific Islands appeared to take much longer to converge to the unemployment rates of the New Zealand-born (up to 15 years). (Winkelmann, "Immigration . . .") For Asians, employment opportunities were also poor. Despite the fact that Asian immigrants were entering New Zealand with higher skill levels than the general population, Asian immigrant unemployment rates were very high. For example, in 2001 Asian immigrant unemployment rates were about 18 percent, more than double that of the general population (7.5 percent). (Ho et al.)

Income statistics also demonstrate a disconnect based on ethnicity and country-of-origin. Zodgekar used 1991 census data to find that immigrants from traditional source countries such as the UK had much higher average incomes than immigrants from the Pacific Islands and Asia. (Winkelmann, "Immigration . . . ," p. 17) Skilled Asian immigrants had a particularly large initial income disadvantage. For example, on average the income of a 25-year-old university Asian graduate even fell short of the income of a native high-school graduate. (Winkelmann and Winkelmann)

Further research showed that immigrants from the UK and Ireland had higher participation rates, employment rates, and incomes than other groups of workers, but that Asian and Pacific Island immigrants who came in through the Business Skills category tended to have less favorable outcomes in each of these three areas, despite their higher skill levels. (Winkelmann and Winkelmann, p. viii) Overall, recent immigrants from Asia had the lowest full-time employment rates among all recent immigrants (including Pacific Islanders). Only 31 percent of

[4]Study conducted by Jacques Poot and referenced in Liliana Winkelmann and Rainer Winkelmann's "Immigrants in New Zealand: A Study of their Labour Market Outcomes."

recent Asian immigrants of working age were employed in March 1996, compared to 76 percent of recent UK immigrants. (Winkelmann and Winkelmann, p. viii)

Why Is There Hostility?

Few issues are as likely to provoke and divide New Zealanders as that of immigration. For everyone who supports immigration as a catalyst for sustainable growth and expanded opportunities, there is someone who laments its eroding of the social and cultural fabric of New Zealand society. (Fleras and Spoonley, p. 175) There are many reasons why New Zealanders are covertly, if not overtly, resistant to multiculturalism and immigration. Below I discuss four main social theories that might explain this phenomenon.

One theory holds that individuals who suffer the most from economic disadvantage tend to view immigrants as a threat to their own employment and job opportunities. Research has shown that low socioeconomic status has a strong positive association with anti-immigration sentiments. (Grbic, p. 3) Therefore, in the local Kiwi context the lower the socioeconomic status, the less tolerance individuals will have for immigration. However, the fact that immigrants from traditional source countries are succeeding in New Zealand's economy suggests that this phenomenon cannot be explained by economic disadvantage alone.

Another theory that might explain New Zealand's attitude toward immigrants stresses the importance of size. To New Zealanders, size is important; and for a country that is slightly larger geographically than the UK with a population only a quarter that of London alone, smaller groups, factions, and opinions can have a greater impact. (Move to New Zealand, p. 1) In his macrosociological theory, Blau defines social structure as a "multidimensional space" of different social positions. (As explained in Grbic, p. 4) Social positions are differentiated by two forms — heterogeneity and inequality. Heterogeneity is defined by structural parameters such as race and religion, which determine the distribution of individuals by social groups. On the other hand, inequality is defined by the degree of social distance between individuals, such as income and education. When there are few or no differences within a group — that is, when there is little heterogeneity and little inequality — the greater is the status of "homophily," love of the same, as similar individuals tend to cluster together. (Grbic, p. 4) In New Zealand, for the first two hundred years of its existence, immigrants were arriving from the same handful of European countries. Therefore, homophily, love of the same, could easily be established because the commonalities among persons greatly outweighed the differences. However, with the change in immigrant source countries and the inflow of immigrants from very different regions during the late 1980s and 1990s, there were stark apparent differences that created divided group associations.

A third theory as to why New Zealanders are largely opposed to immigration is based on their unique historical context. In the New Zealand context, intergroup conflict, as Fleras and Spoonley point out, arises from "fundamentally different standpoints in the social hierarchy. . . . Māori and Pākehā,[5] as colonized and colonizer, tend to see the world differently, with each arguing from positions that the other cannot understand or accept because of differences in social status." (Fleras and Spoonley, as quoted in Grbic, p. 4) This conflict between majority and minority groups relates to new immigrants in two ways. The majority group, the Pākehā, will tend to be more anti-immigration since they, as the dominant group, believe that minority groups should assimilate into their society. (Grbic, p. 5) The Pākehā dominate New Zealand quite visibly; and with new immigrants coming from "colored skin" countries, assimilation becomes much more difficult. Ironically, the Māori minority are also against immigration because they feel they are fighting their own battle for recognition and biculturalism in New Zealand. They believe that other outsiders would dilute this Māori presence.

Yet another social theory explaining New Zealand's hostility to outsiders is the theory of national identity. National identity is a sentiment, form of culture, or social movement that focuses on one's own country. New Zealand, an island country, was settled by two different

[5]The Māori word to describe the British colonizers of New Zealand.

cultures: the Māori and the Pākehā. Both cultures are drastically different from one another and came from opposite corners of the earth. The Pākehā in the past had taken on the role of colonizer, choosing to control and colonize New Zealand and its Māori people. In the 1980s, the uneasy transition towards a post-colonial biculturalism,[6] a desire by the Māori to be recognized with the Pākehā as original settlers of New Zealand, and the expansion of non-traditional sources of immigration led many to conclude that "New Zealand at the turn of the millennium is experiencing a crisis of national identity." (Grbic, p. 3) As Fleras and Spoonley state, "Debates over Asian immigration, together with Māori ori challenges to the status quo, have shattered the complacency [New Zealanders] once had by confronting New Zealanders with the most basic of questions pertaining to national identity: "Who are we?" (Fleras and Spoonley, p. 152)

The founding of New Zealand dates back centuries, but the original Treaty of Waitangi is where most point to as the start of conflict. In 1840 the Treaty of Waitangi established British sovereignty over New Zealand, while it also recognized the Māori ownership of their lands. Since the signing of this document, the Pākehā and Māori have argued and fought continuously over power and recognition. Māori continue to fight for biculturalism — desiring the recognition of two distinct settlement groups in New Zealand — whereas the Pākehā instead see New Zealand as the land of her Majesty the Queen, striving to preserve its purity. Put simply, the identity of New Zealand has never been adequately addressed or defined. Therefore, with the immigration policy shift in the early 1990s and the introduction of other cultures and ethnicities into New Zealand's society, there has been more public confusion and outrage than ever before.

Current Immigration Policy

The changing ethnic composition resulting from the immigration boom of 1994–1996 brought substantial concern to New Zealand. The unearthing of many hostile feelings left the country in a moral dilemma that was not easily resolved. Once again, New Zealand adjusted its policy in response to negative public opinion through a series of stringent measures that immediately halved immigration numbers. (Fleras and Spoonley, p. 161) In October 1995, policy was tightened to require minimum English language requirements, not just for the principal applicant but also to all adult family members (aged 16 and older) in both the General Skills and the Business Investor categories. (Spoonley et al., "Tangata Tangata . . . ," p. 124)

Furthermore, in occupations where professional registration is required by law in New Zealand (such as physicians, lawyers, and electricians), immigrants must now pass the professional requirement test before points for these qualifications can be awarded. (Winkelmann, "Immigration . . . ," p. 12) Since New Zealand's system of occupation regulation (e.g., certification, licensing) is modeled after the British system, British, American, and other Western European applicants were automatically approved for immigration with practicing licenses; but immigrants from Asia and the Pacific Islands were not. By placing this registration requirement in the immigration policy, the government attempted to control where immigrants came from. Thus, professional governing bodies can now politely but firmly refuse to recognize formal qualifications for entry from professionals they don't want without it being called a discriminatory policy. (Fleras and Spoonley, p. 157) The policies thus make it more difficult for Asian and Pacific Island people seeking entry by barring them according to language and registration without explicitly discriminating on the basis of ethnicity and country-of-origin.

In December 1997 the decision to aim in the future for an annual Permanent Long Term (PLT) net gain of 10,000 immigrants was announced by Parliament. This policy was created in response to the campaign platform of New Zealand First and Winston Peters, who argued that there were too many immigrants in New Zealand and that immigration was ruining a "pure" New Zealand. The most recent change in immigration policy, announced by the Prime

[6] Biculturalism is the idea that two cultures can coexist, usually despite a history of national or ethnic conflict. The conflict usually arises as a consequence of colonial settlement, although in the case of New Zealand the conflict is between rival groups of colonizers.

Minister in July 2003, brings New Zealand's immigration policy back full circle. The Prime Minister announced that the General Skills Category would now be replaced with a new Skilled Migrant Category (SMC). As sociologist Paul Spoonley states, "Instead of being a passive recipient of residence applications from people who may or may not be successful settlers, New Zealand will actively recruit those who are needed and who are expected to settle well."[7] (Spoonley et al., "Tangata Tangata . . . ," pp. 124–25) Therefore, the immigration policy that began in the late nineteenth century as a selective country-of-origin process today incorporates an "active recruiting process." Given the discriminatory employment environment that many Asian and Pacific Island immigrants have faced, it is no surprise that New Zealand is again targeting such countries as Britain, Ireland, the United States, and Canada — a return to the "white-only" immigration policy seen a few decades ago. New Zealand has spent centuries attempting to find the "right" set of immigration policy filters and procedures to deter or eliminate those who are not wanted and who "do not fit." Winston Peters has stood on his immigration platform as leader of New Zealand First, demanding harsher immigration laws. He has stated that "the [New Zealand immigration] system is like the proverbial sieve leaking undesirables at will." (Peters) Peters' most recent immigration policy initiative was the creation of an "undesirables" category and a new agency dedicated solely to double-checking the immigration papers of those who have already entered the country, and then deporting those immigrants whose paperwork may have been overlooked before. (Scoop Independent News, p. 1)

Current Public Opinion

The current opinion polls and statistics show that discrimination and xenophobia are still very much alive in New Zealand today. A study conducted by the research group UMR in December 2008 revealed that over half of respondents selected a race when asked which group of people is generally most discriminated against in New Zealand. In the same survey, when respondents were asked to rank the levels of discrimination, 74 percent of them said that Asians were subject to "some" to "a great deal" of discrimination. (Human Rights Commission, "Treaty of Waitangi . . . ," p. 13) In the Human Rights Commission Race Relations Report of 2008, many respondents said that they felt unhappy with people from China because "too many are coming to New Zealand and taking over New Zealanders' space." (Human Rights Commission, "Tüi Tüi Tuituiä . . .") The Human Rights Commission report also contained examples of documented hate crimes and harassment. In several incidents, immigrants were approached by people chanting "white is good, yellow is bad" while staging the Nazi salute. (Human Rights Commission, "Tüi Tüi Tuituiä . . ." p. 25)

Similarly, a report published by the Hudson consulting group, "Employment and HR Trends," in December 2006 presented information gathered from 1,705 interviews with New Zealand employers and noted significant employment barriers faced by immigrants. (Hudson Report, p. 1) The report also pointed out that, with unemployment in New Zealand at historically low levels, a large number of businesses are having difficulty finding a sufficient number of skilled workers. However, the report finds that at the same time many New Zealand companies are reluctant to make use of immigrant workers. Even though immigrant workers who have entered New Zealand through the Skilled Worker Category are highly trained and qualified, they face unemployment rates of more than 10 percent. Seventy-seven percent of employers believe that there are barriers to entry for immigrant workers; yet more than fifty-six percent of employers found that their company benefited from employing immigrants and would employ immigrants again. (Hudson Report) This contradiction between employers struggling with a critical shortage of skilled talent while many are also showing reluctance to take on workers from "non-traditional pools" is the same contradiction we have seen in New Zealand for the past two decades. The Hudson Report concludes by saying that successful settlement of immigrants requires successful employment.

[7]According to current immigration policy, however, the applicant must still pass a health, English language and character requirement.

Conclusion: What Can Be Done about It?

Can New Zealand's attitude toward immigration change? The 1987 open-door immigration policy exposed a flaw in New Zealand's ability to encompass diversity as a part of its national identity. (Fleras and Spoonley, p. 152) New Zealand's economy has suffered from an unwelcoming attitude towards immigrants, and as a result economic growth has been affected. New Zealand companies acknowledge that they are in dire need of workers with higher qualifications; yet those immigrants are rejected because of their ethnic background. The "white-only" immigration policy that New Zealand strives for is its nemesis; and by looking only in the mirror, New Zealand has lessened its global presence.

The Department of Labour predicts that by 2021 one-quarter of the New Zealand workforce will be overseas-born, one of the highest proportions of immigrant workforces among countries in the Organisation for Economic Co-Operation and Development (OECD). While today eight of ten workers are Pākehā New Zealanders, by 2021 only two in three will be. It is ironic that New Zealand, a tiny country in the South Pacific with a population half the size of New York City, is so dependent upon the rest of the world for goods to survive; yet it is so selective with respect to whom it admits. As stated by Le Heron and Pawson, "It remains to be seen whether New Zealand can repair its relationship with the Asian community at home and abroad; after all, New Zealand remains a small, isolated, and economically insignificant country that, paradoxically, depends on Asia for its long-term survival rather than vice versa." (Le Heron and Pawson)

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