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NZTE Support for Business Internationalization: Comparisons with Singapore

Context

This Briefing Note draws on doctoral research that examined support from New Zealand Trade and Enterprise (NZTE) for firms expanding to Thailand, comparing this to support for Singaporean firms from Enterprise Singapore (ESG), NZTE's Singaporean equivalent. The data focuses on activity before 2020. NZTE is the New Zealand government entity most explicitly tasked with supporting business internationalization, although other entities also support internationalizing firms as part of a wider NZ Inc ecosystem.

- NZTE and ESG provide firm-specific support like consulting services or access to investment programmes. These services differ from support offered by ministries of foreign affairs, which mostly focus on negotiating international regulatory frameworks that govern trade access and other sector-wide conditions. Whether negotiated bilaterally or multilaterally, trade and investment agreements affect communities of firms or entire industries; in contrast, NZTE and ESG target support to specific firms.
- NZTE was established in 2003 to support business internationalization. It has various predecessor entities, including Trade New Zealand (an amalgamation of the New Zealand Trade Commissioner Service and the Marketing Development Board) and Industry New Zealand. ESG was formed in 2018 by merging and taking on the functions of two other organizations: International Enterprise Singapore, which was founded in 2002 (as the successor to the Singapore Trade Development Board) and which supported business internationalization; and SPRING, which was also founded in 2002 with a mandate to focus domestically on growing small and medium sized enterprises.
- ESG's expenses are about 25% higher than NZTE's; their annual reports indicate that in 2019, ESG had operating expenditures of S$254 million, whereas NZTE had total expenses of NZ$215 million (approximately equivalent to S$203 million). In terms of paying staff salaries, ESG spent nearly 46% more – S$138 million compared to NZ$101 million (approximately equivalent to (S$95 million). NZTE's annual report indicates it had 650 employees in 2019, whereas ESG's annual report does not provide such information.
- New Zealand and Singapore are both small, advanced economies but differ in terms of their political and institutional characteristics. New Zealand is a "regulatory state" whereas Singapore is a "developmental state." The two political economies differ in terms of relationships governments have with market actors and the ways in which governments intervene in markets. In regulatory states, governments facilitate business, but officially aim to promote competition by ensuring open, competitive markets. In developmental states, governments guide business and embrace industrial policy.

Findings: Mindset, Targets, and Modes of Support

NZTE sees its proper role as facilitating rather than guiding business activity. NZTE has a clear aversion to "picking winners." As one interviewee put it, NZTE's function is to build "firms' capability to do business." According to this perspective, firms should succeed in the marketplace because they are competitive, not because the government helps them. NZTE is thus wary of "building reliance" on government support. NZTE can help firms have a fair chance of succeeding. NZTE can legitimately, for

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instance, help firms by educating them to overcome information asymmetries – doing so "[levels] the playing field." But NZTE is a "government body that doesn't want to go too far" – it takes "firms a certain way" and then "let[s] them go."

ESG, in contrast, sees its proper role as cultivating business areas that are important for Singapore's growth. Whereas NZTE sees coordinating business activity as inappropriate, ESG sees such coordination as precisely its purpose. It is "paternalistic," as one interviewee put it. A well-cited example of such paternalism occurred in the 1990s, when Singapore's government incentivized Singaporean manufacturers to expand to Malaysia. Today, the extensive cross-border business activity in that area is arguably a result of intervention. In Thailand, ESG supports firms in business areas it sees as important for economic development. Helping firms do what they want is not ESG's goal; it rather intends to guide firms to work in prioritized areas.

NZTE and ESG workers often describe their organizations' appropriate role as growing "ecosystems" of firms, but they have different views on what this means. The view in NZTE is that government should be enabling firms to identify opportunities and pursue them. By enabling many firms in this way, firms will recognize and develop connections with other market actors, creating an ecosystem. In ESG, the view is that an ecosystem has production chains with clearly defined niches – different firms fill different niches along those production chains. Government's role is to define niches and then to ensure that firms are filling those niches. NZTE sees ecosystems as emerging bottom-up; ESG sees them as being built top-down. NZTE sees it as inappropriate to try to "corral a group of companies"; ESG, on the other hand, aspires to cultivate groups of companies that are working in complementary business areas.

NZTE prefers supporting competitive firms. This point came up repeatedly as a key criterion by which NZTE determines whether it will help firms. As one businessperson put it, NZTE is "invested in understanding the plan" of recipient firms. If, based on that understanding, it deems plans competitive, it will assist. Several interviews indicated NZTE tends to favour supporting large firms that are already successful because such firms are more obviously competitive. As one interviewee put it, "there is clear favouritism towards likelihood of success, which is skewed towards bigger firms." In some cases, though, NZTE worker will choose to support smaller firms if they judge those firms' plans likely to succeed; NZTE will support small firms if it thinks they are competitive and if they have "the ability to get across the line."

ESG, in contrast, prefers supporting firms in business areas the Singaporean government plans to develop. For ESG, competitiveness is not the main criterion by which it determines if it will support firms. Instead, the key criterion is whether firms are working in prioritized business areas. ESG, like the Singaporean government more generally, has numerous "theses" about which business areas must grow in order for Singapore to maintain its prosperity. These theses define ESG's targeting of support. In Thailand, ESG particularly focuses on supporting SMEs that are using next-generation technologies. This is because there are two common opinions in Singapore's government: 1) large corporations overly dominate Singapore's economy; and 2) Singapore must develop next-generation technologies to maintain its economic prosperity.

NZTE mainly supports firms by helping them be more competitive. A common theme of NZTE's support is that it enhances firms' competitiveness. NZTE's principal tool is consulting. Customer managers go to great lengths to understand difficulties facing firms. Based on this understanding, customer managers then provide tailored consulting to help firms navigate business environments. In the words of one interviewee, "we work with the customer to understand what challenges are impeding them from being successful." NZTE also helps firms network and meet potential partners in-country. It also provides financing – via the International Growth Fund, for instance – but financial support is not emphasized. NZTE has a tiered system for its customer firms; lower-tier customers receive less tailored support. For such customers, market information and workshops are more common support tools.

ESG, in contrast, primarily intervenes with subsidies that incentivize work in planned business areas. Whereas consultancy services are the main way NZTE supports firms, the focus of ESG's support is instead financial – it subsidizes certain business activities to make them cheaper. There are four main financial support tools that ESG uses: grants; loans and insurance; tax incentives; and investments. These tools target firms in business areas which the government prioritizes for development. ESG's Market Readiness Assistance Scheme, for instance, is geared to help SMEs, which the government thinks there must be more of. There are also support options that ESG describes as "non-financial," such as informational publications. In fact, many of the non-financial services are also financial; they subsidize professional training, for instance.

A difference between NZTE and ESG is their level of focus; NZTE workers tend to focus on helping firms succeed, whereas ESG workers tend to focus on achieving macro level outcomes. At NZTE, workers tend to adopt firm-specific views of what constitutes success; their mission, once assigned to customer firms, is to help those firms export. They take queues from firms about what intelligence gaps must be filled. NZTE workers become "part of the team" – they cultivate "close relationships" with firms, striving to help them achieve their goals. ESG workers, on the other hand, maintain an arms-length distance. This is because their goal is to grow business areas, not firms. ESG workers inform firms about funding opportunities and let them apply for them; they do not "champion" firms, to the chagrin of firms who would prefer more proactive support. The focus of ESG workers is to connect incentive schemes to firms to influence overall business activity; they have little concern about any particular firm's success.

Assessment: Strengths and Weaknesses

- **A relative strength of NZTE is that, at least at the microlevel, it does not distort firms' behaviour in ways that leave firms susceptible to market shocks.** NZTE helps firms do what they are already doing. As one interviewee put it, decisions to continue receiving NZTE support are "down to us." NZTE assistance is contingent on a firm's demand for it, in other words. ESG, in comparison, arguably distorts firms' behaviour in ways that leave them vulnerable to market shocks; by subsidizing certain business activities, it entices firms to do activities for which there may be little actual market demand. Interviewees mentioned, for instance, pursuing internationalization simply because of ESG subsidies, not because they had independently recognized opportunities in foreign markets.

- **NZTE is comparatively weak in catalysing transformative change.** New Zealand businesspeople regularly stated NZTE has little impact on their chances of success or failure; NZTE tends to support firms that are already competitive and tends to not support uncompetitive firms. Interviewees stated smaller firms "face an enormous hill" when trying to access NZTE support, whereas larger firms "don't really need NZTE's support." This view indicates NZTE support does not radically change how successful firms will be; it helps already successful firms succeed marginally more than they would have otherwise, and it does not push otherwise unsuccessful firms to succeed. ESG, in comparison, significantly lowers costs for firms that are working in business areas it prioritizes; it thus arguably catalyses more change. Firms are aware that in order to "receive government funding" they must work "in line with [ESG's] prioritized areas."

- These conclusions about NZTE and ESG's relative strengths and weakness remain tentative. They were frequently cited by businesspeople when discussing NZTE and ESG but have yet to be systematically examined across a variety of market contexts.

NZTE and ESG's different mindsets, which reflect general views in the two countries about proper government-business relations, explain why they intervene differently. Since NZTE sees its proper role as enabling business, it makes sense for it to help competitive firms be more competitive. Since ESG sees its role as guiding business activity, it makes sense for it to financially support firms in prioritized business areas. It is difficult to envision them intervening in other ways, given views in New Zealand and Singapore about acceptable government-market relations. If NZTE were to intervene like ESG, heavily subsidizing the growth of certain business areas, this would be inconsistent with prevailing views in New Zealand about government's proper role being to facilitate business. Likewise, if ESG were to simply help competitive firms be more competitive, this would not conform with a wider view in Singapore that government is responsible for directing economic development trajectories.

The research was conducted as part of doctoral study by Nicholas Borroz, supported by the Matthew S. Abel Trust New Zealand Asia Institute doctoral scholarship and supervised by Natasha Hamilton-Hart and Brent Burmester. For more information on this research, please contact nicholas.borroz@auckland.ac.nz.

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