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The economic benefits of Sister City relationships

Report to Sister Cities New Zealand

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Preface

The New Zealand Institute of Economic Research (NZIER), based in Wellington, was founded in 1958 as a non-profit making trust to provide economic research and consultancy services. Best known for its long-established *Quarterly Survey of Business Opinion* and *Quarterly Predictions*, the Institute also undertakes a wide range of consultancy activities for government and private organisations. It obtains most of its income from research contracts obtained in a competitive market and trades on its reputation for delivering quality analysis in the right form, and at the right time, for its clients. Quality assurance is provided on the Institute's work:

- by the interaction of team members on individual projects;
- by exposure of the team's work to the critical review of a broader range of Institute staff members at internal seminars;
- by providing for peer review at various stages through a project by a senior staff member otherwise disinterested in the project;
- and sometimes by external peer reviewers at the request of a client, although this usually entails additional cost.

Authorship

This report has been prepared at NZIER by Joanna Smith and John Ballingall and reviewed by Ian Duncan. We gratefully acknowledge the valuable contributions of:

- Jeremy Dwyer and James Morgan (Sister Cities New Zealand)
- Margaret Cooper (Tauranga City Council)
- Fiona Vessey (Far North District Council)
- Ondine Crosby and Caroline Lassiter (Auckland City Council)
- Dave Adamson (Christchurch City Council)
- Jenny Lapham (Dunedin City Council)

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EXECUTIVE SUMMARY

Brief

NZIER was commissioned by Sister Cities New Zealand, Local Government New Zealand, the Ministry of Economic Development and the Asia 2000 Foundation to fill the gap in existing knowledge related to the economic benefits of sister city relationships in New Zealand. We used a survey and visits to Councils, organisations and businesses around New Zealand to establish the types of economic benefits that have already arisen from sister city relationships, and those that are likely to occur in the near future.

A note on quantifying economic benefits

Quantifying the precise economic benefits of sister city relationships is fraught with difficulty. It is difficult to identify and attribute specific economic benefits to any one sister city relationship. Local-level data is often scarce, and in many cases commercial confidentiality restricted the information available to us. So rather than attempting to quantify the total economic benefits of sister city relationships in New Zealand, our research looked at selected programmes and projects. We focussed our investigation on ascertaining *how* sister city relationships have helped generate economic gains, and how this information could most usefully be applied to fostering economically successful sister city relationships throughout New Zealand.

Conclusions

1. *Sister city relationships have delivered economic benefits at the firm level*

Our interviews with firms that have used sister city relationships in their business plans indicate that, at the microeconomic (or firm) level, these relationships have delivered economic benefits. These benefits have had a positive impact upon local economies. However, from a macroeconomic perspective (i.e. compared to total economic activity in New Zealand), these benefits are small.

2. *These benefits are broad ranging*

Economic benefits typically cited as arising from, and attributable to sister city relationships include:

- Establishing business contacts.
- Providing a gateway into new markets and product lines.
- Enhancing the overseas reputation of both individual firms, and New Zealand as a whole – giving businesses a competitive edge.
- Reducing transactions and search costs in business negotiations.
- Attracting foreign-fee-paying students.
- Facilitating knowledge and technology sharing and joint research.
- Increasing tourism.

The first three points relate to the creation of potential economic benefits, whereas the last four points represent realised benefits. Some examples of the benefits from our case studies are displayed in Table 1 below.

3. The potential benefits are augmented if opportunities are maximised

There is substantial potential for extracting further economic benefits from sister city relationships. Some firms that we talked to have yet to see tangible gains from their business dealings via sister city links, but they expect in the near future to see a return on the resources that they have invested into developing networks and building trust overseas. Other firms expect the benefits that they have already enjoyed to increase over time.

If Councils and businesses wish to experience greater economic gains from their sister city relationships, they need to better take advantage of the opportunities that such links provide. The results of our interviews led us to create a set of best practice guidelines for Councils and firms to consider when they are looking to derive economic gains from their sister city relationships (see **Best Practice Guidelines** below).

4. Sister city relationships are evolving – economic benefits are now more important

Sister city relationships have evolved over time since their introduction in the 1950s, but government to government relationships remain very important in many countries. The relationships have traditionally focused on cultural and educational exchange and knowledge sharing. Although many of New Zealand's active sister city relationships still maintain this focus, a good many others now see the development of economic benefits as a key objective.

This change has occurred relatively recently in New Zealand and thus the business links that have occurred as a result of sister city relationships remain relatively young. However, the role (and subsequent economic pay-offs) of sister city relationships acting as catalysts to developing business linkages is likely to increase over the next decade.

Cultural and commercial objectives need not be mutually exclusive – enhancing cultural understanding in the short term can promote commercial exchange in the long run. In a world where cultural barriers have been lessened by technological developments such as the internet, and by increasing globalisation, it may be that less emphasis is required on the cultural aspects of these relationships. In addition, reduced barriers to the physical flow of goods, services, investment and workers have meant that it is imperative for most economies – and in particular small open economies such as New Zealand – to be outwards looking in their trade policies.

5. Goal-setting and effective planning are the keys to success

While objectives will differ across relationships, it is important that each one is planned and the aims explicit. That said, flexibility is also important, to accommodate changing objectives as relationships evolve and develop. Developing cultural links and understanding can lead to commercial benefits, and are an important foundation for successful business deals. Sister city committees' strategic plans therefore need to be reviewed regularly, to ensure they reflect changing priorities.

Sister city relationships can dovetail nicely with other strategic goals. Some of the most successful relationships focused on identifying and exploiting the region's competitive advantages and existing clusters and infrastructure. By targeting key growth industries, sister city relationships can build on both regional and national strategic economic goals, and maximise the economies of scale of their activities.

6. Examples of economic benefits

Table 1 shows some examples of the economic benefits arising from the five sister city relationships we studied in depth. Note that it would be inaccurate to attribute all of these economic benefits to the fact that sister city relationships exist. Some of the benefits are due to the efforts of businesses and individuals that would have occurred whether or not a sister

city relationship was in place. However, sister city relationships have certainly aided these transactions to take place, as they have been a catalyst for each project.

Table 1 Summary of case study projects displaying economic benefits

Project	Economic benefit
Auckland	
Exports of education	Estimated 700 students from Guangzhou, China. Direct benefit of \$24 million per annum.
Compendium	Attendance at trade fairs in Fukuoka, Japan, has opened up new markets for New Zealand gifts.
Transport network planning	Sharing of knowledge/technology transfer with Brisbane, Australia. There are potential benefits for Auckland from more efficient transport system.
Computerised information management	Sharing of knowledge/technology transfer with Brisbane, Australia. Improved efficiency of Auckland City Council computer systems.
Christchurch	
Kurashiki orchestra visit	Week long visit by 100-strong orchestra from Japan. Direct impact estimated to be around \$175,000.
Human Interface Technology laboratory	Technology transfer and knowledge sharing are highly likely to lead to commercial success in future, following example of US HIT lab. Enhances Christchurch's reputation as centre of excellence for information technology.
Canterbury Car Club	100 visitors from Adelaide attended a Premier 3 racing car meet. Direct impact estimated to be \$150,000. Possibility of a larger visit (230 team members) in 2004, resulting in additional expenditure of \$340,000.
DBS International Limited	Exports of comb honey to Kurashiki, Japan, worth over \$200,000.
Bone marrow project	Link with Fred Hutchinson Cancer Research Center, Seattle. Staff exchange and knowledge transfers represent cost savings and improved treatment for Christchurch facilities.
Australian publicity	Hour long documentary on Christchurch was shown on primetime TV in Adelaide, organised at low cost to the City. A 10 page glossy feature in <i>Encounter Australia</i> magazine was also organised. This kind of publicity represents valuable advertising.
Transport planning, 'green' building processes	Knowledge exchange with Seattle and Adelaide. Significant transfer of information at very low cost. Some interest shown overseas in purchases of environmentally-friendly electric buses from Ashburton.

Dunedin

Wallis Nurseries	Nursery established in Shanghai, China. Two others set up elsewhere in China. Actual financial benefits so far have been small. Aim is to supply Councils with millions of plants for beautification of Beijing prior to 2008 Olympics.
Natural History New Zealand (NHNZ)	Dunedin's sister city relationship with Shanghai provided NHNZ with point of difference over competitors when selling there. Gave firm a headstart over rivals.
Beijing Broadcasting Institute (BBI)	NHNZ's contacts with the BBI has resulted in strong interest in Beijing students attending the University of Otago's film and design courses.
Otago Polytechnic	80 students from Otago, Japan per year for 4 week courses. Direct expenditure impact of around \$250,000. 10 students from other parts of Japan as a result – total tuition fees of \$150,000, plus expenditure on gifts, leisure, etc.

Far North

Exports of education	Existing benefits are small as relationship with Liaoning province is young, but potential exists.
M_ori tourism	Interest expressed by visiting delegations from Liaoning, potential for further visits.
Investment	List of investment opportunities in Liaoning presented to Far North District Council, passed onto MED and Industry New Zealand for advice.

Tauranga

Jeffco International Limited	Agricultural firm now has office in Yantai, China, and has signed export contracts worth over \$1 million.
Pelco New Zealand Limited	Knowledge exchange on aquaculture, potential opening of new export markets in Yantai.
Comvita	Exporting natural health products to Japan, via visiting delegations.

Source: NZIER

Table 2 outlines the direct costs of sister city relationships to the councils studied. This does not take into account the cost of committee volunteers' time or the expenses of businesses that put their own resources into projects related to sister city relationships. Without knowing the true cost of sister city relationships, it is very difficult to determine the *net* economic benefits arising from such linkages.

Table 2 Direct costs to Councils of sister city programmes

Costs per Council

	Auckland	Christchurch	Dunedin	Far North	Tauranga
Sister city funding, 2002 FY	\$25,000	\$350,000	\$40,000	\$10,000	\$29,000
Staff resources (1)	1	1.5	As required	0.05	0.33

Notes: (1) Stated in terms of number of full time employees.

Source: City or Regional Councils

Best practice guidelines

Our case studies of successful sister city relationships highlighted a number of critical success factors, both for business and for Councils. By considering and implementing these suggestions, Councils will be able to improve the number of economic success stories resulting from their relationships. Businesses can improve their chances of using a sister city relationship effectively if they examine how other firms have succeeded.

Guidelines for Councils

- **Identify your targets** – exploit the comparative advantage of your locality.
- **Planning is vital** – have a strategic plan for each relationship. Build in regular reviews, and ensure that changing objectives can be accommodated.
- **Define the roles** – Councils are not always the best agency to conduct business negotiations, and roles should be delineated accordingly. Internal politics can be offset by using outside agencies for some activities.
- **It's a two-way thing** – include local businesses in trade promotion activities. But by the same token, know when to back off, and let the business partners negotiate the deal.
- **Don't rush things** – sister city relationships thrive on continuity of contact and the building of trust between local and overseas local bodies. Ensure that continuity of contact is not over-reliant on individuals.
- **Evaluation is essential** – evaluating Council activities, and keeping track of business successes helps demonstrate accountability, and contributes valuable information regarding best practice.
- **Savings are benefits too** – information and technology exchange can be a valuable, low cost source of information.
- **Make use of technology** – the internet provides an effective, low-cost vehicle for advertising your region and its comparative advantages.
- **Details matter** – Councils can help business by providing important cultural and background information.

Guidelines for business

Sister city relationships represent another tool in a business's toolbox. While they shouldn't be relied upon as the only way for a firm to achieve growth overseas, they can be an important part of any strategic business plan. In this respect, putting time and resources into sister city relationships should be regarded in the same way as any other investment. Building successful business relationships with sister city contacts requires up-front expenditure and effort, and will not generate immediate benefits. It can take time – sometimes years – for these efforts to bear fruit. Continuity of contact, and time spent establishing trust and building personal relationships is vital to maximising the economic benefits from sister city relationships.

- **Use the sister city relationship as a springboard** – sister city contacts can open the doors to new markets.
- **Planning is vital** – sister city links work best as part of a business plan. Details matter, and market research is essential to getting the details right.
- **Treat it like any other investment** – don't expect to reap the rewards straight away. Take the time to develop personal relationships and establish trust.
- **Savings are benefits too** – contacts made through sister city relationships and delegations can reduce transactions and search costs.

- **It's a two-way thing** – don't expect Council to do all the leg-work; be pro-active in following up contacts and seeking out the information you need.