



From Sister to Global Cities

The economics of New Zealand's Sister Cities

NZIER report to Sister Cities New Zealand

March 2019

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Each year, NZIER devotes resources to undertake and make freely available economic research and thinking aimed at promoting a better understanding of New Zealand's important economic challenges.

NZIER was established in 1958.

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Key points

Sister City relationships sit neither in the central government country-to-country space nor in the private space of business to business. They occupy an odd middle ground, where they are neither influenced by geopolitics and international law (like country to country) nor contract law, the law of torts and conflicts of laws (like business to business).

For international relationships, they strangely respond to regional ratepayer political drivers. They do not involve selling goods and services to other cities. In between the large macro-level drivers of geopolitics and the small micro-level drivers of comparative advantage, the economics of trust explain their function and role.

Sister City relationships operate between pairs of local government councils and their communities. They produce two types of trust-generating economic outputs:

- **Bilateral cultural-enhancing activity between city communities that creates and enhances community trust.** The cultural-enhancing activity is visible and objectively perceived by the overseas Sister City and credibly signals commitment to a personal-level relationship between cultures.
- **Trust and assurance between cities that reduce transaction cost at the international level.** Council entities provide assurance that the international relationships are long duration and will last, the relationship is important, the rules of engagement between cities are within the control of the parties and each party will engage constructively whatever the circumstances.

It is because councils are long-term enduring bodies that are elected by a collective of people and make law that they have a capability to create trust between cities.

Councils can create a high-trust environment between international local governments that opens up economic opportunities for business and lowers risk, cost and uncertainty for business seeking to engage in bilateral trade.

Mayoral visits strengthen the commitment between the Sister Cities through showing the relationship is still valued and, more importantly, through personal in-presence face-to-face commitment by each mayor to engage constructively whatever the circumstances or evolving political context.

Positive experiences

1. Personal relationships are important

Without exception, all interviewees emphasised the fundamental and paramount importance of keeping the relationships between Sister Cities alive through regular contact and communication. Successful Sister City relationships or trading relationships require a lot of effort and commitment to maintain regular working-level operational contact between cities and regular civic-level mayoral visits.

Maintaining relationships helps the parties keep up with the ever-changing global economic environment and growing social concerns, for example, climate change, consumer trends and geopolitical changes.

2. Cultural outputs matter

Cultural, art and sporting exchanges are all forms of gift sharing, which builds trust visible to the other party and shows a genuine commitment to an

enduring relationship. The overseas city can observe the strength of the cultural relationship between the cities, and that impacts on the credibility of the trust built between the cities.

3. Trade happens through business, and business networks matter

Councils are not businesses, and they cannot engage in meaningful bilateral economic trade. The best councils can do is provide assurance and promote trust. Trade between businesses still needs to be conducted by business and comes with its own risks and uncertainties. Chambers of Commerce, with their networks into their overseas counterparts, can further reduce risk through maintaining a trusted network at the business level.

4. Culture happens through communities, and Sister City Society networks matter

Just as business networks can make businesses operate more efficiently, so can community networks make cultural relations efficient. Their costs are minimal, but their ability to signal credibility to the Sister City is high. They are tangible demonstrations of the interest one city's community has in understanding the culture of another.

5. Focus on marketing regional comparative advantage

The most successful Sister Cities have taken a **strategic** approach to tapping the economic potential of their city relationships through actively promoting the industries and sectors they are regionally best at. Once trade became established, they looked for opportunities to increase the value of the relationships through providing higher-value services.

Overseas delegations need to be strategic. The temptation to take a large mayoral-led business delegation overseas can result in an unfocused visit that is unable to meet all of the participants' needs. Business and trade is ideally facilitated one on one, tailored to the business. It is less effective with a big delegation at a civic level.

6. Bring a team and pitch to each member's comparative strengths

The most successful cities have taken a collective approach when seeking to open overseas markets, recognising interdependency between members. Councils can provide assurance needed for foreign business commitment but can neither enter into business nor expertly represent a sector. Likewise, business and sectors approaching overseas markets might find bureaucratic doors are closed without the prestige and mana of a mayor.

Bottlenecks to progress

1. Signalling commitment and maintaining trust

Trust is like a renewable resource that atrophies with disuse and multiplies with use. For signalling commitment to a relationship and maintaining trust, there is no substitute for face-to-face meetings. Without face-to-face engagement, relationships needed to maintain strong business connections will not develop. Economic opportunity will disappear if relationships are not maintained.

2. Limits of city-based economic production

The scale of opportunity in some international markets can be overwhelming. The pairing between New Zealand and Chinese cities, for example, can have New Zealand populations of 10,000–15,000 matched with cities of several millions of people. Even if a negotiation is successful, the inability to deliver Chinese-level volumes may prevent successful trade relationships. This highlights an opportunity for taking a regional or New Zealand-wide approach to potential business opportunities rather than focusing only on what can be done between the two cities.

3. Council bandwidth

A number of councils maintain several Sister City relationships with a ratepayer-funded staffing base. While the benefits and activities are varied, not all Sister City relationships can (or should) be commercialised. Creating an expectation of economic co-operation but not having the capacity to deliver may lead to loss of relationship and trust for some.

An across-council strategy for which overseas cities ought to be engaged by councils collectively and for which specific economic opportunities could help make best use of limited council resource. An across-council strategy should also include criteria for establishing new relationships – especially new markets of emerging importance for New Zealand – and how these can be effectively prioritised and balanced against existing relationships and resource commitments.

4. Brand New Zealand

New Zealand's brand in an international market is either relatively unknown to some cities or viewed as having a relatively narrow offering. Within this narrow offering, New Zealand cities are constantly seeking to explain both New Zealand's uniqueness and their regional New Zealand difference. Some interviewees saw this as just one aspect of the overseas marketing job, but there may be opportunities to deliver the New Zealand Inc. brand message more consistently via Sister Cities.

5. Communicating opportunity to a wider audience

Some Sister Cities struggle when the opportunities and benefits are not communicated regularly and effectively to their local stakeholders and communities. Promoting trade opportunities from Sister Cities back to the local region can be difficult. Regions have struggled to get business involved and commit to entering overseas markets. The people-to-people exchanges and bilateral cultural-enhancing activity (as described in section 4.1.6) also need to be more prominent and communicated to the community.

6. Business skills and becoming export ready

Many New Zealand businesses lack real knowledge of how to do international business contracts, especially in a culturally different environment.

Firms looking to enter overseas market need to be market ready and have the financial ability to get up into market multiple times before agreements occur. Sister City visits may be able to provide a useful window for market familiarisation, but businesses should make an effort to source other forms of advice via business or export networks, consultants, Economic Development Agencies or New Zealand Trade and Enterprise. This level of managerial requirement and financial capability may be a limiting factor for many businesses seeking to commercially benefit through Sister City relationships and visits alone.

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1. Introduction

NZIER has been commissioned by Sister Cities New Zealand to investigate Sister City relationships. In 2003, we wrote a report about the economic benefits of Sister Cities and their potential for supporting regional economic development. The report featured interviews with a number of businesses and councils, and its key recommendations are contained in Appendix A to this report.

Now, 16 years after our first report, NZIER has been recommissioned to:

- follow up with the original interviewees and find out how their businesses have changed
- explore what have been the learnings from successful attempts by some Sister Cities to commercialise their relationships.

To develop an analytical framework, we also wanted to:

- wrap an economic framework around Sister City relationships that explains their function and their drivers of success
- within that economic framework, consider why some cities relationships have been more successful than others
- support some initial policy thinking using the economic framework and the knowledge of what works for commercialising Sister Cities and what areas or bottlenecks need to be addressed for Sister City relationships to become regional engines of economic growth.

1.1. What are Sister Cities?

Created in 1956 by American President Eisenhower, Sister Cities were to be a network that championed peace and prosperity through fostering bonds between people from different communities around the world. If people from different cultures could understand, appreciate and celebrate their differences while building partnerships, the chance of new conflicts would lessen.

Ever since, Sister Cities use volunteer resources in pairs of Sister Cities to foster cross-border communications, exchanging ideas and experiences between countries through promoting cultural, educational, youth, sports, municipal, professional and technical project exchange.

Promoting cross-border trade between cities was a natural progression for the Sister City relationship. Now, one of Sister Cities New Zealand's aims is to foster international understanding and friendship, encourage an exchange of education and culture and, where possible, use tourism and trade as catalysts for mutual economic growth.

1.2. What we did

Only one business interviewed in 2003 was available for re-interviewing in 2019. Two businesses had gone out of business, two had been sold to other companies, one did not do significant trade post-2003 and the owners of six others had gone off to do different activities or retire. Turnover in the councils meant none of the 2003 interviewees were still employed in 2019.

We were able to interview two previous respondents: John Christie who was with the Otago Chamber of Commerce and is now is with Enterprise Dunedin and Rob Jeffrey

who owned Jeffco International Ltd in 2003 but has since retired. Both Rob and John provided valuable reflections on what has changed in Sister Cities over the last 16 years.

We also interviewed a number of councils who are engaged in Sister Cities to find out how they approached this area, what advice they would provide to other councils and what they did operationally in cities that had successfully commercialised the relationship.

1.3. What we found

Sister Cities are best explained as relationships between pairs of councils and their communities as described by trust economics, where trust effects open up economic opportunities to regional businesses by lowering transaction costs.

Sister Cities are not the same as councils per se but rather describe a relationship between councils plus their communities. Councils and the Sister City Societies (or something similar) engage in gift giving between the international cities that, over a long period of time, establishes goodwill trust between the cities.

With goodwill trust established, cities can move the conversation with their overseas partners beyond the exchange of cultural gifts to explore a commercial direction without being seen to be exploitative or insensitive to the overseas culture. The trust formed between the cities because of the “fuzzy-wuzzy” cultural relationships (as one interviewee described them) is the relationship “stuff” that enables more commercial conversations to occur. “Fuzzy-wuzzy” cultural relationships widen the relationship by trading in culture and establishes a commitment to a long-term enduring relationship based on respect as much as commercial success.

The trust relationships help correct expectation differences between the parties, open opportunities to business that would otherwise not occur and ultimately lead to stronger trust relationships between cities.

2. Meet the interviewees

2.1. Kimberley Wu – Auckland Tripartite Economic Alliance

Kimberley manages the International Relations team in Auckland Council. Existing sub-cities in the Auckland region were amalgamated into a single unit in 2010, reducing the 30 partnerships with cities around the world to the current number of 19.

The Auckland Tripartite Economic Alliance is an economic agreement between Auckland, Los Angeles and Guangzhou who are all Sister Cities with each other. Formed in 2014 by the three mayors for 3 years, the alliance was renewed in 2017 for another 3 years.

In each of the first 3 years, each city held an economic summit in turn. When the alliance was renewed, the cities agreed to align local events to the Tripartite to attract a high level of international attention to the event.

This year is the 30th anniversary of the relationship between Auckland and Guangzhou and the 48th anniversary for Auckland and Los Angeles. These are very long-standing relationships between the cities. The International Relations team keeps in regular contact with their international counterparts.

2.2. Dunedin

Dunedin's approach to Sister Cities differs from most other New Zealand cities. Dunedin has a strong focus on its economic strategy developed in 2013. When the strategy was developed, Shanghai had been a Sister City for more than 20 years, with extensive bilateral civic engagement around education and culture. However, the strategy catalysed the city to focus on how Dunedin might commercialise its Shanghai relationship.

Now, Dunedin strategically engages with Shanghai as a collective of five prominent Dunedin institutions:

- Dunedin City Council
- Otago Chamber of Commerce
- The University of Otago
- Otago Polytechnic
- Te Rūnanga o Ngāi Tahu.

The collective members support each other and present a whole-of-city approach when engaging in bilateral activity.

2.2.1. Dougal McGowan – Otago Chamber of Commerce

As Chamber Chief Executive Officer (CEO), Dougal works closely with the other four institutions that engage with Shanghai. The Chamber has a very strong relationship with its counterpart Shanghai Chamber of Commerce. Dougal talks with Shanghai on a weekly basis, making sure the connections are being maintained as well as looking at

the future. The Chamber offers a range of services, including certificates of origin and international business training to its members wishing to engage in international trade.

The Chamber realises the strength of the contact is about the strength of the delegation, not about the individual parties that go. They try to have a combined approach to the trade delegation to maximise potential opportunities.

2.2.2. John Christie – Enterprise Dunedin

John came into Enterprise Dunedin, Dunedin's regional Economic Development Agency, 4 years ago having previously been CEO of the Otago Chamber of Commerce for 20 years. John first went to China in 1995 and has had about 50 trips into China in the last 25 years.

John was an interviewee in the 2003 NZIER report as the Chamber CEO. Re-reading the report, John thinks a lot has changed since that report was written. One of the significant opportunities coming from Dunedin's economic strategy was its focused thinking about how Dunedin could commercialise its relationship with Shanghai in particular. Shanghai is a test case for testing whether Sister Cities could be more than just civic by nature.

2.3. Rob Jeffrey – Jeffco International Ltd

Rob was an interviewee in the 2003 NZIER report. Rob started exporting back in 1960 when he was a pig breeder. He got involved in Sister Cities when the then mayor held a public meeting soliciting business interest in a trade delegation. Rob was the only attendee who put his hand up to put money on the table to pursue the relationship further. As a result, he was invited to join the first mayoral visit in 1990.

In 1990, Rob had already traded for 15 years with mainland China through Singapore, and the experience taught him a great deal about trading within Asia and the customs associated with doing business in China. Jeffco International successfully operated in Shandong, China, and did business in many other provinces in China until Rob retired in 2006.

Rob's family were engaged in international trade through Jeffco International. The management and entrepreneurial skills they learned through trading in an international environment have given them the managerial capability to operate across the world. Prime Consulting International¹ is one example of a company that now provides consulting services to the agricultural, agri-food, primary industry and technology sectors throughout the world.

The success of Prime Consulting International started from work Jeffco International did in China. It has an indirect connection with the Sister City relationship, but it is directly connected to the skills the company developed.

The transition from primary sector commodity trading in Jeffco International into high-value/high-knowledge export services in Prime Consulting International is an example of how the Productivity Commission's critique of New Zealand's low productivity has been addressed through export-focused entrepreneurialism.²

What Rob and his family learned through capitalising on the initial opportunity offered from a Sister Cities connection has moved a regionally based agricultural commodity

¹ www.primeconsultants.net

² www.productivity.govt.nz/news/low-innovation-and-weak-international-connections-limit-productivity

business high up into the economic service value chain where transport costs and the tyranny of distance no longer limit export success.

“It’s the knowledge transfer that you have as a result of the Sister City connection that allows these opportunities to build on top of one another and transfer to other endeavours.” – Rob Jeffrey

2.4. Janet Andrews – Wellington Xiamen Association

Janet is President of the Wellington Xiamen Association – a Sister City Society operated by citizen volunteers and formed 32 years ago by Wellington City Council to take on the friendship/cultural/goodwill relationship with Wellington’s Sister City Xiamen, China. Janet got involved in the Association over 10 years ago through being a recipient of an art-exchange relationship with Xiamen.

The Association’s purpose is to foster goodwill and friendship between the two cities through citizen diplomacy. The Association deals in the “softer stuff” around Sister City relationships. They do cultural/art/education exchanges. They host Xiamen visitors, but they also have an extensive programme of initiatives.

Sister City Societies are very good at doing the “fuzzy-wuzzy stuff”. Janet thinks of it as trade, and they’re trading in a lot of things that are different from goods and services:

“We’re trading in philosophies, we’re trading in respect for each other’s cultures.” – Janet Andrews

2.5. Alistair Crozier – Christchurch City Council

Alistair is the Director of the Office of the Mayor in Christchurch City Council (CCC). However, Alistair previously worked for the Ministry of Foreign Affairs and Trade (MFAT). At MFAT, Alistair set up New Zealand’s Consulate-General and was Consul-General in Chengdu, Southwest China, from 2014 until the end of 2018.

Alistair has seen the evolution of city relationships in a China context. Things have moved from the symbolic/cultural/civic visits to cities thinking strategically about how to derive maximum benefits from city-level relationships. Having worked to support in-country trade delegations, Alistair has experience-based ideas about what works and the pitfalls to be avoided.

2.6. Matthew Nichols – Christchurch City Council

Matthew is the CCC’s Manager, Civic and International Relations. Like Alistair, he comes to CCC from MFAT. CCC has a unique Sister City arrangement in that it isn’t at the coalface of the Sister City operation. Sister City committees – citizen volunteers – are the ones who do the low-level co-operation to maintain the Sister City relationships.

Christchurch is reconsidering its international strategic relations direction. Historically, the city’s international relations have focused on Sister City relationships that consist mainly of cultural exchange activities of little appeal to the wider city stakeholders with international connections such as the Chamber of Commerce.

The new direction is intended to make the city's international relations activity better reflect the full breadth of Christchurch's international interests, which will involve economic development and commercial strands in addition to Sister Cities co-operation.

3. Theoretical economic foundations

3.1. Trust economic theory

3.1.1. Background to trust economics

Trust economics emerged in the 1990s as its own theoretical economic branch explaining both the effects of trust and its absence – distrust. Trust eliminates the need for detailed contracts that cover all possible contingencies and are costly to write, monitor and enforce. Trust lowers transaction costs and increases information sharing, reducing the total costs of business and increasing joint profitability between trusting parties.

Researchers wondered why:

- organisations with high levels of internal trust were more successful than others
- trust was elusive and fragile – it seemed hard won, easily lost and not every manager was able to create it
- trust seemed to have community effects – in 1964, 75 percent of Americans trusted the federal government, but by the end of the 1990s, public trust had fallen to 25 percent (Kramer 2006).

Breaches of trust by major public institutions or private trustees eroded public trust. Enron, WorldCom and the global financial crisis showed how credit rating agencies, accountancy companies and officials could either be asleep at the wheel or worse, had their hand out and their eyes averted. Naïve trust in public institutions, well-known companies or high-profile individuals had been shown to be misplaced.

Some scholars claim that national economic efficiency was highly correlated with high-trust institutional environments. A country's economic success as well as its ability to compete in a world market depended on inherent levels of societal trust.

3.1.2. Literature definitions of trust

Trust is an expectation held by one agent that a second agent will behave in a mutually acceptable manner, including an expectation that neither partner will exploit the other's vulnerability (Sako 2006).

Trust implies the second agent has an opportunity to exploit the first's vulnerability. When trust exists, it narrows the range of possible actions the second agent can make and reduces uncertainty of exploitative behaviour occurring.

Sako (2006) describes a hierarchy of trust as follows:

- **Contractual trust:** Will the other party carry out its contractual agreements? Contractual trust rests on a shared moral norm of honesty and promise keeping.
- **Competency Trust:** Is the other party capable of doing what they say they will do? Competency trust requires a shared understanding of professional conduct and technical and managerial standards.

- **Goodwill trust:** Will the other party make an open-ended commitment to take initiatives for mutual benefit while refraining from taking unfair advantage? Goodwill trust only exists when there is a consensus of the principles of fairness.

Conceptually, organisations are not able to trust each other (Dyer and Chu 2006). Trust has its basis in individual people. Inter-organisational trust describes the extent organisational members have a collectively held trust towards another party.

3.1.3. Trust and transaction costs

Transaction costs explained

Costs, in economic production and exchange, include both production costs and the transaction costs associated with exchange.

Transaction costs are costs associated with searching for trading partners, entering into agreements, monitoring contract performance and product quality and enforcing breaches of contract. Transaction costs take many everyday forms – meetings, sales calls, bidding rituals. They are all aspects of the transaction costs of doing business.

3.1.4. The economic effects of trust

When trust exists, transaction costs reduce.

- The parties will spend less time writing complicated contracts that address every issue that may potentially occur. Trusting parties are confident that, in the event of an issue, the other party will treat them equitably and fairly.
- The parties will negotiate more efficiently and flexibly because:
 - there is a shared expectation of reciprocation in the future – the parties achieve serial equity (equity over a long time period) rather than just spot equity (equity now)
 - there is confidence that shared information is not misrepresented – trust reduces the need to guard against opportunistic behaviour.
- Each party will spend less time and resources monitoring the other party's performance or whether they are fulfilling the spirit of the agreement. It is this aspect of trust that enables practices like just-in-time delivery and no-quality inspection on delivery. Without trust, monitoring performance and enforcing contracts becomes expensive.
- Each party will assume the other is acting in good faith and will interpret behaviour accordingly.
- The parties will share valuable and potentially confidential information. Distrust may cause parties to suppress potentially relevant information that would be useful for problem solving.

Trust leads to value-creating behaviour (information sharing), and these value-creating behaviours in turn lead to higher levels of trust.

Trust can quicken innovation and learning and gives that something extra: positive motivational force that enhances X-efficiencies and dynamic efficiency through orienting the partners towards joint problem solving.

Parties in high-trust relationships are likely to explore opportunities for mutual benefit. Those same opportunities may not have been explored if the relationship solely depended on contract or incentives.

Trusted collaboration between parties leads to learning by transaction. Even after trust is built and established, trading partners in a relationship that is performing well are likely to interact intensely.

Low trust generates less-open communication, potentially leading to misunderstandings and tighter controls placed on each party's discretion. The tighter controls, in turn, reinforce the low-trust environment. The mutually reinforced nature of low trust makes both parties reluctant to take the first courageous step to break the cycle (Fox 1973).

3.1.5. Creating trust (Sako 2006)

Trust is built up through the display of trust over time. The historical duration and the relationship experience matter. The longer the duration of the relationship, the higher the typical levels of trust between the parties.

Trust, particularly goodwill trust, is built up through things like gift exchange. A long drawn-out imbalance of favours done and returned sustains the relationship of interdependence. Gift exchange is based on broad reciprocity over time – swings and roundabouts – rather than exact accounting.

Sharing information is another form of gift exchange. It also helps co-ordinate the parties. A two-way flow of information reduces information asymmetries and reduces scope for opportunism.

Cultural similarity and subscribing to shared norms is one way to foster trust. Societal culture, politics, regulation, professionalism and national institutions are said to be a relevant set of attributes in which bilateral relationships are embedded.

Strong networks are one way through which trust is learned and embedded between firms in countries.

4. Sister City outputs

4.1.1. Relationships positioned in an unusual place

Sitting neither in the central government space of state-to-state engagement nor in the completely private space of business to business, Sister City relationships between cities have an odd middle-ground position (Figure 1).

Geopolitics, international treaties, public law and international law govern how sovereign states engage with each other. In the private sphere, private foreign investment, corporate law, contract law, the law of torts and conflict of laws govern how private firms engage with each other.

Sister Cities are neither sovereign states, although they respond to political drivers and are publicly funded through taxation, nor private businesses with an international service for sale. Their commercial business is mainly ratepayer services or limited commercial activity within their geographic areas. They do not sell goods and services to other cities.

Figure 1 Sister cities sit between public and private spheres

Not country to country or business to business but in between



Source: NZIER

4.1.2. Sister Cities' economic production

Sister Cities are not councils

Sister Cities are not single entities, and councils are not Sister Cities although they have an important role. Sister Cities are a relationship between two cities and their communities to do two specific culture-related things:

- ***Engage in bilateral cultural-enhancing activity that creates and enhances community trust (cultural relations)***

The bilateral cultural-enhancing activity:

- is visible and objectively perceived by the overseas Sister City
- credibly signals commitment to a personal relationship between cultures.

- ***Maintain a council-to-council relationship (usually) between mayors that promotes goodwill trust between cities, which reduces transaction cost for business seeking bilateral trade (trade relations)***

Council entities provide assurance that:

- the international relationships are long duration and will endure because both government entities will endure
- the international relationship is important
- the rules of engagement between cities are within the control of the parties
- neither party will exploit the other's vulnerability created from trading relationships through changing the rules of engagement or as a result of evolving circumstances.

It works because councils:

- are long-term enduring bodies
- are selected locally by a collective of people
- make law.

From these attributes, councils have a capability to create trust between cities, which opens up economic trust opportunities for business (as described in section 3.1.4). Councils can create a high-trust environment between international local governments that helps lower the risk, cost and uncertainty for business seeking to engage in bilateral trade. This basis for meeting and opening up economic opportunities in the overseas city reduces the search costs for New Zealand businesses seeking opportunities and is an example for how transaction costs are lowered through Sister City relationships.

The Otago Chamber of Commerce attended a Shanghai expo last year on behalf of Dunedin City Council (DCC) and business. There were 3,200 patrons passing the stall every hour for 3 days running. The prominence of the Otago Chamber of Commerce position and the promotional help they received was support that the Shanghai Council extended because of the trust relationship.

Mayoral visits strengthen the commitment between the cities through showing the relationship is valued and, more importantly, through personal face-to-face commitment by each mayor to not exploit the relationship built up between each

other. This includes not changing the rules of engagement or citing an evolving political context.

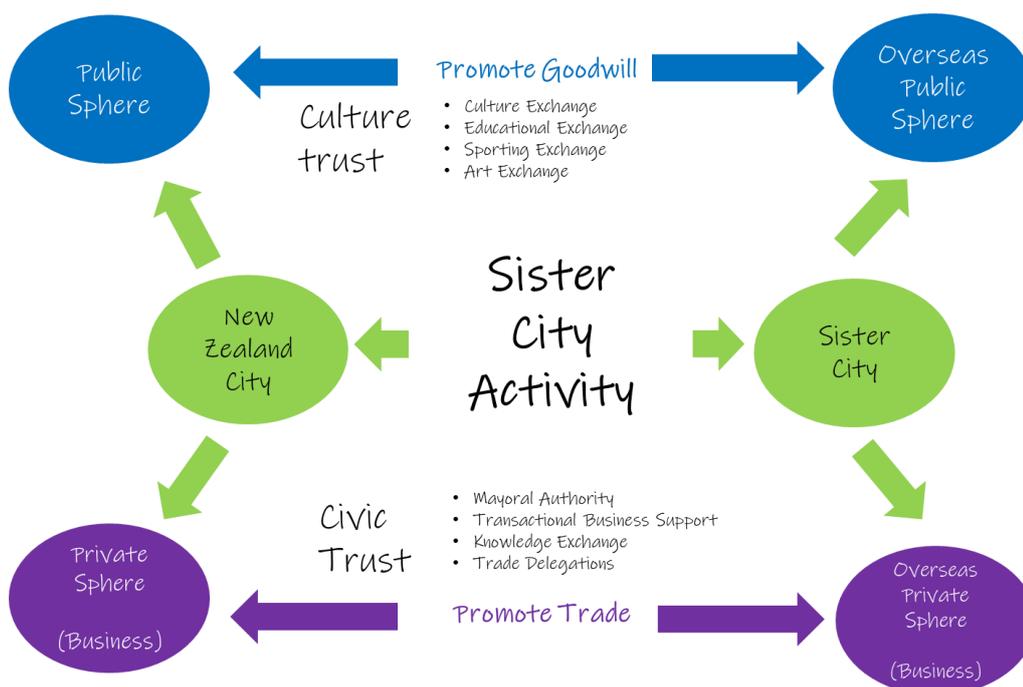
4.1.3. Interaction between cultural and trade outputs

Cultural, art and sporting exchanges are all forms of gift sharing that build trust (as described in section 3.1.5). The quantity and visibility of the cultural relations fostered within the community is important. Additional to their trust-promoting role, bilateral cultural relations also improve the wellbeing and liveability of each city, making them more interesting and desirable places to live.

The overseas city can observe the strength of the cultural relationship growing between the cities, and that impacts on the credibility of the trust built between the cities.

“If it looks like you’re out to get everything you can from a relationship without any give and take or genuine willingness to understand the other party, then it starts to look a bit mercenary and will turn partners off.” – Alistair Crozier

Figure 2 Two outputs: public sector goodwill, private sector trade promotion



Source: NZIER

From contractual trust to long-term enduring goodwill trust

Short-term trust relationships operate within the contractual and competency trust domains (as defined in section 3.1.2).

In the early stage of a trust relationship, each party is testing the other to see whether:

- it will do what it says it will do (contractual trust)
- it is capable of delivering what it says it can deliver (capability trust).

At the council level, at the start of a relationship, this manifests in testing whether the cities will engage in bilateral cultural exchanges and regular visits. Delivering cultural exchanges and publicising delivery to the other city helps establish both contractual and capability trust.

A move from contractual trust to goodwill trust involves “a gradual expansion in the congruence in beliefs about what is acceptable behaviour” (Sako 2006, 269).

The cultural relationship outputs are a mechanism for Sister Cities, their communities and their businesses to form a congruence in belief about each other’s cultures, practices and norms.

In turn, a cross-cultural shared understanding teaches what is “acceptable behaviour” and enables goodwill trust to form and support effective trade relations.

“New Zealand needs to understand the overseas business culture. You’ve got to understand the business culture of the country you’re trading in, especially the Asian countries, and you’ve got to be able to work that through with your own business culture. Understand it and work within it.

On one side of the Sister City programme is this cultural-generation process, where Sister City organisations are bringing culture to New Zealand and vice versa. And then on the other side of the equation is the absolute need to understand business culture within the Asian environment in order to successfully do business. The two are complements.

People who engage with Sister Cities on the cultural side are better placed. That is because they understand the way their social systems work. In so many cases, their social systems are ingrained in their business culture as well.” – Rob Jeffrey

Goodwill trust a prerequisite for commercialisation

Goodwill trust, built up through the display of contractual and capability trust over time, provides the foundation for commercialising the Sister City relationships.

Auckland’s Tripartite Economic Alliance between Sister Cities of 30 years and 48 years and Dunedin’s relationship with Shanghai of 20 years are not coincidental. These cities have developed goodwill trust through delivering consistently via exchange programmes (gift giving) and regular communication that their relationship has moved beyond competency trust. Now, doors open for mayoral delegations, reflecting that something extra that theory suggests is brought to trusted relationships.

4.1.4. Role for business networks

Councils are not businesses, and they cannot engage in meaningful bilateral economic trade. The best councils can do is build the setting – provide assurance and promote trust.

Trade between businesses is commerce – it still needs to be conducted by businesses and comes with its own risks and uncertainties. Chambers of Commerce, with their networks into their overseas counterparts, can further reduce risk through maintaining a trusted network at the business level.

Through verifying the authenticity and bona fides of an overseas business counterparty, networked Chambers working together can further reduce the risks of trusting a new trading partner. The Otago Chamber of Commerce, with its networks through into the Shanghai Chamber of Commerce, provides an excellent example for

how business networks can strengthen business trust, helping reduce the risk associated with international trade.

Shift from sourcing information to resolving issues and confirming legitimacy

In Dougal McGowan's view, 20 years ago, the only way New Zealand companies could find an overseas trading partner was through network organisations such as Trade New Zealand, New Zealand Trade and Enterprise or Chambers of Commerce. Now, technology has enabled businesses and customers to buy and sell into China through platforms like Alibaba.

As a consequence, the Otago Chamber of Commerce was finding itself only dealing with issues that had become a problem.

The other part of the relationship is that the Otago Chamber can ask questions of the Shanghai Chamber around the legitimacy of any potential trade. If the Shanghai Chamber recommends the trade, they stand behind the transaction. If there are issues between Dunedin companies and Chinese companies, the Otago Chamber engages with the Shanghai Chamber, and more often than not, the Dunedin business gets their money back.

4.1.5. Role for community networks

Most Sister City Societies are staffed by volunteers and receive in-kind or financial support from their councils. Some, like the Wellington Xiamen Association, sit separately at arm's length from Wellington City Council and have their own constitution. Their costs are minimal, but their signalling credibility to their Sister City is high. They are tangible demonstrations of the interest one city's community has in understanding the culture of another.

The business model for delivering bilateral cultural-related activity differs between New Zealand cities:

- **Independent and separate:** Sister City Societies like Wellington's Xiamen Association are separate incorporated entities with their own constitution and funding streams from the council.
- **Separate but activity funded:** Auckland's Sister City Societies are not incorporated entities but are volunteer community-based societies funded on a case-by-case activity basis.
- **Within council and council funded:** Christchurch's Sister Cities committees are volunteer-staffed committees within the council, delivering projects that are funded by councils.
- **Not occurring:** Some Sister City relationships do not have bilateral culture-related activity associated with the relationship.

Sister City Societies of community members may have more signalling efficiency for demonstrating genuine commitment to learning the culture and behaviours of another culture. However, with volunteer staffing and without the financial and managerial capability of a committed enduring council, Sister City Societies too far removed from the council might not have a business capability to deliver on the required level of exchange commitments.

Conversely, bilateral activity undertaken solely through councils puts the relationship's enduring success into a 3-year election cycle with only a limited certainty that cultural relationships will endure between cities. Council "flip-flopping" between different

mayoral support for Sister City relations is a factor that can erode long-term trust with counterparts. Community-based Sister City Societies can, to some extent, maintain relationship connections outside of the shorter-term political drivers that can affect local government.

Christchurch has a unique – and potentially strong from a signalling perspective – Sister City arrangement. Sister City committees of citizen volunteers report to the council and do the cross-country co-operation to maintain the Sister City relationships. The volunteer committees organise cultural exchanges and art exchanges. Even bigger events such as Christchurch’s Chinese Lantern Festival are also within their purview.

4.1.6. Bilateral activity as gift giving

The Wellington Xiamen Association is a Sister City Society that promotes cultural exchange between Wellington and Xiamen by:

- co-sponsoring cultural events
- operating a medical training exchange between Xiamen and Wellington
- supporting delegations through meeting them at the airport and showing them around the area
- having a youth dance collaboration with a professional dance college in Xiamen
- organising school exchanges and culture events at Chinese New Year
- arranging citizen delegations to Xiamen for a week semi-officially
- having an artist exchange programme operating with an art college in Xiamen
- taking runners from Wellington to compete in marathons in Xiamen
- looking to organise a museum exchange.

These are visible representations of Wellington and Xiamen gift giving to each other and are symbols of the maintenance of continued development of trust.

It was through this trust-building activity that Xiamen City offered Wellington an opportunity to retail New Zealand product through Xiamen’s Sunshine Supermarkets – a chain of 70 supermarkets throughout Xiamen.

5. Learning from the coalface

5.1. The three Rs: relationships, relationships, relationships

Without exception, all interviewees emphasised the fundamental and paramount importance of keeping the relationships between cities alive. Successful city relationships plus trading relationships put a lot of effort into the relationship through regular working-level contact and regular visits.

Maintaining relationships helps the parties keep up with the ever-changing global economic environment and growing social concerns, for example, climate change, consumer trends and geopolitical changes.

Delivering to commitments was identified as one of the most important factors the Dunedin interviewees noted about the relationships' enduring success. The relationships between Dunedin and Shanghai have gone on for 25 years now, and there's a strong basis in trust that things get done.

From the Auckland Tripartite Economic Alliance's perspective, long enduring relationships have created trust at the operational level. Kimberley Wu's counterpart in Los Angeles operates a team smaller than Auckland's, but they are very responsive to communications with Auckland because of the relationships built between the teams.

Strong relationships that develop trust helps overcome cultural ambiguities or differences in expectations. Problems occur around different expectations of the relationship, some of which come back to business culture and cultural norms, but otherwise awkward conversations have been easily resolved through the strength of the relationship.

For example, one interviewee described differences in expectations between sister schools in New Zealand and China. China schools had been looking for penpals and training opportunities for their teachers, while New Zealand schools were focused on foreign fee-paying students. Resolving cultural/expectational ambiguity was made easier through close relationships between cities at an operational level.

5.1.1. Face time is important

Economic opportunities were regularly presented to Dunedin because its whole-of-city group visited Shanghai at least twice a year – not necessarily involving a full mayoral delegation. Regular formal and informal communication with Shanghai occurred at the operational level to set up a work plan of areas of common opportunity between cities. These details were worked out well below the mayoral level.

However, regular mayoral visits were also needed to maintain the legitimacy of these operational-level contacts and to confirm that the relationship between the parties and associated activity was indeed valued and important. Without the mayoral visits to lock in the importance of the overall relationship, organising a work plan for common opportunity would be difficult.

5.2. “Fuzzy-wuzzy” outputs are fundamental to success

Asked whether the cultural dimensions are less important compared to the strategic-focused business dimension, the majority of interviewees did not agree. The arts and culture side remains a crucial element of the Dunedin-Shanghai relationship. The connection to the early Chinese settlers during the gold rush establishes a shared heritage.

It is very important to Dunedin’s Shanghai relationship that it connects on the business and sporting and cultural dimensions. Bilateral school exchanges for sporting activities reinforce understanding and show commitment to the relationship.

Dunedin also has a gardens-based relationship with Shanghai, which is valued by both cities. Shanghai gifted buildings to the Dunedin Chinese Garden, which is now a major tourism attraction.

Every year, models and designers from the Shanghai universities exhibit at the Otago Polytechnic fashion show, which creates a feeling of globalism.

“We don’t live in a small society, and we’ve got to be global. But it’s across the board, and it’s about how we think global as a people. It’s not all about business and money. It’s about investing in those relationships. And just like *Married at First Sight*, those relationships all fail if you don’t know everything about the other person.” –
Dougal McGowan

5.3. Approaching cities with a focus

An important success factor is to understand the opportunities and ensure the right parts of the local economy that stand to benefit are involved. The Dunedin all-of-city group reflects Dunedin’s comparative advantage in research and education and approaches China strategically. The purpose of any visit is well understood beforehand.

Enterprise Dunedin has developed a strategic work programme around China. It has a strong focus on the way DCC sees it is going to deliver benefit from its Sister City relationships with China.

DCC focuses on:

- creating political credibility (civic engagement)
- providing assurance
- planning activity and identifying economic opportunities
- providing transactional support
- maintaining and developing relationships.

DCC supports its plan through funding a co-ordinator to work on Project China. That person engages at an operational level with the Otago Chamber and others to work up a list of projects DCC believes are beneficial to the city.

The Project China co-ordinator is in regular contact with the Ministry of Foreign Affairs and Trade. Everything is informal.

5.4. Focus on sectors with comparative advantage

Auckland is hosting this year's Auckland Tripartite Economic Alliance event to coincide with Techweek 2019, a nationwide event hosted by NZTech.³ Kimberley Wu is expecting business delegations from both the Los Angeles and Guangzhou Sister Cities. Structuring the Auckland Tripartite event around Techweek was a deliberate strategic decision to promote an aspect of Auckland's economy and showcase Auckland's technology sector to an international audience.

Similarly, education and research are Dunedin's regional comparative advantage and the focus of the Dunedin all-of-city delegation, but it is aiming to move up the value chain. As well as seeking foreign fee-paying students, the delegation looks for collaborative research opportunities with China universities and organisations.

5.5. Bring a team and pitch to each member's strengths

The Dunedin delegation thinks strategically about which organisation is best placed to maximise the combined efforts of the collective. For example, in Southern China, DCC asked what it could do to help Dunedin high schools approach the education market. It decided it was DCC's ability to provide assurance to Chinese parents and students that:

- if they are choosing tertiary education in New Zealand, Dunedin is a good option
- when the mayor's office has come to China to tell you that your children will be looked after in New Zealand, that is coming from the highest (local) levels of political credibility and is comforting.

Another example was signing an agreement with a Chinese science and technology commission. The agreement was with a body that could provide joint research funding with a New Zealand university. A memorandum of understanding at the city level was needed before the University of Otago could access the research opportunity. Only DCC could have facilitated and signed the memorandum, which opened an opportunity for the university.

DCC goes jointly into market with the Otago Chamber of Commerce – neither DCC nor the Otago Chamber can go into market with the skills and credibility of the other. The credibility is complementary. DCC is needed, but they cannot do business. The Chamber can do business, but without the local government support coming through DCC, no doors will open. DCC and delegates play to each other's strengths.

³ www.techweek.co.nz

6. Bottlenecks to progress

6.1. Signalling commitment and maintaining trust

Trust is like a renewable resource that atrophies with disuse and multiplies with use. (Sako 2006). There is no substitute for face-to-face meetings. Technology is no substitute for face-to-face business connections. Without face-to-face meetings, the relationships needed to maintain strong business connections will not develop.

Rob Jeffrey makes the point that trust relations can be lost very quickly – especially with a change in personnel. Trust also takes a lot to build up. Performance is important: one bad performance against the other party's expectations or one bad relationship experience and trust decreases.

With trust, the customer will say, "Yes, that's fine. That delivery is under spec, but we trust you've done the best you can to supply what we wanted." Resorting to legal sanctions in an international context is unlikely to be effective.

6.2. Unable to scale city-level production

Delivering to Chinese-sized volume levels from companies based around New Zealand city-level delegations is a barrier to commercialising a successful opportunity from a Sister City relationship. New Zealand companies are often unable to deliver the scale of volume desired by some Chinese customers.

Where an opportunity greater than the New Zealand company's capability to deliver presents itself, the obligation is on the individual New Zealand company to use its business connection networks to determine whether it can deliver to the customer's expectations from other suppliers in the same industry.

Some Sister City relationships have value to other cities. When offered an opportunity to promote New Zealand goods through Xiamen Sunshine Supermarkets, Wellington City Council used its networks to source appropriate products from around New Zealand.

Co-ordinating between cities to maximise the collective value of the individual opportunities that strategic cities may unlock is potentially a challenging task. While each city needs to strategically approach the relationship they have with each partner Sister City, there is no strategic plan between different New Zealand cities for how New Zealand as a whole is maximising its Sister City opportunities.

The current market-based mechanism where individuals use their networks to secure production capability might be the most efficient mechanism for maximising the collective benefits from the individual opportunities.

6.3. Council bandwidth

Despite New Zealand's western-looking history, the most active Sister Cities seem to be with China.

Alistair Crozier has served as a New Zealand diplomat in Viet Nam (2009–14). Cities there are rapidly growing and becoming economic powerhouses in their own right.

However, few if any New Zealand cities had links with cities in Viet Nam, and embassy support was seldom required. However, many New Zealand cities had relationships with partners in China or Japan.

One of the reasons for New Zealand cities focusing on Chinese Sister Cities is that councils have small and constrained international relations resources that are thinly spread across Sister Cities.

Councils seem to lack bandwidth to capitalise on opportunities beyond their existing relationships. This bottleneck is partially structural, reflecting councils' tight funding sourced from local ratepayers who may not appreciate the connection between their rates and successfully commercialised opportunities achieved by someone else.

The most active city relationships are with China. Considering whether there are opportunities for consolidating efforts between councils to maximise the scope for improved engagement with China as a collective seems worthwhile.

6.4. Brand New Zealand

New Zealand's brand in an international market is either relatively unknown to some cities or viewed as having a relatively narrow offering. Within this narrow offering, New Zealand cities are constantly seeking to explain both New Zealand's uniqueness and their regional differences within New Zealand.

Some interviewees saw this as just one aspect of the overseas marketing job, but there may be opportunities to deliver the brand message more consistently. Some interviewees felt that some cities do not present their brand in the best light, and while the fundamental Brand New Zealand presented may not be wrong, it might not be expressed in a consistent way across councils.

Approaching Sister Cities with a concrete strategy for both the messaging of Brand New Zealand and the place of the specific city in New Zealand is part of a strategic approach to Sister City engagement.

6.5. Locally getting the message out

Promoting trade opportunities from Sister Cities to the local region can be difficult. Regions have struggled to get business involved and committed to entering overseas markets. Communication from councils could be improved to better disseminate the activity of Sister Cities and activity of trade delegations to ratepayers.

The people-to-people exchanges and bilateral cultural-enhancing activity (as described in section 4.1.6) need to be more prominent and communicated to the community.

6.6. Not everybody is ready for this

Promoting trade to new business is difficult. Dougal McGowan and John Christie have both worked hard to get new business involved and committed to entering the Chinese market. The opportunity to take businesses into an overseas market with the mayor often translates into something like a guided tour of China with the mayor.

Scattergun delegations do not work

It is impractical to take companies from a range of industries into an overseas market expecting to be able to meet all their needs. Business-to-business dealings in China are

hugely complex, and conversations have got to be one on one, tailored to each business. Successful overseas engagement with a large delegation at a civil level is not a reasonable target.

Managerial and financial strength needed first

Businesses may lack practical knowledge of how to make business contracts in an overseas environment. From the Otago Chamber's perspective, it is very hard to provide good advice to businesses on how to lessen their risk when the Chamber's role is to advise rather than make the business decisions.

If a Dunedin company seeks to enter an overseas market, Enterprise Dunedin and the Otago Chamber of Commerce do a lot of work before the visit to make sure the business has appropriate expectations for a delegation and the necessary internal capability. Firms looking to enter into the Chinese market need the financial strength to go to the market several times before an agreement might be reached. Not every region has those levels of business infrastructural support and expertise in their region – at least not among businesses with the financial capability to enter an overseas market.

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Appendix A Lessons from 2003 report – extracts

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 upfront 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 councils to do all the legwork; be proactive in following up contacts and seeking out the information you need.