

Achieving long-term economic success in Asia

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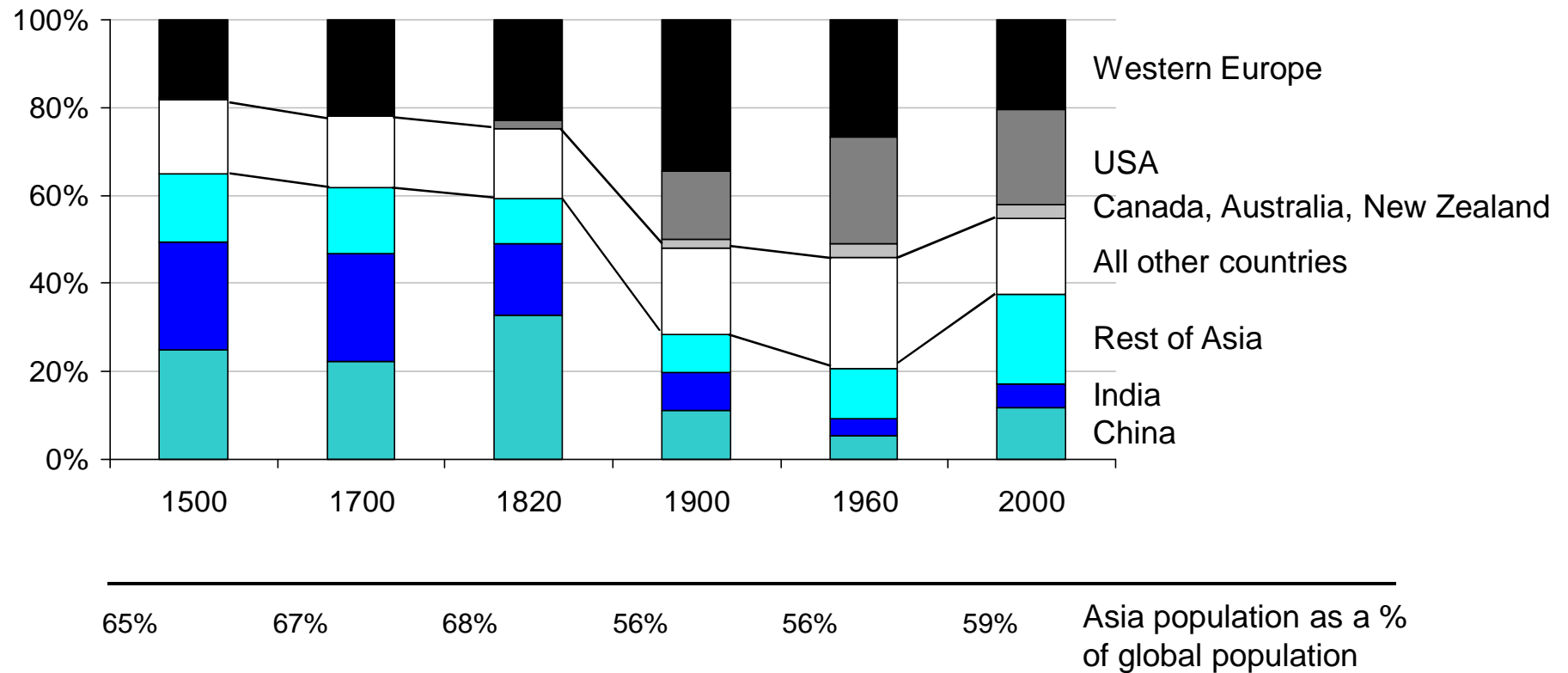
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AGENDA

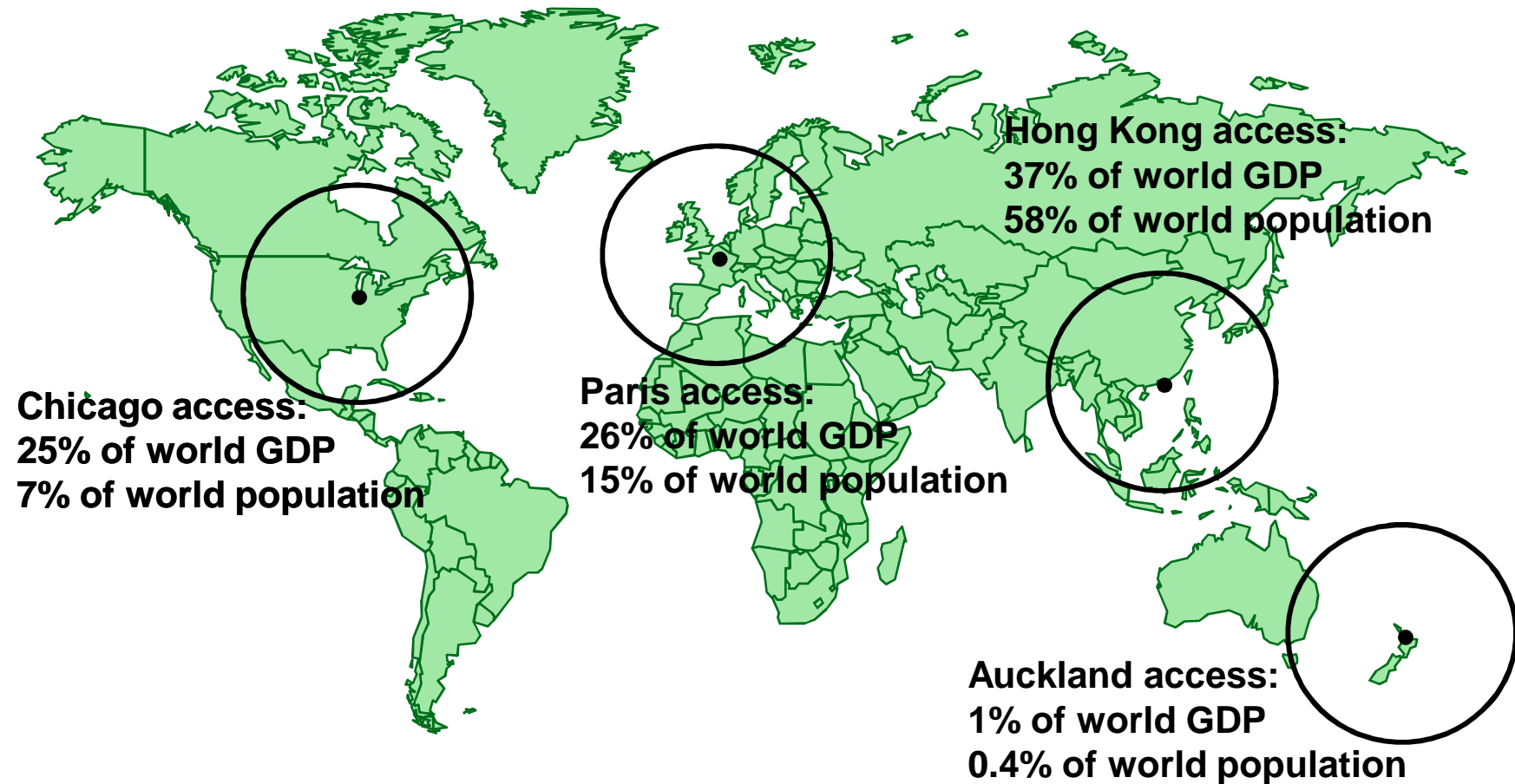
1. The economic importance of Asia
2. New Zealand's economic engagement with Asia
3. What should New Zealand firms be doing?
4. What should the New Zealand government be doing?
5. Concluding remarks

THE ECONOMIC RETURN OF ASIA

Distribution of global GDP (PPP basis) since 1500

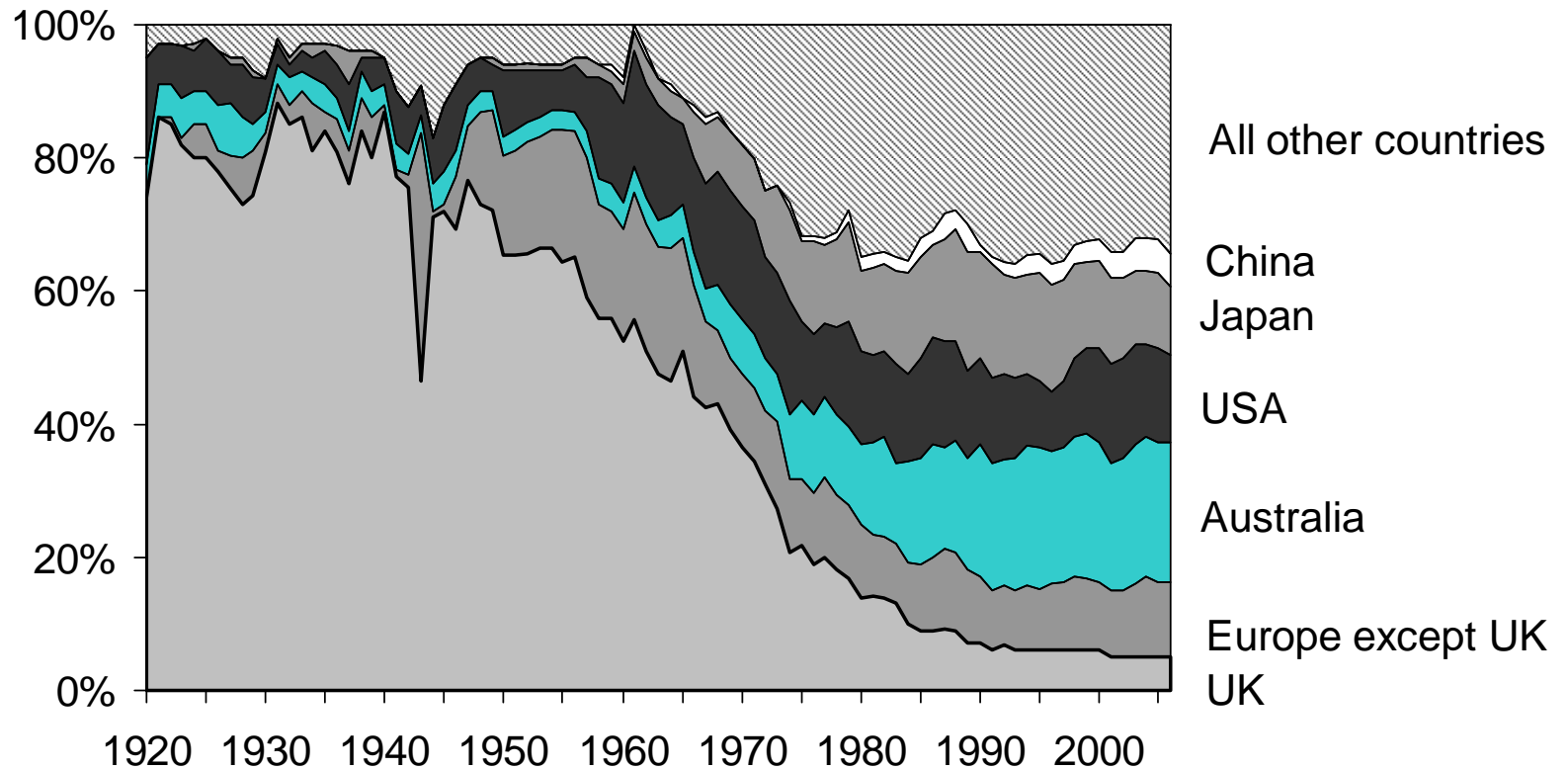


THE RETURN OF ASIA BRINGS GLOBAL MARKETS CLOSER TO NEW ZEALAND



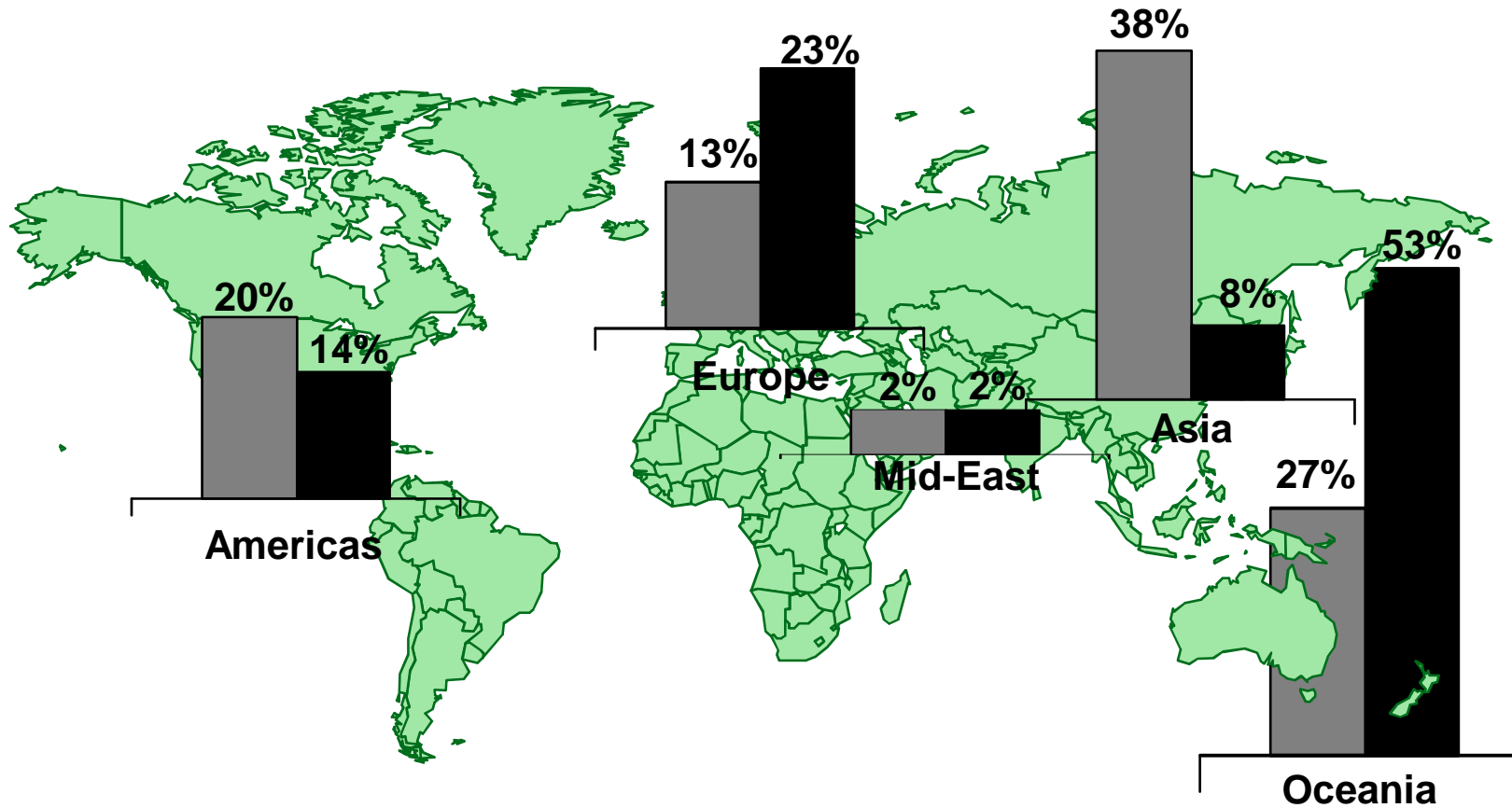
Note: All countries contained or partially contained within a 3.5 hour flight included, circles are only indicative given map limitations.
Source: Source: Groningen Growth and Development Centre and the Conference Board, Total Economy Database, May 2006, <http://www.ggdc.net>; LEK.

ASIAN MARKETS ARE INCREASINGLY IMPORTANT TO NEW ZEALAND



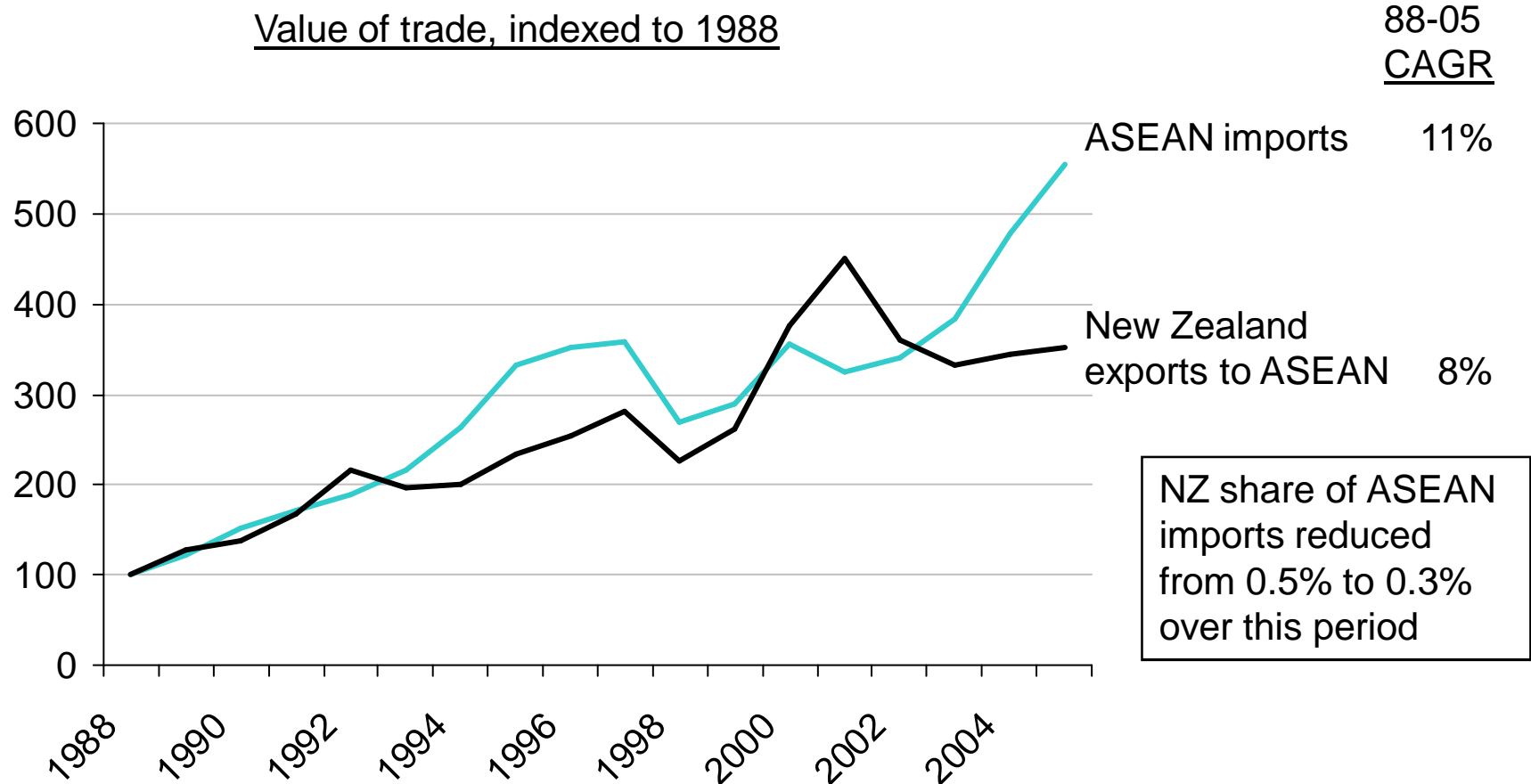
Note: Data interpolated for the years 1932, 1942-5, 1950-3, 1960-2, 1969-70, and 1981.
Source: Statistics New Zealand.

NEW ZEALAND EXPORTS AND INVESTMENT AROUND THE WORLD



Share of New Zealand merchandise exports, YE July 2006
 Estimated share of New Zealand FDI, YE March 2006

BUT NEW ZEALAND EXPORTS TO ASEAN COUNTRIES HAVE RECENTLY DECLINED IN A GROWING MARKET



AND NEW ZEALAND IS LOSING MARKET SHARE INTO CHINA

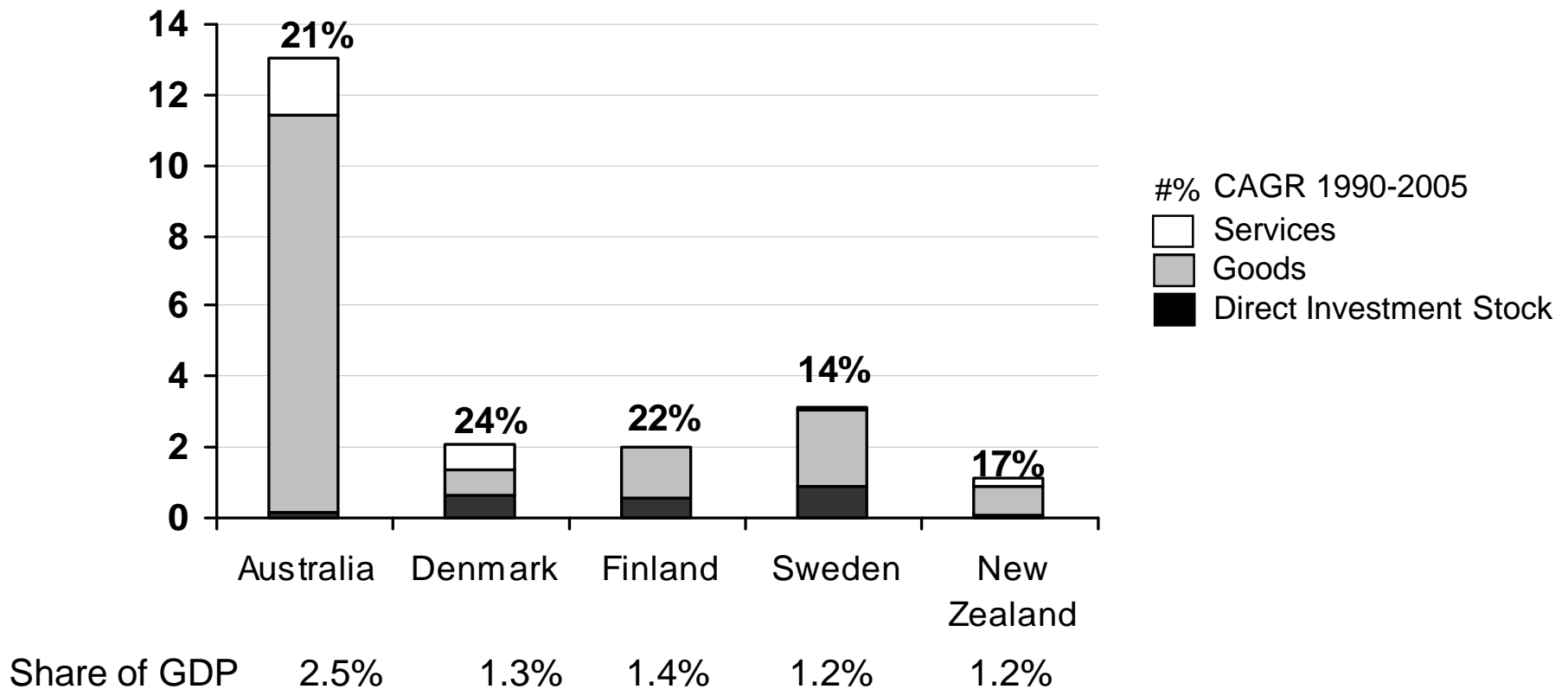
Compound Annual Growth Rate

	1983-2006	1983-1993	1994-2006
NZ's exports to China	10.4%	7.6%	10.4%
NZ's exports to rest of world	6.2%	9.1%	3.9%
China's imports from rest of world	14.6%	12.1%	19.1%

Chinese imports grew by 36% in 2005, but New Zealand exports to China declined by 10%

OTHER COUNTRIES ARE GROWING THEIR ECONOMIC RELATIONSHIPS WITH CHINA AT A MORE RAPID PACE

Relationship with China, 2005, US\$b



Note: Denmark, Finland, and Sweden selected for comparison as similar sized economies also distant from China. Data to most recent year available, generally 2005.

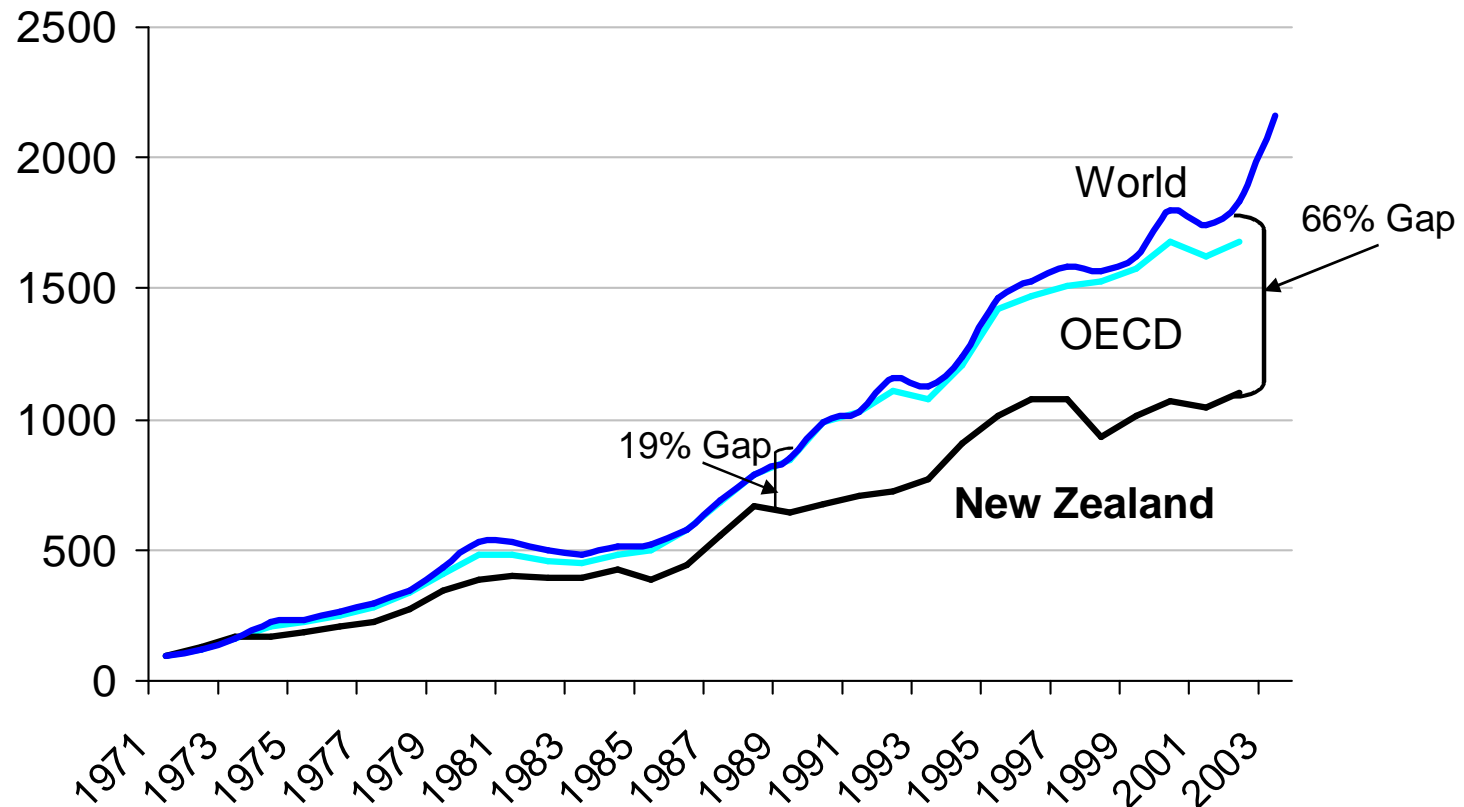
Source: OECD.

NEW ZEALAND'S EXPORTS HAVE GONE SIDeways AS A SHARE OF THE ECONOMY OVER THE PAST 20 YEARS



NEW ZEALAND HAS NOT KEPT PACE WITH WORLD EXPORT GROWTH

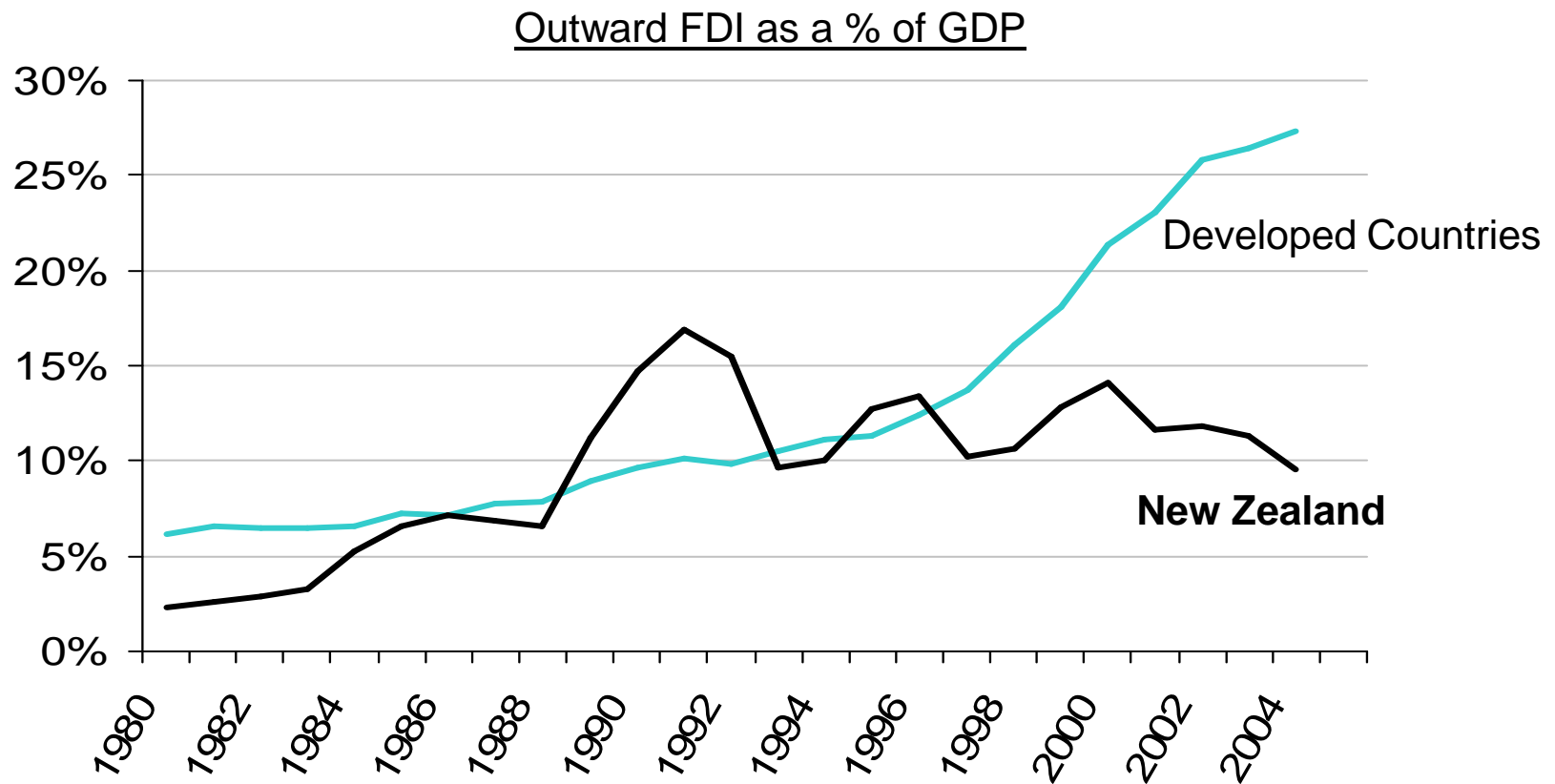
Value of Goods and Services exports, indexed to 1971



Note: 1971 = 100.

Source: World Development Indicators.

NEW ZEALAND'S OUTWARD FDI REDUCED THROUGH THE 1990s, PARTICULARLY RELATIVE TO OTHER DEVELOPED COUNTRIES



GUIDING PRINCIPLES FOR INTERNATIONAL SUCCESS BY NEW ZEALAND FIRMS

- **Commitment to international success**

- Recognition of imperative
- Bold aspirations

- **Focus on competitive advantage**

- Explicit decision on how to compete
- Allocation of scarce resources to match decision
- New market choices based on fit with competitive advantage

- **International growth in steps**

- Increasingly bold steps into new markets
- Formal processes to learn from each step

- **Experienced insiders in global markets**

- ‘On the ground’ learning in new markets before major investment
- Rotation of executives between markets

SOME NEW ZEALAND FIRMS HAVE FAILED TO FOLLOW THESE GUIDING PRINCIPLES

- **Commitment to international success**

- Comfort with domestic status due to perceived security of domestic position, or capital market scepticism



- **Focus on competitive advantage**

- Replication of NZ model, with insufficient regard for new competitive environment
- Bias towards choosing Australia as first offshore market



- **International growth in steps**

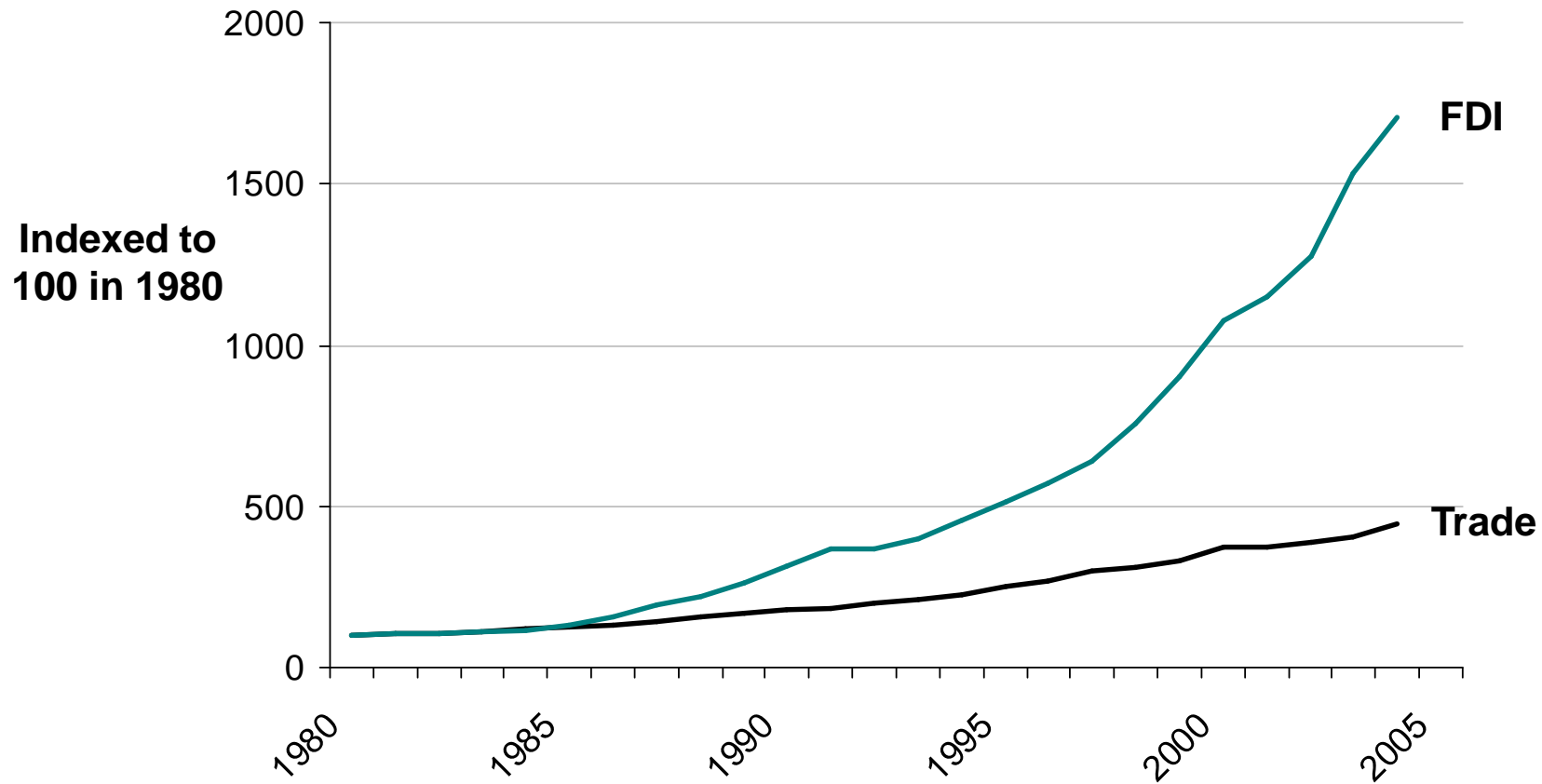
- Risky 'bet the company' moves



- **Experienced insiders in global markets**

- Major investment based largely on outside-in analysis
- NZ executives with little international experience leading offshore operations

GOING GLOBAL IS ABOUT MORE THAN EXPORTING

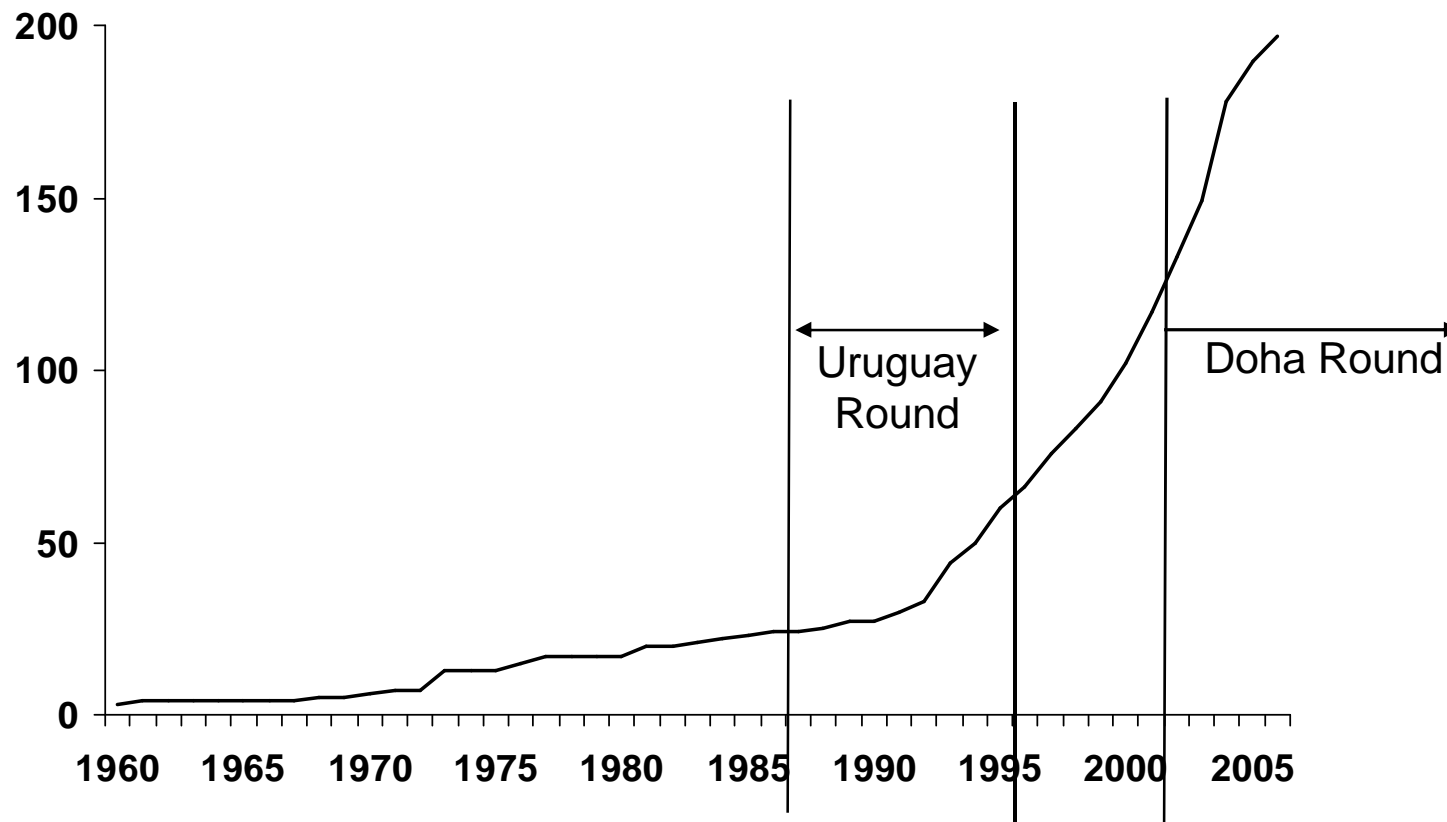


WHAT SHOULD THE GOVERNMENT BE DOING?

The government can play a significant role in improving the environment in which firms are operating, and impact on the ability of New Zealand firms to enter Asia

1. Free trade agreements, ensuring we are a part of the emerging Asian regional architecture
2. National brand building in Asia
3. Bolstered provision of in-market services in Asia
4. Domestic activity: e.g. greater focus on Asian language training

RAPID GROWTH OF TRADE AGREEMENTS



Note: Trade agreements shown on year entered into force.
Source: WTO Secretariat.

CONCLUDING REMARKS

- The economic rise of Asia provides a significant opportunity for New Zealand, but the outcomes generated to date do not compare well against many other countries
 - A step change in performance is required
- It is not that New Zealand is doing the wrong things, as much as there is a lack of urgency in our efforts
 - Need greater strategic intent and ambition from both business and government
- New Zealand needs to make a strategic choice as to where it sees its future as a country, and then invest behind this decision
- New Zealand needs to develop an aspiration for the size of its economic relationship with the Asian region by 2020, and then act to move towards achieving this goal?

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