

# **The role of Auckland in meeting New Zealand's productivity challenge**

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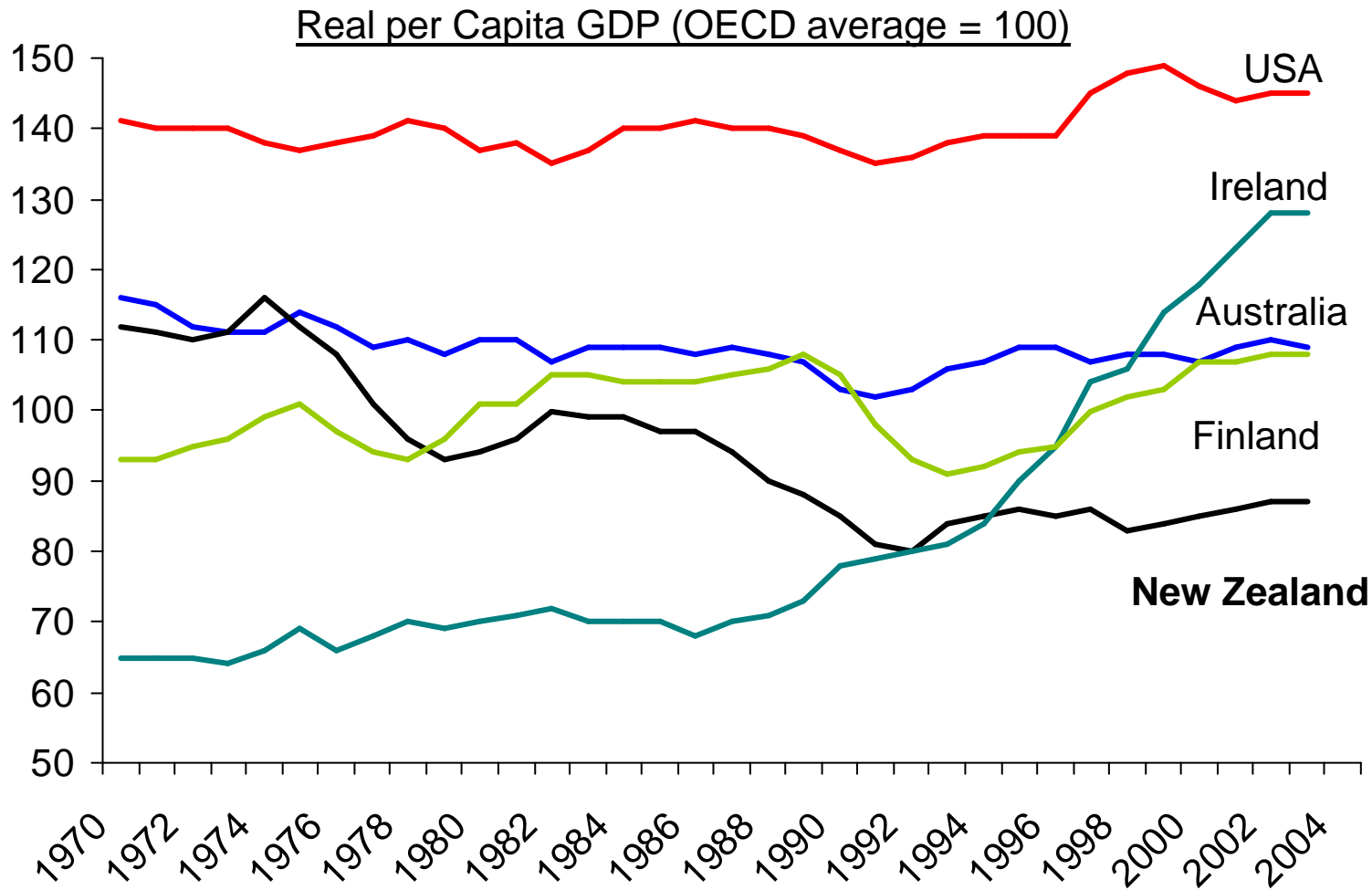
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## AGENDA

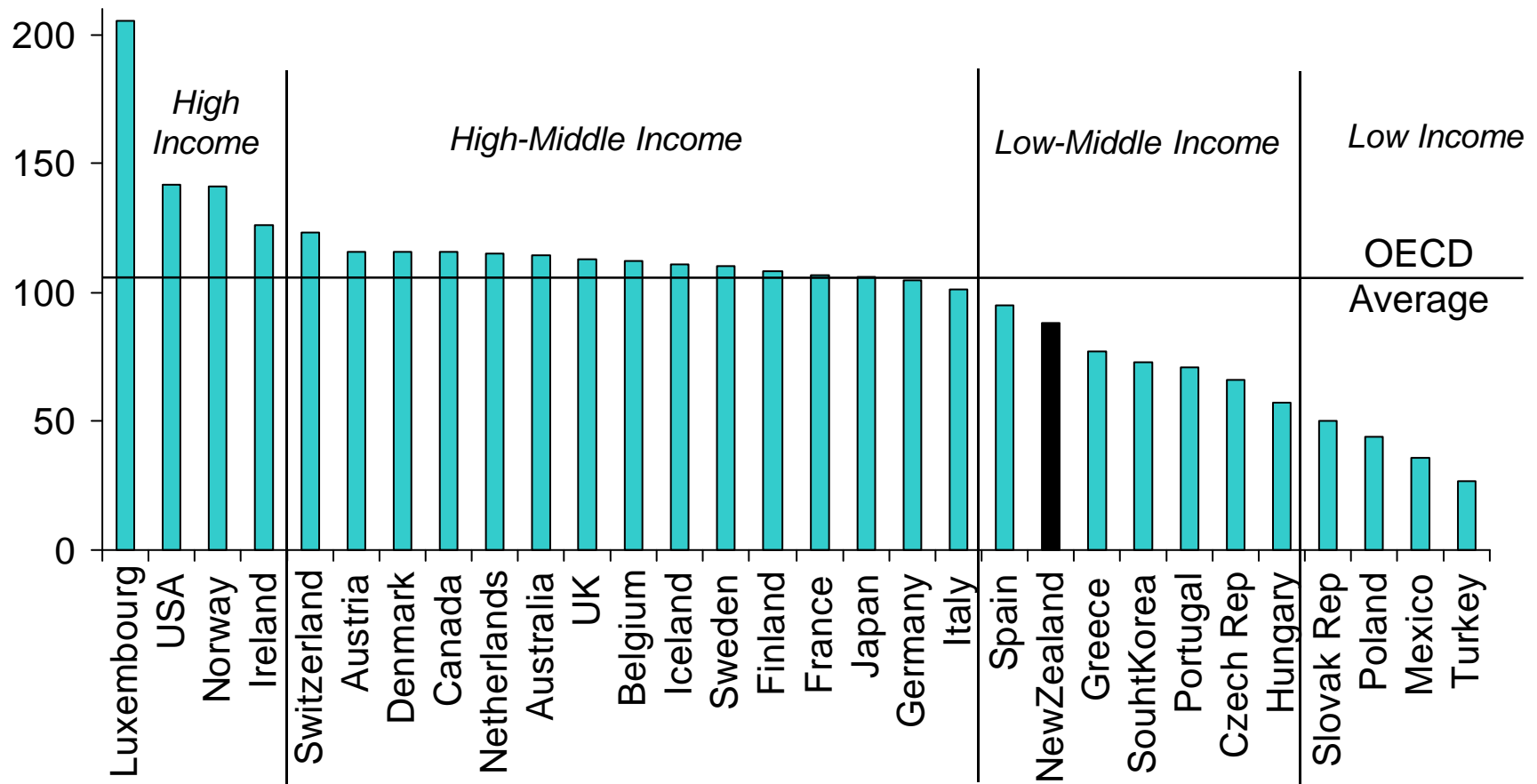
- The New Zealand productivity challenge
- The critically important role of international economic engagement in meeting this challenge
- The special role of Auckland in meeting the productivity challenge by becoming a truly international city
- Some ideas on what to do

## NEW ZEALAND'S PROLONGED RELATIVE INCOME DECLINE WAS HALTED DURING THE 1990s



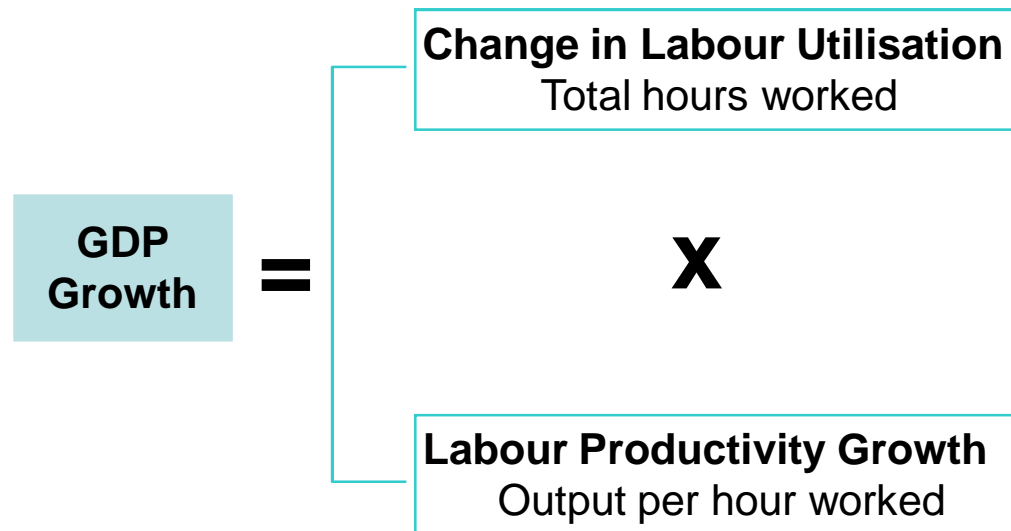
# A LARGE INCOME GAP REMAINS BETWEEN NEW ZEALAND AND MOST OTHER OECD COUNTRIES

GDP per capita (PPP), 2003

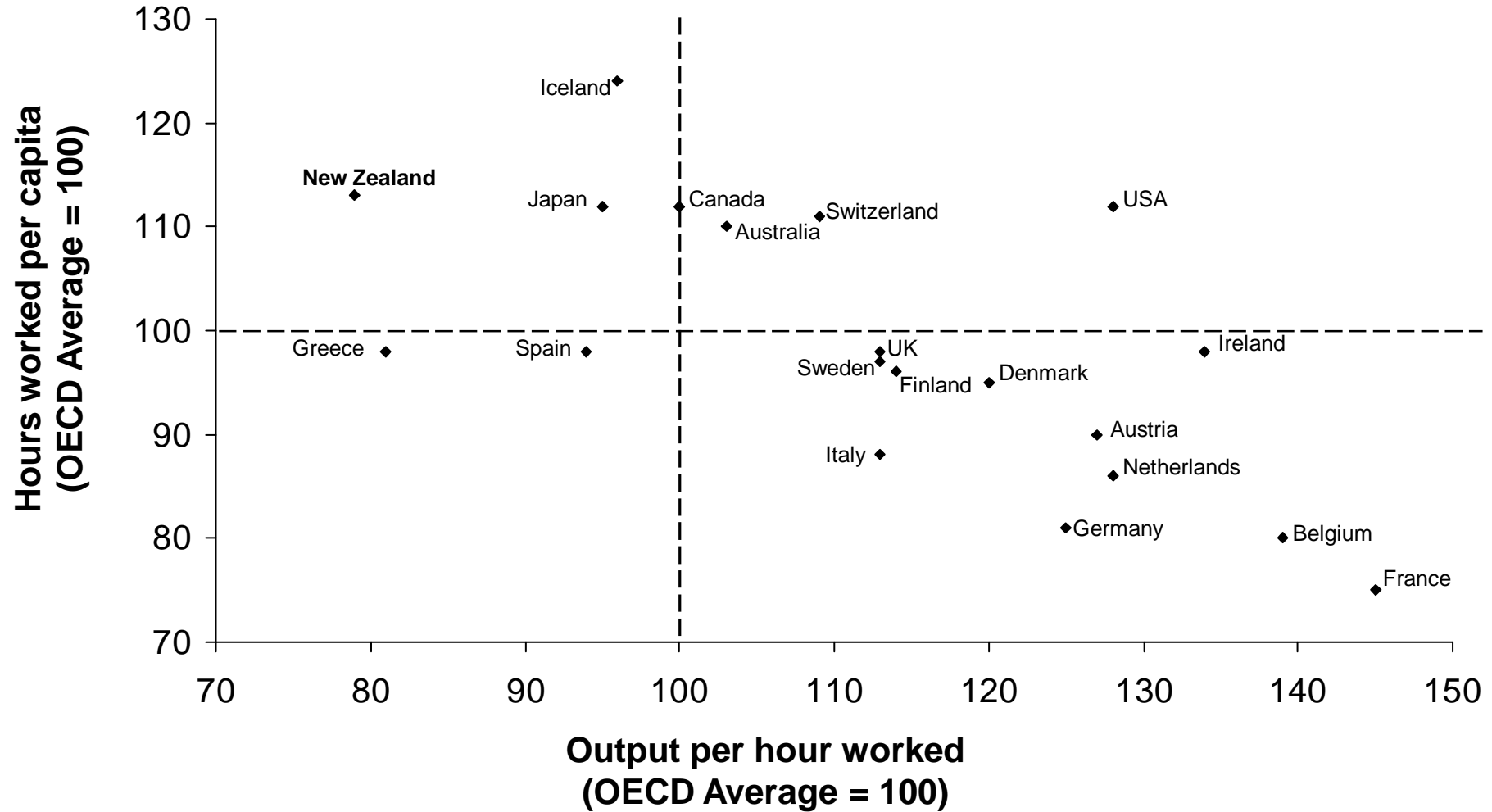


Source: OECD

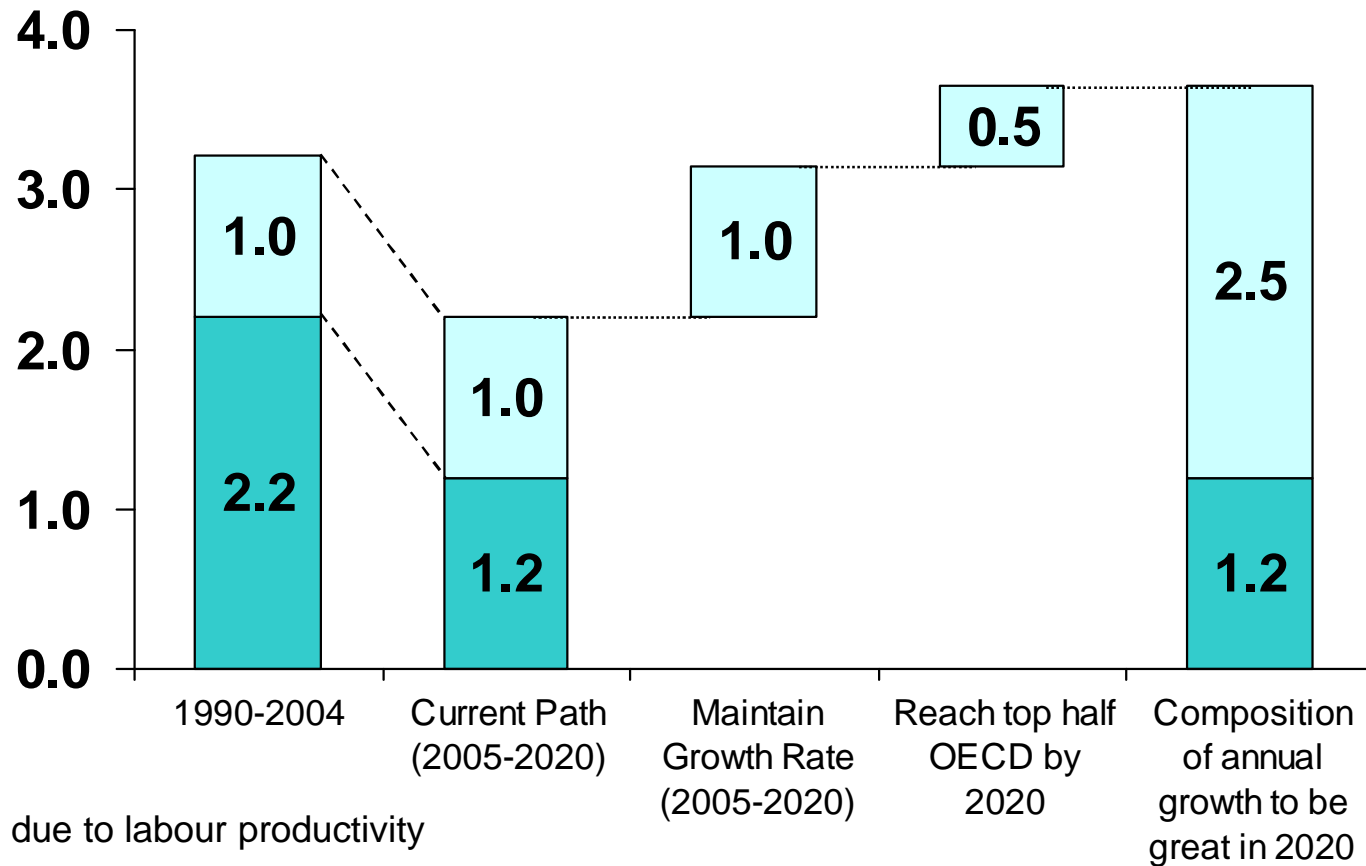
**TO EXPLAIN THIS, AND TO UNDERSTAND NEW ZEALAND'S PROSPECTS FOR THE NEXT 15 YEARS, WE NEED TO LOOK AT THE DRIVERS OF GDP GROWTH**



# NEW ZEALANDERS ARE HARD WORKING BUT ARE NOT AS PRODUCTIVE AS WORKERS IN OTHER COUNTRIES



# HIGHER LABOUR PRODUCTIVITY IS NEEDED TO MAINTAIN GOOD CURRENT GROWTH RATES, AND THEN TO MOVE TO GREAT



- Growth due to labour productivity
- Growth due to increase in hours worked

Note: Assumes all OECD countries continue to grow at OECD average per capita rate (1990-2004). Also assumes Medium Labour Force scenario.

Source: The New Zealand Institute calculations

## THE AUCKLAND PRODUCTIVITY PICTURE

- Auckland's productivity level looks to be higher than for other parts of New Zealand, although the data are not conclusive
  - But New Zealand has a low overall level of productivity
- So there are likely to be big productivity gaps between Auckland and other international cities
- It is difficult to be definite, but it is likely that Auckland's growth over the past 15 years has also been heavily driven by labour force growth (e.g. population growth) with labour productivity growth playing a lesser role
- Auckland's lower level of productivity matters because much of the international competition for talent, companies, etc. is between cities as much as between countries
  - People choose between Auckland and Sydney as much as between New Zealand and Australia

## PRIORITIES FOR ACTION TO RAISE PRODUCTIVITY

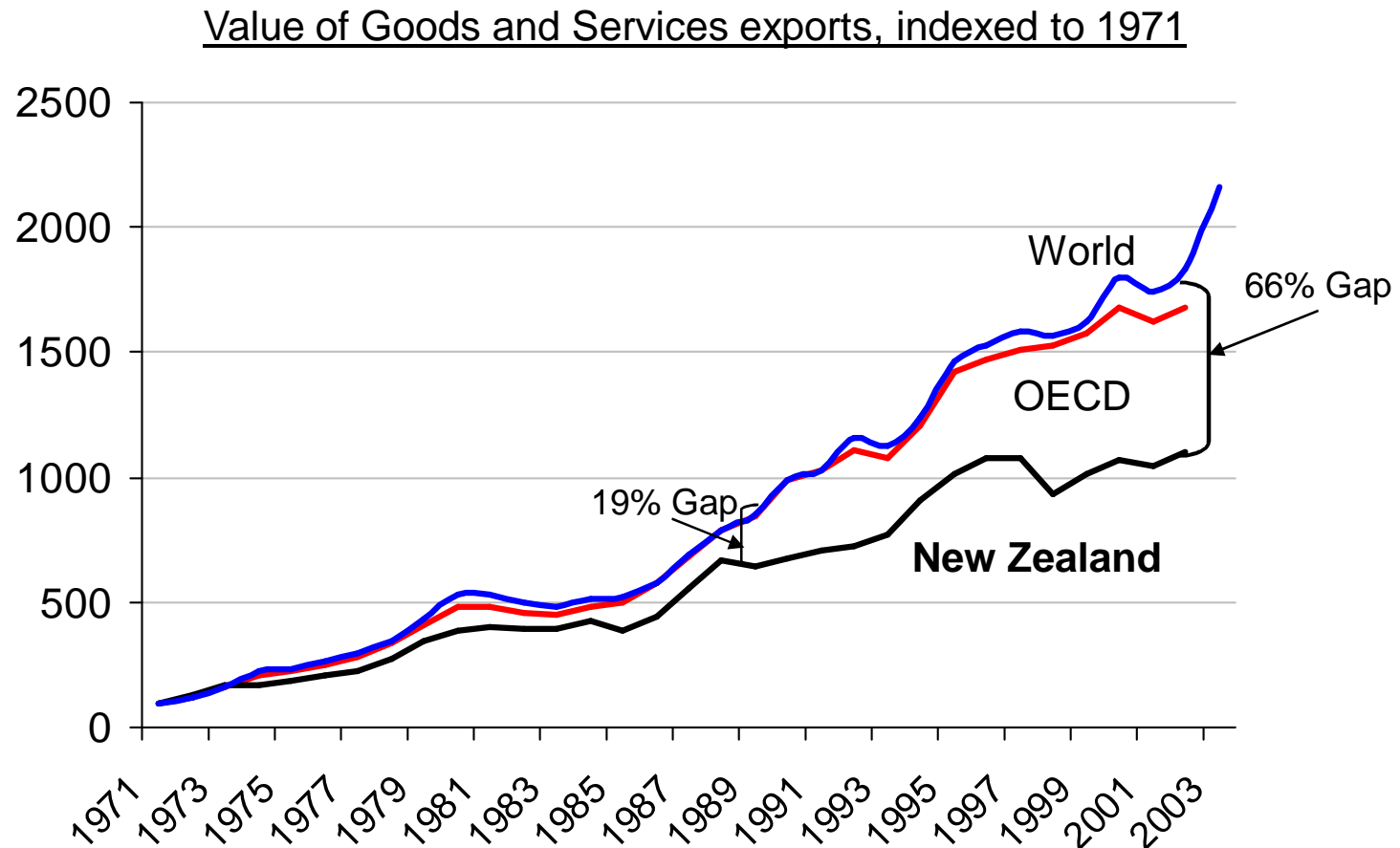
- The challenge is to identify the drivers of labour productivity growth in a context in which the quality of New Zealand's policy and institutional settings already compares well to most other countries
  - They are not obviously a source of competitive disadvantage
- New Zealand is a small, remote economy, and productivity and income are linked to the scale of the market
- Scale is also the key reason why cities tend to generate superior economic performance
- International economic engagement – New Zealand firms exporting or investing abroad – is critically important to raising national economic performance
  - The same is true in terms of raising Auckland's productivity growth
- There is very strong evidence on the economic benefits that are generated from greater international engagement, both for countries and also for cities and regions
- Successful cities are globally engaged cities
- Growth is about getting many things right, but international engagement is fundamental

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



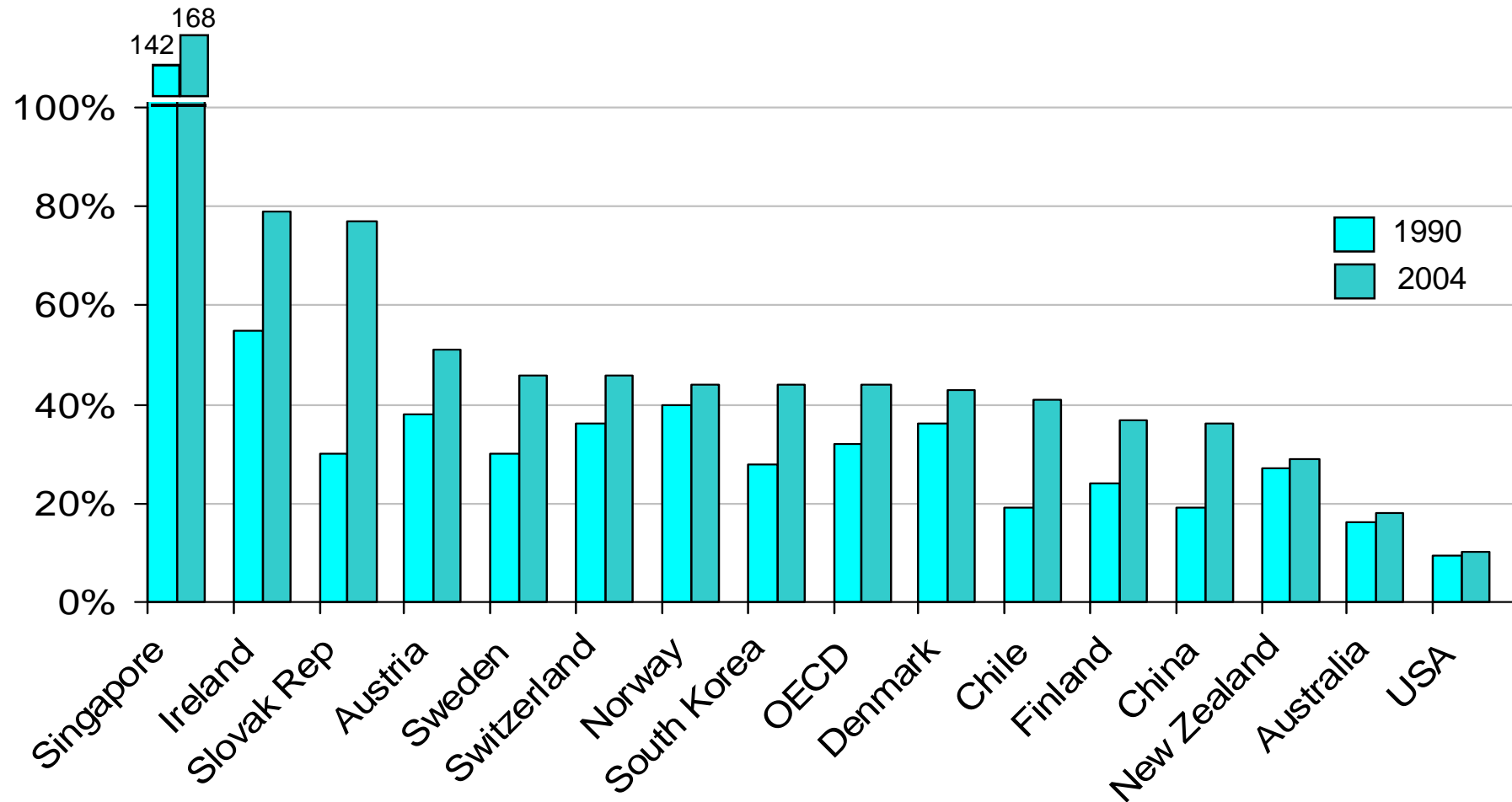
Source: World Development Indicators (1971-1987), Statistics NZ via Datastream (1988-2005)

# NEW ZEALAND HAS NOT KEPT PACE WITH WORLD EXPORT GROWTH



Source: World Development Indicators

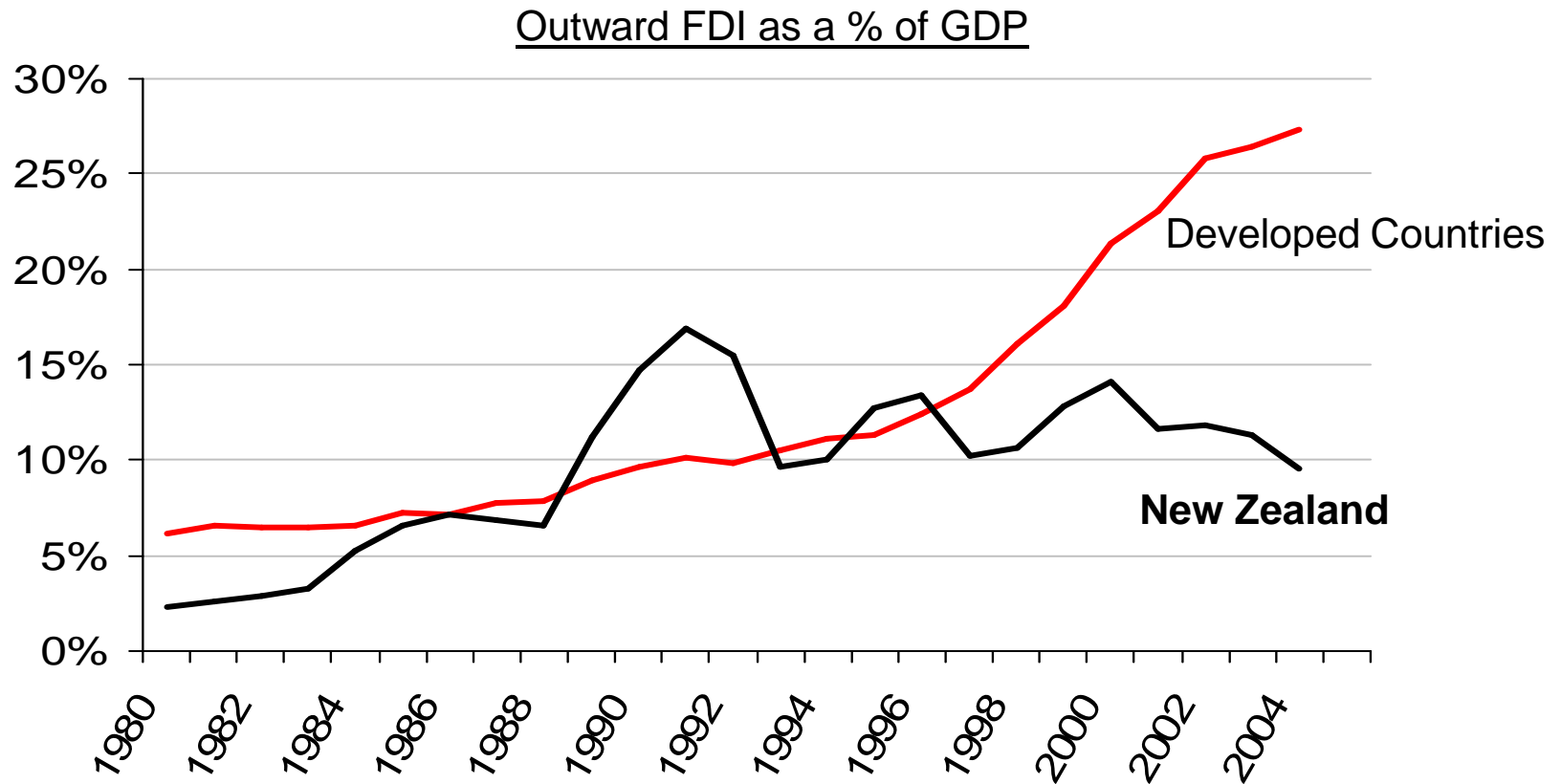
# NEW ZEALAND EXPORTS LESS THAN MOST DEVELOPED COUNTRIES



Note: OECD average for 1990 and 2003

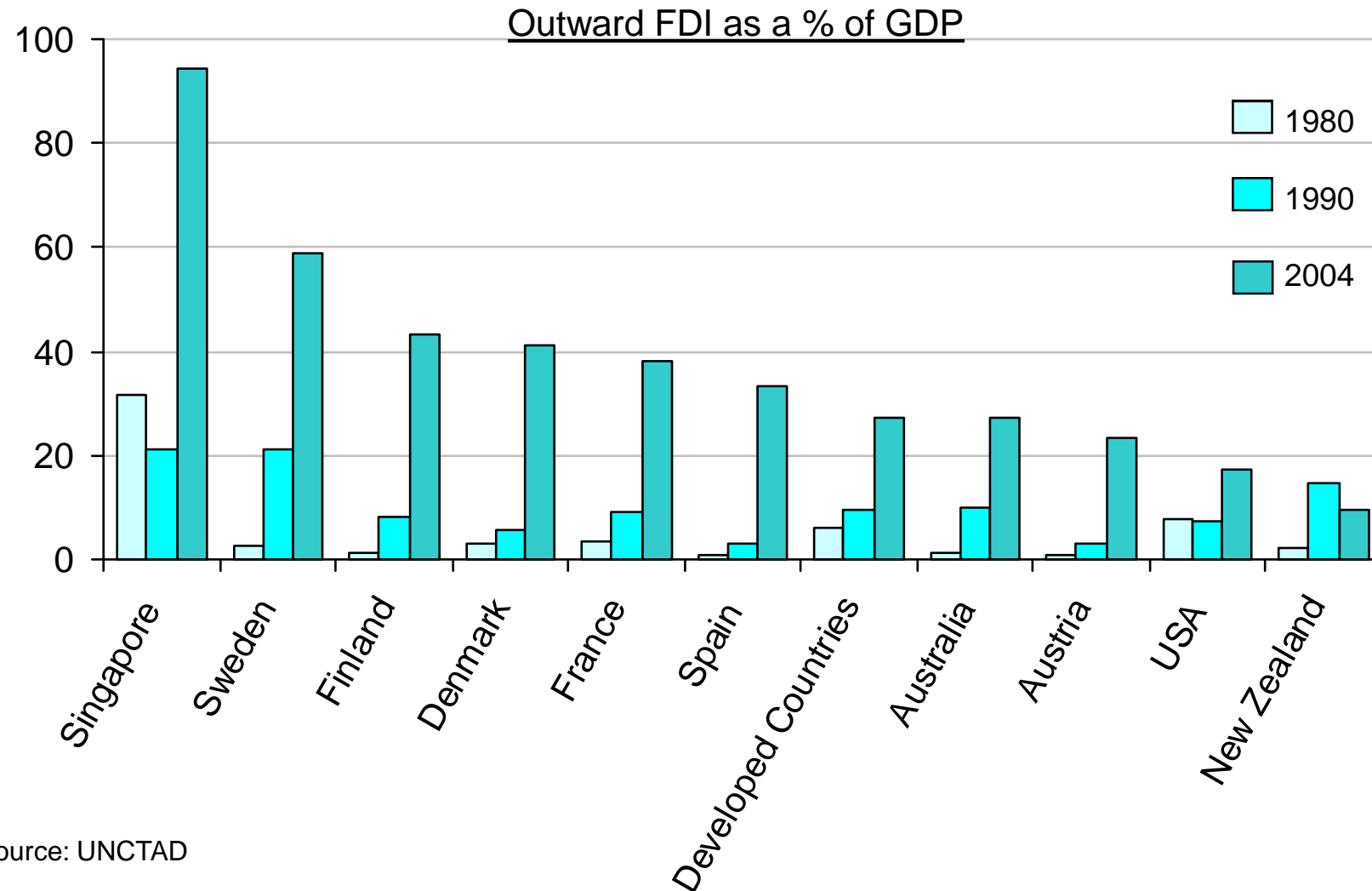
Source: OECD; National government statistics for Chile, China, and Singapore

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



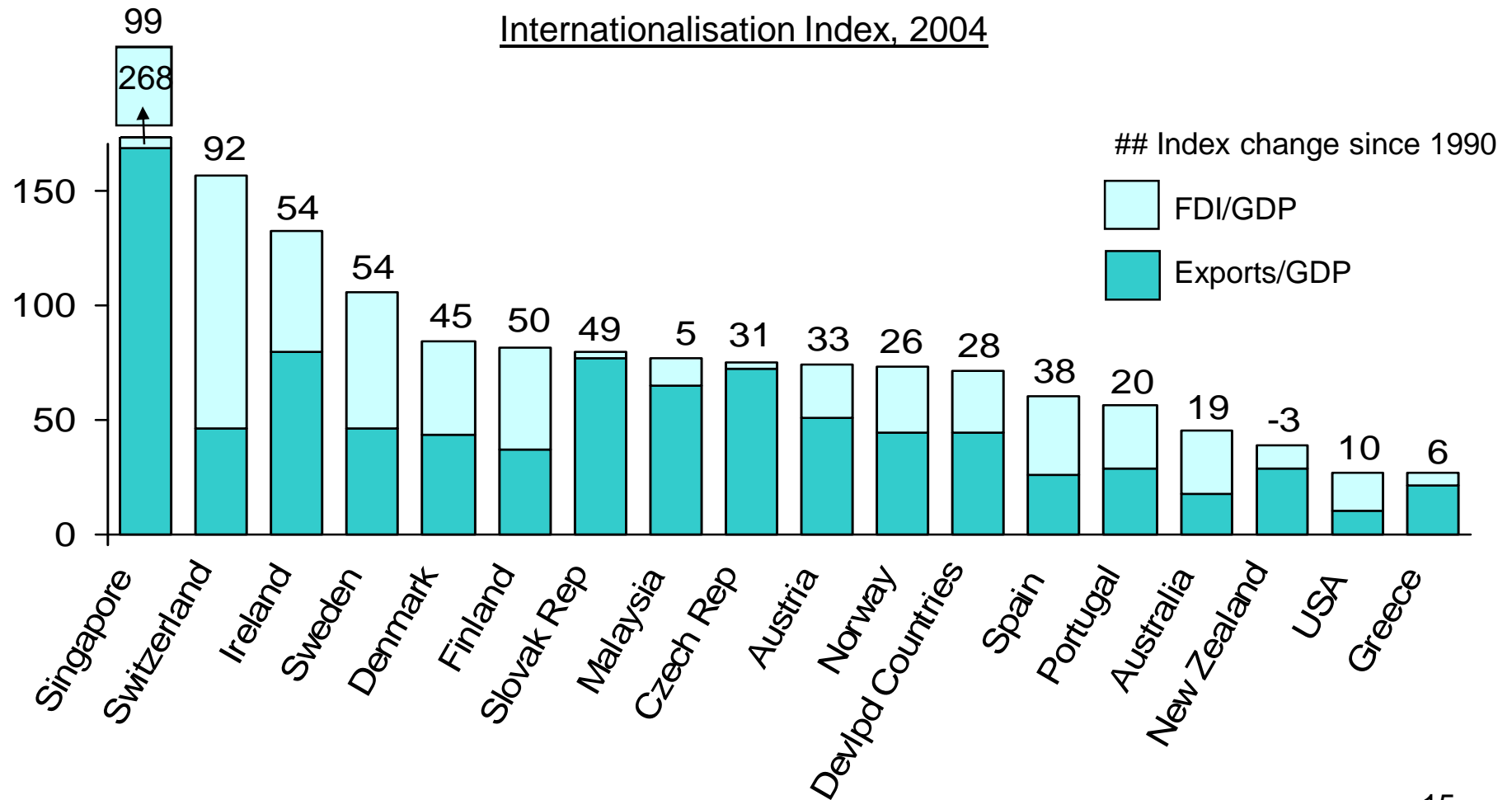
Source: UNCTAD

## NEW ZEALAND IS DISTINCTIVE IN HAVING A LOW AND REDUCING OUTWARD FDI STOCK



Source: UNCTAD

# THE EXTENT OF NEW ZEALAND'S INTERNATIONAL ECONOMIC INTEGRATION HAS REDUCED SINCE 1990



Note: Internationalisation Index = FDI/GDP + Exports/GDP  
 Source: UNCTAD; OECD; National government statistics for Malaysia and Singapore

## IS AUCKLAND A GLOBAL CITY?

- A traditional view is that Auckland is inwardly-focused, with an economy driven by consumption, real estate, and domestically-focused services
- But most of New Zealand's large international companies are headquartered in Auckland, Auckland has the biggest airport and a major port, it is a gateway for international tourism and has a large export education sector, etc.
- So in many senses Auckland is New Zealand's international city
- The challenge now is to build on this so that Auckland becomes a truly global city

## THE ROLE OF AUCKLAND IN DRIVING GLOBAL ENGAGEMENT

- New Zealand's – and Auckland's – economic prospects rely in large measure on whether we can create a global New Zealand economy
- Auckland needs to be at the leading edge of this process in terms of connecting the New Zealand economy to the world
- This will allow Auckland to become the productivity growth engine of the New Zealand economy
- Auckland has a special role in the New Zealand economy, and often makes a particular claim on resources on this basis
- But with this also comes a special responsibility to make a disproportionate contribution to New Zealand's economic performance

## THE NATURE OF AUCKLAND'S INTERNATIONAL ENGAGEMENT

- Auckland is well placed to deliver on this challenge – international connections, large migrant community, professional advisory community, the best research university in the country
- Many of the basic building blocks are in place – the challenge now is to convert this into much increased levels of international economic engagement
- Auckland is also well placed to contribute to the development of new strengths in the New Zealand economy
  - Knowledge, ideas, international services
  - Can position Auckland as an ideas city
- New Zealand's method of international engagement is likely to differ from the traditional model of exporting physical commodities
  - Will involve outward FDI, managing international supply chains, exporting services and ideas

## LOOK AT SEATTLE

- Seattle has a population of about 600,000, Greater Seattle has about 3.5 million
- Seattle started as a primary sector town – forestry, salmon, etc.
- Great lifestyle, scenery, culture
- Seattle is home to Boeing, Microsoft, Amazon, Starbucks and many others
- Now Seattle is prosperous, and is an attractive place to live and work
- Seattle provides a good model for Auckland and gives a sense of what is possible

## TAKING AUCKLAND TO THE WORLD

- In thinking through the actions required to take Auckland to the world, I have two initial observations
- Calibrate the scale of the response to the scale of the challenge
  - Creating a global economy is a big challenge, and is not just about increasing exports by a few million or a few hundred million – it is a multi-billion challenge
  - The scale of the response needs to be proportionate to the scale of the challenge
  - Has to be more than a handful of sensible but modest initiatives
- Local government has an important role to play in achieving this goal
  - There are some things that only central government can do
  - But organisations that are focused on the Auckland region can play a powerful role alongside these national policy changes
  - Indeed, there are some things that cannot be done by central government
  - This is a shared responsibility

## IDEAS: SOME STARTERS FOR TEN

- Invest in C21 Infrastructure
  - Rapid transit to the airport
  - Communications infrastructure, e.g. wireless broadband progressively rolled out across the Auckland region, partner with private providers to make this happen
  - Research infrastructure, e.g. a world class life sciences research park
- Position Auckland as the best place to locate internationally-focused firms
  - Provide a rates holiday/rebate to internationally-focused firms based in Auckland
  - Assemble the CEOs of Auckland's major international firms and ask them what they need
- Position Auckland as a magnet for talent
  - Civic infrastructure that makes it easier to attract and retain talent
  - This is an important part of a package alongside the focus on increasing economic opportunities in Auckland

## CONCLUDING REMARKS

- There is a big productivity challenge facing New Zealand and Auckland
- Going global is a critically important part of meeting this challenge
- International engagement ought to be used as the organising framework for meeting Auckland's productivity challenge
- Auckland needs to be at the leading edge of New Zealand's international engagement
- Auckland has lots of the basics in place, but achieving this goal now requires an aggressive, deliberate, sustained focus
- There are meaningful things that can be done by those in the Auckland region
  - C21 infrastructure
  - Positioning Auckland as the location of choice for international firms
  - Become a talent magnet
- These are long term challenges, and so we need to start with urgency and aggression