

Going global from the end of the world

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Raising New Zealand's productivity growth in a substantial and sustained way will necessarily involve higher levels of international economic activity. No matter how efficient and flexible the New Zealand economy is, the small size of the New Zealand domestic market means that sustaining high rates of economic growth will require active participation in global markets.

Indeed, a characteristic of a high-performance economy is that its firms are able to compete successfully in international markets against the world's best.

Unfortunately, however, New Zealand's exporting and outward direct investment performance has been relatively lacklustre over the past couple of decades. While world trade and investment growth has been growing very rapidly, New Zealand has continued on its historical course and speed.

This matters significantly for a small country like New Zealand. Increasing New Zealand's level of international engagement should therefore be a top priority for both business and government.

Of course, this is easier said than done. There are obvious challenges associated with international expansion from the most physically remote developed country in the world. This adds to the cost and risk profile of international activity by New Zealand firms, and is demanding in terms of management capacity and aspiration, relative to firms in many other countries.

But the fact that international engagement is difficult does not make it any less important. Nor is it an impossible task to substantially raise New Zealand's level of international engagement. So just as complacency – the view that New Zealand is a small trading nation punching valiantly above our weight – is inappropriate, so too is the fatalist view that it is all too difficult and we should lower our aspirations about what is possible.

Much improved levels of exporting and outward direct investment by New Zealand firms can be achieved if business and government respond with deliberateness, ambition, and creativity. Indeed, it is the absence of meaningful action over the past few decades, rather than New Zealand's geographic location, that is the key reason for New Zealand's low level of international economic engagement.

Bluntly put, New Zealand needs to choose to compete to win in international markets if substantially improved international performance is to be secured. This will involve both a redoubled commitment to going global by New Zealand business as well as a much strengthened commitment from government to support international expansion by New Zealand firms.

New Zealand operates in an intensely competitive economic global environment, and we need to respond to this with competitive intensity of our own. Success is unlikely to occur in a spontaneous manner.

Achieving much improved outcomes will require a sustained commitment from both the public and private sectors. Although the government can and should do more to encourage international engagement by New Zealand firms, much improved outcomes rest on a pipeline of New Zealand firms with the capacity and aspiration to go global.

The first step in choosing to enhance our competitiveness is to decide what success looks like. In a recent report, we proposed goals of lifting exports from their current level of 28% of GDP to consistently in excess of 35% of GDP by 2020 and lifting outward FDI from about 10% of GDP to consistently in excess of 15% of GDP by 2020. These goals are feasible, but also demanding – achieving the export goal, for example, will require increased exports of about \$35 billion a year in real terms.

To achieve these types of targets, business and government action needs to be focused on addressing the constraints on New Zealand firms moving into international markets. This will involve enhancing the financial incentives around international expansion, strengthening the management capacity of New Zealand firms in terms of breaking into international markets, developing New Zealand's capital markets and the domestic ownership stake in growing New Zealand companies, as well as raising the level of aspiration around growing New Zealand companies into international markets.

In addition, efforts need to be made to develop new areas of international strength in the New Zealand economy to supplement the contributions from areas of existing strength.

Four classes of solution have been identified as making important contributions to creating a global New Zealand economy, and these are described in the attached Box.

These proposed actions cover a wide range of issues, from addressing immediate constraints facing existing New Zealand firms as they undertake international expansion through to more transformational actions. This reflects a judgement that there is no silver bullet.

This is not a new conversation, and many of the issues we are raising in our reports have been discussed in some form before. However, the ongoing low level of New Zealand's international engagement indicates that sufficiently meaningful action has not yet been taken. The priority must be to act now so that we are not still having a conversation about New Zealand's disappointing level of international economic activity in another decade's time.

EXPORT AND OUTWARD FDI TARGETS AS A % OF GDP



Source: UNCTAD; Statistics New Zealand.

Summary of recommendations

Four solution areas are identified as important in creating a global New Zealand economy.

1. Creating Kiwi global champions, by changing the tax system to make it more encouraging of international expansion, implementing a bold savings policy, encouraging some SOEs to consider international expansion, and improving corporate strategy around international expansion.
2. Achieving enhanced market access for New Zealand firms by placing increased emphasis on providing in-market services to New Zealand firms in offshore markets, in addition to pursuing multilateral and bilateral trade liberalisation agreements.
3. Connecting New Zealand to the world through strengthening international transport and communications links, as well as through strengthening people-to-people links e.g. through the Kiwi diaspora and the migrant community in New Zealand.
4. Developing new strengths in the New Zealand economy to supplement the growth potential of the existing strengths in the economy. This will involve attracting world-class companies and talent to New Zealand, investing in research and education, and developing new business models.

These solution areas will be discussed in detail in four reports, the first of which was released on Monday.

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