

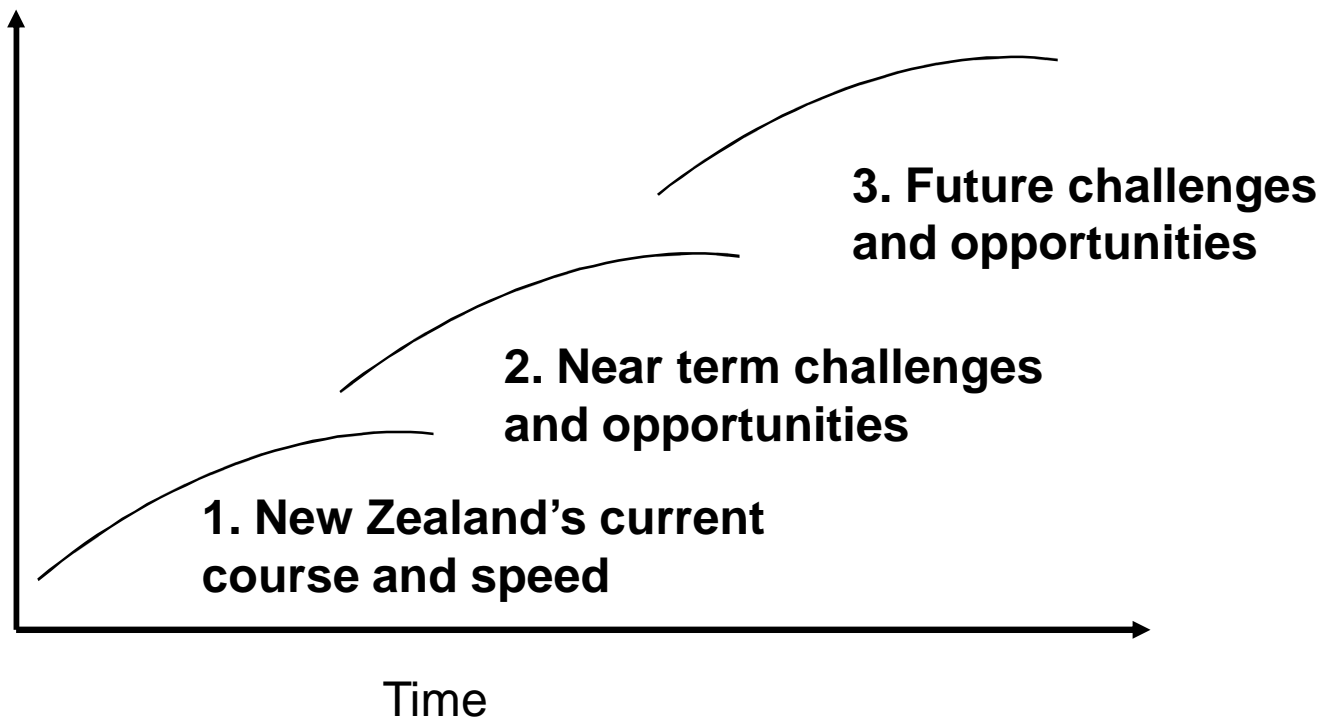
# **Preparing for the future: Emerging priorities for the New Zealand economy**

**David Skilling**

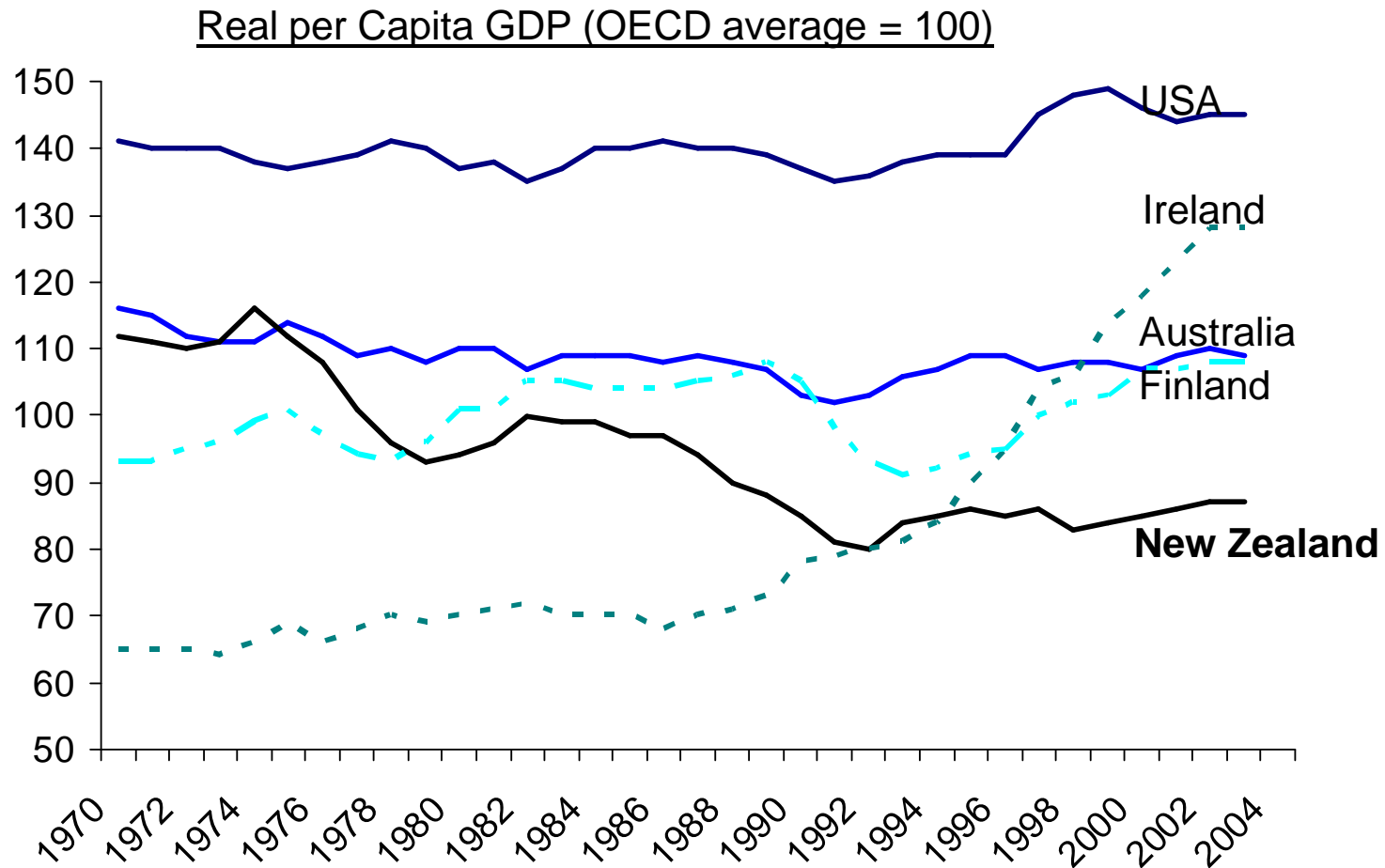
**26 July 2007**

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# AGENDA

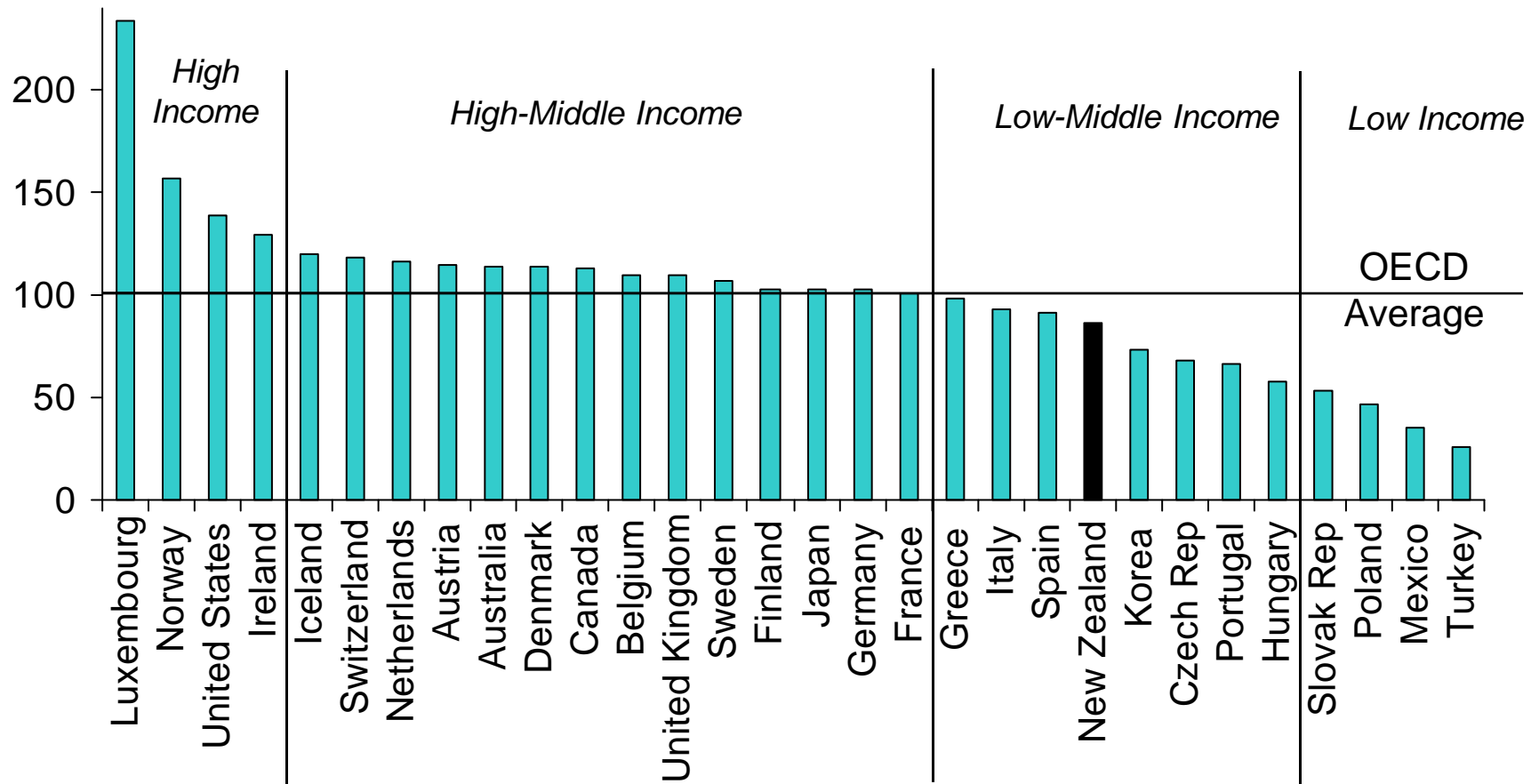


# 1. NEW ZEALAND'S PROLONGED RELATIVE INCOME DECLINE WAS HALTED DURING THE 1990s

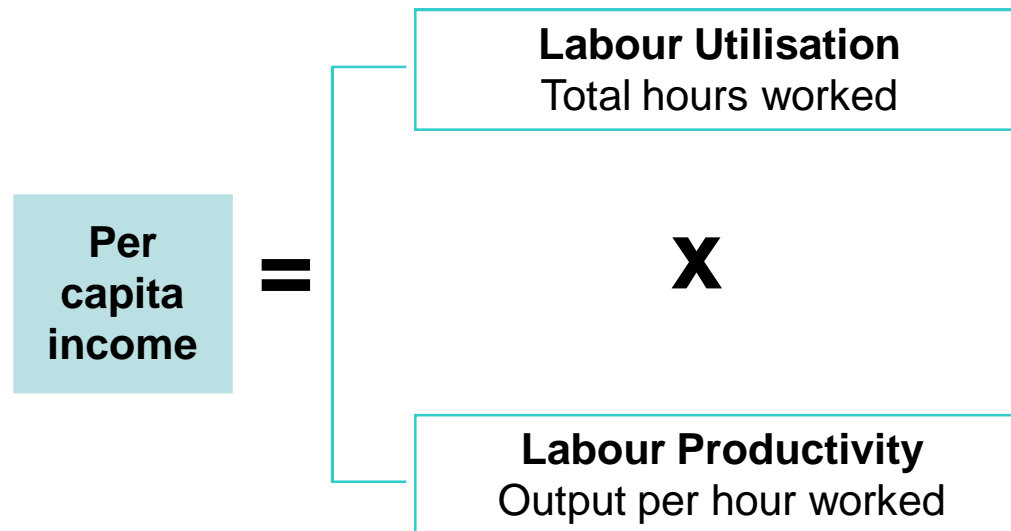


# A LARGE INCOME GAP REMAINS BETWEEN NEW ZEALAND AND MOST OTHER OECD COUNTRIES

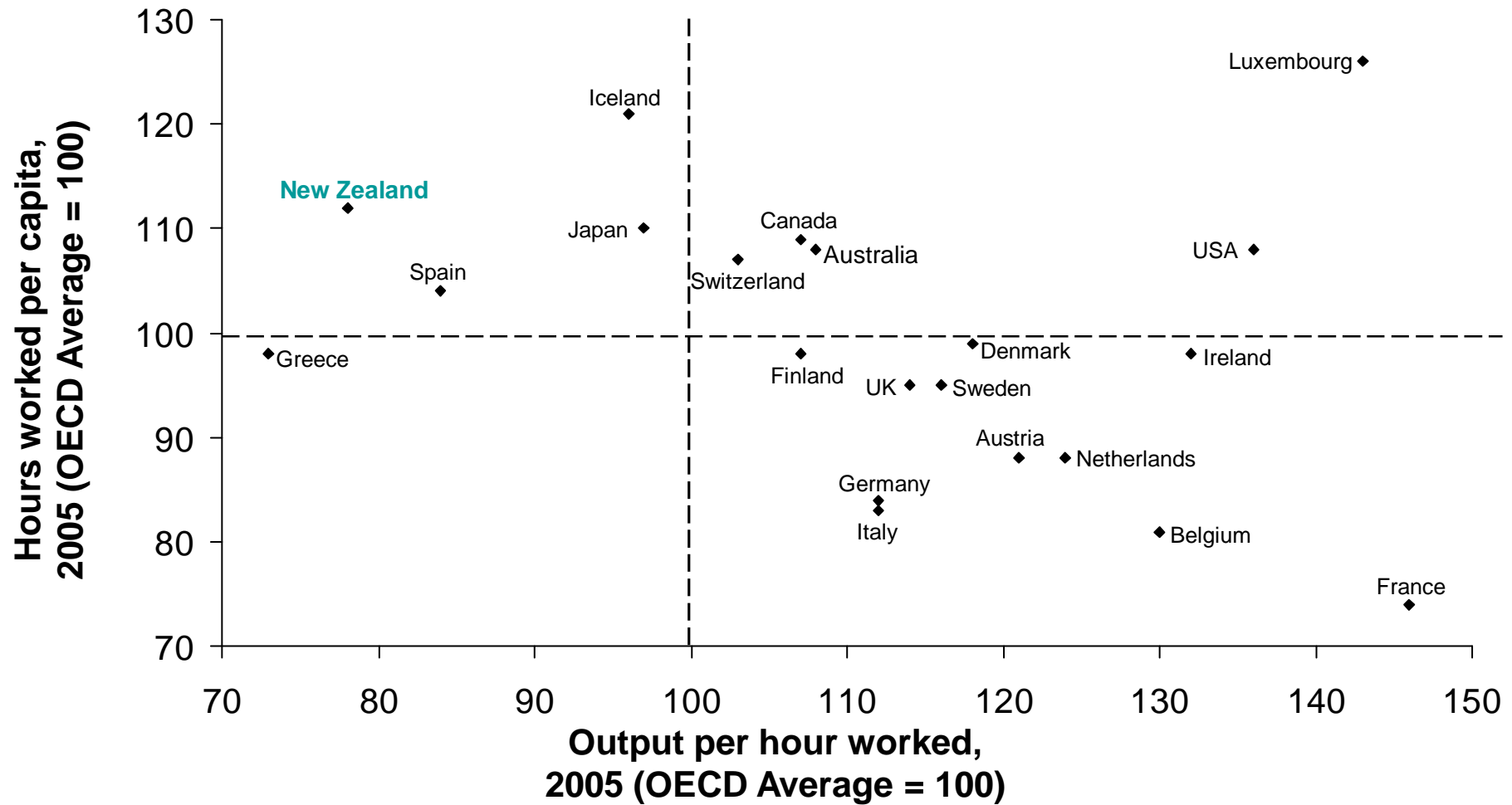
GDP per capita (PPP) indexed to OECD average, 2005



# TO EXPLAIN NEW ZEALAND'S LOW INCOME LEVELS, WE NEED TO LOOK AT THE DRIVERS OF PER CAPITA INCOME



# NEW ZEALANDER WORKERS ARE HARD WORKING BUT NOT AS PRODUCTIVE AS WORKERS IN MANY OTHER OECD COUNTRIES



## 2. CURRENT PRIORITIES FOR ACTION TO RAISE PRODUCTIVITY

New Zealand cannot grow its economy by continuing to rely on growing the number of hours worked

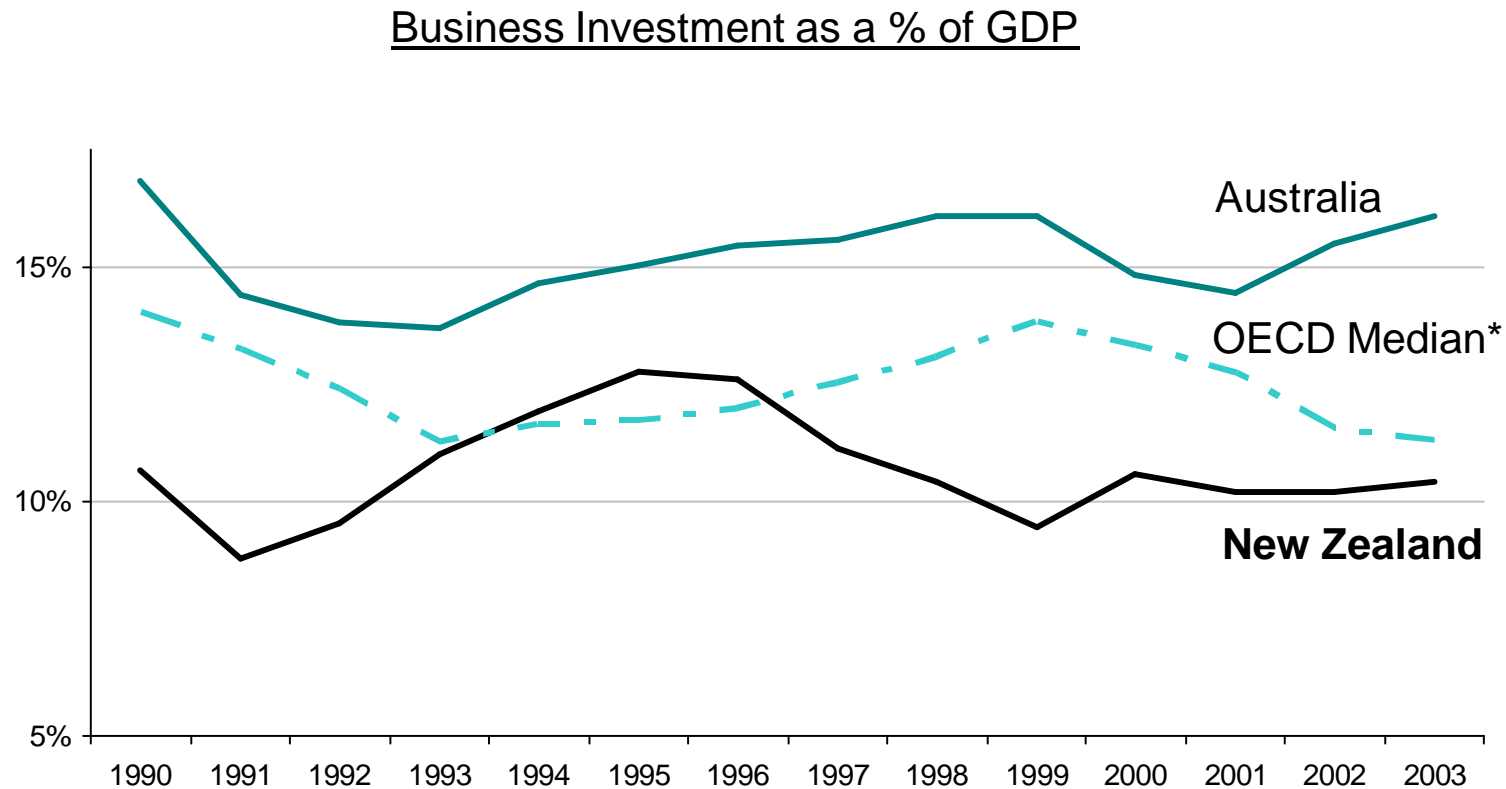
The challenge now is to increase labour productivity growth in a substantial and sustained way

Going forward, New Zealand needs to focus on addressing the constraints that impact on New Zealand's labour productivity growth

Need to focus on three (related) constraints in particular:

- Low physical capital intensity
- Low investment in knowledge and human capital
- Low levels of international economic engagement

## NEW ZEALAND'S BUSINESS INVESTMENT IS LOW

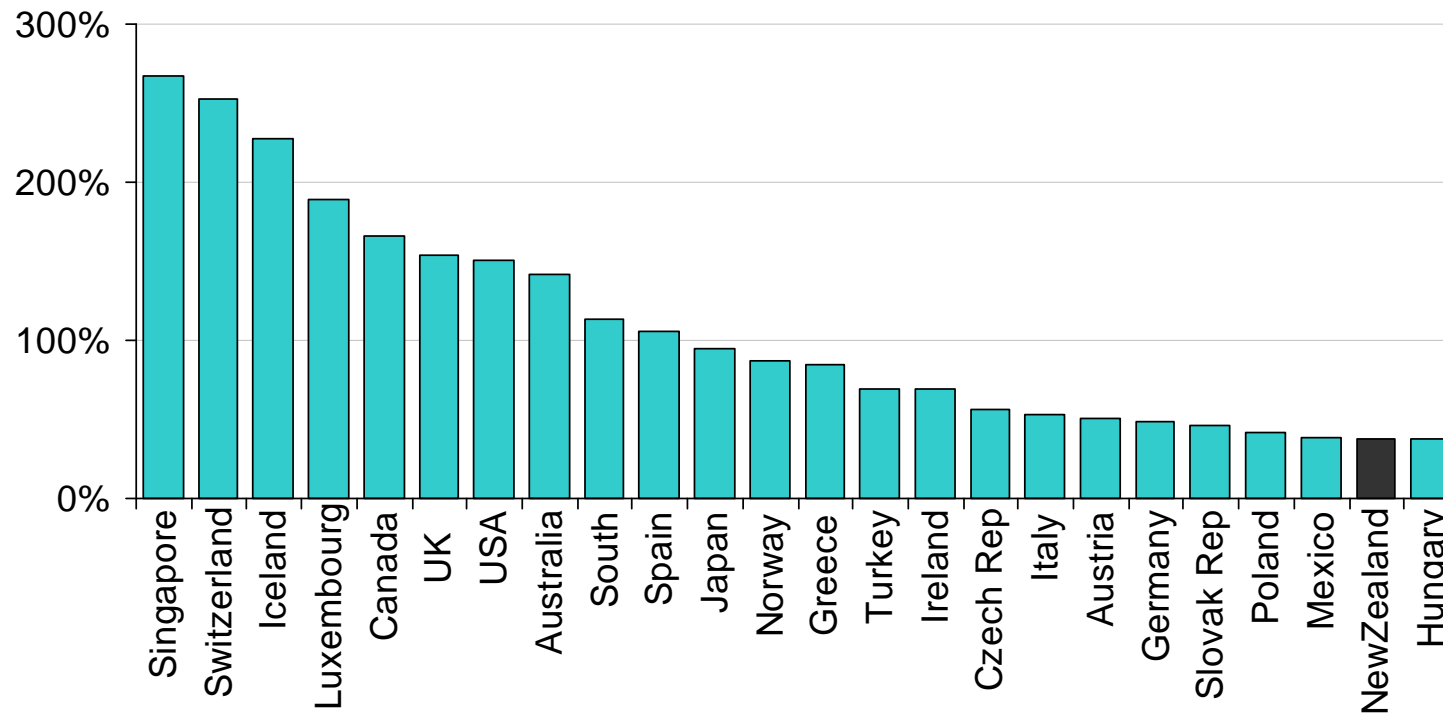


Source: OECD.

\*Czech Rep, Luxembourg, Poland, Hungary, Portugal, Slovak Rep, and Turkey not included.

## NEW ZEALAND'S CAPITAL MARKETS ARE SMALL

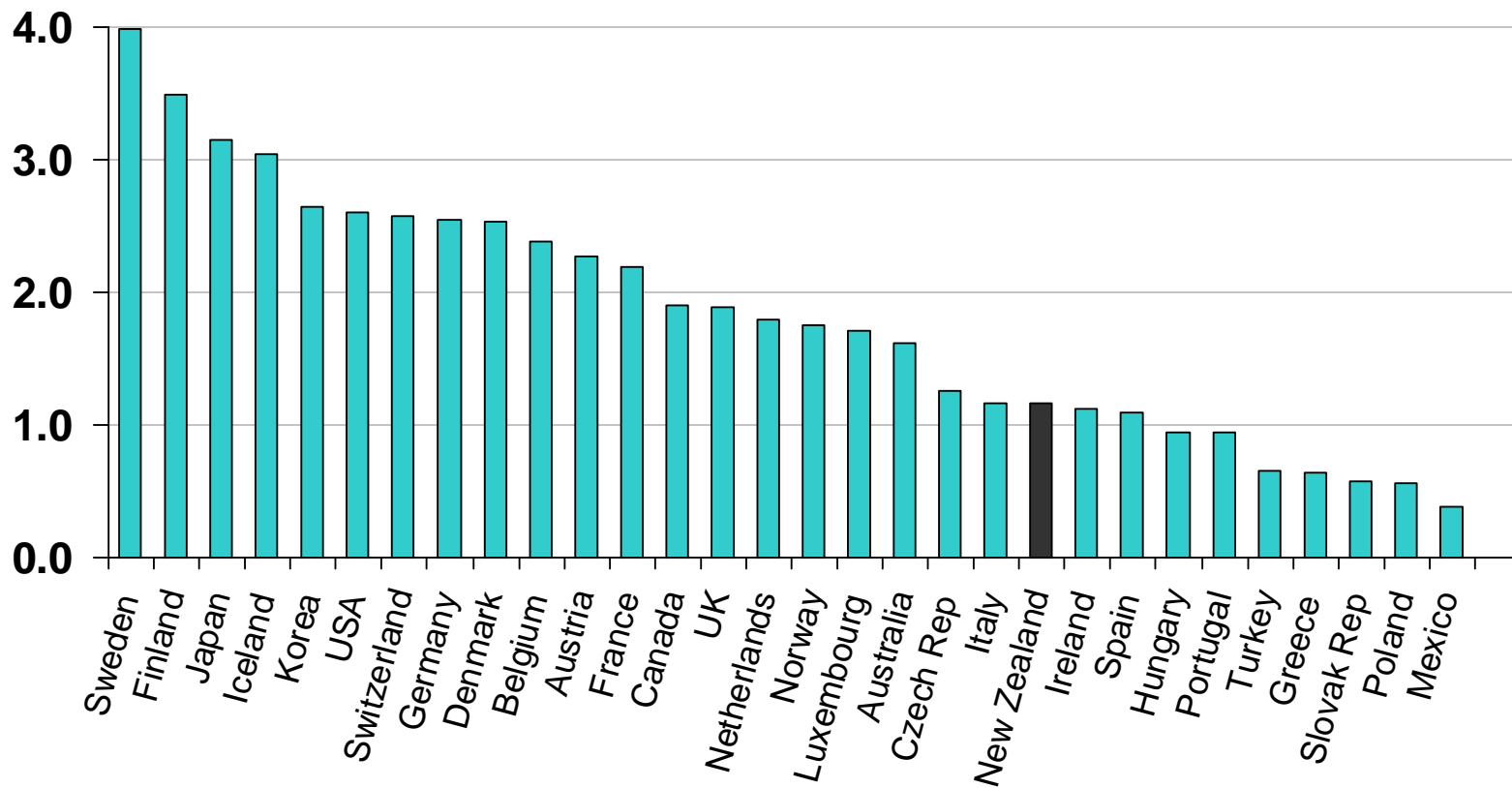
Market capitalisation of national exchange as a % of GDP, 2006



Source: IMF; Deutsche Bank; relevant national exchange for Iceland, Canada, Slovak Rep, and Czech Rep.

## NEW ZEALAND'S R&D SPEND IS HALF OF THE OECD AVERAGE

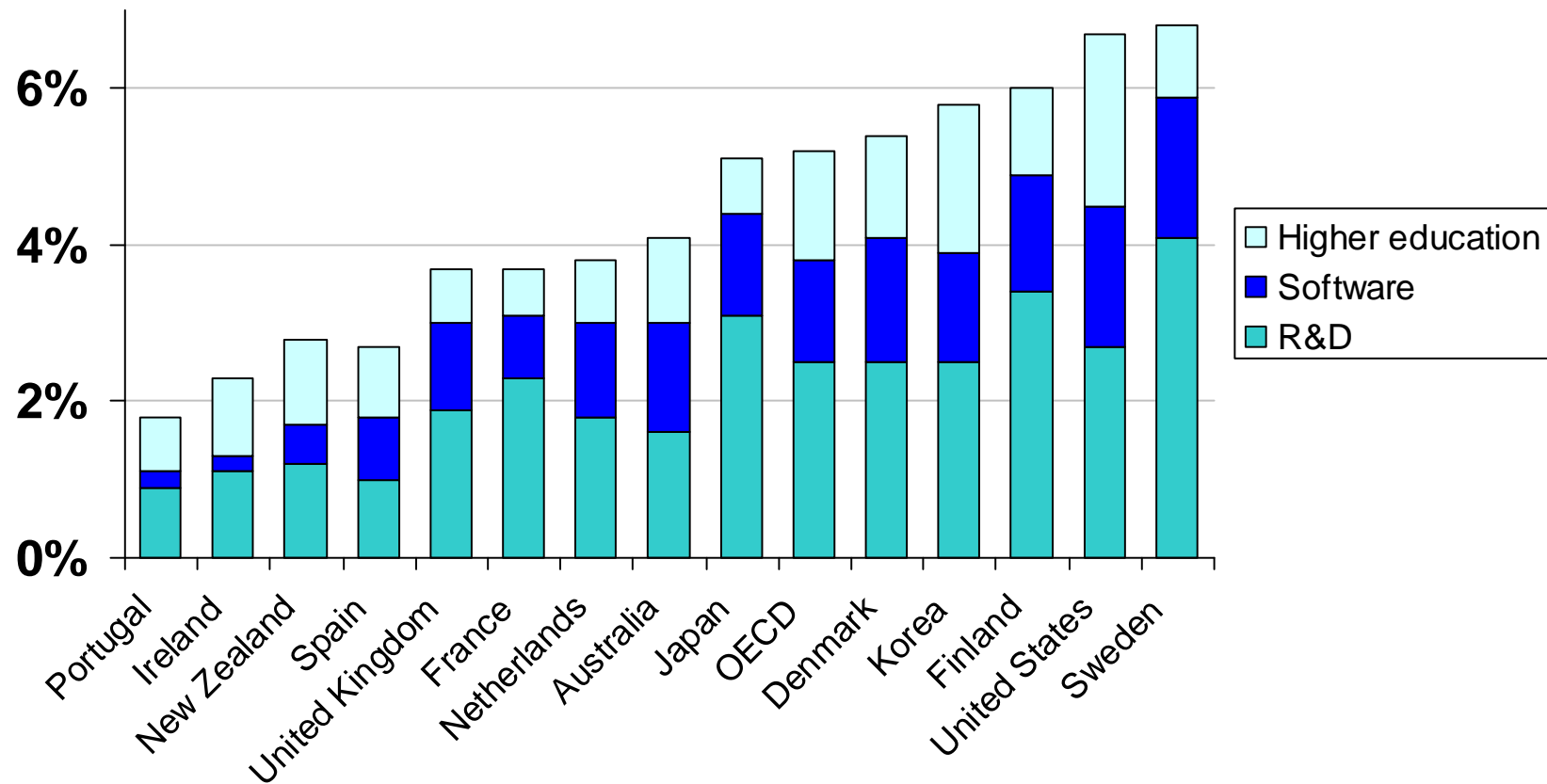
Gross Expenditure on Research and Development (GERD) % of GDP, 2003



Note: 2003 or most recent year available.  
Source: OECD.

## NEW ZEALAND MAKES LITTLE INVESTMENT IN KNOWLEDGE

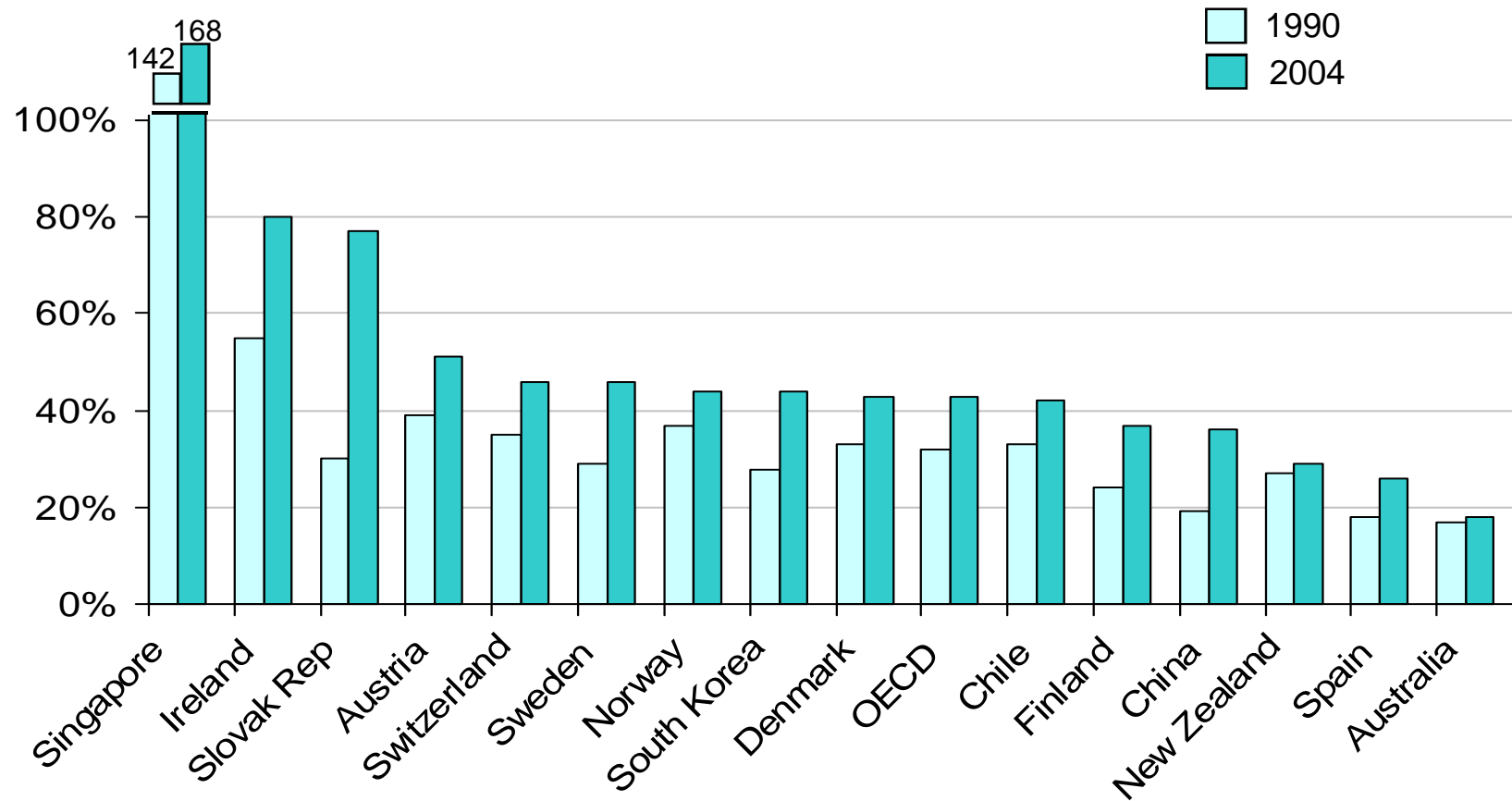
Investment in knowledge as a % of GDP, 2002



Source: OECD.

# NEW ZEALAND EXPORTS LESS THAN MOST DEVELOPED COUNTRIES

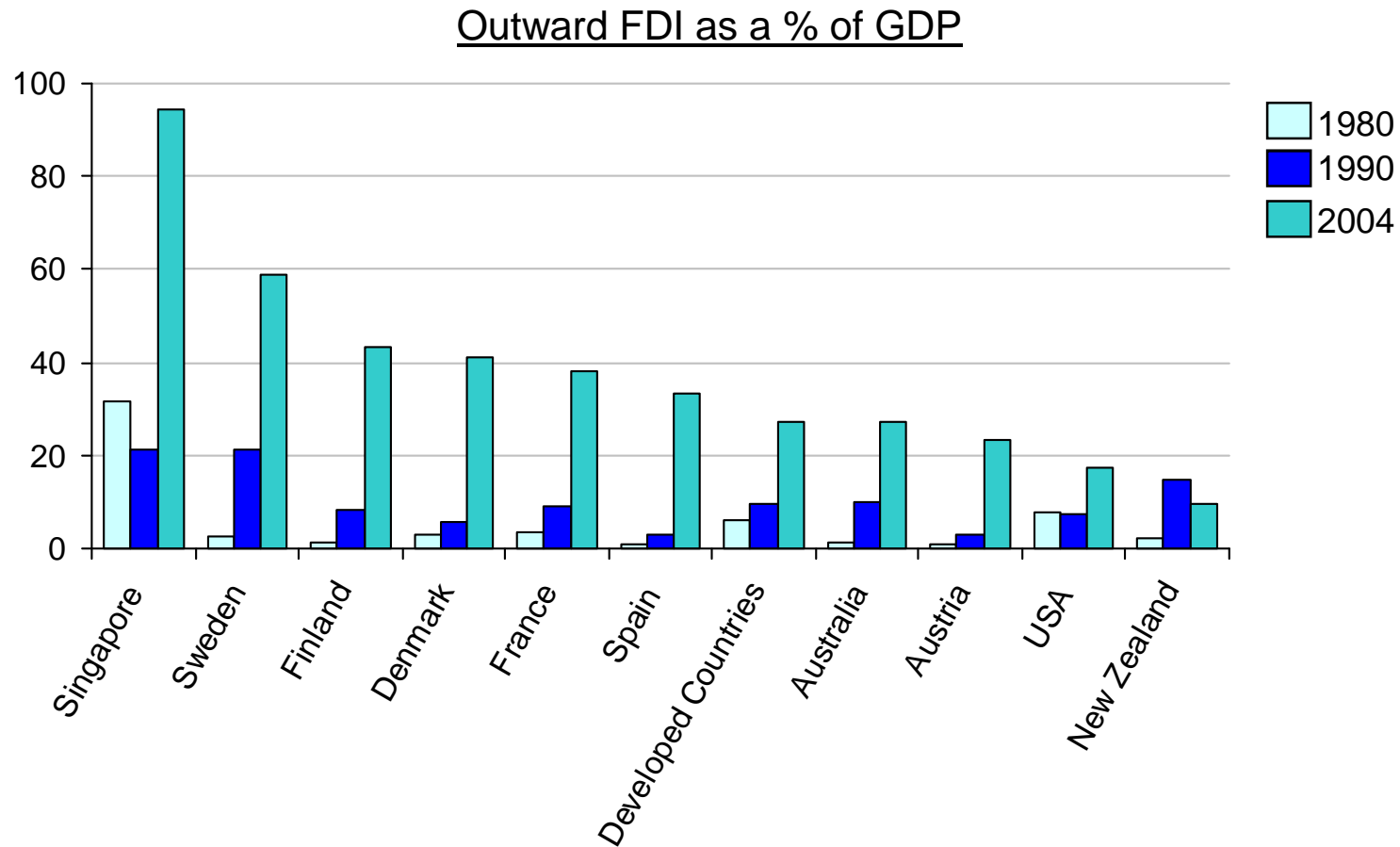
Exports as a % of GDP, 1990 and 2004



Note: OECD average for 1990 and 2003

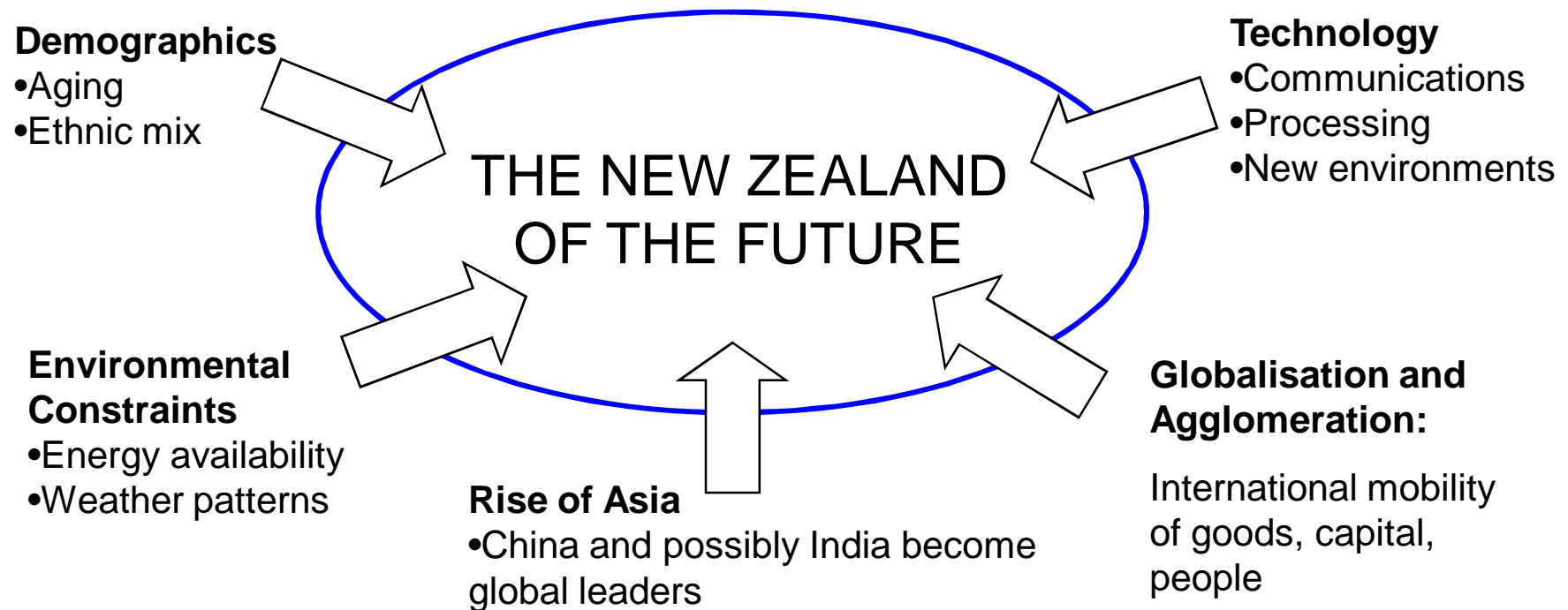
Source: OECD; National government statistics for Chile, China, and Singapore

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

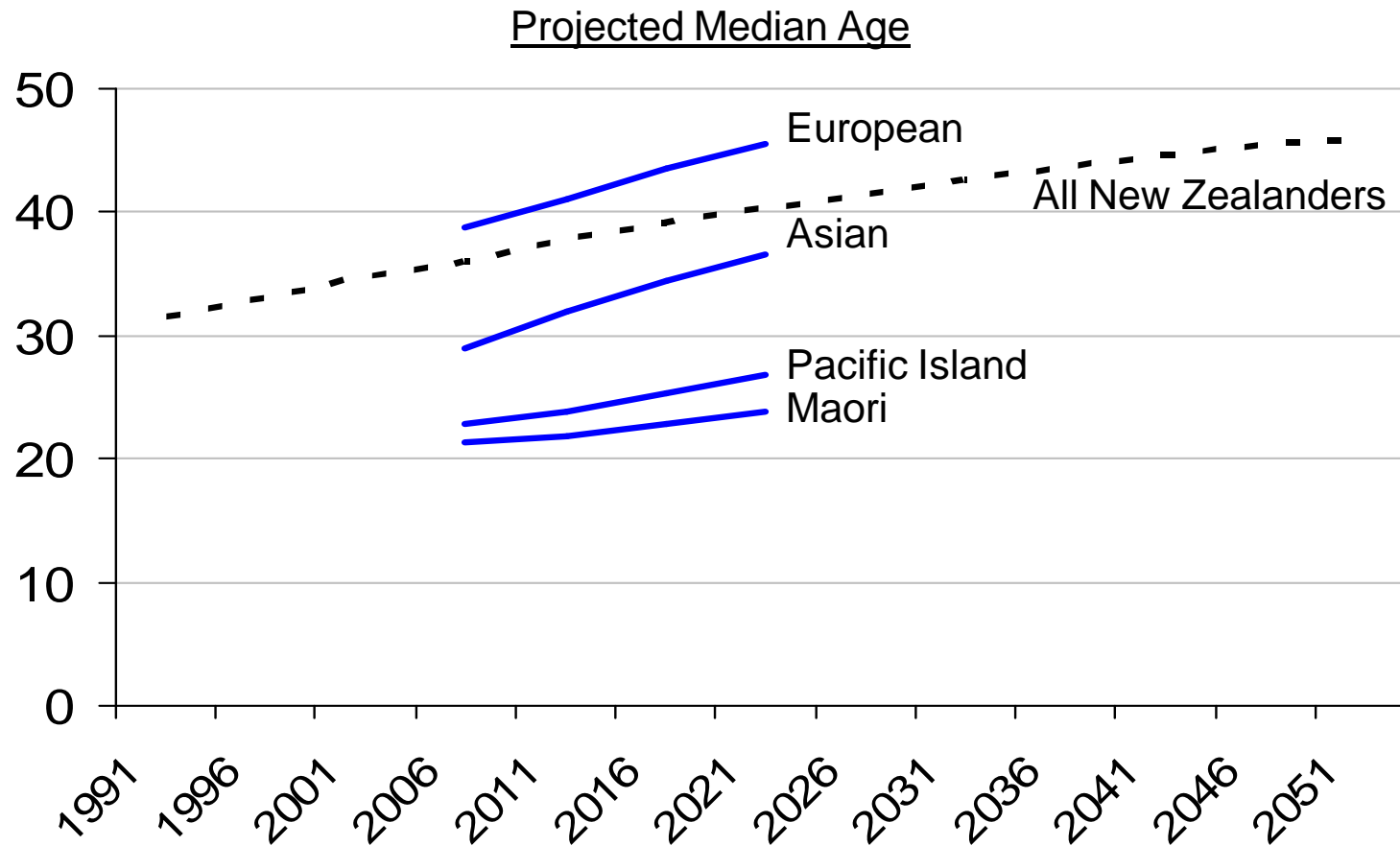


Source: UNCTAD.

### 3. FUTURE CHALLENGES AND OPPORTUNITIES

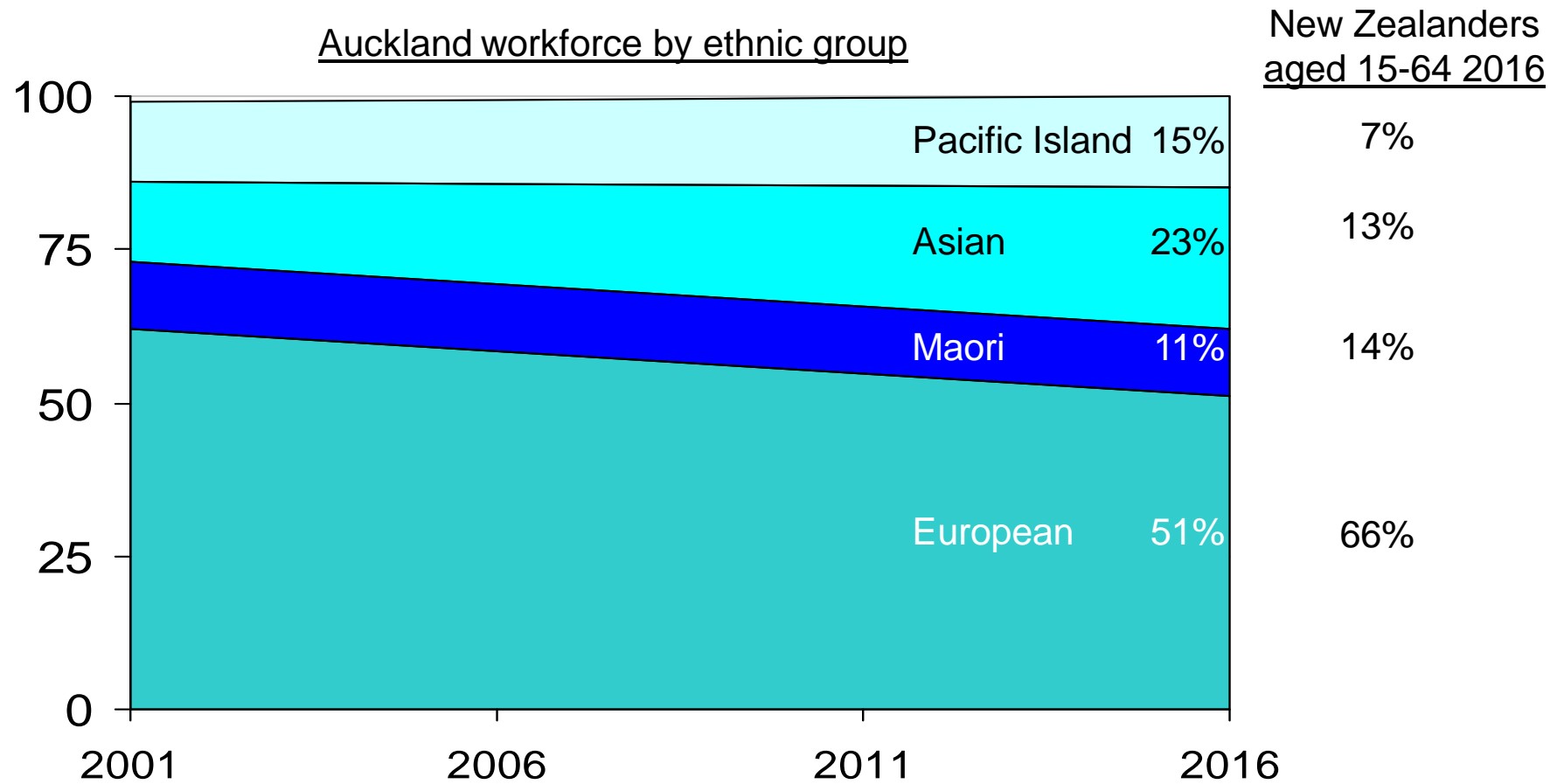


## NEW ZEALAND HAS AN AGING POPULATION



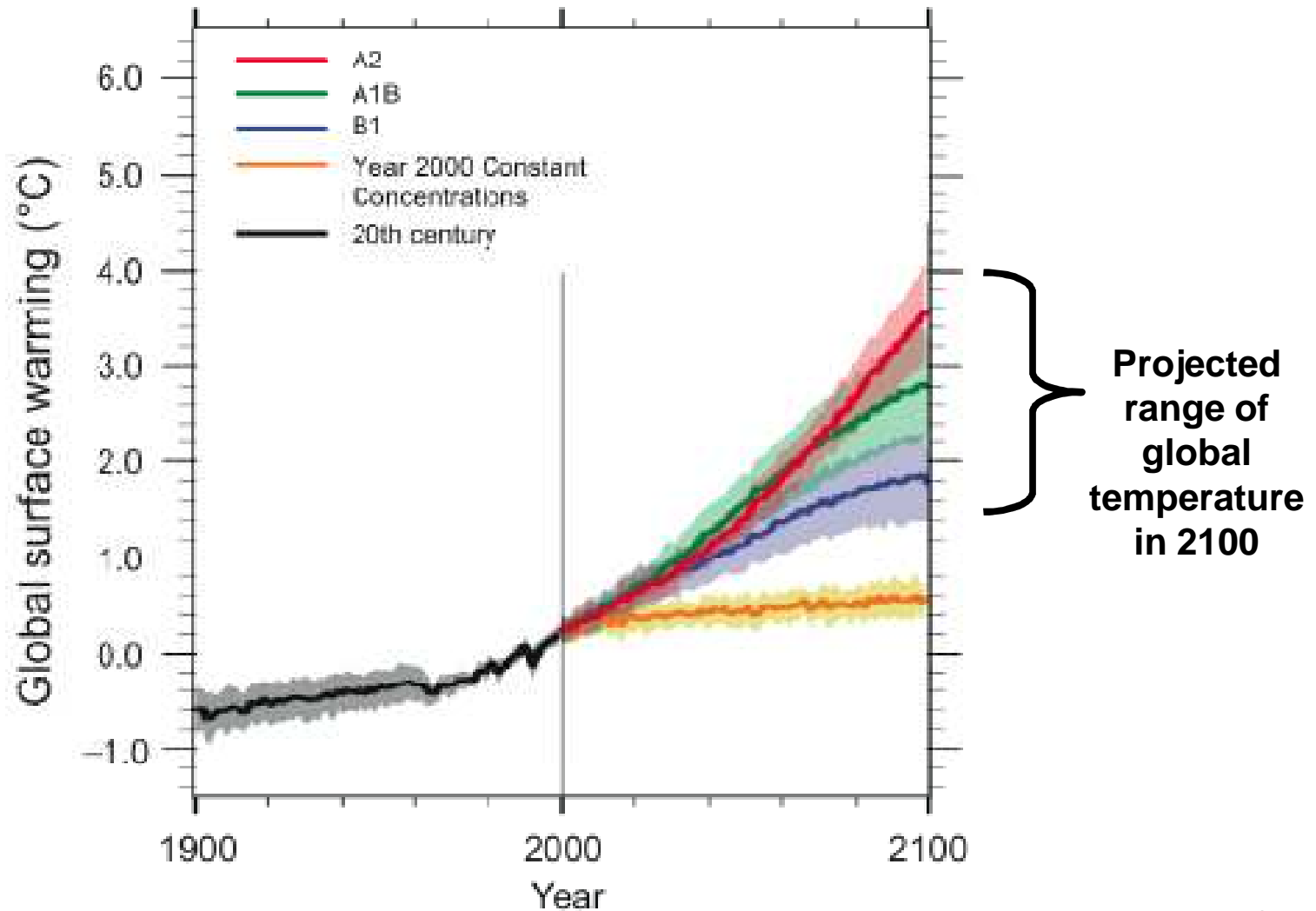
Source: Statistics New Zealand.

## NEW ZEALAND'S POPULATION MIX IS CHANGING

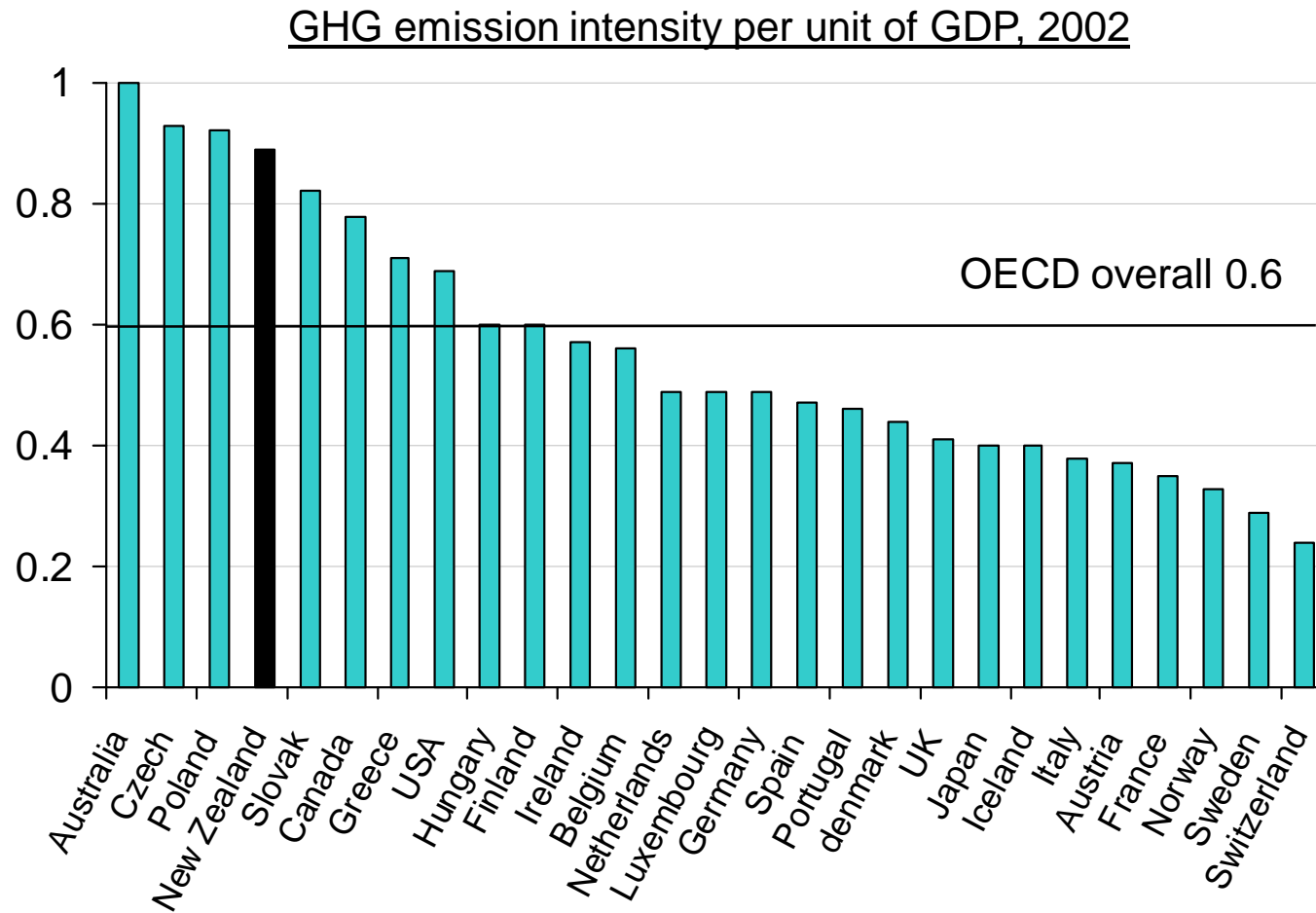


Source: Committee for Auckland.

# THE IPCC PROJECTS AN INCREASE IN AVERAGE GLOBAL TEMPERATURES OF 1.8 TO 4.0 DEGREES CELSIUS BY 2100



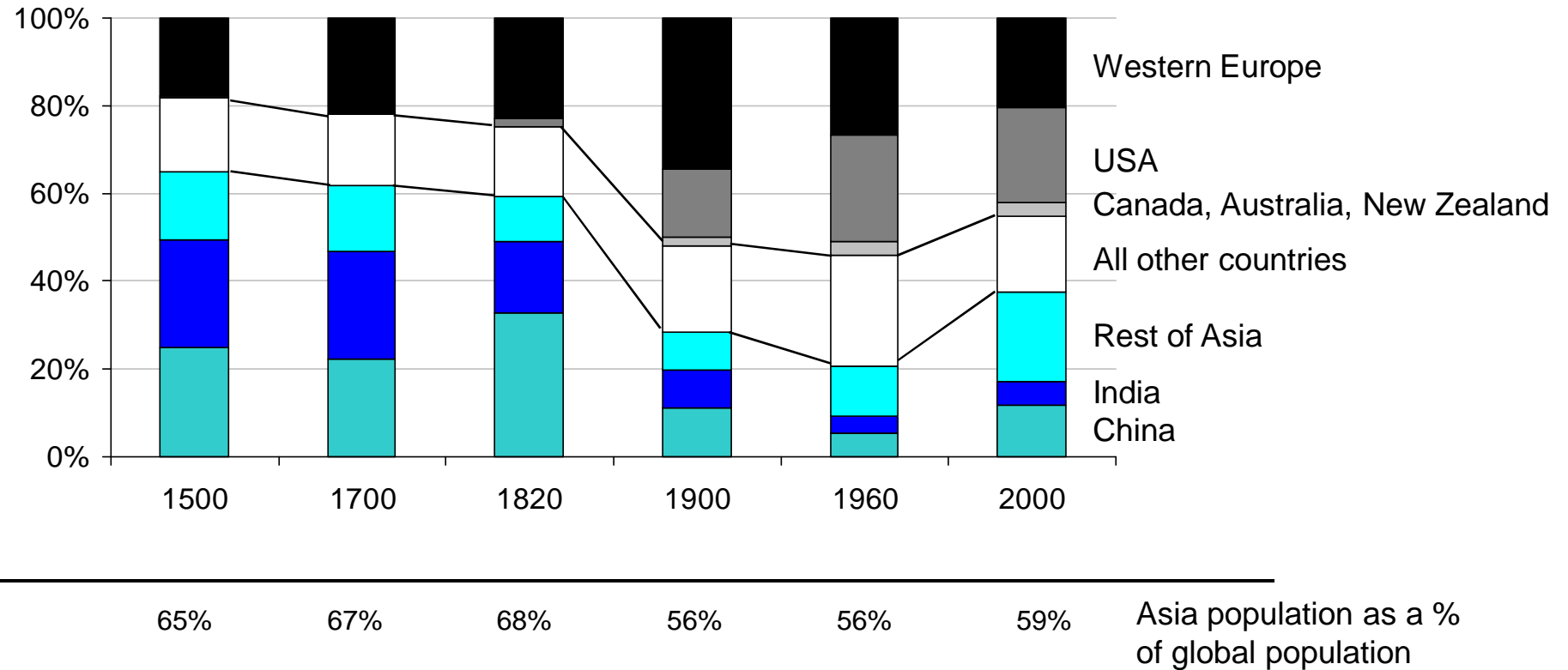
# NEW ZEALAND'S ECONOMY IS EMISSION INTENSIVE



Note: Data not available for Turkey, Korea, or Mexico. GHG = Greenhouse Gases.  
 Source: OECD.

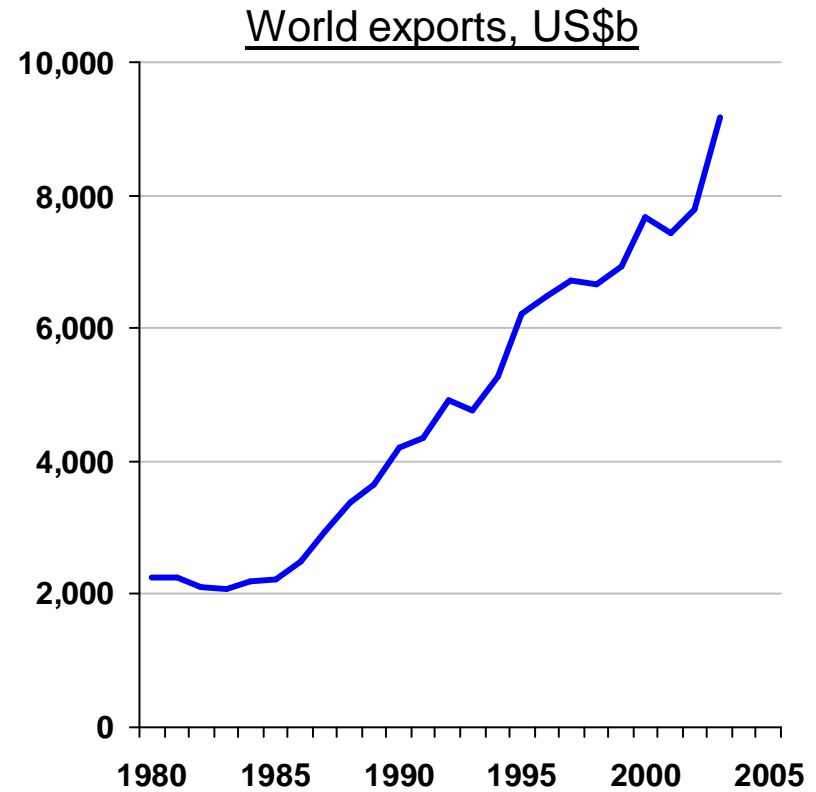
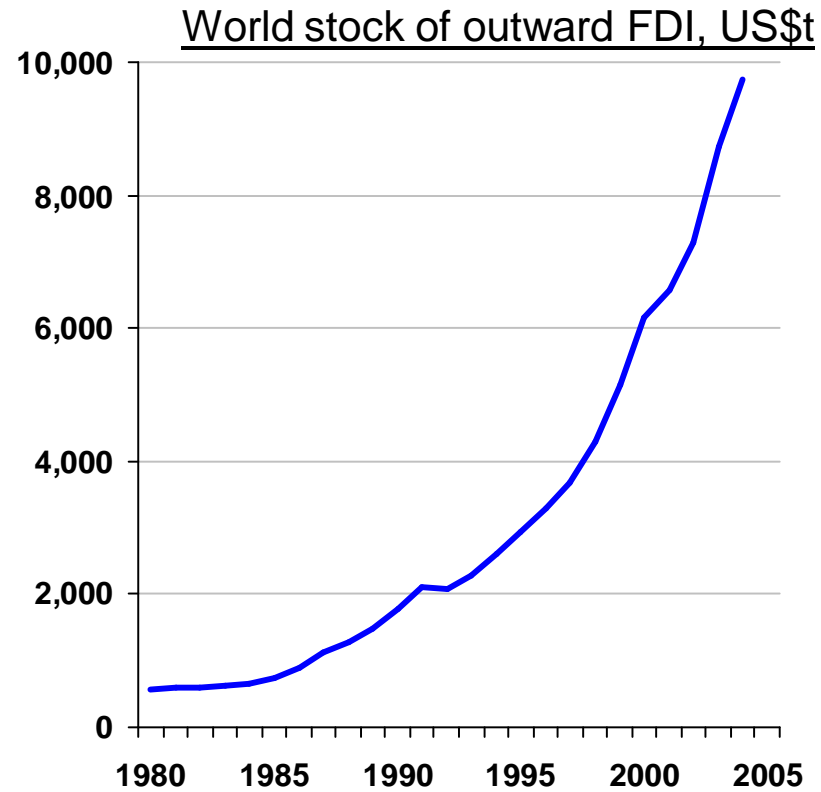
# THE ECONOMIC RISE OF ASIA

Distribution of global GDP since 1500



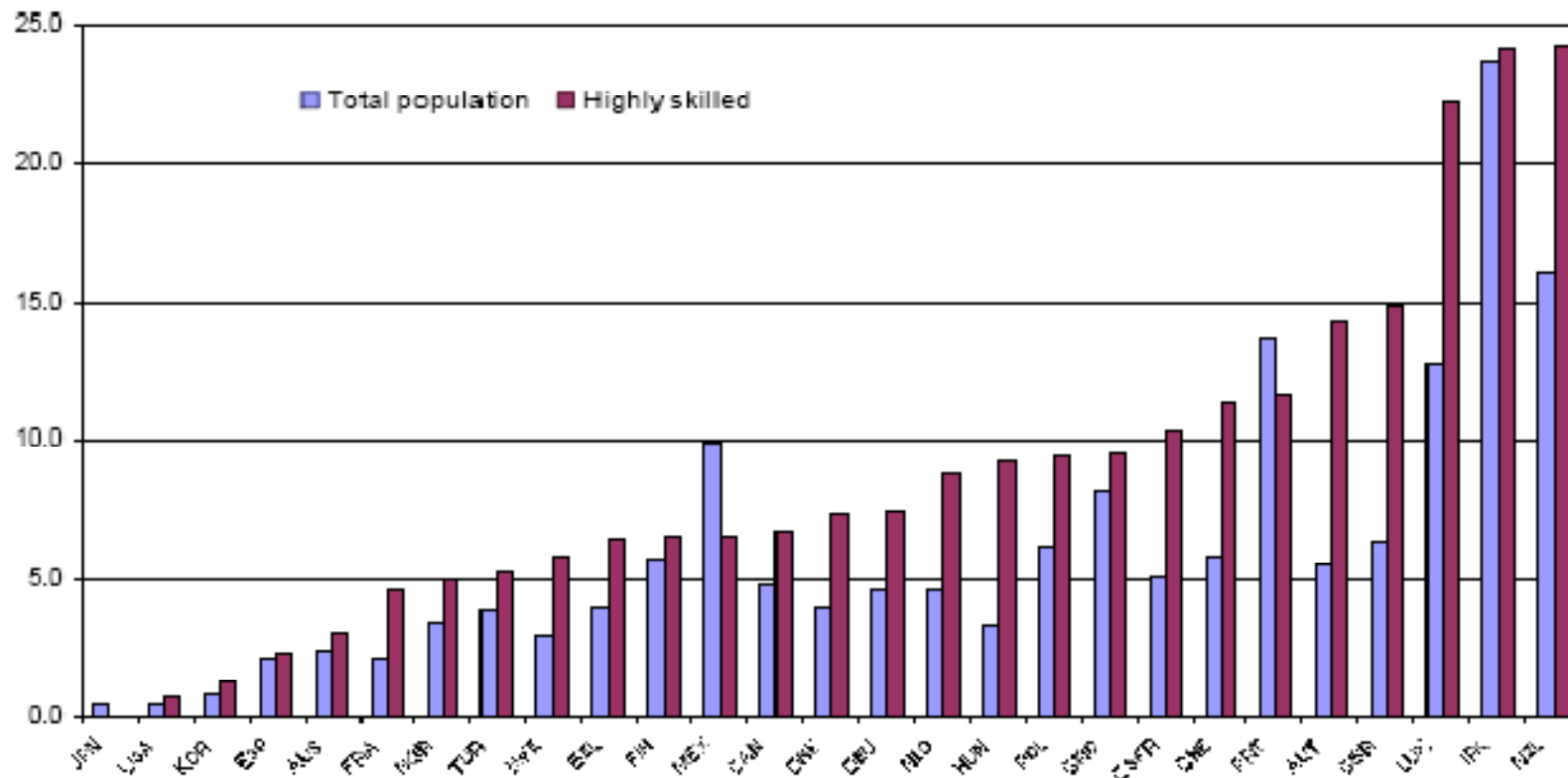
Source: Angus Maddison, OECD.

## MASSIVE GROWTH IN INTERNATIONAL FLOWS OF GOODS, SERVICES, AND CAPITAL



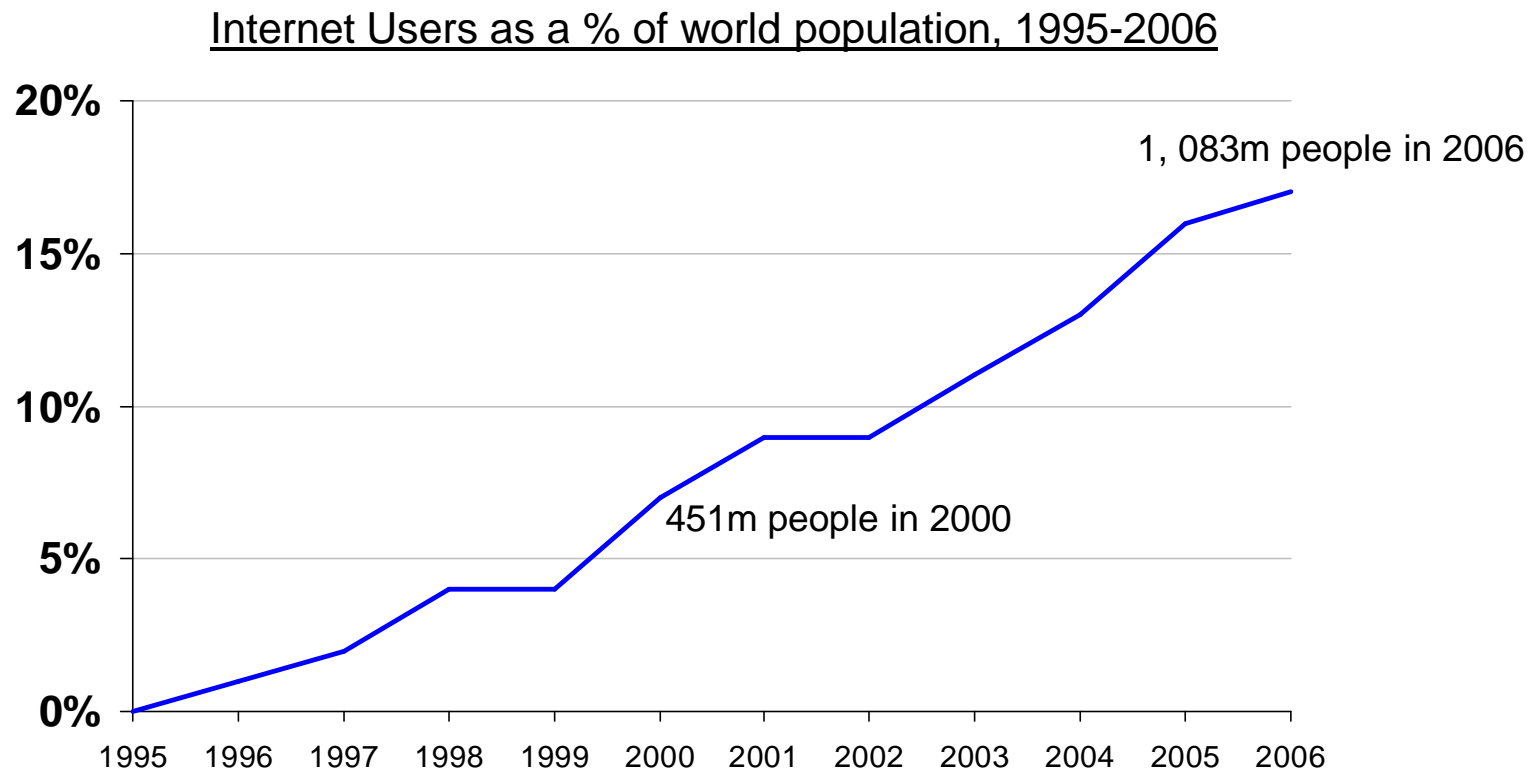
## INCREASING INTERNATIONAL MOBILITY OF PEOPLE

Expatriates as a % of total population and highly skilled population



Source: OECD.

## RAPID EVOLUTION OF THE INTERNET FROM 1995



## IMPLICATIONS FOR NEW ZEALAND

The significance of many of the constraints facing New Zealand will increase over the next few decades

- Labour shortages, energy prices, changes in global capital markets

There are also some very significant opportunities, some of which are particularly relevant to New Zealand

- Technology allows some of the labour and energy constraints to be overcome, and for new business models to be deployed.
- The rise of Asia brings the global economy closer to New Zealand

But to take advantage of these opportunities, New Zealand needs to gear up and make the required investments

This will require much more than a handful of sensible, but modest, changes – this requires transformation

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