

The state of the Trans-Tasman economic relationship

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AGENDA

1. Economic Background

2. Economic Relationship
 - Trade
 - Investment
 - People

3. Key Themes

1. ECONOMIC BACKGROUND

The New Zealand and Australian economies have both performed well over the past decade

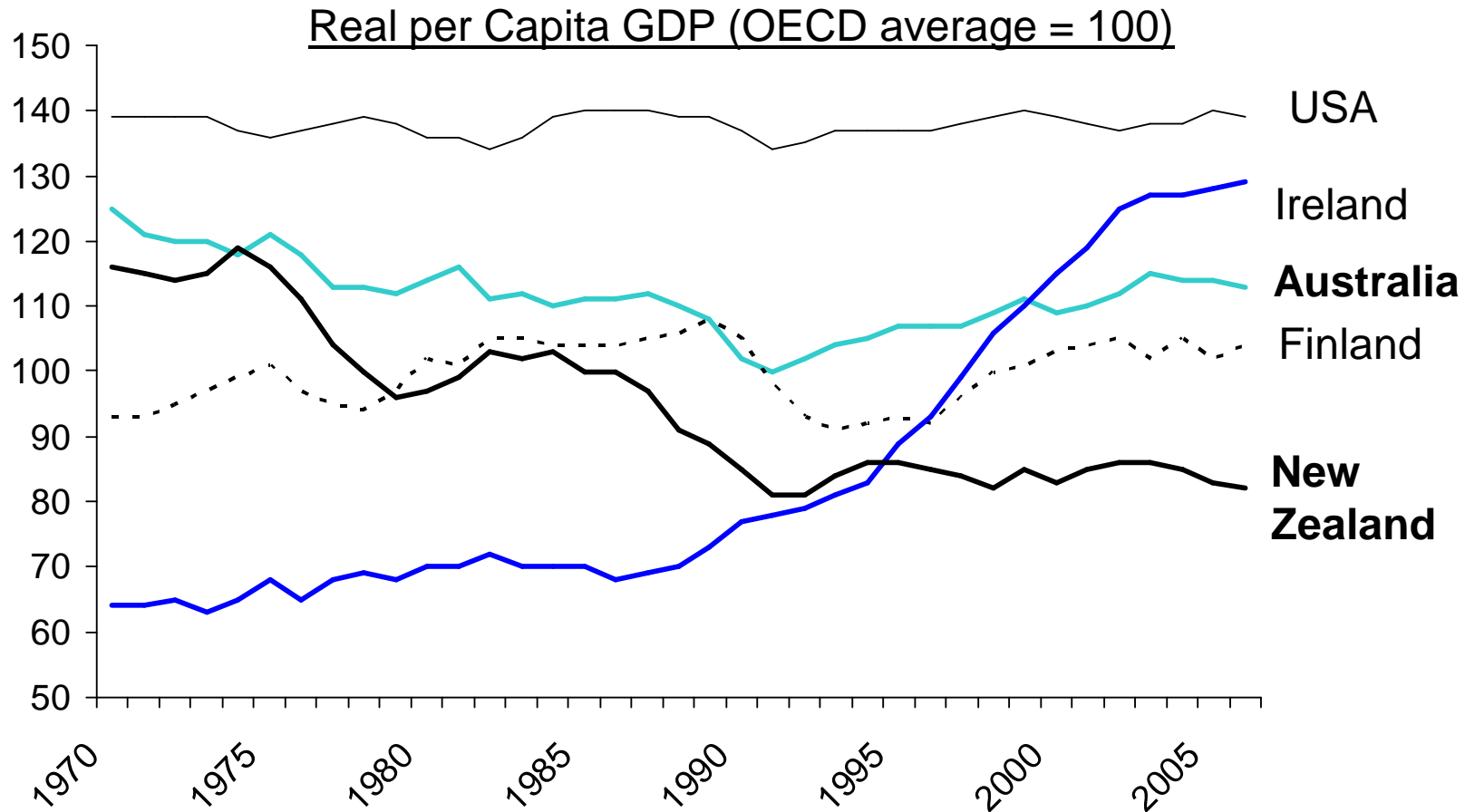
Australia's per capita income level is much superior, because of higher productivity

Australian business investment is higher and Australian capital markets are much larger

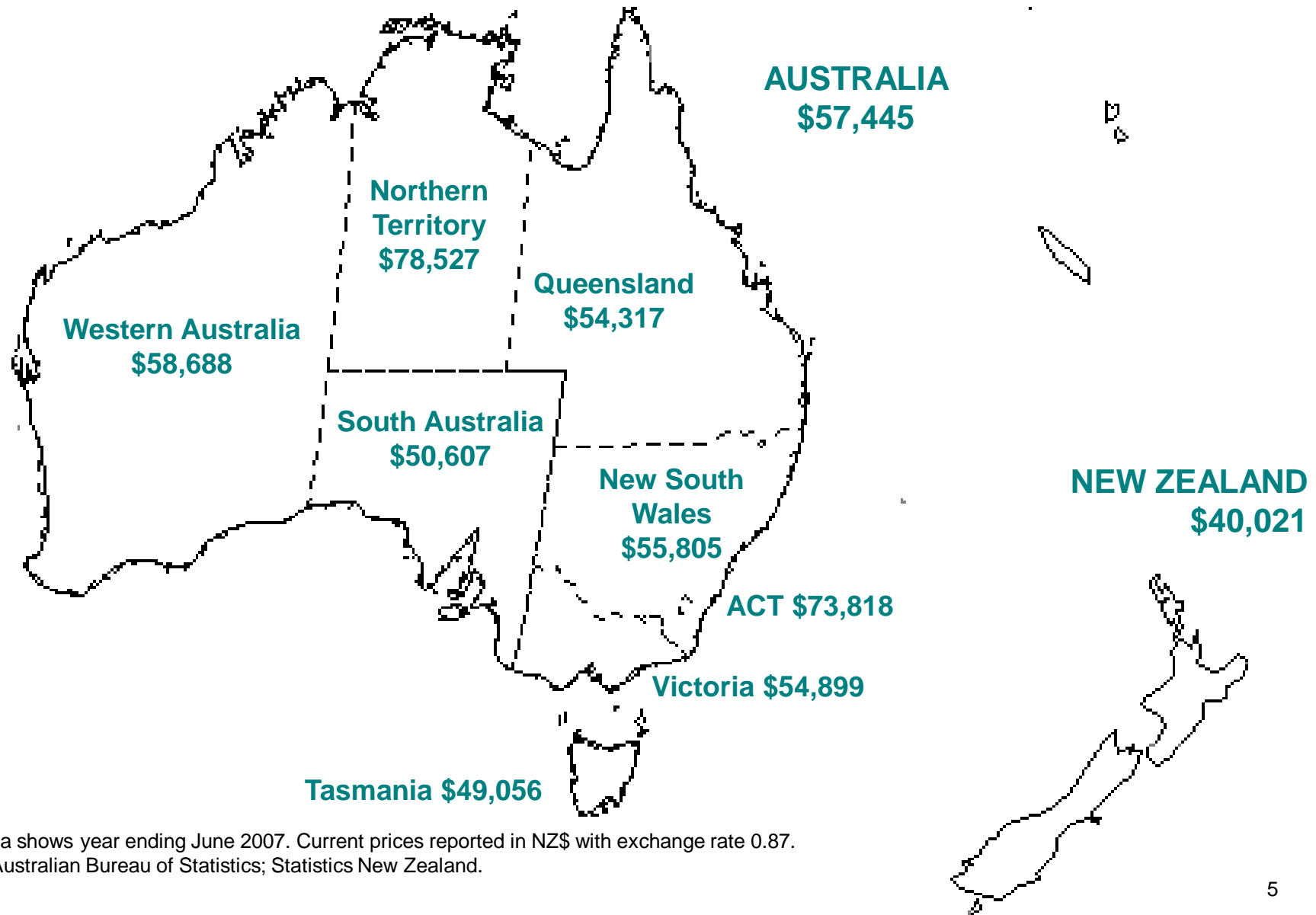
Australia exports less than New Zealand but invests considerably more offshore

New Zealand has superior policy settings on many measures

AUSTRALIAN GDP PER CAPITA IS ABOUT 35% HIGHER THAN IN NEW ZEALAND

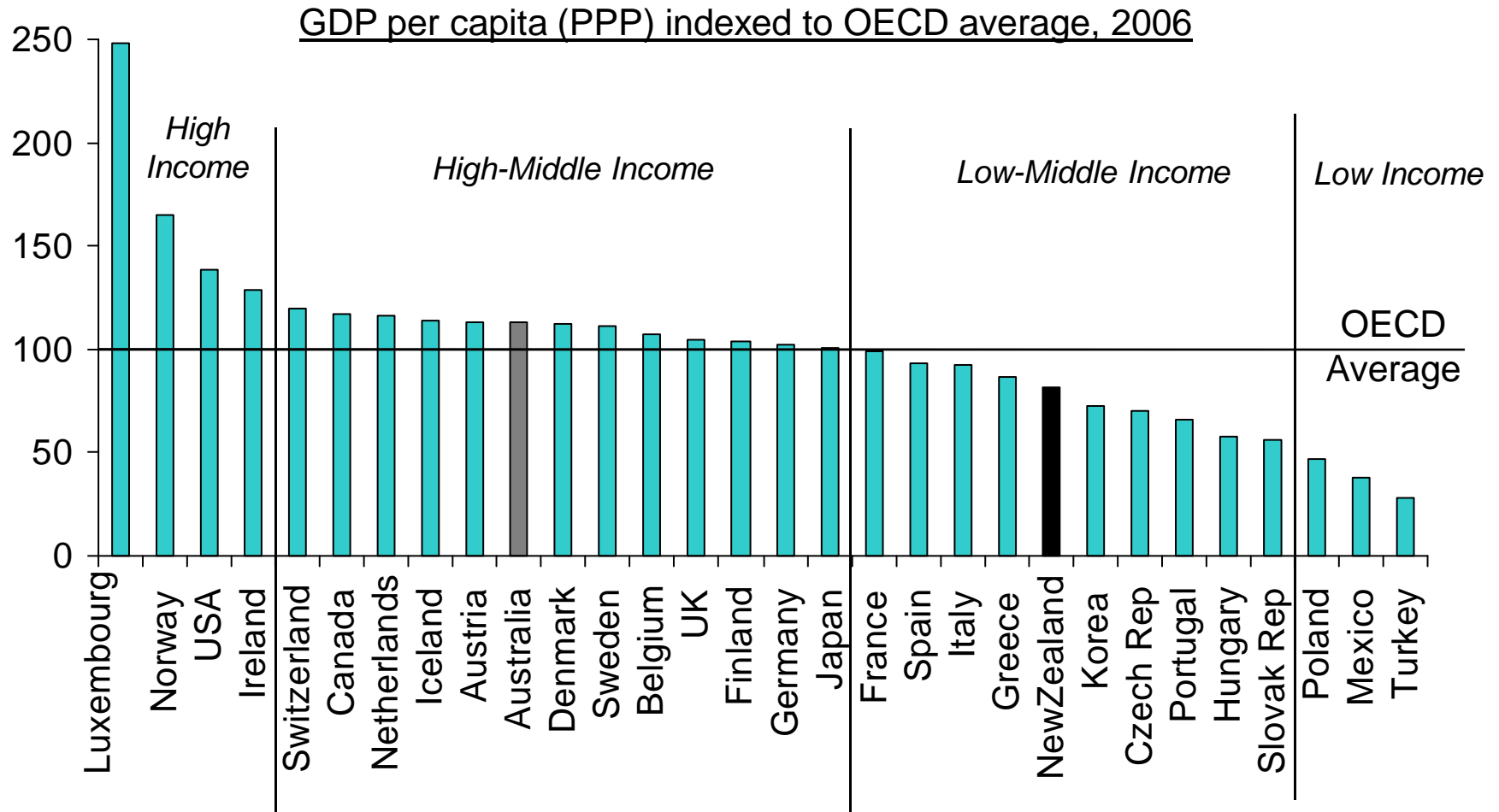


NEW ZEALAND'S PER CAPITA INCOME IS LOWER THAN IN ALL AUSTRALIAN STATES



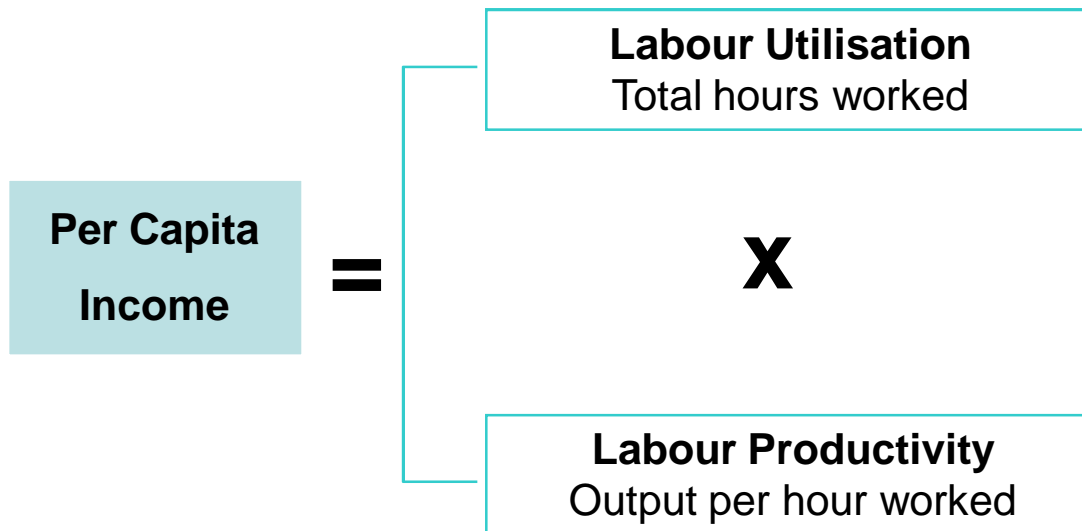
Note: Data shows year ending June 2007. Current prices reported in NZ\$ with exchange rate 0.87.
Source: Australian Bureau of Statistics; Statistics New Zealand.

AUSTRALIA IS WELL WITHIN THE TOP HALF OF THE OECD

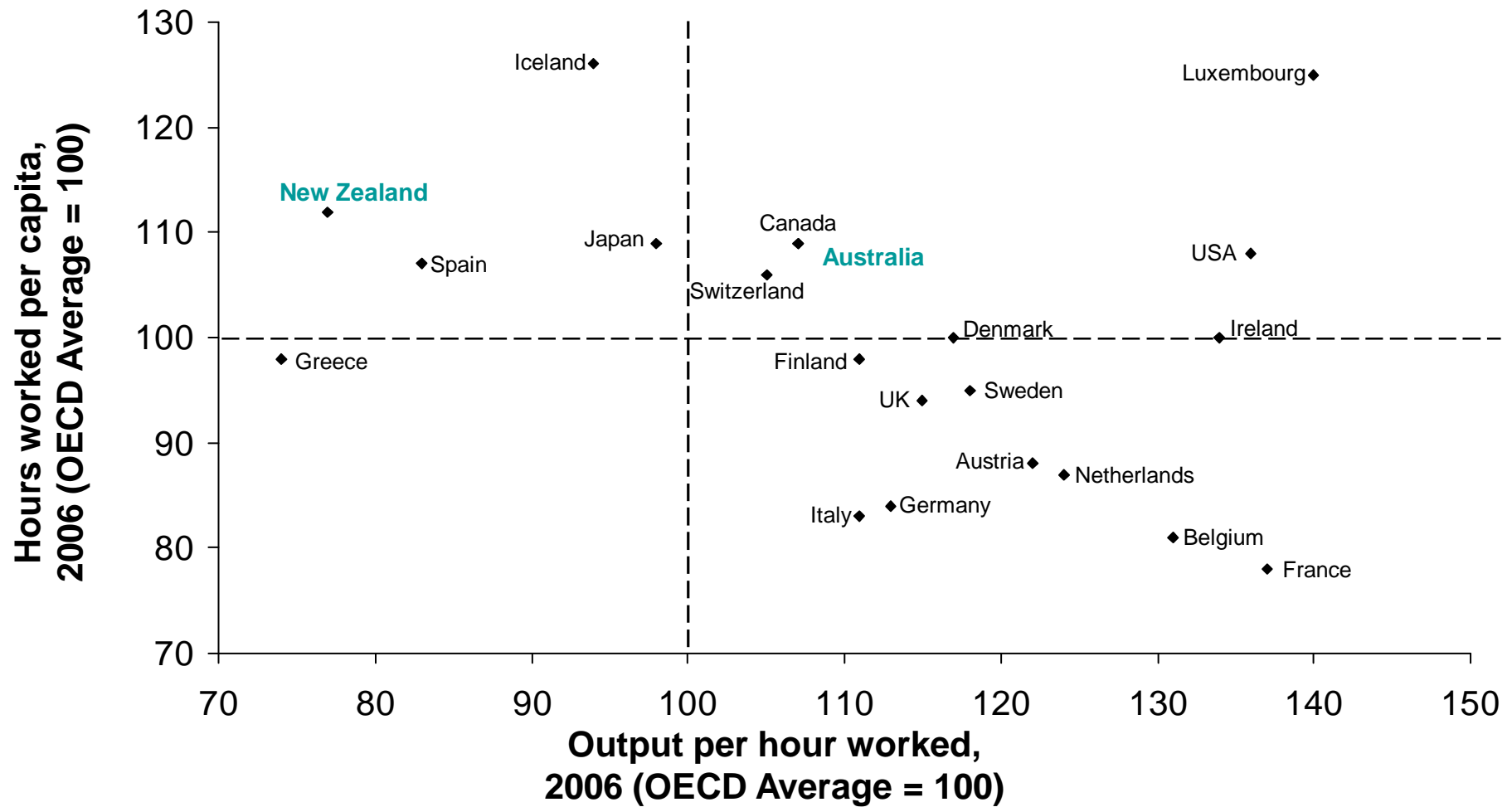


Source: OECD.

COMPONENTS OF PER CAPITA INCOME



NEW ZEALANDERS WORK LONGER HOURS THAN AUSTRALIANS BUT ARE NOT AS PRODUCTIVE

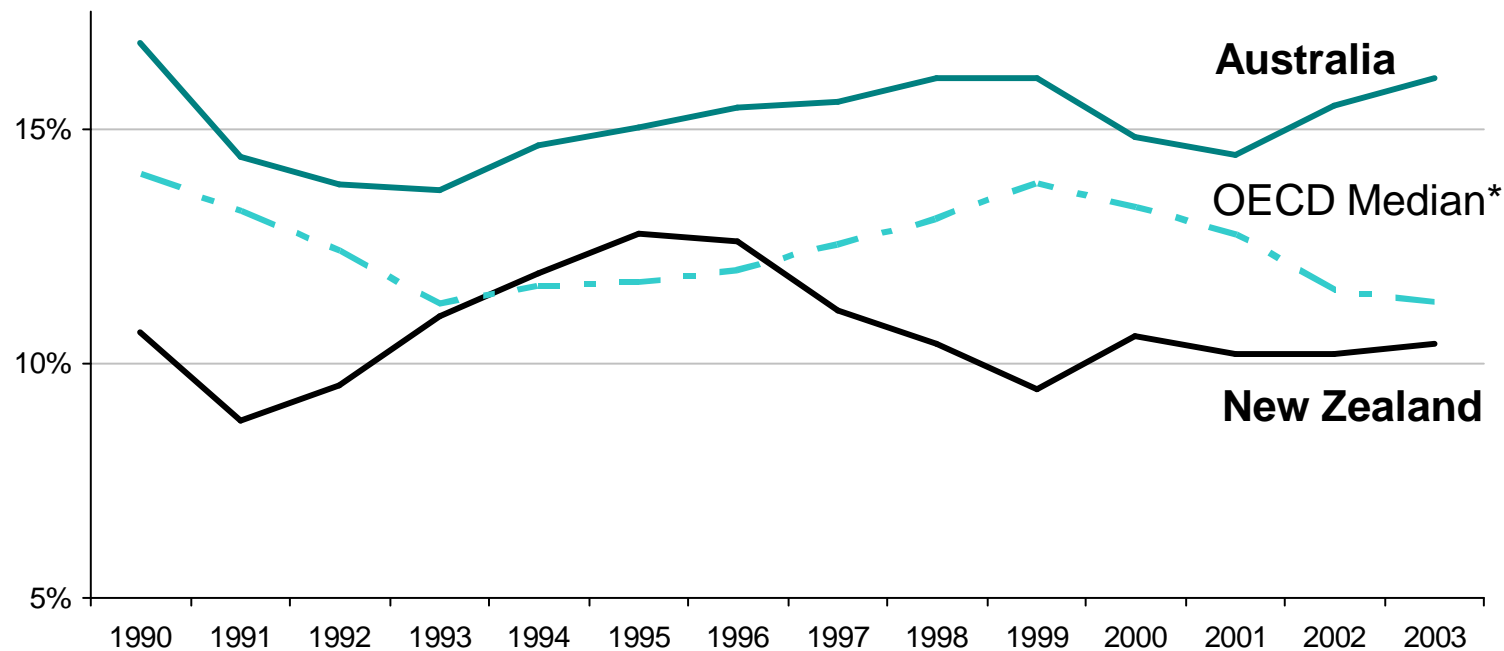


NEW ZEALAND'S BUSINESS INVESTMENT IS LOW COMPARED TO AUSTRALIA

Business Investment as a % of GDP

75% of the reason for higher labour productivity in Australia is a higher level of capital intensity in the Australian economy.

Source: IMF (2002)

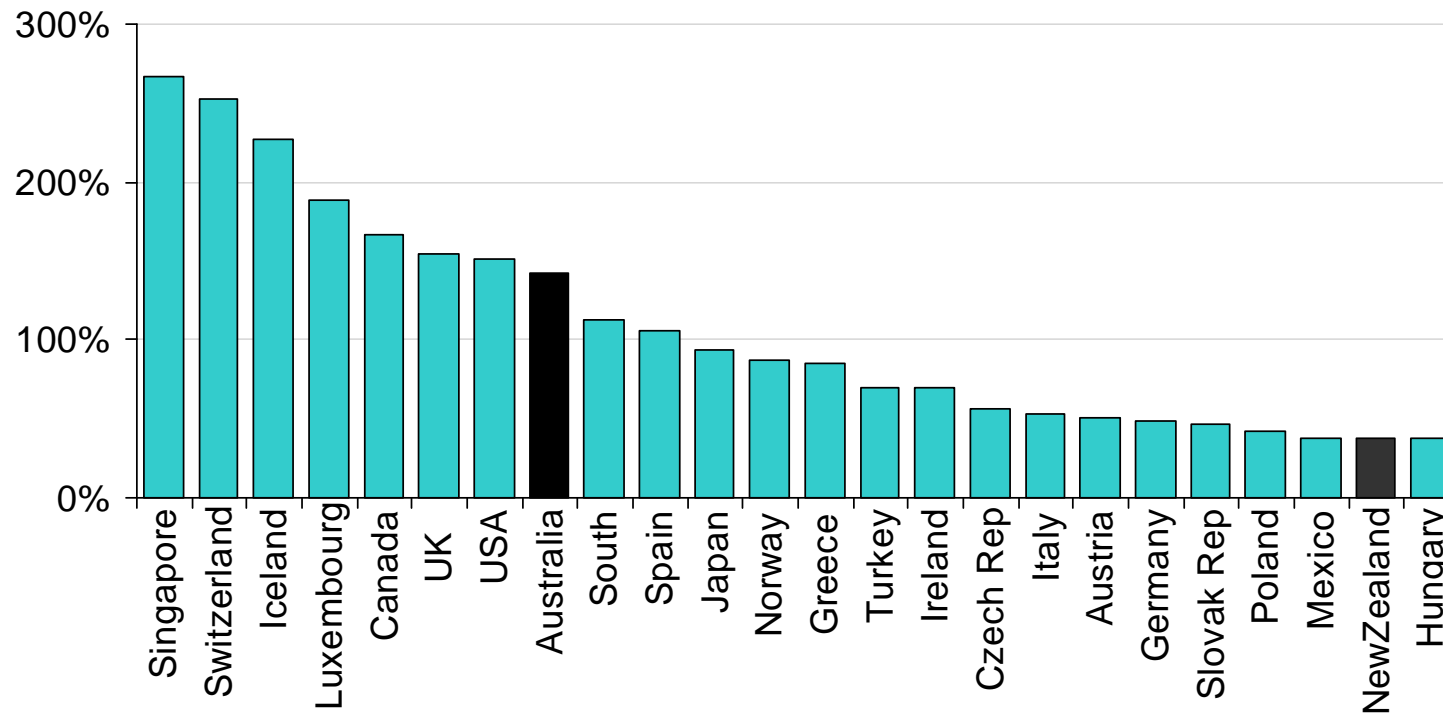


Source: OECD.

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

NEW ZEALAND'S CAPITAL MARKETS ARE RELATIVELY SMALL

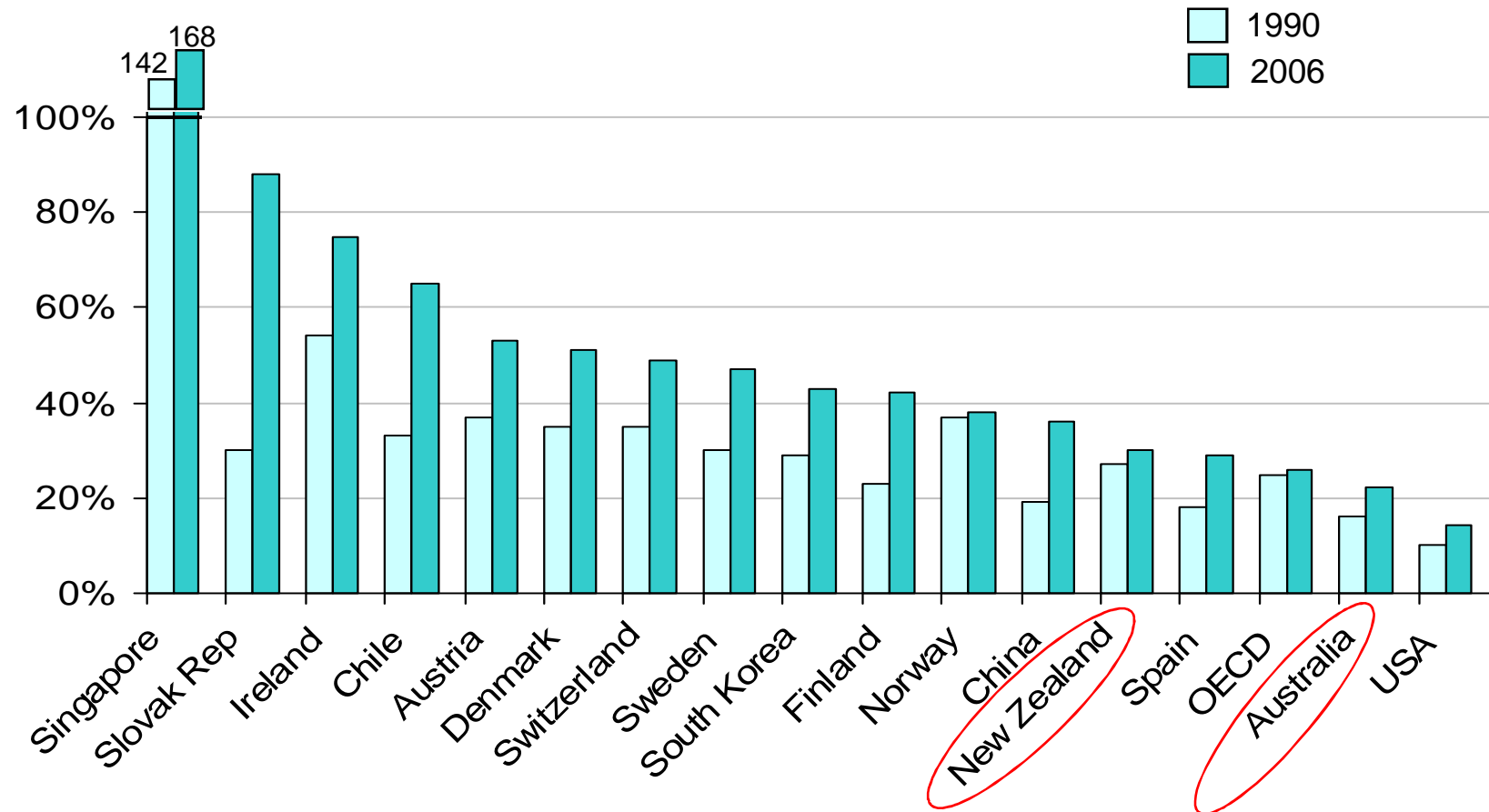
Market capitalisation of national exchange as a % of GDP, 2006



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

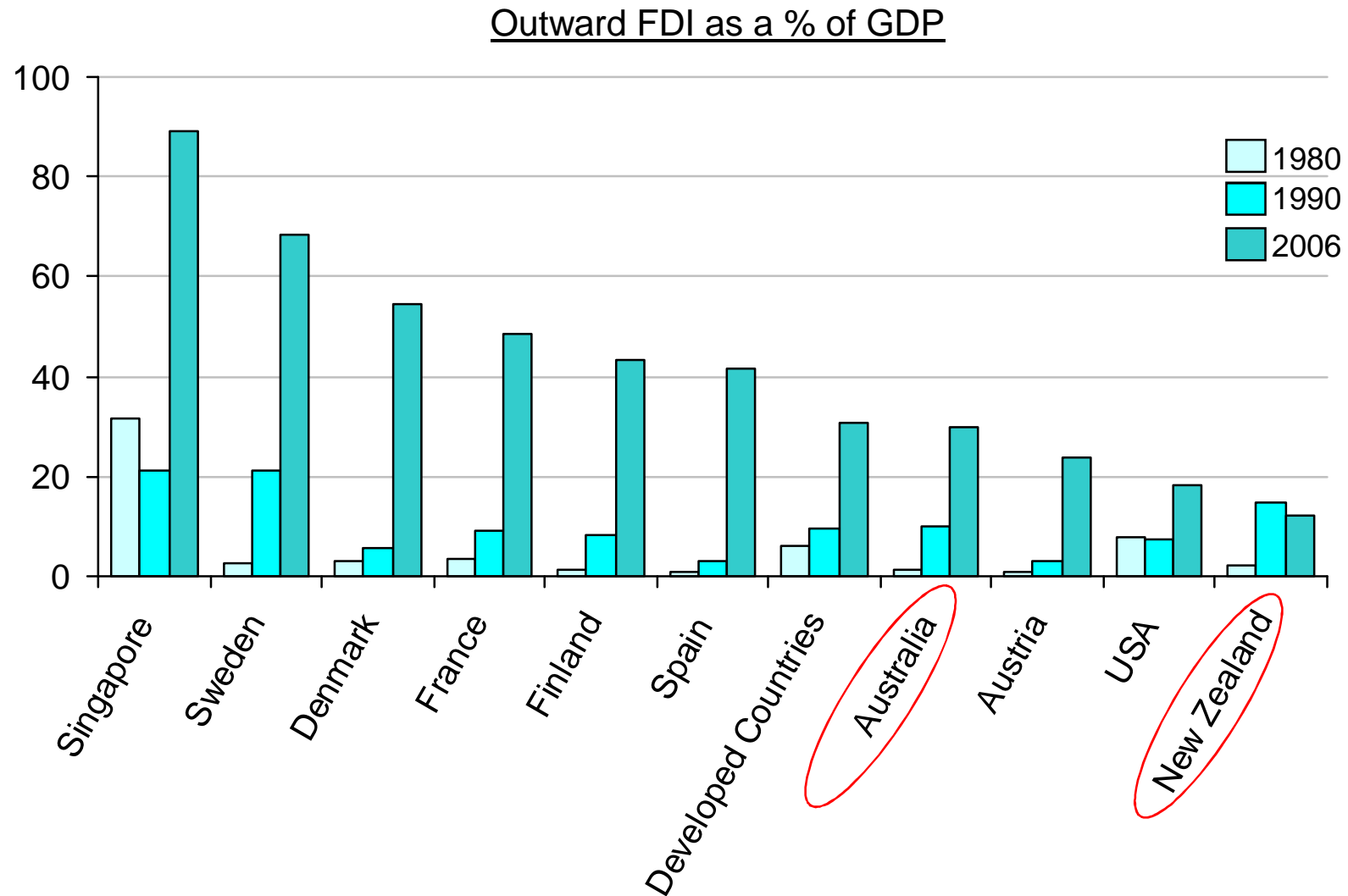
NEW ZEALAND EXPORTS LESS THAN MOST DEVELOPED COUNTRIES BUT MORE THAN THE US

Exports as a % of GDP, 1990 and 2006

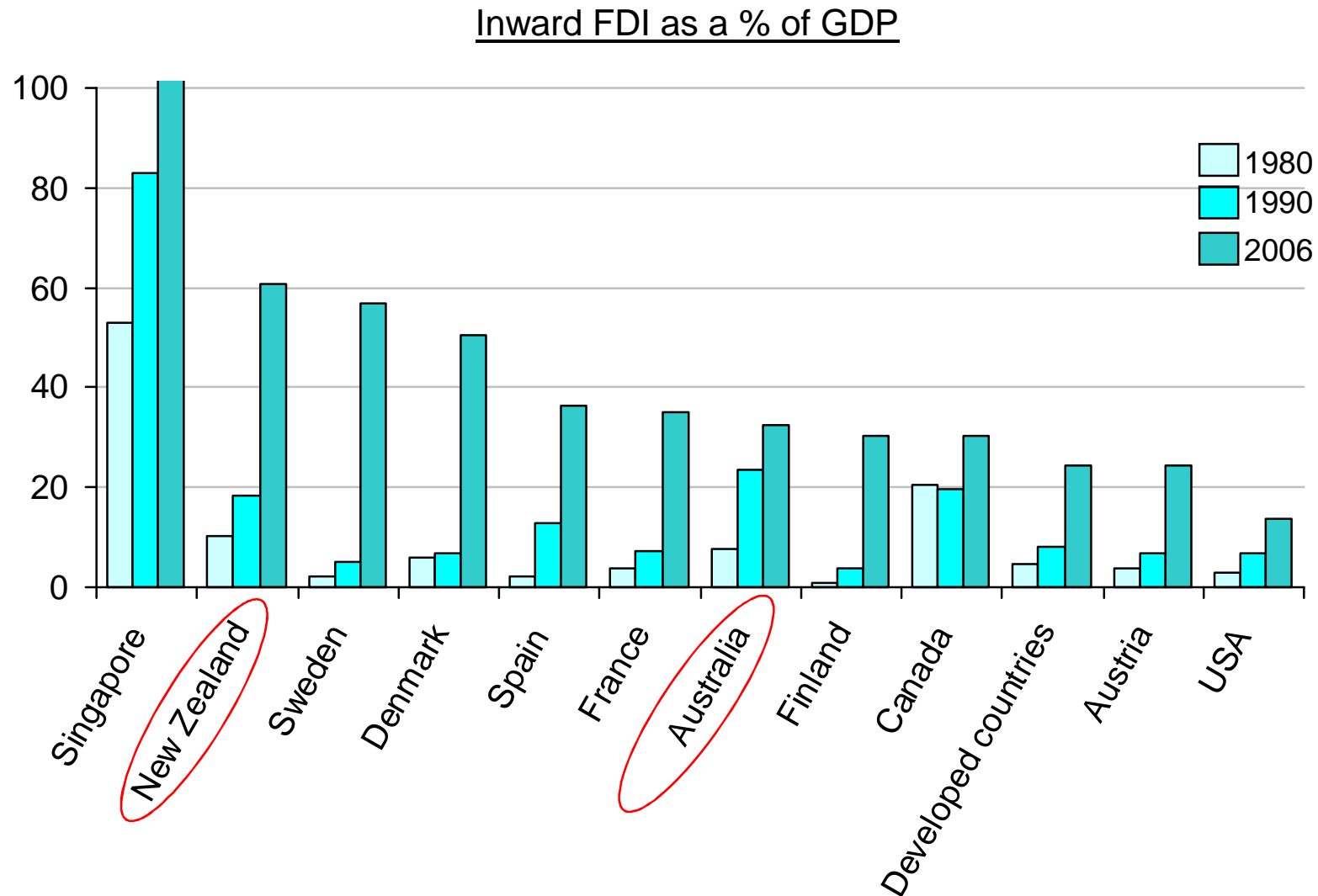


Note: OECD for 1971 and 2006; China and Singapore 1970 and 2005.
 Source: OECD; national government statistics for China and Singapore.

NEW ZEALAND IS DISTINCTIVE IN HAVING A LOW AND REDUCING OUTWARD FOREIGN DIRECT INVESTMENT STOCK



NEW ZEALAND HAS A HIGHER LEVEL OF INWARD FOREIGN DIRECT INVESTMENT THAN AUSTRALIA



THE 2007 ECONOMIC FREEDOM INDEX RANKS NEW ZEALAND AMONG THE BEST IN THE WORLD

| Rank | Country |
|------|----------------------|
| 1 | Hong Kong |
| 2 | Singapore |
| 3 | New Zealand |
| 4 | Switzerland |
| 5 | Canada |
| 5 | United Kingdom |
| 5 | United States |
| 8 | Estonia |
| 9 | Australia |
| 9 | Ireland |
| 11 | Chile |
| 11 | Finland |
| 11 | Iceland |
| 11 | Luxembourg |
| 15 | Denmark |
| 15 | Netherlands |
| 15 | United Arab Emirates |
| 18 | Austria |
| 18 | El Salvador |
| 18 | Germany |
| 18 | Oman |

Economic Freedom Index rank by area

| Economic Freedom Area | New Zealand | Australia |
|---|-------------|-----------|
| Size of Government | 20 | 23 |
| Legal Structure & Security of Property Rights | 2 | 6 |
| Access to Sound Money | 3 | 5 |
| Freedom to Trade Internationally | 7 | 15 |
| Regulation of Credit, Labor, and Business | 1 | 8 |

NEW ZEALAND IS RANKED SECOND IN THE WORLD IN THE EASE OF DOING BUSINESS

| 2006/7 Rank | Economy |
|-------------|------------------|
| 1 | Singapore |
| 2 | New Zealand |
| 3 | United States |
| 4 | Hong Kong, China |
| 5 | Denmark |
| 6 | United Kingdom |
| 7 | Canada |
| 8 | Ireland |
| 9 | Australia |
| 10 | Iceland |
| 11 | Norway |
| 12 | Japan |
| 13 | Finland |
| 14 | Sweden |
| 15 | Thailand |
| 16 | Switzerland |
| 17 | Estonia |
| 18 | Georgia |
| 19 | Belgium |
| 20 | Germany |

Ease of Doing Business rank by indicator

| Indicator | New Zealand | Australia |
|------------------------|-------------|-----------|
| Starting a Business | 3 | 1 |
| Employing Workers | 2 | 52 |
| Hiring and Firing | 13 | 8 |
| Registering Property | 1 | 27 |
| Getting Credit | 3 | 3 |
| Protecting Investors | 1 | 51 |
| Paying Taxes | 9 | 41 |
| Trading Across Borders | 16 | 34 |
| Enforcing Contracts | 13 | 11 |
| Closing a Business | 16 | 14 |

THE GLOBAL COMPETITIVENESS INDEX RANKING INDICATES ROOM FOR AUSTRALIA AND NEW ZEALAND TO IMPROVE

Global Competitiveness Index 2007-8

| Rank | Country |
|------|----------------|
| 1 | United States |
| 2 | Switzerland |
| 3 | Denmark |
| 4 | Sweden |
| 5 | Germany |
| 6 | Finland |
| 7 | Singapore |
| 8 | Japan |
| 9 | United Kingdom |
| 10 | Netherlands |
| 19 | Australia |
| 20 | Belgium |
| 21 | Malaysia |
| 22 | Ireland |
| 23 | Iceland |
| 24 | New Zealand |

| Pillar | New Zealand | Australia |
|---------------------------------|-------------|-----------|
| Institutions | 9 | 13 |
| Infrastructure | 33 | 18 |
| Macroeconomy | 36 | 34 |
| Health and Basic Education | 4 | 17 |
| Higher Education/Training | 12 | 14 |
| Goods Market Efficiency | 9 | 11 |
| Labour Market Efficiency | 9 | 13 |
| Financial Market Sophistication | 4 | 7 |
| Technological Readiness | 23 | 17 |
| Market Size | 59 | 20 |
| Business Sophistication | 29 | 28 |
| Innovation | 25 | 22 |

2. THE STATE OF THE TRANS-TASMAN ECONOMIC RELATIONSHIP

Three aspects of the trans-Tasman economic relationship will be examined:

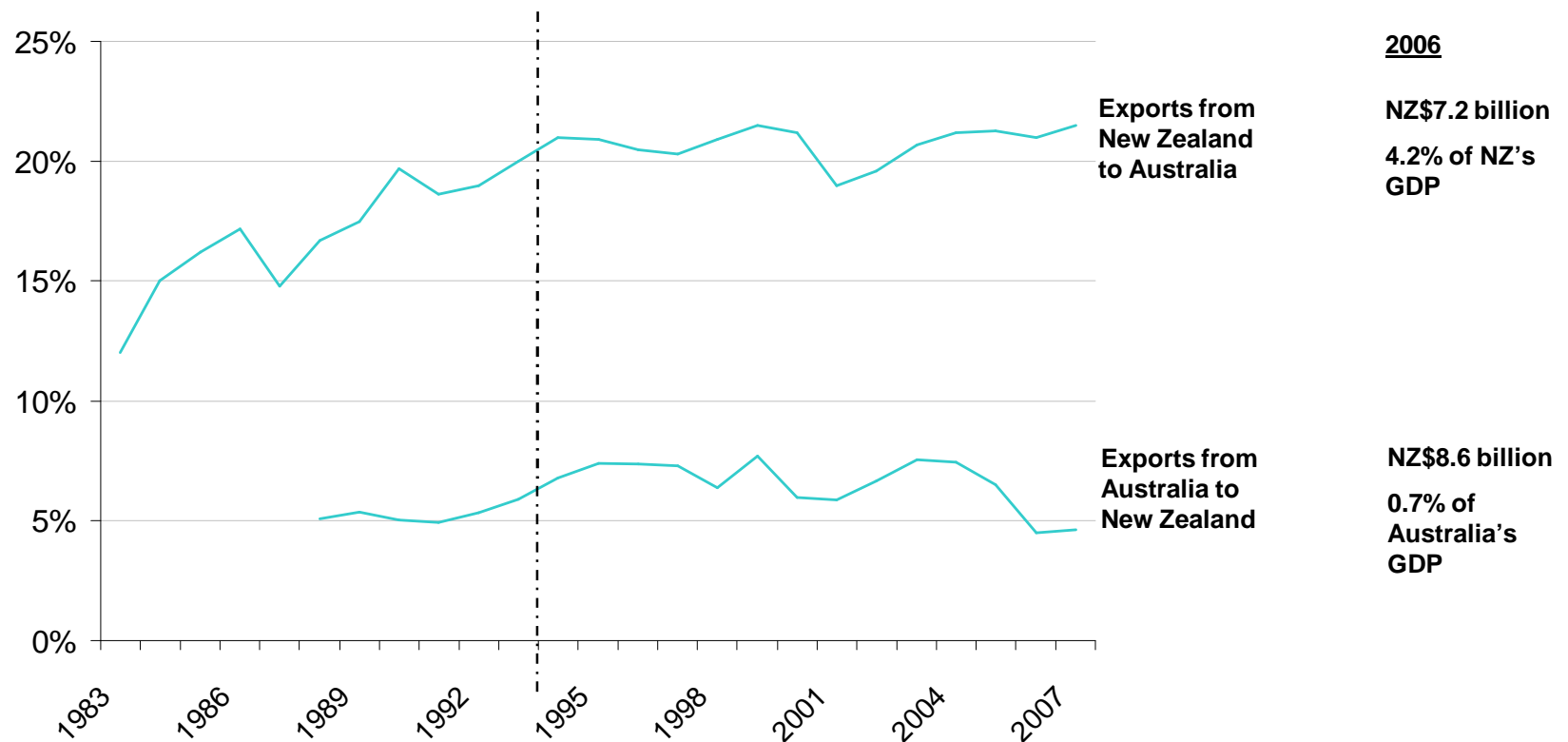
Trade flows

Investment flows

People flows (migration and tourism)

THE RELATIVE IMPORTANCE OF THE BILATERAL TRADE RELATIONSHIP HAS NOT GROWN SIGNIFICANTLY OVER THE PAST DECADE

Exports to CER partner as a % of all Exports



Note: Exports of goods only
Source: Statistics New Zealand.

NEW ZEALAND HAS LOST EXPORT MARKET SHARE IN AUSTRALIA, AUSTRALIA HAS HELD ITS NZ MARKET SHARE

Compound Annual Growth Rate

| | 1983-2006* | 1983-1993 | 1994-2006* |
|--|------------|-----------|------------|
| NZ's exports to Australia | 8.9% | 14.8% | 4.2% |
| NZ's exports to rest of world | 5.8% | 8.1% | 4.2% |
| Australia's imports from rest of world | 9.4% | 10.7% | 8.4% |

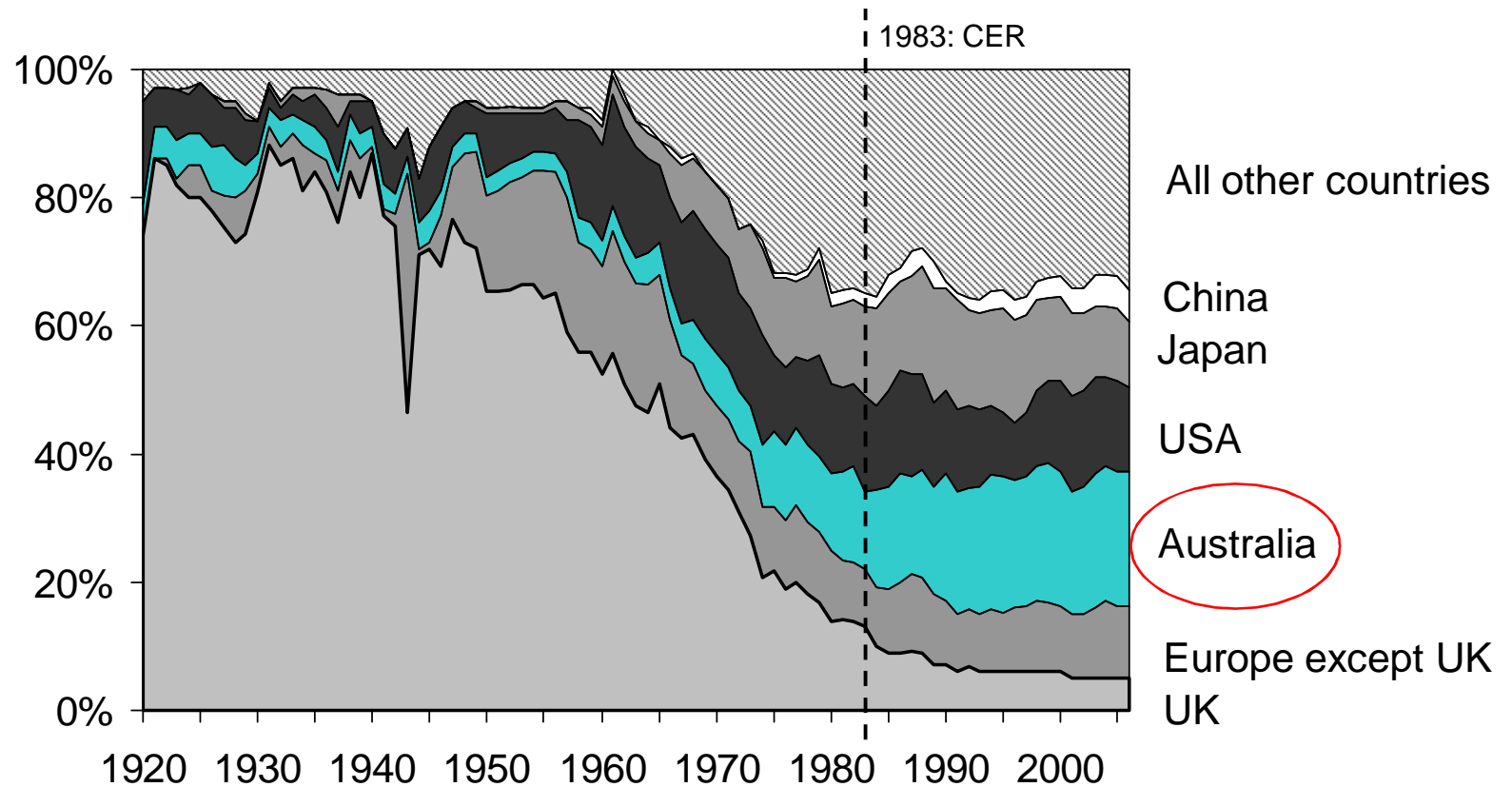
| | | | |
|--------------------------------------|------|-------|------|
| Australia's exports to NZ | 7.5% | 10.0% | 5.6% |
| Australia's exports to rest of world | 8.9% | 10.6% | 8.1% |
| NZ's imports from rest of world | 7.4% | 8.3% | 6.7% |

* Using preliminary data for 2006

Note: exports of goods only.

Source: Australian Bureau of Statistics; Statistics New Zealand; OECD.

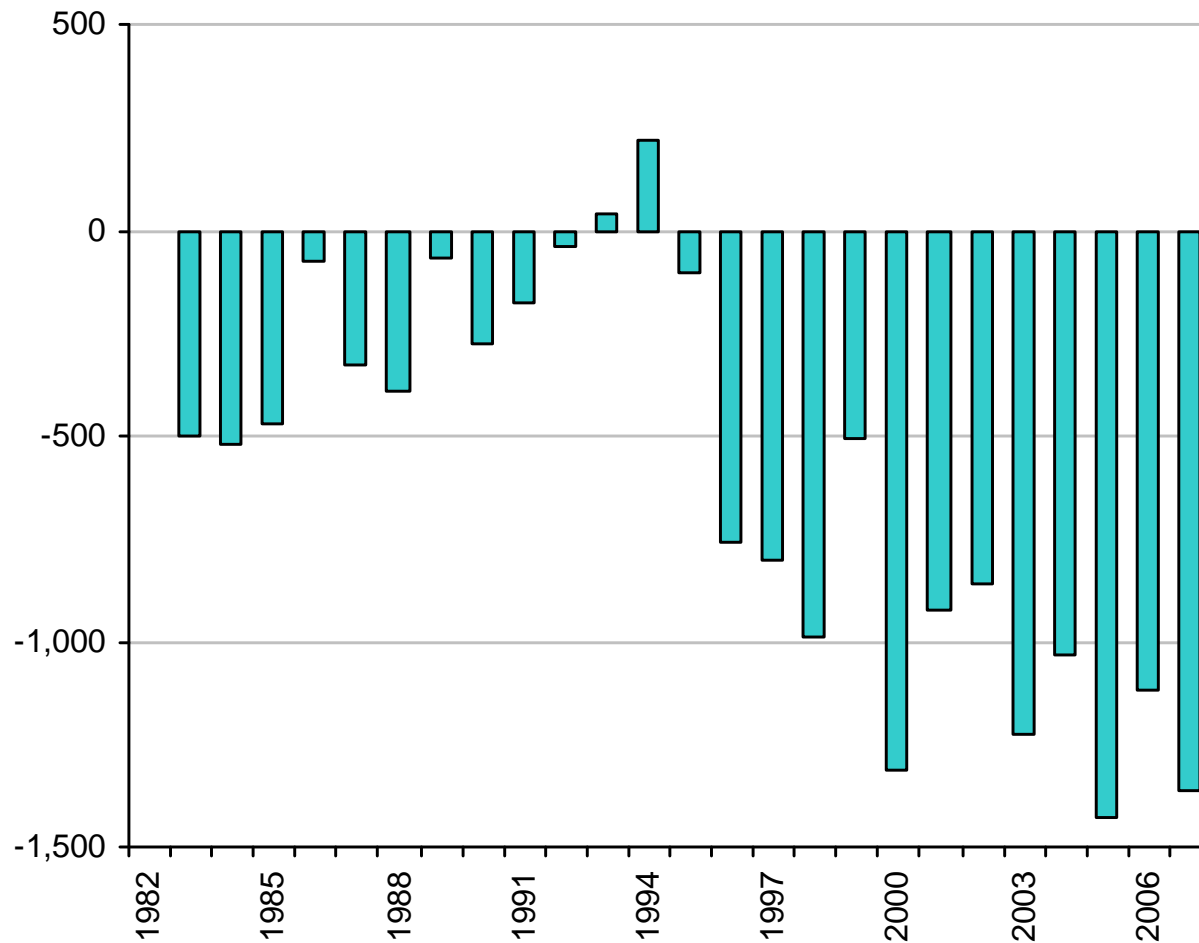
NEW ZEALAND'S EXPORT SHARE WAS SHIFTING TOWARDS AUSTRALIA PRE-CER, FOR STRUCTURAL REASONS



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

NEW ZEALAND HAS A PERSISTENT MERCHANDISE TRADE DEFICIT WITH AUSTRALIA

New Zealand's merchandise trade balance with Australia, 1983-2007 (NZ\$m)



NZ\$1.4 billion deficit is 19% of the value of New Zealand's merchandise exports to Australia)

TOP 10 GOODS EXPORT MARKETS FOR AUSTRALIA AND NZ

New Zealand's top 10 export destinations
June year 2007

| Rank | Country | Value of exports (NZ\$m) | Percent of total exports |
|------|----------------|--------------------------|--------------------------|
| 1 | Australia | 6,515 | 20% |
| 2 | USA | 4,332 | 13% |
| 3 | Japan | 3,476 | 10% |
| 4 | China | 1,868 | 6% |
| 5 | United Kingdom | 1,586 | 5% |
| 6 | South Korea | 1,352 | 4% |
| 7 | Taiwan | 786 | 2% |
| 8 | Germany | 782 | 2% |
| 9 | Indonesia | 645 | 2% |
| 10 | Philippines | 580 | 2% |
| | ROW | <u>11,453</u> | 34% |
| | Total | 33,375 | |

Australia's top 10 export destinations
June year 2007

| Rank | Country | Value of exports A\$m | Percent of total exports |
|------|--------------------|-----------------------|--------------------------|
| 1 | Japan | 32,627 | 19% |
| 2 | China | 22,845 | 14% |
| 3 | Korea, Republic of | 13,071 | 8% |
| 4 | India | 10,099 | 6% |
| 5 | United States | 9,821 | 6% |
| 6 | New Zealand | 9,453 | 6% |
| 7 | Taiwan | 6,192 | 4% |
| 8 | United Kingdom | 6,160 | 4% |
| 9 | Singapore | 4,625 | 3% |
| 10 | Indonesia | 4,260 | 3% |
| | ROW | <u>49,067</u> | 29% |
| | Total | 168,220 | |

TOP 10 GOODS IMPORT SOURCES FOR AUSTRALIA AND NZ

New Zealand's top 10 import sources
June year 2007

| Rank | Country | Value of imports (NZ\$m) | Percent of total imports |
|------|--------------------|--------------------------|--------------------------|
| 1 | Australia | 8,574 | 21% |
| 2 | China | 5,275 | 13% |
| 3 | USA | 4,478 | 11% |
| 4 | Japan | 3,688 | 9% |
| 5 | Singapore | 1,928 | 5% |
| 6 | Germany | 1,898 | 5% |
| 7 | Korea, Republic of | 1,310 | 3% |
| 8 | United Kingdom | 1,107 | 3% |
| 9 | Thailand | 1,050 | 3% |
| 10 | Malaysia | 948 | 2% |
| | ROW | <u>10,929</u> | 27% |
| | TOTAL | 41,185 | |

Australia's top 10 import sources
June year 2007

| Rank | Country | Value of imports (A\$m) | Percent of total imports |
|------|-----------------|-------------------------|--------------------------|
| 1 | China | 27,138 | 15% |
| 2 | United States | 24,927 | 14% |
| 3 | Japan | 17,409 | 10% |
| 4 | Singapore | 10,135 | 6% |
| 5 | Germany | 9,274 | 5% |
| 6 | United Kingdom | 7,402 | 4% |
| 7 | Thailand | 7,210 | 4% |
| 8 | Malaysia | 6,625 | 4% |
| 9 | Korea, Republic | 6,010 | 3% |
| 10 | New Zealand | 5,605 | 3% |
| | ROW | <u>59,720</u> | 33% |
| | TOTAL | 181,455 | |

NEW ZEALAND'S TOP 10 GOODS EXPORTS TO AND IMPORTS FROM AUSTRALIA 2007

New Zealand exports to Australia 2007 (NZ\$000)

| Name | 2007 (P) |
|------------------------------------|----------|
| Petroleum oils, crude | 392,509 |
| Gold | 251,981 |
| Cheese | 212,012 |
| Wine | 179,849 |
| Timber | 156,345 |
| Refrigerators, freezers, etc | 122,718 |
| Insulated wire, cable & conductors | 109,875 |
| Yachts & other vessels | 106,911 |
| Chemical wood pulp | 103,275 |
| Plastic articles | 94,759 |

Australian exports to New Zealand 2007 (NZ\$000)

| Name | 2007 (P) |
|-------------------------------|----------|
| Petroleum oils, not crude | 858,814 |
| Motor vehicles | 466,046 |
| Petroleum oils, crude | 397,219 |
| Aluminium oxide | 345,402 |
| Medicaments | 291,631 |
| Copper; bars, rods & profiles | 161,427 |
| Wine | 122,294 |
| Wheat | 114,675 |
| Bread, pastry, cakes, etc | 110,096 |
| Cane or beet sugar | 106,274 |

NEW ZEALAND'S MAJOR FDI SOURCES AND DESTINATIONS

New Zealand's top 10 FDI sources
year to 31 March 2007

| Rank | Country | ODI (NZ\$m) | % of Total |
|------|----------------|---------------|------------|
| 1 | Australia | 47,358 | 52% |
| 2 | USA | 10,492 | 12% |
| 3 | Netherlands | 4,918 | 5% |
| 4 | United Kingdom | 3,974 | 4% |
| 5 | Japan | 1,819 | 2% |
| 6 | Singapore | 1,636 | 2% |
| 7 | Canada | 1,282 | 1% |
| 8 | Hong Kong | 724 | 1% |
| 9 | Germany | 440 | 0.5% |
| 10 | Switzerland | 75 | 0.1% |
| | ROW | <u>17,973</u> | 19.82% |
| | TOTAL | 90,691 | |

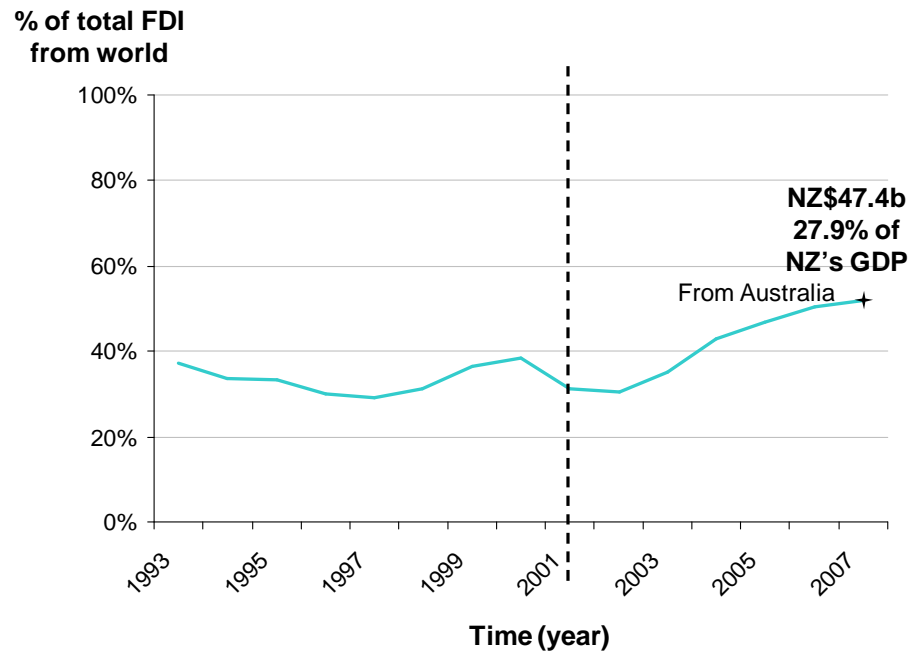
New Zealand's top 10 FDI destinations
year to 31 March 2007

| Rank | Country | ODI (NZ\$m) | % of Total |
|------|----------------|--------------|------------|
| 1 | Australia | 10,915 | 59% |
| 2 | USA | 1,778 | 10% |
| 3 | United Kingdom | 897 | 5% |
| 4 | Hong Kong | 267 | 1% |
| 5 | Canada | 73 | 0.4% |
| 6 | Bermuda | C | C |
| 7 | Germany | C | C |
| 8 | Japan | C | C |
| 9 | Netherlands | C | C |
| 10 | Singapore | C | C |
| | ROW | <u>4,705</u> | 25% |
| | TOTAL | 18,635 | |

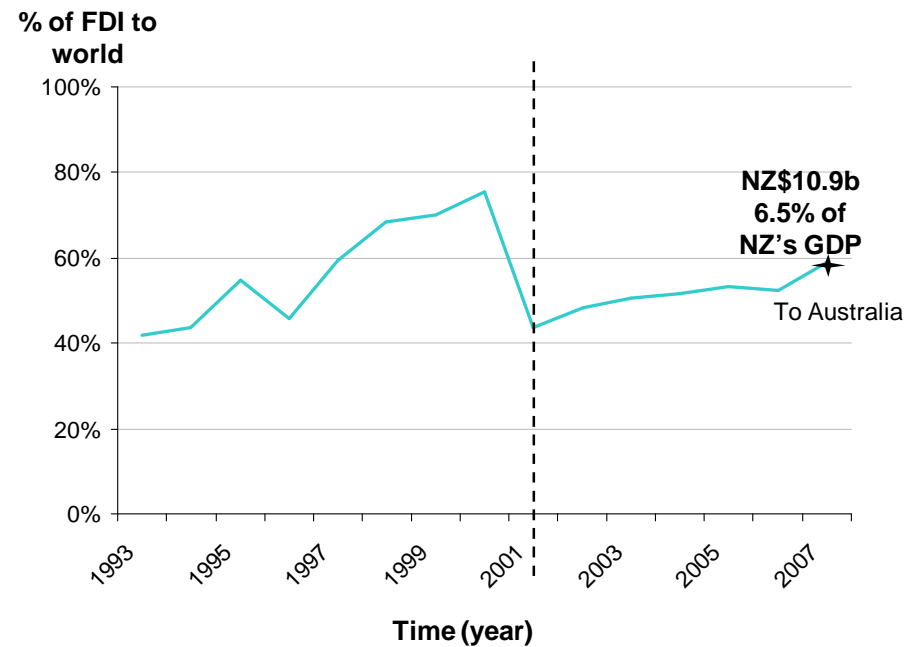
Note: Direct investment involves an ownership stake of at least 25% of the enterprise.
Source: Statistics New Zealand.

AUSTRALIA IS AN IMPORTANT DESTINATION AND SOURCE FOR NEW ZEALAND'S FOREIGN INVESTMENT

Investment into New Zealand



Investment out of New Zealand



AUSTRALIA'S MAJOR FDI SOURCES AND DESTINATIONS

Australia's top 10 FDI sources
year to 31 December 2005

| Rank | Country | FDI (A\$m) | Percent of total FDI |
|------|----------------|---------------|----------------------|
| 1 | USA | 69,065 | 24.6% |
| 2 | United Kingdom | 51,314 | 18.3% |
| 3 | Japan | 23,805 | 8.5% |
| 4 | Netherlands | 19,137 | 6.8% |
| 5 | Switzerland | 14,369 | 5.1% |
| 6 | Germany | 9,891 | 3.5% |
| 7 | France | 8,287 | 3% |
| 8 | New Zealand | 5,889 | 2.1% |
| 9 | Canada | 5,825 | 2.1% |
| 10 | Singapore | 4,200 | 1.5% |
| | ROW | <u>69,339</u> | 24.7% |
| | TOTAL | 281,121 | |

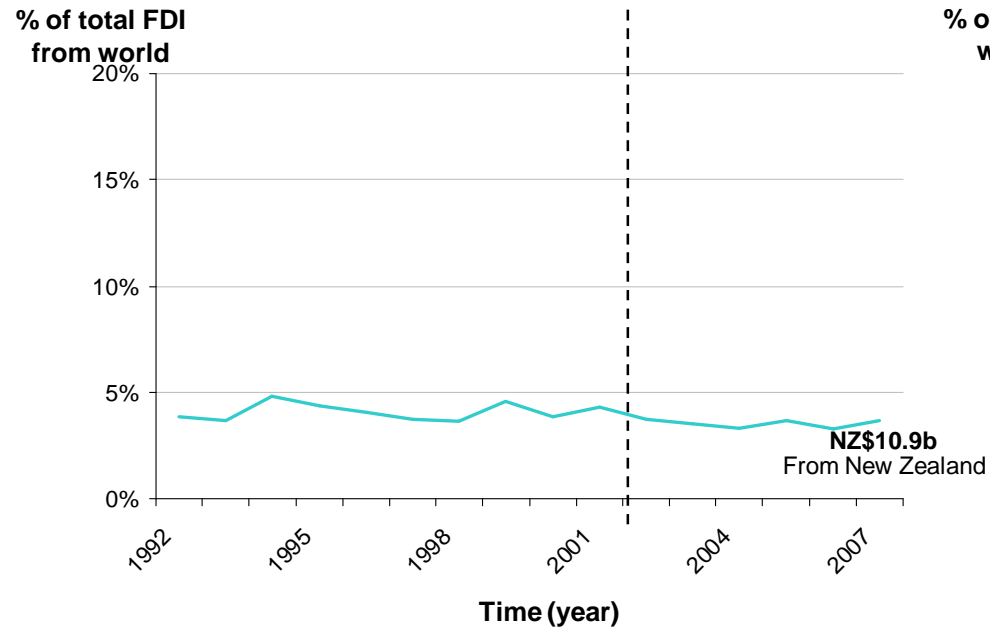
Australia's top 10 FDI destinations
year to 31 December 2005

| Rank | Country | FDI (A\$m) | Percent of total FDI |
|------|------------------------|----------------|----------------------|
| 1 | USA | 110,588 | 45.8% |
| 2 | United Kingdom | 46,426 | 19.2% |
| 3 | New Zealand | 38,305 | 15.9% |
| 4 | Netherlands | 7,460 | 3.1% |
| 5 | Hong Kong | 4,624 | 1.9% |
| 6 | Canada | 4,194 | 1.7% |
| 7 | Germany | 2,919 | 1.2% |
| 8 | Singapore | 2,731 | 1.1% |
| 9 | Belgium and Luxembourg | 2,355 | 1.0% |
| 10 | Bermuda | 2,031 | 0.8% |
| | ROW | <u>19,8014</u> | 8.2% |
| | TOTAL | 241,437 | |

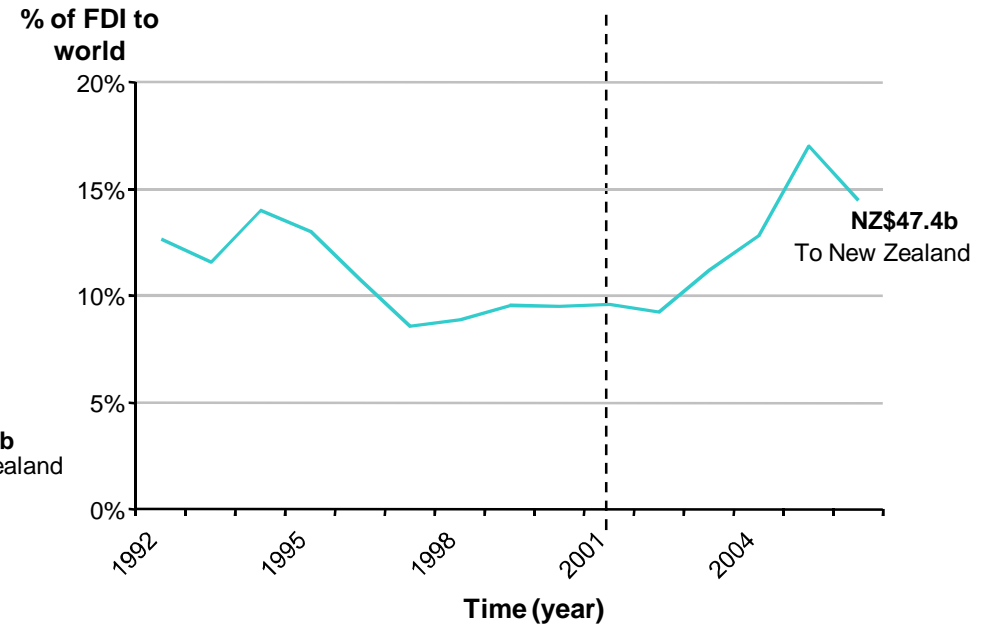
Note: Rank is of countries with published data.
Source: Australian Bureau of Statistics.

AUSTRALIA IS NOT AS RELIANT ON NEW ZEALAND AS A SOURCE OR DESTINATION OF FOREIGN INVESTMENT

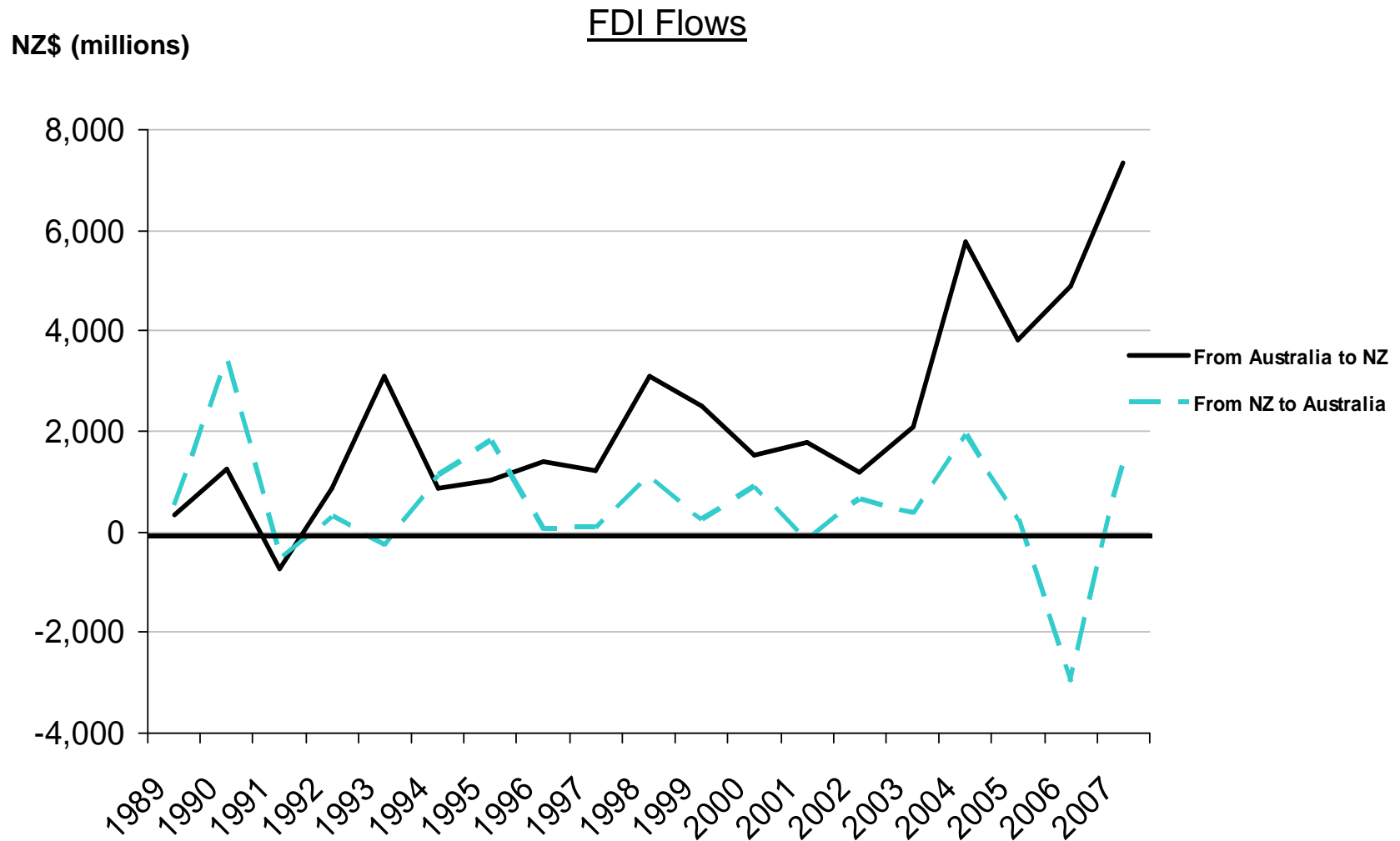
Investment into Australia



Investment out of Australia

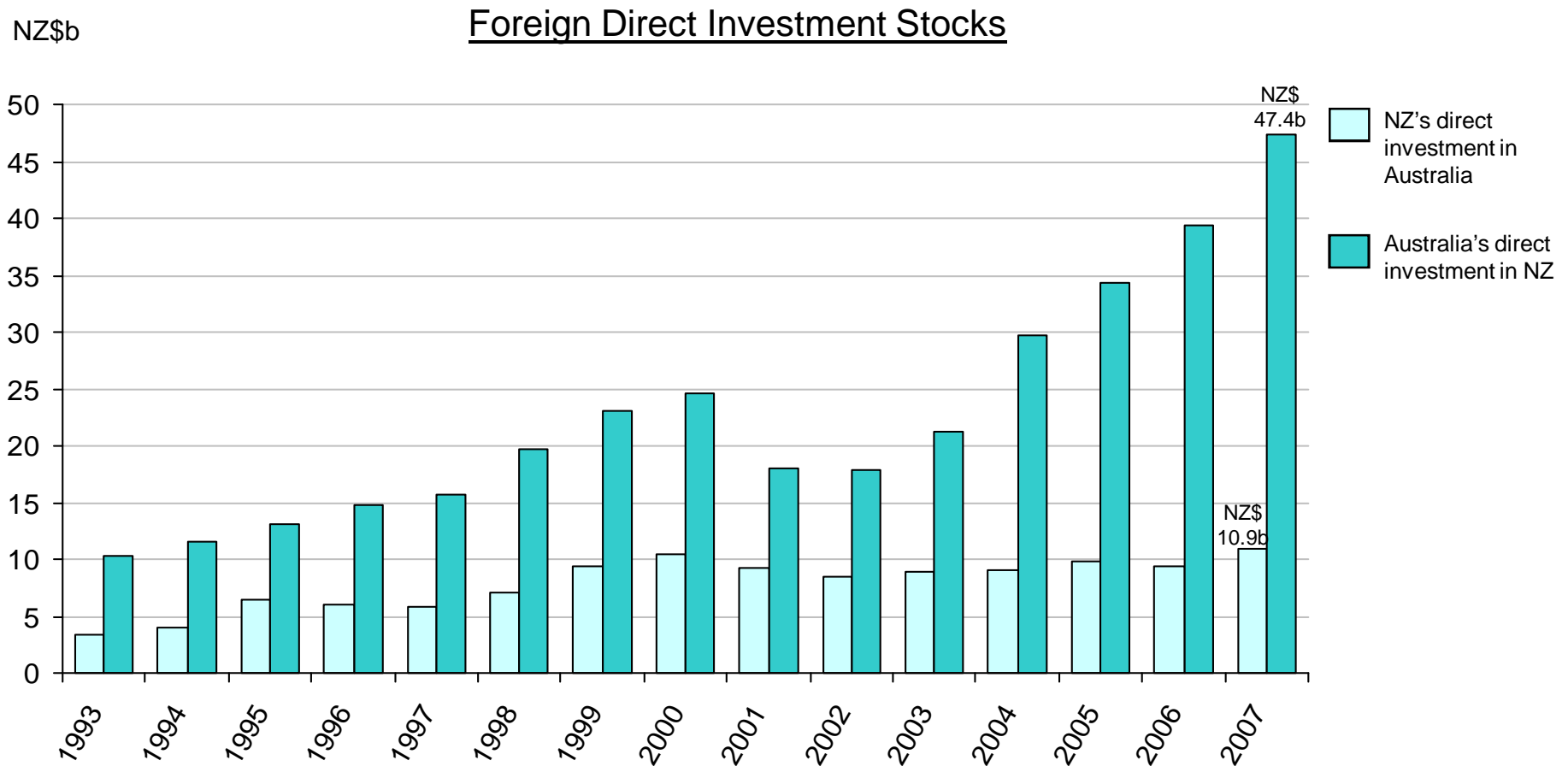


THERE HAS BEEN A SIGNIFICANT INCREASE IN AUSTRALIAN INVESTMENT INTO NEW ZEALAND OVER THE PAST FIVE YEARS



Source: UNCTAD (1989-2002); Statistics New Zealand (2001-2006). Data prior to 2001 not directly comparable.

NEW ZEALAND'S INVESTMENT STOCK IN AUSTRALIA IS STATIC, AUSTRALIA'S INVESTMENT STOCK IN NEW ZEALAND IS GROWING



Source: UNCTAD (1993-2000); Statistics New Zealand (2001-2007). Data prior to 2001 not directly comparable.

NEW ZEALAND'S MAJOR PORTFOLIO INVESTMENT SOURCES AND DESTINATIONS

New Zealand's top 5 portfolio investment sources year to 31 March 2007

| Rank | Country | Portfolio Investment (NZ\$m) | Percent of total portfolio investment |
|------|----------------|------------------------------|---------------------------------------|
| 1 | USA | 18,806 | 23% |
| 2 | United Kingdom | 16,067 | 19% |
| 3 | Australia | 8,506 | 10% |
| 4 | Hong Kong | .. | |
| 5 | Japan | .. | |
| | ROW | 40,185 | 48% |
| | TOTAL | 83,564 | |

New Zealand's top 5 portfolio investment destinations year to 31 March 2007

| Rank | Country | Portfolio investment (NZ\$m) | Percent of total portfolio investment |
|------|----------------|------------------------------|---------------------------------------|
| 1 | USA | 16,177 | 37% |
| 2 | Australia | 9,639 | 22% |
| 3 | United Kingdom | 3,601 | 8% |
| 4 | Japan | 2,942 | 7% |
| 5 | Hong Kong | 134 | 0.3% |
| | ROW | <u>11,730</u> | 27% |
| | TOTAL | 44,223 | |

Note: Includes debt and equity portfolio investment because no country break-down available for portfolio equity holdings. Portfolio investment is defined as an ownership stake of less than 25% of the enterprise.

Source: Statistics New Zealand.

AUSTRALIA'S MAJOR PORTFOLIO EQUITY INVESTMENT SOURCES AND DESTINATIONS

Australia's top 10 portfolio equity investment sources year to 31 December 2005

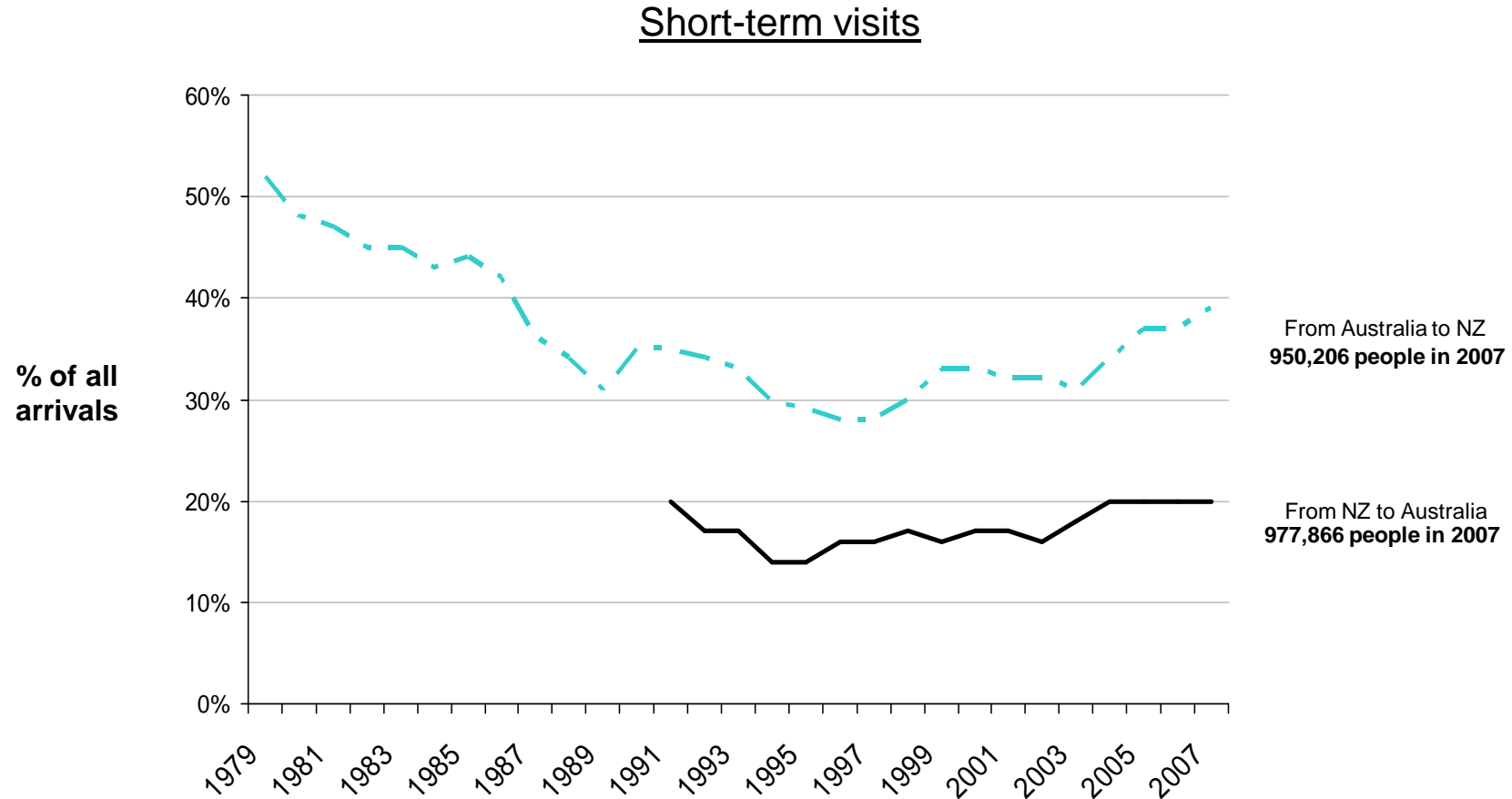
| Rank | Country | Portfolio equity investment (A\$m) | Percent of total FDI |
|------|--------------------------|------------------------------------|----------------------|
| 1 | United Kingdom | 94,064 | 39.3% |
| 2 | USA | 87,954 | 36.8% |
| 3 | New Zealand | 9,609 | 4.02% |
| 4 | Hong Kong (SAR of China) | 6,056 | 2.5% |
| 5 | Japan | 3,726 | 1.6% |
| 6 | Singapore | 3,190 | 1.3% |
| 7 | Switzerland | 2,777 | 1.2% |
| 8 | Germany | 1,209 | 0.5% |
| 9 | Netherlands | 1,142 | 0.5% |
| 10 | Belgium and Luxembourg | 869 | 0.4% |
| | ROW | <u>28,519</u> | 11.9% |
| | TOTAL | 239,116 | |

Australia's top 10 portfolio equity investment destinations year to 31 December 2005

| Rank | Country | Portfolio equity investment (A\$m) | Percent of total FDI |
|------|--------------------------|------------------------------------|----------------------|
| 1 | USA | 93,631 | 54.3% |
| 2 | Japan | 16,202 | 9.4% |
| 3 | United Kingdom | 14,019 | 8.1% |
| 4 | Netherlands | 10,128 | 5.9% |
| 5 | Germany | 4,561 | 2.7% |
| 6 | Korea, Republic of | 2,384 | 1.4% |
| 7 | Hong Kong (SAR of China) | 2,091 | 1.2% |
| 8 | New Zealand | 1,316 | 0.8% |
| 9 | Singapore | 1,206 | 0.7% |
| 10 | India | 829 | 0.5% |
| | ROW | <u>25,941</u> | 15.1% |
| | TOTAL | 172,309 | |

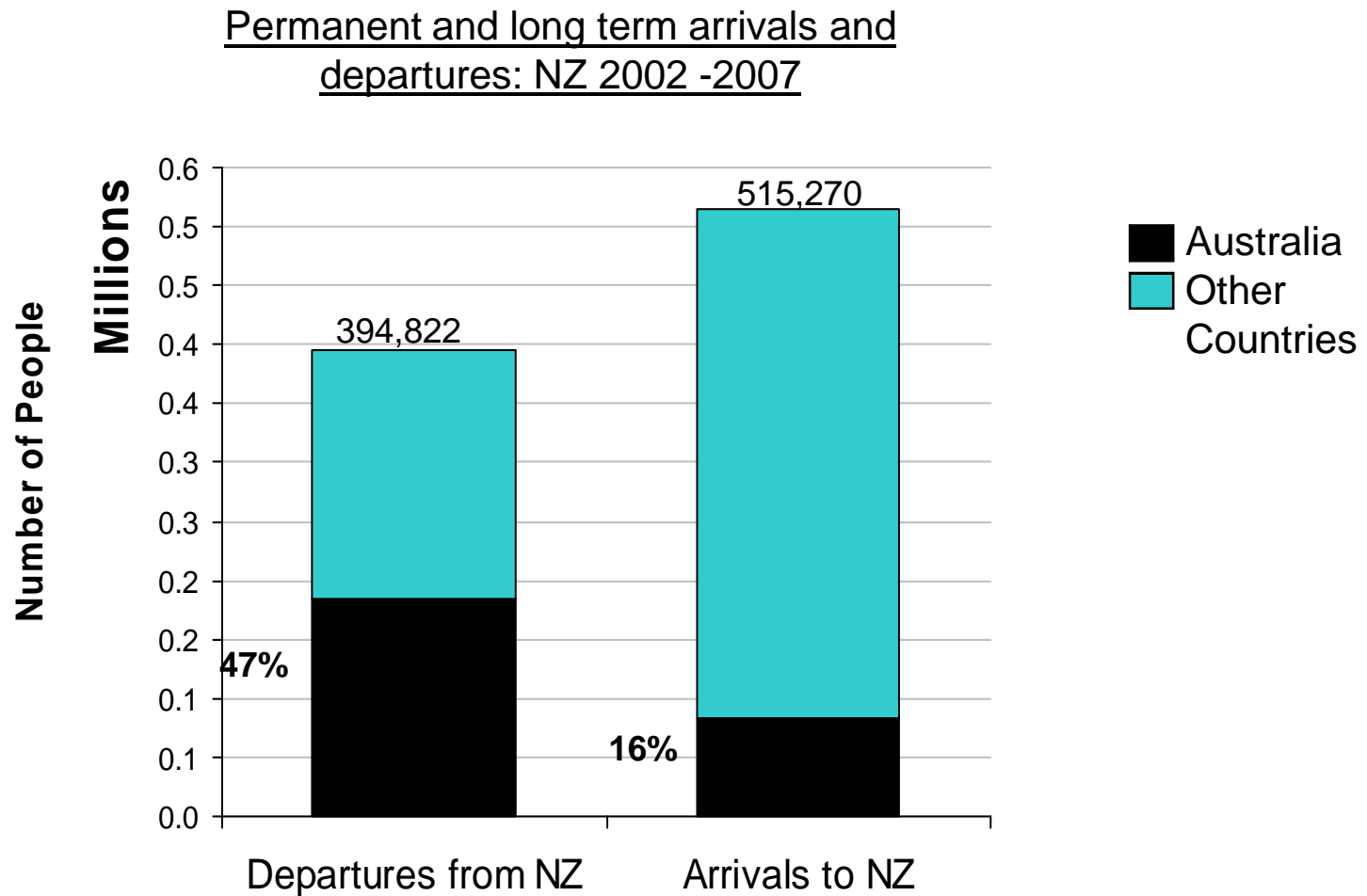
Note: Portfolio equity holdings only.
Source: Australian Bureau of Statistics.

AUSTRALIA HAS BECOME A LESS SIGNIFICANT SOURCE OF VISITORS TO NEW ZEALAND



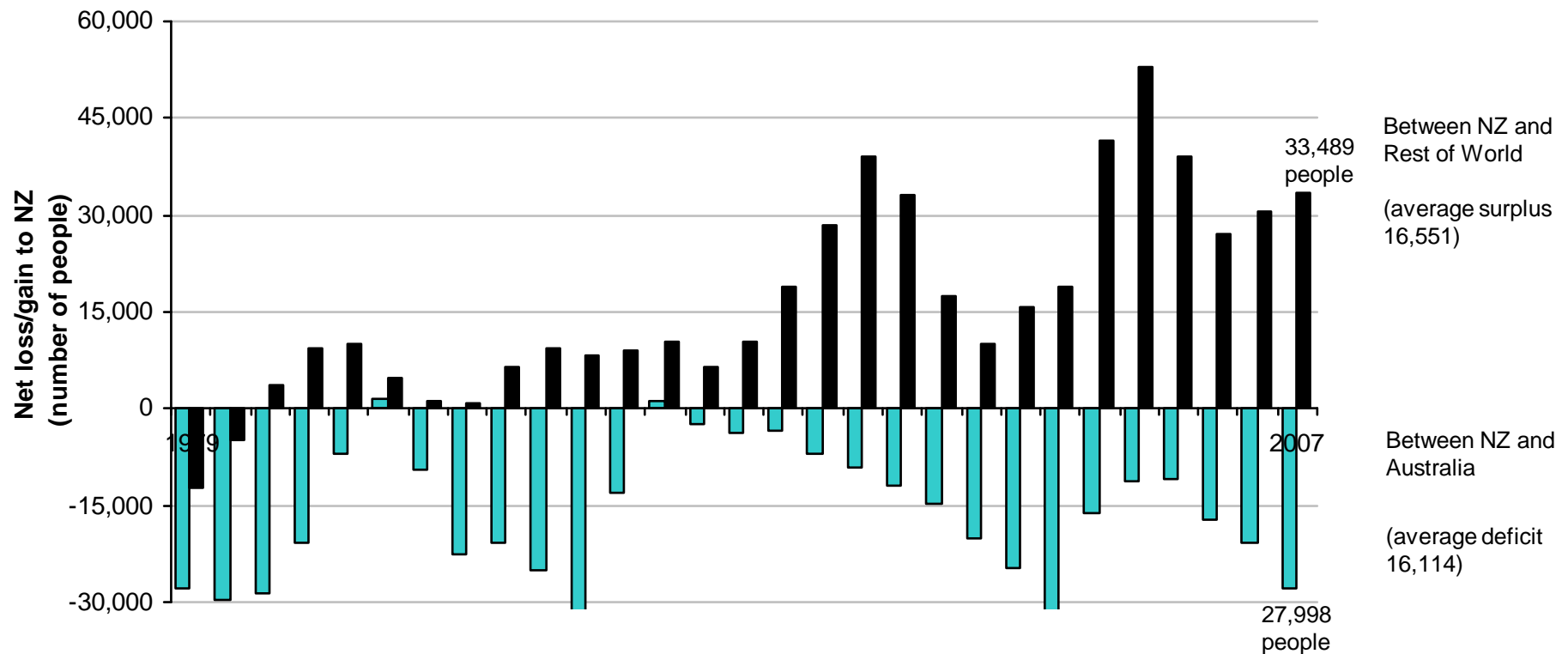
Note: Short-term visits are visits of less than 12 months duration.
Source: Statistics New Zealand.

A LARGE PROPORTION OF PEOPLE LEAVING NEW ZEALAND LONG-TERM GO TO AUSTRALIA



A SUBSTANTIAL NUMBER OF NEW ZEALANDERS HAVE LEFT PERMANENTLY FOR AUSTRALIA

Net Permanent and Long Term Movements, 1979-2007



Note: Averages are straight-line averages.
Source: Statistics New Zealand.

SUMMARY: THE NEW ZEALAND - AUSTRALIA RELATIONSHIP

| | New Zealand | Australia |
|--|---|---|
| Population | 4.3 million | 21.3 million |
| GDP | ~ NZ\$170 billion | ~ NZ\$1,150 billion |
| Per capita income | New Zealand's approximately 73% of Australia's | |
| Labour productivity | New Zealand's approximately 75% of Australia's | |
| Exports | 22% to Australia (#1) | 5% to NZ (#6) |
| Imports | 17% from Australia (#1) | 3% from NZ (#10) |
| Trade balance | New Zealand's average deficit NZ\$1.1 billion 1997-2007 | |
| Inward FDI | 52% from Australia (#1) | 2% from NZ (#8) |
| Outward FDI | 59% to Australia (#1) | 16% to NZ (#3) |
| Investment balance (stock) | New Zealand's investment stock deficit with Australia in 2007: NZ\$36.5 billion | |
| Investment balance (flow) | In 2007, Australian FDI flows into NZ exceeded NZ FDI flows into Australia by NZ\$5.9 billion | |
| Short-term visits | 39% of short-term visits to NZ are from Australia | 20% of short-term visits to Australia are from NZ |
| Permanent and long-term movements | NZ annual "people deficit" (net permanent and long term movements) with Australia was on average 16,114 people per year between 2002-2007 | |

3. KEY THEMES

Australia is New Zealand's most important economic relationship, but New Zealand is less important to Australia

The growth in trans-Tasman trade, tourism, and investment is not striking given the prominence of CER and geographic proximity – export growth rates are about the same as for other trading partners

The significant market potential of Australia sits alongside New Zealand's concerns about the loss of economic sovereignty

There are persistent and significant trans-Tasman imbalances in terms of trade, investment, and people - New Zealand has observed the tendency for people and firms to exit for Australia