

Top 10 Issues for New Zealand

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(draft)**

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CAN NEW ZEALAND IMPLEMENT STABLE POLICIES THAT WILL IMPROVE LONG TERM OUTCOMES?

- New Zealand does not have a long term vision and strategy with supporting policies.
- Three year electoral cycles cause a bias for policies that have a near term impact at the expense of those which involve investment for long term outcomes. Policies are sometimes reversed with a change of government.
- A case for policy change often arises in times of crisis, but slow-growing issues e.g. ageing population, low savings, slide in growth relative to other countries, tend to be avoided, especially where changes would adversely affect voting segments.
- Strategy choices and policies are strongly influenced by the legacy of past decisions, assumptions about 'how we do things', poor performance management and inertia.
- Other countries have adopted more active long term vision, strategy, policy and monitoring to lift prosperity. They have chosen to use incentives and interventions to tilt the playing field and advance their interests.
- The challenge is to increase debate about long term outcomes for New Zealand and what New Zealanders value, establishing the conditions for introducing enduring world-class policies.

CAN NEW ZEALAND DEVELOP AND RETAIN A CAPABLE, RESILIENT POPULATION THAT WORKS TOGETHER?

- Many New Zealanders leave for their “overseas experience” but not all return. Around one quarter of skilled New Zealanders now live abroad. NZIER estimates that another 410,000 New Zealanders could emigrate to Australia by 2025 if per capita GDP growth continues on its current track.
- Population performance is an important driver of societal success. 21st century challenges will require a high quality population with skills to take advantage of technologies, drive productivity and manage changes and shocks.
- Values that drive cohesion are critical. Adverse societal attitudes and behaviour can undermine success and deter migrants. New Zealand has a violent record: fourth worst assault mortality in OECD, increasing rates of family violence, child abuse, alcohol and methamphetamine fuelled violence and school bullying.
- Other countries do better.
- The challenge is to develop a skilled, resilient local population, encourage kiwis overseas to return and attract migrants with skills and investment to grow the economy.

CAN NEW ZEALAND REDUCE THE DISADVANTAGES SUFFERED BY YOUNG PEOPLE IN A WAY THAT CONTRIBUTES TO NEW ZEALAND BECOMING A SUCCESSFUL MULTICULTURAL SOCIETY?

- Many children are not doing well. There is a high incidence of child poverty and a large proportion not succeeding in education. While there is strong performance at age 15 in international tests, thereafter one-quarter leave school without upper secondary qualifications and nearly half of tertiary education entrants leave without completing qualifications. There is high youth unemployment. One in ten 15 to 19 year olds are not in education, training or employment.
- Poor transition from school to work results from silo approach. Schools educate but are not motivated by subsequent outcomes. The tertiary sector competes by offering courses that appeal to students. Employers compete for available talent rather than fixing their supply chain. New Zealand exports and imports talent, yet still has talent mismatches.
- Maori, Asian and Pacific Island populations are growing faster than European and other groups, particularly in Auckland. Greater labour force diversity will result. Disadvantage needs to be addressed in a way that recognises cultural differences.
- The challenge is to improve incomes and other outcomes for the most disadvantaged children and youth resulting in higher labour force participation and higher productivity.

CAN NEW ZEALAND BENEFIT ECONOMICALLY, SOCIALLY AND EDUCATIONALLY FROM ULTRA-FAST BROADBAND?

- Ultra-fast broadband will allow
 - World-class access to data, information and media for New Zealand businesses, educators and consumers
 - New Zealand businesses to overcome many distance barriers
 - Telecommuting to change residential location mix.
- A large public and private investment is required
 - Many billions of dollars
 - Around ten years to complete deployment
 - Demand potential for fast broadband not yet well understood.
- Competing countries are making similar investments.
- The challenge is to ensure the opportunities from this large investment are actively pursued so benefits are available across a broad spectrum of society and prosperity improves.

CAN NEW ZEALAND GAIN COMPETITIVE ADVANTAGE AND CONTRIBUTE TO SLOWING CLIMATE CHANGE BY SHIFTING TO A LOW CARBON ECONOMY?

- Climate science and work by the Intergovernmental Panel on Climate Change, indicates early and large scale intervention is required to reduce the risk of abrupt climate change i.e. 25-40% reduction relative to 1990 levels by 2020. The NZ Government has offered a 10-15% reduction relative to 1990 levels, introduced an ETS and is leading a global alliance for agricultural emissions research.
- If the science is even roughly correct, much more ambitious reductions will be required to meet international obligations (and preparations to adapt to climate change should commence).
- Other successful small economies are aggressively pursuing low carbon or green economy strategies; e.g.
 - South Korea plans to spend US\$85b on environment-related industries in five years from 2009
 - Denmark has committed DKK700m to developing and commercialising clean-tech
 - Singapore allocated S\$700m to clean-tech growth
- The challenge is to harness valuable natural resources, strong green brand, inventiveness and innovation to gain advantage in the emerging low carbon world.

CAN NEW ZEALAND MANAGE THE NATURAL ENVIRONMENT SO IT REMAINS PRODUCTIVE, IS AN AMENITY FOR FUTURE GENERATIONS AND BUILDS OUR BRAND?

- New Zealand has an enviable natural environment but it is at risk; e.g. degraded water quality in low-land streams, rivers and lakes, bio-security risks from invasive species or diseases affecting productive and native environments.
- Without protection and management by humans, established pests, weeds and diseases would destroy most native forest, birds, bees, fish and habitats. Climate change will alter the ranges of important plant species.
- The country's 'clean, green brand' which attracts tourists and migrants relies on sustaining a high quality environment.
- The challenge is to develop, adopt and adapt technologies and policies that will protect and restore environments to ensure healthy and productive air, water (fresh and coastal), soils, plants, animals and ecological systems.

CAN NEW ZEALAND DEVELOP THE DEPTH OF BUSINESS AND PUBLIC SECTOR SKILL REQUIRED TO DELIVER SUCCESS FOR OUR EXPORTERS AND LOCAL BUSINESSES?

- New Zealand's recent economic performance has been less than desired and some policy choices have contributed.
- The success of modern economies is strongly driven by the skills of private and public managers.
- There are opportunities for improvement
 - Shortages of skills required for internationalisation
 - Many universities with high tertiary participation; but none are world-leaders, NZ is slipping down the rankings and funding is reducing
 - Outward migration continues
 - Research shows our managers regard themselves as better than they are.
- Many owners of New Zealand's large population of SME businesses are nearing retirement
 - Few have succession plans in place
 - The Gen-X population who would take over ownership of these businesses is depleted.
- The challenge is to systematically improve skill levels in important public and private sector roles.

CAN NEW ZEALAND SECURE THE CAPITAL REQUIRED TO REJOIN THE WORLD-LEADERS IN ECONOMIC PROSPERITY?

- New Zealand is capital constrained
 - Lower capital intensity than Australia explains part of the prosperity difference
 - Shortage of domestic capital for productive ventures
 - Businesses struggle to attract equity investment and pay a premium for debt.
- Need FDI to supplement our shortfall in national savings and to provide access to critical knowledge and connections
 - Equity to fuel expanding businesses
 - Some past bad experiences with FDI, restrictions in some sectors and the 'opaqueness' of policy settings deter overseas investment
 - Compared to other countries, there is little active effort or incentives to attract capital.
- The challenge is to introduce policies to
 - Encourage greater private sector savings
 - Reform capital taxation
 - Incentivise domestic and international equity investment in high productivity activities.

CAN NEW ZEALAND DEVELOP A HIGH PERFORMING INNOVATION ECOSYSTEM THAT GROWS MANY MORE HIGH VALUE INTERNATIONAL BUSINESSES?

- Innovation drives economic prosperity in advanced economies. The most prosperous small advanced economies export high value differentiated goods and services.
- New Zealand has many worthwhile strengths. We have adequate tertiary participation, sound universities, quality scientific research institutions and are inventive. We have a growing export sector based on technology and innovation.
- But New Zealand's innovation ecosystem is not performing as well as others
 - Business R&D spending is one-third of the OECD average
 - There are shortages of talent, capital, knowledge and connections for internationalising businesses
 - Weak, but developing, governance of innovation
 - Small size and distance makes internationalisation more difficult but NZ provides less support than competing countries.
- New Zealand has many opportunities to grow high value exports but also important obstacles.
- The challenge is to develop strategies and policies that guide and support the development of the innovation ecosystem.

CAN NEW ZEALAND ACCELERATE THE GROWTH OF EXPORT SECTORS?

- Economic success of small advanced economies depends on high value exports.
- Exports are currently around 30% of GDP but Government has set a target of increasing exports to 40%.
- New Zealand's natural resources and capabilities can be the foundation for export growth e.g.
 - Resource-based: dairy, forestry, fishing/aquaculture, wine, fruit/horticulture, mining, oil and gas, tourism
 - Skills and labour cost-based: education, health services, tourism.
- The challenge is to ensure productivity is high enough to lift incomes and identifying the best interventions to accelerate growth.