

Creating a global New Zealand economy

David Skilling

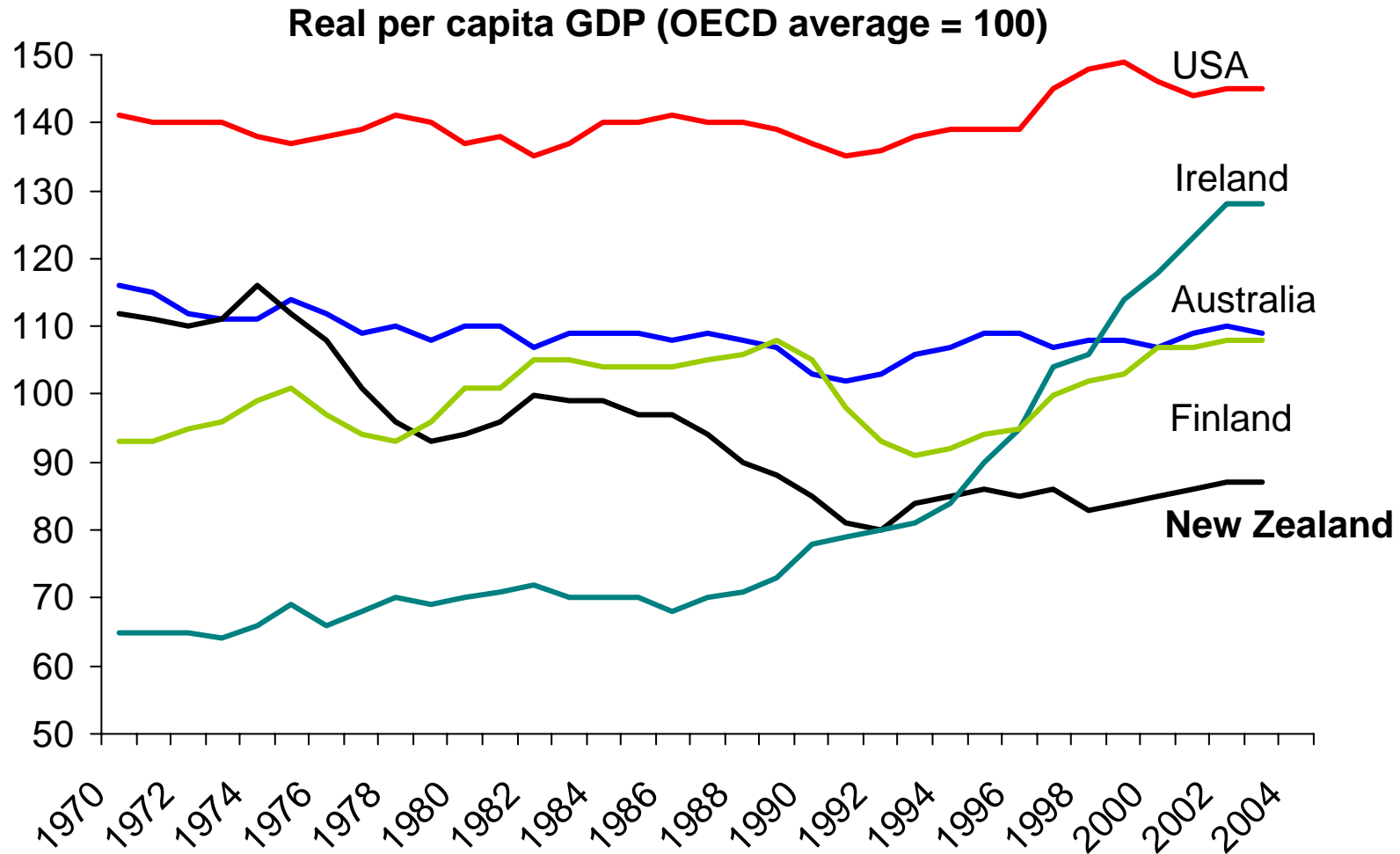
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AGENDA

1. New Zealand's economic performance and prospects
2. New Zealand's current level of international engagement
3. Creating a global New Zealand economy

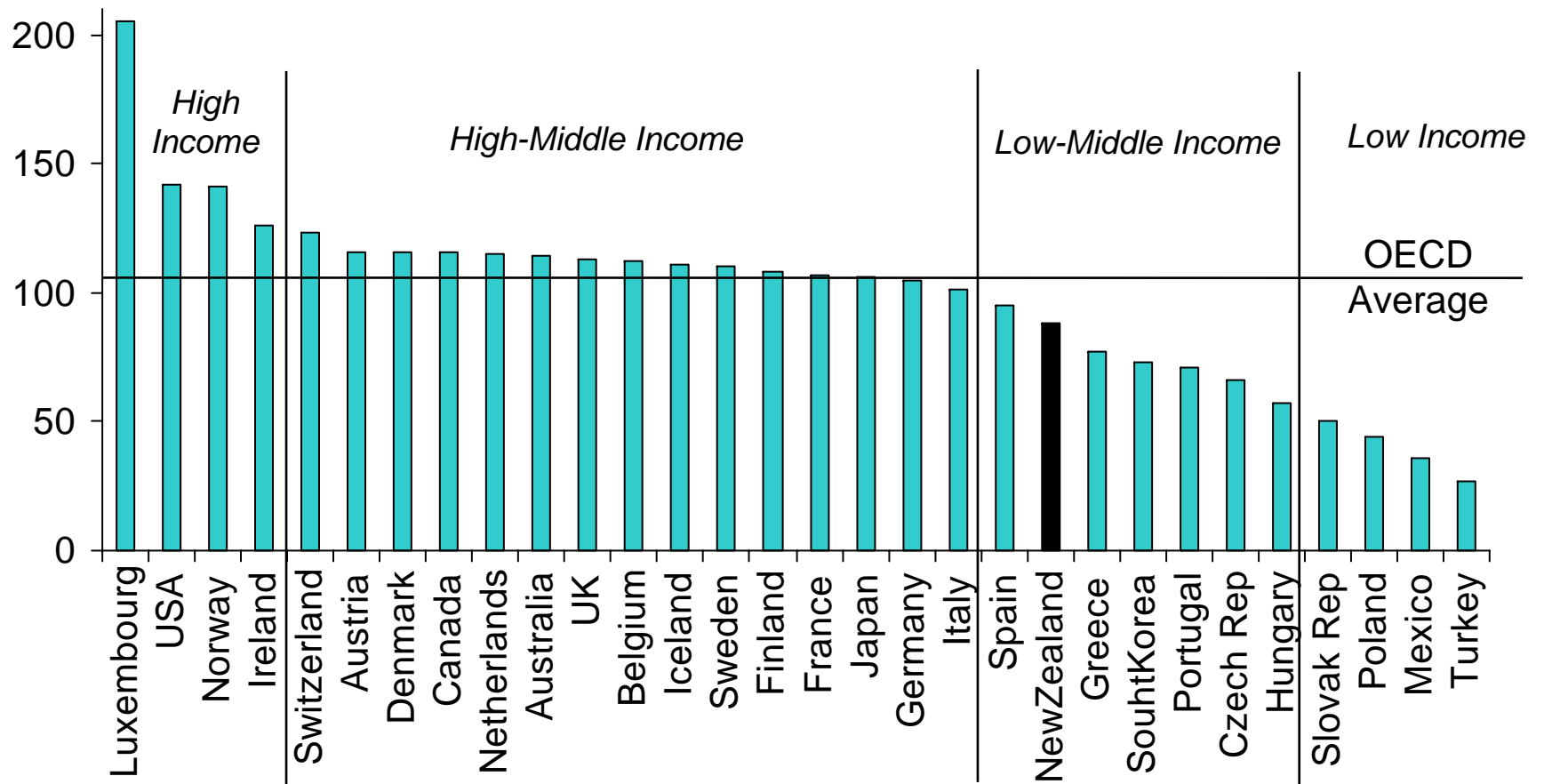
NEW ZEALAND'S PROLONGED RELATIVE INCOME DECLINE WAS HALTED DURING THE 1990s



Source: OECD.

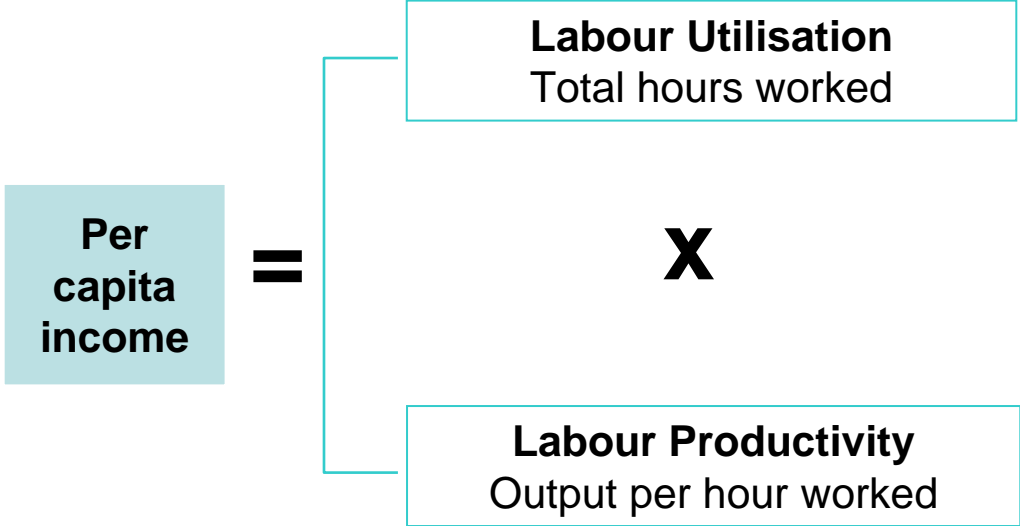
A LARGE INCOME GAP REMAINS BETWEEN NEW ZEALAND AND MOST OTHER OECD COUNTRIES

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 INCOME LEVELS

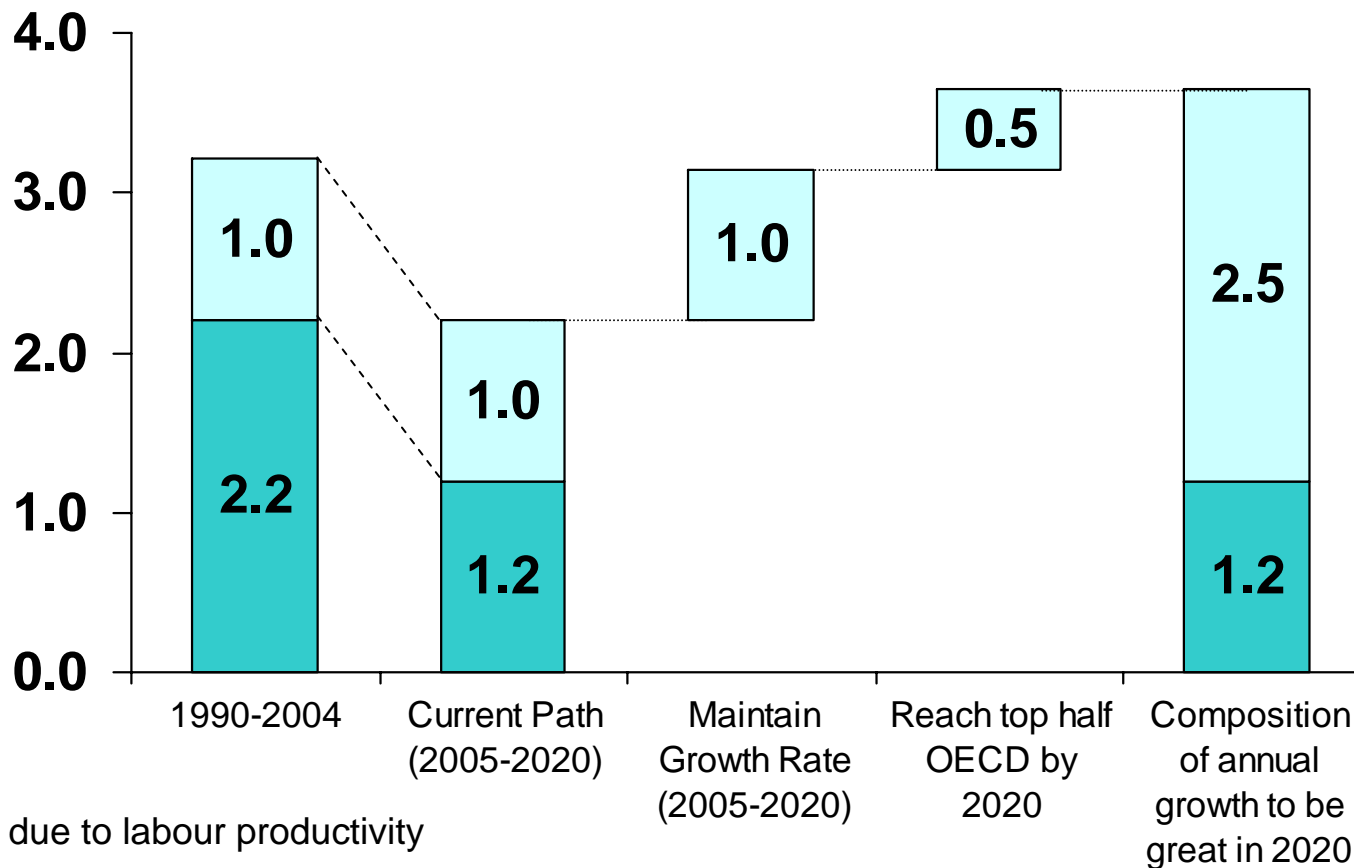


NEW ZEALANDERS ARE HARD WORKING BUT ARE NOT AS PRODUCTIVE AS WORKERS IN OTHER COUNTRIES



Source: Groningen Growth and Development Centre and the Conference Board, Total Economy Database, August 2005. 6

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.

INTERNATIONAL ENGAGEMENT IS VITALLY IMPORTANT TO NEW ZEALAND'S FUTURE ECONOMIC PERFORMANCE

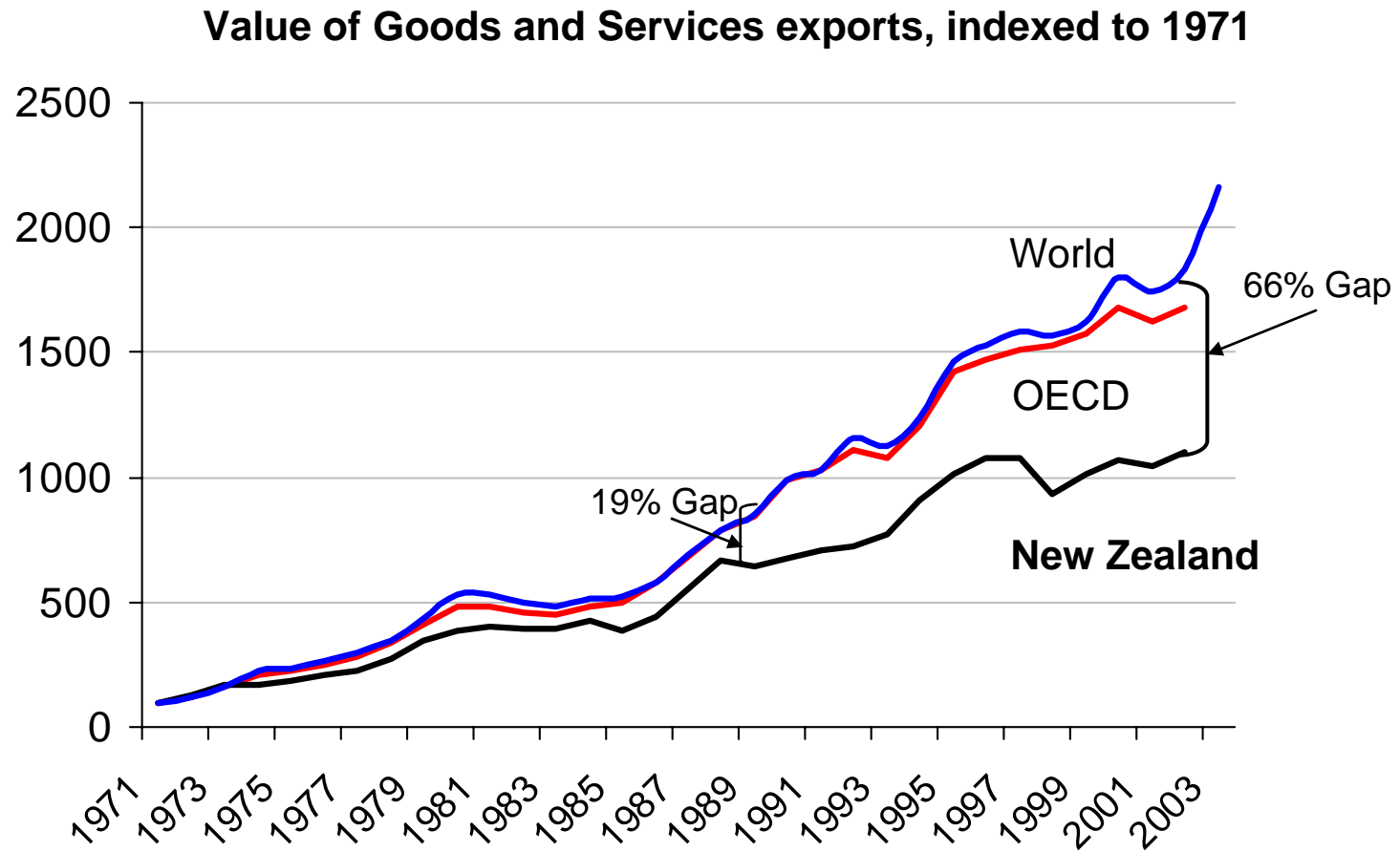
- New Zealand's economic performance has been strong over the past 15 years, but a substantial economic challenge lies ahead
- The main driver of the stronger economic growth over the past 15 years – labour force growth – cannot be sustained at these levels over the next 15 years
- For a small country like New Zealand, achieving higher rates of productivity growth will necessarily involve increased international economic activity
 - Exporting of goods, services and ideas, and outward FDI by New Zealand firms
- New Zealand's ability to compete successfully in the global economy will have a defining influence on our future economic performance

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 (1988-2005).

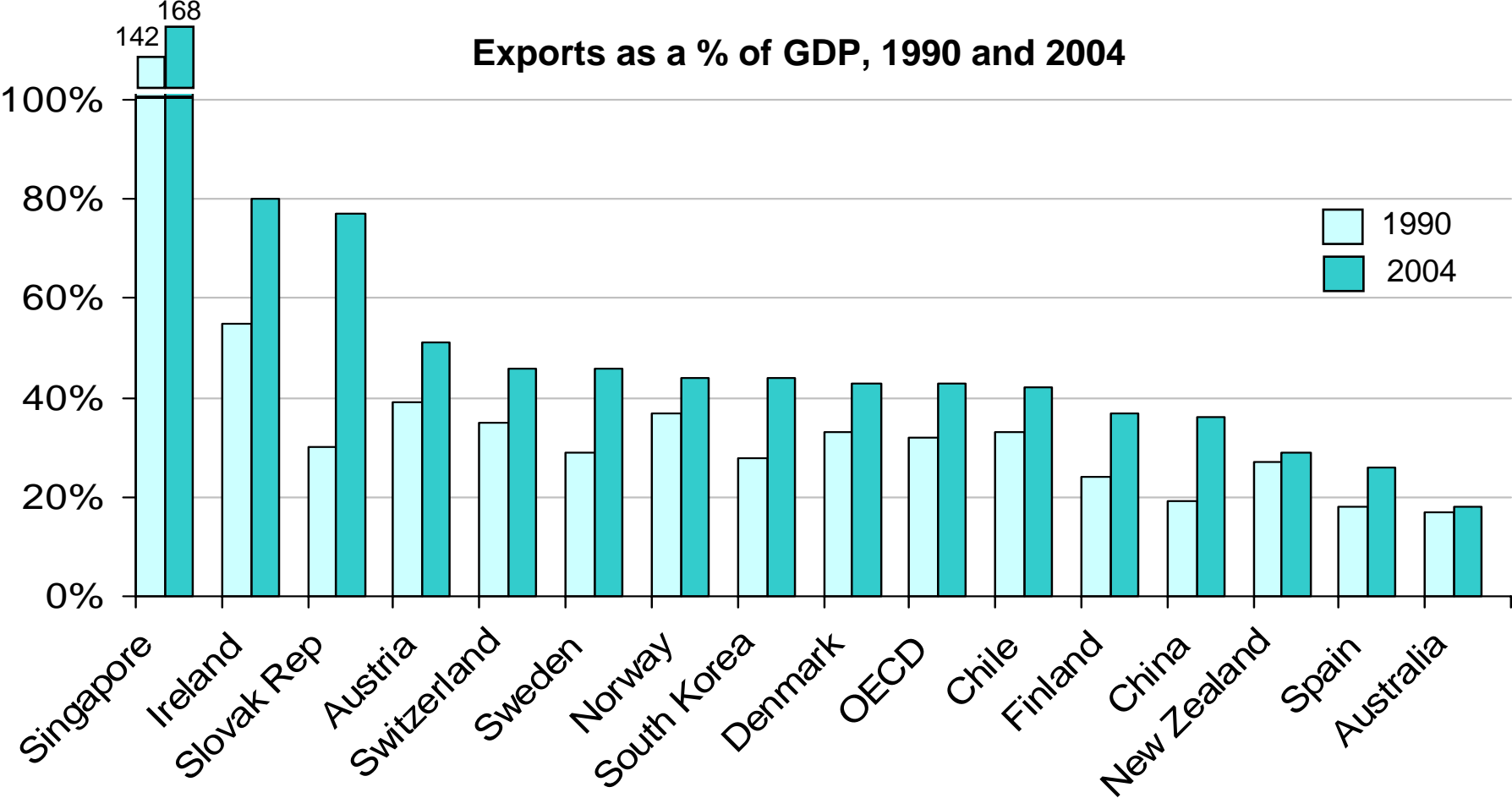
NEW ZEALAND HAS NOT KEPT PACE WITH WORLD EXPORT GROWTH



Note: 1971 = 100.

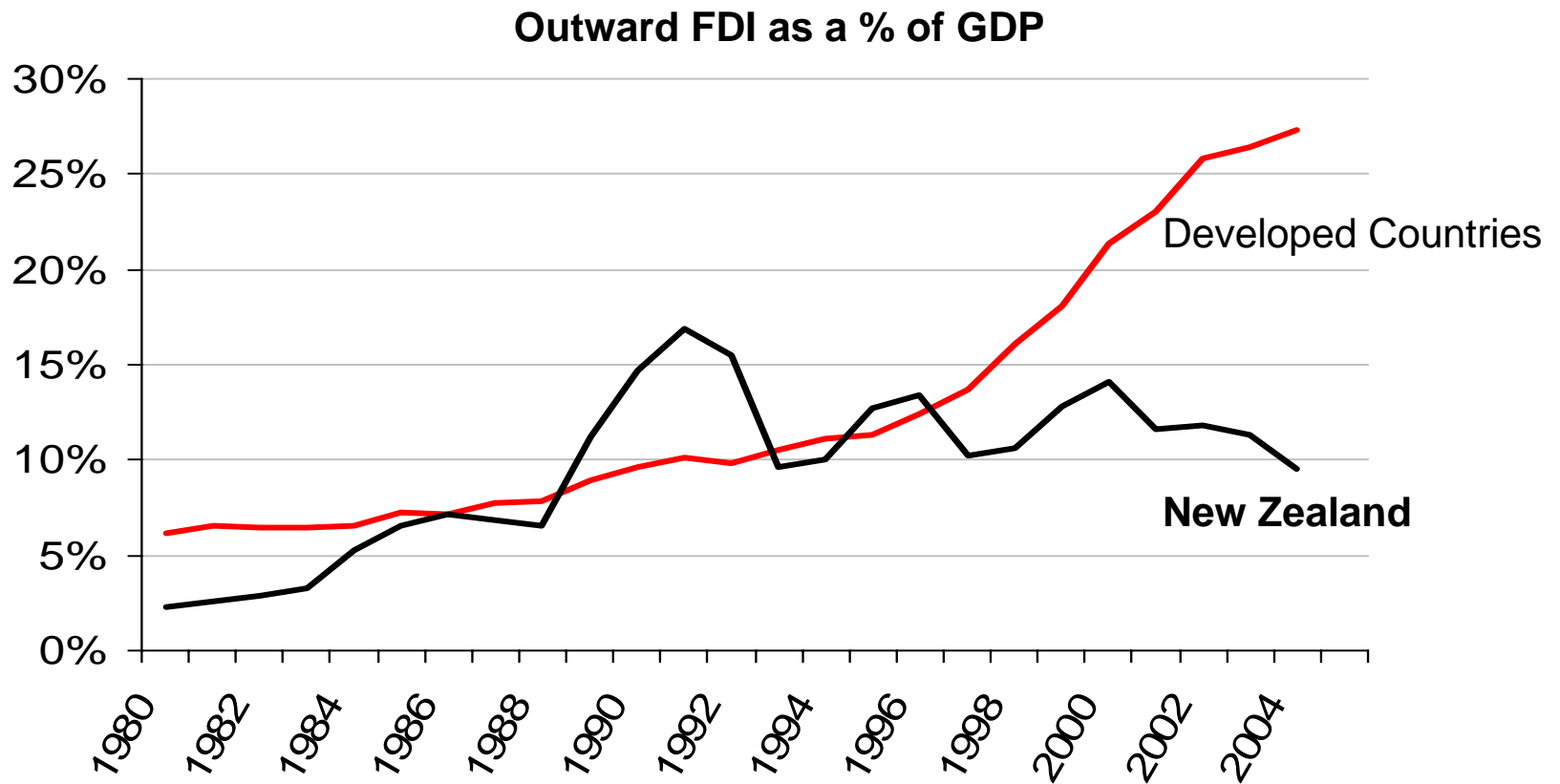
Source: World Development Indicators.

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.

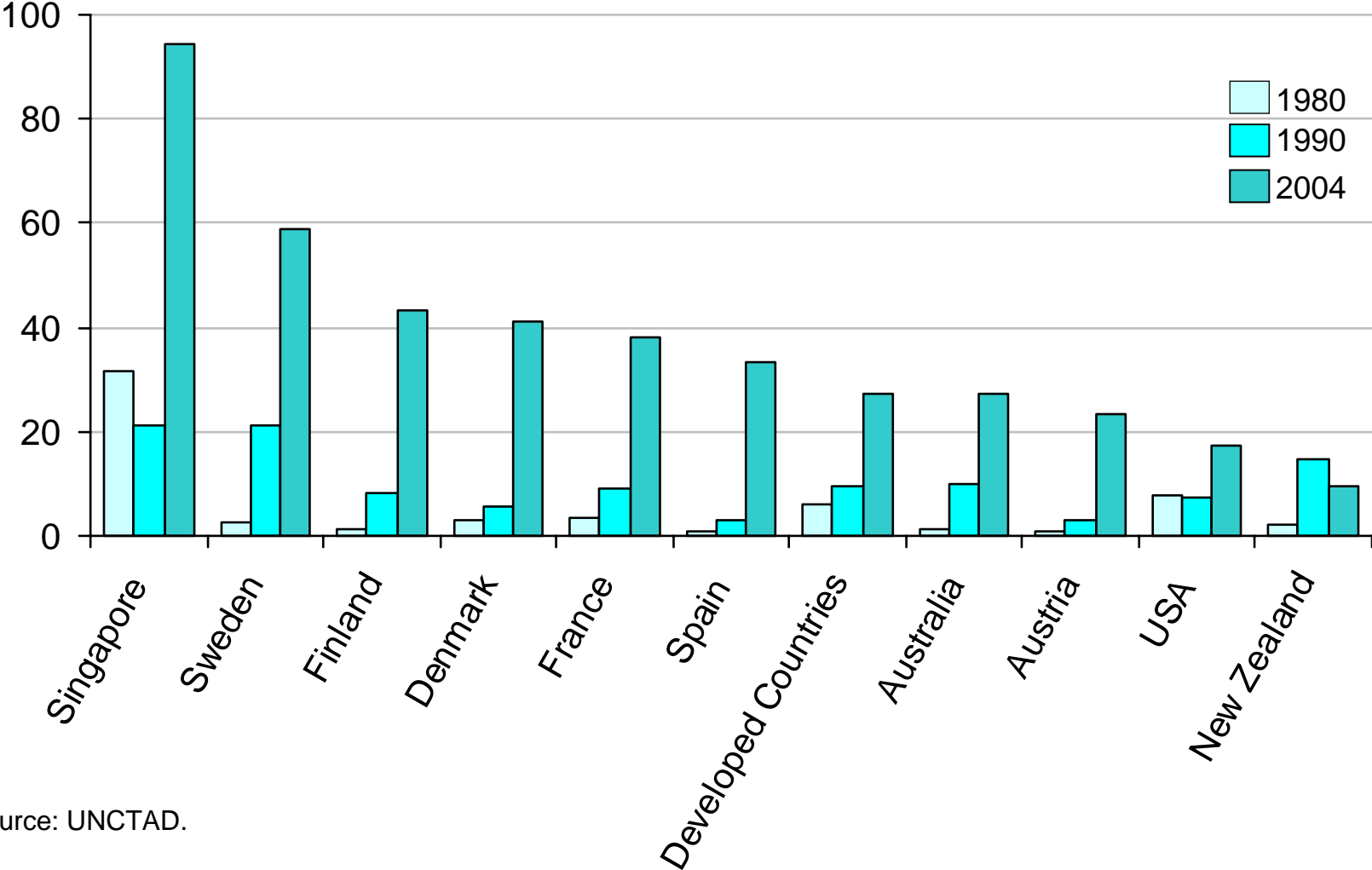
NEW ZEALAND'S OUTWARD FDI REDUCED THROUGH THE 1990s, PARTICULARLY RELATIVE TO OTHER DEVELOPED COUNTRIES



Source: UNCTAD.

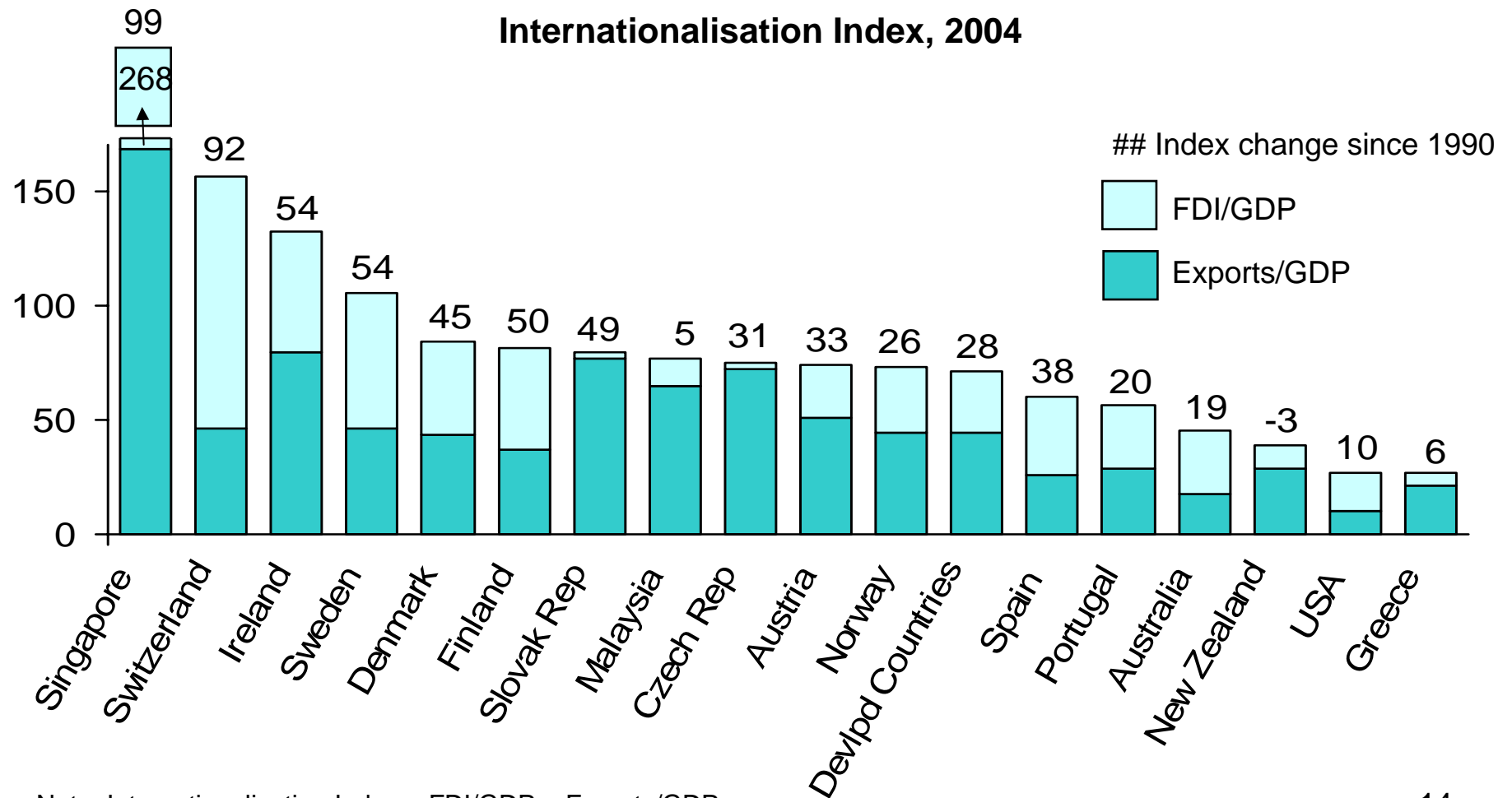
NEW ZEALAND IS DISTINCTIVE IN HAVING A LOW AND REDUCING OUTWARD FDI STOCK

Outward FDI as a % of GDP



Source: UNCTAD.

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

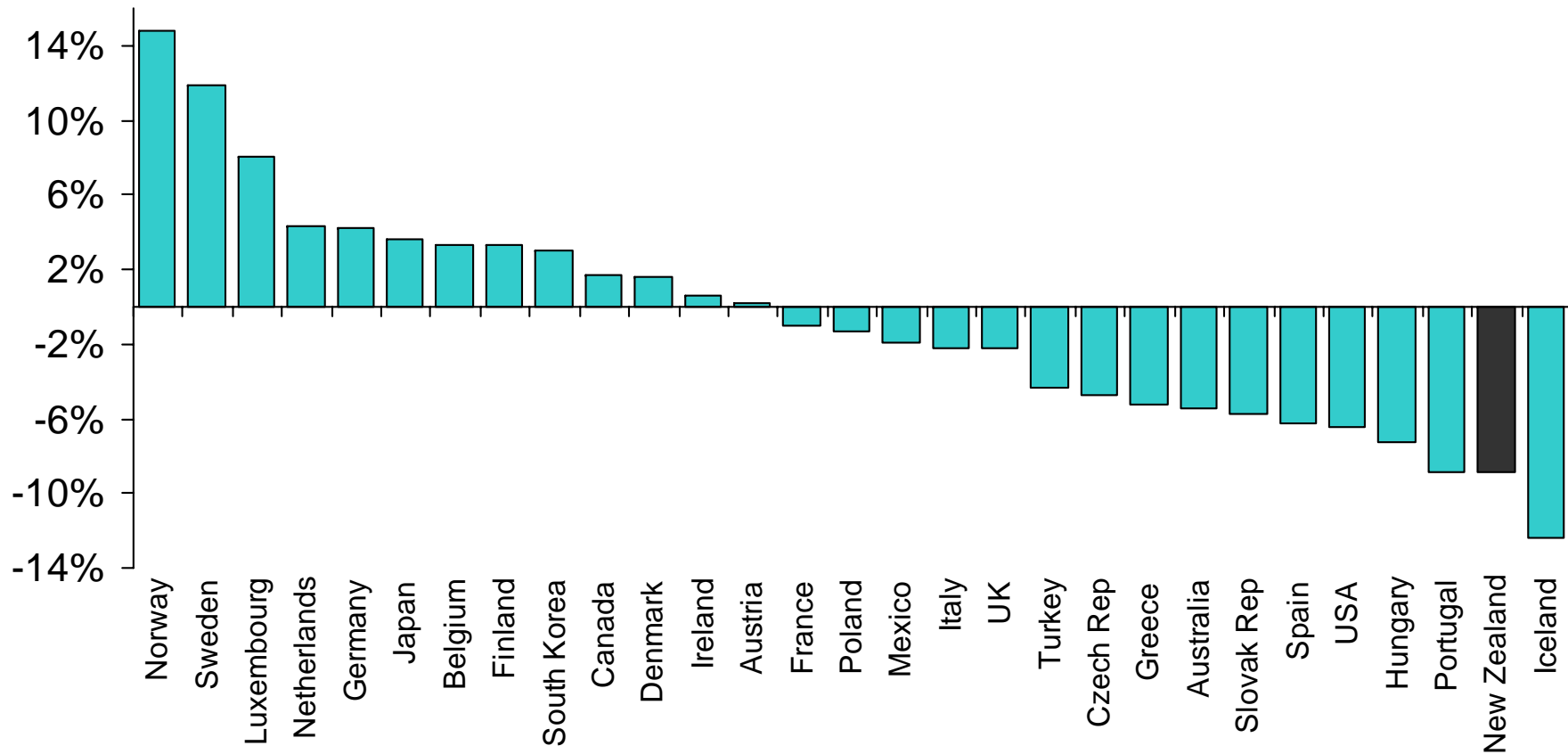


Note: Internationalisation Index = FDI/GDP + Exports/GDP.

Source: UNCTAD; OECD; National government statistics for Malaysia and Singapore.

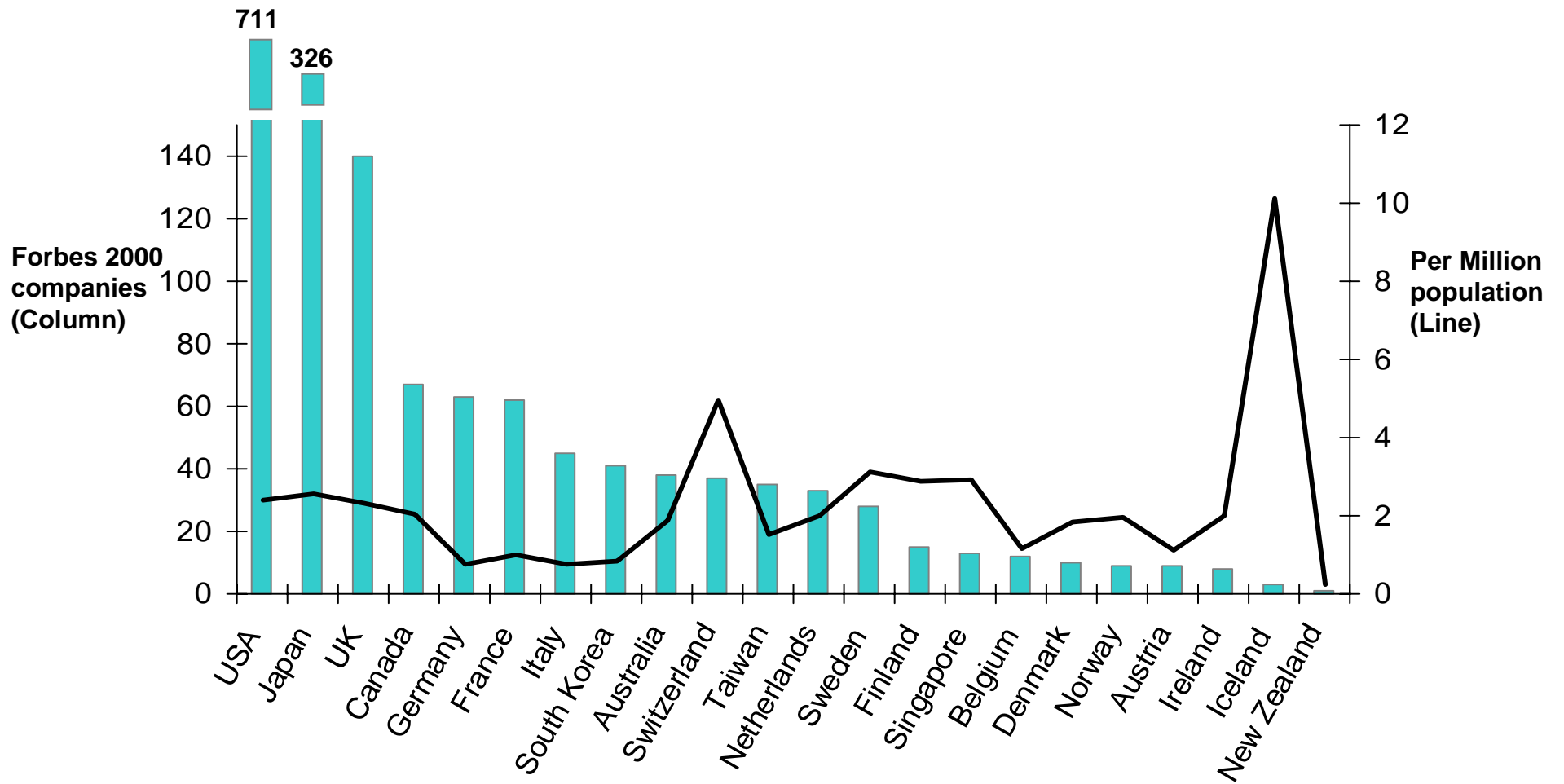
AND NEW ZEALAND'S CURRENT ACCOUNT DEFICIT IS AMONG THE LARGEST IN THE OECD

Current Account as a % of GDP, 2005



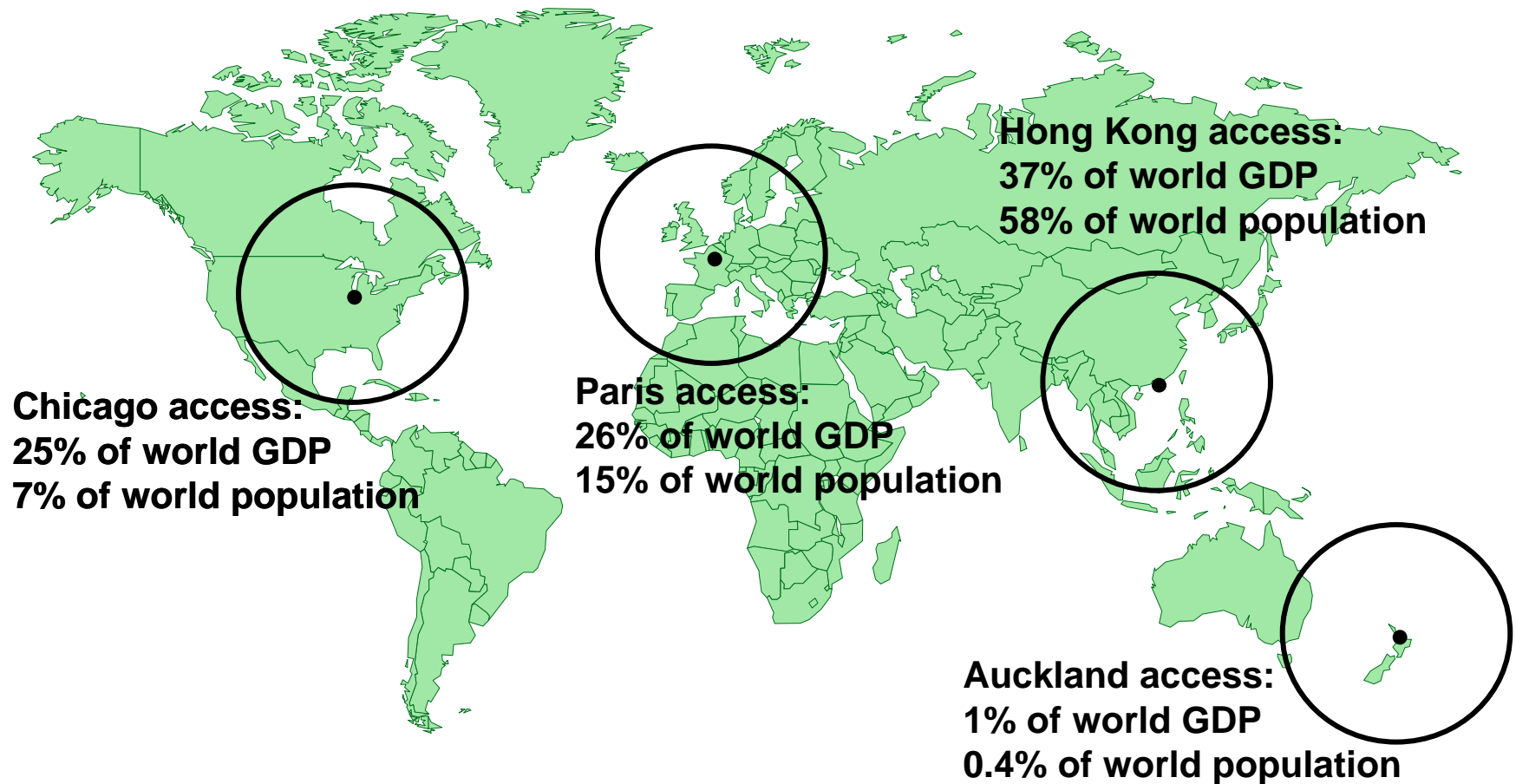
Source: OECD; Datastream.

NEW ZEALAND HAS NOT GROWN LARGE COMPANIES IN THE WAY THAT OTHER COUNTRIES HAVE



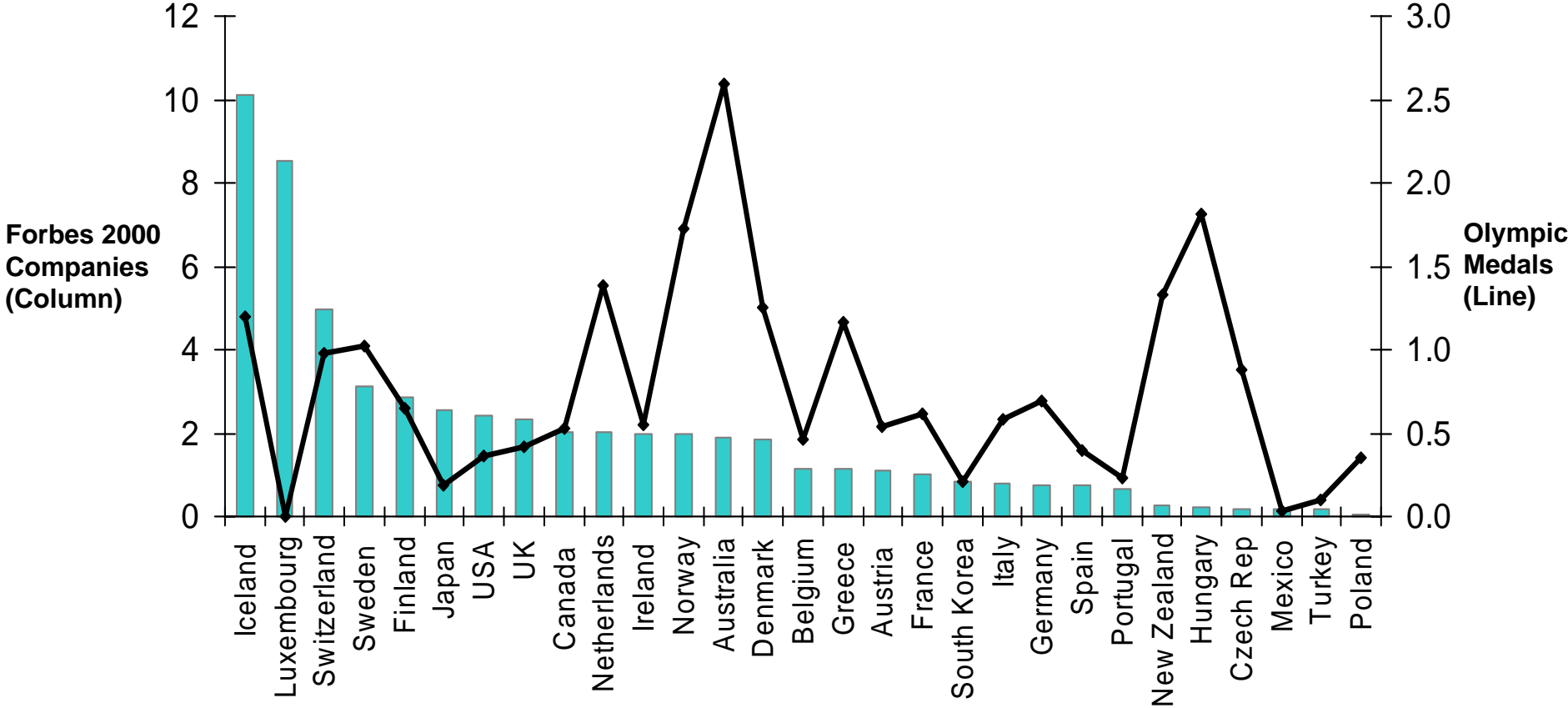
Sources: Forbes Magazine.

NEW ZEALAND IS PHYSICALLY DISTANT FROM MARKETS



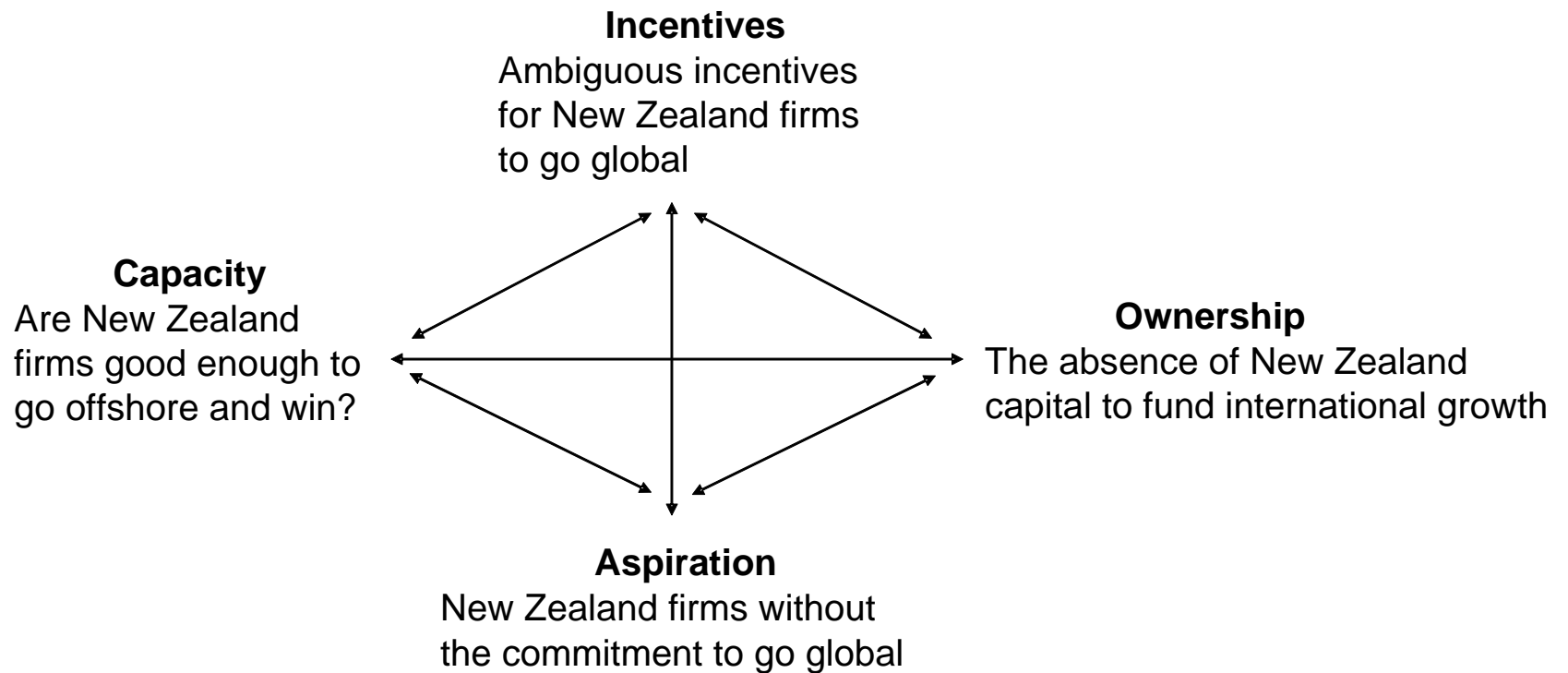
Note: All countries contained or partially contained within a 3.5 hour flight included, circles are only indicative given map limitations.
Source: Source: Groningen Growth and Development Centre and the Conference Board, Total Economy Database, May 2006, <http://www.ggdc.net>; LEK.

NEW ZEALAND'S INTERNATIONAL PERFORMANCE SEEMS BETTER IN SPORTS THAN IN BUSINESS

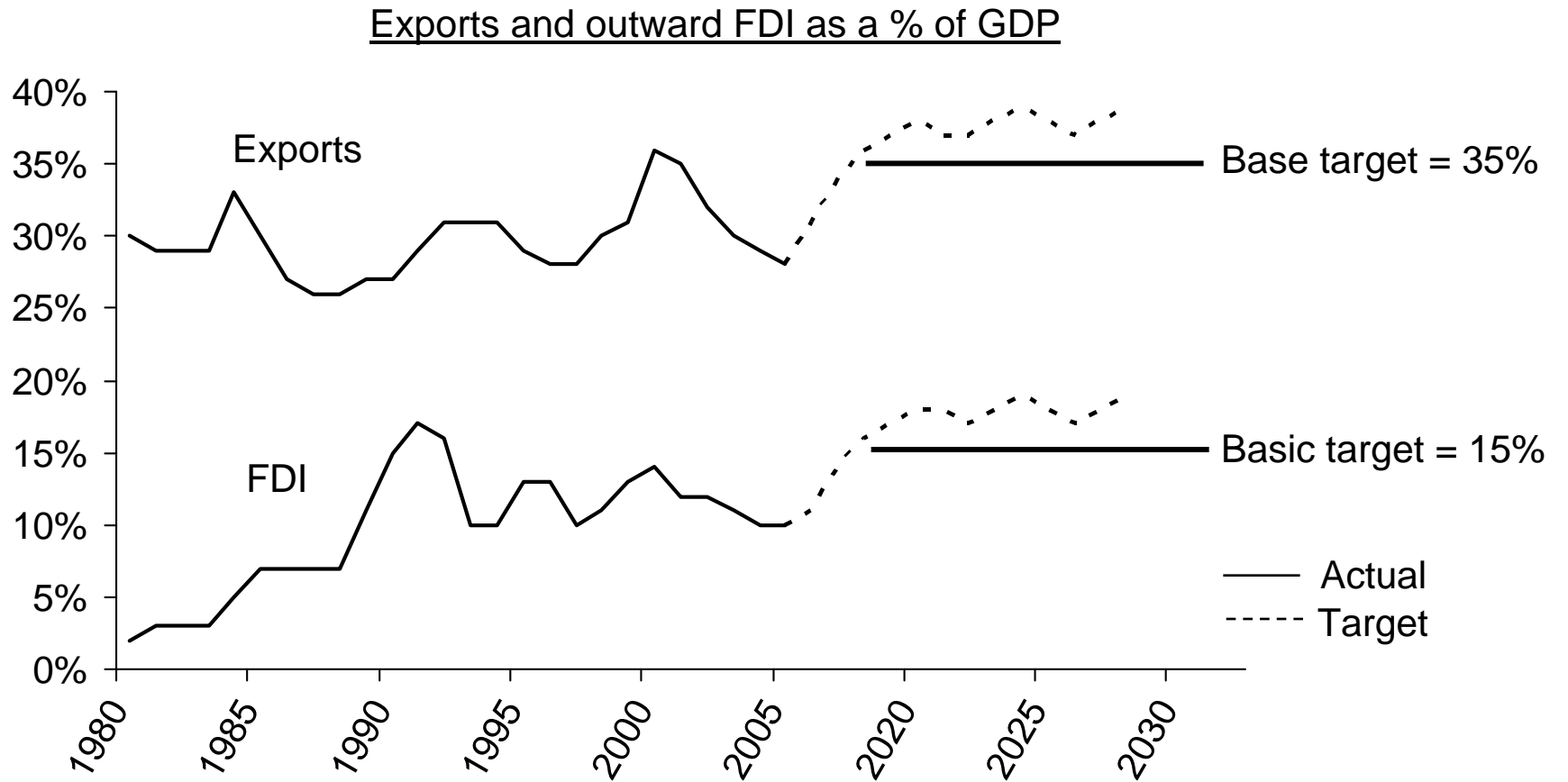


Note: Olympic medals from 1996, 2000, and 2004 per million population and Forbes 2000 companies per million population.
 Sources: Forbes Magazine; The New Zealand Institute calculations.

IDENTIFIED CONSTRAINTS ON INTERNATIONAL EXPANSION BY NEW ZEALAND FIRMS



WHAT DOES SUCCESS LOOK LIKE?



Source: UNCTAD; Statistics New Zealand.

FOUR SOLUTION AREAS

1. Developing Kiwi global champions
2. Achieving real market access
3. Connecting New Zealand to the world
4. The New Zealand economy 2.0

CONCLUDING REMARKS

- New Zealand's economic performance has been substantially better over the past 15 years, but a substantial challenge lies ahead
 - The priority must be to raise labour productivity growth in a substantial and sustained way
- Creating a global New Zealand economy is a fundamentally important part of achieving this goal
- This will require deliberate, aggressive, and sustained action from government, business, and educational institutions
- Substantially improved economic outcomes are possible for New Zealand, but this will require a significant change in New Zealand's course and speed
 - It is a challenging process, but it can be done

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