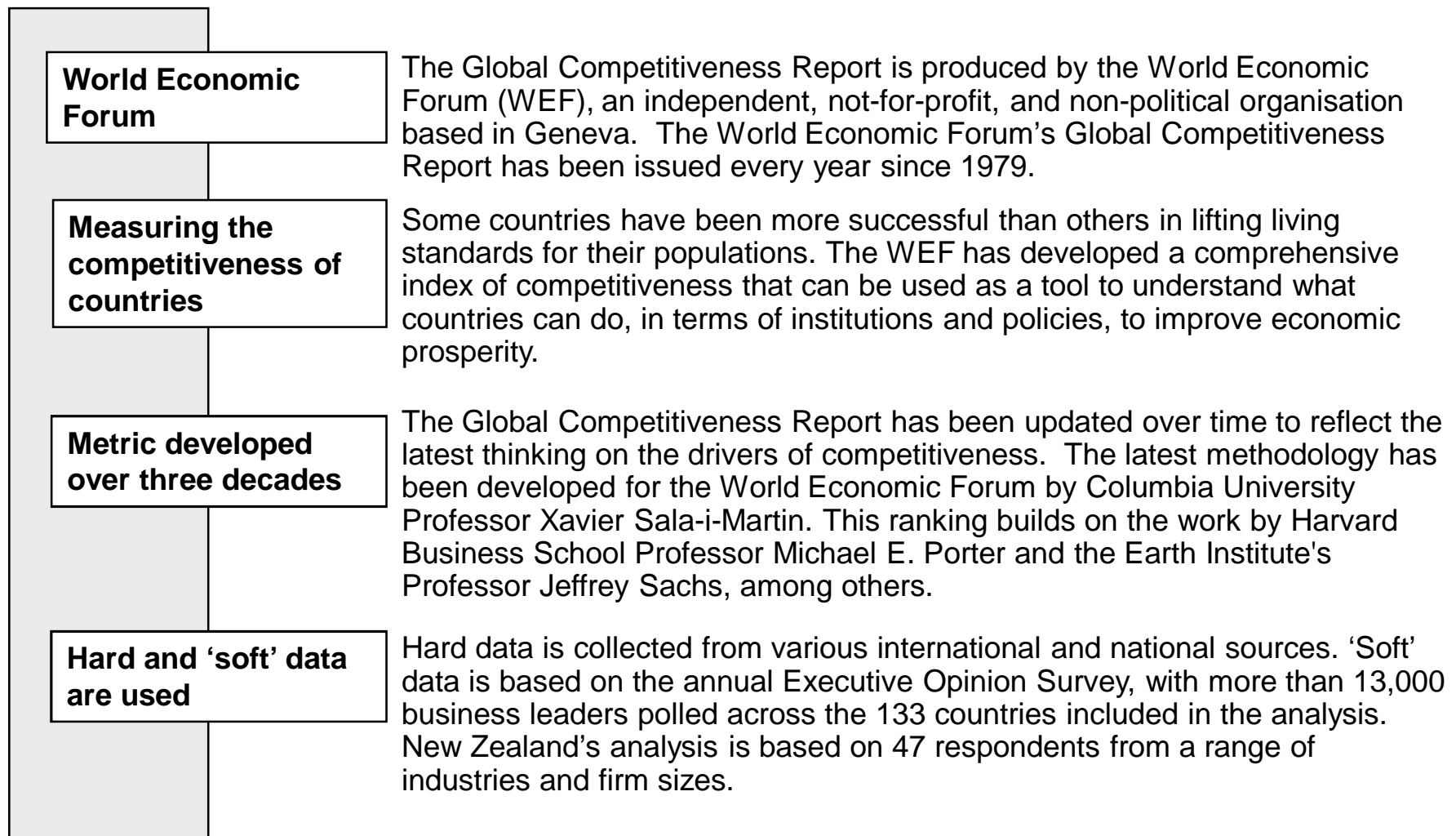


The 2009/10 World Economic Forum Global Competitiveness Report

October 2009

www.nzinstitute.org

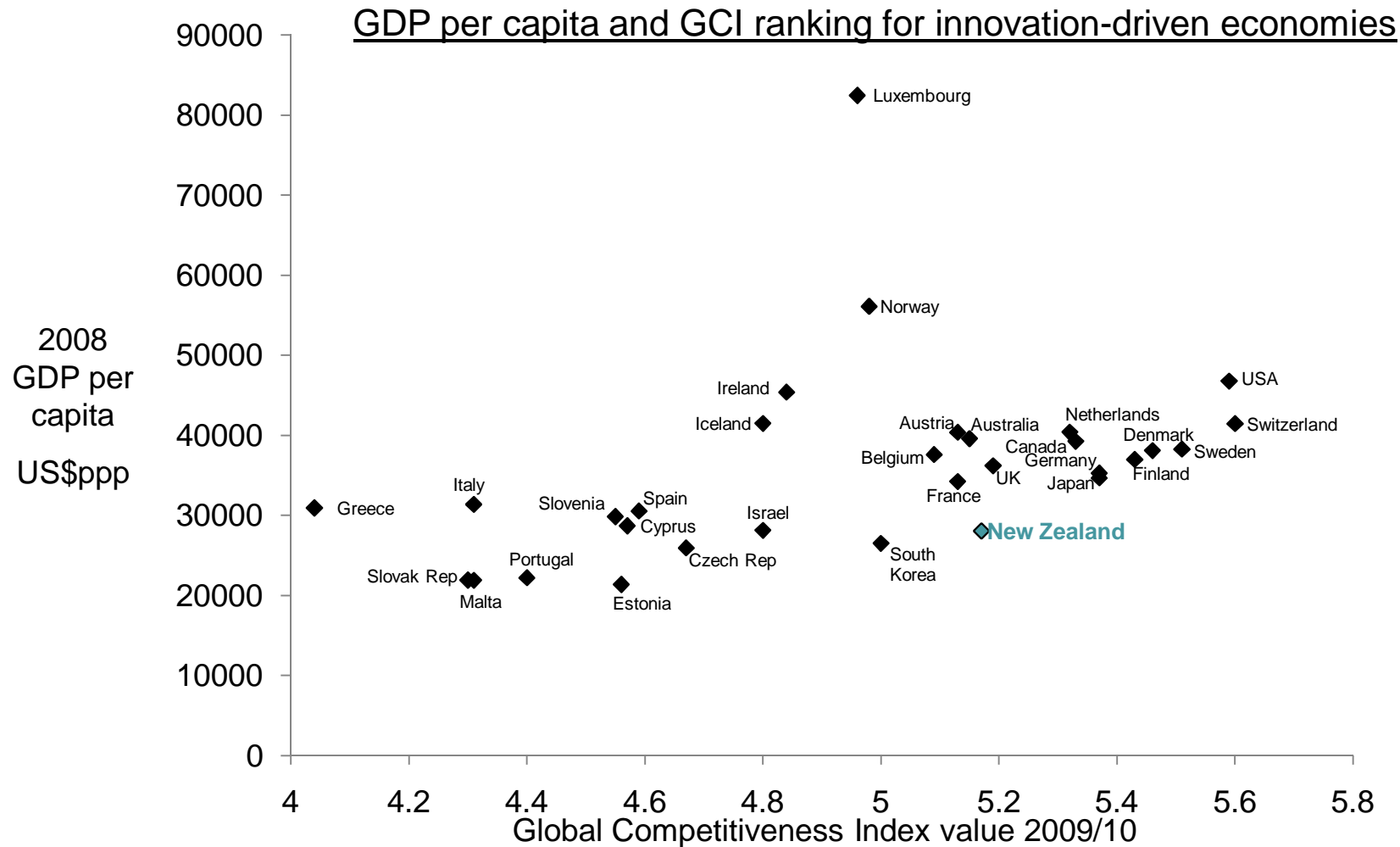
THE GLOBAL COMPETITIVENESS REPORT IS PRODUCED BY THE WORLD ECONOMIC FORUM



COMPETITIVENESS RANKINGS HAVE NOT CHANGED SIGNIFICANTLY

| Country | 2009/10 rank | 2008/9 rank | 2007/8 rank | 2006/7 rank |
|--------------------|--------------|-------------|-------------|-------------|
| Switzerland | 1 | 2 | 2 | 4 |
| USA | 2 | 1 | 1 | 1 |
| Singapore | 3 | 5 | 7 | 8 |
| Sweden | 4 | 4 | 4 | 9 |
| Denmark | 5 | 3 | 3 | 3 |
| Finland | 6 | 6 | 6 | 6 |
| Germany | 7 | 7 | 5 | 7 |
| Japan | 8 | 9 | 8 | 5 |
| Canada | 9 | 10 | 13 | 12 |
| Netherlands | 10 | 8 | 10 | 11 |
| | | | | |
| Australia | 15 | 18 | 19 | 16 |
| New Zealand | 20 | 24 | 24 | 21 |

MORE COMPETITIVE ECONOMIES TEND TO BE ABLE TO PRODUCE HIGHER LEVELS OF INCOME



Note: Hong Kong, Singapore, Taiwan, Trinidad & Tabago, Puerto Rico are innovation driven economies not shown on this slide due to lack of caparable 2008 GDP data.

Source: World Economic Forum Global Competitiveness Report 2009/10 The Conference Board and Groningen Growth and Development Centre, Total Economy Database.

THE GLOBAL COMPETITIVENESS INDEX CONTAINS 12 MEASURES, GROUPED INTO THREE CATEGORIES

Basic Requirements

- Institutions
- Infrastructure
- Macroeconomic stability
- Health and primary education



Key for
factor-driven
economies

Efficiency enhancers

- Higher education and training
- Goods market efficiency
- Labour market efficiency
- Financial market sophistication
- Technological readiness
- Market size



Key for
efficiency-driven
economies

Innovation factors

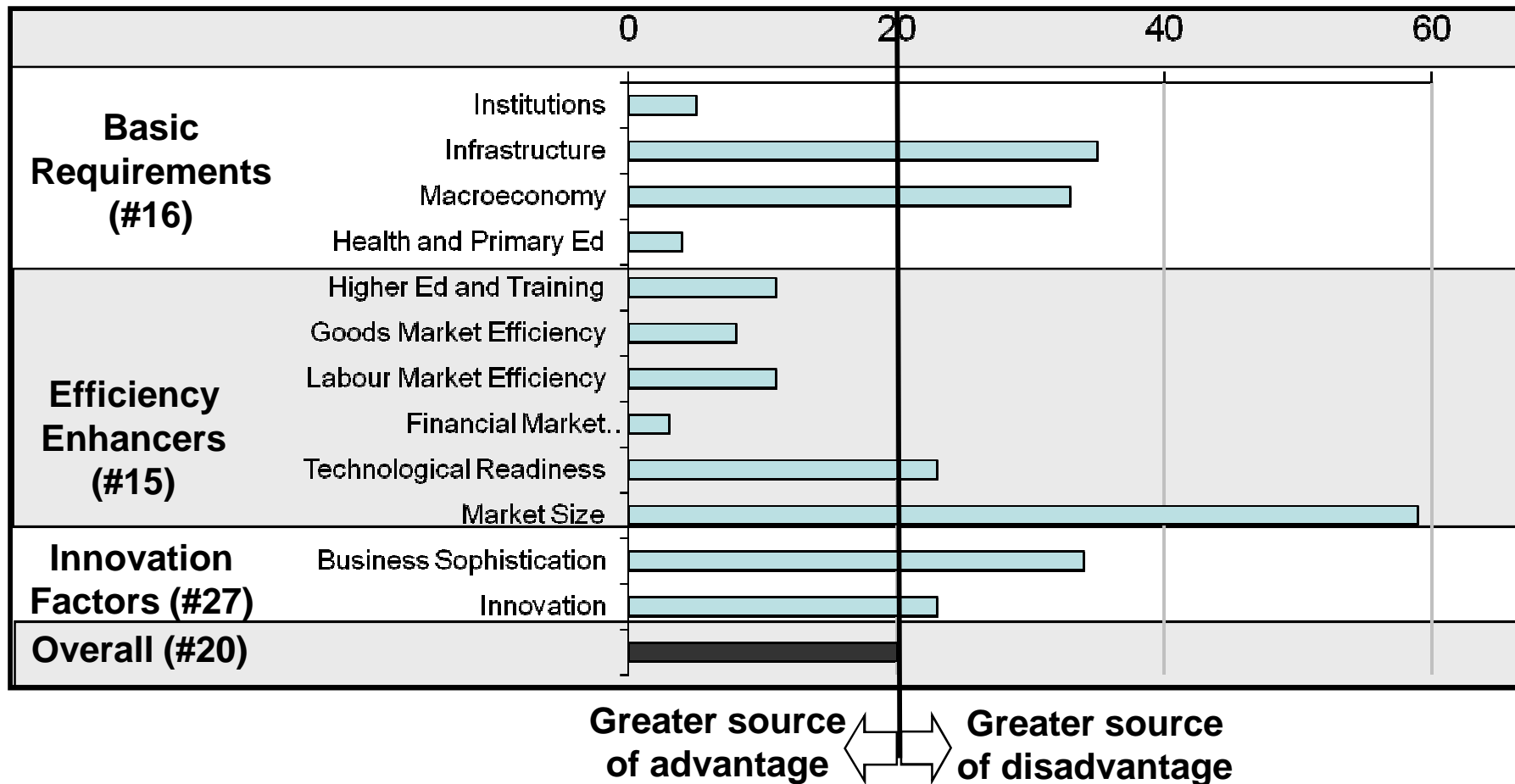
- Business sophistication
- Innovation



Key for
innovation-driven
economies

NEW ZEALAND'S PERFORMANCE PRIMARILY DRIVEN BY STRENGTHS IN BASIC REQUIREMENTS AND EFFICIENCY ENHANCERS

New Zealand rank on each pillar, 2009/10



Note: Rank out of 133 countries.

Source: World Economic Forum Global Competitiveness Report 2009/10

NEW ZEALAND'S PERFORMANCE ON BASIC FACTORS IS DIVERGENT, WITH BEST AND WORST PERFORMANCES HERE

New Zealand achieves world leading rankings in Institutions(5th) and Health (4th)

- Elements of the institution pillar are consistent strengths for New Zealand, with top rankings in *Judicial Independence*, *Diversion of Public Funds*, *Ethical Behavior of Firms*, *Strength of Auditing Standards*, and *Protection of Minority Shareholders' Interests*.
- New Zealand achieves a top 5 ranking in *Health and Primary Education* through solid performance across the indicators, with few top 5 but several top 10 rankings including *Business Impact of Malaria*, *Life Expectancy*, and *Primary Education*.

However, New Zealand has relatively poor rankings on *Infrastructure* (42nd) and *Macroeconomic Stability* (25th)

- In terms of Infrastructure, significant gaps are reported in electricity, road, and rail, infrastructure
- The low ranking in *Macroeconomic Stability* is due to ongoing poor performance in national saving rates (96), and poor performance in government debt and deficits

NEW ZEALAND AGAIN ACHIEVES THE BEST SUBINDEX RANK OF 15 IN THE EFFICIENCY ENHANCING FACTORS

New Zealand delivers Top 10 rankings in *Financial Market Sophistication* and *Goods Market Efficiency*

- New Zealand's financial markets perform well on measures such as *Strength of Investor Protection* and *Soundness of Banks*
- Goods market indicators include top performances in *Procedures* and *Time to start a Business*, as well as *Agricultural Policy Costs*

Labour Market Efficiency has slipped outside of top 10

- This despite a top performance in *Firing Costs*, and second rank in *Reliance on Professional Management*. Major drawbacks were *Brain Drain* at 84th and *Hiring and Firing Practices* at 90th.

New Zealand ranks well in terms of participation in higher education but concerns are raised by the lower rankings with respect to quality

Technological Readiness factors are consistent with New Zealand's overall ranking

Market Size remains a challenge for New Zealand

NEW ZEALAND ACHIEVES ITS WORST RANKING ON THE COMPONENTS RELEVANT TO ADVANCED ECONOMIES

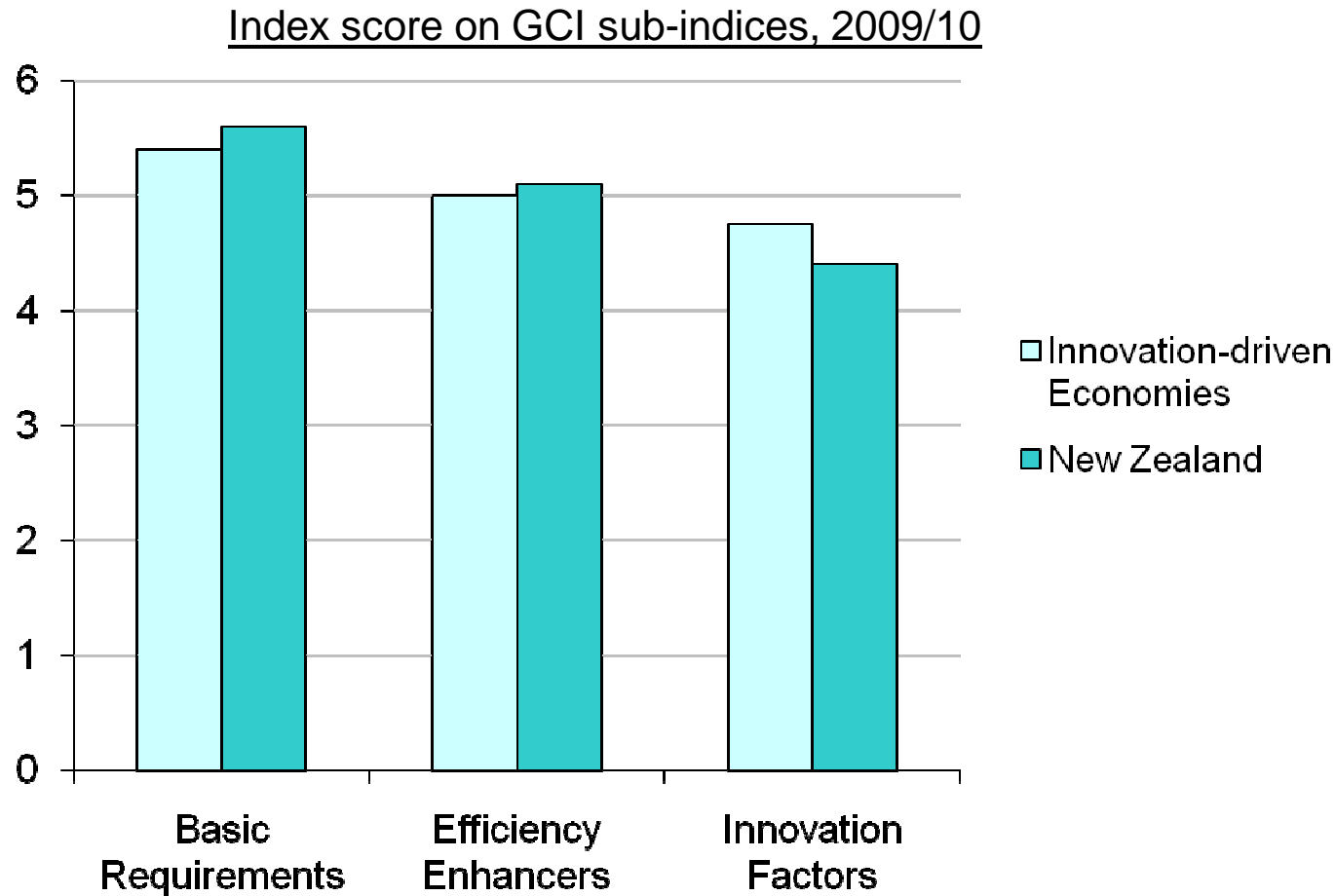
Business sophistication, ranked 34th

| Business sophistication components | New Zealand position | Rank |
|---------------------------------------|----------------------|------|
| Local supplier quantity | Disadvantaged | 83 |
| Local supplier quality | Advantaged | 14 |
| State of cluster development | Disadvantaged | 56 |
| Nature of competitive advantage | Disadvantaged | 70 |
| Value chain breadth | Disadvantaged | 53 |
| Control of international distribution | Disadvantaged | 22 |
| Production process sophistication | Disadvantaged | 25 |
| Extent of marketing | Disadvantaged | 21 |
| Willingness to delegate authority | Advantaged | 9 |

Innovation, ranked 23rd

| Innovation components | New Zealand position | Rank |
|--|----------------------|------|
| Quality of scientific research | Advantaged | 18 |
| Company spending on R&D | Disadvantaged | 31 |
| University-industry research collaboration | Advantaged | 18 |
| Government procurement of advanced tech products | Disadvantaged | 57 |
| Availability of scientists and engineers | Disadvantaged | 59 |
| Utility patents | Disadvantaged | 24 |

RELATIVE TO ITS PEER GROUP, NEW ZEALAND IS STRONG IN EFFICIENCY ENHANCERS BUT LAGS IN INNOVATION FACTORS



Note: 37 Innovation Driven economies. Scores out of 7.
 Source: World Economic Forum Global Competitiveness Report 2009/10

POLICY IMPLICATIONS FOR NEW ZEALAND - CONTEXT

Like other developed countries, our economic performance depends on innovation.

Our markets and education perform well relative to competing economies but we are disadvantaged by having a small country that is distant from our markets.

We cannot change that but we can minimise the effect on us by pursuing the goals listed on the next slide

These prescriptions follow from the survey and the underlying logic that increasing competitiveness will increase prosperity. However, when deciding what to implement governments must also consider the affordability of the options (e.g. with infrastructure spend and reducing tax rates) as well as the impact of the changes on New Zealand's society

POLICY IMPLICATIONS FOR NEW ZEALAND

- Focus on the requirements for innovative economies where we can make an improvement
- Increase the availability of scientists and engineers
- Increase the contribution from government procurement of advanced technical products
- Develop business clusters
- Penetrate more layers of the value chain
- Improve our infrastructure so that it performs well
- Address several specific areas where we perform quite poorly relative to leading economies
- Increase the national savings rate
- Reduce the business impact of rules on FDI
- Increase FDI and technology transfer
- Address the brain drain
- Improve hiring and firing practices
- Reduce overall tax rates