

Going global from New Zealand

Dr David Skilling

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New Zealand's level of international economic activity does not compare well to that of other developed countries. In terms of exporting and outward direct investment, New Zealand firms have not been participating in the powerful growth seen across much of the world. And outside of the large primary exporters, New Zealand has not produced many large international firms.

Indeed, despite much talk about the death of distance and the emergence of the flat world, the New Zealand economy has become less engaged with the global economy over the past decade or so. This is of real concern given the small size of the New Zealand economy. New Zealand cannot sustain significantly higher rates of productivity and income growth without a substantial contribution from international economic activity.

So what to do? Generating a meaningful improvement in performance will require significant changes from both business and government.

In terms of government action, public policy needs to be made considerably more supportive of international expansion by New Zealand firms. For example, the tax treatment can be improved with respect to income earned by New Zealand firms on their international investments. And there is scope for providing enhanced international market development assistance to assist New Zealand firms as they expand into offshore markets, either through the tax system or as a grant.

Developing a much larger pool of domestic capital, and strengthening capital markets, is important in terms of providing additional expansion capital for New Zealand firms. This can be achieved through implementing an ambitious savings policy. Increasing New Zealand's household savings rate would also have the advantage of moderating the big swings in the exchange rate, which hurts New Zealand's internationally engaged firms.

There are also things that can be done offshore. Historically, efforts to strengthen international market access for New Zealand firms have focused on multilateral trade liberalisation through what is now the WTO. But the multilateral approach is at real risk, with the current suspension of the Doha Round and the rapid proliferation of bilateral and regional FTAs.

In addition, the nature of market access has changed. An increasing number of New Zealand exporting firms sell branded goods and services into sophisticated, competitive markets. For these firms, formal restrictions on trade are of secondary importance relative to accessing channels to market. The fundamental market access challenge is about getting their goods and services in front of local consumer – say, on the supermarket shelf – rather than getting them across the border without attracting a tariff.

In response, New Zealand's external strategy needs to be re-weighted towards the provision of in-market services such as access to shared infrastructure, like office space and warehousing, access to high quality market research, and access to local networks. These activities will make entry and expansion into foreign markets more attractive to New Zealand firms by reducing the cost and risk profile around international expansion.

But although these changes to public policy will be helpful, the fundamental determinant of success is the behaviour and performance of New Zealand firms with respect to international expansion.

Although there are significant challenges facing New Zealand firms as they seek to go global, there is significant opportunity to generate much improved outcomes. It is increasingly possible to create international companies from a New Zealand base, and generate significant value, by exploiting developments in communications and transport technology.

But these opportunities do not realise themselves automatically. It will require new business models, as well as strengthened capacity and aspiration on the part of New Zealand firms. Markets are becoming increasingly competitive and sophisticated, and New Zealand firms need to innovate and be creative. It is not sufficient to keep on doing more of the same.

There are indications that New Zealand is getting better, with more examples of company success. But the missing ingredient is still materiality. The international success of New Zealand firms needs to be more substantial and systematic for it to make an impact on the national numbers.

New Zealand firms need to have a long-term commitment to international success, because this is often a long-term process. Firms need to make sustained investments to understand the local market, which will frequently be considerably different from the New Zealand market. Success in foreign markets will depend on whether firms can provide goods and services that are valued by consumers in foreign markets.

New Zealand firms also need to be more thoughtful about the way in which they undertake international expansion, and to do so in a measured way learning as they go.

Developing new ways of going global is also important. This may involve making direct investments abroad, out-sourcing various aspects of the production process, developing joint venture arrangements and so on. This provides a way for New Zealand firms to overcome some of the disadvantages of distance, and enable New Zealand firms to play to their strengths.

The experience of other small, developed countries suggests that there is no reason that New Zealand cannot reasonably aspire to systematically create world-class international companies. But to achieve this both business and government will need to have high aspiration and a real determination to succeed internationally.

Dr David Skilling is the chief executive of the New Zealand Institute, an Auckland-based think-tank. The Institute's reports are available at www.nzinstitute.org