

NEW ZEALAND'S ECONOMIC STRATEGY

Fresh ideas for a productive economy

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HISTORICAL CONTEXT

New Zealand got rich by exporting agricultural commodities to a market that paid high prices.

When the UK entered the EU New Zealand diversified exports and opened markets to competition.

Export volumes were grown to provide funding for imports but low export values due to weak competitive positions resulted in relatively low productivity and low incomes.

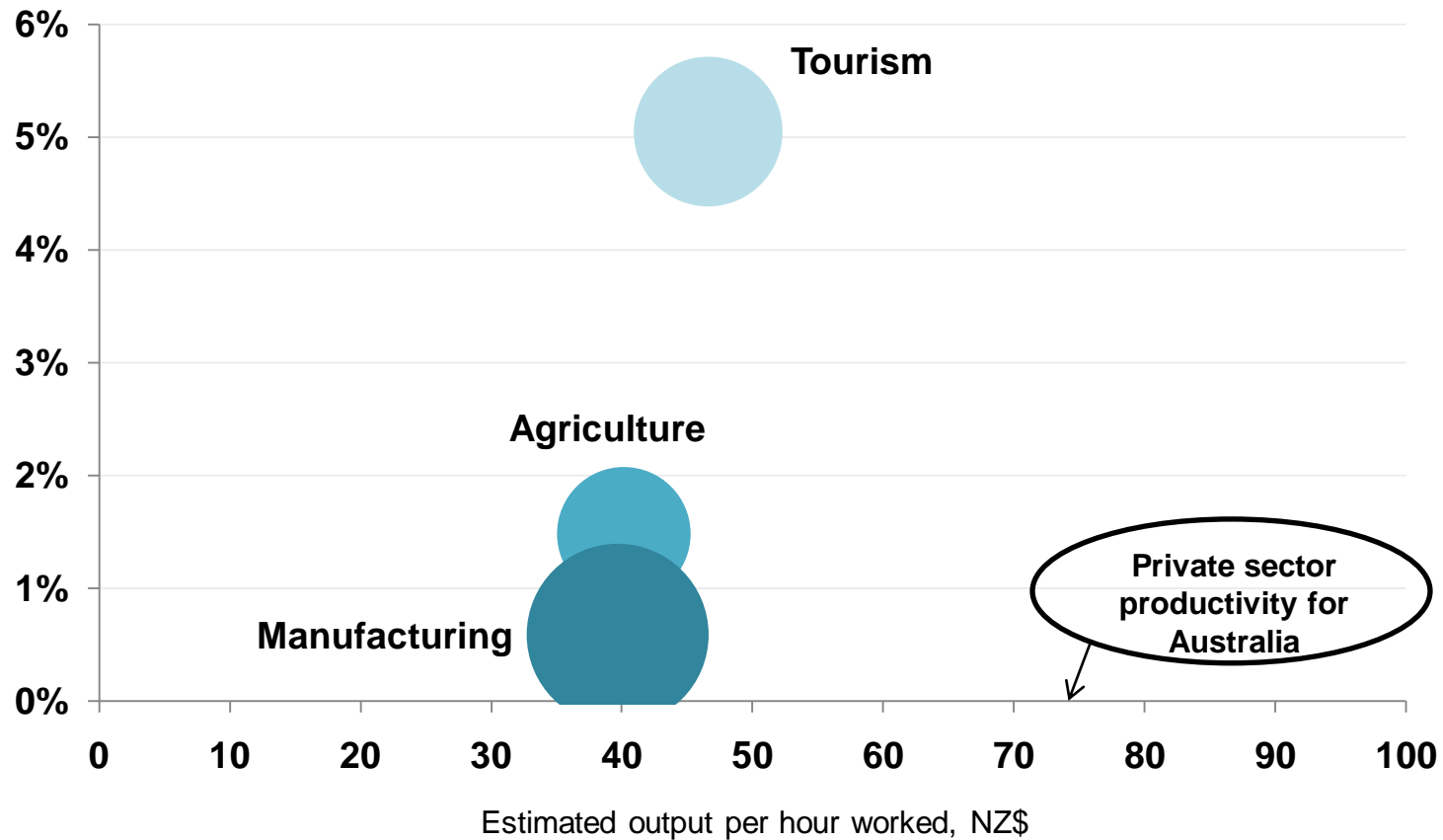
Now the global economy has grown large relative to the environment that supports it, resulting in scarcities, price increases, climate change and ecosystem damage.

The challenge now is to pursue high quality economic growth, building technological capability, increasing resource use efficiency, protecting and restoring the environment and ensuring supply chain security.

LOW PRODUCTIVITY EXPORT SECTORS

Compound annual growth rate
in output, 2000-2008

Size of bubble = Share of total workers



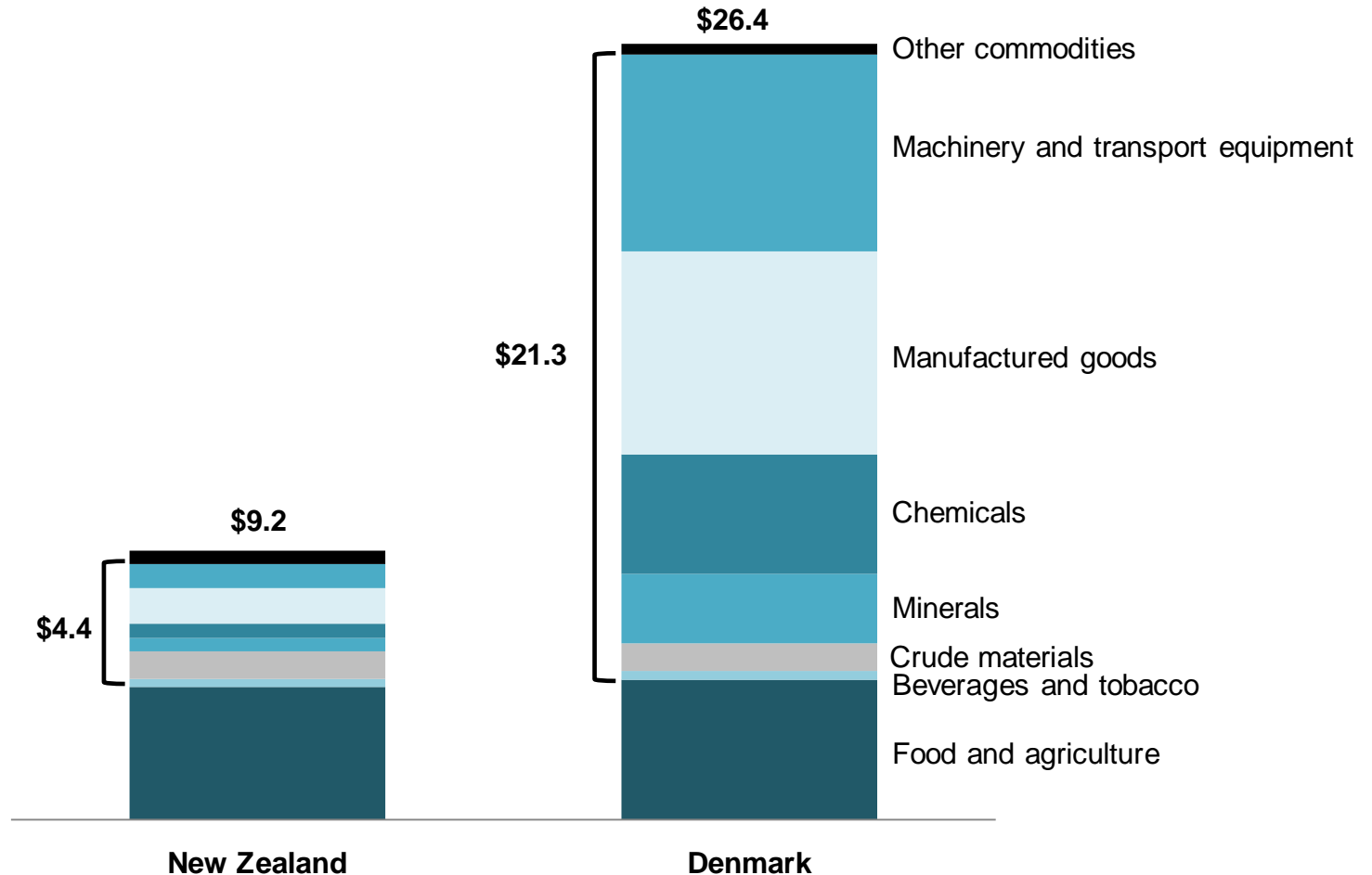
Notes: Mining excluded. Data includes export and domestic. Tourism based on FTEs but manufacturing and agriculture based on number of employees.
Source: Statistics New Zealand; Ministry of Tourism; Australian Bureau of Statistics.

IMPORTANT MISUNDERSTANDINGS

BELIEF	CLARIFICATION
Agriculture and tourism have competitive advantage	Both have comparative advantage in New Zealand but lack competitive advantage
Agriculture productivity is growing	Farm efficiency is growing but productivity is measured by \$ per hour and remains low
Commodity prices drive economic performance	Commodity prices drive variation in economic growth but not the long term economic trends
Food scarcity and growing demand will make New Zealand rich	Very large price rises would be required – 3x or 4x Would cause huge disruption in the world
Manufacturing is a poor performer	Within manufacturing there are high value growing segments

DENMARK SHOWS HOW AN AGRICULTURAL ECONOMY GETS RICH

Exports per capita, 2009, NZ\$000s



MANY OPPORTUNITIES TO GROW HIGH VALUE DIFFERENTIATED EXPORTS; FOR EXAMPLE

Value-added food businesses anchored here

Niche manufacturing, including some clean-tech, where a small exporter can be a world leader, avoiding scale disadvantage

ICT, where distance and scale are less important barriers to success

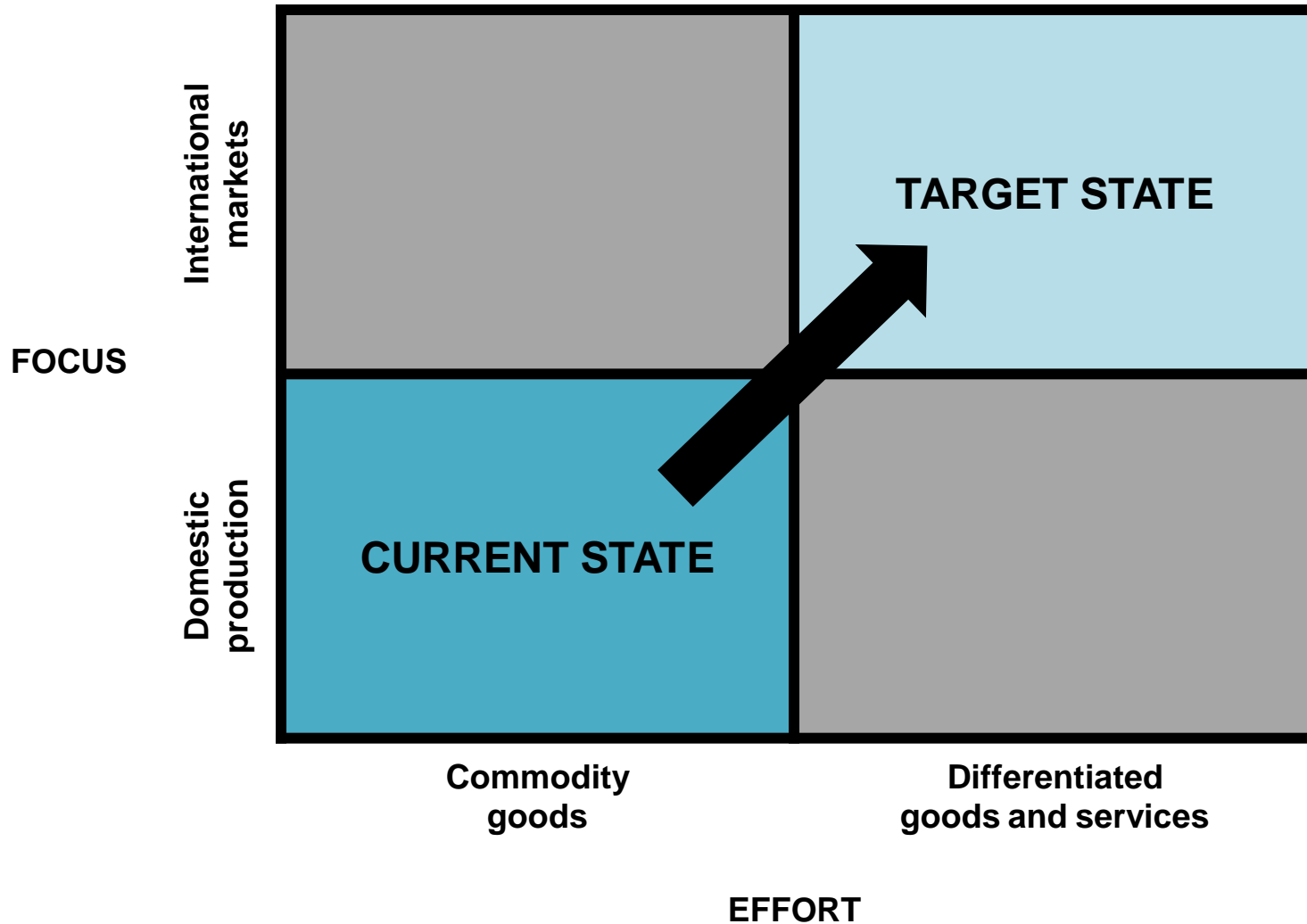
- Lifting capability in these industries helps domestic productivity too

Services sectors where world class technology can be acquired and New Zealand labour costs are relatively low

- Successes in engineering, education, financial, medical
- Competitive advantage can be increased by legal innovation

**TOP 100 INTERNATIONALLY ORIENTED TECHNOLOGY BUSINESSES
EXPORT AROUND \$5b pa WITH VERY HIGH PRODUCTIVITY**

NEW ZEALAND'S ECONOMIC TRANSFORMATION



MUST TRANSFORM FROM PROVINCIAL TO WORLD CLASS

Acknowledge where we start

- Small, isolated and poorly connected
- Commodity producers with a transactional approach to business
- Insufficient skills and capital

We are at risk of being consigned to the periphery of the world as a producer of commodities, a great place to visit and a safe haven; famous for the All Blacks

We have the opportunity to become one of the world's leading economies

- Resources, environment and low population density
- Access to technologies and markets
- Evidence of progress

Now we must turn rhetoric into action, introducing policies that will accelerate the growth of high value export businesses

PROPOSALS TO ACCELERATE GROWTH OF HIGH VALUE EXPORTS

Establish at-scale national institutes of excellence growing competences in science, engineering, operations, marketing, entrepreneurship

Ensure tertiary institutions produce the mix of skills we will need – science, engineering, technologists, international business, entrepreneurs

Incentivise investment in high value exports instead of in residential and rural assets

Ensure there are sufficient internationally connected capital providing institutions providing funds for growing high value exporters

Assist small growing firms more by providing information, services and connections and by growing clusters and colonies

OTHER IMPORTANT ECONOMIC GOALS

Reduce the effect of exchange rate volatility on exporters

Complete the infrastructure catch-up

Balance the government's books and reduce the aggregate debt

Ensure more of our youth are well-prepared to contribute – use e-learning to keep young people engaged at school and ensure successful transitions from school to work

Lift the productivity of domestic industries, releasing capital and talent for export growth