Holding on and letting go

Opportunities and challenges for New Zealand’s economic performance

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Snapshot - New Zealand’s economic performance

While economic performance has improved since the early 1990s, New Zealand’s GDP per capita is around 15% below the OECD average.

Better Life Index vs income

Bubble size: GDP per capita in 2012 US$ (converted to 2012 price levels with updated 2005 EKS PPPs).

Source: Conference Board, Total Economy Database; OECD, Better Life Index.
A broad approach to economic performance

**Prosperity**
It's about higher incomes and jobs for New Zealanders.
Our economic reforms provide a platform for future prosperity.
The strategic challenge is to lift our productivity and international connections.

**Sustainability**
It's about the resilience of the New Zealand economy and the future prosperity of our children.
We have a flexible economy and good stocks of natural, human, and social capital.
The strategic challenge is to shift towards more investment and export-led growth.

**Inclusiveness**
It's about all New Zealanders having a part to play.
We have good economic and social participation overall.
The strategic challenge is to equip Kiwis to reach their potential, particularly the most disadvantaged.
Three strategic challenges

Connecting internationally

Moving towards investment and exports

Helping all New Zealanders to play their part
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Helping all New Zealanders to play their part
New Zealand’s geographic challenge

Selected countries distance from world markets and population

While Chile and Australia are distant, they have the benefit of large home markets.

Ireland, Denmark, and Finland are small but located close to large and rich markets.

Note: The x axis is scaled so that each marker is ten times the magnitude of the previous one.
Source: World Bank: World Development Indicators, ITC: Trade Map, CEPII
Integrating into global markets is critical for increasing productivity.

Exports of goods and services as a share of GDP for small countries
Includes countries with a population of less than 10 million

Note: The Data for Slovak Republic and Malta is 2011.
Source: World Bank
We need to export more higher value goods and services

Composition of goods exports for selected OECD countries

Source: International Trade Centre, Trade Map
Future opportunities lie in the Asia-Pacific region

Projected changes in the world economy over time
% share of world economy

Note: Real GDP at 2005 purchasing power parities (PPPs).
Source: OECD
What does this mean for our economic growth strategy?

New Zealand needs to keep focused on developing and maintaining a productive environment to attract people, investment, trade and ideas.

We also need to be looking at all policies through an international lens.

How can government play a stronger role to enhance international connections to increase the flow of trade, capital, people, and ideas?

Two aspects of current policy thinking:

1. Exploring what more government can do to help firms internationalise

2. Lifting New Zealand’s participation in Global Value Chains (GVCs)
What barriers do firms face in internationalising?

- Exchange rate volatility
- Low demand or increased competition
- Exchange rate level
- Distance from markets
- Other
- Limited knowledge about specific markets
- Limited experience in expanding beyond NZ
- Limited access to distribution networks
- Limited access to finance
- Overseas government regulations or tariffs
- Language and cultural differences
- Inability to rapidly increase supply

Source: Business Operations Survey, Statistics NZ
What might this mean for policy?

Government has some unique strengths that it currently offers to firms who face barriers to internationalise, for example:

Our current focus:

1. Assessing how well matching existing government services are to barriers identified by firms
2. Developing better evaluation evidence to aid policy design and delivery
3. Exploring whether support should focus on growing incumbent exporters or new exporters
4. Understanding the needs of particular sectors and considering any role for government
New Zealand’s participation in global value chains is low

Foreign inputs in our exports (backward participation) and domestically produced inputs used in other countries exports (forward participation) as a percent of gross exports

Source: OECD Global Value Chain Indicators
Recap – Treasury’s approach to economic performance

A BROAD APPROACH TO ECONOMIC PERFORMANCE...

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