

Creating a weightless economy: Positioning New Zealand to compete in the global economy

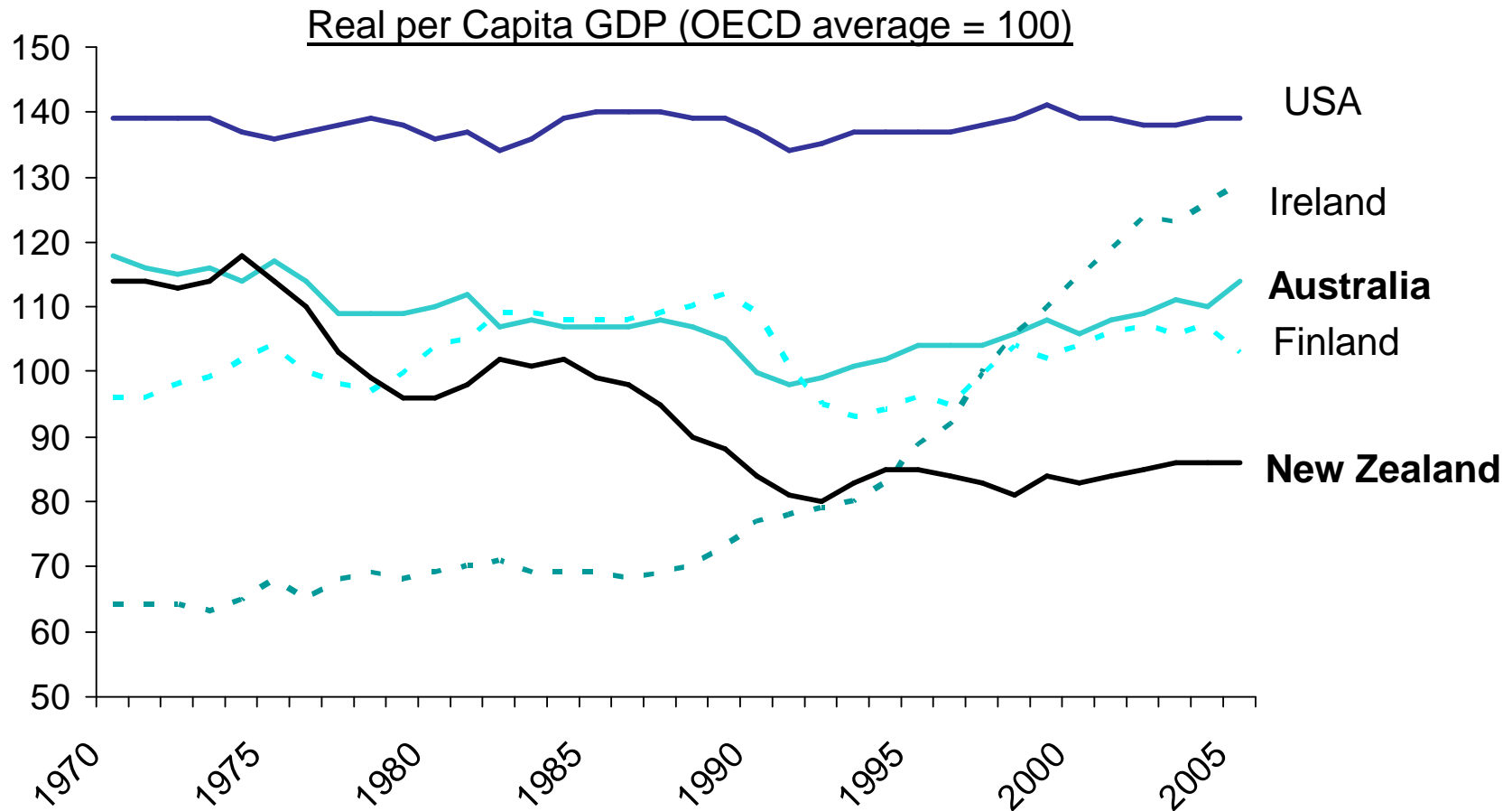
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AGENDA

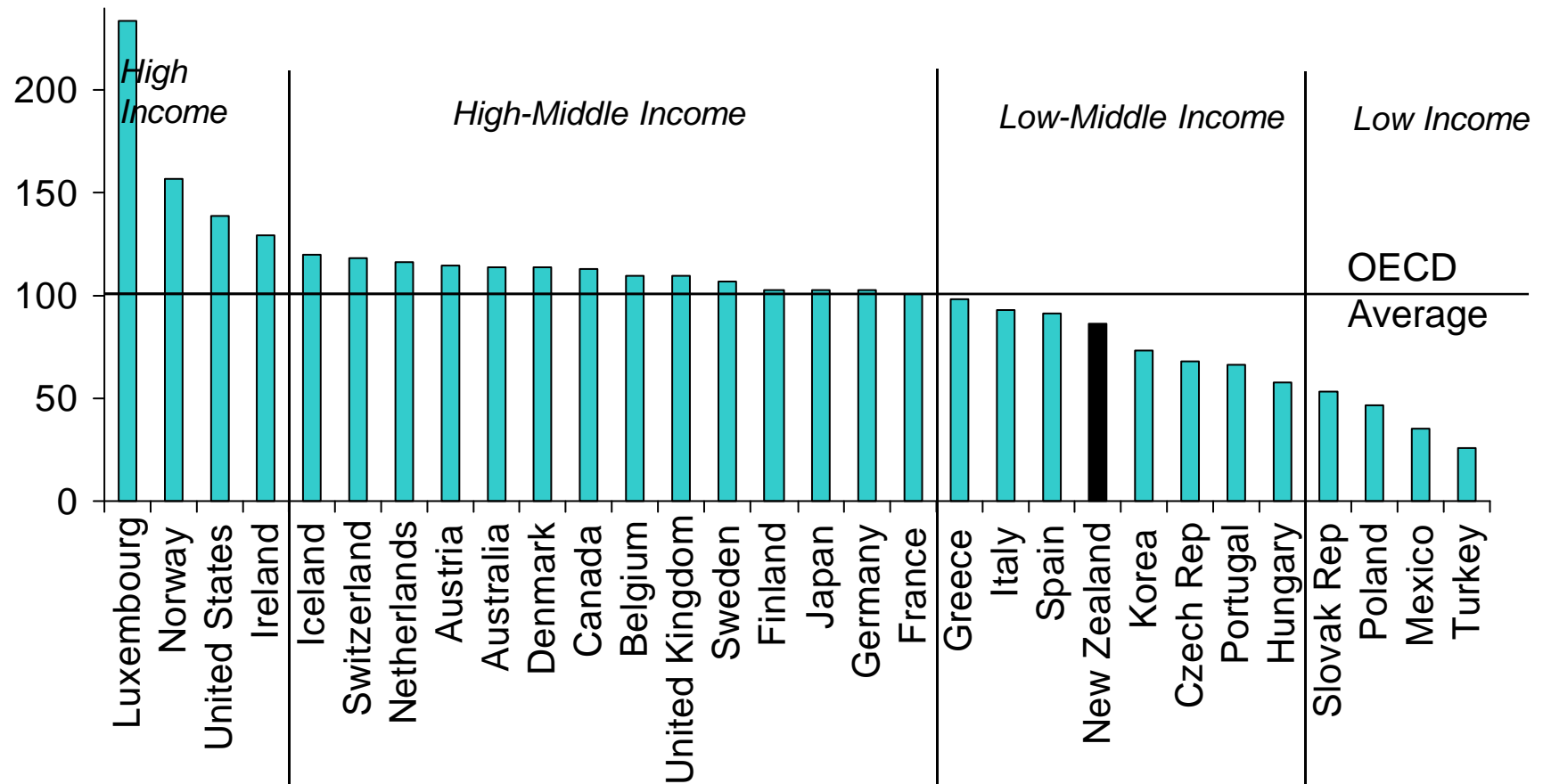
1. New Zealand's economic performance and prospects
2. The need to go global
3. Creating a weightless economy
4. Concluding remarks

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

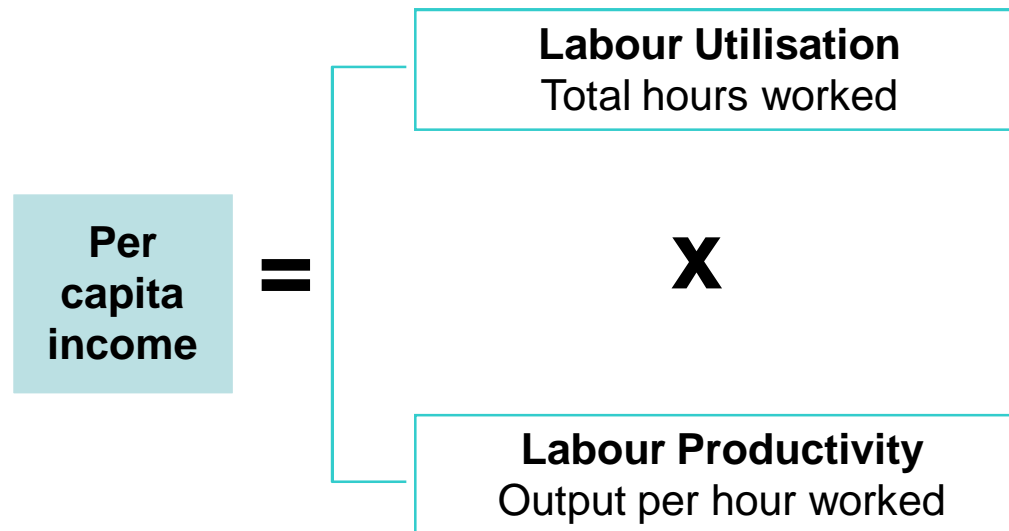


A LARGE INCOME GAP REMAINS BETWEEN NEW ZEALAND AND MOST OTHER OECD COUNTRIES

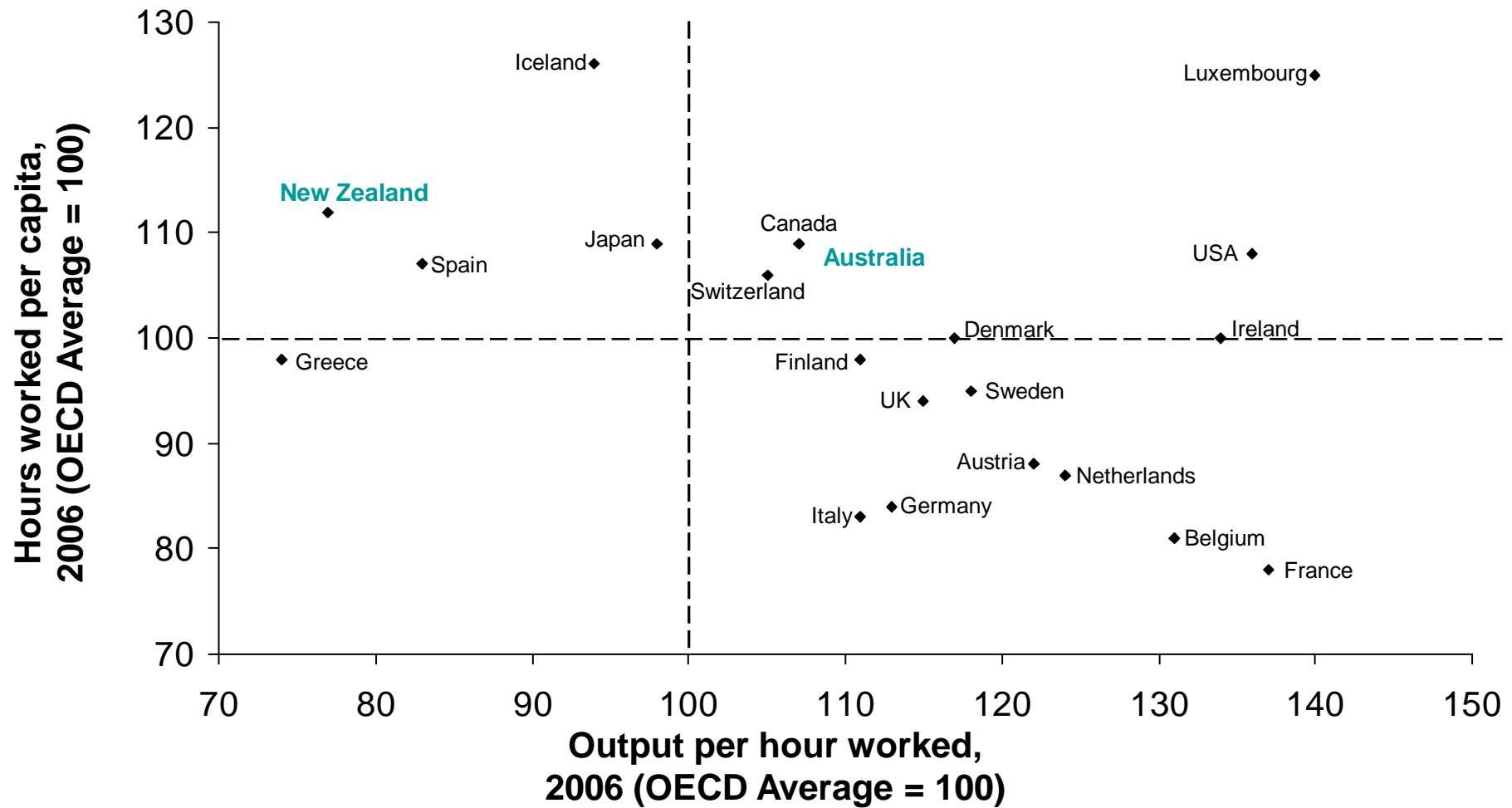
GDP per capita (PPP) indexed to OECD average, 2005



PER CAPITA INCOME CAN BE SPLIT INTO TWO COMPONENT PARTS

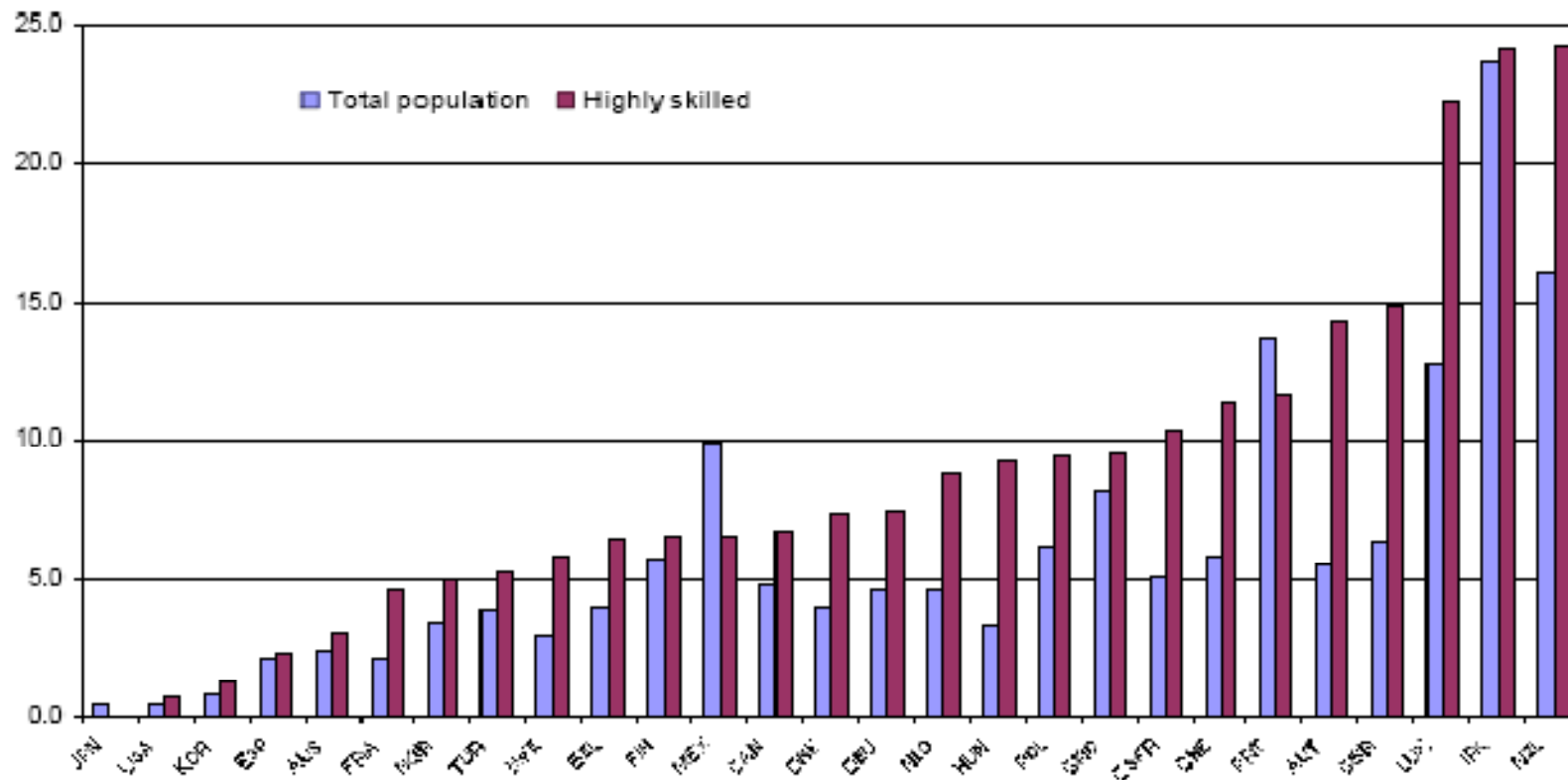


NEW ZEALANDERS ARE HARD WORKING BUT ARE NOT AS PRODUCTIVE AS WORKERS IN OTHER COUNTRIES



THESE INCOME AND PRODUCTIVITY GAPS IMPACT ON LOCATION CHOICES

Expatriates as a % of total population and highly skilled population

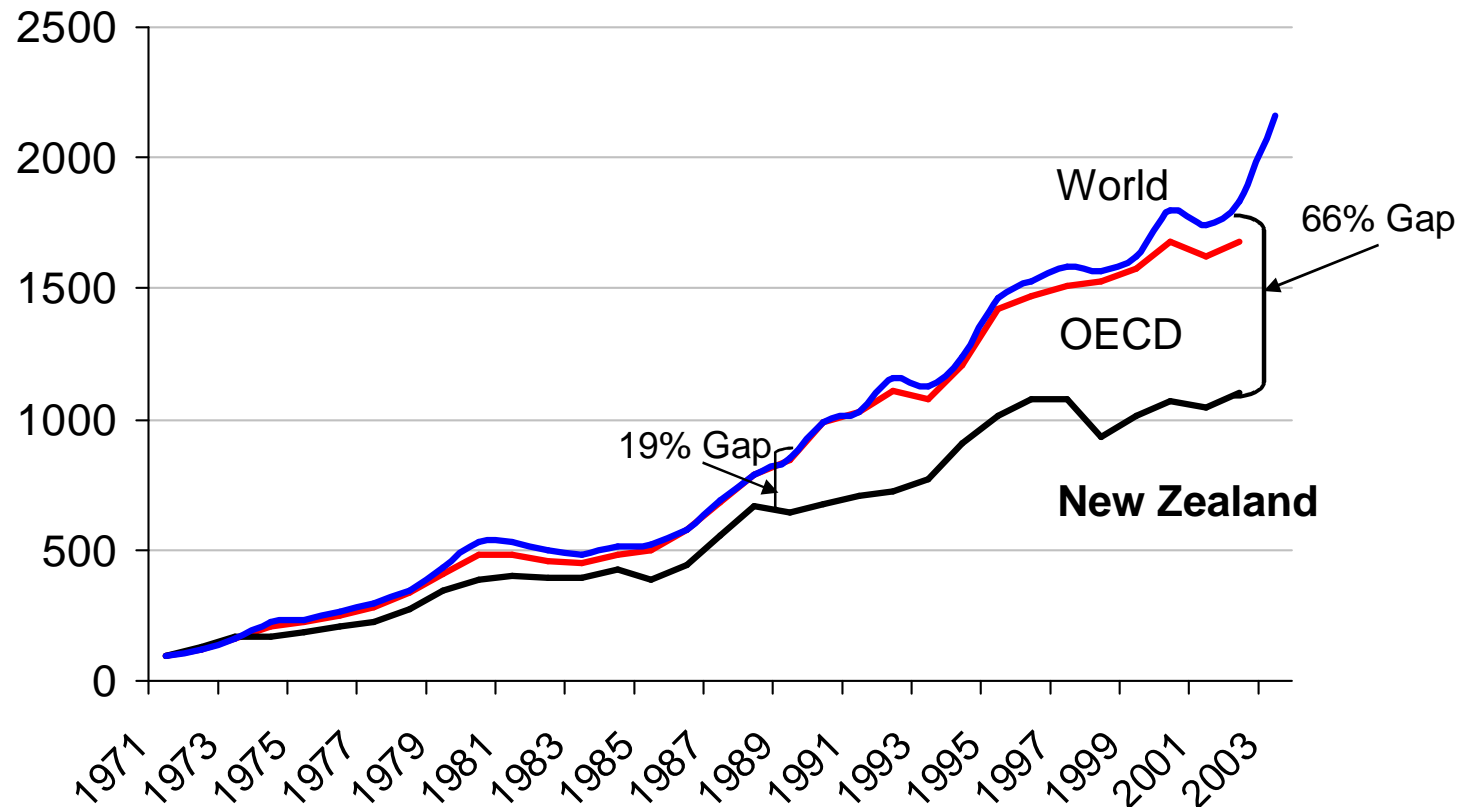


INTERNATIONAL ENGAGEMENT IS VITALLY IMPORTANT TO NEW ZEALAND'S FUTURE ECONOMIC PERFORMANCE

- 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
- New Zealand's ability to compete successfully in the global economy will have a defining influence on our future economic performance

NEW ZEALAND HAS NOT KEPT PACE WITH WORLD EXPORT GROWTH

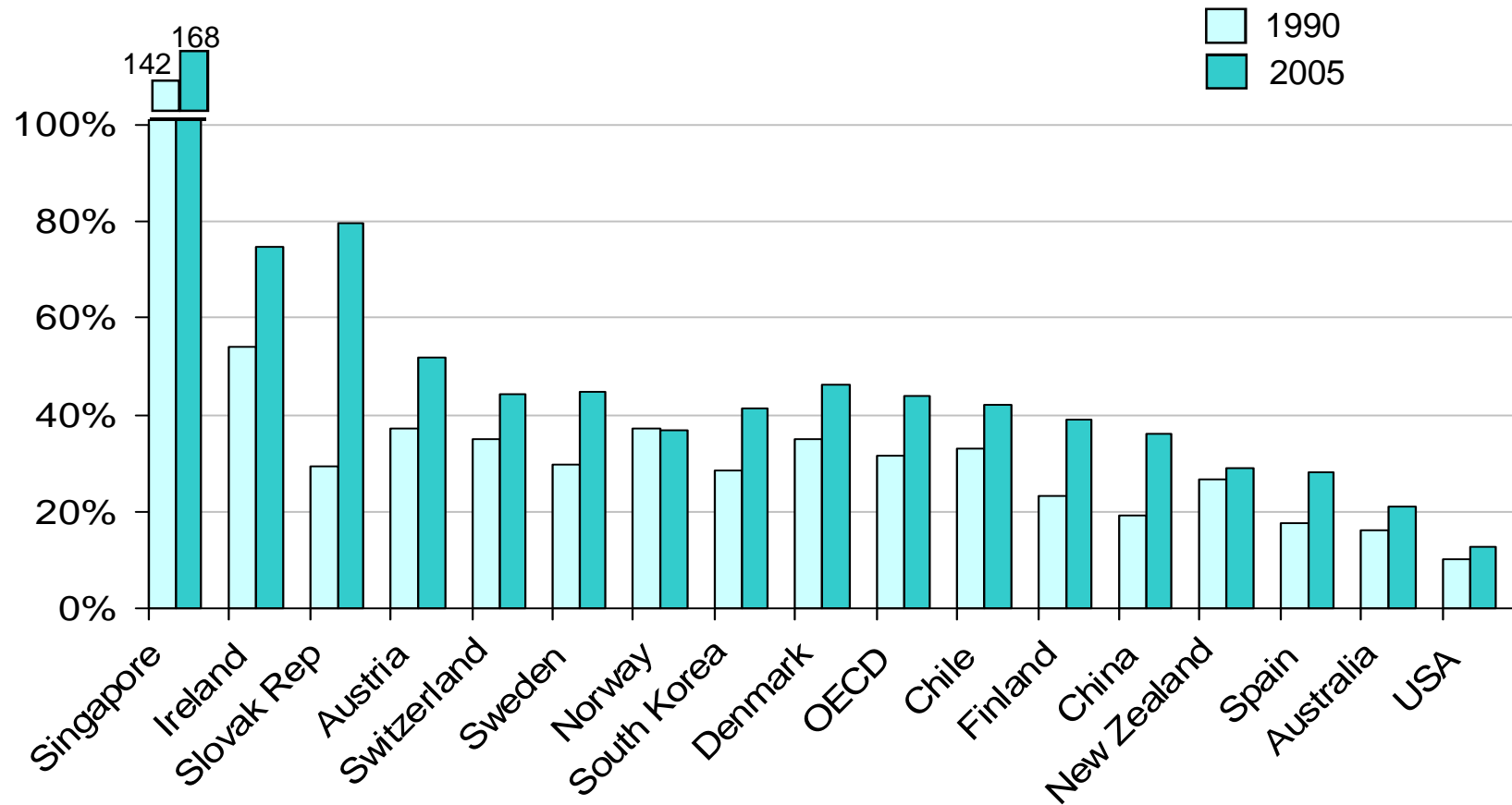
Value of Goods and Services exports, indexed to 1971



Note: 1971 = 100.
Source: World Development Indicators.

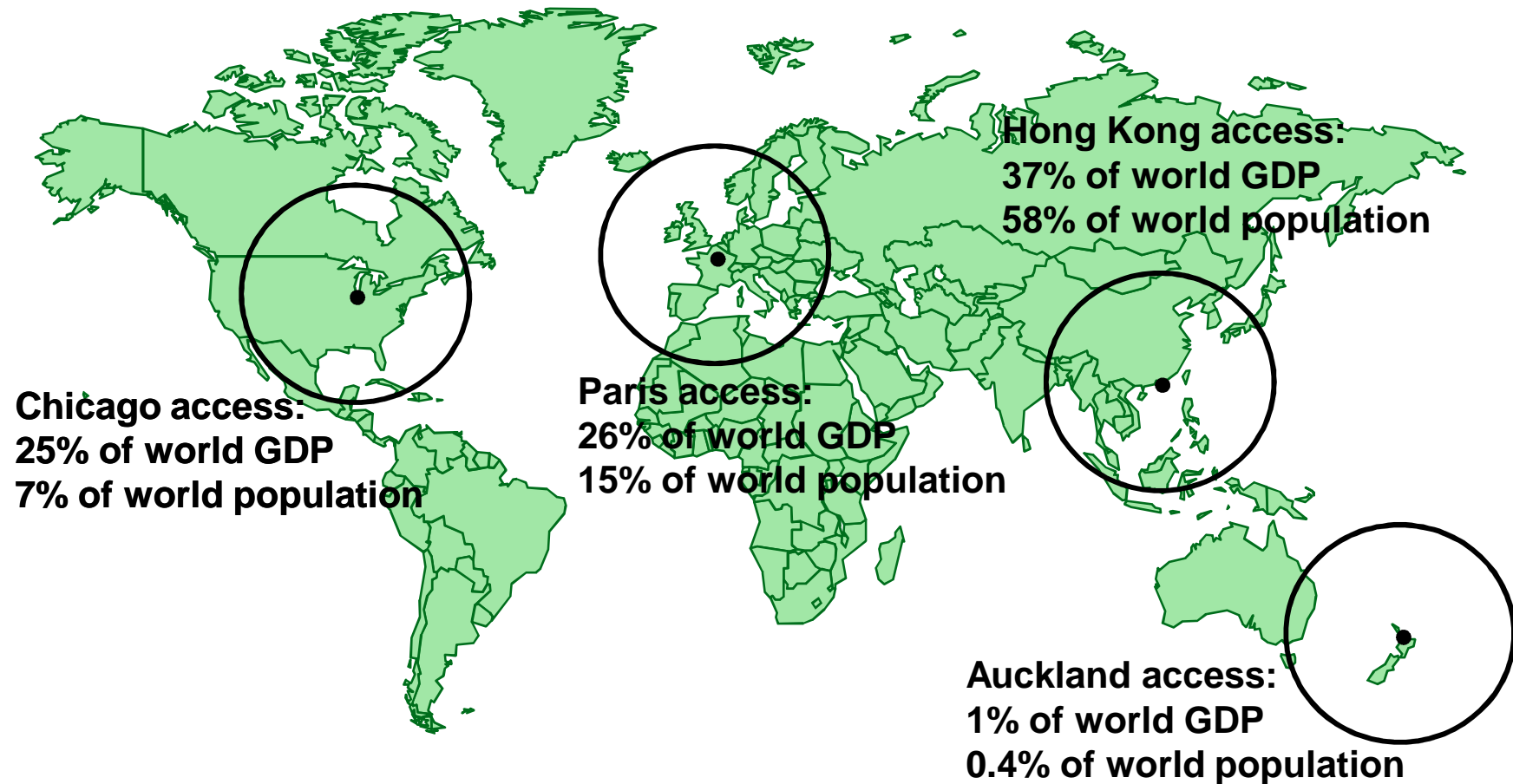
NEW ZEALAND EXPORTS LESS THAN MOST DEVELOPED COUNTRIES

Exports as a % of GDP, 1990 and 2005



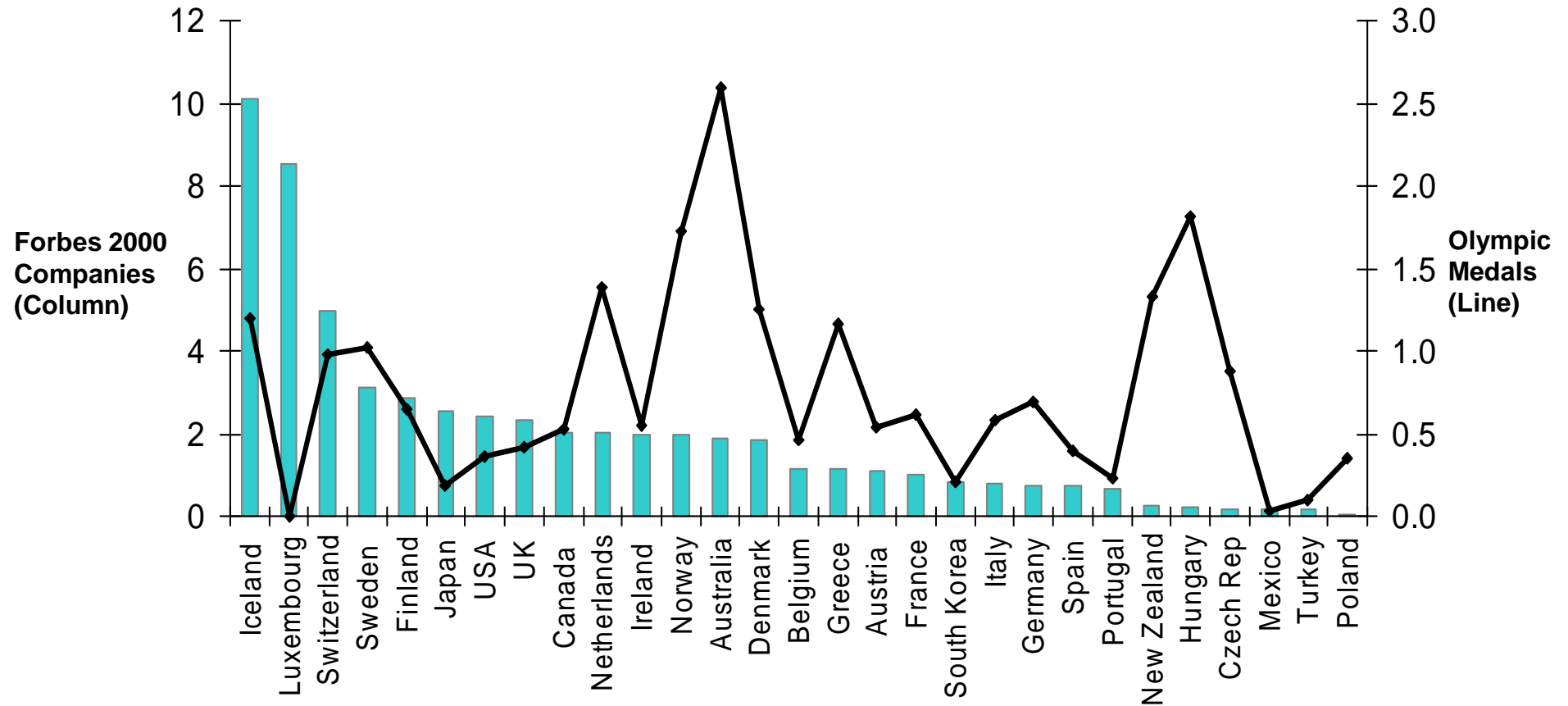
Source: OECD; national government statistics for Chile, China, and Singapore for 2005.

NEW ZEALAND IS PHYSICALLY DISTANT FROM MARKETS



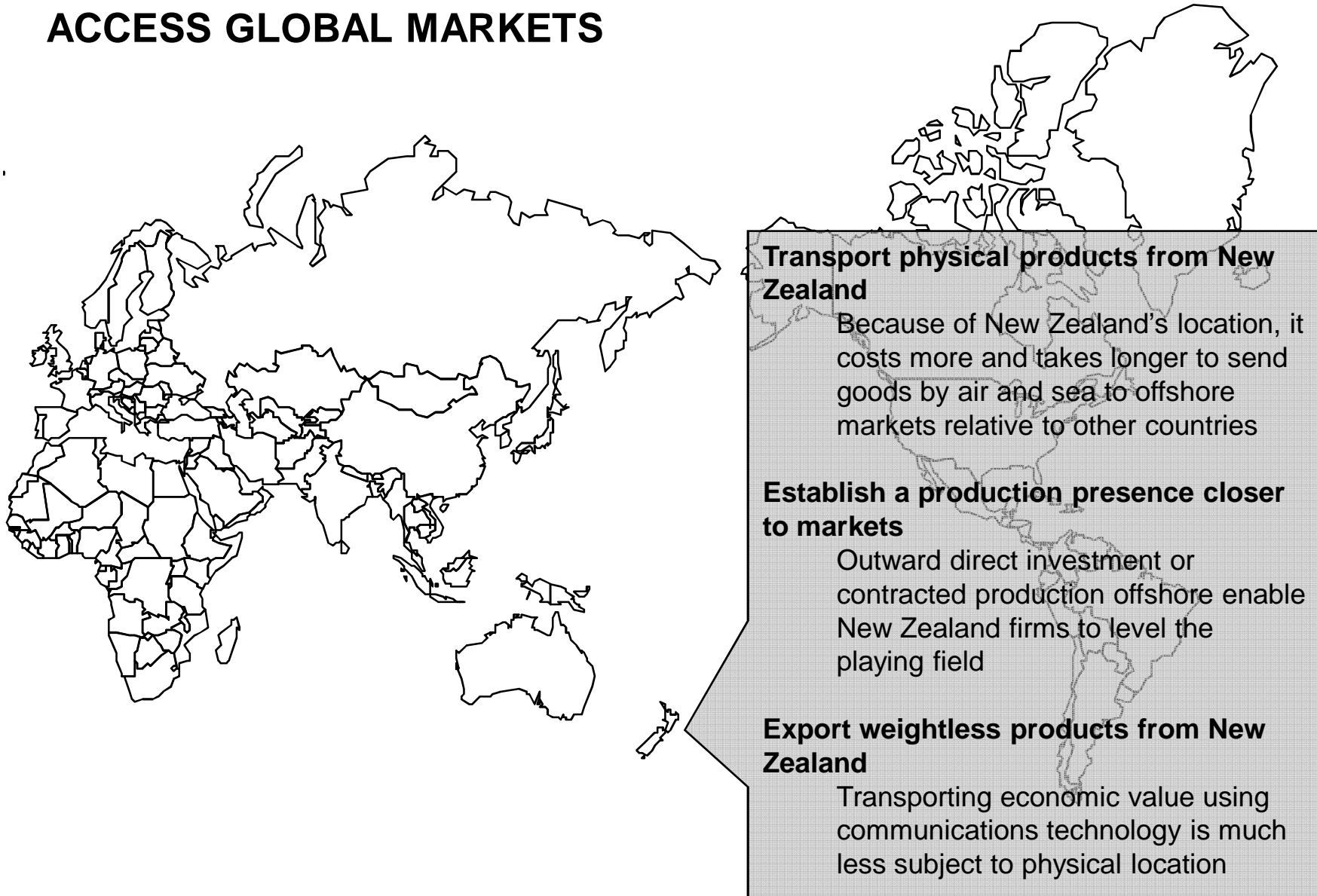
Note: All countries contained or partially contained within a 3.5 hour flight included, circles are only indicative given map limitations.
Source: Source: Groningen Growth and Development Centre and the Conference Board, Total Economy Database, May 2006,
<http://www.ggdc.net>; LEK.

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.

THERE ARE A FEW WAYS IN WHICH NEW ZEALAND FIRMS CAN ACCESS GLOBAL MARKETS

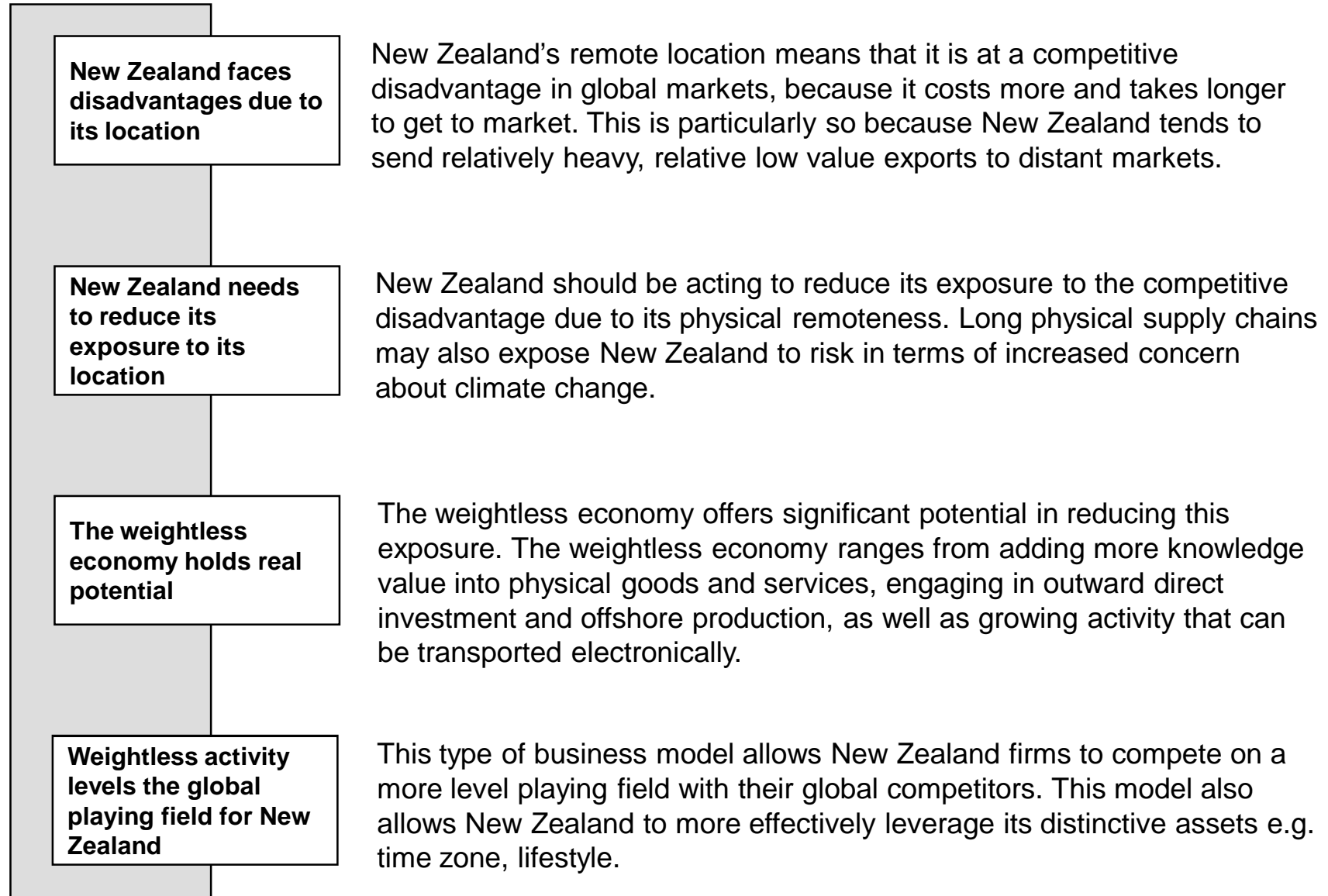


Transport physical products from New Zealand
Because of New Zealand's location, it costs more and takes longer to send goods by air and sea to offshore markets relative to other countries

Establish a production presence closer to markets
Outward direct investment or contracted production offshore enable New Zealand firms to level the playing field

Export weightless products from New Zealand
Transporting economic value using communications technology is much less subject to physical location

THE DEVELOPMENT OF THE WEIGHTLESS ECONOMY SHOULD BE A HIGH PRIORITY FOR NEW ZEALAND



NEW ZEALAND HAS NOT GROWN MANY NEW AREAS OF STRENGTH IN TERMS OF EXPORTS OF GOODS

New Zealand's Top 20 Export Categories in 2006 and 1980

2006 Rank	Commodity Description	1980 Rank
1	Meat and edible meat offal, fresh, chilled or frozen	1
2	Milk and cream	4
3	Aluminium	5
4	Cheese and curd	10
5	Fruit and nuts, fresh, dried	13
6	Butter	3
7	Starches, insulin and wheat gluten; albuminoidal substances; glues	6
8	Wood, simply worked, and railway sleepers of wood	15
9	Edible products and preparations	79
10	Fish, fresh, chilled or frozen	12
11	Wool and other animal hair (excluding tops)	2
12	Alcoholic beverages	52
13	Aircraft and associated equipment, and parts thereof	47
14	Pulp and waste paper	9
15	Paper and paperboard	7
16	Other wood in the rough or roughly squared	16
17	Cereal, flour or starch preparations of fruits or vegetables	74
18	Crude petroleum and oils obtained from bituminous minerals	New
19	Crustaceans and molluscs, fresh, chilled, frozen, salted, etc	14
20	Vegetables, fresh or simply preserved; roots and tubers	20

NEW ZEALAND'S EXPORTS OF WEIGHTLESS SERVICES ARE GROWING BUT REMAIN SMALL

	1996	2006	Share of Exports (%)	CAGR (%)
Communication services	n.a.	282	0.6%	
Construction services	n.a.	45	0.1%	
Financial and insurance services	33	168	0.4%	
Computer and information services	39	272	0.6%	
Royalties and license fees	20	170	0.4%	
Other business services	667	1,217	2.7%	
Total 'weightless' services	792	2,322	5.2%	11.4%
Total services exports	6,995	11,872	26.8%	5.4%
Total goods exports	20,546	32,430	73.2%	4.7%

Note: Years ending in June. Values expressed in \$m. n.a. indicates data not available. CAGR is Compound Annual Growth Rate.
Source: Statistics New Zealand.

WE HAVE IDENTIFIED AN INITIAL LIST OF AREAS THAT WE THINK HAVE HIGH POTENTIAL IN CREATING A WEIGHTLESS ECONOMY

1. Create a business environment that supports international growth by New Zealand firms
2. Invest in world-class communications infrastructure
3. Invest in R&D
4. Invest in the education system, particularly universities
5. Attract foreign investment into New Zealand by firms in the weightless economy

These are all important areas for action, and should be approached as a coordinated package in order to obtain full value. The following discussion does not contain specific recommendations, as much as identifying areas and issues that we believe deserve consideration and debate.

CONCLUDING REMARKS

