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The flight of the Kiwi:

Going global from the end of
the world

DAVID SKILLING | DANIELLE BOVEN
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EXECUTIVE SUMMARY

High levels of international economic engagement are vitally important to creating a strong, prosperous New Zealand. As a small economy, New Zealand's economic future rests in large measure on its ability to compete successfully in international markets.

Unfortunately, however, the New Zealand economy is not well integrated into the global economy by the standards of other small developed countries. And New Zealand has not been participating meaningfully in the intense process of globalisation over the past decade or so, in terms of increased exporting and outward direct investment.

Distance is not dead

A glance at a world map indicates a major reason why New Zealand's level of international economic activity is lower than in all other small, developed countries. New Zealand is the most physically distant developed country in the world relative to major markets.

New Zealand's physical remoteness makes it more difficult to participate in the global economy. The cost and risk profile of international expansion is higher for New Zealand firms than for firms expanding from Europe because of the small scale and isolation of the New Zealand market. Indeed, there is substantial international evidence demonstrating that trade and investment flows reduce as the distance between two countries increases.

But simply being able to explain New Zealand's low level of international

economic activity is not the same as addressing the challenge. It remains the case that increasing New Zealand's level of international economic engagement is vital to New Zealand's future economic success. Going global from the end of the world may be difficult, but much improved outcomes are possible if business and government respond with deliberateness, ambition, and creativity.

Responding to this environment

To work out how best to respond, it is first necessary to understand how New Zealand's small scale and physical remoteness impact on firm decision-making around international engagement and also on the structure of the New Zealand economy.

Analysis and interviews with firms have identified four firm-level constraints on international expansion. The first is the perceived absence of a compelling incentive to go global, because of a sense that higher returns can be earned in the domestic market and because there is often not much market encouragement to go abroad. The second issue is around the capacity of New Zealand firms to win abroad. Going global from New Zealand is a difficult challenge and there appear to be particular approaches to international expansion that are more successful than others.

Third, the absence of aspiration among New Zealand firms to go global is frequently mentioned as a reason for the low level of international activity. And lastly, the tendency for New Zealand firms to move into

foreign ownership as they go global, in part due to the absence of domestic capital, reduces the contribution that such firms make to New Zealand's international engagement.

At a structural level, small scale and physical remoteness have combined to make it more difficult for New Zealand to move into rapidly growing areas of the global economy. Developing new areas of economic strength to complement New Zealand's existing strengths will be a necessary and important part of increasing New Zealand's level of international economic engagement. There are limits to what can be achieved by just doing more of the same.

The solutions identified in this report aim to address these firm-level and structural issues.

SOLUTIONS

The first step is to specify a minimum target for the desired increase in exports and outward FDI. As a base target, this report proposes that exports should be raised from their current level of 28% of GDP to consistently in excess of 35% of GDP by 2020, and that outward FDI should be raised from about 10% of GDP to consistently in excess of 15% of GDP by 2020. Export Year 2007 provides a great platform for making a national commitment to achieving these targets.

Four classes of solutions have been identified as making important contributions to creating a global New Zealand economy. This report outlines the four solution areas, and a

series of four follow-up reports will contain more detailed analysis and make specific recommendations.

1. Developing Kiwi Global Champions

Increasing the number of New Zealand firms who are aiming to grow into international markets requires addressing issues around incentives, capacity, ownership, and aspiration, as described above. There are a range of business and government actions that can be taken in this regard. These actions include making changes to the tax regime, introducing an ambitious personal savings policy, encouraging SOEs to expand offshore, and improving corporate strategy around international expansion.

2. Achieving Real Market Access

New Zealand needs to update the way in which it works to enhance market access for New Zealand firms, with a much greater focus on in-market activity rather than a primary focus on trade negotiations. This will involve strengthened provision of in-market services, such as access to networks, advice, and infrastructure, for high potential firms, and substantial investments in developing New Zealand's presence in a few key markets rather than being thinly spread across a large number of markets.

3. Connecting New Zealand to the World

Actions that are directly aimed at overcoming physical distance and connecting New Zealand to the world

are likely to have a particularly strong effect because of New Zealand's isolation. These actions will include strengthening international transport and communication links, to make it easier to transport goods, services, ideas, knowledge, and people, as well as strengthening people-to-people links by being more strategic around the contributions of the migrant community in New Zealand and the Kiwi diaspora abroad.

4. The New Zealand Economy 2.0

New Zealand needs to grow substantial new areas of economic strength in order to transform the nature and extent of its international economic engagement. This will involve competing aggressively for both companies and talented people to locate in New Zealand, significantly increasing funding of research and science in areas of existing potential, and developing new business models that play to New Zealand's strengths.

Summary

Although the challenges around going global from the end of the world are substantial and long-standing, this report shows that business and government can act in a range of ways to generate a material increase in New Zealand's international engagement. Indeed, it is the absence of meaningful action over the past few decades, rather than New Zealand's geographic location, that is the key reason for New Zealand's low level of international economic engagement. The priority now is to move beyond discussing the problem and act to implement the solutions with real seriousness of purpose. Incremental improvement will not be sufficient.



CREATING A GLOBAL NEW ZEALAND ECONOMY:
PROJECT STRUCTURE

No Country is an Island

The importance of international economic engagement for New Zealand's economic future



Dancing with the Stars?

New Zealand's level of exports and outward FDI does not compare well to other countries



Flight of the Kiwi

Identifies four classes of solutions to create a global New Zealand economy



Detailed Analysis and Recommendations

Four reports to be released over the next several months

1. Developing Kiwi global champions

2. Achieving real market access

3. Connecting to the world

4. The New Zealand economy 2.0

