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HOW TO ANCHOR OUR WAKA IN A BIGGER ECONOMIC SPACE

By Stephen Jacobi*

It was the Economist magazine which once described New Zealand as the “last bus stop on the planet”. In characteristic one-upmanship, Mike Moore described New Zealand as a “dagger pointing at the heart of Antarctica.”

The “tyranny of distance” separating New Zealand from the rest of the world has been a defining factor in our nation’s development. Our natural environment, our “clean green” image, our “can do” attitude all owe something to our relative isolation.

On the other hand the distance from overseas markets, the small size of our domestic economy and the low capital base for investment have plagued the development of world scale and internationally competitive businesses.

In recent years we have done better than most in expanding our economy, with both growth and employment outstripping our OECD partners.

The economic restructuring of the 80s, high commodity prices for key agricultural commodities and the property boom have helped, but latterly the appreciating exchange rate has taken the shine off this performance.

Lest anyone doubt, the export sector is in real trouble with most major export industries – forestry, fishing, tourism, horticulture, manufacturing and now even meat and dairy showing signs of a downturn. An exchange rate over 70 cents US and over 95 cents Australian is going to cause a lot of pre-Christmas pain for a lot of people.

It is not simply a matter, as some have said, of “getting used to it”. Foreign exchange from exports, tourism receipts and remittances from offshore investment is the lifeblood that pumps through the economy. An economy driven by expansion in the domestic sector alone will ultimately prove to be unsustainable.

Two recent reports from the New Zealand Institute point to the significance of New Zealand’s global linkages.

The first – “No country is an island” – drew the link between international economic activity and productivity growth. The small size of our economy limits the opportunities we have to boost productivity. To work smarter we need to be working in a bigger economic space.

The second – “Dancing with the stars” - examines the international performance of the economy in terms of exporting and outward foreign direct investment by New Zealand firms.

The news is not good. New Zealand’s exports are low, heavily land-based and have been growing slowly relative to other small developed countries. Outward investment is also low and has declined while global investment has grown very substantially.

Fortunately, as the New Zealand Institute suggests, there are examples of other countries moving quickly to expand both exports and investment. But no other country has our unique circumstances.

Finding New Zealand solutions to this conundrum lies in the hands of both business and government working together.

The picture is a lot more complicated than simply an Export Year or a Buy New Zealand Campaign, although there are limited benefits to be had for New Zealand business from both these recent initiatives.

Anchoring our waka in a bigger economic space will require focused attention and the development of a deliberate but realistic strategy.

That strategy will need to go beyond market development and trade agreements and encompass the drivers of domestic competitiveness as well as significantly increasing the size of the New Zealand population through an active immigration policy.

The strategy may require a fundamental rethink of some current – and well-established - policy settings. Although tantamount to heresy in some circles, it may be time to ask whether monetary policy focused solely on containing domestic inflation at the expense of the external sector continues to make the sense it once did.

In any strategy focused on expanding New Zealand’s international engagement, the United States must loom large.

A free trade agreement would help but whether or not this eventuates, we simply cannot afford to ignore the world’s largest consumer market and most dynamic and innovative source of technology, entrepreneurship and research.

The US is already more important to New Zealand than many realise – our second largest export market, third largest source of tourists and supplier of over 12 percent of inward investment.

Maximising the opportunities from the relationship requires constant investment.

The New Zealand United States Council, working with our counterpart organisation in the US, is advancing plans to hold a high level business-to-business event in Washington next April.

That event will focus on identifying key business trends and issues in the Asia Pacific region and possibilities for co-operation between the private sectors in both countries.

A set of strategic actions aimed at lifting competitiveness and positioning New Zealand more aggressively on the world stage – most particularly with key markets like the US – will enable that last stop on the planet to become a winning post of economic success.

**Stephen Jacobi is the Executive Director of the New Zealand United States Council.*