

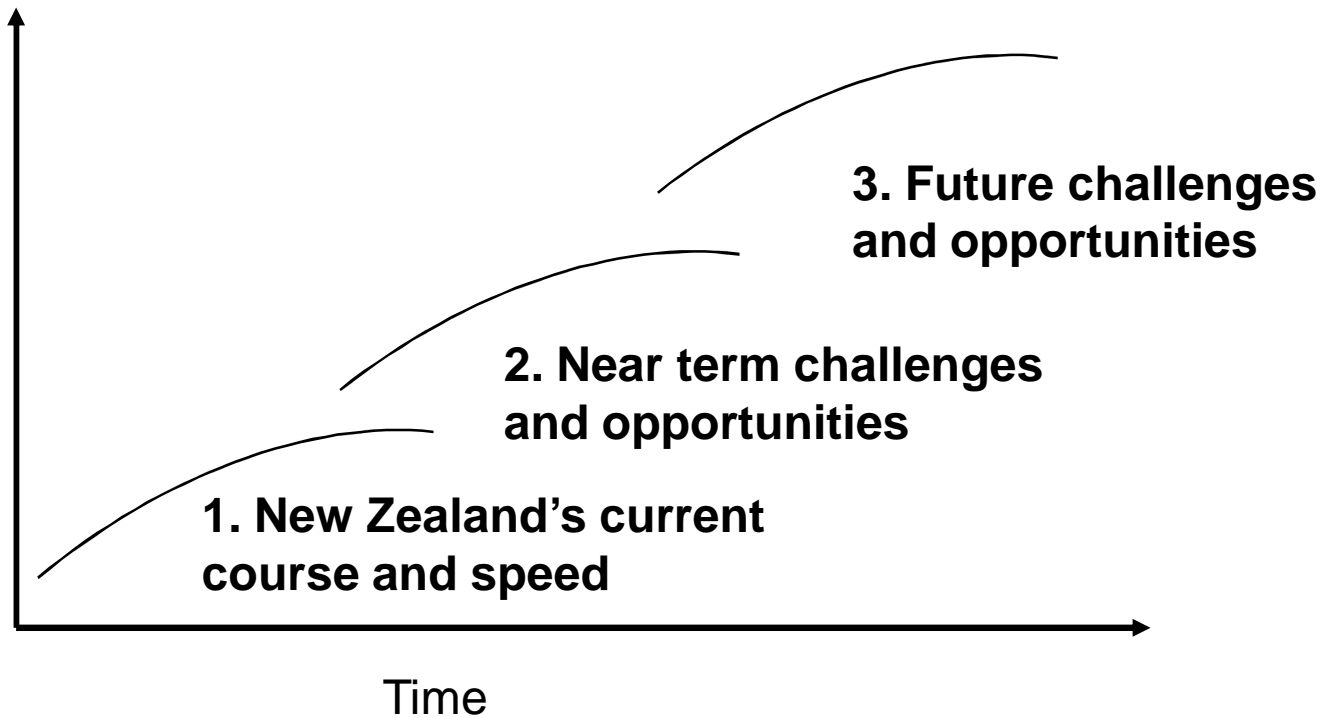
# **Preparing for the future: Emerging priorities for the New Zealand economy**

**David Skilling**

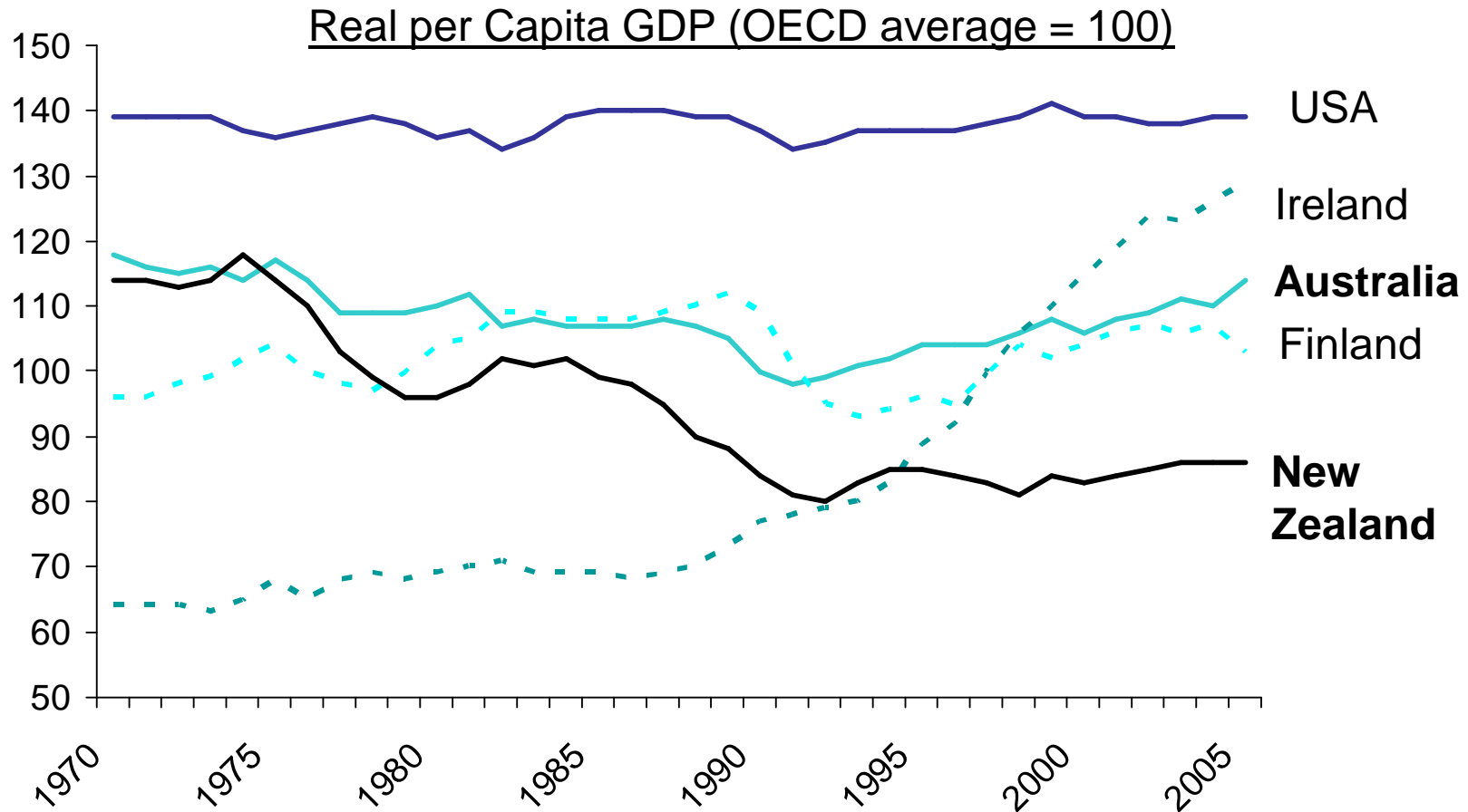
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# AGENDA

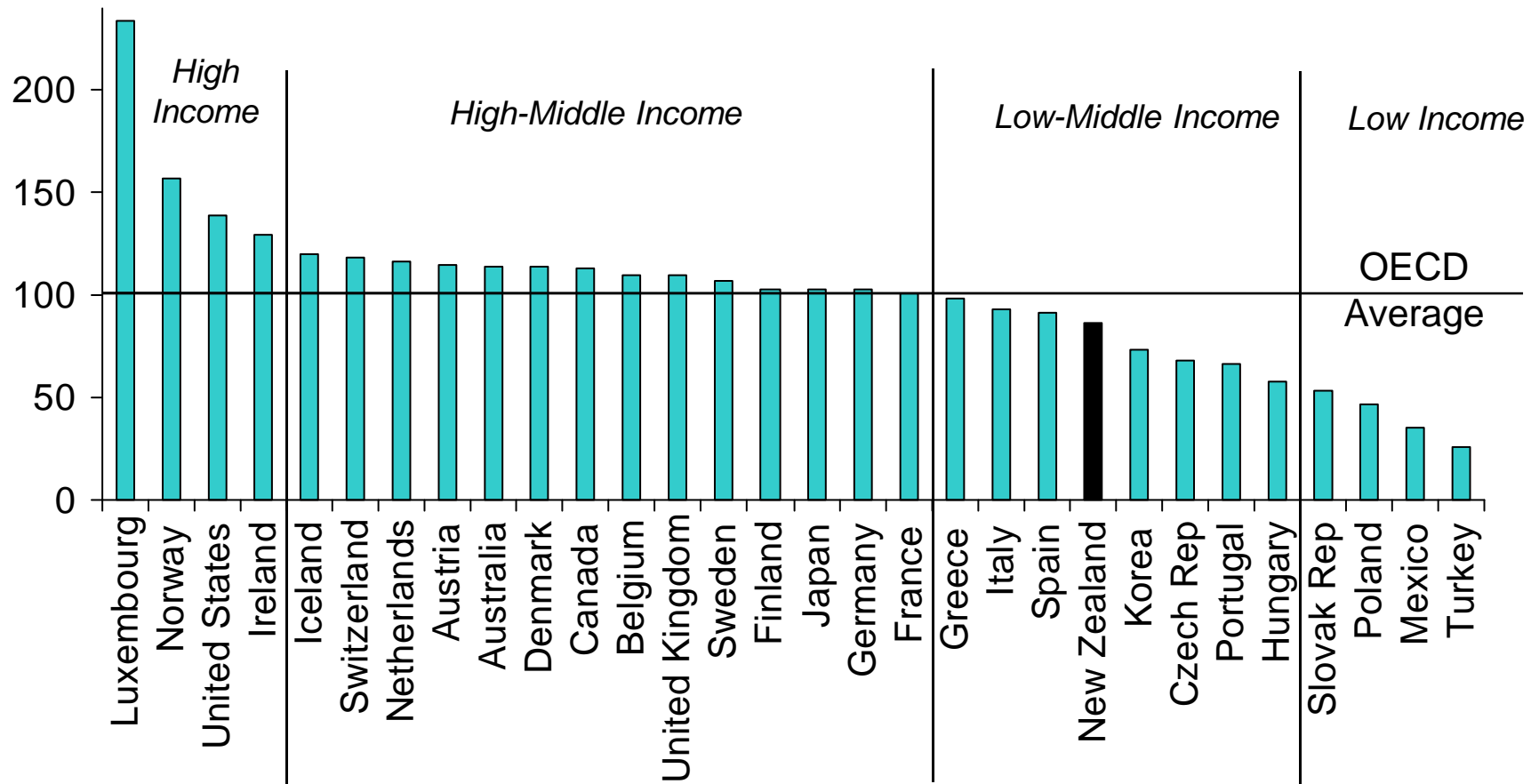


# NEW ZEALAND'S PROLONGED RELATIVE INCOME DECLINE WAS HALTED DURING THE 1990s



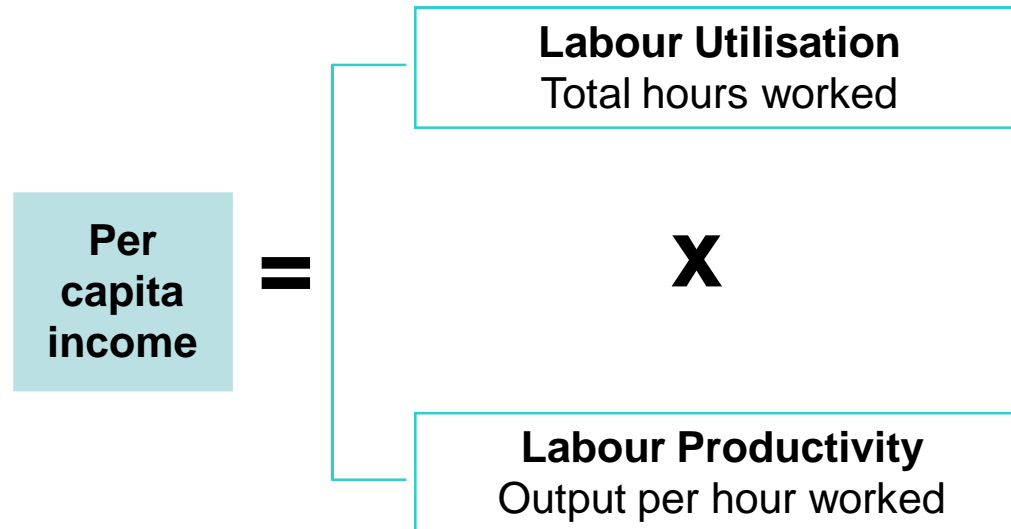
# A LARGE INCOME GAP REMAINS BETWEEN NEW ZEALAND AND MOST OTHER OECD COUNTRIES

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

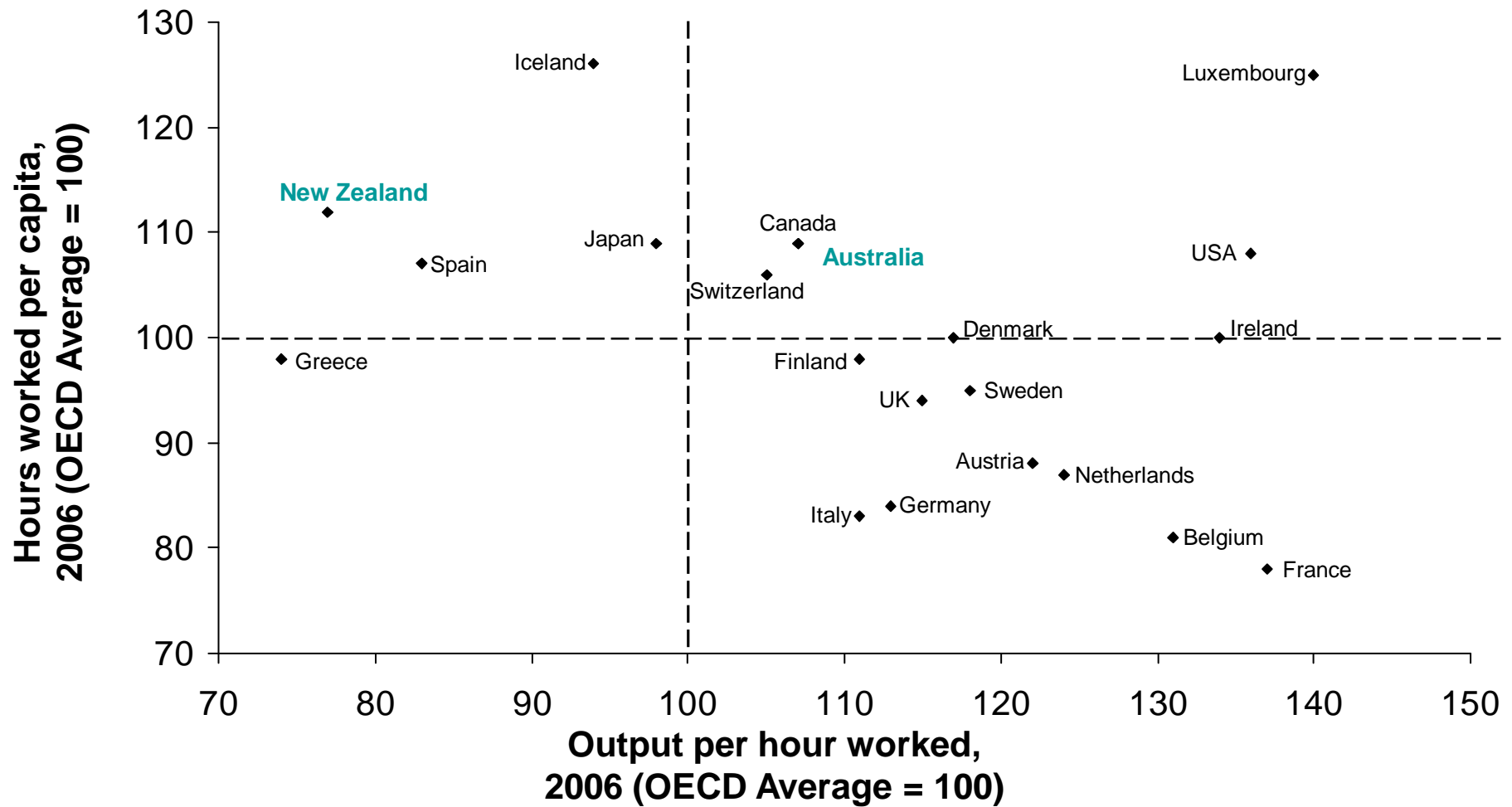


Source: OECD.

# TO EXPLAIN NEW ZEALAND'S LOW INCOME LEVELS, WE NEED TO LOOK AT THE DRIVERS OF PER CAPITA INCOME



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



## 2. CURRENT PRIORITIES FOR ACTION TO RAISE PRODUCTIVITY

New Zealand cannot grow its economy by continuing to rely on growing the number of hours worked

The challenge now is to increase labour productivity growth in a substantial and sustained way

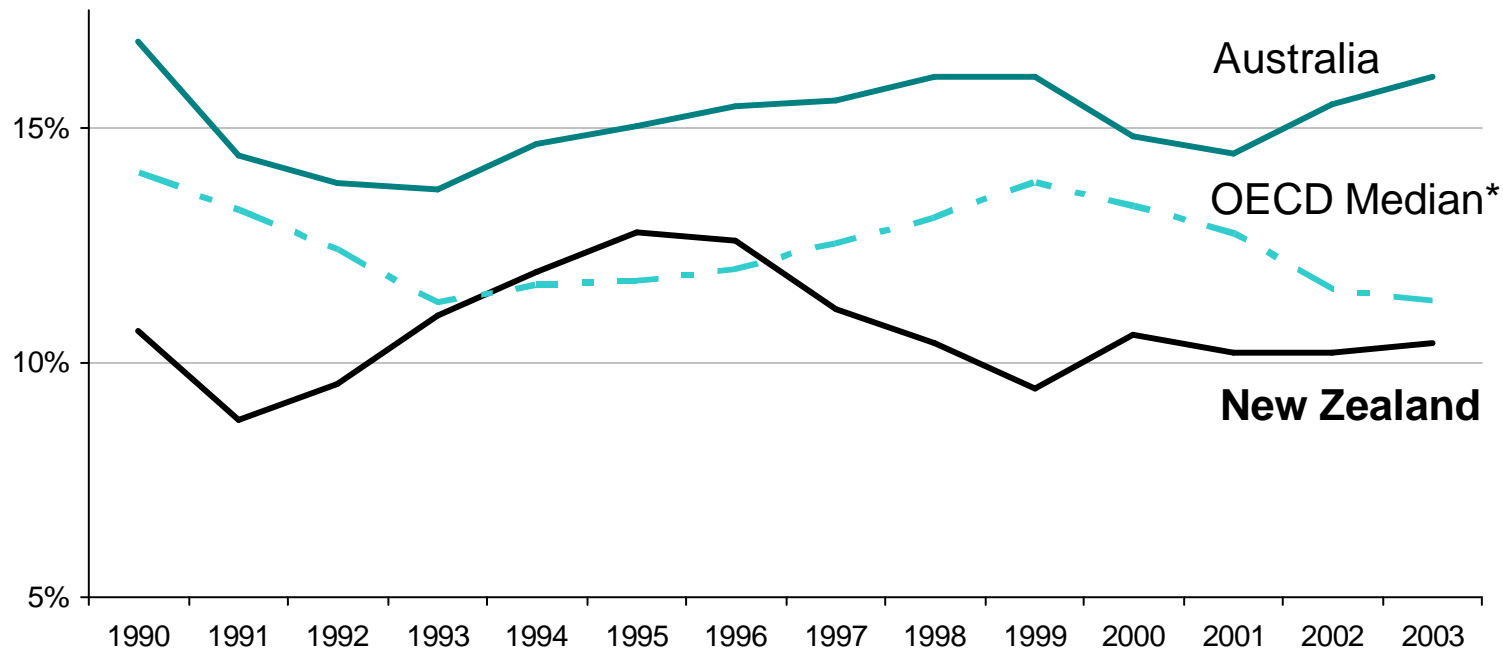
Going forward, New Zealand needs to focus on addressing the constraints that impact on New Zealand's labour productivity growth

Need to focus on three (related) constraints in particular:

- Low physical capital intensity
- Low investment in knowledge and human capital
- Low levels of international economic engagement

# NEW ZEALAND'S BUSINESS INVESTMENT IS LOW

Business Investment as a % of GDP



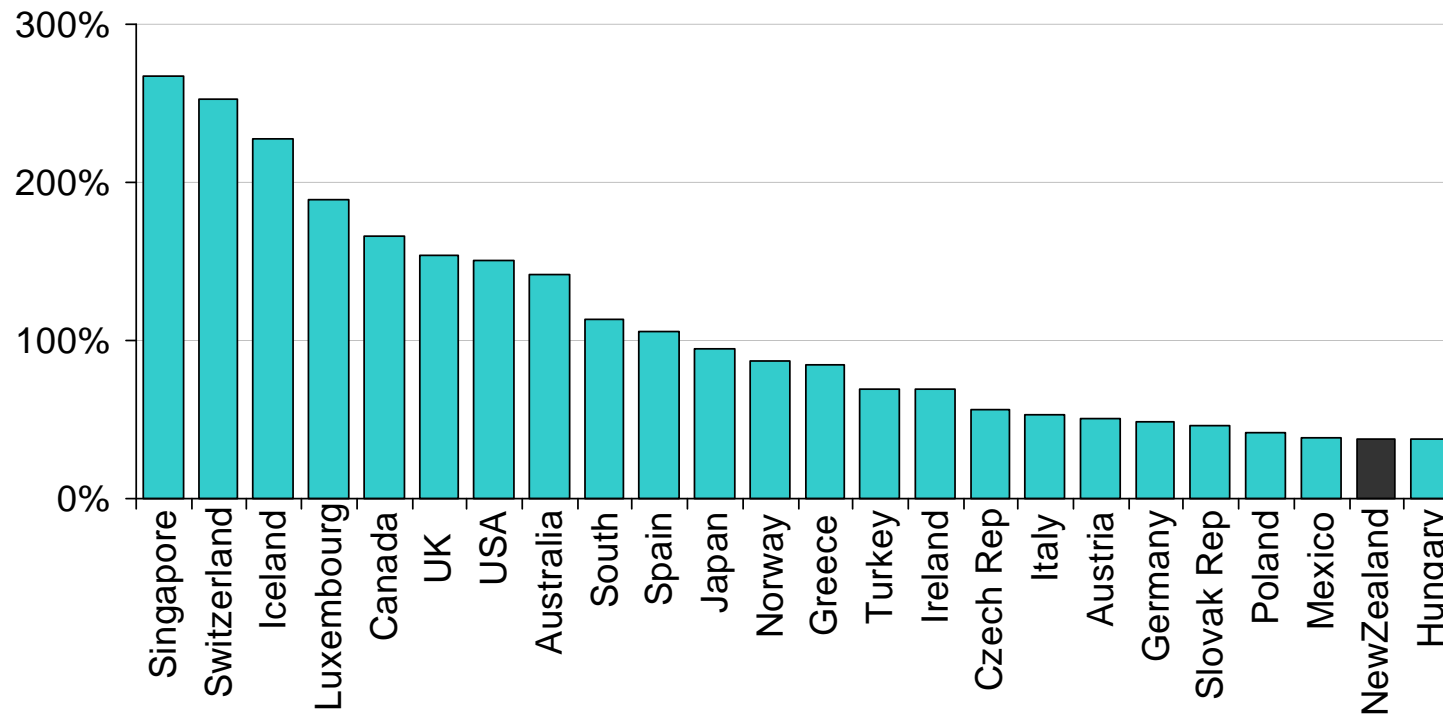
Source: OECD.

\*Czech Rep, Luxembourg, Poland, Hungary, Portugal, Slovak Rep, and Turkey not included.



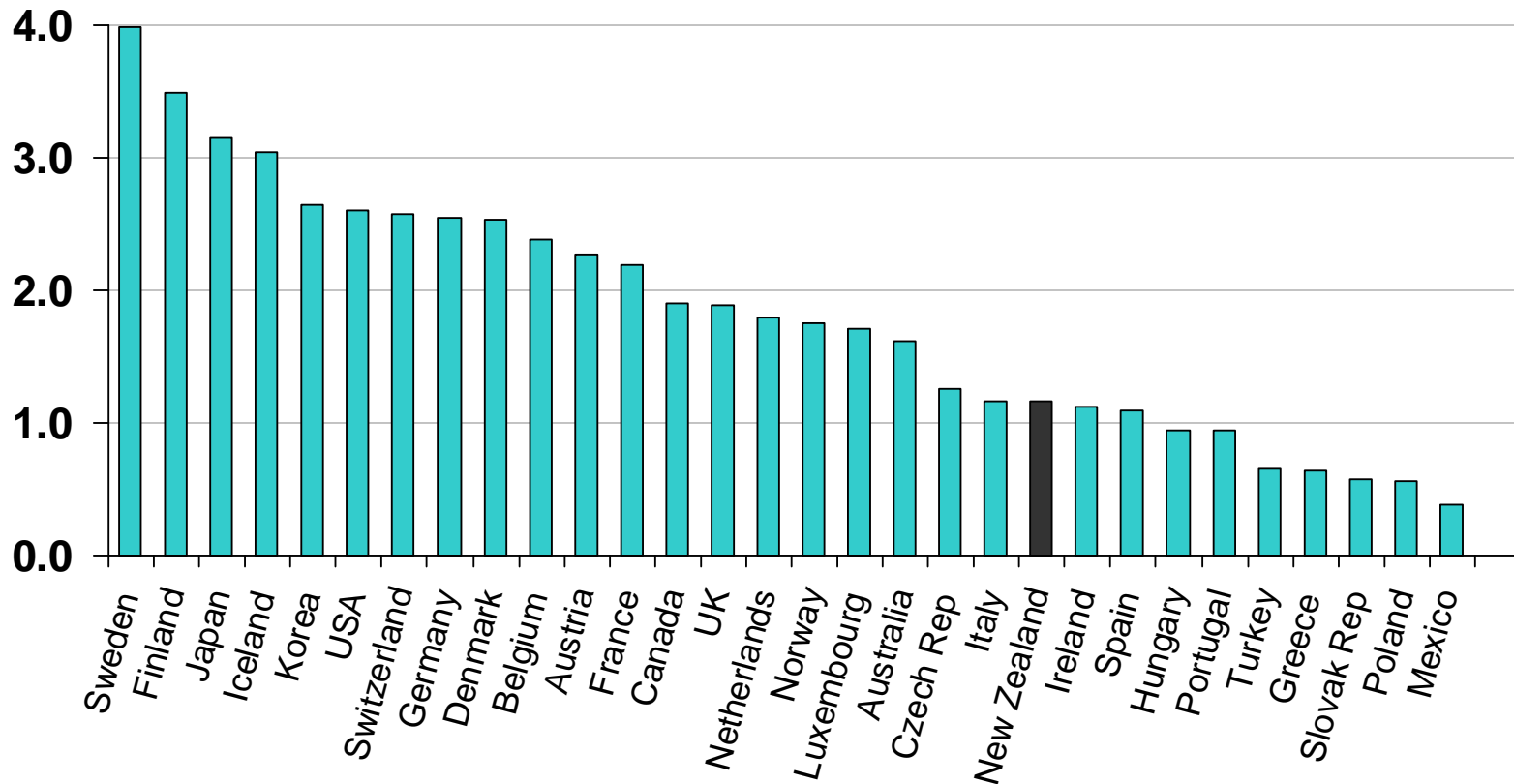
# NEW ZEALAND'S CAPITAL MARKETS ARE SMALL

Market capitalisation of national exchange as a % of GDP, 2006



# NEW ZEALAND'S R&D SPEND IS HALF OF THE OECD AVERAGE

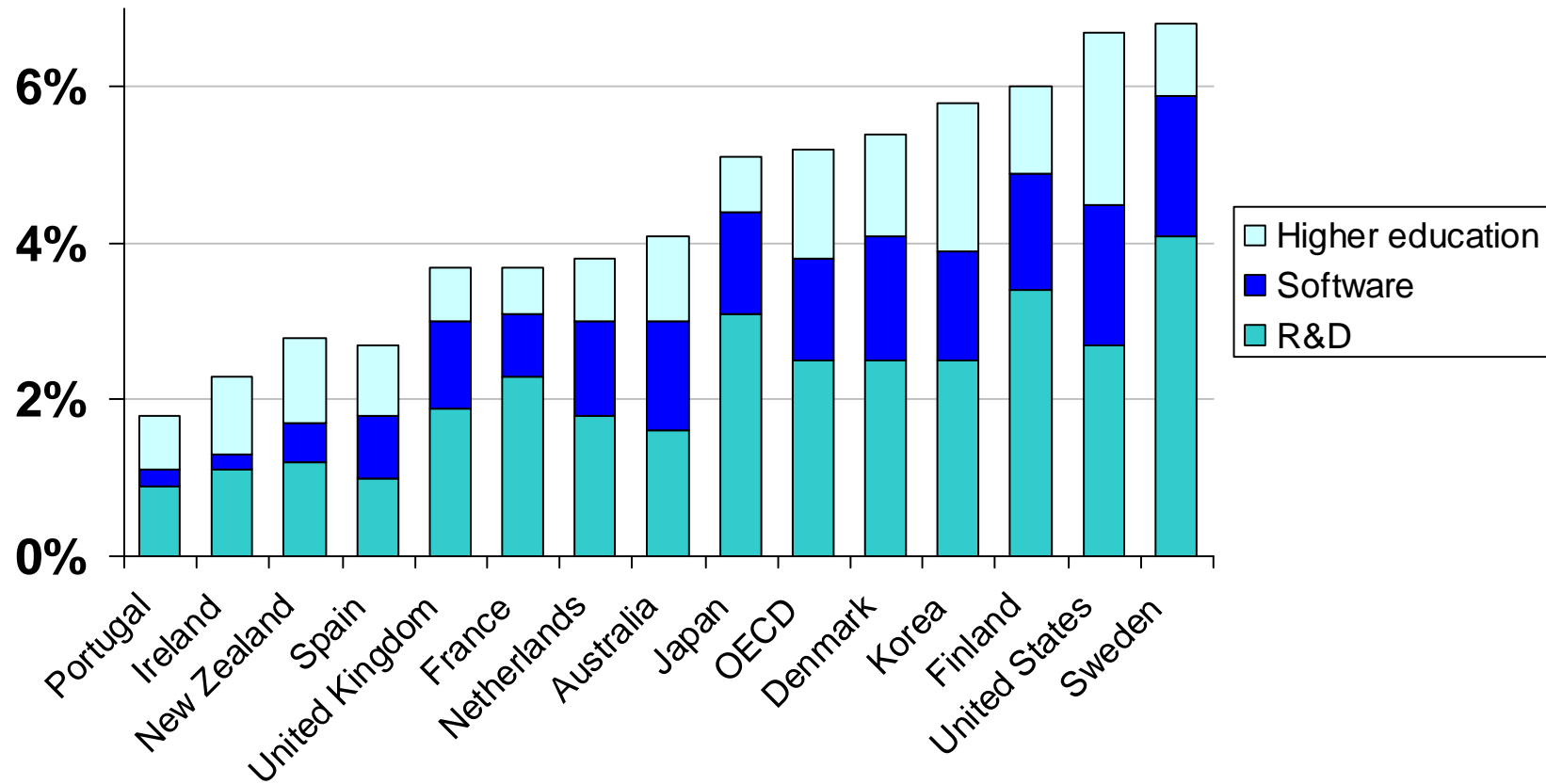
Gross Expenditure on Research and Development (GERD) % of GDP, 2003



Note: 2003 or most recent year available.  
Source: OECD.

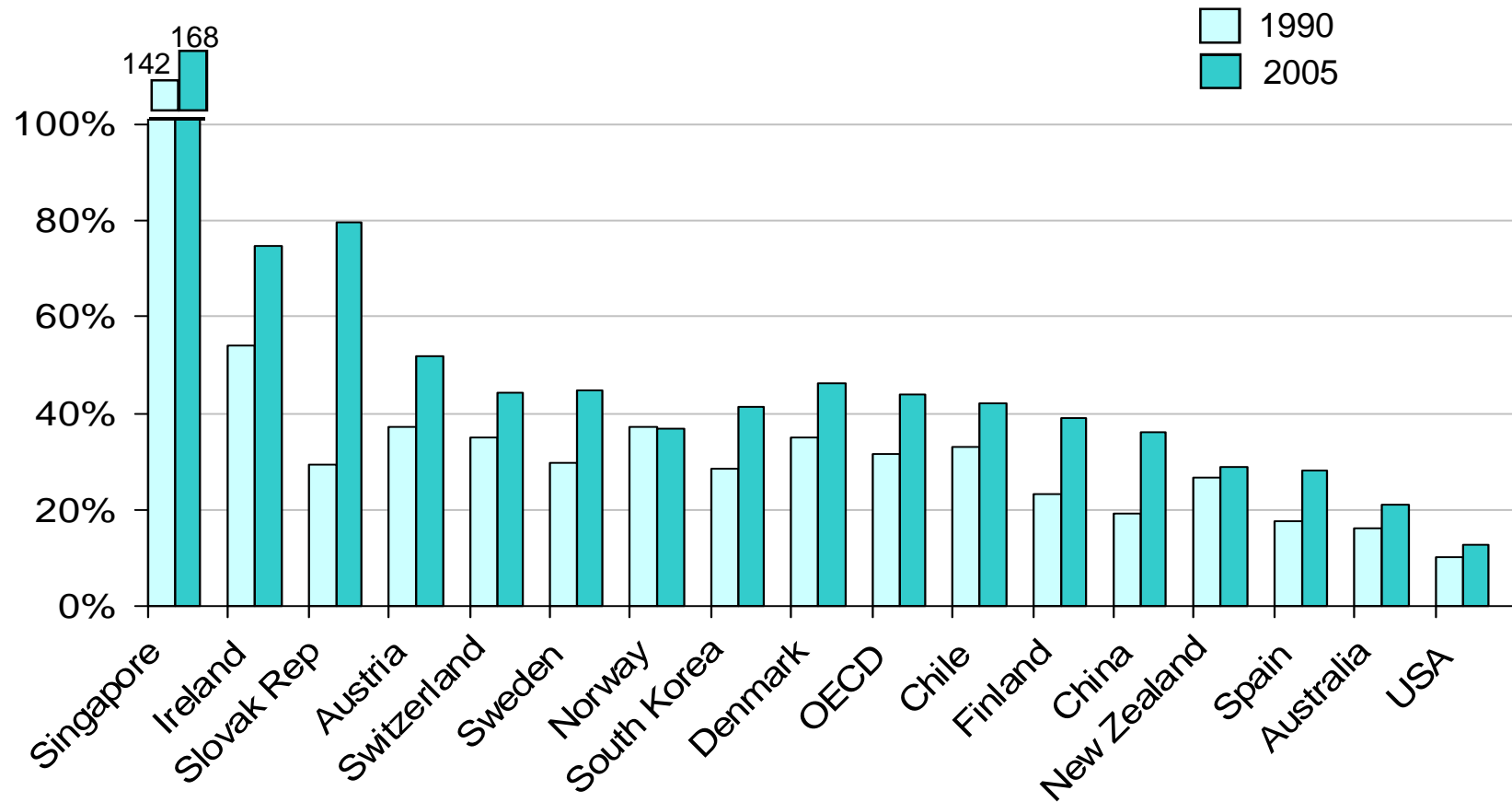
# NEW ZEALAND MAKES LITTLE INVESTMENT IN KNOWLEDGE

Investment in knowledge as a % of GDP, 2002



# NEW ZEALAND EXPORTS LESS THAN MOST DEVELOPED COUNTRIES

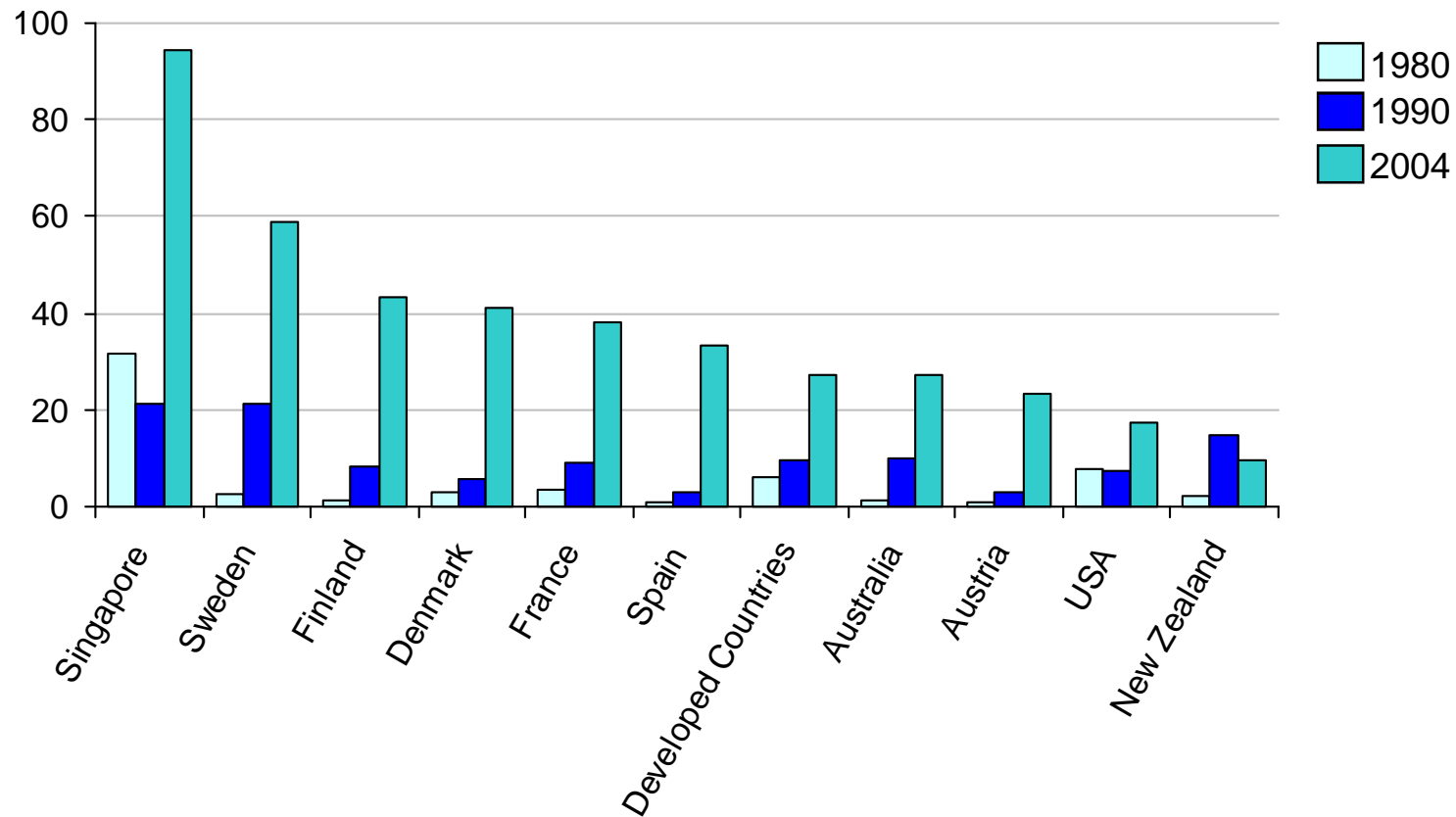
Exports as a % of GDP, 1990 and 2005



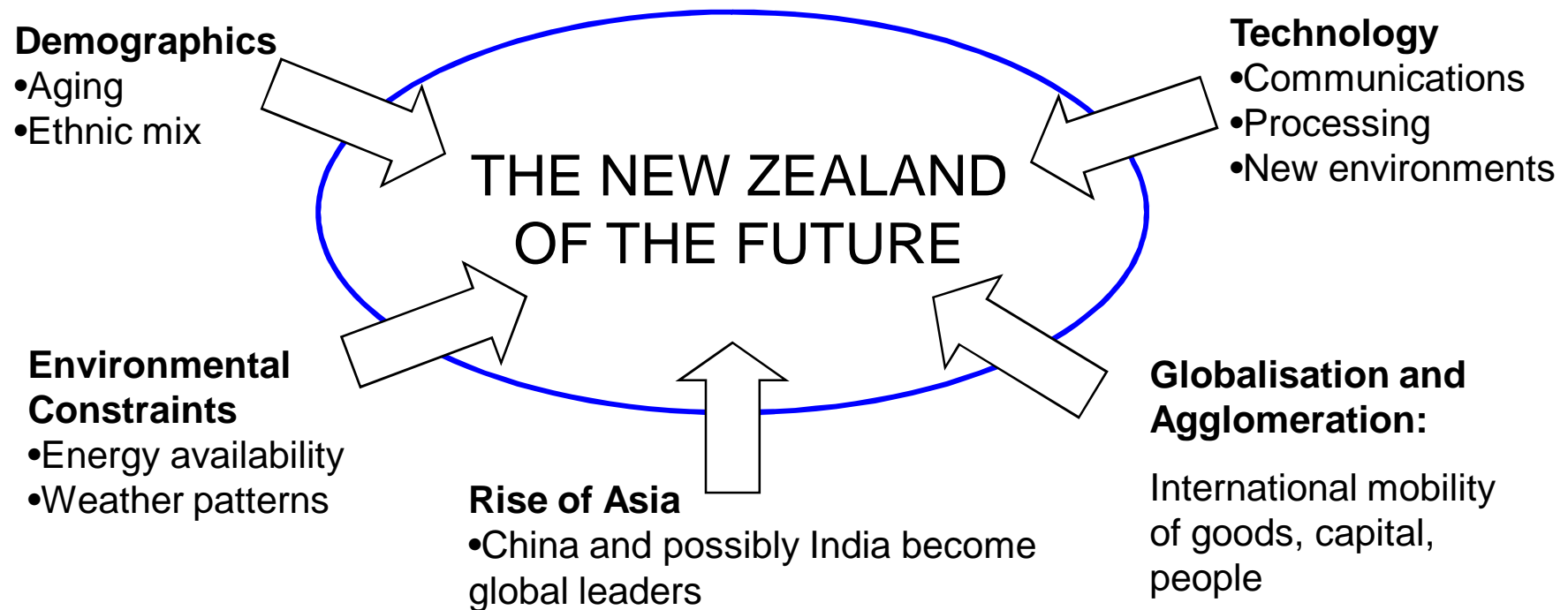
Source: OECD; national government statistics for Chile, China, and Singapore for 2005.

# NEW ZEALAND IS DISTINCTIVE IN HAVING A LOW AND REDUCING OUTWARD FDI STOCK

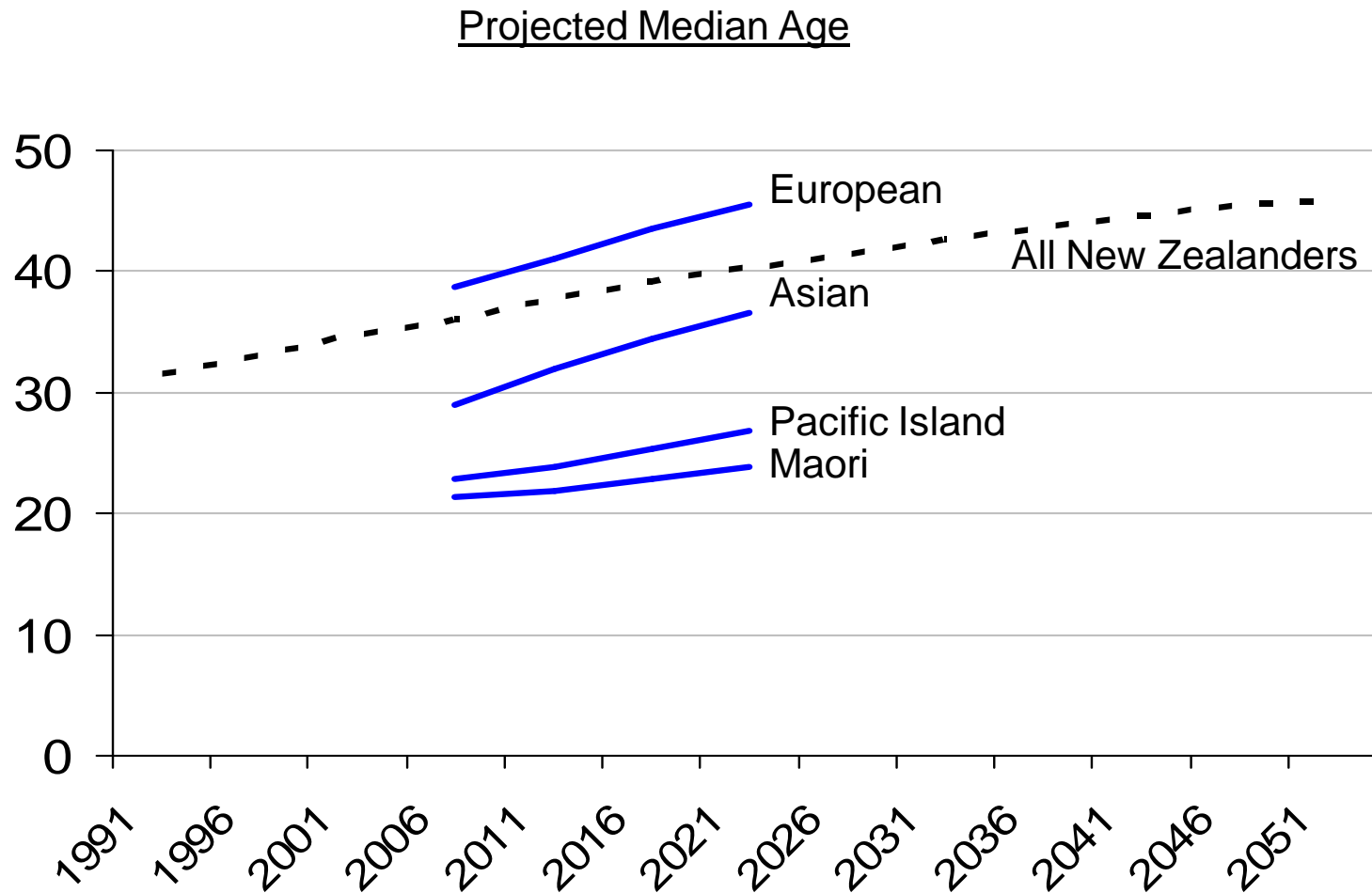
Outward FDI as a % of GDP



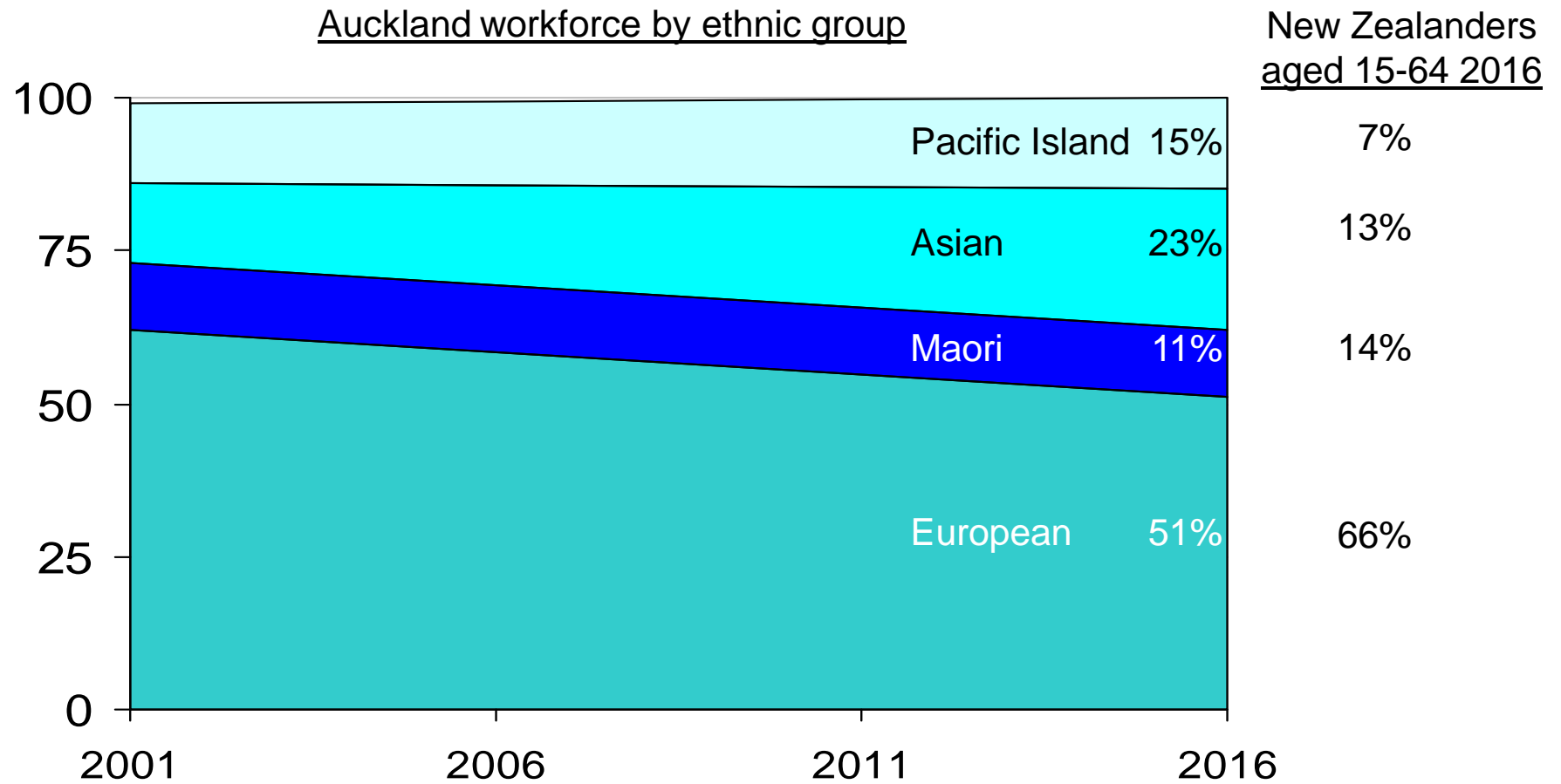
### 3. FUTURE CHALLENGES AND OPPORTUNITIES



# NEW ZEALAND HAS AN AGING POPULATION

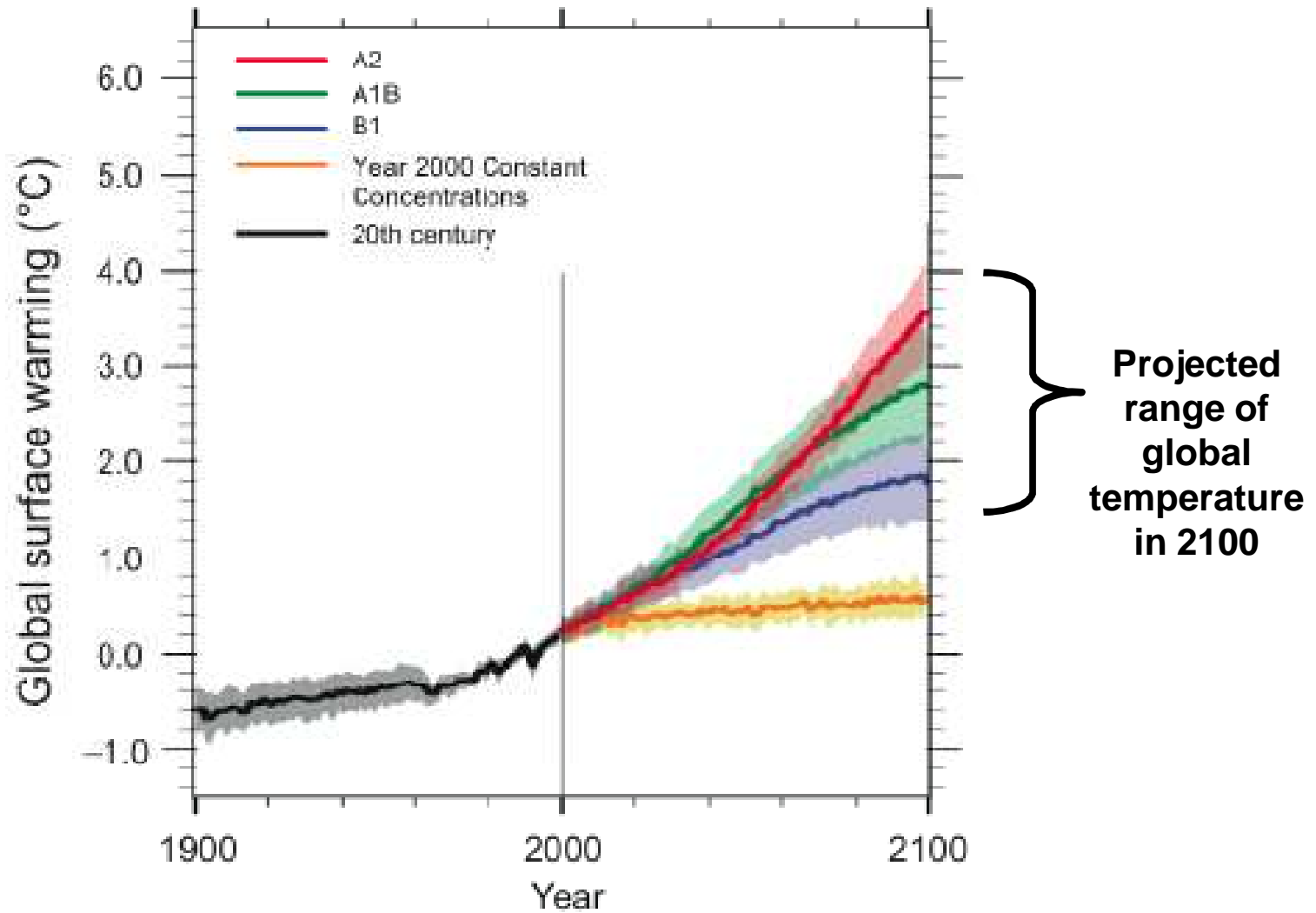


# NEW ZEALAND'S POPULATION MIX IS CHANGING

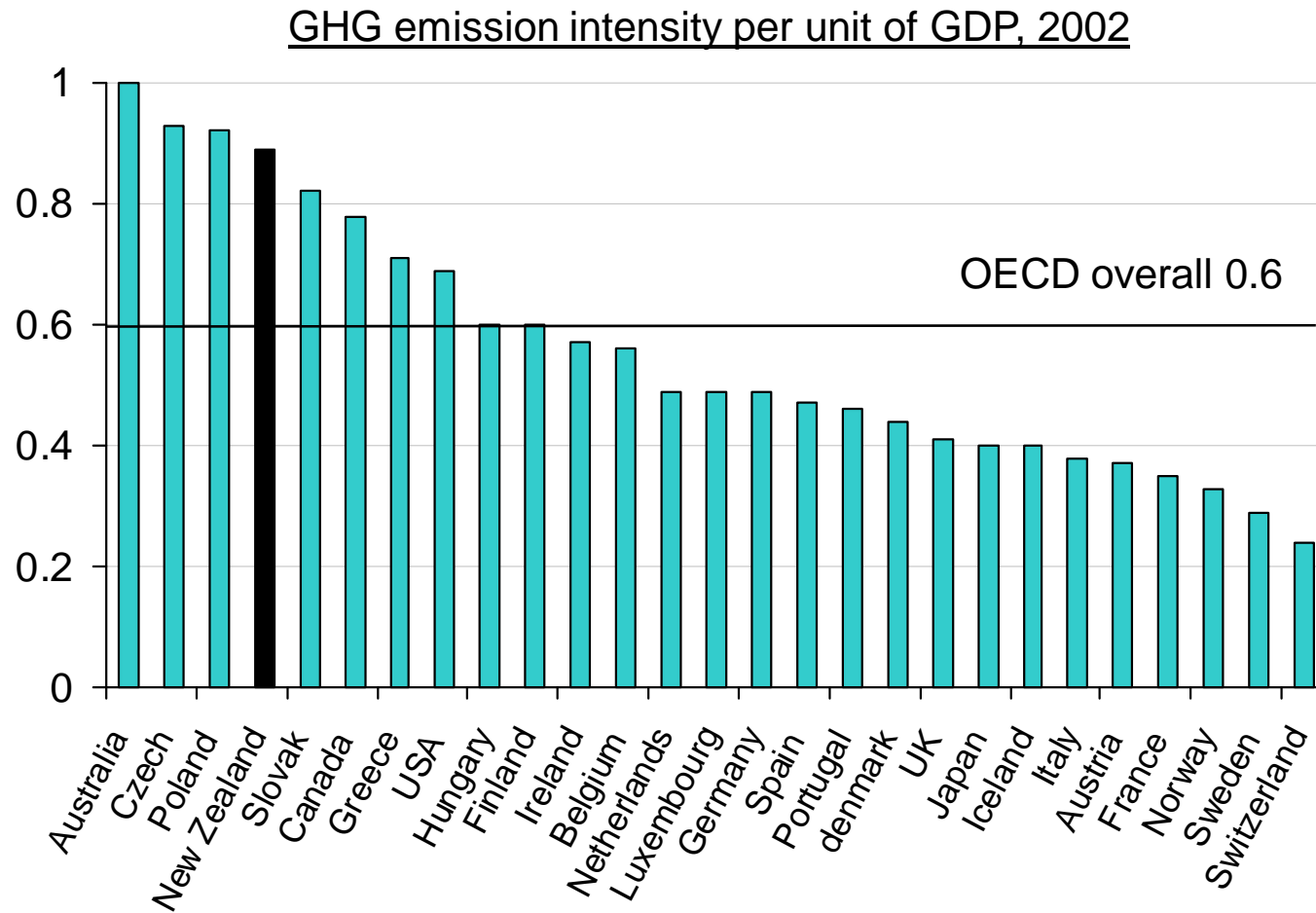




# THE IPCC PROJECTS AN INCREASE IN AVERAGE GLOBAL TEMPERATURES OF 1.8 TO 4.0 DEGREES CELSIUS BY 2100



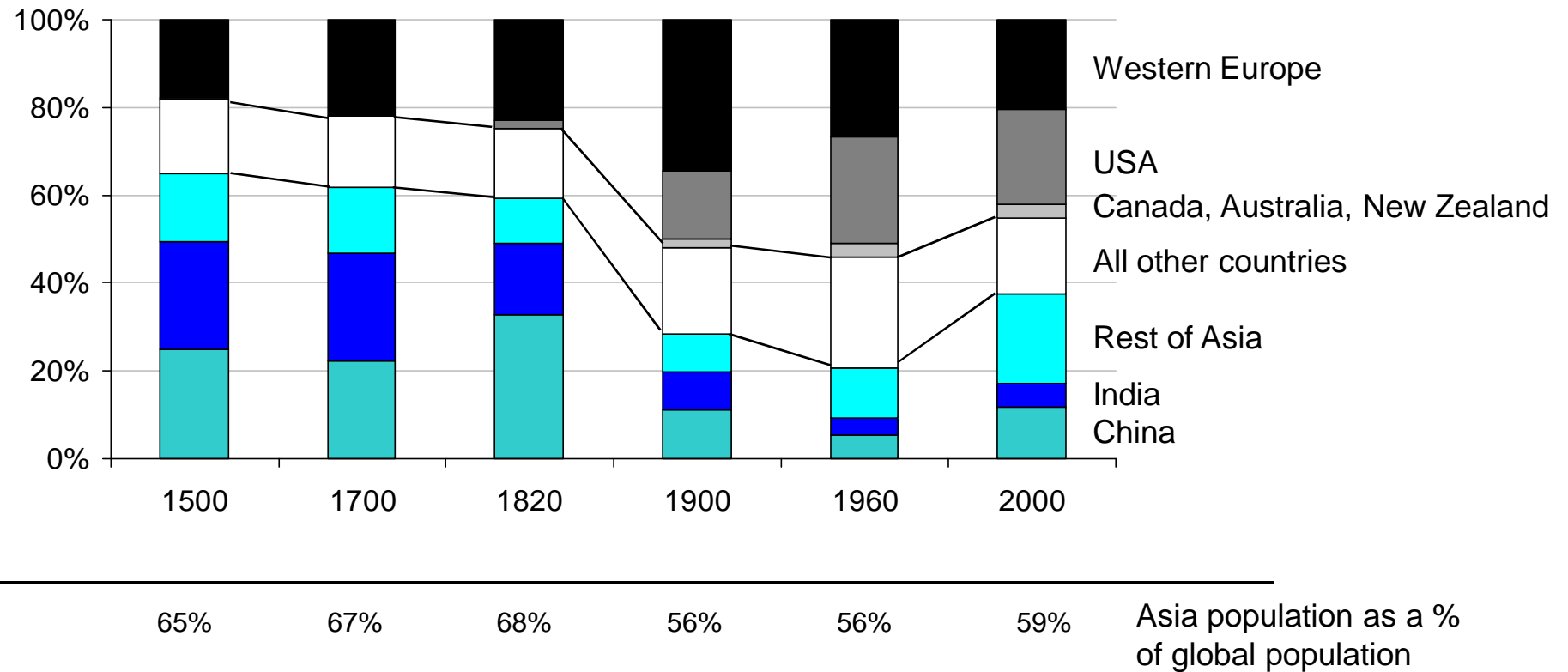
# NEW ZEALAND'S ECONOMY IS EMISSION INTENSIVE



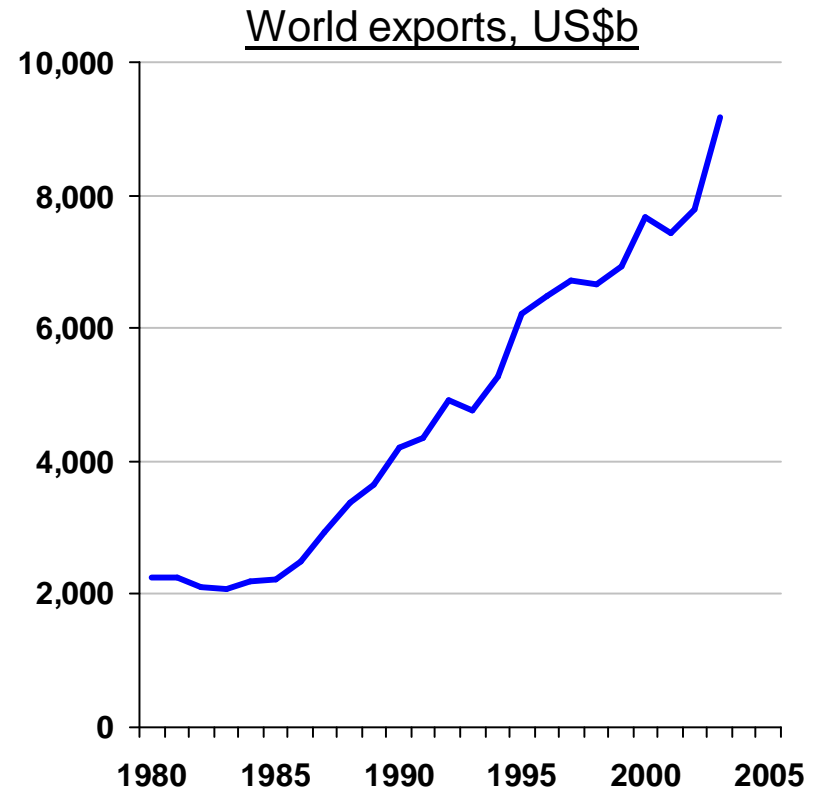
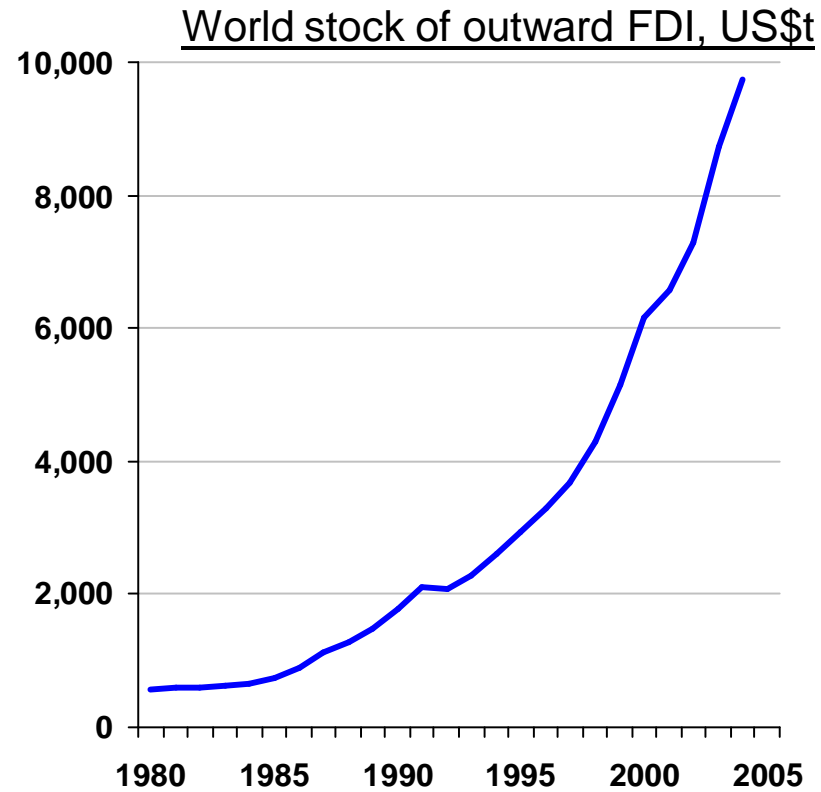
Note: Data not available for Turkey, Korea, or Mexico. GHG = Greenhouse Gases.  
Source: OECD.

# THE ECONOMIC RISE OF ASIA

Distribution of global GDP since 1500

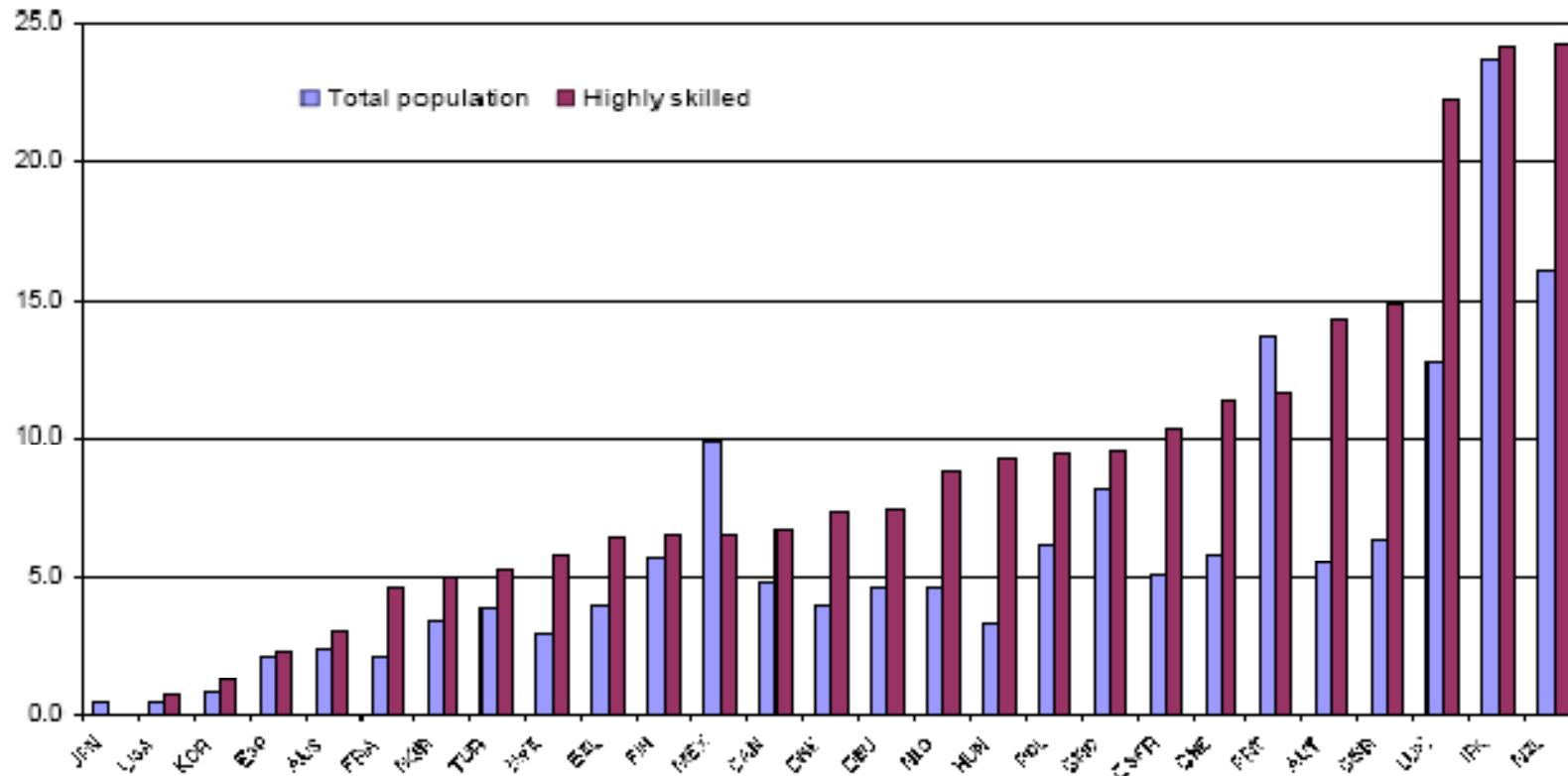


# MASSIVE GROWTH IN INTERNATIONAL FLOWS OF GOODS, SERVICES, AND CAPITAL



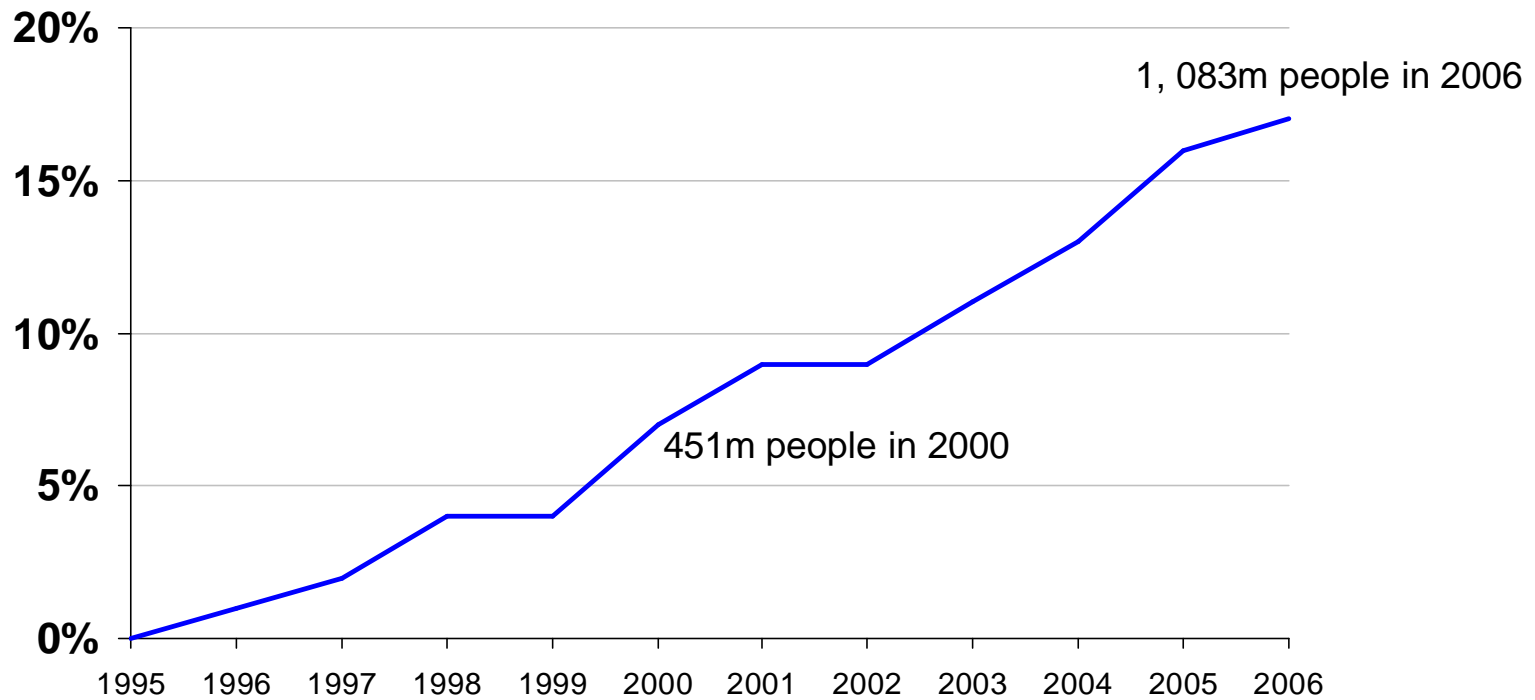
# INCREASING INTERNATIONAL MOBILITY OF PEOPLE

Expatriates as a % of total population and highly skilled population



# RAPID EVOLUTION OF THE INTERNET FROM 1995

Internet Users as a % of world population, 1995-2006



## IMPLICATIONS FOR NEW ZEALAND

The significance of many of the constraints facing New Zealand will increase over the next few decades

- Labour shortages, energy prices, changes in global capital markets

There are also some very significant opportunities, some of which are particularly relevant to New Zealand

- Technology allows some of the labour and energy constraints to be overcome, and for new business models to be deployed.
- The rise of Asia brings the global economy closer to New Zealand

But to take advantage of these opportunities, New Zealand needs to gear up and make the required investments

This will require much more than a handful of sensible, but modest, changes – this requires transformation

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