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EXECUTIVE SUMMARY 2006 / 3

Competing to win: An external strategy for a changed world

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EXECUTIVE SUMMARY

A key priority in terms of substantially improving New Zealand's level of international economic engagement is strengthening the ability of New Zealand firms to access foreign markets.

New Zealand's current approach

New Zealand's current approach to achieving enhanced international market access places heavy emphasis on multilateral trade liberalisation through what is now called the World Trade Organisation (WTO). This approach has recently been supplemented with a secondary focus on securing bilateral and regional free trade agreements (FTAs). In addition, New Zealand has invested in various export promotion activities in offshore markets through what is now New Zealand Trade & Enterprise (NZTE) as well as investing in some national branding, which is generally related to tourism promotion.

This emphasis on multilateral trade liberalisation exists because of the historical nature of New Zealand's exporting profile as well as the destination of New Zealand's exports. New Zealand's exports continue to be dominated by primary goods, which are subject to relatively high levels of import protection and other types of trade distortions. And New Zealand has a very wide range of export markets, with less of a regional focus than most other countries.

So New Zealand's current approach to securing international market

access can be understood in part as a legacy of historical circumstances. But New Zealand's relatively low levels of exporting and outward foreign direct investment (FDI), and New Zealand's failure to participate meaningfully in the globalisation process over the past couple of decades, suggests that this approach needs to be reviewed. Is New Zealand's approach still appropriate given the major changes in the global economic environment over the past couple of decades?

A changed world

Two major changes in the international environment have particular relevance for the design of an external strategy for New Zealand. The first is the uncertain future of multilateral trade liberalisation, with the suspension of the Doha Round and the rapid spread of regional and bilateral trade agreements over the past several years. These developments have potentially significant implications for the ability of New Zealand firms to access key markets.

The second major change is that the market access challenges facing New Zealand firms are increasingly not about formal trade barriers. A growing number of New Zealand's internationally engaged firms, for example, are selling branded goods and services into competitive, sophisticated offshore markets. For many of these firms, the market access challenge is less about getting their products across the wharf without attracting a tariff as

much as accessing the appropriate channels to market and getting in front of the consumer.

These changes have made the world a more demanding place for New Zealand and New Zealand needs to respond by competing in a far more determined and aggressive manner. If the world is changing, simply continuing with what has always been done is unlikely to generate improved levels of international economic engagement. New Zealand needs to develop an external strategy that is appropriate to current and prospective international economic conditions.

An external strategy for New Zealand

In particular, three areas of focus are proposed for an external strategy for New Zealand.

The first element is an explicit outcomes focus. Currently there are no outcomes-based targets in New Zealand's approach to international economic engagement and accordingly there is no monitoring or reporting on progress against relevant outcomes. Rather, progress is measured on process dimensions like the number of meetings between senior officials or progress towards securing an FTA.

Ultimately, however, what matters is achieving a substantial and sustained increase in the level of New Zealand's international economic engagement. Clear outcomes measures in terms of

exporting and outward FDI should be the direct focus of New Zealand's external strategy. New Zealand needs to be clear as to what success looks like and then act so as to achieve this. Setting explicit and ambitious targets is likely to have a powerful impact on behaviour and resourcing decisions.

The second element is a much more deliberate regional focus. This reflects the need for New Zealand, as a small country, to focus the economic and political investments it is making to secure market access in a few key priority markets rather than investing small amounts across many markets. It is also a response to the increasingly regional flavour of the global economic environment, and the need for New Zealand to be on the inside of the emerging regional architecture.

The recommendation is that New Zealand's external strategy should focus to a greater extent on the Asia Pacific region. The Asia Pacific is a very large and growing market and is physically close to New Zealand. In particular, it is recommended that New Zealand make disproportionate investments in developing its economic relationships with Australia, the US, and China. Specific targets are proposed for these three key markets.

Third, New Zealand needs to substantially increase its in-market investments to achieve these target outcomes. The type of activities that are important in this regard include providing in-market services to

COMPETING TO WIN: AN EXTERNAL STRATEGY FOR A CHANGED WORLD

New Zealand firms as they seek to enter and expand into international markets: for example, providing access to shared infrastructure, to world-class market research, and to local networks. These direct services to New Zealand firms should be supplemented by deliberate campaigns to showcase New Zealand, with particular emphasis on the three target markets, through national branding, cultural diplomacy, physical points of presence, and New Zealand business and government delegations. Lastly, these efforts should be supported by a more ambitious, pragmatic approach to FTA negotiations to enhance New Zealand's ability to secure FTAs with key partner countries.

Choosing to compete

Importantly, most of these actions are within New Zealand's control, allowing New Zealand to develop key economic relationships without waiting for other countries to move first. The response to events like

the suspension of the Doha Round should not be to adopt a mood of resignation, but rather to make significant, sustained investments in key economic relationships.

New Zealand's approach to international engagement needs to be updated for the current global economic environment in which New Zealand is operating. The three key elements that have been proposed for an external strategy for New Zealand will provide a sharp focus for New Zealand's efforts to strengthen international market access.

Overall, New Zealand needs to become much more serious about competing to win in international markets, to set ambitious targets in terms of improved outcomes, and to act and invest so as to make good on these aspirations. New Zealand has choices available to it, but needs to act much more aggressively in order to generate substantially improved levels of international economic engagement.



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