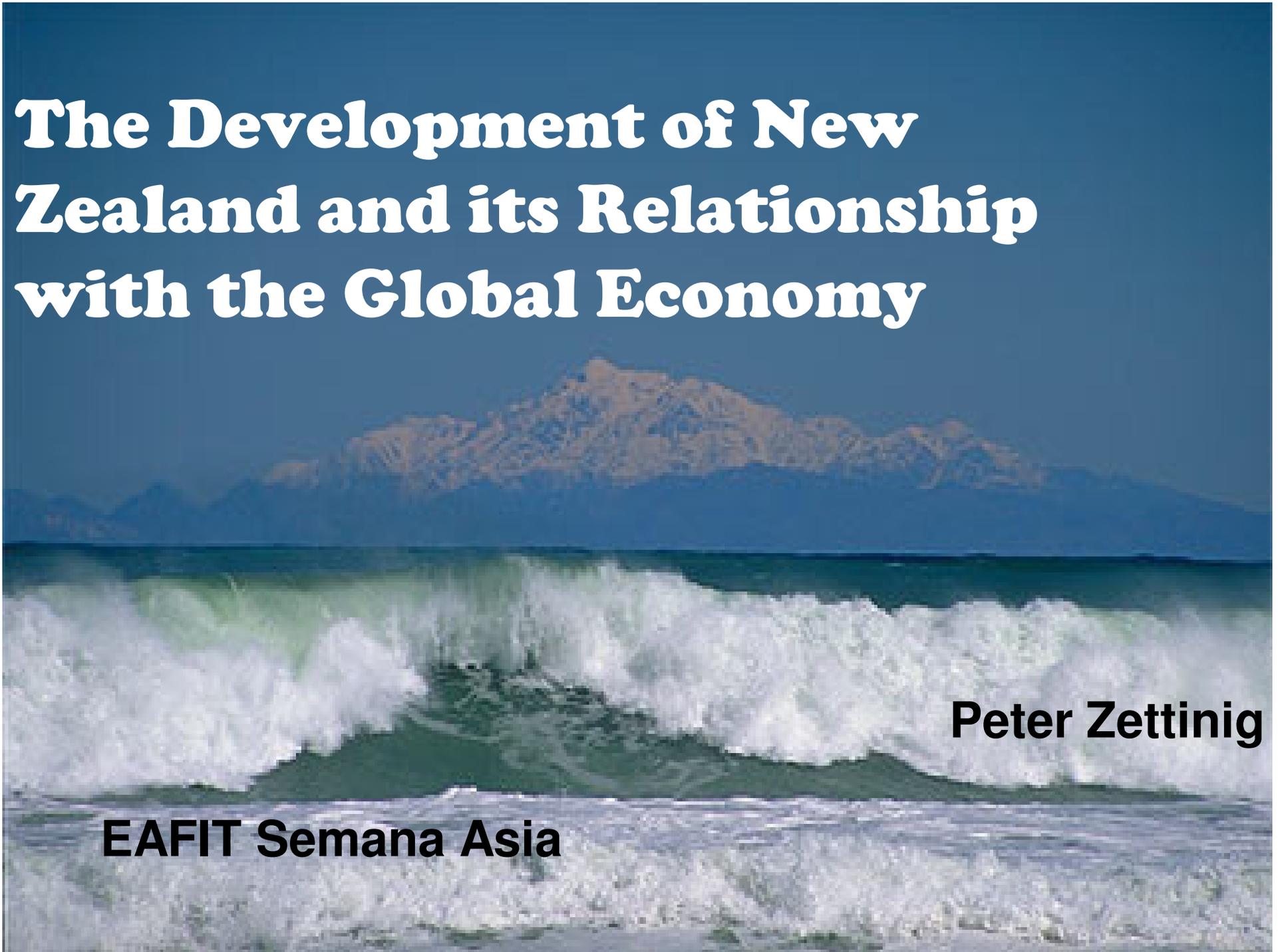


# **The Development of New Zealand and its Relationship with the Global Economy**

**Peter Zettinig**

**EAFIT Semana Asia**



# Overview

- (a) Historic Development of New Zealand
- (b) Economic Emergence of a Young Country
- (c) Implications of Globalisation
- (d) Lookout, Futures and a Thesis of New Zealand's Further Development



# Historic Development of New Zealand



## Polynesian Foundations

Major settlements between 1000-1300 CE, descendants developed distinct cultures of **MAORI** and **MAORIORI** (Chatham Islands).

**Pre-European Society:** Social organisation in **whanau** (extended family), **hapu** (group of whanau) and **iwi** (tribe). Leadership (male/female) in chieftainship, which was hereditary but often challenged. Culture centred on kinship links and land.

**Economic Organisation:** Hunting Kea (giant flightless bird to extinction around 1500 CE), fish and big sea mammals; agriculture of kumara-sweet potatoe (brought in from Polynesia), use of wild plants. Trading and cooperation on major projects between related hapu was common.

# Young History

Dutch Explorer **Abel Tasman** (1642) first European landing at Golden Bay, first European map (Nieuw Zeeland).

Captain **James Cook** (1769-1770): Anglicised New Zealand.

From 1790: Visits from French, British and American whaling, sealing and trading ships. Encounters with Maori population mostly peaceful, enthusiastic trading.

From 1800: **Missionaries** settled, conversion of Maori to Christianity (well accepted).

1815: First European **Thomas King** was born in NZ.





1840 (6th February) Signing of **Treaty of Waitangi**: British Crown and forty Maori chiefs signed treaty, ceding their sovereignty and starting a land dispute that is unresolved until today (different language versions of the treaty).

Rationales: Establishment of law and order, facilitate orderly settlement and forestall other European powers colonialisation.

1841: Own **Colony of the British Empire**, before part of New South Wales (Australia)

# Settlers



From 1840 European **settlements**, mainly from England, Wales and Scotland but also from Ireland, lesser extend from the US, India, Dalmatia and Bohemia.

French Settlement in Akaroa (peninsula east of Christchurch).

Land disputes/wars between Maori groups and Maori and Pakeha (European)

1860ies Gold rush era, bringing Chinese settlers in.

1870: University of New Zealand established (federal university system).  
Education act: free, secular and compulsory schooling for all.

1911 Population of New Zealand reaches 1 Million (<50.000 Maori)

# Technological Change Economic Prosperity



Until 1890 Economy is mainly based on **wool and local trade**.

Invention of **refrigerated shipping** (from 1882) – trade of meat and dairy products becomes possible.

**Primary sector and refrigerated shipping** remains the main basis of the New Zealand Economy until the 1970ies.

Importance of **Rugby** and the formation (1905) of the '**All Blacks**' important for the country's development of an independent nation.

Growing self-confidence and nation-building efforts materialised with New Zealand refusing to join the Australian Commonwealth and to change its *status from colony to 'dominion' in 1907.*

Participation in WWI and WWII in **ANZAC** for the British Empire.



ANZACs landing at Gallipoli, 25th April 1915

## 20th Century





**Great Depression** hit country hard, sky-rocketing unemployment, but laid foundations for a **social welfare state** (*state-pension, free healthcare, unemployment benefits, free education*) and '**work camps**' for unemployed created important parts of the economic infrastructure (i.e. roads, farmland, park developments)

## 20th Century

In 1950 New Zealand was the **3rd wealthiest** country in the world.

1960ies: Maori protest movements (challenging the conservative NZ mainstream culture) - New Zealand remained **culturally and economically an offshoot of Britain** (i.e. 1961: 51% of exports to UK, almost entirely frozen meat and dairy products).

Dramatic change when UK joined European Community (1973): EC import restrictions and 'psychological lock-out' forced NZ to find **new export markets, products and develop a new national identity**, less dependent on the UK.



**1984** New Labour Government changed New Zealand's foreign policy, ended the ANZUS treaty of cooperation with Australia & US due to differences in nuclear policy - making NZ a '*nuclear free zone*'.

## 20th Century

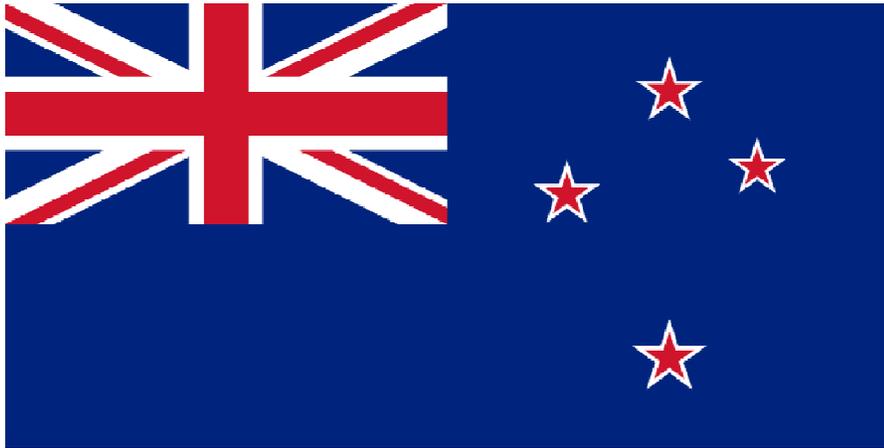
1980ies: Liberalisation of Immigration, influx of Asian immigrants, Pacific Islands (i.e. Cook, Samoa, Fiji) which resulted in a highly **multicultural society**, i.e. Auckland being the largest city for Polynesian and South Pacific Culture.



## New Zealand Today

Today New Zealand remains strong links to the UK (other than Australia with the US), many Kiwis go for an *overseas experience* ('OE') to the UK, benefiting from favourable visa requirements.

Some constitutional links to the British Empire remain: the New Zealand Sovereign is a British resident; Head of State is the Queen of England, but debates surface from time to time to make New Zealand a republic.



## NZ in a Nutshell



Coat of Arms of New Zealand

Capital:	Wellington
Government:	Parliamentary democracy and constitutional monarchy
Population:	4 268 000 (2008), density 15/sqkm
GDP:	USD 117.67 bn (2008); PC: USD 27 785 (PPP, 28th rank)

# Economic Structure

**Primary Sector:** SUM: 7.2% of GDP and over 50% of exports  
**Agriculture** (dairy, sheepmeat, cattle);  
Horticulture (apples, kiwifruit and **wine**),  
Forestry  
Mining (coal, gas, oil/condensate)  
Fishing  
Energy (about 60% from renewable resources:  
hydropower & wind generation)

**Secondary Sector:** SUM: 14.2% of GDP  
Processing of **food and wood** largest share

**Tertiary Sector:** SUM: 78.6% of GDP  
Financial services (reg. assets in banks 294 bn, '07)  
Transportation (road, rail, shipping, aviation)  
**Tourism** (major foreign exchange earner: \$6.3bn),  
**Tertiary Education** (around \$ 2 bn)  
**Screen Industry** (film, tv)



# Economic Structure: Analysis

Economy is still heavily reliant on primary sector and its output.

Secondary sector is indirectly heavily dependent on primary sector.

Biggest corporation of New Zealand,  *Fonterra* , is owned by 11,000+ farmers and controls over **50% of the world's dairy trade**. Outlook is very good due to stable domestic ownership structure, world demographic growth and changes (i.e. Big Emerging Markets), developments of bio-fuels and related increase of commodity prices.



# Economic Structure: Analysis

Government's strategic plan is trying to build on NZ's trading strengths, especially via securing *Free-Trade Agreements* ('Example: 7th April 2008, China's signing of its first comprehensive FTA with a developed nation).

Further, government is striving to generate a '*knowledge society*', in order to compensate for strong reliance on commodities and to hedge against geographic location disadvantages for trade with tangibles.



# Foreign Trade: Overview

## Principal Merchandise Exports

**NZD 34.6bn (2007)**

Dairy produce 18.5%  
Meat 12.8%  
Wood 6.2%  
Machinery 4.5%  
Aluminium 4.4%

## Principal Merchandise Imports

**NZD 40.9bn (2007)**

Mineral fuels 13.8%  
Mechanical machinery 13%  
Vehicles 12.1%  
Electrical machinery 9.3%

## Trade Balance Deficit

**NZD 6.3bn (2007)**



# Foreign Trade: Overview

## Major Trading Partners (2007)



### Exports (NZD 34.6bn)

Australia	21.2%
U.S.	12.1%
Japan	9.8%
China, PRC	5.5%
<b>UK</b>	<b>5.1%</b>

### Imports (NZD 38.4bn)

Australia	21.1%
China	13.3%
U.S.	9.9%
Japan	9.0%
Germany	4.7%
<b>UK</b>	<b>2.7%</b>

# Foreign Trade: Analysis

Very high dependency on exports of commodity type of goods, which allow limited value adding and differentiation.

This is positive, when commodity prices increase (as they do currently) but creates outside control over important aspects.

Government initiatives to create more exports in the service sector (tourism, tertiary education, knowledge-based products & services) has been *moderately successful*, perhaps due to a tradition of 'reaping easy factor benefits from the land', which might be exploitative and not sustainable (i.e. gold, coal, fishing).

Most obvious explanation for the moderate success rate are inconsistencies between government aspirations (ie. knowledge-based economy) and actual policies and procedures (i.e. visa policies for foreign graduates; slow investments into vital infrastructure; etc).



# Globalisation and the Challenges for New Zealand

***Globalisation***, what is it?

From an IB perspective globalisation can be defined as:

*'increased interconnectivity and interdependence between different parts of the global political, economic, social and technological systems'*



# Globalisation and the Challenges for New Zealand

***Globalisation***, what is it?

Globalisation involves systems on a multitude of dimensional levels of analysis:

The ***extra-institutional environment*** (i.e. inter-governmental; technological; meta-social);

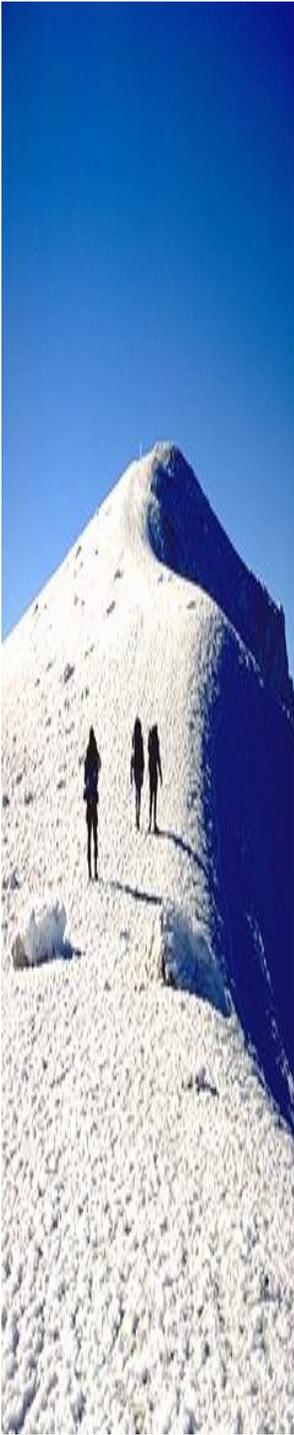
The ***institutional environment*** (i.e. cultures, legal systems, Business practices);

**Industries** (i.e. the ICT industry, car industry, civil aviation);

**Firms** (i.e. Fonterra, Caltex, Solid Fuels, Meridian Energy)

**Individuals** (i.e. managers, entrepreneurs, employees);

***...and their coevolving interactions over time...***



## **GLOBALISATION and New Zealand's challenges/opportunities in the international environment**

**A selection of issues/theses** which will continue to be influential for political & economic futures of NZ:

1. 'Globalisation diminishes/removes importance of geography'
2. 'East Asia regaining its political & economic dominance'
3. 'Development of Trans-Tasman relationships'
4. 'New Applications for NZ expertise: Latin America'

# NZ's CHALLENGES in Globalisation

*'Globalisation diminishes/removes importance of geography'*

'Borderless world' (Kenichi Ohmae, 1989)

'Death of distance' (Frances Cairncross, 1997)

'World is flat' (Thomas Friedman, 2006)

'Geography is history' (Gyngell, Skillig & Thirlwell, 2007)

*Truth in such hypotheses would be extremely desirable for NZ,  
but does it hold?*



# NZ's CHALLENGES in Globalisation

1

*'Globalisation diminishes/removes importance of geography'*

New Zealand is the world's most remote OECD country.

*Economic Geography Theory:*

*'Negative relationship between distance from global centres of economic activity and economic benefits'*

*Economic Costs of Distance: i.e. access information, technological spillovers, transportation, relationship building, etc.*





## NZ's CHALLENGES in Globalisation

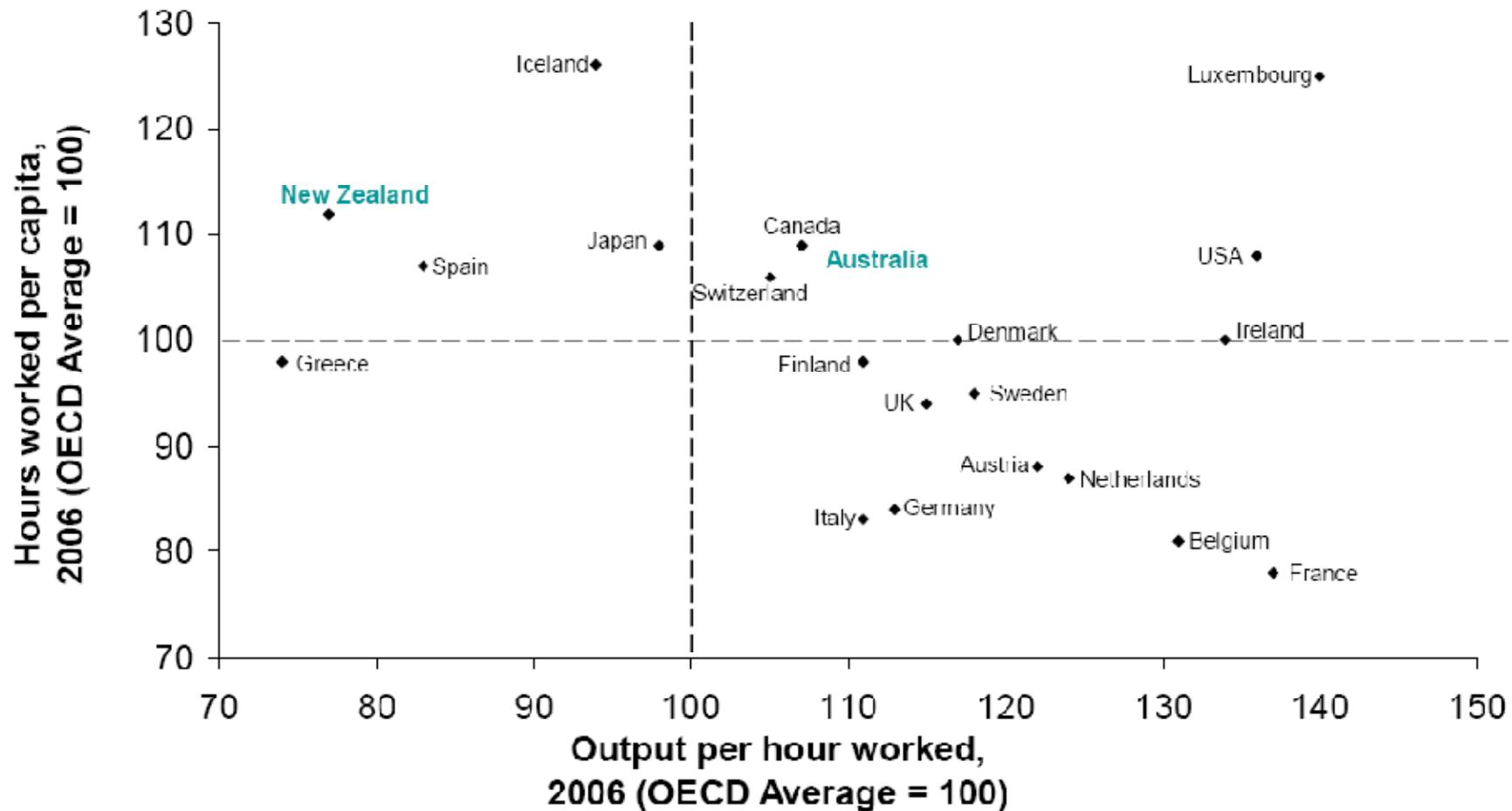
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*'Negative relationship between distance from global centres of economic activity and economic benefits'*

*IMF estimate: Productivity gap between NZ and other countries can be partially blamed on distance.*

*The result of productivity problems is a 'rats race', where more resources (i.e. work hours per year) are substituting for lacking increases in output per hour.*

# NEW ZEALANDERS WORK LONGER HOURS THAN AUSTRALIANS BUT ARE NOT AS PRODUCTIVE





## NZ's CHALLENGES in Globalisation

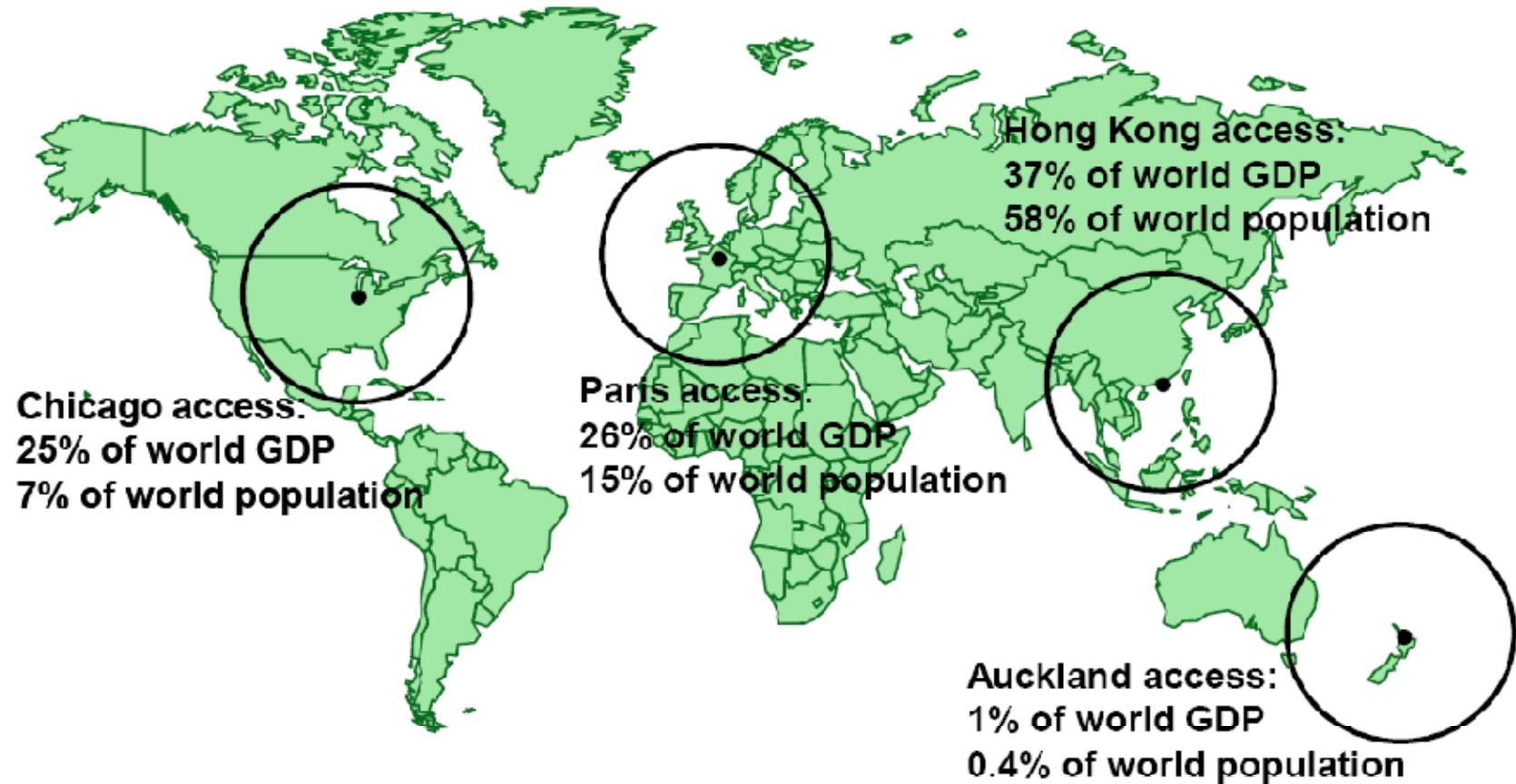
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*'Negative relationship between distance from global centres of economic activity and economic benefits'*

Redding & Venables (2004) estimate that GDP of Australia could be 27% higher if Australia was 50% closer to its trading partners.

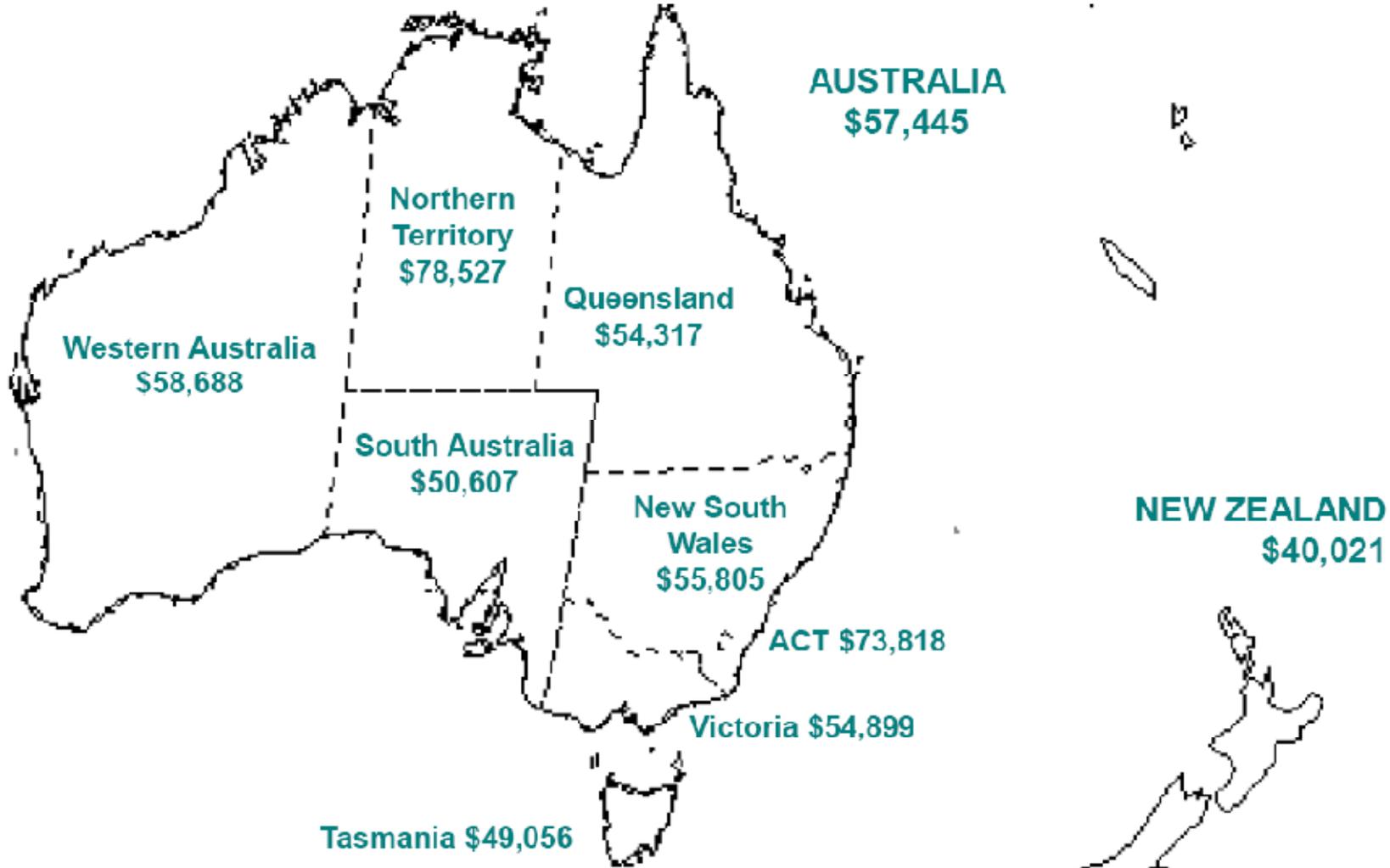
This estimate can be extended to New Zealand.

# THE RETURN OF ASIA BRINGS GLOBAL MARKETS CLOSER TO NEW ZEALAND



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 PER CAPITA INCOME IS LOWER THAN IN ALL AUSTRALIAN STATES



Note: Data shows year ending June 2007. Current prices reported in NZ\$ with exchange rate 0.87.  
Source: Australian Bureau of Statistics; Statistics New Zealand.

# NZ's CHALLENGES in Globalisation

*'Negative relationship between distance from global centres of economic activity and economic benefits'*

BUT:

Did technological advance in transportation, information and telecommunication change the influence of this economic relationship?



## NZ's CHALLENGES in Globalisation

1

*'Negative relationship between distance from global centres of economic activity and economic benefits'*

Leamer (2007) asserts that above hypothesis holds.

Berthelon & Freund (2004) calculate that about **25% of all world trade** still takes place between countries sharing a common border;  
**50% takes place between trading partners who are less than 3000km apart**



# NZ's CHALLENGES in Globalisation

*'Negative relationship between distance from global centres of economic activity and economic benefits'*

Some other implications beside difficult trading environment:

Development of **Information & Communication technologies** made possible to now control distant subsidiaries from a distance, which means also that some of the **high value economic activities** (i.e. corporate leadership) are removed from remote places like New Zealand (*'branch economy problem'*).



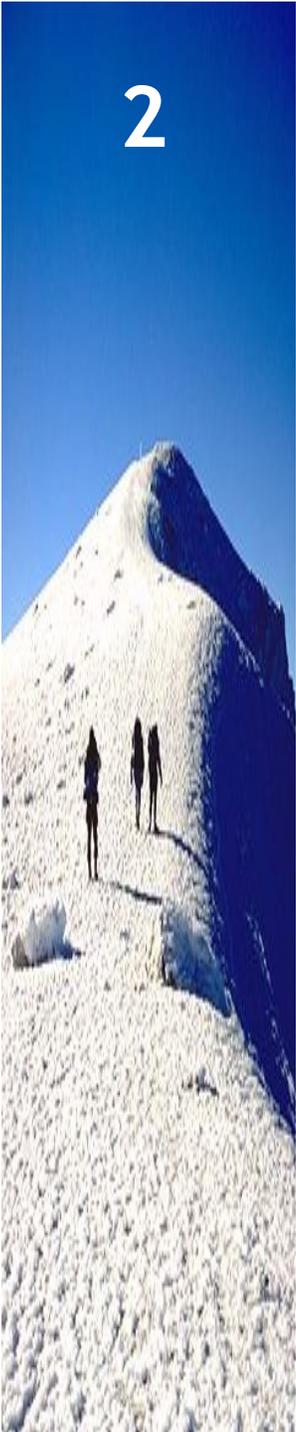
# 2

## GLOBALISATION and New Zealand's challenges/opportunities in the international environment

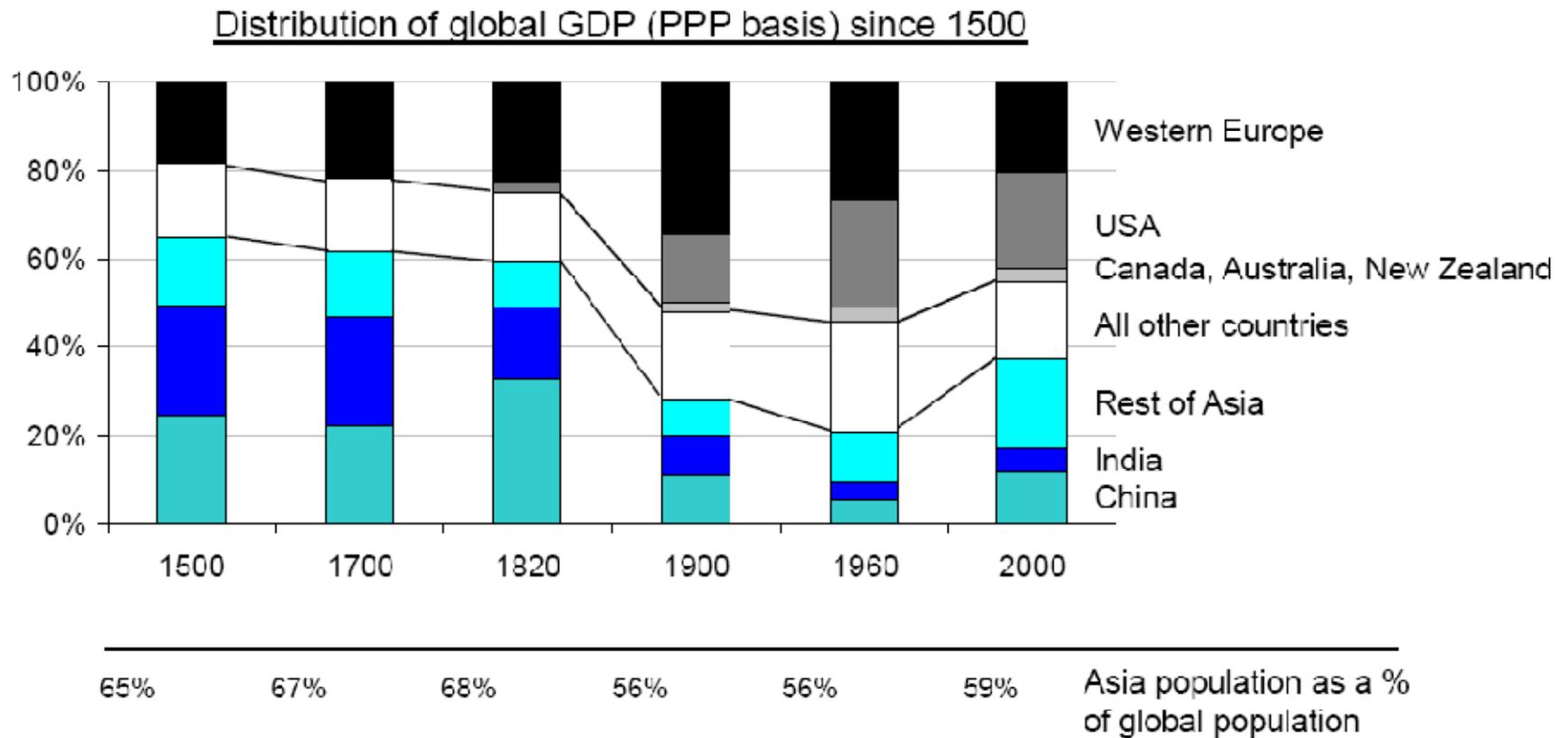
### 'East Asia regaining its political & economic dominance'

Chances for New Zealand based on the 'economic distance' hypothesis and the increasing importance of East Asia for the global economy?

Is the world's centre of economic activity coming closer?



## THE ECONOMIC RETURN OF ASIA



# 2

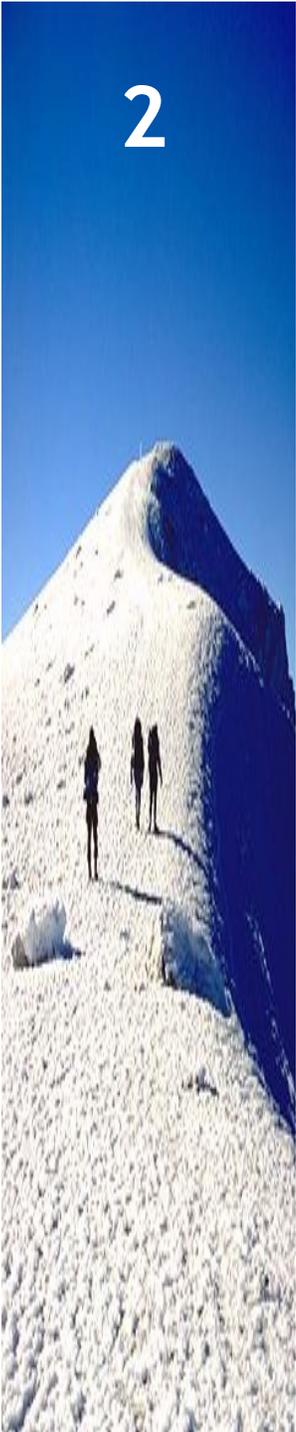
## GLOBALISATION and New Zealand's challenges/opportunities in the international environment

'East Asia regaining its political & economic dominance'

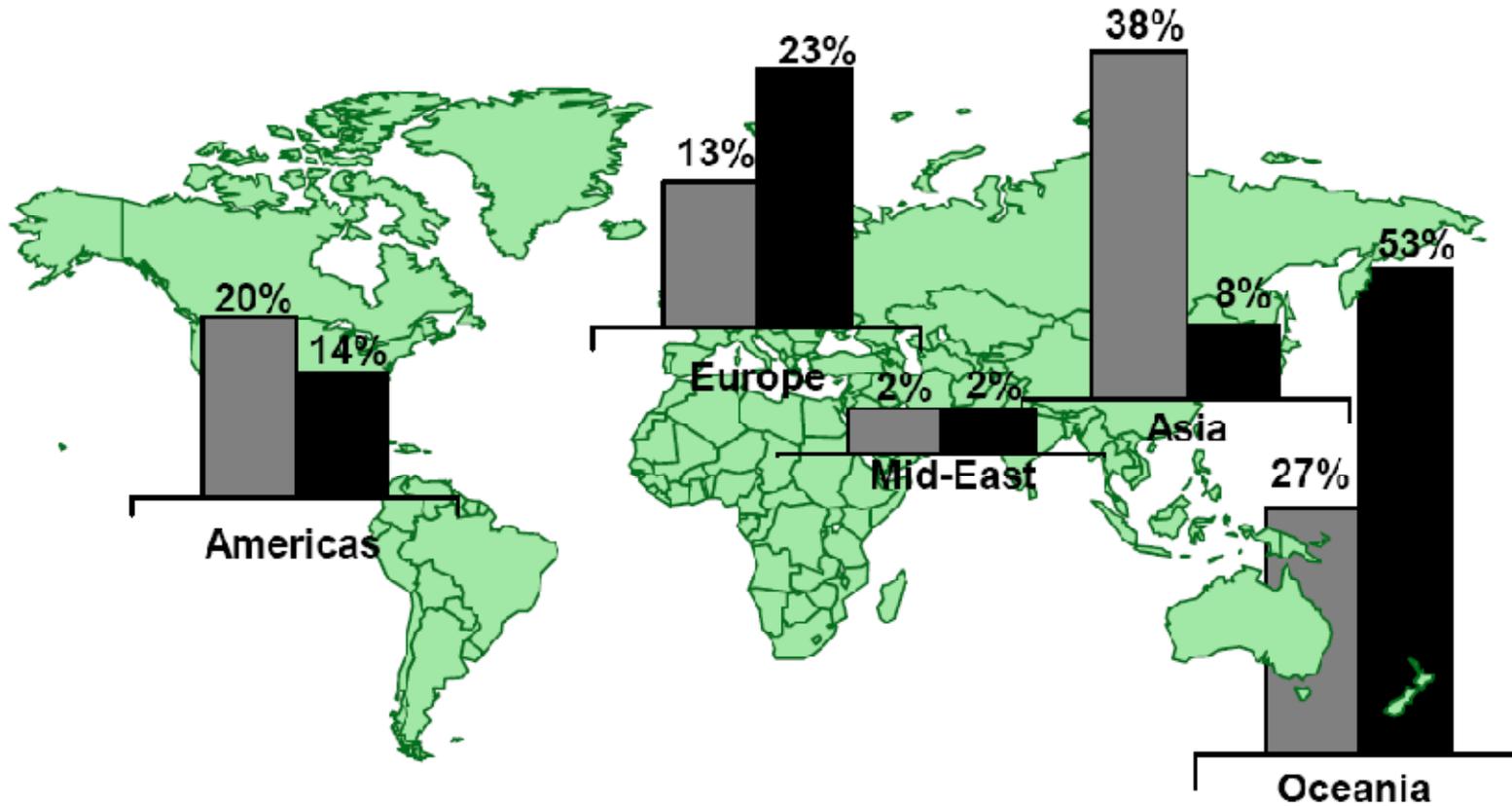
### Initiatives:

New Zealand signed first **Free Trade Agreement of any OECD Nation with China (April 2008)**. Implications are especially trade-emphasised (which is a New Zealand 'habbit')

Foreign Direct Investments (FDI): NZ laggs behind!

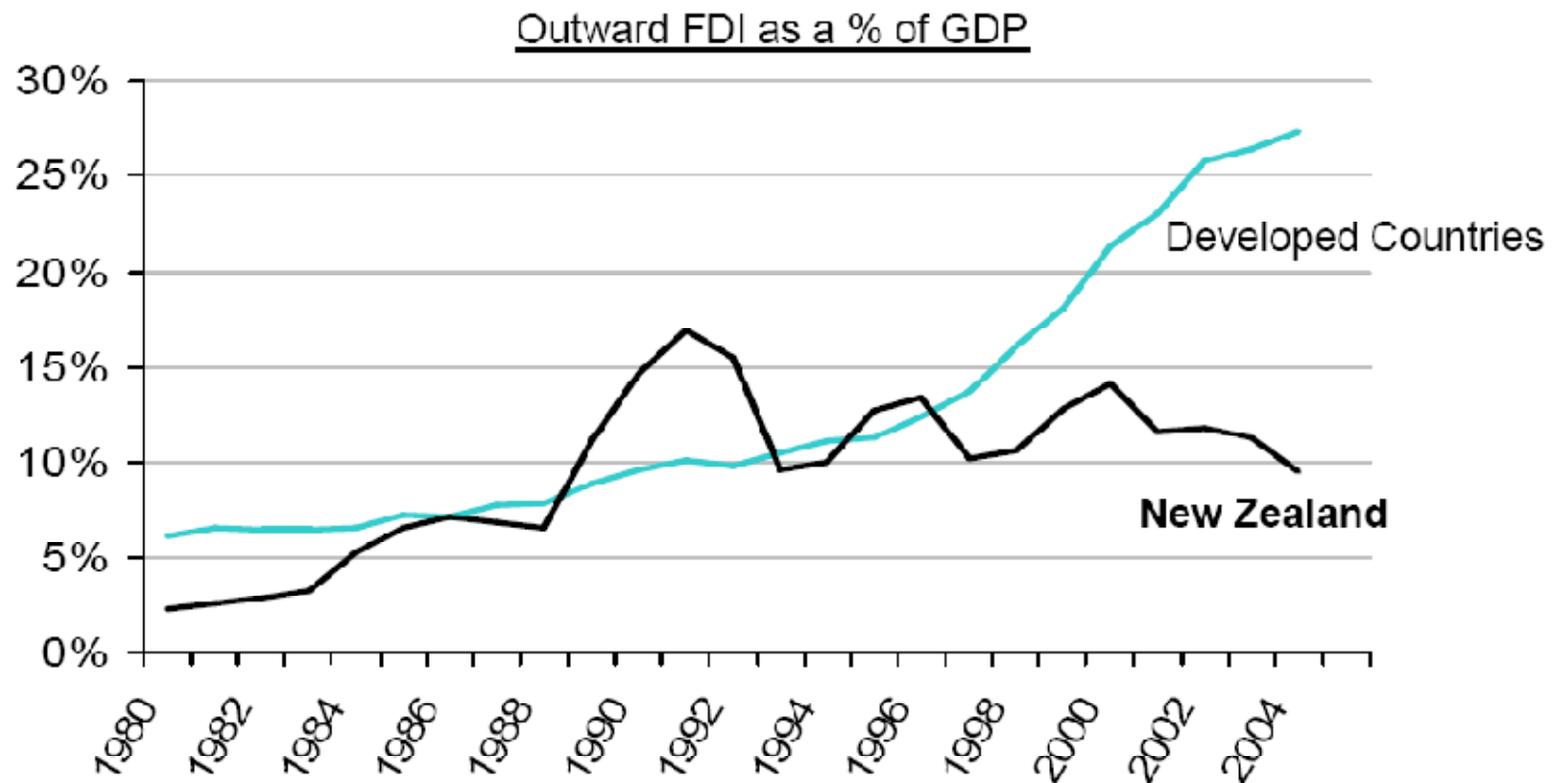


NEW ZEALAND EXPORTS AND INVESTMENT AROUND THE WORLD



Share of New Zealand merchandise exports, YE July 2006  
 Estimated share of New Zealand FDI, YE March 2006

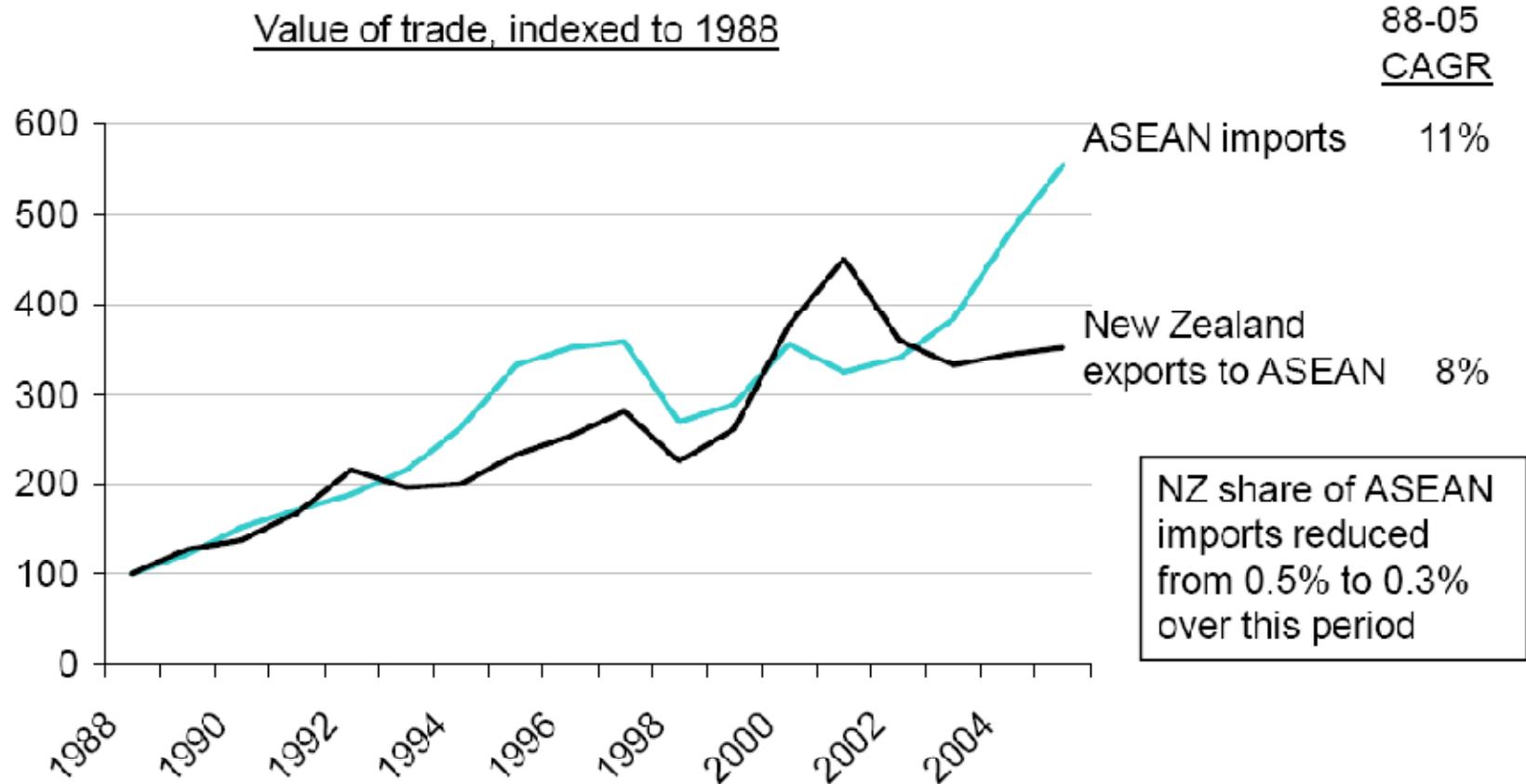
## NEW ZEALAND'S OUTWARD FDI REDUCED THROUGH THE 1990s, PARTICULARLY RELATIVE TO OTHER DEVELOPED COUNTRIES



***Export-focused mentality in a globalising world?  
Internationalisation: can it halt at the export stage?***

# 2

## BUT NEW ZEALAND EXPORTS TO ASEAN COUNTRIES HAVE RECENTLY DECLINED IN A GROWING MARKET



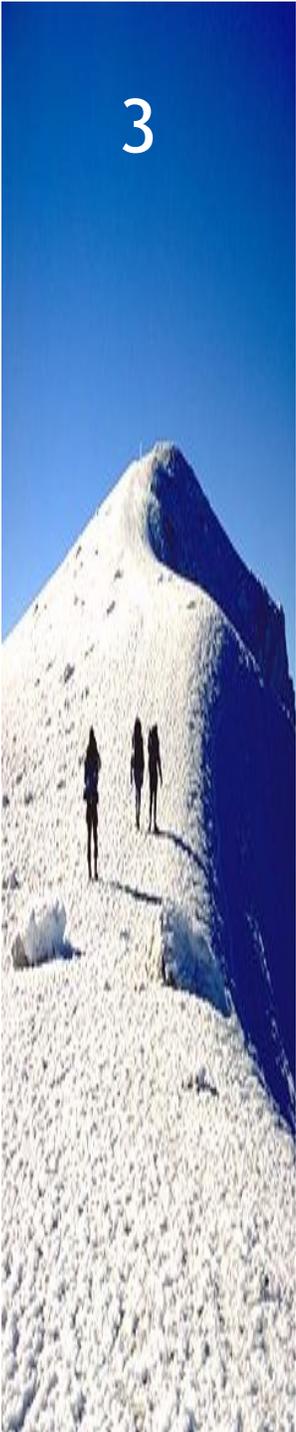
Consequences of an increasing trade-deficit gap can mean a new dependence on East Asia (as formerly UK)?

# 3

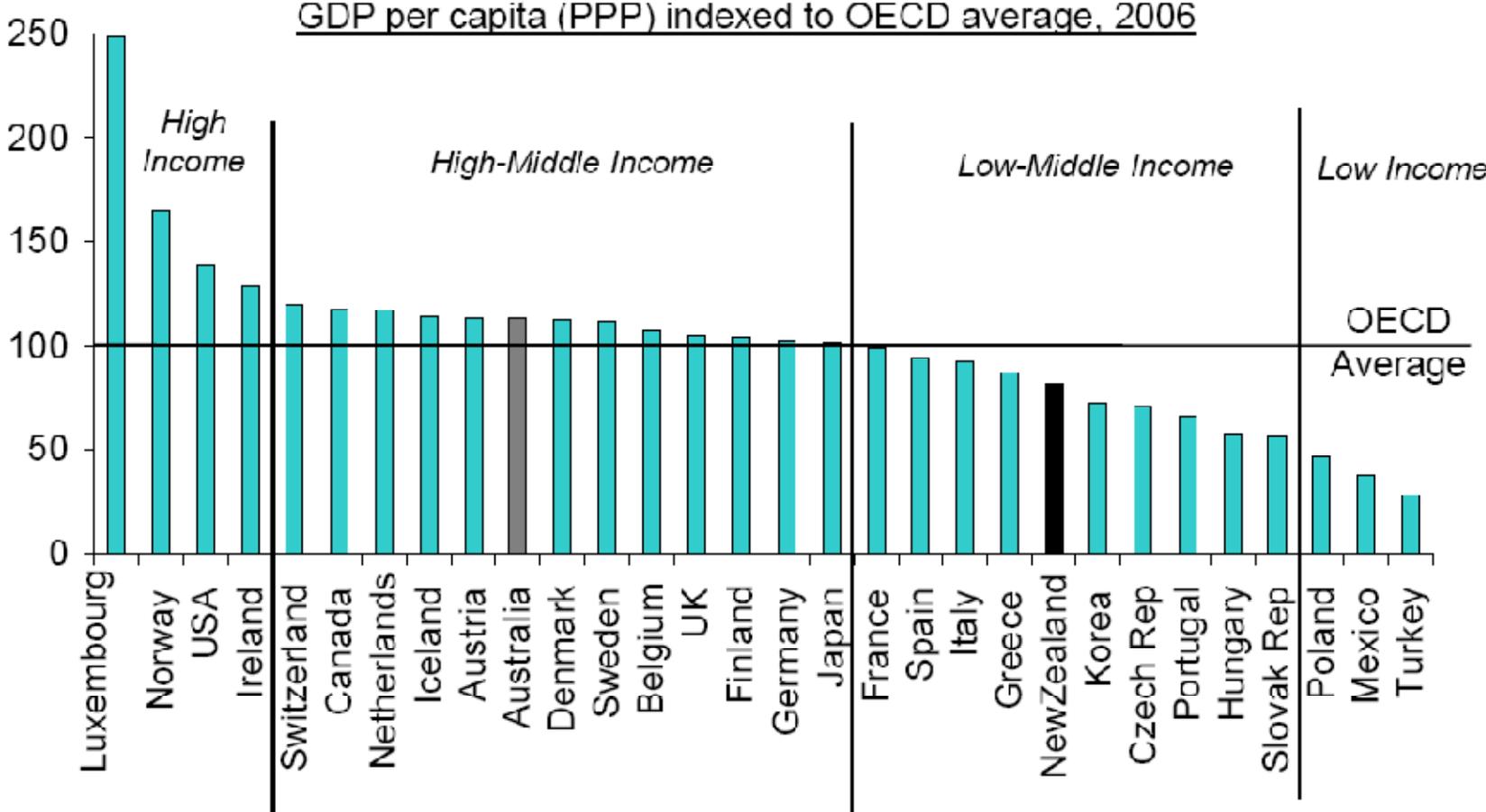
## **GLOBALISATION and New Zealand's challenges/opportunities in the international environment**

### **'Development of Trans-Tasman relationships'**

Most important foreign market, partner, destination of FDI, etc is Australia.



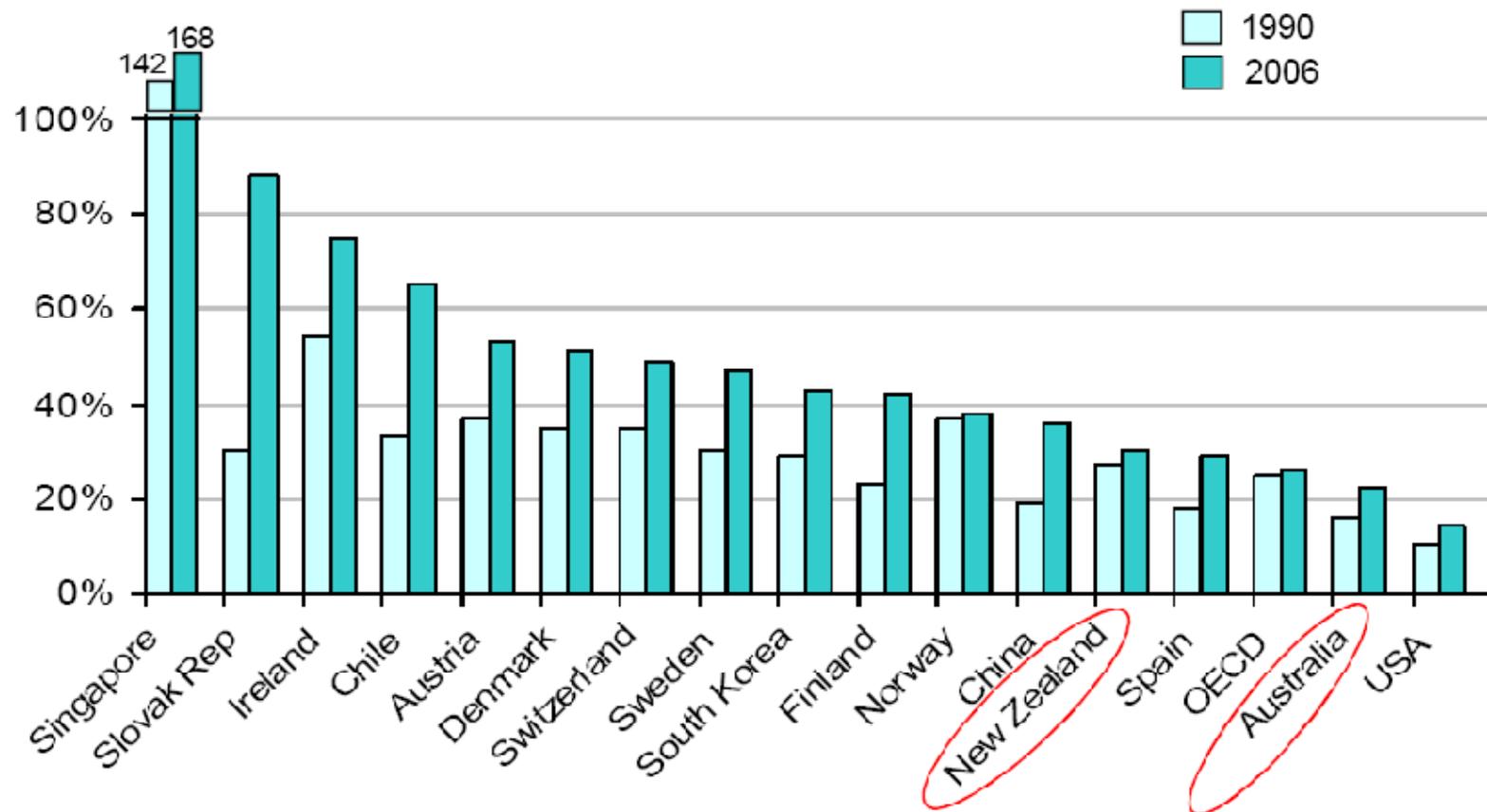
# AUSTRALIA IS WELL WITHIN THE TOP HALF OF THE OECD



Source: OECD.

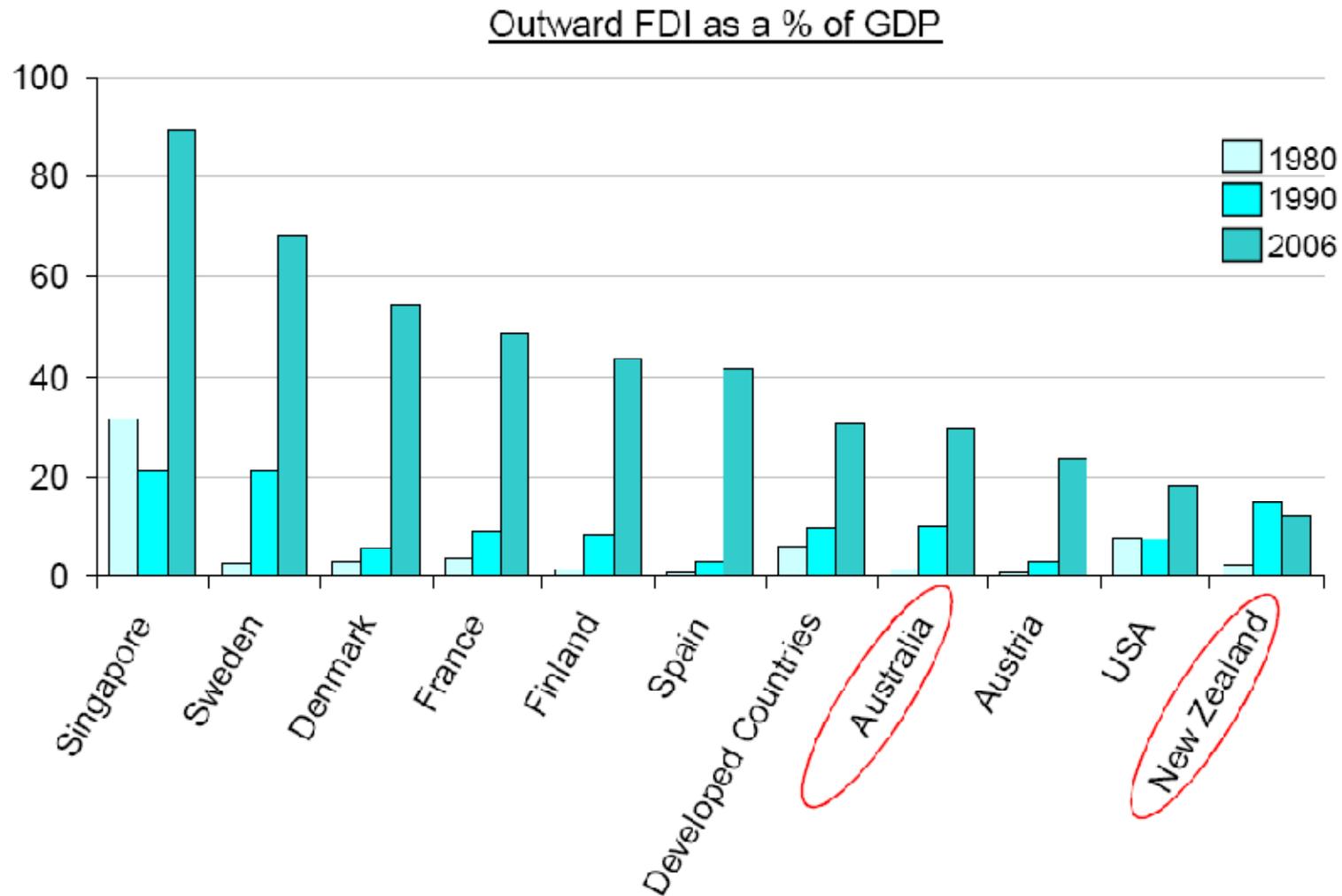
## NEW ZEALAND EXPORTS LESS THAN MOST DEVELOPED COUNTRIES BUT MORE THAN THE US

Exports as a % of GDP, 1990 and 2006



Note: OECD for 1971 and 2006; China and Singapore 1970 and 2005.  
Source: OECD; national government statistics for China and Singapore.

# NEW ZEALAND IS DISTINCTIVE IN HAVING A LOW AND REDUCING OUTWARD FOREIGN DIRECT INVESTMENT STOCK



Source: UNCTAD.

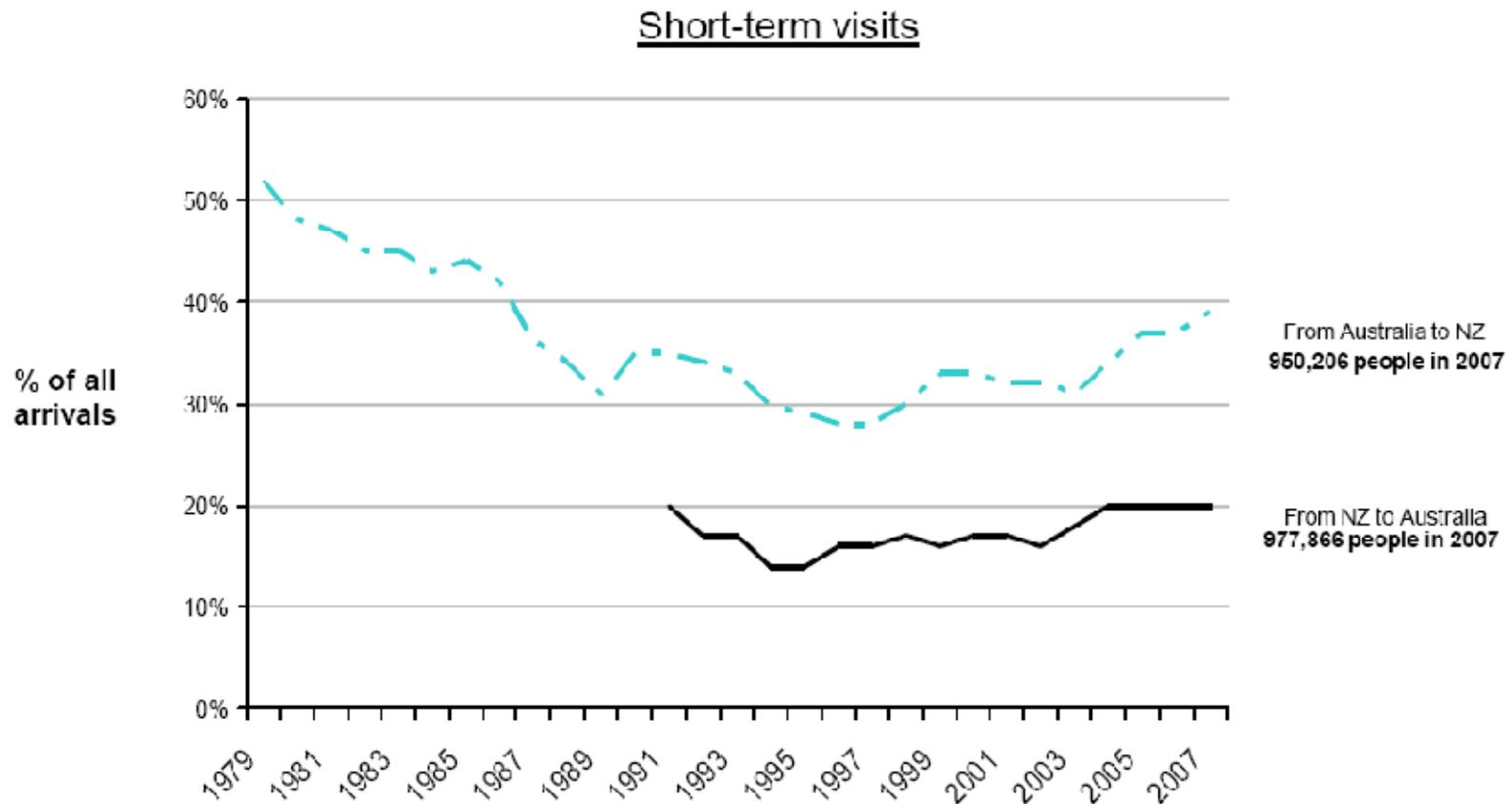
## NEW ZEALAND IS RANKED SECOND IN THE WORLD IN THE EASE OF DOING BUSINESS

2006/7 Rank	Economy
1	Singapore
2	New Zealand
3	United States
4	Hong Kong, China
5	Denmark
6	United Kingdom
7	Canada
8	Ireland
9	Australia
10	Iceland
11	Norway
12	Japan
13	Finland
14	Sweden
15	Thailand
16	Switzerland
17	Estonia
18	Georgia
19	Belgium
20	Germany

### Ease of Doing Business rank by indicator

Indicator	New Zealand	Australia
Starting a Business	3	1
Employing Workers	2	52
Hiring and Firing	13	8
Registering Property	1	27
Getting Credit	3	3
Protecting Investors	1	51
Paying Taxes	9	41
Trading Across Borders	16	34
Enforcing Contracts	13	11
Closing a Business	16	14

## AUSTRALIA HAS BECOME A LESS SIGNIFICANT SOURCE OF VISITORS TO NEW ZEALAND



Note: Short term visits are visits of less than 12 months duration.  
Source: Statistics New Zealand.

# GLOBALISATION and New Zealand's challenges/ opportunities in the international environment

## AUSTRALIA: The New Zealand Perspective in a Nutshell

1. Australia is NZ most important economic relationship, while NZ is less important for Australia.
2. Growth in trade, tourism and investments is sluggish, especially given the CER (closer economic relations) agreement - growth rates in vicinity of that to other partners.
3. Australia has huge market potential for NZ firms, but there are concerns about economic sovereignty
4. Persistent imbalances in terms of trade, investment and people - firms and people tend to exit to Australia.



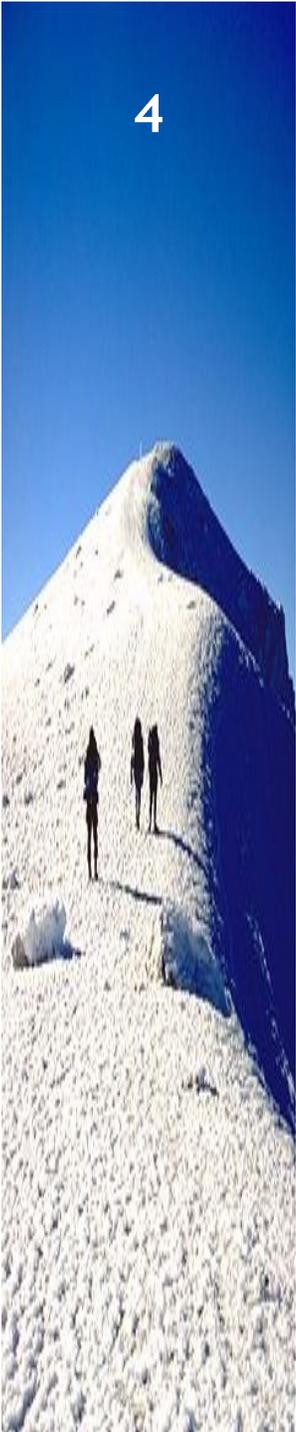
## GLOBALISATION and New Zealand's challenges/opportunities in the international environment

### New Applications for NZ expertise: Latin America?

New Zealand has closest economic relationships in South America with Chile, overall trade and investment relations remain small.

In sum, New Zealand considers Argentina, Brazil and Chile as both a potential competitor in the international agri-business, especially in certain commodities (i.e. dairy) and as potential business partners to sell knowledge-based products and technology (i.e. biotechnology, processing, etc.).

Some pioneering FDI into Chilean farms where to apply NZ agricultural expertise but generally on low level.



# Conclusions

**New Zealand continues to fight the economic disadvantages caused by remoteness;**

**Initiatives to move economy to more knowledge and intangible (service value-adding) have been moderately successful;**

**Primary sector, especially agriculture (dairy & farming) still most important sources of income and prosperity.**

**This appears to be contributing to a positive outlook in the light of current raising commodity (esp. Food) prices due to growing world population and consumption in general.**

**In specific, this might hinder the country to develop further non-land based competencies, which are hard to grow and sustain for the future.**

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