New Zealand Competitiveness: The Next Agenda

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Harvard Business School

Catching the Knowledge Wave
Auckland, New Zealand
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New Zealand’s Macroeconomic Performance

Real GDP Growth, year-by-year

Source: EIU
New Zealand 2001

• There is a strong sense in New Zealand today that the nation is not advancing

• Some believe that the country is moving backwards
New Zealand Productivity Growth
(Index 1972 = 100)

Source: IMF (quoted from Diewert-Lawrance, 1999)
New Zealand Labor Productivity Growth, 1995 -2000

Change in Real GDP / Hours worked

Source: IMF
Comparative Real Growth Rates
Selected Asian Countries

Source: EIU
New Zealand’s Export Structure
Manufacturing Export Specialization: 1994 to 1998

Note: Size of bubble is US-$ volume of exports in 1998
Source: ITC 2001
# Embracing Competition

## New Zealand’s Relative Position

### Competitive Advantages Relative to GDP per Capita

<table>
<thead>
<tr>
<th>Advantage</th>
<th>Country Ranking</th>
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<tbody>
<tr>
<td>Absence of Distortive Government Subsidies</td>
<td>4</td>
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<td>Hidden Trade Barrier Liberalization</td>
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<td>Tariff Liberalization</td>
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<td>Effectiveness of Antitrust Policy</td>
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### Competitive Disadvantages Relative to GDP per Capita

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<td>Extent of Locally Based Competitors</td>
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<tr>
<td>Intensity of Local Competition</td>
<td>18</td>
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</tbody>
</table>

Note: Rank by countries; overall NZ ranks 19 (17 on Business Environment)
Source: Global Competitiveness Report 2000
Strategic Issues

• Improvements in New Zealand’s business environment have been more than matched by its international competitors

• The country’s dependency on natural-resource exports creates challenges

• The economy is dominated by small and medium sized companies with limited global presence

• Clusters are discussed and a significant number of cluster initiatives has been initiated but there have been limited commitment and results

• New Zealand faces stiff competition from other Asian countries in manufacturing
Strategic Issues

- Government policies are in some cases working at cross purposes
- Important elements of an action plan for New Zealand have been developed but there is no overarching strategy to integrate them
  - e.g. attract foreign direct investment
  - Improve human resources
  - Science parks
- A lack of clear vision for the country is mentioned by many New Zealanders
## New Zealand’s Relative Position
### GCR Ranking Over Time

<table>
<thead>
<tr>
<th>Rank</th>
<th>Current Competitiveness Index</th>
<th>Company Strategy &amp; Operations Index</th>
<th>National Business Environment Index</th>
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</tbody>
</table>
Comparative Labor Productivity Growth
Manufacturing Sector, 1990 to 1999

Output per Hour, CAGR, 1990 to 1999

- Sweden
- Singapore
- United States
- France
- Japan
- Belgium
- Germany
- Netherlands
- Italy
- UK
- Canada
- NEW ZEALAND
- Norway

Note: *Germany (west) : 1990 - 1998
New Zealand Trade, 1988-1997
Percent of Total Country Exports By Natural Resource Intensity

Share of New Zealand Exports (Percent)

100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%


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Private Sector R&D Spending
OECD Countries

Private companies’ Share of R&D spending, 1999

Source: OECD, 2001
Conflicting Government Policies

- New Zealand is pursuing policies that work in different directions

**EXAMPLES**

- Efforts to reduce compliance costs for business
- Significant investments in education
- Tightening of antitrust laws and enforcement
- Efforts to improve risk capital availability
- Plans to create R&D grants
- Policies to encourage Maori business development
- Policies that increase labor market rigidity
- Weakening of national education standards
- Creation of a government-owned bank
- Elimination of private pension system
- Lack of competitive R&D tax credits

- Inconsistent policies suggest the lack of consensus on an economic strategy for New Zealand
Sources of Rising Prosperity

• A nation’s standard of living (wealth) is determined by the **productivity** with which it uses its human, capital, and natural resources. The appropriate definition of competitiveness is productivity.
  
  – Productivity depends both on the **value** of products and services (e.g. uniqueness, quality) as well as the **efficiency** with which they are produced.

  – It is not **what** industries a nation competes in that matters for prosperity, but **how** firms compete in those industries.

  – Productivity in a nation is a reflection of what both domestic and foreign firms **choose to do in that location**. The location of ownership is secondary for national prosperity.

  – The productivity of “**local**” industries is of fundamental importance to competitiveness, not just that of traded industries.

  – Devaluation does not make a country more “competitive”, rather it reveals a **lack of fundamental competitiveness**.

• Nations compete in offering the **most productive environment** for business.

• The public and private sectors play **different but interrelated roles** in creating a productive economy.
Innovation and Prosperity

- For advanced economies innovation is critical to support high levels of prosperity
Determinants of Productivity and Productivity Growth

Macroeconomic, Political, and Legal Context for Development

Microeconomic Foundations of Development

- Sound macroeconomic policies and a stable political/legal context are **necessary** to ensure a prosperous economy, **but not sufficient**
- Competitiveness ultimately depends on improving the **microeconomic foundations** of competition
Productivity and the Microeconomic Business Environment

**Context for Firm Strategy and Rivalry**
- A local context that encourages **efficiency**, **investment**, and **sustained upgrading**
- Open and vigorous competition among **locally based rivals**

**Factor (Input) Conditions**
- **High quality, specialized inputs** available to firms:
  - human resources
  - capital resources
  - physical infrastructure
  - administrative infrastructure
  - information infrastructure
  - scientific and technological infrastructure
  - natural resources

**Demand Conditions**
- **Sophisticated and demanding** local customer(s)
- Unusual local demand in **specialized segments** that can be served globally
- Customer needs that **anticipate** those elsewhere

**Related and Supporting Industries**
- Presence of capable, locally-based **suppliers** and firms in related fields
- Presence of **clusters** instead of isolated industries
The California Wine Cluster

Sources: California Wine Institute, Internet search, California State Legislature. Based on research by MBA 1997 students R. Alexander, R. Arney, N. Black, E. Frost, and A. Shivananda.
Global Competitiveness Report 2000

The Relationship Between Microeconomic Competitiveness and GDP Per Capita, 1999 Data

* Adjusted for Purchasing Power Parity

Stages Of Competitive Development

Factor-Driven Economy → Investment-Driven Economy → Innovation-Driven Economy

Input Costs → Efficiency → Higher Value

Geographic Levels and Competitiveness

- World Economy
- Broad Economic Areas
- Groups of Neighboring Nations
- Nations
- States, Counties, Departments
- Metropolitan Areas
New Zealand’s Economic Agenda in 2001

I. Address some chronic weaknesses

II. Make the transition to an Innovation-Driven economy based on New Zealand’s unique assets

III. Better integrate economic and social policies

IV. Articulate an overall national strategy
New Zealand’s Economic Agenda in 2001

I. Address some chronic weaknesses
   – Upgrade domestic financial markets
## Financial Markets
### New Zealand’s Relative Position

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<tr>
<th>Competitive Advantages Relative to GDP per Capita</th>
<th>Country Ranking</th>
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<td>Financial Disclosure Requirements</td>
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<td>Access to Local Equity Markets</td>
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<tr>
<td>Ease of Access to Loans</td>
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Note: Rank by countries; overall NZ ranks 19 (17 on Business Environment)
Source: Global Competitiveness Report 2000
New Zealand’s Economic Agenda in 2001

I. Address some chronic weaknesses
   – Upgrade domestic financial markets
   – Improve the human resource development system
Making the Transition To An Innovation-Driven Economy

- New Zealand’s faces unusual challenges in moving to an Innovation-driven economy
- It cannot follow the path of countries like Taiwan or Singapore who can pass through the Investment-Driven stage
  - The level of wages exceeds that which can be supported through OEM manufacturing
  - New Zealand’s resource intensive industries have not equipped the nation to compete in advanced manufacturing and services
New Zealand’s Economic Agenda in 2001

I. Address some chronic weaknesses
   – Upgrade domestic financial markets
   – Improve the human resource development system

II. Making the transition to an Innovation-Driven economy
   – Upgrade New Zealand’s scientific and technological capacity in fields where it can be world class
## Science and Technology System
### New Zealand’s Relative Position

### Competitive Advantages Relative to GDP per Capita

<table>
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<tr>
<th>Factor</th>
<th>Conditions</th>
<th>Input</th>
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<tr>
<td>University / Industry Research Collaboration</td>
<td></td>
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| Patents per capita (1998)    |            | 21    |

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International Patenting Performance

Annual U.S. patents per 1 million population, 2000

USA

Japan

Sweden

Germany

Israel

Canada

UK

Australia

NEW ZEALAND

Taiwan

South Korea

Singapore


0% 5% 10% 15% 20% 25% 30% 35% 40%

= 10,000 patents granted in 2000

Change in R&D Investments

Compound Annual Growth Rate in R&D Expenditures, 1985-1998

Tax Treatment of R&D in OECD Countries
Tax incentives for R&D Spending, Large Companies, 1999

Tax credit as share of R&D spending

Source: OECD estimates
Composition of New Zealand Patenting in the US
Top Patenting Industries and Companies, 1999

• Top 5 NZ-based companies by U.S. patents filed in 1999
  – FISHER + PAYKEL LIMITED (6 patents)
  – TRIMBLE NAVIGATION, LTD. (6)
  – AUCKLAND UNISERVICES LIMITED (5)
  – GENESIS RESEARCH & DEVELOPMENT CORPORATION, LTD. (5)
  – INTERLOCK GROUP LIMITED (4)

• U.S. patents field in 1999 by New Zealand inventors are almost exclusively by domestic companies

Science and Technology System
New Zealand’s Action Agenda

• Increase specialization of universities and research institutions around areas of existing and potential New Zealand excellence

• Promote cooperation between universities and the private sector via clusters

• Raise the proportion of R&D spending by the non-government sector

• Increase incentives for private sector R&D

• Focus on attracting foreign investment in areas of potential R&D strengths
New Zealand’s Economic Agenda in 2001

I. Address some chronic weaknesses
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II. Making the transition to an Innovation-Driven economy
   – Upgrade New Zealand’s scientific and technological capacity in fields where it can be world class
   – Create advanced demand conditions
Demand Conditions
New Zealand’s Relative Position

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<tr>
<td>Openness of Public Sector Contracts</td>
<td>3</td>
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<tr>
<td>Consumer Adoption of Latest Products</td>
<td>11</td>
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Source: Global Competitiveness Report 2000
Global Competitiveness Report 2000
Environmental Regulation and Microeconomic Competitiveness

Current Competitiveness Index (CCI)

Environmental Regulatory Regime Index

Source: Global Competitiveness Report 2000
Environmental Regulation and Competitiveness

• Competing based on weak environmental standards **perpetuates low incomes**

• Corporate pollution is a sign of **inefficient and unproductive use** of resources

  - **Firm**
    - Inefficient extraction of resources
    - Incomplete material utilization
    - Unnecessary waste products
    - Unnecessary energy use
    - Unproductive land use

  - **Customer**
    - Usable materials in products that are discarded
    - Products that use energy inefficiently
    - Discarded or unnecessary packaging

• The need to control or treat pollution causes companies to perform activities that add cost but create **no customer value**
  - e.g., handling, storage, processing, disposal

• Pollution is a reflection of **unsophisticated technology and weak management**

• **Strict environmental regulation** stimulates the upgrading necessary to achieve advanced economic development
New Zealand’s Economic Agenda in 2001

I. Address some chronic weaknesses
   – Upgrade domestic financial markets
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II. Making the transition to an Innovation-Driven economy
   – Upgrade New Zealand’s scientific and technological capacity in fields where it can be world class
   – Create advanced demand conditions
   – Move from networking to true cluster development
   – Widen the base of meaningful clusters in the economy
# Related and Supporting Industries

## New Zealand’s Relative Position

### Competitive Advantages Relative to GDP per Capita

<table>
<thead>
<tr>
<th>Country Ranking</th>
<th>Cluster Presence</th>
<th>Extent of Locally Based Competitors</th>
<th>Domestic Supplier Quantity</th>
<th>Domestic Supplier Quality</th>
<th>Intensity of Local Competition</th>
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Houston Oil and Gas Cluster

**Upstream**
- Oil & Natural Gas Exploration & Development
- Equipment Suppliers
  - (e.g. Oil Field Chemicals, Drilling Rigs, Drill Tools)
- Specialized Technology Services
  - (e.g. Drilling Consultants, Reservoir Services, Laboratory Analysis)
- Oilfield Services/Engineering & Contracting Firms

**Downstream**
- Oil & Natural Gas Completion & Production
- Subcontractors
  - (e.g. Surveying, Mud Logging, Maintenance Services)
- Business Services
  - (e.g. MIS Services, Technology Licenses, Risk Management)
- Specialized Institutions
  - (e.g. Academic Institutions, Training Centers, Industry Associations)
- Gas Gathering
- Gas Processing
- Gas Trading
- Gas Transmission
- Gas Distribution
- Gas Marketing
- Oil Transportation
- Oil Trading
- Oil Refining
- Oil Distribution
- Oil Wholesale Marketing
- Oil Retail Marketing
Public / Private Cooperation in Cluster Upgrading
Minnesota’s Medical Device Cluster

Context for Firm Strategy and Rivalry

Factor (Input) Conditions

• Joint development of vocational-technical college curricula with the medical device industry
• Minnesota Project Outreach exposes businesses to resources available at university and state government agencies
• Active medical technology licensing through University of Minnesota
• State-formed Greater Minnesota Corp. to finance applied research, invest in new products, and assist in technology transfer

Demand Conditions

• Aggressive trade associations (Medical Alley Association, High Tech Council)
• Effective global marketing of the cluster and of Minnesota as the “The Great State of Health”
• Full-time “Health Care Industry Specialist” in the department of Trade and Economic Development

State sanctioned reimbursement policies to enable easier adoption and reimbursement for innovative products

Related and Supporting Industries

• State sanctioned reimbursement policies to enable easier adoption and reimbursement for innovative products

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Massachusetts Clusters
Widening the Cluster Base

- Information Technology
- Healthcare
- Financial Services
- Environmental Products and Services
- Specialty Paper
- Marine
- Apparel Textiles and Footwear
- Polymers
- Metalworking
- Tourism and Leisure

Knowledge Creation
Organizing for Competitiveness
Commonwealth of Massachusetts

Governor’s Council on Economic Growth and Technology

Functional Task Forces
- International Trade
- Marketing Massachusetts
- Tax Policy and Capital Formation
- Technology Policy and Defense Conversion

Issue Groups
- Cost of Doing Business
- Financing of Emerging Companies
- Health Care Restructuring
- Revitalizing Western Massachusetts

Industry Cluster Working Groups
- Advanced Materials
- Biotechnology and Pharmaceuticals
- Defense
- Marine Science and Technology
- Medical Devices
- Software
- Telecommunications
- Textiles
New Zealand’s Economic Agenda in 2001

I. Address some chronic weaknesses
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II. Making the transition to an Innovation-Driven economy
   – Upgrade New Zealand’s scientific and technological capacity in fields where it can be world class
   – Create advanced demand conditions
   – Move from networking to true cluster development
   – Widen the base of meaningful clusters in the economy
   – Pursue focused approach to attract FDI
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   – Shift the role of government
Transition To An Innovation-Driven Economy

Conflicting Government Policies

EXAMPLES

Consistent with an Innovation-driven Economy

- Efforts to reduce compliance costs for business
- Significant investments in education
- Tightening of antitrust laws and enforcement
- Efforts to improve risk capital availability
- Plans to create R&D grants
- Policies to encourage Maori business development

Inconsistent with an Innovation-driven Economy

- Policies that increase labor market rigidity
- Weakening of national education standards
- Creation of a government-owned bank
- Elimination of private pension system
- Lack of competitive R&D tax credits
Appropriate Roles of Government in Economic Development

1. Establish a **stable and predictable** macroeconomic, political, and legal environment

2. Improve the availability, quality, and efficiency of **general purpose inputs, infrastructure, and institutions**

3. Set overall **rules and incentives** governing competition that encourage productivity growth

4. Facilitate **cluster development and upgrading**

5. Create an explicit, ongoing **process of economic change** and competitive upgrading which informs citizens and mobilizes the private sector, government at all levels, educational and other institutions, and civil society.
New Zealand’s Economic Agenda in 2001

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   – Shift the role of government
   – Develop competitiveness strategy at the regional level
Geographic Levels and Competitiveness

- World Economy
- Broad Economic Areas
- Groups of Neighboring Nations
- Nations
- States, Counties, Departments
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   – **Transform company strategies**
Company Operations and Strategy

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<td>Nature of Competitive Advantage</td>
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<td>Extent of Regional Sales</td>
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<td>Control of International Distribution</td>
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Note: Rank by countries; overall NZ ranks 19 (22 on Company Operations and Strategy)
Source: Global Competitiveness Report 2000
Determinants of Relative Performance

Types of Competitive Advantage

- Differentiation (Non-Price Value)
- Competitive Advantage
- Lower Cost
Sources of Competitive Advantage

- Creating a unique and sustainable competitive position
- Assimilating, attaining, and extending best practice
New Zealand’s Economic Agenda in 2001

I. Address some chronic weaknesses

II. Make the transition to an Innovation-Driven economy based on New Zealand’s unique assets

III. Better integrate economic and social policies

IV. Articulate an overall national strategy
Causes of Economic Inequality

• Inadequate education and skill development
• Monopolies and restraints to competition
• Discrimination
• Faulty incentives for disadvantaged groups
• Command and control regulation
• Managerial ignorance
Integrating Economic and Social Policy

• In the new thinking on competitiveness, there is **no inherent conflict** between economic and social policy.

A productive and growing economy requires:
- Rising skill levels
- Safe working conditions
- Healthy workers who live in decent housing in safe neighborhoods
- A sense of equal opportunity
- Assimilation of underemployed citizens into the productive workforce
- Low levels of pollution (pollution is a sign of unproductive use of physical resources)

• “Social” policies must be **aligned with productivity** in the economy and prepare and motivate citizens to **succeed in the market system**.

• “Economic” policies must include explicit programs to **raise human capability** and improve the lives and the **sense of opportunity** for citizens.
Integrating Economic and Social Policy

Examples

Training

• Organize training investments around clusters

Housing

• Create mechanisms to encourage home ownership; provide incentives for new company formation in the construction cluster; reduce unnecessary costs of housing construction due to regulatory and approval requirement; secure property rights to residents

Health Care

• Create incentives for private health insurance; open health care delivery to competition

Social Security

• Create incentives for saving; encourage a private pension system that agglomerates investment capital

Environmental Quality

• Institute a regulatory regime that encourages movement to more environmental friendly methods; invest in technical assistance in eco-efficient processes and practices
New Zealand’s Migration Balance

Net Migration Flows to/from New Zealand, 1986 - 2001

Source: NZIER
New Zealand’s Economic Agenda in 2001

I. Address some chronic weaknesses

II. Make the transition to an Innovation-Driven economy based on New Zealand’s unique assets

III. Better integrate economic and social policies

IV. Articulate an overall national strategy
New Zealand Strategy

Elements

• What New Zealand aspires to achieve in the world economy
  – The New Zealand Scorecard is a good first step

• What field New Zealand aims to be world class in

• What New Zealand stands for the brand
  – E.g. Clean and healthy; in tourism, agriculture, manufacturing products and processes, ethical investment, …
  – Adventure; in tourism, in sports, …
  – World class technology

• Where New Zealand needs to improve

• How New Zealand will go about upgrading
  – A New Zealand Strategic Plan