

New Zealand's productivity in 2050

The Ministry of Business, Innovation and Employment (MBIE) and the Ministry of Foreign Affairs and Trade (MFAT) invited submissions on a proposed topic for a Long-term Insights Briefing: **New Zealand's future productivity to 2050 - Global trends, domestic factors, strategic choices.**

This note shows BusinessNZ's responses to a set of questions about the proposed topic.

Productive countries generally have wealthier populations, are better equipped to improve citizens' quality of life, and are more resilient in the face of economic challenges.

New Zealand has had a poor productivity growth record in recent years, and this has been to the detriment of New Zealanders. It will be important to fully understand the underlying drivers of New Zealand's poor productivity growth record, and to highlight the remedies.

MBIE's and MFAT's [consultation document](#) lists a number of factors that are thought to have contributed to New Zealand's relatively poor productivity performance over the past few decades, but we are not convinced that the factors identified are the most important or correct. Many of the factors identified existed when New Zealand had a better productivity record than it has had recently.

We suspect that there are other factors at play and believe that it will be important to identify and understand them. We are especially concerned that policy settings in New Zealand relating to support for business research and development (R&D) are insufficiently favourable towards innovation, and that has hampered productivity growth. BusinessNZ's recent paper considers these points: <https://businessnz.org.nz/resources/support-for-business-rd/>

We suggest it would be useful to take account of the first report from the Science System Advisory Group (SSAG) and the forthcoming University Advisory Group (UAG). The first report from the SSAG highlighted the role of R&D in promoting productivity growth, although it was mainly about the architecture of the science system, rather than about specific policy instruments, such as RDTIs, that are intended to support R&D.

Another factor inhibiting productivity is lack of investment. The Overseas Investment Act in its current form is hostile towards foreign direct investment (FDI), and this has inhibited opportunities to

attract investment that could stimulate productivity growth. We have recently published an advocacy papers on this subject: <https://businessnz.org.nz/resources/a-future-for-foreign-direct-investment-into-nz/>

One trend the Briefing should explore is global trade. There appears to be a move away from rules-based internal trade, and this could slow the rate of growth in the global economy and New Zealand's economy. In turn, this could make it more difficult for New Zealand to pursue productivity growth.

Another trend that should be explored is the potential impact of AI on productivity growth, and whether AI could impact differentially on New Zealand because of the structure of the economy.

It would also be worthwhile examining whether New Zealand is optimising the use of the country's natural resources in pursuit of productivity and economic growth. A recent article in the New Zealand Herald argues that New Zealand is amongst the richest countries in the world, terms of resources and assets per capita, but that its wealth is not converted efficiently into GDP. The article can be found here: <https://www.nzherald.co.nz/business/how-did-we-end-up-so-asset-rich-but-service-poor-roger-partridge/M4KPOW3K6RATNAXOWSKED4DSIQ/>

A further concern we have is what we see as the tendency in New Zealand for policy flip-flops when Governments change. This could be partly the result of the three-year parliamentary term, but we believe that it also reflects a lack of bipartisanship in policy making. Whatever the cause, the effect is uncertainty for businesses, inhibiting investments that could elevate productivity.

Although large economies, like the USA and China, wield considerable power in the world economy, it is also noteworthy that a number of small economies, including Ireland, Singapore and Denmark, have flourished.

The New Zealand Government clearly aspires to emulate the success of the small economies mentioned, but it will be important to fully understand what it is that they have done to achieve their success. Any enquiry on this matter would need to distinguish between replicable contributors to success and contributors that reflect unique circumstances. For example, the Irish economy has grown very rapidly partly because the country positioned itself as the gateway to the EU for large multinational corporations. New Zealand could not offer the same advantages to overseas investors, but there are other factors behind Ireland's economic success that could be replicated in New Zealand. Having a welcoming approach to FDI is one such factor. The government evidently aspires to replicate that approach in New Zealand, but there are undoubtedly other lessons to be learned.

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