



New Zealand's place in the world

Myths and realities

NZIER public discussion paper

Working paper 2021/01

About NZIER

NZIER is a specialist organisation that uses applied economic research and analysis to provide a wide range of strategic advice.

We undertake and make freely available economic research aimed at promoting a better understanding of New Zealand's important economic challenges.

Our long-established Quarterly Survey of Business Opinion (QSBO) and Quarterly Predictions are available to members of NZIER.

We pride ourselves on our reputation for independence and delivering quality analysis in the right form and at the right time. We ensure quality through teamwork on individual projects, critical review at internal seminars, and by peer review.

NZIER was established in 1958.

Funding

Each year NZIER devotes resources to undertake and make freely available economic research and thinking aimed at promoting a better understanding of New Zealand's important economic challenges. This paper was funded as part of this public good research programme.

Authorship

This paper was prepared at NZIER by Derek Gill.

It was quality approved by John Yeabsley.

The assistance of Kevin Tuña, Sarah Spring, and Chris Nixon is gratefully acknowledged.

Registered office: Level 13, Public Trust Tower, 22–28 Willeston St | PO Box 3479, Wellington 6140
Auckland office: Ground Floor, 70 Shortland St, Auckland
Tel +64 4 472 1880 | econ@nzier.org.nz | www.nzier.org.nz

© NZ Institute of Economic Research (Inc). Cover image © dreamstime.com
NZIER's standard terms of engagement for contract research can be found at www.nzier.org.nz.

While NZIER will use all reasonable endeavours in undertaking contract research and producing reports to ensure the information is as accurate as practicable, the Institute, its contributors, employees, and Board shall not be liable (whether in contract, tort (including negligence), equity or on any other basis) for any loss or damage sustained by any person relying on such work whatever the cause of such loss or damage.



Key points

There are big forces at play driving changes in international economics including the:

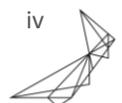
- Slowdown in international economic integration (so-called peak globalisation) with the world trade and direct foreign investment growing slower than gross domestic product (GDP) in the decade since the global financial crisis.
- Ongoing United States/China geopolitical rivalry spilling over into economic developments.
- United States under President Biden attempting to claw back the ground lost when President Trump withdrew from the United States' traditional leadership role in international economics.
- Loss of momentum in multilateral initiatives with rust accreting on the system of international economic institutions (such as the World Trade Organization).
- Impact of COVID-19 on world economic activity, with disruptions in supply chains and the global movement of people in particular.

NZIER's public good programme works to raise New Zealanders understanding of our economy. New Zealand's place in the world – including flows in trade, people, capital, and ideas – continues to change. To help promote public understanding about these changes, NZIER has created an interactive platform to enable people to explore for themselves how New Zealand's place in the world is changing and how we compare with other countries.

Trends in trade

Our exploration of the **external trade** data has identified the following key trends:

- Openness – New Zealand is much less open to trade in goods and services than other small, developed economies – geographic distance results in overall openness (exports and imports combined relative to GDP) at 50 percent, is low compared to 80 percent for a sample of small, advanced European economies.
- Services – The economy is becoming increasingly a services driven economy – with direct exports of services (tourism in particular) doubling over the last 20 years while indirect services embodied in other exports make up another 27 percent.
- Agriculture – The shares of employment and economic activity in this sector are small but agricultural exports of raw and processed material still dominate overall good exports with a 90 percent share.
- Diversification – New Zealand has succeeded in diversifying the range of exports and export markets – in the 80 years before United Kingdom's entry into the European Common Market, four agricultural commodities exported to the United Kingdom market made up 80 percent of our export receipts. Today China, Australia and the United States are the largest markets, and the mix of exports has widened.
- Value chain – New Zealand has not been disadvantaged by being at the bottom of the value chain – our terms of trade have increased by 50 percent over the last 20 years while for all the other small, developed economies terms of trade were flat.



Capital flows

Looking at the **capital flows** data, we found:

- New Zealand is relatively open to foreign investment (with the notable exception of land) and while flows of inward direct investment (mainly retained earnings) are relatively high, outflows are low so overall direct investment is not high relative to other developed economies.
- Net international debt accounted for \$140 billion in 2012 – around 70 percent of GDP. This is the result of the sustained Balance of Payments Current Account deficits that New Zealand has incurred over the last 40 years.

People movement

Looking at **migration** data, we observed some big recent changes including:

- Migration inflows – The last decade has seen record immigrations flows – the growth in population from migration is at record levels both in numbers and relative to the population.
- Population growth is now mostly driven by migration rather than natural increase.
- Mix of nationalities – A rapid change in nationalities, with migrants from countries like India, and China, now outnumbering migrant arrivals from the traditional source – the United Kingdom.
- Kiwis born overseas – The share of the New Zealand resident population born overseas is now one-third (over 50 percent in Auckland) and this is amongst the highest in the developed world.
- Diaspora – Only Ireland has a higher percentage of its people living overseas (relative to the resident population) than New Zealand. There are over 750,000 Kiwis living overseas but recent years has seen the net outflow slow. COVID-19 disrupted people movements significantly leading to suggestions we may be on the cusp with the net outflow reversing as more Kiwis return than leave.

Flows in culture and ideas

The lack of consistent data or measures precluded a quantitative assessment. This is not to suggest flows of cultures and ideas are not important. Our previous international survey (Nixon and Yeabsley 2017) identified a number of key trends including:

- New Zealand, as a small English speaking country, was highly receptive to imported culture from the United States, Britain and Australia in particular.
- Cultural flows are not tightly linked to economic flows: for much of the 20th century trans-Tasman cultural transactions were very significant while trade policy before Closer Economic Relations trade arrangements were not focused on Australia.
- Globalising forces need not be homogenising – they also have localising effects that focus on who Kiwis are and what is different about New Zealanders.
- Changes in both the speed of idea dissemination and the media channels used – with the growth of online media and the decline in traditional sources such as TV, movies, printed newspapers, books and magazines.



Looking ahead, technological developments associated with the fourth industrial revolution – digitisation, artificial intelligence, cloud technology, big data analytics, high-speed mobile networks – will continue and these drivers don't respect country borders.

Looking ahead

In the futures space, it is important to bear in mind the old Danish proverb that *“It is difficult to make predictions, especially about the future”*. One could speculate about the outlook for movement in people in the post-COVID-19 era and the impact of the Biden Presidency for globalisation generally and whether the era of multilateral trade liberalisation is over.

What seems likely is that the next phase of globalisation will be different. Some sources emphasise *“the new frontier of globalisation is the cyber world.”*¹ It will evolve in an increasingly bipolar world dominated by the United States and China.

What emerged from looking at the trends in the recent data for New Zealand is the long standing memes that have dominated the local discourse do not apply. In particular New Zealand's openness to external trade and foreign investment, and the role of migration in driving population growth have all changed. So whatever the international trends in global flows of trade, investment, people and ideas are in the future, New Zealand's international connectedness will be different than in the past.

Explore the data for yourself

These headline findings are our take from looking at the data on how New Zealand compares with other countries and how our place in the world is changing. No doubt others would find other trends that deserve to be highlighted. Alternatively they might be struck by how urban myths about New Zealand simply don't come through in the data.

We encourage you to take a look at the data yourself. To see a sample of baked graphics go to NZIER's website <https://nzier.org.nz/publication/new-zealands-place-in-the-world>.

To get access to the interactive business intelligence tool QLIK just email library@nzier.org.nz

Don't take our word for it – go look for yourself!

¹ https://www.themandarin.com.au/134240-a-brief-history-of-globalisation/?utm_source=TheJuice&utm_medium=email&utm_source=newsletter

Contents

- 1 Introduction – our approach.....1
- 2 Trade in goods and services1
- 3 Movements in capital.....7
- 4 Movement in people.....10
- 5 Future trends in international economics13
- 6 Selected references.....15

Figures

- Figure 1 Four dimensions of globalisation1
- Figure 2 Levelling out in New Zealand’s openness since the 1980s.....2
- Figure 3 New Zealand is less open than other small, advanced economies3
- Figure 4 Services share of exports has doubled since 19723
- Figure 5 Tourism exports grew rapidly before COVID-194
- Figure 6 Decline of the British export market5
- Figure 7 Decline of traditional exports relative to other5
- Figure 8 New Zealand’s terms of trade have increased 50 percent since 20006
- Figure 9 Global prices have benefited New Zealand much more than other advanced economies7
- Figure 10 New Zealand in 2019 is in the middle of the pack on stocks of inwards FDI8
- Figure 11 New Zealand FDI stocks over time contrasted with APEC countries8
- Figure 12 New Zealand is low on stock of outwards FDI.....9
- Figure 13 Portfolio investment exposure is relatively low for New Zealand10
- Figure 14 Record migration inflows at levels not seen since the 1870s11
- Figure 15 Changing nationalities of migrants.....12
- Figure 16 Reversing the Kiwi diaspora?13

1 Introduction – our approach

NZIER has created an interactive platform based on the business intelligence tool QLIK² to explore New Zealand international economic connectedness and how that compares with other countries. We focused on some standard groupings (OECD, APEC, ASEAN) as well as a comparison with other advanced, small, open economies. The latter includes Austria, Belgium, Denmark, Finland, Hong Kong/China, Ireland, Israel, the Netherlands, Singapore and Sweden.

Our approach was organised around four topic areas – trade flows, people movement, capital flows, and ideas and culture. While important, the lack of consistent data or measures precluded exploring international exchanges in ideas and culture, so this dimension is not explored further in the body of the report. For the other three topic areas, patterns emerged at three levels – macro or economy wide, meso or sectoral level and micro or industry levels flows.

Figure 1 Four dimensions of globalisation



Source: NZIER

2 Trade in goods and services

Looking at the external trade data, patterns emerged at three levels – at the macro level, the levelling out of overall openness to external trade; at the meso level, the changing mix of goods and services; while at the micro level, the marked diversification in the mix of products and markets.

Is New Zealand an open economy?

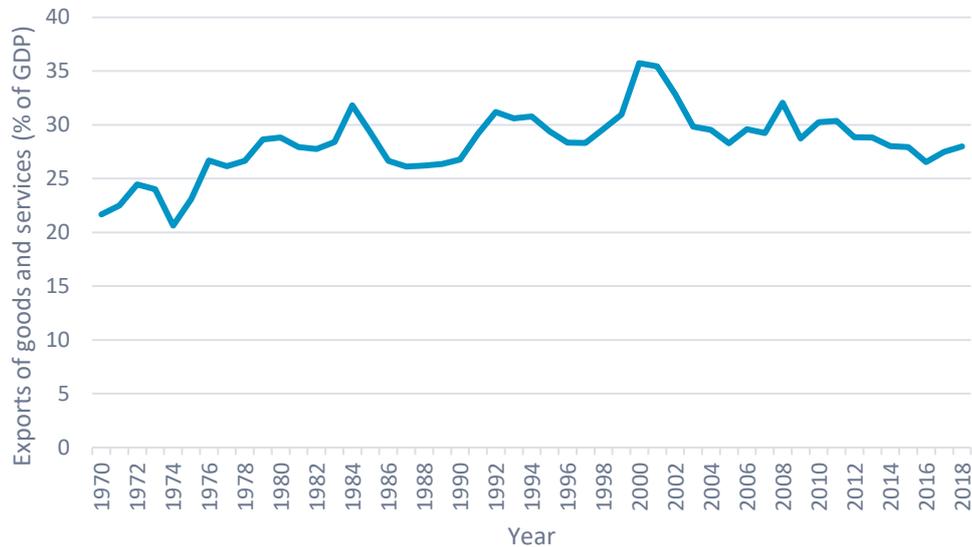
New Zealanders have traditionally seen themselves as a trading nation with a small open economy.

Figure 2 shows New Zealand exports to gross domestic product (GDP) ratio increasing steadily from the 1950s until a peak in 2000 (35.7 percent) before declining and levelling out at around 28 percent of GDP (2018 27.9 percent). The decline since 2000 is quite striking. This occurred at a time when world trade was growing steadily and after a period

² <https://www.qlik.com/us/>

in the 1980s and 1990s when New Zealand unilaterally liberalised its borders. Key measures included phasing out import licencing, reducing tariff barriers and entering into a comprehensive free trade arrangement with Australia.

Figure 2 Levelling out in New Zealand’s openness since the 1980s



Source: NZIER based on World Bank data

Figure 3 compares New Zealand with a range of small, advanced economies identified by the International Monetary Fund – Austria, Belgium, Denmark, Finland, Hong Kong/China, Ireland, Israel, the Netherlands, Singapore and Sweden. It shows exports compared to GDP and overall openness (export and imports combined compared to GDP). Unsurprisingly New Zealand’s openness ratio (50 percent) is much lower than island entrepôt economies like Singapore and Hong Kong. However, we are the second lowest (after Israel) and markedly lower than small European nations (which average around 80 percent).

Physical distance from markets and from producers of new knowledge affects New Zealand’s level of international connectedness.

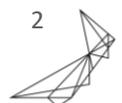
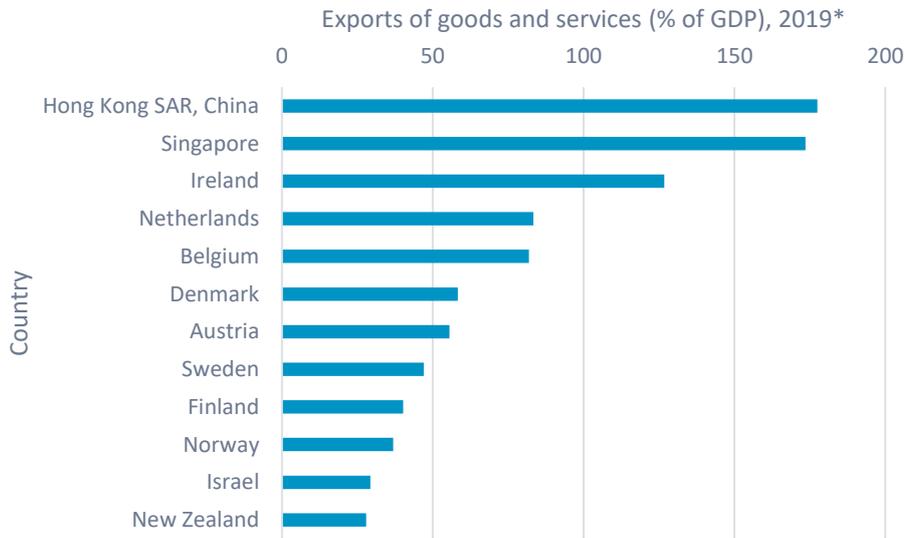


Figure 3 New Zealand is less open than other small, advanced economies

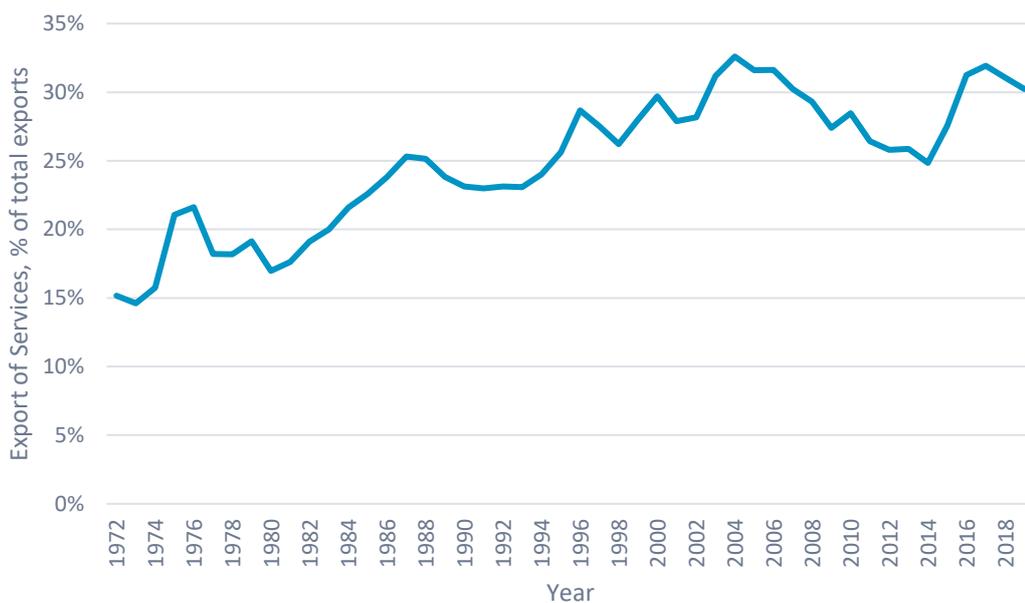


Source: NZIER based on World Bank data

Has New Zealand become a services economy?

Focusing on the sectoral level, traditionally New Zealand has seen itself as an agricultural nation. Agriculture is now a relatively small part of domestic activity (only 5.5 percent of employment in 2020). However throughout the 20th century agricultural exports of raw and processed materials still dominated and currently they comprise a 90 percent share of goods exports and a 63 percent share of total exports. Over the last two decades what has grown is the role of services exports, shown in Figure 4.

Figure 4 Services share of exports has doubled since 1972

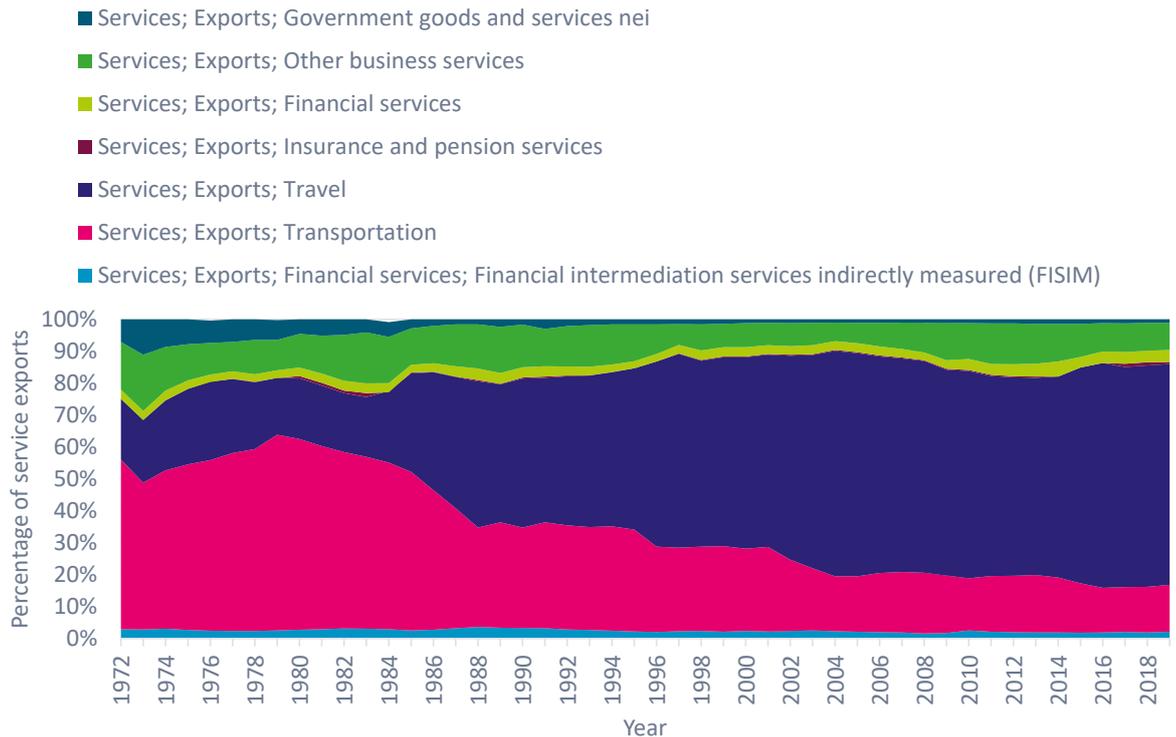


Source: NZIER based on World Bank data

New Zealand has traditionally been a net importer of services such as insurance, banking and tourism. However over the last 30 years, the export of services has grown to 30 percent of GDP, while services imports have declined relative to GDP.

Figure 5 shows the growth in services exports is dominated by tourism. Educational exports also grew strongly over this period.

Figure 5 Tourism exports grew rapidly before COVID-19



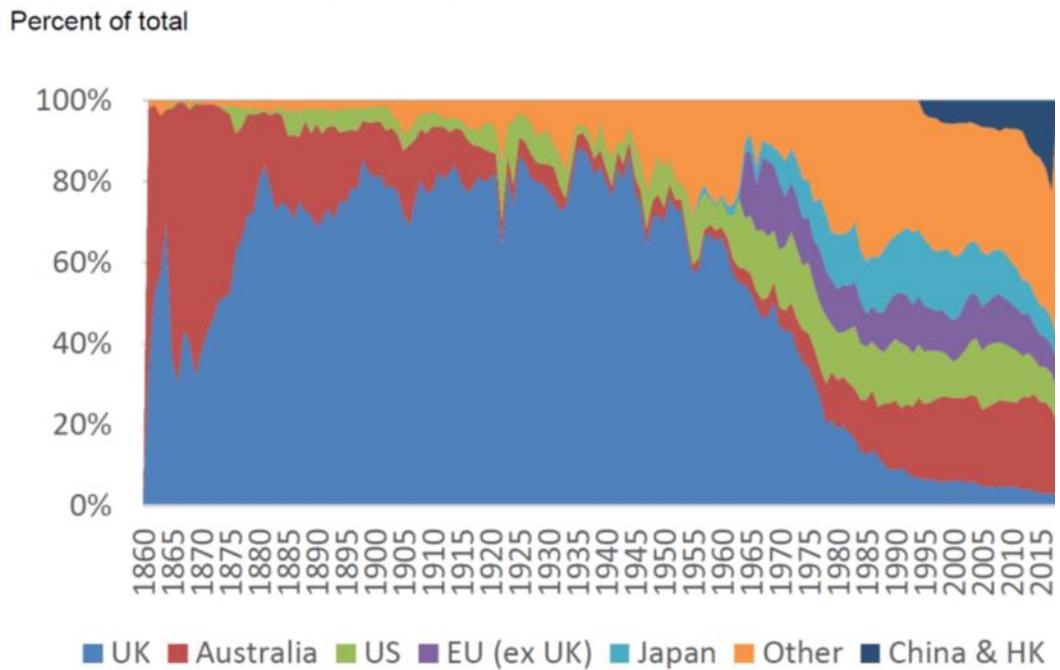
Source: NZIER

The trade in services data doesn't fully capture the role of services in the external sector. Services is a complex story because in addition to being directly traded across borders, some services like customer relations and training are also combined with goods exports and become 'embedded' services. In addition, other services like transport and logistics are 'embodied' as inputs in the production process. Rajanayagam (2016) estimates that when the impact of embodied services is included, the share of services in New Zealand's exports increased from 30 to 57 percent.

Is New Zealand reliant on a narrow range of exports?

New Zealand has succeeded in diversifying its range of exports and export markets – from the 1880s until the late 1950s, four agricultural commodities – meat, wool, butter and cheese – exported to the United Kingdom market made up nearly 80 percent of our exports. Today China, Australia and the United States are our largest markets, and the mix of exports has widened.

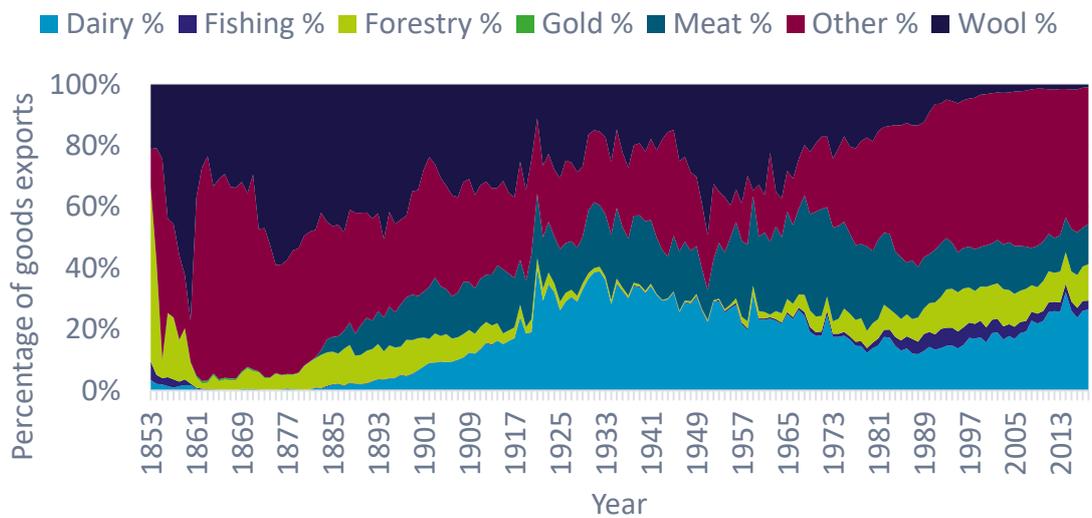
Figure 6 Decline of the British export market



Source: Bloomfield (1984) and Statistics NZ Infos

The increased spread in markets served is matched by an increased range of products supplied. Figure 7 shows how the share of meat and wool has declined while dairy has increased since the low point in the mid-1980s. A growing share (50 percent in 2018) unhelpfully labelled other – includes a wide range mix of primary products including wine, fruit and vegetables, as well as manufactures.

Figure 7 Decline of traditional exports relative to other

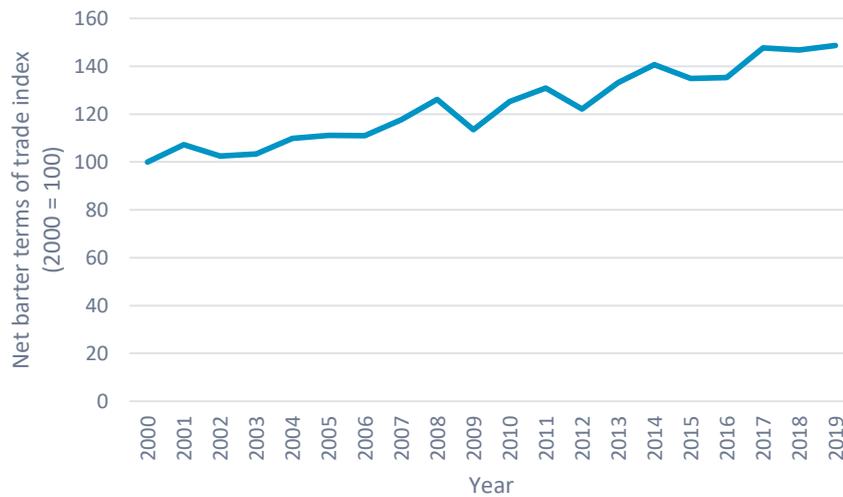


Source: NZIER

Has New Zealand's terms of trade suffered by being at the bottom of a value chain?

Figure 8 shows New Zealand has benefited from being at the bottom of the value chain – our terms of trade have increased by 50 percent over the last 20 years, while Figure 9 shows that for all other small, developed economies, terms of trade were flat. This is inconsistent with the conventional wisdom in the 1970s about primary producers facing adverse terms of trade movements as well as modern arguments about the advantages of moving up value chains. More recently, land-based exports proved resilient to supply chain disruption during the COVID-19 pandemic (Nixon 2020).

Figure 8 New Zealand's terms of trade have increased 50 percent since 2000



Source: NZIER

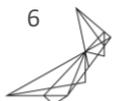
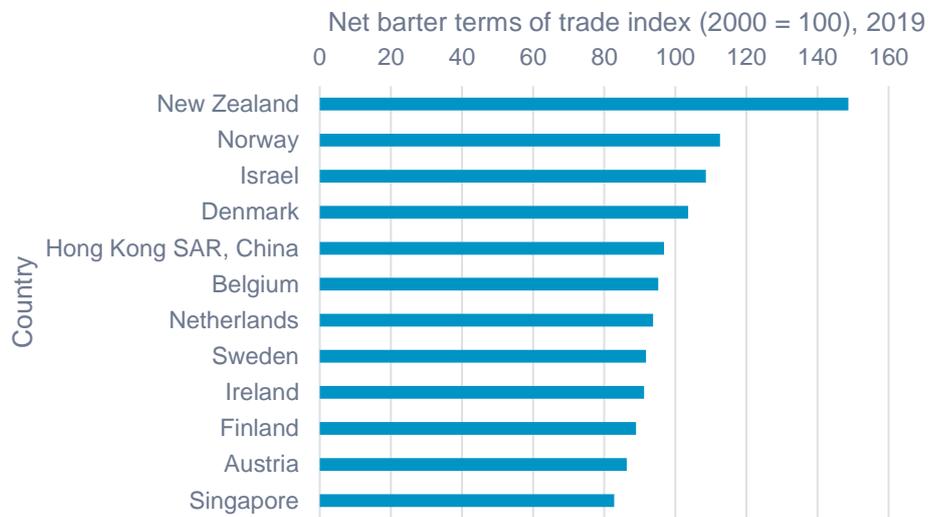


Figure 9 Global prices have benefited New Zealand much more than other advanced economies



Source: World Bank

3 Movements in capital

International capital movements take a number of forms – external debt (both public and private) and equity (passive portfolio investment and direct foreign investment). Statistics NZ regard an investment as foreign direct investment (FDI) when a foreigner obtains a management interest in an entity of at least 10 percent.

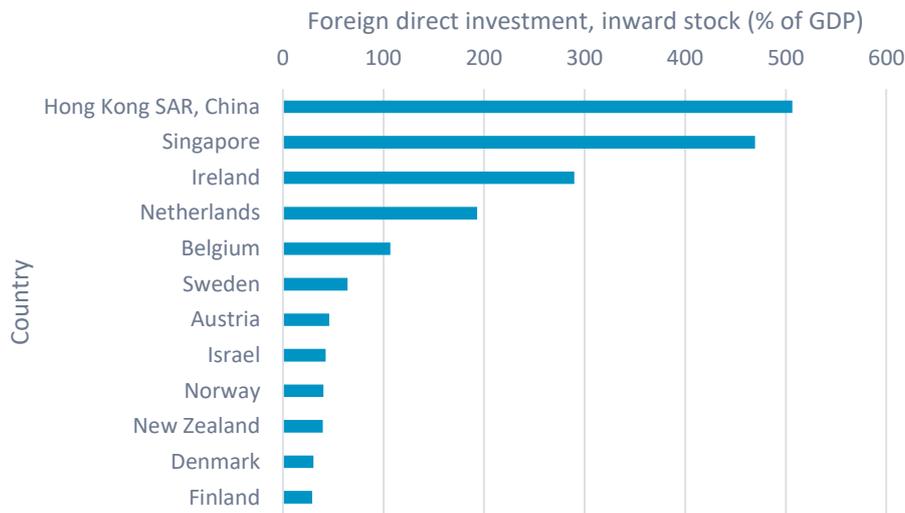
Internationally comparable data on international debt equity and overall external assets and liabilities has proved difficult to obtain for this project other than for FDI data. Including up-to-date international comparable data on external debt and stocks of portfolio investment is unfinished business for this project and will be considered as part of any subsequent phases.

Is New Zealand increasingly being owned by foreigners?

Until recently New Zealand’s foreign investment regime has been relatively liberal by international standards and the way that regime has traditionally been implemented has meant New Zealand has been reasonably open to foreign investment. There are some notable exceptions such as investment in land deemed ‘sensitive’ – predominantly farmland, conservation land and small parcels of land adjoining the foreshore and seabed. However in recent years the regime for foreign investment has been tightened, most recently in June 2020.³ However openness in policy does not necessarily convert into connectivity through high in and out flows of inward direct investment.

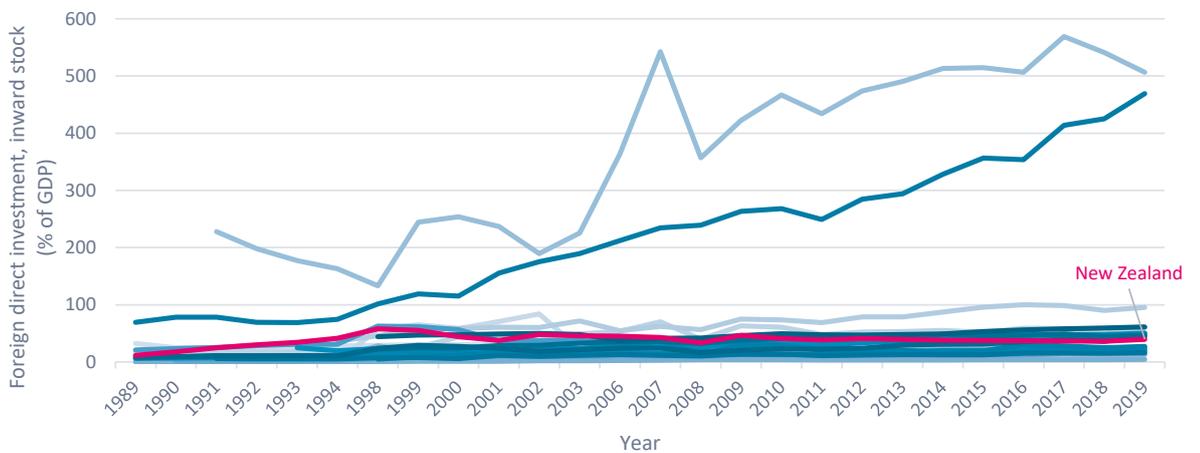
³ See Russell McVeagh’s summary of the changes to the foreign investment regime on <https://www.lexology.com/library/detail.aspx?g=d3502aba-ff41-4056-8068-0b41f6833434>

Figure 10 New Zealand in 2019 is in the middle of the pack on stocks of inwards FDI



Source: UNCTAD and NZIER

Figure 11 New Zealand FDI stocks over time contrasted with APEC countries



Source: UNCTAD

Figure 11 shows how the stock of inward foreign investment in New Zealand increased markedly in the late 1980s and into the mid-1990s (partly associated with the lifting of foreign exchange restrictions and the privatisations of State Owned Enterprises) but has been relatively stable since then as a percentage of GDP. Note also, the stock data includes retained earnings, so it does not necessarily reflect new additional investment. Outwards foreign investment has been consistently much lower as is shown in the next graph (Figure 12).

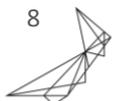
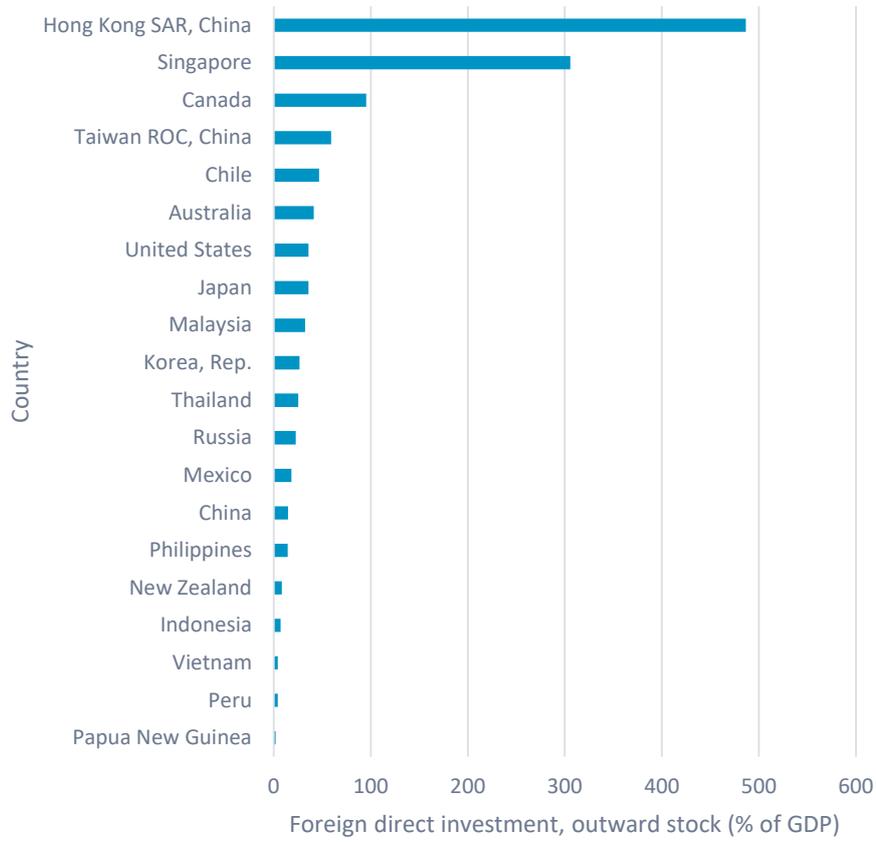
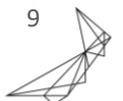


Figure 12 New Zealand is low on stock of outwards FDI

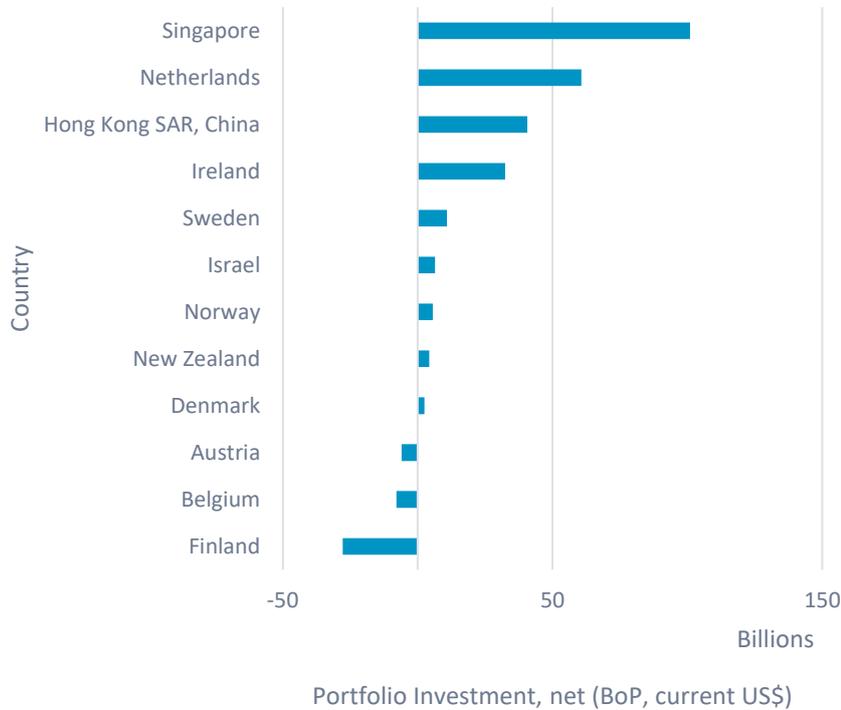


Source: UNCTAD and NZIER



How exposed is New Zealand to portfolio investment?

Figure 13 Portfolio investment exposure is relatively low for New Zealand



Source: UNCTAD

What about New Zealand's external debt?

Statistics NZ estimate that the Net International Investment Position (NIIP) as at 31 March 2020 was negative \$NZ 179,336 million or 54% of GDP while net external debt was negative \$NZ 141 million (44% of GDP). While similar in nominal terms, this represents a gradual improvement as a ratio to GDP over the last decade. The New Zealand Initiative (Wilkinson 2013 at page xix) found that "At 31 March 2012, foreigners had invested \$146 billion more in New Zealand than New Zealand had invested overseas. This negative NIIP (Net International Investment Position) represented 72% of GDP for the year ended March 2012... and has ranged between minus 67% of GDP and minus 87% of GDP since 1992.... Net international debt accounted for \$140 billion of the negative \$146 billion NIIP position at 31 March 2012". This external debt is "largely a legacy of the prolonged deficit spending between 1976 and 1987" (Wilkinson 2013 at page xx).

4 Movement in people

Data on people movements highlighted patterns at three levels – at the macro level, record immigration flows since the global financial crisis; at the meso level, the changing mix in the nationalities of migrants; while at the micro level, the reverse of the diaspora with more Kiwis returning than leaving. International comparisons of migration data are made more

difficult because of problems with availability of comparable data. Comparable migration data is often only available at five-yearly intervals. As a result this section mainly draws upon New Zealand migration data.

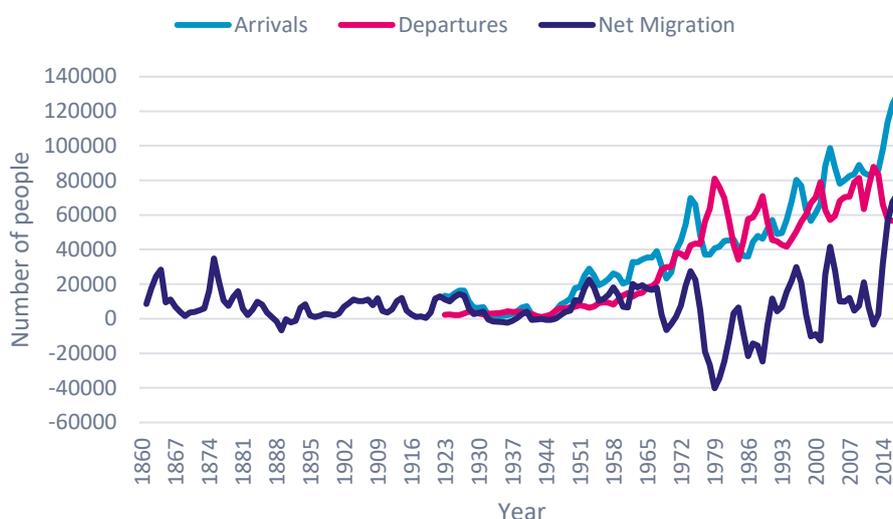
Is New Zealand very open to migration flows?

The last decade has seen record immigration flows driven by an increase in inwards migration. The share of the New Zealand resident population born overseas is now one-third (over 50 percent in Auckland) and is amongst the highest in the developed world. For all of the 20th century New Zealand’s population growth was mainly driven by natural increase (the difference between birth and deaths). The last decade has seen a switch, so population growth is now driven by migration, a pattern last seen in the 1870s.

Net migration is the residual left over by the difference between two large numbers – inflows and outflows. Like any residual it can be quite noisy and volatile. Outward migration has fluctuated around a trend level. Inwards migration reflects an increase in both short and long term migration arrivals.

COVID-19 has interrupted these flows and in May 2021 the Government announced a “once-in-a generation reset” of the immigration system. So future patterns are likely to be different to recent trends.⁴

Figure 14 Record migration inflows at levels not seen since the 1870s



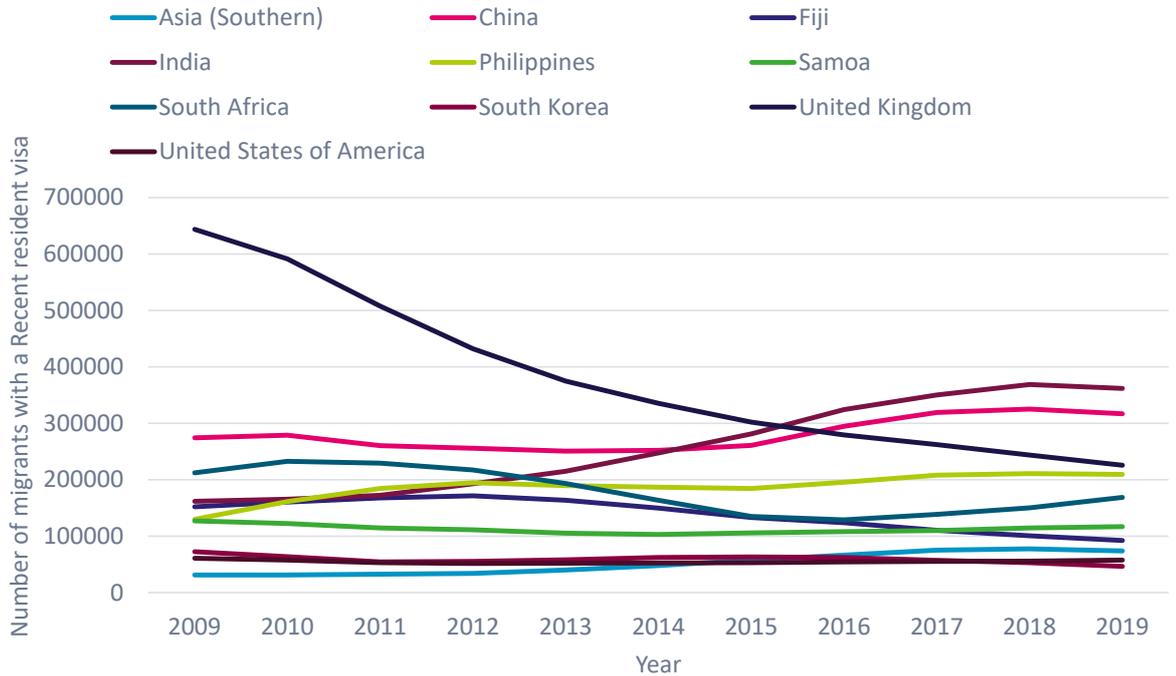
Source: Statistics NZ

Where do the migrants come from?

Figure 15 looks at the source of the migrant flows by visa type to New Zealand. It shows a rapid change in the last decade in the nationality of arrivals. Migrants with a recent resident visa from India and China now outnumber migrant arrivals from the United Kingdom.

⁴ <https://www.rnz.co.nz/news/political/442754/government-announces-reset-of-immigration-system>

Figure 15 Changing nationalities of migrants



Source: MBIE and Statistics NZ

How large is the Kiwi diaspora?

There is large diaspora of Kiwis living overseas – estimates vary between 750,000 and 1.5 million but at 14.1 percent of the population in 2014, New Zealand ranks second highest in the world after Ireland.⁵ The majority (514,464 in the 2016 Census) lived in Australia. In the last decade that outflow slowed with departures of people born in New Zealand falling away but not sufficiently to reverse the net outflow. In the year to January 2019 there was a net loss of 11,200 New Zealand citizens.

The data presented in the figure below predates COVID-19 which has significantly affected both arrivals and departures. COVID-19 disrupted people movements significantly leading to suggestions that the diaspora may reverse with more Kiwis returning than leaving. It is unclear if the pattern of the net outflow of people born in New Zealand will return in time or whether the reverse diaspora is the new normal.

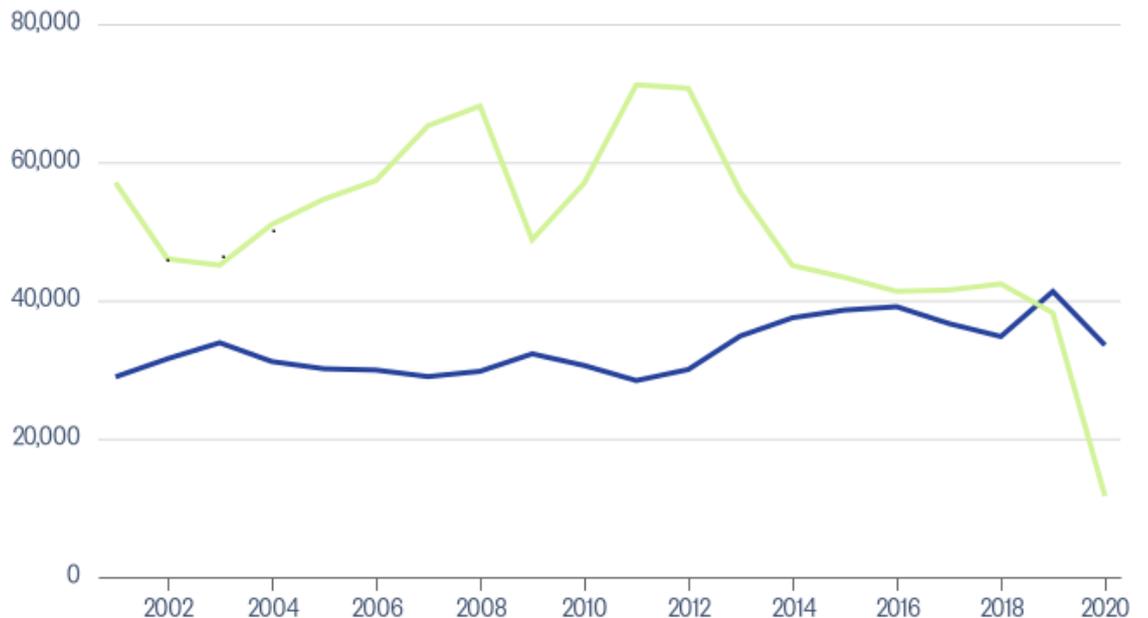
⁵ <https://www.statista.com/chart/4237/the-countries-with-the-most-people-living-overseas/>

Figure 16 Reversing the Kiwi diaspora?

Migrant arrivals and departures to New Zealand by citizens of New Zealand

By direction of travel, 2001–2020, number of people

Provider: Stats NZ



Source: figure.nz based on Statistics NZ

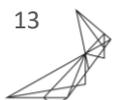
5 Future trends in international economics

Baldwin (2019) makes the point that while “*the future is unknowable, it is also inevitable*”. To understand how New Zealand’s international connectedness might change in the future it is important to understand where we have come from. The growth of world trade since World War Two has been driven by the combined impact of 1) globalisation, 2) technological change in particular with the invention of the shipping container, 3) geopolitical developments, 4) successive waves of trade liberalisation through GATT (General Agreement on Trade and Tariffs).

Some drivers will continue

Looking ahead, beyond COVID-19, for the next decade several of these drivers will continue to operate. These include:

- 1 Economic factors – such as the continued role for global supply chains, with more diverse sourcing and digitisation leading to continued pressure from business to reduce technical barriers to trade.



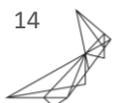
- 2 Technological factors – technological developments associated with the fourth industrial revolution – digitisation, artificial intelligence, cloud technology, big data analytics, high-speed mobile networks– will continue and these drivers don't respect country borders.

Other drivers may not

Looking at the role of institutions – as the size and heterogeneity of members' interests in multilateral institutions grow, the prospect for universal binding commitments have reduced. As a result, there will be less impetus for globalisation from multilateral trade agreements. Instead there has been a proliferation of regional and bilateral free trade agreements following the collapse of the Doha Round of the World Trade Organization talks in 2006.

The recent signing of Regional Comprehensive Economic Partnership (RCEP) is the latest example of this trend. RCEP includes the 10 members of ASEAN plus five of the six countries with which ASEAN has free trade agreements – New Zealand, Australia, Japan, South Korea and China (but not India). In the longer term, the objective of the Free Trade Area of the Asia-Pacific (FTAAP) is to link Pacific Rim economies from China to Chile to the United States with the aim of harmonising the 'noodle bowl' of regional and bilateral free trade agreements.

On the geopolitical side, there is significant potential for discontinuity, however, with the slowdown in international economic integration, ongoing United States/China rivalry and the loss of effort of the American leadership. United States/China political and economic tensions will inevitably spill over into engagement between second tier nations making collective economic agreements harder to achieve in regional forums like ASEAN and APEC.



6 Selected references

Baldwin, Richard. 2019. *The Globalitics Upheaval Globalization, Robotics and the Future of Work*. Oxford University Press.

Bloomfield, G. T. 1984 *New Zealand: A Handbook of Historical Statistics*. G. K. Hall & Co.

New Zealand Productivity Commission. 2020. *Technological change and the future of work* <https://www.productivity.govt.nz/inquiries/technology-and-the-future-of-work/final-report/>

Nixon, C. and J. Yeabsley 2017. *Is peak globalisation upon us – Globalisation is much more than trade in goods*. NZ Public Discussion paper 2017/1 <https://nzier.org.nz/publication/is-peak-globalisation-upon-us-nzier-public-discussion-paper-20171>

Nixon, Chris. 2020. *Land-based industries see New Zealand through tough COVID times*. NZIER Insight 90 <https://nzier.org.nz/publication/land-based-industries-see-new-zealand-through-tough-covid-times-nzier-insight-90>

Rajanayagam, Shanella. 2016. *'The "servicification" of trade' 2016 New Zealand*. Productivity Commission Research Note 2016/4.

Wilkinson, Bryce. 2013. *New Zealand's Global links Foreign ownership and the status of New Zealand's Net international Investment*. New Zealand Initiative 2013.

