

Doing Different to Get Different... Realising New Zealand's Potential

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Tēnā koutou, tēnā koutou, tēnā tātou katoa
Tēnei au e tu ake nei
e mihi atu nei
Ki a koutou, rangitira ma

Good afternoon everyone, and thank you to Minter Ellison Rudd Watts for hosting us today.

The Treasury's vision is higher living standards for New Zealanders, and that shapes the work we do and the challenges we put our efforts into.

Challenges like 'How do we lift sustainable growth?', 'How can our companies make more inroads into world markets?' and 'What skills do we need to succeed in the future – as individuals, as businesses and as a nation?' In short, we are thinking very hard about better ways to realise the potential for a more prosperous, inclusive New Zealand.

What we do know is that we can't fully realise New Zealand's tremendous potential solely by doing the same things in the same way, using just the same talent pools we always have. The Chair and CEO of Coca Cola recently put it well when talking about the Indian

market “thinking outside the bottle” – he urges global companies to accept the market as it is, not as they wish it to be.

I don't need to tell this audience that the world is changing, our markets are changing, my challenge to you and for us to be riding at the front of the wave, not watching as it goes past.

We have to do different to get different – and that's what I'd like to talk about today.

Medium-term outlook

Let me start with a bit of context and give you a quick overview of the medium-term outlook for New Zealand.

Right now New Zealand is a stand-out performer compared to most other developed countries. Terms of trade are the highest they've been for 40 years. Economic growth has gathered momentum, with our GDP up 2.5 percent in the year to June, and our solid performance is expected to continue over the next few years. Back in October the International Monetary Fund rated New Zealand as likely to be one of the strongest-growing advanced economies in the world. And last month the Organisation for Economic Cooperation and Development, or OECD, forecast 3.3 percent growth for New Zealand in 2014, well above the growth they're anticipating across the Tasman. The Treasury will be publishing our own updated growth forecasts next week.

We also perform well across a wide range of broader measures. For example, the OECD's Better Life Index ranks New Zealand 11th out of 36 countries, scoring us highly in areas like student skills, life expectancy, safety and civic participation.

But there are some important measures where we have to strive to do better. For instance, our relative GDP per capita has remained around 15 percent below the OECD average since the mid-1990s. That matters because a having a stronger economy would mean businesses taking on more people, workers having more money in their pockets, and greater affordability of the government services and support that Kiwis value. We also know that while New Zealand performs really well in overall well-being, there are groups in society – specifically the young, the low qualified, sole parents and Māori – who have a higher risk of experiencing persistent hardship.

We have made progress on these issues, and they are heading in the right direction, but for NZ we need to tackle these long standing challenges. For two reasons – because this is the place we live and we care about opportunity for all; and it's critical to the future success of the country.

So – what's happening with the wave?

It's a different shape and size – the world is changing

There are momentous economic and social transformations happening in the world that are working in our favour. One of the biggest potential advantages for us is that we are now much closer to the centre of global economic activity.

By 2025, Asia will account for almost half the world's output, with China accounting for half of that. We have recently seen China become our biggest export market, surpassing Australia.

Even putting China aside, there are growing economies with expanding middle classes in India, Indonesia, Malaysia and the Philippines. According to one estimate, the middle classes in Asia will more than treble from 500 million people now to 1.75 billion people in 2020 – the world has never seen socio-economic change on that scale before. The middle classes are also growing Latin America and elsewhere – and they want the kinds of goods and services New Zealand offers.

This economic growth and increasingly outward focus of the Asia-Pacific region creates immediate and unique opportunities for New Zealand – as long as we're prepared to grasp them.

The people riding it are different – New Zealand is changing

According to Statistics New Zealand projections, Māori, Asian, and Pacific peoples will all increase their share of the New Zealand population. Asian New Zealanders will be the fastest-growing group, making up 15.8 percent of the New Zealand population by 2026 compared with 9.7 percent in 2006.

That gives us strong personal and cultural links with many of our most important trading partners.

Over the same period, the Māori population is expected to grow from 14.9 percent to 16.2 percent, and they will be much younger than Pakeha on average. A large proportion of the Māori population is working age, and a large number of the children in our schools are Māori. This means Māori have a crucial part to play in the future success of New Zealand.

We've also seen important demographic changes in the area of education and skills. For example, a recent report by the Ministry of Women's Affairs has noted that since 1994, more women than men have been graduating with tertiary qualifications, and women now comprise nearly two-thirds of university graduates. As the report points out, women are among the most qualified candidates for entry-level professional roles and now represent a large pool of candidates for positions at the highest levels.

So, the wave and who rides it is pretty exciting!

It has opened up great opportunities for economic growth - and for that growth to be driven by and shared by people right across society.

So how do we get at the front of the wave, hit it well and ride it all the way to the beach?

We will need to adapt to our new circumstances – we've got to do different to get different.

So what are some of the key things New Zealand needs to do differently?

International Connections

Evidence is telling the Treasury that one of the most important shifts to make is to put international connections at the heart of what we think about and do about the economy. Our distance makes connecting internationally challenging but our size makes it imperative.

Being more linked into global flows of people, capital, trade and ideas will help us in overcoming some of the obstacles created by our size and distance. While attracting businesses and people depends on continually improving productivity across the whole economy, becoming more globally connected can boost our productivity in a lot of ways.

Trade – both exports and imports – is one of keys to boosting productivity and economic performance. We know firms that export have higher productivity than those that don't, and that firms which begin exporting, or expand their reach into more markets, grow and invest more rapidly than those that remain domestically focused. Exporting enables our firms to gain scale and increases incentives to invest.

With the massive growth of Asian markets, some New Zealand companies need to become better not just at understanding different cultures, but also different ways of doing business if we are to make the most of our trade opportunities. In that respect, there's a lot we can learn from Māori-owned enterprises.

Te Horipo Karaitiana from the Federation of Māori Authorities has spoken in the past about how important relationship-building is to both and Chinese cultures. The concept of whakawhanaungatanga for Māori and guanxi for Chinese is a strong cultural connection that helps lead to strong business connections.

Earlier this year the Treasury's chief executive Gabriel Makhoul was in Nelson meeting Wakatu Incorporation, a company that has also talked about the advantage that whakawhanaungatanga has given them while doing business with Asian customers. It has helped them establish markets for its seafood and premium wines in China.

Maraeroa C is another company looking to export to East Asia. They are using forestry land to grow high-value ginseng for use in pharmaceuticals and nutraceuticals, and are expecting their first harvest next year. Cultural ties have gone hand-in-hand with commercial ties, with reciprocal visits between the company's Māori shareholders and Chinese tribal leaders.

The lesson to take from these examples is that if we want better international connections and the benefits that flow from them, then we need to utilise our competitive advantages (culture, smallness and ability to adapt quickly, ability to build long term relationships).

Tap all the riders on the wave – increasing gender diversity in leadership

Another significant step we can take to help New Zealand realise its potential is to increase gender diversity in the leadership of our organisations.

Earlier this year I met with Beth Brooke, the Global Vice Chair for Public Policy at Ernst & Young, and she made a couple of really interesting points. The first was that women's economic worth will be equivalent to the worth of the rising middle classes in India and China within a decade. We think about investing in these countries, so why not think about investment in women in the same way? Her second point was that diversity matters a lot to the performance of organisations. Ensuring diverse views are tabled from not just different genders but also people of different nationalities, ages and experiences can contribute to better decisions and better outcomes.

A paper published by the International Monetary Fund in September also emphasised the economic benefits of greater gender equality. It cited a number of studies that show a positive correlation between gender diversity in senior management teams and better

governance and financial performance. Other evidence put forward by the IMF demonstrated significant economic gains when women are able to develop their full labour market potential.

New Zealand is starting from a pretty good base – the World Economic Forum rates us 15th out of 136 countries in terms of women’s economic participation and opportunity – but we have room to do better. For example, there is still a gender pay gap in many industries, and just 14 percent of directors in the top 100 NZX companies are women. The Treasury is keen to encourage change, which is why we are a founding member of the 25 Percent Group that aims to increase women’s participation in senior positions, and why we’re a funding partner of a recently-launched initiative called DiverseNZ.

Treasury – no longer wave watchers

We know that the need to do things differently applies to the Treasury too.

The Treasury has to have a good grasp of these changes if we’re going to be effective policy advisers and help the country realise its potential. For us it means getting more involved in areas that make a big difference for living standards, getting out more to where the rubber of policy meets the road of reality, and getting a broader range of thinking, experiences and perspectives.

In terms of being involved in different areas, a lot of people were surprised last year when the Treasury came out strongly about the importance of education – it was not a space they expected us to be in. But our analysis suggests that if overall student achievement was lifted to among the top in the OECD, GDP would be 3 to 15 per cent higher by 2070. We know education is a key area we need to focus on if we’re to achieve a sustainable step-change in economic growth and more equitable outcomes in society – goals which are at the heart of the Treasury’s advice.

We also know that doing more grass-roots engagement can make a difference to our advice. A good example has been our work on welfare reforms. One of our starting points was a piece of research on income mobility, but we knew we needed a better sense of the reality for people with persistently low incomes. That’s part of the day-to-day work of a lot of social service providers both inside and outside the government sector, but not so much for your typical Treasury analyst, it would be fair to say. So we went out and talked to sole parents and gang members on a benefit, and that gave us valuable insights that altered our views on how case management for beneficiaries needed to change.

Earlier this year our justice policy team invited two former prisoners to the Treasury to talk about their experience of prison rehabilitation programmes, and the challenges of reintegrating into society. That’s now feeding into our policy in this area. It’s another example of how we’re looking for different perspectives on issues to try and understand them better, so we can provide better policy advice.

We were very grateful that these people were willing to share their views with us, and the feeling was mutual. They couldn’t believe that we had given them the opportunity to talk about their experience. It was a small but meaningful step.

The last difference I want to touch on is the Treasury’s emphasis on encouraging different voices and tapping into wider perspectives. There is still a way to go for the Treasury to have a more diverse workforce, and we certainly want to do better. But we are making progress, particularly in lifting the percentage of women in leadership roles. We have a

fairly even gender balance at management level, and a number of women have been appointed as Principal Advisors this year.

I would say the greatest step we are taking to bring more diverse perspectives to our work is through seeking a greater understanding and much closer relationship with Māori than we've had in the past. We've had a lot of contact in areas like Treaty negotiations and natural resources, but the Treasury would be the first to admit that we've been slower than some of our government colleagues. It's something we are making a real effort to change.

Realising Māori potential could make a fundamental improvement to New Zealand's overall living standards, especially if we approach it in a more targeted way. Our leadership team decided that this was an important area that warranted further focus from the Treasury and that, although we had foundational capability, we were not well-connected to groups who are leading work in this area. We are now looking to identify and target policy areas where we want to shift outcomes for Māori and progress these in partnership with iwi and others. We've also committed to putting more resources into this, in order to support our teams and also work more closely with MBIE and Te Puni Kōkiri in particular. I'm really excited by the Treasury being more involved in the Crown and Māori drawing from each other's respective strengths and expertise, and working towards a common purpose.

Conclusion

Like you, I see New Zealand as a country with immense potential and huge opportunities in front of it.

As the wave and riders change, businesses and the Treasury alike need to think about what they could do differently to tap the potential and seize the opportunity. Do we all ride a fantastic wave to the beach, get dumped along the way, or miss it altogether?

And to finish, the words of a great leader, not afraid to be at the front of the wave: (adapted)

*If you talk to a man in a language he understands, that goes to his head.
If you talk to him in his language, that goes to his heart.*

Nelson Mandela.