

Towards 2025





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The Business Growth Agenda

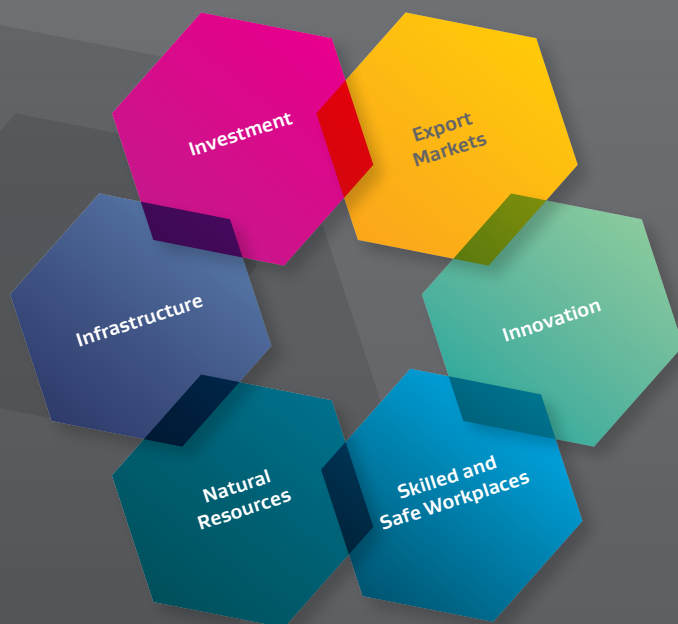
It is businesses that drive economic growth and build a more successful economy with more jobs for Kiwis.

Growing competitive businesses creates jobs and increases exports to the world. Nothing creates sustainable, high-paying jobs and boosts our standard of living better than business confidence and growth.

Building a more competitive and productive economy for New Zealand is one of the key priorities the Prime Minister has laid out for this Government to achieve. The Business Growth Agenda drives this by ensuring the Government stays focused on what matters to business, to encourage confidence and further investment.

There are six key inputs that businesses need to succeed and grow. By focusing on these areas we will ensure businesses have the opportunity to lead economic growth.

The six key areas in the Business Growth Agenda:



The Government is holding itself accountable to the business community and to the public to achieve tangible progress in each of these areas.

The Ministry of Business, Innovation and Employment and the Treasury are working alongside other agencies to coordinate the Business Growth Agenda and ensure businesses can more easily access the advice and support from government agencies they need to be successful.

GROUP OF MINISTERS FOR:

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Hon Paula Bennett
Hon Murray McCully
Hon Nathan Guy
Hon Tim Groser
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Hon Gerry Brownlee
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Hon Paula Bennett
Hon Amy Adams
Hon Simon Bridges
Hon Dr Nick Smith
Hon Nathan Guy



Contents

This year the BGA report is being released in stages.
Once fully released, the report will contain:

.....

Introduction

.....

Economic Context

.....

What would economic success look like?

.....

 Building Export Markets

.....

 Building Innovation

.....

 Building Investment

.....

 Building Natural Resources

.....

 Building Skilled and Safe Workplaces

.....

 Building Infrastructure

.....

Progress on Cross-Cutting Themes

.....



Introduction

The Government has set four key priorities to deliver a stronger and more prosperous New Zealand.



The Business Growth Agenda (BGA) is central to the Government's priority of building a more productive and competitive economy. Lifting productivity and competitiveness is critical to creating business opportunities, more jobs and higher wages, and ultimately the higher living standards to which New Zealanders aspire.

This report outlines the significant progress we have made in delivering on nearly 500 specific actions across the BGA and particularly the priority actions that were set out last year. It also sets out the future direction of the BGA, which this year will focus on investing for growth. We are prioritising key areas that we see as particularly critical to further build business confidence and to provide the platform for sustained growth into the future.

Economic context

The New Zealand economy has recorded five years of growth and is set to continue to expand over the coming years, despite a weaker near-term outlook since the release of the 2015 Budget.

The economy grew by 3.2 per cent in real terms in the year to March 2015. This is the fastest growth in a March year since 2006, and higher than most other developed countries. This growth has been broadly based, benefiting people in large and small centres and rural areas. All regional economies have been growing, with above average growth in nominal terms in Southland, Canterbury, Marlborough, Waikato and Northland.

Recent growth has been driven by private consumption (averaging 3 per cent over the past three years) as household incomes have expanded with rapid employment growth. Consumption expenditure has also been boosted by population growth driven by a strong net inflow of migrants.

The labour market has been buoyant with employment growth remaining strong at 3 per cent in the year to June 2015 and the unemployment rate averaged 5.7 per cent in the year to June 2015, down from 6 per cent a year ago. We have seen 68,000 jobs created in the past year, and average annual wages have increased by nearly \$6,000 in the last four years. Treasury forecasts wages will rise by a further \$6,500 to around \$63,500 by mid-2019 – considerably faster than inflation.

Residential and business investment were also important drivers of growth in the past year. Residential investment growth has averaged nearly 16 per cent over the past three years, as the rebuilding of Christchurch progressed and house building in Auckland increased. The rate of growth in residential investment is expected to ease as the Christchurch rebuild plateaus and net migration inflows decline. Residential investment in Auckland is expected to offset this decline.

Business investment growth has averaged 6 per cent per annum over the past four years as firms catch up from low investment during the financial crisis and expand their capacity to meet increasing demand. Business spending on research and development has been growing steadily, although off a low base, with expenditure equivalent to 0.54 per cent of GDP in 2014.

Exports also contributed to growth in the economy in the year to March 2015 – particularly services exports. Increased visitor arrivals from China and higher daily spending by visitors have boosted services export receipts.

The export sector is facing some challenges – most notably in the dairy industry, where increased production in New Zealand and elsewhere, high stocks in China, and Russia's ban on agricultural imports from some nations have led to sharp price drops. The dairy sector is an important sector of the economy, contributing just over 20 per cent of our exports and around 4 per cent of our economy, and so the fall in dairy prices will be challenging for some businesses and for some regions. It will also affect our economic growth, which is now expected to trend at up to 2.5 per cent over the next year, slightly lower than in the Budget Update released in May.

But dairy is not all that we do. There has been good growth in services and high-value manufacturing. Our information and communications technology (ICT) industry has grown at a rate of 9 per cent per annum since 2008, and now contributes 1.7 per cent of GDP. The high-tech manufacturing sector has grown 22 per cent over the past 5 years. International education is now worth nearly \$2.85 billion to the economy, and supports more than 30,000 Kiwi jobs.

Strong growth is anticipated for the meat, horticulture, and seafood sectors and it is expected that this will help to partially offset the decline in the dairy sector. Total meat

and wool exports are expected to increase by almost 11 per cent to \$9 billion by 2019. Strong growth in kiwifruit and wine exports is driving horticulture export revenue past \$4 billion, and it is forecast to reach \$4.6 billion by 2019. Seafood export earnings are forecast to reach \$1.8 billion by 2019, driven primarily by growth in aquaculture.

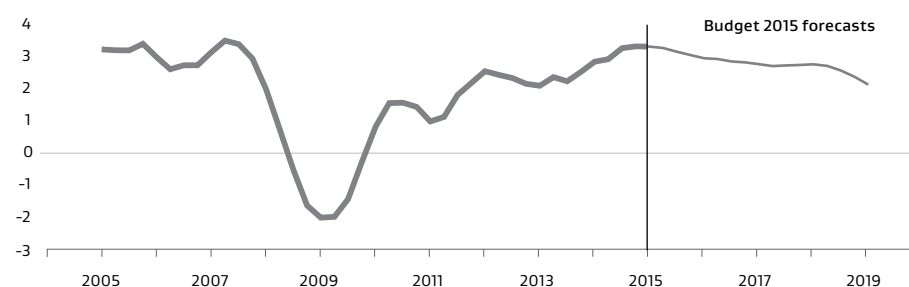
The recent decline in the value of the New Zealand dollar (which is linked to the downturn in dairy prices) and falling interest rates presents new opportunities for export growth. The headwinds created by a strong dollar over a number of years have meant that New Zealand exporters have had to work hard to remain competitive in the global market place. Now these exporters are well positioned to reap the rewards of a lower exchange rate in both new and existing markets.

Exports are expected to continue to grow as demand for New Zealand products increases with the ongoing recovery in developed economies and high, albeit slowing, growth in China. The underlying drivers of our growth – high migration, robust construction activity and solid labour income growth – remain intact, reflecting the underlying strength and resilience of our economy.

Now is the time to invest for ongoing growth – the kind of growth that all New Zealanders and regions will have the opportunity to benefit from. Sustained economic growth will translate into real benefits for New Zealand households and give businesses around the country the confidence to invest and hire.

Economic growth is set to continue over the coming years

Real GDP, annual average percentage change



Source: Statistics New Zealand, the Treasury

What Does Economic Success Look Like?

New Zealand has recovered well from the Global Financial Crisis and has laid the foundations to grow positively. Now is the time to invest for ongoing growth – the kind of growth that will provide our children and grandchildren with one of the most prosperous and liveable small countries in the world. We want growth that all New Zealanders will have the opportunity to benefit from.

Many of the challenges we face (for instance rising house prices and environmental constraints) are a reflection of our success. To continue to support growth we need to address our challenges and provide businesses with the confidence they need to invest.

Despite our strong recent performance, a substantial income gap remains between us and many other developed countries. Much of this gap appears to be because New Zealand is uniquely small and remote from our historic markets.

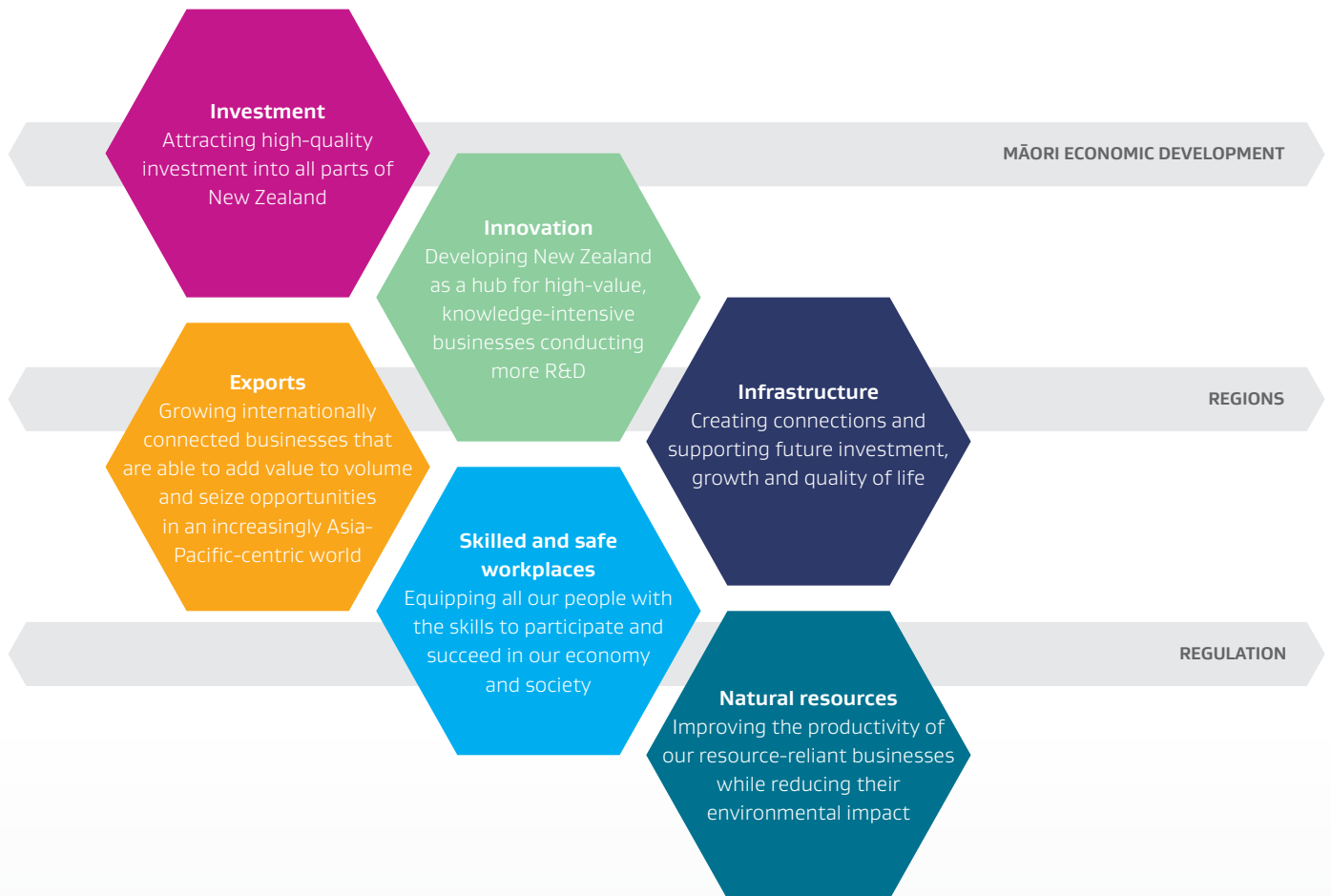
In order to help drive activity in the right areas and to provide the focus we need if we are going to meet our ambitions, officials and industry representatives been working together to consider what economic success for New Zealand would look like in ten years' time. The key elements of this work are captured below.

What would economic success look like by 2025?



An economy like this will grow our productivity and incomes, delivering real and ongoing improvements in quality of life for all New Zealanders.

To be successful requires action across a range of areas:



The BGA sets out the actions that we are taking in these areas to strengthen our economy, improve productivity and competition, and create jobs.

The BGA has already delivered considerable success. Nearly 500 projects have been initiated and over 250 have been completed. Businesses and government need to maintain the momentum that we have built. This refresh of the BGA contains many further projects aimed at continuing to deliver strong economic growth.

The Government is committed to staying focused on what matters to business. Ministers and agencies will continue to engage with the business community to identify and focus on those things that will make the most difference to improving the growth of the New Zealand economy and to achieving our high-level goal to increase the ratio of exports to GDP to 40 per cent by 2025.

The main focus over the next year is on ensuring businesses have the motivation and the confidence to invest. Each of the BGA's six key inputs for growth has a role to play:

Building Export Markets

Increasing exports relies on adding value to volume and developing stronger international connections to provide New Zealand businesses with access to international skills, ideas, capital and markets. It is these connections that provide us with the platform to be world-leading, and become a hub for talent and ideas for the Asia-Pacific region. To do this we will continue to deepen and future-proof New Zealand's trade strategy and help firms to grow internationally, providing businesses with the ability and know-how to take advantage of overseas opportunities. By addressing domestic and offshore barriers to internationalisation, we will improve our businesses' international competitiveness, while ensuring New Zealand has efficient and effective border services to manage the risks that come with greater international flows of people and goods.

Building Innovation

Innovation enables firms to more efficiently produce products and services that are further up the value-chain – that attract a premium from our natural resources, intellectual edge and industry know-how. Inherent in New Zealand's DNA is a 'can-do' attitude which inspires us to be innovators and global leaders in our chosen fields. We will encourage and enable business-led innovation (especially through R&D) to improve business productivity. We are also planning to increase the impact of the Government's R&D investment in public research organisations, attract multinational investment and build global connections in R&D, and make the most of the digital economy to help our businesses lift their productivity and open new opportunities for export growth.

Building Investment

Attracting high-quality business investment into all parts of New Zealand plays a critical role in creating economic growth and lifting productivity, and is an essential ingredient for building an innovative and internationally-connected economy. By attracting the investment our economy needs, we can help build and grow the economy that we envisage – one that is agile, resourceful, innovative and world-beating. We will focus on attracting high-quality foreign investment that provides businesses with the capital necessary to grow and access international connections and talent. Facilitating the flow of capital to regional and Māori investment opportunities will give more New Zealanders the opportunity to share in the benefits from growth. This will be reinforced by embedding and monitoring reforms to financial market regulation and improving New Zealanders' financial capability and access to high-quality financial advice, as well as rebuilding the Government's balance sheet.

Building Natural Resources

New Zealand's abundant natural resources are central to our economic prospects, especially in our non-urban regions. By improving our resource management system, building growth from more efficient land and resource use, and realising greater value from our freshwater, marine and aquaculture resources we will be able to continue to enjoy the benefits that flow from our resources into the foreseeable future. Improving the productivity of our resource-related industries while reducing their environmental impact will help create a more productive and competitive economy – building economic resilience, and meeting global consumer preferences for high-quality goods and services with lower environmental footprints.

Building Skilled and Safe Workplaces

A highly skilled workforce, safe and flexible workplaces and sensible regulation help make New Zealand an attractive place for businesses and workers. New Zealand needs to further develop an innovative, adaptable and inclusive education system that provides the skills necessary to succeed in an increasingly globalised labour market and to make this country a real hub of talent and ideas for the Asia-Pacific region. Our focus is on lifting achievement for every student, improving information and pathways for learners, increasing the relevance of tertiary education and building effective links between education and employment. This will ensure our education system provides the skills that businesses and workers need. Building skills to ensure workforce success for Māori and Pacific peoples, and supporting people moving from benefits into the workplace, are important elements in equipping all of our people to participate and succeed in our economy and society. We will reinforce this by enhancing employment relations/standards regulation and improving the health and safety system to make our workplaces fairer, safer and more productive.

Building Infrastructure

Appropriate, resilient infrastructure supports investment, growth and the quality of life in all parts of New Zealand. We cannot become more internationally connected, link our regions and cities, and reduce the impacts of distance without the necessary infrastructure. In order to improve our domestic and international flows of people, goods and information we will continue to work on removing the bottlenecks on our road networks, strengthening rail, sea and air infrastructure, completing the deployment of ultra-fast and rural broadband and improving infrastructure decision making. We will also focus on increasing competition and efficiency in residential construction, reforming the social housing sector, rebuilding Christchurch, improving water management and investing in social infrastructure (including schools and hospitals) in order to provide infrastructure that meets the ongoing needs of our communities.

We are well placed to shape our future and move towards becoming one of the most prosperous, inclusive and liveable small countries in the world, one that builds on our strengths and celebrates our successes. Taken together, the actions outlined in this agenda will provide New Zealand businesses with the confidence and ability to invest for sustained growth, while ensuring that the impacts of that growth are managed well into the future.

