

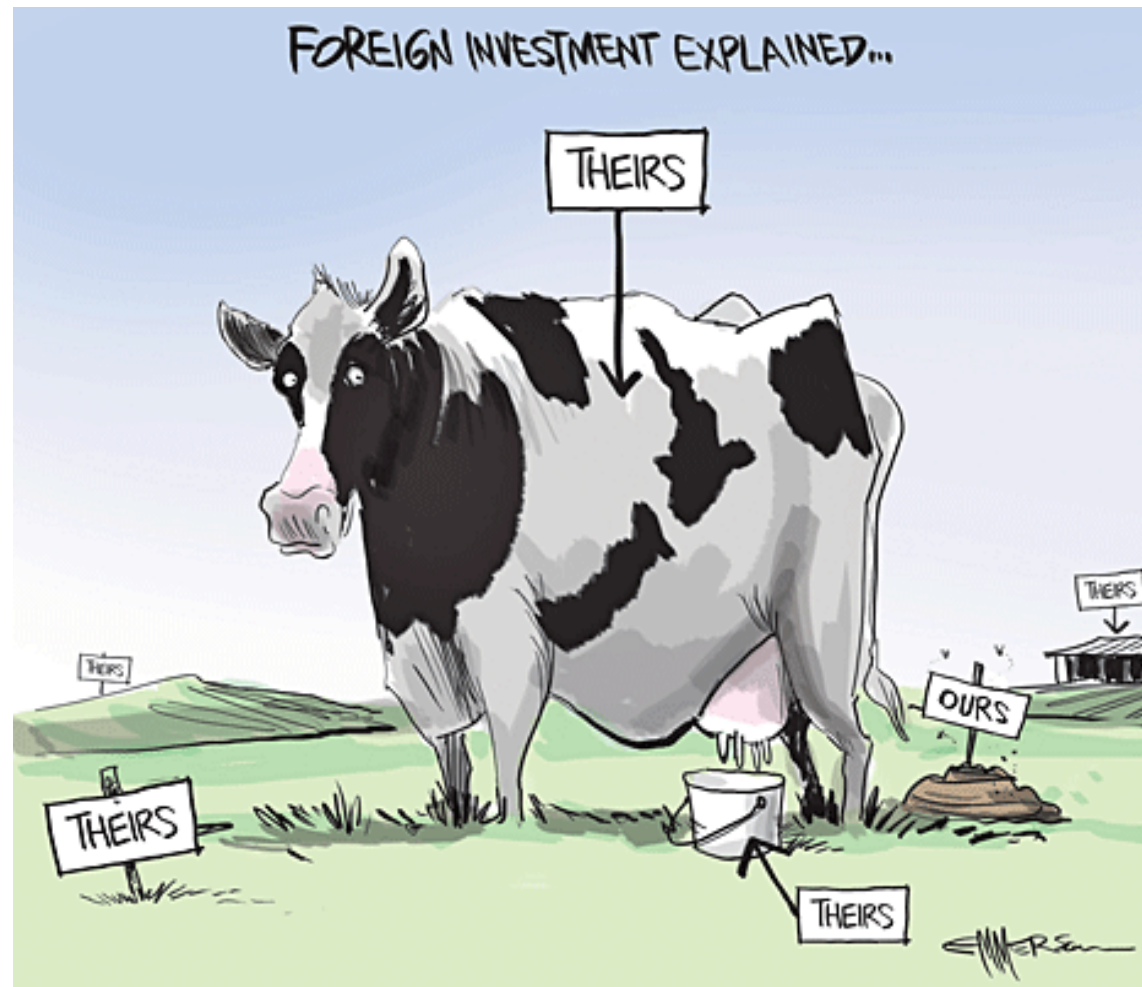
Observations on Foreign Direct Investment in New Zealand

Sir Roderick Deane

**Presentation to the Miro Summit under the auspices of
The NZ Initiative at the Formosa Resort 20-21 September
2012**

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Foreign investment explained



Consent to invest in NZ

- **Overseas investors require consent if they wish to acquire:**
- **Sensitive land**
- **Business assets worth more than \$100 million**
- **Fishing quotas**
- **Farm land is sensitive if it exceeds 5 ha.**
- **Farm land must be offered on open market**
- **Typical fees range \$13,186.67 to \$22,488.89**
- **Time for decisions 30 to 70 days**

Criteria for Consent

- **Must meet the four core “investor tests”**
- **These are good character, business acumen, financial commitment, & absence of ineligible individuals**
- **Transaction will or is likely to benefit NZ; or**
- **Overseas person will reside in NZ indefinitely**
- **Most land has specific criteria (e.g. farm land)**
- **Fishing quotas require a “national interest” test**
- **For non-urban land over 5 ha. benefit must be “substantial and identifiable”**

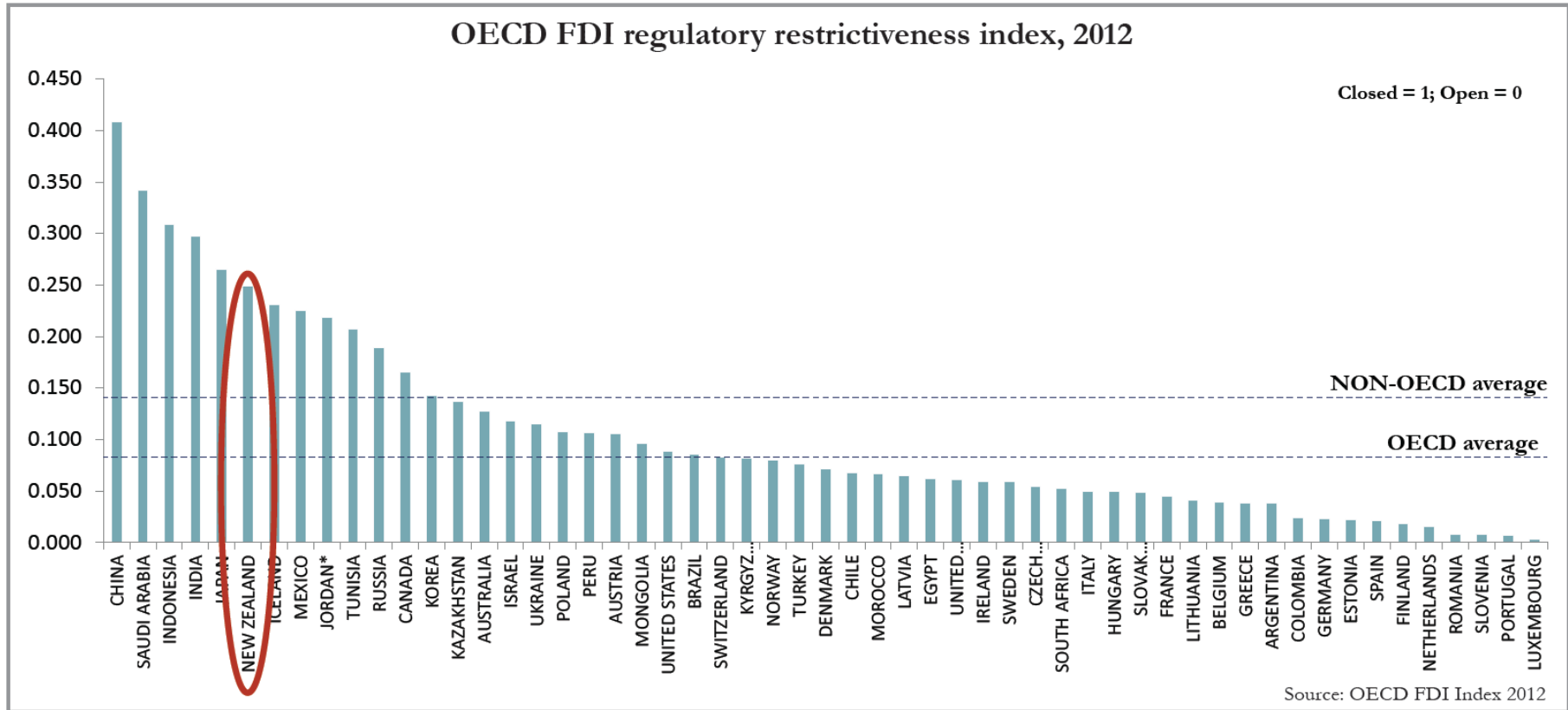


Figure 1. OECD FDI regulatory restrictiveness index, 2012

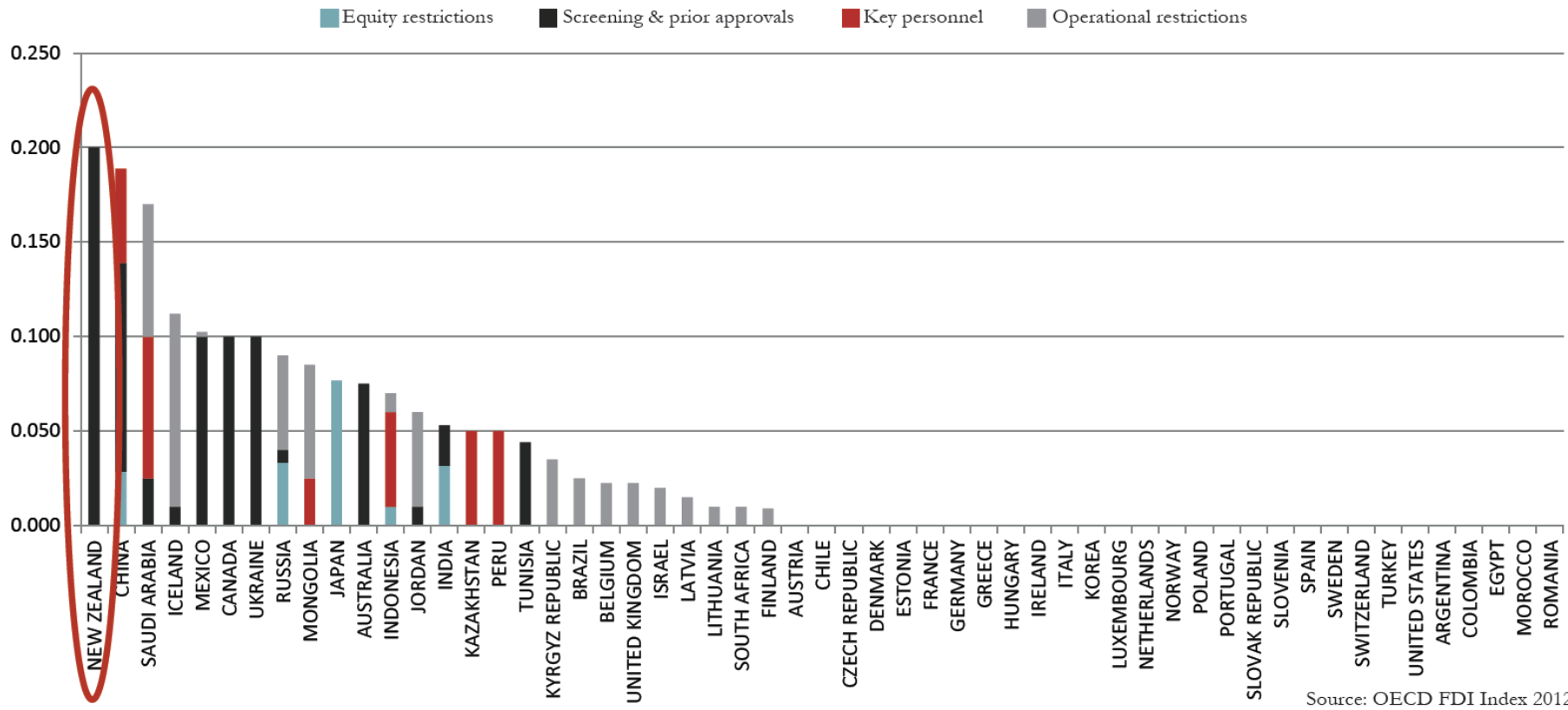
NZ regime is highly restrictive

- **NZ 6th from bottom of 55 OECD countries**
- **Screening regime hugely restrictive**
- **Burden of proof on foreign investor**
- **NZ has failed to liberalise**
- **Yet almost all other countries have liberalised**
- **In manufacturing, most restrictive in the world**
- **So much for our innovation policy**

Allergies to foreign investment ?



The most restrictive regime for manufacturing FDI in the world



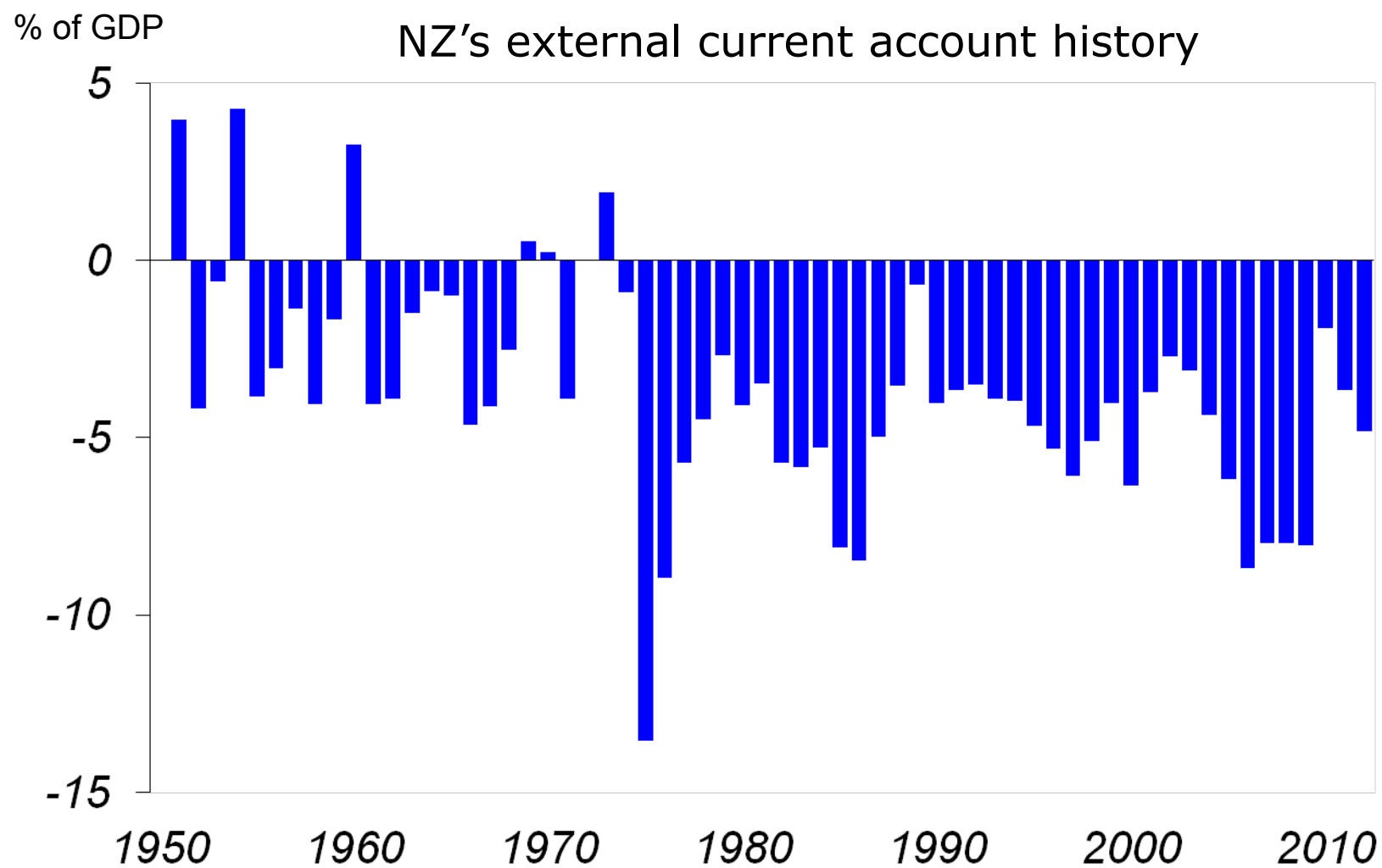
Source: OECD FDI Index 2012

Figure 4. Restrictiveness in manufacturing, 2012

Economics of Foreign Investment

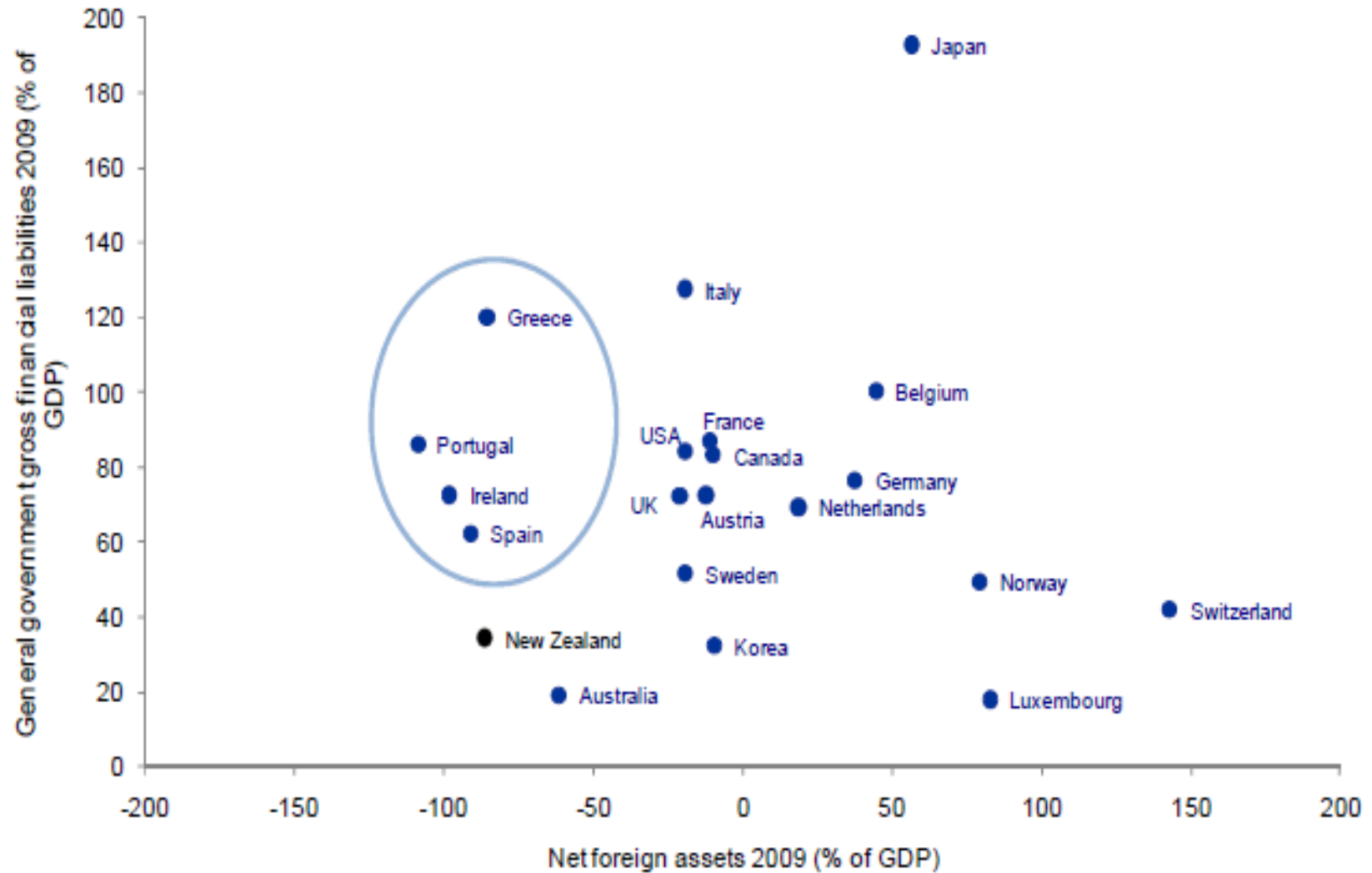
- **NZ runs persistent external account deficits**
- **The consequence is a huge overseas debt relative to GDP**
- **Indeed this overseas debt ratio is one of the highest in the western world**
- **Overseas capital must fund current deficits**
- **This capital comprises both bonds and equity**
- **Equity is both portfolio & direct investment**

A persistent risk factor is the external constraint



Sources: Statistics NZ; Capital Economics Limited

Government debt and net foreign asset position, 2009



Source: OECD, IMF, Statistics NZ, Savings Working Group 2011

Benefits of Foreign Investment

- **Long term funding of external deficits**
- **Brings technology, innovation, skills**
- **Investors typically seek returns greater than their cost of capital**
- **NZ benefit is higher incomes generated by overseas investment**
- **This includes higher tax revenue**
- **Proviso: no subsidies & no special incentives**

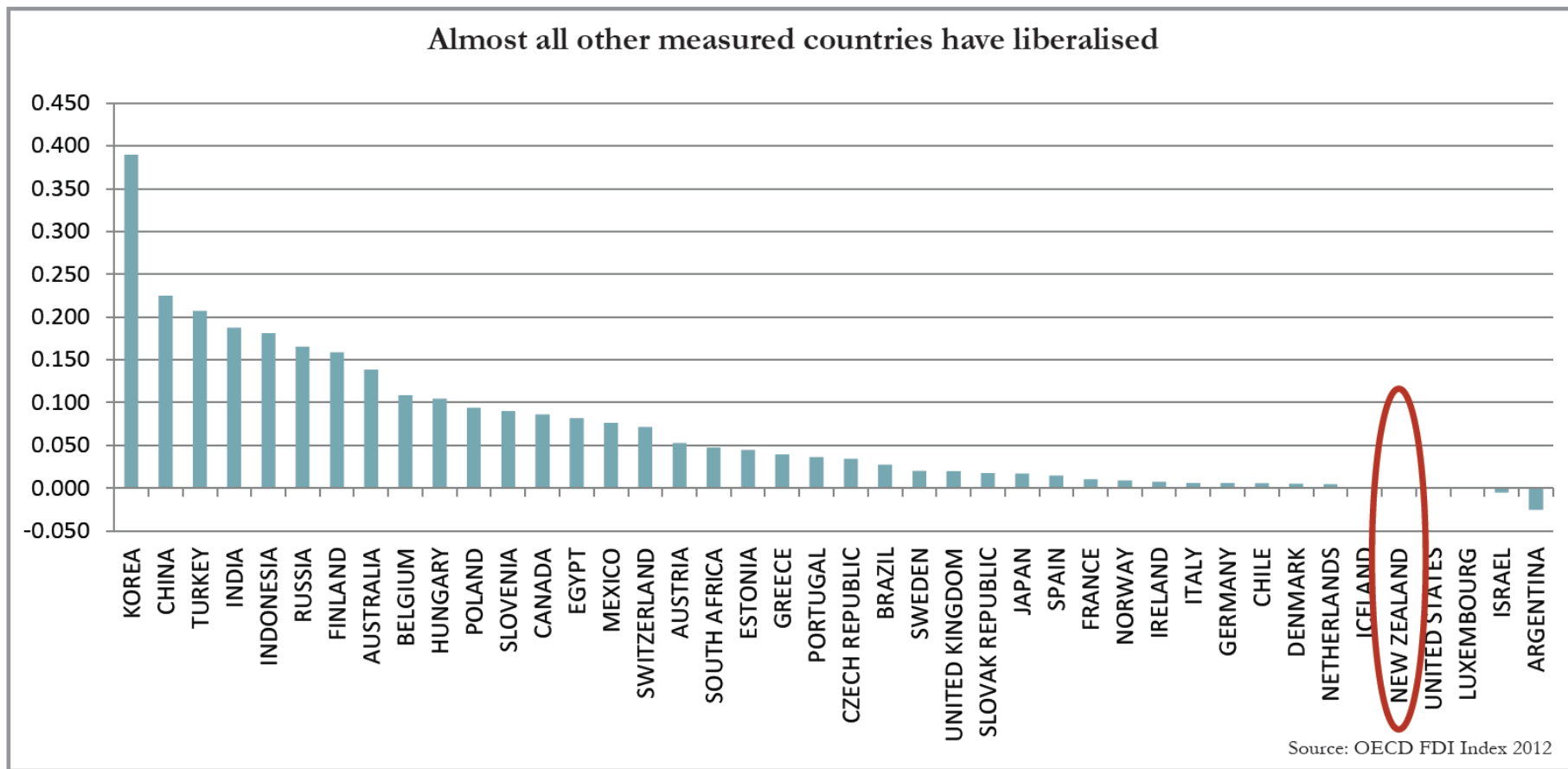


Figure 3. Reductions in restrictiveness by country (change between 1997 and 2012)

Costs of NZ's restrictive policy

- **Higher cost of capital for NZ**
- **Negative impact on economic growth**
- **Lower than otherwise property prices**
- **Reduced innovation and technology benefits**
- **Comparative country disadvantage**
- **Negative attitudes to NZ**
- **Higher transactions costs & delays**
- **Only justification appears to be political**

Investment inflows have trended down since 1993

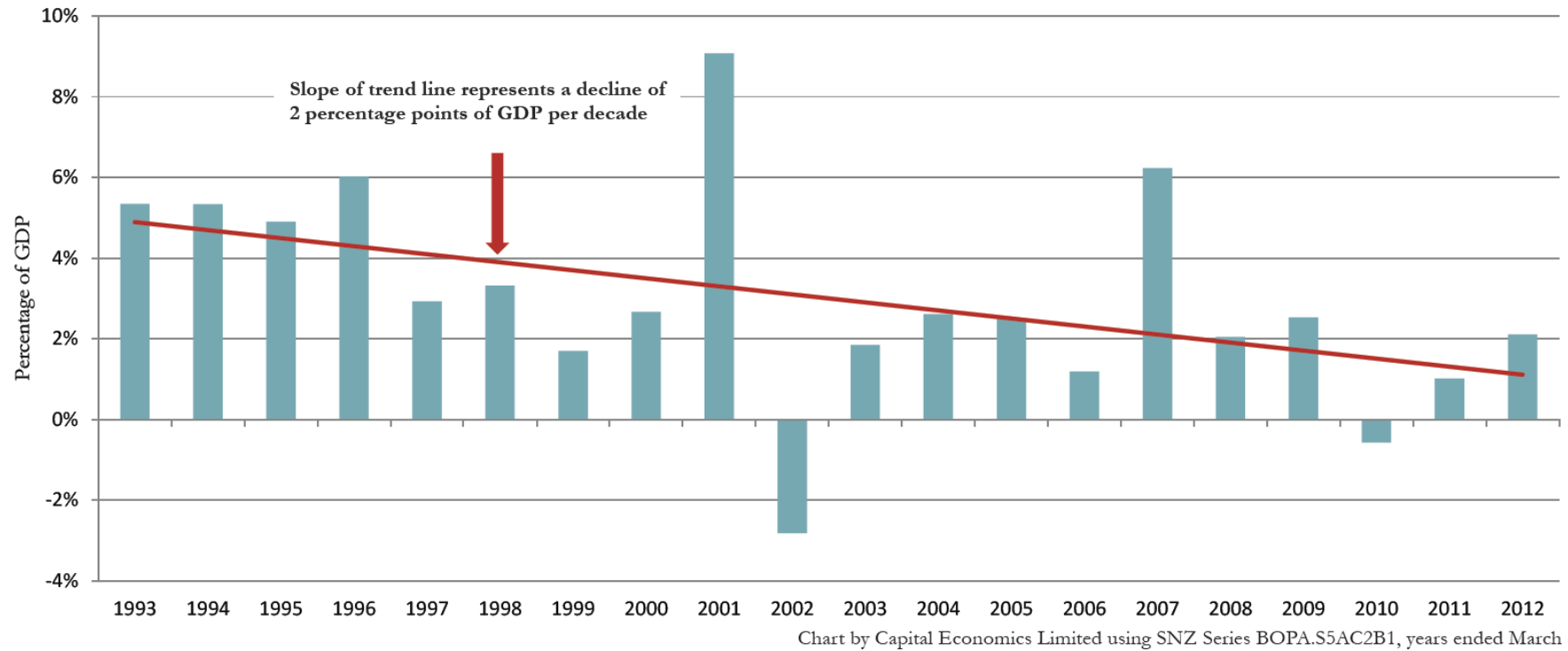


Figure 7. Foreign Direct Investment into New Zealand 1993 - 2012

What should policy be ?

- **No economic justification for foreign investment restrictions**
- **These should be removed**
- **Real issue is sound domestic policies**
- **Need strong monetary & fiscal macro policies**
- **Non-interventionist non-regulatory micro policies**
- **Appropriate tax, competition, etc policies**
- **Same policies maximise benefits from both foreign and domestic investment**

Some numbers on foreign investment

- **BOP current account deficit averaged 4.8 % over past 25 years**
- **Also 4.8% last year to Mar 2012**
- **Mostly reflects large negative investment income**
- **This has been negative 5.8% average over last 25 years**
- **This is a legacy largely of the 1975-1987 period**
- **Net international liabilities \$143b, -71 % of GDP at Mar 2012**
- **Ratio range about 60 to 90 % over 25 years**
- **Accumulated private direct investment 48 % GDP Mar 2012**
- **Net private direct investment 36 % of GDP Mar 2012**

Some Further Numbers

- **Foreign investment in NZ, \$303b, 150 % of GDP at Mar12**
- **NZ'ders investments overseas, \$160b, 79.5% GDP Mar12**
- **Equity investments as at 31-3-12 were:**
- **NZ portfolio investment abroad \$47b**
- **Foreign portfolio investment in NZ \$13b**
- **NZ direct investment abroad \$18b**
- **Foreign direct investment in NZ \$55b**
- **On overall net debt position, banks have 78%**

Acknowledgements & CV

- Sir Roderick is very appreciative of the assistance he was given in preparing this material by Bryce Wilkinson of Capital Economics and Luke Malpass of The NZ Initiative. See particularly their excellent joint Research Note “Verboten! Kiwi Hostility to Foreign Investment”, published by The NZ Initiative, 29 August 2012. Heather Le Grice was very helpful in arranging the charts which were drawn from this Research Note.
- Sir Roderick’s PhD thesis was entitled “Foreign Investment in New Zealand Manufacturing”, published by Sweet and Maxwell in 1970. As this presentation testifies, some of the unfortunate attitudes towards overseas investment and the associated economic policy shortcomings addressed in that book are still with us today.
- Sir Roderick Deane KNZM, PhD, FACA, FCIS, FNZIM, Hon LLD is an independent economist who has had an extensive career in business as Chairman and as a Director of a number of major New Zealand and Australian companies and earlier top level roles in the public sector, central banking, and economics. He has a substantial involvement with charitable and cultural organisations. He is currently Advisor to Pacific Road Group in Sydney, Chairman of the New Zealand Seed Fund, a Director of Woolworths Limited in Sydney, Joint Patron with his wife Gillian of NZ’s largest voluntary welfare organization, IHC Inc., and Chairman of the IHC Foundation. Sir Roderick was the Government appointed Lead External Reviewer for a major Value for Money Review of the New Zealand Defence Forces and was Chairman of an Advisory Group on the Review of Special Education. Both reviews were completed in 2010. He was Chairman of Fletcher Building, ANZ National Bank, Telecom NZ, Te Papa Tongarewa (the Museum of NZ), City Gallery Wellington Foundation; a Director of the ANZ Banking Group in Melbourne and TransAlta Corporation in Canada; and Professor of Economics and Management at Victoria University of Wellington . At an earlier stage he was CEO of Telecom NZ, CEO of Electricity Corporation of NZ, Chairman of the State Services Commission, Deputy Governor & Chief Economist of the Reserve Bank of NZ, & Alternate Executive Director of the International Monetary Fund in Washington DC. He has a wide range of publications. Sir Roderick is a Trustee of the Deane Endowment Trust which has extensive charitable interests in sponsorship of the arts and culture, supporting outstanding young people to study abroad, environmental and wetland preservation, sponsoring the publication of NZ books, assisting people who have rare disorders and disabilities, and the promotion of scientific research in some of these areas.
- See www.independenteconomics.com