COMPREHENSIVE GROWTH STRATEGY: NEW ZEALAND

A. ECONOMIC OUTLOOK AND KEY POLICY COMMITMENTS

Economic Objective

The Government is focused on managing the current cyclical upswing, while lifting New Zealand's underlying growth rate so that, incomes continue to rise and new jobs continue to be created beyond the peak of this economic cycle. To achieve this the Government is:

- returning its own accounts to surplus and then reducing debt;
- pushing ahead with a wide-ranging series of microeconomic reforms to create a more productive and competitive economy;
- driving better results and better value for money from public services; and
- continuing to support the rebuilding of Christchurch, New Zealand's second largest city following the 2010 and 2011 earthquakes.

Taken together the measures described below are aimed at lifting trend or potential growth in a sustainable and balanced manner. A key element of this is helping the economy to absorb the impact of earthquake reconstruction (estimated to be around 15 percent of GDP over a decade) in the least distorting way possible.

Increasing international connections, creating higher skilled jobs and better conditions for investment will lay the foundation for more innovation, more diversification and more capital intensity that will support higher productivity, exports and overall growth. Prudent fiscal policy via returning to fiscal surplus and rebuilding fiscal buffers by lowering debt will make growth more sustainable, counterbalancing New Zealand's large negative net external liability position. Robust domestic demand on the back of high terms of trade, earthquake reconstruction and higher employment and investment together with more internationally connected businesses will see increased two-way flows of trade, people and capital.

Key Commitments

See above.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

Led by the private sector, the New Zealand economy is growing strongly. Real GDP in the June 2014 quarter was 3.9 percent higher than a year earlier. Real GDP growth of between 2 and 4 percent is forecast over the next four years. Growth has been faster than trend over 2014, reducing unemployment to 5.4 percent in the September 2014 quarter and adding to demands on productive capacity. Strong construction sector activity, high net immigration, and interest rates, which remain low by historic standards, continue to support the expansion. Over much of Treasury's four-year forecast period, the economy is expected to operate at or above capacity.

Growth in demand has reduced spare capacity in the economy but consumer price inflation (CPI) remains modest, with annual CPI inflation 1 percent in the year to September. Contributing factors are subdued wage inflation, well-anchored inflation expectations, weak global inflation, falls in oil prices, and the high New Zealand dollar. House price inflation has fallen significantly since late-2013.

	Key Indicators[1]					
	2013	2014	2015	2016	2017	2018
Real GDP (% yoy)	2.8	3.9	3.3	2.4	2.1	
Nominal GDP (% yoy)	5.3	7.0	3.6	4.6	3.9	
Output Gap (% of GDP)[2]	-0.0	0.9	1.3	0.5	0.1	
Inflation (%, yoy)[3]	1.6	1.4	2.2	2.4	2.2	
Fiscal Balance (% of GDP)[4]	-2.1	-1.3	0.1	0.3	0.7	1.1
Unemployment (%)[5]	6.0	5.6	5.3	4.9	4.6	
Savings (% of GDP)[6]	18.7	19.1	18.4	18.3	18.4	
Investment (% of GDP)[6]	21.6	23.3	24.3	24.8	25.0	
Current Account Balance (% of GDP)	-3.4	-3.6	-6.0	-6.4	-6.4	

[1] Calendar years unless stated.

[2] A positive (negative) gap indicates an economy above (below) its potential.

[3] December quarter on previous December quarter

[4] Year ended June 30. Operating Balance before gains and losses. Positive (negative) balance indicates a fiscal surplus (deficit). 2014 figure is an outturn.

[5] Seasonally adjusted rate, December quarter.

[6] Nearest March year.

Source: The Treasury - *Pre-election Economic and Fiscal Update*, 19 August 2014.

Key Drivers

The pace of expansion in economic activity quickened and broadened over the second half of 2013 and this trend continued into 2014 before easing recently. Agricultural production has been strong, supporting export growth in the face of the high New Zealand dollar and moderate global growth, and robust business confidence has contributed to more investment in capital equipment. Earthquake reconstruction, previously high terms of trade, strong net inward migration and stimulatory monetary policy settings are also contributing to robust household and firm spending. Economy-wide employment has risen sharply, contributing to growth in household incomes and falling unemployment. Fiscal policy and the elevated exchange rate are providing some offset to demand growth. Credit growth is increasing but remains moderate.

Investment made the largest contribution to growth in 2013 (over 2 percent) as the economic expansion quickened and this is expected to be the case again in 2014. Thereafter, investment's contribution to growth is forecast to ease back but remain positive. The level of investment, partly associated with earthquake reconstruction, is forecast to remain high (see Key Indicators table). Consumption, mostly private, is forecast to make a steady contribution of around 2 percent per year to growth. Export volumes are forecast to gradually increase as headwinds from the high exchange rate and modest global growth dissipate. Strong domestic demand growth will in part be met from higher imports.

Macroeconomic Policy Settings

New Zealand's macroeconomic framework comprises a freely floating exchange rate, the independent Reserve Bank of New Zealand operating a flexible inflation-targeting monetary policy regime, and a transparency-based fiscal framework anchored by achieving and maintaining prudent levels of debt. Demand management is typically the purview of monetary policy, supported by the operation of fiscal stabilisers.

In aggregate, macro policy settings are currently calibrated to managing the robust expansion underway and the likely opening up of a positive output gap, while looking to support rebalancing of the drivers of growth.

Fiscal Policy

The Operating Balance excluding Gains and Losses (OBEGAL) was a deficit of 1.3 percent of GDP in the year ended June 2014, down from a deficit of 2.1 percent in the previous year. The New Zealand Government presented its latest fiscal plans in the 2014 Budget on 15 May 2014, with the economic and fiscal forecasts updated by the Treasury in August in the Pre-election Economic and Fiscal Update. The Government is focused on returning to surplus and its long-term fiscal objective is to reduce net core Crown debt[1] to 20% of GDP by 2020. In the Budget, the Government outlined its intention to manage its spending and revenue so that any change in fiscal settings do not have a material adverse impact on interest rates. Over the next four years fiscal policy is forecast to impart a negative fiscal impulse on average. Relative to a neutral stance, fiscal policy is expected to remove inflationary pressure such that short term interest rates will be around 50 basis points lower than otherwise.

Government spending has declined as a share of GDP, freeing up resources to be used elsewhere in the economy. A significant element of the progress to date has come from

[1] The Government's debt objective is set in net debt terms. The specific net debt measure used is a core crown measure and excludes financial assets ring-fenced for particular policy purposes, particularly the assets of the New Zealand Superannuation Fund and Advances

defining the results being sought from government spending and reprioritising resources accordingly.

Beyond 2020, the Government intends to maintain net debt within a range of around 10 to 20 percent of GDP. Repaying government debt will rebuild fiscal buffers, putting New Zealand in a better position to cope with future economic shocks or natural disasters. Increasing government saving will help raise national saving and contribute to the sustainability of the expansion.

Monetary Policy

The target for monetary policy is to keep future CPI inflation outcomes between 1 percent and 3 per cent on average over the medium term, with a focus on keeping future average inflation near the 2 per cent target midpoint. As noted, CPI inflation is currently at a low level despite above-trend growth. However, inflation is expected to increase as the expansion continues. The current stance of monetary policy remains accommodative, notwithstanding the Reserve Bank of New Zealand increasing the policy rate by 100 basis points between March 2014 and July 2014. In October, the Reserve Bank indicated that a period of assessment is appropriate before considering further policy adjustment.

Macro-Prudential Policy

Following the signing of a Memorandum of Understanding on Macro-Prudential policy between the Minister of Finance and Reserve Bank Governor, quantitative restrictions on the share of high loan-to-value ratio (LVR) loans to the residential property sector took effect on 1 October 2013. This policy means banks are required to restrict new residential mortgage lending with LVRs of over 80 percent to no more than 10 percent of the dollar value of their new housing lending flows. The use of macro-prudential tools is intended to promote greater financial system stability but their implementation can also contribute to achieving monetary policy objectives. The Reserve Bank expects the speed limit to remain in place until the housing market comes into better balance, with a more sustainable rate of house price inflation.

Assessment of Obstacles and Challenges to Growth

New Zealand’s economic performance has improved since the early 1980s and New Zealand’s per capita GDP growth has subsequently broadly kept pace with other advanced economies. However, this improvement has been insufficient to close the sizable gap that had already opened up with other developed economies. New Zealand’s GDP per capita remains around 15 percent below the OECD average. This is despite ranking highly when economic policies are compared internationally.

Improvements in New Zealand’s terms of trade have made a positive contribution to New Zealand’s per capita income since the early 2000s. However, without ongoing increases in the terms of trade, which are unlikely, sustained growth in per capita income will require improvements in productivity. Overall, output per hour worked remains the overriding driver of New Zealand’s relatively low income level.

The challenge of lifting New Zealand’s productivity performance is interlinked with the challenge of boosting international connections, including lifting the share of international trade in the economy. The combination of small market size and being situated a large distance from major economic centres means New Zealand is often not as well linked into international flows as many other small countries. International connections boost productivity by bringing scale, competition, investment and ideas. And a productive economy attracts international flows of goods and services, people, capital and ideas.

In terms of sustainability, the key strategic challenge is moving towards export and investment-led economic growth. Such a shift will improve the robustness and resilience of of the economy by increasing stocks of financial and productive capital. Continued improvements in the management of New Zealand's large stock of natural resources are also important for the sustainability of economic performance.

There are short-term challenges in managing pressures from the Canterbury rebuild and Auckland housing market in the current upturn. Effectively managing these pressures will help support higher trend growth that will come from easing some of the underlying supply constraints on the capacity of the economy in the medium-term.

New Zealand generally does well in supporting economic and social participation. New Zealand has high rates of employment and its education and health systems work well for most, with high rates of participation in tertiary education. However, there is still room to improve economic and social participation for some groups. This includes lifting employment rates for Māori (the indigenous people, or tangata whenua, of New Zealand) and sole parents, and reducing the gap between the highest and lowest performers in the education system.

B. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses

Fiscal policy in New Zealand must comply with the principles of responsible fiscal management set out in the **Public Finance Act**. This includes transparency requirements and requirements to run operating balances sufficient to achieve and maintain prudent levels. In September 2013, the Act was amended to also include principles relating to how fiscal policy impacted on monetary policy and on future generations.

Operating fiscal policy in support of monetary policy and allowing interest rates to be lower than they would otherwise be, will help to sustain the recovery, create better conditions for investment and productivity growth and reduce the pressure on households with mortgages. It will also reduce pressure on the exchange rate, taking pressure off the tradable sector and help tilt the economy towards savings, investment and exports.

Core Crown expenses are forecast to fall as a share of GDP over the next four years. The Government will continue to focus on achieving better results. This includes extending the investment approach concepts currently being applied in the welfare sector (discussed in the Employment section below), to other areas of government spending in order to reduce long-term social and economic costs of dysfunction. The emphasis on reprioritisation, value for money and efficiency of government spending will continue.

To anchor the operation of fiscal policy over the medium term, Budget 2014 extended the time horizon for its **long term debt objective**. As noted above, beyond 2020, the Government intends to maintain net debt within a range of around 10 to 20 percent of GDP - the range acknowledging that debt will fluctuate over the economic cycle. If tax revenue comes in well ahead of forecast, the Government's main priority will be additional debt repayment until the 20 percent debt target is met.

As part of its fiscal strategy, the Government has moved to more consistent and deliberate **management of the Crown's balance sheet**. In addition to rebuilding fiscal buffers through reducing debt as a share of GDP and resuming New Zealand Superannuation Fund (NZS Fund) contributions when conditions permit, the balance sheet strategy involves encouraging asset ownership only when it is necessary to deliver core public services, looking to dispose of assets that are surplus to requirements or no longer fit for purpose, introducing private-sector capital and disciplines where appropriate (for example, through the use of public-private partnerships) and better monitoring of actual investment performance against expectations. A major focus is managing the government's large **social housing** portfolio more effectively and efficiently. This includes setting up a new entity that will work with social housing providers to better meet demand, including selling some existing government owned houses to assist with the development of a market for social housing.

Providing economic and fiscal conditions allow, the Government recently announced its intention to further reduce **Accident Compensation Corporation** levies starting on 1 April 2016 – the equivalent of a tax cut for households and businesses - and to begin reducing income taxes from 1 April 2017.

New Structural Policy Responses

The Government's microeconimic policy agenda is laid out in its **Business Growth Agenda** (BGA). The BGA lays out the six key inputs that businesses need to succeed and grow. These relate to export markets; capital markets; innovation; skilled and safe workplaces; natural resources; and infrastructure. It contains around 350 individual initiatives. A BGA update report was published June 2014.

Investment and Infrastructure

Ensuring the best possible conditions for **business led investment** is a key component of the Government's Business Growth Agenda.

New Zealand has a large stock of natural resources. The Government is seeking to maximise the value New Zealand derives from these resources while doing so in a sustainable manner and alongside robust environmental reporting and safety standards. Good **regulation** facilitates good decisions about the best way to use resources, including changing their use as circumstances change; and supports their being used efficiently, not wastefully. In addition, environmental regulation needs to be enduring and transparent, in order to provide certainty and predictability about how natural resources can (and cannot) be used. This certainty and predictability is essential for high-quality investment decisions by businesses, public sector organisations and households. To support this, the Government is making changes to the Resource Management Act to provide more certainty, timeliness and cost-effectiveness around resource allocation decisions. The Environmental Reporting Bill will also be progressed.

The Government has recently completed its **Government Share Offer** (GSO) programme. The GSO has helped to deepen New Zealand's public equity markets and increased share ownership. The proceeds from the GSO were placed in the Future Investment Fund, established in Budget 2012, with the aim of funding new capital investment without issuing government debt. Budget 2014 allocated a further $1 billion of new capital from the Future Investment Fund into health sector and education projects, the rail sector, housing development and irrigation infrastructure. The Government has also announced that it will draw an additional $212 million from the Future Investment Fund to accelerate a package of

regionally important state highway projects. The remainder of the Future Investment Fund will be allocated in the 2015 and 2016 Budgets.

Through the **BGA Building Infrastructure** work programme, the Government has continued to work to address the infrastructure challenges that New Zealand faces and reverse the historical pattern of variable and inconsistent investment. This work has been guided by the second National Infrastructure Plan, published in 2011, which seeks to provide a common direction for how economic and social infrastructure is used, planned, funded and built. Over the last three years, the Government has added almost $16 billion of infrastructure assets to its books – reflecting the multi-billion dollar investments in priority new infrastructure such as roads, rail, ultra-fast broadband, irrigation, electricity transmission and rebuilding Christchurch.

Last year, the Government made a commitment to accelerate key **Auckland transport** projects. Budget 2014 provided $375 million of new capital funding for the New Zealand Transport Agency, by way of an interest-free loan, to accelerate $815 million worth of projects. These projects will assist in reducing congestion in Auckland, improve access to the airport and capitalise on the benefits of major roading projects already underway in the region.

The Government has also made new commitments to extend **Ultra-Fast Broadband** (UFB) from a target of 75 per cent of New Zealanders to 80 per cent of all New Zealanders, and to contribute a further $150 million to extend the Rural Broadband Initiative (RBI), which improves broadband coverage in more sparsely populated rural areas. These two announcements will mean almost every New Zealander will be able to access fast, reliable internet services.

The **National Infrastructure Evidence Base**, published in February 2014, concluded that the overall state of New Zealand infrastructure is positive. New Zealand has broadly the right infrastructure, in the right place, providing the right quality of service – although there are a number of ongoing challenges to be addressed. A number of infrastructure assets are ageing, the population base is changing and moving, and technology is opening up a new range of possibilities for both service delivery and asset management.

One of the key challenges that lies ahead is the need to better understand the drivers of future demand for infrastructure and the options for meeting that demand in a growing economy. The intention is to build on the recently-published National infrastructure Evidence Base to help develop a shared understanding of future drivers of infrastructure demand across the infrastructure network and build flexibility in the system to respond to future changes in these drivers.

The Government will explore alternative sources of funding for future infrastructure investment, as set out in the 2011 National Infrastructure Plan. This analysis will also take learnings from Christchurch and other international disasters and develop specific tools for businesses and planners to use to strengthen resilience. In October 2013 Treasury published a guide for government agencies, potential bidders and the public on the general direction and principles that will be adopted for **public private partnerships** (PPPs), the processes that are to be followed and the rationale for them. It also provides a framework for assessing whether a PPP is to be preferred over other forms of procurement in any given situation. More detailed guidance will be developed as experience is gained with PPPs, or as particular issues present themselves.

Improving the supply of housing and housing affordability is a major focus for the Government, through enabling more flexibility in the housing market. Significant progress toward addressing the **supply of land** for housing has been enabled through the introduction of the Housing Accords and Special Housing Areas Act 2013 (HASHA). The HASHA was passed in September 2013 and allows territorial authorities and central government to enter into housing accords in regions or districts where significant housing supply and affordability issues have been identified. Under an accord, Government and councils can work together to free up land supply, and councils can recommend "Special Housing Areas" within their territorial boundaries. Within a Special Housing Area, the Act can be used to consider any application for a qualifying development and any associated infrastructure, replacing the provisions of the Resource Management Act and streamlining consenting processes for residential developments. More generally, the Government is reining in what infrastructure local councils can charge residential developers through development contributions and investing in building industry skills and boosting productivity in the sector. Tariffs and duties on building products have been removed to reduce costs through increased competition.

The establishment of the Financial Markets Authority (FMA) and the implementation of the **Financial Markets Conduct (FMC) Act 2013** are improving the regulatory framework that governs New Zealand's capital markets. They are designed to support investor confidence in capital markets and streamline capital-raising for businesses, while ensuring the cost of financial market regulation is minimised. The first phase began on 1 April 2014 and involved general fair dealing obligations and other key growth-focused initiatives. The latter included the enabling of **crowd-funding and peer-to-peer lending** and making it easier for firms to offer employee share schemes, primarily by reducing the disclosure requirements needed. Phase two of the Act begins on 1 December 2014 and includes the new financial product disclosure requirements and the remainder of the Act. The FMC Act provides the framework for the development of **alternative stock exchanges** that could operate separately to, or as a precursor for, listing on NZX's main board.

In March, the launch of direct trading of the New Zealand dollar against the Chinese Renminbi in the Chinese onshore market was announced. Direct trading will increase the integration between the New Zealand and Chinese financial systems, and deepen the economic relationship between the two countries.

New Zealand will continue work to deliver an **Asia Region Funds Passport** to allow a managed fund based in one jurisdiction in Asia to be offered more easily to investors in other participating jurisdictions. The Funds Passport is intended to provide New Zealanders and investors in the Asia region with access to a greater range of investment opportunities. It may also open up a new channel for international investment flows between New Zealand and participating economies in the Asia region, deepening the region's capital markets and supporting the development and competitiveness of the region's fund management industry.

Innovation

Innovation is critical to ongoing producitvity growth and job creation. Through the **BGA Building Innovation** work programme the Government has set itself the high level goal of "creating the right business environment and incentives to encourage New Zealand's business sector to double their expenditure on R&D to more than one per cent of GDP".

The Government has also set a goal of increasing public expenditure on science to 0.8 percent of GDP as fiscal conditions allow. Government investment in science and innovation has increased by more than 60 percent since 2007/08 and will reach $1.5 billion in 2015/16. This includes $141 million of business R&D grants delivered via Callaghan Innovation[2].

[2] Callaghan Innovation is a stand-alone Crown Entity established on 1 February 2013. It is charged with working across the whole innovation system to accelerate the commercialisation of innovation by firms in New Zealand.

These grants have recently been simplified to reduce compliance costs and provide more certainty. For example, Callaghan Innovation's business R&D Growth grants provide 20 percent co-funding to firms who invest at least $300,000 in R&D in New Zealand and meet certain other requirements.

Budget 2014 announced changes to the **tax treatment of R&D** to alleviate 'black-hole R&D' expenditure – that is, R&D expenditure that is not immediately deductible for tax purposes and that does not form part of an asset that can be depreciated over time. The changes will ensure that this R&D can either be depreciated over time, or taken as a one-off deduction when the asset is written off for accounting purposes. This will help to improve the neutrality of the tax system and make R&D investment more attractive. The Government also announced the introduction of 'cashing-out' R&D tax losses for innovative start-ups. This programme will allow certain R&D-intensive companies that are not yet profitable to cash out their deduction from R&D expenditure as opposed to carrying it forward. This will help provide young innovative businesses that are cash-constrained with the resources they need to invest in further R&D and successful commercialisation.

The Government will help attract **multinationals** to make high-value investments in R&D that build on New Zealand's existing research strengths by working to identify and communicate where New Zealand has an international competitive advantage in R&D.

The Government is continuing to deliver **Primary Growth Partnership** (PGP) programmes, a government-industry initiative investing in significant programmes of primary industry research and innovation. There are now 18 PGP programmes supporting value-chain innovation across the horticulture, pastoral, wool, seafood, viticulture, apiculture, dairy, forestry and red-meet sectors as of April 2014. The intent is to add to the existing programmes through regular funding rounds.

Employment and Skills

The Government's high level goal in this area is to "Materially lift New Zealand's long-run productivity growth rate while maintaining our high rate of labour force participation". The focus is on better developing, attracting, retaining and utilising the skills that the economy and employers need and supporting safe and fair workplaces.

New Zealand's **labour market regulation** rates well on most measures of flexibility, and in general are able to achieve equality and efficiency objectives and resolve most employment relationship problems quickly at minimal cost. The Government is continuing to make changes to provide employees and employers with the flexibility to make working arrangements that suit their needs, while maintaining fairness in the workplace. Key changes include: the introduction of the starting out wage to lower the barriers to work for our youngest workers and least-experienced workers, flexible working arrangements, and a voluntary 90-day trial period to encourage businesses to take on new staff and give new employees an opportunity to enter the workforce. The collective bargaining process has also been improved to reduce bureaucracy and make the system fairer and more flexible for both workers and employers.

The Government has recently introduced significant reforms to the **welfare system**. The Government's goal is to improve outcomes for vulnerable New Zealanders by helping people at risk of long-term benefit dependency to move into employment. The reforms involve an active, work-based approach; starting with the belief that most people can, and want to, work. At the core of the system is the investment approach, designed to ensure the service delivery agency takes a long-term view, and focuses on investment to improve individuals' employment outcomes, thereby reducing the future liability of the benefit system[3].

Budget 2014 contained new funding to support people off benefits and into work, including funding additional places in employment and work-readiness programmes. The Government has introduced a simpler, more flexible business-focused package of **employment programmes**. The Jobs Streams package consolidates existing employment programmes into two main streams. The first stream is training courses tailored to the needs of industry and employers. They aim to provide employers with trained employees and enable people to move towards sustainable employment. The second is flexible wage subsidies that invest in a disadvantaged job seeker by making a temporary contribution to their wages and training that will aid them in accessing and maintaining employment. The primary aim is to ensure that disadvantaged job seekers gain the skills employers need to help them move into sustainable employment.

On 1 April 2014 the adult **minimum wage** increased from $13.75 to $14.25. This increase represented a balance between protecting low paid workers and ensuring jobs were not lost. The New Zealand minimum wage is around 50 percent of the average hourly rate, which is the highest rate in the OECD.

Budget 2014 included an extension of New Zealand's **paid parental leave** scheme, with an additional four weeks paid leave to be introduced over the next two years. Eligibility of paid parental leave will also be extended to caregivers other than parents and to people in less-regular jobs or who recently changed jobs. The parental tax credit will also be increased as will the payment period.

New Zealand's **schooling system** currently performs strongly for the majority of students, but not all. The Government's goal is to ensure that by 2017, 85 percent of 18 year-olds will have achieved NCEA Level 2 or an equivalent qualification. To do this, the Government is adopting a range of measures to lift our school-level achievement and is implementing alternative pathways for students at risk of leaving the school system without the necessary tools for long term success. Budget 2014 includes additional funding to support teachers and principals to lift educational performance for young New Zealanders. Four new teaching and leadership roles will be created in schools - Executive Principals, Expert Teachers, Lead Teachers, and Change Principals. These changes are designed to enhance the teaching and leadership in the schooling system to raise student achievement.

In recent years, the Government has worked to improve the performance and value for money of the **tertiary education** system by setting better performance incentives and improving the information available for students about employment outcomes. At the same time, the Government has made significant investments in tertiary education, with a focus on improving the achievement of young people and participation in higher level study. The new Tertiary Education Strategy launched in March 2014 supports a shift to a more outward-facing and engaged tertiary education system, with strong links to industry. A key element of this is a stronger focus on results – ensuring employment, access to skilled employees for business, and a focus on the relationship between people's tertiary education and their future earnings. Specific actions the Government has taken include:

- Providing additional science, agriculture and health science places in tertiary institutions.

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[3] New Zealand G20 Employment Plan provides more detail on the Investment Approach to welfare.

- Establishing three extra Centres of Research Excellence, cross-institutional networks supporting the best research in tertiary education institutions across New Zealand.

- Setting up new ICT Graduate Schools, bringing industry leaders, students and academics together to create more meaningful connections between education providers and innovative ICT firms.

- Increasing competition in the provision of industry training by allowing employers direct access to industry training funding.

- Increasing investment in engineering courses at universities

Competition

New Zealand's competition regime is designed to promote competition for the long-term benefit of consumers and to enable innovation to occur. Key elements of the competition regime are systematically reviewed to ensure it achieves this objective and remains international best practice. High quality competition policies are especially vital for New Zealand given the unusual combination of small size and great distance from the rest of the world that tends to result in weaker competitive disciplines in domestic markets than is the case in some other countries.

Specific actions being taken in this priority area include passing the **Commerce (Cartels and Other Matters) Amendment Bill**, which is currently awaiting its second reading in Parliament. This Bill will bring New Zealand's cartel laws into line with overseas jurisdictions by criminalising serious cartel behaviour and clarifying the law in relation to pro-competitive collaborative arrangements.

The Government will also review the **misuse of market power** prohibition and related matters in response to the Productivity Commission's recent inquiries. This review will also explore options for the removal or overhaul of regulatory provisions that may no longer be necessary or working effectively, including those for resale price maintenance and the cease and desist regime.

Alongside continued deployment of infrastructure under the UFB and RBI programmes, the **Telecommunications Act** is being reviewed. The review will support the deployment of infrastructure by focusing on what settings will be needed post-2020 to ensure the regulatory framework promotes competition for the benefit of end-users, while providing the necessary certainty for market participants. The Government will also complete the Telecommunications Service Obligations review, building on the review findings that were provided to the Minister of Communications and Information Technology at the end of 2013.

Trade

Through the **BGA Building Export Market** work programme the Government has set itself the high level goal of increasing the ratio of exports to GDP to 40 percent by 2025. Exporting is seen as central to lifting New Zealand's productivity growth. Businesses that export internationally tend to be more productive than businesses that solely supply the domestic market because of their greater access to resources, knowledge and ideas, and the increased competition they face against other global firms.

New Zealand is taking a multipronged approach to lifting exports. This includes negotiating comprehensive, high-quality **Free Trade Agreements** (FTAs) and implementing existing FTAs. New Zealand also continues to be active at the multilateral level to promote resolution of the outstanding issues in the WTO Doha Round and as an active participant in other processes in Geneva, including implementation of the WTO Agreement on Trade Facilitation and negotiations for an expanded Information Technology Agreement and a Trade in Services Agreement. The WTO's Government Procurement Agreement (GPA) committee has recently agreed to the terms of New Zealand's accession to the WTO GPA. New Zealand continues to support and promote ambitious outcomes in trade agreements alongside other parties.

Improving access to international markets for New Zealand businesses through the negotiation of FTAs is central to achieving the Government's export goal. New Zealand recently concluded an agreement on economic cooperation with the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu which entered into force December 2013. New Zealand is working with participants in the Trans Pacific Partnership (TPP) to bring negotiations to a successful conclusion consistent with the goals set by TPP Leaders.

New Zealand will also aim to successfully complete bilateral negotiations with India as well as the Regional Comprehensive Economic Partnership made up of the 10 ASEAN countries and their current six FTA partners. Efforts will also continue to bring into force the FTA with the six countries of the Gulf Cooperation Council.

Government agencies will continue to work with business to ensure high take-up of FTA preferences and other benefits conferred by New Zealand's FTAs. This will include: ongoing dialogue with exporters to ensure they are taking maximum advantage of the agreements; completing built-in negotiations under existing FTAs to expand the scope of commitments in areas such as services and government procurement; addressing impediments that limit the take up of FTA preferences such as documentation requirements; and maximising the use of existing FTA provisions to maintain or improve market access and facilitate trade.

In Budget 2014, an increase in the government's investment in **New Zealand Trade and Enterprise** (NZTE) was announced. This funding will be used to expand the number of companies NZTE works intensively with to provide customised services for up to 700 internationalising firms, and a lighter-touch engagement with 4,000 firms. This will also involve expanding NZTE's international footprint and services in China, the Middle East and Colombia, and providing new services that will meet the demands of firms as they innovate and grow internationally.

New Zealand is working to complete the **Trade Single Window** for exporters and importers, progressively bringing more traders online and expanding the number and type of documents that can be lodged. Ultimately parties involved in international trade and transport will be able to submit the craft and cargo clearance data required by New Zealand border agencies electronically, once, through one entry point. Once implemented, the system is expected to deliver significant benefits to importers, exporters and others operating in international trade supply chains.

Budget 2014 announced the temporary removal of **duties and tariffs** currently applying to building materials. This will increase competition in those products and improve housing affordability.

Recognising the significant impact that differences in, and unfamiliarity with**, regulatory regimes** in different countries can have on trade and doing business more broadly, New Zealand will undertake fit for purpose tests on its market-facing regulatory regimes. The focus of this work will be to ensure that New Zealand's regulatory regimes, and the way they interact with others, are not acting as a barrier to two-way flows of trade and investment and, deeper regional integration more broadly. Sector-specific work already under way includes the implementation of an inter-agency infant formula market assurance programme to further protect and strengthen confidence in New Zealand’s food assurance systems. A clearing house to address onshore regulatory barriers to exports has also been established. Government agencies are engaging with businesses to identify regulations that may be negatively affecting their export potential, and determining the best avenue to resolve them. More broadly, the legislative expectations of regulators to monitor the performance of their regulatory regimes are being reinforced and enhanced to ensure that efficiency and fitness-for-purpose is an ongoing test when administering existing regulation.

New Zealand will also look for opportunities to enhance the ways in which our regulators work with their counterparts in our key trading partner countries. One way this will be done is by developing a toolkit on international regulatory cooperation, which will identify the range of regulatory cooperation options available to regulators, and the key factors to consider when choosing a particular option. New Zealand intends to work with partner countries, including those in APEC and the East Asia Summit, to further develop this toolkit and ensure that it is a useful resource for regulators in the region. We will also look to better use our existing FTAs to encourage cooperation between regulators, and seek to ensure that FTAs that are currently negotiated provide appropriate mechanisms for dialogue between regulators.