

BNZ Insights

In this fourth BNZ Insights looking at international ranking surveys we cover four more surveys relevant to the economy and summarise what the surveys are saying, stripping out areas of contradictory results.

Legatum Prosperity Index 2010

This index covers 110 countries and examines what they consider to be the foundations of prosperity using 89 variables gathered into eight sub-indexes. For the overall index we ranked fifth in the 2010 survey which used data from 2008. New Zealand ranks between first and seventh for five of these sub-indexes and from 14th to 19th for the other three being

Entrepreneurship and opportunity	14
Economy	17
Health	19

Ratings for the full 89 variables are not presented by the study's authors so we can only examine the comments they have submitted with regard to the sub-indexes. For Entrepreneurship and Opportunity they note that ICT exports are just 2% of total exports which is well below the global average. Only 79% of people believe that hard work will get them ahead in life which places New Zealand 79th amongst the 110 countries. A below average 72% of people feel the country provides a strong environment for entrepreneurs.

For the Economy sub-index the ranking for "economic expectations is 71st and GDP growth per capita is low. Somewhat surprisingly considering a comment just above, New Zealand ranks in the top third of all with respect to the proportion of exports which come from high tech sectors.

For Health no rankings stick out as particularly bad.

All we can glean from the unfortunately limited statistical information provided by the study's authors is that NZ has low ICT exports – no surprise there – GDP growth per capita is low, which is why we are examining all these surveys, but perhaps most concerning of all and the most useful point to glean is that 21% of people do not believe hard work will get them ahead in life.

Doing Business 2011

This annual report produced by IFC and the World Bank ranks New Zealand third best of 183 countries covered for doing business in terms such as setting up a company, property transfer taxes etc. Looking through the nine headline rankings New Zealand's position ranges from first for starting a business and protecting investors to 26th for paying taxes and 28th for trading across borders.

	Rank
Overall ease of doing business	3
Starting a business	1
Dealing with construction permits	5
Registering property	3
Getting credit	2
Protecting investors	1
Paying taxes	26
Trading across borders	28
Enforcing contracts	9
Closing a business	16

If we confine our analysis to the areas of paying taxes and trading across borders we find the following.

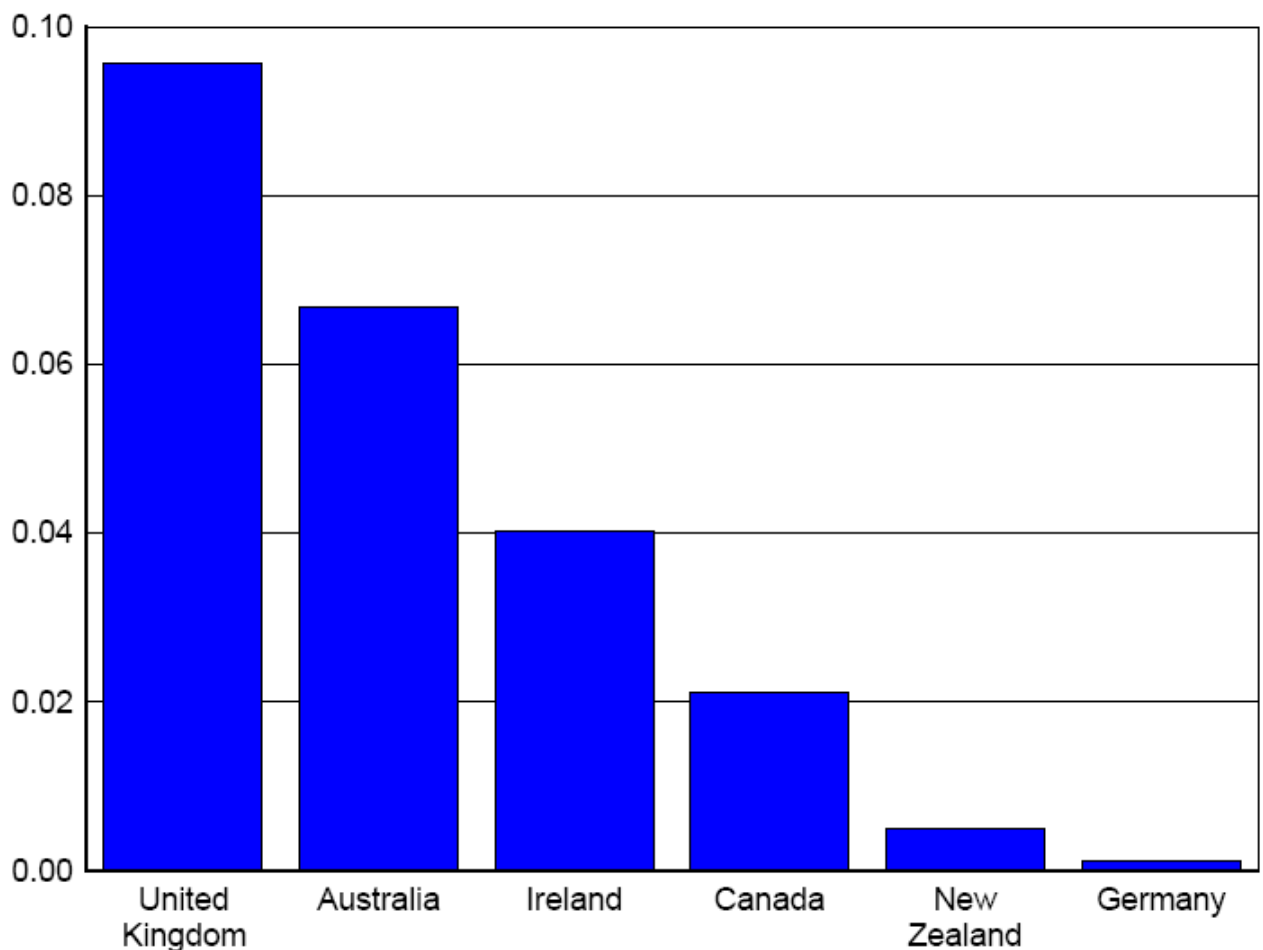
With regard to paying taxes NZ ranks 26th. Australia ranks a lowly 48th. For the standard manufacturing company selected the number of hours needing to be spent on taxes each year comes in at 192. Australia is 109 hours, Canada 131, the UK 110. Of the 192 hours only 25 actually goes on corporate tax. 67 is for ACC and 100 for GST. The total tax rate as a % of profit seems acceptable at 34.3% compared with 47.9% in Australia, 37.3% in the UK, 29.2% in Canada.

For the trading across borders measure NZ ranks 28th compared with 29th for Australia, 15th for the UK, and 41st for Canada. To export a standard dry goods container requires 7 documents in New Zealand compared with 6 in Australia, 4 in the UK and 3 in Canada. Time to export is 10 days versus 9 for Australia and 7 for Canada and the UK. The cost to export is actually very low at US\$855 compared with US\$1,060 for Australia, US\$1,610 for Canada, and US\$950 for the UK. Time to import at 9 days is in the middle of the comparator range while cost to import is the lowest among comparators.

On this measure therefore the reason for NZ's low ranking appears to be largely the number of documents exporters need to prepare plus the longer days required to get the goods to another country.

This graph from the report shows that in terms of a business operating environment New Zealand has not changed much since the 2006 survey. But some other countries have vastly improved their environments and this highlights the way in which sitting still means falling behind. We see this result also further on when we examine the OECD's Product Market Regulation material.

DB change score



Overall from the report we usefully glean only a high number of days needed to comply with GST and ACC and proof that we are sitting still while other economies become more competitive.

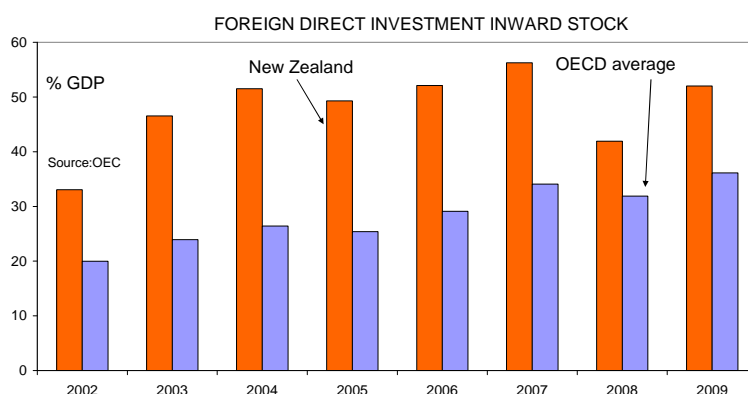
We note that there is a point of challenge to the high ranking given in the World Economic Forum's Executive Opinion Survey to finance being a source of frustration for the 44 executives surveyed. In the IFC World Bank report New Zealand in fact ranks third best in terms of the ease of getting credit. (page 39 of the report).

Economic Freedom Index

This index is produced by the Fraser Institute and ranks New Zealand third out of the 141 countries covered using 2008 data. The index measures the degree to which the policies and institutions of countries are supportive of economic freedom running under the theory that economic freedom leads to better economic outcomes. Looking through the detail for any areas of weakness we find only an 88th ranking for size of government, and low ratings for the size of the trade sector (exports and imports), hiring and firing regulations, and bureaucracy costs.

OECD FDI Restrictiveness Index

There is a high level of FDI in New Zealand as a proportion of GDP by OECD standards. However New Zealand is one of the harder economies to get such investment approved.



The table below shows ratings for FDI restrictiveness by sector where 1 = completely closed and 0 = completely open. We are harder to get investment into for all sectors compared with the OECD average except real estate.

	NZ	OECD
Agri. & Forestry	0.35	0.128
Fishing	0.7	0.32
Mining	0.3	0.122
Manufacturing	0.2	0.03
Electricity	0.2	0.123
Construction	0.2	0.055
Distribution	0.2	0.029
Hotels & restaurants	0.2	0.03
Transport	0.383	0.227
Media	0.2	0.18
Telecom	0.4	0.092
Financial services	0.233	0.053
Business services	0.2	0.067
Real Estate	0.2	0.283
Total FDI Index	0.263	0.095

One might conclude that we could achieve greater productivity growth if FDI restrictions were less severe. But the fact that FDI as a proportion of GDP is already well above the OECD average suggests the restrictions are not acting as an impediment to inflows.

What We Have Learnt

From the surveys above we have unearthed the following additional factors which may help account for New Zealand's low productivity growth.

- Low ICT exports.
- A high 21% of people think hard work will not get them ahead in life.
- Tough hiring and firing regulations.
- Too much bureaucracy.
- High tax burden generated by GST and ACC returns.
- Relatively high barriers to foreign direct investment in New Zealand.

The next BNZ Insights in this series will examine the OECD Product Market Regulation database.

References

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