ENGAGING GLOBALLY

AUCKLAND’S TRADING LINKAGES

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Foreword

International trade is the exchange of capital, goods, services and knowledge across international borders or territories and between cities, regions and countries of the global economy. Being open to global trade and competition is a key trait of successful economies. This economic openness enables growth and improved living standards by providing market opportunities for firms, creating stronger productivity, and stimulating innovation through competition. The World Economic Forum states that “No economy has developed successfully in modern times without harnessing economic openness – to international trade, investment, and the movement of people. This is especially relevant for smaller countries” 1

Trade has been fundamental to the economic growth and prosperity of New Zealand. The Ministry of Foreign Affairs and Trade (MFAT) Trade Agenda 2030 2 states that getting the “best deal from international trade is vital for the New Zealand economy and the prosperity of all New Zealanders.” As stated by MFAT in the Trade Agenda 2030, New Zealand needs to remain agile in the changing global trade environment to retain competitiveness and continue to support growth and prosperity through international trade.

New Zealand could be well placed to benefit from these changes also, with the potential for an upgraded New Zealand-China Free Trade Agreement (FTA); a bi-lateral agreement with post-Brexit United Kingdom; an 11-nation Trans-Pacific Partnership (TPP); and a New Zealand-European Union FTA. 3

This is particularly relevant for Auckland. Strong GDP growth in recent years has been dependent on generating international revenues. Adapting to a changing environment, supporting traditional tradeable industries continue their growth and assisting higher value advanced industries succeed in global markets is key to future prosperity.

This fourth and final paper in the Auckland Tourism, Events and Economic Development (ATEED) Economic Insights Series presents an overview of Auckland’s trading linkages and seeks to highlight the importance of trade and investment to Auckland’s economic performance. This paper is also a precursor to the Auckland Trade Framework, which will be published by ATEED later in 2017. This framework will build on the insights presented in the context of the four ‘shifts’ within the MFAT Trade Agenda 2030, and will highlight opportunities for Auckland businesses to further develop global linkages.

This paper has been developed in partnership with the New Zealand Institute of Economic Research (NZIER), a leading New Zealand commentator on the changing global trade environment.

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1 weforum.org/docs/WEF_GETR_2016_report.pdf
4 Research and Development (R&D) and Science, Technology, Engineering and Math (STEM) Intensive Industries
Auckland’s global linkages

Exports, imports and investment

As New Zealand’s largest city and commercial hub, Auckland has always had strong global economic connections. As one of New Zealand’s primary ports, it is the physical hub for movement of goods in and out of the country, and with New Zealand’s largest airport, is the primary point of entry and exit for people.

However, Auckland is more than just a gateway. Many Auckland businesses are now globally connected, and trade and investment plays an important role in the function of the local economy.

As at March 2015, Auckland exported $14 billion and imported $15.6 billion of goods and services. Auckland businesses invest $8.4 billion overseas and $31 billion has been invested in Auckland from overseas.¹

Between 2000 and 2015, Auckland’s exports increased on average 4.7 per cent per year (from $7 billion in 2000 to $14 billion in 2015). However, since the global financial crisis, growth in exports has slowed to an average of 2.6 per cent per annum, in line with slower export market growth.

The stock of Foreign Direct Investment (FDI) in Auckland is over three and a half times larger than the stock of Auckland’s investments overseas (ODI), $31 billion compared to $8.4 billion. While FDI is larger, ODI has been growing faster since 2001, increasing on average 4.4 per cent per year compared to 4 per cent for FDI.

Since 2007, Auckland’s imports have increased on average 2.6 per cent per year, from $12 billion to $15.6 billion. These imports play a significant role in improving household prosperity and supporting business growth through incoming capital, technology and intermediate inputs.

¹ These investment figures are FDI and ODI stock, not annual investments.
Export performance – Auckland vs New Zealand

Export shares are a key indicator of how globally engaged a country is. In 2016, Auckland exports represented 20.3 per cent of GDP, the largest contribution exports have made to total Auckland output since 2009. In this period, exports have consistently represented between 19 and 20 per cent of Auckland’s GDP. In the same period, New Zealand exports contributed on average 30 per cent to national GDP, driven primarily by dairy, meat and other primary industry exports from outside of Auckland.

Domestic-focused services, which have been key to Auckland’s growth, are a contributing factor to lower export intensity in Auckland. Increasing export intensity of tradeable services and narrowing the gap to the national export intensity figure will contribute to enhanced growth in the future. In 2016, the Auckland Business Monitor\(^6\) identified 20 per cent of Auckland businesses export to overseas markets. Growing this proportion will also support increased export intensity.

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*Annual Auckland Council survey of 500 Auckland businesses*
Key markets

Auckland is truly a hub of the Asia-Pacific region and this is reflected in its international trading linkages.

Three markets dominate Auckland’s export portfolio: Australia, the United States and China, with Australia the largest trading partner. Between 2000 and 2015, total export revenue has doubled. This has been driven by growth in key markets, and since 2007, exponential growth in exports to China, partly as a result of the New Zealand–China Free Trade Agreement. Since 2007, Auckland’s export market portfolio has diversified, with an increase in revenues to smaller emerging markets and a reduction in reliance on the Australian and US markets.
Auckland’s trading sectors

Auckland companies export a diverse range of goods and services. While dominated by the food and beverage, tourism and manufacturing sectors (making up 40 per cent of the portfolio), over 60 per cent of Auckland’s exports are spread across a range of other sectors, including advanced industries such as the tech and commercial services sectors.

In terms of key sectors by key markets, the Australian, US, Chinese and Japanese markets are dominated by dairy and meat exports. Tourism is also a significant export market for Australia and the US, while both the US and the UK have increased their imports of New Zealand beverages, including wine and beer, since 2007.
What does the future hold?

Auckland’s exports are projected to increase by $2.6 billion by 2021, at an average annual rate of 2.9 per cent. Demand from Auckland’s major trading partners is forecast to grow at a similar rate as the last five years, with the exception of China, whose growth is forecast to continue to slow as it rebalances away from export-led growth towards consumption-led growth.

The major contributors to this increase will be the US (24 per cent), China (23 per cent), and Australia (18 per cent). That is, these three markets are expected to account for almost two thirds of Auckland’s export growth over the next five years.

Auckland’s largest exporting industries (as identified in Figure 5) are projected to grow steadily to 2021. They will add $1.8 billion to Auckland’s exports by 2021, thereby contributing over two thirds of the total increase in exports. The wine sector, which has seen strong recent growth, is forecast to continue to grow at between 8 and 12 per cent to Auckland’s major markets (Australia, the US and the UK).
Opportunities for Auckland

Increased international trade, economic integration and additional export revenues have been key to Auckland’s economic growth since 2010 and will continue to play an important role in supporting growth to 2021. While the global trade environment is uncertain, forecast demand for Auckland goods and services is strong and opportunity outside traditional markets exists. Australia, the US and China will remain Auckland’s three primary markets and will account for the majority of growth to 2021. However, new and amended FTAs will present new opportunities for growth from smaller emerging markets.

Building on the key ‘shifts’ identified in the MFAT Trade Agenda 2030, there are a range of opportunities for Auckland. These include:

• diversifying the export portfolio via new FTAs and supporting the MFAT target of 90 per cent of exports covered by FTAs
• improving market success for those that have gained market access, while increasing the proportion of Auckland businesses that export and Auckland’s export intensity
• supporting market access for services firms, including those within the advanced industries, which have developed a strong offer for a domestic market and whose services can now be traded internationally.

The Auckland Trade Framework currently being developed by ATEED will outline how Auckland companies can capitalise on these ‘shifts’ and how ATEED and partners will look to support these companies. This Auckland Trade Framework will be published later in 2017.
ABOUT ATEED

Auckland Tourism, Events and Economic Development (ATEED) is Auckland’s economic growth agency, and an Auckland Council-controlled organisation. It facilitates business and industry sector development, investment attraction, tourism and major events activities, and markets Auckland as a destination.

ATEED works with public and private sector partners to drive the growth of Auckland’s skilled workforce, support Auckland’s advanced industries to increase trade and attract investment, and promote a culture of innovation and entrepreneurship through initiatives like GridAKL - Auckland’s innovation precinct at Wynyard Quarter.

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ATEED and NZIER welcome comment and feedback on the Economic Insights Series.

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