International
Investment for Growth

New Zealand Government

October 2015

ISBN: 978-0-908337-14-9 (Print)
ISBN: 978-0-908337-15-6 (Online)

The Persistent URL for this publication is: http://purl.oclc.org/nzt/bga-1802
The URL for this publication on the Treasury website at October 2015 is:
http://www.treasury.govt.nz/publications/informationreleases/overseasinvestment/growth

Further information on the Business Growth Agenda can be found on the following website:
www.mbie.govt.nz/bga

Executive Summary

Achieving the Government's goal of building a strong competitive economy with increasing numbers of higher-paid jobs requires ongoing significant increases in business investment. Given limits on domestic capital, foreign investment has a key role to play in our success, as it has done throughout New Zealand's history.

The Government has recently announced a new national strategy to attract more international business investment and increase growth across the country. This strategy sets out three priorities:

- The attraction of high-quality foreign direct investment in areas of competitiveness for New Zealand;
- The attraction of overseas investment in research and development, especially encouraging multinational corporations to locate their R&D activity in New Zealand; and
- Expanding New Zealand's pool of smart capital by attracting individual investors and entrepreneurs to New Zealand

In the context of this new strategy, the purpose of this report is to set out the benefits of foreign investment to New Zealanders and our policy approach to attracting high value investment and address public concerns.

New Zealand's stock of foreign direct investment (FDI) stands at 38% of GDP, about average for a small, open, advanced economy. Most of New Zealand's FDI is from Australia (52%) and in the financial sector (32%).

New Zealand's stock of outward direct investment (ODI) stands at 9% of GDP. This is low compared to all other OECD countries, and in particular to small, open, advanced economies. Most of New Zealand's investment abroad is to Australia (55%) and from our manufacturing sector (41%).

Firms with FDI make an important contribution to employment in New Zealand. They employ about 393,000 people, or 20% of employees. On average, they employ more people and pay higher wages than domestic firms. Through ODI, New Zealand firms take advantage of investment opportunities offshore which enable them to grow and employ more people at home.

FDI and ODI drive economic performance though a number of direct and indirect channels. FDI is an important source of capital for New Zealand firms, and is essential for some business initiatives which are unable to raise capital by other means. FDI can also improve firm productivity and innovation when investing firms transfer technology, knowledge and skills. Firms with FDI pass on these innovations to other New Zealand firms, leading to wider improvements across the economy.

FDI and ODI are also vital to building an export-led economy. FDI often allows firms to build the connections with international markets that are essential to exporters. ODI can directly support exporting when firms invest in marketing and distribution functions offshore, and can indirectly support exporting by lowering production costs.

FDI is widespread across the New Zealand economy and firms with FDI make an important contributions to regional towns as diverse as Kaitaia, Masterton and Reefton. International investment is crucial for development and job growth right across every region of New Zealand.

Hon Bill English
MINISTER OF FINANCE

Hon Steven Joyce
MINISTER OF ECONOMIC DEVELOPMENT

Investment Group of Ministers
Hon Bill English
Hon Steven Joyce
Hon Michael Woodhouse
Hon Todd McClay
Hon Paul Goldsmith

The Business Growth Agenda

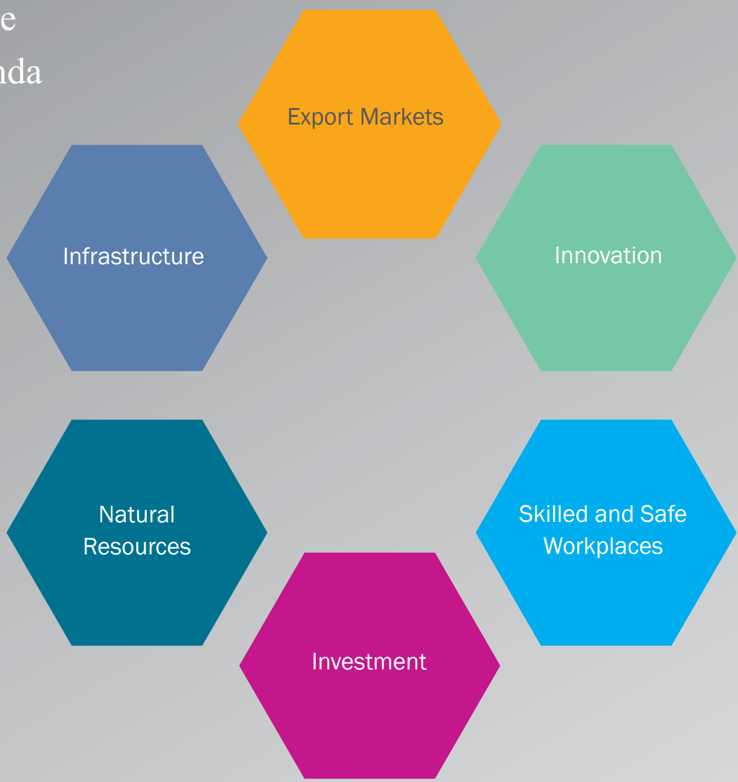
It is businesses that drive economic growth and build a more successful economy.

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 will drive this by ensuring the Government stays focused on what matters to business, to create jobs and encourage confidence and further investment.

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

The six key areas in the Business Growth Agenda are:



The Ministry of Business, Innovation and Employment is working alongside other agencies to coordinate the agenda and ensure businesses can more easily access the advice and support from Government agencies they need to be successful.

Contents

6 Introduction

7 State of Play

10 Examples of Foreign Investment in New Zealand Regions

12 Impact of Foreign Investment on Skills, Jobs and Wages
- 13 Southern Spars
- 13 Gameloft

14 Impact of Foreign Investment on Capital
- 15 FDI in New Zealand's Primary Industries

16 Impact of Foreign Investment on Productivity and Innovation
- 17 Flo-Dry Engineering Ltd
- 17 Dynamic Controls
- 18 BCS Group

19 Impact of Foreign Investment on Exporting and Firm Internationalisation
- 20 Global Value Chains
- 20 Mobilis
- 21 Fonterra
- 21 BEP Marine

22 Balancing National Interests

24 New Zealand's Approach to Foreign Investment
- 26 New Zealand's Approach to Investor State Dispute Settlement
- 26 Investor and Entrepreneur Migration
- 27 Foreign Investment in Auckland

28 For More Information

Introduction

Why does foreign direct investment matter?

What is foreign direct investment?

Direct investment is a category of international investment in which an entity resident in one economy acquires a lasting interest in an enterprise in another economy.

Direct investment implies a long-term relationship between the investor and the investment enterprise. It also implies that the direct investor has a significant degree of influence on the management of the investment enterprise. A commonly used benchmark is 10 percent or more ownership of the ordinary shares or voting power of the enterprise.[1]

In this report, we refer to direct investment flowing into New Zealand as "Inward Foreign Direct Investment" or "FDI" and to direct investment flowing out of New Zealand into other economies as "Outward Foreign Direct Investment" or "ODI."

This report highlights the role that FDI and ODI play in the New Zealand economy. It presents the current State of Play. It then examines in greater detail the role that FDI and ODI have in increasing jobs, skills and wages, supplying capital, raising productivity and innovation, and exporting and firm internationalisation.

Foreign investment: Supporting New Zealand's connections with the global economy

The Business Growth Agenda is the Government's coordinated strategy for building a stronger New Zealand economy and firms that are more productive and internationally competitive. This is critical to creating more business opportunities, more jobs and higher wages, and ultimately higher living standards for all New Zealanders.

Foreign investment makes a crucial contribution to the New Zealand economy. At February 2014, there were about 9,500 firms operating in New Zealand with some FDI (about 2% of firms) and these firms employed around 393,000 people (around 20% of the employee count).[2] Firms with FDI were among our largest and most productive firms. On average, they employed more people and paid higher wages than domestic firms.[3]

In a global market, New Zealand's international connections are vital to our productivity and competitiveness. Small economies rely heavily on flows of people, capital, trade and ideas with other economies around the world.[4] In the absence of a large domestic market, international connections allow New Zealand to access resources, knowledge and technology from the most technologically advanced countries, to access global networks, to benefit from economies of scale, and to stimulate competition to spur innovation and move resources to areas of comparative advantage.

FDI and ODI make an important contribution to New Zealand's international connections. Most obviously, FDI helps us to meet domestic investment needs which exceed available national savings. Through ODI, our firms can take advantage of investment opportunities offshore which enable them to grow.

We know that FDI and ODI are important ways to increase flows of people, trade and ideas too. ODI increases businesses exposure to overseas markets, knowledge and ideas. FDI can also bring international talent to lift skills in New Zealand's labour market, as well as intellectual property and resources for research and development.

Future trends and opportunities

FDI and ODI flows are increasing internationally. New Zealand firms need to take advantage of FDI and ODI to drive productivity improvements, participate in global value chains and access markets abroad. Growing prosperity and continuing integration in the Asia-Pacific region present New Zealand with considerable opportunities. We are closer to the hub of the global economy than we have ever been before. Smart FDI and ODI will be integral to ensuring that we turn this advantage to the greatest benefit for New Zealanders.

Lifting New Zealand's international investment performance requires a more concerted and better integrated New Zealand-wide effort that targets the attraction of high quality investment to New Zealand. A common set of priorities, goals and key actions are needed to support a step change in investment attraction efforts to enable the seamless facilitation of investment opportunities. We have developed an investment attraction strategy to focus government's efforts on actively seeking high quality international investment that maximises the benefits to the New Zealand economy.

1 The foreign ownership or control threshold under the Overseas Investment Act 2005 is 25%.
2 Statistics New Zealand (2014), New Zealand Business Demography Statistics.
3 Doan, Tinh (2012), "Industry Destinations of Inward Foreign Direct Investment in New Zealand," Ministry of Business, Innovation and Employment.
4 The Treasury (2009), "International Connections and Productivity: Making Globalisation Work for New Zealand."

State of Play

History

Foreign investment has been an important part of building the New Zealand economy since the 19th Century. In the early colonial period, foreign investment was as much as 273% of GDP.[5] This investment was instrumental in establishing our agricultural, banking and finance sectors, and in building our roads, railways, ports and other public infrastructure. For example, in the late 1800s and early 1900s, British investment played a prominent role in the development of our refrigerated meat industry through the purchase and development of freezing works and investment in New Zealand shipping companies.[6]

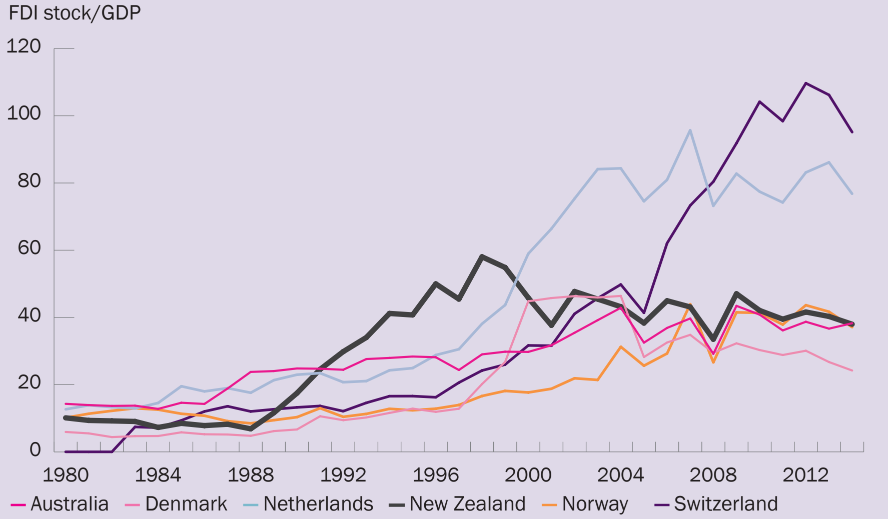
In recent years, New Zealand's stock of FDI grew significantly following the economic reforms of the 1980s. Although New Zealand's stock of FDI, currently around 38% of GDP, is about average for a small, open, developed economy, the growth in FDI flows into New Zealand over the past ten years has been slower than for other small advanced economies.

New Zealand stock of ODI as a percentage of GDP stands at around 9%. This is low compared to all other OECD countries, and in particular, to small, advanced open economies. This reflects the lack of large firms in New Zealand with the capacity to invest offshore. It also indicates that we are yet to make the most of the opportunities presented by globalisation. New Zealand's FDI and ODI performance over the last 30 years are shown in charts 1 and 2.

Note the above figures are sourced from UNCTAD for international comparability.

New Zealand's stock of FDI, is about average for a small, open, developed economy

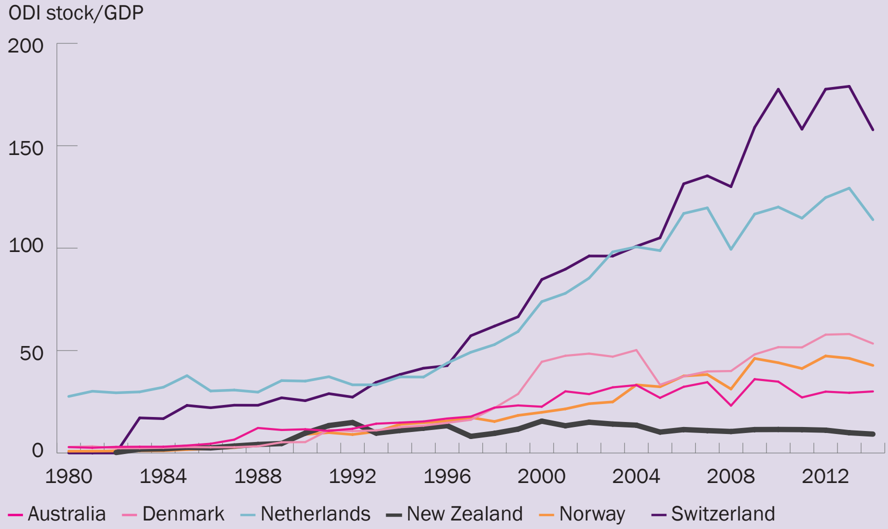
Chart 1: Time series of FDI stocks as a percentage of GDP in small advanced economies



Source: United Nations Conference on Trade and Development, 2015

New Zealand stock of ODI is low compared to all other OECD countries and in particular, to small, advanced open economies

Chart 2: Time series of ODI stocks as a percentage of GDP in small advanced economies



Source: United Nations Conference on Trade and Development, 2015

[5] Wilkinson, Bryce (2013), "New Zealand's Global Links: Foreign Ownership and the Status of New Zealand's Net International Investment," The New Zealand Initiative.
[6] Hawke, G.R (1985), *The Making of New Zealand: An Economic History*, p.87.

Composition

The sources of foreign investment in New Zealand have evolved with global capital flows and reflect New Zealand's changing relationships abroad.
New Zealand's early reliance was on investment from Great Britain. From the 1960s, the relative importance of Australian and North American investment in comparison to British investment increased, and in 1971 investment flows from Australia equalled those from Britain.[7] Since the 1980s, there has been greater geographic diversity in the sources of inward investment, including investment from Asia. As the world's economic centre of gravity continues to shift, we anticipate increasing investment flows from Asia. This is an important opportunity for the New Zealand economy and we need to ensure that we are well positioned to take advantage of this global shift.

Today, Australia is by far New Zealand's largest source of FDI, representing over half of the total stock. Australia is followed by the United States, Hong Kong, the United Kingdom and Singapore. Although China is now the world's second largest economy and receives a lot of public attention, it is not yet one of New Zealand's major investment partners. China is New Zealand's 12th largest source of FDI.

More so than New Zealand's export profile, New Zealand's ODI destinations tend to be English speaking, and are heavily dominated by Australia. Three quarters of New Zealand's ODI stock, worth almost $20 billion, is in only 3 countries: Australia, the United States and Singapore.

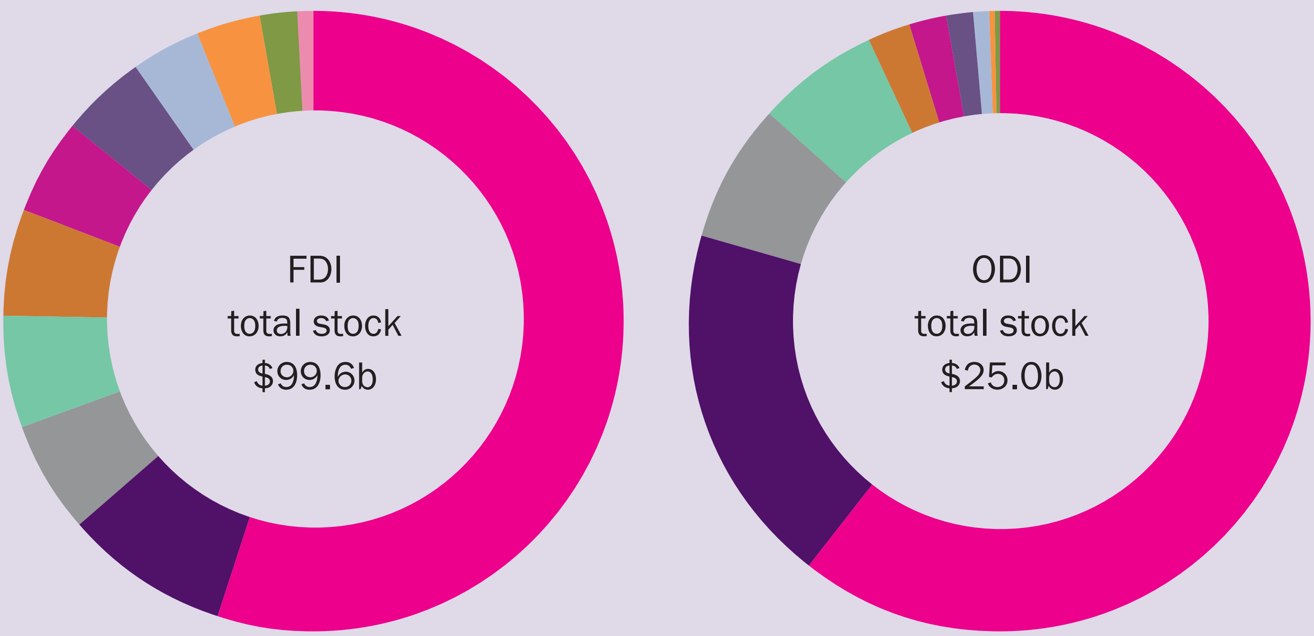
Our stocks of FDI are currently highest in the finance and insurance (32%) sector, followed by the manufacturing (15%), retail trade (6%), and agriculture, forestry and fishing (6%) sectors. For more information about FDI in New Zealand's land based sectors, refer to the topic box on foreign investment in New Zealand's Primary Industries (p.15).

52% of FDI in New Zealand comes from Australia

55% of ODI from New Zealand is to Australia

Australia is by far New Zealand's largest investment partner. China is not currently one of New Zealand's major investment partners.

Chart 3: FDI and ODI stocks by country



Source: Statistics New Zealand, 2015

[7] Akoorie, Michele (1988), "The Historical Role of Foreign Investment" in Foreign Investment the New Zealand Experience, Peter Enderwick ed., pp. 85-88.
[8] Scott-Kennel, Joana (2010), "Foreign direct investment in New Zealand," University of Auckland Business Review, 12(1), 41-49; Cartwright, W (2001), "Multinational enterprise engagement and development in New Zealand," in *Global player? Benchmarking New Zealand's competitive upgrade*, ed J Yeabsley, 41-47, New Zealand Institute of Economic Research, Wellington.

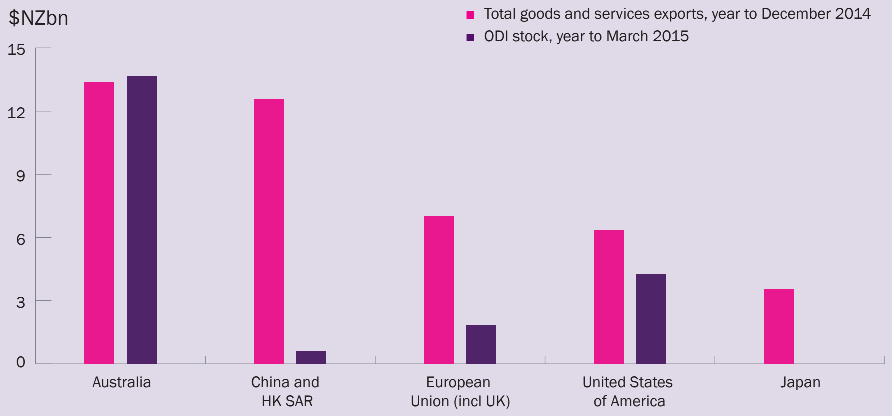
Research shows that the dominant motivation for foreign firms investing in New Zealand is supplying the domestic market by establishing local sales and marketing functions, although many foreign-owned firms are also involved in exporting and R&D.[8] Access to New Zealand's rich natural resources is another important driver of investment.

The New Zealand manufacturing sector is our largest investor abroad (41% of our stock of ODI). This includes investment in offshore milk production. The next largest sector is wholesale trade (16%), followed by financial and insurance services (4%) sector. The composition of both FDI and ODI stocks has been stable in recent years.

The concentration of New Zealand's FDI stocks in the financial sector is striking. Foreign investment in the financial sector plays an important role in the provision of high quality, competitive financial services for firms. Increasing foreign investment into other domestic services may provide benefits through increased competition and productivity, while greater FDI in the tradable sector can provide links to global value chains and overseas distribution and marketing channels.

New Zealand's foreign investment abroad lags behind our export profile

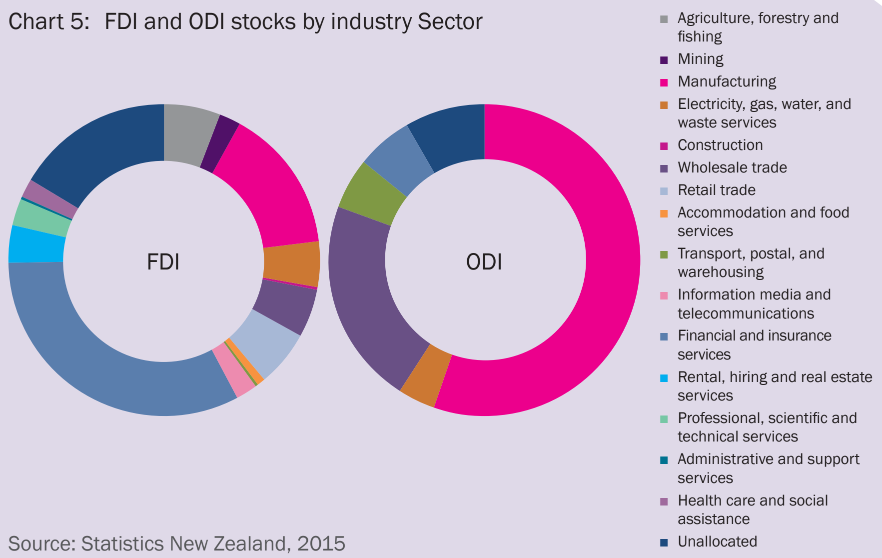
Chart 4: Exports and ODI with New Zealand's top 5 trading partners



Source: Statistics New Zealand, 2015

Most FDI in New Zealand is in our financial sector

Chart 5: FDI and ODI stocks by industry Sector



Source: Statistics New Zealand, 2015

32% or **$32.1b** of FDI in New Zealand is in the financial and insurance services sector

41% or **$10.1b** of ODI from New Zealand is from the manufacturing sector

Examples of Foreign Investment in:

New Zealand Regions

Yashili

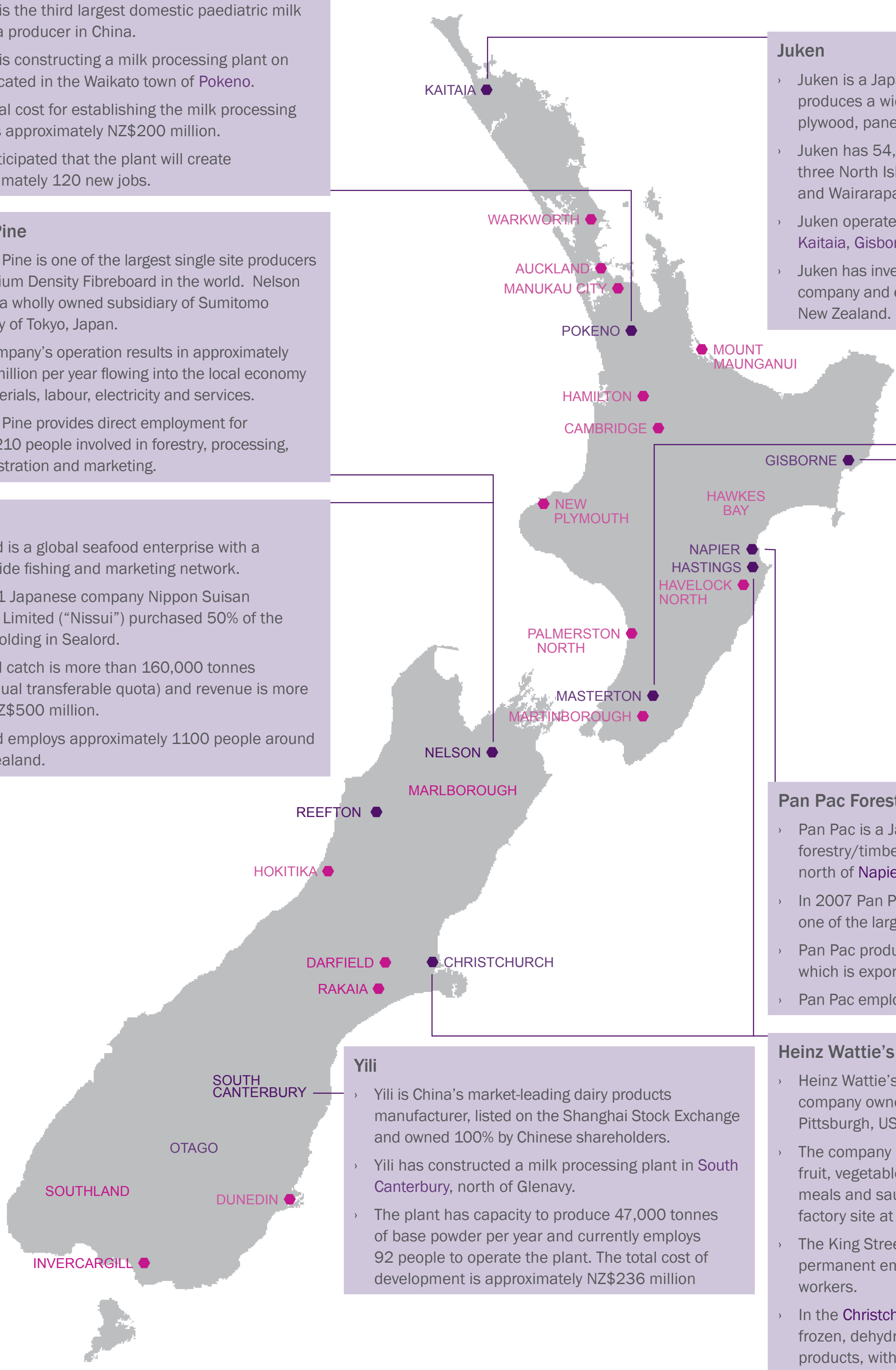
- Yashili is the third largest domestic paediatric milk formula producer in China.
- Yashili is constructing a milk processing plant on land located in the Waikato town of Pokeno.
- The total cost for establishing the milk processing plant is approximately NZ$200 million.
- It is anticipated that the plant will create approximately 120 new jobs.

Nelson Pine

- Nelson Pine is one of the largest single site producers of Medium Density Fibreboard in the world. Nelson Pine is a wholly owned subsidiary of Sumitomo Forestry of Tokyo, Japan.
- The company's operation results in approximately $220 million per year flowing into the local economy for materials, labour, electricity and services.
- Nelson Pine provides direct employment for about 210 people involved in forestry, processing, administration and marketing.

Sealord

- Sealord is a global seafood enterprise with a worldwide fishing and marketing network.
- In 2001 Japanese company Nippon Suisan Kaisha Limited ("Nissui") purchased 50% of the shareholding in Sealord.
- Its total catch is more than 160,000 tonnes (individual transferable quota) and revenue is more than NZ$500 million.
- Sealord employs approximately 1100 people around New Zealand.



Juken

- Juken is a Japanese owned forestry company that produces a wide range of engineered wood (LVL, plywood, panels) and solid wood products.
- Juken has 54,000 hectares of planted forests in three North Island locations, Northland, East Coast and Wairarapa.
- Juken operates four wood processing mills located in Kaitaia, Gisborne and Masterton.
- Juken has invested over $700 million into the company and employs nearly 900 people in New Zealand.

Pan Pac Forest Products Limited ("Pan Pac")

- Pan Pac is a Japanese owned, fully integrated forestry/timber products company located 20km north of Napier.
- In 2007 Pan Pac became wholly owned by Oji Paper, one of the largest pulp and paper producers in Japan.
- Pan Pac produces 220,000 tonnes of pulp annually which is exported to Japan.
- Pan Pac employs approximately 360 people at its site.

Yili

- Yili is China's market-leading dairy products manufacturer, listed on the Shanghai Stock Exchange and owned 100% by Chinese shareholders.
- Yili has constructed a milk processing plant in South Canterbury, north of Glenavy.
- The plant has capacity to produce 47,000 tonnes of base powder per year and currently employs 92 people to operate the plant. The total cost of development is approximately NZ$236 million

Heinz Wattie's Limited

- Heinz Wattie's Limited is a food manufacturing company owned by H.J. Heinz Company of Pittsburgh, USA.
- The company produces about 140,000 tonnes of fruit, vegetables, baked beans, spaghetti, soups, meals and sauces each year at the original Wattie's factory site at King Street in Hastings.
- The King Street factory in Hastings has 500 permanent employees and up to 800 seasonal workers.
- In the Christchurch factory, the company produces frozen, dehydrated and freeze-dried vegetable products, with 150 permanent employees and another 160 seasonal workers.
- In 1995 Heinz Wattie's Limited purchased the disused freezing works at Tomoana, Hastings and rebuilt the site into a modern food processing factory and distribution centre. Over $100 million was invested in upgrading the factories at King Street and Tomoana.

Sourced from company websites

Examples of Foreign Investment in New Zealand Regions

Firms with foreign investment	Location
Fletcher Building Limited	NZ wide
Lion Nathan Limited	NZ wide
General Distributors Limited	NZ wide
Bunnings Limited	NZ wide
Charlie's Group Limited	NZ wide
Flavoured Beverages Group Holdings Limited	NZ wide
Asia Pacific Breweries Limited	NZ wide
Atlantis Healthcare Limited	Auckland
Cubic Defence New Zealand Limited	Auckland
Elders Rural Holdings Limited	Auckland
Endace	Auckland
Fisher & Paykel Appliances Limited	Auckland
Fisher & Paykel Healthcare	Auckland
Frucor Beverages Limited	Auckland
Goodman Fielder New Zealand Limited	Auckland
Griffins Foods Limited	Auckland
Mastip Technology Limited	Auckland
Outsmart 2005 Limited	Auckland
Gea Farm Technologies New Zealand Limited	Cambridge
PSA Capital Limited	Canterbury
ANZCO Foods	Christchurch
Jade Software Corporation Limited	Christchurch
Moffat Limited	Christchurch
New Zealand Agriseeds Limited	Christchurch
PGG Wrightson Limited	Christchurch
Go-Bus Holdings Limited	Christchurch and Auckland
Prime Foods New Zealand Limited	Darfield
Newlcast Pty Limited	Dunedin
Natural History New Zealand Limited	Dunedin
Ingleby New Zealand LP	Gisborne
CRV Ambreed New Zealand Limited	Hamilton
CTC Aviation Training (New Zealand) Limited	Hamilton
Milfos International Limited	Hamilton
RCR Energy Limited	Hastings
Craggy Range Vineyards Limited	Havelock North
Nobilo Vintners Limited	Hawkes Bay, Marlborough, Gisbourne and Central Otago
Blue River Group	Invercargill
Danone Holdings NZ Limited	Manukau City
Agri-Feeds Limited	Mount Maunganui
Maruzen CSI New Zealand Limited	Mount Maunganui
Taura Natural Ingredients Limited	Mount Maunganui
Canadian Helicopters Limited	Nelson
The New Zealand King Salmon Co. Limited	Nelson
Fitzroy Engineering Group Limited	New Plymouth
Noske-Kaeser New Zealand Limited	Palmerston North
Synlait Milk Limited	Rakaia
Hokitika Rimu Treetop Walk LP	Hokitika
Rayonier MDF New Zealand	Southland
Core Builders Composites	Warkworth
Dieselgas International Limited	Wellington
Fujitsu New Zealand Limited	Wellington

Impact of Foreign Investment on:

Skills, Jobs and Wages

New Zealanders experience FDI through its effects on job numbers, wages and skills in the labour market. Firms with FDI are among the largest employers in New Zealand. Chart 6 shows that firms with foreign investment make a disproportionate contribution to employment. While it is estimated that they make up only 2% of the total number of firms, they make up 47% of firms with over 100 employees.[9] In 2014, around one fifth of employees worked for firms with some FDI.[10] Employment expansion is also greater in firms which have been acquired by foreign owners than in similar firms which remain in New Zealand ownership.[11]

New Zealand evidence also shows that firms with FDI pay higher wages, and that foreign acquired firms raise wages more than other similar non-acquired firms.[12]

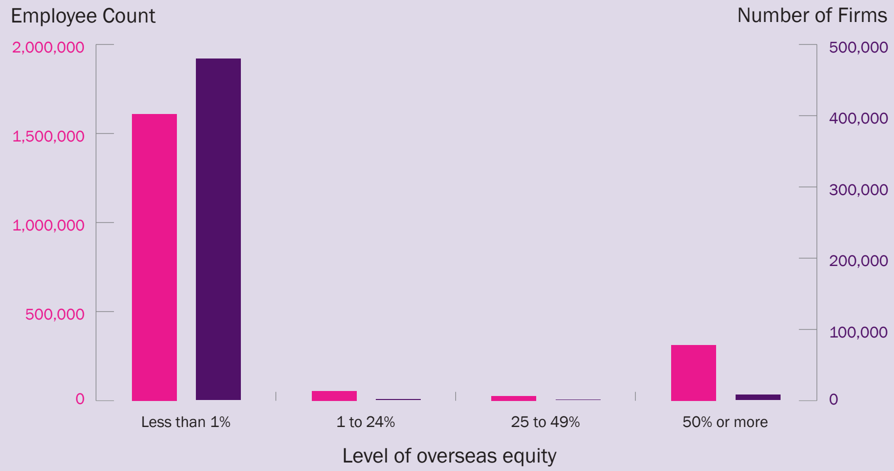
The significance of foreign investment to employment is not just limited to jobs within foreign-owned firms. One large multinational firm can provide critical mass to sustain a vibrant industry made up of both New Zealand and foreign-owned firms and a range of supporting firms. One small example of this is the investment by French video game developer Gameloft in Auckland which has strengthened the New Zealand game development industry. Gameloft is active in the New Zealand Game Developers Association and works closely with education providers.

FDI can also increase the skill level in New Zealand's workforce, including in critical areas like management and technical specialisations. New Zealand's relatively small number of large international firms constrains our ability to develop these skills in isolation. For the world's leading business managers and professionals, international experience is often an integral part of career development. Linking to more multinational firms can help New Zealand to access the top levels of international talent. Skills can be transferred to New Zealanders who work in the same firms and in other firms – through experience, observation, and training.[13] As employees come and go from foreign-owned firms, they can take what they learn and apply it to new ventures in New Zealand. The result will be an improvement in overall skills in New Zealand, which in turn makes New Zealand more attractive to further FDI and more capable of conducting ODI.

While ODI by definition involves firms generating jobs offshore, this is not necessarily at the expense of jobs in New Zealand. Indeed, an emerging model for ODI is followed by New Zealand firms that have a global focus from the outset. These "born global" firms use ODI to grow their businesses internationally, while increasing home employment levels in head office and in other high skilled, high wage jobs. One example of this is New Zealand accounting software firm Xero, which has its headquarters in Wellington and has invested in operations in Australia, the United Kingdom and the United States.

Firms with a FDI make a disproportionately large contribution to employment

Chart 6: Employee numbers in firms by level of FDI[14]



Source: Statistics New Zealand, 2014

2% of the total number of firms have foreign investment

47% of firms with over 100 employees have FDI

393,000 people or **20%** of the employee count work in firms with FDI

[9] Statistics New Zealand (2012),New Zealand Business Demography Statistics.
[10] Doan, Tinh, (2012), Industry Destinations of Inward Foreign Direct Investment in New Zealand, MBIE Economic Development Group.
[11] Fabling, Richard & Lynda Sanderson (2013) "Foreign acquisition and the performance of New Zealand firms", New Zealand Economic Papers.
[12] Fabling and Sanderson (2013) found that firms acquired by foreign owners raise average wages between 2 and 8 percentage points more than similar non-acquired firms.
[13] Bloom, N., & Van Reenen, J, (2007). Measuring and Explaining Management Practices Across Firms and Countries. The Quarterly Journal of Economics 122 (4), p.1351-1408; Sun, X., & Hong, J. (2011). Exports, Ownership and Firm Productivity: Evidence from China. The World Economy, (7)34, p.1199-1215.

Case study

Southern Spars

Successful offshore investment in manufacturing capability

Auckland based Southern Spars is an industry leader in the design, construction and installation of carbon fibre masts, booms and rigging for high performance racing and cruising yachts.

Southern Spars was founded on the backbone of Grand Prix yacht racing. One of their first major projects led to Sir Peter Blake's Steinlager II winning all six legs of the Whitbread Round the World Race. Since then, their products have continued to feature in the world's most high profile and intense yacht races, including the America's Cup.

Southern Spars have an estimated 90% market share of all carbon fibre rig packages sold to super yachts around the world. The vast majority of their production is for overseas yacht builders, or for local yacht builders supplying overseas clients.

Southern Spars is a truly international firm, employing more than 400 people worldwide. Their headquarters are in Auckland, but they have invested in relationships with other firms and operations that extend to the four corners of the world, with centres in the United States, Denmark, South Africa, Spain and Sri Lanka.

Through ODI Southern Spars have created a global supply chain with masts and booms designed and manufactured in New Zealand, while the rigging is designed by an associate company in the United States, and manufactured at a Southern Spars facility in Sri Lanka. This global supply chain allows the company to draw on design and manufacturing facilities, and expert pools of human capital around the world in meeting their client's needs.

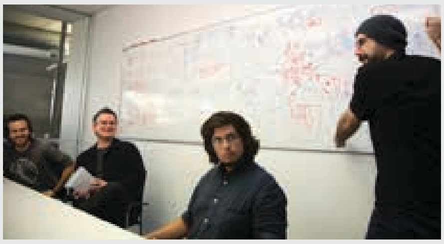
Despite their global links, Southern Spars also have strong ties to New Zealand. From their founding to the present, Southern Spars have placed a major emphasis on developing a powerful team of people, not just skilled in their specialist fields, but also fired by a passion for yachting and providing excellence in customer service. The importance they place on their staff keeps Southern Spars grounded in New Zealand.

Southern Spars have recently invested in a new manufacturing facility in Auckland. The bespoke design of the facility has enabled Southern to consider its longer term requirements and accordingly accommodate the growing demand for larger and more technically-advanced superyacht and Grand Prix race rigs.

Case study

Gameloft

FDI and skills, jobs and wages



Gameloft is a leading global developer and publisher of video games for mobile phones and consoles. The company was established in 1999 and is headquartered in Paris, France. Creating games for mobile handsets on iOS, Android and Java Platforms, it has emerged as one of the top innovators in its field.

In 2010, Gameloft established a game development studio in Auckland to develop new games for international markets. Following the success of the first games developed in New Zealand, Gameloft expanded their Auckland operations, growing from 12 to 169 employees in five years. Gameloft New Zealand is the largest videos games developer in the country and plays an active role in the development of the games industry through partnerships with national universities and schools.

Daniel Stephens, New Zealand Managing Director said "Gameloft New Zealand has flourished since we opened our doors five years ago. With seven successful games under our belt, we're now working on even bigger titles and have an outstanding team to help us do so. The success of our studio has been a great influence on the country's games industry as it's now widely recognised as one of the core sectors of New Zealand's creative economy. We can only see it grow from here."

Summary: Foreign investment and skills, jobs, and wages

- Firms with FDI are among the largest employers in New Zealand – around one fifth of employees work for firms with FDI.
- On average, wages are higher in firms with FDI.
- Foreign firms increase skills across the workforce, including in critical areas like management and technical specialisations.
- While ODI by definition involves firms generating jobs offshore, this is not necessarily at the expense of jobs in New Zealand.

Impact of Foreign Investment on:

Capital

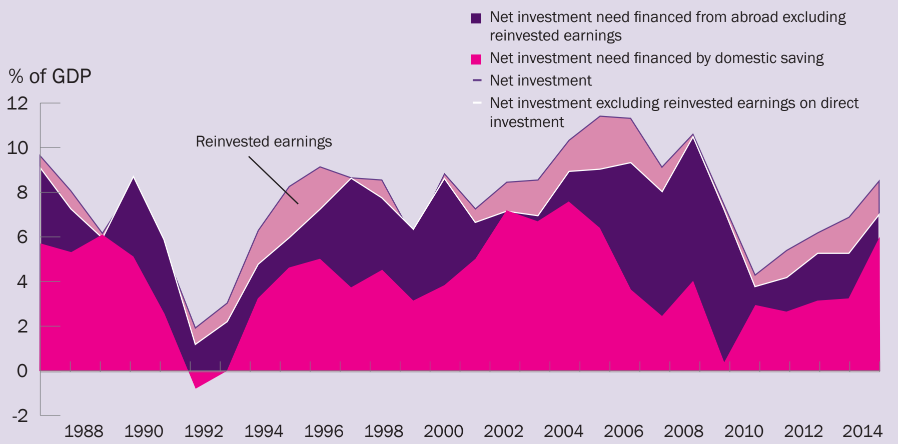
Strong capital markets are a key ingredient that businesses need to succeed and grow identified in the Business Growth Agenda. To meet the Government's target of lifting exports to 40% of GDP by 2025, export businesses will need an extra $160-$200 billion of new productive capital, a 70-90% increase on current levels.[14]

Financial capital is essential for economic growth. Since the 1970s, New Zealand's domestic investment needs have persistently outstripped the national savings we have available for investment – the last time that New Zealand had a current account surplus was in 1973. Increasing domestic savings is one way to fill this gap, but the use of foreign savings will also be essential to funding New Zealand's investment needs. Chart 7 shows the proportion of New Zealand's net investment that has been financed by domestic savings and foreign savings over the last 25 years. The chart also shows the role that firms' reinvested earnings have played in funding investment.

All things equal, relying on foreign capital to finance New Zealand's investment requirements increases our external liabilities, and the risk to the wider economy from a sudden stop or reversal in capital flows. Increasing domestic savings over the medium term is essential to managing this risk. However, of all the types of foreign funding, FDI is a more stable source of investment than shorter-term sources such as foreign debt and portfolio flows, as it represents a longer-term commitment by investors in the performance of a firm and is less prone to volatility during economic shocks. During the Asian Financial Crisis, for example, the collapse in asset prices in Indonesia, Korea and Thailand was exacerbated when foreign creditors called in short-term loans. FDI also provides diversification away from New Zealand's heavy reliance on debt funding from Australian banks. These characteristics reduce the vulnerability of the economy overall to macroeconomic shocks.

Foreign investment plays an important role in meeting New Zealand's domestic investment needs.

Chart 7: Breakdown of New Zealand's net investment need and sources of financing



Source: The Treasury, Statistics New Zealand, 2015

Foreign investment in productive economic activity can also bring medium to long-term economic growth benefits, and help increase the size of the New Zealand economy. Foreign investment supplements domestic saving, allowing the economy to accumulate capital more quickly than it otherwise would have. This leads to greater output across the economy and a rise in real incomes. Over the period from 1996-2006, foreign capital inflows led to an average income gain of $2,600 per worker.[15]

The direct effect of FDI on the economy through the provision of capital is increased diversity of risk sharing options available for both firms and investors, thereby supporting efficient capital markets to best match the needs of businesses and investors.[16] Ultimately, this will mean a lower average cost of capital for New Zealand firms. Foreign investors have strong incentives to help firms they invest in, as returns will only be paid to the extent that the firm is profitable. FDI is also essential for some business initiatives which are unable to raise capital by other means – for example, high tech firms that lack the collateral to source debt finance.

FDI can also increase the potential for further investment into New Zealand by the same investor firms, in the form of reinvested earnings. Foreign firms with existing operations in New Zealand are high potential investors and reinvest a significant proportion of their income. Over the last ten years to March 2015, an average of 26% of income on investment was reinvested in New Zealand.[17]

Outward investment from New Zealand helps to balance the net international investment position by increasing our ownership of foreign assets. New Zealand's low levels of ODI have contributed to our net investment imbalance. ODI also helps to diversify our investments away from risks exclusive to New Zealand like natural disasters and domestic economic shocks. In the year ended March 2015, 71% of income from ODI was returned to New Zealand in the form of dividends.

[14] The Business Growth Agenda: Building Capital Markets Progress Report, February 2013.
[15] Anthony Makin, Wei Zhang and Grant Scobie, "The Contribution of Foreign Borrowing to the New Zealand Economy," New Zealand Treasury Working Paper, 2008.
[16] The Business Growth Agenda: Building Capital Markets Progress Report, February 2013.
[17] Statistics New Zealand (2013), Balance of Payments and International Investment Position.

Spot light

FDI in New Zealand's Primary Industries

The primary industries are critical to our export base and require significant investment to grow. There is a limit to the amount of capital that will be available to the primary sector from traditional domestic sources. This is because:

- Farm debt to asset ratios remain high, averaging 13% over the long term.[18] Aggregate credit extended to agriculture by New Zealand's lending institutions grew at an average of 4.6% over the four years to July 2015.
- Retained earnings provide limited additional capital in most primary industries due to low levels of profitability.

As a result, foreign investment will play an important role in funding primary sector growth.

Foreign investors are attracted to New Zealand's primary industries because of their commercial competitiveness. New Zealand has a reputation as a clean country which produces high-quality output, with credible food safety standards, skilled human capital, and a stable political and commercial environment.[19] In addition, sovereign concerns about security of food supply – for example in China and the Middle East – are increasingly a driver of FDI in food-producing assets worldwide.

FDI will have the greatest benefits for the primary sector in situations where New Zealand can benefit from productivity spillovers. This is when the foreign investor has greater productivity, knowledge or skills than the industry in New Zealand and these are passed on. The parts of the primary sector that are likely to benefit most are the high value-added components of meat, wool and wood processing. Increased capital development and the ability to pay for better management in the primary sector is likely to result in greater productivity. FDI is also likely to enhance connections to foreign markets, especially in cases where the existing New Zealand businesses have limited networks.

Foreign ownership of land is an area of particular public interest. To address public concerns, New Zealand's Overseas Investment Act 2005 deems all non-urban land over 5 hectares to be sensitive land and foreign investors in that land are required to demonstrate that the investment will or is likely to benefit New Zealand.

New Zealanders can also benefit from purchasing land overseas. Some New Zealand land-based firms in the primary sector use ODI to draw on offshore resources (usually land) to spread production risk and ensure an all-round supply of commodities to key markets. Research by NZIER found that the net effect of ODI on land-based firms was generally positive for firm profits, growth and competitiveness. ODI was thought to improve business practices in domestic firms who dealt with companies with foreign investments.[20] This is consistent with the international literature. While an increase in employment domestically was not an automatic outcome, in many cases the domestic demand for skilled labour increased due to ODI, as head office staff were needed to deal with more complex supply chain management issues.[21]

Summary: Foreign investment and capital

- Since the early 1970s, New Zealand's domestic investment needs have persistently outstripped our national savings. FDI plays an important role in supporting domestic investment.
- FDI helps New Zealand firms to expand and is essential for some business initiatives which are unable to raise capital by other means.
- FDI is a stable source of funding and represents a long-term commitment by the investor.
- New Zealand has low levels of ODI. If ODI moved towards international norms this would help to reduce our net international investment imbalance.
- ODI can help to diversify our investments away from risks exclusive to New Zealand like natural disasters and domestic economic shocks.
- A significant proportion of the profits of FDI and ODI are reinvested in New Zealand.

[18] RBNZ Statistics (2015)
[19] NZIER (2010), "Foreign Investment – Direct investment into New Zealand's land based sector."
[20] NZIER (2009), "Outward Direct Investment by New Zealand land-based firms: Motives, strategies and consequences."
[21] NZIER (2009).

Impact of Foreign Investment on:

Productivity and Innovation

New Zealand's productivity growth has been lagging behind other OECD countries for decades. Figure 1 illustrates how foreign direct investment, both inward and outward, can help boost the productivity of New Zealand firms. This can occur directly through investment in capital, access to knowledge and technology, and access to products and production processes, and indirectly, through flow-on impacts to other firms in the economy.

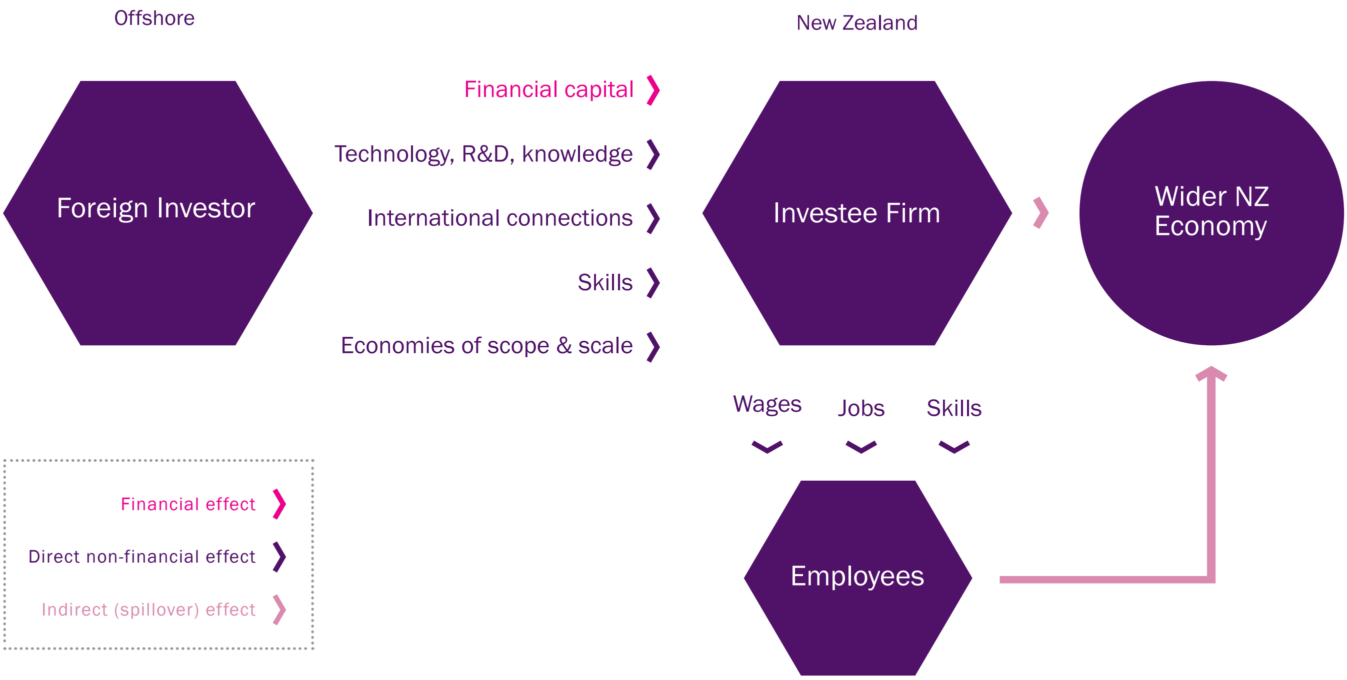
FDI can have direct positive effects on firm performance. Foreign investors are typically highly productive, implying that they have some "firm-specific advantages" that make them internationally competitive. Investing firms can transfer technology, knowledge and skills, including enhanced managerial capability and innovative organisational structures. They can provide access to international networks and supply chains, R&D and economies of scope and scale.[22] These additional resources and expertise can allow the firm to grow beyond its potential under the original owners. The diagram below demonstrates the flows that can enhance the productivity and innovative capacity of the investee firm.

FDI can also have indirect, or spillover, effects through that investee firms' interactions with other firms in the economy. For example, when the firm improves an element of its production process, it may also help its suppliers to upskill to ensure its inputs are of the best possible quality for that new process. Also, other firms in similar areas of activity may be able to learn from and mimic the productivity enhancing features of foreign-owned firms.

Research suggests that transfers of knowledge and technology from foreign affiliates to domestic firms are common. In a survey of 515 New Zealand-based firms with significant foreign ownership, over half stated that they had provided advice or assistance to local firms, including technical assistance, staff training, information about markets and suppliers, and contacts.[23] Studies show that positive transfers of technology from foreign firms operating in an economy to domestic firms are more likely in countries like New Zealand, which have high levels of human capital and only a small technology gap with the source country.[24]

Similarly to FDI, ODI can allow productivity improvements through exposure of firms to new technologies overseas and to skills and new management techniques. ODI also brings a firm closer to its market and stronger relations with clients may trigger the development of new products and services.

Figure 1: Foreign investment and productivity



[22] OECD (2007), "Freedom of Investment in a Changing World"; OECD (2007) "Economic and Other Impacts of Foreign Corporate Takeovers in OECD Countries."
[23] Scott-Kennel (2010),"Foreign Direct Investment to New Zealand", University of Auckland Business Review.
[24] Irsova and Havranek (2012), Determinants of horizontal spillovers from FDI: Evidence from a large meta-analysis, World Development 42, pp.1-15.

Case study

Flo-Dry Engineering Ltd

FDI increasing access to markets and technology

In 2011, Danish multinational Haarslev Industries, the world's largest manufacturer and supplier of rendering and pet food processing systems, acquired all shares in Flo-Dry Engineering Ltd, a New Zealand-based company with world leading IP in the design of rendering and sludge drying plants.

This acquisition had multiple benefits for both Haarslev and Flo-Dry and for New Zealand's wider meat industry.

Since 1983, Flo-Dry has specialised in supplying low temperature rendering systems, municipal sludge drying systems, gel-bone processing systems as well as a system to produce biodiesel from animal fats. The acquisition deal opened up new markets for Flo-Dry products across Europe, Russia, North and South America, Asia, and the Middle East where Haarslev Industries are already established.

Haarslev benefited from Flo-Dry's existing expertise and networks in providing local service for their products. Many rendering installations in New Zealand and Australia use the Haarslev type of indirect heated rendering systems. The acquisition provided present users in New Zealand and Australia with local access to service and the new technologies developed by Haarslev Industries in recent years.

The wider benefits for the New Zealand meat industry include being able to source all types of rendering systems direct from the original designers and manufacturers, with installers and service staff based here in New Zealand.

The product portfolios and the working procedures of Haarslev Industries and Flo-Dry Engineering supplement each other in a way that enables the companies to share expertise in different fields and jointly develop products of the highest quality resulting in a wider range of products and processes.

Furthermore, the combined sales offices and agent networks provide global coverage for the

two companies, both within the rendering and fish meal industry as well as the environment sector, where drying of municipal and industrial sludge is a major part of the business.

Haarslev has 1,000 staff in 14 countries, and manufacturing units in Denmark, France, Germany, Spain, China, US, Brazil and Peru. Following the acquisition, Flo-Dry staff were absorbed into the Haarslev family.

Case study

Dynamic Controls

FDI increasing access to markets and technology

Dynamic Controls is a world leading medical devices company specialising in electronic controls for power wheelchairs and scooters. The company is a global organisation headquartered and with R&D facilities in Christchurch. Dynamic Controls also manufactures in Suzhou, China and has regional offices in the UK, North America and Taiwan.

The company was purchased by Invacare: a US based multinational specialising in home based health care. Since being purchased, Dynamic Controls has been transformed to become Invacare's global centre of excellence in electronics R&D. The acquisition by Invacare has allowed Dynamic Controls to integrate itself into a global supply chain, providing a secure operating environment and significant global market opportunities.

As the Invacare centre of excellence for electronics R&D and innovation, Dynamic Controls has the opportunity to develop innovative new products, expanding up the value chain. The company is now developing an innovative new technology platform across the Invacare group, including sophisticated medical sensor devices that can monitor the health of both hardware and people using it.

The company is established in the US, UK & Europe, and Asia, and is now looking at growth markets including the emerging domestic market in China.

Dynamic Controls typically partners with power wheelchair brand owners and manufacturers in core markets who then implement Dynamic Controls' systems as part of their finished products.

Case study BCS Group

A firm that has benefitted from productivity and innovation improvements following ODI

BCS Group is a New Zealand-based materials handling integrator specialising in designing, building, operating and maintaining baggage handling systems for airports and parcel handling systems for the logistics market.

Since its inception 20 years ago, the company has established a significant presence outside of New Zealand. Headquartered in Auckland, BCS now has permanent sales and service offices in Sydney, Melbourne, Brisbane, Kuala Lumpur, Singapore, and elsewhere. BCS employs approximately 450 staff. BCS supplies and maintains airport automated baggage handling systems (including self-service check-in systems), warehouse and logistics systems, industrial automation, logistic support, and specialist 3D supervisory controls and diagnostic software.

Increasingly BCS have looked to establish international subsidiary companies as hubs for a geographical region. The company has established a project office and factory in Kuala Lumpur and a sales office in Singapore. This is a key part of their Asian growth strategy and important for improving productivity and winning business in that region. With numerous export awards to its name, BCS Group has continued to focus its business model on providing solutions which exceed customer expectations. The international materials handling market is worth over $3 billion per year, so BCS Group has had to learn to focus its marketing efforts on select key markets rather than having a scatter-gun approach.

BCS Group's international expansion and growth has benefited significantly from the support received from the New Zealand Government including from Callaghan Innovation who have supported the development of their suite of leading edge software products, New Zealand Trade and Enterprise for market development support, New Zealand Export Credit Office with project guarantees, and the advice and input of New Zealand Ambassadors and High Commissioners within the countries in which they operate.

In December 2014 Daifuku Co Ltd acquired an 80% stake in BCS. This will allow BCS to continue its growth plan and improve access to new markets through Daifuku's global network.

Summary: Foreign investment and productivity and innovation

- FDI can have a direct impact on productivity and innovation when investing firms transfer technology, knowledge and skills.
- FDI can also lead to indirect productivity improvements through the investee firms' interactions with other firms in the economy.
- ODI can allow productivity improvements through exposure of firms to new technologies overseas and to skills and new management techniques.
- ODI also brings a firm closer to its market and stronger relations with clients may trigger the development of new products and services.

Impact of Foreign Investment on:

Exporting and Firm Internationalisation

In today's interconnected, globalised world, inward and outward investment, and imports and exports are all highly interdependent. A firm that sits within a complex global supply chain may have foreign investment and imports as inputs to its business, and may in turn export and run operations overseas.

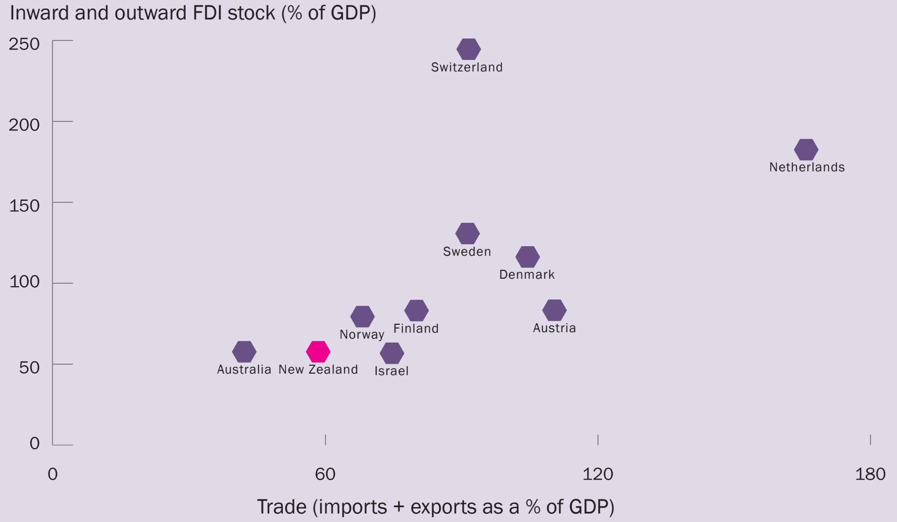
Small, open advanced economies tend to have high trade intensity and high levels of foreign investment stock as a proportion of GDP. This is shown in Figure 2. New Zealand sits closer to the bottom left hand corner of the chart, and has lower trade and foreign investment intensities than many of our comparator countries.

FDI can help lift New Zealand's export performance by providing capital to help exporting firms grow and by connecting our firms with international markets and distribution networks. New Zealand firms that are recipients of foreign investment are among our most productive firms and some of those most likely to be engaged in exporting.[25]

FDI brings connections to international markets which can be vital to exporters. In fact, evidence suggests that inward foreign investment can act as a trigger to exporting. Recent research on the internationalisation of New Zealand firms found that FDI could be crucial in entering new export markets.[26] In some cases, FDI led to additional export markets for New Zealand subsidiaries and the benefit of access to greater resources to enable them to expand.

New Zealand has lower trade and foreign investment intensities than many of our comparative countries.

Figure 2: Trade and foreign investment as a proportion of GDP among selected countries



Source: OECD, Statistics New Zealand, 2013

ODI can directly support exporting, with firms placing marketing and distribution functions offshore in their target markets, and may also indirectly support exporting by lowering production costs. Wherever it occurs in the firm's value chain, be it production, distribution or marketing, ODI is found in general to act as a complement to, rather than a substitute for, exporting. New Zealand firms which engage in ODI tend to out-perform other firms in terms of their export propensity.[27] This is consistent with the experience of other countries.[28]

Another benefit of ODI is that it can be used by firms to manage exchange rate pressures. While a high exchange rate can increase costs for exporters, it also makes it cheaper for New Zealand firms to acquire assets abroad. This presents an alternative way of connecting to markets than exporting. Some New Zealand firms have reported using ODI to manage the pressure created by high exchange rate levels.[29]

[25] Saravanaperumal, M., & Charteris, G. (2010). New Zealand Commercial Services Exporters: First Evidence from the Prototype Longitudinal Business Database. Wellington: Ministry of Foreign Affairs and Trade.
[26] Deakins et al (2013), "Understanding Internationalisation Behaviour: Report prepared for Ministry of Business, Innovation and Employment, Ministry of Foreign Affairs and Trade and the Treasury."
[27] Ministry of Economic Development (2011), "Evaluation of NZTE Investment Support Activities"; NZIER (2009) "Outward Direct Investment by New Zealand land-based firms: Motives, strategies and consequences."
[28] The Conference Board of Canada (2012) "Canadian Outward Foreign Direct Investment and its Implications for the Canadian Economy."
[29] Deakins et al (2013), "Understanding Internationalisation Behaviour: Report prepared for Ministry of Business, Innovation and Employment, Ministry of Foreign Affairs and Trade and the Treasury."

Spot light Global Value Chains

Trade in intermediate inputs is the new dominant trend of international commerce, with intermediate inputs accounting for about 60% of OECD trade in goods and close to three quarters of trade in services. Since 1990, the imported content of exports in most economies has increased by 30-50%.

To improve our understanding of New Zealand's trade performance, we increasingly need to focus on where economic value is added to a product in a supply chain by thinking in terms of Global Value Chains (GVCs). Research by the OECD shows that participation in GVCs is closely correlated with levels of FDI.[30]

New Zealand is less integrated into both upstream GVCs (imports going into our exports) and downstream GVCs (the extent to which our exports are included in another country's exports) than the average for both OECD and non-OECD countries. In 2009 approximately 18.4% of the value of our exports was made up of foreign (imported) 'value-add' compared with the OECD and non-OECD averages of 29% and 26% respectively. About 15.7% of our 2009 exports were used in other countries' exports.

While this is increasing, we again trail both the OECD and non-OECD average (22% and 24% respectively).

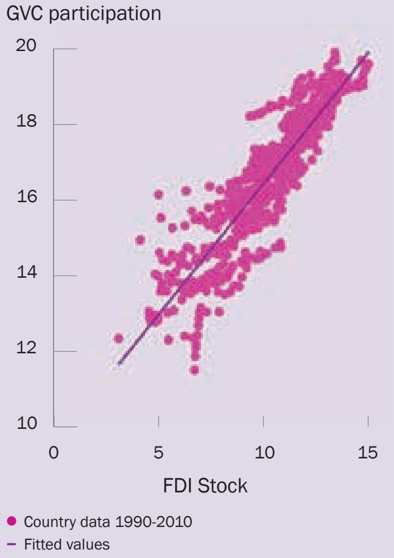
New Zealand's significant upstream GVC suppliers are Australia, the United States, China, Japan and Germany (in descending order). In recent years, the significance of the United States as a supplier has declined markedly, while Australia has remained relatively static and China has grown significantly.

New Zealand's major downstream GVC trading partners are Australia, China, Ireland, Japan, Germany and the United States. Our downstream GVC participation has remained relatively static – although we are seeing some greater downstream GVC participation in relation to Europe.

The likely reasons for New Zealand's lower participation in GVCs are our distance from markets, our export profile (a heavy weighting towards food and beverage exports, where value is attached to the very fact that the product is "New Zealand made") and limited levels of FDI and ODI in our export sector.

Levels of FDI are closely linked to participation in global value chains

Chart 8: Global value chain participation and FDI stocks in developed countries



Source: UNCTAD, World Investment Report 2013 – GVCs: Investment and Trade for Development

Case study Mobilis

Using FDI to support growth into international markets

Youtap, established in 2007, is rapidly becoming a world leader in mobile payments and financial services. Youtap technologies bridge the gap between mobile devices and payment technologies at the point of sale, thereby enabling banks, financial service providers, mobile network operators and existing payment technology providers to connect with their customers anywhere in the world.

Youtap is recognized as a strategic partner by VeriFone Systems, the leading global provider of point of sale transaction devices that are used daily by millions of customers to make purchases. In November 2011, VeriFone acquired 19.4% of Mobilis Networks, enabling the company to market its products via VeriFone Mobile Money – a VeriFone joint venture with access to VeriFone's channels in over 110 countries globally.

Youtap payment processing and aggregation platforms enable a mixture of cloud based and device based debit, credit, prepaid and commercial payments, utilizing the latest in biometric and contactless technologies.

Youtap's headquarters is in Auckland, with international offices in the Singapore, Kenya and the United States. The company has been recognized with a number of awards including winning the Red Herring 2013 Top 100 Award for Asia, one of the most acclaimed distinctions in

the technology industry, and winning the award for "Consumer Service" innovation at the 2013 Global Telecoms Business Awards in London.

[30] OECD, WTO, UNCTAD (2013) "Implications of Global Value Chains for Trade, Investment, Development and Jobs".

Case study Fonterra

ODI as a complement to exports

Fonterra is New Zealand's largest exporter and a good example of the importance of ODI for growing a competitive multi-national business. A major area of ODI for Fonterra is producing milk offshore to complement its New Zealand milk production and ensure security of supply. Producing milk offshore allows Fonterra to overcome constraints to growth in production. Fonterra has developed quality local supplies of fresh milk in key markets. In 2014 it sourced 1.5 billion litres of milk in Australia and 0.5 billion litres in Latin America. The Co-op is targeting 30 billion litres of milk from five or six key markets by the year 2025, this includes milk pools in China and Europe.

Fonterra produces milk in China using New Zealand technology. Each Fonterra farming hub in China is comprised of five individual farms of around 3,000 cows. Today, Fonterra operates a hub of five farms in Hebei Province which milks 15,000 cows and produces 150 million litres of quality milk each year. The Co-operative is also constructing a second farming hub, located at Ying County, Shanxi Province. This hub will also comprise five 3000-cow farms. Fonterra aims to establish several dairy farming hubs and process up to a billion litres of milk for Chinese consumers by 2025. While Fonterra does not have to fully own the farms and factories, it aims to be hands-on with management control when it comes to quality and safety.

The other major area of ODI for Fonterra is in developing and establishing its consumer brands overseas. These businesses now have strong positions in Australia, Asia and Latin America and, along with its New Zealand consumer businesses, contribute around half of Fonterra's profit. Fonterra's strategy is to sell more branded nutrition to consumers and grow sales volumes by pushing into new markets with new products. They aim to protect and build on leadership positions in Australia-New Zealand and invest in the key emerging markets in Asia, Latin America, the Middle East and North Africa.

Case study BEP Marine

FDI and firm internationalisation

BEP Marine evolved from the auto electrical company BE Pratt Ltd in the late 1970s. The company specialised in electrical installations for boat manufacturers in the New Zealand market and saw the need for custom-designed marine electrical products.

In 2005 BEP Marine was purchased by Actuant Corporation: a $1.4 billion turnover per year, US-based company. The Actuant businesses specialize in niche markets, including branded hydraulics, electrical tools and supplies; specialized products and services for energy markets; and highly engineered position and motion control systems.

In October 2013, Actuant sold its Powerproducts division including BEP Marine to Sentinel Capital Partners for US$258 million. Sentinel Capital Partners is a private equity firm that invests in management buy-outs and divestments. BEP Marine along with Marinco, Mastervolt, Ancor, Blue Sea Systems, ProMariner and Guest are now operating companies or brands within the Powerproducts division.

Today, BEP Marine continues to grow and expand its product range at an ever-increasing pace. BEP Marine is now regarded as a market leader in the marine electrical accessories field. It is also an integral part of Power Products marine and Mobile businesses, which also include Marinco, which makes marine shore-power and electrical products; and Mastervolt, which makes power products, including batteries, battery chargers, inverters, monitors and integrated systems. BEP is the Asia Pacific hub for the brands within the Power Products portfolio and houses one of three Power Products R&D teams. The Auckland team has 58 FTEs with 12 full-time FTEs in R&D and a further two part-time in the manufacturing division. They manufacture a significant proportion of their BEP product range in New Zealand.

Summary: Foreign investment and firm internationalisation

- Firms with FDI are among our most productive firms and some of those most likely to be engaged in exporting.
- FDI brings with it connections to international markets which can be vital to exporters.
- ODI can directly support exporting, with firms placing marketing and distribution functions offshore.
- ODI may also indirectly support exporting by lowering production costs.
- ODI is found in general to act as a complement to, rather than a substitute for, exporting.

Balancing National Interests

Foreign ownership of land

New Zealand's overseas investment screening regime balance's welcoming foreign investment to grow the New Zealand economy with other national concerns. The screening regime is most restrictive with regard to foreign investment in land and fishing quota. The Overseas Investment Act 2005 specifies a range of land types and corresponding area thresholds that are deemed to be sensitive land. For example, all non-urban land over 5 hectares is sensitive land. Generally, consent can only be granted to foreign investments in sensitive land if the investment will or is likely to benefit New Zealand. In all cases, conditions are imposed on foreign investors. These conditions seek to ensure that benefits that will or are likely to result from the investment will in fact occur. Some conditions are imposed to maintain usage rights provided by the previous owner, such as walking access. Other conditions can go well above what a domestic investor may be required to do. Some examples of the conditions imposed are:

- Requirements to undertake capital development expenditure that is identified in a business plan provided in support of an application for consent.
- Agreement to grant a walkway easement to provide public access over the land.
- Undertaking wilding pine and noxious plant control, or mitigating fertilizer run-off by undertaking wetland plantings or fencing off rivers.

Foreign owners of land, like domestic owners, are subject to laws that help ensure environmental standards are maintained for future generations, and unlike other assets, land cannot be moved offshore.

Foreign investment in housing

Foreign investment in housing is not generally screened in New Zealand. Recent changes to require off-shore persons to provide an IRD number and Tax Identification Number where they are tax resident in another country when purchasing property will provide some aggregate data on foreign investment in housing.

Many factors influence real estate prices. Low interest rates have meant that finance has been more affordable, increasing the demand for homes and rising house prices. Changing family dynamics and internal migration have contributed to increased demand for housing in some parts of the country. The cost of supplying new properties has also been a factor, as building and land costs have increased.

Housing affordability is a high priority for the Government and work is underway focusing on increasing housing supply. The focus is on increasing land supply and development capacity through reform of the Resource Management Act and related processes. Other initiatives include working with Auckland Council to identify and remove infrastructure bottlenecks and to identify Crown land that could be redeveloped to increase the supply of social and other housing.

Profits going offshore

An overseas owner may repatriate a portion of the returns earned from their investment back to their home country. This outflow of funds can raise concerns on the grounds that the profits may have been retained and reinvested in New Zealand if the firm was locally owned. However, this argument has a weak economic basis. When an asset is sold, the sale price reflects the value of the expected future profits, and this capital can be recycled into other productive investments in the economy. FDI also provides an exit opportunity for entrepreneurs who may not have the resources or the desire to continue to grow their business beyond a certain point. The ability to sell all or part of the business to a foreign investor enables entrepreneurs to gain the greatest possible return from their investments. Not only does this reward entrepreneurship, it enables entrepreneurs to begin new enterprises in New Zealand, adding to our angel and venture capital networks. A significant proportion of the income on foreign investment every year is also reinvested in New Zealand and when New Zealand firms engage in investments offshore, then the profits from those investments flow back into New Zealand.[31]

Hollowing out and loss of jobs

Occasionally, a transition to foreign ownership leads to part or all of a firm's activity being moved offshore, resulting in lower economic activity in New Zealand. When investment is motivated by acquisition of intellectual property, there is a risk that following this purchase foreign owners have less reason to maintain operations in New Zealand. However, this is most often not the case and shifting operations offshore is not exclusive to foreign-owned firms. Research shows that between 1996 and 2006, output and employment expanded in firms following foreign investment, and that foreign-acquired firms were no more likely to cease employing in New Zealand than domestic firms.[32] In some cases, relocation of a part of a firms' activity is counteracted

[31] For example, in the year ended March 2013, 52% of FDI earnings were reinvested in the New Zealand economy and 45% of ODI income was returned to New Zealand in the form of dividends. Statistics New Zealand (2013), Balance of Payments and International Investment Position.

by an increase in employment in the parts of the firm that remain onshore, and if the firm is growing, the average quality of the jobs remaining onshore may increase. This is because the R&D and management functions tend to be the most "sticky" in the home economy, as they rely on the local workforce. Connections to New Zealand and the lifestyle that our country offers are factors which help to hold businesses here, as are networks around a firm's activities.[33]

Foreign investors have different and non-commercial motivations

There is a possibility that foreign investors could have motives that jeopardise New Zealand's national interest. This could include issues of national security, or the impact on competition in the market.

However, examples of this are few and far between. When this is the case, the question of whether New Zealand's strategic or security interests are or will be enhanced is a consideration within New Zealand's overseas investment screening regime.

New Zealand's domestic regulatory environment provides further constraints on foreign investment by ensuring all firms operate within bounds that protect public welfare. Appropriately, these framework policies do not discriminate between domestic and foreign investors, as the risks they address are common to both foreign- and domestic-owned firms. For example, New Zealand's competition regime ensures consumers are treated fairly, our labour laws uphold workers' rights and our resource management system protects the environment.

[32] Fabling, Richard & Lynda Sanderson (2013) "Foreign acquisition and the performance of New Zealand firms", New Zealand Economic Papers.
[33] Sweet and Nash (2007), "Firms' Decisions on the Location of Economic Activity – A Survey," Firecone and Zusammen.

New Zealand's Approach to Foreign Investment

The New Zealand government is focused on increasing foreign investment in New Zealand by providing an open, attractive, and certain environment for international investors. This is reflected in the following areas of government activity:

- ensuring that our basic economic policy settings encourage productive investment,
- promoting openness to international trade and investment through international agreements, and
- targeted investment promotion and facilitation where it has the greatest benefits for the New Zealand economy.

New Zealand's overseas investment screening regime ensures community concerns are addressed and our sensitive assets are appropriately safeguarded.

Framework policies: getting the basics right

More important than any policy specifically targeting foreign investment is getting the basic framework right for sustainable economic development. Examples of critical framework policies include the provision of infrastructure, raising education and skill levels and promoting a stable macroeconomic environment. The Government's Business Growth Agenda is progressing policy reforms that will help create a more productive and competitive economy across six key areas: export markets, innovation, infrastructure, skilled and safe workplaces, natural resources, and capital.

These framework policies help to maximise the benefits of FDI to New Zealand because they simultaneously increase New Zealand's attractiveness as a destination for FDI and raise the capacity of New Zealand firms to receive and benefit from investment.

IIAs: promoting openness to international investment

International Investment Agreements (IIAs), including bilateral investment treaties and investment chapters in free trade agreements play a positive and reinforcing role in facilitating investment between economies. They are a common feature of the international trade and investment landscape establishing a framework of disciplines and rules governing the market entry and protection of investments and investors. Almost all countries have some form of IIA obligations. International evidence, including from the OECD, suggests that comprehensive and ambitious IIAs which provide guarantees with respect to the market entry of investments correlate to increased international investment flows.

While the scope and content of these agreements can vary, they generally include disciplines providing for the non-discrimination of investors and their investments, prohibiting the imposition of certain distortive investment requirements, and obligations designed to protect investors once an investment has been made, such as undertakings to provide 'fair and equitable treatment' or protections from expropriation. These protections are nothing new. Many reflect customary international law or replicate obligations that have been in place for many years in respect to goods and services trade.

Overseas Investment Screening: protecting New Zealand's sensitive assets

Overseas investment in sensitive assets can raise a range of community concerns. New Zealand's overseas investment screening regime provides oversight of investments in sensitive assets to ensure that these concerns are addressed.

New Zealand's overseas investment screening regime is set out in the Overseas Investment Act 2005 (OIA) and sections 56 to 58B of the Fisheries Act 1996 (Fisheries Act). The purpose of the OIA and the overseas investment fishing provisions in the Fisheries Act is to acknowledge that it is a privilege for overseas persons to own or control sensitive New Zealand assets by:

- requiring overseas investments in those assets, before being made, to meet criteria for consent, and
- imposing conditions on those overseas investments.

Sensitive New Zealand assets fall into three categories:

- sensitive land, for example non-urban land over 5 hectares, certain specified islands, foreshore or seabed, reserves and historic areas
- significant business assets of $100 million or more, and
- fishing quota.

The criteria that must be met before consent is granted differs according to the category of investment:

- for all categories, the decision maker must be satisfied that the investor has business experience and acumen, financial commitment to the investment, is of good character and is not a person that would be barred from immigrating to New Zealand. These four criteria are collectively known as "the investor test".

- for sensitive land, the decision maker must also be satisfied that the investment will or is likely to be of benefit to New Zealand. If the land proposed to be acquired is non-urban land of more than 5 hectares, the benefit must be substantial and identifiable.
- for fishing quota, the decision maker must also be satisfied that the investment will or is likely to be in the national interest.

Benefits to New Zealand are assessed with regard to 21 factors set out in the OIA and the Overseas Investment Regulations 2005. National interest is assessed with regard to seven factors set out in the Fisheries Act. These tests have been further clarified following the Tiroa E (Crafar Farms) case. As a result of Tiroa E, the decision maker must apply a "counterfactual test" when assessing whether an overseas investment will, or is likely to benefit New Zealand. This test, which was described by the Court as a "with and without" test, requires a comparison of what is likely to happen with the investment, and what is likely to happen without the investment.

New Zealand's approach to free trade and international investment agreements preserves the flexibility to modify overseas investment screening criteria within the categories of sensitive assets set out in the OIA.

Many countries have moved away from formal screening of foreign investment altogether, although they continue to screen or review certain foreign investments on a case by case basis. That means that even though other economies may, de facto, be more restrictive than New Zealand, New Zealand is now ranked by the OECD's FDI Restrictiveness Index as the seventh most restrictive of the 56 economies included in the index.

Investment promotion and facilitation

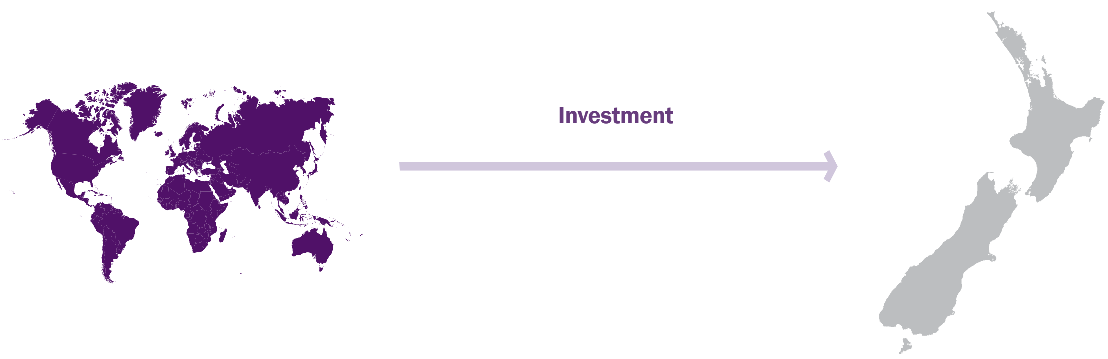
Lifting New Zealand's international investment performance requires a more concerted and better integrated New Zealand-wide effort that targets the attraction of high quality investment to New Zealand. A common set of priorities, goals and key actions are needed to support a step change in investment attraction efforts to enable the seamless facilitation of investment opportunities. We have developed an investment attraction strategy to focus government's efforts on actively seeking high quality international investment that maximises the benefits to the New Zealand economy. The Strategy has three thematic priorities:

- Attracting high-quality FDI in areas of competitiveness for New Zealand
- Attracting overseas investment in research and development, especially encouraging multi-national corporations to locate their R&D activities in New Zealand
- Expanding New Zealand's pool of smart capital by attracting individual investors and entrepreneurs to reside in New Zealand.

Within each of these themes, particular sectors and markets have been identified where we think we can attract investment that will have the biggest impact on the economy.

Targeting specific areas for investment enables us to maximise the benefits of FDI for the New Zealand economy, whether that is through better international connectedness (enhancing New Zealand's access to export markets, integrating with global value chains, linking with international knowledge networks), improved productivity (through new technologies, processes and know-how or improvements to the economic infrastructure that underpins growth), the creation of skilled jobs and investment in human capital, or through increased regional economic activity and competitiveness. Specifically targeting investment in research and development can kick-start new knowledge-intensive activities while leveraging complementary public investment in research and tertiary education infrastructure. Ensuring our efforts consider the unique soft skills that investor and entrepreneur migrants can bring to our economy is a key element of the Strategy.

It is critical that government and its regional partners work together on identifying priority areas for investment, then attracting and facilitating this investment, and providing effective after-investment services that encourage further follow-on investments. We have established the New Zealand Investment Attraction Taskforce to progress delivery of the Strategy. The Taskforce will help identify and package investment opportunities and match these opportunities to foreign investors. The Taskforce connects across government agencies and enables us to align activities and focus effort to those areas that are likely to make the biggest impact for our economy.



International Investment Agreements

Quality of access to foreign goods, services and investment markets (FTAs, WTO)
Double Tax Agreements

Investment promotion and facilitation

New Zealand Trade and Enterprise
New Zealand Export Credit Office

Overseas Investment Screening

Screening
- business assets
- sensitive land
- fishing quota

Sector specific restrictions
- air transport
- telecommunications

Domestic attractiveness

General business environment
- Legal /regulatory framework
- Skilled labour
- Infrastructure
- Tax

Macroeconomic stability
- Government saving (fiscal position)
- Private saving

Spot light

New Zealand's Approach to Investor-State Dispute Settlement

A prominent feature of most International Investment Agreements (IIAs) is the inclusion of investor-state dispute settlement (ISDS). ISDS provides a mechanism for foreign investors to take international arbitration against states if they consider the government has breached an investment obligation in an IIA. Some ask why these mechanisms are desirable.

New Zealand consistently ranks well in international surveys of ease of doing business, investment protection, transparency and corruption. In most cases it will be easier, less time consuming and more cost-effective for foreign investors to bring a claim in New Zealand courts rather than mount an ISDS case. But in many countries, including those where New Zealand investors are active, this situation does not exist. It is not uncommon for investors to encounter lengthy delays, bias in the judicial process, or systems that simply don't provide for effective remedies that are important to investors. ISDS ensures New Zealand investors do not need to rely solely on domestic courts in other countries (or government-to-government action) by providing an alternate transparent international forum where investors can seek to resolve significant disputes. This is of clear benefit to investors abroad. Such mechanisms have also served as important tools for governments to signal their commitment to protecting foreign investment.

Over the past 20 years, a number of claims have been made by investors under a variety of ISDS mechanisms. Some of these claims have incurred significant cost for governments, particularly where states have taken deliberate action that breaches IIA obligations. In a limited number of rare cases, some older ISDS models were found to lack sufficient protections for government, such as expropriation obligations that did not affirm – in the indirect expropriation context – a government's right to regulate.

New Zealand has closely monitored these developments and has adopted a prudent approach to ISDS which has taken account of the lessons learnt from years of jurisprudence. New Zealand's agreement with China in 2008 (our first FTA to include ISDS), along with subsequent FTAs with ASEAN and Malaysia, included a range of substantive and procedural mechanisms aimed at safeguarding the right of the Government to regulate and minimise the risks of successful arbitration claims being made against New Zealand. In order to address risks that a disgruntled investor could seek to use ISDS to bring illegitimate claims against the Government, New Zealand's model also includes provisions which safeguard the ability to regulate for legitimate public welfare purposes, discourage investors from bringing frivolous or unmeritorious claims (including by providing for the possibility of early dismissal and/or costs to be awarded to the government), and establish fair and transparent arbitration procedures.

This is a balanced approach which also informs New Zealand's approach to current FTA negotiations. It helps to promote an environment in offshore markets where New Zealand investors have the confidence to invest while protecting the Government's essential right to regulate at home.

Spot light

Investor and Entrepreneur Migration

Investor and entrepreneur migration provides a point of difference to other mechanisms for bringing investment into New Zealand. As well as supplying financial capital, individual investors and entrepreneurs bring in new ideas, entrepreneurial flair, overseas networks and business experience.

The more time an investor or entrepreneur spends in New Zealand or with New Zealand firms and business people, the more they develop local connections and networks, which increases the likelihood that New Zealand firms will benefit from their networks, knowledge and capabilities. Time in or with New Zealanders helps investors and entrepreneurs to understand the New Zealand investment environment and make more likely their investment in higher impact opportunities.

Since July 2009, New Zealand's investor and entrepreneur migrant policies have attracted over 1,600 international investors who have committed \$3.47 billion in investment with their residence applications. Application numbers have experienced rapid growth and trends indicate demand will continue to increase. We have the opportunity to align this interest with achieving a better impact on the New Zealand economy as a whole, through matching investor interest with investment opportunities and encouraging follow-on investment into higher impact opportunities.

We need to ensure we have an end-to-end approach, from the design of visa categories and the associated application and approval processes, through to migrant attraction programmes and, importantly, the work that is needed to leverage the presence of investor and entrepreneur migrants already located here.

Spot light

Foreign Investment in Auckland

Auckland is recognised for its food and beverage sector, high-value manufacturing, and as a centre for New Zealand's developing ICT industry. The region is New Zealand's largest and most populous, with 35 percent of the country's economy. Auckland is a global centre for trade and investment. Auckland is investing in infrastructure to accelerate its productivity. Its innovative, high-tech industries make it an attractive investment location.

Auckland has the heaviest concentration of the nation's financial services and manufacturing businesses, and is home to many head offices that manage marketing and supply chain functions for their national networks.

Sixty-six percent of New Zealand's top 200 companies and 31 percent of firms overall, as well as more than 600 international companies, are located in Auckland. Auckland has five tertiary institutions and four Crown Research Institutes (CRI).

Areas of opportunity

› **Dynamic ICT sector**
Auckland offers attractive opportunities to invest in its growing ICT and services sector and to take advantage of shared time zones with international markets. Many global ICT companies are choosing Auckland to service the Asia Pacific region.

› **Food manufacturing powerhouse**
Auckland is home to food and beverage manufacturers' head offices. The sector is well supported by national food technology institutions and a modern food pilot production facility. Investment will be required to meet increasing global demand.

› **High-value manufacturing hub**
Auckland is an attractive investment proposition for high-value manufacturers specialising in knowledge-intensive, low-volume production. It has a ready supply of innovative workers, high quality engineering research and access to advanced materials.

For more information

To provide feedback on this report, please email bgafeedback@mbie.govt.nz

For more information on the Business Growth Agenda see www.mbie.govt.nz/bga

www.nzte.govt.nz

- Advice for businesses on attracting investment and working with investors
- Connecting international investors with investment opportunities in New Zealand
- Services to lift businesses' capability for international growth

www.mfat.govt.nz

- In-market knowledge and support, including on behind-the-border barriers
- FTA negotiations and implementation
- NZ Inc Country and Regional Strategies coordination

www.linz.govt.nz

- Hosts the Overseas Investment Office (OIO), a regulatory unit that administers the New Zealand Government's overseas investment legislation
- The OIO assess applications for consent from overseas persons who want to invest in sensitive New Zealand assets

www.nzeco.govt.nz

- For financial guarantee products for New Zealand exporters and banks

www.mbie.govt.nz

- For policy information on the regulatory environment, including corporate and investment law

www.treasury.govt.nz

- For information on Government finances and Budget publications
- For information on the economy, including forecasts

newzealand.govt.nz