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Trends in FDI Movement of New Zealand Economy over the Last Two Decades: An Analysis

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Abstract **- Foreign Direct Investment has been the main source of capital for New Zealand economy during the last two decades. This paper analyses how FDI had changed the New Zealand economy over the years as a response to worldwide globalization. The study focuses on the background of the country's inflow and outflow of FDI, its implications to the current period and the reasons why the country had experience certain challenges. It also covers how the economy was able to overcome the challenges. The study found that New Zealand, being a small economy compared to the world, has overcome the globalized economic challenges by its efficient management and appropriate policy. Findings of the study might be of interest for researchers, policy makers and economists.**

Keywords: *Inflow, Foreign Direct Investment, Globalization, New Zealand, Outflow*

I. Introduction

Globalization is a process which has influenced the economy of all countries of the world. This process has been facilitating positively to providing an open economy by allowing free movement of goods, services and labour force across different countries around the world. It has also enhanced the economy of many countries across the world by eliminating or minimizing the barriers to trade and welcoming foreign investment that is beneficial to each nation (MSG, 2018).

Foreign Direct Investment (FDI) is the main phenomenon of globalization which generates the ability to transfer the goods and services of one country to another. This had strongly been supported by different nations since it provides benefit for both host country and home country. It not only brings capital but also allows host countries to have access to knowledge, skills and technology that was not available in those countries. In addition, it is strongly encouraged by most of the economies because when a country invests into another country in the form of FDI, it drives competition to domestic producers that pushes further for new industry. Finally, FDI has the power to increase the demand for skilled labor from all over the world (Economy, 2018).

New Zealand maintains an open market economy. The benefit on free flow of goods and services had strongly influence its economy. In fact, Foreign Direct Investment had been the source of capital for most of the growing firms in New Zealand. It strongly emphasized that FDI had raised productivity of firms and had widen the economy including the areas of technology, labor and wages (The Treasury, 2015).

The concept of the movement of FDI and its impact on New Zealand's economy raises some questions such as how the economy of this country has been benefited from this movement, whether the nation has been facing any challenges, and if so, how New Zealand's economy has been responding to those challenges. This study aims to answer these questions. In doing so, the paper discusses the background of FDI, its outflow and inflow and the current trend that is occurring. Finally, the paper highlights the challenges New Zealand has been facing in managing FDI and the possible recommendations to those challenges.

A good number of studies in the field of FDI and its impact on economy are available in the market. Some of them are Ma'm and et al. (2018); Baharum shah, A. and Almasaid, S.W. (2014); Chen, J., Azreen, S.M.Z. (2012); and Sulaiman, S. and et al (2018). They have analysed FDI from real world perspective and have made significant recommendation to the FDI movement. For example, Ma'm and et al. (2018) have analysed the relationship of economic development and investment of a country but didn't clarify whether the investment should be supplied from domestic or overseas sources. Similarly, Baharumshah, A. and Almasaid, S.W. (2014); Chen, J., Azreen, S.M.Z. (2012) and Sulaiman, S. and et al (2018) have focused their analysis on Malaysian economic growth and FDI movement. However, the issues such as the scale of impact of FDI depends on the nature of economy of a country. For example, New Zealand is a developed country while Malaysia is a developing country so the same or similar investment may have different outcome in the development process of two countries. Moreover, as the capital utilization capability of developed and developing countries is different, their challenges and opportunities regarding managing FDI are also different. These issues have not been addressed in these studies. This study aims to fill this gap.

II. Discussion and Analysis

New Zealand is one of the countries in the world which has, because of its size and nature, been greatly affected by Globalization. Its economy has been affected in many folds including production and consumption behaviour. In fact, the globalization has been a great source of innovation for their countries export and import behaviour. Its FDI was influenced by globalization in many ways. This change covers the areas such as technology, immigration, government policy and even the import and export of goods and services.

Apart from export and import, it is important to note that government policies are one of the factors affected by globalization and thus, affects foreign investments. Notable that these policies reflect in the previous trends in New Zealand's economic activities, particularly the capital injection in various sectors. FDI is a driver that allows the country to influence the trade, the movement of factors of production and compromising on problems the country experienced globally.

Furthermore, it is crucial to note that globalization does not only bring positive aspects on the nation's economy, but it also has certain downfall which makes a country experience certain challenge. Having these challenges make every nation like New Zealand to feel challenged and have the desire to improve the things that they currently have which drives foreign investment or the need to access products and services that is out of the scope of their country. Overall FDI still brings positive impact to host as well as home countries. Like many other countries, New Zealand is also a beneficiary from the inflow and outflow of FDI during last two decades.

Background of FDI inflow/outflow

New Zealand is a small country that has undergone changes due to globalization in the past 20 years. The country had experienced many changes during last two decades, but it was able to retain their efficient agricultural system which had been the direct recipient of many of their reforms achieved. According to Dunne (2010), the common product of New Zealand which had been existing since the European settlement in seventeenth century are meat, forest products, fruit and vegetables, fish, wool and dairy products. They are also exercising the preservation of hydroelectric power and reservation of natural gas.

Pritchard (2009) argued that one important thing to take note about New Zealand is that their economy has been a beneficiary of Uruguay Round and these benefits has greatly reflected in their many economic reforms. The government of New Zealand has been generous to investors of the country since they are exercising elimination of government subsidies, liberalization of country's import, free flow of exchange rates, they did not even exercise controls on aspects such as interest rates and wages. They limit the government's control over the economy to achieve investors. The country promotes and facilitates the market economy.

According to Bertram (2004), in 1997, a financial crisis in Asia had occurred region wide. This crisis which is still happening in present had greatly affect New Zealand economy. This financial crisis had resulted to unemployment of many New Zealand residents. Although the unemployment rate was also being affected by the economic reforms since 1991. This financial crisis has slowed the country until they were able to start recovering in 1991. This event had led to reduction of confidence of business investors and consumers to invest in New Zealand and it had negatively impacted on the country's business and retail as well.

Late 1994 to mid-1997, the government had established an appreciation of NZ dollar which had affected the export of New Zealand. This appreciation had been established to tighten the monetary policy of the country. One of the major effects of this monetary policy was that it had lost the country's access to US dollar through loosening of monetary condition in the year 1997. However, in the same year, Asian countries had paved their way to New Zealand government to be the source of the country's income through encouraging tourism, export of forestry and providing educational services for international students from Asia. The export of New Zealand dairy and meat products in 1998 had experience some difficulty but they were able to manage it by holding up to improvement of their manufactured products. Although Asian countries had been a great account, New Zealand is still working out on maintaining good access from U.S and European markets. (Smith, n.d.)

To have access to U.S. market, New Zealand offers them a good opportunity to invest and export in areas such as technology, forestry and finance. This had impact New Zealand by being acknowledged by the United States through the introduction of Trade and Investment Framework Agreement in 1992.

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According to Irvine (2018), one of the drivers of the New Zealand export market is their good relationship to Australia. The relationship between two countries has been driven by Closer Economic Relations or (CER) which have the objective of allowing free flow of goods and services. This CER has made 20 million people from a single market and have given opportunity to New Zealand to gain more exporters since 1999.

In 2004, New Zealand had reached its peak on the implementation of providing education to international students. It has been reported that the country had gain 2.7 million international students which had been good for New Zealand economy.

In 2005, the Overseas Investment Commission (OIC) of New Zealand was introduced to help the government promote investment of other countries for areas that they do not have competitive advantage. This policy had been the greatest source of New Zealand investors up to now (The World bank 2018).

The Relationship of New Zealand FDI to The World

The World Bank (2018) reported that the lowest value achieved by New Zealand outflow if translated in percentage of GDP is -7.87 which happened in the year 2000 and inflow was US$ -3.81 million which happened in the year 2003. The reason behind this fall on FDI inflow and outflow is the changes in employment law, income tax rate and it was the time when the Labour and Alliance Government took office.

Table 1.0 The New Zealand and World Inflow and Outflow FDI (Million US dollar)

	New Zealand		World	
Year	**Inflow**	**Outflow**	**Inflow**	**Outflow**
2017	$3,236.6	$486.0	$1,956,832.8	$1,915,471.4
2016	$1,934.9	-$900.5	$2,436,510.6	$2,052,120.7
2015	-$9.8	-$15.7	$2,408,223.8	$2,024,153.5
2014	$3,249.1	$1,422.4	$1,844,215.3	$1,727,153.8
2013	-$69.5	-$1,414.2	$2,137,569.1	$1,932,536.0
2012	$3,846.9	-$90.7	$2,117,908.5	$1,764,468.4
2011	$1,378.4	-$120.3	$2,290,061.2	$2,126,977.2
2010	$286.3	$1,033.3	$1,863,543.6	$1,751,684.5
2009	-$52.4	-$2,072.6	$1,373,076.3	$1,282,070.4
2008	$2,592.0	$839.3	$2,459,937.2	$2,596,811.1
2007	$4,335.5	$3,990.6	$3,110,941.4	$3,195,192.3
2006	$2,912.6	-$399.9	$2,160,455.5	$2,154,494.8
2005	$1,906.7	-$640.9	$1,546,419.2	$1,402,240.7
2004	$2,319.8	$853.7	$1,014,959.7	$1,197,479.6
2003	-$3,363.9	$645.4	$716,480.0	$725,227.2
2002	$2,848.6	$1,406.7	$744,140.7	$657,914.4
2001	$259.3	-$607.3	$796,273.5	$739,975.6
2000	-$1,507.8	-$4,140.8	$1,460,994.5	$1,404,339.7
1999	$1,145.7	$1,073.8	$961,898.4	$1,207,397.8
1998	$1,283.0	$401.4	$679,307.7	$781,256.0

Source: The World Bank, 2018

To analyse further, a scenario of FDI inflow- outflow in New Zealand during last two decades with respect to that of the world has been presented in Figure 1.0. It appears from the Table 1.0 that FDI have a contribution to the economy of New Zealand which had been a source of strength and which gives advantage to the country over the years. The table also shows that even though New Zealand had experienced certain deficit in some years over the past 20 years, they are still able to endure the fall.

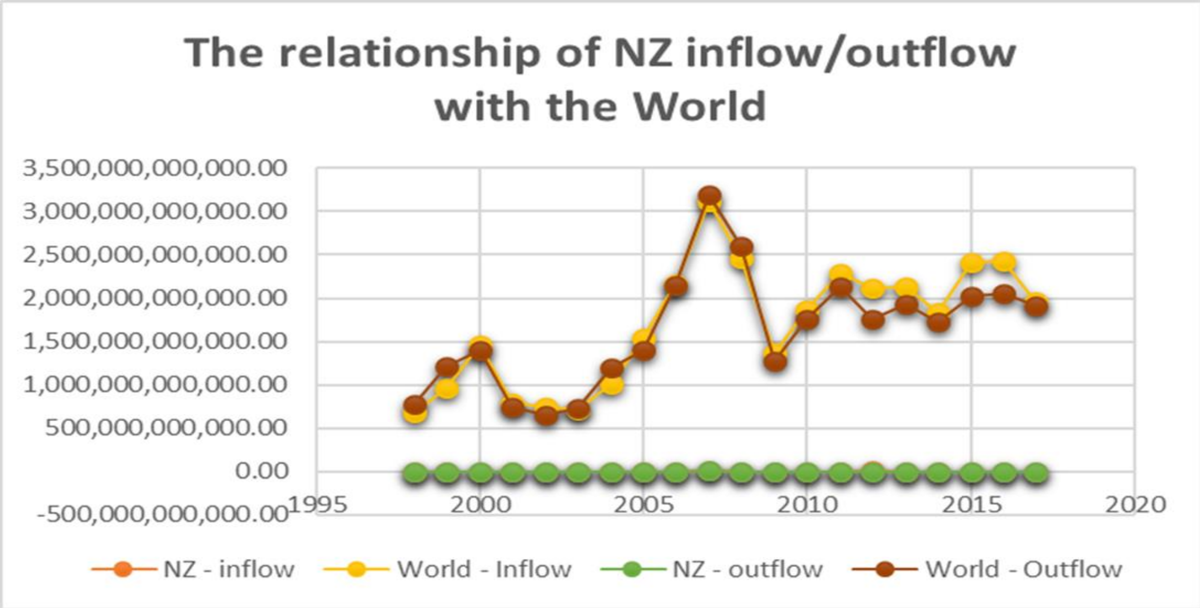

Fig. 1.0 The Relationship of New Zealand to World FDI (Figure in US$).
Source: The World Bank, 2018

On the contrary, Figure 1.0 shows that despite that, New Zealand had overcome the challenges and pitfalls that they had experienced, they still need to put more effort to develop and increase their inflow and outflow since the income of their FDI over the years a very little impact on the world investment. Inflow of New Zealand has a moderate relationship to the world inflow. On the other hand, outflow of New Zealand has a weak relationship with the world outflow. Still, we can see when analyse the data, the relationship of New Zealand to the world FDI is a flat line. It means that the size of New Zealand economy is so small compared to that of the world, it has very little impact on the world economy. However, the reality is that the New Zealand economy has been playing a significant role in the world economy where the importance of FDI movement can hardly be ignored.

Trends in FDI Change

Overseas Investment Office provided and analyzed the current status of New Zealand's foreign investment and based on their report, the economy of New Zealand is rapidly and strongly growing which makes it an attractive country to invest. In fact, according to Makhlouf (2017), New Zealand has been one of the countries in the world that proved that size of the economy is not a matter if they know how to manage, invest and improve their capability. This means that throughout the years even if the country had experience certain challenges, they are still able to achieve a good economic condition. The common trends in FDI change in New Zealand is discussed below.

First, according to the report released by NZIER in 2017, the most important source of FDI for New Zealand is Canada which was due to the sale of the portfolio of property of 18 assets which was occurred at AMP Capital Property to Public Sector Pension Investment Board (PSP) and the impact of the investment in Kaingaroa Timberlands Limited that had led to increase in PSP's investment. The second largest source of FDI is United States followed by Australia, China and Singapore respectively.

Second, in 2015, Singapore had obtained 20% of the FDI in New Zealand which was considered the largest source of FDI in that year. This investment had led to an agreement to enhance the relationship of both countries (New Zealand and Singapore), to enhance the partnership in some other areas such as trade and economics, security, technology and innovation (Wai & Dixon, 2016).

Third, Investors of New Zealand comes from different sectors but in an evaluation conducted by KMPG, Asian countries had less focus on the investment to dairy products while Australia and United States have more appreciation on these products that could be observed on the maturity of their country's economy (NZIER, 2017).

In relation to the investment of Asian countries, Japan and China is considered as the most constant investor of New Zealand. In fact, it has been reported that China's investment had reached more than $1.9 billion in 2015.

Fourth, it is important to note that dairy, forestry, and the processing of milk which is a part of agri-business sector, is still New Zealand's important area for investment. Although milk processing is experiencing certain difficulty due to price increase of dairy products, the government is looking for ways to overcome the problem. Also, it is important to note that the exportation of wine had greatly contributed to New Zealand's FDI but had been discretely reported due to confidentiality of concerned parties.

Finally, according to Ballingall (2016), the most controversial trend of FDI in New Zealand is the acquiring of land. Based on the report provided in 2013 to 2015, United States had the largest percentage of land acquisition which fall to 40%, followed by China which is 11% and lastly Hong Kong which is 7%. Based on this report, this data was based on forestry transaction.

In addition to acquisition of land, in 2018, the labour party of New Zealand had implemented changes in Overseas Investment Act. The reason behind this is because based on the report conducted in 2018, most of the house owners of New Zealand are foreigners. Specifically, in Auckland, 7.3% of buyers are non-resident or citizen which had increased 4.1% for a single year, from 2017 to 2018. It also showed that the largest buyer of New Zealand property came from China and Australia. The change in policy made certain difficulty for foreigners to acquire property in New Zealand.

DFI Intensity Index

DFI intensity index helps to compute intensity of DFI in terms of inflow and outflow in a particular economy that reflects the DFI expansion potential in New Zealand and the world as a whole. Actually, this index was first used by K. Kojima (Kojima, 1964). This index measures the share of one country's DFI with other country as a proportion of the latter's share of world may also be used the stated formula to calculate the DFI Intensity Index:
Formula of the Export Intensity Index (Iij)

$$\mathrm{XIIij} = \frac{\mathrm{Xij}}{\mathrm{Xi}} / \frac{\mathrm{Mj}}{\mathrm{Mw} - \mathrm{Mi}}$$

Where:
Xij is country i's DFI outflow to country j,
Xi is the total outflow of country i'
Mj is total DFI inflow of country "j"
Mi is country i's total inflow
Mw is total world inflow
On the other hand, the formula of inflow Intensity Index

$$\mathrm{IIIij} = \frac{\mathrm{Mij}}{\mathrm{Mi}} / \frac{\mathrm{Xj}}{\mathrm{Xw} - \mathrm{Xi}}$$

Where
Mij is country i's inflow to country j,
Mi is the total inflow of country " i "
Xj is total outflow of country "j"
Xi is country 'i's total outflow
Xw is total world outflow

Here, we considered: country i is New Zealand and j is the world.

According to DFI inflow outflow intensity index, the average amount of this index is equal to one, which indicates index value greater than one refers high intensity of DFI movement. On the other hand, value closer to zero indicates weaken DFI movement intensity.

It appears from the FDI intensity equation that in New Zealand the amount of FDI inflow is higher than that of outflow during the last two decades. Also, when compared the movement of FDI in New Zealand to the world economy, in respect to inflow and outflow, the role of FDI movement is insignificant.

To see the relationship between inflow and outflow FDI further, we have analyzed the relationship of inflow and outflow of the world with respect to New Zealand by using Pearson correlation. We have found that the correlation of outflow FDI from New Zealand to the world in the past 20 years is 0.28 which is much weaker than the New Zealand inflow that is 0.44. in both cases, the level of significance is .05.

Current Challenges and Implications

New Zealand recognize that Foreign Direct Investment and Globalization had greatly influenced the country's economy. Below are the current issues and challenges that New Zealand has been facing to manage its FDI and its implication to the country's economy.

a) According to Kennel (2018), economists believes that even though the New Zealand had improved and had been strong through the years, the country is not dependent on the capital from offshore to fund the domestic savings in case they would experience a downfall.
b) New Zealand recognized and celebrates the country's acceptance to free trade across other countries, but they believe that it should not end there since the country is still facing capital xenophobia or the fear of allowing foreigners to invest in the country. This was illustrated by the country's regulatory regime that could be considered as expensive for international investors. This regime also explains the country's high cost of living in New Zealand (Girlie & Davie, 2010).
c) Report on Foreign Direct Investment strongly encourage that the law of New Zealand should avoid discrimination of foreign and domestic investors which was brought by the policy implemented by Overseas Investment Act. They are encouraging the government to abolish this establishment and the screening regime for New Zealand resident's convenience to face foreign investors.
d) New Zealand government encourages foreign investment, but they do not offer special policy for them. This means that foreign investors are undergoing legal and regulatory policies which is not different from the domestic investors. This process is seen by economies as a gap since it makes a foreign investor less attracted to investing in New Zealand.
e) The Overseas Investment Amendment of New Zealand had recognized and implement a law that prohibits non-residents to buy home. This is because they wanted to avoid the fact that most of the home owners of New Zealand are non-citizens. In fact, they have observed that there is a larger percentage of non-resident owner than Kiwis. This makes Kiwis pay to overseas landlords or house owners.
f) According to Vaughan (2018), Auckland Council is experiencing infrastructure deficit on areas covering public transportation, road, water and housing which is amounting to ten billion dollars. The reason behind this are because of the rapid growth of New Zealand population in the previous years and because the Auckland council was not able to provide sufficient capital that resulted to underinvestment. This challenge is declared as nationwide enormous challenge since without the investment for the project, they cannot begin doing their plans for the public utilities of New Zealand. They are currently looking for private sectors to provide and help them on the financial investment needed to continue the government projects. But the government also have a fear of encouraging revenue stream that could occur on the attached asset on finance borrowing.

III. Conclusion and Recommendation

Globalization had influenced a lot of economy of different countries in the past 20 years including New Zealand. Although New Zealand it is a small country, its economy was able to manage the changes that have occurred and was able to maintain a competitive economy by the help of their Foreign Direct Investment and its inflow and outflow. The main product of New Zealand lies on their agricultural system which they had been developing since the European settlement in the country. It is also important to note that New Zealand had found a way to gain income from Asian countries by encouraging tourism, exporting of services and offering education. The focus of the country is to have a good relationship with countries such as U.S and Australia.

The trend in New Zealand economy is that it is a country that has an impressive economy because of their investors. The current investors of New Zealand include Canada, Singapore, and China. This investor has been consistent with the country's interest since the implementation of Overseas Investment Office. The growth of overseas investor had made New Zealand develop and change the policy on purchasing house and other properties. Finally, although New Zealand has a good economy, they are still facing some challenges that is related to foreign investment. These challenges include lack of domestic savings in case of economic crisis, the fear of being monopolized by international establishment, huge discrimination on foreign investors and lack of fund to cover some of the government projects.

The experience of New Zealand through the years had greatly illustrated that their economy has the ability to overcome the changes brought by globalization. Although this is a fact, they still need to continuously make a way to change certain areas that may have impact on the economy positively. New Zealand should continue to promote immigration of people since this had been a good source of human and financial resources for the nation. In addition, the nation should find certain system that may also be beneficial to these immigrants so that they feel appreciated and not discriminated.

In area of property acquisitions, they must provide a policy that could let overseas investors acquire property that will not affect their citizens. For example, if a country wanted to acquire property in New Zealand to establish a firm, the government must have the understanding that the firm might be able to provide products that their country does not have comparative advantage.

Lastly, New Zealand must be able to retain and improve the export of their agricultural products to be known all over the world and to be recognized as the best source of products needed in this area. In this way, it will help the economy to increase employment and the GDP at the same time.

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