

## Why we need foreign investment

*Catherine Beard*

Working to promote New Zealand exports, I'm constantly reminded how interconnected our world is.

New Zealand exporters are part of the global integration trend that's enabling higher incomes here and around the world.

Foreign direct investment (FDI) is a great example of that integration. Foreign investment can enable the growth of businesses and jobs that wouldn't occur if reliant on domestic investment alone.

New Zealand has grown strongly since colonial days, with a base of foreign investment to develop early businesses and infrastructure like road and railway.

Today our exporters earn revenue from businesses that in many cases have been developed with the assistance of foreign investment. Businesses need to build scale and capability to be able to export, and this is often not achievable with domestic investment alone.

New Zealand has a relatively shallow capital base, so our businesses benefit greatly from being able to access foreign investment.

Most of that investment comes from our long-term trading partners – currently 52 percent comes from Australia, 8 percent from the US, 5 percent from the UK and around 0.7 percent from China.

In economic terms, FDI encourages efficiency by allowing resources to be directed to their most valuable use.

In practical terms, it allows businesses to introduce the new technology and techniques that keep them competitive.

And it produces lots of jobs – currently one in five New Zealanders works in a firm that has grown with the help of some foreign investment.

It's worth considering these benefits, given there seems to be some reluctance in the public mind about the place of FDI in New Zealand.

It can be easy for politicians to point to FDI and raise concerns about sovereignty, but often without mentioning the protective framework in New Zealand law that screens sensitive investment.

Also not mentioned is the power of foreign investment to keep interest rates down. By being connected and integrated with other economies, we escape the 'risk premium' associated with more restrictive, slower-growing economies.

Within the economy, the ability of FDI to grow and revitalise cities or industries is well understood.

In my home town of Wellington, we are watching the redevelopment of the landmark store Kirkcaldies & Stains with a \$20 million refit by the Australian-based, South African-owned retailer David Jones. This is the kind of investment that can have huge benefits for local economies.

What if we decided to restrict foreign investment?

The effects would be stifling. If we restricted FDI, our ability to grow and develop new businesses would be severely constrained. Our ability to forge free trade agreements and achieve significant export gains would be compromised. And we would lose our reputation as an even-handed, open economy engaged with the rest of the world.

All investments carry some risk, but foreign investment has been positive for New Zealand throughout our history, and can continue contributing to a strong economic future.

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