

Job creation: New Zealand

Abstract

In the past two decades New Zealand, a country of 4 million people, generated around 500,000 jobs. Between 1995 and 2009 the country was able to add new jobs at an annual rate of 0.9 percent. What is more, New Zealand ranked fifth in the Global Entrepreneurship Index that captures business formation processes in 71 world economies. The unemployment rate dropped from nearly 11 percent in 1991 to 4 percent in 2008. At the same time, the labor force participation rate of 70 percent was among the highest in the advanced world. These results are particularly impressive for a country that in the 1980s had one of the most rigid labor markets in the OECD. How has New Zealand generated these labor market outcomes? First, there was a dramatic change in the regulation that allowed for much greater flexibility in the labor market. In the 1980s the market was heavily regulated, with compulsory union membership and wage setting in the majority of industries. A change came in 1991 when the Employment Contracts Act was implemented. New rules encompassed deregulation of employment contracting and the abolition of many union privileges. Incentives were also put in place for employers and employees to negotiate contracts at an enterprise level. Although the Employment Relations Act in 2000 and additional amendments in 2004 limited the flexibility of the system, employment regulations are still much improved in comparison to the 1980s; the number of strikes and lockouts went down from 172 in 1988 to 31 in 2007. Reforms of the labor market in the beginning of 1990s were also part of broader liberalization efforts to encourage foreign direct investment. The opening of New Zealand's economy accelerated the pace of the employment growth between 1992 and 1996 that in some quarters surpassed 5 percent. Countries looking to create jobs should look to New Zealand for guidance on how injections of labor market liberalization can lead to large payoffs in terms of employment creation.

Growing employment can fuel economic growth and improve the well-being of citizens. Since the early 1990s, New Zealand, with a population of 4 million, has generated around 500,000 jobs.¹ New Zealand ranks fifth in the Global Entrepreneurship Index that captures business formation processes in 71 world economies (Acs and Szerb 2010). By contrast, in the 1980s the country had one of the most rigid labor markets in OECD. Although there are still some hurdles ahead, New Zealand's experience in transforming its economy could provide some practical insights for other countries.

An island of opportunity

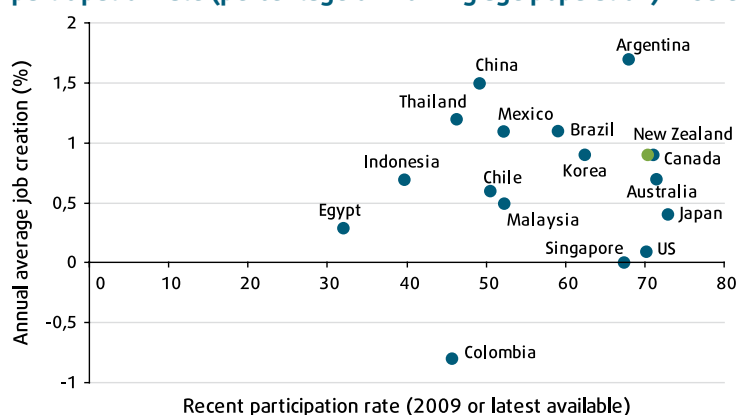
For an advanced economy, New Zealand has been quite successful in generating employment. Between 1995 and 2009 the country was able to add new jobs at an annual rate of 0.9 percent (figure 24). The unemployment rate dropped from nearly 11 percent in 1991 to 4 percent in 2008. The recent labor force participation rate of 70.3 percent of working age population was among the highest in the advanced world.² Most new jobs were created in professional services as well as health care and social assistance, while manufacturing's share in total employment shrunk (table 3, in the in appendix). New Zealanders work on average longer than their OECD counterparts, as the effective age of labor-market exit is 67 years for men and 65 for women (in comparison to the OECD averages of 63.6 and 62.4, respectively).



How to create jobs

How was New Zealand able to generate employment? First, there was a dramatic change in regulations, allowing for much greater flexibility on the labor market. In the 1980s the market was heavily regulated with compulsory union membership and wage setting in the majority of industries. The Employment Contracts Act implemented in 1991 deregulated employment contracting and abolished many union privileges. Incentives were also put in place for employers and employees to negotiate contracts at an enterprise level. Although the Employment Relations Act in 2000 and additional amendments in 2004 limited the flexibility of the system, employment regulations are still much improved in comparison to the 1980s: the number of strikes and lockouts went down from 172 in 1988 to 31 in 2007.

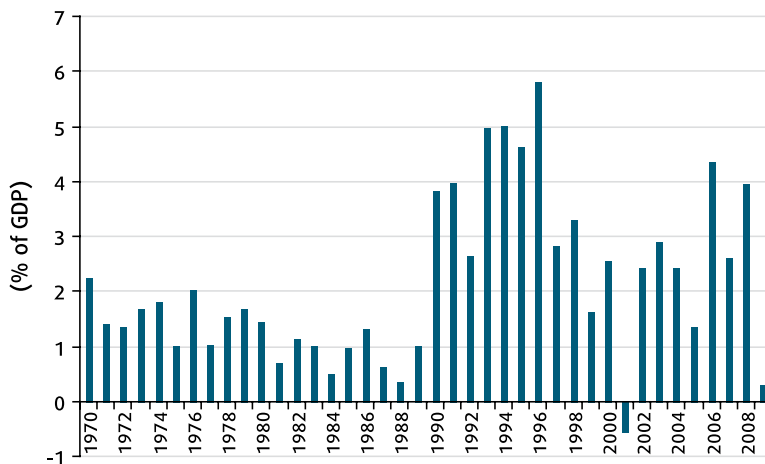
Figure 24: Average annual job creation rate (compound average annual growth rate of employment participation as percentage of working population) and recent employment participation rate (percentage of working age population) in selected economies, 1995-2009



Source: World Bank staff estimates.

The reforms to the labor market in the beginning of 1990s were a part of broader liberalization efforts. The opening of New Zealand's economy accelerated the pace of the employment growth between 1992 and 1996, in some quarters surpassing 5 percent.³ It also gave rise to greater inflow of FDI (figure 25). As the world's biggest dairy exporter, New Zealand attracted many multinational corporations from the food and chemicals sector, e.g., Denstree Corporation (the Netherlands), Nufarm (Australia), and Methanex New Zealand (Canada). Foreign companies have become an important employer in the country. As of March 31, 2005, foreign affiliates accounted for nearly 15 percent of total employment, according to New Zealand Statistics. Foreign enterprises were particularly dominant in the banking and insurance where two-thirds of employment in that sector came from companies based abroad.

The inflows of FDI were possible, among other reasons, due to a favorable business environment. New Zealand imposes only a few restrictions on FDI. The country ranked 10th in the 2009 Economist Intelligence Unit's ranking of business environments and 3rd in Doing Business 2012. New Zealand enjoys a strong and transparent institutional framework in comparison to its advanced peers, according to the Global Competitiveness Report 2010-2011. Thanks to free-trade agreements, among others, with Australia (in 1983) and China (2008), New Zealand enterprises have access to large markets for its exports.

Figure 25: Inflow of FDI to New Zealand (% GDP), 1970-2009

Source: United Nations Conference on Trade and Development (UNCTAD).

New Zealand also took advantage of its proximity to the biggest economy in the region. In 2010, Australia was a source of a half of the FDI inflows in the country, followed by the United States (11 percent). The presence of Australia's enterprises reflects particularly well in employment statistics: as of March 31, 2005, Australian enterprises accounted for around half of the employment of foreign affiliates, and around 7 percent of total employment in New Zealand.

Finally, the country offers a well-educated labor supply; two in five New Zealanders have attained tertiary education.⁴ Thanks to a seasonal migration program launched in 2007, employers can hire workers from abroad, according to the company needs. Each accredited employer is able to hire an overseas employee up to 7 months within an 11-month period. Finally, special agreements with Philippines and Vietnam grant citizens with specific skills facilitated access to New Zealand's labor market.

Growing need for skills

The expansion of a job market puts a strain on the skills side. Employers in New Zealand often struggle to hire staff with specific competences. According to the Talent Shortage Survey 2011, 44 percent of employers reported difficulties in filling positions, 10 percentage points above the global average. Engineers, sales representatives, and technicians were top three professions with shortages. A limited pool of labor is becoming even smaller due to outflows of nationals, especially to Australia. This trend picked up in the recent two decades, from 2.9 nationals per 1,000 residents in 1995 going abroad to 5.4 in 2008.

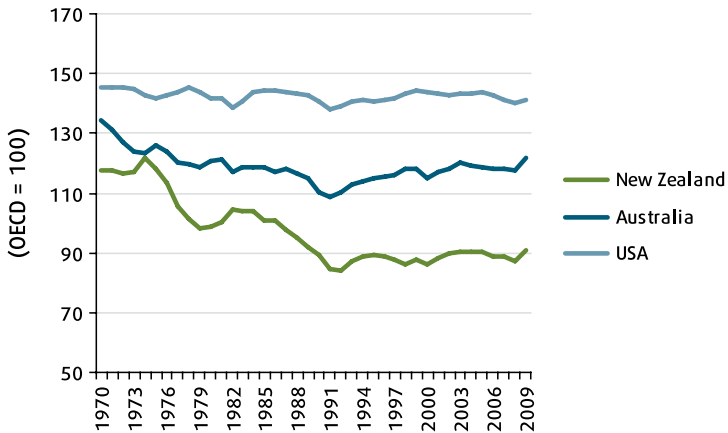
A recent report by the OECD on New Zealand indicates further necessary improvements (OECD 2011). Known for a regulatory efficiency, the country seems to have lost its leadership in the past decade. In addition, frequent changes in employment regulations in the past two decades may have had a negative impact on the labor markets. Finally, the job creation in the past two decades failed to deliver greater wealth to New Zealanders (figure 26).

Nevertheless, New Zealand's efforts to improve its employment prospects need to be noticed. The government is currently experimenting with new initiatives to attract prospective employers. For



example, the Mankau Food Innovation Centre, due to open in the fall of 2011 in Auckland, should provide various food manufacturers with access to specialized laboratories they could not afford by themselves. Finally, due to the country's geographical location, New Zealand needs to offer a particularly convenient business environment in order to participate in the global value chain. Recognizing this necessity early on seems to be an important step toward long-term growth.

Figure 26: Real GDP per capita (OECD = 100) in Australia, New Zealand, and the US, 1970-2009



Source: OECD (2011).

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Notes

- 1 Estimates based on total employment quarterly statistics, 1990q1 to 2010q1, Statistics New Zealand.
- 2 Higher rates were observed in Iceland (79.9 percent), Norway (75.5 percent), Denmark (74.4 percent), Japan (72.8 percent), Switzerland (72.7 percent), Sweden (72.1 percent), Australia (71.4 percent) and Canada (71.0 percent). Source: World Bank staff estimates, year 2009 or latest available.
- 3 Estimates based on quarterly data on total employment, quarter to the respective quarter from the previous year.
- 4 As a share of total population aged 25 to 64.

Appendix

Table 3: Share of total employment by sector in 1990, 1995, 2000, 2005, and 2010

	Manufacturing	Construction	Other business services	Transport and trade	Education, health care, and social assistance	Professional, scientific, technical, administrative, and support services	Public administration and safety	Other
1990q1	19.9%	5.7%	13.5%	23.2%	16.5%	7.9%	5.9%	7.6%
1995q1	18.8%	5.4%	13.5%	22.7%	17.4%	8.8%	5.4%	7.9%
2000q1	16.0%	5.7%	13.9%	23.1%	19.0%	10.4%	4.6%	7.3%
2005q1	14.5%	6.8%	13.8%	22.5%	18.7%	11.5%	4.8%	7.3%
2010q1	12.1%	6.7%	14.5%	21.4%	19.5%	12.8%	5.5%	7.6%

Source: Statistics New Zealand.