

2015 New Zealand Business Operations Survey

INTERNATIONAL ENGAGEMENT: FOREIGN SALES AND OUTWARDS FOREIGN DIRECT INVESTMENT

This report summarises some of the data on New Zealand firms selling goods and services and investing in foreign markets from the international module of the 2015 Business Operations Survey (BOS).¹ The BOS is administered every year, with an international module included every four years. It is compulsory for New Zealand firms with six or more employees to complete the survey.²

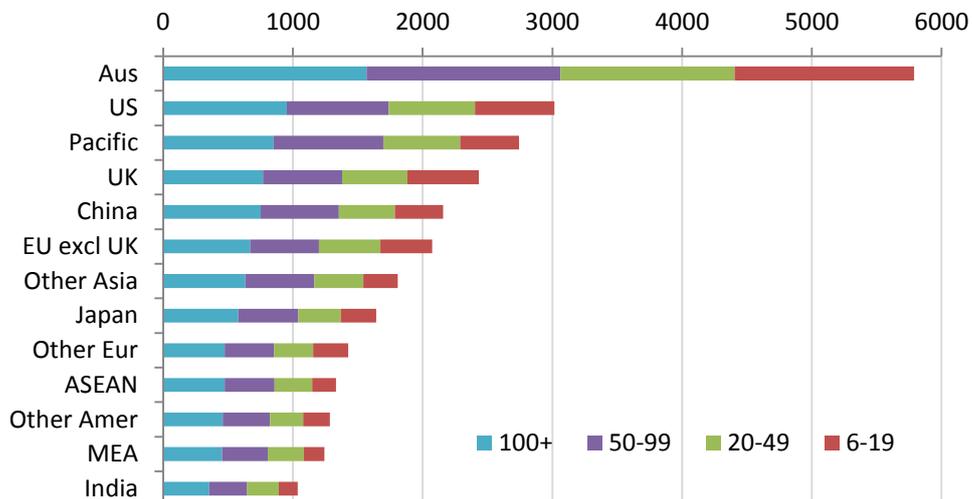
Overseas sales data is collected from New Zealand firms with sales of goods and services in foreign markets, therefore excluding tourism and education sales made in New Zealand.

Foreign sales

OVERSEAS SALES OF GOODS AND SERVICES BY MARKET AND FIRM SIZE

The importance of Australia as a New Zealand trading partner is emphasised in the firm level data. 76% or almost 6,000 New Zealand firms, sold goods or services in Australia, with 1,500 of these firms selling goods and services only in Australia. For reference purposes 19% of our goods and services exports by value are sent to Australia, and China is New Zealand's second largest export market by value, followed by the United States, European Union and Japan.

Chart 1: Number of firms with overseas sales by market and employee number

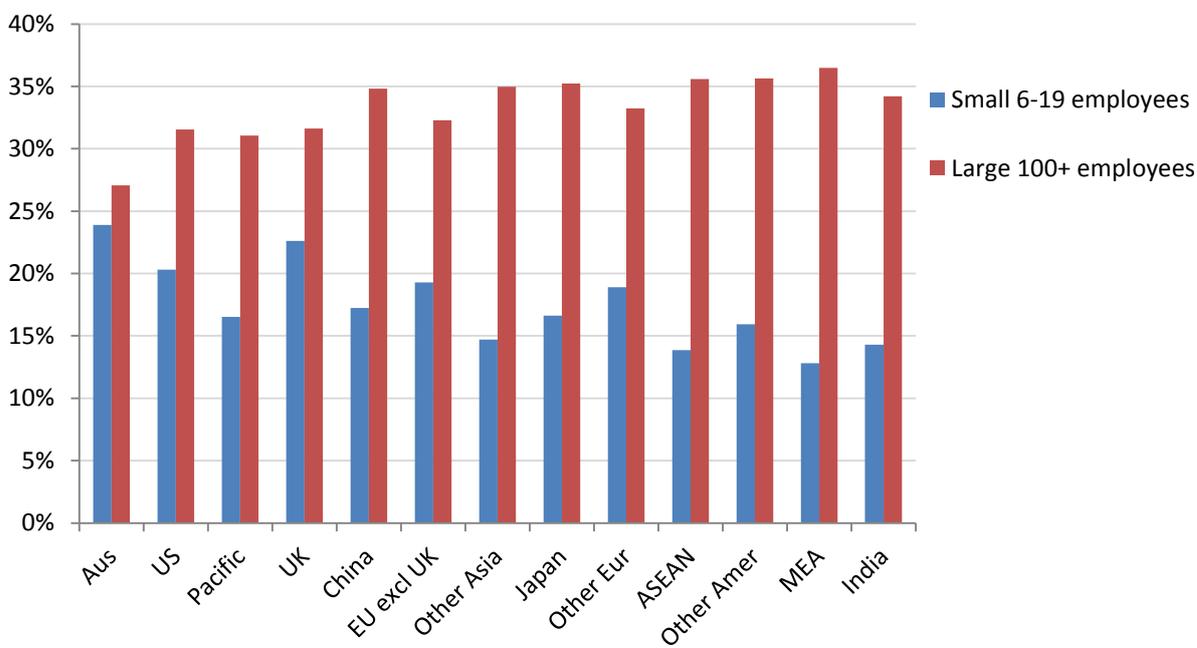


¹ This note summarises only some of the available information. Questions were asked about factors ranging from global value chains to attributes helping firms compete in foreign markets. Other data will be summarised and presented in coming months.

² Weights are applied as specified by Statistics New Zealand, generating results for 7,638 firms. This captures the majority of the 10,000 New Zealand firms identified as exporters in module A of the survey, but not all.

Almost a quarter of the New Zealand firms selling goods and services in Australia are small.³ 23% of New Zealand firms selling goods and services in the United Kingdom are also small. In contrast only 14% of New Zealand firms in ASEAN are small and 13% in the Middle East and Africa. Chart 2 illustrates the percent of New Zealand firms in each market that are small (6-19 employees) and large (100+ employees).

Chart 2: Number of New Zealand firms with overseas sales by market and size of firm



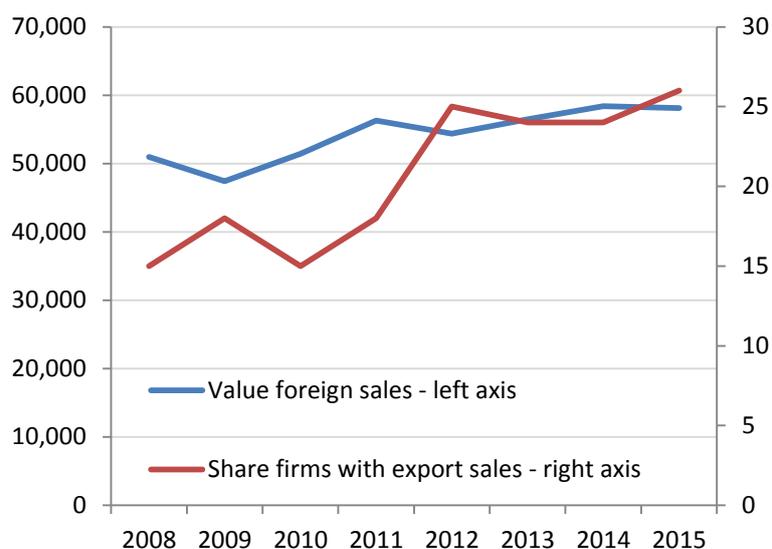
Australia may be more attractive for smaller New Zealand firms due to lower barriers to trading. Many of the barriers facing exporters are less relevant for New Zealand firms selling in Australia than in other markets (including exchange rate volatility, distance, regulations and tariffs, market knowledge, language and culture). Given smaller firms have fewer resources to overcome such barriers we would expect to see a negative correlation between smaller firms in market and barriers to trading in that market. It also seems logical for firms expanding into more than one market to start in the market where barriers are lowest.

GROWTH IN NUMBER OF FIRMS AND VALUE OF SALES IN OVERSEAS MARKETS

The number of New Zealand firms with overseas sales has increased markedly in the post global financial crisis (GFC) world, even the value of our exports have been volatile but have expanded only slowly over the period (excluding tourism and education). Slow trade value growth can largely be attributed to recent falls in commodity prices, particularly oil and dairy products. The 1,176 (18%) increase in the number of New Zealand firms selling goods and services offshore between 2011 and 2015 suggests a supportive business environment in New Zealand, New Zealand firm awareness of external trade opportunities, and ability to capitalise on these opportunities.⁴ See Chart 3.

³ For BOS firms with between 6-19 employees are classified as small; 20-49 employees as medium one; 50-99 employees as medium two; and 100+ employees as large.

⁴ Question in BOS 2011 and 2015 are slightly different with 2011 asking about export sales and 2015 about sales of goods and services in overseas markets.

Chart 3: New Zealand firms with foreign sales percent (right axis) and value of foreign sales NZ\$ mil (left axis)

This aggregate growth in New Zealand firms selling into foreign markets is in large part driven by Australian results. Between 2011 and 2015 there was an 18% increase in the number of New Zealand firms selling goods and services in Australia – 903 additional firms. New Zealand exporters are generally more exposed to Australian consumption and housing construction related demand, than demand from the now fading mining investment sector.

In 2015 over 3,000 New Zealand firms reported sales in the United States, a 10% increase from 2011. The number of New Zealand firms selling goods and services in Europe and parts of Asia jumped 39% and 29% respectively to nearly 3,500 firms in Europe and over 3,100 in Asia (not counting China, Japan or India). New Zealand firms with sales in India and Japan declined 9% and 5% respectively between 2011 and 2015.

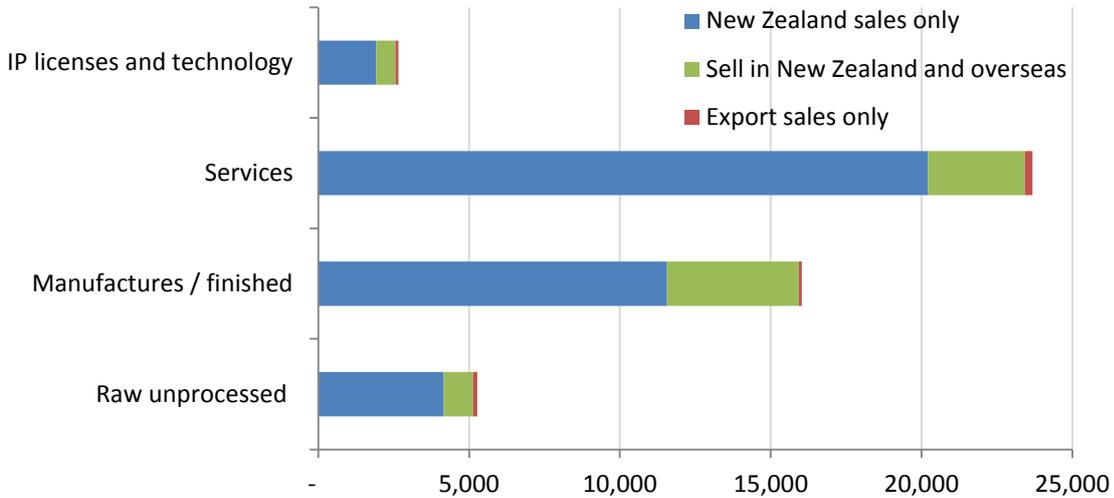
Unlike Australia, New Zealand export value growth to China (47%) was much faster than growth in the number of New Zealand firms selling in the market (7%). From 2011 to 2015 the average value of New Zealand sales in China rose from NZ\$3 million per firm, to NZ\$4.2 million. Average sales per New Zealand firm in Australia decreased from NZ\$2.7 million to NZ\$2.3 million over the same period, perhaps reflecting the almost 1,500 new New Zealand firms (less than 5 years old) selling goods and services in Australia.

BORN GLOBAL?

The majority of New Zealand firms have New Zealand sales only, ranging from slightly more than 70% of manufacturing and licensing and technology firms, to almost 80% of unprocessed goods producers, to 85% of services firms. See Chart 4.

Of the New Zealand firms that do sell in foreign markets, most sell also into the New Zealand domestic market. Very few firms have foreign sales only. That said there are still 253 New Zealand service firms selling in foreign markets, but not selling in New Zealand, and 3.5% of New Zealand firm sales of technology and intellectual property licences are overseas only. Of the 5,265 New Zealand firms that sell raw or unprocessed goods, 1,099 have sales in foreign markets, including 128 that sell only in foreign markets.

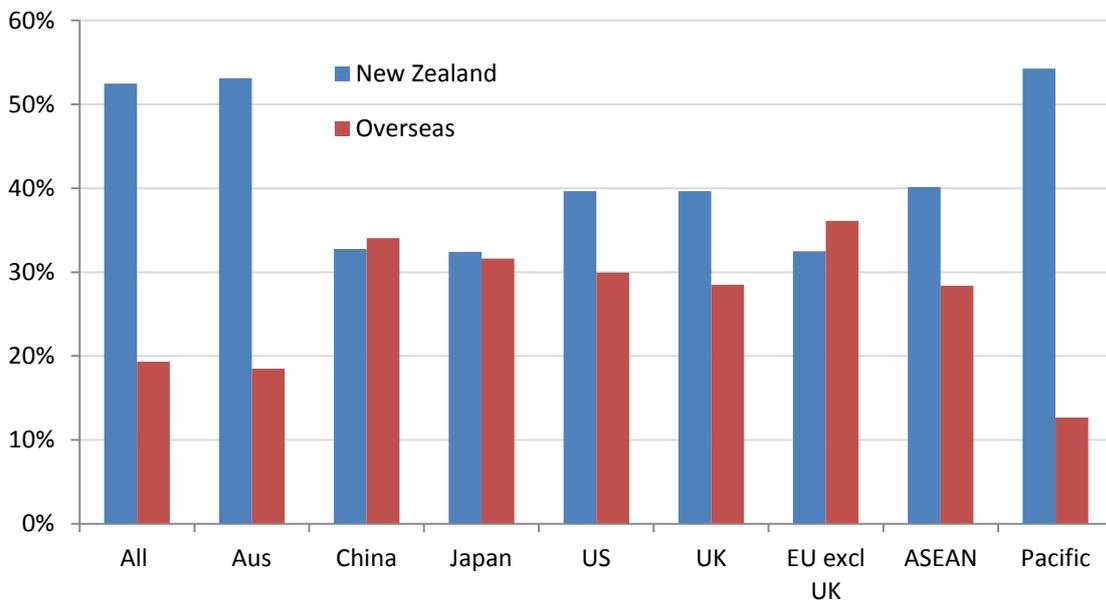
Chart 4: New Zealand firms with overseas and domestic sales by sector



PROFITS

Over half of New Zealand firms with overseas sales generated higher profits with their domestic operations, compared to 17% reporting overseas operations as being more profitable. Relative profits vary considerably by country. The profit split for firms selling goods and services in Australia unsurprisingly mirrored the national average. More New Zealand firms selling in China and the EU reported higher foreign relative to domestic profits. In Japan the split was about 50/50. See Chart 5.

Chart 5: Where firms generate higher profits by market



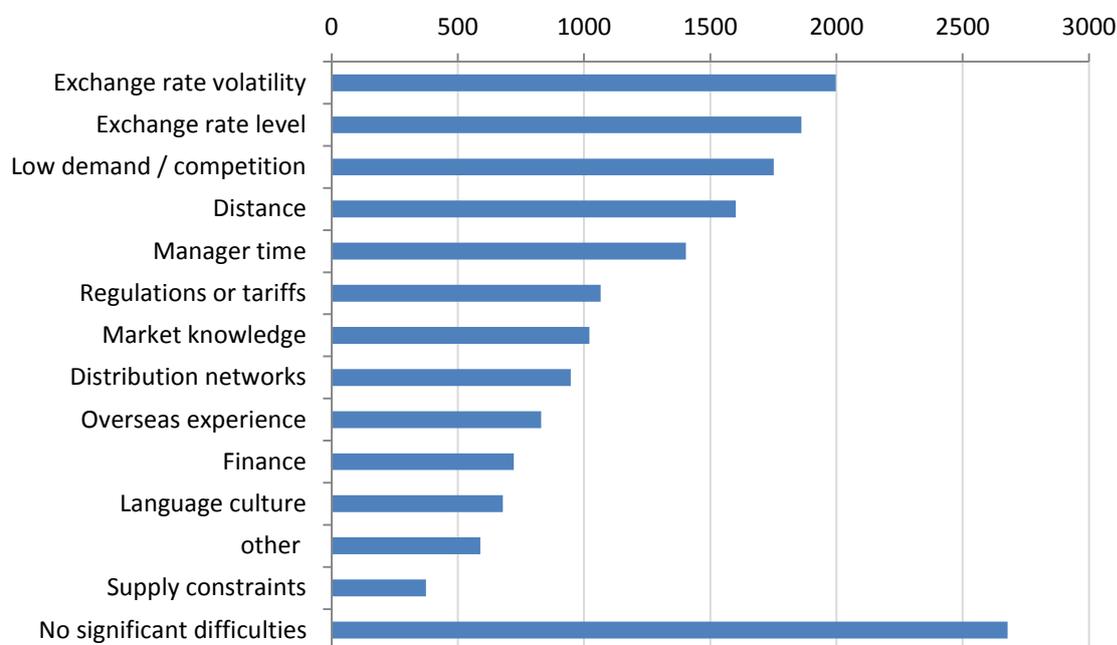
The 'profits' question asked firms to take into account the costs of doing business in each market when indicating where profits are highest. It appears that for some markets (such as Japan or the EU) the relatively

high cost of market entry is still worth it for the available profits. The low share of firms in Australia reporting higher foreign profits may reflect that these firms are generally smaller than those selling into other markets, so fixed market entry costs would be high relative to revenue. Note that this question was not market specific. That is, the Australian results in the above chart also captures results for firms that sell into a number of markets of which Australia is one. For firms with only one export market domestic profits were significantly higher in all countries where they was a reasonable number of observations (Australia, Pacific, US and China) other than ASEAN.

BARRIERS TO EXPORTING

The volatility and level of the exchange rate were the first and second ranked factors identified as making it difficult for firms to sell into foreign markets. Regulations and tariffs were highlighted as a barrier by 1,065 firms. Over 2,500 firms reported no significant barriers.

Chart 6: Barriers to selling in foreign markets



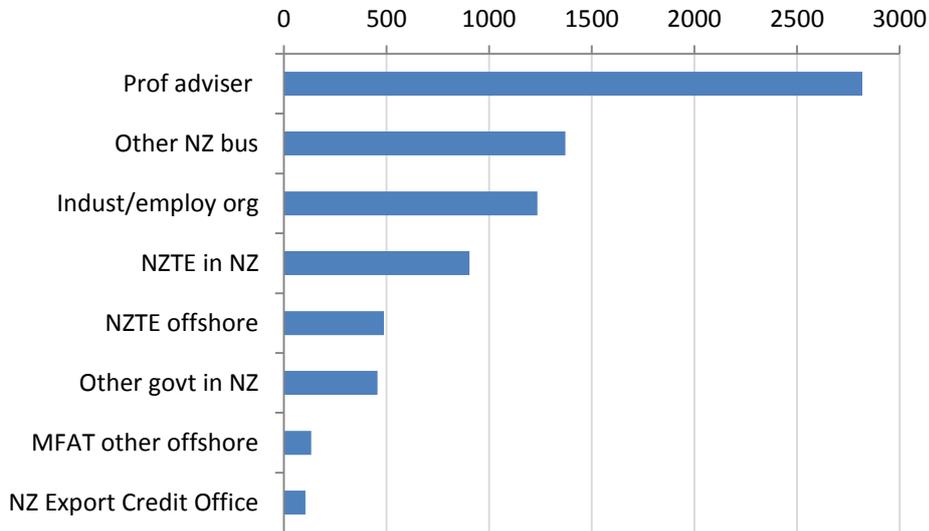
Some of these factors are largely outside of policy influence, but this does highlight some areas where the government can make a difference. 1,065 firms highlighted regulations or tariffs as barriers to selling in foreign markets. Trade agreements can help address some of these constraints. There may also be scope to help provide generic market knowledge, or perhaps make firms better aware of where they might find such information, for example on the NZTE website.

OVERCOMING BARRIERS

Over a third of the New Zealand firms selling in foreign markets have had professional advisory services helping with their offshore engagement during the last financial year (for example lawyers or accountants). The importance of networks is also highlighted with 'assistance from other New Zealand businesses' being ranked

as the second most common source of assistance with international engagement. Almost 1,500 firms reported receiving help from NZTE in New Zealand or in market during the last financial year. Nearly 500 firms received assistance from MFAT or another New Zealand government department in market. See Chart 7.

Chart 7: Assistance with international engagement



Of the nearly 3,000 firms that had a New Zealand FTA trade partner (other than Australia) as their main market, 43% reported a benefit from the FTA.⁵ Tariffs were identified as the most common FTA benefit. For those firms that reported receiving no benefit from the FTA, most responded that the FTA did not cover the goods and services that they sold in that market. See Charts 8 and 9.

Chart 8: Benefit from FTAs

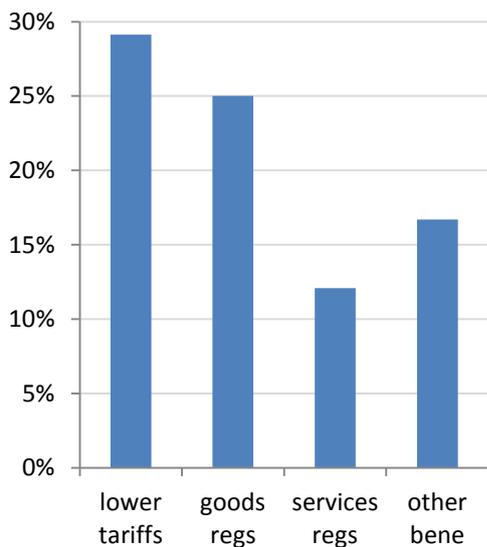
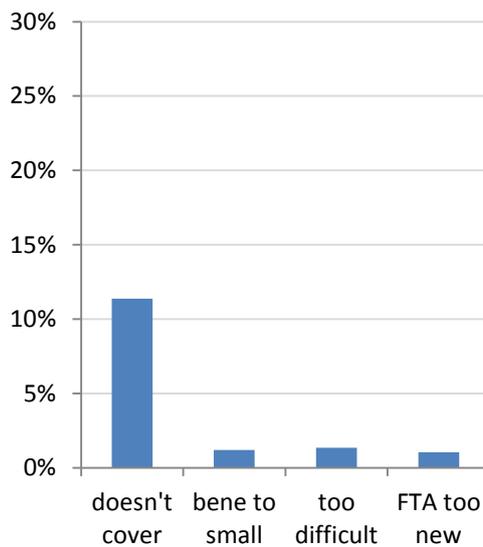


Chart 9: No benefit from FTAs



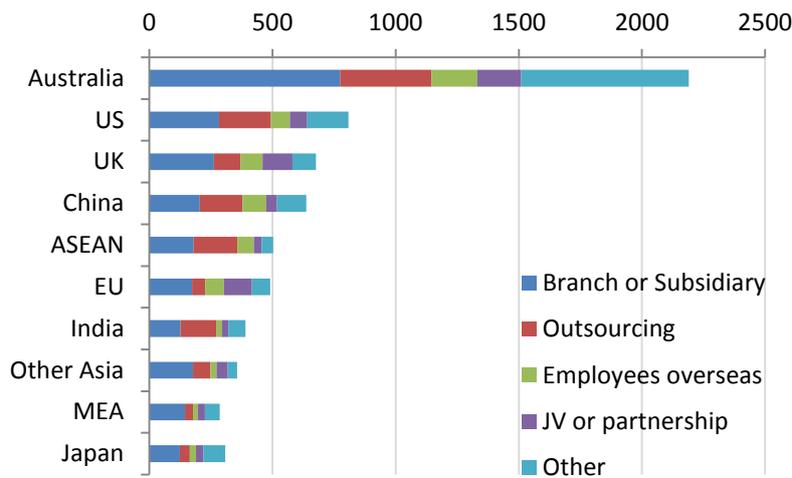
⁵ Australia is excluded largely to avoid skewing results.

Outwards Direct Investment

LOCATION AND TYPE OF OVERSEAS OPERATION

Key investment markets for New Zealand firms are similar to key export markets. Similar shares of firms have investments in Australia as have sales (75% and 76% respectively). The main difference in sales as opposed to investment rankings is that the Pacific Islands are not in the top five in the investment rankings (ranking in terms of selling goods and services is Australia, the US, Pacific, UK and China).

Chart 10: Location and type of overseas operations

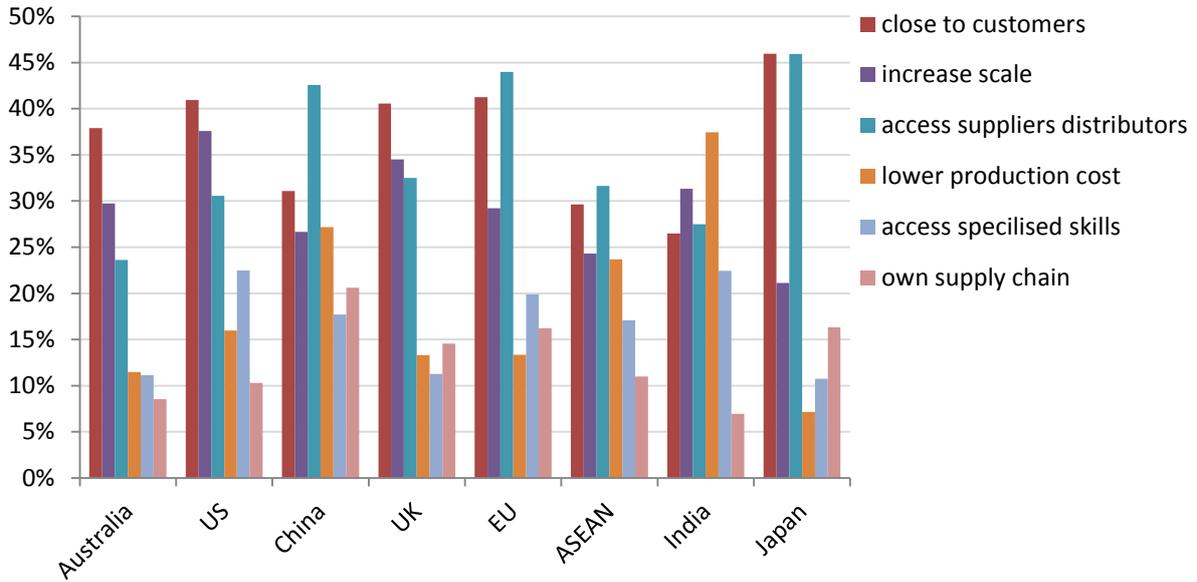


Close to half of firms with offshore investment have branches or subsidiaries in the wealthier markets of Australia, the United Kingdom, the United States and Japan. In contrast subsidiaries came second to outsourcing in India (38% and 39% respectively) and ASEAN also had a relative high share of operations as outsourcing. China was structured more like developed countries, with 46% of operations branches or subsidiaries and 25% outsourcing.

REASONS FOR OVERSEAS OPERATION

Wanting to get closer to customers was the main reason for overseas operations for most firms. This wasn't associated with the distance of the market from New Zealand (firms investing in the Pacific Islands are not illustrated but also highlighted close to customers as a key factor). Access to suppliers is important, particularly in China, the European Union and Japan, suggesting that New Zealand firms are locating operations to position themselves in international production networks / global value chains. Sometimes firms located operations offshore so as to access necessary inputs (such as specialised skills from the US). Firms invest in lower wage countries to lower costs of production (India, and to a lesser extent China and ASEAN).

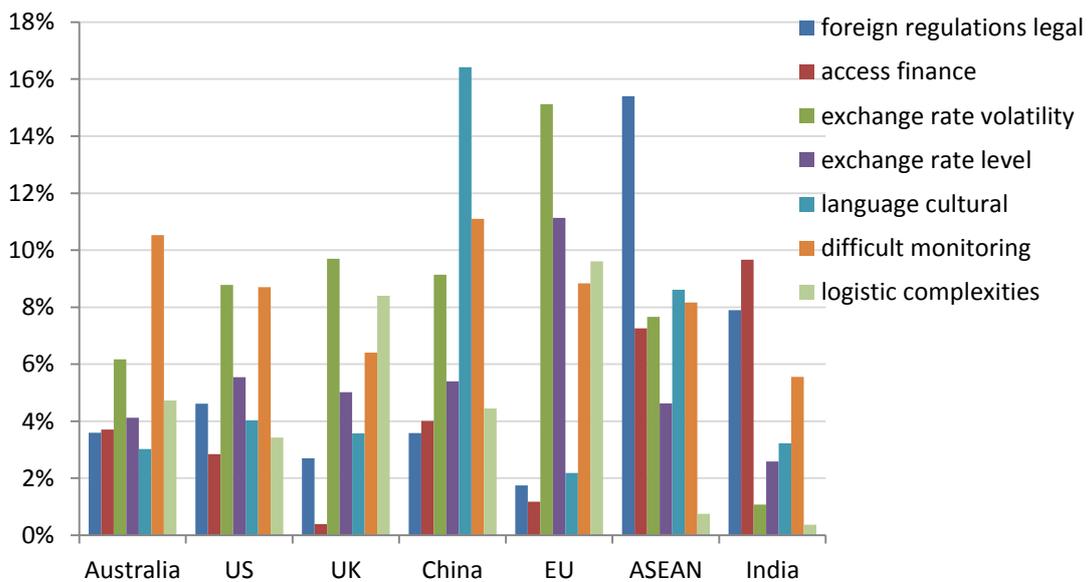
Chart 11: Reasons for a workforce of office overseas



BARRIERS TO OVERSEAS OPERATIONS

As illustrated in Chart 12 the key barriers limiting New Zealand firms’ abilities to operate in foreign markets vary significantly by market. Perhaps unsurprisingly language and cultural barriers rate highly in China. In the ASEAN countries on the other hand, language and culture is dwarfed by the barrier created due to limited understanding of overseas legal and regulatory frameworks (foreign regulations legal).

Chart 12: Barriers limiting overseas operations



It’s curious that exchange rate volatility features as the main barrier for firms with operations in Europe. The Euro has been relatively stable compared to other key currencies since 2011. This may reflect actual variance being greater than expected.