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Competing in times of challenge and change

Auckland Economic &
Industry Insights Paper

Foreword

We are two months into 2023 – the first year since 2019 where the COVID-19 pandemic is no longer the dominant issue in shaping the year ahead. While COVID-19 has moved to the side of the stage, the lingering effects of its impact on the global economy have moved to the centre. Combined with growing global uncertainty and geopolitical manoeuvring, and the stark policy realities caused by climate change, 2023 is set to be a challenging year.

Globally, countries, cities and firms are preparing themselves for how they engage with this changing global environment and with a sharper focus on adapting to climate change and the transition to net zero emissions.

Aotearoa New Zealand entered 2023 in a very different position than it did in 2022. Its borders fully reopen to the world, connectivity is returning and the barriers to trade and travel are reduced. As New Zealand's global and gateway city, Tāmaki Makaurau Auckland also returns to full participation in the global economy.

Auckland is unique, compared to other parts of New Zealand, in how it is exposed to global conditions. We compete internationally for talent, trade, visitors and investment, and success in this has been a key part of our economic success story over the first two decades of this century.

Our global exposure was demonstrated through the impacts of the pandemic on Auckland, where it was felt more severely and for longer than in other parts of the country. This impact, as other cities opened up, has influenced international perceptions of us – reflected in Auckland slipping down a number of international liveability rankings where we have previously sat amongst the best.

While these perceptions are dominated by the pandemic, some also highlight deeper structural issues – such as a reducing income premium, housing affordability and infrastructure challenges – within our economy. Short term perceptions will dissipate, but the deeper challenges require solutions. Some are emerging or in place, but others require greater focus if we are to meet them.

The stark reality of the region's infrastructure challenges was highlighted by the extreme weather events of early 2023 which brought into focus the need to be able to adapt to our changing climate.

Last year showed us that many of our peer cities, particularly those in Australia, are competing aggressively with us. They are targeting our brightest and best and focusing on culture and globally mobile industries to stimulate and differentiate their economies. Ensuring we can compete with these cities is key to retaining and attracting the talent and investment we need.

With events such as the FIFA 2023 Women's World Cup bringing a global spotlight to our region, the return of international visitors and our internationally facing firms re-joining the global marketplace, Auckland has an opportunity to demonstrate to the world that we are back. Capitalising on this, while focusing on deeper challenges, will be vital.

During COVID-19, Tātaki Auckland Unlimited used our *Auckland's Future, Now* platform to engage city and industry leaders in conversations about challenges the pandemic was presenting. In 2023, in partnership with industry, we will use this platform to shift the conversation to how our region overcomes emerging new challenges, re-engages fully with the global economy and seeks to improve conditions domestically to ensure we retain our talent and attract the best to come here to live, work and invest.

Ngā mihi

Nick Hill

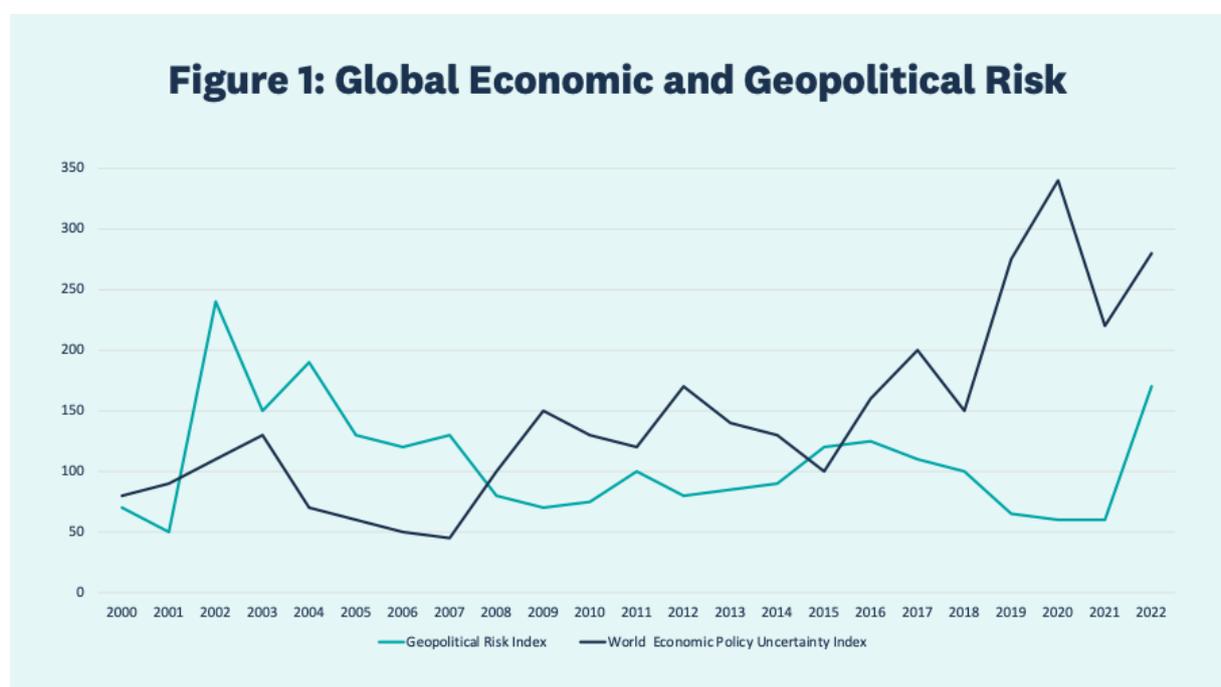
Chief Executive

Tātaki Auckland Unlimited

Global context

The last three years have seen significant disruption globally. Dominated by the COVID-19 pandemic, which saw worldwide lockdowns and shocks to the global economy – and more latterly inflationary pressures fuelled by increasing demand and energy supply issues. These shocks have been underpinned by an ongoing shift in global geopolitics and the increased policy urgency about the response to climate change.

These factors are creating a different global economy to the one which emerged from the 2008 Global Financial Crisis. Singapore-based New Zealand economist David Skilling describes it as a different era of globalisation, not an unwinding, but a changing shape. Performing in this world will be much more demanding than in the relatively depoliticised global economy of the past few decades. Skilling highlights that “increasingly government policy across multiple areas will be deeply shaped by this strategic competition, from macro policy to industrial policy and the net zero transition”.



Source: Landfall Strategy Group

This will create a more competitive environment globally. Countries and cities will compete for resources, talent and labour. While the war for talent is not a new phenomenon, with ongoing labour shortages, it will be more aggressive than ever as much of the developed world emerges into this reshaped global economy.

New Zealand’s success, as a small, advanced economy is particularly aligned to the success of the global economy. As it continues to re-connect to the world following the period of lockdowns, it will navigate through this changing global environment.

Competition isn’t new, but the role of cities – as representing more than half the global population, and as the centres of economic opportunity and dynamism in global competition – has become increasingly important. Cities represent more than half of global economic output and as critical masses of population and industrial production, are the focus of net zero emissions policies.

Cities compete for talent, capital, trade and tourists and in the future will compete for the resources to achieve their net zero emissions goals. Auckland, in its journey to reconnect globally, will compete in an era of challenge and change.

Auckland – on the global frontier

Tāmaki Auckland is New Zealand’s global city. It has a range of unique assets and economic, cultural, and demographic characteristics that differentiate it from the rest of New Zealand. It is exposed in a different way to global conditions and intense international competition for ideas, talent and capital.

Auckland is the gateway to New Zealand. Auckland International Airport provides air connectivity to more than 45 destinations and services more than 21 million passengers in 2019 (six times Wellington), while the Ports of Auckland handle more almost \$30 billion worth of import freight in 2022, double that of Tauranga.

Auckland is a knowledge intense hub. More than 100 corporates call Auckland their Asia-Pacific headquarters and The University of Auckland: Waipapa Taumata Rau is New Zealand’s only top 100 university¹.

Auckland’s globally facing technology, digital and screen sectors play a vital role in Auckland’s economy. These export-orientated industries boast more than 12,000 firms and provide more than 71,000 jobs. An estimated 80 per cent of the revenue from top Auckland tech firms is generated from overseas, while major screen productions provide significant revenue for the region annually.

Tāmaki Makaurau Auckland has a long trading history, and trading internationally remains vital to the region’s economy. International trade affects nearly one-third of all jobs in Auckland, with nearly twice as many in imports as in exports. This differs from the rest of New Zealand, where global exposure is predominantly through exports, dominated of course by the primary industries.



Source: Sense Partners (2020)

Auckland’s people are truly international. Almost 50 per cent of Auckland’s working age population was born overseas, significantly higher than any other region in New Zealand. This brings international connections through family, employment and business. Auckland had been disproportionately reliant on workers from overseas prior to the pandemic, representing three quarters of the increase in New Zealand job numbers for non-New Zealand citizens between 2016 and 2019.

¹ QS Rankings 2022

Figure 3: An international labour force



Source: Stats NZ

Of that internationally born population, a significant proportion are ethnic minorities – who make up 37 per cent of Auckland’s population, and have represented 84 per cent of population growth in the last 15 years; while 76 per cent of all New Zealand-born ethnic minorities live in Auckland².

² Sense Partners 2020.

Auckland's competitive strengths and weaknesses

A shift in fortune over time

Many factors underpin a city's competitive position, leading to sources of advantage and distinctiveness which set a city apart (Figure 4).

Figure 4: Factors of competitiveness

Foundations	Sources of Advantage	Measuring Competitiveness
Physical assets & infrastructure	Image and identity	Incomes / GDP per capita
Land and natural environment	Knowledge resources	Productivity
Education and skills base	Connectivity	Firm performance
Entrepreneurial & investor base	Amenity	Quality of life
Institutions, governance and alignment	Business environment	Destination for investment
Social and cultural capital	Economic complexity and specialisation	Resident wellbeing

Source: World Economic Forum/PwC/Martin Jenkins

Through the first two decades of the 21st Century, Auckland embedded a position as an attractive global city. Research over the last 15 years has consistently highlighted Auckland's sources of advantage:

- a desirable place to live, and international quality of life indicators rank Auckland consistently high
- young and diverse
- a migrant city, with 50 per cent of its working age population born overseas
- An easy place to establish and run a business.

Auckland is also identified as having a strong creative identity, with a significant number of creative firms and workers, while other sectors of advantage include business and professional services, the tech sector, and a diverse tourism offering.

These advantages have supported the international labour and talent flows with net international migration to Auckland of 130,000 people between 2014 and 2018 – supporting a period of strong economic growth.

However, deep-rooted issues detract from our competitive position. Research undertaken by a range of stakeholders³ since 2010 has identified:

- Housing affordability
- High reliance on private vehicle use
- Our infrastructure deficit
- Underdeveloped international connections
- A reducing productivity and income premium (relative to other parts of New Zealand, and to Australian cities).

Some of these issues have been exacerbated by the growth Auckland has seen, while others continue along the longer-term trend. A common conclusion across the research was that Auckland's ambition will be stifled if the growth dynamics within the Auckland economy before COVID-19 were to persist.

³ Koi Tu – Re-Imagining Tamaki Makaurau (2022); Competitive Cities: A Decade of Shifting Fortunes (PwC, 2019); Improving our understanding of Auckland's competitiveness (Martin Jenkins, 2011); Auckland's Competitive Advantage and Distinctiveness (Market Economics, 2011);

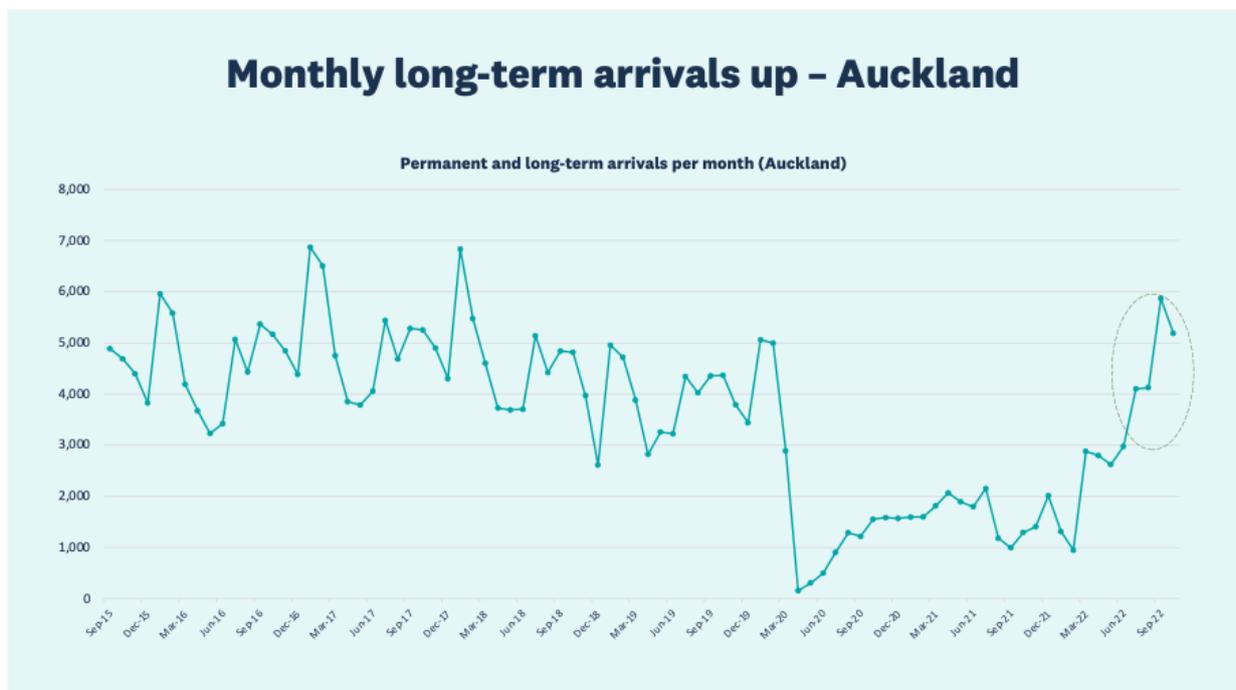
A bumpy ride through COVID-19

New Zealand's approach to dealing with COVID-19 was hard and fast, with stringent public health restrictions put in place with little or no notice. Auckland's scale, global city and gateway status meant it was more severely impacted by these restrictions. It was the entry point for the virus and became the epicentre of the pandemic, meaning longer lockdowns and extended periods of restrictions.

This had a direct impact on economic performance, resulting in a \$3.5 billion hit on GDP⁴ for the region. But perhaps more significantly, it was highly disruptive to drivers of Auckland's economic success and sources of competitive advantage.

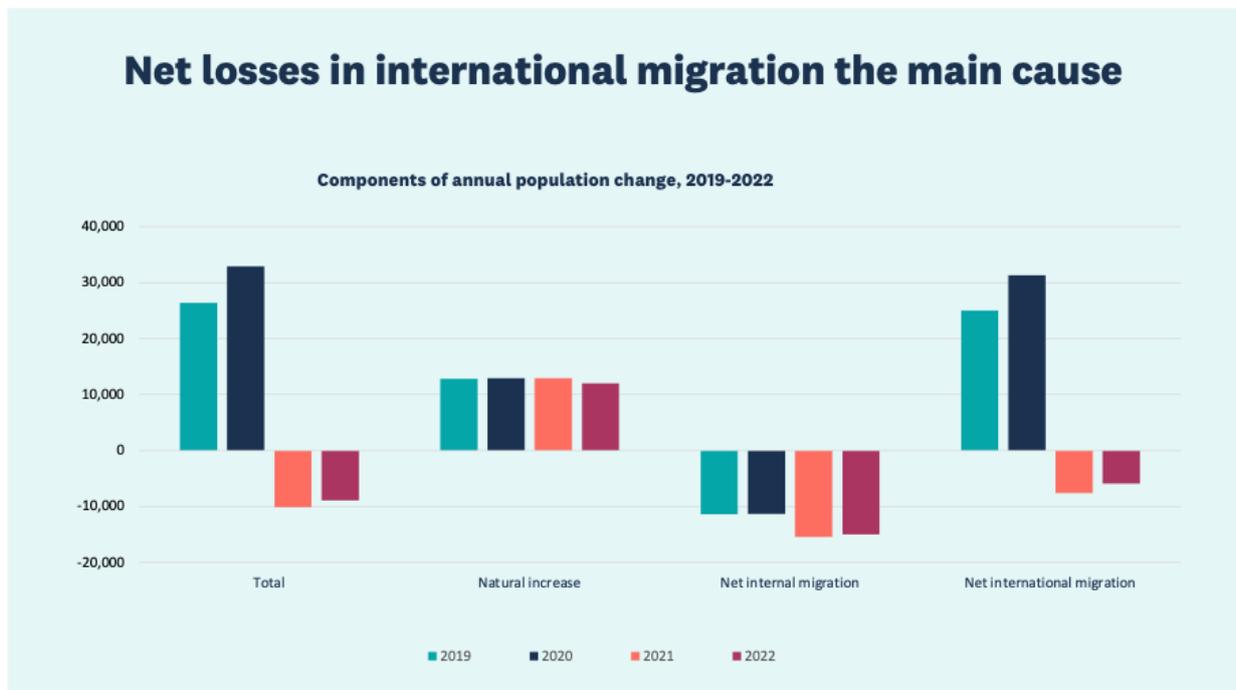
Migrant arrivals, which had supported growth through bringing both talent and capacity to the economy, shifted to a net negative position across 2019 to 2022. While domestic demand was down during this period, as demand has ramped up this has led to significant labour shortages.

Figure 5: Labour shock



⁴ Year ended March 2021

Net losses in international migration the main cause



Source: Analysis of Stats NZ Migration Data

Tourism – a key sector for Auckland and Aucklanders – was hit hard. Following the closure of the international border, visitor numbers and tourism spend plummeted and large parts of the sector went into hibernation. Of those which survived, many only re-emerged this summer and face an environment where labour is incredibly difficult to source, and the cost of inputs have increased due to the inflationary environment.

Border closures also led to a loss of global connectivity, which has taken years to establish and will take time to re-establish. Over the last three years, this has impacted supply chains and business-to-business connections. While connectivity has returned, the higher cost of travel has impacted demand.

These disruptions, combined with shifts in immigration policy, have significantly affected Auckland’s economy and will have been compounded by the extreme weather events of early 2023. At the time of writing, the impact of the floods and Cyclone Gabrielle has not been fully ascertained – but the cost is likely to be in the billions with a significant repair bill for households, businesses and Auckland Council.

Collectively, these impacts will have a tail; how long is yet to be determined. In the short term, however, they have impacted capacity domestically and perceptions of Auckland globally. Across a number of international rankings, Auckland has dropped significantly – driven in the main by the above factors, but also due to the failure to address some of the underlying issues highlighted by previous research.



While these rankings are reflective of a difficult point in time, and 2023 will likely see some recovery, there is the need to be cognisant of the potential lingering impact of these perceptions.

Towards prosperity – a focus on resilience and competitiveness?

One of the six outcomes of Auckland Council’s *Auckland Plan 2050* is ‘**Auckland is prosperous with many opportunities and delivers a better standard of living for everyone**’. A number of integrated areas of focus (directions) are identified to seek to achieve this outcome, including:

- Creating the conditions for a resilient economy through innovation, employment growth and raised productivity
- Attracting and retaining skills, talent and investment.

As Auckland fully re-engages with a changing and challenging global economy in 2023, it presents an opportunity to reflect on our competitive position and how we collectively refocus on these ‘directions’ to achieve the *Auckland Plan* outcomes.

As highlighted in figure 4, there are many factors of competitiveness with different actors playing different roles. For example:

- **Central government** – sets the national policy framework; key investor in human capital, infrastructure and key services, and directly supports industry through government ministries and agencies such as New Zealand Trade and Enterprise and Callaghan Innovation
- **Auckland Council Group** – has a range of levers across its regulatory framework; through infrastructure planning and investment; spatial planning; urban and economic development
- **Industry** – provides the entrepreneurial and investor base which operates within the frameworks set by crown and council
- **Others** – tertiary institutions play a key role in our knowledge and innovation systems.

A renewed focus on competitiveness should involve each of these actors. As highlighted on page 6, embedded issues are well known and were highlighted through the extreme weather events of early 2023. While some are being addressed – for example, through existing and proposed large scale investment in infrastructure – others are not.

In 2019 PwC research concluded: “*If Auckland is not New Zealand’s internationally competitive city, there won’t be one... overcoming the headwinds in Auckland is central to New Zealand’s economic prospects.*”, with PwC recommending an ‘Economic Competitiveness Agenda’ for Auckland, to detail our challenges in an integrated way and identify solutions. The 2022 report, *Reimagining Tāmaki Makaurau Auckland: Harnessing the Region’s Potential*, which was commissioned by Tātaki Auckland Unlimited and undertaken by Koi Tū: The Centre for informed Futures discusses Auckland’s role as a global city, its current challenges and called for a more integrated approach to planning for Auckland.

Tātaki Auckland Unlimited, as Auckland’s economic and cultural agency, is focused on ongoing engagement to continue the conversation – to influence what we do as an agency and ultimately to support the *Auckland Plan* objectives. Throughout 2023, we will use our *Auckland’s Future, Now* platform – in partnership with industry – to do this.

We will seek to support this discussion through additional evidence and insights, building off the *Reimagining Tāmaki Makaurau* report, our previous Auckland Insights, and work done by others including Auckland Council and the Auckland Policy Office.

Fundamental to this discussion will be research commissioned by the Committee for Auckland, supported by Tātaki Auckland Unlimited, with *The Business of Cities* which will benchmark Auckland’s position in the current environment, across a range of domains, with several peer cities. This will provide an up-to-date view on Auckland’s position and allow for a more informed conversation.

While this is an Auckland-led conversation, the rest of New Zealand needs to be engaged, as they will benefit from Auckland’s success.

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