

Economic Transformation

This Economic Transformation Theme Paper has been prepared as part of the START – Sustaining the Auckland Region Together project. The paper reflects a range of views and does not represent official positions of the organisations involved.

1.0 Introduction

This paper presents a summary of the START economic transformation expert group's discussion about Auckland's economy in the context of a sustainable future for the Auckland region. It proposes 'aspirational goals' for the economy, identifies barriers and opportunities in light of the upcoming influencing forces that we will need to address, and proposes a series of actions that might help to get us closer to the goals. The theme has been called 'Economic Transformation' in recognition of the linkages between this work and the central government goal of transforming the New Zealand economy.

The economic transformation expert group met twice, on 19 July and 25 July 2006, each time for a three hour discussion on the matters above. The members of the group are listed at the end of the paper (some members were unable to attend the sessions, so contributed separately). Members of the Auckland Metro project were also invited to observe and contribute to the START process, reflecting the alignment between the START and the Metro projects.

The Auckland economy is a broad topic. Discussion over the two sessions was wide-ranging, but we were not able to cover all relevant matters, nor address any particular topic in great depth.

The group did not presume to nominate set industries or areas which may emerge as key to Auckland's economy over the upcoming years – **rather the group concluded that Auckland required aligned, nimble and dynamic processes that drive and transform the economy**. The resulting discussion, and this paper, reflected this focus on required processes.

This paper will form the basis of the contribution of the Economic Transformation expert group to the START integrating charrette planned for the end of August 2006.

Aspirational Goals

For Auckland to have a long term sustainable economy, we need:

Unified decision making: Under a coherent planning framework, Auckland has aligned its economic planning processes, goals and decision making to transform the economy to meet future challenges.

Dynamism and Resilience: The Auckland economy is able to quickly address new and emerging trends, including the mega-trends identified by the START project (for example, is resilient and efficient with regards to resource use and energy).

Economic development mechanisms and products that will enable progress towards sustainable development outcomes:

Social outcomes

- high wages and living standards, as well as high levels of opportunity and choice
- social support programmes to assist disadvantaged communities

Environmental outcomes

- environmental research and programmes
- choices about how we treat the environment and offers opportunities to preserve what that society values

Cultural outcomes

- all cultural groups and their cultural expression

An economy that creates, attracts and keeps great businesses and people:

Auckland has (or continues to have):

- A business environment that is transparent and corruption free, with core clusters of successful businesses.
- Strong interconnectedness to the rest of the world – as a gateway to and from the rest of the world. Auckland's transport, communication and movement must be at least comparable to other international cities, and, to attract the head-offices, world class.
- Infrastructure which is high class – with excellent, affordable security of supply for energy and water, as well as strong and resilient telecommunications and transport networks
- Great research base – and high levels of research and development investment producing world-class research results
- A cohesive innovation system (across all levels of education) that contributes to a culture of creativity, innovation and entrepreneurship.
- First class education – to provide education and skills for our own youth and to further attract workers, and their families from around the world, to compete in the education market for youth around the world.
- An urban environment which is attractive and agglomerating
- A skilled and deep workforce with a well established culture of lifelong learning
- An international image that is distinctive and attractive and embraces our diverse cultural makeup. One option may be recognition as a centre of sporting excellence, with great places to “play” (e.g. physically, culturally or artistically).
- An economy that leads and supports the New Zealand economy:
 - An internationally competitive city region
 - A robust contributor to the New Zealand economy (diversifies risk of overall economy)

Barriers and opportunities

Current State Of Play

The group suggested the following about the current state of play in the Auckland economy:

- Currently there is considerable focus on building the Auckland economy through the AREDS, the Metro project, and government's Economic Transformation programme.
- Auckland has a long standing history of commercial activities in particular areas (e.g. being the dominant commercial centre in New Zealand, and having a strong gateway role). Auckland has also experienced rapid growth (and occasional decline) in a number of non-traditional sectors – e.g. film making and the creative sector. The challenge for Auckland is to encourage new and appropriate emerging industries but also to maintain our traditional economic strengths.
- Auckland has in recent times, undergone strong population growth which has contributed to the greater part of Auckland's recent economic growth.
- New Zealand (and Auckland) has a legacy of under-funding our infrastructure (although this is beginning to change with significant expenditure in transport infrastructure) – we need more investment simply to maintain current service levels. The group acknowledged that the desire for high class infrastructure is not always matched by recognition that this does require funding contribution, whether by ratepayers, tax payers, or users. This could require reconsidering existing funding methods and criteria.
- Auckland's economy depends on our gateway role (for freight, immigrants, business visitors and tourists). This role needs to be updated and enhanced so that Auckland is still relevant to the rest of the country (and the rest of the world), and so that we can attract future business. This means addressing a range of matters affecting our "gateway" reputation and efficiency - poorly planned growth, urban sprawl, ugly buildings (lack of a high-quality shop window), uneducated youth, lack of skilled workforce and dated infrastructure or infrastructure gaps.
- Auckland is diverse, but we could do more to embrace our diversity. Diversity is potentially a strength that can be channelled to make us competitive over the longer term. We need to show this through our innovation, our workforce, and our public spaces. Diversity can also be a challenge, as it's easier to have a single aspirational goal when homogenous.
- Auckland is dependent on servicing the domestic economy. Auckland is primarily an importing centre rather than an exporting centre.
- Auckland has three universities (with an additional university, just south, in Hamilton). None of them is recognised as being within the top two or three in Australasia. Auckland University is the only university in New Zealand with the potential to become world-class or one of the best in Australasia.
- Our decision-making processes, historically, have not been effective to address significant change. The legacy is that we are used to short term processes as the norm, and it is hard to change these processes.
- As has been recognised by the current push to increase productivity, Auckland has a relatively poor record of using its people and resources well.

This may be due in part to a relative abundance of natural and physical resources such as energy and land, as well as to lack of investment in people and infrastructure. This may not be the case in future, as recent skills shortages, and crises around energy and transport have demonstrated.

There are a number of opportunities to transform the Auckland regional economy into the sustainable economy of an internationally competitive world class city:

- Our people
 - We have, and are likely to continue to have, a young population relative to many other countries. If our education system delivers high level skills for this population, we have the potential to have a highly skilled workforce that constitutes a larger proportion of our population than other countries.
- Auckland has a diverse cultural heritage— especially with a younger South/West Auckland area
- We have English speaking, and educated, workers

- Our natural resources
 - New Zealand has lots of wind / water / coal / land that offers development opportunities to be serviced from Auckland – Auckland has a key role in servicing New Zealand wide industries.
 - Auckland is situated in a geographically stunning location and has a high quality natural environment (harbours, Waitakere Ranges, farmland, etc) making it an attractive place to live.
 - Auckland's temperate climate is another advantage in attracting workers. The climate will remain temperate whatever the outlook is for the global climate

- Our infrastructure:
 - Although there are gaps, Auckland has an existing base of effective infrastructure on which to build.
 - Infrastructure renewal and enhancement and urban growth, provides the opportunity to establish part of the region's economy on a more sustainable basis.

- Our place in the world (and in New Zealand)
 - Auckland can use its existing gateway role to increase the interactions between New Zealand and the rest of the world – both tangibly (freight and people) and intangibly (electronically).
 - Existing head offices and major service providers (eg large financial, accounting and legal firms) provide the service infrastructure to enhance location of other corporate activities in Auckland.
- Auckland's status as the largest agglomeration in New Zealand provides an opportunity for recognition that Auckland is different from the rest of the New Zealand economy, and that strategies and policy decisions in relation to Auckland may differ from other regions in New Zealand.
- Our relations with Australia and with Asian countries (e.g. through ASEAN & APEC) connect us to large economic and trading entities; our populations from these countries provide valuable links

- Our innovation
 - Existing research facilities exist within universities and in CRIs (some of which are situated near to Auckland, in the Waikato). These provide the potential for major growth in areas relevant to economic transformation (e.g. biotech, health, engineering, etc).

- We have the potential to leverage the domestic education system to deliver world class education to cater for the growing youth population in the 3rd world, i.e. increasing our exports of education services.

Barriers to achieving this future economy include:

- Legacy of under-investment in infrastructure, for example, existing energy sources and energy infrastructure which is perceived to be inadequate
- Public resistance to change and intertemporal NIMBY-ism:
 - For example - Limited understanding and responsiveness to the challenges and opportunities offered by climate change / resource scarcity etc
- Legacy of reactive policy process and short term planning, different plans at different times, often by different agencies
- Existing decision-making structures inhibit unified planning and implementation of plans
- Size and isolation of New Zealand
- Dependence on imported oil and other imports, and the impact of cost increases in the costs of international and domestic connectivity
- Auckland's current reliance on the domestic market and lack of international focus
- Lack of availability of land for business in the Auckland Metropolitan Region
- Difficulties in building infrastructure due to the region's unique geography,
- Lifestyle and psyche – are we too complacent?

Impact of the Forces

Six 'Forces of Change for the 21st Century' have been identified as part of the START project, and presented in a series of working papers for debate. These forces (climate change, demographics, resource availability, technology, globalisation and world views) have been identified as being likely to impact the Auckland region and its people over the next century.

The group considered that the best way to address the impact of all forces was to have nimble, dynamic and aligned processes in place so that the economy can quickly adapt.

The group also noted that the START Forces were not the only trends facing the Auckland economy over the next 100 years.

Considering Auckland's economic transformation future in light of the START Forces, the following potential impacts emerge:

Climate change:

The gateway economy is dependent on freight movement to import and export. Climate changes that impact on New Zealand's agricultural productivity will affect the nature of Auckland's gateway role – either requiring a reduced or increased role for physical movement of goods. Future exports may be service, communications or information based, rather than commodity. (Auckland as a gateway has tended to be about bringing goods in.)

Some of Auckland's "opportunities" such as good weather, attractive harbour are climate dependent. However, climate change could be positive for the economy (in a relative sense at least) if Auckland in future has a better climate and better access to fresh water than major Australian cities.

Climate change will affect the risk profile of different investments in Auckland in different ways (for example):

Businesses may be subject to higher insurance premia as insurance companies cover the cost of insuring against climate change related weather events

Auckland's property market places a high premium on coastal properties. Many Aucklanders invest in property, rather than securities. Rising water levels may result in significant coastal erosion to private properties – there will be cost impacts of this (insurance, private costs, local govt costs). There may be a shift in housing preferences away from the coast, substitution to land higher above sea level in response, or greater diversity in investment.

Infrastructure will have to be more resilient to deal with climate change effects. For example, the city will need an electricity system that can withstand more frequent and stronger storms.

Populations of a number of Pacific Island nations may be forced to move to New Zealand, most likely Auckland, due to rising sea levels. This may impact on social capital, labour market skills and the ability of the regional economy to house this influx of people. See Demographics below.

Demographics

Population wise Auckland is still quite young, is likely to continue to stay relatively young, and to attract young people. Hence, the trend of ageing populations occurring in large cities internationally will happen later here.

Auckland's younger population are likely to be more culturally and technologically proficient than previous generations and this may be reflected in their innovation, self-belief in the city and country's global competitiveness, and entrepreneurial aspirations.

Auckland will need sufficiently adaptive processes to deal with, and in some cases shape the future physical development of the region, through influencing the amount, timing and sequencing of investment in the social and physical infrastructure of the region, and taking into account trends of where people are choosing to live (for example, the current trend of Auckland's population growth towards the south).

Increasing proportion of Auckland's ethnic communities will continue to diversify Auckland's culture and identity.

It is difficult to plan for events such as forced migration that may occur through political instability, war, or rising sea levels. Auckland has always been a migrant city – we need to have sufficient ways of coping with refugees, migrants, and attracting skilled immigrants who choose to come here.

With high population growth in the rest of the world Auckland's permanent population could be swamped by temporary visitors with consequential costs and benefits for accommodation (long and short term), transport and business sectors.

Resource availability

Security of energy supply is imperative for all economic sectors. Two major threats are Auckland's energy transmission and Auckland's dependence on imported energy sources (e.g. oil). Costs of electricity generation will help determine the nature of the industrial sectors that locate in Auckland and, more generally, in New Zealand. There is potential for more efficient energy use and for alternative supply sources.

Auckland is rich in water resources compared to some Australian cities. This is a competitive advantage for water hungry industries in the Australian region, provided that there is sufficient infrastructure to allow industry to operate.

New Zealand is geographically isolated, relying on freight to transport imports, exports and tourists. Auckland's gateway role may be significantly curtailed if planes and ships restrict their operations to Auckland, or if the cost of oil means that transport component of goods exported to and from Auckland is too high.

Even now, Auckland is facing shortages in capacity in terms of land for residential and business development.

Understanding of the need and opportunity to address resource availability (through demand management and innovative investment strategies) will be critical to Auckland's competitiveness in the mid term.

Technology

- ◆ Auckland's innovation and education systems will need to be flexible so that Auckland is an early adopter of new technologies.
- ◆ Communication technology advances can be seen as a way of reducing transport needs:
 - This may reduce the environmental footprint of Auckland's transport
 - This may also help New Zealand deal better with the tyranny of distance and reduce transport costs to the economy overall.
- ◆ Ironically, the increased application of IT will lead to the further growth of Auckland's population and the further shift toward business service activities, thereby further increasing Auckland concentration and congestion. The outcome of this is that the issues of infrastructure provision, and not just of internal Auckland infrastructure, but also the infrastructure connecting Auckland to the rest of New Zealand, are paramount.
- ◆ There is an opportunity for New Zealand to provide for niches in the emerging new / green economy technologies e.g. water / waste management, local energy solutions, medical research, etc.

Globalisation

- ◆ Auckland has considerable ethnic diversity. We need to focus on how to tap into the ethnic diversity to help create better international links with the countries from which Auckland's ethnic communities originate.
- ◆ New Zealand is not in any obvious large trading bloc (e.g., NAFTA, EU) and as trade blocs emerge, we need to be positioned favourably to take advantage of trade opportunities or avoid being shut out.

World views

- ◆ Single leadership, resilience (including in the built environment and infrastructure) and alignment in planning will allow Auckland to more easily deal with shocks such as natural disasters or terrorist attacks by having a coordinated recovery approach.
- ◆ Being an independent and geographically remote nation has its benefits – New Zealand has a good brand on which Auckland can build.
- ◆ Greater population diversity and a persistently high growth rate in Auckland compared to the rest of New Zealand will amplify differences in regional identity and highlight tensions and trade-offs in public policy over the distribution of benefits and costs (e.g. uniform coverage of public services vs. targeted investment in locations where agglomeration benefits may be greatest).

Actions

The group agreed that, with regard to taking action, whatever we do, we need to do it really well and at a scale that is transforming. Historically Auckland (and New Zealand) has undertaken actions that may have been the right actions, but were not done at a successful scale.

The group also considered that there is a case for prioritisation of national investment in Auckland, not just for the benefit of Auckland's economy, but for the whole of New Zealand. We need to avoid Sydney becoming New Zealand's city link to the rest of the world.

The group agreed on the following action areas for Auckland, none of which were mutually exclusive. These action areas would create resilience in the face of the Forces, and would enhance or transform Auckland's economy.

All agreed that doing nothing was not an option – the actions have to be more than simply sharpening up NCEA testing, or relying on the natural emergence of agglomerative effects of congregation in large urban areas.

Action Area One:

Continue to ensure Auckland has resilient, strong basic infrastructure (transport, telecommunication, energy, water, waste water, and storm water) both within Auckland and linking Auckland with the rest of the world, that continues to anticipate and to progressively meet the needs of its growing population and the challenges presented by the six forces of change (above), now and far into the future.

Action Area Two:

Ensure that Auckland is a world class international city:

Super fast broad band, internationally imaged city, the type of city that attracts head offices, fantastic CBD and waterfront, excellent transport links between airport and CBD, excellent freight/transport links to Hamilton, Marsden Point, Tauranga (Mt Maunganui). Creating Auckland as a city of head offices means that high level decision making/ designing is based here. The movement of manufacturing to other lower cost areas (e.g. China) matters less than the movement of the head office away from Auckland and New Zealand (for example – we'd like to keep the F&P head-office here). Auckland's outstanding natural environment is potentially very competitive internationally to attract skilled workers.

Action Area Three:

Endogenous growth – internal innovation, education, R&D:

- ♦ Build up Auckland's university research capability by creating a critical mass (e.g. 20-50) "million dollar" chairs in commercially oriented research areas such as engineering and science, especially agriculture-related biotech and health. Funding could come from central and local government and relevant businesses). Work with CRIs, research institutions and firms in other areas (especially Waikato/BoP) to create a golden triangle of opportunity in the region.
- ♦ The comparative youth of Auckland/New Zealand could present an opportunity to deepen New Zealand's education system to greatly upskill young New Zealanders and to attract youth from around the world to our educational opportunities.
- ♦ The University of Auckland has the strongest potential of all New Zealand universities to increase its ranking in the top 100 universities of the world. There

are several faculties (e.g. in Medicine) that could be used as leverage points to catapult it into the top rankings.

Action Area Four

Backing winners - not backing specific outputs, but backing inputs which would allow great industries to grow, for example, increasing our level of research and development at a university level, with funding from government (see Action Area Three), is required.

Action Area Five

Building social capital (celebrating and displaying diversity):

- ◆ Early identification and addressing of problems in “at-risk” groups that may result in disengagement or non-engagement of parts of the work force.
- ◆ Creating an economic landscape that empowers marginalised groups to find solutions to issues facing their communities.
- ◆ Invest in appropriate cultural brands for the urban environment so that Auckland can visually take its place as the largest Maori and Pacific Island city in the world, and to continue to celebrate and brand ourselves with regular events.

Action Area Six

Unified Leadership:

- A single, agreed plan for Auckland that includes development of the Auckland economy and facilitates progress in enhancing all aspects of the Auckland region.
- A decision making structure that supports the development and timely implementation of the single plan.
- A decision making structure that is reflective of, and exemplifies the barriers of a culturally diverse international city.

Some Specific Actions

In light of these five action areas, the groups noted the following specific actions (these are not exhaustive):

- A clear decision-making arrangement agreeable at the outset to all Auckland cities, ARC and the central Government which will lead the development of medium term plans, coordinate, monitor and regularly evaluate the economic development performances of the region.
- Build a high-speed link to the airport, strong transport/freight links to Marsden Point and Mt Maunganui ports, and well-performing public transport and highway networks within the Auckland region – even if at the expense of infrastructure decisions in other regions, on the basis that the impact to the economy from enhancing Auckland’s (and New Zealand’s) gateway would be greater than allowing freight needs in Wellington and Christchurch.
- Having a national university ranked in the top two in Australasia would make far better funding sense than the current dispersed model– and could adopt flexible processes to operate centres of excellence around specialist research/product areas e.g. sports medicine, light metals, biotech, or whichever industries are identified as emerging. The University of Auckland should be that university, based on its existing strengths. It should be funded by central government (possibly with local government co-funding) to have

top-ranking research in agricultural bio-tech, health and engineering-related sciences. The better channelling of R&D funds – e.g. through “million dollar” chairs (described above), would have a greater impact than the current multiplicity of funding assistance programs for innovation activity.

Some Specific Non Actions

In terms of actions that we need to stop – we need to stop under-investment in infrastructure and the dilution of action by investing in too many small matters (including the plethora of industry assistance programmes). The group agreed that existing infrastructure funding and existing funding levels of R&D are insufficient, and need to be addressed now.

Economic Transformation Expert Groups

The Economic Transformation expert group consisted of the following people:

- Arthur Grimes
- Tim Denne
- Amokura Panoho
- Cathy Jordan
- Clyde Rogers
- Kelvin Norgrove
- Mose Saitala
- Simon Botherway
- Blaire Keenan
- Esther Calley
- Greg Mossong
- Lesley Baddon

The group Convenors were:

- Ann Magee
- Louise Marra

The group Navigators were:

- Simon North
- Nicolette Buddle