

CHANGE IS NEEDED – MORE FOCUS ON THE NEEDS OF MANUFACTURING, CHANGES TO SOME GOVERNMENT POLICIES, AND IN SOME CASES CHANGES BY MANUFACTURERS THEMSELVES – FOR NEW ZEALAND MANUFACTURING TO RISE TO THE CHALLENGE OF COMPETING WITH THE WORLD'S BEST.





The voice of business

COMMITTED TO NEW ZEALAND'S SUCCESS BY PROMOTING SUSTAINABLE GROWTH THROUGH FREE ENTERPRISE

Business NZ is New Zealand's largest business advocacy body representing the combined members of regional business organisations EMA Northern, EMA Central, the Canterbury Employers' Chamber of Commerce and the Otago-Southland Employers' Association, which offer services and support to 14,500 member companies. Business NZ also represents 56 national industry associations, with a combined membership of some 76,000 employers in the private sector, from large firms to the self-employed. Together, these employ around 80 per cent of private sector employees. www.businessnz.org.nz

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MANUFACTURING PERSPECTIVES SOME COMMENTATORS SAY MANUFACTURING IS A SUNSET INDUSTRY. BUSINESS NZ DISAGREES.

The importance of manufacturing to the New Zealand economy can hardly be over-emphasised. Manufacturing increases the wealth of all New Zealanders. Earning export revenue, creating demand for local materials and components, creating jobs, fostering technical and management skills, helping the service sector to grow . . . all are the work of the New Zealand manufacturing sector.

The sector has a style all its own. Slim, nimble and clever, the relative size of New Zealand's specialised companies has made them flexible and innovative problem solvers, creating unique, cost-effective solutions to customer needs. That innovation has established many New Zealand companies as world-leaders in their specialist areas. The range of products manufactured by Kiwi companies is extensive. Many firms are well suited to supply to high value niche export markets, excelling in short run production and quick turnaround times.

New Zealand manufacturing is steadily moving toward the high end: more processed, higher value goods commanding top prices. Manufacturing is doing more than its share in our quest towards a high-skill, high-wage economy.

Manufacturing is important as a revenue-producing industry and also as a creator of jobs for New Zealanders, in the main centres and the regions.

It creates service jobs as well as manufacturing jobs with an important flow-on effect from manufacturing to other parts of the economy. Keeping manufacturing jobs in New Zealand means keeping the skills base for further job creation.

These are the reasons that Business NZ and regional associations EMA Northern, EMA Central, Canterbury Employers' Chamber of Commerce and the Otago-Southland Employers' Association actively champion the sector and represent numerous manufacturing concerns to government, recently gaining faster depreciation rates for machinery, and continuing to seek larger tax write-offs for research and development expenditure, among other changes.

This publication outlines the current status of the industry – economic facts, export performance and competitiveness – and suggests changes needed to ensure ongoing competitiveness. Manufacturing Perspectives also makes the case for an overall manufacturing strategy for New Zealand – a blueprint that can give confidence to manufacturing clusters and individual firms about the direction and prospects of the industry in the future.

As with all Business NZ communications, your feedback and dialogue are welcome.



PHIL O'REILLY
CHIEF EXECUTIVE, BUSINESS NZ

MANUFACTURING IS A CRUCIAL PART OF ANY ECONOMY – A SUCCESSFUL MANUFACTURING SECTOR IS THE DIFFERENCE BETWEEN A DEVELOPED AND A DEVELOPING ECONOMY

For New Zealand, there is a further imperative. Our manufacturing sector, more than that of many other countries, needs to be internationally competitive.

That's because we have a small domestic market – just 4 million people – so we have to export to survive. It's also because we are a long way from our major markets, so our manufacturing sector must be especially cost-effective to make up for higher transport costs.

Why is manufacturing important to New Zealanders? Because it's a huge contributor to economic growth, the growth on which all New Zealanders depend for job opportunities, good health and education services, and the general sustainability of our environment and quality of life.

That economic growth is at risk if the international competitiveness of our manufacturing sector falters.

The first part of this book sets out the current features and strengths of manufacturing in New Zealand.

The second part outlines what is needed to maintain our international competitiveness, under the headings *infrastructure*, *regulatory efficiency* and *trade*. Change is needed – a greater focus on the needs of manufacturing, changes to some government policies, and in some cases changes by manufacturers themselves – for New Zealand manufacturing to rise to the challenge of competing against the world's best.

1. NEW ZEALAND MANUFACTURING NOW

AN EXPORTING NATION

New Zealand's openness to trade and high volume of exports to imports are the foundation of future wealth

What is manufacturing?

The standard definition is the 'physical or chemical transformation of materials or components into new products, whether by power driven machines or by hand'.¹ In New Zealand, manufacturing takes many forms: food and beverage processing in large factories; wood product manufacturing concerns including furniture and building components; sophisticated plant producing machinery and equipment for other industries; small engineering enterprises, large leisure yacht and boat builders; and companies involved in computer-generated products – these and others make up a varied and exciting manufacturing sector.

Manufactured goods are categorised in four groups:

1. **Processed commodities** – limited processing, little or no differentiation (e.g. wood chips and milk powder).
2. **Manufactured commodities** – some processing, little differentiation (e.g. tanned leather and refined petroleum).
3. **Elaborately transformed manufactures (ETMs)** – high value-added (e.g. pharmaceuticals or electronics).
4. **Basic manufacturing sector goods (BMS)** – all products transformed in any way; includes both manufactured commodities and ETMs.

1: Australian and New Zealand Standard Industrial Classification (ANZSIC)

Manufacturing – export hero

With only 4 million people, New Zealand has a very small domestic market. For New Zealand to be prosperous, it is necessary to produce high quality goods for sale overseas. New Zealand's manufacturing sector is crucial in earning foreign exchange to maintain a high standard of living.

Manufacturing is responding to the challenge. Growth in manufactured exports has been phenomenal: in 1950 the manufacturing sector contributed less than 1 per cent of New Zealand's total exports; now it is 43 per cent, and rising.

The story of the growth of manufactured exports tells much about changes in New Zealand over the last 50 years, from an isolated, protected economy with few export products, to an exporter of a wide variety of products to many overseas markets.

Interventionist policies in the 1970s included a number of export incentives that many firms utilised well. There was strong export growth during that decade, with the manufactured export share increasing from 6 per cent in 1970 to 16 per cent in 1980.

However those interventionist policies also prevented development in other, less favoured sectors. Subsidies to sectional interests, including farmers, caused disquiet in other sectors, and pressure mounted for a freer economy without import licensing, export incentives or other interventions.

The liberalising reforms of the 1980s saw most export incentives removed, but by then the sector was well established. Manufactured exports more than doubled during the 80s, reaching 35 per cent by 1990 and 42 per cent by 2000. The Australian market was the major destination for New Zealand exports in the 1980s and 1990s, with new markets in the US, Europe and Asia growing in importance since then.

Table 1 shows the positive growth in manufactured exports since 1990, along with the pleasing trend in increase of higher value ETM exports.

TABLE 1

EXPORT PERFORMANCE 1990 – 2004

Export performance	1990	1995	2000	2004*	Change from 1990 – 2004	
	\$m	\$m	\$m	\$m	\$m	%
Total exports	15,096	20,057	27,976	28,925	13,829	92%
Unprocessed primary commodities	2,281	2,780	3,920	3,242	961	42%
Processed primary commodities	7,488	9,387	12,325	13,345	5,857	78%
Basic manufacturing sector (BMS) exports	5,327	7,890	11,730	12,338	7,011	132%
Manufactured Commodities	2,244	2,663	3,986	3,505	1,261	56%
Elaborately transformed manufactures (ETMs)	2,878	5,227	7,744	8,834	5,955	207%
Contribution of BMS exports to total exports	35.3%	39.3%	41.9%	42.7%		
Contribution of ETM exports to total exports	19.1%	26.1%	27.7%	30.5%		

* Year ended Sept; other years are calendar years.

Manufacturing's contribution to the economy

Manufacturing's contribution to New Zealand's GDP is getting close to \$20 billion a year – around 15 per cent of total GDP. The main categories of manufacturing and their earnings, expressed as a percentage of GDP, are:

TABLE 2

MANUFACTURING SECTORS & THEIR CONTRIBUTION TO GDP

Manufacturing category	Contribution to GDP
Food, beverage & tobacco products	4.8%
Textiles & apparel	0.8%
Wood & paper products	2.0%
Printing, publishing & recorded media	1.0%
Petroleum, chemical, plastic & rubber products	1.5%
Non-metallic mineral products	0.7%
Metal products	1.9%
Machinery & equipment	2.3%
Furniture & other	0.5%





WINE

Wine sales make up a major part of New Zealand's largest export category, *food, beverage & tobacco products*



Manufacturing's contribution to the economy

In recent years manufacturing's share of GDP has reduced, both in New Zealand and many other developed countries. In part this is because many manufacturing firms now outsource their HR, accounting, transport, maintenance, cleaning and other service functions: an OECD report in 2000 noted that manufacturing firms accounted for two-thirds of total outsourcing in the economies of developed countries. There has also been rapid growth in tourism and recreation, helping the service sector grow faster than the manufacturing sector overall. As well, technological development and productivity growth in the manufacturing sector have reduced the cost of manufactured goods, a further reason for the decline in manufacturing's contribution to GDP.

In New Zealand there has been significant restructuring in the manufacturing sector since the reforms of the 1980s. Import liberalisation – with the removal of import licensing and the removal or reduction of tariffs – has lowered the cost of imported components for manufacturers, but has also led to increased competition from imported manufactured goods.

This is the context for New Zealand manufacturing's mild rate of decline as a contributor to the nation's wealth: -2.6 per cent since 1978. It is significantly less than the decline in manufacturing's contribution in other developed countries, including Australia.

TABLE 3

AVERAGE MOVEMENT IN MANUFACTURING SHARE OF GDP FROM 1978 TO 2000

Countries with declines greater than NZ (%)		Countries with declines smaller than NZ (%)	
Australia	-5.9	Netherlands	-2.3
Japan	-6.0	Finland	-2.0
USA	-6.6	Denmark	-1.5
France	-8.0	Canada	-0.6
UK	-9.6	Sweden	-0.6

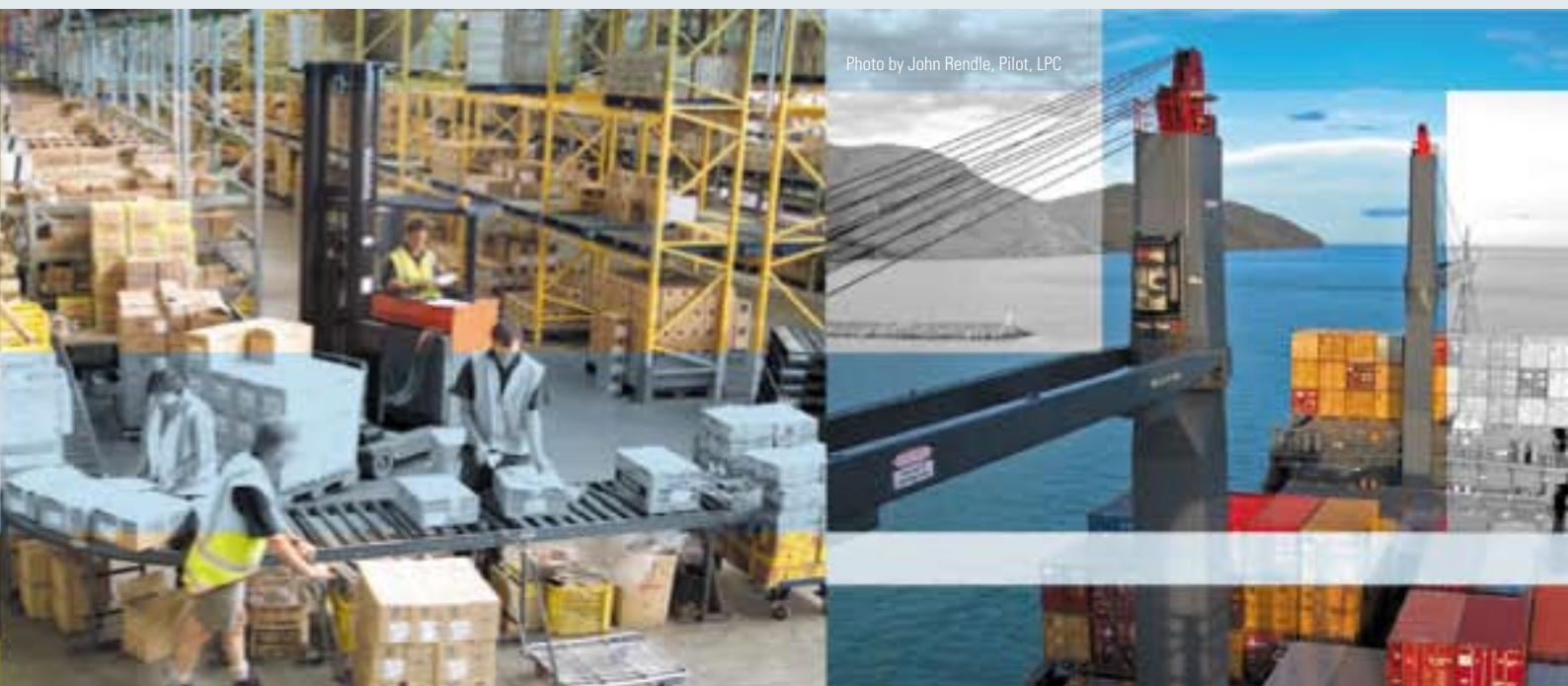


Photo by John Rendle, Pilot, LPC

Employment

One in every six New Zealanders is employed in manufacturing. Manufacturing makes the biggest contribution of all sectors (18 per cent) to national hourly earnings. Manufacturing is a significant employer of males in the workforce, accounting for nearly 22 per cent of all men in employment. Pay levels in manufacturing are generally on a par with or better than those in other industries.

TABLE 4

MANUFACTURING SECTOR EMPLOYMENT

Employment	Manufacturing		Total workforce	
	Number	%	Number	%
Male	175,100	70.9%	805,600	49.9%
Female	72,100	29.1%	809,900	50.1%
Full-time employees	210,100	85.0%	1,025,900	63.5%
Part-time employees	22,700	9.2%	463,200	28.7%
Working proprietors	14,300	5.8%	126,400	7.8%
Total filled jobs	247,100		1,615,500	

In recent years employment in the manufacturing sector has been growing faster than the number of enterprises – a common pattern when economic growth is strong.

Currently around 10,000 manufacturing enterprises (44 per cent of all manufacturing enterprises) have no employees (i.e. the proprietors are self-employed). Just 353 enterprises employ 100 or more staff but they are large companies that account for over half of all employment in manufacturing. Medium-large companies (employing 50-99 staff) are where there is greatest employment growth, largely from smaller enterprises growing in scale.

Research and development

Ongoing research and development is essential for New Zealand manufacturing to maintain competitiveness with other exporting nations. New Zealand manufacturers are investing strongly in R&D, with their investment currently accounting for 56 per cent of all New Zealand business R&D expenditure.

TABLE 5

RESEARCH AND DEVELOPMENT EXPENDITURE

R&D expenditure by industry	1995/96	1997/98	1999/00	2001/02*
	\$m	\$m	\$m	\$m
Primary	13.3	17.7	23.6	34.2
Manufacturing	164.5	182.6	168.5	291.0
Services	62.5	112.2	132.0	198.8
Total	240.3	312.5	324.1	524.0

* Includes an expanded survey population for 2002

This level of expenditure, while excellent compared with that of other sectors in New Zealand, is lower than in other industrialised countries. The reasons are mostly connected with the type of activities in those countries. Pharmaceuticals and communications and military equipment are where most R&D expenditure (93 per cent) occurs in developed countries, however these are not major industries in New Zealand.

R&D in developed countries is strongly concentrated in large multinational companies, but few of these operate in New Zealand. A much higher share of the New Zealand manufacturing workforce (compared with the OECD average) is employed in firms employing fewer than 100 staff. Firms of this size are less likely to conduct R&D than larger firms, while manufacturing businesses employing 50 or more full-time equivalent staff account for 63 per cent of total manufacturing employment but 83 per cent of R&D expenditure.

Also, most developed countries provide tax incentives for R&D, usually through tax write-offs for greater than 100 per cent of R&D expenditure. New Zealand has only recently changed its tax rules to allow 100 per cent of R&D expenditure to be written off in the year it was spent. Meanwhile, most R&D expenditure can be written off as current expenditure so the lack of specific R&D incentives in New Zealand has resulted in few firms identifying R&D expenditure per se, which is likely to be a significant reason for the lower level of R&D expenditure reported in New Zealand.

As shown in Table 6 below, the largest share of manufacturing expenditure in R&D in New Zealand occurs in the most technologically developed sector, machinery & equipment. The largest manufacturing sector, food & beverages, is next.

TABLE 6

R&D EXPENDITURE BY MANUFACTURING SECTOR

Manufacturing sector	R&D investment (\$m)
Machinery, equipment & instruments	\$77m
Food & beverages	\$60m
Textile, fur & leather	\$17m
Petroleum, coal & chemical	\$13m
Fabricated metal products	\$8m
Non-metallic mineral products	\$3m
Wood, paper, printing & publishing	\$2m

Competitiveness and openness

The New Zealand manufacturing sector has been thrown open wide to import competition over the last twenty years. While some manufacturing activity has ceased and other activity has reduced significantly in the face of import competition, other manufacturing areas have expanded.

Total manufacturing output grew 22.5 per cent between 1988 and 2004, reflecting strong growth in firms that remained in business or were established during that period.

New Zealand has traditionally had a high exposure to international trade from its historical reliance on export of primary products. Exports of manufactured products were boosted by the development of preferential trade with Australia under the New Zealand & Australia Free Trade Agreement (NAFTA), which removed most trade barriers between the two countries by 1990.

The volume of exports to imports for manufacturing in New Zealand (manufacturing export ratio) of 37.9 per cent is higher than typical for an isolated nation and reflects the high export volumes for processed primary products. However, even for ETMs the export ratio of 22.9 per cent is significantly higher than for Australia (with an ETM export ratio of 14 per cent), Japan and the US.

High levels of openness and tendency to export (export propensity) have been achieved in Europe, where the combination of free trade in the European Union and a common European currency have allowed exporters to commit a high proportion of output to export, without serious financial risk.

Full free trade does not yet exist under CER (Australia-New Zealand Closer Economic Relations trade agreement). Restrictive rules of origin (rules specifying the proportion of locally made components in manufactured products) are reducing the opportunities to trade for many New Zealand manufacturers who source some of their components overseas.

In general, fewer imports relative to exports indicates that locally produced goods are more competitive relative to their international counterparts. This by itself however, is not always a good measure of competitiveness. For example loss of domestic market share and increasing dependence on exports may drive production overseas to where those markets are located.

Low export propensity in some manufacturing sectors, rather than being a sign of poor international competitiveness may instead be happening because the items produced are inputs to other domestic manufacturing or to the domestic construction sector (e.g. packaging products for the primary food processing sector, or wooden and aluminium joinery and printing). It may also be where products are perishable e.g. bread, or where they are of low value and high bulk e.g. flour, concrete products, paint and newspapers. Output in these sectors is more likely to be driven by overall economic growth, and they are less likely to act as drivers to economic growth.

Using imports as a measure of competitiveness or openness to trade is also not exact. For example import propensity (tendency to import) is not a good measure in the furniture industry where the size of products and the resulting transport costs are a significant constraint to international trade.

The narrow and specialised nature of the machinery and equipment sector in New Zealand indicates a further limitation in the use of imports as a measure of competitiveness. The high import penetration ratio (71.3 per cent) in the sector reflects the high level of imports of products that are no longer or have never been manufactured in New Zealand. Much of the growth in imports for this sector is of consumer products such as mobile phones, DVD players or video cameras. These were not being made in New Zealand when import licensing protection was removed, and manufacture of these kinds of products is less likely than others to develop in New Zealand.

The electronics sector, however, is becoming a major player, with strong export growth over the last 20 years, and is a major contributor to R&D expenditure. The growth in the machinery and equipment sector, despite the closure of the car assembly industry, is progressing well.

Measuring the performance of manufacturing in New Zealand

The ANZ-Business NZ Performance of Manufacturing Indicator (PMI) is a monthly survey of manufacturing in New Zealand, providing an early indicator of activity levels in production, employment, new orders, finished stocks and deliveries. It contains data obtained via Business NZ's regional organisations EMA Northern, EMA Central, Canterbury Employers' Chamber of Commerce and the Otago-Southland Employers' Association.

Manufacturing performance in New Zealand can be measured against other countries (Australia, USA, Japan and Europe) that use the same index.

When interpreting the data, a PMI reading above 50 points indicates manufacturing is expanding; below 50 indicates it is contracting, and the distance from 50 indicates the strength of expansion or contraction.

Since the ANZ-Business NZ PMI began in 2002 New Zealand has mostly been in expansion territory – a trend that could improve further with improvements to the New Zealand business environment.

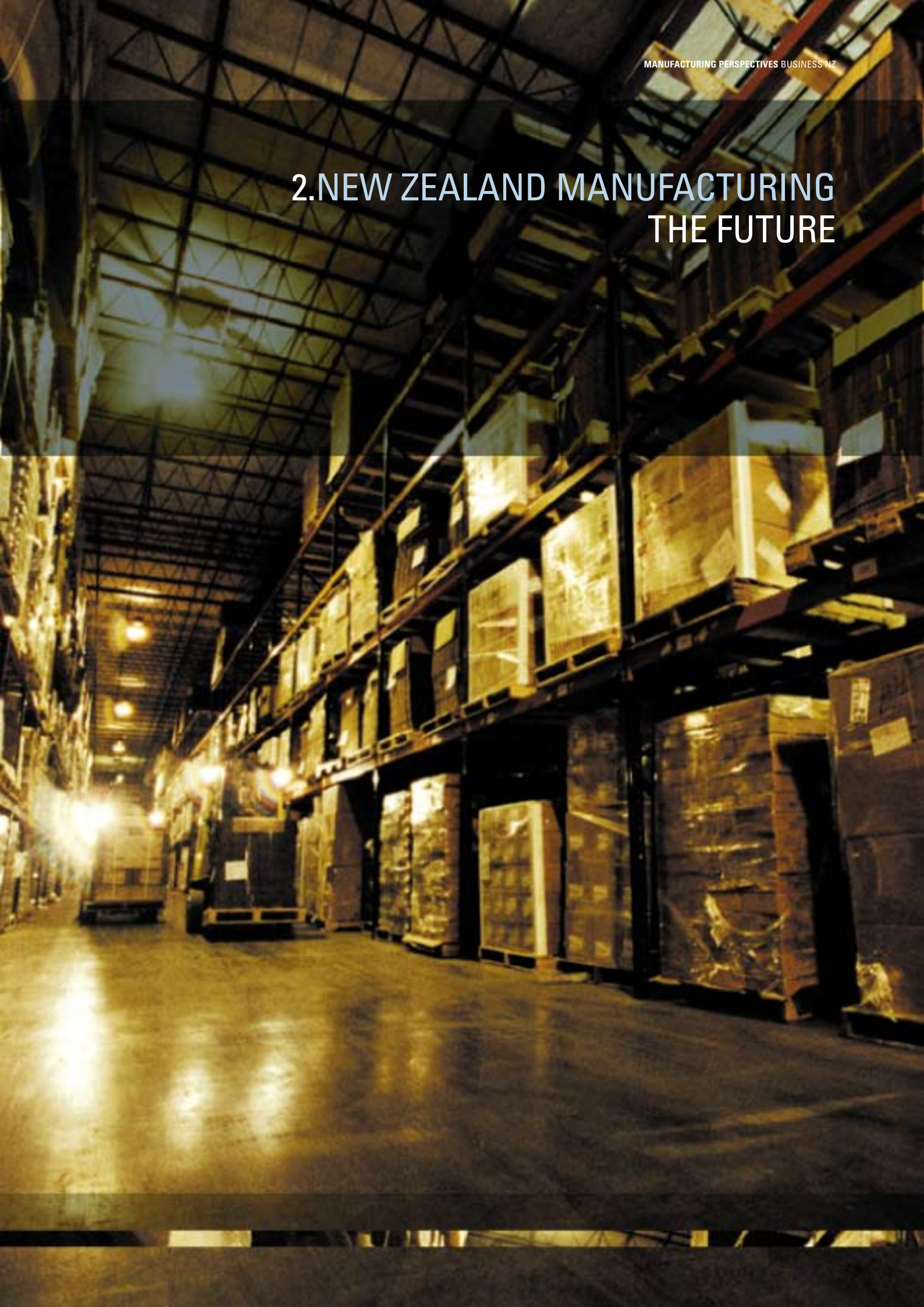
TABLE 7

ANZ-BUSINESS NZ PMI RESULTS 2003 – 2005

National Indexes	May 2003	May 2004	May 2005
ANZ-Business NZ PMI	49.6	54.1	49.3
Production	49.8	55.6	49.7
Employment	48.8	50.4	47.2
New orders	50.3	58.2	50.7
Finished stocks	50.3	48.4	48.5
Deliveries	49.0	52.2	49.2

THE PMI (PERFORMANCE OF MANUFACTURING INDEX) SHOWS NEW ZEALAND MANUFACTURING IN EXPANSION FOR MOST OF THE LAST THREE YEARS – THIS TREND COULD IMPROVE STILL FURTHER WITH IMPROVEMENTS TO THE BUSINESS ENVIRONMENT

2. NEW ZEALAND MANUFACTURING THE FUTURE



New Zealand manufacturing – the future

There is much to celebrate about manufacturing in New Zealand, however the sector could become more competitive with changes in three main areas:

1. Infrastructure

What's needed is adequate investment in physical assets like roads, ports and power plant to make it easier to travel, move goods and do business, and adequate investment in human assets to ensure high skill levels in the workforce.

2. Regulatory efficiency

To be competitive in a global economy, New Zealand manufacturers have to be light on their feet. The regulatory environment should be tailored so manufacturers can meet society's expectations while also responding quickly to changing market requirements. Laws are needed that deliver clear and reasonable standards at least cost to business. This means providing maximum flexibility in labour organisation, subject to reasonable minimum standards. It means being able to gain resource consents within a fraction of the investment payback period rather than the years currently taken. It means fiscal settings that allow adequate ongoing capital investment; that help produce a high-skill, high-wage economy; and that facilitate innovation and entrepreneurship.

3. Trade

What's needed are government commitment to policies that help, not hinder, competitiveness of New Zealand companies against overseas companies, and commitment to policies that would allow free trade agreements with the US and other countries

Infrastructure

Infrastructure – roads

Particularly in Auckland, manufacturers need better roading to cut the time wasted in traffic congestion. Decades of under-investment and holdups caused by RMA requirements have left major arterial routes still uncompleted in Auckland and elsewhere. The Land Transport Management Act (LTMA) gives priority to transport modes that are inefficient for goods movement. Private investment in road development is discouraged under this Act.

Changes that would improve roading infrastructure include:

- Changing the LTMA to give greater priority to building and upgrading roads.
- Changing the LTMA to facilitate tolling and private enterprise investment in roading.
- Changing the RMA so trivial and ideological claimants can't stop road development, and so consents are achieved within the payback period of the investment, not longer than the payback period as at present.
- Petrol tax revenue being spent on roads, not directed into the consolidated fund.

Infrastructure – energy

Energy supply and price are major concerns for manufacturers. Manufacturers need assured supply of electricity at internationally competitive and reasonably predictable prices. The current lack of certainty of cost and supply is a disincentive for investment. Adding value to primary products, for example in wood processing, is energy intensive, so policy decisions that increase energy prices can be expected to harm growth.

New Zealand's decision to ratify the Kyoto Protocol will mean carbon taxes from 2007. New Zealand manufacturers' competitive advantage has historically been comparatively low energy costs but the protocol destroys that advantage. New Zealand is the only country among our main trading partners to ratify, a decision that will hamper our exports' competitiveness. The protocol will also prevent us from using our large coal resource, forcing the use of more expensive alternatives. In essence, carbon taxes equate to a tax on the use of energy. As New Zealand's economic growth depends on energy, taxing energy effectively taxes growth.

Changes that would improve New Zealand's energy infrastructure include:

- Ditching the carbon tax in favour of a policy that would let all businesses contribute to energy efficiency, for example through an accelerated depreciation regime on new, energy-efficient machinery.
- Amending the RMA to allow energy generation plant to be built more quickly.
- Privatising more state owned energy generators/retailers to get more competition and lower power prices.
- Further upgrading the Transpower grid to improve certainty of power supply.

Infrastructure – skills

New Zealand is experiencing the tightest labour market on record and an acute shortage of skills. There is currently a net loss of 330 New Zealanders to Australia every week and 24 per cent of tertiary qualified New Zealanders are now living overseas. The lack of available skilled workforce not only restricts manufacturing's current operations, but also makes it more difficult to develop the significant growth opportunities available to the sector from, for example, converting manufactured commodities into more specialised ETMs.

Changes that would improve skills available to the manufacturing sector include:

- An immigration policy that brings in enough immigrants with skills and language ability to meet manufacturing needs.
- More spending on industry training. The cap on the industry training fund should be lifted so apprentice and trainee numbers can grow.
- Better secondary education. The NCEA should be made more reliable and the qualification made easier to understand.
- Better tertiary training, with less spent on courses that have low relevance and value to the economy, and more on industry training.

Regulatory efficiency

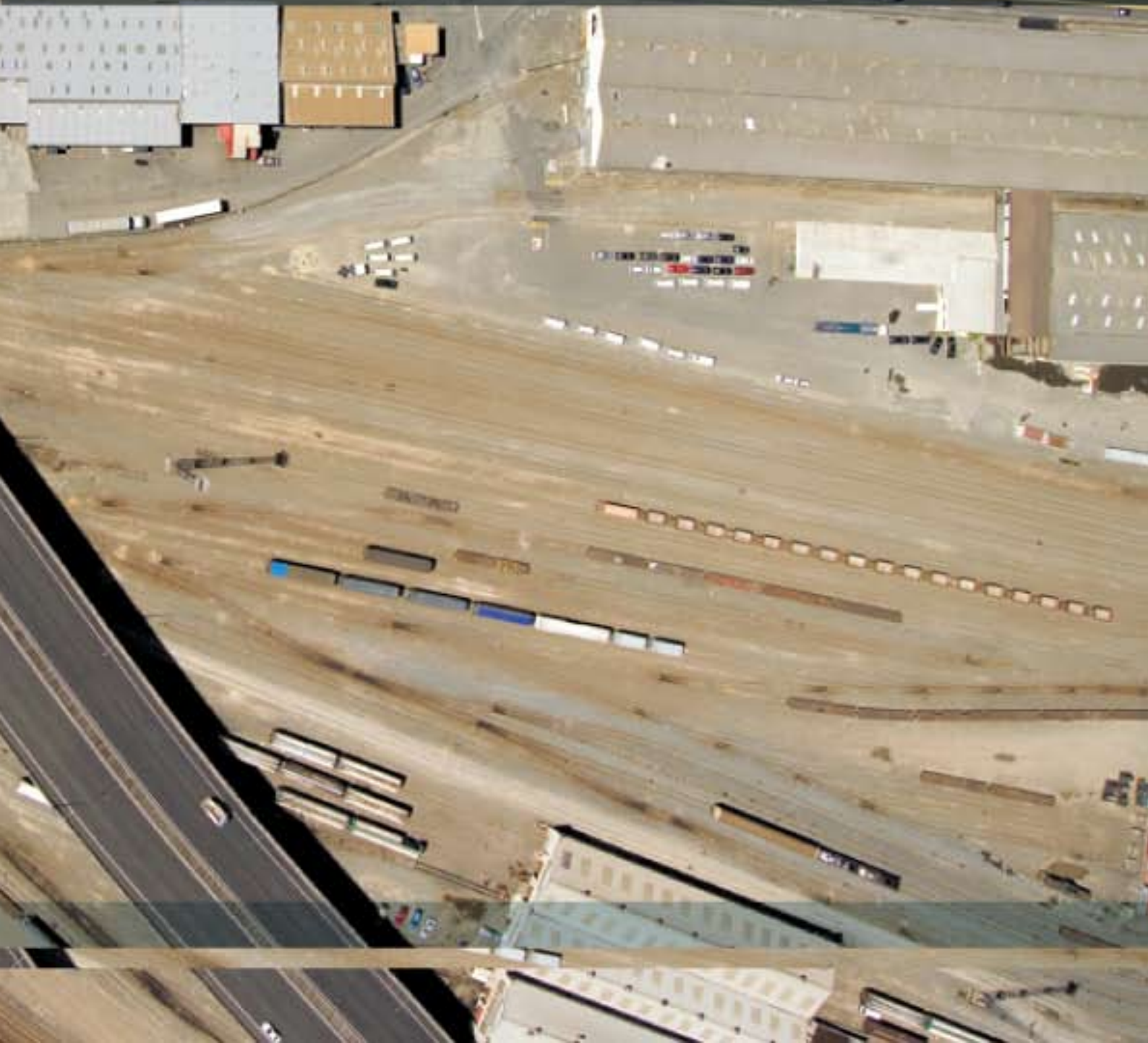
Manufacturers need a regulatory environment that is more efficient, allowing them to work flexibly within a clear framework of reasonable standards for employment and environmental protection. The regulatory environment needs to be more supportive of enterprise, including government taxing and spending at levels that promote increased competitiveness. This requires more long-term thinking – for example Treasury has been focusing more on initial revenue losses from lowering taxes instead of future increased revenues from increased economic activity generated from a lower company tax rate.

Changes that would improve the environment for manufacturing include:

- Changes to the RMA to provide more national standards, reduce procedural delays and recognise the value of economic activity.
- Lower tax – As other countries cut their company tax, the NZ company rate is becoming uncompetitive; 68 per cent of NZ manufacturers would expand if company tax were lower (Infometrics survey 2002).
- Tax incentives for R&D – Most OECD countries provide write-offs greater than 100 per cent for R&D expenditure; NZ has only recently allowed 100 per cent write-off – it should be greater than 100 per cent.
- Government procuring – A better system is needed to encourage government departments and SOEs to buy New Zealand-made products.
- Compliance costs – Government needs to commit to reducing compliance costs.
- Natural resources – An improved system is needed for allocating natural resources e.g. tradeable rights for water.
- Labour market – Moves to improve the flexibility of the labour market are needed, including:
 - Simplifying the Holidays Act and replacing 'relevant daily pay' with 'ordinary pay'.
 - Restoring choice to ACC legislation so firms can choose private accident cover if they wish.
 - Restoring choice to the Employment Relations Act (ERA) so everyone can choose either individual or collective bargaining; removing the union monopoly over collective bargaining; allowing for grievance-free probationary periods and removing 'presumed imbalance of power' clauses from the ERA.
 - Improving the Health & Safety in Employment (HSE) Act by removing its 'employer presumed guilty until proven innocent' bias and returning the right to insure against fines.



MANUFACTURING PERSPECTIVES MAKES THE CASE FOR AN OVERALL MANUFACTURING STRATEGY FOR NEW ZEALAND – A BLUEPRINT THAT CAN GIVE CONFIDENCE TO MANUFACTURING CLUSTERS AND INDIVIDUAL FIRMS ABOUT THE DIRECTION AND PROSPECTS OF THE INDUSTRY IN THE FUTURE



Trade

The Government is to be congratulated for recognising the importance of the WTO's endeavours to gain multilateral free trading along with the network of regional free trade agreements. But more could be done to alleviate the competitive pressures on New Zealand manufacturers.

Changes that would help trade prospects for the manufacturing sector include:

- Government commitment to policies that help competitiveness against overseas companies (see regulatory efficiency above).
- Government commitment to policies that would allow a free trade agreement with the US.
- Greater on-the-ground help in export markets.
- Improvements to the CER regime, including resolution of the problem of Australian industry support undermining New Zealand products (motor vehicles & components, ship building, pharmaceuticals, computers, modems, textiles, clothing, footwear & leather), and the absence of any CER dispute resolution mechanism.
- Negotiation of a free trade agreement with China that addresses subsidies, dispute mechanisms, anti-dumping rules, workable remedies, protection of intellectual and other property rights, and China's undervalued currency.

Manufacturing policy needed

A successful manufacturing sector requires a business environment that is stable and reasonably predictable. Manufacturing investment is lumpy; adaptation takes time in international markets; and international investors have long memories. This means successive governments need to avoid huge policy swings in any area.

Moreover, a specific policy for manufacturing is needed, based on robust data.

There has been little official analysis of the effectiveness of past government programmes for manufacturing so there is little information on whether the programmes were effective or whether improvements to programme designs could have been useful. At this time the only regular statistics published on manufactured exports or imports are those produced by Business NZ.

At present New Zealand lacks a well-defined and well-supported general manufacturing strategy. Small-scale industry-specific manufacturing strategies exist – e.g. a wood processing strategy; a textiles, clothing, footwear & carpets strategy; and a food & beverage strategy – however it is not clear how these strategies fit into an overall economic development strategy.

Business NZ presents this analysis as the foundation of such a strategy for the enhancement of the manufacturing sector and in the interests of New Zealand's continuing economic development.

Manufacturing Perspectives is the first in a series of Perspectives publications by Business NZ aimed at providing research and recommendations on current business issues.

For more information on manufacturing and other business issues, visit www.businessnz.org.nz



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