Expanding our Horizons

NEW ZEALAND IN THE GLOBAL ECONOMY

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Foreword

The Economic Monitoring Group of the New Zealand Planning Council, has a longstanding interest in New Zealand's links into the international economy. In the early 1980s, when New Zealand still had in place quite substantial barriers to the free flow of goods, services and investment across our borders, the group published two trade related reports, *New Zealand's Long-term Foreign Trade Problems and Structural Adjustment Policies* (1980), and *Foreign Exchange Constraints, Export Growth and Overseas Debt* (1983). With the removal of foreign exchange controls and the deregulation of the financial sector in the mid 80s, business and individuals began to grapple with the realities of dealing with a floating dollar, and the EMG assisted the debate with two reports, *The Foreign Exchange Market* (1985) and *A Review of the Foreign Exchange Market and Exchange Rate Developments* (1986). In the latter part of the 1980s the EMG switched its international attention to the rapidly emerging problem of overseas debt with a paper entitled *Overseas Debt: An Assessment* (1988), followed two years later by a review of subsequent events in *New Zealand's Overseas Debt: A Reassessment* (1990).

Expanding Our Horizons continues this interest in international links, but moves from a somewhat narrow issue focus, to setting an overall framework in which the changes of the 1980s can be examined. In producing this overview the EMG provides an additional layer to the work of the Porter Project by giving that more narrow industry focus, an international context. In common with much of the recent work of the NZPC, the report is aimed at the layperson, as, in an open economy, it is increasingly important that all policy makers, whether they be business people or households, understand the world around them and the changes taking place within it. I would like to thank EMG group members Margaret Tapper, and John Dyall and acknowledge, until his untimely death, the enthusiasm for the project from previous convenor, Tony Rayner. I would also like to record my thanks to members of the secretariat who gave considerable time in reading and commenting on drafts of the report.

Gary Hawke
EMG Convenor

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Introduction

Whether we like it or not New Zealand is being increasingly linked into the world economy. Trade in goods, services, capital — and the movement of people — has become international.

In order to tap into these international markets — as indeed we must — and if we are to prosper in the new environment, New Zealand must develop a more open, internationally competitive economy. Globalisation means that businesses now have greater choice and diversity of markets they can target, and consumers also have better choice in the goods and services they can purchase.

Over the past decade in New Zealand, as in many other countries, barriers to the outside world have been being broken down. This has the potential to generate strong responses. Some people in New Zealand are worried that 'cheap, third world' imports will destroy New Zealand industries. In the United States there are concerns that the Japanese are taking over Hollywood or the Rockefeller Centre in New York.

Unfortunately these issues are often looked at in isolation. Tariff reform, for example, should not be seen in isolation from migration or foreign investment policy, or a build-up of foreign borrowings from a possible build-up of foreign assets. The report of the Porter Project on New Zealand, for example, does not take the wider picture — to consider why these global changes are occurring, or why, beyond our falling living standards, New Zealand needs to be competitive.

This study gives a broad view of the process of globalisation and how it affects New Zealand. It looks at the links between trade in goods, services and capital, as well as the movement of people. It also raises some important issues:

- Is foreign investment increasing and, if so, is this good for New Zealand?
- Is the concept of 'New Zealand-made' valid any longer?
- How have the power balances shifted between consumers and

producers, between government, businesses and communities, and between individual and groups of nations?

- Should barriers to the outside world be further reduced, particularly in the areas of foreign investment and the movement of people?

- How can New Zealand return to a 'fully employed, high income society' within an open, internationally competitive environment?

This report does not attempt to answer all these questions, but sets the scene for more detailed analysis. Migration policy, for example, needs to take account of changes in goods, services and investment markets, as well as looking at issues such as historical links with the Pacific Islands, CER, refugee status and biculturalism.

But global issues are not just the concern of governments. Removing barriers to the outside world means that everyone — from policy-makers in firms, schools, and regional government, to iwi and individual households — needs to understand the process of globalisation if we are to take advantage of it.

What is globalisation?

The term 'globalisation' — like 'corporatisation', 'privatisation', 'transparency' and 'accountability' — is now a common piece of economic jargon. It is often interchangeable with 'internationalisation' and is used at a firm level, at an overall industry and country level, and when analysing worldwide economic change.

Globalisation is also increasingly used in an environmental context. Issues of ozone depletion, greenhouse gases and forecast sea-level rises all emphasise the inter-connections in the biological sphere, as well as the links between economic activity and environmental outcomes.

It is often linked to political processes, and another catch word, 'democratisation'. This term is not only used to describe freedom of political choice but also freedom of consumer choice, which has strong links into both environmental and economic issues.

In the economic context globalisation usually describes the process in which individuals, companies and governments are increasingly being linked into production, trading and financial networks outside of the particular country they are located in. These links are being developed willingly as a response to the perceived opportunities the international arena presents, but are also sometimes forced as a reaction to the lifting of protective barriers around domestic markets.

In countries like the United States and Japan, globalisation is sometimes discussed as a new feature. The Japanese talk about a 'third opening', a new significance of international links akin to the end of isolation in the later nineteenth century or to the change of direction after World War II. The US has been internationalist rather than isolationist since World War II but, particularly in goods trade and finance, it is now finding that it has to respond to outside pressure rather than provide world leadership.

For other countries globalisation is more a change of emphasis than a novel experience. They are countries for which international trade has long been a major contributor to their economic growth and a significant influence on the way their economic institutions have been organised.

Among our neighbours in the Asia-Pacific region, this is especially so for the trading economies of Hong Kong and Singapore, but even Malaysia writes its economic history in terms of the international markets for tin and rubber.

Since the early 1800s New Zealand's economy has been increasingly linked into world markets, so globalisation is not entirely a new phenomenon. However, the outcome of further opening up of the economy over the 1980s, if measured by GDP or employment growth, indicates that for many industries, groups and individuals, the problems created have more than matched the new opportunities offered. The effects on different groups in society are discussed in some detail in two recent Planning Council publications, *The Economy in Transition* and *Who Gets What?*.

In order to understand the changes taking place in New Zealand it is useful to identify the changes occurring at a world level and the forces driving these changes.

The driving forces of globalisation

A wide range of factors are driving the move to a global economy, but a key element is that of new technology.

> "The microelectronics-based technological revolution is playing a fundamental role in accelerating and strengthening the internationalisation of national economies. It provides the infrastructure without which such a process could never take place. The role of telecommunications in the formation of the world economy today is the functional equivalent of that of the railways in establishing national markets in Europe and the United States during the 19th century. Today, computer aided manufacturing allows for the formation of a world assembly line, whereas the integration of management operations via telecommunications and information systems makes possible the unified management of spatially distant activities. In addition, new transportation technologies, much

dependent on information processing for their effective operation, ensure a constant flow of commodities throughout the world."[1]

New technology provides the tools to move resources around the world at an ever quickening pace, but there have to be good reasons for doing so. These include:

- Producers seeing an ability to gain 'competitive' advantage in labour, capital, land or raw materials on a world-wide rather than a national basis.

- Producers outgrowing their own domestic markets, particularly where economies of scale are significant but the local market small.

- Producers seeking to spread currency risks or risks of protectionist policies by locating in a range of countries.

- Consumers becoming more aware of a wider choice in price, quality and availability of goods and services if imports are more freely available.

- Consumers, through media exposure or travel, having a greater interest in overseas 'cultures'.

Those bodies preventing free movement of resources, usually governments, have also become more aware of the theoretical and practical advantages of an outward-looking philosophy. In looking at ways of achieving high levels of economic growth, and ultimately improving standards of living, it has now become almost universally accepted by governments that "the economic performance of the outward-oriented economies has been broadly superior to that of the inward-oriented economies in almost all respects".[2]

This philosophy is accepted and increasingly upheld by most nations, including previously inward-looking economies such as the Soviet Union and in Eastern Europe, but in some areas of trade such as agriculture strong barriers remain.

How have global markets changed?

The process of globalisation continues to bring about rapid changes in world goods, services, capital and human resource markets. Linked to this are changes in organisational structures for firms and a redefining of the role of government. In New Zealand we must be aware of these changes and look for ways of adapting to them.

Goods

Nowadays, in the global economy, there is increasing emphasis on selling across borders rather than selling within a country. This can be illustrated by comparing growth of world production with that of world trade.

Table 1

World Production and Trade Volumes 1971-90
Annual change %

Average	**1971-80**	**1981-90**
World production	3.9	3.2
World trade	5.7	5.7

Source: World Economic Outlook, IMF, October 1989

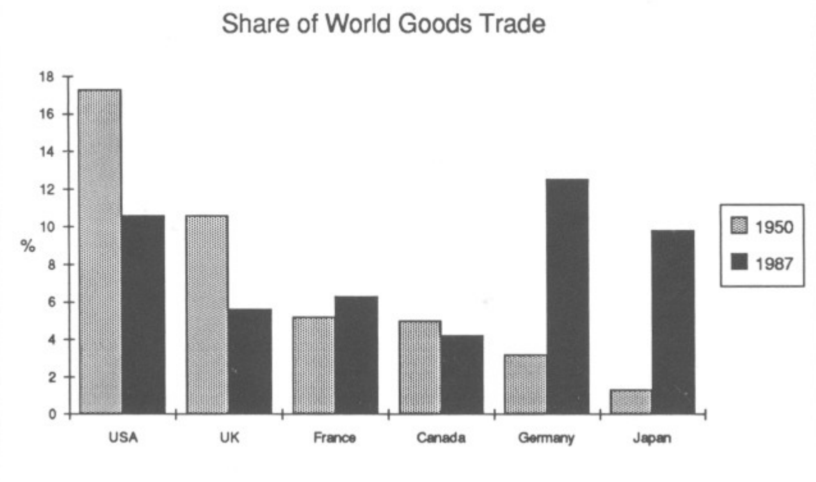
There have been short periods in which trade growth has been less than growth in production, but overall in the last 20 years, world trade has grown significantly faster than production.

At the same time as this shift from domestic trade to international trade has occurred there has also been a change in the importance of various trading nations, especially the US and Britain. Figure 1 compares the share of world exports in 1950 and 1987.

In the 1950s the US provided nearly one-fifth of total world exports, yet exports in this period represented only just over 4% of its total output. As a comparison, exports in the 1950s represented just under one-third of New Zealand's total output.

By the late 1980s, despite exports rising to just over 7% of total US output, its share of world trade had declined. Exports from Japan had climbed to nearly match those from the US, while German exports were greater than those from America. Some of these exports have, of course, ended up in the large US domestic market.

Figure 1



Source: International Financial Statistics, IMF, 1988

Japanese exports in particular are creating an awareness amongst Americans of the competitiveness of foreign industries.

Figure 1 indicates that three major trading areas have emerged — Japan (along with other Asian countries), the United States along with other North and South American countries) and Europe. These three major areas provide a balancing effect in trade negotiations, but they also have the potential to form powerful but isolationist trading blocs.

The most rapid growth in world goods trade has been in the area of manufacturing.

Table 2

Growth of World Goods Trade and Production 1960-86
Annual change %

	1960-70	1970-80	1980-86
Exports			
Agriculture	4.0	4.5	1.0
Mining	7.0	1.5	-1.5
Manufacturing	10.5	7.0	4.5
All merchandise	**8.5**	**5.0**	**3.0**
Production			
Agriculture	2.5	2.0	2.5
Mining	5.5	2.5	-1.5
Manufacturing	7.5	4.5	2.5
All merchandise	**6.0**	**4.0**	**2.0**

Source: General Agreement on Tariffs and Trade, *Report on International Trade 1980-1987*, 1987

The strong growth in manufacturing trade has been of particular importance to newly industrialising countries. It has significantly boosted countries near to New Zealand, such as Korea, Taiwan, Singapore and, more recently, the Philippines, Indonesia, Malaysia and Thailand. Rising incomes in both developed and newly industrialising countries are also linked to strong growth in services.

For New Zealand, however, the relatively strong growth in world agricultural production, but slow growth in world trade in the 1980s, has not been a positive trend.

Services

World trade in services has also been increasing rapidly. This trade has partly been stimulated by the trade in goods, with a greater requirement for cross-border transport, communications, financing, insurance and even business travel. New areas of growth in services trade include software, consultancy services, entertainment and even educational services. However, there has also been a very rapid increase in trade of 'pure' services, especially tourism.

Table 3 illustrates the strong recent growth in international tourism, especially in our part of the world.

Table 3

Average Annual Growth of International Air Passengers 1980-87

	%
Intra Asia/Oceania	7.3
Intra Europe	4.6
Between Asia/Oceania and North America	9.1
Between Asia/Oceania and Europe	9.3
Between North America and Europe	4.9
World	4.3

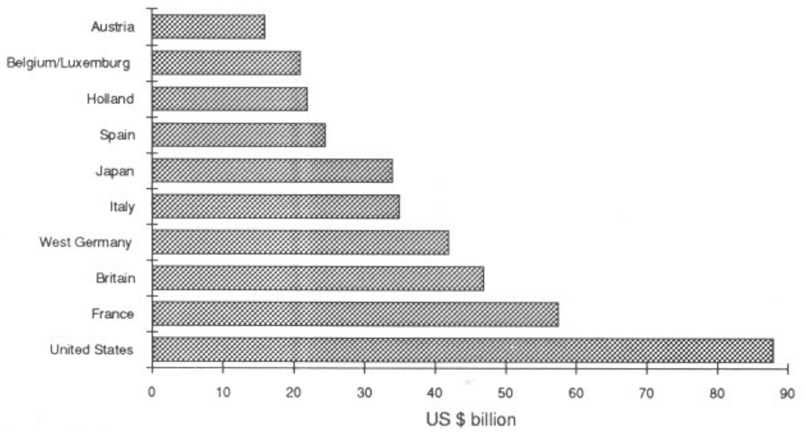
Source: *Meeting the East Asia Challenge*, 1990

Increased international tourism in turn tends to create demand for global retail financial networks and, through access to foreign goods, an on-going demand for international trade in goods. Increased goods trade in turn creates more demand for international finance networks.

Despite its decline in importance in goods trade the United States is by far the world's leading exporter of services.

Figure 2

Leading Exporters of Services



Source: *The Economist*, 1989

Capital

The increase in world goods and services trade has gone hand in hand with an increase in financial flows between countries. These include direct long-term investment in industry, trade-related financing, debt financing of both the private and public sectors, and 'speculative' transfers of money looking for interest or exchange rate advantages.

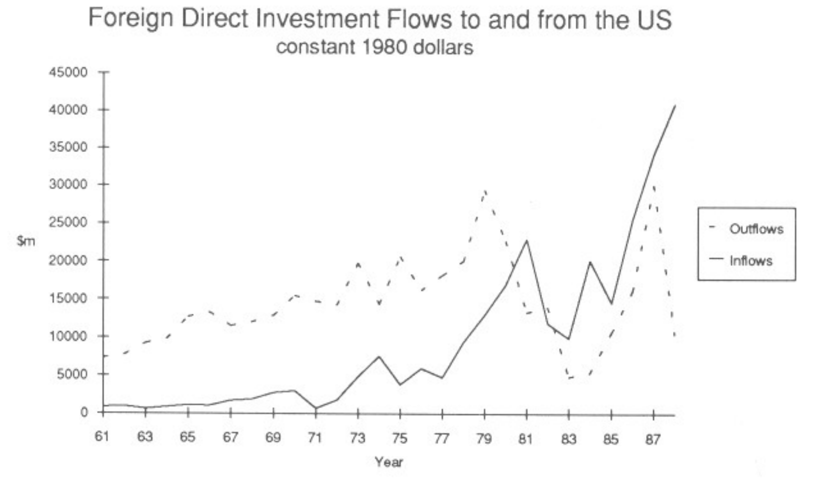
Debt flows are of considerable interest to many countries but it is more often direct investment flows which stir up feelings. The principal reason for this is that changes in equity usually involve changes in control.

Direct foreign investment has, of course, had a long history. In the last two hundred years, for example, the colonial empires of the Spanish, British, Dutch and French involved high levels of foreign investment, usually alongside a significant degree of direct political and/or military control. Since World War II it is argued that economic control has been distanced from political and military domination.

The United States and Japan provide two interesting examples, partly because the rest of the world regards them both as major foreign investors, and they have very different patterns of flows. America's economic clout is also backed by a strong military potential; Japan's to a lesser extent.

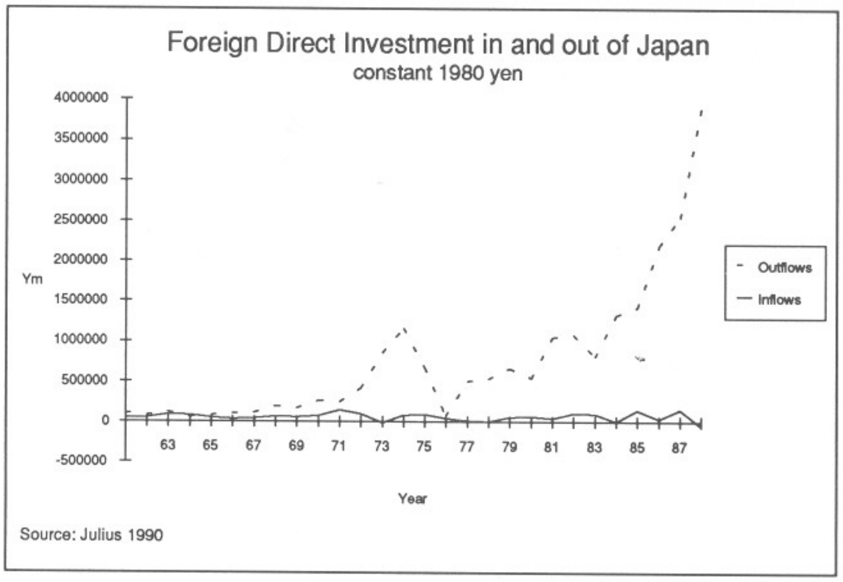
The US has been a significant overseas investor since the 1950s. Outward investment rose steadily during the 60s and 70s, but was somewhat erratic in the 1980s. Inward investment, however, has shown very strong growth since the early 1970s.

Figure 3



Source: Julius 1990

Figure 4



More recently, part of this direct foreign investment into the US has been from Japan, attracting a high media profile. Figure 4 illustrates the very strong growth in outward flows from Japan, especially in the late 1980s. It also illustrates the ability of Japan to keep foreign investors out of its own economy.

Japan stands out in its lack of inward foreign investment, but the trend of strong real growth in both inward and outward flows of capital affecting the US is not unique, particularly in debt financing.

> "... foreign ownership of British Government debt has steadily increased since 1985, reaching 13% at the end of March 1988. Similarly, foreign ownership of Canadian Government debt stood at about 19% in both 1986 and 1987, after averaging just under 14% in the early 1980s. Although comparable figures are not available for foreign ownership of German Federal debt, data show that foreign investors have snapped up 36% of the net increase in the German Government's borrowing in the 1980-87 period."[3]

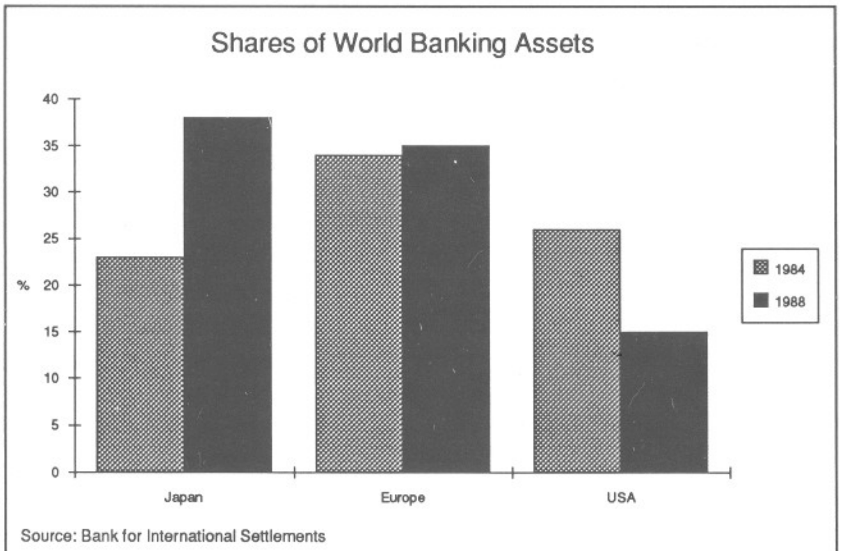
As New Zealand moved towards a more open economy it was logical to expect similar patterns of capital flows, particularly in debt financing. However, it is clear that our reliance on overseas debt financing has been excessive.

The relative decline in the strength of US international banking, and the strong growth in Japanese international banks, mirrors the pattern for trade in goods. This is despite America's strength in other areas of international trade in services, and its large overseas investments.

Of the world's 20 top banks, 14 are Japanese, led by Dai-Ichi Kangyo (assets $US414 billion), five are European, topped by France's Crédit Agricole (assets $US214 billion), with only one — Citicorp — being American (assets $US233 billion).[4]

In the 1980s the growth of Japanese financial strength has been dramatic. According to American research, from 1980 to 1988 Japanese bank deposits, measured in yen, doubled in size. The deposits also doubled in dollar value between 1986 and 1988, to $US3.5 trillion, owing to the rise of the yen versus the American dollar.

Figure 5



Source: Bank for International Settlements

Both the rise in Japanese financial power, and the overall dominance of global banking by Europe, the US and Japan, is illustrated in Figure 5.

If European banks were broken down into individual countries the domination of world banking by the Japanese and Americans would stand out even further.

Many commentators, however, now argue that Japanese banking power has been developed partly through high leverage on artificially inflated asset prices in Japan. If the late 1990, early 1991 decline in Japanese asset prices continues, the balance of banking power, and the closely linked direct foreign investment, could alter yet again.

Movement of people

The increase in international trade in goods, services and capital encourages the movement of human resources.

Currently, world barriers to free movement of tourists are relatively low, but there are often major impediments for people wishing to work both long- and short-term in other countries. Despite this, the exodus of foreign workers following the Iraqi invasion of Kuwait provided a unique snapshot of the movement of people to other countries, often for short-term working assignments.

Table 4

Estimated Foreign Nationals in Iraq and Kuwait August 1990

Egypt	1.8 million	Turkey	6,500	Brazil	358
Palestinians	470,000	Tunisia	3,560	Hong Kong	19
India	180,800	Poland	2,740	Netherlands	233
Pakistan	100,000	Britain	4,700	Australia	159
Sri Lanka	100,000	US	3,100	Finland	40
Bangladesh	78,000	Ireland	800	Canada	700
Iran	55,000	Sweden	160	France	560
Philippines	50,000	Greece	180	Italy	482
Morocco	36,000	Cyprus	40	Spain	120
Yugoslavia	7,300	Norway	52	Switzerland	140
Soviet Union	9,200	Japan	508	Austria	80
Thailand	11,800	Czechoslovakia	392	New Zealand	35
China	3,000	Hungary	187	West Germany	740
South Korea	708	Indonesia	709	Denmark	100
Portugal	100	Belgium	59		

Source: NZPA - Reuter

The short-term flows of people between countries include wealthy nations importing low-cost domestic labour, the movement of specialist professionals to both industrialised and developing nations, and the movement of staff within 'global' enterprises.

In addition, there are also strong migrant flows. Reasons for moving can be varied, from refugees fleeing wars or political uncertainty, to people looking for a less stressful lifestyle or better educational opportunities.

For many people looking to emigrate, the United States still represents a land of opportunity — the 1980s was the largest decade of immigration ever, surpassing even the huge flood of people who arrived earlier this century. In Canada the number of accepted immigrants increased from 84,000 in 1985/86 to an estimated 160,000 in 1990/91. After far-ranging immigration reform, Australia admitted 145,100 people on a permanent basis for the 1988/89 year compared with 77,500 for the 1984/85 year.

The growth of international companies

The changes in global markets — in goods, services, capital and labour — have encouraged the growth of international companies. For New Zealand this means that more large overseas businesses will be investing and locating here, but also that New Zealand companies can become part of the global trading networks.

Once a company moves beyond the domestic market there are generally three ways of operating.[5]

- International companies are those which operate with sales or assets deployed in more than one country.
- Multinational — or multidomestic — companies are those which establish businesses in other countries, give them considerable independence, measure performance mainly by each country's financial earnings and take a relatively 'hands-off' approach to key business functions in other countries.
- Global companies have a high degree of strategic integration. A business in one country therefore has considerable ability to influence key business functions in another. Country profitability is not the most appropriate measure of performance.

International trading companies have been around since trade between individual countries began. In New Zealand, international companies have been present since the 1840s, especially in the timber industry, shipping and finance. But New Zealand companies have long been involved in international trade, although multidomestic or even global status for some is more recent.

Within the service sector there are many companies, particularly in banking, insurance, shipping, the energy distribution sector and importing/exporting, which would claim to act and think globally. In Britain, for example, British Airways, BP, P&OCL and Lloyds Insurance have had operations on a global scale for some considerable time, including a long presence in New Zealand. Until recently, however, they have been very much British-controlled — foreign investors now have a stake in British Airways and BP, both previously government-owned.

In the airline industry the move to international control and global operation has been gaining momentum. United States airlines have been trying to gain greater access to Europe through joint marketing ventures and pushing for more landing 'slots', while European airlines are poised to move into the US when foreign investment regulations for airlines are relaxed.[6] In New Zealand aviation Air New Zealand's financial links with Japanese Airlines and Qantas, and marketing links with British Airways, indicate a similar trend.

In other areas of the service sector advertising and accounting are also reaching into the global market. Saatchi and Saatchi has become a world advertising force, although not without its problems, while the merger of Deloitte Haskins & Sells, Touche Ross and Tohmatsu is the first with a big Japanese accounting firm.

Manufacturing industries have long traded goods internationally. In certain industries, notably petrochemicals, companies have had a long history of operating as multidomestics.

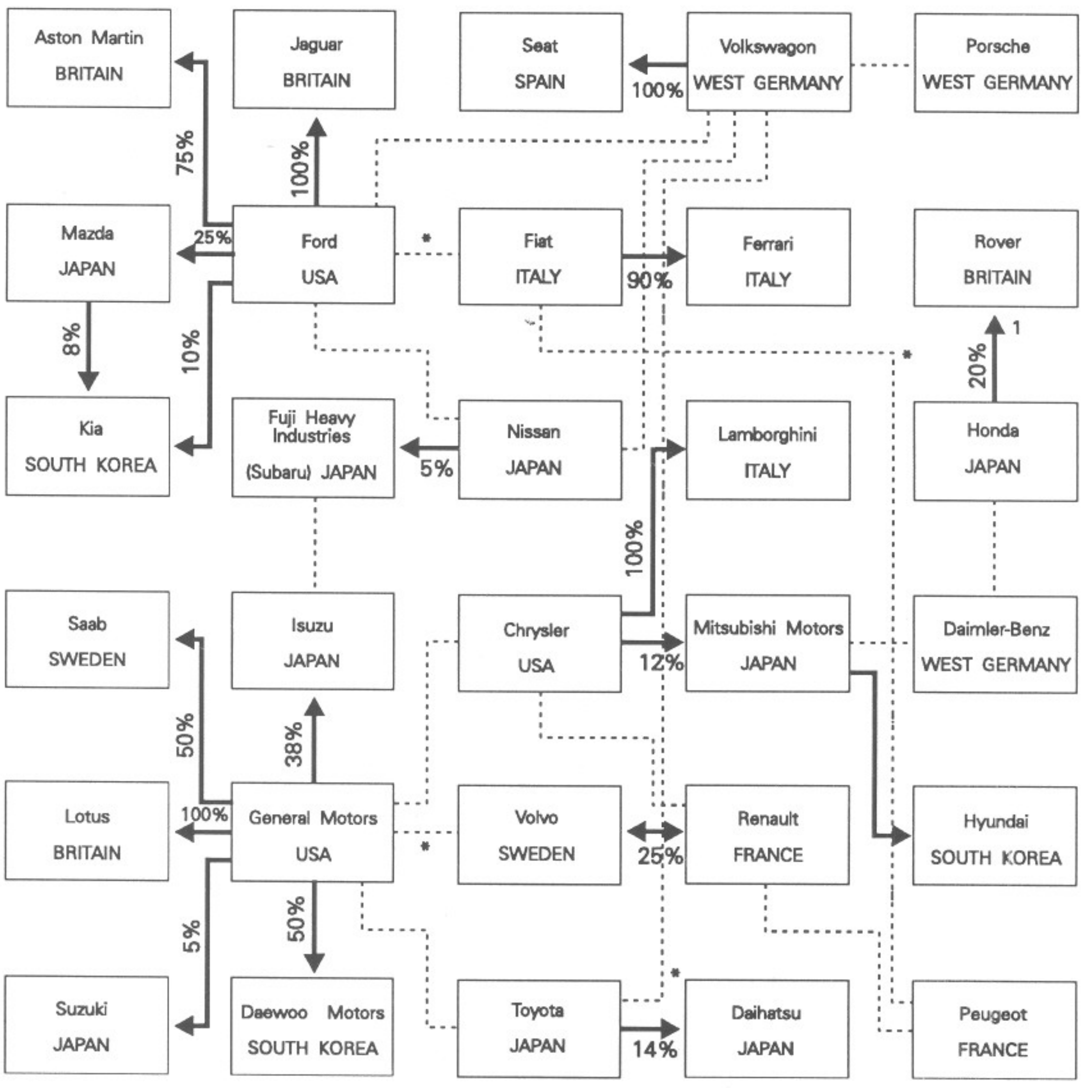
In mainstream manufacturing — such as cars and machinery — globalisation began as early as the 1920s. It expanded modestly in the 1950s with American, United Kingdom and European companies setting up operations in each others' markets, but the major moves towards globalisation came in the 1960s and 1970s. This was when large US and European companies began decentralising parts of their operations to low-cost locations in the Third World, particularly to East and South-east Asia and South America.

The car industry provides good examples of businesses which have been through the international and multidomestic phases of development and are now moving into a truly global mode of operation. Determining country of origin, or even company of origin for particular vehicles, is becoming increasingly difficult.

According to *The Economist*, car-makers are teaming up in two ways — sharing components and sharing cars. Through these two mechanisms almost all major car manufacturers in the world are linked, with only West Germany's BMW standing alone (see Figure 6).

Figure 6

Principle Links Between Car-makers



[1] Rover also owns 20% of Honda's British manufacturing operations.

Equity stake · · · · · · Joint venture/manufacturing agreement * Commercial vehicles

Source: *The Economist*, February 24 1990; additional information on Volvo/Renault link, *The Dominion*, February 1990

From an American point of view the concept of American-made cars versus Japanese imports is already very much under threat.

> "Chrysler owns part of Japan's Mitsubishi Motors and, through Mitsubishi, a share of the Korean firm Hyundai. Mitsubishi has long made cars under Chrysler's label, and the two companies run a 50-50 joint venture assembly plant in Illinois.
>
> Ford Motor Company, with one-third of its sales outside the United States, owns 25% of Japan's Mazda. Mazda makes

cars in America for Ford. Ford will reciprocate by making compact trucks for Mazda, and the two companies' trade parts. Each owns a piece of Korea's Kia Motors, which provides the Ford Festiva for exports to the US.

Ford and Nissan swap vehicles in Australia and are planning a joint mini-van programme in the US. Ford and Volkswagen have merged into a single company in Latin America, which exports trucks to the US.

GM Corporation holds a 41.6% stake in Isuzu, which is starting a joint venture in America with Subaru, which is partly owned by Nissan. GM also owns half of Daewoo Motors, Hyundai's major competitor in Korea. Daewoo makes Nissan cars for Japan and Pontiacs for America, soon it will be selling cars that were primarily designed by GM-Europe for Isuzu in Japan. GM has also teamed with Japan No.1 Toyota to produce cars under both company labels in US and Australia."[7]

The difficulty of defining where a car is made is even more clearly shown in another example:

"Mitsubishi Motors has for the first time exported cars to Canada from Thailand. These cars were assembled in Thailand using Thai-made chassis, Malaysia-made doors, Philippine-made transmissions, Singapore-made car radios, Australian-made wheels, and Japan-made engines."[8]

In other areas, however, this shift to global enterprise is not without challenge. In the United States, for example, the national television networks are moving to become global media organisations. But their domestic audience share has dropped from 90% in 1979 to 68% in 1989, with independent stations, syndication, cable, and pay TV all making inroads into the market.[9]

Throughout the industrialised world globalisation has gone hand in hand with the growth of small businesses and self-employment within each domestic economy. Some of this growth is, in fact, associated with the expansion of international companies through mechanisms such as contracting out, but many factors are driving this trend. These include a recognition of the value of being unique, through consumer preference for niche goods or services, or through strengthening the economic base of particular ethnic/community groups.

Some of these small businesses are, however, also moving out into the international economy through a variety of means. These include selling through trading houses, franchising/licensing of their products or simply selling directly into the international marketplace. (The growth of small businesses and self employment is analysed in some detail in a forthcoming Planning Council publication.)[10]

Global markets and government power

With the growth of international companies and expanding global markets, the role of government in the domestic economy is being redefined. This also has implications for the concept of nationhood, not only in terms of labels of origin of goods and services, but also in terms of the independence and sovereignty of individual countries. As New Zealand moves towards a more open economy, we will need to change our traditional way of thinking in these areas.

Globalisation can be seen as undermining the power of both government and workers in a potentially negative way.

> "[It has] produced the phenomenon of the transnational corporation, a massive, multi-faceted organisation with greater resources at its disposal than most states, with no permanent 'home' and loyalty to a particular state, and operating a policy of shifting investment worldwide in its search for greater profitability."[11]

But, from a different philosophical perspective, Wolfgang Kasper argues that it is undermining in a positive way the ability of governments to control national economies.

> "Governments should ... be considered as local production factors that may promote or destroy the productivity of mobile factors, by lowering the costs of business or imposing cumbersome transaction costs. It follows that the role of politics — if a nation is to prosper in the new era of openness — is not only to refrain from market interventions, but also to ensure an economic order that is conducive to economic competition."[12]

Others suggest that already governments have little policy flexibility.

> "Foreign direct investment has already reduced the freedom of governments to determine their own economic policy. If a government tries to push tax rates up, for example, it is increasingly easy for businesses to shift production overseas. Equally, if governments fail to invest in roads, education and so on, domestic entrepreneurs are likely to migrate. In short, foreign investment is forcing governments, as well as companies, to compete."[13]

The formation of global companies suggests that not only do individual country tax regimes need to be internationally competitive, but there is also an increased need for co-operation between the revenue collectors of various countries. Conforming to international tax regimes in turn limits a government's choices in social policies.

Co-operation in other areas of economic management is becoming more widespread, often not without concern for loss of sovereignty. Linking the British pound to a European currency, for example, raised considerable debate about the independence of Britain. Such a debate will no doubt emerge in New Zealand if there are serious attempts to link the New Zealand dollar to the Australian dollar as part of merging markets.

The growth of global companies also challenges the use of strict physical boundaries when analysing the economic strength of a 'nation'. *The Economist* notes that a third of America's exports were bought by American-owned companies abroad. In turn a fifth of America's imports were bought by foreign-owned companies in America from their own countries. On an ownership basis, America's trade deficit of $144 billion in 1986 becomes a surplus of $57 billion.

Table 5

US Imports from US-Owned Firms Abroad 1986
As a % of total imports from each region

Canada	43
Japan	9
Europe	11
Australasia and South Africa	14
Latin America	19
Other Africa and Middle East	22
Other Asia and Pacific	12

Source: US Commerce Department

Kenichi Ohmae examines this reclassification of trade by ownership rather than boundary in relationship to the perceived trade imbalance between Japan and the United States.

> "In 1985 Japan exported (as we typically count the numbers) $95 billion worth of products to the United States and, in return, imported only $45 billion: a $50 billion deficit. But if we add to the total of Japan's imports the $55 billion worth of goods produced and sold by American companies in Japan (and add to Japan's exports the $20 billion worth of products its companies made and sold in the United States), the trade figures would look quite different. Japan would then be seen to have consumed a total of $100 billion of American products; the United States, a total of $115 billion of Japanese products. The deficit picture disappears. What emerges is $200 billion of business activity between the most closely coupled trade pair in the world."

He goes on to add that on a per capita basis the Japanese buy more American goods than Americans buy Japanese goods.

> "Consider 1985, the year the bilateral trade conflicts flared up. Add up Japanese purchases of American goods in that year (no matter where the goods were physically produced) and divide by the total Japanese population. The result: an average per capita consumption of some $580. This does not

even include the substantial value of goods (roughly $40 billion) produced under American license in Japan, such as Coca-Cola and McDonald's. Now add up American purchases by the total American population. The result: an average per capita consumption of $298 ..."[14]

In such an analysis of trade flows America, or more strictly American firms, many of whom are outside the direct control of the American government, seem to be in better shape. Such a cross-boundary analysis has little relevance to the large government deficit, except perhaps in that the creation and funding of the deficit is not constrained to American soil. The Gulf War, for example, will add to spending, with overseas investors, notably the Japanese, funding a substantial part of the shortfall.

Yet in the global economy it is even doubtful if an enterprise can be strictly identified as being an American or perhaps a New Zealand firm. This could indicate that analysis of economic issues requires new tools and new ways of thinking.

Buy New Zealand-made?

Is a woollen jersey, knitted in a Tongan subsidiary of a New Zealand company using a New Zealand pattern and New Zealand wool, then packaged and sold in New Zealand, a Tongan, New Zealand or South Pacific good? Or should it be classified as Tongan-assembled, using New Zealand goods and services?

In a closed economy it is simple to define where a good or service comes from, or who is a local or a foreigner. In a global economy boundaries rapidly blur.

When it comes to defining a New Zealand service, the boundaries are even more shaky. When goods are traded it is assumed that people stay within their particular country. But with service flows people are often moving from country to country. Whether an activity is defined as a New Zealand service should perhaps depend as much on the ownership of the enterprise undertaking the activity as on the location in which the activity takes place.

There are wholly New Zealand-owned operations providing services within New Zealand — such as electricity production by government-owned Electricorp. On the other hand, there is Air New Zealand, now officially 34.99% overseas-owned, flying a mixture of New Zealand residents and other passengers between Sydney and London, or the BNZ (with no doubt some overseas owners of shares) borrowing money in Hong Kong then on-lending it in Singapore.

Although these examples of services provide difficulties in determining income flows, at least they are measured relatively easily. More difficult are telecommunication services, such as the BBC World Service radio broadcasts and satellite television. When these were provided 'free' by government-owned enterprises there was little incentive to measure their value, but with increasing private sector control of media, the operators themselves have an incentive to measure and capture these flows. Once a monetary value is placed on these flows they can then become part of service sector imports and exports.

Defining which enterprises are 'indigenous' and which are 'foreign' is also surprisingly difficult. Throughout the world, definitions tend to focus on issues of control. In New Zealand, for example, the Overseas Investment Commission, the body with responsibility for controlling and monitoring foreign investment, defines an 'overseas person' as

> "... any overseas company or individual not ordinarily resident in New Zealand, or any New Zealand company in which 'overseas person/s' hold an aggregate 25% or more of any class of shares or have the right to exercise or control the exercise of 25% or more of the voting power."

In other countries researchers use a variety of definitions. In the United States 10% is commonly seen as constituting 'control'; in West Germany 25% and in Britain and France 20%. Identifying control also depends very much on the purpose of the definition, and the cultural context of that definition.

> "...the nationality of a global company could mean: (i) the country where it is legally established; (ii) the country where its headquarters is located; (iii) the dominant nationality of its shareholders; (iv) the dominant nationality of its board of directors; (v) the dominant nationality of its workforce; or even (vi) the dominant market into which it sells or from which it earns the bulk of its profits. An Anglo-Saxon economist would choose (iii) as the best criterion. A German or Japanese economist—and most politicians—would prefer (v). A lawyer might plump for (i) or (ii). A management consultant would like (vi). And the board of directors of the company itself would claim that its goal is to be truly multinational ... and that the attempt to pin a country label on it is a complete misrepresentation."[15]

Government statistics-collecting agencies in many countries are grappling with such definitional and boundary issues. Private credit-rating agencies also face similar conceptual problems when analysing companies and often use fairly arbitrary definitions and relationships. One such relationship is that a company cannot be rated higher than the country where its headquarters are located.

This raises interesting issues for companies with headquarters in small tax havens such as the Cook Islands, and may act as a natural disincentive for companies seeking tax avoidance opportunities.

Policy analysts, commentators and politicians need to take into account the definition and measurement difficulties when reading trends from seemingly familiar and secure measuring instruments.

A big outflow of capital, for example, might not represent an overseas investor taking flight from New Zealand, but rather an overseas investment by a major New Zealand company with the prospect of large earning inflows to New Zealand at a later date. Equally a move by Air New Zealand's head office to Sydney would have a major effect on travel earnings in the balance of payments but, if the shareholders had not changed, may not represent much of a change in New Zealand's overall earning capacity.

Responding to globalisation

Over the past 200 years the New Zealand economy has undergone some profound changes. (Dennis Rose discusses these more fully in the Planning Council publication, *The Fully Employed High Income Society*.) Very simply, these are:

- the original self-sufficient Maori economy
- the extractive/early settler/Maori economy
- the period of pastoral dominance
- import-substituting industrialisation (this followed the 1930s Depression, accelerating after World War Two).

In the 1990s we are endeavouring to move to

- an open, internationally competitive economy.

Since the mid-1980s New Zealand has faced further radical change, to make our economy more adaptable to the changes taking place world-wide. One of the factors shaping New Zealand's responses to the process of globalisation is the regulatory environment in which individuals and enterprises operate.

Changing regulations

Protectionist policies flourished during the import-substituting stage of development, reaching a peak in the early 1980s. Since then New Zealand has significantly reduced its levels of protection and industry assistance across the whole economy in order to assist our transition to a more open competitive economy.

Goods

During the 1980s there were dramatic reductions in levels of protection/ subsidies within goods trade. But with the exception of trading arrangements with Australia, there is still some way to go in becoming a fully open economy. Protection can be divided into three broad forms — subsidies to agriculture, subsidies to industry and effective tariff protection.

Although subsidies on agriculture were built up during the late 1970s they were quickly reduced in the 1980s. Levels of agricultural protection in New Zealand are now on average the lowest among OECD countries.

Table 6

Agricultural Producer Subsidy Equivalents (a)
Average by country for all products, %

	1984	1985	1986	1987 (b)	1988 (c)
Australia	10	14	16	11	10
Austria	33	39	50	53	48
Canada	33	39	49	46	43
EC (12 countries)	-	-	52	51	46
Finland	60	67	70	71	70
Japan	67	69	76	77	74
New Zealand	18	23	33	14	8
Sweden	38	40	54	61	58
United States	28	32	43	41	34
All countries	**34**	**41**	**51**	**50**	**45**

a) This table shows *net PSEs*; these are gross PSEs less the excess feed costs associated with market price support to crop sector (to avoid double counting).

b) Estimates.

c) Provisional.

Source: OECD, *Agricultural Policies, Markets and Trade: Monitoring and Outlook*, 1989

New Zealand has, of course, a considerable amount to gain from a reduction in agricultural protectionism in overseas markets. A recent OECD study showed that protectionist policies in agriculture had cost OECD consumers $US72 billion in 1988 dollars. The removal of these policies would expand world trade volumes of meat and dairy products by 140 and 240% respectively, and world market prices would rise by almost 10 and 14%.[16]

Direct subsidies to industry are also low by OECD standards, and, while in many areas our effective rate of tariff protection remains high, the overall position is not dissimilar to that of other OECD countries. But perhaps more importantly for those considering medium- to long-term investments in industry, there is a continuing commitment to reduce tariffs.

When analysing barriers to free trade in goods it is worth noting that they can appear in a variety of ways — disguised as over-stringent health/hygiene regulations or perhaps as safety standards. Some European nations are now also considering environmental tariffs, aimed at penalising industries or countries where competitive advantage was gained through low environmental standards.

Services and capital

There are few impediments to flows of services in and out of New Zealand, and international investment — closely linked to trade in services — generally does not face onerous barriers. The deregulation of the financial sector in the 1980s removed many of the barriers to trade in these areas. However, foreign investors do face restrictions in some areas of the economy, notably farmland and deep sea fishing. (The barriers to investment in rural land are now currently under review.)

Foreign involvement in the marketing of apples, kiwifruit and dairy products — which together represent over 20% of New Zealand's export income — still faces non-investment-related barriers.

Migration

There are few barriers to the entry of people to New Zealand on a short-term basis, such as tourists, people studying, and senior staff of 'global' companies on transfer. But, as with all other nations in the world, long-term migration is tightly controlled. Migration policy changes over time according to the prevailing economic and social environment. Currently, high skill, high income migrants are encouraged, with barriers to the entry of most other groups.

How the economy has changed

Over time there have been major adjustments to the structure and workings of our economy in response to changing global markets.

However, New Zealand's attempt to move towards an open, internationally competitive economy, with high incomes and high employment, faces considerable problems. Policies to redress economy-wide imbalances such as high inflation, high levels of external debt and poor productivity growth, heightened by continuing fall-out from the 1987 sharemarket crash, have dampened domestic growth.

In general, the very strong growth in the global economy over the same period has not stimulated the often forecast export-led recovery. This perhaps indicates that many companies, while pursuing global strategies, still depend heavily on a strong domestic base. While most global forecasters suggest moderate growth in the 1990s, some others are predicting a move into recession. The lack of success in export markets would be of even more concern if such a recessionary environment was to emerge.

Goods

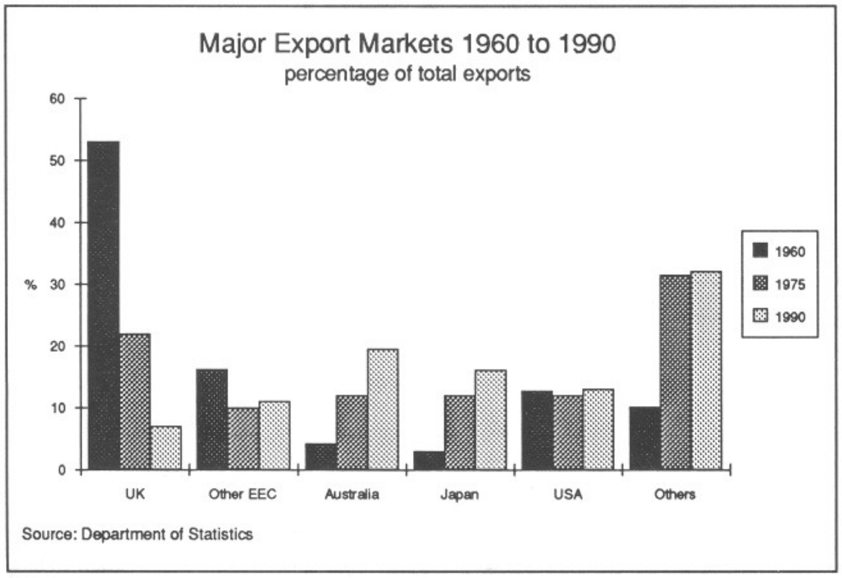
For some years it had been clear "that the United Kingdom, with its low rate of growth of population and of real incomes, could not be relied upon as an outlet at satisfactory prices for a growing volume of exports of meat and dairy produce".[17]

However, a substantial impetus to diversify markets only came in the 1960s, as Britain negotiated to join the EEC. During this period New Zealand began to build up export incentives, with most of the assistance targeted away from the big three pastoral exports — meat, wool and dairy.

In the 1970s, diversification of markets was further boosted by the rapid growth in the wealth of oil-producing countries. By the late 1980s no single market was taking more than 20% of exports.

Figure 7 shows the very rapid decline in New Zealand's dependence on the UK market since the early 1960s, and the very rapid increase in exports to Australia and Japan.

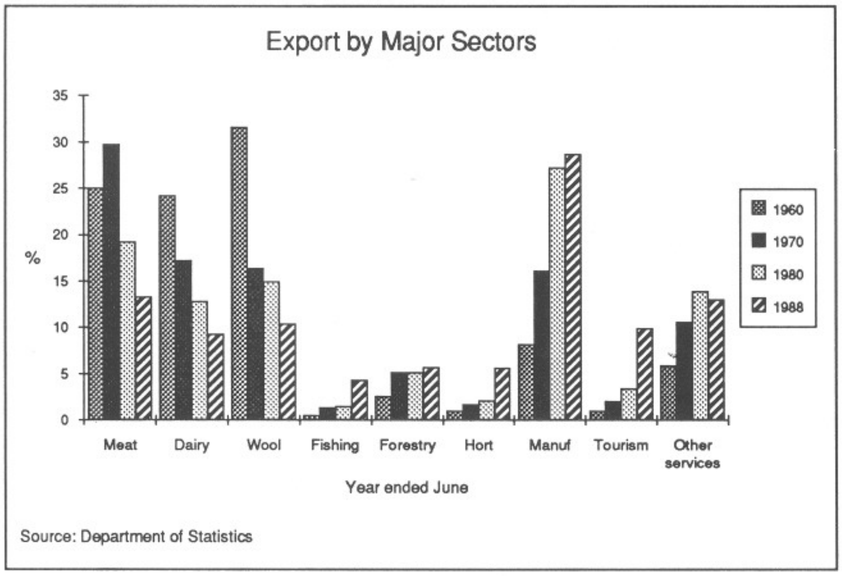
Figure 7



The diversification of our export and import markets has also involved a move away from trading with countries having 'British style' cultures. Thirty years ago 75% of New Zealand's exports went to countries where English was spoken as a first language. Now only 40% go to nations where English is the first language; the other 60% go to markets with a wide range of languages, religious beliefs, customs and often quite different dietary preferences.

As well as changing the countries we trade with, we have also changed what we sell. Back in the 1960s meat, wool and dairy products made up about 80% of our total exports; manufacturing around 10%. Fishing, forestry and horticulture were only just emerging as goods exports and tourism, a service export, was also gaining momentum.

Figure 8



Although the traditional exports — meat, wool and dairy — remain a vital part of the export scene, by the late 1980s they represented only one-third of total exports. Fishing, forestry and horticulture as a group represented 15% of total exports, while manufacturing had nearly reached 30%. At the same time service exports have been expanding, thereby reducing our dependence on the export of goods.

But despite these considerable changes in individual products and sectors, New Zealand's status as an exporting economy has not altered significantly over the last 20 years. One expected effect of globalisation would be increasing levels of trade relative to production, as has been occurring on a global basis, but the level of imports in New Zealand as a percentage of GDP is still low. Imports did rise in the late 1970s to mid-1980s, reaching a peak of just over 32% in 1985, but have dropped back to the level seen in the early 1970s.

Table 7

Value of Goods Trade as a Percentage of GDP
Average March years - Nominal $

	Imports	Exports
1971-75	21.5	20.2
1976-80	24.9	23.7
1980-85	27.3	26.2
1986-90	22.1	22.8

Source: Department of Statistics

OECD data indicate that New Zealand has a similar dependency on trade as larger countries such as Germany, France, the United Kingdom, Italy and Canada. But our dependency is significantly lower than countries similar in size to New Zealand, such as Belgium, Ireland and Norway. Although both the United States and Japan are dominant forces in world trade, their overall trade dependency is low by OECD standards.

The level of imports in the New Zealand economy has shown very little increase overall over the 1980s. But the changes at a household or industry level have been more marked. This can be well illustrated by looking at the manufacturing sector, and the textile industry within that sector.

Imports are used by manufacturers in producing goods for final sale, or they can be purchased directly by consumers. Goods for final sale can either be for the domestic market or for export. Table 8 shows imports as a percentage of total production.

Table 8

Imports as a Percentage of Total Production
Manufacturing industries

	1976/77	1986/87
Food processing	6.5	4.8
Textiles	27.5	20.6
Wood	1.4	7.3
Pulp and paper, printing	5.3	15.8
Chemicals and petroleum	69.2	44.8
Ceramics	12.6	13.5
Base metals	69.9	38.6
Fabricated metals	54.3	51.9
Total manufacture	**32.6**	**25.8**

Source: Input/Output Tables, Department of Statistics

At first sight it is perhaps surprising that the import content of manufacturing production dropped in the 10-year period, but the overall drop is strongly influenced by the effects of 'think big'. It is questionable when debt servicing is taken into account, whether the 'think big' projects have made New Zealand less import-dependent.

But in terms of the import of physical goods the change has been dramatic. In the area of chemicals, which includes imports of oil and chemical fertiliser, imports as a percentage of total production have dropped from just over 69% in 1976/77 to nearly 45% in 1986/87. Similarly in base metals, which is largely aluminium and steel production, imports have dropped from nearly 70% to 38.6%.

In the textile industry (which includes leather) the changes are particularly interesting. In the 1976/77 era the industry was highly protected and very domestically-orientated. By 1986/87 reductions in tariffs and the progressive removal of import licensing should have had a significant effect on the industry's ability to compete with imports and, indirectly, its ability to export.

Overall, between 1977 and 1987 exports as a proportion of production went up — from 30.5% in 1977 to just over 42% in 1987. In dollar terms exports rose from $342 million in 1977 to $1,692 million in 1987 — nearly a 400% increase.

In this period there had been particularly strong growth in the leather export industry. In 1980 the New Zealand Tanners' Association reported that the tanning industry exported $1 million of product. By 1988 this had grown to $680 million.

The increase in exports of textiles helps put into perspective the decline of imports as a percentage of total production between 1977 and 1987 — a drop from 27.5% to 20.6%. Compared to the 400% growth in the value of exports in this period, imports only increased by just under 170%. This implies that the economy became less dependent on textile imports over this 10-year period.

Overall figures, however, disguise a strong counter trend at the level of household consumption. If textile imports are measured as a percentage of household consumption then imports rose from nearly 18% in 1977 to 40.6% in 1987. This trend indicates that while households were buying proportionally less New Zealand-made goods, overall the increased level of imports into the economy was more than compensated for by increased exports.

A comparison between 1977 and 1987, however, tends to disguise recent changes. In addition, the textile industry represents a group of a quite wide range of different industry types.

The footwear industry, from the mid-1980s through to the end of the decade, provides an interesting example of the effects of globalisation. Although tariffs still remain relatively high when compared with other sectors of the economy, the footwear industry has become significantly more exposed to world competition since 1984. Many predicted this would result in total decimation of the industry.

Faced with a shrinking domestic market, and the threat of imports, the footwear industry has undergone a major restructuring. This led to the withdrawal of many traditional manufacturers such as Feltex, but also the entry of new firms such as Cardonna footwear. This restructuring shows up in trade data.

Table 9

New Zealand International Trade in Footwear
Year ended March - Actual $m

	1985	**1986**	**1987**	**1988**	**1989**	**1990**	**Dec yr 1990**
Imports	24.9	26.7	37.1	45.6	49.6	81.2	87.0
Exports	9.6	8.5	7.2	6.6	10.3	17.3	28.1
Ratio imports/exports	2.6:1	3.1:1	5.2:1	6.9:1	4.8:1	4.7:1	3.1:1

Source: Department of Statistics

Imports of household goods such as shoes have risen sharply, but here, and in some other areas of the economy, both imports and exports are rising. This indicates a higher degree of specialisation, with different producers targeting different markets — an expected outcome of globalisation.

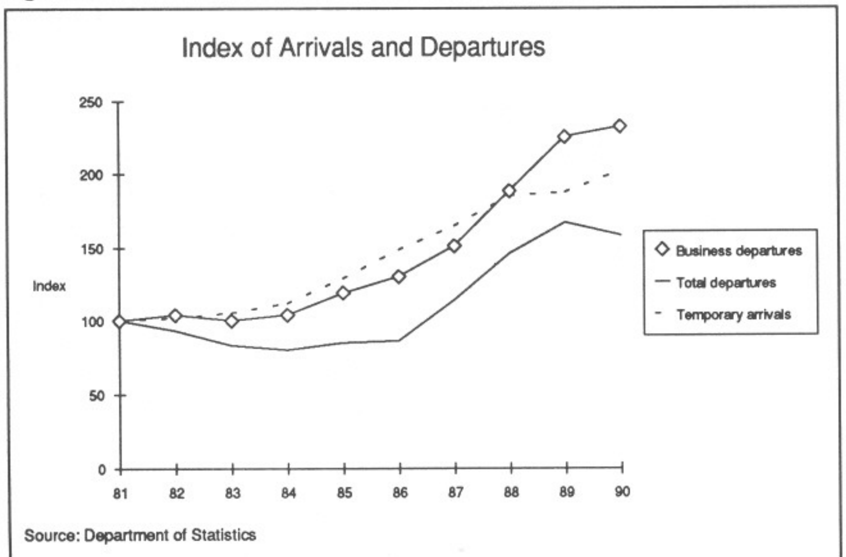
Services

Income from service sector exports has been increasing as a proportion of New Zealand's total overseas earnings. It is estimated that by the late 1980s service exports represented just under 25% of total exports. This is a dramatic increase from just over 10% in the 1970s, and just over 7% in the early 1960s.

A significant proportion of services trade is related to trade in goods — such as shipping, insurance, communications or finance — but there also has been a big gain in the export of 'pure' services.

In line with global trends, much of this increase has come from the rise in the number of tourists visiting New Zealand. Total short-term arrivals more than doubled from just over 460,000 in the March 1981 year to just under one million in 1991. The number of New Zealanders travelling overseas has also increased, but the biggest percentage growth has been in people taking business trips. This suggests that, despite the improvements in telecommunications in the global environment, personal contact is still considered vital (see Figure 9).

Figure 9



Source: Department of Statistics

Tourism represents a large part of our pure services export trade. But there are also increasing exports in areas such as computer software, consultancy services, television 'nature' programmes and even some small growth in education exports.

Capital

Since the mid-1980s, international capital flows have increased in importance for the New Zealand economy. Capital flows can broadly take two forms — direct foreign equity investments and debt.

Direct foreign investment

Foreign investment can involve overseas companies investing capital in New Zealand, or New Zealand firms looking to other countries for investment opportunities.

Inward investment

Since the 1840s foreign investment, mainly from the United Kingdom, has been a vital source of funds for the development of New Zealand's economy. In more recent times investment flows in reverse — that is, New Zealand firms investing overseas — are taking on a new significance. As global firms search to expand their territory, there is potential for a particularly rapid build-up of investment in New Zealand.

There is a general feeling in the community that direct foreign investment in New Zealand has increased dramatically over the 1980s. But the available evidence suggests that the *overall* increase in overseas ownership of New Zealand assets has been relatively small.

Figure 10

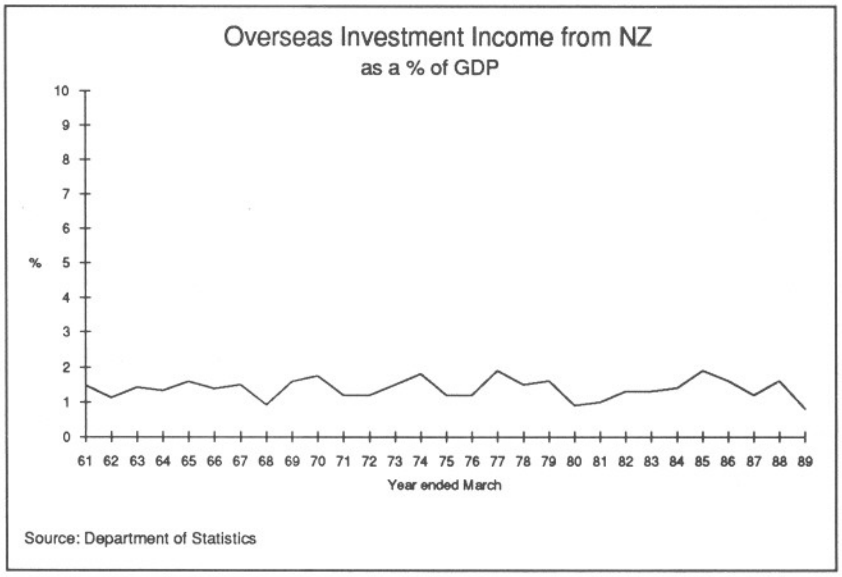


Figure 10 shows that since the 1960s, investment income from foreign investments has remained remarkably stable, fluctuating at around 1 and 2% of GDP. It is difficult to directly measure the changing levels of foreign assets.

As an alternative short-term measure, the percentage of the non-farm workforce in overseas-owned enterprises dropped from around 20% in 1987 to just over 17% in 1990.[18] If farming is included this drops to around 16%.

Long-term time series for the whole economy are not available, but work by Deane on foreign investment in manufacturing in the mid-1950s to early 1960s, indicates the direction of change.[19] This study indicates that in 1956, 14% of the manufacturing workforce was in firms with 25% or more, foreign ownership. In 1960 this had risen to 15%, and by 1964 had reached 20%.

This compares with 23% of manufacturing employees in 1990 working in enterprises with 25% or more of foreign ownership, according to the Business Patterns survey (Department of Statistics).

As already discussed, there are various ways of defining enterprises as foreign-owned. This makes international comparisons difficult, although some broad comparisons are possible. As an economy-wide comparison of employment, one study in the United States estimates that in 1987, 3.6% of the non-bank workforce was employed in foreign-owned enterprises — up from 1.4% in 1977.[20]

Another suggests that in 1986 foreign companies owned 9% of assets, employed 4% of workers and accounted for one-tenth of all sales. The same study suggests that 1% of Japan's assets were owned by foreign-controlled firms, and only 0.4% of its workers were employed by them.

In Britain, foreign-controlled firms owned 14% of assets, employing one in seven workers. In the early 1980s foreigners had a 33% beneficial equity interest in the Australian manufacturing sector. In Canada, foreign-owned firms account for 49% of manufacturing sales. It is estimated that by 1991, foreign-controlled firms will employ one-fifth of Thailand's workforce, and produce more than half the country's industrial output.[21]

These studies suggest that in terms of employment, New Zealand has a relatively high level of foreign investment compared with Japan and the US, but lower levels of foreign investment than Australia, Canada and Thailand.

At a sector, industry and firm level, however, there have been major changes over the 1980s. In particular, there has been an increase in overseas investment in the service sector, especially in the business services and finance area.

Australian firms have been most active in moving into New Zealand's finance industry, partly reflecting a logical outcome of our rapidly merging goods and services markets.

In the 1980s there was also a significant increase in foreign ownership of commercial property, telecommunications and transport. Until the mid-1980s there had been little foreign involvement in the domestic portion of the two latter industries, mainly due to the high degree of regulation and government involvement. However, although the purchases of commercial property, particularly by Asian investors, has attracted a high profile, these still represent a very small part of New Zealand's assets.

Foreign ownership of rural land had a small, but again high profile, increase until 1989, but this seems to be tailing off. In comparison with the growth in investment in services, there appears to have been little interest in the manufacturing and marketing areas of the primary sector, except within some areas of forestry. Whether this reflects barriers to entry or a lack of confidence in returns is unclear.

The increases in direct foreign investment have to be balanced against withdrawals. A decline in earnings by foreign-owned manufacturing enterprises, as a percentage of total industry profits over the 1980s, suggests that foreign owners of manufacturing plants have more than shared the difficulties faced by the whole sector.

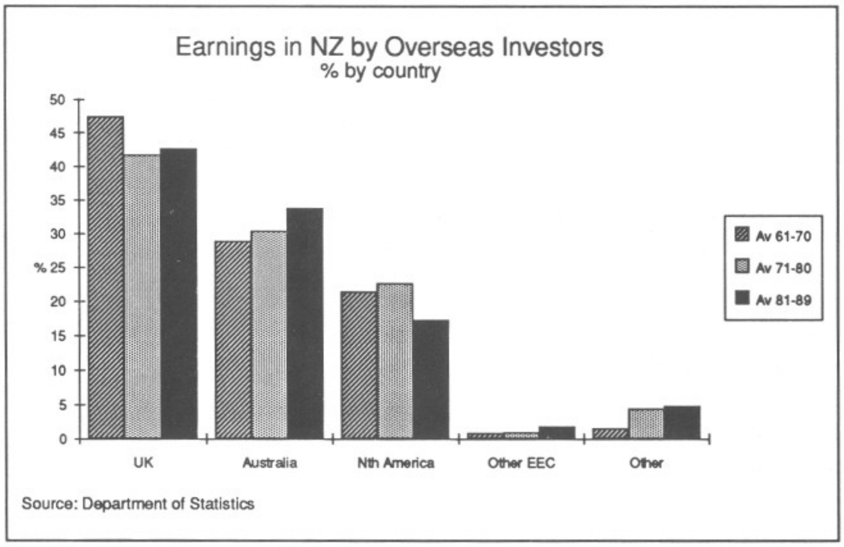
In some cases, such as consumer electronics, they have reduced their level of investment. Over the longer term this reduction in investment is particularly notable in the meat industry, which has changed from being foreign-dominated to substantial New Zealand ownership.

In the first part of the 1990s we have also seen the large forestry-processing conglomerate — New Zealand Forest Products — returned to New Zealand ownership. In addition, not all new foreign investment in the service sector is meeting with success, and there have been withdrawals such as CIBC (subsidiary of Canadian Imperial Bank of Commerce) in the banking sector.

At a firm level there have also been major changes. There has been a particularly strong move away from joint foreign-New Zealand ventures, to both wholly New Zealand- and wholly foreign-owned status.

Although increasingly linked to trade in goods and services, patterns of investment still strongly reflect our historical links with the United Kingdom, Australia and North America (see Figure 11). The relatively high level of British investment in New Zealand also reflects Britain's very high level of foreign interests world-wide. Asian, and in particular Japanese, investment has a high media profile here but it is relatively small compared with other sources of investment.

Figure 11



Although reliable data are difficult to obtain, it appears foreign portfolio investment has increased in response to freeing-up of foreign exchange regulations. One estimate suggests that about one-fifth of New Zealand company shares are overseas owned.[22]

As the process of globalisation of the world economy continues, the level of foreign investment in New Zealand has the potential to increase. However, a key element in such decisions will be the actual and predicted performance of New Zealand companies, and the New Zealand economy as a whole, against the performance of overseas companies and economies.

Outward investment

During the 1980s New Zealand companies increasingly became foreign investors in other economies, yet the level of investment overseas is still low in relation to total investment in New Zealand.

Table 10

Investment Overseas Compared with Total Investment in New Zealand
As a % of gross fixed capital formation

March	
1980	1.8
1981	2.5
1982	1.7
1983	7.8
1984	0.6
1985	3.6
1986	1.5
1987	8.1
1988	7.3
1989	1.8

Source: Department of Statistics

When compared with a major overseas investing country such as Britain, the growth of overseas investment following relaxation of exchange controls has been relatively small.

Not all New Zealand's investment overseas has met with long-term success, with initial high-flying firms such as Chase, Ariadne, Equiticorp and Judgecorp coming unstuck. However, a number of large New Zealand companies — such as Fletcher Challenge, Brierley and the New Zealand Dairy Board — appear to have built up a solid overseas asset base.

Further investment by New Zealand firms is likely to be prompted by all the factors driving the globalisation of companies on a world-wide basis. But for small countries like New Zealand, companies often need a production and marketing base larger than that offered by their domestic base to reach an international size.

Offshore portfolio investment by New Zealanders also appears to have increased over the 1980s with investors seeking both better returns and to spread risks.

A more detailed analysis of foreign direct investment will shortly be available in a related study by the Planning Council.

Debt

Since the early 1970s New Zealand had been building up its overseas debt, mainly through government borrowing. In 1975, debt as a percentage of GDP stood at 9%; by 1977 this had doubled, and by 1980 had reached nearly 25%. However, deregulation of financial markets in the 1980s, in tandem with the increased New Zealand investment overseas, has allowed more New Zealand firms to be linked into international debt markets. This has led to a very strong increase in private sector overseas borrowing, which has almost matched the big drop in official indebtedness.

Table 11

Debt as a Percentage of GDP 1983-90

Year ended March	Net official		Other government		Private		Total net debt	
	$m	% GDP	$m	% GDP	$m	% GDP	$m	% GDP
1983	7586	24	2469	8	3333	11	13388	43
1984	8260	24	3138	9	4897	14	16295	47
1985	12020	31	5249	14	9174	24	26443	68
1986	13220	30	5601	13	9757	22	28578	64
1987	15469	29	7211	13	12003	22	34683	65
1988	14438	24	6088	10	15936	27	36462	62
1989	13846	22	6011	9	17780	28	37637	59
1990	14501	21	8065	12	20875	30	43441	62

Source: *New Zealand's Overseas Debt: A Reassessment*, NZPC, 1991

There is some debate as to what this build-up of private sector foreign debt means for New Zealand. One view is that the switch from public to private debt has no significance, and as a nation we should be concerned about our failure to reduce the total debt.

Another is that the private debt has resulted in an accumulation of assets, whether in New Zealand or overseas, which will produce an income stream to service the debt; any concern about repayment is for the lender not the taxpayer. Part of this private sector debt, however, has arisen through New Zealand running balance of payments deficits, with part of the import content of this being consumption goods such as new cars.

An initial exploration on the overseas assets position by the Planning Council indicates that although significant overseas holdings have been built up during the 1980s, they do little to alter the overall debt problem facing New Zealand.[23] (See Table 12.) The table also indicates the size of New Zealand's debt problem when compared internationally.

Such high levels of debt place considerable restraint on the economy. It suggests that, in the future, either New Zealanders will need to save more, or that more foreign equity investment rather than debt needs to be sought when considering development options. High levels of debt also mean that international financiers have a keen interest in influencing both economic and social policies to protect their investments, which further reinforces the loss of power of government in a global economy.

Table 12

Foreign Liabilities and Assets 1988
Expressed as percent of GDP

	Official debt	Private debt	Total debt	Inward direct invest-ment & equities	Total liabili-ties	Foreign assets (all types)	Net for-eign assets
New Zealand (1990)[1]	28.9	41.2	70.1	20.0*	90.0*	31.1	-60.0*
Australia	11.4	23.3	34.7	25.7	60.4	22.1	-38.3
Canada	16.4	25.1	41.5	23.5	65.0	26.9	-38.1
Sweden	11.1	44.9	56.0	na	56.0	31.2	-24.9
Korea	0.6	5.8	6.4	2.0	8.4	12.9	4.5
Thailand	9.1	24.3	33.4	1.3	34.7	13.9	-21.1
United States	11.2	25.1	36.3	15.2	51.5	36.1	-15.4
Italy	4.1	44.9	49.0	8.2	57.1	54.9	-2.3
France	0.7	26.9	27.6	na	27.6	34.1	6.4
Japan	2.0	34.3	36.2	4.3	40.5	50.7	10.1
United Kingdom	5.7	119.5	25.2	20.6	145.8	166.0	20.2

* NZPC estimates

[1] The data for New Zealand are not directly comparable with those in Table 11, for the following reasons:
- in this table, official debt is shown gross whereas in Table 11 the figure is net of official assets overseas
- in this table, gross private debt includes debt of SOEs which appear as 'other government' in Table 11.

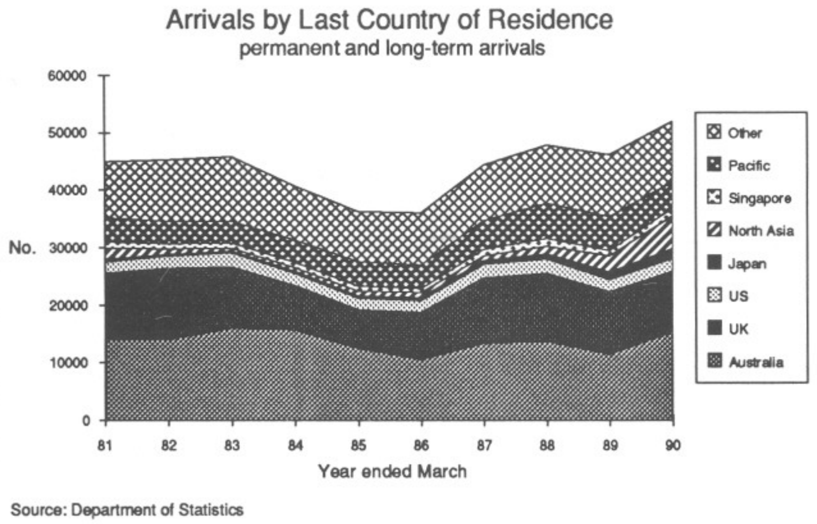
Source: For countries other than New Zealand, *Balance of Payments Yearbook*, IMF

Some debate remains about the adjustment mechanisms needed to bring the balance of payments back into balance in an open economy. Views range from the idea that the market itself will provide the necessary adjustment signals, to calls for the dollar to be devalued to make imports more expensive and exports easier to sell. Work by the Planning Council would tend to support the former view.

Migration

Migration flows reflect changing patterns in goods, services and investment trade, with a small but significant rise in Asian migration in the latter part of the 1980s. The recent influx of immigrants is not large when seen over the long term, but their origins are now more diversified.

Figure 11



Source: Department of Statistics

Future issues for New Zealand

When the many driving forces of globalisation are taken into account it is difficult to see a way of stopping or slowing the momentum. Research by the World Bank indicates that outward-looking economies perform better than inward-looking ones — events in Eastern Europe and the Soviet Union suggest that in the modern world few countries can continue to operate closed, protected economies.

As already suggested, New Zealand has moved through different stages of economic development. The problems associated with New Zealand's further exposure to international competition have naturally prompted some groups to look nostalgically back to past, more protected periods when both growth in GDP and employment were high. However, often left out of this analysis are factors such as changing markets, new technologies, changes in production, transport and communication, and changes in the balance of world political power.

It is worth noting, however, that in light of New Zealand's difficulties in moving to an internationally competitive economy, the transition period between previous phases of development has usually been long and not without its problems.

Throughout the period since European colonisation some factors have remained constant, and are usually seen as a hindrance to our development. These are our geographic isolation and our small population base. Improvements in transport and communications continue to reduce the physical isolation but, ultimately, it is not something we can alter.

We do have some influence or control over our population size — some studies suggest that an increase in population would assist economic growth.[24] In the latter part of the 1980s, immigrants have been targeted for business skills and the ability to supply capital. But in order to foster both social and economic development it is also important that new immigrants are not adverse to goals of biculturalism. More debate is clearly needed around any development strategy that involves a big increase in migration.

Becoming internationally competitive

Regardless of population size, our prosperity in the global economy will depend increasingly on how well we produce goods and services that

- people in competitive overseas markets will buy
- New Zealanders will choose ahead of those made overseas.

The commercial tests for this production are the same here and overseas — quality, price, promptness of delivery and service. Such tests apply not only to firms actively engaged in international trade, but increasingly to the whole range of private and public sector activities. Such tests also cut across ethnic groups and institutional arrangements.

Because it is now easier to move capital and, to a lesser extent, labour resources, businesses are being encouraged to not only think about their sales opportunities on a world rather than a regional basis, but also to make production decisions on a global basis.

It can therefore no longer be taken for granted that 'patriotic' New Zealand investors will set up their operations, or continue to support existing enterprises, within New Zealand, just as people in overseas countries are also seeking opportunities on a global basis. Businesses can now choose from a variety of production processes, management styles, production locations, skill and wage levels and financing packages, and will be influenced by a country's regulatory environment, tax laws and political stability.

Firms can look to produce niche products or services, using highly skilled, high wage workers in a participating management/team-working style of environment, to sell to wealthy sophisticated buyers. At the other extreme they can attempt to utilise economies of scale by producing high volumes of low-cost commodity products or services, produced by low wage, low skill workers in a 'de-skilled' or Taylorist work environment, and try to sell to a middle-income mass consumer market. Naturally in between, a wide range of other production/marketing possibilities will exist, with each firm endeavouring to find the best way to be internationally competitive.

New Zealand wage levels have been progressively slipping against the incomes of workers in countries such as Germany and Sweden, but it is both unrealistic and unacceptable to think that we can gain a competitive edge through a strategy which is highly dependent on low wages. Equally, the experience of Japan, with its limited natural resources, indicates that an abundance of natural resources is not necessarily the only key to prosperity.

Improving our performance

This section of the report looks at globalisation in the New Zealand context. Some of the general points raised earlier are expanded to focus on the situation as it is in New Zealand.

The discussion also draws on the wide variety of literature available, from both here and overseas. Much of the current economic debate, as in many of these studies, focuses primarily on the supply side of economics. In this part of the report we look at two 'supply' factors — labour and capital. On the demand side we look briefly at changing markets.

The success of high wage, resource-poor countries such as Japan has been a factor in prompting overseas researchers to search for other prerequisites for success. From America have come best-seller books such as Michael Porter's *The Competitive Advantage of Nations*; from Tom Peters, *In Search of Excellence* and *Thriving on Chaos*; and *Made in America* by Michael Dertouzos.[25] What stands out in all these is the view that, increasingly, 'competitive' advantage lies not in natural 'comparative' advantage such as good climate or fertile soils, but in created advantage such as having a highly skilled adaptable workforce.

Leaving overseas experts aside, what about our own research? Using overseas models for New Zealand has some major drawbacks, particularly when the models so strongly downplay the role of comparative advantage. The real challenge for New Zealanders is to find ways of developing greater competitive advantage to supplement and enhance our natural advantages.

At a firm level New Zealand researchers have been examining the process of change and trying to identify factors for success. Recent studies include the *Report of the Ministerial Task Force on International Competitiveness*; *Productivity and Quality in New Zealand Firms: Effects of Deregulation* (NZIER/IPS); Akoorie and Enderwick's *The International Operations of New Zealand Companies*; Corbett's *What Industry Believes about its Future; Export Manufacturing — Framework for Success* (Trade Development Board); *Responding to Change: What Firms Say About Structural Adjustment* (NZIER); and the report of the Porter Project on New Zealand, *Upgrading New Zealand's Competitive Advantage*.[26]

At the firm level the themes running through both the overseas literature and the New Zealand studies have many similarities. On a wider macroeconomic level, however, there is more diversity of opinion, particularly concerning interest rates and exchange rates. These debates are summarised in the Planning Council publication, *The Fully Employed High Income Society*.

The New Zealand studies, up to Porter, analyse various periods in the restructuring process over the 1980s, and some sort of pattern seems to emerge. In all the studies it has been suggested that firms who are surviving have gone through a process of restructuring, where the company's focus on staying competitive changes over time.[27] The process includes:

- analysing product mix plus source and price of product inputs
- discrete cost-cutting within existing organisational structures
- internal reorganisation usually associated with job losses
- investing in marketing, training and total quality management.

Naturally a firm under pressure will continue to explore all of these options, with emphasis on the last strategy.

Enderwick's study suggests, however, that while most firms are aiming for this last stage, very few firms have in fact reached it. A range of factors may be preventing this from occurring, including the short-term survival mode many firms are operating in. This short-term focus is likely to have been accentuated by the very high numbers of firms undergoing ownership changes over the last five years.

The value of labour

Compared to the relative ease of moving raw materials and capital, labour is the least internationally mobile factor of production. For businesses, if they choose to remain in a high wage economy, this means putting considerable effort into enhancing the value of labour, especially if they are to reach the suggested last stage of restructuring.

On a national level, this is more than sending a few employees on a training course. It means upgrading the level of skills across the whole workforce, and changing the way we use what the workforce has to offer.

Skills

The 1990 Planning Council publication *Tomorrow's Skills* argues the need for increasing skill levels across the economy.[28] It shows that:

- The demand for increased responsiveness to market conditions in production and in organisation of work places a premium on a wide array of thinking, analytic and interpersonal skills.

- Past trends and computer-based projections both here and overseas show a steady increase in the proportion of people in non-manual occupations and in service sector industries. These shifts translate to generally rising levels of skill.

- Educational participation rates in New Zealand are well below those of most OECD countries, particularly in trade and middle-level skills training.

In an open economy it is obvious that enterprises such as pulp mills or airlines need to be internationally competitive. But it is also now being recognised that schools, polytechnics, universities and other training institutions need to measure their efficiency and quality of output against the highest of international performers, rather than comparing with an institution down the road. This is being reinforced by the realisation that New Zealand can export its educational services, so these institutions will be increasingly judged by 'international' students. The basis on which an educational institution can be judged is, of course, open to considerable debate.

The move to a high skill workforce will not be an easy or rapid transition. It requires a long-term commitment to a 'learning culture' throughout the whole community. While this provides a considerable challenge for all New

Zealanders, it represents even more of a challenge for Maori development. Some iwi are relatively well-off in terms of natural resources but generally face shortages of skilled human resources, so the need to build a highly skilled, adaptable Maori workforce is even more pressing.

Changes in the workplace

Having a more highly skilled workforce is one thing. But in a confrontational work environment — as much of our industrial relations is today — where tasks are broken down into simple, low skill components, these skills would be wasted. Not only do we need a greater range of skills, but change is also required within many workplaces to ensure that the talents of both workers and management are fully utilised.

While changes in industrial law may assist this process, our work in the Planning Council suggests that it is wrong to see the law as providing the central energy of the system. Instead, increased responsiveness in the workplace depends upon the success of managers, employees and their representatives in analysing the problems and opportunities in front of them, and deriving better solutions than those currently in place. The new Employment Contracts Bill appears to have the potential to be used either positively or negatively in this process, depending on how it is finally implemented.

Costs and availability of capital

Changes in the quality of labour, and how well it is used in the production process, are at the heart of comparative advantage in the global economy. However, the availability, cost and source of capital are also important factors in the supply side of the production equation. Capital can be usefully split into equity and debt.

Debt

High levels of overseas debt, particularly that generated by government, will continue to severely constrain the economy throughout the 1990s. But differences of opinion remain as to how to reduce this debt, and whether the economy can generate sufficient overseas income to reduce it to a more manageable level. The ability of the economy, and ultimately individuals, to generate higher levels of savings is also open to debate, and work on these areas is continuing within the Planning Council.

In the medium term, the absence of large debt reductions means that the cost of capital for businesses and government is likely to remain high, and that new borrowing for investment will be closely scrutinised by overseas lenders. Without a rise in New Zealand savings an investment/export-led recovery in New Zealand is likely to depend more on direct foreign investment than has been the case in the past.

Foreign equity investment

As we have become more integrated into global debt markets, there has also been the potential for a dramatic increase in foreign equity investment in New Zealand. So far, this has not yet occurred.

Although there is a long history of foreign investment in New Zealand, there is still a real sensitivity about investment in particular areas of the economy, and by particular nationalities. Some of the objections to Japanese investment in hotels or the primary sector, for example, are based on war-time memories; others on the idea that Japanese like to control the whole production and marketing chain, thus squeezing out New Zealanders. There is also concern that Japan's ability to invest in New Zealand is not matched by equal access to investment in Japan.

In recent times existing assets have more easily passed into foreign ownership — through poor investment income of many New Zealand firms, their unsustainable levels of debt or through companies going into receivership. State assets have also passed into foreign ownership as part of the privatisation process. The sale of government assets was primarily argued for in terms of efficiency gains, but the sales also reflected the need to pay off some of the national debt. To see why this is happening, there are two fundamental questions which need to be asked:

- Why did the original New Zealand owners fail?
- Why do foreign owners think they can earn an adequate return on their investment?

The answer to the first question will vary between companies. There are issues of low skills among both managers and workers, sometimes linked to a lack of flexibility in the workplace. But there are also difficulties arising from high interest rates and an 'over-valued' exchange rate which have taken their toll.

The second question raises two conflicting views. In the tourist hotel trade, sometimes a sensitive area for foreign investment, it is often said that:

> "For big local investors the returns are simply not there in tourism. The costs are too high and the return too remote."[29]

If this is, in fact true, why have foreign investors bought existing or, more importantly, built new hotels? Is it because New Zealand companies have different risk/reward requirements? Are they not long-term investors, or maybe some foreign investors have better management techniques or marketing networks which will bring in higher returns for their investment? Or does the investor simply need a hotel in New Zealand, whether it is profitable or not, to complete a world network? At times any of these could be the case. Equally, foreign investors can also make expensive mistakes.

Whatever is the case, through an underestimate of the ability of New Zealand companies and an overestimate of the ability of overseas companies, it is often assumed that buyers of New Zealand hotels are pulling vast profits out of New Zealand. At the same time it is assumed that most of the benefits of New Zealand investment overseas remains in the foreign country.

Such a discussion, of course, continues to assume a clear distinction between New Zealand and overseas ownership. However, as already indicated, globalisation means that such a discussion has become more difficult. Talk of 'foreign' ownership usually comes down to a fear of losing control of one's destiny or losing one's identity, whether it be a farming community seeing city investors moving into the district, or a country seeing foreign investment flow in.

It seems, therefore, that most people are probably not interested in technical definitions of ownership, but more in questions of power and control. At a wider level this leads to the question as to whether globalisation means that New Zealanders will have less control over their economic destinies. Staying with the supply side of the production equation, the role of government again becomes a crucial element in this discussion.

What part does government play?

A high degree of New Zealand control of the economy is often associated with a high level of government intervention. But globalisation is now challenging central government's role.

Some say that in the emerging global economy, governments have little role in creating or assisting in the development of high productivity firms — and thus a strongly performing economy. Japanese management guru Kenichi Ohmae argues that governments build the biggest obstacles to a prosperous borderless world through protectionism and other measures to frustrate consumers' choices.

> "The government's role ... is to ensure that its people have a good life by ensuring stable access to the best and the cheapest goods and services from anywhere in the world — not to protect certain industries and certain clusters of people. Contemporary governments must become transparent to their people with respect to the rest of the world. Every time governments try to protect resources, markets, industries, and jobs, they cost taxpayers dearly. Only two decades ago when multinational companies had a colonial attitude, they took advantage of the privileges and licenses allotted to them by governments. They were exploitative. But consumers in today's world are much better informed, and the surviving global corporations are there to serve their needs. If they don't, they will be eliminated by the customers, not by the host governments."[30]

However, most other commentators argue that governments will continue to play a part in creating the conditions which are conducive to the growth of internationally competitive enterprises.

But in a global economy, is it the government policies of the major powers which increasingly dictate both the economic and social policies of small nations? In the 'cutting benefit payments versus raising taxes debate', Treasury suggests that overseas policies do constrain our choices.

> "Raising rates of personal income tax alone would place a wedge between the personal rate of income tax and the company rate, encouraging tax avoidance and evasion. Increasing the company tax rate could discourage investment within New Zealand, particularly as a number of other OECD countries are currently lowering corporate taxes."[31]

There is likely to be some trade-off for New Zealand owners and managers of enterprises between wanting to be in New Zealand for a range of social/cultural reasons, and the level of taxes they face. Taxes are only one cost for companies and individuals, and for companies can usually be minimised. But in broad terms we do now need to look at overseas tax rates when setting policies.

In the years to come there is likely to be considerable debate over the costs and benefits of the government's fiscal strategies. Much of this debate will revolve round theories of dependence and independence at an individual, business, community and country level.

Michael Porter, whose views have been given much prominence through the Trade Development Board's Porter Project, has a clear view of the role of government in the global economy.

> "Governments proper role is a 'pusher' and 'challenger' ... Sound government policy seeks to provide the tools necessary to compete, through active efforts to bolster factor creation, while ensuring a certain discomfort and strong competitive pressure. Government's proper role is to encourage or even push firms to raise their aspirations and move to a higher level of competitive prowess even though this may be an unsettling and even unpleasant process."[32]

Many New Zealanders would say that governments in recent years either knowingly or unknowingly took on this role of creating 'discomfort' in New Zealand.

But Porter goes on to argue that such changes should not be expected to have an immediate positive effect.

> "The most powerful levers available to government for influencing national competitive advantage are 'slow-acting' ones such as creating advanced factors, encouraging domestic

> rivalry, shaping national priorities, and influencing demand sophistication. Many of the most important levers may well be unpopular, such as stimulating new entry and creating pressures to upgrade by allowing factor costs to rise."

According to Porter, the major ways of creating more sophisticated inputs to production are increasing the use of new technology either through local R & D or by importing technology; improving the nation's infrastructure, particularly in transport and communications; and improving skill levels.

In terms of the 'public good', there continues to be a strong role for government in the provision of education services but, at the same time, there is also an increasing role for industry to become more active in creating a highly skilled workforce.

Just as it is clear that education needs to be a mix of public, private sector and industry effort, the task of improving an industrial nation's physical infrastructure also needs to be shared amongst these groups. The arguments around the deregulation of the telecommunications industry and the eventual sale of Telecom, for example, included the need to attract private foreign capital for the big investment programme required, the need to have easier access to new overseas technology and a desire to increase competition in the industry. The corporatisation of airports and shipping ports also indicates a move to pass ownership of 'public' property over to the private sector.

However, with a transfer to private ownership there is also the opportunity for further transfer to overseas ownership, raising concerns about loss of control by New Zealanders.

Ownership and control

Telecom provides a good example of the arguments around ownership and control. For a trading nation telecommunications are a crucial element in wealth creation. Before corporatisation the telecommunications sector was primarily government-owned and controlled. Although a high quality physical telecommunications network had been established in New Zealand, the provider was undercapitalised, overstaffed, inward-looking and was said to be unresponsive to consumer demands. One result was that business paid higher charges per unit of service than necessary.

Corporatisation effectively put control at arms length from government, but ownership remained in the Crown's hands. Now ownership has moved overseas but, through the Crown's 'golden share', the government, and theoretically all New Zealanders, have some control over some aspects of Telecom's operations. Day-to-day control is likely to remain in New Zealand but, as with many global companies, the senior management team is very mobile and includes some 'foreigners'. Large-scale strategic decisions are likely to be made overseas.

The government, however, always retains the power to introduce legislation controlling any aspect of Telecom's New Zealand operation should it wish to. In addition the company, although overseas-owned, now needs to meet the demands of consumers rather than government.

The sale of Telecom also creates secondary effects which have an influence on issues of ownership and control across the economy. If, as the theory goes, the sale of Telecom leads to a more efficient, lower-cost provider of services, then industries who are heavy users of these services will save costs, and therefore be more internationally competitive.

This ultimately should lead to New Zealand having a greater ability to reduce its very high levels of overseas debt, and therefore be more independent of international financiers. Part of the proceeds of the sale went towards paying off overseas debt, which again reduces our dependence on international loans.

The Telecom example also raises the important issue of market dominance, often seen as being more undesirable if it involves foreign ownership. The recent deregulation of many areas of the economy, including telecommunications, is founded on the view that competition should mean that people are better off. Freeing-up restrictions on imports and business access makes dominance of the New Zealand market by a profit-maximising monopoly more difficult.

But it is still vital to have measures preventing undue dominance through mergers and takeovers in areas of the economy where barriers to entry are high — such as the ownership of airports. Any sale, particularly of international airports such as Auckland, to either foreign or domestic investors will require close scrutiny and debate.

This is best achieved, as it is currently, through the Commerce Commission, which deals with both New Zealand and foreign enterprises, rather than aiming legislation specifically at foreign investors.

This process to establish the 'public' interest, will also need to take more account of the Maori element. In the process it is likely that the interest of the public as consumers, rather than investors or workers, will continue to take precedence.

The Telecom example then, linked to the idea that the rights of individuals as consumers need to be protected, perhaps indicates that it is not issues of ownership or control of the enterprise that determine whether New Zealanders have more or less control over their economic destinies. Instead it supports the argument that it is consumer choice, obtained through privatisation, deregulation and opening-up of the economy, which gives individuals rather than companies, New Zealand-owned or multinational enterprises, the real power in determining their own destinies.

This view, that it is consumers rather than the producers who dictate trends in demand, means that for business people or analysts, for example, the supply side of global economics needs to be always balanced by a strong focus on the demand side. Porter talks of the need to increase the sophistication of domestic demand but, while this is important, overseas markets represent the greatest potential for New Zealand.

Changing markets

As already indicated New Zealand's trade in goods is now geographically diversified. Trade is about equally divided between Europe, Australia, Japan and North America.

Although this spread of markets appears to give New Zealand some security, a protectionist stance by one or more of the European, Japanese or North American trading areas would create considerable problems for New Zealand. Equally, and more positively, an increasingly open approach to agricultural trade by one or more of these blocs offers considerable opportunities for New Zealand firms and the economy as a whole.

New Zealanders therefore need to continue to fight for fewer trade restrictions in whatever forums they can find — from formal government trade negotiations, to a casual discussion with a German backpacker tourist.

In looking at changing markets, it is clear that there is good reason to focus more attention on the opportunities presented by the growth of Asian economies.

These markets often require quite different products, and standards of quality and presentation. (This partly undermines the Porter theory that meeting the needs of sophisticated buyers in a domestic market will help the international sales process.) The different languages and cultural backgrounds of these markets pose a challenge for our skills and education. If, for example, Korean or Japanese tourists in New Zealand prefer to have Korean or Japanese speakers serving as bus drivers or waiters, then we either have to upgrade our language skills, or accept the importation of workers who have the appropriate skills.

Although Asia is likely to continue to be a growth area, New Zealand still needs to cast its net widely for markets. Many of these new markets will also have languages and cultures different to our own, again emphasising the need to better understand the needs of 'foreigners' as consumers. Our need to look at world markets shows that although CER has been extremely useful in expanding New Zealand's markets, Australia should also be seen as a springboard to the wider world.

As well as geographical diversity, there is now considerable variation in the types of goods and services traded. Sometimes we import dairy products from Europe, or export electronics to Japan. This kind of diversity also gives some security to New Zealand, particularly as it provides a multiple of areas from which to grow. At the same time, however, dramatic movements in sharemarkets throughout the world remind us of the increasing interdependency of seemingly quite unrelated products and markets.

A New Zealand identity

The expansion of the global economy does not necessarily imply that products will develop a bland homogeneity or sameness, or that innovation and creativity will not be important in the development of new products and processes. But it does mean that if these characteristics are not fostered and rewarded, if a country does not strive to protect its unique identity and advantages, then it will lose out in the race for global markets.

It is easy to judge the likely success of a product in the goods, services and capital markets by looking at its price and quality and comparing these factors with those of the competition. But such a comparison overlooks some intangible characteristics that, in the end, may actually determine whether or not that product excites the buyer.

These intangible factors may include the flair with which the product was conceived and executed, or the design brilliance inherent in its packaging. The successful product might owe much to the quality of the advertising used to promote it, or there may be traces of the unique cultural identity existing in the country where the product was designed and manufactured.

Culture plays an important role in our expression of who we are and gives us a sense of place. But it can also make a significant contribution to a country's export effort — witness the success of Coca-Cola or McDonald's, both of which derive directly from the manner in which American society has developed this century. Both now have the status of cultural icons. The Canterbury rugby jersey is a New Zealand example of this same phenomenon although perhaps on a slightly smaller scale.

Even though American culture has become a dominant world force through the growth of global companies and the power of American mass media, there is vigorous competition in the international marketplace. There is value in being unique and there are rewards for locating the niches where that uniqueness can have some influence.

New Zealand, like many other countries, has important indigenous cultural traditions. The re-emergence of iwi as a force is creating viable social and economic alternatives for Maori; Te Reo is taking centre stage; and there is renewed interest among Pakeha New Zealanders in all aspects of Maoritanga.

Through the period of European colonisation, other elements contributing to a New Zealand 'uniqueness' developed. New Zealand literature developed a strong 'local' identity of its own and writers now no longer feel they need a flat in London as a base from which they can 'broaden' their minds. New Zealand films are acknowledged as having a 'different' flavour from European or American movies; and our success in sport, particularly in rugby, netball and sailing, is also credited to our New Zealand origins.

Global communications can be used to stimulate interest in a country's uniqueness — Paul Simon's record *Gracelands* gave world-wide exposure to the music and culture of black South Africa. New Zealand singers, both classical and popular, assist in giving international audiences a small taste of elements of our indigenous culture. The performances overseas by Maori concert groups or the National Youth Choir also show that there is something different, something interesting and unique in this country. As this reputation spreads, it helps with the marketing of New Zealand as a place to buy from or visit. We would lose much if this uniqueness became dulled or blurred.

The global communication system can be a source of opportunities, but it can also endanger this very uniqueness. For example, now that controls on foreign investment in broadcasting have been removed, the absence of a quota system could mean that our radio, but more so our television, will be swamped by foreign programmes leaving New Zealand productions marginalised. This, in turn, would make it that much harder for New Zealand artists to get their work before the public and earn some income from doing so.

The idea of a quota system for New Zealand programmes has already been the subject of debate but further discussion is required on this and other issues surrounding the concept of culture and the strength of being unique.

When we consider uniqueness in relation to economic management, there is a view that we are not developing our own appropriate economic theories but are following such global ideologies as 'privatisation' or 'New Right'. Although there may be some truth in this, these concepts are no more foreign than the 'indicative planning' of the 1960s, or the 'municipal socialism' and 'nationalisation' of earlier years. There could be a need, however, to try and develop an appropriate model which makes a serious attempt to integrate the needs of the world economy with the uniqueness of the New Zealand way of life.

Conclusion

Globalisation is not a new phenomenon for New Zealand but it is, as a consequence of both international and domestic developments, growing in importance. While some would like to turn away from it and retreat behind protective walls, this is not an option available to us if we want to improve the standards of living for all New Zealanders. The opening up of our economy has created both problems and new opportunities, but many of the difficulties now being experienced owe more to earlier extravagance than to increased exposure to the global economy.

In many ways New Zealand has been on the wrong side of the rapid changes that have characterised the global economy in recent years. Trade in manufactured goods has grown rapidly but many of our manufacturing businesses found that merely surviving the changes in the New Zealand environment was as much as they could cope with. Trade in agricultural goods, on the other hand, grew only slowly while international agricultural production showed strong growth.

Our reliance on overseas debt financing has been excessive to the point where the debt burden is now frustrating the opportunities for strong growth. The speculative frenzy of the mid-80s, and the inevitable crash that followed, has left New Zealand banking and financial structures ill-equipped to provide support for ventures that might find success as global markets expand in the 1990s.

Globalisation means that more overseas businesses will be looking at New Zealand as a potential location for investment, and New Zealand companies will be considering the possibility of moving their business to other countries — patriotism is not a compelling reason for remaining.

Small businesses will increasingly be connected to larger international companies as subcontractors or franchise-holders. There will be room for niche production and marketing, and even a small business has to take note of the potential and the influence of the global market for its products.

The implications of globalisation for the role of government in the domestic economy, are considerable. Foreign investment, the strength and size of global companies, the nature of overseas tax regimes and the blurring of boundaries between economies, all have an influence on the capacity of a government to take autonomous decisions, especially in the economic area. New concepts of what is a 'New Zealand' good or service are required, and even seemingly familiar and secure ways of measuring or defining, may mislead or obscure.

New Zealand is not yet a fully open economy, and even though our levels of agricultural protection and direct subsidies are low by OECD standards, there are a number of areas where our effective rate of tariff protection remains high. Deregulation in the 1980s left few impediments to the flow of services in and out of the country, and to international investment. There are still a number of areas, however, where foreign investors face some restrictions.

Further opening the New Zealand economy to international competition will not be too difficult, but the real problem lies in achieving an economy with high incomes and high employment. The often forecast export-led recovery has not appeared, even with strong growth in the global economy. This highlights the importance of a strong domestic base on which companies can pursue global strategies. If global demand is strong throughout the 1990s it is possible to see a steady growth in exports taking place, but this may do little to help our relative international economic position.

Export diversification has been quite successful in the last 30 years but many of the new markets are in countries with vastly different cultures from our own. As well as setting up new challenges for our producers and exporters, these markets will also place a premium on sensitivity to, and awareness of, not only such obvious details as foreign languages, but the intricacies and ramifications of particular customs and dietary preferences.

Although we have managed to diversify both products and markets, our actual status as an exporting country has not altered significantly over the last 20 years. On a global basis, trade has increased relative to production, but this has not happened for New Zealand. We think of ourselves as being heavily dependent on trade but we are less so than similarly sized OECD countries like Belgium, Ireland and Norway. Furthermore, at the macro level, our ratio of imports to GDP has increased by only a small amount during the 1980s — a period of liberalisation.

There have, however, been some significant increases in imports of such goods as textiles and footwear. Restructuring of these industries has, at the same time, produced some strong export successes which, it could be argued, might not have occurred if these industries had remained under heavy protection.

The fear that New Zealand is going to be 'taken over' by international companies and capital is a real one for many New Zealanders. This fear was exacerbated during the last decade when it seemed likely that the opening up of our economy would leave us exposed to predatory 'foreigners'. Yet the available evidence suggests that the overall increase in overseas ownership of New Zealand assets has been relatively small. There has been a significant increase in foreign ownership in the business services and finance area, and of commercial property, telecommunications and transport. Sales of rural land have also gathered much publicity. There may be nationalistic reasons why foreign investment upsets people but the reality is that it will be necessary to develop many new industries in New Zealand and to open up our industries to sources of new technology and markets.

Given our poor savings record and our sizeable debt burden, it is unlikely that we will have any sort of capacity to borrow large amounts of development capital, which means an ongoing demand for foreign investment. New Zealand will, in fact, have to compete for this investment and thus far our record has been poor.

New Zealand's future is certainly not guaranteed. In a global economy companies and people will move towards the most profitable opportunities. New Zealand companies may not choose to stay in New Zealand; our best qualified people will find a ready demand for their skills in other countries. If we cannot compete with technologically sophisticated countries then we will see a continuing slide of our real wage levels and this, as much as anything, will determine the shape of our economy and our standard of living.

We have a comparative advantage based on agriculture and this will have a strong influence on our competitiveness for many years to come. We can develop other aspects of our competitive advantage but this will not bring early returns. The major growth in New Zealand's total overseas earnings in the 1980s has come from the service sector. It is expected that this is the area from which major gains will be forthcoming in the next decade.

Globalisation doesn't make New Zealand a 'powerless' country, with the government and people being pushed around by the harsh winds of competition and the tyranny of the market. It has opened up choices for many groups and individuals throughout the world.

Some power has shifted from governments to global companies, and these companies have considerable choices in the production/sales process. Yet consumers now also have greater power and wider choice. Producers have to be much more concerned about consumer preference.

Perhaps New Zealand needs more consumers — a larger population may provide our manufacturers with a better domestic consumption base. A positive approach to migration might assist this process but it would bring with it a number of economic and social problems. More work needs to be done on this.

The significance of the global challenge is that we have to upgrade our skills, improve our management practices, educate our students for longer, accept overseas control of many aspects of our economy, preserve and promote the unique aspects of our New Zealand identity, care about our environment, save more and work harder, show a greater understanding and respect for foreign cultures, perceive, more clearly than we have in the past, our economic potential and be prepared, perhaps, to trade off a little wealth for a quality of life.

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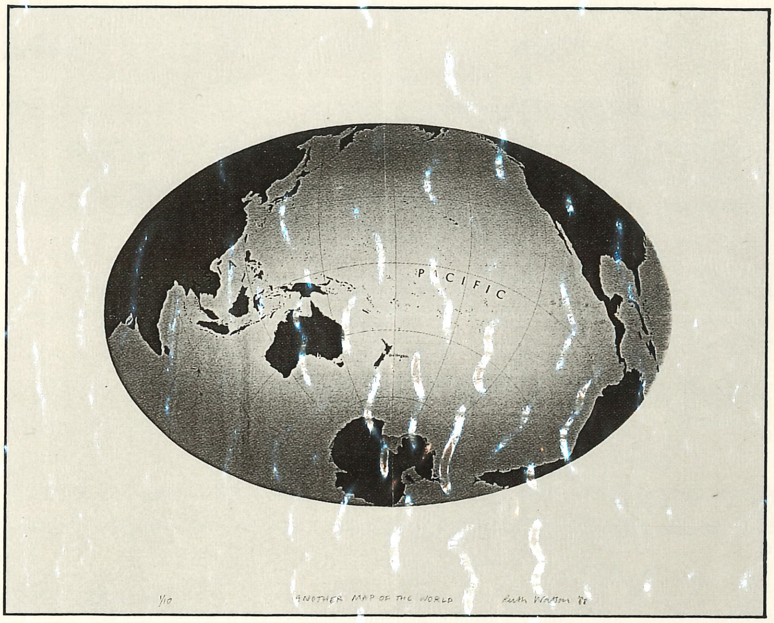

RUTH WATSON New Zealand 1962
Another map of the world 1988
photocopy on rice paper 300 x 200m
collection of the artist Wellington
courtesy Sue Crockford Gallery Auckland