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ViewPoint

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New Zealand New Thinking – not yet unfortunately

We have recently heard from government that they would like to see those in the tradeable sector able to cope with an even higher exchange rate as this will be consistent with a high-wage economy. Indeed unions, government and a few business organisations panted that “aspiration” would be achieved by all working harder on greater productivity. This increase in productivity would be underpinned by giving larger grants to a smaller list of companies picked as “winners” by the “expert” officials at New Zealand Trade and Enterprise (NZTE). The first reaction to this is what of those not picked as winners by the government experts, will they be left to carry the risk alone?

In some cases a high value currency can be consistent with a high value-adding, high-wage economy, but sadly for us, it is not always true. High wages based on high value-add is little more than wishful thinking by those without much understanding of value generation in the elaborately transformed sector (ETM). The advice from NZTE, to add value and exploit niche opportunities, is like giving a drowning man the advice to swim, good advice but not very useful without the swimming aid of supportive policy.

Looking at the exchange rate as a proxy for share price, a high share price infers a strong company might apply to large weighty economies. But, when it comes to small, lightweight economies like New Zealand, it is the exchange rate volatility that crucifies the tradable sector. A volatility that can either be dampened or exacerbated by monetary and fiscal policy settings. On that score we have not done too well, internal price stability is in place but at huge cost to the external sector. Singapore has done much better as their central bank policy is focused on external price stability. <http://www.mas.gov.sg/resource/download/exchangePolicy.pdf>

Sales of Uridashi bonds keep an upward pressure on the New Zealand dollar decimating our exporters and, we are told, astonishing our government. How hard is it to understand that investing at 7.25% in New Zealand dollars, with Yen borrowed at 0.1%, coupled with the sure knowledge that whatever happens in New Zealand, the policy platform ensures internal price stability takes much greater precedence over external price stability and so reduces the risk taken by offshore New Zealand dollar investors, the result, they can't get enough – should we be surprised?

Is there a better way? We can look at other jurisdictions, Singapore for example, and yes the comparison is not a complete fit, but they do help thinking. The Singaporean approach has a resonance with manufacturers, and not just because their GNI is 20% greater than ours, based on building an ETM economy in the last 25 years with their 4 million population. The resonance with us comes from two factors, they have managed to achieve price and exchange rate stability at a pace consistent with the ability of manufacturers to gradually develop competitive ETM productivity – and all this implies. In addition they seem to focus on the right problem at the right time - this is a crucial operations and implementation skill.

Managing with a focus on external price stability reduces the risk of developing external tradable businesses. It might also encourage investment in those businesses and further develop value-add in the economy. External price stability is impossible using only monetary policy and needs a range of complimentary fiscal policies that, taken as a whole, will lead to long-term growth. A slowly appreciating exchange rate is far more manageable for the external trading sector than the fatal volatility we currently experience. Features that would be good for exports and might be used to develop fiscal policies that support trade include: promoting the development of competitive leadership based business behaviours, such as more and better product, plant and people development.

At the individual level, such policies might generate confidence in investments beyond property, or some asset-based taxation might make productive activity more attractive and property less so. The lack of balance in the New Zealand economy needs a firm policy response, it will not respond to wishful thinking.

Settings that generally support and develop capability in our ETM base would also encourage and develop more companies into the export trading space and the development of local supply chains. Somewhat different to the present NZTE policy focus on niche exporters slip-streaming into “global value-chains” - NZTE speak for “take your production to a low cost country”. Such policy does little to build-up supportive ETM capability on-shore. Worse if you are not in ICT, Biotech and Creatives, your chance of being picked as an “NZTE Winner” is close to that of a snowball in Fiji.

It would not be so bad if using tax dollars to support “NZTE Winners” created a general spin-out benefit, but slip-streaming those slip-streaming “global value-chains” is unlikely to happen – unless you are in a low cost country that is!

Maybe we all will be sooner than we think - if we don't really start thinking differently!

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