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ViewPoint

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Blood on the Shelves

Manufacturing is globally mobile and you may have noticed that that mobility is tending to take more and more manufacturing out of New Zealand. At a stroke, reducing exports and increasing imports, and blowing out the current account balance. New Zealand has one of the highest cumulative current account deficits in the world. Sooner or later policy makers must see the New Zealand manufacturing capability as a necessary and strategic asset, even though it is made up of many disparate small companies, worthy of protection; not something that drops off the radar screen when we have a few more containers full of mike powder to sell. If the sector does not get the necessary policy support, and soon, we will come to know that raising the dead is many times harder than protecting the living.

When you walk around the retail warehouses springing up all over, have you looked at the cheap, cheap stuff on the shelves and wondered why it is so cheap? Do you think of what might be behind that bargain?

Few people doubt that competitive trade generally is a good thing. Does that always mean that trade is good or even particularly fair? What might be the features of trade that would categorise the trade as overall good or alternatively bad? The transaction of a house-holder paying to have the lawns cut is a good trade; the participants voluntarily agree a price, a time and a level of quality - both can terminate the arrangement if it suits or continue. What might be bad about such a trade - the gardener might be compelled to cut the lawn, for little or no pay. The gardener might bring material from other lawns and contaminate the lawn with weeds or some other foreign material. The lawnmower may be noisy or dangerous or might even pollute the lawn. What was a good trade can quickly become a bad trade.

So issues such as coercion, pollution, contamination, all impact on “good” trade. Now our gardeners need tools. Suppose we have two competing suppliers; one from the Home Country; the other from the Other Country. The Home Country has a number of constraints; it is a market economy where goods and services are freely traded, and it has labour and environmental standards that are enforced. The Home Country also cares about the protection of intellectual property and other technical and sanitary standards. Of course all the protections and rules cost a good deal of money to formulate, enforce and maintain.

The Other Country has no such rules; its exchange rate is controlled, slavery and prison labour is used indiscriminately; labour and environmental standards are ignored as is the intellectual property and safety of others.

No surprise then that when the gardeners of the Home Country look to buy mowers, the Other Country machines are cheaper and they look so alike they could have come from the same factory. So our gardeners buy Other Country mowers, margins for our gardener increase and things are wonderful, a few are handicapped as the mowers failed (not a joke, cheap aluminium ladders have done just that, and oh yes ACC pays!) and injured the user, but generally most were happy.

Time passes, and the Other Country product is so successful that the Home Country manufacturer closes. Unfortunately the house-holder worked for the Home Country mower manufacturer and now has to do his gardening himself and increasingly the Home Country professional gardeners have no work. Worse, the manufacturing suppliers to the Home Country mower manufacturer also fail as orders for the things they made dry up. Work is evaporating on the forces of trade that might not be based on reasonable competition.

The spiral downwards, or the “race to the bottom”, as it has been characterised, is on. It is a vicious degrading cycle. Unless we see some strategic focus towards trade, most will be happy for a while, just like our uninjured professional gardeners were with the better margins – happy for a while.

But what happens then?

As this happens more and the Home Country see economic activity bleeding away, still insisting on all those standards and on competition with the Other Country, but all the gardeners have no work, nor do there erstwhile employers, they all pay no taxes and without taxes, surveillance and enforcement of the standards becomes increasing difficult, competition is impossible until the standards in the Home Country deteriorate sufficiently to match those in the Other Country.

Not all trade is good – trade with democratic market economies that enforce technical standards, protect intellectual, apply sanitary and phytosanitary rules and support basic human rights works. All else is that “race for the bottom”.

It is worth thinking through when you see products that trigger the thought “how can they make this for so little” - the answer is they can't, in our context. But with slave labour, disregard for safety, sanitary, technical standards, the environment and intellectual property many things are possible and we can see them on the shelves. Things are cheap because somewhere, someone or something suffers. It is their blood that stains the shelves of the market. Still it's someone else suffering, what the hell.

That's what our gardener thought, for a while.

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