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Does Manufacturing Matter?

MEA Chief Executive John Walley

For many New Zealanders, the overvalued dollar, especially against the US dollar, means that our overseas holidays are cheaper along with our imported goods, such as flat screen televisions and DVDs. It means that the high street banks remain willing to finance our houses and lines of credit and New Zealanders will find life rather comfortable and just keep spending.

For our manufacturers and exporters, the strong dollar intensifies the pressure and pain on their businesses. It means that some are trying to survive, while others relocate production offshore or close their doors for good. However, if you do not work for a manufacturing company or take the view that dairy and agricultural products can form the basis of our economy, why worry? After all, if manufacturing is a sunset activity, those people losing their jobs will easily be soaked up by other areas of the economy and we can look forward to a first world future.

Unfortunately, we may not. Manufacturing generates 15% of New Zealand's gross domestic product, a third of New Zealand's export receipts and employs around 1 in 10 people directly. Companies such as Fonterra, depend on a series of manufacturing processes and creates employment that requires skill development, not only for the company, but also for the wider economy where as many as five jobs depend on each top tier-manufacturing employee indirectly through wages paid and directly through services bought. When a company such as Click-Clack pulls out of Christchurch, the company no longer buys services in the local economy. The staff no longer spend money near their place of work, at the local shops, they no longer circulate the activity generated by the company, their suppliers have one less reason to visit Christchurch and the skills demanded, developed and sustained by Click-Clack run the risk of being lost. This knock-on effect is subtle but devastating.

Many see the United States as the most developed economy in the world, even there at least 30% of economic activity is in manufacturing and services supplied to those producers. Other nations around the world that are developing strong economies, such as Ireland, Taiwan and Singapore have built their overall economic success on the success of their manufacturing and export capabilities and have been successful in climbing into and up the league of rich nations.

Unfortunately, in New Zealand it is a different story. The sustained overvaluation of the currency and lack of policy support or productive activity is forcing many of our companies to adopt alternative business models and move production (and a large number of dependent jobs) offshore. For some it is inevitable, but if through our neglect it is inevitable for all, then we face a continuous slide down the league of first world nations. Already the OECD and the IMF have echoed these sentiments in recent reports that criticised our poor investment record, trade deficit, high interest rates and concern over Government spending.

Manufacturers and exporters face a growing number of calls to 'get used to a high dollar' and are reminded by politicians and those they fund that the future of manufacturing will be built on 'innovation' and 'niche products and markets'. Most already operate on this basis so it is accurate advice but in the end it like telling a drowning man to swim. Instead of being drowned by cheap imports, inadequate returns from export market sales and weighed down by costs and regulation, our exporters and manufacturers need the support of a taxation system that encourages investment in research and development, plant and equipment, people development and the development of new enterprise. Manufacturers are innovative and operate in niche markets; the ones that have failed to innovate are long gone as the weight of the system pushed them under.

There is no small, isolated economy on the planet with first world living standards that does not have a strong manufacturing base. The NZ\$10 billion of export receipts the sector provides to the economy is crucial to our living standards. If manufacturing and exporting fails, then our standard of living will fall. For many, the decay and loss of quality in the provision of public services in health and welfare will be the indicator of this decline. Apart from the odd hysterical headline, most will not even see the largely invisible and ignored manufacturing sector die.

Manufacturers and exporters generally acknowledge that the Reserve Bank of New Zealand (RBNZ), conventionally, had little option but to lift the OCR. Instead, they are calling on the Government to adjust its policies and implement measures to curb domestic inflationary pressure, lower interest rates as a precursor to a correction in the exchange rate and put a stop to the exchange rate cycle that kills off more and more capability each time around. It is both necessary and possible to rebuild our manufacturing base and an exporting future but fixing any problem begins with the view that – *it can be fixed* – because until all voters show they care, our political leaders will be more politicians than leaders chasing votes, not real solutions.

Please ask your MP what they are going to do to improve the lot of our manufacturers and exporters, don't let them take the fatalistic view. Fatalism from our leaders means fatal outcomes for those that defend all our living standards. Don't let inaction cost us a future in the developed world.

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