

ViewPoint

‘NZ Inc’ or ‘Kiwi Made’ – where does New Zealand’s future lie?

In October 2006, the Government announced the creation of ‘New Zealand Inc.’ in response to pressure from various companies claiming that due to their production facilities being located offshore, they were not eligible for funding or support under the ‘Buy Kiwi’ programme. Those driving ‘NZ Inc.’ argued that while it may be cost effective for exporting companies to have production offshore, providing the company is registered in New Zealand, along with its intellectual property and product design components, then it is entitled to claim that its products are ‘local’. Recently, their case endorsed ‘NZ Inc.’ as a means of overcoming New Zealand’s local transport and logistical limitations, accompanied by warnings that if this model is not embraced, then New Zealand risks failing to develop its economic potential.

‘NZ Inc’. may offer benefits to some New Zealand companies, for example, those operating in low tech areas, large consumer markets or with products that have large volume or significant labour inputs. However, there is no ‘one size fits all’ solution and the potential costs and associated benefits involved in offshoring will vary from company to company.

If a company decides to relocate production offshore, it must successfully manage its relationships with customers, business partners, suppliers, managers and employees. Products made in low cost countries generally have to meet international specifications and quality before being sold in the developed world. Finished goods may still need to be shipped over long distances to the end-users, and there may be a requirement for additional stocks to be shipped to safeguard against damage, loss, theft and out-of-stocks.

Therefore, while labour and access to raw material or customers may be cheaper in a low cost country or in offshore markets than New Zealand, a set of costs still remain, including transportation, communication, travel, currency costs of each transaction and the time (and money) involved in bringing people from different countries, cultures and languages together in one organisational structure.

Support and incentivisation of the ‘NZ Inc.’ approach, and the absence of Government policy aimed at retaining activity onshore - particularly in regard to supportive tax policy, inflation and the yo-yo exchange rates - has the potential to hollow out the New Zealand economy by reducing its innovative capacity and longer term economic development. Little attention is being paid to the impact that offshoring has for local companies based on niche elaborately transformed products and their local support networks.

Companies operating in the elaborate transformed space, often referred to as the 'high tech sector', generally require the complementary skills of other firms in their supply chains, over and above contractual supply relationships. These sophisticated and integrated supply chains operate on different layers, so when the larger companies, that can absorb the tribulations and costs of relocation, are peeled away, the layers beneath them break down and smaller and more specialised firms either have to find new partners or they begin to fail.

When activity is transferred offshore, it puts pressure on the creative and development capability necessary to support any new product (device + service) of those that remain in New Zealand, thus impacting on their viability. For many firms, knowledge generated in the production process influences the decisions taken in the design and development space and visa versa. When supply chains break down, gaps form in the innovation system. The bigger the gap, the harder it is for new ideas and concepts to find a route to market. The broader specialist skills and knowledge needed to make things happen are no longer easily accessible from a physical and cost standpoint.

Over time the ability of our economy to respond to future opportunities is fundamentally damaged.

Advocates of 'NZ Inc.' claim that our intellectual property from the so called 'knowledge economy' will be sufficient to sustain our long term economic growth. It is a triumph of hope over experience to believe that countries such as China, India and Vietnam will not begin to develop their own brands, their own design, marketing and distribution capability. There is no intellectual property capture mechanism that New Zealand can rely on for the long term and as today's partners rapidly learn to be tomorrows competitors, what does New Zealand do next? Market competition is based on either innovation or price. Without an innovative capacity we will have no choice but to compete on price and such cost based competition will not support existing living standards, let alone improve them. This is not a happy prospect for the future.

As stated earlier in this article, for some New Zealand based companies, the 'NZ Inc.' model is the cost effective solution and they may be able to reduce their costs and improve competitiveness via the offshoring option. On the other hand, others may decide that the image and marketability of their company relies on keeping production in New Zealand and being 'Kiwi made' supports the local economy, local labour force and local "kiwi" values generally in a way that 'made elsewhere' does not.

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