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ViewPoint

Can we compete with China when low cost meets brand and innovation?

As New Zealand continues bilateral trade talks with China, the ever more complex issues of globalisation must be part of the defensive play of the New Zealand negotiators. That is unless the negotiators have failed to release the threats. For example, a transformation has started within the Chinese economy - China is discovering the value of brands.

This has long term implications for elaborate transformation based in New Zealand. New Zealand companies continue to work hard at establishing and supporting innovative products and developing brands which can result in a distinct advantage supporting the development of products and markets. However, international and Chinese companies are not only looking to acquire them but they are also becoming more focused on exporting products that generate strength and recognition in a brand rather than being content to operate as a low-cost component of an international supply chain.

Currently, we see ‘Made in China’ on so many products in New Zealand packaged within a local brand so ‘recognition’ goes to the local brand, not the Chinese firm. This gives New Zealand a position as, for now, the intellectual genesis and control of the brand is retained here. The clear threat is once China gets ‘branded’ through to the consumer and thereby controls the supply chain end – to – end. Does anyone other than the New Zealand consumer have a place in such a world?

New Zealand exporters struggle against the efforts of other countries to protect their economies. Even when negotiating trade deals, countries many times better than New Zealand apply the trade rules to imports. Many countries are great at creating technical barriers against elaborately transformed product on the one hand while on the other hand, quota and tariff work well against basic manufactures and agricultural exports.

In the elaborately transformed sector, the details of the deal matter. Rapid dispute resolution is the key for small New Zealand companies as are standard compliance rules (are imports made to the same quality standard as New Zealand products?). Can New Zealand products gain access to export markets based on New Zealand compliance where countervailing duties are used to balance export subsidies from export markets and where safeguards are used to accommodate transitional issues for New Zealand? Somehow I doubt much effort will go in to redressing the balance. Such issues are critical for trade in elaborately transformed goods and services, there is much more to a level playing in this regard than issue of tariff and access. Trade negotiators have to operate on a much lower level of detail then when negotiation on commodities. New Zealand without the capability to design, develop and trade elaborately transformed product is a New Zealand completely depending on what we grow and dig up to support our future living standards – not a first world prospect.

This debate adds increased importance to the sensitivities of the Buy Kiwi Campaign because as more New Zealand companies relocate their production and supply chains offshore, innovation and branding have to be sufficient to hold a competitive position. Once that is lost all that remains in cost competition. As low cost countries begin to develop the power of their own brands, look to control design and IP, marketing and distribution aspect of a product but also its marketing and distribution what them is the sustainable position for New Zealand.

It is worth considering two questions. What is the unique and sustainable value of New Zealand? And, what more can we do, in all we do, to support that unique and sustainable value? Let us hope our trade negotiators have at least some of the answers.

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