

Our Country: Our Choice. Murray Gough

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The New Zealand Economy in 2020
 Murray Gough*
 Two issues will have a disproportionate impact on the New Zealand economy over the next 25 years. The most pervasive will be the achievement by hundreds of millions of people in Asia of living standards comparable to our own. And partly as a consequence of this, and perhaps as yet barely recognised, we will see tourism emerge as our dominant earner of foreign exchange. New Zealand has taken 150 years to evolve from a colonial dependency to a fully independent free trading nation. This economic evolution has run in parallel with - and in many ways driven - our growing maturity as a nation. We are now in the fortunate position of living in an independent and relatively well managed economy, with the flexibility to adjust quickly to new opportunities. The trauma of the past decade of restructuring has created an unusually high national understanding of economic issues, making any significant reversal of rational economic management unlikely - at least until the generation which learned the lessons from the 1970s and 80s ceases to dominate. There may well be temporary reversals. MMP for example is clearly a two-edged sword, making change difficult but increasing the risk of instability. Nevertheless it is hard to imagine that we will quickly lose the economic sanity we have so recently gained. If we can expect reasonably sound economic management, what factors are most likely to affect the development of our production and trade? Global, regional, and domestic influences will all play a part. But with the small open nature of our economy it is the global and regional issues which will have the greatest influence.

Global issues
 The most important global factor will be the widespread acceptance and adoption of sound economic management principles. Communism has been tried, and failed! The trend is already well established, and we are seeing sustainable growth in country after country. In our own region it is most clearly visible in the tiger economies of Asia. We are becoming aware too that the potentially enormous economies of China and India are also on the move. A similar picture is seen in Latin America, and appears to be emerging in the former communist nations. To the extent that the already wealthy economies of the United States, Europe and Japan may move more slowly towards better economic management, we could well see a different table of wealthy nations by 2020 than the one we are currently familiar with. Even if per capita relativities still leave the older economies on top, America's position as the largest economy in the world will be challenged by China, and perhaps India as well. An important consequence of better economic management is that the present trend towards freer international trade is likely to continue. Regional trade agreements, and the global agreements under the World Trade Organisation, will reduce trade barriers to relatively minimal levels. It is unlikely that even by 2020 agricultural trade will be totally free, but such restrictions as remain are unlikely to have any significant effect on New Zealand's ability to earn a full and fair value for its food and fibre products. The same influences will see capital become an even more freely tradeable international commodity - with only minimal restrictions on the ability of holders to invest where and when they choose. Governments will legislate to protect their tax bases, particularly in transfer pricing, and to ensure sustainable use of resources in the interests of citizens; they will also develop effective laws to enhance competition and avoid the acquisition of undue market dominance. But otherwise, capital will flow freely to the most attractive global opportunities, with clear implications for economic management in those countries seeking access to it. Technology and automation will contribute strongly to growth in global wealth, and result in rapid expansion in service jobs at the expense of manufacturing. Growth in wealth in turn will lead to more (not less) recognition of the importance of environmental management, and legislation to ensure investment in that direction. It will also lead to greater leisure opportunity and a huge expansion in cultural, sporting and travel activities. The last of these will have a major impact on countries which are perceived to be attractive tourist destinations. Increasing population and growing per capita wealth will put pressure on the world's resources. Offsetting this pressure however will be continuing technological advances. More efficient food production will be able to feed the growing world population. Better education of the labour force, more flexible work practices, production automation, and information technology will provide an expanding volume and variety of goods and services - more than sufficient to meet the vast increase in global consumption which lies ahead.

Regional influences
 These global factors will also be the dominant influences in our own region. More specific to our region though will be the radical change in living standards of the enormous and still growing populations in Asia. These countries are unable to produce as efficiently as New Zealand the temperate climate food and fibre products in which we already enjoy a global competitive advantage. Japan and Korea have demonstrated that growing wealth leads to a steady expansion in demand for milk, meat, fruit, and forest products. Japan's per capita consumption of cheese, for example, continues to grow - but is still less than one-tenth of European levels. To increase to European levels would require more milk than New Zealand's total production to supply the Japanese market alone! Technology will ensure the world is adequately fed, but it takes several kilograms of grain to produce one kilogram of beef or cheese. Demand for food quality improvements (more milk and meat, less rice) and population growth are likely to maintain upward pressure on food prices.

Domestic issues
 New Zealand's population by 2020 will be close to four million. While the workforce will be much the same proportion of the population as today, there will be a strong trend for that proportion to reduce as the baby boom generation ages. The workforce itself will become more difficult to define as the whole concept of work becomes more flexible - and part-time work, working from home and intermittent periods of work become increasingly common. Population growth will see greater domestic consumption of our food and fibre products, and steady pressure on our productive land from expanding urban needs. Technology will continue to provide increasing output for any given land area, but the lack of good quality land for development will limit growth in food and fibre export volumes to levels not much greater (in aggregate) than those we already achieve. Of significant economic impact also will be the growing

multiculturalism of New Zealand. Our ability to capitalise on the new wealth in Asia will be enhanced by the personal contacts and trade linkages of a growing Asian component in our immigrant population. Of similar importance will be the degree to which the Maori and Polynesian sections of our population acquire the skills and motivation to become full participants in the New Zealand economy; failure in this will carry a heavy economic and social cost; success will provide a significant economic boost.

Directions If we accept that the environment will develop in the directions outlined, what are the implications for our production and trade? Clearly a great deal of economic activity will remain as it is at present. While their nature and content will change, the largest proportion of our workforce will continue to be employed in providing those products and services which can only be provided locally - health, education, professional services, retailing, distribution, transport, communications, energy, entertainment, as well as production and processing of resource-based products. For the rest, however, we need to consider what our international competitive advantages will be by 2020. Obviously there will be a wide range. Some we will create ourselves, as a result of ensuring our economy is open and stable, and our workforce educated, energetic, and motivated. Some will derive from our history in terms of expertise in producing and marketing our traditional resource-based products. In manufacturing, however, the trend towards importing is likely to continue. Volume-efficient plants in Asia (and elsewhere) coupled with lower wages and globally competitive quality, efficiency, and technology, will make it difficult for many New Zealand manufacturers to be competitive. Manufacturing in New Zealand will become more focused on low volume, technology-based products, products with intellectual as opposed to physical labour content, and purpose-built products to meet domestic needs.

Two key areas of fundamental competitive advantage stand out: · Tourism - as a tourist destination New Zealand is attractive, scenically, climatically and culturally, particularly to those living in the Asian region; and · Productive land - New Zealand's relatively high ratio of productive land to population provides not only low cost food and fibre for our own needs, but also gives us the ability to capitalise on growing world demand for these products. Considering the first of these in more detail, New Zealand's efficiency advantage extends only to sufficient food and fibre to meet the needs of some 25 to 30 million people consuming at our current levels. There is a limit to how far our competitive advantage in these primary industries can actually take our economy. Global demand for these products will unquestionably expand, but the international price will rise only to the point where other countries are attracted to supply; there is a limit to the volume New Zealand is able to efficiently produce. Nevertheless, rising returns from these industries will continue to provide an extremely sound base to our economy. Many will argue that greater value should be added in New Zealand to our primary products. The argument is valid with respect to the basic initial processing, which is usually most economically done at the point of production. However, the need for rapid response to increasingly detailed customer needs, and the relatively high cost of labour in New Zealand (reflecting our standard of living), mean that it is often impracticable, undesirable, or simply unprofitable, for many value-added activities to be undertaken prior to export. Of all the competitive advantage issues, the greatest impact on our economy is likely to come from tourism. Tourism earnings in 1996 will exceed five billion dollars, a figure substantially in excess of our next largest export earner, the dairy industry. Tourism earnings are expected to reach nearly ten billion dollars by the year 2000. On a conservative assumption of five percent growth a year, earnings would reach 25 billion dollars by 2020. A faster growth rate than five percent is likely - visitor numbers have recently been growing at seven to ten percent a year; higher spending per visitor is pushing earnings upwards at an even faster rate. New Zealand's total export earnings, excluding tourism, are currently around 20 billion dollars a year. The scale of projected foreign exchange earnings from tourism is such that this industry is likely to have a greater impact than any other on the strength of our currency - and as a consequence, on the future shape of our economy. Asian visitors have more than doubled in just three years - to over 300,000 in the year to March 1996. To many Asians, New Zealand provides an extremely attractive travel experience - an uncrowded country, safe and affordable to visit, culturally different, and with a great variety of scenic and activity experiences. With this, and with hundreds of millions in Asia acquiring the wealth and opportunity to enjoy overseas leisure travel, New Zealand's challenge is more likely to be the intelligent management of the flow of tourists, rather than the difficulty of attracting them. Sustainable management of the environment - both for citizens (to avoid being overrun by the consequences of tourism) and for visitors (to ensure that the quality of the experience is maintained) will be vitally important. The degree to which New Zealand remains open and welcoming to tourists, particularly those from Asia, will be a critical factor in the success of this industry. The type of tourism New Zealand is likely to develop will not be based on low labour cost, but the industry will nevertheless be a very significant employer of labour. Capitalising on the tourism opportunity will not only provide employment opportunities, but will also add significant support to the value of the kiwi dollar. These factors will reinforce the trend for other economic activity in New Zealand to move towards services and those production activities which can cope with both high labour costs and a strong currency. For the primary industries the effect of tourism supporting a higher dollar is likely to temper what would otherwise have been significant improvements in profitability.

Choices for the future New Zealand faces some critical choices in the development of its economy. We have yet, for example, to agree on how far we wish to become a part of Asia, to welcome and encourage increasing contact with that region. We need to agree on the extent to which we are willing to allow tourism to impact on our way of life, and on the degree to which we are prepared to invest in maintaining and improving our environment. We also have the choice of faster or slower development according to the degree to which we accept foreign investment - and there is the broader question of whether we remain an open economy, or seek to protect those industries which are unable to remain competitive. It is reasonable to assume that recent trends will be maintained, but there can be no certainty. Drawing the key themes together - an open efficient economy, growing demand for the products of our primary industries and tourism-

suggests that New Zealand can potentially look forward to an enticingly attractive future. Growing wealth in Asia will have a dramatic effect on the world economy. With our small population we probably have more to gain from that than any other country not directly undergoing the change itself. Our ability to capitalise on the opportunity however will not be without challenge. Will we succeed? There is good cause for optimism. We have successfully completed the transition to full economic independence, and we have learned a great deal about how to more successfully manage our economy. Given our competitive advantages, it would be a cautious investor indeed who would not back New Zealand to be among the world's most successful economies by 2020.

*Murray Gough Murray Gough was born in Invercargill. He was educated at Hutt Valley High School and Auckland Grammar, and obtained a commerce degree from Victoria University. His early career was in marketing and information technology with IBM and the New Zealand Dairy Board, followed by a term as head of the Dairy Board's finance division. In 1979 he was appointed as Regional Director of the Dairy Board's UK and European companies, based in London. Following return to New Zealand in 1983, and divisional management responsibilities, he was appointed Chief Executive of the Dairy Board in 1985 and retired from this position in 1992. Murray Gough holds directorships in a number of major New Zealand companies, principally involved in the processing and export of resource-based products. He is married with three children, enjoys travel and golf, and sees a bright future for New Zealand