

New Zealand and the International Economy: from “Fortress New Zealand” to “Open New Zealand”

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“My views on globalisation are straightforward: love it or hate it, you can’t stop it. It is an inexorable process and it is not a new one” (Prime Minister, Helen Clark, Address to Labour Party Conference, 18 November, 2000).

Much has been written in the last few decades of the twentieth century about the impact of globalisation on the domestic affairs of nation-states. Few aspects of a country’s political, social and economic life have been immune from the increasing integration of national economies. New Zealand is certainly no exception to this general observation. However, it is important to be aware that, from its very foundation as a colony of Britain in 1840, New Zealand’s historical development has always been largely shaped by forces outside its national boundaries-by external “shocks.” At the same time, *how* New Zealand has responded to these external forces has passed through various phases over the last 150 years.

This article first sets out the historical background that provides the necessary context to view contemporary developments in New Zealand. The second part of the article provides a closer examination of the impact of globalisation on New Zealand since the mid-1980s.

Historical Background

Britain’s Farm in the South Pacific

The colonisation of New Zealand after 1840 reflected the expansionist pressure of capitalist production in the West, and in particular the most advanced capitalist country of the time, Britain. British capitalists were searching for markets for their products, and countries such as New Zealand, the USA, Canada and Australia were viewed both as potential markets for manufactured goods and sources of cheap food. Furthermore, such colonies were seen as suitable for “exporting” parts of the domestic population that had become “surplus” to requirements.

As a small country with a limited internal market, New Zealand had to rely on the import of manufactured and semi-manufactured goods in order to achieve economic development and improved standards of living. To pay for these imports, and consistent with the theory of comparative economic advantage, New Zealand exported what it was most efficient at producing: sheep-meat, wool and dairy produce (mainly butter and cheese). Even at this early stage as a nation-state (the late nineteenth century), New Zealand was heavily dependent on international trade for economic development. More precisely, it was heavily dependent on trade with Britain which took approximately 75-80 percent of all New Zealand exports from the 1870s

right through to the Second World War.

British investment and the export of capital to New Zealand helped modernise and mechanise agriculture as well as establish a communications infrastructure of roads, railways, ports, telegraph and postal services. Such investments also helped develop the internal market for consumer goods and made it more feasible for domestic manufacturers to try and meet the demands of the internal market rather than rely largely on imported goods.

Economic Nationalism: 1930s-1970s

A series of economic recessions plagued the New Zealand economy from the 1920s until the outbreak of the Second World War. Rising unemployment, declining real wages and falling agricultural prices forced policy-makers in New Zealand to look for a new way to deal with New Zealand's vulnerability to external shocks. Before the 1930s, classical economics and its prescription of free trade had been believed to be the way to achieve economic growth. The economic recessions persuaded governments in New Zealand to try to manage their economies through Keynesian type policies. In New Zealand, this entailed trying to stabilise agricultural prices through guaranteed pricing and the development of government backed producer boards which had monopoly powers to buy and sell agricultural produce, and most importantly, to promote agricultural exports. At the same time, controls were imposed on imports, in particular the import of consumer goods. The income generated from agricultural exports was directed towards paying for the import of semi-manufactured goods which domestic manufacturers then processed into consumer goods to meet domestic demand. This required restrictions on manufactured imports through import licensing and quotas. It also meant that prices of consumer goods in New Zealand were higher than would otherwise have been the case. However, in a protected economy, domestic manufactures could both pass on higher costs to the consumer and pay higher wages to employees.

This import-substitution policy worked extremely well. From 1945 to 1979 New Zealand experienced a long boom characterised by "high levels of profitability and productive investment, full employment, low inflation, rising real wages, and the absence of prolonged balance of payments problems" (Roper, 1997, p. 3). However, this period of prolonged prosperity was predicated upon the continued ability of the agricultural sector to continue to export in sufficient quantity to subsidise increasingly high-cost domestic industries. The precarious nature of this balancing act became apparent in 1966 when what was considered a temporary decline in New Zealand's terms of trade (the ratio of export to import prices) turned out to be a steady decline that was only partially reversed during the 1990s. However, it was only from the mid-1980s onwards that New Zealand policy-makers adopted radical policy prescriptions to deal with what were claimed to be the irrepressible forces of the international economy. Before looking at what these policies were, the following section completes the historical overview by outlining the various developments that undermined economic nationalism in New Zealand, and the early efforts that were made to respond to these developments.

Responding to External Shocks: Export Diversification

Although New Zealand had one of the world's most protected economies, it was still very vulnerable to external shocks. First, the oil crises of 1973 and 1979 dramatically increased the prices of inputs into the domestic manufacturing industries and this in turn fuelled inflation. Second, Britain's entry into the European Economic Community (EEC) in 1973 ended New Zealand's special trading relationship with Britain and, in practical terms, restricted how much New Zealand could export to Britain. Finally, New Zealand faced a fall in demand for its three traditional exports of wool, sheep-meat and dairy produce. In particular, butter and sheep-meat were vulnerable to substitution by healthier margarine and white meats (chicken, pork and fish) respectively, while synthetic alternatives were cutting into the market for New Zealand wool (Easton, 1997, pp. 78-80). This decline in demand coupled with the rising costs farmers faced as a result of the oil crises (e.g. more costly farm machinery) contributed to a deteriorating terms of trade.

New Zealand governments during the 1970s and early 1980s, did try to adjust to these overseas developments. Governments had reacted to the external shocks of the 1920s and 1930s with economic nationalism. Fifty years later, governments tried to retain some elements of economic regulation while taking tentative measures to make the New Zealand economy more responsive to the pressures of the international economy. On the one hand, in the late 1970s and early 1980s, the government attempted to offset the rising costs of farming by increasing agricultural subsidies. By 1984, the government was spending around six percent of national income on assistance to agriculture (Robinson et al., 2000). Despite this, however, farm profits fell as the increase in costs simply outpaced the increase in subsidies.

On the other hand, a more productive response to the external shocks was the efforts made by farmers and government to diversify export markets (and reduce the dependency on the British market) and diversify agricultural exports. There was also some success in the efforts made to increase the exports of manufactured goods.

(i) Diversification of New Zealand Export Destinations. As late as 1965, just over 50 percent of New Zealand exports were going to Britain. With the likelihood of Britain's entry into the EEC, New Zealand producers, assisted by the government, sought other export markets to compensate for this. By 1997, the UK accounted for only 20 percent of New Zealand exports while the share of exports to New Zealand's nearest neighbour, Australia, had tripled over the previous decade from four to twelve percent. In 1965, New Zealand and Australia had signed the New Zealand Australia Free Trade Agreement (NAFTA) which removed duties on many goods traded between the two countries. NAFTA was replaced by an expanded and more liberal trade agreement in 1983, known as CER or Closer Economic Relations. New Zealand also refocused some of its export efforts towards the Asia region which by 1990 accounted for 31 percent of all New Zealand exports. Japan alone took 17 percent of total exports from New Zealand — a fourfold increase since 1965 — and in 1990 Japan had become New Zealand's second largest export market behind Australia.

(ii) *Diversification of Exports.* Connected with the effort to diversify export markets was the push towards diversifying what was exported. To combat the declining demand and increased competition for unprocessed primary produce (wool, sheep-meat and dairy products), New Zealand firms began to further process traditional primary produce and develop exports of non-traditional primary produce such as fishing, horticulture and forestry. As with the diversification of markets, there was considerable success in diversifying primary produce exports (see below).

(iii) *Manufactured Exports.* Until the mid-1960s, manufacturing in New Zealand had been almost entirely for import substitution and domestic supply (Easton, 1997, p.167). This gradually changed and, by 1985, manufactures accounted for one-quarter of New Zealand's exports. Some exports were based on or associated with the primary sector, for example, "electric fences, ear tags, computer software for farm management, farm advisory services, breeding stock, wool scours, dairy equipment, saw blades" (Easton, 1997, *ibid*). At the same time, however, there were significant exports of non-farming machinery, petroleum products, plastics, and metals (especially aluminium).

By the time the Labour Government came to power in 1984, New Zealand had been moderately successful in dealing with the external shocks it experienced during the 1970s. However, this was done within a governmental framework that involved high subsidies to the farming sector and a still highly regulated and protected domestic industrial sector. In the early 1980s, according to the OECD, "extensive use of high tariffs, import licensing and quotas resulted in New Zealand having one of the highest levels of protection amongst OECD countries" (OECD, 1991, p. 13). All this was to change under the Labour government of 1984-1990.

Making New Zealand Internationally "Competitive" in the 21st Century

The Labour Government held the view that despite the reforms already introduced, New Zealand was still far from attuned to the international economy and that international competitiveness for both agricultural and non-agricultural exports could only be achieved by removing subsidies and reducing border protection. Major changes promoted by finance minister, Roger Douglas (1984-1988) set the policy directions that were followed by subsequent National Party-led administrations of the 1990s.

A whole raft of measures pushed through by the Labour government included: the deregulation of entry licensing into industry; floating of the exchange rate; removal of price controls; deregulation of foreign exchange controls; deregulation of the transport and financial services sector; and the sale of most major state enterprises (Savage and Bollard, 1990). The aim of these measures was to try to enable New Zealand to compete effectively in the global economy. Because of its geographical location, its small size and its lack of a comparative advantage in anything other than a narrow range of primary products, New Zealand since the 1930s had tried to insulate itself from the international economy and achieve self-sufficiency. The argument

of the reformers was that precisely because of its geographic isolation, small economy and heavy dependency on primary exports, New Zealand had to open itself up to the outside world and positively embrace and integrate with other economies in the global arena. What changes had been made before 1984, were seen as insufficient to achieve this.

The market and trade liberalisation measures of the Labour government have had a wide-ranging effect on the New Zealand economy, particularly in the areas of investment, the service sector and non-pastoral exports.

(i) *Investment.* The deregulation of the foreign exchange market had a major impact on financial flows into and out of New Zealand. In just a decade, inward foreign direct investment (FDI) grew in nominal terms from NZ\$205 million in 1984 to NZ\$4,449 million in 1994. Over the same period, the outward flow of FDI increased from NZ\$54 million to NZ\$3,702 million (Akoorie 1998, p. 88). Most of the inward investment came from Australia, America and the UK although there was significant investment by Japan and other Asia-Oceania countries. Japanese investment was primarily in forestry, wood processing, horticulture and commercial property.

Although the economic benefits of FDI were well promoted by proponents of trade liberalisation, there were concerns voiced by others regarding the large amount of investment funds flowing unhindered into and out of a small economy like New Zealand. By 1995, the ratio of foreign investment stock to GDP was 46.7 percent — the highest ratio for a developed country. As one writer commented, New Zealand had become “exceptionally dependent on foreign investment and its economy... correspondingly dominated by it” (Rosenberg, 1998, p. 31). Overseas ownership of shares in the Top 40 of the New Zealand Stock Exchange went from 19 percent in 1989 to 58 percent in 1996. The rapid increase in foreign investment paralleled a steadily deteriorating net International Investment Position (New Zealand investment abroad minus foreign investment in New Zealand) from NZ\$44,146 million in 1989 to NZ\$ 85,937 million in 1999.

Overseas companies have become dominant in the manufacturing and service industries in New Zealand. For example: all major banks and 9 of the 10 insurance companies are overseas owned; telecommunications and newspapers are dominated by overseas companies; rail transport is fully overseas owned; new motor vehicle supply is entirely overseas owned; and new computer hardware and software supply is largely overseas owned (see Rosenberg, 1998, pp. 45-47).

Increase in overseas ownership and control caused some discontent among segments of the population who felt New Zealand was being “taken over” by foreigners. There was also a racist overtone to this reaction as hostility seemed to be directed towards Asian investments despite these being a small proportion of total FDI compared to the share of British, American and Australian investments in New Zealand. A minor party, the New Zealand First Party and its leader Winston Peter, were seen as exploiting racist feelings during the 1996 election campaign. The very name of the party was suggestive of its nationalistic sentiments. However, although New Zealand First formed part of the National-led coalition government (1996-98), it

did nothing to restrict foreign ownership during its short period in office.

(ii) *The Service Sector.* Globalisation has had a significant impact on the growth of the service sector in New Zealand. Richard Le Heron identifies four means by which the deregulatory response to globalisation has stimulated the growth of producer services in New Zealand: “removing entry barriers to allow other local or overseas companies to establish operations in previously protected markets”
 “permitting foreigners to become members of national exchanges (e.g. for stocks, bonds, futures and commodities)”
 “removing restrictions on activities once heavily regulated or disallowed by law”
 “forcing local producers from all sectors to compete internationally because lower border protection has stimulated demand for information on matters such as market size and segmentation, strengths and weaknesses of competitors, possible distribution channels, currency and interest rates, commercial and international law and regulations of other countries” (1996, p.181).

Total employment in the service sector has increased from around 40 percent of total employment in the 1950s to over two-thirds by the end of the 1990s. The bulk of employment in the service sector is in two areas: community, social and personal services; and wholesale and retail trade. Combined, these two sectors accounted for nearly 49 percent of the New Zealand labour force in 2000. International tourism is one particularly important aspect of the growth of New Zealand’s service sector. The number of international visitors to New Zealand has grown from less than half-a-million in 1983 to 1.5 million in 1999, with visitors from Asia accounting for one fifth (before the Asian financial crisis, this figure was nearly one-third). According to Robinson et al (2000, p. 263), in 1997, tourism accounted for 15 percent of the country’s international exchange, “comparable with earnings from dairying and superior to forestry and horticulture.” In 1999, total foreign exchange earnings from spending by international visitors was over NZ\$3,600 million. Australia followed by the US are the two main sources of visitors to New Zealand. But just as Asia has become more important to New Zealand in terms of FDI and exports, so has it become more important for tourism: the number of tourists from Asia, in particular Japan and South Korea, have increased considerably over the last two decades of the century.

Before leaving this discussion of the service sector, it is important to note that the quantitative increases in service sector employment have not always been accompanied by qualitative improvements in employment conditions or labour skills. There has been a significant increase in casual, part-time and temporary employment, often low wage and low skilled. Examples are work in catering, hotels, cleaning and retailing. This increase in the low skilled, low wage segment of the labour force in New Zealand is something which opponents of deregulation point to as a worrying effect of globalisation. There is the concern that New Zealand does not possess the necessary resources to create a service industry based on high wage, high

skilled labours — for example, to emulate Silicon valley. The fear, perhaps exaggerated, is that New Zealand will merely become an enormous fruit and vegetable garden for international markets (see below) and a gigantic holiday resort for overseas tourists.

(iii) *Non-Pastoral Exports.* Earlier it was noted that during the 1970s, New Zealand farmers tried to respond to changing tastes of overseas consumers. There was a shift towards the further processing of pastoral products for export, and also a shift towards exporting non-pastoral products — in particular fishery, forestry and horticulture.

Horticulture has always had a significant presence in New Zealand, but only from the 1980s has production increasingly been orientated towards the export market, with growing foreign investment in production. In 1984 the value of fruit and vegetable exports was NZ\$405.3 million. By 1997, horticultural exports were worth NZ\$1,302.5 million. During the 1990s there was significant foreign investment in New Zealand orchards and vineyards. The Kiwifruit Marketing Board and the Apple and Pear Market Board have been particularly active in trying to gain wider access to the US and Japanese markets through joint venture agreements with domestic retailers.

The wine industry has witnessed significant growth since the era of deregulation in the mid-1980s. Many farmers saw growing grapes as a more profitable exercise than continuing to rely on traditional pastoral activities. A favourable climate combined with changing consumer tastes both at home and abroad, has stimulated the expansion of New Zealand's wine industry. The area planted in producing grape vines increased from 6,110 hectares in 1994 to 9,000 hectares in 1999. Production over time has shifted away from bulk variety wines for domestic consumption towards higher quality wines for export to European (especially UK) markets. There is foreign involvement in New Zealand wine industry although this tends to be largely Australian rather than "international."

Although an island nation, the export potential of the fishing industry only became apparent after enactment in 1977 of New Zealand's 200-mile Exclusive Economic Zone, one of the largest zones in the world. Integration with overseas markets provided further stimulus to fishery exports. In 1984 the total value of fish exports was NZ\$244.2 million; by 1998 this had risen to NZ\$1,236.8 million. The number of foreign licensed or chartered vessels operating in New Zealand's Exclusive Economic Zone has fallen during the 1990s as New Zealand has tried to assert its control over her fisheries resources. Nevertheless, in 1998, 37 percent of the catch was by foreign-owned vessels. Fishing quotas and licensed access agreements have been negotiated at various times between New Zealand and the Republic of Korea, Russian and Japan.

Between 80-85 percent of all fish landings are exported, with the main export markets being Japan, the US and Australia (in descending order of market share). As with the wine industry, there has also been an increasing emphasis on the higher quality end of the markets — shellfish such as squid, lobster, mussels, oysters, scallops as opposed to wet fish such as hoki, orange roughy and snapper (although the value of wet fish exports was still more than double

shellfish exports in 1998).

According to Elizabeth Jaray, the “New Zealand forestry industry is closely linked into the global industry through its reliance on exports, its increasing levels of foreign participation, and through the participation of several of its indigenous companies in foreign markets including Chile and Canada” (1998, p. 97). The liberalisation of markets and trade had two major effects on New Zealand forestry. It allowed domestic companies to expand their forestry operations both domestically and offshore; examples include the activities of Carter Holt Harvey and Fletcher Challenge, both of which became global players in the international forestry industry (CHC lost its “domestic” status when it was subsequently taken over by the foreign owned International Paper). Deregulation of forestry and the sale of state assets also brought in foreign companies which, by the mid-1990s, owned 17 percent of New Zealand-planted forests. Prominent among these foreign companies were the US-owned Rayonier New Zealand Ltd, Earnslaw One Ltd (Malaysian), Juken Nissho Ltd (Japanese) and Wenita Ltd (Chinese). Foreign companies, in particularly Japanese ones, have also invested heavily in the New Zealand forestry processing industry (for example, Sumitomo Forestry, Tachikawa Forest Products Ltd, Panahome Innosho Ltd and Grand Pine Enterprises).

Forest products have become major export earners for New Zealand. Export earnings in 1987, prior to the government’s sale of its cutting rights to crown forests amounted to NZ\$786,335 million. By 1995 the value of forestry industry exports had risen to NZ\$2.56 billion and was exceeded only by the export earnings of dairy and meat produce (Jaray, 1996, p. 95).

A Third Way to deal with Globalisation?

As a small country, even though it is a major supplier of some agricultural products, New Zealand has limited influence over export prices. If New Zealand producers try to force up the price of their exports, buyers will simply go elsewhere (Easton, 1997, pp. 75-76). The reforms of the 1980s onwards were designed, therefore, to improve New Zealand’s competitive standing in international markets. The removal of, for example, agricultural subsidies, forced farmers to follow trends in international markets and as a result there has been a shift away from traditional, pastoral exports to a wider range of horticultural produce, as well as forestry, fish, wine and manufactured goods.

There is little doubt, also, that following the trade and market liberalisation measures of the 1980s and 1990s, the New Zealand economy at the start of the 21st century is as open as any other OECD economy. For primary products — an area crucial for New Zealand exports — New Zealand has in fact average tariff rates well below other OECD countries: 2.5 percent in New Zealand compared to Canada (4 percent), US (6.9 percent), Japan (9.1 percent) and the European Union (10.4 percent) (Plater and Claridge, 2000, p. 14).

The government’s role has shifted from providing regulatory protection and direct financial subsidies for producers, to using advocacy and diplomacy in multilateral forums and in establishing bilateral trading agreements. For example, the New Zealand government through

the Ministry of Agriculture and Forestry, and the Ministry of Foreign Affairs and Trade, has argued strongly in the WTO and during the Uruguay Rounds of multilateral trade negotiations, for freer agricultural trade. The Labour-Alliance coalition government (1999~2002) established Industry New Zealand with a proposed annual budget of NZ\$100 million that, together with another government body, Trade NZ, aims to attract 'high quality' direct foreign investment to New Zealand. There are government plans to launch in 2001 a new export credit guarantee scheme to help small and medium-sized exporters penetrate new markets. In the 2000 budget the government allocated NZ\$3.8 million to promote New Zealand education overseas. According to the Labour Party leader and Prime Minister, Helen Clark, "Labour in government is committed to using trade and inward investment to open up opportunities for New Zealand" (Speech to Auckland Chamber of Commerce, 23 November 2000).

Clark has in fact been very determined in leading government efforts to developing overseas trading opportunities for New Zealand. She signed a Closer Economic Partnership with Singapore in November 2000, commenting with some pride that such a bilateral agreement went beyond what was being achieved within the WTO. Parts of her speech at the Labour Party Conference of that year typified the government's resolve: "Believe me, this government is out there pushing trading opportunities for our products as hard as we can. We won't stand by and let others form trading arrangements without us. That's why we've worked to open doors in Singapore... Trade is our lifeblood and we will do whatever we can to secure more access for our goods and services."

But while government efforts to make New Zealand a dynamic trading nation is clearly evident, "no sensible policymaker would advocate globalisation for its own sake; there must be some lasting gains from greater openness of an economy" (Chatterjee, 1999, p. 135). Evidence is in fact mixed on the effect of openness and integration on economic growth and there may even be diminishing returns to openness (Claridge and Box, 2000, pp. 44-45). As discussed above, New Zealand exporters have made impressive achievements in diversifying markets and products. Yet this does not resolve the problem that has faced New Zealand during the 20th century — its small size makes it vulnerable to external shocks and neither protectionism nor liberalisation can change this. The "fortress New Zealand" of the 1970s could not insulate itself from the oil shocks and Britain's entry into Europe. An "open New Zealand" was similarly vulnerable to the Asian financial crisis of 1997. To compound this greater vulnerability to external shocks is the reluctance of other countries to follow New Zealand down the path of trade liberalisation — or at least, not to go nearly as far as New Zealand in reducing or eliminating agricultural protectionism. In 1999, for example, to protect its own lamb producers, the US imposed limits on New Zealand (and Australian) lamb imports. And with regard to agricultural subsidies, in the mid-1990s, the US spent US\$25 billion on farm subsidies; the European Union, US\$42 billion (Kelsey, 1999, p. 256). The Labour-Alliance coalition government's announcement that it would freeze remaining tariff levels until key trading partners match those levels seemed a rather empty gesture given that New Zealand is already 97 percent tariff free and has lower tariffs on primary produce than its main competitors. This is preserving a

status quo that many would argue is disadvantageous to New Zealand.

The assumption was that trade liberalisation would make New Zealand's exports more competitive and that this would stimulate economic development through export growth. But while New Zealand's exports have grown, import penetration has grown faster. According to Plater and Claridge (2000, p. 11), the import penetration rate of manufactured goods has risen from 32 percent in the 1970s to 40 percent in the mid-1990s — high by OECD standards and compared to just 31 percent in Australia. A sobering assessment of New Zealand's export-import position was set out by the Minister of Economic Development in a speech to business leaders.

New Zealand is the lowest exporter of high-tech products in the OECD. We import five times as much high-technology production as we export... Only 4% of our companies are exporting. That's only 8500 businesses in the whole of New Zealand. 82% of merchandise exporters sell less than half a million dollars of merchandise products a year overseas. 95% of our exporters sell less than \$5 million a year worth of goods and services overseas. 127 companies account for 73% of our total merchandise exports. Thirty companies earn half of our foreign exchange. What this adds up to is a very narrow, and shallow, export base. New Zealand is highly dependent on a relatively small number of large exporters (Jim Anderton, Minister of Economic Development, Address to the Business to Government Forum, 24 October, 2000).

With many overseas markets still protected, it is hard to see how further significant export growth is going to come about. Is it feasible to ever expect New Zealand to become a net exporter of high-tech goods? And how much more fruit, fish and wine must New Zealand export in order to pay for imports of latest model fax machines, digital video cameras, DVD players and flat televisions? As it stands, New Zealand's trade surplus is not even sufficient to pay interest on foreign debt and dividends to foreign owners of New Zealand assets. Private borrowing, therefore, has increased to finance the current account deficit, and private debt by the late 1990s amounted to more than 100 percent of GDP (Harris and Eichbaum, 1999, pp. 221-222).

Since 1984 New Zealand has experienced low economic growth rates, high unemployment, increasing income inequalities and rising levels of poverty. For the proponents of trade liberalisation this indicates that there is a long painful transition phase following the end of market protectionism. Furthermore, any attempt to turn the clock back would not only be extremely difficult given the commitments already made by New Zealand during multilateral negotiations, it would also mean the costs endured so far would have been for nothing.

Although supporters of liberalisation portray opponents as wanting to "return to the bad old days of fortress New Zealand," this is a strategy designed to undermine the credibility of those seeking an alternative path to economic development rather than being an accurate reflection of the position taken by these opponents. Advocates of a "Third Way" between unbridled capitalism and socialism, are now to be found in all advanced industrial democracies. The detailed prescriptions involved in a Third Way differ from one country to another. Indeed, one

of the key features of the Third Way is the view that there is no one economic model, such as that characterised by the Washington consensus, that can be uniformly imposed on all countries irrespective of local conditions. In the case of New Zealand, any Third Way has to recognise New Zealand's small size and dependence on overseas markets and hence its vulnerability to external shocks. Globalisation has not created this dependency and vulnerability, but it has accentuated it. Any Third Way, therefore, has to address New Zealand's particular circumstances. For example, the liberalisation of New Zealand's financial markets has had the adverse effect of making New Zealand particularly susceptible to the volatility of speculative, short-term financial flows (portfolio investment or "hot money"). To reimpose blanket controls on foreign exchange to deal with the problem of hot money would at the same time deprive New Zealand of the benefits of long-term overseas financial investment. A possible third way would be the imposition of a New Zealand Tobin Tax.

The Third Way in New Zealand also suggests a new strategy regarding welfare state spending. For market liberals, government expenditure undermines international economic competitiveness. Taxation, to pay for government spending, not only undermines the ability of domestic businesses to invest, but high-tax countries are also less likely to attract overseas investors. Therefore, government spending on what is seen as 'unproductive' social welfare is a prime target for expenditure cuts with the money saved then being used to pay for tax cuts. In New Zealand, cuts to welfare across a range of benefits have taken place since the early 1990s. The Third Way does not disregard the financial costs incurred by welfare spending but proposes to focus more welfare spending on developing the skills of those unemployed so that they are better able to take advantage of the job opportunities being created in an expanding service sector. The Labour-Alliance coalition government has explicitly acknowledged that there is a Third Way to dealing with globalisation and that public investment in education, skills training, and infrastructure is necessary in order to ensure that globalisation does not create further inequality and social exclusion. [On this latter point, however, it should be noted that there has been little empirical research on the impact of trade liberalisation on inequality in New Zealand (Claridge and Box, 2000, p. 50)].

As noted earlier, it is debatable how many high-skilled jobs can be created in the New Zealand service sector. It is doubtful that much up-skilling is required to train out-of-work youths to pick kiwifruit. Nevertheless, the Third Way is suggesting that New Zealand's response to globalisation must be something more discerning than a unidimensional focus on minimising government intervention in order to 'balance the books.'

Conclusion

New Zealand's economy has always been integrated to a significant degree with the international economy. Over time, the nature of this integration has changed from dependency on one country for an export market and a limited range of pastoral produce as exports, to reliance on a much wider range of exports and export markets. But this shift has not changed New Zealand's vulnerability to external shocks — if anything New Zealand's vulnerability has been

heightened given the multiple sources from which the shocks can now originate (e.g. the collapse of the Russian economy, the Asian financial crisis, the economic recession in Japan). Governments in New Zealand have not always responded in the same way to this vulnerability. From the 1930s until the 1970s, the response was one of protectionism. This had the benefit of helping to maintain full employment, increase real wages and generally raise living standards. But the cost was increased government spending, the subsidisation of agriculture and the protection of many inefficient domestic industries. After 1984, government strategy changed radically and New Zealand's economy was rapidly deregulated leaving it 'wide open' to even further integration into the global economy. What this meant was that the movement of goods, services, capital and labour across New Zealand's borders was left relatively uncontrolled by the New Zealand government. This did result in increasing the efficiency of New Zealand's agricultural and manufacturing sectors. But there have been significant social and economic costs not least of which has been increased unemployment and the growth of low-skilled and low-paid employment.

The view, dominant in business and political circles, is that globalisation is an inevitable force with unavoidable consequences. The Prime Minister's statement cited at the beginning of this article typifies this view. This has been a self-serving approach. It ignores the fact that the response by New Zealand governments to globalisation has been a political choice. Other countries in Europe, as well as the USA, have chosen not to emulate New Zealand but have continued to a significant degree to compensate and subsidise domestic producers and consumers. It is partly because of this that New Zealand has not reaped as much benefit from its liberalisation programme as the proponents promised. The lesson to draw from this is not to hope and expect that other countries will soon follow New Zealand's example but for New Zealand to adopt a more pragmatic and less dogmatic stance towards globalisation. As Claridge and Box (2000, p. 82) aptly put it (emphasis added), "...globalisation is something that governments can influence only at the margins. Nevertheless, *government is not without choices and these choices can make a big difference to New Zealanders' welfare even in this, largely reactive, field.*"

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〈Summary〉

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New Zealand as a geographically isolated country, with few natural resources, has always been highly dependent on trade for her economic prosperity. This has meant that New Zealand has been particularly vulnerable to “external shocks.” How New Zealand has responded to this vulnerability has, however, varied across time. From the 1930s onwards, policy-makers sought to insulate the domestic economy from external pressures through controls over imports, overseas investment, prices and wages. This had created by the 1980s a “fortress New Zealand” — one of the most regulated economies among OECD members. The Labour Government elected in 1984 sought to break down the wall of the fortress with the introduction of a raft of deregulatory and liberalisation measure. Tariffs were eliminated or drastically reduced; restrictions on foreign investment were relaxed; quotas were removed; the financial markets were deregulated. This now made New Zealand’s economy one of the most open among OECD members. The expectation of the market liberalisers was that exposure to overseas competition would increase the efficiency of domestic producers. It is true that some New Zealand firms are now very competitive players in world export markets. However, if this is seen as a beneficial consequence of economic openness, there have been many adverse consequences for New Zealand such as the increase in foreign control of assets and the growth of an unskilled, low-paid workforce and all the implications this has for the standard of living of a large number of New Zealanders.