

TRENDS IN MANUFACTURED EXPORTS

This article sets out briefly the major trends which have developed in New Zealand's manufactured exports over the past decade and describes these exports in the broader perspective of the total manufacturing sector and New Zealand's overall export performance.

Over the last decade manufactured exports have increased at a faster rate than those of any other sector. In volume terms they have more than trebled, moving from an index base of 1000 in 1970/71 to 3425 in 1979/80, while the corresponding movement in the 'all groups' index was from 1000 to 1332. Exports receipts increased from \$66 million in 1969/70 to \$824 million in 1979/80 and as a share of total export receipts grew from 6 to 16 per cent.

this category include dyes and paints; pharmaceuticals and cosmetics; fertilisers; and miscellaneous weedkillers, fungicides and insecticides.

Markets:

Although markets for manufactured goods are widely dispersed three major market areas have emerged during the 1970s. Australia is by far the largest market with around 40 per cent of the total in 1979/80, followed by Asia/Oceania with 25 per cent and Japan with about 20 per cent. Australia's share has slipped from about 50 per cent in 1969/70 while the Japanese

O.E.T. Export Receipts
NZ\$ million

June Years	Meat	Wool	Dairy	Forestry	Manu.	Other	Total
1970/71	414.8	206.1	260.9	77.4	80.1	154.5	1,193.8
% total	(34.7)	(17.3)	(21.9)	(6.5)	(6.7)	(12.9)	(100.0)
1975/76	674.5	512.1	473.5	197.6	343.6	289.2	2,490.5
% total	(27.1)	(20.6)	(19.0)	(7.9)	(13.8)	(11.6)	(100.0)
1979/80	1,326.0	967.6	810.6	501.2	824.2	715.2	5,144.8
% total	(25.0)	(18.8)	(15.8)	(9.7)	(16.0)	(13.9)	(100.0)

Export Volume Index
Base 1971 = 1000

June Years	Meat	Wool	Dairy	Forestry	Manu	Fishing	All Groups
1970/71	1000	1000	1000	1000	1000	1000	1000
1975/76	1107	951	937	1227	1954	1031	1094
1979/80	1080	1027	1128	2036	3425	2584	1332

Products:

Most manufactured export products have shown substantial growth over the last ten years, none more so than non-ferrous metals (mainly aluminium), exports of which have increased from \$2.7 million (f.o.b.) in 1970/71 to \$168.7 million in 1979/80. This category now accounts for 21 per cent of manufactured exports compared with 5 per cent in 1970/71. Iron and steel exports have grown from virtually nothing to \$50 million over the last ten years, while manufactures of metals have also shown considerable growth, reflecting the availability of aluminium and steel for development of down-stream industry.

Exports of machinery and transport equipment have grown from around \$16 million in 1969/70 to \$170 million in 1979/80, with Australia the main market for various whiteware products, agricultural machinery and motor vehicle parts and accessories.

Textile products, the leading export category prior to 1973, have shown a steady decline as a percentage of manufactured exports during the 1970s despite having recorded an absolute increase in earnings of 360 per cent since 1973. Earnings from leather and fur exports have also increased significantly since 1973 largely as a result of expanded semi-tanned lamb pelt exports, a product previously exported unprocessed. Clothing exports grew rapidly during 1976/77 but have since stagnated. Increased exports of pharmaceuticals and cosmetics to Australia have contributed significantly to the growth of chemical exports in recent years. The major items in

share has grown from 5 per cent. The growth in the Japanese market has resulted almost entirely from aluminium exports.

Employment:

Non-availability of consistent up-to-date statistics precludes analysis of the number of people employed in manufacturing industries since 1976/77. However, in 1976/77, excluding primary processing and forestry sector workers, approximately 215,000 people, or 17.5 per cent of the workforce, were employed in the manufacturing sector. This compares with some 194,000 (17.4 per cent) in 1970/71 and 198,000 (16.7 per cent) in 1973/74. The major role played by manufacturing as an employer, particularly of unskilled labour, has reinforced the need to expand manufactured exports during periods of domestic recession in order to maintain manufactured output and minimise unemployment.

Proportion of Output Exported:

The latest official statistics (1976/77) show that approximately 9 per cent of manufactured output was exported in that year. Estimates using the Department of Statistics manufacturing main indicator series indicate movements since then.

<i>June Year</i>	<i>Manufacturing¹ Output \$m</i>	<i>f.o.b. Manufactured Exports \$m</i>	<i>% Exported</i>
1977/78	5,323	485	9.1
1978/79	6,330	642	10.1
1979/80	7,640	810	10.6

¹ Derived from manufacturing main indicator series by excluding processed foods, wood and paper products.

To date manufactured exports are still well below the level necessary to achieve the 1979 Manufacturers' Federation target of 20 per cent of output exported by 1983/84. This proportion was considered unattainable in the Final Report of the 'Manufacturers Export Research Programme' prepared in March 1980, and instead a figure of 16 per cent was suggested. To date, however, exports are still below this target. The research done by the New Zealand Institute of Economic Research (NZIER) in August 1980 indicates that the rate of growth of manufacturing output, although positive, is declining. However, given manufacturers' current incentives to export, the proportion of output exported should continue to rise, especially while domestic economic activity remains relatively depressed.

Rates of Protection:

Shown below are estimates of effective rates of protection of the manufacturing sub-sectors. The estimates are for 1978/79 and were prepared by the NZIER.

Effective Rates of Protection by Sector¹

<i>Production Group</i>	<i>Percentage Rate</i>
Textiles, apparel, leather	66.9
Chemical, petrol, plastic products	53.9
Non-metallic mineral products	16.2
Basic metal industries	3.6
Metal products and machinery	68.3
Other manufacturing	71.7

¹ Effective rate of protection is broadly defined as the margin by which the combined earnings of labour and capital employed exceed the amount those same factors of production would earn (in the same industry and at the same volume of production) without the benefit of protective measures.

An earlier study of effective rates of protection had been carried out relating to 1972/73 and though the sector groupings above differ from those of the 1972/73 study, this making comparisons difficult, it is apparent that effective rates of protection have generally declined.

Competitiveness

Some manufacturing industries have developed over the last decade to be internationally competitive but much of the manufacturing sector remains heavily dependent on protection from import competition and on various incentives to sustain export profitability. The output of many industries remains too small to obtain the economies of scale enjoyed by larger overseas producers and where other industries are forced by import licensing to buy intermediate products from these inefficient industries, the cost structure in New Zealand is further inflated relative to overseas competition. Even in some larger industries, notably aluminium, competitiveness is questionable. Certainly New Zealand has no comparative advantage in the production of aluminium as we are neither endowed with bauxite resources or cheap electrical energy (in the absence of subsidies).

Another disturbing feature that has emerged recently is the growing antagonism from some trading partners toward our export incentives which they view as subsidies.

Despite the expansion of manufactured exports, New Zealand's export volume growth over the period 1970 to 1979 was poor compared to the average for OECD countries. The volume of goods and services exported by New Zealand increased by only 36 per cent over this period, mainly because of relatively slow growth in agricultural output. The only OECD country with a worse performance was Luxembourg with 26 per cent while the average for OECD countries was 75 per cent. Australian exports of goods and services increased by 46 per cent in volume over the same period.

CONCLUSION

While growth of manufactured exports has been high in relation to New Zealand's traditional exports, it has been from a relatively small base and has been achieved at the expense of special incentives and increased dependence on imported components and equipment. At least in part, the need for incentives can be viewed as the inevitable outcome of an overvalued exchange rate through much of the past decade.

Undoubtedly, the growth which has occurred has been important both in terms of its contribution to the balance of payments and its moderation of the effects on employment of the depressed domestic economy. Moreover, while the balance of payments and unemployment remain troublesome, there will be resistance to the removal of protective policies and incentives currently in place. However, these should not be seen as long-term solutions to New Zealand's problems.