EXPORT MARKET DEVELOPMENTS

This article outlines developments in New Zealand's external trade from its inception in the early 1800s Of particular interest are the influences which shaped New Zealand's early reliance on pastoral based exports and sustained this dominance to the present day Also considered are the reasons for, and developments in, the changing nature of export trade over the last twenty years In particular it focuses on the trend away from the dominance of the United Kingdom as the major export market and the gradual lessening in the reliance on the pastoral sector as the major foreign exchange earner Finally the article looks at the re-emergence overseas of protectionist trade policies in recent years and efforts to overcome artificial trade barriers

HISTORICAL PERSPECTIVE

Overseas trade has been a feature of New Zealand's economic activity since the early 1800s In the early years it was based on the exploitation of natural resources such as flax, timber and, later, gold There was a natural tendency for the developing economy to concentrate on production of goods which were readily accessible or which met immediate needs of the new settlements There was a strong quest for land evident in the early European settlements and this together with an equable climate in part explains the early development of a pastoral industry based essentially on wool By 1853, the first year in which statistics were compiled, wool exports already comprised 22 per cent of the total value of exports The orientation of the country's trade was heavily influenced by strong political ties with the United Kingdom, the country of origin for most of its European settlers This orientation continued largely unaltered until the 1960s

The advent of refrigerated transportation in the 1880s provided New Zealand with an opportunity to diversify its export trade into a limited variety of meat and later dairy exports It represented probably the most important development affecting the nature of New Zealand's export trade

Manufacturing became established at an early stage but in a secondary role so far as external trade was concerned Industry evolved initially to supply a small domestic population with basic foodstuffs and necessities Developments through the late 1800s and early 1900s placed the main emphasis on industries processing farm products for export and those producing basic household and industrial goods and supplies The shape of New Zealand's manufacturing sector was thus largely determined by the growing population, the expansion of pastoral exports, improved internal communication and transportation networks and, later, government action which concentrated on stimulating import substitution

By 1920, over 50 per cent of the value of local production was being exported, over 90 per cent of those exports were pastoral in origin, and about 80 per cent of total exports were to the United Kingdom The country's concentration on a small number of commodity exports, a feature of which was their price instability, left the domestic economy significantly exposed to the cyclical vicissitudes of the external sector Although these effects were observed with some concern in the late 1800s they were masked by subsequent world developments in the early to mid – 1900s The relative prosperity of the world economy in the early 1900s together with the stability provided by government-to-government contracts for New Zealand's exports during both world wars served to disguise the vulnerability of the domestic economy

It was not until the termination of the World War II bulk-purchasing agreements, and the unpredictable effects associated with free market commodity trading began to be experienced again, that more widespread doubts about the nature of our export industry began to surface, particularly concern regarding its reliance on pastoral products

The 1950s, apart from the Korean hostilities, was a period of relative calm internationally and of remarkable growth in world trade While New Zealand shared in this relative prosperity, export volumes grew at the relatively modest annual rate of about 3 5 per cent By the late 1950s it was becoming clear that the common postwar belief, that rising world population plus expanding world trade and incomes would promote improving terms of trade and higher standards of living in New Zealand, was, in fact, not supported by developments

Just as the bulk-purchase agreements of the war years insulated the pastoral sector from the vagaries of free trade, so the war and its shortages changed the pattern of manufacturing and gave great encouragement to industrial development The engineering and apparel industries made the greatest progress and in the period immediately after the war this development continued steadily

Factory expansion was sustained by a high level of internal demand due to population growth, by the production of new products such as motor vehicles, and by restrictions on the importation of a wide range of goods. This broadening of the range of products being made within the manufacturing sector was accompanied by a significant change in outlook by the sector While it still produced goods mainly for domestic consumption, the level of exports gradually began to rise albeit from a very low level

Beginning in the late 1950s the country saw two new trends in external trade develop, a steady increase in the range of products exported and a major diversification of markets to which they were sent The changing composition of exports stemmed initially from a desire to moderate the impact of pastoral product price instability on the domestic economy More recently added impetus has come from the increased levels of non-tariff protection being encountered by the country's more traditional exports and concern that some of these exports may be experiencing a structural decline in international demand The diversification of export markets began in the late 1940s in part as a response to the United Kingdom's weakened post-war position The threat of United Kingdom membership in the EEC, and the realisation of that threat, in the 1960s and 1970s set the seal on a major readjustment in the pattern of New Zealand trade

COMPOSITION OF EXPORTS

It was not until the mid 1960s that the composition of New Zealand's exports began to shift significantly from the relatively narrow range of products established some

80 years earlier There had been some quite significant changes in processing methods and product presentation aimed at achieving some improvement in price stability and alignment of product with market demand However, the meat, wool and dairy industries still largely exported the same basic products as they had at the turn of the century

Subsequently two specific trends in the composition of exports have been evident The first has been a move to diversify the forms in which the traditional pastoral exports have been exported and marketed There have been continuing efforts to identify and meet the specific requirements of various markets This has been an essential part of the process of diversification into new markets where consumer preferences and tastes differ from those in traditional markets So there has developed increased emphasis on the production of lean lamb and cuts of meat in packaged form to meet the needs of new markets The mix of meat exports has also changed in a trend reflecting producers' longer term perceptions of market prospects Between 1970–1980, lamb's share of total export production remained stable at 48 per cent, while beef's share increased from 26 to 29 per cent at the expense of mutton

Environmental concerns in overseas markets and technical improvements in New Zealand have encouraged scouring of wool prior to shipment, a factor which has increased the foreign exchange inflow associated with wool exports (Scouring adds an estimated 19 cents per kilo to the export value) The amount of wool scoured has increased dramatically over the last two decades, with 1,084,000 bales of scoured product being produced in the 1979/80 season (representing two-thirds of total wool production) compared with 301,500 bales in 1965/66 or 15 per cent of the total

The dairy industry, partly due to the nature of its basic input, has made the most progress in terms of diversifying the range of products which it manufactures. At present some thirty different classes of product can be produced, each of which can be subdivided further into many types This allows the industry significant flexibility in adjusting to short term changes in the demand/supply situation, while in the longer term the changes in market structure have encouraged greater emphasis on sophisticated food products as opposed to bulk commodity products.

The second, and more significant, development in the composition of exports has been the increasing contribution of non-pastoral exports (see table 1) New Zealand's heavy reliance on pastoral exports, and problems associated with this, gave impetus to the development of an export orientated exotic forest industry It has also led to the development of manufacturing as an export sector and to the diversification of agriculture and horticulture into new export activities Table 1 outlines the changes in the composition of exports that have taken place since 1960

These statistics reveal the growing importance of non-pastoral exports, which accounted for almost 30 per cent of total receipts in 1982, compared with less than 15 per cent in 1970 and a mere 5 per cent in 1960 Of the three main non-pastoral export groups, forestry, other primary products and manufacturing, it is the latter which has displayed the strongest growth

It is important to note, however, that the size of the pastoral sector in terms of export volumes has not contracted, but rather the contribution of non-pastoral exports has expanded much more quickly from a very small base It has been the static volume of pastoral exports through the last decade, in contrast with rapid growth in the volume of non-pastoral exports, which explains the former's declining contribution This is further evidenced by tables 2 and 3 which provide detail of price and volume changes for the major export products

Between 1971–1982, the all groups export volume index grew by an average 3 per cent a year The average annual volume growth rate for the agricultural sector was 1 1 per cent, compared with 12 9 per cent for manufacturing, 5 6 per cent for forestry and 11 7 per cent for fishing The 1974/75 and 1978 general downturns in the world economy resulted in significant declines in the export volumes of the agricultural sector. These developments also had an impact on other sectors although the effect on manufactured export volumes was not as marked Growth in that sector slowed to about one-third of what it had been in previous years In 1982, the growth in manufactured export volumes slowed to a rate of 1 1 per cent perhaps reflecting that the sector has reached maturity

Table 3 reveals that while export prices for agricultural exports have displayed a marked tendency to fluctuate, over the longer term their rate of increase has matched those of the non-pastoral exports In the period 1971–1982 the agricultural industries export price index grew from a base of 1000 to 4254, while the fishing, manufacturing and forestry price indices grew to 3714, 3775 and 4105 respectively The influence of price fluctuations is most obvious in the changing relative contributions of specific pastoral products in the short term For example, in the most recent two years, the dairy sector's contribution to receipts has increased from 15 8 per cent to 21 4 per cent, reflecting a 74 2 per cent rise in the dairy products export price index while the volume index actually declined by 3 7 per cent Wool's contribution, on the other hand, fell from 18.8 per cent to 14 1 per cent over the same period, due to static export volumes and prices

The growth in non-traditional exports has been, to a considerable degree, in response to government policies aimed at encouraging expansion and diversification of export and domestic activity Somewhat surprisingly the basis for the first major non-traditional export industry, forestry, was laid in the late 1920s and during the 1930s depression years when the foresight of a few foresters combined with a government employment scheme to see forests planted which, from the late 1950s, provided the raw material for a timber and paper products export industry With further government encouragement the last twenty years has seen the rate of softwood plantings expanding rapidly and the supply of wood from New Zealand's forests, after enduring a bottleneck in the mid 1980s, will begin to expand rapidly in the 1990s The wood supply will almost treble by the turn of the century and quadruple by the year 2015 Domestic requirements are likely to remain about the same and export prospects appear bright if the expectations of expanded demand and static production levels in some of the major exporting nations are fulfilled Some uncertainty exists, however, over the domestic industry's ability to put in place the capital infrastructure necessary to process the increased supply

Developments which contributed to the growth in the other primary products export group have been concentrated mainly in two areas, horticulture and fishing Within the horticulture industry some early advances were made in exports of apples, onions and on occasions, potatoes In the late 1970s a dramatic

TABLE 1
COMPONENTS OF NEW ZEALAND'S EXPORTS
(percentage share)

	Year ended June					
	1960	*1965*	*1970*	*1975*	*1980*	*1982*
Dairy	28 4	26 2	20 7	19 1	15 8	21 4
Meat	23 2	28 6	35 5	29 2	25 7	24 5
Wool	34 7	29 2	19 6	17 3	18 8	14 1
Other Animal Products	7 2	8 0	7 9	7 7	7 8	6 2
Forestry	2 8	3 4	5 8	8 8	9 7	9 1
Manufacturing	2 2	0 8	4 2	12 6	16 0	17 9
Other Primary Products	2 5	3 2	5 2	4 5	5 2	6 1
Other	0 8	0 6	1 1	0 8	1 0	0 7
	100 0	100 0	100 0	100 0	100 0	100 0
Pastoral Exports (% of Total)	95	93	85	76	71	70

TABLE 2
EXPORT INDUSTRY GROUPS — VOLUME INDEX

	Agriculture		*Manufacturing*		*Forestry*		*Fishing*		*All Groups*	
June Year	*Index*	*Annual % Change*	*Index*	*Annual % Change*	*Index*	*Annual % Change*	*Index*	*Annual % Change*	*Index*	*Annual % Change*
1971	1000		1000		1000		1000		1000	
1972	1024	2 4	1157	15 7	1101	10 1	1022	2 2	1048	4 8
1973	1021	– 0 3	1400	21 0	1170	6 3	927	–9 3	1074	2 5
1974	876	–14 2	1506	7 6	1114	–4 8	841	–9 3	953	–11 3
1975	855	– 2 4	1587	5 4	1026	–7 9	934	11 1	929	– 2 5
1976	1005	17 5	1954	23 1	1227	19 6	1031	10 4	1094	17 8
1977	1078	7 3	2400	22 8	1480	20 6	1180	14 5	1211	10 7
1978	1008	– 6 5	2590	7 9	1524	3 0	1232	4 4	1170	– 3 4
1979	1072	6 3	2994	15 6	1775	16 5	1552	26 0	1275	9 0
1980	1082	0 9	3425	14 4	2036	14 7	2584	66 5	1332	4 5
1981	1131	4 5	3764	9 9	2012	–1 2	3204	24 0	1396	+ 4 8
1982	1123	– 0 7	3805	1 1	1821	–9 5	3377	5 3	1378	– 1 3

Source Department of Statistics

TABLE 3
EXPORT INDUSTRY GROUPS — PRICE INDEX

	Agriculture		*Manufacturing*		*Forestry*		*Fishing*		*All Groups*	
June Year	*Index*	*Annual % Change*	*Index*	*Annual % Change*	*Index*	*Annual % Change*	*Index*	*Annual % Change*	*Index*	*Annual % Change*
1971	1000		1000		1000		1000		1000	
1972	1178	17 8	1083	8 3	1039	3 9	1164	16 4	1160	16 0
1973	1564	32 8	1099	1 5	1083	4 2	1163	–0 1	1477	27 3
1974	1731	10 7	1267	15 3	1353	24 9	1228	5 6	1653	11 9
1975	1482	–14 4	1446	14 1	1615	19 7	1243	1 2	1512	–8 5
1976	1812	22 3	1738	20 2	1906	18 0	1626	30 8	1857	22 8
1977	2285	26 1	2039	17 3	2074	8 8	2232	37 3	2301	23 9
1978	2390	4 6	2218	8 8	2128	2 6	2533	13 5	2415	5 0
1979	2803	17 3	2466	11 2	2311	8 6	2571	1 5	2784	15 3
1980	3420	22 0	2858	15 9	2997	29 7	2746	6 8	3385	21 6
1981	3735	9 2	3175	11 1	3623	20 9	3034	10 5	3761	11 1
1982	4254	13 9	3775	18 9	4105	13 3	3714	22 4	4306	14 5

Source Department of Statistics

expansion occurred as kiwifruit became established as an export product. Earnings from this fruit have shown an almost threefold increase in the last three years Estimates, based largely on existing plantings, indicate that the volume of export production will reach 72 million trays in 1990 compared with an export production level of approximately 4 6 million trays in 1982 The growth in horticultural exports has been something of a natural development as producers have sought to employ land in more innovative and productive uses. The increase in the volume of exports and corresponding increase in the receipt earning ability of the fishing industry received a boost following the inception of the 200 mile exclusive economic zone (EEZ) in 1978 as evidenced by the data in table 2 Export incentives and government assistance have also played a significant part in boosting this industry.

The manufactured goods group of exports covers a wide range of products but within it a few industries have provided the base for the very substantial expansion of export activity which has taken place in this sector during the past twenty years The most significant growth has occurred in exports of metals and metal manufactures where export receipts have grown from $12 million in the year ended June 1972 to $381 million in 1982 Metal exports are primarily made up of aluminium, the production plant for which was established in 1971 with a rated capacity of 150,000 tonnes annually This category will receive a further boost in the current and succeeding years with the recent commissioning of a third potline which will raise the rated productive capacity to 244,000 tonnes The growth in metal manufactures exports largely reflects the development of the steel industry and manufactured products thereof. The New Zealand Steel Limited plant was commissioned in 1970 and produces a range of galvanised products, pipe, rectangular hollow sections and billets A major expansion during the 1980s will increase the annual steel-making capacity of the plant from 150,000 tonnes to 775,000 tonnes much of which will be destined for export.

The textile (mainly carpet) and clothing industries showed significant growth in the mid – 1970s but have not expanded as quickly over the last few years and have lost ground relative to other groups These industries, given New Zealand's long history of wool production, are among the oldest manufacturing enterprises. They underwent substantial change as a result of the Textiles Industry Plan implemented in 1980 In the longer term, their improved competitiveness stemming from these changes may facilitate a re-expansion in textile exports. Machinery exports have shown a more consistent and slightly stronger growth path over the past decade. Within this category domestic whiteware products have been among the strongest performers.

The growing importance of manufactured exports in terms of total exports is likely to continue in the future The expansion in productive output at the aluminium and steel plants is large and should add significantly to export receipts. As well, two major projects with export potential will make a significant contribution, the ammonia-urea plant which will commence exports in 1983/84 and at full capacity will produce 155,000 tonnes, and the chemical methanol plant, due for completion in 1984, which should produce 1,200 tonnes of chemical methanol per day, primarily for export

GOVERNMENT ROLE

The government role in promoting the development of the manufacturing sector and greater diversification of exporting activity in general had more broadly defined objectives than just to provide greater protection from the vagaries of international trade in the country's traditional products The development of the manufacturing sector was accorded a high priority in the late 1950s and stimulated by the Industrial Development Conference of 1960 which sought to restructure the economy by developing the manufacturing and service sectors of the economy. Further encouragement stemmed from the Export Development Conference of 1963 which studied methods of promoting exports and subsequently various monetary incentive schemes directly applicable to manufactured exporting were progressively implemented The New Zealand-Australia Free Trade Agreement was signed in 1966 while the National Development Conference (1968) considered at length the export sector. Following the severe downturn in the terms of trade which occurred in 1974/75 the Government looked to a broad range of incentives aimed at promoting exports of a non-traditional type The system of incentives (as it exists today) comprises three main categories; export market development, export performance and export production The strong average annual rates of volume growth in manufactured exports during the 1970s probably reflected in part the impact of these incentives

The early initiatives to encourage the development of the manufacturing sector were as much aimed at promoting employment and import substitution as increased exporting although it was expected that the broadened manufacturing base would encourage the export of new manufactured products and extra processing of traditional exports The balance of payments pressures of the 1970s caused the Government to place more emphasis on directly encouraging exports through incentives although import substitution was still a major consideration in such projects as the synthetic gasoline plant due to come into production in 1987

Government assistance was not restricted only to the non-traditional export sectors, the traditional export sectors also received help through a livestock incentive scheme and land development schemes aimed at encouraging expanded production in the agriculture sector These schemes initiated a period of renewed growth in agriculture after several years of stagnating production levels. However, the expanded output available for export coincided with a downturn in world economic conditions which placed downward pressure on prices and forced the Government to provide substantial levels of temporary income support to the meat and wool industries through the Government's guaranteed prices scheme

The Closer Economic Relations Agreement between Australia and New Zealand which commenced in 1983 is, on balance, a further factor likely to generate benefits for the manufacturing sector of the export industry. The agreement represents an important step in New Zealand's growing awareness of the potential for trade within the Pacific Basin and its role within this development The formalised linkage between the two countries will also strengthen New Zealand economically in a world where there has been a trend towards countries developing trade and economic relations within localised geographical areas. The agreement provides for the gradual abolition of export incentives and import trade barriers, and should result in further growth of exporting after a period of adjustment as resources are shifted and invested in efficient industries There are reasonable grounds for believing that output and export volumes will expand and that the balance of payments will improve, particularly if the greater market size available to exporters enables them to become more efficient and hence compete more effectively in international markets outside as well as within Australia

MARKET DIVERSIFICATION

The Task Force on Economic and Social Development (1976) commented that New Zealand was, and is now, in a process of re-orientation and that there are signs of a new realism about our interests in the world which should lead to a greater concentration of attention on Australia and the whole Pacific Basin This observation succinctly describes a second notable feature of export activity since the late 1940s, that of export market diversification The diversification in essence involved a two-step process, the first representing the need to locate new markets for existing traditional products and the second the need to develop new markets for new products Table 4 outlines the changing destination of export products

The cessation of the bulk purchase arrangements which existed between New Zealand and the United Kingdom during (and in the case of meat and dairy produce for a number of years after) World War II to some extent forced a reappraisal of the traditional direction of export trade Initially the problem was one of developing new markets for existing export products and it transpired that those new markets proved to be developed Northern Hemisphere economies in Europe and North America for wool and meat respectively

However, from the early 1960s, Japan, Australia and a diverse group of other countries began to account for a growing share of New Zealand's exports In the early 1960s shipments of mutton to Japan commenced and grew considerably to the extent where Japan, along with Russia, now represent the dominant markets for that commodity Lamb remained dependent on the United Kingdom rather longer, and in 1966/67 that market still consumed 92 per cent of total lamb exports However, the Market Development Committee (1966) set targets for a percentage of lamb exports to be sold in markets other than the United Kingdom, which resulted in increased exports to other Western European countries, Japan, United States, Canada and the Middle East In recent years Iran and Iraq have become significant, although somewhat unpredictable markets, taking 120,354 tonnes in 1980/81 (31.9 per cent of total shipments) and 56,988 tonnes (17 1 per cent) in 1981/82

The process of diversification has presented its own problems in terms of gaining access to markets in recent years, meeting the requirements of specific populations in geographically and culturally distinct areas of the world, and increasing competition from substitute products, particularly pork and chicken How successful the policy of diversification for our traditional export products has been (particularly meat) may be open to question for, while the United Kingdom has become relatively less important, the major meat exports still remain highly dependent on a few markets (in 1981/82 57 per cent of lamb shipments went to the United Kingdom) Beef exports rely heavily on the North American market, with 85 1 per cent of shipments destined there in 1981/82 New Zealand's supply in that market represents only a small proportion of the total supply and the product, as an input in a further processing chain, suffers severe competition from substitute meats

Wool exports have been diversified significantly since 1960 and currently is probably the export which has the most widely distributed markets In 1960 the traditional buyers were the United Kingdom, other EEC countries and the United States Their importance has declined over the last 20 years in favour of such countries as Russia, China, Iran and Japan In 1981/82 the United Kingdom accounted for only 11 3 per cent of wool export receipts compared with 33 7 per cent in 1959/60 Even with diversification there have been problems in maintaining export volumes due to competition from synthetic fibres and the generally depressed economic trading conditions in recent years

The dairy industry has probably made the most progress among the traditional exports in terms of market diversification While a substantial proportion of exports are still destined for the developed Northern Hemisphere countries of Europe, North America and Japan, almost half now go to what may be termed developing countries in the regions of South East Asia, Latin America and the Middle East. The production of a range of dairy products suitable to those markets explains the success of this diversification e g in 1982, milk powders accounted for 33 per cent of dairy export receipts while prior to 1965 exports of these products were virtually non-existent Again, however, specific dairy product exports remain reasonably dependent on single markets On a receipt basis, some 63 per cent of the butter was destined for the United Kingdom in 1981/82, the United States accounted for 53 per cent of casein exports and Japan took 31 per cent of cheese exports

The second stage of the diversification process occurred as a result of the changing composition of exports, in particular the growth in manufactured and

TABLE 4
NEW ZEALAND EXPORTS
MARKET SHARES BY PERCENTAGE

June Year Ending	*Britain*	*Other EEC*	*North America*	*Japan*	*Australia*	*Other*	*Total*
1960	54 6	16 7	13 4	2 6	4 0	8 7	100 0
1965	50 8	16 2	14 1	4 3	4 7	9 9	100 0
1970	35 9	11 1	19 7	9 8	8 1	15 4	100 0
1975	26 6	12 7	17 9	14 2	14 3	14 3	100 0
1980	14 2	10 8	16 3	12 6	12 6	33 5	100 0
1982	14 3	8 5	14 6	13 0	15 3	34 3	100 0

Source Derived from data in selected issues of the Department of Statistics, Monthly Abstract of Statistics forestry exports These new exports, while achieving some access to the North American market, have encouraged a renewed focus on markets within the Pacific Basin, with the result that Australia, Japan and the Asia-Oceania region presently account for approximately 95 per cent of forest product receipts and 84 per cent of manufactured export receipts This development, which has emerged since 1965, is attributable to a number of factors

The expanding wood supply which became available in the 1960s encouraged the investigation of export markets for raw and processed forest products The potential of the Australian market was identified early and became one of the initial reasons for drafting the NAFTA agreement Japan, one of the world's largest importers of forestry products, represented another potential market New Zealand's comparative advantage in growing softwood timber has been insufficient however, to enable New Zealand producers to compete with the major world exporters, Canada and the Scandinavian countries, in markets more distant than the Pacific Basin.

Manufactured exports, with the major exception of aluminium, are also heavily dependent on the Australian market Generally New Zealand's manufacturing industries do not enjoy a comparative advantage over foreign producers, such as Asian producers. Under the NAFTA agreement, however, manufactured exports have enjoyed preferential access terms to the Australian market which has resulted in almost 41 per cent of manufactured export receipts (51 per cent if base metal and manufactures of metals are excluded) coming from Australia in 1981/82 The CER agreement can be expected to open up the Australian market further and the competitive element that it will introduce to domestic industry may also improve the competitiveness of manufactured exports in other markets

In general up until the 1970s world trade was growing strongly and within such an environment significant progress was made in liberalising trade through multilateral trade negotiations However, in subsequent years and particularly through the latter half of the 1970s restrictive actions on trade have become more widespread in both the industrial and agricultural sectors despite the existence of international agreements such as GATT which have been established to facilitate the continued growth in world trade

General agreements on trade policies have often applied much less rigorously to agricultural trade in comparison with industrial trade, probably due to the fact that manufactured exports make up the greatest proportion of world trade In 1980/81 they comprised 55 per cent of world trade while agricultural products accounted for only 15 per cent This has made agricultural exporting nations much less able to withstand the proliferation of protectionist measures on agricultural trade

As well as the restrictions at the border, and other measures applied by industrial countries which affect or distort trade in agricultural products, domestic and export subsidies have also increased in recent years in many trading nations including New Zealand A second cause for concern is the apparent shift in the attitude of policy-makers to a pre-occupation with bilateral trade balances and the establishment of trading areas on the basis of geographical locality

Protectionist pressures tend to experience a resurgence during periods of cyclical downturns in economic activity The recent period of slow economic growth, rapid import penetration and rising unemployment has proved to be no exception Two of the major objectives underlying agricultural trade policies appear to be self-sufficiency or security of supplies in food and the maintenance of incomes in the domestic farm sectors of importing nations

While the specific means of protection vary from product to product, virtually all major industrial countries protect their domestic agricultural sectors to a considerable extent High domestic price supports often encourage production that cannot be absorbed at prevailing prices and this obliges the subsidised disposal of stocks in international markets, displacing more efficient producers

An indication of the extent to which industrial countries' agricultural sectors are insulated is given by the generally low ratio of international trade to global production For example, in the cases of meat and dairy products only 8 per cent and 3 to 4 per cent respectively of total production enters into international trade The disadvantages of protectionist measures on world trade are widely recognised and according to one study[1] 'reform of agricultural policies might not provoke the massive structural dislocations that are sometimes feared Moreover, even a relatively small reduction in surpluses in the traditional importing countries would bring about a significant improvement in conditions of access for the traditionally efficient supplies of agricultural products such as dairy products and meat If this doesn't occur, then long-term trade agreements that involve elements of market organisation could become increasingly important in the future.'

The general trade policies of the major industrial countries in respect of agricultural trade have frequently been criticised by New Zealand These criticisms are valid. However, our own trade policy also introduces some distortions to our trading activity. New Zealand has for a long period operated a system of tariff and quota restrictions on imports and some concern has been expressed at the level of support being provided to the agricultural sector GATT, in its recent review of international trade[2] says —

"Trade policy reform can make a two-fold contribution to the solution of the pressing problems described above. First there is the macroeconomic aspect, trade liberalisation, or at least a creditable move towards it, in terms of the import policies of all countries, will go some way towards facilitating an environment within which the profitability of competitive exporting is market determined

Secondly, there is the micro-economic aspect of trade liberalisation — its crucial contribution to restoring the efficiency of the price system. . . Allowing a bigger role to competition in the determination of relative price implies, at the same time, a stimulus to the expansion of each country's export industries. It has been customary to view this stimulus as operating mainly through one country's exports benefiting from a lowering of other countries' barriers In the present context, however, it is more important to emphasise the stimulus which the removal of import restrictions will provide to the liberalising country's own exports."

As in many other countries, there exists in New Zealand further scope for structural adjustments and

1 GATT, International Trade in 1982 and Current Prospects March 1983
2 Ibid

policy reforms to improve the environment for export activity In times of recession it is sometimes argued that the transition costs will be too high Unfortunately it can also be argued that if left for recovery to begin, transition may lose its sense of urgency The approach adopted in the CER agreement, whereby the commitment to progressive elimination of trade barriers between the two countries is not made conditional on favourable economic conditions, but allows a reasonable time period for adjustment, has much to commend it.

IMPACT OF PROTECTIONISM ON NEW ZEALAND

New Zealand, as a country with a large dependence on external trade, has been faced with various restrictions on its imports The entry of the UK into the European Community in 1973 coincided with the introduction of major restrictions on market access for agricultural products, in particular meat and dairy products

For almost 40 years New Zealand lamb and meat enjoyed access to the United Kingdom in virtually unrestricted quantities, free from customs duty and other forms of government tax Subsequently, in the period 1973–1978 lamb and meat exports to the community were subject to a tariff under the United Kingdom Customs Tariff and later the Common European Tariff In October 1980 New Zealand formally agreed to guaranteed access for 234,000 tonnes of sheep and goat meat per annum and the Common European Tariff was reduced from 20 to 10 per cent The voluntary restraint agreement was increased to 245,500 tonnes when Greece joined the Community, and will be reviewed next in 1984 Less formal arrangements exist with respect to exports of chilled lamb to North America and an 'understanding' exists that New Zealand will not export sheepmeat products to Australia

Potential controls on beef exports to the United States have existed for many years From 1968 till mid – 1972 New Zealand, along with other suppliers, restricted the volume of beef and since that time 'voluntary' restraint provisions, formalised by the United States Meat Import Act of 1979, have existed These were activated in the final quarter of 1982 when Canada, Australia and New Zealand agreed to 'voluntarily' restrain their beef exports when it seemed likely that imports would exceed an acceptable level Since 1974, EEC policies have severely restricted beef imports from third countries, while in Japan a global quota applies

New Zealand's position in the trade of dairy products is unique because, while it accounts for about 2 per cent of world production, it holds an approximate 30 per cent share of the international trade It is the only producer highly dependent on export trade in order to sustain its domestic industry Consequently, officials have been actively involved in negotiating the establishment of international dairy agreements which seek to stabilise basic dairy product prices by setting minimum agreed prices As well, they have sought solutions to more general problems, particularly that of the demand/supply imbalances in the major producing countries which have a substantial impact on international trade volumes and prices In recent times it has been the surplus domestic production and relatively large stockpiles encouraged by unrealistic domestic production policies in the EEC and United States which have affected the market, placing downward pressure on price realisations In some cases, highly subsidised sales have been made to the Middle East, South-East Asian and Latin American countries In January 1983 the combined stocks within the EEC and United States of butter (487,000 tonnes), skimmilk powder (1,133,900 tonnes) and cheese (351,100 tonnes) had increased by 123 per cent, 63 per cent and 43 per cent respectively over the levels of a year earlier, and can be compared with New Zealand's annual export volumes (1981/82 estimates) of 157,000 tonnes (butter), 146,000 tonnes (skimmilk powders) and 79,000 tonnes (cheese). Clearly disposal of these stockpiles could seriously affect New Zealand's dairy trade

Prior to the United Kingdom's entry into the EEC, that country was the major outlet for New Zealand's dairy products Since that time its importance has declined as gradually increasing quantitative restrictions have been implemented. An original butter quota of 165,811 tonnes was set in 1973, but since 1977 the quota has been reduced in successive years, and for the 1983/84 (April year) a quota level of 87,500 tonnes was set

Cheese exports face quotas or blanket restrictions in almost all major markets other than Japan Exports to the EEC are now 9,500 tonnes annually, a quota obtained in 1980 through GATT negotiations, but this followed a period of three years when there was no trade and compares with a quota level of 68,500 tonnes in 1973. Under the same GATT negotiations, New Zealand was able to increase its cheese quota in the United States from 7,500 to 17,422 tonnes However, an array of import quota controls has been applied by the United States to dairy products since the 1950s and these have severely restricted efforts to expand sales

Casein, possibly because it represents a non-traditional dairy export which is not yet produced in significant quantities, is the only one of the four main dairy product groups not subject to trade restrictions, although in 1980 attempts were made in the United States (which in 1981/82 accounted for 54 per cent of total casein receipts) to ban imports for use in foodstuffs.

In general, in the case of milk powder and other milk products, the major markets are Asia-Oceania and Latin American countries which do not have large domestic dairy industries to protect, and hence restrictions on trade in these products are not as widespread as in the higher income Northern Hemisphere countries The major difficulties with these markets is that the surplus production of industrial countries is dumped on these markets thereby threatening New Zealand's development of trade in dairy products with these new and developing markets

Wool is unusual in that it is one of the few major agricultural commodities not facing widespread restrictions on international trade, in its unprocessed state In part this probably reflects the fact that none of the major northern hemisphere economies have large domestic industries which require state assistance to ensure their viability However, more widespread trade restrictions are encountered on processed wool products

Attention to the trade restrictions issue, when viewed from New Zealand's standpoint, has always focussed on those which apply to our major agricultural products However, the very much larger world trade in manufactures is also beset by systems of regulatory controls in most countries. New Zealand's concern over restrictions to manufactured trade have been moderated by the fact that in the past such exports have not represented a substantial proportion of its export receipts Furthermore a trade agreement (NAFTA) has existed with the country's major export destination, Australia, since 1966. The differentiated nature of manufactured exports makes negotiation on specific access restrictions difficult.

Generally, broad bands of duties and tariffs exist in most countries to which manufactured exports are sent despite some progress having been made in reducing barriers to trade and the settlement of international trade problems through the General Agreement on Tariffs and Trade. However, despite this progress, the existence of less visible non-tariff barriers has tended to become more widespread Rather than concentrate on improving access specifically for manufacturing exports or individual products thereof, New Zealand has attempted to effect a more general expansion of trade, including manufacturing, though direct bilateral arrangements (which generally provided for reciprocal most-favoured-nation tariff treatment), and general trade agreements

The forestry industry has its trade heavily oriented towards Australia which accounts for about half the forestry export receipts. The trade is virtually free of formal restrictions, although in recent times there have been some attempts by Australian interests to impose duties on New Zealand's exports of sawn timber. This arose predominantly because of the competitive nature of trading which has existed as market demand has stagnated in the current recession

In general, artificial barriers to trade have existed for many years, particularly on agricultural products, and have therefore had a significant effect on New Zealand's exports The emphasis has become more pronounced in the recent period of economic recession and it appears likely that the major trading nations are still a considerable distance away from adopting a more liberalized and multilateral approach to trade problems. In the intervening period New Zealand can continue to pursue a range of policies which will reduce the distortions introduced by trade barriers through bilateral negotiations as in the case of CER and unilaterally where it is considered beneficial to the country to take an initiative in reducing some of its own barriers to the trade of other nations

EXTERNAL DEPENDENCE

This article has discussed a range of developments in the export sector It is clear that New Zealand has been, and is, dependent on overseas trade as a significant determinant of its internal economic development and growth This is evidenced by the manner in which domestic economic variables such as income, output and employment tend to follow the direction of economic developments in the other OECD member states Yet the openness of the New Zealand economy, as measured by its trade ratios (exports/GDP and imports/GDP) is less than many of the small and medium sized developed countries within the OECD In contrast to many other countries, since the 1950s New Zealand's trade ratios have declined, probably due to a combination of slow demand growth for the country's traditional exports, and the emphasis within New Zealand placed on import substituting manufacturing activity

New Zealand experiences rather pronounced variations in its terms of trade These have tended to fluctuate more widely than those of similarly developed countries, particularly over the last decade as import prices as well as export prices have changed rapidly This combined effect of changes in export and import prices has been a key factor in explaining New Zealand's external dependence

Prior to the 1970s it was predominantly the variability in export prices which influenced changes in the terms of trade which in turn impacted on the domestic economy Import prices, which tend to follow movements in the average weighted inflation rate of the OECD countries, displayed remarkable stability up until the 1970s, responding only to important international developments For example, in the period 1954–1967, annual import price changes ranged from a decrease of 3 per cent to an increase of 3 2 per cent, while, over the same period, the range in annual export price changes ranged from a decrease of 15 per cent to an increase of 14 1 per cent

Because the export price variability experienced was worse than the average fluctuations observed in other OECD countries, there was increasing concern that New Zealand should, as far as possible, attempt to minimise this volatility and moderate its impact on the internal economy Since this variability was in part a consequence of the commodity composition of exports, attempts were made to diversify the composition of, and destination for, exports The diversification in the destination of export products has been of some benefit in easing the problem of price volatility although it has done more to stabilise the volumes demanded rather than than price Also, the diversification has not eliminated the dependence on high-income Northern Hemisphere economies within which economic developments over the last decade have tended to move in concert and a number of the major export products such as lamb, mutton, beef, butter, casein, aluminium, apples, and various of the manufactured products remain highly dependent on single markets.

The second development has been the changing composition of exports. While the growing contribution of non-pastoral exports has been reflected in a fall in the level of New Zealand's export commodity concentration[3] since 1965, the concentration remains high relative to other countries Even now, New Zealand still derives 70 per cent of overseas exchange transactions receipts from pastoral exports The changing composition of exports has assisted in reducing the country's vulnerability to external price developments and it is likely that this trend will continue in the future. Assuming that the demand exists, and that the industries are internationally competitive, non-pastoral exports should receive a boost in the future from an expansion in forestry, horticulture and some benefits from major project related exports.

3 A composite indicator of export commodity concentration can be obtained by taking the sum of the squares of the proportion each commodity classification represents of total exports