

The New Zealand Investment Conference 1992

The Future

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In thinking about this closing session of the conference, it struck me that the week's proceedings have much in common with the task we all face these days in our businesses, that of communicating with our shareholders and our markets.

Shareholders and those who advise them want to know about the good things that are going on in their businesses. But they also want to know about the weaknesses, the threats and the risks. It pays businesses to disclose bad news as well as good. If they don't they will be found out sooner or later. Markets will discount for uncertainty.

This week has been a presentation of New Zealand Incorporated. There is much good news to report about this new listing. The stories you have heard are genuine. Basically they have described the emergence of a much more productive and efficient competitor in the world's markets, an economy which, for the first time in many years, is looking at a promising future. But you should also go away with a sober appreciation of where we have come from, how far we still have to travel and the risks and obstacles that lie ahead.

New Zealand is an economy in transition. Unlike many other countries at the present time, it is not a transition from an official policy of socialism to a market economy. But as an early European visitor observed, the development of the New Zealand state around the end of last century effectively took the form of "socialism without doctrine".

The manifestations of this doctrine in our economy were pervasive - barriers to trade, restrictions on capital movements, centralised wage-fixing, state-owned industry, regulation of agricultural marketing and a general politicisation of economic life. In the social sphere they included an extensive government role as benevolent provider of many basic services including health, education and welfare. We set out on our own road to serfdom.

Straightforward economic lessons need to be widely understood if a country is to make economic progress. I have just returned from an official investment mission to Asia - or more specifically to Singapore, Hongkong, Taiwan, South Korea and Japan. Those countries chose a different path from New Zealand, one that an increasing number of countries now recognise as a better path to the future.

It is hard not to have a profound admiration for the achievements of those societies. From grinding poverty and economic destruction at the end of the war, Japan now has a per capita income twice our level. All the rest have overtaken New Zealand or are likely to do so by the turn of the century, even with a pick-up in our performance.

Other countries in Asia are following in their wake. Last year 9 of the 10 fastest growing economies were in the Asian region.

New Zealanders tend to take the wrong lessons from the Asian experience. They note the role played by MITI in Japan in the 1950s and 60s and dirigiste elements in South Korea and Singapore, and put their success down to state intervention and control. Generally speaking, the truth is almost the reverse. They have prospered because of the large role played by the private sector within a sound policy

framework. The government share of income in Asian economies is typically 30 percent or less. Hongkong, perhaps the star performer, has had the least government of all.

Each of the dynamic Asian economies experienced a period of crisis and great change before the rapid growth phase. This led to a strong social consensus in favour of growth. Governments allowed most key markets to operate relatively freely and normally avoided interventions which impeded growth. They were strong enough to resist special interest pleas. Growth was sustained by vigorous competition and an outward economic orientation.

The crucial factors in those economies have been reducing barriers to trade, low inflation, flexible labour markets, low taxes and rigorous and competitive education systems. Contrary to popular belief, specific policies to promote industry and savings have not played a key role. Interventionist industry policies seem to have been a mixed blessing. And with the exception of Japan, savings rates were low in the early stages of growth; the growth in savings has accompanied the rapid growth of incomes, and personal savings have not been crowded out by high taxes and expansive welfare systems.

We have been moving towards the kind of economic policies that have brought success in Asian countries. I am convinced they offer a better future for New Zealand. But this view is not universally shared, as protests surrounding this meeting have shown. Which view prevails must greatly affect your perceptions of New Zealand as a place in which to invest and do business.

It is interesting to consider the record in Asia in relation to two of the main concerns voiced this week, namely unemployment and privatisation.

In all of the countries which we visited, unemployment is not an issue. Hongkong, which has perhaps the freest labour market in the world, has maintained virtually full employment despite massive initial immigration and later structural change. In Japan, one of the major concerns of industry in the period ahead is labour *shortages*. Government work schemes and regulation of wages, as advocated by critics in New Zealand, are virtually unheard of in Asia. Asian experience would suggest you can have such policies or you can have full employment, but you can't have both.

Similarly privatisation is not an issue in Asia. Japan and Hongkong had few state businesses to start with, and Japan has privatised the two main exceptions, railways and telecommunications. Singapore has also moved towards privatisation to encourage entrepreneurship. And we heard a lot of talk about privatisation in Taiwan.

Around the world, the belief that the state is a good owner has been destroyed by the harshest of tests, real life. It is not easy to explain to Asians - or even these days to Russians, I suspect - that in New Zealand the government is still the largest housing landlord, runs state farms and owns the second largest computer company.

The case for privatisation is simple, and needs to be put patiently but insistently. Firms perform best when they are subject to market disciplines. They are forced to cut costs and innovate. Businesses in government ownership are inevitably subject to political pressures. Special interest groups lobby to influence pricing and investment decisions in their favour. Business growth is stunted because governments are loath

to commit new equity. The organisations are trapped in their existing activities and cannot exploit other opportunities. Taxpayers are needlessly exposed to commercial risk. Politicians lose face if businesses fail, so end up bailing them out.

Governments around the world have failed to run state businesses successfully. It is idle to believe that New Zealand can do better over the long haul. But we are still having trouble absorbing the lessons of worldwide experience. Partly for this reason, and despite its general policy of getting the state out of business, the government's privatisation programme has stalled. While we are mired down in such debates the rest of the world is continuing to pass us by.

Other barriers that are holding New Zealand back were highlighted on our Asian trip.

- First, many of the same people who are concerned about privatisation also oppose foreign investment. Asia has welcomed foreign investment. As well as supplementing domestic savings it brings advantages such as technology and market outlets. Taiwan has a very active unit promoting inward investment despite having the largest foreign exchange reserves in the world. Foreign money is pouring into China. Those concerned about New Zealand's economic sovereignty should be concentrating instead on the debts we have incurred in the past 20 years, and ways of reducing public spending and borrowing to repay them.
- Second, some tax arrangements in New Zealand are a serious deterrent to investment. The one that stands out is the excessive effective rate of tax on equity-financed foreign investment. I am hopeful that the government will soon move on this, as it has on the non-resident withholding tax on interest. Beyond this, we need to recognise that income taxes, particularly on capital, are coming under increasing pressure around the world. High taxes discourage mobile factors of production. The only sound way of dealing with this problem is by reducing government spending and taxation. Bribing investors - especially foreign investors - with tax incentives, as some bureaucrats are still advocating, is not the answer.
- Third, we still have a very ambivalent attitude towards immigration. Human movement is a feature of our times. The government has articulated a more welcoming attitude towards immigration but this is not yet reflected in its administration. We learned in Hongkong that you can't even get a form to get a visa for New Zealand, let alone a visa itself, until you have bought an air ticket. A member of the mission who is one of the country's very successful entrepreneurs discovered that, under the new points system, he would not have qualified as an immigrant to New Zealand well after his business had been fully established. This is nonsense: New Zealand stands to benefit enormously from entrepreneurial, energetic people who can bring new ideas, attitudes and contacts.
- Fourth, there is a key area of the New Zealand economy where foreign investment is substantially blocked. In large parts of our agricultural sector, the various monopoly powers granted to the producer boards, combined with their producer ownership, invariably act to discourage non-producer equity. In some cases, such as dairy, the lockout is both intentional and complete. Such structures may have suited an era of commodity trading but they do not

suit the requirements of today's consumers. If we are to get innovation and added value in these industries, they must be opened up to competition, outside investment and the ties it brings with world markets.

- Fifth, I gained a deeper appreciation of the importance of tourism, and its links with trade and investment. People may travel for leisure, but they often stop or come back to buy or to invest. Just as a distant country must do everything possible to reduce barriers to trade and investment, we must keep working on barriers to tourism. Some of these are direct, such as the removal of visa requirements from countries like Taiwan and South Korea. Others are indirect. For example, we learned that wealthier Asian tourists are looking for a better class of holiday and want to hire a car rather than go on a standard package tour. Our tourism industry must adapt its product and provide what the customer wants.

I have given you these examples of work that still needs to be done because you will have discovered most of them for yourselves, and New Zealand gains nothing by trying to conceal realities. It should be more reassuring for you to know that both the business sector and, I believe, the government, are conscious of the outstanding agenda. People like yourselves with experience elsewhere can help us make progress with it.

You should not go away with any illusions that New Zealand is about to perform like a dynamic Asian economy. Many changes are still needed both in policies and social attitudes. What impresses any visitor to Asia is the difference between a society in which many people were brought up to believe that everything comes from the state, and one whose culture has been based on self-reliance, hard work, parents looking after children and children looking after parents. Not for them the apparent maxim of some superannuation lobbies in New Zealand: "Blessed are the young for they shall inherit the national debt". Nor the belief of many educationalists that raising education standards is about throwing more money at schools: Japan's widely admired education system, with a secondary school year 50 days longer than New Zealand's, absorbs a somewhat smaller fraction of national income than our own.

Despite the hurdles still to be overcome, I want to tell you that I am more positive about the future of New Zealand than at any time in my business career. The time to be negative about New Zealand was the 1970s and early 1980s when the economy ground to a halt and our politicians lacked the courage to back away from failed policies. There has been a revolution in mindsets. New Zealanders are becoming more realistic, more hardworking, and less inclined to see the state as the solution to their problems.

Today our economic fundamentals are in far better shape. The government's policies are much better balanced. There is clearly an economic recovery underway, which will steadily strengthen provided the government keeps moving forward, especially in dealing with its own spending and debt. And within our firms there is a new generation of managers coming through with the kind of skills needed to foot it in a competitive world.

Changing direction has been hard for many New Zealanders. Some are still not persuaded of the benefits, as you will have gathered from the diet of interviews on the national radio programme each morning. But a recent opinion poll showed a

majority of New Zealanders believe the country is heading in the right direction. That is an important indicator of national sentiment.

New Zealand will not end the century as it began it, around the wealthiest country in the world. We learned to our cost that countries that put up barriers will no longer be part of any world community.

There are still barriers to be pulled down. I have referred frequently to Asia but that region should not be an exclusive focus for New Zealand. We have very important ties with Europe and North America, as well as with Australia. We are now getting close to establishing a barrier-free single market with Australia. The next step I would like to see is the association of both Australia and New Zealand with a North American Free Trade Agreement. This too should be outward looking. New Zealand depends on an open, international trading system. No country has more at stake in the current Uruguay Round, and successors to that round.

What, then, does a realistic future for New Zealand look like?

There is no doubt in my mind that the opening up of the New Zealand economy is unleashing a much faster rate of advance in our productive capacity. This is not simply of materialistic interest. Greater economic capacity makes possible a more positive relationship with our regional partners, improved environmental protection, more compassionate standards for those who genuinely need help, and greater choice and freedom for New Zealanders in all walks of life.

Already New Zealand is a far better country than it was only a few years ago. This is not only because it is more efficient and less repressive. Even more important, the vision of the liberal economy here and around the world has won the day because it is essentially humane. It depends on the central value of individual liberty against the power of the state. It is thus fundamentally about people. The alternative, socialism with or without doctrine, is about power. It is about government of the busy, by the bossy, for the bully.

As time goes on, I believe more and more New Zealanders will come to share the vision of economic freedom, private initiative and limited government, in partnership with other citizens of the world. It is a vision worth striving for.