OPENING STATEMENT BY THE REPRESENTATIVE OF NEW ZEALAND

Over the past year the New Zealand economy has made a good recovery from the very severe down-turn in export prices that occurred in 1967. Current overseas transactions have now been in surplus for over a year, reflecting the combined impact of the strong fiscal and monetary measures taken in early 1967 to restrain domestic expenditure and the devaluation of the New Zealand dollar by nearly 20 per cent in late 1967. The recovery on external accounts has been made, however, at the expense of a low rate of increase in real gross national product, which for the March year 1968/69 is estimated at about 2 per cent compared with a decline in 1967/68 and a rise of about 4 per cent in 1966/67.

As a consequence, the overseas exchange reserves are now at a much more satisfactory level. On the last balance day in June 1969, the net overseas assets of the New Zealand banking system were $NZ 229 million. This was an increase of $NZ 20 million on June 1968 and an increase of $NZ 117 million on June 1967. In addition, the recovery in the external accounts has facilitated the repayment of most of the short-term loans raised during the 1967 crisis. The short-term assistance received from the Bank for International Settlements has been repaid and considerable progress has been made in reducing the indebtedness to the International Monetary Fund.

Overseas exchange transactions

Overseas exchange transactions for the March years 1963/64 to 1968/69 are summarized in Addendum 1 to the basic document.

The sharp deterioration which occurred in New Zealand's external accounts during 1965/66 and 1966/67 and which was aggravated by the collapse of wool prices from December 1966 led the Government to take, in 1967, a series of corrective fiscal and monetary measures, including devaluation. From November 1967 the overseas exchange transactions began to show signs of a recovery. In the twelve months ended April 1968 a small current account surplus was achieved, the first since December 1964. The recovery continued through the remainder of 1968 and reached a peak in the October year 1968 with a current account surplus of $NZ 76 million. Following recovery in domestic activity from mid-1968 the surplus has been gradually reduced; in the March year 1969 the current account surplus had been reduced to $NZ 45 million.
The policy of maintaining a healthy current account balance was expressed in the letter of intent to the International Monetary Fund in May 1968 which stated New Zealand's intention of achieving a balance in the current account on overseas exchange transactions in calendar 1969.

The improvement in the current account in 1968/69 was due to the increase in receipts being more than sufficient to offset rises in payments for imports and invisible items. During the year ended March 1969 export receipts rose by $NZ 166 million (21 per cent) whilst import payments rose by $NZ 112.9 million, an increase of only 17.9 per cent. The balance on invisible transactions also improved, the deficit for the year being reduced by $NZ 9 million.

Receipts for all exports, except dairy products, rose during the year. The most important contribution came from meat receipts which, primarily because of the high prices obtained in the United Kingdom, were $NZ 51 million higher than in the March year 1968. It is doubtful whether the present high prices for meat can be sustained much longer and future movements are likely to be downward. There was also some recovery in wool prices during 1968/69 but prices are still well below those received before the collapse in 1966. Under the stimulus of devaluation there has been a very encouraging increase in exports of manufactured goods during 1968/69. Although there has been a good recovery in the external accounts over the past year, the current situation must be viewed in the light of the country's overseas debt commitments and export prospects.

A sudden cut in imports in 1967 would have led to serious dislocation of the domestic economy as well as harming our trading partners. The Government, therefore, decided to step-up the use of short-term overseas borrowing to finance the flow of raw materials and capital goods needed by industry. During the four years to 31 March 1969, official overseas borrowing amounted to over $NZ 64.9 million. Although a substantial amount of external debt has now been repaid there is still nearly $NZ 292 million to be repaid within the next five years.

Prices for our major exports have in the past often fluctuated violently and without warning. There is no reason to suppose that stability of commodity prices will be achieved in the foreseeable future. On previous occasions New Zealand has found it necessary to rely to a substantial extent on overseas borrowing to cushion the effects of falls in export prices. Consequently it would be prudent to hold high levels of reserves in the future because it is not certain that overseas finance will be as readily available as in the past.
Export Prospects

Vigorous efforts are being made to expand the range of exports from New Zealand. It is inevitable, however, that for some years to come, agricultural products will continue to be the main source of our export income. New Zealand farmers produce high quality goods at the lowest cost in the world, but are faced with grave problems in the attempt to carry forward the expansion of agricultural exports and indeed, even to maintain the past level of trade in certain major products. In recent years meat has overtaken wool as our most important export. Fortunately the world market outlook for beef and veal in particular is reasonably good, although the limitation of imports into the United States, together with the threatened restriction of lamb imports is a matter for deep concern and great disappointment. It is expected that there will be some increase in the export of our growing production of beef to the United Kingdom where we have at present unrestricted access. Exporters will also be paying more attention to the many smaller but collectively valuable markets where beef and veal finds ready consumer acceptance.

The United Kingdom, where there are no barriers against imports, remains our most important market for lamb. Nevertheless efforts are continuing to diversify the trade and so decrease our heavy dependence on a single market. There seem to be reasonable market prospects for mutton for processing in several countries of Asia and these are being explored. We have already consolidated a market for mutton in Japan.

Prospects for wool are clouded by the ever-increasing competition from synthetics. Prices for crossbred wool are at present competitive with synthetics and recent technological advances sponsored partly by the International Wool Secretariat and partly by our own research teams may encourage increased use of wool. Recent economic developments in the major industrial countries and the trend to higher interest rates which could discourage house building (and therefore affect the demand for wool carpets) could alter the situation. In addition the New Zealand Wool Commission still holds substantial stocks although by the end of June about 30 per cent of its original holdings had been sold.

The dairy industry has developed new markets for its produce and is continuing to do so but the lower prices at which some countries offer their subsidized products, together with artificial barriers such as import restrictions imposed by other countries, are severely restricting New Zealand's trade. It appears unlikely that any early solution will be found for the serious oversupply situation in world markets either by means of an international arrangement or otherwise. In the immediate future, therefore, New Zealand will have difficulty in disposing of increased quantities of its traditional dairy exports at economic prices. The dairy industry with Government encouragement is, therefore, aiming at attaining even greater flexibility in its production policies, placing increased emphasis on new types of manufactured milk products and where possible, diverting some of the productive capacity of dairy farms to other products, particularly beef.
It is confidently expected that exports of forest products and manufactured goods will continue to expand although the original stimulus was the devaluation of the New Zealand dollar in November 1967.

The growing influence of the New Zealand/Australia Trade Agreement has resulted in greatly increased exports to Australia and New Zealand manufacturers are becoming increasingly confident and energetic in seeking markets particularly in South East Asia.

The 1969/70 import licensing schedule

The New Zealand Government has continued to carry out the relaxation of import licensing on a sound and progressive basis. The Committee will recall that in December 1967, following devaluation a substantial number of items were exempted from import licensing and that an extensive range was added to the exempt list in the 1968/69 import licensing schedule. Further exemptions have been made in the schedule for 1969/70 and this will mean that the proportion of all private imports free from control will be about 55 per cent. The basic document to these consultations provides details of the 1969/70 schedule.

The Government also announced on 26 June in the Budget that a supplementary import licence allocation of $NZ 5 million in 1969/70 for motor cars would be made.

One of the most significant achievements of the National Development Conference, which held its final plenary session in May of this year, was the agreement on the following recommendation on a policy for protection for the manufacturing sector:

"The manufacturing sector should be accorded a level of protection sufficient to promote steady industrial development, increasing manufactured export and full employment. This level of protection, however, should be such as to encourage competition, efficiency and reasonable prices to other sectors and to consumers and should also have regard to the need to give the consumer choice and variety. It is accordingly recommended that the system of protection should be flexible, that import licensing should be replaced by tariffs as the main measure of protection and that this transition should be carried out in accordance with a clearly defined programme and within a reasonable time. It is recognized, however, that there are cases where other protective measures including import licensing may be more appropriate than a tariff."

The Government has accepted this recommendation as the basis of its policy.
National Development Conference

Fluctuations in economic activity over recent years have emphasized the need for indicative planning in New Zealand and led to the organization of the National Development Conference. The targets and recommendations adopted by the Conference and the establishment of the National Development Council as a continuing body to advise the Government, will undoubtedly have an important influence on the economic development of New Zealand over the next decade.

The Conference adopted a target growth rate for the next decade of 4½ per cent in real gross national product. It stressed that the achievement of this target would require a significant increase in savings and investment, the diversification of the economy through the development of more competitive and efficient industries and the doubling of the value of exports over the next decade. It is hoped that the findings of the Conference will provide the path to a higher rate of growth which in turn will lessen the vulnerability of the economy to balance-of-payments difficulties. If the New Zealand economy is to achieve these aims, however, the gains made over the past year have to be consolidated and this requires the continued use of existing firm and flexible economic policies.

It is these policies which formed the basis for the proposals in the Budget made public on 26 June which were in the main designed to promote desirable economic activity and international competitiveness but which avoid excessive pressure on costs and prices.

The Budget includes substantial incentives to increase savings, for example, the introduction by the Post Office Savings Bank of two new types of bond - a National Development Bond and an Incentive Savings Bond. To make our financial system more effective capital issues controls over finance companies are to be replaced by a Government stock ratio requirement; the recommendation of the National Development Conference for the introduction of Treasury Bills will be implemented; and trading banks will have greater flexibility in making investments and competing for deposits. The Budget also contains many important direct and indirect incentives to our agricultural, forestry, fishing, manufacturing and tourist industries with the objective of increasing exports.

Conclusion

The New Zealand economy and external accounts are now in a stronger position than they have been for some years. There are, however, aspects of the economy which still give rise to serious concern. In particular New Zealand remains vulnerable to sudden fluctuations in export prices, there is a very large amount of overseas debt maturing over the next few years, and there is a clear need to restructure the economy along more competitive and efficient lines. All these factors make it necessary to maintain existing firm and flexible economic policies.

The improved overseas exchange position is circumscribed by a number of factors. The terms of trade have continued to deteriorate and are more unfavourable now than they have been for some considerable time, with little apparent prospect
of improvement in the near future. Much of the recent rise in export receipts has been due to increased volume, and the ability to maintain the present level of receipts depends as much, therefore, on continued access to overseas markets as on the maintenance of favourable prices. Prices for meat have been at satisfactory levels over the past year, and any further movements in prices are likely to be downward. There has been some recovery in the prices in crossbred wool but they are still far from satisfactory and well below the prices ruling before the collapse in 1966.

Restrictions on access to world markets continue to be a major restraint on New Zealand's trade and to impair the achievement of long-term balance-of-payments stability. Many industrial countries continue to impose quantitative and other barriers to access for agricultural imports. In the case of dairy products marketing policies have resulted in a chronic oversupply. In the absence of remedial access at international level New Zealand will continue to be unable to take advantage of its comparative efficiency.

New Zealand's ability to implement its stated policy of relaxation of import controls will depend on securing an improvement in trading conditions for temperate agricultural products.