

New Zealand Firms: reaching for the frontier

Submission from the Manufacturing Alliance.
14 September 2020

Introduction

The terms of reference provide the context for this Inquiry, namely:

While aspects of New Zealand's recent economic performance have been strong, productivity growth is persistently weak and a significant drag on living standards and well-being.

This inquiry focusses on a central aspect of New Zealand's productivity performance - the economic contribution of New Zealand's frontier firms. ¹

The context above, appears to suggest that New Zealand's productivity performance is reliant upon the performance of frontier firms.

Metals New Zealand acknowledges the critical importance of lifting productivity across the sectors represented by our members – manufacturing and construction, and the value improved productivity will deliver to our economy, society, communities and people.

The Productivity Commission acknowledges that:

New Zealand is not a “standard OECD country” and faces an unusual set of challenges and opportunities (Conway, 2018). New Zealand is unusual in the combination of its distance from international partners, small domestic markets, and industry structure. ²

However, the Productivity Commission's inquiry is focused on OECD work on frontier firms that lead OECD productivity. You note there are other measures beyond productivity:

that could be used to identify highly performing New Zealand businesses. Possible criteria include export success, return on assets, revenue growth, a preponderance of highly skilled employees, and the use or development of advanced technology.

Given the importance of lifting productivity to New Zealand's future, why has the Commission focused on frontier firms alone, particularly as evidence in the report demonstrates that frontier firms in New Zealand do not demonstrate the same productivity traits/successes of their OECD peers?.

Has the Commission thought to explore other underlying causes of New Zealand's current poor productivity performance? For example, it may have resulted from the policies of successive governments over the last two decades that have favoured exports of primary products, tourism and the international education sector – predominantly low-wage sectors, and in the case of primary products and tourism having significant environmental impacts that undermine New Zealand's 100% pure brand.

¹ Terms of Reference p59

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We would suggest that a focus by government on the manufacturing sector will significantly lift New Zealand's productivity. This will require government to be ambitious and to take a systemic approach to addressing the neglect of manufacturing over the last two decades.

Suggestions of what government can do to lift productivity across the manufacturing sector are summarised below:

SKILLS & TALENT- ensuring ROVE will enable early access to vocational education and pathways and cater for the realities of unstructured skills development, the growing importance of soft skills, and the significant amount of informal and formal learning that takes place in the workplace.

INNOVATION & R&D. - Incentives to increase investment in innovation that complement R&D tax credits, such as through accelerated depreciation, with a particular focus on encouraging the adoption of Industry 4.0 technologies, investment in equipment to support a transition to a circular economy, and energy efficiency and carbon emissions reduction technologies.

TRADE - Addressing non-tariff measures in trade negotiations, including improved monitoring of non-tariff barriers and the introduction of required testing regimes, product codes and standards when trade agreements are negotiated/re-negotiated.

Mechanisms to ensure strong enforcement of standards and conformance for imports, e.g., electronic traceability, improved due diligence and enforcement at the border, and increased support for accreditation bodies

A significant improvement in the responsiveness/timeliness of trade remedies investigation processes.

INVESTMENT - Implementing a very targeted approach to attracting high quality foreign direct investment (FDI), which brings the capabilities, networks and innovation that are needed to advance domestic manufacturing, and that leverages investment intermediaries. Improving the criteria to assess overseas investments to provide certainty for investors.

ENVIRONMENT - The development of clear roadmaps for how manufacturing industries will transition to meet Zero Carbon Act requirements, including identifying the role that different policy levers will play (e.g., Emissions Trading Scheme, R&D support, trade policy). Most manufacturing firms are also ill prepared to meet future demands from their customers – especially in international markets – to provide an account of their current carbon footprint and evidence of a plan to reduce that footprint. Options for reducing or eliminating carbon leakage (e.g., the assessment of the potential for introducing a carbon border adjustment scheme)

GOVERNMENT PROCUREMENT - Implementation of outcome-based procurement, design contests and/or pre-commercial procurement to enable the Government's significant buying power to solve environmental and technological challenges and, at the same time, support domestic manufacturing opportunities.

Improved support for government agencies to undertake major procurement projects and monitoring of procurement rule compliance.

Ensuring that existing procurement rules are fit for purpose (e.g., Rule 25)

Develop a feedback loop ensuring major government projects actually deliver OTIFTS as defined in “broader outcomes”.

Q2

Do you think the OECD framework is useful to guide the Commission’s thinking in this inquiry? Are there other frameworks the Commission should consider?

No, we don’t believe the OECD framework is appropriate for addressing New Zealand’s productivity and would suggest that the data presented illustrates that the productivity of “frontier” firms in New Zealand is no different from non-frontier firms. Refer figures 3.2, 3.3.

Q3

What do you think are the most important drivers of the productivity of New Zealand’s frontier firms?

Government policy needs to support all New Zealand manufacturing, not just export focused or primary industry, or for that matter “frontier” firms.

Policy needs to focus on outcomes delivered and measured **against the four capital stocks that underpin the government’s Living Standards framework**. Success is not just measured in export receipts.

Q4

What makes frontier firms different? What do they do differently, or have that other firms don’t?

Data presented in Figures 3.2 & 3.3 illustrates that the productivity performance of “frontier” firms is no different from non-“frontier” firms.

Q7

How easily do resources flow from lower to higher productivity firms and vice versa? What are the most important drivers of the reallocation of labour, capital and other resources between firms in New Zealand?

Where is the New Zealand data that would suggest that “trickle down” does flow from lower to higher productivity firms and vice versa?

Q8

In your view, what are the key ingredients that would lead to a successful New Zealand economy, and what would success look like?

Refer Introduction with respect to the policy settings:

- Skills and Talent
- Innovation & R & D
- Trade
- Investment
- Environment
- Government Procurement

Q10

To what extent do you agree with the Commission's tentative picture of why New Zealand's frontier and non-frontier firms are underperforming?

We do not agree. We think the Productivity Commission is adopting a model which may be appropriate for OECD businesses but is inappropriate for New Zealand. A focus on New Zealand manufacturing would be far more effective in delivering the desired outcomes. A more useful exercise would be the evaluation of supply chain interconnectivity, which will lead to a more resilient manufacturing sector and ensure critical infrastructure/businesses can be nurtured/protected.

Q11

In your view, why does it appear that the productivity of frontier firms in New Zealand has not grown faster than non-frontier firms, unlike the situation globally?

Using OECD models may not necessarily apply to New Zealand unique circumstances.

Q12

What explains the research finding of a weak connection between innovation and productivity growth among New Zealand firms?

Successive governments focus on primary exports, tourism, horticulture and international education, rather than high value manufacturing.

Q14

Are New Zealand firms ambitious about growing and scaling up? If not, why not? If they are, what's getting in their way?

What's getting in their way is that the policy settings don't support productive manufacturing

Q19

How could the lessons from New Zealand's frontier firms be better shared?

Given that the productivity of frontier firms is no better than non-frontier firms we think the Productivity Commission may be looking in the wrong place. Niche manufacturing is quite typical for New Zealand and in some cases what works well for one business may not be readily transferrable to other businesses/sectors.

Q28

Do you agree with the Commission's proposed approach to the inquiry? Where would you like to see the Commission put the most emphasis? Are there modifications to the proposed approach that would better fulfil the inquiry's Terms of Reference in your view?

Clearly from the comments above – NO.

We believe the Commission needs to look broader at the role of policy in enabling productivity gains. In particular, policy that enables high value manufacturing to continue to grow and prosper. Rather than policy that incentivises low-value exports and low-value jobs.

The Manufacturing Alliance is a collaborative initiative across like-minded organisations who are committed to the future of New Zealand manufacturing, transitioning to a low-emission circular economy, while delivering high-value jobs for New Zealanders.

The Manufacturing Alliance represents The Manufacturers Network, EMA, Metals New Zealand, Wood Processors & Manufacturers Association, Plastics NZ, and the NZ Maintenance Engineers Society.

The Manufacturing Matters report can be downloaded from <https://www.metals.org.nz/wp-content/uploads/2020/04/Manufacturing-Matters-Final-Report-March-2020.pdf>