

A Minister for Manufacturing

A strong and successful manufacturing sector is essential for improving Aotearoa New Zealand's export performance, creating new jobs, and raising incomes. Manufacturing also has a crucial role to play in helping us transition to a low carbon economy and seizing new market opportunities.

Yet the National Government has presided over a simplification of exports and the loss of tens of thousands of good paying jobs.

The manufacturing sector needs a champion at the highest levels of government, securing a fairer share of its considerable resources to ensure the sector thrives, diversifies, and adds value to our exports.

In Government the Green Party will establish a Minister for Manufacturing in Cabinet to better represent the interests of manufacturers, recognising the key role they play in a smart, green economy.

New Zealand needs more companies like Temperzone, Fisher & Paykel Healthcare, and Goodnature. High-value manufacturers create well-paid jobs and enable us, as a country, to earn our way in the world, rather than rely on more debt.

The Green Party will:

Establish a new Minister for Manufacturing

The Minister will be inside Cabinet and have responsibility for the long-term interests of the manufacturing sector.

New working groups within the Ministry of Business, Innovation and Employment (MBIE) will be created — no new government departments will be created.

The Manufacturing portfolio will not affect the number of actual Ministers in Cabinet (there are currently 56 Ministerial responsibilities held by 20 Cabinet Ministers).

This new policy is complemented by the Green Party's existing policies:

- Tax reform (e.g. a capital gains tax) to incentivise capital to shift from speculation in the housing sector into the productive sector;
- Use government procurement policy to prioritise Kiwi-made suppliers;
- Establish a Green Investment Bank to help direct the flow of private sector capital into the growing the low carbon, clean-tech economy;
- Create a mechanism for manufacturing and export sector representation at the Reserve Bank Board level;
- Boost Research and Development capacity significantly;
- Increase funding for universities in the engineering, mathematics, computer science, and the natural, physical and material sciences.



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The manufacturing opportunity

Manufacturing is both the second largest contributor to New Zealand's GDP, at \$22.7 billion, and the fourth largest employer, at 244,500 employees.¹

Innovation in the manufacturing sector will be critical in the transition to a clean, low carbon economy.

In particular, 3D printing creates opportunities for huge efficiency gains in the use of raw materials and energy, in waste minimisation, reducing transport emissions, and in the on-shoring of production capacity. *The Economist* says it may have as profound an effect on the world as the coming of the factory did.²

For New Zealand to take advantage of this opportunity, and not to get left behind, we will require leadership across the whole sector.

Manufacturing under threat

However, the manufacturing sector has continued its long decline under National, experiencing further large numbers of job losses and declining export revenues.

17,500 jobs have been lost in the manufacturing sector under National's watch.³ Major companies like Fisher & Paykel Appliances, LWR, and Hillside Engineering rail workshops have either moved offshore or shut their doors forever — Hillside's closure being the direct result of government procurement policy.

New and emerging technological trends such as robotisation and automation represent real opportunity, but also pose a threat to the whole sector and to tens of thousands of jobs. National has a history of sitting on its hands while technological disruption cleans out whole industries. Government leadership is required to anticipate and manage these risks.

As a result of the hollowing out of the New Zealand economy, only a minority of our goods exports have significant value added to them beyond their value as a raw material.

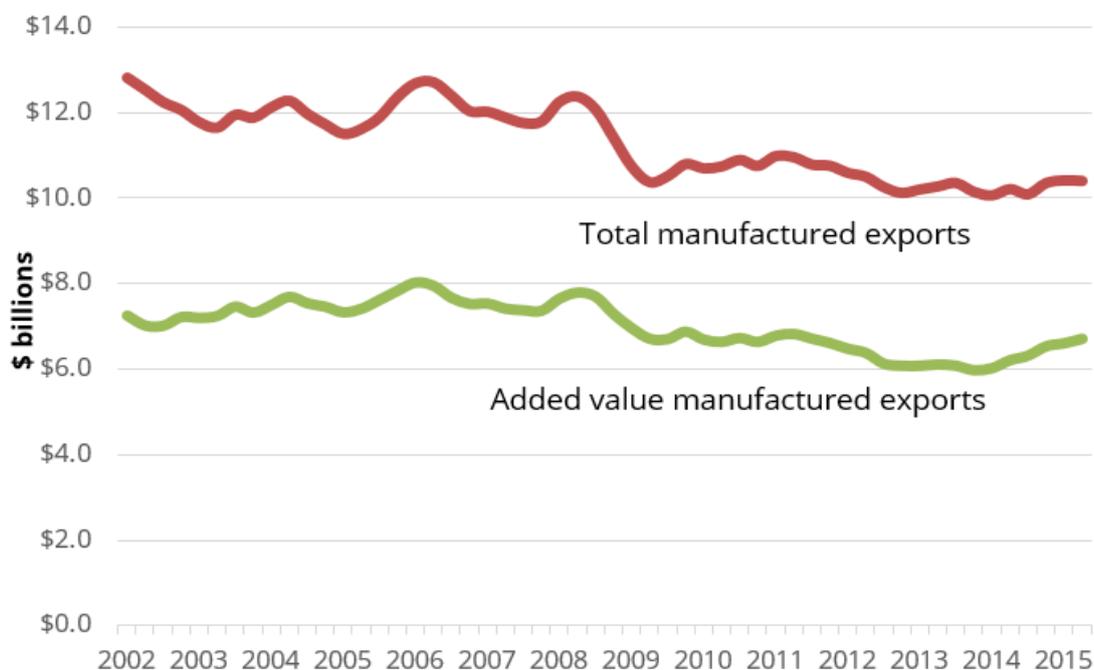


Figure 1: The decline of total and elaborately transformed manufactured exports (in real dollars).

Source: Parliamentary Library, Statistics New Zealand.

While manufacturing has been in decline across the OECD, New Zealand's manufacturing industry was particularly hard hit by the economic reforms of the 1980s, and no Government since has sought to address this damaging trend.

As an example of this massive shift, 25 percent of all bank lending in 1984 was to the manufacturing sector, nearly double that to the housing sector at 14 percent. Today, only three percent of bank lending is to the manufacturing sector, while 52 percent now goes into housing.⁴

Today, manufacturing's share of the economy is below average for the OECD, and well below other small developed economies.

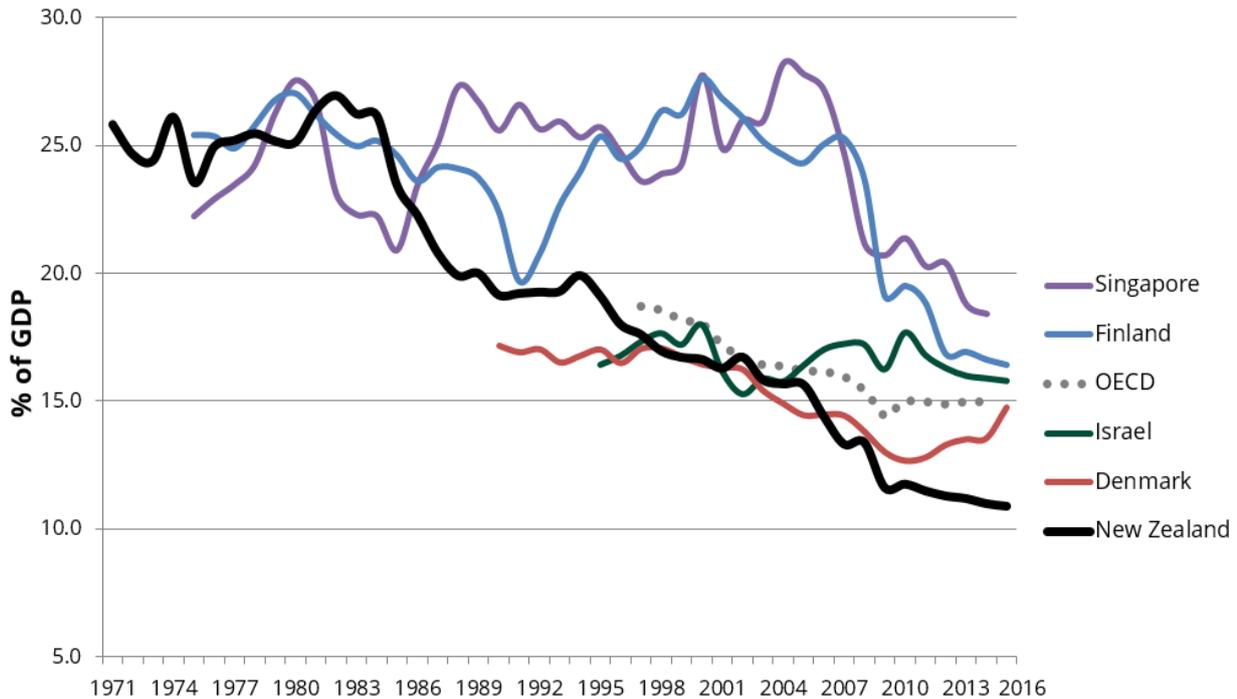


Figure 2: Manufacturing value-added output as a percent of GDP. Source: Parliamentary Library, World Bank, and the Israeli Central Bureau of Statistics.

The manufacturers that have survived in New Zealand have done so out of sheer excellence and hard work in the face of a high and volatile exchange rate, unsupportive Government policies, and higher costs for inputs like capital and electricity.

Sectors like agriculture receive extensive government support in the form of subsidies for irrigation and do not have to pay their full costs of production, due to weak rules around water quality and carbon pollution. That sector is supported by a whole government department — Primary Industries — and a Minister.

Manufacturing, by comparison, has few advocates within MBIE or the Government. Other sectors, which represent much smaller contributions to the national economy, like Horse Racing, have Ministers fighting for them in Government, while manufacturing does not.

The manufacturing sector needs an advocate at the highest levels of government, securing a fairer share of MBIE's considerable resources, to ensure the sector thrives, diversifies, and adds value to our exports.

With the right policies and someone to champion them around the Cabinet table, manufacturing can again become a key part of the New Zealand export economy, lifting wages, skills, levels of innovation in the economy, and improving living standards as a result.

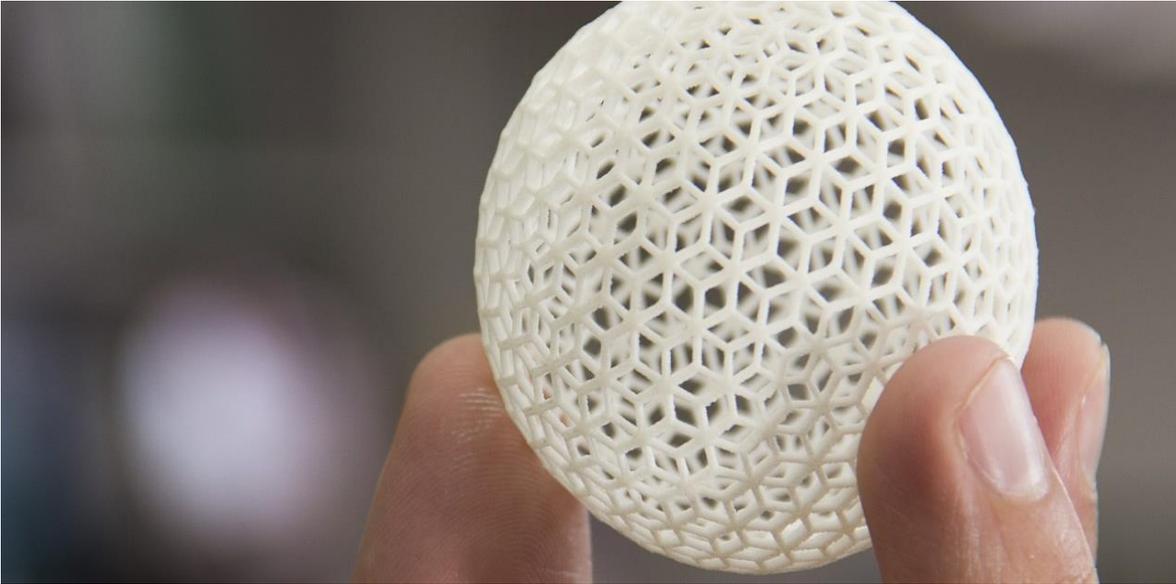


Figure 3: 3D printing is one of the enormous opportunities facing manufacturing in New Zealand.

What will it cost?

The cost of establishing a Minister for Manufacturing will be met from the Government's budget for Ministers. Costs of reassigning resources in MBIE will be met within existing baselines.

What happens overseas?

Compared to other small, developed economies — some of the richest countries in the world — our economic complexity significantly trails Finland, Denmark, Israel, and Singapore.⁵

These countries make things like integrated circuits, cell phones, and medicines that other countries can't make. This is their competitive advantage that enables them to pay high wages and secure very high living standards.

The Danish manufacturing miracle

Since 2000, turnover in the Danish manufacturing industry, excluding mining, grew by 44 percent, led by growth in the pharmaceutical and green energy sectors. In the last five years alone, manufacturing industry turnover rose by \$28 billion, led by the manufacture of engines, windmills and pumps (\$6.6 billion), pharmaceuticals (\$6.3 billion), and furniture (\$3.6B).⁶

How have these industries flourished?

- Sizeable investment in research and development;
- The establishment of industrial clusters to enable collaboration;
- Higher education produces an ongoing pool of researchers, engineers, technicians and other experts;
- Strong collaboration between the private and public sectors;
- Inflows of foreign investment and talent into Denmark due to a well-designed tax system and immigration settings to attract talented entrepreneurs.

Denmark benefited from being a first mover in the wind industry due to the Government setting ambitious domestic targets for wind production. Today, Denmark has a world-leading industry, with hundreds of companies covering all parts of the supply chain, ranging from wind turbine producers, developers of offshore wind farms to special vessels for offshore installation, transport, maintenance and service and component manufacturing. Although competition has increased significantly in recent years, Danish wind turbine producers are still among the largest in the world.

By comparison, New Zealand largely produces commodities, which most countries can also produce. And we're having to produce more and more of them just to get by.

This 'commodity thinking' means we compete on price, not value, which means driving costs, environmental standards, and wages down.

Countries like Singapore, Denmark, Finland, and Israel have adopted policies that have helped them develop niche manufacturing industries. These industries now make up significant parts of their economies. High-tech exports make up a disproportionate share of their exports, even when compared to larger developed economies.

In these small and prosperous economies, the Government is generally larger and has played an essential role supporting the policy and innovation ecosystems that underpin their sophisticated, high-wage economies.

The Green Party believes in the vital role an agile, integrated state sector can play in our economy. To overcome the limitations of size and isolation, the Government can adopt an active, partnership approach to working with the manufacturing sector to build our economic prosperity.

¹ Statistics New Zealand (March 2016), *Gross Domestic Product*, Table 5. Statistics New Zealand (March 2016), *Labour Market Statistics, Household Labour Force Survey*. Table 7.

² <http://www.economist.com/node/21552901>

³ Statistics New Zealand (2008 & 2016), *Quarterly Employment Survey*.

⁴ Rod Oram (2016) *Sunday Star Times*. Retrieved from: <http://www.stuff.co.nz/business/opinion-analysis/79659317/rod-oram-painting-over-the-housing-cracks>

⁵ Hausemann & Hidalgo et al (2014), *The Atlas of Economic Complexity*. <http://atlas.cid.harvard.edu/rankings/>

⁶ Statistics Denmark (2016) *OMS6: Manufactures' sales by industry (DB07)*. Retrieved from: <http://www.statbank.dk/oms6>