Master of International Trade (MIntTr)
ITRA501: Multidisciplinary Approaches to International Trade

STUDENT NOTE

Unilateral Trade Liberalisation and the Manufacturing Shock in New Zealand, 1984–1999

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Abstract

This student note examines the social and strategic consequences of New Zealand's unilateral trade liberalisation between 1984 and 1999. The rapid reduction of tariffs, implemented in three phases, resulted in severe manufacturing employment losses concentrated in specific regions and demographics. The paper argues that the reform process failed to consider critical social implications, as unemployment became acute in geographically concentrated industries while compensation schemes remained absent. Furthermore, unilateral liberalisation proved strategically flawed, depleting New Zealand's bargaining power for future multilateral trade negotiations. By 1999, the purported economic benefits were unclear and offset by devastating social consequences. This study demonstrates how manufacturing unemployment catalysed a fundamental shift in trade policy, leading to the adoption of reciprocal approaches and greater state intervention under Helen Clark's government, offering lessons for sustainable development considerations in trade policy design.

Keywords: trade liberalisation, manufacturing, unemployment, New Zealand, trade adjustment assistance, tariff reduction, strategic trade policy

I Introduction

The following paper studies the impact on industrial employment that the unilateral liberalisation of trade produced in New Zealand. Situated between 1984 and 1999, the unilateral reduction of tariffs was implemented in three different phases, marking a radical contrast with the widespread protection offered to most of the economy until then. The justification to expose domestic industries to foreign competition was motivated by the idea that only efficient companies interacting in a global market would survive, encouraging a shift in the allocation of resources towards those areas where New Zealand is more competitive or presents a comparative advantage.

This student note argues that the phase of how these changes were introduced did not consider its social implications, as unemployment became acute in specific areas and quite severe among certain demographics. The lack of a compensation scheme from these "transitional costs", that could buffer the unemployment shock, became a feature that dissuaded the population in its support towards the structural reforms that the reduction of tariffs were part of. Furthermore, the limits of unilateral liberalisation proved to be a miscalculation also in a strategic sense, especially because of the voluntary depletion of bargaining power for future multilateral or plurilateral trade negotiations. By 1999, the alleged economic benefits accrued were not clear, and became offset by its social consequences. Within that context, this paper stresses how the unemployment in geographically concentrated manufactures, contributed to catalyse a shift in trade policy and a more strategic intervention of the State in economic affairs.

The topic analysed in this paper emerges from a wider reflection of the consequences resulting from the reforms initiated in 1984. In general, the economic discipline has dominated the narrative on how to frame, and under which parameters, evaluate this multidimensional process. This is explained by the leading preponderance of economic experts guiding the reforms. Nevertheless, other disciplines have contributed

valuable insights focusing on how social, environmental or Māori considerations interplayed, enriching the context and helping to temper the optimism towards globalisation with a more comprehensive view. The economic orientation of New Zealand was greatly defined during those years, and its consequences are still palpable today, so the study of this period is essential to anyone wanting to make sense of New Zealand's unique features, and specifically, of the theoretical and empirical vicissitudes regarding international trade.

The idea of sustainable development advanced by the United Nations in 2015[1] has transcended a purely economic approach. These goals have permeated how countries should focus their efforts, by encompassing diverse considerations, such as gender equality, climate action, life on land, affordable and clean energy, sustainable cities and communities, among others. New Zealand has assimilated these goals by including them into the objectives of the Ministry of Foreign Affairs and Trade (MFAT) that periodically reports its progress to the United Nations.[2] Without falling into anachronisms, as sustainable development was not part of the jargon during the reforms, this paper stresses aspects that facilitated or undermined sustainable development goals for the period in study, as an attempt to envisage inherited constraints or progress by the reforms.

II Analysis

A The Reform Approach and Legitimacy Concerns

The unilateral liberalisation of trade started in 1984 as part of the structural adjustment plan conducted by the Fourth Labour government, led by the prime minister

1 *Transforming Our World: the 2030 Agenda for Sustainable Development*, GA Res 70/1, LXX A/Res/70/1, 2015, at [54].

2 "Sustainable Development Goals" New Zealand Foreign Affairs and Trade <www.mfat.govt.nz>.

David Lange and the finance minister Roger Douglas. Among the first changes introduced were the elimination of import licensing, export restrictions and other mechanisms traditionally used to support domestic producers, such as financing and subsidies.[3] The elimination of protectionist measures were already in motion as New Zealand had recently signed the Closer Economic Relationship (CER) with Australia in 1983, but not in the wider scope implemented by Lange's government. The New Zealand government was convinced of the beneficial consequences that deregulating agriculture and removing protection of industries would produce, even though the social costs were not clear nor outspokenly debated. The reforms transcended trade considerations by including privatisation of public enterprises and the deregulation of finance, and the labour market. The World Trade Organisation (WTO) categorised this as bold reforms that should be understood in synchronic terms so as to achieve the mentioned competitiveness overseas.[4]

In terms of trade policy, the New Zealand experiment was significant as an example of what is framed as an activist or orthodox approach. The distinguished criteria, in contrast with a strategic or managed approach to trade, is the unilateral rather than reciprocal removal of protectionist measures; but also, the accelerated phase rather than a gradual orientation. As Brian Easton described it:

> "It was a bit like taking all your clothes off at a picnic to encourage others to go nude. Others looked at what they saw and kept their clothes on – especially the agricultural tweeds – for it is really hard to show substantial gains from the nakedness."[5]

At the center of the debate were concerns related to the legitimacy of the entitlement

[3] "Trade Policy Review - New Zealand Starts to See Benefits from its Bold Reforms" <www.wto.org>.
[4] Above n 3.
[5] Brian Easton "Rethinking Trade Policy" <www.eastonbh.ac.nz>.

of authorities to implement these changes. The use of referendums to achieve consensus was not considered. Contrarily, the secrecy and lack of accountability reflected an ongoing social fracture hindering the process[6]. Several New Zealand treasury documents[7], but also main figures such as the former finance minister himself,[8] repeatedly acknowledged the need to proceed with celerity in the reforms despite the lack of consensus.

B Regional and Company-Specific Manufacturing Impacts

The final and definitive shape of the productive re-structuring was not clear, as industries would have to prove themselves in the international arena, where cheaper labour and State intervention were a common feature. The impacts on manufacturing production started immediately after the tariff reduction process began:

> "Between 1987 and 1990 Northland lost 18% of its manufacturing capacity, Whanganui 20%, Horowhenua 18%, Wairarapa 25%, the West Coast 19%, South Canterbury 21%, and Clutha and Central Otago 35%."[9]

The economic recession around the years mentioned aggravated the prospects of New Zealand manufactures, inhibiting investment, training and employment. Thus, companies started to 'go elsewhere' to locate their factories. By 1996:

> "Arnotts Biscuits, S. C. Johnson Wax, Caroma Industries, Reckitt and Colman, and Johnson and Johnson all moved from Auckland; Cedenco moved from Gisborne;

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6 Jane Kelsey "Aotearoa/New Zealand: The Anatomy of a State in Crisis" in Andrew Sharp (ed) *Leap into the Dark. The Changing Role of the State in New Zealand since 1984* (Auckland University Press, Auckland, 1994) 178, at 178-185.

7 "Briefing to the Incoming Minister - Economic Management" The Treasury <www.treasury.govt.nz>; "Briefing to the Incoming Minister - Government Management: Brief to the Incoming Government 1987 Volume 1" The Treasury <www.treasury.govt.nz>.

8 Roger Douglas *Unfinished Business* (Random House, 1993) at 218, 222–225.

9 Ian Hunter "Manufacturing – an overview" Te Ara - The Encyclopedia of New Zealand <www.teara.govt.nz>.

> Helene Curtis moved from Christchurch; and Corfu Jeans left Thames. Within New Zealand, Auckland remained the dominant location of manufacturing."[10]

The obvious consequence was that skilled and specialised workers were not able to shift overnight to another work or region, generating a long-lasting impact that may have also correlated with increases in crime and gang membership during that time.[11] Policy makers did not address this issue systematically, probably because the assumptions of the economic rationale used believed that markets would adjust the labour market into a new optimal general equilibrium if no intervention from the state was done. This "transitional cost" was the motive of strikes and union mobilisations that shaped the resistance towards keeping some protectionist measures, or at least, advocating for a gradual removal.

C Industry-Specific Employment Shocks

Especially affected by the tariff reductions were the car assembly industries and the textiles, clothing and footwear manufacturers. These industries were essential to providing employment in local communities, as they were geographically concentrated. The adaptation of local infrastructure to such purposes, such as ports and factories, proves how certain types of industrial capital investments were also overridden as transitional costs. The mere threat of tariffs was enough to affect training, investments or loans, undermining *a priori* the performance of these industries.

1 The Motor Vehicle Industry

In regards to the motor vehicle industry, New Zealand was an important link in the supply chain of US and Japanese cars, by contributing in the assembly process. The

10 Above n 9.

11 Greg Newbold "Gangs - Gangs and Crime" Te Ara - The Encyclopedia of New Zealand <www.teara.govt.nz>.

employment figures after the second wage of tariff reductions showed that:

> "[…] by the early 1980s the industry employed around 8,000 workers. In 1997 the number of jobs was down to 1,500, with around 4,000 more in the component industry […]"[12]

As soon as the threat of tariffs started, the US companies closed their plants, leaving only four Japanese assembly points operating: "Nissan at Wiri, (…) Toyota in Thames, (…), Honda in Nelson, (…) Mitsubishi in Porirua."[13] The final sentence for these factories came in the May 1998 Budget announcement, that removed all the tariffs associated overnight.[14] The literature reviewed stresses the devastating economic and social impact in specific areas. The existence of a Trade Adjustment Assistance (TAA) was absent and only scattered initiatives that encouraged a flexible and local scope, with limited impact, were implemented, like for example the Thames Business Enterprise Project.[15] Among the lessons that this paper pretends to extract is the necessary assistance that governments should provide when alternative employment is not available as a consequence of trade policy adjustments. Income support for those displaced might be a controversial topic to include in the design of a trade policy, but a shift of paradigm that responds to sustainable development considerations is envisaged.

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12 Manufacturers' Federation, "Automotive component" *The New Zealand Herald* (New Zealand, 19 December 1997), cited in Jane Kelsey, *Reclaiming the Future: New Zealand and the Global Economy* (Bridget Williams Books, Wellington, 1999) at 211

13 Kelsey, above n 12, at 211.

14 John Luxton "Government Responds Positively to Motor Vehicle Industry Concerns" New Zealand Government <www.beehive.govt.nz>.

15 Nan Zhang "A Critical Evaluation of Policies and Programmes that Mitigate the Effects of Free Trade on Unemployment" (MBus Dissertation, Auckland University of Technology, 2008).

2 *Textiles, Clothing and Footwear Manufacturing*

Analogously, the further reduction of tariffs for textiles, clothing and footwear manufacturers proved to be more complicated.[16] Workers in these sectors were better organised, and the consequences experienced by the car assembly industry raised the alarm to push for a strategic and gradual approach, so the impact on employment could be softened. Unemployment figures in this sectors behaved as follows:

> "The number of full-time equivalent workers in the apparel and textile sector had dropped from 30,939 in 1985 to 16,710 in 1997(…) 74% were women; one-third were Māori, Polynesian or Asian."[17]

Contrary to common belief, not everything was rose coloured for New Zealand enterprises during the reforms. The promises that the "sunrise industries", mainly tourism and agriculture, would absorb these workers was a connection depleted of institutional mechanisms.[18] As noted, the distributional impact of these transitional costs was more intense in women and Māori.

The general unemployment figures shown below were compounded by members of the Alliance Party, who strongly advocated for a trade policy that prioritised human needs over quimeric market promises. Overall:

> "In 1987, 58,700 people were employed in making cars, clothes, footwear and associated industries in New Zealand. Now [June 1999] there are only 33,000 people in those industries. Most are likely to lose their jobs as tariffs are abolished in the next few years."[19]

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16 Trade Policy Review - New Zealand Starts to See Benefits from its Bold Reforms, above n 3.
17 Kelsey, above n 12, at 213.
18 New Zealand Alliance Party "What did YOU do in the balance of payments crisis?" Scoop <www.scoop.co.nz>.
19 Above n 17.

The end of the 1990s confronted these outcomes and pushed for a different approach to trade. The Alliance party, provided a fierce critique by highlighting that New Zealand had sacrificed its industries by doing what no other country was doing, namely, to unilaterally liberalise their trade. Besides that, they pointed out that no substantial gains for New Zealand exporters had yet materialised.[20]

D Economic Benefit Claims and Evidence Limitations

The Trade Policy Review from the World Trade Organisation (WTO) from 2003 highlights a study widely quoted at that time, further elaborated by the New Zealand Institute of Economic Research (NZIER) in 1999 titled 'Trade liberalisation in New Zealand: Effects on consumer welfare'. The findings of this research were widely used to convince the public about the gains from unilateral reforms. Even Jenny Shipley, the prime minister at that time, heatedly debated the intensification of the reforms by relying on that study.[21] The following are among the main outcomes:

> "The reduction in tariffs generated around a 2% increase in Kiwi households' purchasing power. This was mainly due to lower prices for footwear, cars, household appliances and clothing."[22]

The defenders of unilateral liberalisation presented this outcome as a significant improvement for New Zealand consumers, even though an improvement of $22 New Zealand dollars a week for a three-person household could be interpreted in perspective as a rather meagre result.[23] What is interesting about the NZIER study is that it used the products where more workers were becoming affected by the

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20 Above n 17.

21 The New Zealand Government "NZ Consumers Better off From Tariff Reduction" Scoop <www.scoop.co.nz>.

22 New Zealand Institute of Economic Research "The Benefits of Trade" <www.nzier.org.nz>.

23 The New Zealand Government, above n 21.

tariff reduction as the main variables to show an improvement in prices.

Overall, there were not many studies at that time that could corroborate, in an undisputable fashion, the benefits of trade liberalisation. This is clearly announced by another NZIER report that emphasised: "better evidence of the net benefits of trade liberalisation are required, as there is limited data on this issue."[24] The absence of data encouraged the institute to use a methodology suitable for the United States to help in calculate the gains for New Zealand house-holds, despite the existence of different trade patterns and tariff levels.[25]

E The APEC Commitment and Policy Re-evaluation

By 1996, New Zealand had already implemented two tariff reductions out of which "textiles and clothing, footwear and motor vehicles remain relatively high and lag behind reductions made for other products."[26] Most of the reduction of tariffs was already done by then, but the push to become the most radical free trade economy, underlooked the discontent created by the sudden threat of more unemployment. The strategic shift from these industries to stay afloat was to focus on "niche markets" overseas, as competition by lowering prices was no longer an option.

The commitment of New Zealand in the Asia Pacific Economic Cooperation (APEC) towards a zero tariff goal became a domestic issue that prompted the re-evaluation of the path followed, as the outcomes of the economic forum were not binding and no other country was pursuing the complete elimination of tariffs. Peter Donovan argued that zero tariffs are not the optimally desired, and the consequences in employment would be devastating.[27] The sectors still subjected to relatively high

[24] New Zealand Institute of Economic Research, above n 22, at 10.
[25] New Zealand Institute of Economic Research, above n 22, at 5.
[26] Trade Policy Review - New Zealand Starts to See Benefits from its Bold Reforms, above n 3.
[27] Kelsey, above n 12, at 212-213.

tariffs were those among which an important and geographically concentrated skill labour was still being employed.[28] Thus, the dilemma about deepening the unilateral reduction of tariffs, as a move from hosting APEC in 1999, highlighted several concerns that ended up backfiring a halt on the reforms.

III Conclusion

This paper highlights how the shock in manufacturing employment provoked a widespread aversion from the population towards the structural transformation of New Zealand economy during the 80's and 90's. The significant shift away from the orthodox trade policy came with the election of Helen Clark as prime minister.[29] The new government froze the unilateral liberalisation of trade, providing time for those affected to adapt, and stated that every further reduction of tariffs would be reciprocal. The new government brought back state intervention in the economy.[30] The government encouraged the creation of new technological clusters that could fulfil sustainable long-term growth, and improve the income per capita, which had deteriorated during the reform period. The creation of "labour and environmental standards" at the time to negotiate trade agreements was also a lesson that the new government implemented to overcome the apparent omission to these topics witnessed during the reform period.

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28 "Trade Policy Review - Success in Weathering External Shocks Helped by Radical Reforms" <www.wto.org>.
29 Above n 27.
30 Above n 27.