

# APEC High Level Conference on Structural Reform

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## Promoting Structural Adjustment:

Deregulation and Structural  
Adjustment in the Context of Wider  
Macroeconomic Reform Processes -  
The New Zealand Agriculture Experience

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# New Zealand: setting the scene

- **New Zealand similar in size to Japan or 3% of China**
  - 4 million people
- **Climatic conditions**
  - Abundant rain and sunshine, mild to warm temperatures
  - Grass grows all year round and livestock are grazed outdoors
  - 1 600 kilometres from subtropical North to cool South
  - Mountainous terrain, variable soils
- **Land use**
  - 74% of farm land is in permanent pasture
  - 70 000 farms



# Problems with New Zealand's economy before 1984

- **No coherent economic strategy - acute problems**
  - Fiscal deficit, public debt, current external deficit
- **Tight financial sector controls and a fixed exchange rate**
- **High unemployment**
- **Government control pervasive**
  - Import licensing, price and wage controls, interest rate controls
- **Manufacturing**
  - Grew behind quotas and tariffs and became increasingly inefficient
  - Protection of domestic manufacturing base increased costs to agriculture

# Broad economic reforms, 1984 onward

- New Zealand dollar devalued and floated
- Tax and banking systems overhauled
- Export assistance removed, tariffs reduced
- Many government businesses corporatised or privatised
- Price stabilisation via tight monetary policy
- Labour market reform
- Capital flows liberalised
- Regulation of domestic markets reduced



# State sector reforms, 1984 onward

- **Principles for reform of the state sector:**
  - Do not involve the state in any activities that would be more efficiently and effectively performed by the community or by private business.
  - Structure government trading enterprises along the lines of private sector.
  - Separate government policy and service delivery functions.
  - Make government managers fully accountable for the efficient running of their organisations.

# Impact of the reforms

- **A sound macroeconomic policy framework**
  - Reduced inflation and a fiscal surplus
- **Improvement in economic growth since early 1990s**
  - One of faster growing economies in OECD during past decade.
  - 3.6% average annual growth rate from 1992-2002.
- **Growth in service sector (particularly trade, transport and communications, business services etc)**
- **Clearer price signals in for producers and consumers across all sectors**
- **A more flexible labour market and improvements in labour utilisation**
- **Efficient and responsive public sector**
- **Increased openness of producers to international competition**

# THE CASE OF AGRICULTURE: overview of agriculture in New Zealand

- **Pastoral farming dominates**

- Sheep: 39.7 million
- Beef cattle: 4.6 million
- Dairy cattle: 5.1 million
- Deer: 1.7 million



- **Horticulture is increasingly important**

- Kiwifruit orchards: 12 400 ha
- Wine grapes: 19 600 ha
- Apple orchards: 12 200 ha



- **Arable farming**

- Wheat: 43 200 ha
- Barley: 648 700 ha

- **Forestry**

- 6.8% of total land area is planted in production forests, mainly *pinus radiata*



# Importance of agriculture to New Zealand

- Agriculture, horticulture and forestry contribute almost 20% to GDP (in current prices, including processing and manufacture)
- Over 90% of New Zealand's agricultural production is exported
- Agriculture, horticulture, and forestry exports total \$17.6 billion, which is 62% of total exports by value
- New Zealand is the world's:
  - No 1 sheep meat exporter
  - No 2 dairy products exporter
  - No 2 wool exporter





# Government support for agriculture before 1984

- **Support levels**
  - 1960s: almost non-existent
  - 1970s: increased to 'protect' NZ from overseas shocks and to offset negative impact on exporters of high exchange rate
  - 1980-4: increased to compensate for high costs and low commodity prices
- **Agricultural policy**
  - Aimed at increasing production for export through government support
- **Support mechanisms**
  - Price supports: sheep meat, beef, wool and dairy
  - Input subsidies: such as taxation incentives, fertiliser, transport, pesticides, low interest loans, debt write-off, irrigation, research, extension and advisory services, etc. ...

# Effects of government support on New Zealand agriculture

- Isolated NZ agriculture from market signals
  - loss of international competitiveness
- Misallocation of resources
  - low productivity
  - negative environmental impacts
  - subsidies capitalised into land prices
- Created dependence on government support
- Stifled innovation and entrepreneurial spirit



# Agricultural policy reforms, 1984 onward

- Abolished price supports
- Removed capital subsidies and input subsidies
- Recover costs of government inspections on a “user pays” basis
- Advisory services moved to “user pays” basis. Subsequently privatised.
- Withdrew tax concessions
- Phased out interest rates and lending concessions



# Impact of agricultural policy reforms

- Not as bad as feared, few farmers forced out, exit packages available
- Short term decline in farm incomes and land values, followed by recovery
- Clearer price signals led to reallocation of resources
  - Sheep numbers fell from 70 million to 40 million
  - Expansion of dairy, deer, goat, horticulture and forestry industries
- Productivity increased across all agriculture sectors
- Input costs decreased, farm size increased
- Environmental benefits from less intensive input use, better use of resources
- Stimulated investment, innovation and adoption of new technologies
- Increase in agriculture's proportional contribution to economy

# MAF Role

- **NOT** advocates for farmers – advocates for the wider national interest as it relates to agriculture and forestry
- **MAF activities:**
  - Policy advice to Government
  - Domestic business environment and regulatory framework
  - International trade liberalisation, standard-setting, and SPS assurances
  - Biosecurity maintenance, both at the border and within our environment
  - Food safety, both domestic and exported (NZ Food Safety Authority)
  - Sustainable use of natural resources



# Lessons from New Zealand's reforms

- Intervention is easier to start than finish. Reform requires strong on-going political support.
- Reform needs to be carried out on a broad front across all sectors of the economy.
- Unilateral reform confers substantial benefits on the economy, the environment and society.
- Reform has given farmers a renewed sense of self-respect: they do not want a return to government hand-outs and are strong advocates for reform.