

EXPORT PERSPECTIVES

WHY DO EXPORTS MATTER?

EXPORTS ARE THE LIFEBLOOD OF NEW ZEALAND'S ECONOMY. MAKING AND SELLING PRODUCTS AND SERVICES THE REST OF THE WORLD VALUES IS CRUCIAL FOR OUR ONGOING PROSPERITY AND TO IMPROVE OUR STANDARD OF LIVING.

A NEW ZEALAND PERSPECTIVE





COMMITTED TO NEW ZEALAND'S SUCCESS BY PROMOTING SUSTAINABLE GROWTH THROUGH FREE ENTERPRISE

Business NZ is New Zealand's largest business advocacy body representing the combined members of regional business organisations EMA Northern, EMA Central, the Canterbury Employers' Chamber of Commerce and the Otago-Southland Employers' Association, which offer services and support to 14,500 member companies. Business NZ also represents 60 national industry associations, with a combined membership of some 76,000 employers in the private sector, from large firms to the self-employed. Together, these employ around 80% of private sector employees. www.businessnz.org.nz

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FEW ECONOMIC ACTIVITIES ARE MORE CENTRAL TO NEW ZEALAND'S PROSPERITY THAN EXPORTING

Exports provide opportunities for our firms to grow, learn, innovate, employ more people and for New Zealanders to afford the standards of living we all aspire to.

As an organisation dedicated to ensuring New Zealand remains competitive and its people enjoy lifestyles and opportunities that are the envy of the world, Business NZ strongly supports efforts to boost our export performance.

This publication is one part of our contribution to building a strong and vibrant export sector.

It celebrates our success in turning New Zealand from 'Britain's colonial farm' into a global trader of a wide array of goods and services.

It points to areas where we could do better.

And it highlights the key steps business and Government will need to take if we are to see significant growth in the value of our exports.

Success will require boldness and a clear commitment by all parties to be more competitive, higher skilled and more connected than other nations.

And what could be a more appropriate time in which to make this commitment than Export Year?



Phil O'Reilly
Chief Executive Business NZ



**EXPORTING BRINGS MANY
BENEFITS TO NEW ZEALAND FIRMS,
THEIR CUSTOMERS AND WORKERS,
AND OUR COMMUNITIES.**

**BECAUSE NEW ZEALAND IS A SMALL
MARKET, OFFSHORE TRADING
HELPS FIRMS ACHIEVE ECONOMIES
OF SCALE AND GROW, THEREBY
EMPLOYING MORE STAFF.**

EXPOSURE TO OVERSEAS MARKETS ALSO HELPS FIRMS
ENSURE THEIR PRODUCTS AND SERVICES REMAIN
INTERNATIONALLY COMPETITIVE. IN TURN, THE PRESSURE TO
STAY COMPETITIVE ENCOURAGES FURTHER INVESTMENT,
INNOVATION AND PRODUCTIVITY.

BUT MOST IMPORTANTLY, THERE IS A GROWING VIEW THAT
IMPROVING EXPORT PERFORMANCE IS THE KEY TO HIGHER
ECONOMIC GROWTH.



FIG 1.



Source: Melleny Black, Mark Vink and Bruce White, *Aspects of the New Zealand Export Performance: An evaluation of the contribution of exports to economic growth* (paper presented to the New Zealand Association of Economists conference, 2003)

“THE NEW ZEALAND ECONOMY IS TOO SMALL TO GENERATE RAPID GROWTH WITHOUT STRONG EXPORT PERFORMANCE”¹

“New Zealand’s relatively low economic growth over recent decades can largely be attributed to low export growth.”²

“Two out of three New Zealand jobs are trade dependent.”³

“\$4 of every \$10 our economy produces are generated by exports.”⁴

1 The Treasury, Briefing to the Incoming Government 1990 (Wellington: The Treasury, 1990), p.31
 2 Phil Briggs, Phil Bishop and Emma Fan, *New Zealand’s Economic Growth – why has it been so slow?* (Wellington: New Zealand Institute of Economic Research, 2001), p.11
 3 Trade Liberalisation Network, citing Statistics New Zealand figures (<http://www.tln.net.nz/Special-public.asp?PageID=17>, accessed 24 January 2007)
 4 Trade Liberalisation Network, citing Ministry of Foreign Affairs and Trade figures (ibid)

HOW IS NEW ZEALAND PERFORMING?

New Zealand is often described as a ‘trading nation’ and for good reason. Exporting has been pivotal to the country’s economic development. It was the advent of refrigerated shipping in 1882 that fundamentally transformed the economy, spurring massive growth in the meat and dairy industries.

A major theme of economic policy since the end of World War II has been the need to avoid dependence on a small pool of export products and markets.

More diversification

In terms of markets

Export trade historically focused on a small number of markets, primarily Britain, but this has broadened since the 1970s.

FIG 2.



Source: Brian Easton (1997), *New Zealand Official Yearbook 2006*

While more than half of New Zealand exports went to Britain in 1960, about 70% of our goods and services are now sold to the 21 members of APEC (Asia-Pacific Economic Cooperation). And in the year to June 2006, New Zealand exported to more than 200 countries and territories.

“In the space of half a century, New Zealand has seen a massive diversification in the destinations for its exports. It has gone from being Britain’s colonial farm to being a country that supplies goods to a wide range of countries located around the Pacific Rim and beyond.”⁵

And products

New Zealand’s exports were historically based upon a small range of products – principally meat, wool and dairy.

But there has been radical change since the 1970s.

The core staples – wool, butter and cheese – collectively comprising 57% of exports by value in 1960, were each worth less than 4% of exports in 2006.

⁵ Phil Briggs, *Looking at the Numbers: A view of New Zealand’s economic history* (Wellington: New Zealand Institute of Economic Research, 2003) p.65

More variety and value

Although primary products are still our major exports, the nature of these products has changed. A wider range of farm goods is now sold offshore including cut flowers, fruit and wines – with more value now being added.

Even the old staples have changed: Butter is sold in unsalted, lower-fat and spreadable varieties; wool is produced and graded to meet specific customer needs, and New Zealand now sells a huge array of award-winning cheeses.

The proportion of New Zealand-made products leaving our shores without any processing has halved since 1987.

“New Zealand was among the three most concentrated exporters by product and destination in 1965 but was near average by 1980. No other OECD country has diversified as greatly.”⁶

CASE STUDY: WHEN IT COMES TO HANDLING BAGGAGE AT AIRPORTS – GLIDEPATH IS A WORLD-LEADER.

With high-tech carousels and conveyor belts in 449 airports internationally, Glidepath has done more than just make it easier to transport cargo around the world – it has also helped advance New Zealand’s export reputation from its meat-and-dairy roots to that of a sophisticated, technical innovator.

Glidepath’s niche lies in the way it integrates all aspects of the baggage-handling process – from check-in systems and scanning through to sorting and delivery. This helped it capitalise on major security upgrades in the aviation industry post September 11, with annual turnover leaping from \$40 million in 2002 to about \$75 million today.

The company’s manufacturing base was extended in 2004 with the opening of a plant in Dallas, enabling it to take on larger jobs in the US which, with 400 commercial airports, is the world’s largest aviation market.

Australia and the Middle East are the focus for future export growth and new products are expected to open doors in China. Glidepath founder and owner Ken Stevens doesn’t let distance prevent him from building personal connections in these markets and devotes a lot of time to travel.

“Exporting has changed in the last few years, it’s more personal now. The days of receiving a good old order across the fax and waiting for the letter of credit are gone. You’ve got to connect more now or risk losing their business.” He believes it’s this sort of determination and aspiration that sets a good exporter over an average one. “You need aspiration to want to put up the cash and sacrifice your time and home comforts to spend 105 days a year travelling.”

Stevens says participation in the Beachheads Programme, run by New Zealand Trade and Enterprise, helped accelerate Glidepath’s entry to offshore markets. “It’s given us simple, cheap, ready market access at the formative stages. It’s someone batting for us up there, getting the documentation in place. You feel as though you’ve got one of your own on the ground.”



⁶ Brian Easton, in *Stormy Seas: The Post-War New Zealand Economy* (Dunedin: University of Otago Press, 1997), p.48

CASE STUDY: TAKING CONTROL OF ITS LARGEST EXPORT MARKET WITH THE PURCHASE OF ITS UK DISTRIBUTOR HAS PROVED A SUCCESSFUL RECIPE FOR NATURAL HEALTH PRODUCTS COMPANY COMVITA.

The acquisition of NZ Natural Foods in 2005 was followed by a 25 per cent leap in Comvita's export sales to \$18.7 million last year – exceeding the company's New Zealand sales for the first time.

As well as providing on-the-ground knowledge of the UK market, general manager of sales and marketing Scott Coulter says the stronger presence there will help its launch into Europe. "Our strategy is very much about investing and growing regional hubs, which provide us with a stepping stone into surrounding markets," says Coulter.

Exports comprise 68 per cent of sales and with strong growth from Australia and China – where the company has 18 Comvita-branded stores – it's proving it can grow the market more quickly than a distributor.

In the highly competitive health and wellbeing industry, a reputation as a premium New Zealand brand has provided a key advantage.

With UMF Manuka honey its flagship product, Comvita also makes New Zealand natural health products such as liquid herb extract, dairy-based colostrum, omega 3 fish oil and propolis and Manuka honey-based winter wellness products.

"We have a strong tradition in bringing world-leading, natural therapeutic agricultural products to market and our brand leverages New Zealand's clean, green image and unique natural resources," says Coulter. After years of development, he expects the UMF Manuka honey wound care products will drive export sales in the year ahead.

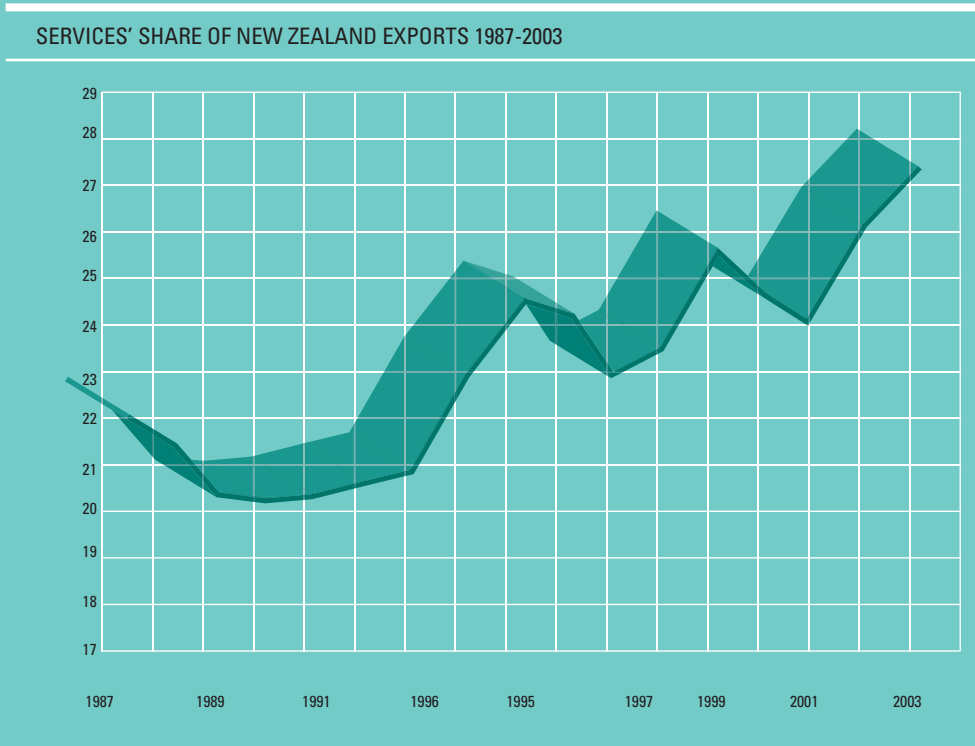
While the opportunities offshore are enormous, he knows it's not possible to follow them all and sticking to a tight strategic framework has been essential. "Otherwise you can waste an enormous amount of time."



SERVICE EXPORTS

Increasingly, New Zealand is also selling services to the world such as tourism, transportation, communications and construction.

FIG 3.



Source: Statistics NZ Gross Domestic Product Analytical Tables

NEW ZEALAND RECORDED THE THIRD FASTEST GROWTH IN SERVICE EXPORTS IN THE OECD BETWEEN 1990 AND 2003.

MANUFACTURED EXPORTS

One of the fastest growing export categories of recent decades has been elaborately transformed manufactures (or ETMs). These are finished or near-finished goods with high levels of added-value. They usually provide the country with high rates of return.

TABLE 1.

EXPORT PERFORMANCE 1990-2005, NZ\$M						
	1990	1995	2000	2005	Change from 1990	
					\$m	%
Total exports	15,096	20,057	27,976	29,472	14,376	95.2
Unprocessed primary commodities	2,281	2,780	3,920	3,065	784	34.4
Processed primary commodities	7,488	9,387	12,325	13,440	5,952	79.5
Basic Manufacturing Sector (BMS) exports	5,327	7,890	11,730	12,967	7,640	143.4
Manufactured Commodities	2,244	2,663	3,986	3,627	1,383	61.6
Elaborated Transformed Manufactures (ETM)	2,878	5,227	7,744	9,340	6,462	224.5
Contribution of BMS to total exports	35.3%	39.3%	41.9%	44.0%		
Contribution of ETM to total exports	19.1%	26.1%	27.7%	31.7%		

Source: Statistics New Zealand

BUT IT'S NOT ALL GOOD NEWS

Although New Zealand has risen to the challenge of diversification and value, more needs to be done.

We could be more connected

International trade is crucial for small nations as it allows firms to achieve economies of scale and grow more rapidly than through domestic markets alone.

A key measure of a country's connection to international trade is trade intensity – in other words, the value of trade (both exports and imports) to total GDP.

Countries with high levels of trade intensity are well connected to foreign markets and are better able to understand their needs and requirements.

Although New Zealand's trade intensity has improved over the past 15 years, we are slipping behind the OECD total and have a low rate compared to other small countries.

TABLE 2.

TRADE (EXPORTS AND IMPORTS) IN GOODS AND SERVICES AS A PROPORTION OF GDP (CURRENT PRICES)							
	1990	1992	1994	1996	1998	2000	2002
Australia	16.7	18.3	19.7	19.7	20.1	22.9	20.9
Canada	26.0	27.6	33.8	36.8	40.9	43.2	39.7
Finland	23.5	25.8	32.0	33.5	34.2	38.4	34.5
Iceland	33.6	30.9	33.9	36.8	38.1	38.5	38.6
Ireland	54.7	57.0	65.8	71.7	80.7	91.1	85.2
Netherlands	52.6	50.8	51.9	55.0	58.2	64.9	60.1
New Zealand	26.9	30.3	29.9	28.0	29.6	35.1	31.5
Spain	18.0	18.2	21.1	23.6	27.2	31.2	29.1
United Kingdom	25.3	24.2	26.8	29.6	27.3	29.1	27.7
OECD total	32.0	33.2	34.2	36.8	40.5	45.5	43.1

Source: OECD (2003)

We could add more value

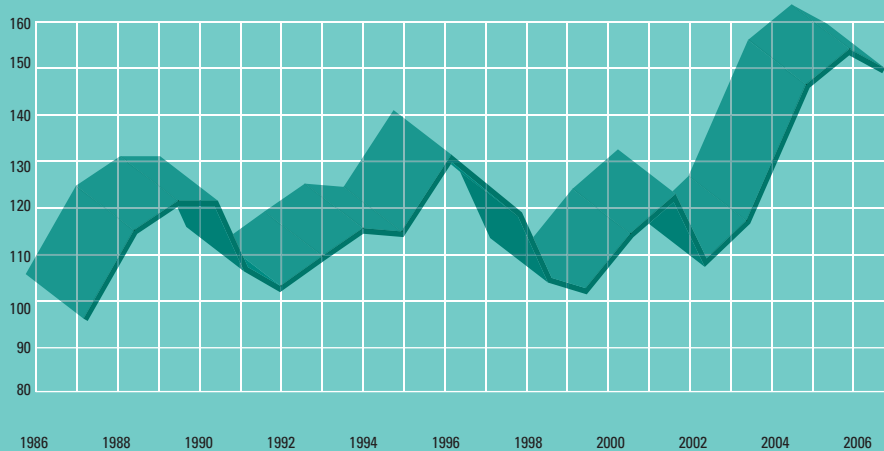
Unprocessed and processed primary products still dominate New Zealand's exports and for these products New Zealand is a price-taker rather than a price-maker.

To a large degree, our prosperity depends on the state of agricultural production in other economies – a factor that's outside our control.

This volatility of agricultural prices can be seen in the Commodity Price Index, which measures movements in the prices of some of New Zealand's major export goods (such as meat, dairy, forestry and seafood).

FIG 4.

ANZ COMMODITY PRICE INDEX, JULY 1986-2006



Source: ANZ Bank

Although New Zealand's ETM export volumes are growing, on the international scale these goods tend to be of a low technical standard.

TABLE 3.

SHARE OF MANUFACTURING EXPORTS BY TECHNOLOGY LEVEL, 2001				
	High	Medium-high	Medium-low	Low
Australia	13.5%	19.8%	32.5%	34.2%
Canada	14.3%	43.5%	16.6%	25.6%
Finland	24.4%	25.4%	18.9%	31.4%
Ireland	58.2%	23.9%	3.0%	15.0%
Japan	30.8%	52.2%	11.4%	5.6%
Netherlands	29.8%	29.0%	17.3%	23.9%
New Zealand	3.0%	13.0%	10.9%	73.1%
Sweden	23.5%	36.3%	17.4%	22.8%
Switzerland	37.1%	38.0%	12.0%	12.9%
United Kingdom	40.3%	33.3%	11.9%	13.8%
United States	37.9%	37.1%	10.6%	14.3%
Total OECD	26.4%	40.7%	14.2%	18.6%

Source: OECD (2004)

Increasing the value we add to our exports, where it is economic or worthwhile to do so, will help us to improve the returns and the security of our incomes.

We tend to buy more than we earn

Imports have outstripped exports for the past three years and New Zealand has run a current account deficit (which is the difference between our buying and selling with the rest of the world) since the 1970s.

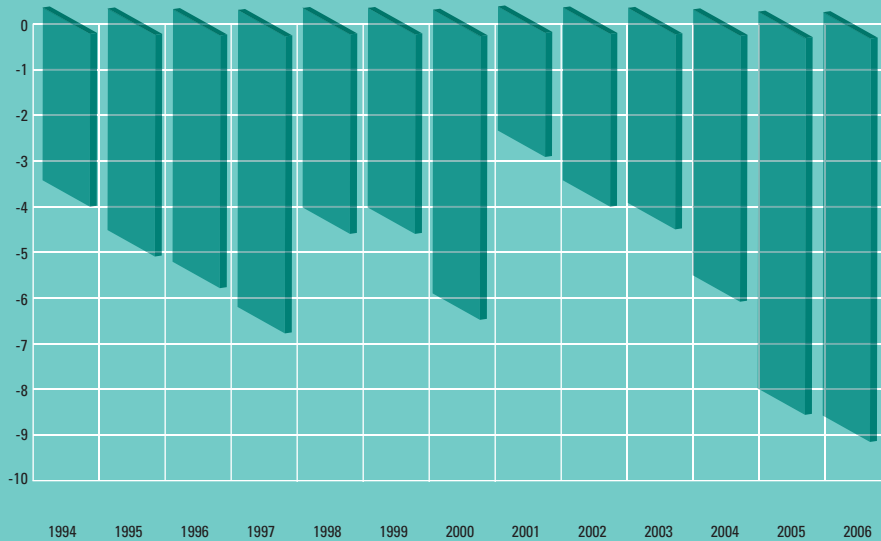
FIG 5.



Source: Reserve Bank of New Zealand. Note: September year.

FIG 6.

CURRENT ACCOUNT POSITION AS PERCENTAGE OF GDP, 1994-2006



Source: Reserve Bank of New Zealand. Note: September years.

Neither of these developments is necessarily problematic.

Because businesses often need to import capital goods such as plant and technical equipment in order to grow, a current account deficit can represent investment in productive capability. Australia has also been running a current account deficit despite its high levels of economic growth in the past 15 years.

However, high trade and current account deficits can leave the country exposed to sudden shocks such as a global depression. High current account deficits also indicate risk to some investors, increasing the cost of capital for firms as a result.

Stronger export performance could help improve our trade balance and current account positions.

BUSINESS NZ PERSPECTIVE:

WHAT DOES NEW ZEALAND NEED TO DO?

NEW ZEALAND FACES MANY NATURAL OBSTACLES TO
INTERNATIONAL TRADE.
FOLLOWING ARE A FEW THINGS WE NEED TO LOOK AT...



WHAT DOES NEW ZEALAND NEED TO DO?

As a small economy, isolated from most of our main export markets, we often lack the scale of competition necessary for exporting. Transporting goods offshore can also be difficult.

DISTANCE OF NEW ZEALAND FROM MAIN TRADING PARTNERS	
Australia	2,152km
Southeast Asia (Thailand)	9,573km
United States (Los Angeles)	10,474km
Europe (London)	18,331km

These barriers are not insurmountable and advances in technology are helping to reduce the disadvantages.

However, to reclaim its title as a genuine 'trading nation', New Zealand must do more than simply keep pace with comparative nations. It must also ensure it is more competitive, higher skilled and better connected than other countries.

This requires action by business and Government on four fronts:

1. Stronger commitment to international competitiveness

To succeed overseas, New Zealand firms need the right environment at home. In particular, they need good access to foreign investment and expertise.

Four steps are vital to achieving this:

1.1 Return to a stable and light-handed regulatory environment

As the New Zealand Institute of Economic Research (NZIER) recently outlined, the key to minimising the disadvantages of isolation and size is to *"eliminate obstacles to investment and the associated transfer of technology"*.⁷

NZIER note that New Zealand cannot assume it will have access to the investment it needs to grow:

*"As a small economy, New Zealand risks being passed over by investors unless it has a comprehensible and congenial regulatory regime in which investors can have confidence. The regulatory regime must be simple, stable and free from political opportunism."*⁸

The last seven years have seen New Zealand too often abandon simple, stable and apolitical regulatory frameworks in favour of complicated, industry-specific ones such as those created for the electricity and telecommunications sectors. Ministers are now more prone to intervene in the market and regulatory decisions.

These developments have undermined stability and investor confidence. In the case of electricity, the OECD has commented: *"Uncertainties about the current and future regulatory environment seem to inhibit investment in the sector."*⁹

There is a pressing need to abandon the industry-specific regulation developed since 2000 and return to a clearer, generic and more stable regime.

A light-handed regulatory approach will provide the best balance between maintaining investor confidence and sufficient competitive pressure on prices.

In practical terms this would mean repealing the industry-specific powers and controls added to Part 4 of the Commerce Act since 2000.

Should there be ongoing concerns about specific sectors – regular, transparent and independent reviews could be introduced. These reviews (and their methodologies) would need to be clearly signalled in advance and focus on pricing, levels of investment and customer satisfaction.

Streamlining the Resource Management Act to reduce delays and actively seeking public-private partnerships could also encourage foreign investment – particularly in infrastructure.

7 New Zealand Institute of Economic Research, *The New Zealand-Australian Income Differential* (Wellington: NZIER, 2006), p.iii

8 *Ibid.*

9 Organisation for Economic Cooperation and Development, *OECD Economic Surveys – New Zealand*, Vol.2005/15 (Paris: OECD, 2005), p.63

1.2 Minimise compliance costs

Compliance costs distract firms from their core business and undermine their competitiveness. A firm's ability to grow, prosper and sell offshore will be enhanced by a clear commitment to reduce regulatory burdens to a minimum.

Possible steps to do that include:

- **A Regulatory Responsibility Act:** Promoting discipline in regulation making by requiring adherence to a set of principles similar to those of the Fiscal Responsibility Act, now part of the Public Finance Act.
- **Review all regulations:** Use an independent agency to carry this out to ensure all regulations are achieving their original objectives and are still required.
- **Introduce sunset clauses:** In all new regulations with an expiry date such as five years. That date will then be the optimal time to review a regulation.
- **Cost-benefit analyses:** To be carried out on all regulation proposals by an independent agency similar to the Australian Productivity Commission.

EUROPE – BUREAUCRATIC THROWBACK OR A MODEL FOR THE FUTURE?

New Zealand has a tendency to dismiss Europe – particularly the European Union (EU) – as slow, protectionist and bureaucratic.

While it could certainly do more to reduce its trade barriers and improve efficiency, there's a lot Europe can teach New Zealand – and the wider world – about facilitating trade. It also has a number of advantages we should be careful not to underrate.

The introduction of a common currency (the Euro) has reduced transaction costs for many European firms. In comparison, New Zealand exporters have to consider measures such as hedging to protect the value of their sales against movements in exchange rates.

The 1985 Schengen Agreement removed systematic border controls between many European countries, which means that a company in France can sell goods to clients in Germany or Italy without facing the costs or delays of customs clearances. Fifteen European nations have already implemented the Agreement, and others intend to introduce Schengen soon.

This agreement, and the small and compact nature of Europe, also means travel within Europe is cheap and fast – allowing its business people to meet with clients and partners in other markets far easier than New Zealanders can.

Of course, these freedoms and advantages also create opportunities for New Zealand firms and many are already trading successfully in Europe.

There's also potential to extend trade relations with the newer EU members in Eastern Europe.

But these Eastern European countries – which have lower costs than the older EU members – may also pose a threat to New Zealand exporters, particularly in the primary and food sectors.

New Zealand businesses would do well to watch closely and make the most of developments in European markets.

1.3 Use flatter and lower taxes as a basis of competitive advantage

Tax rates – particularly company tax rates – are a source of international competitiveness. This was noted in the 2006 Business Tax Review discussion document, which states:

“Reducing New Zealand’s company tax rate would boost the competitiveness of New Zealand-based companies. It would encourage increased inbound investment by firms that have decided to locate in New Zealand. As a result, it would tend to increase New Zealand’s stock of plant, equipment and buildings which would in turn boost labour productivity and wage rates...Reducing New Zealand’s company rate would also reduce incentives for firms to stream profits away from New Zealand.”¹⁰

The Government has signalled it will reduce the company tax rate to match Australia’s at 30%. This reduction is welcome and should help reduce comparative disadvantages with Australia.

But New Zealand can’t afford to merely keep pace with our major competitors, particularly as they often enjoy a range of other advantages over us.

We do not, for example, have the scale and mineral resources Australia and Canada enjoy or the cheap labour of many Southeast Asian countries. And we are more distanced from our major export markets than European countries.

By lowering company and personal tax rates, New Zealand could carve out a clear niche to enhance its attractiveness to investors and improve the competitiveness of our exporters by reducing their costs.

Also, as noted in the Treasury’s 2005 Briefing to the Incoming Government, reductions in personal and company taxes can help promote higher economic growth:

“High marginal tax rates on personal and company income are more likely to have a negative impact on growth than others, by inhibiting the decisions that drive investment and enabling people to make the most of their economic opportunities. In an economy like New Zealand’s – with high participation rates and mobile labour and capital – these dynamic effects of high marginal tax rates on productivity are likely to have the greatest impact on growth.”¹¹

1.4 Limit Government spending at a proportion of GDP

The exchange rate is another factor in New Zealand’s export competitiveness and the New Zealand dollar is currently sitting at high levels compared to the currencies of key trading partners.

In part, this reflects the country’s high interest rates – driven by Reserve Bank efforts to control inflation by raising the Official Cash Rate.

Substantial growth in government expenditure in recent years has also played a significant role in driving up the cost of living.

Not only would tighter constraints on public expenditure help control inflation (therefore improving export competitiveness), they could also improve government decision making by encouraging ministers and officials to think harder about the value of such spending.

Capping government spending at 30% of GDP would provide this discipline without requiring any cuts to nominal spending.

WHY TAX INCENTIVES FOR EXPORTING ARE A BAD IDEA: IT’S OFTEN TEMPTING TO THINK WE CAN BOOST EXPORT PERFORMANCE BY CREATING FINANCIAL INCENTIVES FOR FIRMS THROUGH GRANTS OR TAX SUBSIDIES.

¹⁰ Hon Dr Michael Cullen and Hon. Peter Dunne, Business Tax Review: A Discussion Document (Wellington: Inland Revenue Department, 2006), p. 9
¹¹ <http://www.treasury.govt.nz/briefings/2005/chap2-2.asp> (accessed 25 January 2007)

Previous New Zealand Governments tried this approach and between 1975 and 1981, at least nine different types of grants, loans, allowances and incentives were introduced to encourage firms to sell offshore.¹²

Yet the evidence of success is fairly weak.

The New Zealand Institute of Chartered Accountants (NZICA) assessed the performance of these tax credits in 2006 and concluded:

*“It is not possible then to draw any meaningful conclusions from the fact that exports increased in the early 1980s (when the NZD was falling against the USD) on the back of the then export market development tax credits.”*¹³

Tax credits and incentives are notoriously open to abuse and New Zealand’s previous export subsidies were no exception:

“Exploitation of subsidies was rife. Export sales incentives were available to the ‘exporter’, and it often transpired that there were at least three of these for any one transaction. For example, in the primary produce area it was common for the incentives to be claimed by the grower, the purchasing cooperative and the exporting agent. This resulted in extensive litigation and ultimately some claw back by the IRD, but a large number of triple and double claims went unnoticed.

*Export market development expenditure, which qualified for a credit of two-thirds of the amount spent, proved to be a bonanza for overseas travel. A significant amount of export market development activity coincided with All Black tours, Commonwealth Games and the Olympics. Fascinating debates ensued with IRD as to whether expenditure late at night in Tokyo massage parlours, but as part of a genuine and successful export promotion, qualified for the 67.5% cash subsidy. The IRD had to reluctantly concede that no matter what the moral value may be of some aspects of such expenditure, it was eligible and squarely qualified for the incentive.”*¹⁴

Limiting this potential for abuse requires greater monitoring by Inland Revenue which, in turn, increases Government expenditure and compliance costs for businesses. Neither of these cost increases is good for New Zealand’s international competitiveness or for the taxpayer.

Fundamentally, export incentives or subsidies tend to distort the behaviour of firms in harmful ways. For example, they may lure firms to export when increasing domestic sales would be a better business venture.

Of greater concern is the risk firms may be encouraged to export in order to gain Government funding or tax credits – rather than because it’s a viable option.

Ultimately this undermines competitiveness. A case study prepared by NZICA highlights this risk:

*“In late 1983 through early 1985, I was the financial controller for a company which was one of the largest beneficiaries of the two export tax credit schemes then operating. The company was awarded the Governor General’s Export Award. You may think this was a success story, but it wasn’t. Prior to my joining the company, all the pricing models used incorporated the export tax credits into the selling prices. This set an expectation in the market place as to the fair market prices for the products, which proved virtually impossible to change. When the export tax credit scheme was abandoned under “Rogernomics”, the business was no longer viable, and we had to set about winding it up and selling off various components. We had to make hundreds of people redundant. The irony was, that as the journalist from the Governor General’s office was sitting in one part of our offices writing up the apparent success story, I was sitting with fellow executives at the other end of the corridor working out how to wind the business up!”*¹⁵

At a strategic level, export incentives may undermine New Zealand’s reputation and bargaining position in the World Trade Organisation as a supporter and practiser of trade liberalisation.

The only sustainable way to improve export performance is to create and sell goods and services that are competitive, offer value for money, and meet client needs. Tax credits and incentives can distract firms from the pursuit of these objectives.

Government can, and should, play a role in supporting firms to increase the value of their exports. But tax incentives are not the way.

¹² New Market Increased Exports Taxation Incentive, Export Development Grants, Export Performance Taxation Incentive, Export Programme Grants, Export Market Development Taxation Incentive, Export Manufacturing Incentive Allowance, Export Suspensory Loans, Duty and Sales Tax Drawback or Remission, and the Export Production Assistance Scheme.

¹³ New Zealand Institute of Chartered Accountants, NZICA Submission to the Business Tax Review (Wellington: NZICA, 2006), p.12

¹⁴ John Shewan, “Tax Base Measures” in Ted Sieper, Rob McLeod and John Shewan, The 2006 Tax Conference – A Critique of the Business Tax Review (Wellington: NZICA, 2006), p.31

¹⁵ Ibid.

2. Skills for Global Trading

The core skills exporters require are similar to those in other areas of business. People need to be able to identify opportunities, manage risks, work well with others and communicate effectively.

Building on this are further skills and a depth of knowledge that aids successful entry to foreign markets. Chief among them are fluency in foreign languages and knowledge of foreign cultures.

New Zealanders are famous for being avid travellers and in the year to July 2006 they made 1.87 million trips overseas. But this does not necessarily mean they are well connected to other countries and cultures.

Compared to many other OECD countries New Zealand is a relatively monolingual society. At the 2006 Census, 80.5% of New Zealanders spoke only one language.

LEARNING THE LINGO: FLUENCY IN FOREIGN LANGUAGES IS INCREASINGLY REGARDED AS A SOURCE OF NATIONAL COMPETITIVE ADVANTAGE. INDEED, AS THE US COMMITTEE FOR ECONOMIC DEVELOPMENT ARGUES: “KNOWLEDGE OF FOREIGN LANGUAGES AND CULTURES IS AN ECONOMIC NECESSITY.”¹⁶

The absence of land borders and the fact we speak English means many New Zealanders do not feel the need to learn a foreign language. But this is shortsighted.

Although English is the *lingua franca* of international businesses today, there is no guarantee it will remain that way, particularly in the regions in which New Zealand increasingly sells its products.

New Zealand’s education system has sharpened its focus on foreign languages in recent years.

Over the 1990s, a number of curriculum statements and resources were developed to help schools teach a wide range of languages – some of which had barely featured in schools in the past, such as Korean.

The number of schools offering foreign languages and the number of students taking them has also grown markedly in recent years.

Yet in many respects we still lag other nations. In virtually all countries of the European Union, foreign languages are compulsory from primary education onwards. In some countries this begins in the first year of school.¹⁷

Although foreign languages are now more predominant in this country’s education system, the match between what people are learning and the languages of our major trading partners is not strong.

¹⁶ Committee for Economic Development, Education for Global Leadership: The Importance of International Studies and Foreign Language Education for US Economic and National Security (Washington DC: Committee for Economic Development, 2006), p.6

¹⁷ Eurydice, Key Data on Teaching Languages at School in Europe (Brussels: Eurydice, 2005), p.9

TABLE 4.

NEW ZEALAND'S TOP TEN EXPORT MARKETS BY VALUE OF TRADE, JUNE 2006		
Market	Value of exports (\$m)	Share of total exports
Australia	6,806	21.0%
United States of America	4,354	13.4%
Japan	3,304	10.2%
People's Republic of China	1,740	5.4%
United Kingdom	1,555	4.7%
Republic of Korea	1,116	3.6%
Germany	830	2.6%
Taiwan	800	2.5%
Belgium	585	1.8%
Canada	545	1.7%
Hong Kong	544	1.7%
Indonesia	543	1.7%

Source: Statistics New Zealand

TABLE 5.

MOST POPULAR LANGUAGES LEARNED AT NEW ZEALAND SECONDARY AND COMPOSITE SCHOOLS AS AT JULY 1, 2006		
Language	No. of students	No. of schools offering language
English	249,884	485
French	27,614	267
Te Reo Maori	22,941	370
Japanese	18,489	230
English as a second language	12,330	245
Spanish	8,100	141
German	6,686	111
English (remedial)	4,590	112
Communication skills	3,410	56
Latin	2,302	41

Source: Ministry of Education

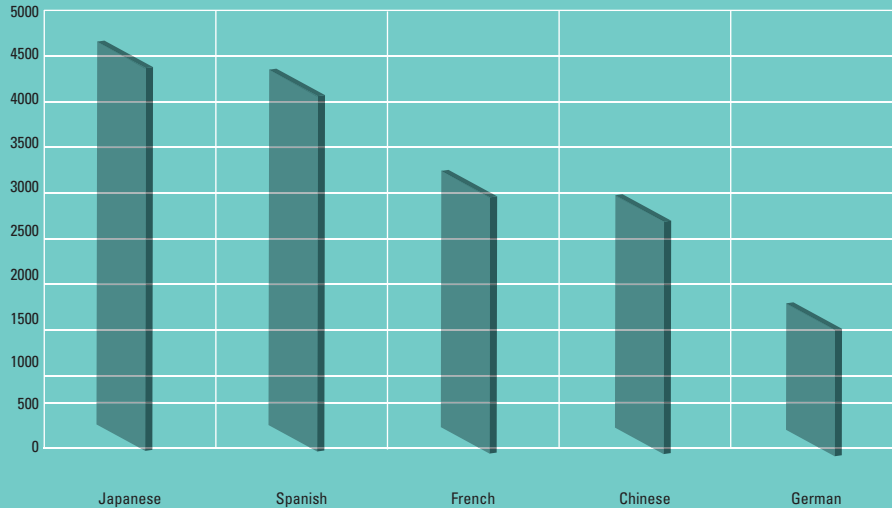
Chinese-speaking markets (Taiwan, China and Hong Kong) purchase almost 10% of our exports, yet only 1,728 students were learning Chinese in school in 2006. Uptake of Chinese language improves slightly at tertiary level, although many of these enrolments are in introductory or beginners' courses.

*"Nearly 70 per cent of respondents stated there are major barriers to New Zealand companies exporting to China. Over half of these (54 per cent) perceived language as a problem."*¹⁸

¹⁸ DHL press release, Kiwi exporters cautious about doing business with China (12 December 2006)

FIG 7.

MOST POPULAR FOREIGN LANGUAGES LEARNED AT TERTIARY INSTITUTIONS, 2005



Source: Ministry of Education

And while Korea and Indonesia together buy more than 5% of New Zealand’s exports, only 141 school students were learning Korean and 30 were learning Bahasa Indonesian. Furthermore, the options for continuing these languages at tertiary level are limited. Partly as a result, more people studied Italian or Latin in tertiary institutions than Korean or Indonesian.

Some might say Europe’s geography and diversity give it a natural advantage over New Zealand in language acquisition. Certainly it is easier to gain skills in French or German when there are significant French- or German-speaking populations just across the border.

But you do not build and retain a competitive edge by doing what is easiest. To become a genuine and successful member of an East Asian Community or Free Trade Area of the Asia Pacific (as is envisaged by the East Asia Summit and APEC), we must be able to understand, engage and communicate with the peoples of Asia. Learning their languages is arguably the most important step.

19 Robert R. Rosen, Patricia Digh, Marshall Singer, and Carl Phillips, *Global Literacies: Lessons on Business Leadership and National Cultures* (New York, NY: Simon & Schuster, 2000), p. 171.

“ALL BUSINESS IS GLOBAL, YET ALL MARKETS ARE LOCAL. THIS GLOBALISED MULTICULTURAL WORLD NEEDS LEADERS WITH A KEEN UNDERSTANDING OF NATIONAL CULTURES.”¹⁹



New Zealand's education system needs to be more outward looking. We need explicit foreign language and internationalisation policies for our school and tertiary sectors.

Progress is being made, with the inclusion of foreign languages as a core learning area in the new draft New Zealand Curriculum. But there's more to do.

New Zealand could:

- **Ensure all school students achieve high levels of English language literacy.** Research shows the ability to pick up foreign languages is closely linked to strong first language skills.
- **Ensure all school curricula raise student awareness and knowledge of other countries.** This applies particularly to countries with which New Zealand has significant trading relationships. The social science strand of the curriculum is an obvious starting point.
- **Adopt an explicit goal in the next Tertiary Education Strategy to increase the internationalisation of the New Zealand tertiary system.** Internationalisation needs to be more substantive and transformational than simply increasing the numbers of foreign students in New Zealand institutions. Approaches could include:
 - Building foreign language and cultural courses into business programmes.
 - Promoting student exchange programmes and stronger relationships with tertiary institutions in Asia, Europe and Latin America.
 - Strengthening the effectiveness of foreign language courses by increasing opportunities for students to learn languages in-country.
- **Make a strategic decision to build up and maintain capacity within the New Zealand education (and particularly tertiary) system about key foreign cultures and languages.** Promote student learning in these areas. A solely student-based funding system has not supported the creation of such centres of expertise.
- **Business needs to play a stronger role in promoting skills for global trading.**

Students are less likely to develop foreign language and cultural skills if there are no relevant employment opportunities upon graduation.

There are also good opportunities for businesses to partner with schools and tertiary institutions to incorporate work and export-related content and experience into learning programmes. By getting involved now, businesses can help develop the employees, employers and exporters of tomorrow.

Some New Zealand businesses are already creating potential employees or networks by partnering with overseas tertiary institutions. Many international business schools require their students to spend a period of time in a firm before they can complete their degrees.

In some cases, foreign governments offer their students generous assistance to undertake these business placements offshore. By offering internships to students from their key markets, New Zealand businesses can:

- Get market-specific projects carried out at low costs;
- Obtain a better understanding of the clients and culture in important markets;
- Provide opportunities to showcase New Zealand to possible future clients or employees; and
- Build valuable alliances for the future.

Businesses can also foster understanding of foreign markets and cultures through recruitment and staff development strategies and by commissioning research.

Finally, firms need to look at their core business competencies.

Leadership and management deficiencies have long been identified as a barrier to the growth of New Zealand firms.

And successful exporting – which requires high levels of adaptability, courage, commitment, vision, planning and relationship skills – is particularly reliant on effective leadership.

If New Zealand is to be truly competitive internationally, firms will need to ensure they have the talent necessary to enter and succeed in foreign markets.

“The success factors for engaging in Asian markets are similar to the success factors for engaging in most other international markets. Maintenance of relationships and understanding of different business cultures, however, seem to be even more important in most Asian markets.”²⁰

3. Ongoing commitment to bilateral and multilateral trade liberalisation

Successful exporting requires the ability to enter and compete in foreign markets on fair and predictable terms. Yet the bulk of New Zealand’s exports (agricultural products) still face a wide range of unfair and anti-competitive barriers offshore.

For example, the Ministry of Foreign Affairs and Trade (MFAT) notes: “Average agriculture tariffs are over three times higher than for non-agricultural products, some reaching 1,000 percent or more.”²¹

Effective multilateral trade rules overseen by the World Trade Organisation are key to our future prosperity. New Zealand should continue to support efforts to reduce and remove distortionary subsidies, tariffs, quotas and other barriers to trade.

We must also work with likeminded nations to keep up the pressure for comprehensive, high-quality multilateral trade deals encompassing agriculture, investment and trade in services.

Yet most of the action on the trade liberalisation front in recent years has been through regional and bilateral (i.e. country-to-country) trade agreements.

Although New Zealand has pursued and completed a number of these agreements since 2000, there is little room for complacency.

Two of our major competitors – Australia and Chile – have concluded free trade agreements (FTA) with the United States, yet New Zealand’s prospects for an equivalent FTA in the medium-term look slight.

Australia is also aggressively pursuing free trade agreements and studies with Korea and Japan – both major markets for New Zealand.

As noted in a 2002 NZIER assessment of a US-Australian FTA, there is a risk this comparative disadvantage will undermine New Zealand’s attractiveness as an investment location.²²

New Zealand can’t afford to be sidelined.

We need a clear commitment to policies that will allow the completion of an FTA with the US. We need a strategic focus on gaining quality trade agreements with our major trading partners, particularly in the Asia-Pacific.

There is also potential to maximise economic gains from these FTAs by bringing together NZTE and relevant industry groups to identify new market potential and opportunities before, or as soon as, the FTAs are complete.

We must ensure New Zealand does not lose ground to competitors in key markets and that all opportunities to improve our market access are fully exploited.

Business and Government both have a role to play in protecting and improving access to foreign markets.

Exporters, for example, can ensure that MFAT and NZTE are promptly made aware of any trade barriers encountered offshore. This will allow ministers and diplomats to push for removal of these barriers, and trade advisers to warn and prepare other New Zealand firms before they enter that market.

Finally, New Zealand must resist the ‘new protectionism’, typified by novelties such as ‘food miles’ and the recent move by some British supermarkets to label products shipped by air.

While this ‘new protectionism’ adopts the façade of environmentalism, it is often little more than an attempt by local industries to undermine the market position of foreign competitors.

²⁰ Nicholas Clark and Associates, Success in Asia: How New Zealand Enterprises Succeed in Asian Markets (Wellington: Asia New Zealand Foundation, 2005), p.16

²¹ <http://www.mfat.govt.nz/Trade-and-Economic-Relations/NZ-and-the-WTO/Market-Access/0-agriculturenegs.php> (accessed 11 January 2007)

²² New Zealand Institute of Economic Research, A US-Australia Free Trade Agreement: a qualitative assessment of the business impacts on New Zealand (Wellington: NZIER/Ministry of Foreign Affairs and Trade, 2002)

A focus on the effects of air transport, ‘food miles’ and other similar concepts can divert a firm and its customers from considering the total and real impacts their activities have on the environment.

And as Lincoln University researchers have demonstrated, the real measure of environmental impact is not how far a good has travelled but the amount of energy consumed and emissions created in producing that good. On these measures, New Zealand is a world leader:

“NZ products compare favourably with lower energy and emissions per tonne of product delivered to the UK compared to other UK sources. In the case of dairy NZ is at least twice as efficient; and for sheep meat four times as efficient.”²³

There is a clear and growing need for government and industry to publicly refute the fallacies of new protectionism at a policy level and through communications efforts in international markets.

Unless successfully challenged, food miles and the new protectionism have potential to harm not only the New Zealand economy but also the interests of consumers worldwide and the environment.

THE BENEFITS TO NEW ZEALAND OF TRADE LIBERALISATION

Trade liberalisation has already delivered real and substantial benefits for New Zealand by increasing sales, income, employment and purchasing power.

An assessment by the Ministry of Agriculture and Forestry (MAF) and Ministry of Foreign Affairs and Trade (MFAT) found that between 1995 and 2004, New Zealand earned an additional \$9 billion as a result of the Uruguay Round of multilateral trade negotiations (which led to the establishment of the World Trade Organisation and a number of other major trade reforms).

These earnings were made up of reduced tariff costs (\$3.1b) and greater market access (\$6.1b).

Trade liberalisation creates jobs too. The MFAT/MAF analysis estimated the Uruguay Round resulted in a

“final employment contribution of ...an extra 17,600 persons annually employed throughout the economy.”²⁴

Opening up New Zealand’s economy to foreign trade during the 1980s and 1990s increased the purchasing power of New Zealand consumers.

A 1999 MFAT/NZIER assessment of the impacts of import liberalisation found prices of core consumer goods were lower as a result of reduced tariffs and import quotas:

“In 1998 the average consumer gains \$7.30 each week or is about 4 per cent better off as a result of the tariff cuts on cars, household appliances, shoes and clothes. The gains for the average New Zealand household are even greater at about \$22 per week or \$1,140 per year.”²⁵

²³ Caroline Saunders, Andrew Barber, Greg Taylor, Food Miles – Comparative Energy/Emissions Performance of New Zealand’s Agriculture Industry (Lincoln: Agribusiness and Economics Research Unit, 2006), p.v

²⁴ Ministry of Agriculture and Forestry and Ministry of Foreign Affairs and Trade, An Assessment of the Gains to New Zealand from the Uruguay Round of Trade Negotiations (Wellington: MAF/MFAT, 2006), p.23

²⁵ New Zealand Institute of Economic Research, Consumer Benefits from Import Liberalisation: A New Zealand Case Study (Wellington: NZIER/Ministry of Foreign Affairs and Trade, 1999), p.vii

4. Strengthened and expanded offshore assistance

As in other areas of business, successful exporting requires understanding your client base and knowing the right people. New Zealand's size and isolation can make this challenging.

Building relationships offshore and gaining an understanding of foreign cultures can be time-consuming and expensive and few New Zealand companies have the resources available to create these links and capacity. However, the government has resources to build an offshore presence for New Zealand businesses.

Its main agency for promoting economic development via trade, New Zealand Trade and Enterprise, has offices in a number of countries and provides a range of training and information services for New Zealand firms looking to export. Businesses value the assistance they receive from NZTE's offshore posts and are calling for an expansion and strengthening of their presence.

However, a large proportion of the government's recent investment in NZTE has gone into domestic regional partnerships and economic development strategies instead. These programmes divert resources and energy away from NZTE's international and export-oriented services.

To improve our export performance and overall economic growth we need to focus our limited resources on building and expanding the capacity that makes a practical difference to exporters.

A key step would be to expand and deepen NZTE's offshore networks and exporter assistance programmes.

For example, NZTE's Beachhead programme, which provides a focused package of offshore assistance and services (such as expert mentors) to accelerate market entry and international business growth, should be extended.

Another area in which New Zealand firms struggle is in identifying which key service providers (e.g. lawyers, insurers, banks, brokers, etc) in their offshore markets are trustworthy or have a proven record of delivery.

There is scope for NZTE to expand its current role as a 'trusted advisor' for New Zealand firms seeking to tap local expertise.

Reallocating resources within NZTE away from onshore regional economic development strategies could fund the expansion of these international programmes and activities.

Of course, providing intelligence and assistance to New Zealand firms wishing to enter foreign markets is not solely the responsibility of NZTE. One of the best sources of advice and experience is other New Zealand firms who have successfully entered a market.

Firms often believe that sharing experience or information with other enterprises will reduce their competitive advantages. It is certainly true that successful information exchanges need to be based on trust and mutual respect but collaboration and intelligence-sharing between firms can also lead to new business opportunities and a range of other benefits such as access to other areas of expertise.

There are a number of ways in which exporters can assist other New Zealand firms to go global and build useful business relationships. One option would be to join existing NZTE networks of advisors and mentors. Alternatively, New Zealand exporters can establish or join industry or regionally specific networks.

CASE STUDY: WHEN CAMPBELL GOWER BOUGHT THREE-WHEELED BUGGY MAKER PHIL&TEDS IN 1998, IT WAS OPERATING FROM A WELLINGTON GARAGE, EARNING ABOUT \$250,000 A YEAR.

Now that figure's reaching \$30 million thanks to a strong export strategy which sees 95 per cent of its buggies and nursery products – such as travel cots, car seats and high chairs – sold offshore.

But it's smart product design and innovation that's keeping them ahead in world markets. The "inline double" buggy design seating two children one-in-front-of-the-other, rather than side-by-side, is a world exclusive.

This drive to innovate was recognised with the company being named the New Zealand Creative and Design Exporter of the Year for 2006.

Gower's export strategy has seen sequential entry to new markets at time when consumers there have moved past the "early adopter" stage for three-wheeled buggies and there is at least one competitor already present in the market.

"While this strategy may mean we lose some early sales in those markets, we are entering at a time when we know it's closer to a 'tipping point' of sales, avoiding the risk of incurring high upfront marketing and advertising expense in a market that may be too early in its acceptance of the three-wheeled buggy concept," says Gower.

Online shopping is used to "seed" product in new markets and get mothers seeing and talking about the buggies before they are available.

An enterprise development grant from NZTE helped during the company's initial export drive by funding marketing initiatives and lending support in areas more difficult to manage alone such as trade shows.

Now, as a testament to the strength of its brand, phil&teds has signed a deal with Mothercare International to be the first brand stocked throughout the nursery product giant's 300 worldwide stores.

Export success has also extended to a new category with the launch of 'mokopuna merino' – pure New Zealand merino clothing for newborn to 2 year olds – two years ago. Currently sold in the UK and Australia, the company is looking to expand the clothing to the US and Europe.

Gower maintains exporting is not as elusive as it seems.

"Risk taking and confidence are enormously important in exporting. You've just got to give it a go; you can learn as you go. If we can do it, anyone can."





WHAT MAKES SUCCESSFUL INTERNATIONAL TRADERS?

IN 2005 THE ASIA NEW ZEALAND FOUNDATION SURVEYED 35 NEW ZEALAND FIRMS THAT WERE ACTIVE IN ASIAN MARKETS TO DISCOVER THE STRATEGIES AND FACTORS BEHIND THEIR SUCCESS.

THE REPORT REACHED A NUMBER OF UNSURPRISING – BUT USEFUL – CONCLUSIONS.

“What enterprises say you need to be successful:

- An internationally competitive product with good marketing (brand), good packaging and a competitive price.
- Solid business experience and management skills.
- An appropriate business model that can change as business changes.
- A continuous presence in the Asian market – regular contact is essential.
- Good relationships – this means always being responsive and reliable. An understanding of the culture in the market you are in is also essential.
- The ability to innovate and modify the product/service as the market dictates.
- Maintain a .com website (not a .co.nz).

What support is useful:

- General programmes for management development and technical management.
- Government assistance in getting leads and understanding offshore markets.
- Industry support networks.

What enterprises say is not useful:

- Export incentives.

More export advice from those who have done it:

- Do your market research.
- Get professional advice.
- Buy local expertise.
- Understand local regulations and legislation.
- Learn about the business culture.
- Have courage – and always look forwards.²⁶”

26 Nicholas Clark and Associates, Success in Asia: How New Zealand Enterprises Succeed in Asian Markets – Executive Summary (Wellington: Asia New Zealand Foundation, 2005), p.1

A PLAN OF ACTION TO IMPROVE NEW ZEALAND'S EXPORT PERFORMANCE

1. A STRENGTHENED COMMITMENT TO INTERNATIONAL COMPETITIVENESS

Government

- Repeal the industry-specific powers and controls added to Part 4 of the Commerce Act since 2000.
- Streamline the Resource Management Act to reduce delays and actively seek public-private partnerships, particularly in infrastructure.
- Cut and keep personal and company tax rates at internationally competitive levels.
- Limit government spending to 30% of GDP or below.
- Do not introduce tax incentives for exporting.
- Review all regulations independently to ensure they are achieving the original objective and are still required.
- Introduce sunset clauses into new regulations where possible and appropriate.
- Ensure all proposals for regulations are subject to robust cost-benefit analysis.
- Adopt a Regulatory Responsibility Act requiring adherence to a set of principles to promote discipline in regulation making.

2. SKILLS FOR GLOBAL TRADING

Government

- Ensure all school students achieve high levels of English language literacy.
- Ensure all school curricula raise student awareness of other countries – particularly those with whom New Zealand enjoys significant trading relationships.
- Adopt an explicit goal in the next Tertiary Education Strategy to increase the internationalisation of the New Zealand tertiary system.
- Make a strategic decision to build up and maintain capacity within the education system for key foreign cultures and languages and promote student learning in these areas.

Business

- Provide export-related employment opportunities for graduates with foreign language and cultural skills.
- Partner with schools and tertiary institutions, to build work- and export-related content and opportunities into learning programmes.
- Build internal understanding of international markets and cultures through internship, recruitment and staff development strategies, and commissioned research.
- Build leadership and management capability.

3. CONTINUED COMMITMENT TO BILATERAL AND MULTILATERAL TRADE LIBERALISATION

Government

- Commit to policies that will allow the completion of an FTA with the United States.

Government and Business

- Develop strategies to achieve quality trade agreements with our major trading partners (especially in the Asia-Pacific region) and to maximise the gains from those agreements upon their completion (e.g. by preparing New Zealand firms in advance).
- Remain vigilant that New Zealand does not lose ground to competitors in key markets and ensure all opportunities to improve our market access are taken and fully exploited.
- Challenge the fallacies of ‘food miles’ and the other forms of ‘new protectionism’ at both a policy level and through communications with consumers in international markets.

Business

- Ensure that Government agencies are promptly made aware of any barriers to trade encountered in offshore markets.

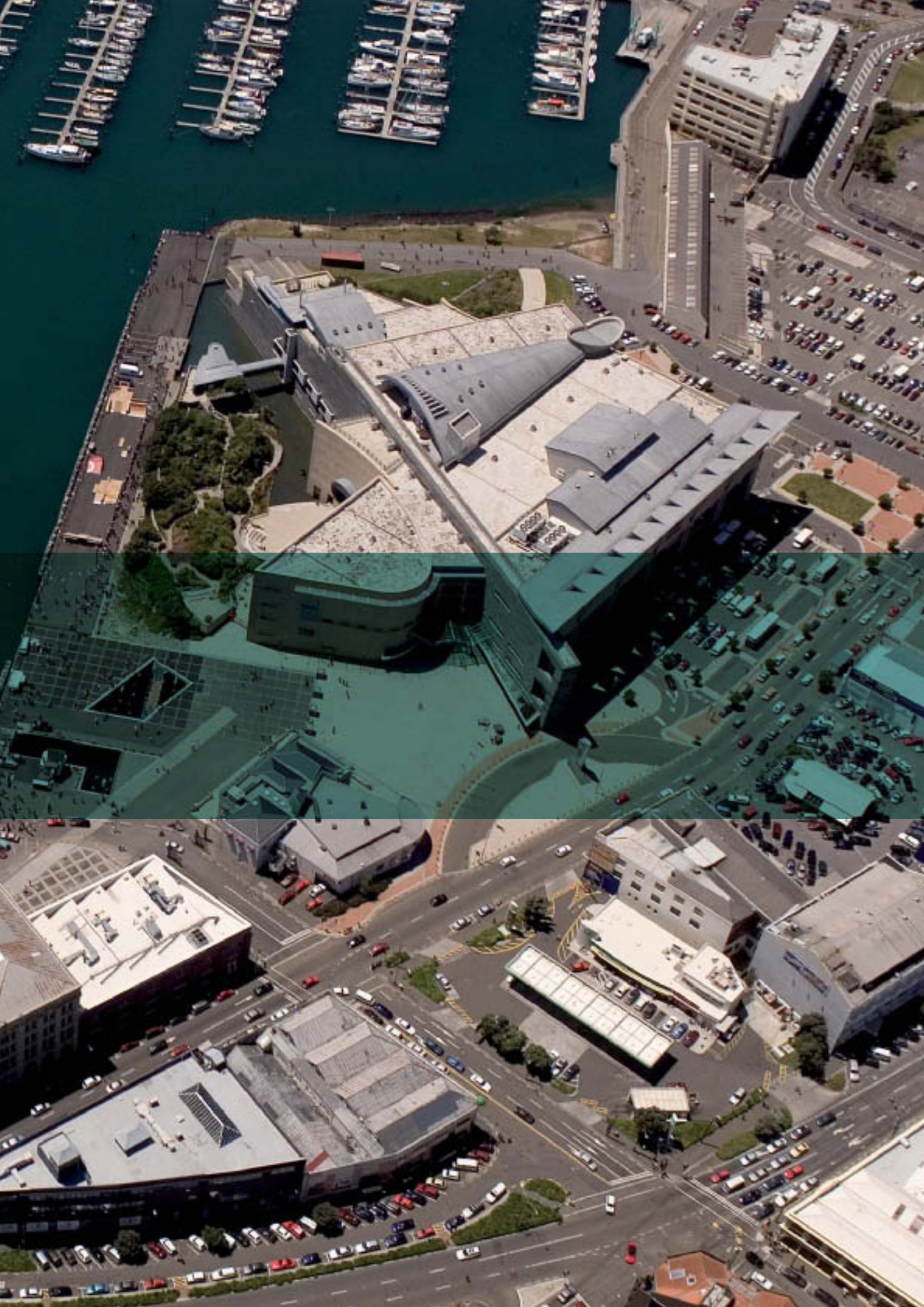
4. STRENGTHENED AND EXPANDED OFFSHORE ASSISTANCE

Government

- Reallocate resources within NZTE from ‘regional development’ to export and offshore market assistance programmes.
- Expand and deepen NZTE’s offshore networks.
- Increase access to NZTE export market assistance.

Business

- Successful exporters join and support NZTE networks of mentors and trusted advisors.
- Establish or strengthen industry networks for sharing export experience and advice and raising export-readiness among New Zealand firms.



Export Perspectives is the sixth in a series of *Perspectives* publications by Business NZ aimed at providing research and recommendations on current business issues.

For more information on exports and other business issues, visit www.businessnz.org.nz



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