Inquiry into the Implications of New Zealand's Participation in Asia Pacific Economic Cooperation (APEC)

Submission from the
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1. Introduction

1.1. This submission is in response to the Committee's request for comment on the APEC process.

1.2. While APEC covers a number of policy areas, this submission focuses on foreign investment. This is not intended to minimise the importance of other areas including trade, tariffs, the environment, labour rights, education, both human and economic development, and the undemocratic nature of APEC's processes. Rather it is intended to be complementary to submissions by other organisations including the APEC Monitoring Group, CORSO, GATT Watchdog, and the Trade Union Federation, all of whose general approach we strongly support.

1.3. We focus on foreign investment because it is our area of specialist concern and expertise.

1.4. Foreign investment has rapidly increased its presence in New Zealand's economy since the economic reforms started in 1984. Its influence has been economic and political. Government policy has been to encourage it by dismantling any restrictions, except where land is concerned (though remaining restrictions are largely unenforced). Claims are frequently made by government and business spokespeople for its beneficial effects.

1.5. The essence of our submission is that those claims are based on anecdote and theory, not on an examination of the actual experience of New Zealand and the APEC region. When those experiences are examined, current deregulatory policies towards foreign investment are seen to be highly dangerous and indeed damaging to New Zealand's economic development and the welfare of its people. If foreign investment is to be part of a development strategy we must carefully control what we accept, and how it behaves if accepted.

1.6. APEC's investment principles are strongly deregulatory, and reminiscent of the Multilateral Agreement on Investment. They have learned nothing from the economic crisis in Asia which has caused significant rethinking about foreign investment even by supporters of otherwise open markets.

1.7. To directly address the objectives of the Seoul declaration which form the Foreign Affairs, Defence and Trade Committee's terms of reference for this inquiry, the evidence we present leads to the conclusion that

- The current economic crisis, particularly the form it has taken in South East Asia, shows that uncontrolled foreign investment is a danger to the growth and development of the region, let alone the common good of its people;
- the crisis also dramatically illustrates that encouraging the mobility of capital leads to disasters;
- if the multilateral trade (and investment) system is to be strengthened in the interests of the region's peoples, it should be to increase controls on capital rather than to deregulate it;
- the uncritical acceptance of reduction of barriers to trade and investment needs urgent reconsideration – and indeed is receiving such consideration in other parts of the world.

1.8. We therefore conclude that unless the principles of APEC are radically changed it presents a danger to smaller and weaker economies in its region and submit that New Zealand should withdraw from it.

2. CAFCA

2.1. The Campaign Against Foreign Control of Aotearoa (CAFCA) has been in existence for almost twenty-five years. Its aims are obvious from its name, and it concerns itself with all aspects of New Zealand's sovereignty, whether political, economic, military or cultural. It opposes foreign

control of New Zealand by other States or by corporations, but welcomes interaction with people of other countries on the basis of equality. It is anti-racist and internationalist in outlook and has wide networks with other groups and individuals in New Zealand and overseas.

2.2. Its members include a number of institutions and libraries, journalists, politicians from most political parties, public figures, trade unionists, environmentalists, and other researchers in the area. Members receive a magazine, *Foreign Control Watchdog*, on an approximately quarterly basis. It is acknowledged as a unique and well-researched source in this area, where hard information is difficult to come by. CAFCA also researches, publishes, and organises public meetings and other events.

2.3. Since December 1989, CAFCA has been receiving monthly information from the Overseas Investment Commission (OIC) on its decisions. We analyse this information, and supply our analysis on subscription and on request to mainstream news media and other interested parties, and it is published regularly in *Watchdog*. We are therefore aware of most significant direct investments into the country.

2.4. A chapter by a CAFCA committee member in the recently published book, "Foreign Investment: the New Zealand Experience", edited by Waikato University Professor Peter Enderwick, (Dunmore Press, 1997) was described as "the most thorough analysis of New Zealand's international investment position currently available". Information presented there will be referred to in this submission.

3. APEC's investment principles

3.1. APEC's "Non-Binding Investment Principles" were agreed at Jakarta, in November 1994. They are listed in Appendix 1 of this submission.

3.2. In the context of APECs over-arching agenda of trade and investment liberalisation (TILF) these principles can only be seen as a precursor to the Multilateral Agreement on Investment, being negotiated in the OECD, with strikingly similar provisions and similar dangers.

3.3. The MAI has attracted vociferous opposition from over one thousand non-governmental organisations world wide. In particular it has been strongly opposed by local government, including Local Government New Zealand, the Invercargill, Dunedin and Christchurch City Councils, and community boards in the Waikato. In Canada and the U.S.A., municipal authorities of some of the largest cities have resolved to oppose it. The Toronto City Council and the San Francisco Board of Supervisors have stated their opposition for example.

3.4. There is no doubt then that APEC will provide yet another international lobby for foreign investment in the region. This will be especially so under the agenda being advocated by the New Zealand government for 1999, which is to focus on the "basics" of trade and investment liberalisation rather than directly meeting human needs.

4. The crisis in East Asia and foreign investment

4.1. Foreign investment the immediate cause

1. The immediate cause of the crisis in South East Asia was the huge reliance on foreign investment by the worst affected countries, documented for example by Filipino academic, Walden Bello, who over a period of years has pointed out these structural problems and their likely consequences. Escalating current account deficits triggered the crisis[1].
2. In Indonesia, private foreign debt (US$55.5 billion) was at 25% of GDP in 1997, two-thirds of which was due within a year, and a current account deficit which had risen from US$2.9 billion in 1994 to US$7.2 billion (about 3% of GDP) in 1995.
3. In the Philippines, the current account deficit was estimated to be around 7% of GNP in 1996, having doubled in three years. Its private foreign debt was about 13% of GNP in 1996, and total foreign debt about 40% of GNP.

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[1] The following data where not otherwise stated comes from "Addicted to Capital: the ten year high and present day withdrawal trauma of Southeast Asia's economies", by Walden Bello, in *Focus on Trade*, Number 20, November 1997, and Asian Development Bank data.

4. In Thailand, where the house of cards began its fall, foreign debt was US$90.5 billion (49.9% of GDP) in 1996, 81% of which was private debt and 42% of which was short-term debt (equivalent to eight months of exports). The current account deficit was mounting (7.9% of GDP) after falls in exports in 1996 due to investment going into property rather than export industries[2].

5. In Malaysia, foreign debt was 39.4% of GDP in 1996, of which 26.0% was short term. The current account deficit had fallen to 4.9% of GDP from a high of 10.0% in 1995[3].

6. In all these countries, high interest rates were encouraging overseas borrowing and investment in non-productive sectors such as property. All based their development strategies on IMF and World Bank recommendations to welcome foreign investment and allow the free flow of capital and investment income. These strategies are virtually indistinguishable from APEC's investment principles.

7. Similarly, all were steadily dismantling any protection of their domestic economies under IMF pressure and APEC-backed WTO liberalisation programs.

4.2. Similarity to New Zealand's economic position

1. New Zealand's debt and current account deficit are both well above the levels that led to crisis and collapse in Southeast Asia. Rates of interest are amongst the highest in the OECD, and insufficient investment is going into exports or into import substitution.

2. The current account deficit in the year to March 1998 was $7.07 billion, or 7.2% of GDP. Overseas debt is at yet another record – just a shade short of $100 billion, or 100.5% of GDP. If New Zealand completely stopped all imports of goods and services for three and half years, it would still not be paid off (see Appendix 2 for details and source).

3. The fragility of the situation is indicated by the fact that of the March 1998 overseas debt, 41% was due in the next 12 months, yet it would take 18 months of exports to repay.

4. Of the 1998 debt, 80% was private, 20% owed by Government.

5. Both the deficit and the debt compare very unfavourably with the IMF definition of "Heavily Indebted Poor Countries" (the most desperate of the developing countries). This definition includes low income countries with "present value of debt to exports higher than 220 percent or present value of debt to GNP higher than 80 percent"[4]. New Zealand's position is worse on both these criteria.

6. In addition, New Zealand's international liabilities are steadily worsening, as indicated by the international investment position. The stock of inward foreign direct investment has doubled as a percentage of GDP since 1991 and in March 1997 stood at 53.4% of GDP or $50,775 million[5].

7. This is exceptionally high by world standards. In 1995 (when it was 46.7% in New Zealand), the highest ratios for developed countries were Australia (30.8%), Belgium and Luxembourg (23.0%) Canada (21.7%), Ireland (20.2%), the Netherlands (28.4%), the U.K. (28.5%). Most

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[2] IMF Article IV Consultation with Thailand, concluded 10 June 1998.

[3] IMF Article IV Consultation with Malaysia, concluded 20 April 1998.

[4] See for example the IMF's Web site, http://www.imf.org/external/pubs/ft/pam/pam51/annex.htm. The IMF uses the measure "net present value" of a country's debt, rather than its face value to try to take account of the concessionary interest rates (and hence lower cost of debt service) that developing countries may have for some of their debt. It is not possible to calculate the net present value of New Zealand's overseas debt without detailed knowledge of the terms of the loans involved, but since almost all of New Zealand's debt will be at market rates, its net present value in the IMF's terms should not differ greatly from face value. The IMF also uses GNP rather than GDP. GNP is GDP less the part of the country's income that goes to overseas residents, net of equivalent income from abroad. In other words, while GDP is the total output of the country, GNP is the part that remains in the country and directly benefits New Zealanders. In New Zealand's case, GNP is therefore significantly lower than GDP, and debt ratios are even worse: e.g. the current account deficit was 7.8% of GNP in 1998.

[5] Statistics New Zealand: New Zealand's International Investment Position.

were less than 20% and many less than 10%.[6] The position is even worse when it is considered that many of these countries had high outward investment to compensate.

8. The ratios were higher among a minority of developing countries, but with a few exceptions they do not make comforting company and are dominated by tax havens: examples include Liberia (113.9%), Seychelles (65.1%), Swaziland (80.4%), Dominica (78.5%), Grenada (62.8%) and other small Caribbean nations. The only significant developing economies with comparable ratios are Malaysia (52.1%), Pakistan (62.7%), and Singapore (67.4%).

9. This dependence on foreign investment is a direct cause of the current account deficit. It is in a vicious circle. Not only does the deficit lead to more overseas borrowing (or equity investment) and indebtedness, but that investment and indebtedness is the principal cause of the deficit. New Zealand is running a falling surplus on its trade in goods, an increasing deficit on its provision and purchase of services, and a healthy surplus – which fell substantially in the last year – on "transfers" (mainly financial transfers by migrants and government). But there is a rapidly growing deficit on foreign investment income which dominates all the other components (see the tables in Appendix 2 to this submission).

10. As in Thailand, too much investment is going into the property sector as many commentators have pointed out. For example analyst Brian Gaynor[7] has documented how investment is not going into the export sector: "New Zealand's exports grew by only 78% in the 1984-1997 period compared with 160% for Australia and 137% for the OECD average. Ireland, which has had little economic reform and no major asset sales, had export volume growth of 260% over the same period. ... The export sector has not been able to attract its fair share of the investment dollar." Thus our exports are not growing fast enough to pay for the runaway increase in payments to foreign investors. Neither are our import-competing industries able to compete sufficiently to reduce the demand for imports.

11. Our financial sector probably does not have the high bad debt levels of South East Asia, though this could change rapidly if property prices fall significantly, as has been predicted by some. It is also probably more transparently run and free from corruption. Those are, however, dominated by the other fundamentals – whether New Zealand can repay its debts and service its liabilities.

12. It would appear that the current position is sustained only by psychological factors – international financial dealers' confidence that government policies will continue to return them internationally competitive rates of profit at relatively low risk – not the state of the economy's fundamentals. It is difficult to overstate the danger inherent in this situation, both to the economy and to New Zealand's democracy.

4.3. Lessons being drawn

1. The events demonstrate dramatically the dangers inherent in reliance on foreign investment as a development strategy. It has led to rethinking of policy on foreign investment, and statements pointing out the problems it presents by prominent economists and political figures, including noted advocates of open economies and unregulated markets.

2. For example, Jagdish Bhagwati, one of the foremost authorities on trade, advocate of free trade, one of the architects of the GATT Uruguay Round, and adviser to the Director-General of the GATT from 1991-1993, has written of "The Capital Myth: The Difference between Trade in Widgets and Dollars"[8]. Focusing on short-term, highly mobile, portfolio investment, he draws a sharp distinction between the theories favouring free trade and "the fog of implausible assertions that surrounds the case for free capital mobility."

3. Then why, he asks, has the world been moving in this direction? "The answer, as always, reflects ideology and interests – that is, lobbies. … Wall Street's financial firms have obvious self-interest in a world of free capital mobility since it only enlarges the arena in which to make money."

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6 World Investment Report 1997, United Nations, Annex Table B.6, p.339ff.

7 *New Zealand Herald*, "Roundtable wedded to rigidity", 13 March 98, p.E2.

8 *Foreign Affairs*, May/June 1998.

4. He concludes: “And despite the evidence of the inherent risks of free capital flows, the Wall Street-Treasury complex is currently proceeding on the self-serving assumption that the ideal world is indeed one of free capital flows, with the IMF and its bailouts at the apex in a role that guarantees its survival and enhances its status. But the weight of evidence and the force of logic point in the opposite direction, towards restraint on capital flows. It is time to shift the burden of proof from those who oppose to those who favour liberated capital.”

5. Dani Rodrik of Harvard University has raised similar questions. In a paper[9] which examined evidence relating economic success to unrestricted capital flows, he found “no evidence that countries without capital controls have grown faster, invested more, or experienced lower inflation. Capital controls are essentially uncorrelated with long-term economic performance...” In relation to the South East Asian crisis he concluded that it was much safer to control capital flows. “We can imagine cases where the judicious application of capital controls could have prevented a crisis or greatly reduced its magnitude. Thailand and Indonesia would have been far better off restricting borrowing from abroad instead of encouraging it. Korea might just have avoided a run on its reserves if controls on short-term borrowing had kept its short-term exposure to foreign banks, say, at 30 percent, rather than 70 percent of its liabilities. On the other hand, which of the recent blowups in international financial markets could the absence of capital controls conceivably have prevented? If the recent evidence teaches us anything, it is that there is a compelling case for maintaining controls or taxes on short-term borrowing. The three countries hardest hit by the Asian financial crisis—Indonesia, Thailand, and Korea—were the three in the region with the largest short-term obligations (in relation to reserves or exports).”

6. Joseph Stiglitz, chief economist at the World Bank, has come to similar conclusions[10].

7. The objection may be raised that these comments refer to short-term capital flows, such as debt and portfolio investment, rather than foreign direct investment (where control is acquired) which tends to be long term. However the re-evaluation of capital mobility is important even for foreign direct investment for a number of reasons.

8. Firstly, the APEC principles, as with the proposed MAI and proposed changes to the IMF charter regarding capital convertibility, apply equally to all capital flows, whether short term or direct investment. Even if all foreign direct investment is regarded as “safe” (which we dispute below), the proposed actions to free it will also free these dangerous short-term movements.

9. Secondly, it is not easy in practice to draw a distinction between short term flows on the one hand, and direct investment and the remittance of the profits from those investments, on the other.

10. Thirdly, much of logic applied to the benefits (or rather lack of benefits) of short-term capital flows, also apply to foreign direct investment. The point is that foreign investment of any sort carries risks – to the economy, to the community, and to democracy. These studies exemplify in a dramatic way that a free market cannot be relied on to maximise the benefits of foreign investment to New Zealand. We must be selective of what we accept, and have controls to ensure New Zealanders see the promised benefits.

11. Perhaps most importantly in the present context, these re-evaluations indicate the dangers in cementing in through international agreements any economic policy as fundamentally important and as controversial as investment. It is bestowing the status of eternal truth on the liberalising policies APEC (and other agreements) advocate. Yet all economic policies must continually be revised in the light of real world experience.

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[9] “Who needs capital-account convertibility?”, February 1998, available at http://www.stern.nyu.edu/-~nroubini/asia/AsiaHomepage.html.

[10] For example, “More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus”, WIDER Annual Lectures 2, 1998; “Boats, planes and capital flows”, *Financial Times,* 25 March 98.

5. Evidence regarding benefits of foreign investment in New Zealand

5.1. Benefits claimed

1. The list of benefits usually claimed for foreign investment is generally as follows. It should be emphasised that these are generally asserted from a purely theoretical basis. That theory may be economic theory, ideology, or generalisation of what may have occurred in other parts of the world. Our approach is to examine these claims in the light of New Zealand's experience.

   - employment
   - increased efficiency and contributing to international competitiveness
   - access to technology
   - new management skills
   - use of capital
   - wider pool of assets and experience
   - access to markets

5.2. Employment

1. A variety of government representatives, both political and official, have made the claim that "one third of working New Zealanders rely on jobs created directly or indirectly by foreign investment"[11]. This figure is now widely quoted, and misquoted as "foreign investment provides a third of all jobs". It is an estimate with minimal foundation in fact. The source is never given, so it is not easily verified, but our investigations trace it to the now defunct Foreign Direct Investment Advisory Group, whose secretariat informed us that it "probably" came from the executive summary of the United Nations' "World Investment Report 1994: Transnational Corporations, Employment and the Workplace". If that is so, it is a global estimate that has doubtful applicability to New Zealand.

2. Statistics New Zealand data showed only 17.6% of the labour force was employed in overseas companies in February 1995, the latest figures likely to be available when the "one-third" claim was concocted[12]. It had barely changed to 17.5% in February 1997. The "one third" claim presumably relies on doubling the 1995 figure to count those employed "indirectly" by foreign companies: for example employees of suppliers to those companies. The same logic can be applied in reverse. Many of the foreign firms rely on local operations for their existence: foreign companies, such as P & O, cleaning publicly owned hospitals are one example.

3. It is just as true that over 90% of working New Zealanders rely on jobs created directly or indirectly by local investment.

4. The United Nations study mentioned above (pp 192-195) shows that the indirect employment generated by foreign investment varies greatly. Figures like the ones Foreign Direct Investment Advisory Group quotes (one job indirectly reliant on every one directly created – a ratio of 1:1) are more likely for manufacturing where extensive use is made of local materials. In the recently destroyed motor vehicle assembly industry, the ratio of jobs created directly to jobs created in associated industries may have been as high as 1:3. However according to the United Nations report, most assemblers of products (such as in the Mexican maquiladoras, and many operations in New Zealand) had much smaller benefits to indirect employment. Much recent foreign direct investment in New Zealand has been in service industries or property where indirect employment is of quite a different nature, if it exists at all.

5. An example which is important because it involves the major site of "greenfields" foreign investment in New Zealand – forestry – is contained in a study of Japanese foreign investment in that industry. It found that "the resource-based investment, plus the export-focused manufacturing of the Japanese investors, somewhat limits the development of linkages within the New Zea-

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[11] For example, the MFAT presentation in support of the MAI; and address by Lockwood Smith, Minister Of Forestry, to the New Zealand Forestry Owners Association Annual General Meeting: "The MAI: Securing New Jobs", Waipuna Hotel, Auckland, 12 November 1997.

[12] Employee numbers (full and part time) from Business Activity Statistics, "Enterprises and Full-time Equivalent Persons Engaged by Degree of Overseas Equity and Industrial Classification", as a percentage of the Labour Force (see for example, the New Zealand Official Yearbook 1998, pp.305-306).

land economy”. Direct linkages (which might lead to the creation of indirect employment) were described as “minimal”[13].

6. Most jobs in overseas companies were not “created” by the foreign investor. Most recent foreign investment has been takeover rather than creation of assets and jobs. For example the Foreign Direct Investment Advisory Group estimated that the sale of privatised state assets “accounted for approximately 42% of total inbound investment to New Zealand over the decade [1986 to 1996]”[14]. Among published Overseas Investment Commission decisions in 1995, just half (50%) of the investments appeared to be greenfield activity, but these were worth only a quarter (24%) of the value, the great majority being in forestry. The remaining 76% by value were take-overs or restructuring of the ownership of existing investment[15].

7. Moreover, many of those working directly for overseas companies are not likely to lose their jobs if the foreign investor withdrew. For example, the withdrawal of the original overseas owners of Telecom has not in itself had any effect on jobs. There is still a need for a telephone system. The employees do not “rely” on foreign investment for their jobs: they rely on the existence of the industry.

8. On the other hand, many examples could be given of jobs being destroyed after a New Zealand company was taken over by a foreign investor: Telecom, Tranzrail, the major banks, and Maine Investments (Goldman Sachs) are just a sample.

9. This trend is given credence by comparing the increase in foreign investment with the employment statistics quoted above. While foreign direct investment stock more than doubled between March 1992 and March 1997 from $22,743 million to $50,775 million (an increase of 123%), employment in overseas companies increased by only 43% from 183,021 to 262,110 full-time equivalent jobs. Or put another way, while foreign direct investment stock as a proportion of GDP rose from 31.5% to 53.4%, the employment it directly provided as a proportion of the workforce rose only from 15.1% to 17.5%[16].

10. It is therefore truer to say that foreign direct investment is a net destroyer of jobs than that it is a job creator. Again this is reinforced by the estimate that though in 1995 “around 50% of all operating surpluses (profits before interest and tax) made in New Zealand were made by overseas companies” they only provided 17.6% of the direct employment[17].

11. Thus to say one third of workers “rely” on jobs “created” by foreign investment is extremely elastic with the truth.

12. The rejoinder to the reality that foreign direct investment destroys jobs is that it increases efficiency and competitiveness. We discuss this below. That does not undermine the fact that provision of employment is a very weak justification for encouraging uncontrolled foreign investment.

5.3. Increased efficiency and contributing to international competitiveness

1. If it were true that foreign direct investment brought increased efficiency to New Zealand, then the enormously increased role it now plays in the economy should have brought a noticeable increase in productivity to the economy as a whole. Yet a number of observers have noted, to their surprise, the very weak growth in labour productivity.

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13 “Japanese Foreign Investment in the New Zealand Forestry Industry”, by Elizabeth Jaray, in “Foreign Investment: the New Zealand Experience”, edited by Peter Enderwick, Dunmore Press, 1997, p.109.

14 “Inbound Investment: Facts and Figures”, Foreign Direct Investment Advisory Group, August 1997, p.6.

15 “Foreign Investment in New Zealand: the Current Position”, by Bill Rosenberg, in “Foreign Investment: the New Zealand Experience”, edited by Peter Enderwick, Dunmore Press, 1997, p.59.

16 The data for the stock of foreign direct investment comes from New Zealand’s International Investment position; the employment data is from Business Activity Statistics and labour force data for the two years.

17 Rosenberg, op. cit., p.48.

2. In the economy as a whole, the rate of growth of labour productivity has fallen over the period since 1989, at a time of large increases in foreign direct investment[18].

3. The Reserve Bank Governor in a recent speech noted that "labour productivity averaged 1.9 per cent per annum between 1985 and 1995, virtually indistinguishable from the 1.8 per cent achieved between 1978 and 1985, while total factor productivity actually fell from 1.2 per cent per annum in the earlier period to 0.9 per cent per annum in the later period"[19].

4. Dr Brash noted his puzzlement: "In terms of productivity per person, however, the results are perplexing. This is, after all, where one would expect to see the dividend from all the reforms of the last 14 years. Yet the statistics on aggregate productivity do not show the dramatic improvement which one would have expected. Indeed, in recent years growth in labour productivity has been less than the 1 per cent per annum which is the US norm, and well below the rates of productivity growth prevalent, at least until recently, in the fast-growing economies of East Asia."

5. We have already noted New Zealand's unexceptional export performance, indicating its lack of international competitiveness. One reason for this may have been the failure to increase productivity as rapidly as competitors. We are not saying that foreign investment has necessarily caused this position – simply that it has clearly not performed as its advocates claim. An analysis of *Management* magazine's 1995 Top 200 companies and Top 30 financial institutions adds weight to this. For the 210 companies in the Top 230 for which employee numbers were stated, turnover per employee was $392,000. For the overseas companies alone it was $383,000, and for the New Zealand companies alone, $413,000. Overseas companies were therefore 7% less productive per full-time employee than New Zealand companies. When broken down by major New Zealand Standard Industrial Classification (NZSIC), New Zealand companies were more productive for division 1 (Agriculture, Hunting, Forestry and Fishing), 3 (Manufacturing), 4 (Electricity Gas and Water) and 6 (Wholesale and Retail Trade and Restaurants and Hotels). The position was reversed for divisions 7 (Transport, Storage and Communication, although not for the majority subdivision 71, Transport and Storage), and 8 (Business and Financial Services). Divisions 2 (Mining and Quarrying), 5 (Construction) and 9 (Community, Social and Personal Services) were too poorly represented to make such comparisons useful[20].

6. But another, major, reason for the lack of competitiveness is indeed foreign investment. The exchange rate was greatly overvalued for an extended period by the huge influx of foreign investment attracted by high interest rates. We are now paying the price (in the current account deficit) for that influx.

5.4. Technology

1. There is no doubt that some foreign direct investment brings new technology to New Zealand. That is not sufficient reason to welcome the investment without further consideration however. Rather, it should be a criterion on which its acceptance depends. Some of this technology could be acquired simply by importing it for example, and by training suitable New Zealand employees or hiring them from overseas.

2. Telecom is frequently cited as an example of how foreign investment brings innovative technology to the country. Yet most of Telecom's new technology was installed before its privatisation. Since then it has slowed its rate of investment in favour of higher rates of dividend payments and share buy-backs, and has been widely criticised for being slow to introduce technologies commonly available overseas – let alone genuinely innovative ones[21].

3. It should also be borne in mind that New Zealand has been an exporter of innovative technological developments originating in the country, losing the long term commercial benefits to for-

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[18] See for example, "The New Zealand Macroeconomy: a briefing on the reforms", by Paul Dalziel and Ralph Lattimore, Oxford University Press, Auckland, 1996, p.69.

[19] D. Brash, "New Zealand's economic reforms: A model for change?", 3 June 1998, quoting Viv Hall, "New Zealand's Economic Growth: Fantastic, Feeble, or Further Progress Needed?", Victoria Economic Commentaries, March 1996.

[20] Rosenberg, op. cit., p.44.

[21] See for example "Tough Calls", by Gordon Campbell, *Listener*, 17 May 1997.

eign investors who have purchased companies or technologies. In some of these examples, the takeover led to important aspects of an innovative operation being moved overseas, arguably leading to loss of skills, and certainly intellectual property, from New Zealand. Some examples:

- Allflex, the world leader and innovator in developing plastic and electronic animal ear tags, was sold first to Goodman Fielder Wattie, Australia, then Societé Française D'Innovations Pour L'Élevage, France, then resold to Goldman Sachs U.S.A. With its overseas ownership, its manufacturing operation in New Zealand was closed down in favour of plants elsewhere in the world.
- Dynamic Controls Ltd, a leader in motorised wheelchair controls with 35% of the world market for the controllers in 1992, was taken over in 1993 by its main competitor, Invercare Corporation of Ohio, U.S.A.
- Network Dynamics (now Teltrend NZ), a spin-off company from the former Department of Scientific and Industrial Research, marketing and developing computer network routers it had developed, was taken over by Securicor 3net of the U.K. which moved its manufacturing operations and co-founder to Australia. Production engineering decisions are made in the U.K., but research and development remains in Christchurch. The founders said the company was of insufficient size to survive on its own.
- Trigon Industries Ltd, an innovator in plastic packaging with 730 employees internationally, was sold to the Sealed Air Corporation of the U.S.A. in 1994. Its founders and majority shareholders were to be employed as consultants for Trigon for the next five years.
- Unisys (U.S.A.), which bought out the Christchurch developers of the LINC software development system in the early 1980's and then contracted them to develop it further, in 1992 moved the development operation to Australia contributing to the loss of 96 jobs, including many skilled computer professionals[22].
- The U.S. owned Blue Star group bought a number of innovators including Auldhouse Computer Training, one of the leading computer training companies in New Zealand, in 1998, and PC Direct, the leading New Zealand computer manufacturer, in 1996.

4. In addition, overseas ownership can have a deadening effect on innovative research and development. A study in 1992 by Australian Professor Ron Johnston for the Ministry of Research, Science and Technology found that where transnationals do any research and development in New Zealand, it is largely just adaptation of existing products to local conditions. Among firms conducting research and development in New Zealand were "multinational firms operating in New Zealand to serve the domestic market, largely with industrial staples (petroleum products, chemicals, telecommunications equipment). Competitive strategy was largely determined by the parent firm. R&D was focused on the adaptation of overseas-developed technology to meet the local market or environ-mental conditions and to meet government regulations."[23] This is consistent with international experience: in 1992, only 12% of R&D expenditure by U.S. based transnationals was spent abroad[24].

5.5. Management skills

1. There is little other than anecdotal evidence on the contribution of management skills from overseas investors.
2. However, the prima facie evidence is not good. Given the productivity problems already noted, Dr Brash's view is that: "there are at least some people beginning to worry in New Zealand that our management skills have not been up to the demands of operating in a global environment." He thought "one might reasonably expect this problem to disappear, now that we have a very open, competitive, economy, with low inflation creating no artificial distortions. Our openness

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22 The examples above are updated from Rosenberg, op cit, pp. 39-40.

23 "Technology Strategy in New Zealand Industry" by Professor Ron Johnston, Centre for Technology and Social Change, Illawarra Technology Corporation, University of Wollongong, Australia. Ministry of Research, Science and Technology, Report No. 12, November 1991, p.4.

24 "World Investment Report 1995: Transnational Corporations and Competitiveness", United Nations, New York and Geneva, 1995, p.151.

to foreign investment and immigration can also be expected to help in this regard, and it is already true that the senior executives of some of our most dynamic organisations, in both the public and private sectors, are non-New Zealanders." Given that the openness has been in place for a decade and a half, that "expectation" seems more a pious hope. It would be safer to conclude that foreign investment has not provided a solution.

3. A noted management disaster was Maine Investments, a leveraged buyout backed by Goldman Sachs of the U.S.A. It led to the failure of a number of members of the group – formerly (as the Skellerup Group in 1995) the 25th largest company in New Zealand. Though locally managed, Goldman Sachs as the 84% owner cannot avoid responsibility for the loss of jobs and capital.

4. Another example is provided by the banks. Consumer Institute surveys have consistently show the New Zealand owned banks attracting top rankings from customers. Similarly, the Tower Financial Services group, one of the few remaining major New Zealand owned groups in that sector, was voted fund manager of the year for the third consecutive time in 1998[25].

5. The management of the parents of a number of prominent companies in New Zealand have extensive records of convictions for corruption, price fixing and serious breaches of environmental and other statutes and regulations. Waste Management for example has had over US$170 million in fines ordered against it since 1980, with one judge citing fraud and dishonesty as part of the company's operating culture. It has had expansion plans blocked in the U.S. state of Indiana under its "Good Character" law.[26]

5.6. Use of capital

1. New Zealanders are in fact good savers by OECD standards, as surveys by Westpac and FPG Research have shown. However a large part of household savings goes into housing – more than many other countries. The problem is therefore not so much lack of capital from household savings, but directing it into appropriate investment.

2. However on a national basis, the major leakage of savings of companies – always a large part of savings – to overseas owners is a significant problem. On average, 70% of income from foreign direct investment was remitted abroad and not reinvested in New Zealand between 1989 and 1997. However that has varied considerably over the period. For example, between 1989 and 1991, 41% more was paid out to foreign investors than was earned – a divestment rather than reinvestment. In 1997, after several years of significant (47%) reinvestment, a further divestment of 1.3% occurred[27]. Telecom, for example, has paid out between 70% and 95% of its annual profits as dividends since privatisation.

3. In other words, much of our capital requirement is due to the cost of servicing existing foreign capital.

4. Foreign direct investment may not always be the most beneficial way to attract foreign capital when it is required. Borrowing may leave more control with New Zealand.

5.7. Wider pool of assets and experience

1. Again, there is no doubt that some foreign direct investment brings wider experience to New Zealand. Some clearly does not (at least, not in acceptable or useful ways): the purchase of the Lilybank Station in the South Island high country by Suharto's son is one example; another, the Goldman Sachs role in the Skellerup Group's demise, has already been referred to. Again, rather than accepting wider experience as fact, it should be one criterion on which acceptance of the investment depends. Some of this experience can be acquired with more certainty and probably at lower cost by hiring staff from overseas or use of consultancies.

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25 "Tower on top", *Press*, 25 June 1998, p.19.

26 "WMX Payout to Developers is Ordered", by Jeff Bailey, *Wall Street Journal*, 16 December 1996; Environment Background Information Center, http://www.envirolink.org/orgs/ebic/company/wmx; and judgement transcripts.

27 Statistics New Zealand - Direct Investment Income.

5.8. Access to markets

1. Once again, this should be one of the criteria for acceptance, rather than taken as universal truth.

2. The continuing, and worsening, balance of payments problems, and the evidence above regarding export performance, indicate that the large increase in foreign investment has not been significantly beneficial in finding new export markets; or at least that any advances in exports have been offset by increased imports. In fact, since the service industries have been the dominant area of recent foreign direct investment, there is relatively little potential for increased export markets.

3. Forestry is a major exception to this trend, but many of the foreign operators are vertically integrated, providing possible new markets but with the risk of being tied to those markets. If the company goes, the markets go with it, and it has little incentive to diversify its markets.

4. Market access through foreign direct investment can be a two-edged sword if it means being tied to markets. The history of British owned meat companies tying our markets to the U.K. before it entered the European Union, and the reliance on a relatively small number of markets for log exports, are two examples.

5. We have seen other examples of foreign investors buying their New Zealand suppliers of raw materials including wasabi (Tominaga Boeki Kaisha Ltd and Marui K.K. of Japan), flowers (Mitsui Group), vineyards (various), cherries (All Nippon Airways of Japan), vegetables (Grocorp, owned 49% by Sanyo General Capital Company of Japan), forestry and tourism. New markets are not necessarily the result: it is more likely the suppliers become tied to the vertical supply chain.

6. Further, a transnational company with operations in many parts of the world may have no interest in seeing a New Zealand subsidiary compete with its other subsidiaries by exporting into their markets.

6. Evidence of disadvantages of foreign investment in New Zealand

6.1. Disadvantages

1. A partial list of disadvantages often cited is:

   - Reducing sovereignty and policy options
   - Export of profits and burden on current account
   - Dominance

6.2. Reducing sovereignty and policy options

1. It is claimed that there is no danger to New Zealand's sovereignty from transnational companies because they are subject to New Zealand law. While that is technically true, it ignores the reality of their ability to influence government policy.

2. This can be through relentless persuasion via their ability to hire lobbyists, favourable researchers, public relations and advertising experts, and other advocates, to influence public opinion and those in power. An example is the ongoing campaign waged by the pharmaceutical companies against Pharmac and restrictions on availability of certain drugs.

3. An example of the type of research produced in this cause is the widely quoted 1995 KPMG survey on foreign investment in New Zealand. Its report gave little clue as to the methodology used. It is of doubtful validity. For example, it was based on a survey of 700 New Zealand registered companies with more than 25% foreign ownership, of which only 130 companies (19%) replied and an additional 59 companies were partially included (it is not made clear in which results) using public information. No analysis was given as to whether the 700, the 130 or the 59 formed a representative sample, and in fact it appears that they did not: the distribution of the companies and employees across industrial sectors was quite different from the authoritative Statistics New Zealand survey of all economically significant enterprises. Neither has the questionnaire or methodology been published. It appears to have asked loaded questions of a limited sample of business people.

4. Even this unsatisfactory report has been misquoted. The Ministry of Foreign Affairs and Trade, for example, in its defence of the MAI, claimed that only 10% of profits were remitted overseas.

But the survey stated that 10% of *value added* was remitted. Value added includes such major items as wages and depreciation. It also includes interest, which very likely will go overseas (it almost certainly goes to an overseas company, given the overwhelming overseas ownership of our finance sector, and may well go to the parent company). Depreciation and the profit retained in the business may well be spent overseas, perhaps with a parent company. The KPMG survey did not analyse these other items. The usual measure of retention of profits is the proportion of net profits that are unremitted. KPMG's data indicate that only 37% of net profits were retained in the companies surveyed, and 47% retained in New Zealand. This compares with Statistics New Zealand's data on international investment income which for the period 1989-95 showed average retention in New Zealand of 40%.

5. Representatives of transnational companies are used as close advisers to government on policies which directly affect their interests. An example is the disbanded government-funded Foreign Direct Investment Advisory Group whose membership consisted largely of prominent executives of transnationals represented in New Zealand. Its objectives included to "act as a source of advice and information on international investment issues to the Government and general public" reporting directly to the Prime Minister, Deputy Prime Minister and Minister of Finance. Its publications and press statements were one-sided advocacy of foreign investment.

6. The companies' enormous financial strength allows them to intimidate all but the most determined opposition when matters are taken to the courts (such as the case of mining in the Coromandel where huge Environment Court costs penalised opponents).

7. But most distinctive and decisive are their ability to rally support from foreign governments, and to threaten withdrawal of capital and jobs.

8. The use of foreign governments has been documented by CAFCA in the case of Comalco's negotiations over its power price with the Muldoon Government, when political leaders in the U.K., U.S., Japan and Australia were called on for support. It has been seen in recent months over the issues of parallel importing and government policy on pharmaceuticals, where U.S. officials have effectively threatened action on other trade relationships.

9. The threat of capital flight is a very real one for short-term investment. It puts an extraordinarily high price on government policies which are not favoured by those investors. Those policies are frequently ones favourable to ordinary New Zealanders – such as ones which increase government spending or increase wages and salaries at the expense of corporate profits.

10. An example of large scale capital movement for speculative purposes, which indicates the power available to such operators, was given by a U.S. currency trader for Bankers Trust, Andrew Krieger. He claimed that in late 1987 he "played" several hundred million – possibly as much as a billion – New Zealand dollars against New Zealand's currency, leading to a crash by 10% of the value of the New Zealand dollar[28].

11. Some pretend this is a virtue out of necessity. The former chairman of the Foreign Direct Investment Advisory Group and Chief Executive of Bankers Trust New Zealand, Gavin Walker, put it like this: "The indirect effects of any significant action to limit foreign investment would go further. If we were to backtrack, there would be a loss of confidence in the country's direction, an increased country risk premium (meaning higher interest rates), and a fall in the value of the New Zealand sharemarket. Investors – foreign and domestic – would conclude if New Zealand was foolish enough to take such a step, worse would inevitably follow… A liberal policy on foreign investment has much to commend it, both for traditional reasons and for the greater constraints it places on government today to follow sound policies."[29] Dr Brash has made similar statements[30]

12. Yet that line of argument can only be attractive to those who support policies which Bhagwati described as favouring "Wall Street's financial firms" and their like. Unless it is thought there

[28] "The Money Bazaar - inside the Trillion-dollar world of Currency Trading", Andrew J. Krieger with Edward Claflin, Times Books N.Y., 1992, p.93ff.

[29] *Evening Post*, "Foreigners can't take our land away", 31 July 95.

[30] For example, "New Zealand and International Financial Markets: have we lost control of our own destiny?", speech by D. Brash, 29 June 1998 to the 31st Foreign policy School, University of Otago, Dunedin.

will never again be any policy alternatives and that current policies are an eternal truth, there clearly is in practice a severe restraint on sovereignty and policy.

6.3. Export of profits and burden on current account

1. As has been documented above, the remittance of profits overseas is causing considerable problems to New Zealand's economy. It is the major cause of the continuing balance of payments problems, which are currently at a crisis level and expose the country to considerable risk.

2. A significant portion of New Zealand's growth since 1984 has accrued to overseas investors. Approximately a quarter of New Zealand's real growth per capita during that period increased income to overseas investors (net of the relatively small income from New Zealand investments overseas). In other words, while the economy grew 16% per New Zealand resident from 1984 to 1998, only 12% growth benefited New Zealanders, the remainder went to overseas investors. Between 1990 and 1998 the trend intensified: of the 9% real growth per capita, only 5% stayed with New Zealand residents.

3. The usual rejoinder is that export of profits does not matter: the beneficial effects to the rest of the economy outweigh those problems. We have shown in section 5 above that those benefits are theoretical rather than real.

6.4. Dominance

1. Overseas companies dominate many sectors of the New Zealand economy. To that extent the New Zealand is highly reliant on them, increasing their influence in both commercial and political arenas.

2. For example, of the *Management* Top 200, in 1995, 118 were overseas companies, and were larger on average than the New Zealand ones. They dominated all the industrial sectors other than primary production, research, and transport and tourism, taking 60% to 100% of the top places. Most of the remaining companies were majority owned by central government, local government, or cooperatives. A number have since become overseas owned[31].

3. Some examples:

   - In biscuits, Arnotts (U.S.A.) and Griffins (France) hold 90% of the market.
   - Flour production is dominated by two overseas companies: Goodman Fielder and Allied Foods who together are estimated to have up to 85% of New Zealand flour milling sales and are the top two bread bakers.
   - In brewing, DB (Singapore/Netherlands) and Lion Nathan (Japan) hold over 90% of the market .
   - Circulation of daily newspapers is dominated by Independent Newspapers Ltd (News Ltd, Australia/U.S.A.) and Wilson and Horton (Ireland) which in 1998 together owned 81.0% of daily press circulation of newspapers with under 25,000 circulation (the main provincial newspapers), and 92.4% of the metropolitan readership (those newspapers with more than 25,000 circulation)[32].
   - Petroleum supply (including about 20% of petrol stations selling 80% of all petrol) is owned all but 3 to 4% by BP, Caltex (Socal/Texaco), Mobil, and Shell, who control the only petroleum refinery. A report by the Institute of Economic Research for the Ministry of Commerce, released in February 1997, concluded that the oil companies had gained from increasing petrol price margins since de-regulation of the industry in 1988, which "suggest at least tacit collusion".
   - Domestic airlines are dominated by Ansett (Australia/U.S.A.), and Air New Zealand (Australia, Singapore/Malaysia/diverse).
   - Rail transport is fully overseas owned (U.S.A.).
   - New motor vehicle supply is entirely overseas owned (Ford, General Motors, Toyota, Mazda, Honda, etc).

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[31] This and the following two paragraphs are updated from Rosenberg, op cit, p.45 ff.

[32] "Newspapers - Daily, non-daily, Weekly, Community", Summary of Audited Circulations, New Zealand Audit Bureau of Circulations, period ended 31 March 1998.

- New computer hardware and software supply is largely overseas owned; the main national retailers are Brimaur and Renaissance (Singapore), Computerland (Singapore), Software Spectrum (formerly Essentially: U.S.A.), Noel Leemings (U.K.), PC Direct (U.S.A.), and Southmark (Japan/U.K.).
- Telecommunications, where Telecom (U.S.A.) has a monopoly over domestic telephone connections, and approximately 80% of the tolls market , and whose main competitors in other areas are all overseas companies: Clear (U.S.A./U.K.), BellSouth (U.S.A./Singapore), Telstra (Australia), Ericsson (Sweden), and Blue Star (U.S.A.).
- Blue Star also dominates the office supplies and equipment market to the extent that it has attracted Commerce Commission monitoring . Its main competition is U.S. owned Corporate Express Australia, and the Office Products Depot group, an owner-operated chain of shops with a "strategic alliance" with two Australian chains, Office Products Promotions Co-operative and Office Network.
- There is only one significant New Zealand owned pharmaceutical manufacturer.

4. All major banks are now overseas owned, the much smaller Taranaki Savings Bank the only significant choice. *Management's* 1995 Top 30 financial institutions, 20 were overseas owned. Of the top ten insurance companies (ranked by assets), only one was a New Zealand company, a mutual: Tower Corporation, which is in the process of demutualising.

5. The sharemarket is also overseas dominated, approximately 60% of shares being held overseas. The takeover activity, largely overseas-led, of the last decade, has led to a significant reduction in the number of listed companies, making new investment opportunities relatively rare. This is one symptom of a crowding out of local investment.

7. Conclusions

1. The policies of freeing movement of capital and investment income are an integral part of APECs principles and its programme for new agreements. Intent to create agreements on foreign investment is implied by the Investment Principles, and is implicit in the current focus on infrastructure in APEC's forums, particularly its Business Advisory Council. These discussions are closely tied to privatisation policies and programmes.

2. The policies are justified in terms of uncritical views of foreign investment, frequently based on little more than theory, ideology and carefully chosen anecdote. Often the advocates have clear vested interests in such policies. That is why we have gone to some lengths in this submission to look at foreign investment in New Zealand on the basis of evidence rather than assertion.

3. We believe that uncontrolled foreign investment constitutes a danger to New Zealand's well-being, and that APEC's record and dominant philosophy is to strongly encourage this state of affairs.

4. While affirming our internationalist outlook and our active wish for closer cooperation and cultural ties between the peoples of the region, we submit that APEC is a creature of the past whose policies have been shown in recent years and months to be a dangerous failure. Unless the principles of APEC are radically changed, it presents a danger to smaller and weaker economies in its region and we submit that New Zealand should withdraw from it.

APPENDIX 1

APEC's Non-binding Investment Principles

Transparency
Member economies will make all laws, regulations, administrative guidelines and policies pertaining to investment in their economies publicly available in a prompt, transparent and readily accessible manner.

Non-discrimination between Source Economies
Member economies will extend to investors from any economy treatment in relation to the establishment, expansion and operation of their investments that is no less favourable than that accorded to investors from any other economy in like situations, without prejudice to relevant international obligations and principles.

National Treatment
With exceptions as provided for in domestic laws, regulations and policies, member economies will accord to foreign investors in relation to the establishment, expansion, operation and protection of their investments, treatment no less favourable than that accorded in like situations to domestic investors.

Investment Incentives
Member economies will not relax health, safety, and environmental regulations as an incentive to encourage foreign investment.

Performance Requirements
Member economies will minimise the use of performance requirements that distort or limit expansion of trade and investment.

Expropriation and Compensation
Member economies will not expropriate foreign investments or take measures that have a similar effect, except for a public purpose and on a non-discriminatory basis, in accordance with the laws of each economy and principles of international law and against the prompt payment of adequate and effective compensation.

Repatriation and Convertibility
Member economies will further liberalise towards the goal of the free and prompt transfer of funds related to foreign investment, such as profits, dividends, royalties, loan payments and liquidations, in freely convertible currency.

Settlement of Disputes
Member economies accept that disputes arising in connection with a foreign investment will be settled promptly through consultations and negotiations between the parties to the dispute or, failing this, through procedures for arbitration in accordance with members' international commitments or through other arbitration procedures acceptable to both parties.

Entry and Sojourn of Personnel
Member economies will permit the temporary entry and sojourn of key foreign technical and managerial personnel for the purpose of engaging in activities connected with foreign investment, subject to relevant laws and regulations.

Avoidance of Double Taxation
Member economies will endeavour to avoid double taxation related to foreign investment.

Investor Behaviour
Acceptance of foreign investment is facilitated when foreign investors abide by the host economy's laws, regulations, administrative guidelines and policies, just as domestic investors should.

Removal of Barriers to Capital Exports
Member economies accept that regulatory and institutional barriers to the outflow of investment will be minimised.

APPENDIX 2

Statistical data

New Zealand's Overseas Debt

Year to March	Overseas Debt $Million	GDP $Million	Exports of Goods and Services $Million	Ratio of Overseas Debt to : GDP %	Exports %
1994	72,545	80,793	25,044	89.8	289.7
1995	69,975	86,543	26,932	80.9	259.8
1996	75,425	91,207	27,217	82.7	277.1
1997	79,593	95,112	27,330	83.7	291.2
1998	98,998	98,478	28,027	100.5	353.2

Source: Statistics New Zealand. All data are from their June 1998 release on Overseas Debt except for GDP and 1998 Export data which come from Hot Off the Press, Balance of Payments: March 1998 Quarter.

Balance of Payments Major Components

Year ended	Balance (inward less outward payments, in $million) on						Ratio of Current a/c
March	Goods	Services	Inv Income	Transfers	Current a/c	GDP	to GDP
1994	3,136	-899	-4,521	1,470	**-814**	80,793	-1.0%
1995	2,092	-591	-5,955	1,811	**-2,644**	86,543	-3.1%
1996	865	-160	-5,999	2,462	**-2,832**	91,207	-3.1%
1997	892	-605	-7,112	2,306	**-4,520**	95,112	-4.8%
1998	**1,027**	**-1,141**	**-7,735**	**776**	**-7,073**	**98,478**	**-7.2%**

Source: Hot off the Press Balance of Payments: March 1998 Quarter, Statistics New Zealand.