



7 August 2007

Background FAQ

Government responds to manufacturing strategy

The importance of the manufacturing industry to New Zealand's economy is to be recognised with the establishment of a high level private-public sector advisory group to the government.

Questions and Answers: Response to Manufacturing + Report

What is the *Manufacturing + A Vision for World leading New Zealand* report?

The report was released on 21 November 2006 by the Manufacturing Vision Group, a group of industry leaders, manufacturers, unions, and government representatives, brought together in 2005 to develop a vision and strategy for New Zealand manufacturing. The report can be found on www.nzte.govt.nz

What is the government's response to the report?

The report included 16 specific recommendations to government. A private-public sector Manufacturing Advisory Group to government is being established and many of the other recommendations are being addressed by various existing and new government initiatives. A full list of the recommendations and the government's response to them is available in the cabinet paper on www.med.govt.nz

These initiatives include the current work on sustainable production; tax incentives for research and development work; skills and training investments, investments in infrastructure - especially in roads, rail and the energy sector; trade negotiations, and recent new initiatives for the food and beverage sector.

What is the Manufacturing Advisory Group?

Members will be from Business New Zealand, Unions, manufacturing firms and key government agencies (The Ministry of Economic Development, New Zealand Trade and Enterprise, The Department of Labour and the Tertiary Education Commission). It will be co-chaired by Phil O'Reilly, the Chief Executive of Business New Zealand, and Andrew Little of the Engineers, Printing and Manufacturing Union. It is proposed that the Manufacturing Advisory Group meet on a quarterly basis and their work will be regularly fed back to the minister and officials.

How is manufacturing placed in the New Zealand economy?

Manufacturing has been and will continue to be an important contributor to New Zealand's economic growth and is a major export earner and a major employer.

Manufacturing's contribution to GDP grew by 12 per cent between 2000 and 2006

From 2000 to 2006, the number of firms in manufacturing increased by 1428 firms (7 per cent). In 2006 alone 230 new manufacturing firms opened. Between 2000 and 2006 there was a net increase in employment in manufacturing, of 31,870 new manufacturing jobs (up 14 per cent).

Around 44 per cent of New Zealand's export receipts come from manufacturing.

What are some of the specific challenges and trends for the manufacturing sector?

- The modern manufacturing product cycle now includes functions from market research to distribution, branding and after-sales service, through to end-of-life disposal.
- The boundary between manufacturing and services is becoming increasingly blurred. The production of a product usually includes collaboration with designers, software specialists and marketing/brand experts. Manufacturing is increasingly becoming a highly diverse sector that evades easy generalisations – manufacturing is not simply a matter of creating ‘widgets’.
- New manufactured products are increasingly resulting in the generation of new services around them.
- Rapid growth and development is occurring across China, India and the former Eastern European block. The reduction of trade barriers and transport costs, better communications and increased capital flows is enabling low wage countries to compete more effectively and shift production away from industrialised countries like New Zealand.
- Customers are demanding environmental, social, and corporate responsibility, and sustainable business practices. New opportunities will be created for manufacturers to specialise in high quality products to satisfy the more sophisticated demand of global customers.
- Manufacturing trade is increasingly characterised by intra-industry trade with rapid advances in information, communications and technology (ICT), materials and biotechnology unleashing new waves of innovation.
- Difficulties recruiting and retaining skilled labour have the potential to be a major limitation on manufacturers globally.
- Currency fluctuations are driven largely by the state of the United States economy.

How can New Zealand manufacturers respond to these trends?

The industry – with government help - needs to find ways to become more responsive, flexible, and innovative – essentially, better and faster at managing change.

Evolving customer awareness and desires mean there is a growing need for manufacturers to consider demand-side factors to their business (eg, customer feedback, servicing) as distinct from just supply-side factors (eg product creation).

A key challenge for the sector is to continue to develop its responses to evolving global competition, while at the same time, evaluating which manufacturing processes are best anchored in New Zealand.

Many New Zealand manufacturers – Glidepath, Icebreaker, Bendon, Phil and Ted's Most Excellent Buggy Company to name a few - are beginning to concentrate activity into particular niches that offer a more attractive rate of return and, increasingly, don't need to be defined by their on-shore production capability. Onshore operations are being supplemented by production in other parts of the world.

Creating the right environment for manufacturing success – and strengthening firms so they can withstand currency fluctuations - is also being tackled through the economic transformation agenda and its range of programmes and policies. These address areas such as the need to lift productivity, to develop a skilled and flexible labour force, access to overseas innovation, efficient and flexible capital markets, and reliable critical infrastructure, such as energy, transport and telecommunications. There are also opportunities for us in the area of sustainable processes and products and this is one of the areas being explored at the moment.

This work is being carried out by a range of government departments and agencies including the Ministry of Economic Development, New Zealand Trade and Enterprise, the Foundation for Research Science and Technology, the Department of Labour and the Tertiary Education Commission.