Does New Zealand Depend on Dairy Exports?

Keith Rankin, 14 August 2013

The recent Fonterra "botulism" saga is increasingly looking like a major media over-reaction. There's no real evidence of a scandal; merely an identified risk that has been handled within the normal range of parameters of risk management. The recent problems show that Fonterra does have effective quality control systems.

The alarmist nature of the discussion raises concerns about how the wider public understands international trade. And it should make many people wonder what would happen in the event of a real trade emergency, in which someone overseas dies due to the malpractice of a New Zealand producer.

Neoclassical economics – otherwise known as 'economic theory' – tells us that trade is conducted for mutual benefit. Thus, New Zealand's dairy trade with China is mutually beneficial to both China and New Zealand. If the trade was substantially disrupted for reasons of politics or perception, the losers would be Chinese consumers as well as New Zealand producers.

The basic neoclassical assumption is that, while competition exists between buyers (as in an Auckland housing auction) and between sellers, the premise of resource scarcity means that competition between buyers should generally be more intense than competition between sellers. Yet, the public observe that competition by firms and countries to sell to scarce buyers is the most central feature of capitalism.

International trade is typically presented as a contest in which successful exporters (sellers) are the winners, and importing is tantamount to making concessions. Thus we see other countries, such as China and Russia, as forever looking for excuses to restrict imports.

This equating national economic success with an export surplus has a very long history, going back at least as far as ancient Rome. Two thousand years ago, Italians exported wine to Spain and Gaul because the Spaniards and Gauls were legally forbidden to produce wine.

Particularly egregious cases in the period of British hegemony include the banning of manufactures in the American colonies (the principal cause of the American rebellion in 1776), the destruction of the Indian textile industry (in the nineteenth century) through Britain's 'need' to export 'Manchester' goods to India, and the British export of Indian opium to China through Hong Kong.

To academic economists, however, even the entire loss of the Chinese dairy foods market should matter little to New Zealand, just as the substantial loss of the British market in the 1970s did not ultimately matter.

In an essentially political stoush, if Chinese consumers choose to source dairy commodities elsewhere as a result of perceptions that New Zealand products are unsafe, then New Zealand produce should simply flow to the alternative destinations where other countries' products would otherwise have gone. At worst, New Zealand would lose any price premium it may have gained in some markets. That's hardly 'make or break' for the New Zealand economy.

What if New Zealand dairy products were subject to the unlikely scenario of an extended boycott from the rest of the world? Firstly, the losers would include all non- New Zealand consumers of dairy products, having to pay more for these products.

Secondly, the New Zealand dairy industry would be in real trouble. But that's not the same as saying that the New Zealand economy would have suffered some kind of fatal blow. It's inconceivable that New Zealand could ever be subject to boycotts of all its products. Even Cuba has been able to export some products to the west, despite facing comprehensive American-led boycotts.

A fatal crisis to New Zealand's dairy industry would simply see the resources used by the dairy industry being used in other ways. The typically green land of New Zealand – not any particular bounty of that land – is its greatest economic asset. Less dairy simply means more of something else. That something else would be a mix of land-based production and more activity in the manufacturing and service sectors.

New Zealand is not dependent on the dairy sector. Rather, New Zealand earns slightly more income at present by being a specialist dairy economy than it would under some other scenario. Such specialisation makes sense. But, if ever such specialisation ceases to be viable, New Zealanders can do many other things to participate in world trade, to the benefit of the world's consumers.

Nevertheless, the popular view of international trade – the view that countries with persistent trade surpluses like China and Germany are winners – and that countries like the USA, UK and Spain with persistent trade deficits are losers does have some superficial merit.

In a capitalist world with endemic unemployment – something that neoclassical economists believe cannot happen – conventional assumptions simply do not hold. Scapegoats such as obstructionist governments are used to explain the perseverance of unemployment. Simple observation tells us that, even in the good times (though not in war times), unemployment persists. The competitive struggle to sell stuff and thereby make a living is the reality that defines our lives.

Under these conditions, we cannot assume that the departure from our brand of one set of customers (such as Chinese consumers) will automatically lead to the arrival of another set of customers.

Capitalism, in the real world (and regardless of the quality of government policies), may well be driven by the fear of not making a sale, rather than by buyers freely competing for scarce resources. The marketing industry is pervasive today because customers are scarcer than resources.

Keith Rankin teaches economics at Unitec Institute of Technology