Research Paper No. 18

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PREFACE

Foreign investment in New Zealand is a subject which gives rise to strongly held and often emotionally expressed opinions. It is a controversial subject, the economic aspects of which are frequently overshadowed by political and other non-economic considerations. It is thus the purpose of this Research Paper to endeavour to reduce some of the confusions which surround the topic by concentrating on an analysis of the economic advantages and disadvantages of foreign investment.

If these economic factors are viewed in a dispassionate manner, some of the related doubts and suspicions about overseas capital can be seen in a more reasonable overall perspective. Hopefully, economic policy could then be more successfully directed towards the real problem areas which are discussed in the Paper, rather than being concerned with issues which are not essentially relevant to the policy problem of maximizing the gains and minimizing the costs of foreign investment in this country.

These real problem areas are not unique to foreign investment as such; they are applicable to all acts of investment, whether they be of domestic or foreign origin. In particular, the Paper suggests that we should give more attention to pursuing satisfactory overall macroeconomic policies, especially with respect to balance of payments problems; industrialisation and protective policies; and policies affecting restrictive trade practices.

During 1974 various versions of this Paper were presented to a number of conferences including those organised by the New Zealand Institute of Public Administration in Hamilton, 14th-15th May 1974; the Foreign Policy School at the University of Otago in Dunedin, 17th-21st May 1974; and the New Zealand Institute of International Affairs in Auckland, 16th-18th August, 1974. If nothing else, the subject matter is clearly topical!

Finally, the usual caveat applies: the views expressed in this Paper are my own, and do not purport to represent those of the Bank.

R. S. DEANE.

AN ECONOMIC POLICY DILEMMA: THE CASE OF FOREIGN INVESTMENT IN NEW ZEALAND[1]

1. INTRODUCTION

Many New Zealanders tend to be schizophrenic in their attitude towards foreign investment: they wish to exploit the economic benefits of a capital inflow, but are concerned about the threat, real or imagined, to their political sovereignty and cultural distinctiveness. Accordingly, too often suspicions on a political level about anything which suggests "overseas control" or "foreign domination" tend to inhibit rational economic analysis of the benefits and costs of overseas investment. This situation poses a dilemma for the policymaker: to what extent should he forego economic gain to placate the community's desire for national political independence?

With these observations in mind, it is the purpose of this Paper to comment briefly on the overall scope and structure of foreign investment in New Zealand; to provide an economic analysis of the advantages and disadvantages of a capital inflow, concentrating only on the essential elements of such an analysis; to discuss some of the major problem areas from the point of view of economic policy; and to outline some of the areas of popular controversy which have been used to illustrate the threats to New Zealand's sovereignty. It will be suggested that discussion of many of these issues has at times been unhappily plagued by confused analysis, thus emphasising further the dilemma faced by Government in devising an acceptable policy with respect to non-resident investment.

2. POLICY ATTITUDES

According to the former Minister of Finance and present Prime Minister the Rt. Hon. W. E. Rowling, the present Labour Government believes that "the influence of overseas holdings in New Zealand industry demands careful supervision" and, furthermore, the Government has "quite a number of misgivings about the power of the multinational company if it is allowed to make its own rules".[2] It is doubts of this sort which have resulted in the present position where Government regulation of the capital inflow is now guaranteed by several points of official intervention:

(1) The Overseas Investment Act, 1973, which established an Overseas Investment Commission to consider all overseas investment proposals and where appropriate to make decisions on such proposals. In addition, the Commission is charged with responsibility for advising the Government on all matters relating to foreign investment in New Zealand.

(2) The Overseas Investment Regulations, 1974, which amended and consolidated the earlier Overseas Takeovers Regulations, 1964, and the Capital Issues (Overseas) Regulations, 1965. These Regulations empower Government to prohibit foreign takeovers of domestic enterprises, presumably where these are judged to be contrary to the public interest. The Regulations also state that Government permission is required before a non-resident firm can commence business in New Zealand, borrow abroad, or raise funds on the domestic capital market.

(3) Exchange control, through which remittances of profits and repatriation of capital are subject to official surveillance.

(4) Import licensing, which has the potential to enable Government to exert a not inconsiderable measure of persuasion over foreign companies through its control of imports subject to licensing restrictions.

Yet, despite this impressive battery of controls, the Government has often been relatively passive in its attitude towards overseas investment. This can be confirmed by reference to the most recent major policy pronouncement on the subject,[3] which reiterated in only slightly modified form many of the very generalised criteria which have been applicable for the past decade or so. It also contained several statements which offered some reassurance to existing foreign companies: "the Government fully appreciates the role which private overseas capital has played and can continue to play in this country . . . and . . . the present range and depth of our industry could not have been attained without the participation of overseas companies".

More recently, some hardening of attitudes has perhaps become apparent, as reflected in the proportion

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(1) The views expressed in this Paper are the author's own and do not purport to represent those of the Reserve Bank of New Zealand.

(2) *Evening Post,* 15th August, 1973.

(3) As made by the then Minister of Finance, Mr Rowling, on 12th January, 1973, the full text of which was published in the Reserve Bank of New Zealand *Bulletin,* July, 1973.

of overseas takeovers applications which have not been approved: in 1970, 2.7 percent; 1971, 5.0 percent; 1972, 13.9 percent; and in 1973, 20.7 percent.[4] Nevertheless, a substantial majority of these applications are still approved. Similarly, a liberal attitude is retained towards the remittance of funds abroad by non-resident companies. Nor is there any significant evidence that foreign companies, once they are operational within New Zealand, are unduly discriminated against in a policy sense, other than in terms of the capital issues controls. It appears that import licensing is not used as vigorously as an instrument of persuasion these days as compared with the 1960's. At that stage, quantitative import restrictions were more pervasive and were employed as a tool to achieve various policy objectives, such as the promotion of local share participation in foreign-owned enterprises.

Overall then, attitudes have hardened to some extent, especially with the 1972 change of Government, but by international standards the policy stance is by no means a restrictive one and could well be judged to be liberal in a passive sense. On the other hand, the very existence of the range of check-points mentioned above makes clear the authorities' doubts about whether all overseas investment is likely to serve the interests of New Zealand society.

3. SCOPE AND STRUCTURE

The historical and economic importance of foreign capital to New Zealand can hardly be denied, even though there may be some disagreement about the net benefits received from the inflow. Since 1950-51, when statistics were first collected, the net private overseas capital inflow on a 23-year cumulative basis has been a substantial $982 million. Although not all of this inflow has been used to finance capital investment, an indication of orders of relative magnitudes can be obtained by noting that this figure represents about 9.6 percent of total gross domestic private capital formation in New Zealand over the same period ($10,257 million). Furthermore, the inflow has increased strongly in recent years, averaging over $100 million annually, a trend associated with more rapid growth in the economy generally and the development of some major specific projects, such as the Bluff aluminium smelter.

Non-resident investment emanates chiefly from the United Kingdom, Australia and North America, with the United Kingdom being unquestionably the most significant of the three areas, and Australia the fastest growing category. Of the major industries attracting foreign capital, banking, insurance, wholesale and retail trade and manufacturing have been traditionally the dominant sectors, although more recently some vigorous overseas firms have moved into other industries such as building and construction, road and sea transport, and of course mineral and oil exploration. The largest single sector for direct investment is manufacturing which on average over the past decade has taken more than half the total capital inflow.

A clear majority of these firms is wholly foreign-owned and where domestic participation does exist it is usually a minority interest. Obviously, the establishments tend to be much larger than the national average, a fact associated with the concentrations in particular industries which tend to require a relatively large scale of operations and a high degree of technical skill and knowledge. A simple listing of some of the particular product lines favoured by overseas investors can be used to illustrate the diversity of foreign interests in New Zealand manufacturing: biscuits, spirits, tobacco, paint, radio and television, soap powders, rubber tyres, glass, chocolate, toothpaste, shoe polish, wallpaper, nylon, stationery, merchant bar products, packaging materials, aluminium fabricating, wire rope, and telephone cables. The markets for such products are frequently dominated by few sellers, and at times by only one or two firms. Some of these facts are illustrated in the series of tables at the end of the paper, and it is convenient to summarise the position along the lines of table A.[5]

[4] See table 1 for full details.

TABLE A

DIRECT FOREIGN INVESTMENT IN NEW ZEALAND
SOME SUMMARY STATISTICS

Countries of Origin	Direct Investment	% of Total	Income Accruing	% of Total
	Totals for period 1950-51 to 1972-73*			
United Kingdom	399.1	40.6	468.5	46.2
Australia and other sterling countries	286.4	29.2	285.8	28.2
North America	201.1	20.5	237.7	23.5
Other countries	95.9	9.7	21.1	2.1
Total:	$982.5m.	100.00	$1,013.1m.	100.0

Industry Groups	Direct Investment	% of Total	Income Accruing	% of Total
	Annual averages for period 1962-63 to 1972-73*			
Primary and mining	2.7	4.1	0.5	0.7
Manufacturing	37.7	57.3	38.4	57.6
Wholesale and retail trade	16.9	25.7	17.3	25.9
Banking, insurance, property	6.9	10.5	8.1	12.1
All others	1.7	2.6	2.5	3.7
Total:	$65.8m.	100.0	$66.7m.	100.0

*Note that period coverage is limited by data availability.
Source: Department of Statistics.

Despite the frequent preoccupation with the actual size of the foreign-owned sector in New Zealand, no simple single statistical measure is available. A study[6] carried out in the mid-1960's suggested that for the manufacturing sector, foreign companies accounted for about 5 percent of the total number of factories, 20 percent of manufacturing employment, 25 percent of aggregate factory output (and value added), and 32 percent of the manufacturing surplus or profits.[7] Clearly, the measure one chooses depends on one's point of view.

[5] A much more detailed analysis of the foreign-owned sector, especially with respect to manufacturing, is available in Deane, R. S., *Foreign Investment in New Zealand Manufacturing,* Sweet and Maxwell, Wellington 1970. The empirical evidence underlying much of the sort of analysis contained in this Paper is to be found in this source, which also provides full information on the nature and extent of the survey of foreign firms which is referred to on several occasions later in this Paper.

[6] See Deane, *op. cit.* The figures quoted relate to 1963-64. A foreign establishment was defined as one operated by a company in which non-residents held 25 percent or more of the ordinary paid-up capital.

[7] These figures, although now somewhat dated, probably remain a reasonable indication of the relative importance of foreign ownership within the manufacturing sector. For example, the latest figure for the share of manufacturing profits attributable to non-residents, for 1969-70, was 32 percent, the same as that for 1963-64.

For the country as a whole, i.e. for all industry groups, it is now known[8] that in 1969-70 overseas owned companies earned 31 percent of the total net profits for the corporate sector. Yet their profit rate appeared to be significantly higher than that of New Zealand-owned enterprises, a fact which could have various explanations—and is quite likely an over-estimate of the true position[9]—but which for present purposes implies that foreign companies probably account for something between 20 and 30 percent of corporate sector employment and output. If allowance is then made for the large non-corporate sector in New Zealand (government, local bodies, farmers, the self-employed, and so on), it can be presumed that overseas owned companies probably account for only about 10 percent of measured economic activity in New Zealand, a figure which is of course no more than a rough approximation.[10]

In fact, the only justification for suggesting such a crude indicator is to place the matter of foreign ownership in some sort of reasonable perspective and, in particular, to counter the extravagant claims of those who provide no aggregate data but rather assert that a foreign takeover of New Zealand is nigh on the dubious basis of a mere listing of many firms with overseas affiliations, and by reference to the vast and varied range of their products and services. Ironically, even if a full listing of such firms was made, it would encompass only 2 percent of all companies in New Zealand, a point which readers of Dr Sutch's *Takeover New Zealand*[11] would do well to bear in mind.

4. THE CASE FOR FOREIGN INVESTMENT

Generally speaking, the decision by a foreigner to invest in New Zealand is a decision to make available to New Zealanders additional resources, i.e. over and above what New Zealanders themselves could provide. This is equally true whether the foreign investment takes the form of a "new capital" inflow, a reinvestment of past earnings, or a takeover of an already existing domestic enterprise. Thus the important initial gain from such investment is the claim it gives over real resources, both tangible, in the form of the capital inflow, and intangible, such as the various accompanying skills. It represents an addition to domestic savings, thereby enabling New Zealanders to attain a given future standard of living with a lower current sacrifice in terms of consumption foregone.

At the same time, foreign investment usually implies an increase in productive capacity, or enhanced production possibilities. It may do this directly through the construction of a new plant, or indirectly, through the acquisition of an established factory releasing domestic capital, the bulk of which is likely to find its way into alternative investment opportunities.

In this way, foreign investment leads to a faster rate of capital accumulation, assuming in the meantime that New Zealand's own savings (and domestic investment) would be much the same in the absence of the overseas capital. It follows that the country will enjoy a potentially greater aggregate output. Basically the investment will be designed to provide an output of commodities or a flow of services which will satisfy the demands of New Zealand consumers. In doing this, the investor will be anxious to make a profit.

As with domestic investment, foreign investment will in general lead to an increase in income. However in this case the increment must be considered as accruing to a combination of domestic income earners and the relevant foreign residents. From New Zealand's point of view the important question is the size of the domestic factors' share in the income increment.

The most immediately obvious recipients—and, by implication, beneficiaries—of the direct increase in income are, naturally, the foreign company itself, and secondly, the New Zealand Government, through its substantial share in company profits. In 1969-70, for example, taxation receipts from foreign-owned companies were $85 million on an annual basis.

Perhaps less obvious, and certainly not measurable in monetary terms but nevertheless important, is the benefit this country may derive from any "external economies" resulting from foreign investment. These accrue to the extent that this capital leads to an increase in total net output ("added value") over and above that increment directly attributable to the particular foreign enterprise. This means that New Zealand will gain to the extent that new techniques, skills, and know-how are disseminated throughout the economy. Furthermore, the unsettling effect of additional investment can provide a stimulus to other related activities and, at least theoretically, a competitive spur to comparable organisations.

Apart from the aggregate income change which occurs in the manner just outlined, some variation in income distribution is likely. A shift in resource use and factor rewards is involved with any increase in investment. In particular, the demand for the various factors of production will rise, thereby mobilising idle resources and/or attracting them away from less well paid endeavours.[12] This means, for example, that either more employment will be created for New Zealanders (or immigrants) and/or local labour incomes will rise. The expansion of foreign companies' purchases of materials and components on the domestic market will thus stimulate activity generally. Some local capital may be attracted into the venture, but presumably only if it stood to gain more from this than if employed in alternative avenues. The demand for imports would also be likely to increase.

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(8) See the Department of Statistics, Supplement to the *Monthly Abstract of Statistics,* March, 1974.

(9) Many foreign companies have substantial long-term liabilities other than shareholders' funds attributable to their overseas associates, suggesting an under-estimate of shareholders' funds in a technical sense, and hence an over-estimate of the profit rate.

(10) On the basis of the national income accounts and other official data, it can be assumed that the central and local government sector accounts for about one-quarter of gross national product, the private non-corporate sector for roughly one-third, and the corporate sector for the final 40 percent. If foreign-owned firms account in turn for about one-quarter of the latter, the figure of 10 percent of the national total can be suggested.

(11) W. B. Sutch, *Takeover New Zealand,* A. H. and A. W. Reed, Wellington, 1972.

(12) Which, it should be noted, may aggravate labour shortages. But if there is over-full employment, and if the overseas borrowing is contributing to it in some way, this is an argument for taking anti-inflationary action, but not for eliminating the capital inflow, if it is otherwise in the country's interests.

If the foreign firm enters or already operates in an industry where the expansion of its production will adversely affect competitors, then the latter's resulting loss of income would have to be offset against the gains to the better rewarded (and hence more expensive) factors of production, and the benefit to consumers through a new, improved or lower priced product or service. If *all* competitors are New Zealand owned, then the redistribution of itself implies no net gain, although this does not deny the other gains already discussed, i.e. those resulting from the increment to income and any external economies. The latter may well benefit competitors, especially after a period of time. But if some of the relevant competitors are themselves foreign-owned, then their loss to some extent may be New Zealand's gain. Of course, the benefit to domestic residents from increasing these foreign firms' costs (and local factors' rewards) and squeezing their profits must have subtracted from it the loss of taxation revenue. In a dynamic setting the net gain from such a redistribution would seem likely to be small, especially if competitors are able to retaliate with new innovations of their own or imitation of the newly introduced techniques—as they will probably do. Thus the shift in resource use can in this way stimulate development.

There is a further possibility: if the investment is of a labour saving type (say, in an existing plant) it may make some workers redundant. This is by no means necessarily an economic disadvantage even if it creates unemployment; it depends on the resultant aggregate income change and its manner of distribution. But in the usual New Zealand context of persistent over-full employment, such investment could be counted a positive gain. In effect, it assists in removing a bottleneck.

It is sometimes suggested that the terms of trade will move in favour of a capital importing country. The reverse can also be argued. But for New Zealand, the arguments appear rather academic, for it seems most unlikely that a variation in our demand for imports will lead to any significant price change. Similarly, the determination of prices for the bulk of our exports is largely out of our hands; and even when we can exercise some influence, factors other than the effects of a capital inflow are likely to be the dominant ones.

The conclusion at this stage is superficially clear cut: in economic terms New Zealand usually stands to gain from more rather than less overseas direct investment. But whether or not the country is maximizing this contribution to economic growth is a little more complicated. This is because some important considerations have so far been ignored in the analysis. These include the implications for the country's balance of payments of a capital inflow; the question of protection for foreign owned enterprises; and the complications of various market imperfections. They will be discussed in turn.

5. SOME POTENTIAL PROBLEM AREAS

5.1 Balance of Payments

First, it is sometimes thought that foreign investment will have an adverse impact on the balance of payments, particularly if the total income accruing to non-residents grows to exceed the actual inflow of capital. To counter this possibility it is often argued that any project involving overseas ownership should be self-sufficient with respect to the balance of payments, i.e. that it should be either an export generating or import substituting type of enterprise. But such views are essentially naive, even fallacious, and fail to get to grips with the nature of balance of payments problems. They ignore, for example, the real income effects already discussed. The elimination of an overseas deficit is ultimately dependent upon the expansion of real income and the contraction of domestic expenditure or, to put it another way, the elimination of inflationary pressures. To achieve this, foreign (and domestic) capital must find its way into that activity yielding the highest overall return, in which case it will be maximizing its contribution to both real income *and* the balance of payments.

It should be emphasised that the greatest return will not necessarily accrue by forcing all investment into export or import competing activities, for which some capital may be ill-suited. The fact that an act of investment, foreign or local, will also lead to an expansion of demand can be taken for granted. However, if the rise in expenditure is allowed (by Government, which is the sole authority with power to disallow it) to outstrip the increase in real income, then a balance of payments deficit is, by definition, inevitable. As stated, the need is for an adequate disinflationary policy or, depending on the circumstances, devaluation. To advocate a reduction in or regulation of foreign investment is to miss the crucial point.

5.2 Protection

On the other hand, it must be admitted that a country can make things more difficult for itself in terms of obtaining the maximum benefit from overseas capital by offering over-generous protection or condoning non-competitive situations. Ironically enough, overseas companies have frequently been stimulated to establish domestic manufacturing units through a need to overcome trade barriers set up by countries such as New Zealand. The irony arises, of course, because the most enthusiastic advocates of the import licensing system are invariably the most vigorous critics of the overseas investment they are apparently unconsciously encouraging.

Of course, the very nature of these barriers—import controls and tariffs—guarantees the survival of manufacturing plants, which frequently operate with too small a scale of operations when judged by international standards. This problem is associated with others: short production runs, expensive changeover periods, extensive under-utilisation of capacity and resultant high unit costs. Not only will a possibly lower than otherwise real income be implied by this replacement of low priced imports with high cost New Zealand made commodities; the higher cost of these goods, and of the factors of production used in making them, will squeeze the profit margins of exporters, many of whom cannot pass on their increased costs. In this way, a misallocation of resources may occur, to which foreign investment can potentially contribute. The implication is a simple one: over-generous protection, by stimulating internationally uncompetitive enterprises, means that a subsidy is incurred by the remainder of the community.

5.3 Competition

Furthermore, protection by quantitative restrictions substantially eliminates import competition, and together

with internal inflation, serves to benefit industries which are characterised by highly concentrated market structures or restrictive trade practices. There is plenty of evidence available to suggest that both overseas and locally owned companies in New Zealand engage in widespread collusive and restrictive trade practices. The problem seems to boil down to this: if the foreign investment leads to an increase in competition or the removal of some monopolistic position, well and good; the gains can be added to those already described. If, on the other hand, it eliminates some competitive forces or creates a monopolistic position for itself, *and* if this entails a loss to the community (through restricted output and higher prices) then such a loss must be set against any other gains which accrue.

Yet these three problem areas—the balance of payments, protection, and monopolistic tendencies—share a number of common features. Most importantly, they are each amenable to Government policy. Thus, if the benefits of overseas capital are to be compared with the costs involved in these areas, the net gain to New Zealand can most likely be maximized by concentrating policy upon minimizing such costs. In addition, it should be clear that the problems raised are by no means peculiar to foreign investment. Hence Government policy needs to be framed in a way which ensures that all investment, regardless of origin, goes into that activity in which it will yield the highest return for the community.

6. SOME CONTROVERSIAL ISSUES

Economic and political nationalism tends to raise further controversial issues with respect to overseas capital; issues which are often claimed to be "economic" in character, and specific to foreign investment, but which in fact frequently derive their significance either from political and social considerations or from semi-economic national considerations. While it is out of the question to discuss the full range of these, a mention of some of the more topical and important issues may be useful.

6.1 Overseas Control

The fear of overseas control has already been mentioned. While not denying the strong political overtones of such a fear, it needs to be remembered that there are several countervailing factors. First, a foreign owned company does not operate in a vacuum. It is constrained by New Zealand legislative requirements and by the fact that it manufactures products using local labour and depends for its survival on the extent to which consumers demand these products.

A recent survey[13] also showed that over half the foreign owned manufacturing companies in New Zealand are staffed by New Zealanders from top to bottom. Of the remainder, most employ only one or two foreigners, such persons as often as not being sent out on request from the domestic unit. The evidence was clear-cut: New Zealanders employed by most foreign firms need have little fear that "foreigners" will usurp positions to which they aspire. But this conclusion, important as it may be to some, is essentially superficial. For in almost all cases, the employment of parent trained personnel was regarded as a positive advantage both to the local company and to the New Zealand employees of it. It invariably offered the latter the benefit of experience based on a far wider horizon than it was possible to gain within the domestic unit.

The survey revealed a surprisingly high degree of autonomy in decision-making by local executives, most of whom claimed that their overseas association represented a positive gain for the domestic subsidiary, especially in assistance with technical research, training of New Zealanders and advice on capital expenditure, including the provision of funds. For example, by far the majority of companies claimed that few, if any, proposals by the New Zealand management were turned down for reasons associated with the international nature of the firm. In other words the often suspected conflict of interest—country versus company—seldom seemed to arise in this area. Projects were judged predominantly in the context of the domestic market structure alone. The rapid expansion of foreign investment in New Zealand manufacturing confirms this view.

Detailed investigation of the extent of foreign control in a range of areas pointed strongly towards parent company guidance and advice, through a process of consultation, rather than absolute domination or rule being the norm. Obviously, local conditions and problems require local knowledge and experience. Hence foreign control in the sense of oppressive domination seems to be something of a myth. On the other hand, if it is normally viewed as constituting overall guidance, usually within the framework of agreed standards, then it is equally important to observe that such control possesses no magical properties which guarantee either good or bad performance.

6.2 Local Share Participation

Although the majority of companies with overseas affiliations are fully owned by non-residents, there has been a marked trend towards local share participation, usually on a minority basis, over the past decade or so. The case for local share participation in overseas owned companies is often assumed to be a strong one, especially in this country where Government has on many occasions in the past used its powers of persuasion to achieve a domestic equity interest in new and expanding projects. But it needs to be remembered that if a foreign corporation is persuaded to accept local capital against its wishes, New Zealand is denying itself that much foreign investment and also foregoing the opportunity to employ domestically owned resources in alternative ways which may be equally advantageous. In other words, the country's rate of capital accumulation and probably its rate of economic growth will be slower than otherwise.

Beyond this, local participation will not necessarily ease the burden of profit remittance on the balance of payments, as is sometimes argued. If shares are purchased at a market price which reflects their expected future earnings discounted to current values, and if expectations are realised, the effect on the balance of payments in the long run is nil. This is simply because the gain accruing as a result of a share in the future income being retained in New Zealand must be offset against the overseas capital foregone or repatriated, depending on whether the local shareholding is acquired in a new or existing enterprise. The main point of this

[13] See Deane, *op. cit.*

argument is that these particular gains and losses in terms of foreign exchange are likely to be of a strictly marginal nature.

In fact, survey data suggest that there are some other interesting features associated with local share participation: for example, in the mid-sixties, manufacturing companies with some domestic equity holdings employed more foreigners and recorded higher dividend ratios than their wholly foreign owned counterparts. While many of the latter do not incur charges for technical assistance rendered by the parent organisation, there is no question that local participation would lead to the imposition of such charges. Nor does a local minority shareholding ensure any greater degree of freedom from parental export franchise restrictions.

The most important point is that domestic equity participation implies a lesser need for the non-resident to bring in more capital or re-invest earnings in the future as compared with a situation of full overseas ownership. To some extent then, the argument for local participation is one against foreign investment in general, and as such seems difficult to justify on economic grounds. From the political point of view, a policy of encouraging domestic participation should mean pursuance of majority rather than minority interests. Yet in the mid-sixties in the manufacturing sector, New Zealanders held more than 50 percent of the shares in less than 10 percent of the foreign affiliated units. Unfortunately, local participation does not obviously ensure the avoidance of conflicts of interest between company and country. Thus, while a local participation policy may be a convenient response to political nationalism, the ultimate responsibility for avoiding such conflicts of interest must rest with Government itself. The legal, institutional, economic, and social environment created by Government is the real key to imposing sensible constraints on the foreign—and domestic—corporation to ensure that it behaves in a manner acceptable to New Zealand society.

6.3 Financial Operations

Two major issues have attracted attention with respect to the financial operations of foreign establishments: first, the possibility that they might "dominate" the domestic capital market, using their size and power to exploit New Zealand sources of non-equity funds, but retaining the ability to avoid the influence of domestic monetary policy through utilising their overseas connections in times of a local credit squeeze; and secondly, that overseas companies both seek more profit and are more profitable than local firms, raising the possibility that New Zealand may be "merely milked of the profits"[14] of overseas capital invested here.

The first fear can be readily countered: the evidence clearly indicates that the bulk of foreign companies' funds are internally generated by means of re-invested profits (they have a significantly higher re-investment ratio than New Zealand owned firms); that the majority of their locally domiciled liabilities are of a short term nature, being mainly trade credit; and that many overseas owned firms do not engage in long ttrm borrowing in New Zealand on a major scale anyway. This is partly due, of course, to capital issues control which, along with exchange control, ensures detailed Government supervision in this whole area. Thus, for example, it would be difficult for a foreign firm to circumvent domestic monetary policy.

It is worth noting in passing that there is little justification for capital issues controls on the basis of conventional economic analysis. If one is old-fashioned enough to believe that all capital should be employed in that area where it yields the highest return, then one would not wish to restrict the activities of overseas companies on the local capital market simply because they are foreign owned. In this sense, an economist could be excused for doubting whether the bureaucrats are the best judges of the national interest when inhibiting the flow of funds at a microeconomic level.

As for profitability, it would appear from table 6 that foreign companies are more profitable than local establishments. As argued earlier and perhaps in contrast to popular opinion, this should represent a net economic gain to New Zealand, providing it reflects relatively higher efficiency and productivity rather than monopolistic or collusive activity. In every industry group of relevance to non-resident capital, the latter recorded a higher earning rate than domestic capital, the overall comparison in 1969-70 being a 12.6 percent return against a net profit rate of 8.6 percent. Most probably, as noted earlier, the difference is overstated. This is because the shareholders' funds figures for overseas firms fail to take account of other long-term liabilities attributable to parent organisations, some of which are effectively equity funds. An earlier survey for the manufacturing industry suggested that allowance for this factor lowered the so-called profit rate by about one-fifth.

Hence these data should be interpreted with considerable care. For example, if allowance is made for this differential, at say one-fifth, and if one industry group "commerce-other", is excluded from table 6, then the overall profit rate for foreign enterprises is virtually the same as that for the country as a whole (both about 8.3 percent). Thus different data definitions and the nature of the activity concentrations, as much as the fact of foreign ownership, may well account for most of the differential.

Quite apart from this, the fact that non-resident companies consistently plough back a much higher proportion of their earnings in New Zealand than do local enterprises should do something to ease fears such as those entertained by Mr Tizard (in the quote at the start of this section).

These points also bring into question the wisdom of the Government's policy of vigorously encouraging domestic share participation, for two important findings emerge from the available evidence: first, local participation encourages foreign firms to rely much more heavily on the domestic capital market (one cannot have one's cake and eat it too); and secondly, such participation also leads to lower rates of re-investment of profits, as compared with the more conservative appropriation policies of wholly foreign owned firms.

6.4 Import Pricing and Export Franchises

It is sometimes argued that two disadvantages associated with overseas investment are the risk that excessive prices may be charged for imports from (or services provided by) the overseas associate, as a tax avoidance gimmick; and that the parent organisation may impose export franchise restrictions on the local subsidiary in order to retain overseas markets for other units in the international firm.

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[14] To quote the Hon. R. J. Tizard, Labour M.P. and present Minister of Finance, *Parliamentary Debates,* 1960, p. 198.

Although some foreign companies undoubtedly engage in profit switching practices, there appears to be a need in New Zealand for a more balanced outlook on this whole question. For example, survey results have shown that many firms receive a positive benefit from their foreign financial affiliation in the form of competitively priced imports, guaranteed quality, regularity of delivery and technical advice on purchases generally. When accusations of tied sources of supply are made, it is seldom recognised that the question is quite irrelevant for a substantial proportion of manufacturing companies—those which make no purchases at all from affiliates —and that many other firms are free to determine their own sources of supply.

Furthermore, there are three powerful countervailing forces operating in this area: first, the need to maximise utilisation of scarce import licences over the past couple of decades has meant that licensing itself has provided foreign companies with a strong incentive to import from the most competitive sources; secondly, the scrutiny of the Commissioner of Inland Revenue has frequently been, and should continue to be, sufficiently stringent to ensure that as far as possible profit switching practices are discouraged; and, thirdly, the Reserve Bank has for many years exercised surveillance under exchange controls of intra-company transactions, especially those relating to service charges such as royalties and management fees.

On the other hand, there are difficulties, sometimes grave ones, in determining "fair and reasonable" prices for transactions between different units of the same multinational firm, a point which serves to emphasise the need for a vigilant Inland Revenue Department. One product of such vigilance was the very large out-of-Court settlement by the oil companies in New Zealand some years ago in relation to a Government claim of tax avoidance arising from excessive import pricing policies.

Turning to the question of export franchises, it is interesting to observe that a substantial proportion (45 percent) of the respondents to a wide ranging survey of foreign manufacturing companies in the mid-1960's claimed that they were not restricted in any way in relation to exporting from New Zealand. Of those which did have a franchise imposed upon them, in practice only a few found that it constituted a real limitation upon their export performance. Another minority group felt the franchise offered a positive gain in that it provided them with an export market they would not otherwise have had. Export franchises imposed by the parent are invariably two-way affairs, both providing and protecting markets. But most respondents in the "partially or wholly restricted" groups felt that the restrictions were of secondary importance in comparison with the main problem of an uncompetitive position. Hence group market allocations were often thought to be largely irrelevant to the New Zealand unit in the light of the small scale of the local operations and the high unit costs prevailing in New Zealand.

In contrast to the concern of some New Zealanders about export franchise restrictions, and despite the fact that the survey data suggested that not a great number of foreign owned firms were engaged in exporting to a significant extent, it is enlightening to note that foreign manufacturing firms' export performance was considerably better than that of their New Zealand-owned counterparts. At the time of survey, foreign companies accounted for at least two-thirds of New Zealand's exports of manufactured commodities, while at the same time being responsible for only one-quarter of the country's total factory production.

6.5 Overseas Takeovers

New Zealand's preoccupation with, and enmity towards, foreign takeovers is longstanding and it was a series of controversies in this area which culminated in the News Media Ownership Act 1965, and the Overseas Takeovers Regulations 1964. While not denying the need to avoid the development of undesirable monopolies, or alternative restrictive trade practices, an economist cannot escape the feeling that a rather narrow form of nationalism has at times prevailed in this area. A takeover will usually add to the total resources available to an economy in a manner similar to that of a new investment. This must be its most important advantage. Not only does this mean an additional claim over resources in the form of capital, but also it usually implies the injection of further technical and managerial skills. In some cases, the takeover is designed simply to provide a starting point for a major undertaking. Presumably the New Zealand shareholders who sell their interest to the non-resident, do so with a gain in mind. Moreover their gain can be assumed to be greater than if they sold their shares to local investors. Otherwise, why sell to foreigners?

Beyond this, the vendors can then redirect their own claim over resources, and resources themselves, into areas which they consider profitable. Much of this would no doubt represent additional investment. In this aggregate sense, if an economy stands to gain from overseas investment, then it must also stand to gain from takeovers, all other things being equal. Thus the much favoured and popularised distinction between "new investment" and "takeovers", just as with that between "new capital" and "re-invested profits", is essentially an artificial one.

6.6 Dependence on Overseas Research

There are two objections which have been raised in some quarters to the very considerable New Zealand dependence on overseas research and know-how, objections which it should be remembered may equally well apply to local companies as to foreign enterprises. On the one hand there is the possibility of overseas products and techniques being unsuited to the New Zealand situation, while on the other hand there is the fear that a dependence upon foreign research may have an adverse effect upon local effort and initiative.

Two facts go a considerable way towards denying the validity of the first objection, at least as far as it relates to product suitability. First, for better or worse, the New Zealand consumer market does not appear to be substantially different in its range of needs and desires from the domestic markets of the countries from which most of our foreign capital emanates: the United Kingdom, Australia, and America. Secondly, survey data revealed that a significant amount of product modification is carried out by foreign firms to adjust their products to the local environment where they consider this to be necessary. As for manufacturing methods, the inescapable need for local initiative is emphasised simply by the small size of the domestic market. Thus it was not surprising to find in survey work that many of the instances given in relation to the application of local research were connected with new or improved methods of production.

The case in favour of conducting more research in New Zealand is one which is easy to overstate and overgeneralise. Without in any way denying the value of local research activities, especially in those areas where New Zealand is well suited to carry them out, it nevertheless has to be remembered that research can be extremely costly in terms of the resources which must be devoted to it. The question of scale is of great importance. Accordingly, there would not appear to be any case for arguing that research over a wide range should be encouraged simply in order to reduce our dependence on foreign assistance. Interestingly enough, the available evidence shows that although foreign establishments accounted for 20 percent of the total New Zealand manufacturing labour force in the mid-1960's, they employed 42 percent of all those persons coming within the "professional and technical" category. Data such as these raise the presumption that foreign owned firms are probably engaged in research activities to a greater extent than New Zealand companies.

It is perhaps just as well that the major economic objections to a dependence on overseas know-how are largely invalid in the New Zealand context. For, if anything, it seems highly likely that this dependence will increase rather than decline in the future. There is a large amount of evidence available to suggest that the economic benefits from foreign technological assistance flowing to New Zealand subsidiaries of multinational organisations are of a substantial and continuous nature.

6.7 Environmental Issues

In recent years, environmental issues have impinged on foreign investment policy, providing in some cases classic illustrations of confused analysis. On a popular national level, it has been claimed that foreign capital invested in the Bluff aluminium smelter would not have been in New Zealand's interest because of the likely damage to Lake Manapouri which would have resulted if the lake level had been raised to supply electricity for the project. Despite efforts by some to use this as a case against foreign investment as such, it is clear that the question of ownership was not the central issue; rather it was essentially a matter of environmental policy generally. If such a policy is adequate, and comprehensively reflects the community's feelings on the matter, then satisfactory constraints would be imposed on both local and foreign capital. Similarly, a clear statement of intent, backed by adequate legislation and administrative action, with respect to acquisition of "community" real estate—such as coastal beaches and offshore islands—would do much not only to ease the problem of a "foreign takover" in these areas but also to preserve such land for public rather than private pleasure. After all, it is surely only a strictly limited consolation to the average New Zealander to find that much coastal beachfront is in the hands of New Zealand rather than foreign capitalists!

7. CONCLUSION

The conclusions which can be drawn from the preceding analysis are unambiguous. Foreign investment has made a substantial contribution to economic growth in New Zealand. From the *economic* policymaker's point of view, the relevant question is not whether overseas investment can be classified as a force for good or evil, but rather how can New Zealand ensure that it maximizes the benefits and minimizes the costs of such investment?

Most certainly, the answer to this question does not lie in pursuing a restrictive policy towards private investment, on the grounds of the popular fears propounded by some opponents of overseas capital. This is because many of the problem areas alleged to be associated with foreign investment, as distinct from local investment, can be demonstrated to be relatively unimportant in an economic sense. These include, for example, the question of encouraging local share participation; concern over "control" and "domination" by non-residents; the employment of "too many foreigners"; the "stifling" of local research, and the associated "undue" dependence upon foreign know-how; "excessive" profits, both earned and remitted, by overseas owned firms (other than where elements of monopoly profits exist); "over-priced" imports; onerous restrictions upon exports; and so on.

On the other hand, it should be apparent that some potential problem areas did emerge from the analysis. Although special attention should be focused on Government policy in these areas, it is important to note that they involve considerations pertinent to the whole economy, and not simply to the foreign owned sector. For instance, it is true that foreign investment might well contribute to a balance of payments problem, but this does not constitute a case for New Zealand foregoing the other (net) benefits of the capital inflow. Instead, attention should be directed towards the pursuance of overall fiscal, monetary and exchange rate policies which would achieve the balance of payments objectives. Similarly, New Zealand will not maximize the gains from overseas investment if this capital flows into sectors which are excessively protected or subsidised, or which are characterised by monopolistic, collusive or other restrictive trade practices. But again, the answer to the problem lies not in inhibiting the capital inflow as such, but rather in adequate industrialisation policies and trade practices legislation. [15]

As far as intra-company transfer pricing practices are concerned, the need for vigilance by the Commissioner of Inland Revenue and the Reserve Bank can be stressed. Such vigilance should ensure that New Zealand effectively minimizes the costs of foreign investment in this area.

Thus the economic problem is not one of how to treat foreign capital specifically; it is rather one of how to ensure that all investment, regardless of origin, flows into those activities in which it will yield the highest return to the community. It is only in the context of satisfactory overall macroeconomic policies that New Zealand stands to minimize as far as possible the problems raised by potential and actual conflicts of interest between the multinational firm and the national economy.

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(15) Government has in fact been giving more attention to both these aspects recently, as illustrated by Ministerial pronouncements to the effect that the import licensing system should not be used to promote or protect inefficient operations, and by the introduction of the new Commerce Bill, which is designed to strengthen Government regulation of undesirable trade practices, monopolies, mergers and takeovers, among other things.

The major thrust of this Paper has been to attempt to place the economic advantages and disadvantages of foreign investment in some sort of perspective. But political and social considerations are also highly important with respect to overseas capital. The Paper has endeavoured to avoid any judgements in these areas. It is deceptively easy to blur this distinction and yet it is important to be explicit about weighing the net economic advantage against these political and social factors. Despite the weight of empirical evidence favouring direct investment, governmental policies seem to be hardening in many countries. The empirical researcher may well be left pondering the futility of his efforts.

Finally, it can be observed that the apparently liberal stance to foreign investment, as favoured on economic grounds, provided other domestic economic policies are appropriate, would also be consistent with a liberal stance towards international affairs as a whole. As for the latter, New Zealand could reasonably claim to have adopted such a stance in recent times. On the other hand, in the field of overseas investment, it is clear that past doubts are likely to persist, and perhaps to intensify, in the future. But, regardless of our political misgivings, it is important to clarify our understanding of the economic issues. There remains ample scope for improvements in this area.

STATISTICAL APPENDIX

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2 Overseas direct investment in New Zealand. Classified by countries of origin.

3 Total income from direct overseas investment in New Zealand. Classified by countries of origin.

4 Industrial classification of direct overseas investment in New Zealand.

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6 Profit and dividend rates for overseas-owned companies, 1969-70.

7 Summarised comparison of foreign manufacturing establishments with New Zealand totals for manufacturing, 1963-64.

8 Foreign manufacturing establishments and their employment, 1963-64: by industry and country of ownership.

STATISTICS RELATING TO THE OVERSEAS

(Approvals

	1967		1968		1969	
Total number of applications received and registered	67	(64)	93	(89)	138	(133)
Applications withdrawn	2		—		1	
Partial purchase of N.Z. interests	11	(11)	12	(12)	17	(15)
Majority purchase of N.Z. interests	7	(7)	4	(4)	22	(21)
Overseas companies increasing their existing majority holdings in N.Z. businesses	4	(4)	19	(19)	31	(31)
Complete takeover of N.Z. businesses	23	(22)	20	(16)	26	(25)
Transfers between overseas interests with no increase in overseas control	20	(20)	38	(38)	41	(41)
Applications under action						

SUMMARY: Total number of applications registered 1967—22nd March 1974 1,039

Total number of applications approved		946
Total number of applications declined		72
Applications withdrawn after registration		19
Applications under action		2
	1,039	1,039

Source: Chief Cashier's Department, Reserve Bank of New Zealand.

TABLE 2

OVERSEAS DIRECT INVESTMENT IN NEW ZEALAND
CLASSIFIED BY COUNTRIES OF ORIGIN
(NZ$ million)

March Years	United Kingdom	Other Sterling Countries	United States and Canada	E.E.C. Countries	Other O.E.E.C. Countries	Other Countries	Total All Countries
1950-51	9.9	— 0.3	1.1		0.5	—	11.2
1951-52	18.2	2.8	1.6		—0.6	—	22.0
1952-53	8.4	5.0	7.7		0.2	—	21.2
1953-54	5.7	— 0.4	1.1		—	—	6.4
1954-55	17.0	1.8	3.3		0.2	—	22.2
1955-56	26.9	3.1	1.7		—0.2	—	31.5
1956-57	9.8	6.6	1.6		2.2	—	20.2
1957-58	16.0	3.3	— 1.9		1.8	—	19.2
1958-59	17.7	7.9	1.1		1.0	—	27.7
1959-60	— 0.6	8.7	— 2.9	0.9	0.3		6.5
1960-61	20.7	9.3	2.4	0.7	1.2		34.2
1961-62	19.8	7.0	10.2	—	— 0.8		36.2
1962-63	31.6	13.3	10.7	— 0.7	0.4		55.3
1963-64	16.8	10.2	9.6	— 0.7	2.2		38.1
1964-65	20.2	9.9	8.0	2.0	3.4		43.5
1965-66	22.8	25.8	15.1	1.4	— 2.4		62.8
1966-67	0.7	14.9	13.3	0.1	— 0.1		28.9
1967-68	16.7	16.6	— 8.1	2.6	0.3		28.1
1968-69	20.8	— 1.4	2.8	15.2	1.5		38.9
1969-70	18.2	31.5	16.6	1.4	8.5		76.2
1970-71	57.0	30.7	12.9	23.7	25.7		130.0
1971-72	— 7.2	38.0	67.6	— 8.0	7.1		97.5
1972-73	52.0	42.1	25.6	3.0	1.9		124.6

Source: Department of Statistics.

E 1

TAKEOVERS REGULATIONS 1964

in brackets)

1970	1971	1972	1973	1974— 22-3-74
182 (177)	159 (151)	173 (149)	203 (161)	24 (22)
1	4	4	7	—
24 (24)	6 (6)	14 (13)	19 (16)	2 (2)
23 (20)	6 (5)	26 (14)	34 (23)	—
31 (31)	38 (38)	27 (24)	23 (22)	5 (5)
26 (25)	40 (37)	41 (37)	47 (29)	2 (2)
77 (77)	65 (65)	61 (61)	73 (71)	13 (13)
				2

TABLE 3

TOTAL INCOME FROM DIRECT OVERSEAS INVESTMENT IN NEW ZEALAND CLASSIFIED BY COUNTRIES OF ORIGIN

(NZ$ million)

March Years	United Kingdom	Other Sterling Countries	United States and Canada	E.E.C. Countries	Other O.E.E.C. Countries	Other Countries	Total All Countries
1949-50	2.8	1.5	0.9		0.3	—	5.5
1950-51	6.9	3.9	3.6		0.2	—	14.7
1951-52	6.9	4.7	1.8		0.1	—	13.5
1952-53	8.7	3.5	3.1		0.1	—	15.4
1953-54	11.4	4.2	5.6		0.2	—	21.5
1954-55	13.4	5.5	4.0		0.2	—	23.1
1955-56	11.8	5.0	5.7		0.2	—	22.6
1956-57	13.3	4.7	5.3		0.5	—	23.8
1957-58	10.6	5.5	6.1		0.5	—	22.7
1958-59	11.9	8.2	6.5		0.5	—	27.1
1959-60	7.7	8.4	5.3	0.3		0.4	22.1
1960-61	20.2	9.8	8.6	0.9		0.5	40.1
1961-62	14.9	9.6	8.0	0.4		0.4	33.3
1962-63	25.7	11.2	8.5	—		0.5	46.0
1963-64	21.2	12.5	11.5	1.0		0.6	46.8
1964-65	27.9	16.5	14.3	1.6		0.5	60.7
1965-66	21.3	18.7	13.2	0.5		1.2	55.0
1966-67	27.7	20.5	12.7	0.3		0.6	61.9
1967-68	21.2	18.8	— 0.1	— 0.6		0.1	39.4
1968-69	38.9	18.1	14.9	— 0.2		0.9	72.6
1969-70	39.0	21.7	25.1	0.4		2.6	88.8
1970-71	25.4	22.1	19.5	1.2		2.1	70.3
1971-72	27.2	23.8	26.6	1.4		— 0.6	78.4
1972-73	55.3	28.9	27.9	0.5		1.1	113.7

Note: for 1949-50 to 1958-59 a brace joins E.E.C. Countries and Other O.E.E.C. Countries (one combined figure); for 1959-60 to 1972-73 a brace joins Other O.E.E.C. Countries and Other Countries (one combined figure).

Source: Department of Statistics.

(NZ$ million)	1962-63	1963-64
Manufacturing:		
Food, drink and tobacco	5.6	1.8
Meat and dairy products	7.6	— 1.5
Textiles, clothing and footwear	0.8	0.7
Wood, cork, furniture	0.8	0.4
Pulp, paper, printing	1.3	1.7
Leather and rubber	0.2	0.1
Chemicals, minerals	9.4	3.2
Metalworking	4.4	1.7
Engineering and transport equipment	2.9	7.5
Miscellaneous	0.6	2.1
Total Manufacturing:	33.6	17.7
Other Industries:		
Farming, fishing, forestry	0.6	—
Mining and quarrying	1.8	— 0.6
Building and construction	0.9	0.1
Electricity, gas, water	. .	. .
Wholesale and retail trade	13.1	8.4
Banking, insurance, property	4.2	11.8
Transport and communications	0.9	— 0.1
Services	0.2	0.7
Total Other Industries:	21.7	20.4
TOTAL ALL:	55.3	38.1
Manufacturing as % of Total:	60.8	46.5

Source: Department of Statistics.

TABLE 4

OF DIRECT OVERSEAS

NEW ZEALAND

	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	Annual Average	Annual Average as %
	4.7	3.2	6.1	1.0	1.1	2.8	2.8	4.3
	— 2.1	0.6	15.6	6.3	— 0.2	12.3	4.1	6.2
	0.3	0.3	1.1	0.7	1.8	1.1	1.0	1.5
	—0.2	0.1	0.1	0.4	0.2	— 0.3	0.1	0.2
	2.5	5.2	— 2.5	4.9	4.1	11.1	3.0	4.6
	— 0.3	1.8	1.7	1.3	1.9	1.2	0.8	1.2
	2.9	5.4	1.6	8.8	16.8	12.0	6.4	9.7
	4.7	4.1	8.5	45.2	39.0	— 1.7	10.1	15.3
	— 0.1	3.7	7.8	10.0	10.8	13.1	7.0	10.6
	0.3	1.2	7.4	3.0	2.3	3.8	2.3	3.5
	12.7	25.6	47.4	81.6	77.8	55.4	37.7	57.3
	— 0.1	—	0.1	1.1	1.8	1.4	0.4	0.6
	1.5	2.3	2.2	11.5	2.5	3.1	2.3	3.5
	— 1.8	— 0.4	1.5	0.3	2.5	2.2	0.7	1.1
	. .	. .	. .	. .	. .	. .	. .	. .
	9.3	5.1	14.4	20.8	9.5	48.6	16.9	25.7
	6.1	6.2	4.8	9.5	11.3	14.0	6.9	10.5
	— 0.5	— 0.7	5.1	4.3	— 9.7	— 1.8	0.2	0.3
	0.9	0.9	0.8	0.8	1.8	1.7	0.8	1.2
	15.4	13.3	28.8	48.4	19.7	69.2	28.1	42.7
	28.1	38.9	76.2	130.0	97.5	124.6	65.8	100.0
	45.2	65.8	62.2	62.8	79.8	44.5	57.3	

INDUSTRIAL CLASSIFICATION OF
OVERSEAS INVESTMENT

(NZ$ million)	1962-63	1963-64	1964-65	1965-66	1966-67
Manufacturing:					
Food, drink and tobacco	3.9	4.6	4.4	4.0	5.8
Meat and dairy products	9.0	1.7	7.7	— 2.0	3.4
Textiles, clothing and footwear	1.1	1.2	1.9	2.0	2.0
Wood, cork, furniture	1.2	1.0	0.8	0.5	—
Pulp, paper, printing	1.4	2.1	1.9	4.4	4.0
Leather and rubber	1.1	1.5	1.2	1.2	0.8
Chemicals, minerals	4.7	4.8	4.0	7.1	9.7
Metalworking	0.3	1.0	1.4	2.3	2.0
Engineering and transport equipment	4.4	7.4	12.1	9.7	6.6
Miscellaneous	0.8	1.3	1.4	1.5	1.5
Total Manufacturing:	27.9	26.6	36.8	30.7	35.8
Other Industries:					
Farming, fishing, forestry	0.1	—	0.1	—	—
Mining and quarrying	0.2	0.7	0.4	— 0.1	0.3
Building and construction	0.3	—	— 0.3	—	0.5
Electricity, gas, water	—	—	—	—	—
Wholesale and retail trade	9.8	11.2	14.6	15.4	17.0
Banking, insurance, property	7.2	7.3	7.4	7.6	7.5
Transport and communications	— 0.3	— 0.3	1.3	0.3	0.3
Services	0.8	1.2	0.4	1.1	0.5
Total Other Industries:	18.1	20.2	23.9	24.3	26.1
TOTAL ALL:	46.0	46.8	60.7	55.0	61.9
Manufacturing as % of Total:	60.7	56.8	60.6	55.8	57.8

Source: Department of Statistics.

TABLE 5

INCOME ACCRUING FROM DIRECT
IN NEW ZEALAND

1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	Annual Average	Annual Average as %
5.3	4.9	4.7	4.7	5.3	6.1	4.9	7.3
1.6	14.9	18.5	1.7	— 2.5	10.1	5.8	8.7
0.8	0.8	2.0	1.0	2.1	2.0	1.5	2.2
0.1	0.1	0.1	0.2	0.1	0.2	0.4	0.6
4.0	7.4	4.7	3.3	3.6	4.6	3.8	5.7
1.1	1.7	2.3	1.7	1.1	1.6	1.4	2.1
6.8	6.5	5.8	8.2	11.0	12.6	7.4	11.1
1.6	2.2	2.5	3.2	0.9	0.8	1.7	2.5
3.6	9.1	12.9	10.7	11.5	13.2	9.2	13.8
0.9	1.1	4.1	4.0	3.8	5.2	2.3	3.4
25.8	48.7	57.6	38.7	36.9	56.4	38.4	57.6
—	—	—	—	0.2	0.2	0.1	0.1
— 0.1	0.6	—	— 0.2	1.1	1.2	0.4	0.6
— 0.2	— 0.1	2.0	0.6	2.5	2.1	0.7	1.0
—	—	—	—	—	—		
5.6	14.9	20.7	21.2	25.4	34.9	17.3	25.9
7.1	7.0	6.1	8.4	9.0	14.8	8.1	12.1
0.2	1.0	1.8	1.1	0.7	2.2	0.8	1.2
1.0	0.5	0.6	0.4	2.6	2.0	1.0	1.5
13.6	23.9	31.2	31.6	41.5	57.4	28.3	42.4
39.4	72.6	88.8	70.3	78.4	113.8	66.7	100.0
65.5	67.1	64.9	55.0	47.1	49.6	57.6	

PROFIT AND DIVIDEND RATES FOR

($000) *Industry Group*		Number of Returns	Current Income
Food, Beverages and Tobacco	O'seas Coys	62	21,020
	All Coys	911	72,181
	O'seas Coys as % of All Coys	6.8	29.1
Textiles, Wearing Apparel and Made-up Textiles	O'seas Coys	32	6,095
	All Coys	975	21,733
	%	3.3	28.0
Wood, Paper and Chemical Products and Miscellaneous Manufacturing	O'seas Coys	197	36,730
	All Coys	3,505	105,387
	%	5.6	34.9
Metals and Metal Products	O'seas Coys	153	17,386
	All Coys	4,228	45,190
	%	3.6	33.5
Total Manufacturing:	O'seas Coys	444	79,809
	All Coys	9,619	244,491
	%	4.6	32.6
Agriculture, Forestry and Fishing	O'seas Coys	12	— 1
	All Coys	5,980	10,651
	%	0.2	—
Mining and Quarrying	O'seas Coys	19	— 93
	All Coys	329	856
	%	5.8	—
Construction	O'seas Coys	27	1,714
	All Coys	5,004	18,815
	%	0.5	9.1
Electricity and Related Services	O'seas Coys	—	—
	All Coys	46	260
	%	—	—
Commerce—Wholesale and Retail	O'seas Coys	347	56,584
	All Coys	18,026	195,163
	%	1.9	29.0
Commerce—Other	O'seas Coys	328	57,652
	All Coys	16,304	151,681
	%	2.0	38.0
Transport and Communication	O'seas Coys	41	3,081
	All Coys	2,407	13,678
	%	1.7	22.5
Services	O'seas Coys	57	446
	All Coys	5,255	18,761
	%	1.1	2.4
TOTAL ALL INDUSTRIES:	O'seas Coys	1,275	200,614
	All Coys	62,970	654,355
	%	2.0	30.7

Source: Department of Statistics, Supplement to March 1974 *Monthly Abstract of Statistics.*

Notes: (1) Current income is assessable income before losses plus (returnable income less assessable income), less currer net losses. The bracketed term allows for dividends received from other companies.
(2) Net profit is current income less income tax assessed.
(3) Dividend rate is dividends paid as a percentage of net profit.
(4) Net profit rate is net profit as a percentage of shareholders' funds.

TABLE 6

OVERSEAS - OWNED COMPANIES, 1969-70

Income Tax Assessed	Net Profit	Dividends Paid	Dividend Rate %	Total Shareholders' Funds	Net Profit Rate %
10.595	10,425	3,983	38.2	91,300	11.4
34,937	37,244	18,714	50.2	417,218	8.9
30.3	28.0	21.3		21.9	
2,939	3,156	2,631	83.4	35.488	8.9
10,741	10,992	7,730	70.3	132,258	8.3
27.4	28.7	34.0		26.8	
17,541	19,189	12,168	63.4	177,665	10.8
48,958	56,429	36,493	64.7	589,079	9.6
35.8	34.0	33.3		30.2	
8,227	9,159	4,785	52.2	100,159	9.1
22,695	22,495	12,242	54.4	299,192	7.5
36.3	40.7	39.1		33.5	
39,302	40,509	23,567	58.2	404,612	10.0
117,331	127,160	75,179	59.1	1,437,747	8.8
33.5	31.9			28.1	
103	— 102	2	—	3,848	—
5,188	5,463	3,967	72.6	214,068	2.6
2.0	—	0.1		1.8	
45	— 138	90	—	32,449	—
1,059	— 203	777	—	52,148	—
4.2	—	11.6		62.2	
649	1,065	102	9.6	4,197	25.4
8,175	10,640	4,163	39.1	113,958	10.7
7.9	10.0	2.5		3.7	
—	—	—	—	—	—
180	80	158	197.5	6,954	1.2
—	—	—		—	
27,027	29,557	14,007	47.4	243,028	12.2
86,460	108,703	55,862	51.4	1,121,651	9.7
31.3	27.2	25.1		21.7	
15,453	42,199	11,674	27.7	212,480	19.9
44,166	107,511	48,940	45.6	1,134,546	9.5
35.0	39.3	23.9		18.7	
1,620	1,461	661	45.2	22,613	6.5
6,961	6,717	4,416	65.7	135,729	4.9
23.3	21.8	15.0		16.7	
434	12	70	583.3	5,929	0.2
8,906	9,855	4,045	41.0	157,183	6.3
4.9	0.1	1.7		3.8	
84,633	115,981	50,173	43.3	929,156	12.6
278,426	375,927	197,508	52.5	4,373,985	8.6
30.4	30.9	25.4		21.2	

TABLE 7

SUMMARISED COMPARISON OF FOREIGN MANUFACTURING ESTABLISHMENTS WITH NEW ZEALAND TOTALS, 1963 - 64

	Foreign Manufacturing Establishments	N.Z. Total for Manufacturing	Foreign Establishments as % of N.Z. Total
Number of establishments	489	9,365	5.2
Manufacturing employment	39,552	199,266	19.8
Value of output, $ million	494.8	1,924.1	25.7
Value added, $ million	199.2	1,924.1	25.7
Manufacturing surplus, $ million	61.0	188.3	32.4
Value of plant and machinery, $ million	106.0	426.6	24.8
Value of land and buildings, $ million	86.2	247.3	34.9

Source: R. S. Deane, *Foreign Investment in New Zealand Manufacturing,* Sweet and Maxwell, Wellington, 1970.

Note: A foreign establishment was defined as one operated by a company in which non-residents hold 25 per-cent or more of the ordinary paid-up capital. No comparable data are available beyond 1963-64.

FOREIGN MANUFACTURING ESTABLISHM
BY INDUSTRY AND CC

Manufacturing Industry Groups	United Kingdom Est.	United Kingdom Employ	North America Est.	North America Employ	Australia Est.	Australia Emplo
Meat Freezing	10	6,732	2	623	—	—
Other Food	22	1,707	7	775	26	1,906
Beverages and Tobacco	8	1,264	1	21	16	264
Textiles	6	445	—	—	16	1,924
Wearing Apparel	10	506	1	40	18	1,077
Paper	9	425	4	76	14	664
Chemicals and Rubber	29	2,034	14	641	22	878
Minerals	11	611	—	—	24	1,642
Metals	16	1,548	2	68	29	1,041
Machinery	10	444	6	444	14	465
Electrical Machinery	21	1,804	1	135	10	731
Vehicle Assembly and Parts	5	303	5	1,499	2	155
Other	32	1,234	12	212	28	956
TOTAL	189	19,057	55	4,534	219	11,703
PER CENT OF TOTAL	39	48	11	11	45	30

Source: R. S. Deane, *op. cit.*

TABLE 8

ENTS AND THEIR EMPLOYMENT, 1963 - 64:
UNTRY OF OWNERSHIP

Other Est.	Other Employ	Total Est.	Total Employ	New Zealand Est.	New Zealand Employ	Foreign Establishments Employment as % of N.Z. Total for Mnfg.
—	—	12	7,355	38	19,165	38
4	315	59	4,703	625	15,030	31
1	60	26	1,609	134	3,542	45
3	591	25	2,960	185	11,587	26
5	381	34	2,004	994	26,538	8
2	1,116	29	2,281	112	6,982	33
1	22	66	3,575	318	9,255	39
—	—	35	2,253	603	8,015	28
2	310	49	2,967	692	13,073	23
—	—	30	1,353	664	12,267	11
3	655	35	3,325	178	7,387	45
1	294	13	2,251	43	4,902	46
4	514	76	2,916	4,781	61,523	5
26	4,258	489	39,552	9,365	199,266	20
5	11	100	100	—	—	—