Story: International economic relations

(McKinnon, 2010a)

British dominance

At the beginning of the 20th century the UK was the dominant international power. The economies of both Germany and the US were larger, but only the UK was a truly global trader. It imported far more from most countries than it exported to them, financing the difference from the return on its many overseas investments. The City of London financed world trade, and the British currency, the pound sterling, was used alongside gold to settle accounts, not just within the British Empire but beyond. New Zealand’s per-capita consumption of British goods was high, but two-thirds of British exports were sold outside the empire.

First World War and after

During the First World War the US replaced the UK as the world’s principal creditor country, and it continued to play a key role in the international system after the war. New York rivalled London as a financial centre.

US dominance

The Second World War crippled the UK economy, and most other economies, especially in Europe and Japan, but not in the US. In 1945 the US accounted for half the world’s output and was its major creditor. It lobbied for other economies to open their borders to investors and businesses from other countries.

New Zealand was keen to maintain a full employment policy, keep its special agreements with the UK, and develop its industry. So it kept the new system at arm’s length – it chose not to enter the International Monetary Fund, which was established to manage international financial relations, until 1961, even though Britain had joined. It did join the general agreement on tariffs and trade (GATT), world trading organisation, in 1948.

US and other capitalist economies

Over time the relative economic significance of the US declined, as Europe and Japan recovered and grew. During the period of financial instability in the later 1960s and 1970s, meetings between finance ministers and senior financial and economic officials of the principal capitalist economies became common. From the mid-1970s these were regularised as G7 meetings.

New Zealand abandoned protectionist policies in the 1980s. Its main difference of opinion with the major powers remained their inability or unwillingness to open their food markets, which were largely insulated from international prices and supply.

A feared food fight

Why was wool never subject to protectionist barriers the way food products such as butter, cheese and meat were? Wool was an industrial input, and overseas factory owners were keen to source it as economically as possible. But New Zealand wool products were ‘final goods’ (sold directly to the market) – while food consumers wanted a bargain, their influence was outweighed by the lobbying of domestic producers for whom the New Zealand product was a feared competitor.
OEC
dThe Organisation for Economic Co-operation and Development (OECD) admitted New Zealand to membership in 1974, shortly after the UK joined the European Union, then the EEC. The OECD, an outgrowth of US economic assistance to Europe after the Second World War, grew to embrace most developed economies. It engages in economic and social investigation and data gathering and has become the principal reference group of economies in respect of debate on political economy issues in New Zealand.

WTO and the Cairns Group

GATT gave way to the World Trade Organisation (WTO) in 1995, which became the principal forum for multilateral trade negotiations. In 1986 New Zealand was a founder member of the Cairns Group – a group of 19 developed and developing primary-producing economies which sought free trade in agricultural products. The place of agriculture in international trade negotiations was secured through the Uruguay round of trade talks (1986 to 1994) and in 2009 the group played a part in the ongoing Doha round, which started in 2001. The group’s goals were contested not just by protectionist rich economies, but by some developing economies with large rural populations dependent on farming, such as China and India.

In 2009 the Cairns Group included 10 Latin American countries, four South-East Asian countries, Pakistan, South Africa, Canada, Australia and New Zealand.

Slow race to the bottom

Returning New Zealand to ‘the top half of the OECD’ in terms of per-capita standards of living was an oft-cited goal in the early 2000s – the benchmark for New Zealand’s economic performance had once been provided by comparisons with other British Empire countries. The OECD goal remained distant; in 2008 New Zealand ranked 22nd out of 30 countries.

G8 and G20

With the end of the Cold War, and the adoption of market-oriented policies in much of the developing world, new structures for managing the international economic order were explored. Russia became a full member of the G7 in 1997, making it the G8.

The G20 was established in 1999 to bring together ministers of finance and central bank governors. It was an effort to draw developing countries with rapidly advancing economies, such as China and India, into the framework of international economic diplomacy. Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, South Korea and Turkey, together with the G8, were members in 2009.

New Zealand’s economy is too small for it to have membership in the G20, and it is an outlier of the international political economy.

New Zealand’s diplomacy seeks to ensure that larger economies and states foster environments that give New Zealand businesses opportunities anywhere in the world, and do not harm the interests of New Zealanders at home.

How to cite this page:

All text licensed under the Creative Commons Attribution-NonCommercial 3.0 New Zealand Licence unless otherwise stated. Commercial re-use may be allowed on request. All non-text content is subject to specific conditions. © Crown Copyright.