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REPRESENTATION BY NEW ZEALAND

The following communication dated 31 March 1977 from the Permanent Representative of New Zealand to the United Nations addressed to the Secretary-General of the United Nations is submitted to the Committee for its consideration.

The Permanent Representative of New Zealand presents his compliments to the Secretary-General of the United Nations and has the honour to refer to the Secretary-General's Note, FI 313/1(1) of 22 February asking Governments to furnish national income statistics for 1975 and any revision in respect of 1969-1974, together with any other relevant data or supplementary material which may be of assistance in connexion with the review of the scale of assessments being undertaken by the Committee on Contributions.

The Permanent Representative of New Zealand has the honour to submit with this Note a paper setting out the views of the New Zealand authorities on the questions before the Committee. The New Zealand authorities regret that the requirement at this time of the year to prepare the New Zealand annual budget has prevented the earlier preparation and submission of these representations. The New Zealand authorities have taken the present exceptional step of making special representations to the Committee only after the fullest consideration and in the light of the exceptional developments affecting the New Zealand economy. It would accordingly be appreciated if they could be drawn to the attention of the Committee.

It is the view of the New Zealand authorities that the percentage contribution assessed on New Zealand for 1977 is in excess of New Zealand's relative "capacity to pay". It is their hope that the evidence given in the paper of a serious deterioration in New Zealand's fundamental economic situation in recent years and, inter alia, of a serious burden of external public debt and inflation rates in excess of those experienced in many other countries, will be given their due weight by the Committee in its consideration of future scales of assessment in accordance with General Assembly resolution 31/95 B.

COMMITTEE ON CONTRIBUTIONS

Response by New Zealand to United Nations
Note No. FI 313/1(1) of 22 February

NEW ZEALAND

National Income Statistics: New Zealand national income at market prices (former SNA) for the fiscal years beginning 1 April are set out below. (No official estimates of calendar year data are available.) Figures are in million New Zealand dollars.

1969	4,445
1970	5,094
1971	5,988
1972	6,983
1973	8,046
1974	8,721
1975	10,027

Source: Department of Statistics latest revised figures.
A table of national income and expenditure data for 1972-1975 is attached at annex.

Comment: In considering the above national income data, the nature of New Zealand's economy is such that special attention needs to be given to other factors which are taken into account by the Committee. Taken in isolation national income data seriously overstate New Zealand's current and medium term "capacity to pay", relative to other countries.

Because of New Zealand's substantial dependence on international trade, the country was particularly affected by the serious downturn in the world economy which began to become evident in 1973. New Zealand's terms of trade with the rest of the world (1957 = 100) declined from an average level in 1973 of 121 to 95 in 1974, and 71 in 1975. Latest figures available (for the third quarter of 1976) show the index at 74, even though export prices have significantly increased. Despite very wide cyclical swings, the terms of trade for New Zealand have gradually trended down for the last 15 years. The 1975 average of 71 compares with the actual average of 98 for the decade 1962-1972. Superimposed on this downward trend has been the effect of the massive increase in oil prices.

As a consequence New Zealand experienced a balance of payments deficit of the order of 15 per cent of GNP in 1974/75 and 11 per cent in 1975/76. Given the structural changes in the world economy over the last few years, current terms of trade must be expected to be a long-term feature for a primary commodity exporter such as New Zealand. Due allowance should be made for reduction in purchasing power of national income arising from the decline in the terms of trade.

/...

The New Zealand Government decided on a process of gradual adjustment to the new external situation. A large public sector deficit was maintained and extensive overseas borrowing was undertaken. As at 28 February 1977 New Zealand's overseas debt stood at \$NZ 2,589.6 million.** Compared with \$NZ 465.2 million as at 31 March 1974, this has been a dramatic increase representing about 7 per cent of that period's national income. The great bulk of this borrowing will need to be refinanced (at terms which could be quite unfavourable) or repaid in the next few years. Government debt interest payments as a percentage of export receipts for June years are:

<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
2.1	1.9	3.7	4.8

As a corollary to the borrowing-financed gradual adjustment policy, New Zealand's exchange rate has been significantly overvalued. Latest "International Financial Statistics" (February 1977) indicate that the \$NZ:\$US exchange rate has declined by 23 per cent since 1974. Notwithstanding its extent, this decline has not been sufficient for balance of payments equilibrium. Thus, for a true estimate of the international value of New Zealand's national income, conversion at the latest exchange rate is essential. \$US 1.00:\$NZ 1.049 was the rate ruling at 18 March 1977.

A further relevant factor is the continuing high rate of domestic inflation in New Zealand. Annual figures were 10.2 per cent in 1973; 12.6 per cent in 1974; 15.7 per cent in 1975; and 15.6 per cent in 1976.

It is illustrative of New Zealand's relatively vulnerable international competitive position to note the direct contribution of increasing import prices to the increases in the price index of final expenditure at market prices (GDE plus exports). These are as follows:

<u>Increases in Price Index:</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
Final expenditure	10.4	6.7	11.4	16.4
Imports	0.9	1.2	6.8	7.3

In the light of the foregoing data, the New Zealand authorities suggest that a more appropriate indicator of New Zealand's relative international "capacity to pay" is given by the trend in real effective gross domestic product (i.e. real domestic production adjusted for terms of trade movements).

** Figure not published in New Zealand - it should be regarded as confidential to the Committee and Secretariat, and is not for publication under any circumstances.

	<u>Real Effective</u> <u>GDP -- Annual</u> <u>% Change</u>	
1974	-4.3)	a cumulative decline of 6.2 per cent on the 1973 base
1975	-1.5)	
1976	-0.5*)	

* Estimate.

When these figures are applied to the national income data, the following approximate modified figures are produced:

	<u>\$NZ</u>	million	<u>\$US**</u>
1974	8,346		7,554
1975	9,877		9,414

** Converted at current \$NZ:\$US exchange rate.

Conclusion: In submitting brief comments supplementary to New Zealand's national income statistics, it is intended to indicate the limitations of these, when taken in isolation, as a guide to New Zealand's "capacity to pay".

It is interesting to note that New Zealand's ranking in the GNP per capita list (source - World Bank Atlas) had slipped significantly even on 1974 data. The 1976 listing places New Zealand fifteenth compared with twelfth the previous year (1973 data). More recent OECD data (1975 estimate) suggest that New Zealand ranks seventeenth behind the United Kingdom and Japan. When small (population under 1 million) resource-rich nations are included, New Zealand is placed even lower - twenty-second/twenty-third. New Zealand's relative international position has clearly fallen and will continue to do so in real terms, particularly where the use of foreign exchange is concerned.

The New Zealand authorities believe that the above data should be of interest to the Committee in relation to operative paragraph 4 of General Assembly resolution 31/95 A and to its review of the scale of assessments provided for in General Assembly resolution 31/95 B. They consider that New Zealand, as a primary exporting country, has suffered a long-term structural decline in its terms of trade and that the economic situation which New Zealand has come to face in recent years warrants adjustment of the base data according to which New Zealand's "capacity to pay" is assessed, and a consequent reduction in New Zealand's percentage contribution to the United Nations budget.