



# A Road Map For Transforming NZ Inc

**A White Paper On New Zealand's  
Long Term Economic Future  
By The Trans Tasman Editors**

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*“ We are poor: Therefore we must think”*  
- Rutherford

**Ending up in an economic cul de sac after 9 years of Labour-led Government, NZ has to dig itself out of stagnation. The Key Government says it has a comprehensive plan to re-balance the economy from debt-fuelled consumption towards investment and exports. It has to be nation-changing. Will it be enough? The Trans-Tasman Editors take an in-depth look at what the Government is aiming to do, and offer some ideas of their own on how NZ can climb back up the economic ladder. There's no time to waste: let's get on with the job of transforming NZ Inc.**

A year on from the 2008 election, the *Key* Government is gathering momentum. Weathering the 2008 global financial crisis, a Prime Minister still riding a wave of popularity is facing up to the big issues for his leadership

Where the predecessor *Clark/Cullen* administration gave away the goals of -

- **NZ Inc pulling up to the pace of the Australian engine economy**
- **NZ Inc lifting its ranking in the OECD**

Key has made it clear he is determined to reverse NZ's slippage down international league tables. Each Government has had to confront this challenge since 1970, when Britain decided its future lay in Europe, and NZ Inc found itself alone in the Austral Pacific region. The 1970s response lay in national development planning. The National Development Conference provided the platform for broadening the basis of the NZ economy and establishing an indigenous petroleum industry to complement its agricultural armoury.

A generation on, NZ Inc has to decide for the next 25 years whether and how to “*progress*.” The politico-economic task is clear for 2010-2030. In the search for “*peace, security and social and economic progress*,” the issues are:

- **How does NZ Inc evolve profitably and sustainably?**
- **How does our small island nation lift to par with Australia?**

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No Government can ever get policy initiatives and responses 100% right. History shows too many imponderables from oil shocks to war, from disease to depression and simple lack of aspiration, to ensure perfection. They can only aim at good, not perfect, results.

What Governments are indeed sworn to is the search for profitable directions and good results, say well above the 50% and hopefully towards the 80% mark. As its second year in office approaches, the Key Government can claim to have taken the sharp edges off the 2008 recession. Recovery beckons, but green shoots could be burnt off by a scorching dollar. The task for 2009 is to gear up the strategies to keep pace with Australia, and gradually climb back up the OECD ladder.

**Strategic Thinking.** Observers are still surprised to think how, in the prosperous decade from 1999, the Clark/Cullen Government retreated from those goals. In seeking greater social justice, it chose to slice and dice the national cake. The more ambitious Key and his Ministers insist they do not intend to repeat this mistake. In a three year term they accept strategic policies need to get under way before election year swings round.

The *Trans-Tasman* Editors believe a younger, more focussed team of Ministers has the political wit, grit and energy to pursue policies, upsetting though they may be to some, but vital to NZ Inc to keep pace with Australia; hold our best and brightest in NZ; and even encourage more John Keys to return home to serve their country.

The outline of Important Strategies of the Key Government can be seen first in:



## **1** A Trans Tasman Single Economic Market - In Effect Economic Union - by 2015

Key understands the *Bolger/McKinnon* Government missed the chance for a Trans Tasman Economic Union in the nineties. This was when the two countries bungled a Common Aviation Agreement. In the 2000s Clark and Cullen again failed to carry CER forward. Key and his Ministers have had the energy and foresight to set the goal of 2015 for a fully operational ANZAC Economic Union. The slower time scale has the advantage of delaying action on (the imperative of) an ANZAC currency and *Reserve Bank*. The disadvantage is in putting off progress towards establishing a cohesive Austral Pacific Confederation.

**Pacific Role.** Ministers now share Foreign Minister *Murray McCully's* understanding of the need to shore up “*the social and economic progress*” of the Austral Pacific neighborhood (from which we continue to recruit citizens as we lose them to Australia). The signs are there in McCully's determination to take control of the *NZAid* programme to deliver assistance which will lift economic performance among Pacific Island states. The 2015 timeline also gives the space to put a formal Common Defence Relationship (CDR) in

place, as a concomitant of a CER. CDR has had a name for long enough but was never institutionalised to convince either country of its reality, at least after the Clark administration oxymoronicly denied NZ and Australia formed any sort of strategic entity. The two countries' strategic imperatives may not exactly match, but they are close, and NZ's defence capabilities at best are only useful as an add-on to somebody else's efforts.

**Australia Link Vital.** The Key Government recognises NZ Inc can only share effectively in the search for regional peace and security in the closest cooperation with Australia. Key, unlike Clark, thinks aspirationally which puts him in tune with Rudd reaching out to a wider Asia Pacific grouping. It's elementary the rise of China as a super-power in the global economy poses questions for both Australia and NZ. At the joint Cabinet meeting in Sydney last month *Rudd* focused on the impact of China's new role. He argued powerfully Australia and NZ must move together.

It's true by knitting NZ more closely into the fabric of Australia, Rudd "*bulks up*" Australia's pretensions to be a "*middle power*" with an increasingly influential role in the G20 group. And Key is shrewd enough to see the opportunity of winning reciprocal concessions from an Australian PM who has a broader vision than his predecessors. It's a chance for NZ to pick up economies of scale by reducing the barriers for NZ industries to do business in Australia. (*Refer Trans Tasman issues August 20, 27, 2009*).

**The trick with this wider Australian relationship** is managing the fact that to Australia, NZ will always be little more than another large state. It's essential NZ plays to its economic and strategic strengths, like efficient pastoral farming, plentiful water, inventiveness, and coherent, corruption-free public institutions. This is especially as NZers show little short-term appetite for becoming Australians, no matter the economic logic.



## **2** Energy as the Transformatory Base

Energy communications, innovation, and luck, are the key underwriters to modern economic growth. From the failure to invest in major energy development in the last 25 years the Key Government can see energy offers NZ Inc its prime transformatory possibility.

**More Development.** Beyond the recent upgrade at the existing Manapouri scheme, there has been little major hydro electricity development for electro metallurgical industry since the Clyde Dam and the opening of the third potline at the Bluff aluminium smelter. (Yet *Rio Tinto* - outside *Fonterra* – is NZ Inc's largest industrial exporter).

The Upper/Lower Clutha and Lower Waitaki hold huge potential for energy intensive industry, and for more intensive irrigation in the sparsely populated, job weak South Island. Taranaki gas and oil was the transformatory resource which allowed NZ some growth in the difficult 1980s and 1990s, and the privatised spin-offs from the NZ Inc approach

which created Think Big and Petrocorp contributed significantly. However, the early vision of petroleum self sufficiency was not pursued, even though it might by now have secured NZ a balance of payments surplus.

Petroleum policies world-wide are tending to a greater degree of State direction. To ensure a better and faster return to the nation the Key Government is looking to re-establish systems to ensure the fullest use of existing facilities to bring forward the development of NZ's petroleum resources. Prime regions for focus will be the Taranaki Oil Province and the Great South Basin, in the light of improved deep water technology.

**Security Of Supply.** Elsewhere, the Govt is encouraging exploitation of the central North Island geothermal resource, which has become commercially attractive as oil prices rise. However, this is a Government looking for economically viable outcomes. The relative uncompetitiveness of wind energy means there will be a lot less talk about it, while a sensitive approach to hydro-electricity opportunities may bear fruit as citizens start realising they may be the best options for new, climate-friendly generation. The Govt is no longer prepared to tolerate constant threats to security of energy supply, and if that means burning gas or emitting carbon, so be it.

In fact, the Key Government sees energy - and a more vigorous pursuit of mineral wealth - as the big game in town which might in their time in office be the deciding factor in restoring parity with Australia. Energy Minister *Gerry Brownlee* has ordered a "stock-take" of mineral resources in the *DoC* estate. His aim is to unlock mineral wealth, without environmental disturbance. A third of NZ's mineral wealth is under protected national parks.

**Other steps might include a separate policy unit**, incorporating the Crown Minerals Division, to advise and guide development. NZers are also going to hear a lot of something they haven't heard much lately - they are as rich as Australians already, but we're not taking the opportunity. And if the opportunities are as big as some hope, we might even see raised the prospect of a new state-owned oil company to get the maximum benefit for NZ. Ministers are looking at several other transformatory policies.



### **3 Greening NZ with Environmental and Industrial Forestry**

The Key Government is focusing on NZ Inc forestry as a major greenhouse gas reducing industry and as NZ's largest export industry by the 2030s (if not as originally envisaged by 2020). This was an opportunity surprisingly missed by both the Bolger and Clark administrations. Key's Ministers have had time in Opposition to note the failure in the 1990s to provide for continuous large-scale plantings:

- To develop carbon sinks.
- To compensate for greenhouse emission.

- To provide for Regional and Iwi industry & employment (in the light of Waitangi settlements).

The loss of focused research capability and a string of policy U-turns sank confidence in the sector, NZ Inc has lost direction in what has become a fragmented industry. The Key Government is now looking to restore Ministerial direction and ensure steady state tree planting and development programmes. Elements for consideration, besides a policy unit for forestry, will include

- Major forestry nurseries
- Forest industry and infrastructure
- Plantation, watershed, highway, coastal & planting programmes.

Minister McCully's interest in their development will mean attention to Forestry aid (if possible with Australia and Canada) to help with carbon sinks and export industries in the Pacific Islands and beyond.

The transformatory potential of the forestry sector is high, in the light of :

- **NZ's unique plantation** forest resource of pruned clearwood radiata pine ideal for veneers, fibreboard, pulp and preservatised uses.
- **The opportunity to market** as a global speciality wood (not as a commodity), one of the world's best coniferous clearwoods.
- **The development of new uses**, from post-stressed panel pillars for high risk earthquake zones, to large size preservatised construction from retaining walls to bridges and water tanks in the potentially vast Asian market.
- **A co-ordinated NZ Inc export drive** emphasising high quality wood systems and products. NZ has let itself slip in the last generation against Scandinavia with its small trees and high wages but high quality and expensive wood products, and to the co-ordinated approach to forest exports of Canada's British Columbia.



## **4 Innovation : Research, Science and Technology**

The Key Government, whose Ministers are mostly from the first generation to grow up as computing power and knowledge creation exploded, wants more from science and technology if it is to move NZ Inc towards greater mining wealth, and improvements in agricultural output and growth in other sectors of the economy. Innovation is at the heart of economic progress. The early 2000s promise of a transformational attitude to

science and innovation through the Knowledge Wave conferences went unfulfilled. Now John Key has enlisted Professor Sir *Peter Gluckman*, one of the greatest figures of NZ science and a driving force in the *Auckland University*-led Knowledge Wave push, as his chief science adviser. Gluckman is adamant science “*will be the mainstay of the transformation of NZ, indeed it is the only way we can make a quantum leap in productivity, it is the only way we can address the many challenges we will face. However this answer has many dimensions and we have to dissect these and build a non-rhetorical set of arguments that must inform a national consensus.*”

The establishment of the role of Chief Scientific Adviser by John Key suggests **there is a willingness on the 9th floor of the Beehive to explore how science can better help transform NZ**. Gluckman says business must be innovative to survive and thrive, and innovation is based on new knowledge. “*Unfortunately, the nature of the NZ business cycle means that most business is focused on short term technology transfer rather than the longer term application of knowledge to produce quantitative shifts in our productivity. We need to recognise science leads to new industries, beyond just reinforcing the old.*”

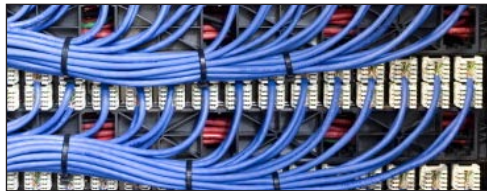
In areas such as climate change responses, there is also huge opportunity for NZ. Key and his International Climate Change Negotiations Minister *Tim Groser* are not only pushing a global scientific alliance on agricultural GHG emissions because NZ can credibly lead in this area of massive significance to the developing world. There is also a real chance here to be on the leading edge of the most difficult scientific challenge of the climate change debate - matching growth in food production with fast-growing demand while cutting GHG emissions. There is huge commercial opportunity in owning such IP as the world demand for food doubles between now and 2050.

**Full Review.** The *Trans-Tasman* Editors believe there needs to be institutional tightening as a basis for the infusion of more resources into scientific research and technology as the economy begins to lift. The divided Research Science and Technology systems put in place in the 90s requires a review as full as the electricity sector has had. The often conflicting roles of the two lead agencies, MoRST and FoRST, the endless bickering between CRIs and universities on funding levels, the weak governance and funding of small research institutes, and the low rate of new patent registration in NZ all cry out for reform. One area of consistent complaint is the university sector, whose research is undoubtedly underfunded, but whose unchanging lobby for more funds and less scrutiny on outcomes has become a counter-productive cracked record.

And from Ministers, The *Trans Tasman* Editors are looking for signs investment in research keeps rising in proportion to investment in under-graduate bums on seats. Recent cuts to a small programme which brought high quality PhD researchers to NZ was a step in the wrong direction. This area needs attention fast.

Given the range of sectors involved, from Agriculture, Forestry, Mining, Manufacturing to Technology, the Minister should work with a senior Cabinet Committee.

Gluckman, too, sees the need for an over-arching and aligned science and innovation policy, one which transcends the Ministries as science is far broader in its implications than matters covered by MoRST.



## 5 Ultra-Fast Broadband

The Government is working on a \$1.5bn investment initiative, as part of a programme modernising NZ's infrastructure. Internet entrepreneur *Rod Drury* says connecting NZ digitally to the rest of the world through broadband is the biggest “*silver bullet*” for turning the NZ economy around he's seen in his business career. International broadband levels the playing field for 400,000 small businesses in NZ. “*There's never been such an opportunity to step-change NZ's productivity.*”

**Connection Vital.** The creative potential of digital connectivity is especially relevant to NZ, where most businesses employ fewer than 10 people. Fast broadband raises the prospects for effective collaboration with other small, entrepreneurial businesses exponentially, and with it the potential for small businesses to grow.



## 6 Securities Law Reform

NZ's capital markets are thin, lack liquidity and are subject to confusing, outdated regulatory oversight in the hands of too many players. But several work streams are well under way to deal with these persistent complaints. More important will be how far the Key Government seeks to create competitive advantage by resisting the global urge to pile on more and more disclosure and compliance costs for capital-raising entities. Arguments coming from the likes of the *Capital Markets Development Taskforce*, *Securities Commission* and *NZX* all advocate less emphasis on investor “*protection*” and more on investor “*outcomes.*” Taking risks is inherent to doing business, but the global trend is away from allowing risks to be shared by clued-in investors. In the search for ways to ensure NZ Inc is an attractive investment destination, an emphasis on being able to get things done in an honest, trusted, low-cost manner could be a real competitive advantage.

### **Other transformatory moves on the agenda include:**

- Getting the most from being a maritime country, with a large sea zone, where maritime research and resource programmes are lifted to the same level as those in agriculture, industry and forestry.

This will entail the build up of marine science and technology with more marine scientists and technicians, research centres, vessels and drilling rigs. Given the scale of all its maritime zones, NZ Inc would expect to cooperate closely with its maritime neighbours.

## Summary

NZ's progress will continue to depend on the application of brains to resources, and those resources must be moved, however painfully, to areas where they can be used more productively. NZ Inc will benefit immeasurably from lifting its emphasis on Research, Science and Technology to comparable OECD levels.



NZ cannot afford to “muddle through” the next phase of its history. The global financial crisis has plunged the Crown accounts into fiscal deficits which on present projections will extend through the next 10 years. NZ will have to fight itself out of this fiscal hole. It must be fitter, sharper, smarter. It can't afford to drop the ball again.



The Government has pledged a comprehensive programme essential to rebalance the economy towards investment and exports. It is developing an environment for business which should better release the country's potential - which as always is considerable. Compared with most of the rest of the world, NZ is still a stable, wealthy, English-speaking democracy where the law is applied, good food is produced for an increasingly hungry world, and there are major untapped resources. CER provides a great platform for productive growth. The country's energy and mineral base can generate the wealth to lift living standards towards those of Australia. As well science and technology can put NZ back on the global front line. But the example of Fonterra and the high hopes there were for the dairy giant when it was created show unless reforms are well planned they can hinder progress.



The stars are aligned. The Trans-Tasman Editors believe NZ is on the cusp of a new era transforming society and the economy. But a potential hiccup on the way is the nature of MMP which brings about compromise and self interest prevailing over the national good.



Can we do it? The Trans-Tasman Editors who have been recording NZ's economic progress (or lack of it) for 40 years rate the chances as better than even. However there are two crucial ingredients. Firstly how well does the Government execute its plans to move the country forward. Does John Key have the talent in his cabinet to make his aspirations a reality? And secondly can he motivate NZers to shake off a nation sapping lack of self belief which comes to the fore all too often.