The Geographic Footprint – The External Environment Scan

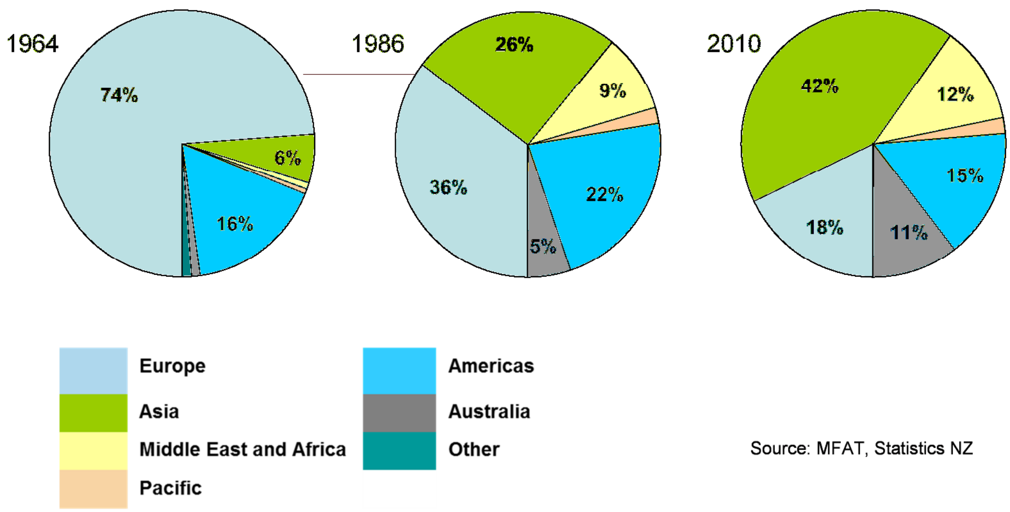
The Shift to the Emerging Economies

The shift in relative geopolitical power from the traditional centres of developed country power (North America and Europe) to the emerging economies, particularly in Asia, is well understood and needs little elaboration. This shift in the centre of global gravity is powered by economic change, but the commensurate growth of their political power is already well underway.

The advent of the Asia Pacific century has vastly changed the market realities we need to confront as a small trading nation. The one certainty is that change will gather pace in the coming decades.

In 1964, Europe (including the UK) absorbed 74% of NZ agricultural exports; in 2010 the figure was 18%. Our exports to the Middle East and Africa in 2011 were almost three times as much as to the UK[1]. For a country that was once described correctly as 'an offshore farm for Britain', these represent dramatic changes in our external economic interests.

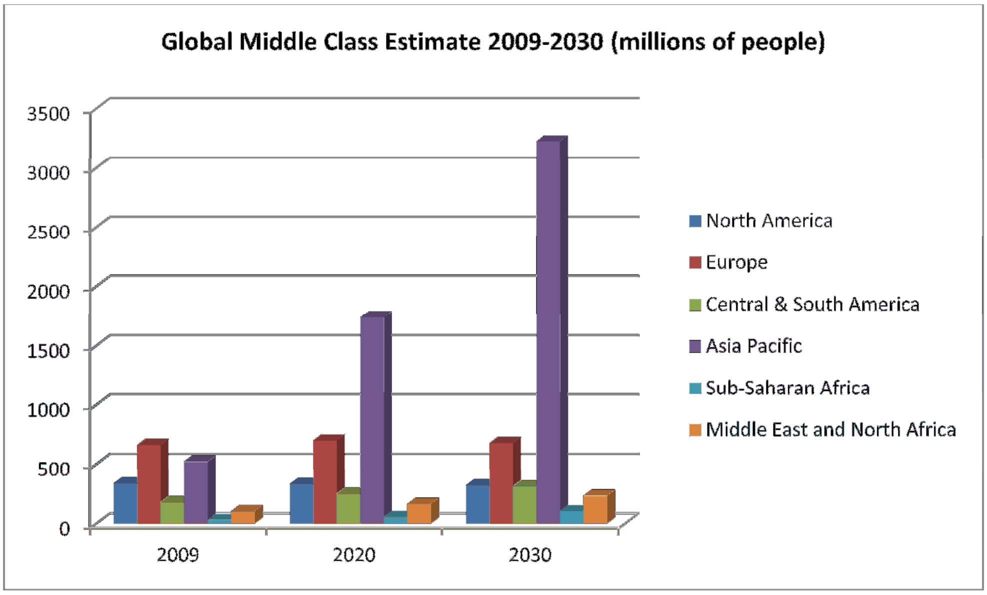
Markets for NZ agricultural exports



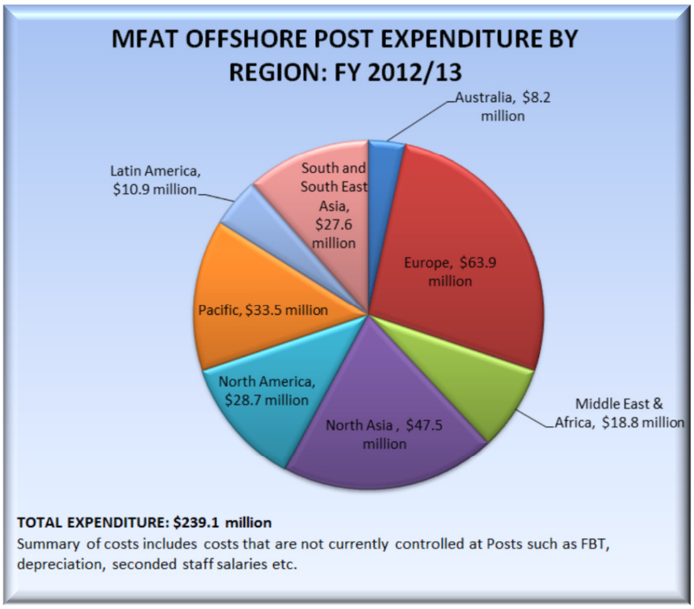
Source: MFAT, Statistics NZ

By 2030 we can expect a greater concentration of market power in the Asia Pacific region. It is estimated that there will be 3.2 billion people considered 'middle class' in the region by that time, increasing at a rapid rate over the next two decades.

[1] 3% of our exports went to the UK in 2011; 8% went to Africa and the Middle East.



Significant opportunities lie in the Asia Pacific and other growth regions. Yet the weighting of the Ministry's footprint reflects the balance of New Zealand's interests last century. Europe takes a disproportionate share of MFAT's overseas expenditure (about 26%) whereas in the Middle East and Africa we spend barely 7% - spread across nearly 40% of the countries in the world, many of them of critical interest to our economic future.



Change – and flexibility to change further in the future – is required.

Asia

China is of course a focus of our attention and the reasons for that need no elaboration. The current trajectory of our trade growth, accompanied by tourism, education, science, sport and cultural interactions will demand an expansion of our China footprint soon. A new larger Chancery is already budgeted.

India is the other emerging developing country super-power, and we launched our first ever NZ Inc strategy on India centred around an ambitious goal of making India one of our key relationships by 2015.

We are aggressively targeting ASEAN, a market of 600 million. The ASEAN integration goal of 2015 signals dramatic changes in the years immediately ahead. Yet for each of the next three years we will find the ASEAN chair moving to a capital where we have no Mission. While it is acceptable to leverage from the diplomatic resources of our friends for occasional years, this cannot be the rule if we want to be taken seriously.

We are underperforming in Indonesia, which is by far the largest country in South East Asia. We have the platform in place (the FTA with Indonesia applicable to Australia and NZ was ratified only in January this year), but more work needs to be done to take advantage of it. Singapore and more recently Viet Nam have emerged as genuine and substantive partners. To add to these pressures, we are likely to see Thailand and Burma emerge as much more serious players over the next few years. In Burma, once the food bowl for the region, with good climates and agricultural land and just across the border from China, it is not difficult to see the opportunity for New Zealand agricultural interests.

In all these Asian relationships, we need to leverage aggressively the advantages we have with our expanding network of FTAs – hence the Prime Minister's recent leadership of a powerful business delegation to Indonesia, and the 28 (minimum) trade missions we are committed to in this term. These missions will be targeted overwhelmingly to the emerging economies.

All countries are reading the shift of power to Asia in the same way. The Australian Prime Minister, for example, has commissioned a White Paper on 'Australia in the Asian Century'. Despite this, the phrase adopted in the mid-1990s for strategic trade policy thinking, *'Asia first, but not Asia first and last',* is as valid today as it was then. There is still a very clear prioritisation towards Asia implied in that phrase, without losing sight of the limitations of a singular strategic concept taken to extremes. When we add in the range of our non-economic interests (intelligence, cultural links, and responsibilities in the Pacific and so on), the need for avoiding too singular a focus on Asia is obvious.

Other Emerging Economies

While the shift in power is overwhelmingly an Asian phenomenon, it is not solely an Asian story: other emerging economies such as Mexico and Russia (both have per capita incomes ten times that of Vietnam and significantly larger populations), Turkey, Brazil and the GCC will demand our attention.

The Ministry has been asked to re-think its current Middle East footprint. The new post in Abu Dhabi has been hugely successful. Focused on solving their chronic food security challenges, but resourced by massive oil wealth, the Gulf states are logical partners, but Government and diplomatic leadership is required on a level not seen in any other part of the world.

For the time being, our tiny footprint in Africa – two small Posts (Pretoria and Cairo) along with the new floating African Union Ambassador – is about right. But it will not be sustainable long term. The African continent holds over half of the worlds under developed agricultural land, and about 30% of the votes in the UN. There is a whole group of African economies growing at near double-digit rates and some in excess of that. Serious investment is starting to flow from China, Korea and other countries into labour-intensive and resource-based developments. At some point we will need to consider how to position New Zealand to best advantage as a small nation with obvious agricultural interests.

Europe and North America

The United States remains the world's only true global superpower. Recent years have seen the US reassert interest in the Asia Pacific region, most notably through joining the East Asia Summit. The signing of the Wellington Declaration has opened the door to evolving US/New Zealand partnerships on a number of fronts in the spheres of diplomacy, security, trade and development. All of these demand diplomatic as well as Ministerial resources.

The recalibration of our footprint must not be at the expense of key traditional relationships in Europe. However the way we operate needs to adapt.

Our direct trade and investment links with Europe and North America are still at significant levels, quite apart from our strong shared political interests with these countries on a whole host of fundamental issues such as security, counter-terrorism, and human rights. Some traditional NZ exporters (eg our sheepmeat industry) are still very much dependent on Europe and North America. Equally, at the other end of the export spectrum, North America and Europe (plus Australia) are still the markets of choice for the top 100 NZ technology exporting companies (TIN-100). These exporters have every right to expect the Government to defend and advance their interests.

Australia and the Pacific

Australia is in a special category. It is our indispensable partner bilaterally, regionally and globally in all areas of diplomacy. We have moved systematically from a deliberate (and at first rather self-conscious) declaration in 1978 that Australia was the most important country in the world to New Zealand, through CER (1983) and subsequent expansions of its scope (1988), to the Trans-Tasman Mutual Recognition Agreement (1997) to the continued evolution of the Single Economic Market agenda and active participation in COAG Ministerial Councils together with the Commonwealth Government and State Governments. This merging – call it 'one system, two countries' – is likely to continue.

Looking strategically, the big play with Australia is now our shared enterprise in Asia, through numerous regional processes (the AANZFTA, ASEAN-based regional economic and political institutions), defence arrangements, shared science interests, APEC and TPP to name a few of the more important shared initiatives. For New Zealand, our relationship with Australia is inseparable from our Asian strategy.

Our leadership role in the Pacific remains central both to our international personality and our diplomatic value proposition. Our work in the Pacific will continue to require close attention and substantial commitment of resources. The Ministry clearly needs to invest in more Pasifika expertise and personal relationships.

Multilateral Posts

Multilateral posts provide a basis for engaging with the world – literally. In that respect, they provide a country with very partial embassy coverage a way of engaging with any country on the business issue the multilateral agency in question deals with.

In this sense, Brussels is best considered today a quasi-multilateral post, where we conduct many important aspects (not just trade since Brussels is also where many political and security dialogues are conducted) of our relationships with 27 countries. Almost any plan for the pattern of European representation must, therefore, involve a strong post in Brussels as the corollary.

The two key multilateral posts are New York and Geneva. They service the UN and a wide range of multilateral institutions of a political, social and economic character. With a small Foreign Ministry, we have to be extremely selective. The test here is obvious: multilateral engagement needs to be selective and specifically linked to identifiable national interests.

There are obvious advantages for a small country like New Zealand in multilateralism. A world not based on multilateral rules is a world based on power aggregates alone. We have a tradition of New Zealand officials who are very skilled at this and get asked to play leading roles in facilitating agreements. Our Security Council bid indicates that the Government still sees substantial merit in the multilateral space.

Our Diplomatic Representation: Following the Foot Traffic

The above analysis is the essential base to any rational appraisal of our pattern of diplomatic representation. What might have made sense in terms of our resource deployment 40 years ago when 70% of our exports went to Europe and North America could not possibly make sense today.

However, we are not inventing the wheel here in looking at MFAT’s geographic footprint. There has already been periodic and substantial reshaping of our geographic footprint in line with our moving trading interests. The most recent review was in 2009 and most of those decisions have been implemented. There is no large-scale misalignment between our economic (and increasingly political) interests and the pattern of our representation. Rather, it is a matter of pushing ahead in this direction a little more assertively.

We have considerable flexibility in the forms of representation that we employ: large, medium and small posts; the hub and spoke model; Consulates and Consulate Generals; cross-accreditation; honorary consuls; NZTE-headed posts; co-location with Australia and Wellington-based special envoys. One or two of those models date from 2009 and it is a little early to evaluate them.

In short, there are plenty of tools in the representational toolbox. But the trend is clear: it is about moving to Asia in particular and the emerging economies generally. The corollary is fewer (or smaller) posts in Europe in particular or more novel ways of representation there. The separate paper to Cabinet recommends further movement in this direction. We are not, however, trying to downsize our diplomatic service per se. We are trying to get better value for money and in the process free up resources to redeploy into growth areas.

There will be a core of critical diplomatic posts for New Zealand in the next five to ten years. Over the next few years Cabinet should expect proposals on strengthening these hub operations and opening small spokes in a number of centres of emerging interest. Because of the fiscal environment, any expansion may be very modest at first, but this is the logic of the change programme – it provides flexibility to expand and contract.

Consideration will need to be given to lower cost options like co-location with key partners or roving Ambassadors, where costs are likely to be in the range of hundreds of thousands of dollars, through to mini posts in the $1m to $1.5m range.