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(2am, Saturday 11 November NZ time)



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Prime Minister

Address to the
London School of Economics

Modern New Zealand in a Changing World

1.00 pm GMT

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Thank you for the invitation to address an audience at the London School of Economics once again.

It is not far short of five years since I was last here, speaking on the topic of implementing a progressive agenda in New Zealand after a decade and a half of neo-liberalism.

At that time our government had been in office for just over two and a half years and was busily engaged in resetting the compass for New Zealand's direction. Much has been done since to put in place a solid foundation for social democratic policies, which I believe New Zealanders are fundamentally more at ease with than those of the neo-liberal variety.

My topic today is "Modern New Zealand in a Changing World". It may therefore seem ironic that the occasion for this visit to London is the dedication of the New Zealand Memorial at Hyde Park corner on Armistice Day. Does this not hark back, you might ask, to an earlier era when New Zealand was first a colony and then a loyal dominion within the British Empire?

Of course in part it does, and that in itself is an accurate reflection of that part of New Zealand history. New Zealand's kinship and closely allied status with Britain saw us commit without equivocation to the South African War, the two twentieth century world wars, and the Malayan Emergency. We were also together in Korea and at the time of the Malaysia – Borneo confrontation

But New Zealand's links with Britain today are thoroughly contemporary. British people are the largest group of migrants to New Zealand and the second largest group of tourists. Britain is the third largest foreign investor in New Zealand, and it is our fifth largest trade partner.

So, apart from the common heritage, political and legal systems, and shared values, there is also a constant updating of the relationship through a strong flow of people, investment, and goods and services.

Over the last seven years as Labour governments have served in both Britain and New Zealand, there has been a lot of interest both ways in the policy approaches to common challenges. When Rt Hon Tony Blair came to New Zealand earlier this year, our two governments formalised an agreement on policy dialogue and exchange of ideas.

Both our governments are committed to innovative, open market economies which are also job rich; to strong public services; and to a strong social safety net. I venture to say that we have both enjoyed considerable success across these areas.

In New Zealand we have enjoyed close to the longest run of economic growth since the Second World War, with the economy now around a quarter larger than it was seven years ago.

Our unemployment has halved, and regularly sits at around the lowest in the OECD. Figures out in New Zealand this week put the rate at 3.8 per cent, and that has been achieved at the bottom of the business cycle.

Our major family tax credit package will by next year have dropped our child poverty rate to below the European Union average.

We have invested heavily in education at all levels, particularly in early childhood education to boost participation and quality, and in tertiary where affordability had become a significant issue. Our students and graduates now enjoy interest free conditions on their student loans, provided they stay in New Zealand.

The numbers in work based, industry training, including apprenticeships, have doubled, and we have a particular focus on school to work transitions through trade and vocational training.

Health has absorbed rapidly growing funding, as we move to achieve shorter waiting times for elective surgery, support the care needs of our older citizens, and provide more affordable primary care.

In housing, having re-established a fair rents policy for the public stock and increased the number of homes in it, we have turned our attention to first home ownership and how to support those who can service a mortgage but cannot muster a deposit.

We have already implemented a mortgage guarantee scheme for those in that category, and have been studying the shared equity scheme here in Britain as we design one for New Zealand.

As well, a new savings scheme will have spin offs for aspiring home owners.

New Zealanders traditionally have low rates of savings, other than in home ownership.

We do have a universal pension scheme, paid at age 65 at a rate of no less than two thirds of the net, average, ordinary time wage for a couple, and pro rata for a single person. This rate enables our older citizens to live in dignity and participate in society.

New Zealand Superannuation, as our pension is called, is now underpinned by a dedicated fund, invested in each year from the government's sizable operational surpluses. It will be drawn from at the height of the demographic bulge, when post war baby boomers reach retirement, to cushion the fiscal impact of pensions on the reduced proportion of taxpayers in the population. The philosophy is for government to save now to save universal pensions for the future.

Private savings, however, certainly boost living standards in retirement, and we have designed new schemes to encourage them. Employer subsidised superannuation has been reintroduced for the core public sector with good take up rates.

But the major innovation is the new Kiwisaver scheme.

Beginning next July, all employees signing on to a new job will be automatically enrolled in a quality assured savings scheme. While they will have a short period in which to opt out, the expectation is that making the act of saving as easy as this will lead to good take up rates.

Every new account will be kick started with \$1,000 from government. Savings will be locked in until retirement, or may be drawn on for a first home deposit. In the latter case, the government will contribute \$1,000 per year for up to five years of savings to help with the deposit.

Delivery on social policy which provides opportunity and security is fundamental to a social democratic programme., In our government's agenda, delivery for families young and old, is one of our three top priorities.

But we need a strong economy to do that well – good social policy is resource intensive.

So another of our top three priorities is achieving economic transformation, by building a qualitatively different economy which produces goods and services the world will pay a premium for.

Those who knew the old Kiwi economy would hardly recognise it today.

Tourism competes with the dairy industry as the top export dollar earner.

The turnover in the screen production industry almost equals that of forestry and of horticulture.

International education, the technology sectors, the marine industry, and niche manufacturing are all important second tier export earners.

In wine, New Zealand competes well at the premium end of the market.

We launched Kiwifruit to the world as an exotic fruit and set the standard for quality and branding, commanding a premium price.

Meantime our mega dairy co-operative is the world's largest trader of internationally traded dairy products, and along with our meat industry has made considerable strides in lifting the value of what it exports – in dairy's case by focusing on the development and branding of functional foods.

New Zealand has been unusual as a developed economy in having such a large primary sector base. But that base itself is being transformed beyond recognition, as it must be to thrive in the 21st century.

Our relatively small land mass and first world living standards combined mean that our commodities will find it increasingly hard to compete on volume and price in a more open agricultural trading system. The low cost, high volume producers stand to be the big winners from a successful WTO round.

So we have to be more strategic, innovative, smart, and skilled in how we take our primary industries and indeed our whole economy forward.

Our time in government has been marked by a strong focus on education and skills; science, research and development, exporting, and on the enabling technology and creative sectors which help lift the value and profile of our industries and of New Zealand as a whole.

Current priorities are heavy investment in the transport infrastructure; far reaching telecommunications legislation to get faster cheaper broadband services; getting more effective commercialisation of our innovations; reviewing the business tax regime to encourage more investment; working with major sectors like food and beverage and tourism on higher value strategies; and lowering the barriers to our trade through bilateral and regional agreements - and through the Doha Round if it can be revived.

Of course towering over the ability of all nations to make economic and social progress is the challenge of climate change. As we speak, negotiations have begun in Nairobi around the way forward for parties to the International Convention on Climate Change and the Kyoto Protocol. They occur in the wake of the Stern Review which paints a bleak picture of a failure to act.

New Zealand has ratified the Kyoto Protocol, even though it poses major challenges to us. Of our top four trading partners, two – the European Union and Japan, have ratified, and two – Australia and the United States – have not.

We believe in being part of the solution to global problems, and, as a major primary producer, we have much to lose from unstable and extreme climatic conditions. We are also a nation with a very long coastline where communities dwell. Our neighbours on the small South Pacific atolls are in an even more dire situation.

Our problem in meeting our Kyoto commitments is that around half our greenhouse gas emissions come from our agricultural sectors, and there are neither quick nor easy solutions to lowering them – although we will be world leaders in the research into how that might be achieved.

As well, the combination of a high exchange rate and low commodity prices have led to land being deforested for the more profitable pastoral agricultural uses – which both diminishes our forest sinks and increases methane emissions.

We are now engrossed in a comprehensive revamp of our climate change policies – ranging across policies for forestry and agriculture, and the energy and transport sectors.

It will take bold strategies for us and for other nations to achieve greater sustainability, and perhaps even carbon neutrality.

But future generations won't forgive us if our legacy to them is an irretrievably damaged planet.

Sustainability of course is not just about dealing with threats to the environment; it also presents significant opportunities. As the world has seen through the industrial, technological, and digital revolutions, the development and adoption of new technologies are, in themselves, drivers of greater wealth and prosperity. Nations at the forefront of the sustainability revolution will not only benefit environmentally, but economically too.

I would, however, sound a word of warning about any rush to judgment in our distant markets like Europe about what is sustainable production.

New Zealand gets very nervous when concepts such as taking into account so called “food miles” are raised as potential barriers to our food exports. It should be noted that the energy used in the production of lamb in the United Kingdom is four times higher than the energy used by New Zealand lamb producers, even after including the energy used to transport New Zealand lamb to the United Kingdom. The equivalent figure for dairy products sees the UK using twice as much energy per tonne of milk solids produced as New Zealand does, again including the energy associated with transport of the product.

After years of working to lower Europe’s trade barriers to our food products, it would be a rich irony indeed if spurious new environmental barriers were erected in their place.

In a fast changing world, environmental issues have leapt to the top of the global agenda, along with trade and terrorism. The big challenges nations large and small face defy national solutions and demand multilateral action.

New Zealand is a firm multilateralist – as small countries must be. We depend on a stable, rules-based international environment. We don’t have hard power, only soft.

Our changing world has seen us increase our focus on our immediate neighbourhood and broader region.

In the South Pacific, we have worked on an ambitious regional plan focused on growth, development, and sustainability. The Pacific’s small economies run the risk of even greater marginalisation and dependency in a globalised world.

And in the twenty-first century, fragile states can become havens for criminals, through money laundering and the drugs trade – and even unwittingly assist financial flows to terrorist organisations. Good governance, economic and social stability, and environmental sustainability are increasingly the focus of Western development partnerships in the region.

The past three years have seen us playing a significant role maintaining law and order in the Solomon Islands, which has become our biggest development partner.

And in recent months, we have had troops and police in East Timor again, after the serious breakdown of law and order there.

These episodes, and the recent rumblings of the military in Fiji, remind us that democratic institutions are dependent for their stability on democratic values and the rule of law, and can be easily shaken where those have not firmly taken root.

Interesting moves are afoot in the regional architecture of East Asia, leading to the establishment of a new forum for dialogue – the annual East Asia Summit.

New Zealand, as a longstanding ASEAN dialogue partner and development partner, took the further step of acceding to ASEAN’s Treaty of Amity and Co-operation, thus securing a seat at the East Asia Summit as a founder participant. I note that only this week, former Malaysian Prime Minister Dr Mahathir himself commended New Zealand for its efforts to identify itself with Asia.

East Asia has been the main focus of our bilateral negotiations for free trade agreements. We have now concluded FTAs with Singapore and Thailand; and have a Trans-Pacific FTA with Singapore, Brunei, and Chile.

We are currently negotiating FTAs with China, Malaysia, and all of ASEAN. New Zealand has reasonable prospects of being the first developed country to conclude an FTA with China. Given that we are an overwhelmingly open economy, and that our major exports face significant tariff barriers in China, we see this as a highly desirable outcome.

Overall we are seeing our relations with East Asia grow and develop at a fast rate. East Asia accounts for a significant amount of our trade. It is a source of tourists and migrants. Our universities and cities have many linkages. Increasingly we feel at home there.

There is a new dimension to our outreach to the region – and that is through interfaith dialogue.

Next year, New Zealand will host the third regional interfaith dialogue, bringing together multi-faith delegations from South East Asia, Australasia, and the South Pacific.

As so many conflicts in the region and worldwide relate to tensions between faith communities, so a solution to those conflicts may lie in seeking to increase understanding between faiths.

New Zealand can be seen as a relatively honest broker in this respect, with its even-handed policy on Israel and Palestine, and its non-participation in the war in Iraq.

At home too we are emerging as an increasingly multi-ethnic, multi-faith society which, by world standards, lives harmoniously.

Modern New Zealand and our world today are light years away from that earlier era which saw New Zealand function as a dominion in the British Empire and an offshore farm for Britain itself.

Today we have a sophisticated economy, a multicultural society, and a great deal of confidence in the part we can play in the wider region in which we live.

We maintain close contact with those who form part of our wider community of values in Europe and North America, and we engage fully and willingly in international efforts to make our world more sustainable, more peaceful, fair, and just.