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**NEW ZEALAND IN
THE FUTURE WORLD**

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opportunities

A Discussion Paper
prepared by
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Commission for the future

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INTRODUCTION

The series of booklets *New Zealand in the Future World* cannot predict what will happen in the next 30 years. Its aims are far more challenging. The 3 booklets to which this is the common introduction attempt to set the basis for a public discussion about New Zealand's future. To do this, they try to identify the most important changes taking place in the present, and to use this knowledge to outline possible pathways for New Zealand to follow. This entails 2 quite different ways of looking at the future. In one, attempts are made to understand the changes the future may bring by observing the thrust of current trends. In the other the attempt is made to design alternative visions of New Zealand's future. It is a difference between what one *expects* might happen and what one would *like* to happen.

Each booklet in this series explores particular issues in depth, looking first at the world scene, and then at New Zealand's opportunities and choices. International relations, economics, trade, energy resources, agriculture, industry, technology, social services, institutions, and lifestyles — it is important that we examine each of these in turn. However, it is even more important to remember that each is but one link in the complex web of society. A change in one area will initiate change in many of the others. The choices we face in shaping the future of New Zealand are similarly linked. A particular choice in one area will define our options in many of the others. Ultimately our choices must be made within the context of the type of society we wish to create.

In recent years vision making about the future has become particularly fashionable. Why? In the late 1960s and early 1970s many began applying the principles of ecology to man's relationship with nature. Research had shown that natural resource limits constrained the growth of other animal populations, and hence many became concerned that unless man's patterns of rapid growth were constrained, crisis would result. Growth in world population, growth in the consumption of energy and materials, and growth in both the number and quantity of pollutants were all identified as potential triggers of crisis. Thus in 1974 Theodore Gordon identified five possible future world

crises: deterioration of the biosphere, severe food shortages, material and energy shortages, imbalances in the distribution of wealth, and nuclear war.

The "biosphere" is the mantle of soil, water, and air which supports life on earth, and its health is threatened by pollutants (for example, chemicals and heat), together with over-use (over-fishing, over-grazing, etc.). Unless the long-term productivity of the biosphere is protected, our future supplies of food, clothing, freshwater, and clean air are in danger. Perhaps one of the most controversial and potentially far-reaching threats is that of a change in global climate. Two contradictory trends are causing concern. The first is a warming trend, triggered by man's burning of fossil fuels, which creates both heat and carbon dioxide (CO₂). CO₂ can trap heat within the earth's atmosphere, creating the so-called "greenhouse effect". The second trend is the cooling trend, which may be associated with changes in solar activity. The interaction of these two trends is a continuing source of controversy among scientists.

At present the earth produces abundant food, yet millions still go hungry in the poorer developing countries. This problem seems likely to continue as population growth outpaces what poor countries can produce for themselves or afford to buy. The problem of maldistribution of supply is compounded by threats to the long-term productivity of the biosphere. Pollutants and over-use are already taking cropland out of production, and changes in climate (locally, regionally, or globally) could have disastrous effects on crop yields. The future will probably bring more death from starvation and increasing malnutrition.

In addition to food shortages, many predict shortages of energy and materials. Man's current dependence on coal and oil cannot be sustained because these fossil fuels were formed millions of years ago and cannot be replaced. And, as we have seen, we may be threatening our own climate by burning them. In the future, solar energy and other renewable sources will become more important, and the technologies for their use are already being developed. Nuclear fusion, too, may be economically

feasible by the 21st century, but it will be neither cheap nor lacking in its own particular problems. Rising energy costs will in turn make food more expensive than many people can afford to buy or produce themselves.

On the shortage of minerals there are two schools of thought. One believes that technological advance can be relied upon (as in the past) to provide minerals from ever-leaner ores, and eventually to produce substitutes for scarce minerals. The other argues that rising energy costs will constrain this pattern, and that we should reduce our consumption of minerals and recycle that which we do use. Even if there prove to be no absolute mineral shortages, the resource-rich developing nations of the world may realise the importance of their minerals to the industrialised nations and begin controlling prices or limiting supply as did OPEC. Poor countries may decide not to export their minerals but to conserve them for their own development.

World imbalance in the distribution of wealth may be a growing source of international tension. The wealth gap between the rich and poor nations has continued to widen over the last 20 years, and rising energy prices, mineral scarcity, and food shortfalls will aggravate this trend. Many people feel that it is not a question of "whether" but "how soon" the poor countries will challenge the rich for a fairer distribution of resources.

Growing international tensions such as these lead many to fear that the future will bring further global and regional wars. Some see it resulting from confrontation between China and Russia, others as the result of tension between smaller countries. Indeed it seems that the only way man might avoid further wars is by comprehensive disarmament, which in turn would require some form of world government.

We have reviewed briefly five crises which the world faces. All five are interdependent, for each is a part of the growing tension which results from increased human pressure on natural resources, and the inequalities in the distribution of those resources. Each crisis is *international* in dimension, having the potential to involve every nation of the world, including New Zealand. All nations must therefore think about these future crises when deciding their national policies on alignment, trade, and aid.

Not all futurists take such an international approach to the future. While agreeing that the world is at a critical phase in its history, many feel that it is also important to look to the changes taking place within societies. In the industrialised nations these changes are fundamental. One member of this group, Daniel Bell,

has coined the term "post-industrial" to describe a new society which is emerging. Most futurists agree that the following five trends are important in bringing about post-industrial society:

- (1) Industrial societies are very complex. To cope, their social and economic institutions have become very large. It is increasingly difficult for individuals to influence decision making in ways other than as members of large organised groups.
- (2) Work and production patterns are being transformed, particularly by new technologies, but also by the changing role of women and the rising prices of many resources.
- (3) Complexity and change are giving rise to a group of highly educated powerful experts who formulate social and economic policy.
- (4) The demand for and role of education is being increased constantly.
- (5) Social values and goals are changing. A new concern for "quality of life" is evident in the developed world.

People differ in their visions of the type of society which should grow from this transition. Some envisage a "superindustrial" way of life, in which advanced science and technology become the central pursuit of society. The continued development of high technology will enable man to overcome any resource limits on wealth and population growth. Technologies like space colonisation, genetic engineering, and nuclear fusion energy will be important in this pursuit. Information and knowledge will thus become central to society, and consequently an intellectual elite will emerge as the new upper social class. The complexity of this society requires the development of a large and centralised political system, whose prime objective is to ensure the continuation of growth, while controlling inflation. The need for efficiency and planning in all spheres of life leads to gigantism and centralisation of all institutions, business, and pressure groups. This vision of society entails an acceleration of existing trends, and many futurists consider its large-scale features to be necessary for the solution of complex national and international problems.

The second view of post-industrial society is based on a belief that the important new frontiers are no longer technical but social. Post-industrial society should be concerned with the development of people, and hence technological advance should be directed more toward providing people with the means of self-development. Futurists like Hazel Henderson feel that economies must decentralise. They envisage the strengthening of

small communities and the development of technologies which are small-scale, resource conserving, and environmentally benign. Quality rather than quantity of material goods and services becomes important. Small-scale development will humanise the workplace, community, and government, thus counteracting the growing feelings of personal alienation and powerlessness.

This second vision calls for a change in the direction of society. The new society envisaged is considered more appropriate for a world facing the five crises we outlined earlier. New attitudes toward material wealth in the rich nations might improve the development chances of the poor, while greater emphasis on human needs and human interaction would improve co-operation within and between nations.

Where does New Zealand stand in a world beset by crisis and in the midst of change? Potentially New Zealand is in a very strong position, but a changing world does present us with challenging questions about our future.

From the viewpoint of resources New Zealand is well placed. Although our oil import bill is currently very high, our endowment of energy resources per head is one of the highest in the world. We have the potential to become self-sufficient in energy, not only in electricity production but also in transport fuels. Hydro-electric capacity could be tripled if all sources were developed (although there are good reasons for leaving some rivers untouched), and the potential for geothermal generation of electricity may be about six times that of existing geothermal stations. We could alternatively use our geothermal steam directly in industry or district heating schemes. A recently discovered coalfield in Southland contains 4,400 million tonnes of coal. How should we best use this precious resource? Burning it to produce electricity is wasteful, so we may choose instead to use it for the manufacture of synthetic petrol, or as the basis of new petrochemical industries. Similarly our natural gas has many possible uses, including the production of methanol to extend and then replace petrol. But natural gas and coal are fossil fuels, and therefore will not last indefinitely. New Zealand must begin now to plan for a sustainable society based on renewable energy sources only, and here we are particularly well endowed. We already know how to manufacture transport fuels from trees and crops, and technologies for the use of wind, wave, tidal, and solar power are advancing rapidly.

New Zealand grows trees and grass well, our good climate compensating for the low natural fertility of our soils. Whereas the latter requires us currently to import large quantities of phosphate, advances in the

technology of undersea mining may allow us to mine our own phosphate from the Chatham Rise. Agriculture will continue to be one of our strengths, and with our population expected to rise slowly to around 4 million by the year 2010 we can be self-sufficient in food for decades to come. Our food surplus for export should be of considerable value in a world beset by hunger and malnutrition. However, we currently sell our food primarily to luxury markets. The potential for expansion of those markets seems hopeful, especially with horticultural and processed foods. But what should be our response to the poorer nations? How can we help them to either produce or buy sufficient food for their needs?

Further resource opportunities have arisen with the declaration of our 200 mile economic zone, the fourth largest in the world. Its fish populations are as yet largely unexploited, but will be of increasing interest to nations whose traditional fishing grounds are becoming depleted. How should we strike the balance between husbanding this resource ourselves and allowing other nations access?

Our forestry resource, too, is extensive, and could feed a variety of industries, ranging from pulp and paper mills, liquid fuels and other chemical manufacture, to building materials and high quality furniture. Our choices on these and other industry options will be shaped by our views on their energy and pollution costs, and by potential markets overseas.

So New Zealand is in a good position with respect to world energy, material, and food shortages. In addition our isolation protects us from regional problems of biosphere deterioration. However, for problems of global magnitude (climate change, ocean pollution and nuclear fallout, for example) we cannot isolate ourselves, and may need to find ways of protecting the productivity of our land and water.

How do we stand with respect to international tension and the possibility of war? Our possible involvement in wars will continue to be shaped by our foreign policy. It may be prudent to continue alignment with one of the major powers, or alternatively to take advantage of our distance from the likely centre of war and develop an independent, non-aligned stance. Should we also attempt to be less dependent on the rest of the world for trade? Greater reliance on our own resources might in turn require inputs of overseas capital and expertise in their development. How do we feel about further foreign investment in New Zealand? What is our role in the Pacific region? Perhaps we should look closer to home for new export markets and for developing nations whom we can assist. In all these issues we should

consider how best we might contribute to the solution of the five international crises facing the world.

In the social sphere our choices have a greater degree of independence from world events. We must decide how to take advantage of the opportunities presented by the "post-industrial society".

How should we respond to the growth of central government and the increasing size of our institutions? We can choose the extent to which power is devolved to regional and community levels. We could also decentralise our health, education, and welfare services in an attempt to revitalise community life.

How can we use changing work and production patterns to avoid a pool of permanently unemployed people? We can turn automation to our advantage by developing service industries like education and research. We can foster new attitudes towards "non-work" by creating an exciting "age of leisure" and we can encourage people who wish to establish alternative "small-scale", craft-based industries.

How should we respond to the increasing power of experts and specialisation? By encouraging semi-professional support workers in health and education, for example, some of the monopolistic power of the professions could be taken away. The fostering of small, co-operative self-help group networks would help de-emphasise the role of administrators and government officials.

How can we best satisfy the growing demand for education? We can teach children how to learn and how to evaluate their actions by a set of moral criteria. We could then provide adults with second and third chances in education by expanding opportunities for continuing education. Educational experiences could range from the formal courses offered by universities as at present to quite informal learning exchanges provided at the community level.

How can we improve the quality of our lives? In addition to questions like the ones just posed we will have to answer questions of resource and land use and New Zealand's place in the world. Most important perhaps, we have to decide what New Zealanders understand by quality of life. We could do this by deciding on national goals which attempt to meet the basic human needs of all our people.

We have touched upon a number of issues facing New Zealand, and all of these will be discussed more fully in this series of booklets. However, in focussing on our individual areas of choice, it is important to remember that these areas are simply components of our total society. A choice made in one area shapes our options in another. For example, if we opt for greater

self-sufficiency, our reduced need to find trading partners may make it easier for us to adopt an independent foreign policy. To maintain our present lifestyle we would need to develop our own heavy industry (for example machinery manufacture), which in turn would raise the total energy requirements of our society. Land use patterns would change as traditional agriculture was replaced with energy farming. Alternatively we could choose not to industrialise, and this would require the adoption of a simpler (possibly small-scale) lifestyle.

So it is important that we look not just at choices in single areas (for example, energy), but at the broader issue of how our society as a whole might develop in the future. The final booklet in this series will attempt to do just that. The options and choices identified in preceding booklets will be brought together; areas of conflict and compatibility will be defined. From this will emerge several "alternative futures" or images of how New Zealand might be in the future.

In this introduction we have been talking about change — change in the world and possible directions for change in New Zealand. But it is not commissions that can bring about change, but people. In publishing these booklets the Commission for the Future hopes to provide background information for those interested in discussing New Zealand's future, and so to begin what it hopes will be widespread debate about where New Zealand should be heading.

A CHANGING WORLD

New Zealanders live in a world of rapid international change. The preceding section of this booklet — common to all booklets in this Commission for the Future series — briefly illustrated the enormous changes likely to occur as the world moves into the twenty-first century. If New Zealand wishes to pursue its national interests effectively it must learn to adjust to international change more sustained and rapid than we have ever known. It must take advantage of the opportunities that will offer. In an increasingly interdependent planet, it will need continually to reassess and perhaps reshape its international and economic relationships.

Events during the past quarter-century show that New Zealanders have the ability to adapt to change. New Zealand is, geographically, one of the most remote nations on earth — over 1500 kilometres from its nearest neighbour (see Figure 1.1). But it has never been insulated against change, although it has usually reacted to it less rapidly and less excitedly than countries close to the centre of events.

It is true that during the first 100 years of our modern history the style and content of our external relations remained substantially the same; we were content to rely on Britain as our principal market, protector, guide, and friend and to concentrate on our internal and economic development.

But the events of World War II and the post-War era changed fundamentally our conception of how we should best preserve our security and make our way in the world. We have been engaged ever since in a sustained effort to adapt to new circumstances.

In the pursuit of its economic and political interests, New Zealand is caught up in a web of associations, obligations, and activities that is exceptional for a country of its size. Its international ties have been shaped in three regions (Europe, the Pacific, and Asia); in three forums of international association (the Commonwealth, the United Nations, and collective regional arrangements); and in dealings with three close allies (Britain, the United States, and Australia).



Fig. 1.1

AZIMUTHAL EQUIDISTANT PROJECTION
CENTRED ON NORTH POLE

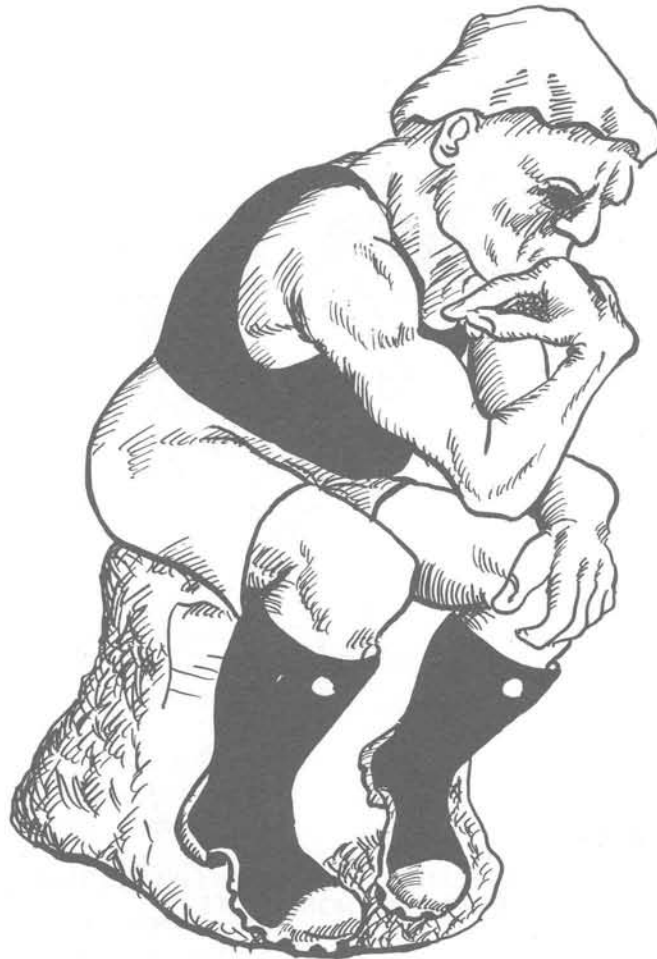


In recent years our vision has been extended to a new major international partner (Japan), a new field of international association (the Communist world), and a new setting for the future shaping of our national policies (the Pacific Basin).

However, there are constraints on the extent to which we can change. Geographically, we have to accept the sheer isolation of our position from markets and the smallness of our size and population. Historically, we have a pattern of association with the "western" world and an only recent acknowledgment of our location in the South Pacific and on the fringes of Asia.

The essence of our national challenge is this: New Zealand, once part of a European body politic, has been forced increasingly to accept the implications of its geographic position and to shape its existence in an

area of the world exhibiting different cultures, climates, and customs. So far, our development has been generated by inputs of European, Australian and, latterly, American capital and labour. Thus our way of life, for all its Polynesian admixture, has been geared to European trends and habits. But Britain has joined Europe and New Zealand's own relationships with Europe and the western world, though of enduring importance, are changing. Our ties with the United States and the economic and political emergence of Japan, China, and other Asian nations are of great significance for New Zealand, placed as it is on the rim of Asia and in a sphere of great future strategic and economic importance — the Pacific Basin. How well fitted are we to match our Western and Polynesian heritages with our developing associations in Asia and the Pacific?



We have a population able to adapt or develop new technologies. We do not have the difficulties that bedevil relations between nations sharing common frontiers. We have no axe to grind internationally and our general reputation is good. Our disposition is towards friendly relations with all countries. We have diplomatic missions in about fifty countries and diplomatic relations with nearly every nation on earth. We have built up a record of participation in collective effort designed to help create a secure world in which small states have a valid place.

Our very stability as a nation, too, can help. New Zealand has an orderly internal system (politically and economically) compared with the volatile nature of many nations. And we have an historical pattern of steady, useful international activity. This offers us the chance to plan for the future in a way not open to other, more turbulent countries.

This booklet will examine how we might do that. The first step is to examine the choices available. Because these will affect not only you but your children and theirs, a response on New Zealand's goals is required from all of us. Only then can a more detailed study of specific directions be undertaken.

INTERNATIONAL RELATIONS

THE PATTERNS OF POWER

The post-War era in which two nations (the United States and the Soviet Union) were dominant has given way to a world in which there are five firm centres of economic or military power — the United States, Soviet Union, Japan, China, and the European Economic Community. During the next 30 years all will have a degree of influence on global patterns of power.

New groupings are also emerging. The northern Asian nations of South Korea and Taiwan, and the major powers of Japan and China are four powerful economies which will exert influence throughout the Pacific Basin. In South-east Asia, the states of the Association of South-east Asian Nations (ASEAN) will have an increasing voice in influencing regional economic patterns.

The international community is still growing. Each year, as decolonisation proceeds, membership of the United Nations increases. New Zealand is but a small part of that community. Nevertheless, our smallness and remoteness and our freedom to choose which way we want to go give us advantages unavailable in many countries.

The Great Powers

Today, the two world powers which alone have the capacity to project their strength at any point they choose within the world are the United States and the Soviet Union (the Super-powers). By the end of the century they will be as militarily prominent as they are today, but in other ways their global influence is unlikely to match their military might. This is particularly true of the Soviet Union, which already plays little part in certain of the major issues of our times — the readjustment of the world economy, for instance, and the provision of aid through international programmes to the developing world.

The influence of the United States promises to be more complex. It will remain a pre-eminent military power, and its economy will still be, if not the first, then among the most powerful in the world.

For some years now, however, the United States has failed to provide the expected leadership and command the weight for which it has the history and the capacity. In a number of regions it has yielded

footholds or relinquished responsibilities, and it has redefined its obligations to others in much narrower terms than in the past. In many respects the changes have been realistic adjustments to new circumstances, but they have raised doubts abroad about American reliability and have added to a general loss of American *mana* in the world at large.

Basic to the United States' international position will be its relationship with the Soviet Union. The relationship is currently maintained in a state of uneasy balance in which each can survive attack by the other and inflict massive damage and casualties.

This pattern of watchful and suspicious rivalry is most likely to continue with each side apprehensive over achievements by the other that might confer a decisive advantage.

The Soviet Union can be expected to take the chances that offer to extend its influence where it can. But it will be concerned not to push too far for there are no Soviet national interests that will be best served by nuclear war with the U.S.A. And whatever the periodic alarms over the U.S.S.R.'s numerical arms superiority and over hints of Soviet belief that a nuclear war may be not only survived but won, no United States government is likely to allow the present state of nuclear weapons equivalence to move to a position of decisive disadvantage for itself. Over the next two decades, given the level of armaments that is being maintained and the chances of misjudgment and accident, the risk of nuclear war is real. But the likelihood of it is low and it will remain the deliberate purpose of these two super-powers to avoid it.

China

It is reasonable to expect that in the next 20 to 30 years the United States and Soviet Union will be, overall, the strongest states in the world, but they will be hard pressed in many ways by China and Japan.

There are widely divergent opinions on the likelihood of China's becoming a "super-power" in the next 30 years. Chinese leaders often tell foreigners that China will never become a super-power. That may be one of the reasons why many, in New Zealand as elsewhere, assume that it will. With a quarter of mankind under its control, this view argues, how can a strong Chinese state fail to make the country prosperous and powerful,

a major force in international affairs? Up to now, it has managed to do an enormous amount without help — it has achieved an agricultural growth rate well above its population rate, trebled its steel and electricity output in 10 years and is rapidly becoming an oil exporter.¹

The obstacles to development, however, are formidable. One is population pressure. Only eleven percent of China's land area can be cultivated, and it has to support some nine hundred million people. More than three quarters of them still live on the land. Keeping everyone employed is a political imperative, as well as an ideological one; attempts to reconcile it with the technical advancement that is essential to raise productivity have created almost universal under-employment. The resulting boredom and frustration aggravate popular apathy, the other main problem in the way of development.

Mao saw motivation as the key to development. His aim was to liberate the creative energies of the masses — by indoctrination and exhortation, and at times by frightening them. Mao's successors have so far taken a different line — to borrow western technology, and to use material incentives to some extent, while strengthening the Party to maintain tight control. The new approach may well increase production in the short-term. The question is whether it can satisfy the expectations that the change itself has aroused. If not, disillusionment could lead to a resurgence of Red Guard-type radicalism — the only other approach to development that has widespread support in China.

Without Mao's leadership, which was as flexible as it was single-minded, unity may be difficult to preserve. But the national pride he restored, with its obverse — hostility to any power that seems to be trying to dominate China — will probably enable present and future leaders to keep factionalism and other divisive forces in check.

As long as China stays united, and avoids a major war, it will go on developing, in the economic as in other fields, although the record of the past 30 years suggests that the development may not be continuous or consistent. The constraints inherited by the present regime — population pressure and ingrained social attitudes — may be too severe to allow any sudden burst of activity and growth. By the year 2000 industry will no doubt have expanded considerably, overall production may be much higher than it is today, and living standards are likely to have risen. But assuming that Japan goes on developing too, (even if at much lower rate than in the sixties), China is unlikely to approach its performance, at least in the economic field.

When Chinese leaders say that China will never become a super-power, they presumably have in mind Mao's exhortation to 'Dig tunnels deep, store grain everywhere, and never seek hegemony'. The slogan is not entirely reassuring. It reflects, among other things, the need the leadership evidently feels for psychological pressure on the people to work harder. A system that makes only limited use of material incentives finds it useful to have a threat. The Soviet Union has fulfilled that function in the seventies, as the United States did in the fifties and sixties. But a sense of threat can, in certain circumstances, lead to action that is presented as defensive and is in fact aggressive. Defence can be a pretext for expansion.

China's defence includes ballistic missile early warning systems and extensive dispersal and underground complexes together with a civil defence programme more comprehensive than any in the world, relying as it does on the people themselves, a critical variable in the event of war.

Because China has come late to nuclear arms stockpiling, it has the advantage of being able to move directly to production of long-range missiles such as the ICBM without intermediate steps.²

In 1978, Vice-Premier Li Hsien-nien was quoted as saying: "War with the forces of social imperialism (i.e., the Soviet Union) is virtually inevitable. The only question is whether it can be postponed for a shorter or longer period."³

The Chinese theory then goes on to state, not as a possibility but as a certainty, that competition between the two super-powers (i.e., the United States and the Soviet Union) must end in new world war. "We are against a new war," the Chinese say, "but we are not afraid of it." They do, however, allow a chance of postponing this war if the Second (socialist) and Third (developing) World countries stand up to the super-powers, and above all to Russia, the more dangerous of the two.⁴

There are many contexts for tensions and rivalry between China and the Soviet Union, but the central issue seems likely to be whether the latter will be prepared to allow China to develop to full 'super-power' status without a test of strength between them which could, but need not, involve nuclear weapons.

Some observers believe that the nuclear emergence of China will lead to an imbalance of power and will create a more unstable global atmosphere. Others believe the danger of a Sino-Soviet war is limited. They argue that hostility to the Soviet Union will not necessarily persist at the present level indefinitely. If the border remains quiet, tension may in due course

ease. Reconciliation is not likely, unless China comes to see some other power as a greater threat than the Soviet Union. In any case, China will remain preoccupied with threats, active and potential, which can only come from its northern border. The south is unlikely to become its main concern.

China's role in international affairs is largely passive. Its hostility to the Soviet Union keeps a quarter of the latter's armed forces tied down in the east, and limits their deployment in the west. China's growing demand for sophisticated products, as well as its cultural heritage, evoke from Japan a desire for closer relations. And its example of self-discipline and self-reliance commands respect, if not admiration, in South-east Asia and other developing areas.

Japan

Japan, on the other hand, has opportunities of a different order. The Japanese express constant concern about what the future holds for them. They worry about the prospect of losing access to the resources that have been essential to their rapid growth, about competition from rising economies like the Republic of Korea, Taiwan, Singapore, and Hong Kong, and about restrictions on their access to markets.

It is expected that Japan will enjoy less favoured circumstances than in the past. As its leaders begin to shape a more independent course for Japan and to make some of the hard international decisions from which they have tended to shrink, it is likely that Japan's dealings with its major associates — the U.S., U.S.S.R., and the E.E.C. — will become more uncomfortable.

Despite their current anxieties, however, the Japanese are strongly placed to rise to levels of economic production and technological development that will bring them influence and prestige equalling those of the U.S. and U.S.S.R.

Although its military potential is considerable, Japan is committed to neither producing nor using nuclear arms, and it is restricted by its constitution from sending troops abroad. It has pledged itself not to seek military power to match its economic strength — and given the range of economic, political, military, and social problems confronting the world, that approach may prove to be a far more certain path to the international eminence and influence Japan seeks. The arguments against nuclear armament for Japan are strong and are widely supported there.

Historically, Japan has always had the capacity to surprise and to change course suddenly. In

circumstances where Japan was frustrated in its economic progress and its international designs that capacity could well come into play. And there is always the prospect that a threat to its security, such as the over-running of South Korea, could provoke a reversal of its renunciation of nuclear arms.

The key to the decisions Japan makes in shaping its future will lie in its relationship with the United States. If that continues favourably, Japan is unlikely to forsake it in favour of a completely independent role or the uncertainties of partnership with China or the U.S.S.R.

The possibility of a closer involvement with China cannot, however, be discounted. A Friendship Treaty has already been signed, and the advantages of friendly association are obvious — Chinese oil and resources for Japan's technology and capital. The two nations are close geographically, and there are cultural affinities. A Japan - China power base would have significant influence globally.

Japan can be expected to act more assertively. In a wide variety of contexts — the resources issue, developmental aid, the world's economic and financial structure, the environment, and the oceanic dimension — Japan will be in a commanding position to act as a world leader.

The Japanese long for such status but to fill it they will need to show much more internationalism and political initiative than they have shown so far. A Japan that has been acknowledged as a responsible, active and open member of the international community would be one thing — and a Japan that was held, or held itself, at arms length would be quite another. One way or another, however, what Japan does or does not do will have a direct bearing on the way the world goes. And nowhere will its policies and activities have greater significance than in the Asia/Pacific region, within which New Zealand lies.

European Economic Community

The fifth element in the pentagonal world situation is the European Economic Community, which contains two nuclear powers (Britain and France) and an economic giant (West Germany) among its members. The big question for the Community is whether in the years ahead it can achieve its goal of creating a European political and economic union among states that hitherto have been profoundly jealous of their sovereignty. The Community has already achieved a remarkable level of economic strength but its progress in other areas has been uneven. Agriculture, industrial

policy, and defence promise for a good many years yet to be a source of division among Community members and between them and the United States and others.

The United States will be looking to the countries of Western Europe to be more outward-looking in their trade policies and more willing to assume a greater share of the responsibilities of European defence. For their part, the countries of the Community need to be able to deal with the United States from a footing of greater confidence and unified views in order to cement their claim to a greater share in decision-making affecting the Atlantic Alliance. The key influences in determining the European response will be France, which at present stands aside from European defence integration, and West Germany, already one of the world's major economies.

For all the uncertainties that beset Western Europe the advantages that flow from continued association with the United States suggest that a close political and security relationship will be sustained. Whether the relationship will rest on a more equal footing than at present will depend on the will of the countries of Western Europe to continue to work towards central institutions and unified policies and so become a major force in world politics. Also the member-states of the Community can be expected to seek closer links with the nations of Eastern Europe in conformity with a world trend to looser multilateral relationships.

NEW CENTRES OF POWER

Today's world is dangerous and becoming more so. The super-powers not merely have nuclear weapons but are building armouries of ever-increasing sophistication and destructiveness. There are other nations with nuclear weapons and still others that have the capability of developing them. The arms race is being maintained at a high pitch by both developed and developing countries. Certain regional conflicts are sharp and, despite the passage of years, still far from solution. International terrorism is on the rise; and as the use of nuclear technology to produce energy increases so the chances for proliferation of nuclear armaments grow.

The greater the number of nations possessing nuclear weapons the greater the danger of regional conflict and of nuclear blackmail in regional contexts. But proliferation will not substantially affect the world military balance nor markedly redress the measure of military superiority enjoyed by the major powers.

Nevertheless, there are many indications that by the end of the century the supremacy of the super-powers in other than the military context will have been diminished. International influence is likely then to be determined less by military capacity than by such attributes as economic and trading strength, regional leadership, the conduct of domestic affairs, and national example. Claims to leadership and the deciding voice on the part of the major powers will be challenged in a variety of ways and from a variety of directions — by China for instance and by Japan, by countries which have recently won through to affluence and positions of economic advantage, and by others which face continuing problems of poverty and backwardness.

The risk of nuclear war will remain in the forefront of future problems but there will be others of equivalent seriousness — shortage of food for instance, imbalances in the distribution of wealth, material and energy shortages, and threats to the environment. In these circumstances it is to be expected that new centres of power will emerge.

At the present time the many developing countries — sometimes designated as the South — are pressing the wealthy, developed industrialised countries (the North) to accept a new international economic order that will bring them help in development, a voice in international decisions that concern them, and their proper share in the world's economic benefits. It is often suggested that in the decades ahead a confrontation between the North and South will intensify and that as a means of political and economic pressure upon the former the developing nations will exploit to the full their numerical dominance of international bodies and their possession of important resources. The state of affairs in the year 2000 is likely to be less tightly drawn than that. The developing world is far from being a unified or stable group. Prosperity is already lifting certain countries out of its ranks into the company of the developed nations and common interests are being created between them. Certain members of the Organisation of Oil Exporting Countries (OPEC) are developing the attributes that would fit them for admission to the Organisation for Economic Co-operation and Development (OECD); and other developing countries now command great wealth, some of which they are re-investing in the South. Such countries have relations with developed nations that they would be loath to forego in favour of confrontation and others favour a neutral or non-aligned status. Moreover, the major industrialised countries are likely to compete against each other for

political support from developing countries and for access to resources — and that competition will serve to reinforce existing divisions. A most extensive deterioration of relations between North and South and of conditions in the developing world would have to occur in order to induce the countries of the South to act together against the North in a fully concerted and hostile way.

Nevertheless, the task of creating a new pattern of international economic relationships in which existing disparities will be softened will remain one of the most pressing problems before the advanced industrial nations and the developing countries. There will be neither safety nor justice in a world in which the gap between North and South not merely remains but grows. The ability of the developing countries to make progress will depend essentially on the strategies of development that they choose, the degree of national skill and energy that they are able to harness, and the amount of help that they are able to elicit from the developed countries. It is co-operation, not confrontation, that will be needed between North and South — and the path in that direction promises to be far from straightforward. Among several of the major developed countries there are signs of impatience with demands from the South and of reluctance to accept the urging of the United Nations Conference on Trade and Development (UNCTAD) and other international organisations, that they increase aid and investment and keep open markets for the manufactured products of the developing world. Among the countries of the South the diverse levels of interest and accomplishment that prevail and the animosities that many of them feel in the face of what they see as the indifference of the North stand in the way of the long process of negotiation and reconciliation that will be needed in the years ahead if the developing countries are to achieve their goals.

The choices that lie before the South as it seeks to move the industrialised countries towards a new and equitable system of international relationships are likely in the end to be decided by those among their number that are on the rise and looking in the years ahead to enhance political and economic status for themselves. Brazil, Indonesia, and India are emerging powers that, while still facing problems of development, have won their way through to regional leadership and are likely at the end of the century to be pressing for higher international status. They will not find this easy to achieve since all combine marked strengths with marked weakness. Brazil, for instance, in size, population, resources, and international prestige is the

greatest state in Latin America. In recent years it has staked a lot on vast programmes of economic extension and has achieved some spectacular success. But its position is brittle, its debts are heavy, and inflation is high; its authoritarian regime has not been able to eliminate unemployment, poverty, and corruption; and there are few at this stage who would endorse a recent description of it as "the newest super state".

Nevertheless its position in Latin America is an outstanding one and in the years ahead, as the leader of the Latin American countries, it is likely to play a most significant part (particularly in challenging United States' policies and influence in the region). Much the same is true in their own geographic regions of India and Indonesia.

In the developed world the state, apart from Japan, that at the end of the century promises to match the super states in the economic field is West Germany. Though content for the present to submerge its national interest and objectives within the framework of the EEC, it is already considered one of the "locomotives" upon which the recovery of the world economic system depends and bids fair by the year 2000 to have developed as a global economy of great strength and accomplishment. Some time in the future, Western Germany will decide whether to maintain its present place in the European Community, to bid for leadership, or to take its own path. Whatever the way chosen the effects would be widespread. Western Germany, seeking political objectives in the east, would arouse alarm from the Soviet Union. And Western Europe under German leadership would be a more assertive, active (and in some quarters suspect) international force than it is now.

These then — the new nuclear weapon states, the developing countries, some regional powers, and West Germany — are likely at the end of the next two decades to be important sources of international influence.

It is quite possible however, that a new centre of power based on religious conviction will emerge as a potent political and economic force in the international community. Events in Iran and Pakistan could well be early signs of a resurgence of faith in the political force of Islam and, although one swallow does not make a summer, the 600 million followers of Islam will take heart if the new Iran emerges as a success.

THE NEW ZEALAND RESPONSE

Defence Interests

Alliances do not create interests; they reflect them. The stronger the community of interests, the stronger the alliance.

But as a nation's, or group of nations', interests are never static and as circumstances change, so may the need for an alliance; indeed, throughout history, the effective life span of most security alliances has been limited. Thus, with Britain's membership of the EEC and our own increasing preoccupation with the Pacific Basin, the influence of the European Community is now unlikely to affect New Zealand in other than trade and cultural terms.

The ANZUS Treaty has now been the cornerstone of New Zealand's defence policy for the past 25 years. It has reflected a common strategic interest on the part of the United States, Australia, and New Zealand and a common sense of political and economic purpose.

Militarily, the United States replaced Britain as our major ally in the Pacific. Economically, the United States has provided capital, technology, and markets. Ideologically, we have a common interest in the preservation of democratic societies.

But with the changing patterns of U.S. influence in the Pacific Basin and on the Asian mainland, and the emergence of a multipolar world in which many centres of power exert influence, New Zealand will need constantly to reassess the role of ANZUS in our international relationships.

It is widely believed that ANZUS is less important to the United States than it is to Australia and New Zealand. The U.S. has global interests to pursue and, in the aftermath of World War II, the Korean War, and the Vietnam War, it has focussed less on the security situation in the Pacific and Asian areas. It has also indicated that it expects other countries allied to it to be more self-reliant.⁵

In a sense, therefore, Australia and New Zealand are likely to be much more on their own in the next 30 years than they have been in the past, even within the ANZUS Treaty. The strength of New Zealand's relationship will depend much more on the cultivation of nation-to-nation links by New Zealand, as the junior partner, with a view to convincing Americans that a close and co-operative political and economic relationship with New Zealand is to their advantage.

Certainly, there are solid advantages for New Zealand in maintaining our alliance with the U.S. under ANZUS or a similar arrangement. New Zealanders have instinctively sought a collective

response to circumstances affecting our security; our close affinities make the U.S. and, to a lesser degree, Australia, logical replacements for Britain. The United States has the capability to police the oceans on our behalf and protect our trade routes. The U.S. offers a rich market-place for our goods, though there is little evidence to suggest that the market-place is the easier to penetrate because of the ANZUS Treaty. Essentially, the presence of the U.S. as friend and military protector has helped give us the confidence to pursue activities and associations abroad that would otherwise have seemed awkward and beyond us.

On the other hand, association in a military alliance with a nuclear armed power has always carried the risk for New Zealand of involvement in nuclear conflict. In some degree that risk applies to any country whether in or outside military alliances. But it is always up to New Zealand to judge how its own physical security can best be preserved and, in the changed circumstances of the future, it will need, as it has done in the past, to assess whether or not this requires continued membership of ANZUS.

International Interests

Perceptions of world order are changing. New international structures may be required if the current demand by less developed countries for a greater status, particularly in the management of international economic affairs, persists. The creation of 200-mile exclusive economic zones is an early indicator of a trend that is likely to bear directly on such major New Zealand interests as access to marine resources and freedom of the seas.

The United Nations will remain in existence but its role, the nature of its activity, and the effectiveness of its actions will continue to be determined, in the final analysis, by the interests of its members, particularly by the great powers. It is unlikely that it will ever again attract from New Zealand the degree of popular support and national effort devoted to it in the Organisation's early days. However, the UN will continue to offer this country an important meeting place with the many nations of the world; the work of its specialised agencies will continue to engage us, and it is likely to retain enduring significance for us through its association with such great issues as the Law of the Sea.

The Commonwealth also seems likely to be in existence 20 years hence. If current trends continue, political interests among its members will become more diffuse. Technical co-operation has, however, been an

increasingly important element of Commonwealth relations; and development functions rather than political interests are likely to give the Commonwealth a continuing relevance. It may also develop a stronger regional perspective.

For New Zealand, as a member nation sitting astride the fence separating full industrialisation and primary production, the contrasts among nations within the Commonwealth offer opportunities for a growing number of relationships. The diversity of religion, population, culture, and economic strengths is likely to continue to be one of the major attributes of the Commonwealth; if New Zealand develops the capacity to span these apparently wide gaps, its standing with its Commonwealth partners is likely to grow.

Territorial Interests

The Antarctic region is likely to grow in importance. The Antarctic Treaty signed in 1959 effected an important political settlement in the area south of 60°S. The area was demilitarised; nuclear testing was prohibited; freedom of access for scientific research was established; and a co-operative mechanism for discussing future problems was put in place. However, no agreement was reached on economic issues which were consequently put aside. The intervening years have seen an enormous increase in interest in the resource potential of Antarctica — particularly in the offshore area. Commercial exploitation of krill and some species of fish has already commenced and some



opinion suggests that exploitation of hydrocarbons in the continental shelf may become feasible in a relatively short time.

The interests of the distant water-fishing and highly industrialised countries seeking access to fish and petroleum resources and the interests of states such as New Zealand and Australia, (which insist that areas of Antarctica are subject to their national jurisdiction), will not be easily accommodated. The situation is further complicated by the concerns of countries adjacent to Antarctica, and others, that resource-related and other activities (e.g. tourism) could severely upset the Antarctic ecosystem and, that at worst, irreversible damage could be done to the environment.

The international community, generally, is also increasing its interest in Antarctica and is unlikely to stand aside while either the super-powers or the Group of Antarctic Treaty countries collectively attempt to appropriate Antarctic resources for their exclusive use.

The essential elements of the Antarctic Treaty seem likely to stand the test of time and to ensure a basic framework of stability. On the other hand competition over resources and difficult negotiations over suitable regimes to establish an equitable sharing of the economic benefits of resource exploitation between claimant states, non-claimants, and the world as a whole seem likely to continue for many years to come. This will be an important and growing area of concern to New Zealand.

The Pacific Basin appears to offer wide scope for initiatives in regional co-operation given the powerful economic status it will attain during the next 20 years. As this economic expansion takes place and the range of mutual interests and exchanges among the Pacific and Asian countries of the Basin grows, new groupings could well develop.

It is true that within the full range of the Pacific Basin there is no equivalent for the shared cultural traditions, historic associations, and sense of common threat that brought the countries of Western Europe together in the European Economic Community and the North Atlantic Treaty Organisation. But in South-east Asia, in the face of differences, ASEAN is proving an increasingly effective grouping. Given the size of the resources it encompasses and its growing international weight in South-east Asia, it is likely to be a major influence at the end of the century. The interests of Japan, South Korea, Australia, New Zealand, and the small Pacific island states will be increasingly closely associated with the ASEAN countries.

And, beyond this, factors favouring a Pacific regional economic organisation can be expected in the

years ahead to take on increasing weight. In Japan, there has been periodic interest in the formation of some such grouping among the developed nations of the Pacific. On present showings the concept most likely to be favoured promises to be an organisation for Pacific trade, aid, and development. And as the economic importance of the region grows, and as the countries of North and South America increasingly turn towards it, proposals can be expected for a comprehensive Pacific community, complementing at government level already existing trade agreements and such important private organisations as the Pacific Basin Economic Council. Effective progress towards such a community is likely, however, to be slow and difficult.

The South Pacific Forum is an active body, and the basic interests shared by its members should endure. But New Zealand will need to be constantly sensitive to the special problems of small Pacific states. As the involvement of other countries in the region (Japan, China, South Korea, Taiwan, Indonesia, etc.) increases, so too may the Islands' conception of New Zealand's dispensability. New Zealand will not be able to take for granted that it is welcome in the area, even though its role in the South Pacific's development will be a key one.

The brave new world that has been outlined in the preceding section illustrates the adjustments required by New Zealand in political, diplomatic, and cultural ties.

But perhaps more fundamental changes will be required in the pragmatic fields of economics and trade. Once, we contented ourselves with an international relationship based largely on *political and ideological* grounds. This emphasis has increasingly changed to a predominantly *economic* outlook in our foreign policy. Witness, for example, our diplomatic recognition of China, a move prompted as much by economic considerations as political ones; and in our relations with Japan, economic factors are the source of greatest benefit. This process has been gathering pace throughout the 1970s; it can be expected to accelerate during the years leading into the 21st century.

WORLD ECONOMIC ORDER

Certain recent developments and impending problems for which the world will have to make adjustments are creating international tensions. Some of these are obvious and need little elaboration; their impact on our economy has been well-charted. British accession to the European Economic Community, for example, has forced a new international outlook. The oil crisis and its consequences are continuing to have major impact on New Zealand.

The re-emergence of unemployment (which is now unlikely to go away) and the demands of the less-developed countries (LDCs) are other developments that have obliged us to adjust or at least rethink our international stance. And still to assume their full weight are the problems of depleted resources in the world at large, food shortages and population growth. While many of these will seem far-removed from New Zealand's isolated position, they nevertheless will have some impact. Booklet I in this series discussed this problem. The stagflation (inflation in the face of massive unemployment) in the advanced countries is largely a consequence of the biggest increase in the workforce in history (delayed result of the postwar baby boom) coupled with enormous outlays for job creation and additional infrastructure. The depletion of the world's resource base by a rapidly growing population compounds both the inflation and unemployment problems.

The resultant disorder in world economics means a readjustment of economic and political rankings of many nations. Previous rankings based on purely economic factors such as per capita income and Gross National Product are becoming less relevant and less adequate to define the place of nations in the international hierarchy. The growing significance of resource wealth — the potential exploitable resources of a nation — is blurring the previous picture of a tri-state world: capitalist, socialist, and less developed. Such one-sided distinctions based on income only are no longer satisfactory. Instead, we are seeing the emergence of a more complex world in which measurement of both income and resource (produced wealth and natural wealth) measure the economic status of nations.

By using these *two* criteria (income *and* resource base or produced wealth), it is possible to distinguish between the overcrowded, extremely vulnerable economies of North-west Europe and Japan, and the resource-rich economies like the United States, Canada, Australia, and Scandinavia.

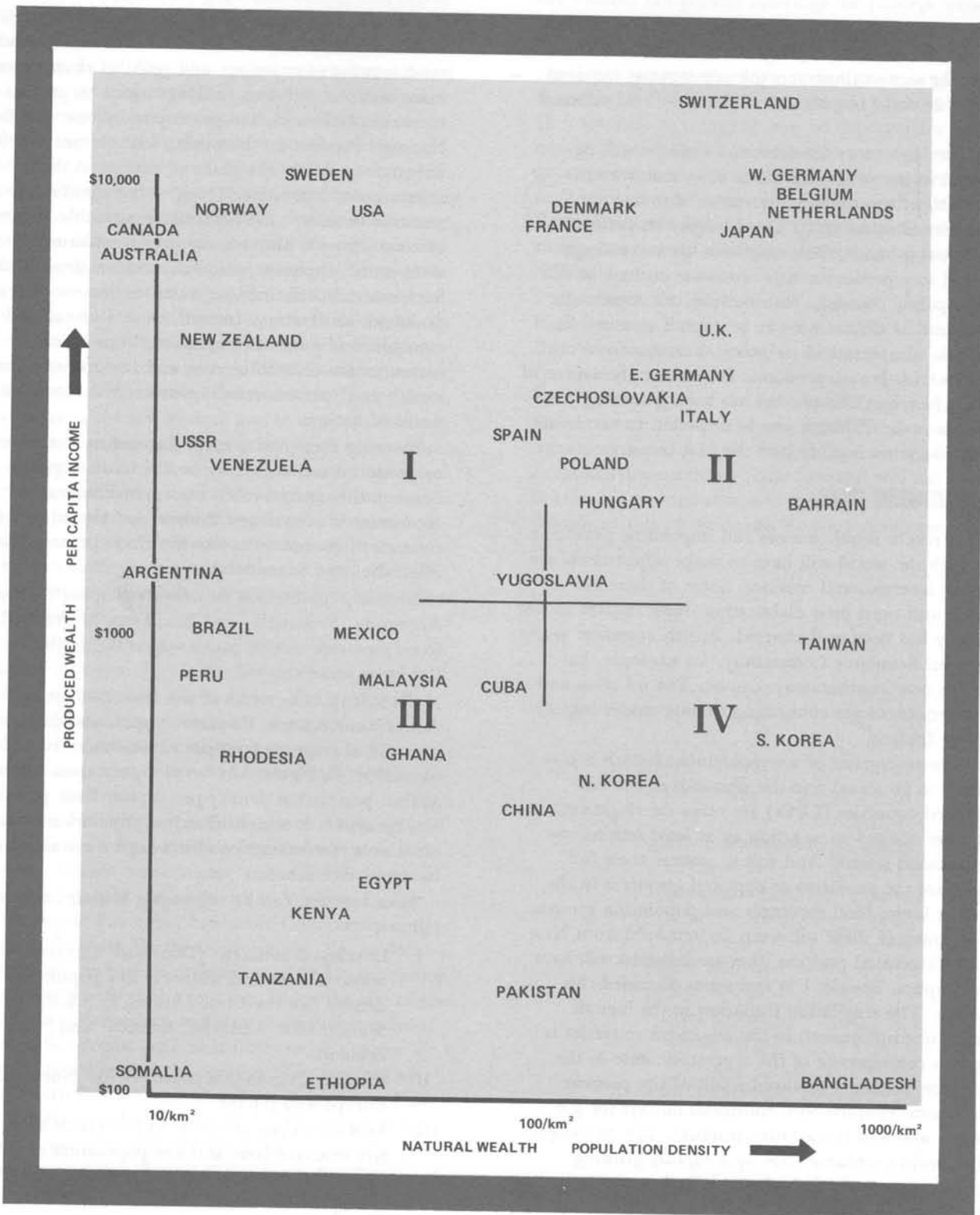
Similarly, potentially wealthy developing nations like Argentina, Venezuela, and Brazil can be grouped apart from the overcrowded poor such as Bangladesh, Pakistan, and Ethiopia.

Classification in terms of the resource base is a complicated matter. However, population density is one measure of resource base per capita which is easily identified. In Figure 3.1, we plot per capita income against population density per capita. Four groupings emerge and it is evident that low population density often occurs in countries with a high natural resource base and vice versa.

Thus, nations can be regrouped in four categories as follows:

- I. Developed countries (DCs) with an extensive resource base and relatively low population density like the United States, U.S.S.R., Scandinavia, Australia, Canada, and New Zealand.
- II. Crowded, developed countries like North-west Europe and Japan.
- III. Less developed countries (LDCs) with an extensive resource base and low population density (some major South American nations, for example, like Brazil, Venezuela, and Argentina).

Fig. 3.1 after P. van Moeseke



IV. Crowded LDCs like the Indian subcontinent and Indo-China.

The comparisons do not end there. Some nations of course straddle the borderline between different categories. France, for example (less crowded than her equally wealthy neighbours, Germany and the Low Countries), is a borderline case between worlds I and II.

It is by no means easy to classify New Zealand; fortunately we still have a low population density and consequently a sound resource base. But our economic performance in recent years (not helped by overseas events) has faltered. Thus, can we still consider ourselves a wealthy nation alongside, say, Scandinavia or Canada? Hitherto, New Zealand has opted for close political, military, economic, and philosophical links with the so-called western or capitalist world. But with the increasing interdependence and complexity of the world, a reassessment of our economic patterns becomes available. This is particularly true if we regard resources as a key determinant of our national prospects rather than economic performance alone.

IMPLICATIONS FOR NEW ZEALAND

This new classification ranks nations in terms of comparative advantages, the advantages that one nation possesses over another. These may be measured by military power, geography, human skills, industrial capacity, land availability, mineral stocks, and so on. They are all, to one degree or another, resources that can offer a nation distinct trading or lifestyle benefits unavailable to others.

Countries of category II (Figure 3.1) for example, are likely to be more vulnerable than those in category I because the former are locked into economic systems relying on other nations for raw materials while possessing the labour, capital, and industrial plant to process them (e.g. Japan). Fortunately, New Zealand has abundant natural resources per capita and therefore several options for her long-term development. An analysis of these resources shows a diversity and richness of available and potential resources unmatched by many countries. Some of these were identified in the first booklet in this series, *Resources and Technology*.

For example, we can now regard ourselves as one of the most energy-rich nations in the world on a per capita basis. We have 4400 million tonnes of unexploited lignite in Southland, maybe 10 times the energy equivalent of the Maui gas field, which is itself one of the largest such fields in the world. Wind,

wave, hydro, and geothermal energy per person in New Zealand are higher than almost anywhere else.

Our annual wood supply will treble within the next 20 years, thanks partly to a benevolent climate that helps produce our exotic forests about three times faster than almost anywhere else.

Our 200-mile exclusive economic zone is the fourth largest in the world, containing a wide variety of untapped fish and mineral resources. Already, New Zealand's inshore waters yield about 60 000 tonnes of fish annually; the maximum sustainable yield from offshore fisheries could be as high as a million tonnes each year. We may have 20 million tonnes of phosphate undersea on the Chatham Rise.



There are about five hectares of productive agricultural land for every person in New Zealand, land that is both fertile and enriched further by the same climate that nourishes our forests. The scenic beauty and diversity of the nation, combined with our relatively low population density, offer us increasing opportunities to establish tourism as a major contributor to our income from abroad. These few examples illustrate the depth of resources available to us now and in the future. We do not, of course, have many of the capacities available to other nations. For instance, we lack large supplies of capital, a large, unskilled labour pool for mass-production industry, or sophisticated research and development facilities.

Nevertheless, the mix of resources available to us is an enviable one and provides a favourable foundation for an effort to re-shape our economy and the way we live. Moreover, many of our resources are renewable if husbanded carefully: it is unlikely then that if we pursue new directions we will gain merely short-term benefits.

The options available to New Zealand can be discussed in terms of Figure 3.2.

This figure shows clearly that we have three basic options which can be identified as:

- I: *Self-reliance*, in which we would have a comparative advantage over other countries if we emphasised high value, small-scale products using New Zealand skills and resources, for export as well as our own use.
- II: *Industrialisation*, in which our comparative advantage over other nations would lie in using our New Zealand resources, particularly energy, and imported resources such as capital and technology to expand our industrial base.
- III: *Self-sufficiency*, in which our comparative advantage over other countries would lie in utilising New Zealand resources for our own use but getting necessary capital from tourism and export of food.

These categories are not mutually exclusive; a mix of two or more is possible. The degree to which we might move towards any one of the options will emerge later in this document. However, it is clear that we have opportunities for conscious choice.

The opportunity of charting its own long-run course should bring the Nation a heightened awareness of the need to formulate fundamental objectives and basic alternatives — beyond the reflex action of industrialisation *per se* and diversification of products and markets.

We must recognise that in the long term some world events will affect our capacity to trade. These include world conflict, widespread protectionism, and major recession. Conflict has already been referred to; protectionism is the natural response of countries wishing to protect their industries or farms against cheap overseas competition; and the world economy seems headed for a long term decline, partly because a normal 50 year cyclical economic pattern leads us to this conclusion after the last in the 1930s.¹ Also, the extensive world surplus manpower which will result from micro-processors (see Booklet One) will cause widespread unemployment unless governments act decisively to avoid it. Resource depletion, too, will contribute.

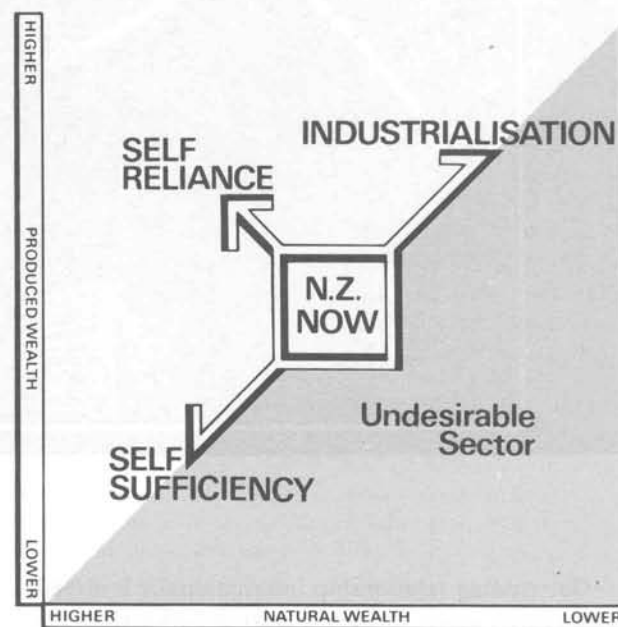
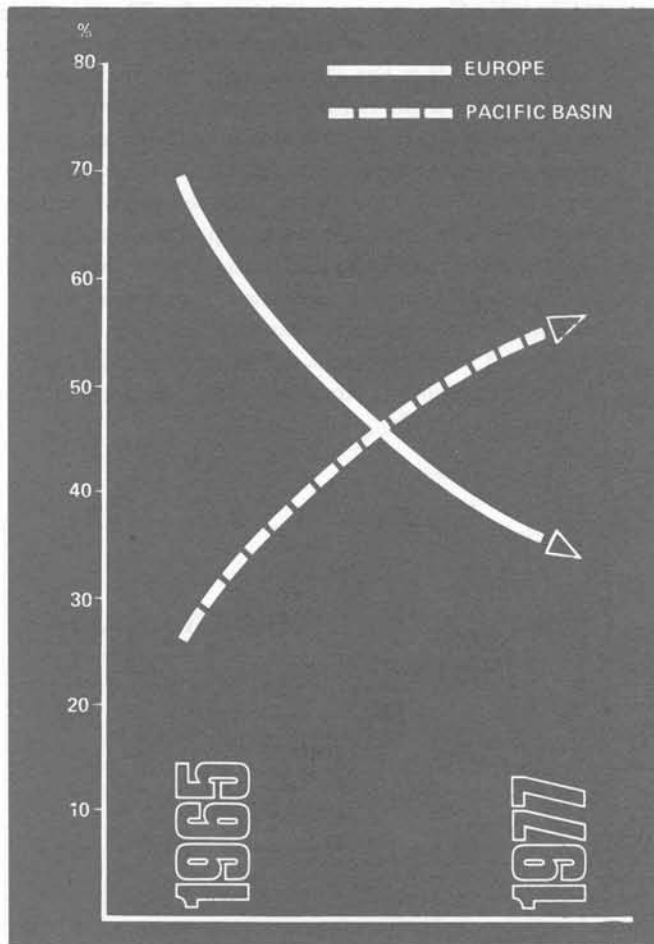


Fig. 3.2

But whichever of the three options we emphasise, some trade will still be necessary. And the degree to which we trade ultimately depends on the extent to which we are willing to rely on our own resources for our well-being. We could, of course, reduce our dependence on imports and rely more heavily on the skills and resources of New Zealanders to make a living for themselves on a more do-it-yourself basis.

It therefore becomes prudent to consider carefully what kind of export markets we should develop and the degree of dependence on them that we shall wish to accept.

Fig. 3.3 Direction of New Zealand Trade



Our trading relationship internationally is already undergoing major change; Figure 3.3 illustrates the redirection of our trading patterns since 1965. This process of lessening dependence on our traditional markets (an enforced process through Britain's accession to the EEC) will intensify in coming years and should be welcomed as an opportunity to recognise our place in the world, particularly as a Pacific Basin nation. Inevitably, we shall have to trade with new nations exhibiting diverse characteristics, customs, and needs which are not necessarily the same as those of our more traditional markets. The importance of market diversification and marketing skills thus assumes critical proportions if New Zealand is to take advantage of these changed circumstances and opportunities.

With market diversification must come product diversification. We must be prepared to meet new requirements if we are to build a successful trading

relationship. To be sure, there are opportunities for expanding our bulk agricultural sales to new areas (as is already happening in, say, the United States and the Soviet Union). Some moves are already under way to investigate potential products; (for example, new varieties of nuts, figs, guava, sour cherry, and so on). They are to be welcomed and encouraged; but we must continue this process of diversification.

The primary sector of the economy will remain a mainstay of the New Zealand economy in the years leading to the 21st century. But recent years have also seen a stronger move to increase New Zealand's industrial capability. In this field, too, New Zealand has many opportunities to increase trade (e.g. by processing primary products and by diversification into other products like leaf protein, fish farming, and so on). But again, care will need to be taken with the choice of products we make; blind belief that the world will buy what we produce is a suicidal course in a world that has become more complex. The increasing industrialisation of the less-developed nations, too, will increase our need to learn what new and potential markets require. We are likely to enjoy increasing scope for the production of short-run items that do not require the massive industrialisation of nations with larger populations.

New Zealand has further opportunities to expand its trade with other nations, particularly the developing states. This is in the tertiary, or servicing sector. We have many skills available which have been forged through a century of isolation and enforced adaptability; the selling of New Zealand technology and 'know-how' offers great potential for expanding our export income, particularly in agricultural expertise.

But there are other considerations — the protection of our industries against the impact of world events likely to cause a downturn in demand. This could be done by stock-piling, building up facilities, or in other ways contributing to New Zealand's internal economy.

Commonsense indicates that there will be continued demand for such basics as agricultural, pastoral, forestry, and paper products by a world population currently increasing at a rate approaching 100 million each year. Clearly, the indefinitely renewable potential of the forestry sector is impressive. This industry fits closely with the criteria for creating and satisfying markets listed above. But there are others, such as future prospects for export of energy-intensive products (methanol, synthetic gasoline) and processed food products (e.g. berry fruit, fish), again using our own resources to the best advantage.

One area, however, in which we have faced a comparative disadvantage is capital, which has long been our scarcest resource. We have relied heavily on overseas investment to build our nation, particularly the manufacturing sector. The need to diversify our markets and our products and the growing influence of multinational corporations will create increasing pressure for a decision to encourage further overseas development finance without serious consideration of the consequences. For instance, the role of multinational corporations — the who owns us question — has caused much comment; the degree to which we “sell ourselves” to outside interests is likely to become increasingly questioned. Perhaps we should judge the acceptability of such finance by a set of criteria such as:

- (i) an overseas market is guaranteed;
- (ii) the overseas share of equity investment should be within defined limits;
- (iii) New Zealand's resources (primarily renewable) are used;
- (iv) the imported material used in the industry should be limited to a specified fraction of the export return.

Such decisions could also affect one of the basic issues facing New Zealand, the choice for or against large-scale industrialisation or a mix of large and small scale industrialisation. Industry does create jobs and wealth but it does require capital. And there is a growing recognition of the economic prospects of our developing tourist industry, which could be harmed by a move towards large-scale industrial plants.

But other countries, especially less developed countries, are also affected by lack of finance. These are seeking change and innovation in world arrangements for trade, aid, and development. New Zealand has some obligation, particularly in the Pacific, to show itself responsive to these wider international demands.

A second comparative disadvantage is transport because of the long distances to our markets and the costs of maintaining efficient transport both within New Zealand and overseas. This has widespread consequences in many of our industries such as tourism and production and marketing of agricultural and manufactured products.

Trade policy is a complex business, influenced by external events beyond our control and internal decisions often taken in response to those events. By understanding the changing concept of the world from a ranking system based largely on produced wealth, it

is possible to see how the future for New Zealand need not be gloomy.

Our resource base is deep and varied, much of it renewable. It affords us options for the kind of society we wish to develop (see Booklet Two, *Societies in Change: A Question of Scale*).

But if we wish to maintain or develop trade and other relationships we must look beyond our immediate national circumstances. As we assess our resources and attempt to measure the comparative advantages they offer under our different options, we need also to gauge now the likely course of developments in countries and regions of future importance to us.

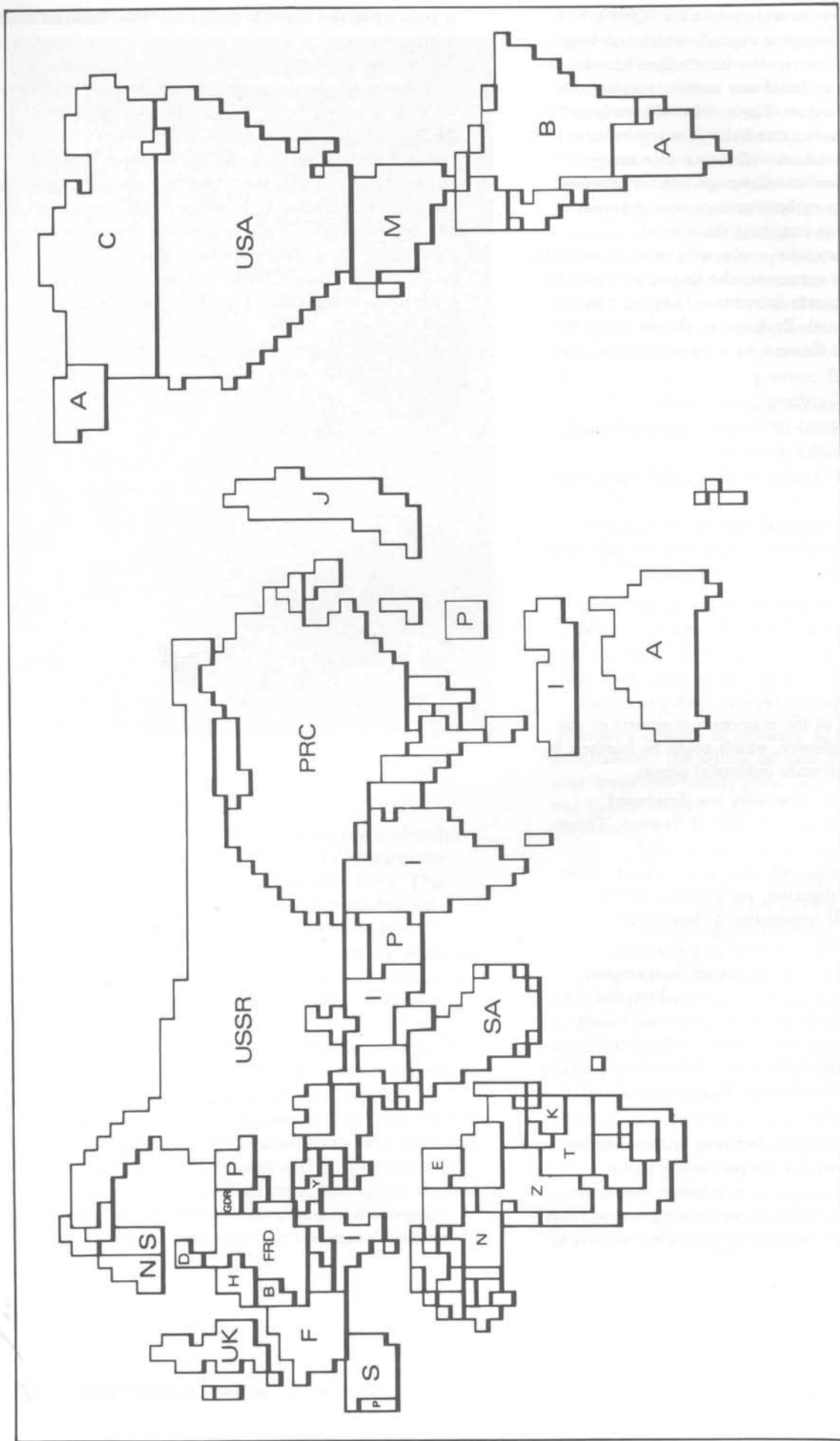


Fig 4.1 This diagrammatic representation of the world illustrates the importance of taking resource factors into consideration when dealing with the present ranking of nations. It has been compiled by giving equal weighting to four measures of each nation's importance: land (by surface area); people (by population); GNP (1978-79 Gross National Product); and important mineral resources. The area occupied by each nation thus represents their ranking using these criteria while some attempt at producing their geographical positions in relation to each other is maintained.

COUNTRIES AND REGIONS OF IMPORTANCE

The emergence of a multipolar world, a New International Economic Order, and readjusted patterns of production promise exciting possibilities in economics and trade. However, it will be important to assess carefully the opportunities available so that we can gain the most benefits if we are to remain a member of the world community.

The following section examines more specifically some of the nations and regions that have been of importance to us in the past and looks at possible new centres of opportunity for us in the future. These opportunities should be judged in the light of the ideas and possibilities set out in the previous sections. No assessment is made, however, of the effects of either world or regional conflict which would radically alter these opportunities.

In choosing the order, we have looked outward from New Zealand. Thus we start with Australia and the Pacific Basin nations before directing our attention further afield.

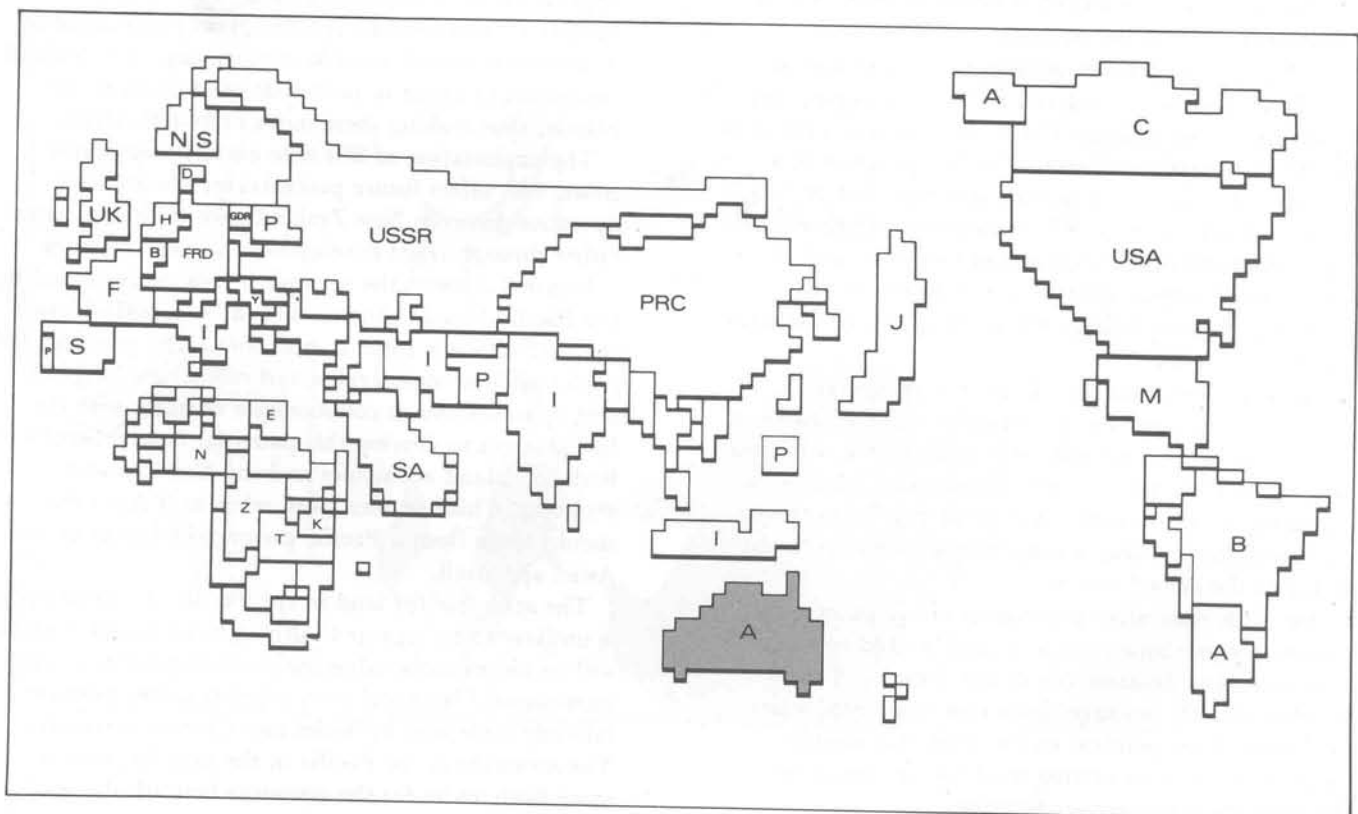
AUSTRALIA

Australia will continue to be a major, if not crucial, component of New Zealand's decision-making. Its position as the largest state in the South Pacific, our closest neighbour, and one of our biggest markets has made Australia of prime concern to New Zealand. We have a common European heritage, share the same seasons, and have a common defence tie with the United States through the ANZUS Treaty.

For New Zealand, these have been compelling reasons for maintaining close ties with Australia. The rising wealth of the Australian consumer has given an additional boost to these considerations.

Other reasons have included:

- the ability of Australia to provide significant capital resources for the development of the south-west Pacific region;
- the provision of industrial raw materials, energy products, components, and production equip-



ment the New Zealand economy requires as the process of reducing its dependence on pastoral export industries continues;

- the free movement of peoples between the two countries, which forms part of the fabric of the Australia - New Zealand relationship.

New Zealand's relationship with Australia is, therefore, assuming increasing economic importance — for New Zealand. But Australia has a different perspective and for equally compelling reasons.

Australia has a stronger and more complex economy and more extensive external concerns. In particular, as markets for Australian mineral resources extend throughout Asia, Australia will become more closely involved with its northern neighbours, particularly as those nations seek to open up the Australian market for their manufactured goods, many processed from Australian raw materials.

Against this broad background, it is understandable that relations with New Zealand are unlikely to be regarded as a major issue in Australia. They could assume greater importance should a New Zealand government implement a foreign policy which would be regarded in Canberra as being in conflict with Australia's on important issues, or should the New Zealand economy deteriorate to the point where Australia became convinced it would be necessary to assist in remedying the situation.

If New Zealand wishes to maintain the relationship, it will need to work hard and find common purposes between the two nations. Certainly, they are there to be found. We have the potential for co-operation in a number of fields. They include scientific and technological research and development, further (and more dramatic) rationalisation of industrial and agricultural output, greater co-ordination of our differing resource bases, such as energy usage, mineral stocks, and so on.

Another important area is defence co-operation. With the lessening of U.S. influence and the advent of the 200-mile exclusive economic zones which will bring a growing need for maritime surveillance, negotiation of an inter-governmental agreement may be necessary to consolidate existing arrangements for co-operation between the armed forces.

But with Australian preoccupations in other areas increasing, initiatives would probably need to come from the New Zealand side of the Tasman. These would certainly envisage closer economic association and even closer political union if the relationship appears to be deteriorating markedly or disparities between the two continue to grow.

This would be a major decision for New Zealand. Previous suggestions that New Zealand become (philosophically, if not physically) the "seventh state" have so far been received with little enthusiasm.

But if our diplomatic and political ties strengthen into greater economic and trading co-operation, we may find the benefits of greater economic stability increase the attractions of some form of closer political association not involving the complete surrender of independence. The choice need not be made yet, but it will become an increasingly pressing one.

SOUTH PACIFIC

The New Zealand relationship with the South Pacific extends well beyond economic contact into social and political spheres. The smaller, more independent islands with Polynesian inhabitants have the closest bonds with New Zealand which reach deep into the personal affairs of many people. It is the way these are dealt with that will fundamentally influence the shape of future relations between New Zealand and the South Pacific.

But economic and trade considerations will have growing prominence. Already the New Zealand approach to aid to island states is altering through application of such schemes as the Pacific Islands Industrial Development Scheme. This programme of incentives is geared towards encouraging New Zealand companies to invest in industrial production in the islands, thus making these states more self-reliant.

The exploitation of 200-mile exclusive economic zones, too, offers future potential for economic co-operation between New Zealand and the island states, either through trade development or joint ventures.

Figure 4.2 shows the enormous area encompassed by the Pacific Islands, Australia, and New Zealand with the new 200-mile zones in operation. The potential for exploitation is considerable and offers New Zealand real opportunities in collaborative ventures with the Island states to develop this potential for the benefit of both the Island economies and the New Zealand economy. This becomes more relevant if Australia should move from a Pacific presence in favour of an Asian approach.

The scramble for land in the Pacific of a century ago is unlikely to be repeated, although the Island countries will be increasingly subjected to developments at the international level and even to great power pressure (already evidenced by Soviet and Chinese overtures). The scramble in the Pacific in the next 30 years is more likely to be for the resources beneath the sea.¹

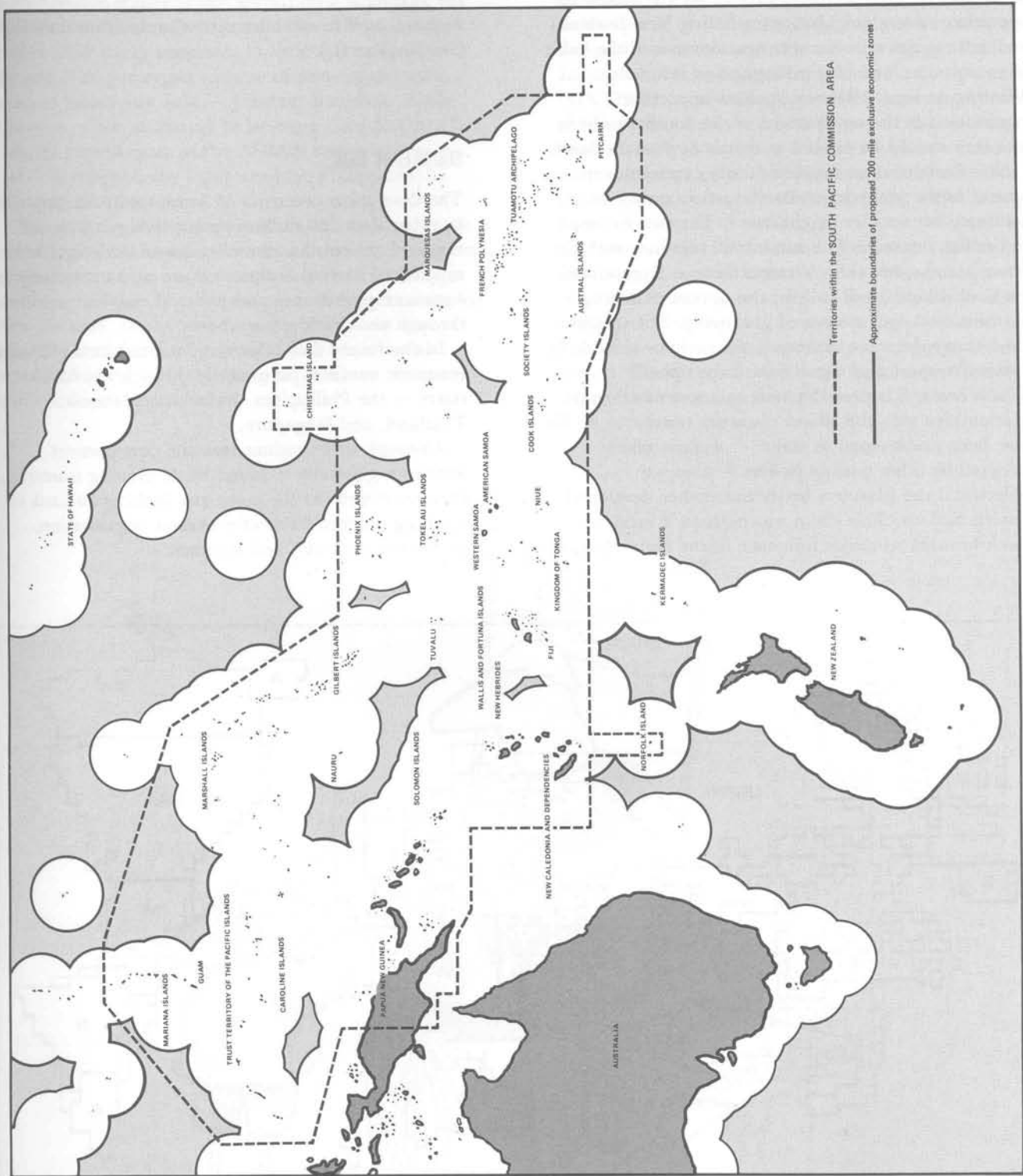


Fig. 4.2

Since significant resources are known to exist, the Island countries will have to decide how best they may be exploited. This problem will call for the closest co-operation among neighbours (including New Zealand) and will require considerable development of the habit of consultation and of a willingness to reconcile differing national interests. And an important expectation of the new nations of the South Pacific is that they should be treated as equals by New Zealand.

New Zealand must be particularly careful not to appear as the great South Pacific power trying to dominate her smaller neighbours in her own narrow and selfish interests. The conduct of relations with the closer island states (Fiji, Western Samoa, Tonga, and the Cook Islands) will call for the utmost patience, restraint, and well motivated generosity. The smaller the country the more necessary will such an attitude be if its self-respect and dignity are to be upheld.

New Zealand is probably now at a watershed in its relationships with the Island countries nearest to it. We have been accustomed to claim — a claim often accepted by other outside powers — that we understand the Islanders better than other developed western nations. This claim was perhaps a valid one which brought us major influence in the region but, for

the future, much will depend on attitudes exhibited towards our Pacific Island neighbours at all levels in the Islands and on the success of efforts within New Zealand itself to establish a true multicultural society. (See Booklet II.)

SOUTH-EAST ASIA

The developing countries of South-east Asia, populated by more than 250 million people living in a varied range of circumstances and endowed with significant supplies of natural resources, have a comparatively fast economic growth rate and political stability provided through autocratic governments.

In the future they offer the potential for significant economic contact, particularly through the ASEAN states — the Philippines, Indonesia, Malaysia, Thailand, and Singapore.

Although these nations seek the development assistance generally required by developing countries, they are clearly on the move and looking forward to reaching modern levels of economic organisation, productive capacity, and incomes.

