



Foreign Affairs, Defence and Trade Discussion Paper

Focusing on Our Core Strengths and Capabilities

Prepared by Hon Murray McCully, Dr Wayne Mapp, Tim Groser and John Hayes



The release of the National Party's Foreign Affairs, Defence and Trade Policy Discussion Paper is an important event.

After three decades of debate, the basis for enduring consensus in these areas has arisen. Political leadership is required to ensure that such a consensus is firmly put in place.

As a small, isolated and trade-dependent country, we depend on consistent and effective foreign policy.

We have always behaved during important international events and crises with a view to advancing the cause of international security and peace.

Only through international stability can a small, export-dependent country like New Zealand prosper.

There is broad, bipartisan agreement nowadays on foreign policy that reflects New Zealand's more independent assessment of its external environment.

There is also agreement that we need highly effective - if necessarily small - defence forces to help maintain security both close to home in the Pacific region and further afield in the world.

And there is broad agreement that free and open trade is crucial to New Zealand. That is why bilateral trade agreements and the Doha talks have continued to be pushed by both major political parties.

The real political debate in the future will be about implementation of foreign policy – not an ideological debate about fundamental objectives.

Two ideas sum up the direction we must go. Firstly, as a country we need to focus on New Zealand's essential interests, and secondly, the focus needs to be even more strongly on our core strengths.

New Zealand plays a larger role on the international stage than its size would indicate.

We need to do better what we already do well, and we need to keep New Zealand's best interests at the forefront of our thinking. That is the basis for consistent, coherent foreign affairs, defence and trade policy.

We welcome your comments on this paper. Please write to Hon Murray McCully MP, Freepost Parliament Buildings, Wellington or email: murray.mccully@national.org.nz

Yours sincerely

A handwritten signature in blue ink, which appears to be 'John Key'.

John Key
NATIONAL PARTY LEADER

Foreign Affairs, Defence and Trade Discussion Paper

CONTENTS

Overview	4
1 Foreign Affairs	7
· Key Bilateral Relationships	
· NZ Has to Make Choices	
· The South Pacific	
· Focus on Asia	
· Multilateral & Regional Institutions	
· Counter Terrorism	
· Main Themes	
2 Defence	11
· Emerging Defence Consensus	
· New Zealand's Security Interests	
· Our Neighbourhood	
· Beyond Our Neighbourhood	
· Our Polynesian Dimension	
· Shaping Our Defence Force	
· Working with Partners	
· Defence White Paper	
· Main Themes	
3 Trade	15
· The Setting: New Zealand in the Global Economy	
· Boosting New Zealand's Export Performance	
· Trade Policy	
· The WTO	
· FTAs - Moving the Second Track Forward	
· CER	
· Asia Pacific: The Architecture of Regional Economic Cooperation	
· China/NZ FTA	
· India/NZ FTA	
· US, Japan and Korea FTAs	
· FTAs Outside the Apec Region	
· Government Services to Exporters	
· NZ Trade and Enterprise	
· Ministry of Foreign Affairs and Trade	
· Other Agencies	
· Funding for Export Services	
· Main Themes	

After three decades of sometimes divisive New Zealand political debate, the basis for an enduring consensus on our foreign, defence, and trade policies is coming into view.

It now requires political leadership to put it into place. Both major political parties have moved their positions over the past 30 years towards a new centre. There is now broad recognition that New Zealand's foreign policy should reflect New Zealand's independent assessment of its external environment.

There is agreement that we need highly effective, if necessarily small, defence forces. There is agreement that we must pursue an open, not closed, trade policy.

Looking forward, the next task externally for New Zealand is obvious: we need to develop a large measure of consensus politically on how to tackle climate change.

The real political debate in the future will be about implementation of external policy strategy – not an ideological debate about fundamental objectives.

Two ideas sum up the direction New Zealand must go. First, we need to focus on our essential interests. Second, New Zealand must now focus more strongly than ever on its core strengths. We must do more of what we can do best as a nation, rather than try to replicate on a small scale the full range of activities of much larger nations. In this way, New Zealand cannot only best advance its own long-term interests, but also make a more targeted and effective contribution to certain international efforts with its partners, old and new.

FOREIGN AFFAIRS POLICY

While there will always be some global political issues requiring a New Zealand policy position, we need to focus more strongly still on our Asia-Pacific neighbourhood. There is every reason to expect that the extraordinary dynamic growth in Asian economies will continue to exert a huge influence on New Zealand's future, and we must tap into that. National will ensure that the scarce resources we have available are deployed in priority areas and that they are more strategically focused on doing things important to our future.

Contrasted with this positive view of the Asian Pacific, it is clear that the sustainability, both political and economic, of

certain South Pacific nations is being called into question. New Zealand and Australia are being drawn reluctantly to play a bigger stabilisation role in a growing number of these states. The older commitment to the democratic values that have historically held the region together has been weakened. This is not only our neighbourhood, but it is in this region we can make a difference.

Our development assistance similarly needs to be more focused on our immediate neighbourhood, rather than scattered around parts of the globe where New Zealand has little standing and can make only a token contribution. The mantra of 'poverty elimination' is too narrow to meet these challenges – this country needs to be focused on sustainable development of many of these micro-states. To put it in simple terms, people in these island nations need to earn a reasonable living.

Fresh thinking will be required on governance issues. Threats, new and old - corruption, money laundering, drugs trafficking, cyber crime - all have the capacity to disrupt these small and fragile countries. Close consultation with Australia will be essential in both policy development and implementation of new strategies. We shall also need to continue better partnerships with other important players – including France and, these days, China.

DEFENCE POLICY

The old debates of the 1980s are over. There is now an opportunity to develop a new consensus amongst New Zealanders based around enhancing some specific and well-tested New Zealand fields of military and intelligence expertise. These will best meet security challenges arising from terrorist threats, political instability from fragile nations in our region requiring deployment of New Zealand troops, and protecting important assets in the oceans that encircle our country.

Our armed forces personnel must see a secure and satisfying career in areas of demonstrable importance to the country. They must be confident the government will give them the tools they need to attain the highest standards of international excellence.

Clear-headed views about what we are trying to achieve with this more focused strategy must drive the crucial procurement decisions, not vice-versa. Military equipment

that makes perfect sense for much larger countries with global reach may make little sense for one of our size, seeking, as we do, to maximise our effectiveness in a narrower range of relevant military and intelligence areas where we know we are good at what we do. We are prepared to be imaginative here. Modern defence forces need to cover a wide range of military and civil tasks. Utility and effectiveness will be the cornerstones of military capabilities.

To promote transparency, a White Paper on Defence will be developed by National in government, both to focus public discussion and build bipartisan support for long-term defence policy. It will also serve as a vehicle for close consultation with countries whose armed services often work in tandem with ours. It is in our interests that our defence force can effectively work with our defence partners, so we need their views.

TRADE POLICY

We already have an effective political consensus in place on abandoning the older frontier protection policies where New Zealand tried to make a wide range of products, irrespective

of efficiency. Both major political parties accept that New Zealand must focus on its core strengths and pursue every possible negotiating avenue, multilateral or bilateral, to open up opportunities for exporters. National will pursue FTA strategy with determination, and focus strongly on the key markets of Japan, the United States, and Korea. An FTA with India, a CER/ASEAN FTA, and the possibility of an innovative agreement with the European Union, will also be in our sights.

These steps will be driven by the critical need to integrate our economy more fully into the global economy. In terms of our export marketing focus, this is one area where the principle of a regional focus can be taken too far. In reality, New Zealand, though a tiny part of the global economy, has trading interests that are unusually global. Developing our trade with Asia will be the top priority and we will make better use of the large and growing Asian communities. However, we recognise that for significant numbers of New Zealand companies, not just agribusiness, even our traditional European markets have important growth prospects.

A National Government will carry forward, with far greater drive, coordinated efforts to enhance our export effort. This



Welcome: haka by Kiwi troops to greet the head of the international force in Timor Leste, Brigadier Mick Slater, of the Australian Defence Force

Photo: New Zealand Defence Force

is critical to arresting the disturbing slippage in recent years in terms of productivity – the absolute key to restoring our position in the top half of OECD countries. We will set the aspirational goal of increasing the ratio of our exports as a percentage of GDP from the current level of around 30%, to 40% by 2020.

Our public institutions, including the Ministry of Foreign Affairs and Trade, and NZ Trade and Enterprise, will be asked to make significant adjustments in their priorities, their focus and their activities. The amount of taxpayer funding available to support New Zealand's trading efforts, including trade promotion, will be maintained at around current levels, but there will be adjustments to policy delivery to make better use of available funding.

Climate Change

Along with these three traditional strands of external policy – foreign, defence and trade – a fourth international dimension is fast emerging: climate change¹.

New Zealand companies and the public, conscious of the need to have long-term certainty that survives swings in the electoral cycle, expect their political leaders to respond. This is a significant challenge for both major parties and we accept our share of that responsibility.

We shall place great importance on the negotiation of a successor agreement to the Kyoto Protocol that has a better chance of attracting support from the major emitters of GHGs (greenhouse gases). We shall focus our negotiation and research capabilities on New Zealand's core strengths and interests, environmentally and economically.

We also see huge opportunities with this emerging international environmental agenda, of which climate change is the leading edge. There are issues we have to deal with that are not consistent with the 'branding' we want for our export drive, tourism, and investment profile as 'clean and green'. Any durable branding strategy has to be based on integrity and real performance. There are also threats, such as 'food miles', that demand a response. However, any realistic appraisal of New Zealand's place in the world would show that, with smart and strategic policy implemented by government and business, New Zealand is as well placed as any country in the world to turn this to our advantage.

¹ This discussion paper will not focus on climate change. See instead the National Party discussion Paper issued by Hon Dr Nick Smith 'A Bluegreen Vision for New Zealand'.

Complementary Domestic Policy Change to Reinforce the International Agenda

Finally, in all these areas of external policy, we recognise there are crucial domestic policy components. For example, an effective strategy for deepening global economic linkages depends crucially on getting the basics right at home. Our export companies are hardly likely to excel internationally if, for example, our roads, power, and telecommunications infrastructure remain inadequate.

The issues summarised in this overview, other than the international environmental agenda, are discussed in greater detail in three chapters dealing respectively with Foreign Policy, Defence Policy and Trade Policy.

I. Foreign Affairs

“Politics stops at the water’s edge” – US Senator Vandenberg on US foreign policy in 1948.

If, as Senator Vandenberg’s statement suggests, maintaining broad bipartisan policy positions makes sense for the most powerful country in the world, this approach makes sense for New Zealand. After three decades of occasionally divisive political debate, we are almost there. Certainly, the old debates, except on the extreme wings of New Zealand politics, are over.

National has accepted that the nuclear-free legislation will remain in place because of its iconic status in our emerging sense of national identity. To balance this, there is greater realism across the spectrum of New Zealand politics that even a country of our size needs small but highly effective defence forces to achieve widely shared foreign policy objectives. Earlier left-wing fantasies about adopting ‘non-aligned’ foreign policy positions have been jettisoned.

All this is positive and, in effect, we have come almost full circle. We make our own independent judgments but find in practice that we are on the same side of most important international issues as our traditional and larger friends. The ideological debates of the 1970s and 1980s are irrelevant to New Zealand’s future. We need to move on.

Key Bilateral Relationships

Generally, political relationships with countries important to us are in good shape, even if some are rather ‘thin’. The

relationship with Australia, the most important of all our relationships, continues to develop, particularly with respect to the economic relationship, in an increasingly sophisticated way. In East Asia, considerable progress has been made over the past quarter of a century in forging relationships with countries such as Korea, Thailand, Japan, and China, where little was in place in New Zealand’s more distant past. However, when we think of the potential importance of countries like Indonesia and India, in particular, we can see how far we have to go.

Unquestionably, progress has been made from the mid 1990s in improving our relationship with the United States since the rift over Anzus during the Labour Government of the mid-1980s. We recognise there is still work to do.

While fully respecting US policy positions that reflect its global interests, a future National-led Government will commit itself fully to a further strengthening of the relationship on the basis of now clearly stated policy positions of both countries, including New Zealand’s anti-nuclear legislation. To this end, we will seek an early opportunity to meet with the US Administration, and consult informally with our friends in Congress, to see how we might move forward on defence cooperation, intelligence arrangements, climate change, effective counter-terrorism strategies, and a wide range of other issues where there are common interests.



John Key with the Rt Hon Stephen Harper, Prime Minister of Canada

National has strongly supported the initiative of the US/NZ Partnership Forum, jointly chaired by a former National and a former Labour prime minister. However, in government, National will want to move this agenda to a more formal inter-governmental dialogue.

This will proceed independently of increased efforts by a National Government to secure an FTA with the United States, because further strengthening the relationship makes sense in its own right.

New Zealand Has to Make Choices

Generally, New Zealand needs to focus more on its key foreign policy interests. There will always be a need to take positions on a range of global political and security issues that dominate world politics; for one thing, such positions are part and parcel of New Zealand's bilateral relationships with key countries such as the United States and Australia. The Proliferation Security Initiative, important to both these countries, is a clear example of where New Zealand needs to make a contribution.

Our small country does not have the resources to address every international issue. National will concentrate New Zealand's scarce resources on issues that make a material difference to New Zealanders.

The South Pacific

In political diplomacy, this means an enhanced focus still on the South Pacific. New Zealanders today only need to pick up their newspapers to appreciate that our backyard can no longer be considered a quiet and peaceful part of the world. Indeed, for some 270,000² New Zealanders of Pacific origin, this is now a matter of personal concern to them and their families.

There is a positive role that countries other than Australia and New Zealand can play in the South Pacific, but some current activities have nothing to do with the developmental or political interests of the tiny South Pacific countries in which they are operating. Chequebook diplomacy has to be countered. National will increase the tempo and level of discussions with the countries concerned. This will also require much increased consultation and engagement with Pacific Islands Forum countries.

Overseas development assistance needs fresh thinking. Over many years and various Governments, New Zealand aid has encouraged the growth of political structures and bureaucracy that are not sustainable. We will maintain current aid levels set out in the 2007 Budget. However, we are concerned that the significant increases have been put into place with insufficient thinking done with respect to delivery mechanisms or the likely impact of the expenditure. There is no evidence that the major problems identified in the 2005 report by Professor Marilyn Waring³ have been rectified. A National Government will review the operation of these programmes.

More importantly, greater focus on the South Pacific is required. We understand this is already the main target area for development assistance – National simply wants to push existing logic further down this track. We will not renew certain aid projects in distant regions that are not grounded in any realistic appraisal of New Zealand's interests or our capacity to make a difference.

Fresh thinking is required on development assistance strategy. The phrase 'poverty elimination' has become a mantra. It owes its place to larger international debates in the United Nations where Africa, in particular, presents intractable problems for donors and recipients alike. We respect the reasons for that internationally, but the situation in the South Pacific is different. Certainly, poverty is part of the region's problems, but the bigger picture is to enhance the political and economic sustainability of our neighbouring states. A National Government will not stand by and watch the creation of a sub-class of New Zealand citizens in the Cooks, Tokelau, and Niue.

Political failure is now possible in a number of these countries after 30 to 40 years of independence. The way ahead is not obvious but it does not lie in replicating failure. The current Government's response to the Tokelau typifies the cost of creating unsustainable governance structures and the failure to think outside the square. A National Government will work in partnership with Pacific people to help them resolve their problems. We stress the need to listen to Pacific people, work with them, and not impose externally devised solutions.

2 2006 Census

3 "Ministerial Review of Progress In Implementing 2001 Cabinet Recommendations Establishing NZAID", July 2005.

Focus on Asia

A century ago, all eyes in New Zealand, when they looked abroad, were focused on Europe, and the United Kingdom in particular. National recognises that we still have essential interests on the European continent. We even see an opportunity to enhance our economic relationship with Europe (see Trade Policy below). We cherish the European legacy that has played the dominant role in shaping New Zealand institutions, culture, and political system. But to describe everything and every region as a 'priority' is to have no priorities.

Confident in our European legacy, New Zealand now needs to turn its eyes more emphatically still to Asia. The process began seriously in the 1970s but needs to be accelerated to allow New Zealand to profit from the explosive growth in Asia. Where there are choices to be made at the margin between strengthening New Zealand representation by our embassies and trade posts, we will look to Asia.

National will review the network of our posts with two principal objectives in mind:

- Concentrating on key countries and key markets. We cannot afford to spread the jam too thinly. Our representatives need to be more focused in places that matter to us and on tasks that are relevant to New Zealand's future.
- Improving efficiency. We are a small and sophisticated country, crucially dependent on international networks and, as such, should aim to have the smartest and most innovative foreign and trade ministry in the world. This is the age of networks, not committees; of the internet, not the diplomatic telegram; of 'open source', not an obsessive concern for confidentiality on matters of second-tier sensitivity. Our people overseas need to be given clearer and broader instructions by government, and then told to get on with the job.

Developing the 'Asia literacy' of New Zealanders is a major task and extends well beyond 'foreign policy' into education, immigration, and other policy frameworks. It will require at least another generation or two to get New Zealand into the space we need to be in for our long-term future. It was a National Government that established the Asia-NZ Foundation to deepen New Zealanders' understanding of the issues involved. National will continue to pursue

this agenda with vigour. In doing so, we will make greater efforts to involve and consult the 10% of New Zealanders of Asian ethnic origin, a percentage that is projected to grow considerably in the next decade. This is an under-utilised resource. We need to think smarter and more flexibly about how to involve Asian New Zealanders more fully in this strategic endeavour.



John Key with the US Assistant Secretary of State for East Asian and Pacific Affairs, Christopher Hill

Multilateral and Regional Institutions

A National Government will pick our targets here with great care. Some of these institutions, in the fields of, say, international environment negotiations, international legal matters, fisheries management, or trade and investment, deal with issues of demonstrable importance to New Zealanders.

New Zealand has from time to time shown itself to be effective at using these negotiating opportunities, since our small size is less important here than in bilateral diplomacy. We also recognise that there are other such institutions that are of less concern to New Zealanders and New Zealand interests.

This will require setting new priorities for the major governmental institution with external responsibilities, the Ministry of Foreign Affairs and Trade. This is an institution that contains people of outstanding ability and networks of great importance to New Zealand. But National wants a more rigorous focus on the world this country faces in the 21st century.

National will not hesitate to set priorities. Again, the debates of 30 years ago over issues such as whether 'foreign policy is trade' are irrelevant to the generation of New Zealanders coming through into positions of authority.

Certainly, New Zealand's economic interests, broadly defined, will lie at the top of a National Government's priorities. This is dealt with comprehensively in the section on Trade Policy below. We recognise that the term 'Trade Policy' is today too narrow to convey accurately to the public its real content. In terms of the CER relationship, for example, the traditional instruments of trade policy are almost irrelevant to the next agenda. Environment negotiations – climate change is simply the most important of these – now demand a level of expertise every bit as sophisticated as we have come to expect from our trade negotiators.

Counter-Terrorism

Terrorism is now a greater immediate threat than the conventional threats that have dominated traditional defence and foreign policy thinking in the past. The implications of this, including the future of certain troop deployments, are developed in the chapter on defence and intelligence policy.

There is a vital political component, too, that will need to be reflected in our foreign policy. International dialogues under way with neighbouring Islamic nations or nations with significant Islamic communities will be maintained. Our relationship with Indonesia, which contains the largest Islamic community in the world, is obviously critical here. National recognises the crucial importance of such nations in the frontline struggle against terrorism; they, even more than the developed countries of the West, are the first targets of the terrorists.

At home, National will strengthen oversight of terrorist groups and their money-laundering activities. Under the current Government, we rely entirely on a list of such groups negotiated through the UN, pursuant to UN Resolution 1267. But Australia and other countries augment this UN list through their own procedures. This is specifically provided for under a complementary resolution, UN 1373. Yet not a single organisation has been designated by the New Zealand Government under the 2002 Suppression of Terrorism Act using this provision. National does not want to make this a matter of domestic political debate but there is clearly a problem that needs to be addressed here. National will do that.

FOREIGN AFFAIRS - MAIN THEMES

- New Zealand needs to focus more strongly on the growing and dynamic Asia-Pacific region.
- On foreign aid, National will review the operation of development assistance, while maintaining current aid levels. We will also more strongly target assistance to the South Pacific.
- There will be a stronger focus on Asia, which includes a review of overseas posts to improve efficiency and concentrate on key countries and key markets, as well as develop the "Asia literacy" of New Zealanders.
- On the US bilateral relationship, National will seek an early opportunity with the US Administration to move forward defence cooperation, intelligence arrangements, climate change issues, effective counter-terrorism strategies, and other issues of common interest. National has supported the US-NZ Partnership Forum, but wants to move this agenda to a more formal inter-government dialogue.
- No change to anti-nuclear legislation.

2. Defence

Enhancing specific and well-tested fields of military and intelligence expertise.



NZ troops from 2nd/1st Infantry Battalion, RNZIR, arriving at Dili airport, 31 May 2006

Photo: New Zealand Defence Force

Emerging Defence Consensus

For a generation, New Zealanders have been actively arguing about our role in the world. This debate has spilled over into the shape and purpose of the Defence Force. In 2007 it is time to put those old debates aside.⁴

It is 20 years since New Zealand became nuclear-free. The Cold War ended 17 years ago. The first Fiji coup was 20 years ago. The first deployment to Timor Leste was eight years ago. September 11, 2001 led to substantial military operations in the Middle East. These events have shaped the contemporary New Zealand view of the world and how best to secure our interests within it.

Defence policy cannot be built around endlessly relitigating past events. There is now broad recognition that New Zealand's defence policy should reflect New Zealand's independent assessment of its security environment. This consensus has emerged as a result of contemporary foreign policy and defence challenges. New Zealand has had to deploy troops to the Middle East because our vital interests in global security were at stake. Our region, the South

Pacific, has required active, ongoing military involvement to help stabilise countries in difficulty. These defence tasks, whether peacekeeping or combat, could only be performed by well-trained and equipped military personnel. There is no longer an idealistic view that defence personnel are simply police officers in camouflage uniform.

This approach will shape our Defence Force so it can meet the likely challenges of the contemporary world. It is essential that we allocate sufficient resources so our defence forces are sustainable over time, and are able to deliver the level of security our country needs.

New Zealand's Security Interests

New Zealand's security interests are two-fold. First, we have to ensure security within our own region, the South Pacific. New Zealand takes a lead role in this task, along with our closest defence partner, Australia. The commitments in the region have extended over many years and have required a sensitive approach to building security and trust. Secondly, New Zealand is committed to an open and secure world where trade and commerce can be freely undertaken. It is in our interests that we play our part in building international peace and security. In recent years, as part of our international contribution, New Zealanders have been

⁴ The Foreign Affairs, Defence, Trade Select Committee report, *Defence Beyond 2000* (1999) was influential in the reshaping of the Defence Force. More recent commentary includes *Cutting their Cloth: New Zealand's Defence Strategy*, Australian Strategic Policy Institute, 2007.

engaged in places as diverse as Afghanistan, the Balkans, the Middle East (including the Gulf), and Cambodia.

Our Neighbourhood

Our own region, the South Pacific out as far as Timor Leste, has many smaller nations that are having difficulty in sustaining economic prosperity. The post-colonial era has shown that the principles of good governance are harder to achieve than was foreseen at the time the Pacific nations gained their independence. This has resulted in substantial military commitments by New Zealand to assist these nations, including Bougainville, the Solomons, Timor Leste, and Tonga. It has been in our mutual interests to work together with Australia to secure stability in these nations, and within the region generally. The states of the South Pacific need to be able to see us as a reliable and secure partner and, along with Australia, we should be the first country the South Pacific states turn to when they need assistance.

The security requirements of the region go beyond assisting good governance. There are substantial marine resources to be protected. Terrorism to the north of the region often leads to a flow of refugees into the region. The island states are prone to serious disaster, especially from hurricanes. These kinds of events may well occur more often with climate change. The New Zealand Defence Force is regularly required to assist in search and rescue, and disaster relief. The configuration of the Defence Force has to include the capabilities needed for these purposes.

Beyond Our Neighbourhood

New Zealand does not confine itself to the South Pacific. We also act in a wider international context where there is a demonstrated need for nations to work together to deal with key points of instability. We do so because New Zealand's prosperity is crucially dependent on a stable, open world. Major instability is a direct threat to our ability to trade. An open international system does not just benefit places where instability exists; it is the only way to defeat the scourge of international terrorism, by offering opportunity to peoples who feel excluded.

A notable example of the success of New Zealand's wider engagement is the work of our defence forces in Afghanistan, both in the Provincial Reconstruction Teams and in the

special forces. They clearly show the level of expertise that has been built up within the Defence Force over many years.



HMNZS TE MANA - Hauraki Gulf

Photo: New Zealand Defence Force

Our Polynesian Dimension

The new and complex tasks of contemporary defence deployments demand more than the essential traditional soldier skills. Our troops are not just maintaining order; they are there to try to rebuild institutions and confidence – touching at times on the boundary of playing a political role. We recognise that the Polynesian, especially Maori, cultural traditions have been a major factor in shaping our military tradition, and are proving even more useful in these complex situations.⁵ Building trust with local peoples is easier with a Defence Force that has a fully integrated multicultural ethos. This is widely recognised as a real strength of the New Zealand Defence Force.

Our international outlook means New Zealand is committed

⁵ 18.3 percent of all regular force personnel within the New Zealand Defence Force are Maori, and a further 3.2 percent are of Pacific Island descent. In particular, Maori comprise 23.1% of regular force personnel in the New Zealand Army and Pacific Island people comprise another 4.2 percent.

to being part of the group of nations that have long been at the forefront of international security. These include our traditional partners, Britain, Canada and the United States. New Zealand will continue to make contributions appropriate to our capabilities to secure international peace and security.

Shaping Our Defence Force

The contemporary security environment directly shapes our Defence Force. It must have a sufficient range of capabilities to deal with any reasonable foreseeable contingency within our region. Outside our region, we are best suited to providing high-quality contributions that are internationally valued and respected. Inevitably these will be focused and specific.

Our region essentially consists of a great ocean with small, relatively undeveloped island nations. These nations do not have advanced military capabilities. Any such capabilities can only come from New Zealand and Australia, or from outside the region. The geographical and political features of the region lead to a requirement for agile forces, deployable at long range. We need to get people on the ground at relatively short notice, with a sufficient range of capabilities in order to effectively improve the security, governance and civil situation of the local population. In addition, the Defence Force needs to be active in our region with an appropriate range of capabilities to secure our wider security and maritime interests.

The Defence Force is also heavily engaged in providing a wide range of surveillance and civil tasks, including fisheries protection, regular patrol of our exclusive economic zone, and operating with Police, Customs, Civil Defence and the Department of Conservation. Disaster relief and search and rescue are essential requirements of the Defence Force. These roles ensure an active presence of the Defence Force in the immediate area around New Zealand.

These features lead to a requirement for:

- Deployable land forces.
- The means to deploy these forces at short notice.
- Agility and versatility once deployed.
- The patrol and surveillance of the oceans surrounding us, both for military and civilian tasks.

Working with Partners

New Zealand invariably works alongside others. Most frequently it is in partnership with Australia. This means our forces should be fully interoperable with Australia's, including a high level of compatibility of equipment, training, and doctrine. Both countries also have a mutual interest in deterring unwelcome intrusions within the region and protecting trade routes. It is essential that New Zealand has a reasonable level of military capabilities to achieve the full range of defence and civil tasks within our region.

Outside our region, New Zealand can be expected to provide only specific and specialist contributions. Almost without exception, our forces will form part of a much larger multilateral force that has the full range of capabilities required for the task. To ensure we can make appropriate contributions, we need a sufficient range of capabilities, both combat and peacekeeping, that can be deployed as part of a multilateral force. Our contribution may be derived from capabilities primarily used within our own region, or may be specific capabilities that recognise our wider global interests. Inevitably, these will reflect expertise that has been built up over many years, in peacekeeping, surveillance, combat, support, and special forces.

Defence White Paper

National will publish a Defence White Paper in its first year in government, to provide a fresh look at the capability requirements that shape our defence forces.⁶ The White Paper will be primarily focused on providing recommendations for the most appropriate defence capabilities required to meet New Zealand's security interests. This will mean New Zealand's defence forces will have the right balance for the foreign policy and security requirements of the next decade.

In developing the White Paper there are some issues that stand out. In recent years, our Defence Force has been heavily committed on deployments. It is clear that special attention will need to be given to recruiting and retention to ensure that it can meet the tasks we ask it to do. Careful analysis will be required of the military hardware that will be utilised over the next decade. Some imagination will be required in order to stretch our capabilities to meet the wide

⁶ White Papers were regular feature of Defence Policy and, more recently, were published in 1997, 1991, 1987, and 1983.

variety of contemporary defence tasks.

Some of the major assets that are vital to achieving New Zealand's defence objectives will reach the end of their economic life toward the end of the next decade. The Defence Long-Term Development Plan, initiated in 2002 and regularly reviewed, covers the period to 2015.⁷ The White Paper will need to carefully examine the capability requirements when the major assets reach the end of their life.

Given the recent substantial budgetary blow-outs on major capital assets, the White Paper will also analyse the quality of defence procurement and budgetary procedures within the Ministry of Defence and the Defence Force. That part of the review will be assisted by an independent consultant.

The White Paper process will ensure that defence planning is transparent, robust, and the subject of genuine public consultation. The outcome should assist in consolidating the defence consensus that is now emerging.

DEFENCE - MAIN THEMES

- **New Zealand's defence policy will reflect this country's independent assessment of its security environment, and will firstly recognise that New Zealand has to ensure security within the South Pacific and, secondly, recognise that we are committed to an open and secure world where trade and commerce flow freely.**
- **National will publish a White Paper in its first year in government to take a fresh look at our capabilities and requirements, with special attention to be given to recruitment and retention.**
- **National recognises that the wide-ranging role of the Defence Force requires deployable land forces, the means to deploy at short notice, agility and versatility once deployed, and maritime patrol and surveillance resources.**
- **National recognises the importance of working with international partners, particularly Australia.**

⁷ The current government has not produced a White Paper, but has introduced specific planning documents, including the Defence Sustainability Initiative (2005), the Defence Capability and Resourcing Review (2005), and the Defence Long-Term Development Plan (first published in 2002 and updated in 2004 and 2006).

3. Trade

New Zealand must focus on its core strengths and pursue every possible negotiating avenue to open up opportunities for exporters.



The Setting: NZ in the Global Economy

The big story of our generation is the acceleration of the global economy. It creates great opportunities and considerable challenges. If these challenges are not met, New Zealand runs the risk of becoming marginalised. We can be quite specific here about the over-arching goal: we need to accelerate our long-term sustainable growth rate above the OECD average and keep it there for a generation. Only in this way will we get back in the top half of First World nations - where National thinks New Zealand belongs.

Fundamentally, this is about accelerating our productivity – the absolute key to higher real wages, improved growth and avoiding persistent inflationary pressures in the domestic economy. We are not going to achieve higher productivity by working harder; we have to work smarter. Right now, New Zealand productivity is going backwards.⁸

Boosting New Zealand's Export Performance

Increasing our export performance lies at the heart of such an agenda. There is unmistakable evidence, country by country and company by company, that higher rates of productivity are associated with higher rates of exports.

The next National Government will set aspirational goals for

the country. The current ratio of exports to GDP is around 30%, the lowest of all OECD economies with a population of 10 million or less. We will set a goal of increasing this by 10 percentage points by 2020⁹ to 40%.

This will, in turn, require the full commitment of New Zealand business leaders. Far larger numbers of New Zealand companies than at present need to see their future growth in terms of the international marketplace, not the small domestic market. If not, we will simply not get there as a country.

Secondly, it will require a much closer alignment of regional economic development policies with this over-arching objective. National, wishing to see further growth of the economy focused on exports, not just the domestic market, recognises that in addition to the funding available for export grants, there is a significant additional sum of money currently spent on regional economic development. These funds need also to be used overwhelmingly to help companies increase their capacity to export. There are some complex issues surrounding the interface between NZTE, the Ministry of Economic Development and a variety of agencies that provide these services up and down the country. The issues will be explored further in our Regional Economic Development Discussion Paper¹⁰.

⁸ From 1992-2000 labour productivity was 2.7%; during this Government's term in office it has slumped to 1.2%. The more complete measure of multi-factor productivity tells the same story: 2.3% growth 1992 to 2000 slumping to 0.7% during the life of this Government.

⁹ This in itself would drive NZ per capita income growth, via the productivity improvements it implies, close to the top half of the OECD by 2025.

¹⁰ "World Class NZ Companies Throughout The Country" – to be published.

Traditionally, the debate about 'trade' focuses on trade negotiations and the services that government provides to exporters. They are an important part of that debate but we need to recognise that the really big drivers of our export performance are domestic-policy instruments. If New Zealand exporters are struggling with inadequate infrastructure, if our education system is not filling the skills gap that exporters up and down the country have identified, and if exporters keep on having to meet rising compliance costs, New Zealand will simply not be able to lift its export game. In office, National will take a 'whole of government' view of this because this is the centre of the real 'trade' agenda.

Trade Policy

As a country, we have now settled what, prior to the signing of the CER agreement in 1982, was once a divisive political issue – we will maintain an open economy. This means we can commit ourselves to an aggressive pursuit of all negotiating platforms that may offer New Zealand exporters the chance of a better and fairer deal.

The WTO

Such an agenda starts with the World Trade Organisation (WTO) – the top priority of any New Zealand government



in the field of trade policy. As this paper went to print, there is now a serious possibility that the current Doha Round may be the first ever multilateral trade round since the Second World War to fail to produce a package of results.

If so, we see three challenges ahead:

- Rebuilding the international case for reform. There will be a need to work intensively with our key friends to rebuild internationally the case for tackling the large unfinished business of trade reform. We have the determination and international networks to make a contribution here. There are certain trade policy issues of fundamental importance to New Zealand (eg, export subsidies) that can never be addressed in an FTA and require the WTO.
- Working the WTO dispute settlement system to New Zealand's advantage. We will ensure that the principal agency, MFAT's legal division, is properly resourced to meet the demand of cases where New Zealand is either a principal party or third party.
- Driving the FTA agenda forward. If reform is stalled at the multilateral level, this will accentuate the risk of New Zealand falling off the end of the queue to negotiate FTAs with our major trading partners. This is developed below.

FTAs – Moving The Second Track Forward

By whatever name¹¹, there has been an explosion of FTA agreements in the past 15 years. New Zealand is reasonably placed here, but 'reasonable' is not good enough.

CER

The CER Agreement with Australia is now a mature and sophisticated relationship. There is a range of complex regulatory, tax, and other issues that require a fresh look. The bigger agenda, however, is looking beyond the Australia-NZ area market to the wider opportunities of the Asia-Pacific. That was the starting point for CER in 1982 – a vehicle to help both economies better engage, not just with each other but in the Asia-Pacific region.

Asia-Pacific: The 'Architecture' of Regional Economic Cooperation

There is an overlapping and complex set of institutions

¹¹ Free Trade Agreements (FTAs), Closer Economic Relations Agreements (CER), Closer Economic Partnership Agreements (CEPs).

here¹², and it is not always possible to see which of the ideas in play will get traction politically. We need, therefore, to move decisively when an opening occurs. Current possibilities include:

- An Apec-wide FTA. If achievable, this would be a very significant trade deal. Somewhat less ambitiously, it could take the form of an FTA among those Apec economies willing to commit themselves to comprehensive regional trade liberalisation in the first phase of such an agreement¹³.
- An Asean/CER FTA. This is further advanced but moving only slowly. It is the one example where New Zealand and Australia are negotiating together – the original logic of ‘beyond CER’ proposals going back many years. It needs fresh political impetus. A lesser proposal still in the mix is a Malaysia/New Zealand negotiation, which would certainly complement the existing Singapore/New Zealand CEP.

China/NZ FTA

National has strongly supported this negotiation. We recognise that China is the second emerging super-power, and a future National Government will seek every possible way to build on the FTA – or to complete the negotiation, in the event there is still unfinished business there.

India/NZ FTA

There has been some quiet cooperation here behind the scenes with the Government in recent months, reflecting the reality that on most trade policy issues New Zealand’s interests are best served by a bipartisan approach. The first steps towards an India/New Zealand FTA have been laid. India will play a big part in New Zealand’s trading future long term.

US, Japan and Korea FTAs

These are the three missing pieces of the FTA puzzle. Since the United States is New Zealand’s second-largest export market, Japan is third, and Korea is sixth, this matters - to

¹² APEC itself, the ‘ASEAN plus’ meetings (which include Australia and NZ), PBEC (Pacific Basin Economic Cooperation) Forum, the ‘Shangri-La Dialogue’ (attended by NZ Ministers of Defence), the ‘East Asia Summit’ (attended by NZ Foreign Ministers) and others. This architecture is complemented by a series of interlocking FTA Agreements – the two FTAs NZ has with Thailand and Singapore being examples.

¹³ APEC also has a useful ‘trade facilitation’ agenda. The annual APEC Leaders meeting also provides a high level opportunity for political discussions.

put it mildly. We are falling behind Australia. Advancing these agendas will be a major objective of a future National Government.

FTAs Outside the Apec Region

Our focus will be on three negotiating opportunities:

- EU/NZ – At \$5 billion exports, there is a potential for a fresh look at this relationship. This is an opportunity that may emerge if the WTO Doha negotiations finally stall.¹⁴
- NZ/Gulf Cooperation Council – this involves a negotiation with Saudi Arabia and other Gulf states. With our exports already worth well over \$500 million, this is worth completing.
- Pacific Islands Forum/CER – the EU is trying to normalise its trading relationship with these countries, triggering a parallel negotiation with Australia and New Zealand through an earlier economic cooperation agreement.¹⁵ For some New Zealand companies, the Pacific is an interesting export market and we need to protect their interests.

Government Services to Exporters

A number of New Zealand governmental entities provide services important to exporters. Understandably, we start with New Zealand Trade and Enterprise (NZTE).

NZ Trade and Enterprise

NZTE represented an amalgamation in 2002 of Trade New Zealand, Investment New Zealand, and Industry NZ. Whether sensible or not, National does not want to turn the organisation inside out again. We want NZTE to concentrate on its performance in the life of the next National Government.

This still leaves plenty of scope for adjusting NZTE activities – in some cases moving more strongly in directions that NZTE management has already identified as desirable. At this stage, our thinking includes the following:

- Encourage NZTE to adopt far less bureaucratic procedures to grant-making.

¹⁴ See: “EU/NZ Economic Relations – a Difficult Past, Promising Future?” Tim Groser, National Trade Spokesperson, 25 March 2007.

¹⁵ The PACER, or Pacific Agreement on Closer Economic Relations. The relevant clause that is triggered is PACER Article 6(3).

- Contract out more of the grant-making to local business associations or economic development agencies.¹⁶
- Exporter education services are crucial. They range from basic services ('Exporting 101') better supplied by agencies in the regions, through to highly sophisticated services (such as the 'business mentors') to much more experienced exporters or more sophisticated New Zealand companies without a fully developed export strategy. National wants more focus on those that will genuinely help us achieve the over-arching goal of increasing the ratio of New Zealand exports to GDP by 10 percentage points by 2020.
- We recognise that the objectives and methods that succeed for inward investment are totally different to the tools used in trade promotion. We will be looking to greater operational freedom for investment professionals within NZTE. More complex investment proposals may also need access to speedy political decisions in ways that trade promotion activities only rarely require. National will be developing its thinking on this.
- National will want NZTE to put more emphasis still on 'off-shore' activities and less on 'on-shore' activities. We understand it is important to work with firms at home to build export capacity. But National is convinced that what exporters value most of all, in addition to financial support, are offshore activities.

Ministry of Foreign Affairs and Trade

In addition to existing trade policy work done by our overseas posts, the next National Government will expect them (with a few exceptions where their role is quite different¹⁷) to put the support of exporters as their single most important priority.

This is particularly important in Asia where our ambassadors, if they are properly equipped and motivated, are able to open doors that few New Zealand business people or trade commissioners can open.

National will expect NZTE and MFAT to work overseas hand-in-glove. It is the same taxpayer paying for all their operations.

¹⁶ Again, this will be developed in the forthcoming Discussion Paper "World Class NZ Companies Throughout the Country".

¹⁷ Our Permanent Mission in New York for example.

Other Agencies

A range of specialised agencies, such as NZ Food Safety Authority and Biosecurity New Zealand, play supporting roles in our export effort. Again, driven by the goal of increasing, by 2020, the share of exports to GDP by 10 percentage points, a future National Government will require these agencies, under the direct guidance of the relevant Ministers, to identify log-jams standing in the way of this objective and help our exporters get across the line.

Funding for Export Services

National is comfortable with the current levels of expenditure in this area. At least this is going to the productive sector of the economy, rather than the 'money-go-round' that characterises much of the present Government's spending. But the mix of that money going to support exporters is another matter. National will take a 'whole of government' view on this. Within the same expenditure envelope, National will be prepared to make significant readjustments, in close consultation with exporters.

TRADE - MAIN THEMES

- National wants to boost New Zealand's export performance and will aim to increase the ratio of exports to GDP from around 30% to 40% by 2020.
- Aggressively pursue all trade deals that benefit exporters.
- National will seek to rebuild the international case for reform of trade rules to get the multilateral Doha Round back on track, and seek to advance other bilateral free trade agreements.
- Adjust NZ Trade and Enterprise activities to make it less bureaucratic and more focused on exporting and offshore activity.
- Expect Ministry of Foreign Affairs and Trade posts to make support of exporters their most important priority.

National's Foreign Affairs, Defence and Trade Team



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