THE TREASURY
Kaitohutohu Kaupapa Rawa

Chances, Choices and Challenges: New Zealand's Response to Globalisation

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UC Connect public lecture
University of Canterbury

17 August 2017

Introduction

Good evening everyone, and thank you to the University of Canterbury for the opportunity to speak to you about New Zealand's response to globalisation. Christchurch is a great place to discuss our international connectedness for many reasons, not least because of its history as the first in New Zealand to establish sister city ties with other countries. And it's also appropriate that the venue is here at a university, an institution that thrives on the exchange of knowledge, people and ideas from around the world.

Today, I'm going to talk about some economic theory, about some history, about why I believe international connections matter and why I think we all need to do a better job helping the community understand the chances, choices and challenges in the world around us.

But first I want to start by being clear about what I mean when I use the word 'globalisation'. You may think that's not needed but my observation of some of the debates on the subject sometimes lead me to wonder whether the participants are talking about the same thing.

Globalisation is the process by which the world has become increasingly interconnected as a result of increased trade, capital flows, communications and cultural exchange. It has been taking place over many hundreds of years, but has accelerated enormously over the last half-century.

A key word here is ‘connectedness’. Using the catch-all term ‘globalisation’ is convenient but to my mind it doesn’t really capture the important nuances of the international flows of trade, capital, people and ideas. It sounds like something that is done to you, rather than something that you play a willing and active part in. For that reason, I prefer to talk about ‘international connectedness’. While I still use ‘globalisation’ because of its familiarity, ‘international connectedness’ conveys that countries have choice, and it’s a better description of reality.

As a small open economy, New Zealand enjoys many benefits from globalisation and greater international connectedness. Yet in some countries there has undoubtedly been a mood of uncertainty about the value of globalisation and, in fact, the value of free trade. It’s a mood shared by some people here in New Zealand.

I believe that free trade and globalisation have undoubtedly been good overall – for New Zealand and the world – but it’s also true that the change brought by greater interconnectedness has had negative impacts. And these uneven impacts – real or perceived – have to be recognised and addressed head-on. The chances, choices and challenges that globalisation brings are all before us. The big question is, how should New Zealand respond – put up barriers or build bridges?

Globalisation and the ‘economic problem’

Every society faces an 'economic problem': we have limited resources – individually and collectively – to meet unlimited wants. Public policy looks to identify different ways to increase available resources – for example of human or financial and physical capital – and ration the allocation of these resources to their highest valued uses. Trade-offs are inevitable.

Much of economics looks at how resources can be allocated efficiently. And while economists are very fond of using models, what we are really working with is human beings and societies with all the complexity of motivations, behaviours and values this entails. People want to improve their living standards, not just for themselves but also for their families, communities, and future generations. And what people mean by better living standards and wellbeing is multi-faceted. It includes a broad range of material factors like income and non-material factors such as trust, education, health and environmental quality.

This is reflected in the Treasury’s Living Standard Framework[1], which we use to develop our advice to the government. In our view, good public policy enhances the capacity of natural, social, human, and financial and physical capital to improve wellbeing if it’s characterised by the following things:

- it’s sustained or enhanced, not eroded by current generations at the expense of future generations (sustainability)
- it’s shared equitably in a way that sustains or enhances the capitals (equity)
- it allows for a cohesive society, where all people and groups respect others' rights to live the kinds of lives they value (social cohesion)
- it’s resilient to major systemic risks (risk management), and
- it generates material wellbeing (economic growth).

[1] The Treasury (2017)

As far back as the Phoenicians in 1500 BC, societies have realised that they could generate material wellbeing by broadening their horizons and seeing the potential beyond their borders. They understood that they could expand the size of their economies by trading with other societies. Trade is ancient history.

Over most of modern human history, domestic economies have interacted with the global economy. They've exported goods to other markets and imported goods from those markets. Greater trade has led to greater investment: inward and outward foreign investment has meant the capacity to grow isn't held back by the domestic capacity to save. And we have seen that open economies grow faster than closed economies, and salaries and working conditions are almost always better in businesses that trade than those that do not.

The converse is also true. If an economy shuts in on itself, it also shuts down opportunities to raise living standards. And the smaller the economy, the fewer the opportunities to improve those living standards.

The more open an economy is, the more able a country is to specialise in its areas of comparative advantage, which is a country's ability to produce a particular good or service more efficiently than another good or service that is traded with other countries. This isn't news. Adam Smith, David Hume and David Ricardo showed that mutually beneficial specialisation allows overall economic output to be higher than when countries are closed to trade.

New Zealand has a very small market, so in our case specialising is important. It helps us to overcome the limitations of size and gain economies of scale through access to larger markets. Of course the flow of trade is a critical factor but it's not the only one. The international flow of capital helps bring in financial resources that enable our businesses to grow, as well as enable New Zealanders to pursue opportunities to invest beyond our shores. Flows of people and ideas have the potential to lift the skills of our workforce, raise our productivity, improve our cultural literacy and open-up deeper links to overseas markets.

And, fundamentally, being an open economy – an internationally connected economy – makes New Zealand more resilient. The resulting bigger economy is better able to grow in the good times and successfully weather its way through the bad times.

How open is the New Zealand economy?

The ease of trade and investment are useful indicators of an economy's openness. Tariff and non-tariff barriers have a huge bearing on this: the higher the tariffs and the greater the number of non-tariff barriers, the more difficult it is to trade with a country or invest in it and, consequently, the more closed it is.

In general, New Zealand is considered a relatively open economy. We have very low tariffs relative to most countries, so it is relatively easy to trade with us. Some non-tariff barriers do exist, particularly focused on biosecurity for understandable reasons.

We do less well on attracting foreign direct investment: in 2011 New Zealand only ranked 71st globally on UNCTAD's measure of a country's potential for attracting FDI[2]. (In fact, only

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2 UNCTAD (2012)

6 countries out of 57 surveyed by the OECD had more restrictive FDI regimes than New Zealand[3].)

Rules and frameworks

A strong, successful, economy is built on a country's human, natural, social and financial and physical capital. Stability, certainty, the rule of law, well-functioning markets and peaceful political processes help to create supportive conditions for investment and employment and ultimately an improvement in wellbeing. And as Daron Acemoglu and James Robinson[4] made clear, strong institutions are also critically important.

In fact, alongside openness and connectedness, strong institutions play a big role in the management of the global economy and a particularly important one for small states such as New Zealand. Global institutions, whether they are international organisations such as the WTO or the IMF or whether they are formal treaties or agreements or frameworks, help to set rules – the 'architecture' – for international connectedness. For a small state, they effectively 'level the playing field' and help to create a stable and safe environment for business to be conducted or for disputes to be resolved. They also provide a forum for the harmonisation of regulations which make it easier for businesses to access foreign markets.

The path of trade runs smoother when rules are consistent and nations agree to follow them.

New Zealand has a long history of being involved in bilateral and multilateral rules-based frameworks and we have done very well out of them. Take our Closer Economic Relations agreement with Australia.

Our trade and economic relationship with our neighbour across the Tasman helps drive the New Zealand economy. Rather than have a market of four and a half million people, we have one of 29 million. Australia is our second biggest market for goods and services exports ($13 billion in exports in the year to June 2017, 18.1% of total exports), our biggest source of capital (52% of the foreign direct investment stock) and our second biggest destination for overseas investment ($58 billion). We are each other's largest source of inbound visitors, with over 2.5 million trips across the Tasman every year. So if you want to see evidence of the advantages of free trade, of interconnectedness and of globalisation, well it's on our doorstep.[5]

New Zealand has also been one of the chief beneficiaries of the 1994 General Agreement on Tariffs and Trade (GATT) Uruguay round which began to liberalise trade in agriculture. GATT has been replaced by the World Trade Organisation (WTO). We are a chief beneficiary of the WTO's disputes resolution mechanism. The mechanism is binding and sets parameters for a country to pursue a trade dispute against another over a trade problem. That allows the dispute to be sealed off from the rest of the bilateral relationship.

To give a more recent example, New Zealand was a founding member of the Asian Infrastructure Investment Bank (AIIB) and the first western developed country to join the negotiations to set it up. This signals our strong commitment to the goals of regional development and cooperation in Asia. We retain a strong sense of ownership over the success of the Bank.

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3 OECD (2012)
4 Acemoglu and Robinson (2012)
5 Statistics New Zealand (2017)

The governance arrangements set for the AIIB meet or improve on existing best practice at International Financial Institutions, centred on the need for inclusiveness, openness, transparency and accountability. In addition, the Environmental and Social Framework that has been adopted by the AIIB is considered to be at least on a par with that of other Multi-lateral Development Banks. Oxfam International, for example, has cited the AIIB as leading the pack on its Environmental and Social Framework[6].

Just as New Zealand benefits from being part of bilateral and multilateral rules-based frameworks, I believe others benefit from our participation. We are a respected advocate for more effective rules to ensure that good standards are achieved, including in areas such as corporate governance, competition policy, responsible business conduct, environmental protection and anti-corruption.

Globalisation in the twenty-first century

As I said, international connectedness is far from a new phenomenon. The Romans 2000 years ago used an extensive transportation network, language, legal system and currency to unify the far-flung regions under their authority. This economic integration led to trade flows and economic development across the Roman Empire.

Globalisation explains why they speak Spanish in the Philippines and Portuguese in Brazil. It's why two religions from the Middle East, Christianity and Islam, have billions of followers throughout the world. It's why New Zealand has sheep from the other side of the Earth, and why we've been selling them right back to the other side of the Earth since the 1800s. Often driven by colonialism and ramped up by technology, by the early 20th century the flows of goods, capital and people between countries were entrenched in economies around the world.

The decades after World War Two saw the growth of multilateralism, encouraged by the understandable desire for stability and certainty. The IMF and the World Bank were among the earliest of the multilateral institutions and still have a major presence in global economic relations today.

The phase of globalisation most familiar to us now is the burgeoning of free trade and investment since the late 1980s. With the collapse of the Soviet Union, eastern European nations moved away from planned economies towards market economies. Over the same period, China and other emerging economies that until then had mainly sat on the side-lines of the world economy became major players in global manufacturing and trade. Their outstanding economic growth accelerated the process of globalisation even further. As trade barriers started coming down, advanced and emerging economies alike also set about liberalising restrictions on international investment. The arrival of the internet and digital technology has added fuel to the growing connectedness.

The outcomes of these changes have been profound. According to the OECD, foreign direct investment flows have been about 2½ percent of world GDP over the last decade; in the early 1980s they were less than a half percent. And back in 1990 the ratio of global trade to world GDP was 30 percent; by 2015 that ratio had doubled to around 60 percent[7].

Increased globalisation has led to greater economic integration, and I know some people are concerned about the possible implications of this. Among the concerns people have is the impact on New Zealand's sovereignty. My perspective is that overall the impact has been

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[6] Kevin May (2016)
[7] OECD (2016)

positive. In fact, as Robert Cooper[8] has written, in the modern era sovereignty is strengthened by international co-operation.

I would argue that New Zealand's sovereignty, along with that of other small nations, has actually been enhanced by globalisation and economic opening. It has helped create more stability and certainty, levelled the playing field, and allowed us a seat at the table to shape the rules of the global economy. By challenging traditional symbols of power in the international system – such as land mass and size of population – globalisation has created new possibilities for New Zealand to promote its core values and interests externally. We get to work in unison with other nations that share these values and interests. Greater international connectedness has not translated into a substantial erosion of the capacity of the sovereign state to act on the international stage.

And of course this matters more than ever in the twenty-first century as some of our biggest challenges can only be managed through global cooperation. It's important that nations have both the means and the will to work together on a global scale. An example that immediately comes to mind is, of course, climate change.

It's just over a decade since the Stern Review was published[9]. One of its important conclusions was that the benefits of early action on climate change considerably outweighed the costs. Our domestic responses to climate change are unquestionably important. And right now the Productivity Commission is undertaking an inquiry into options for how New Zealand could reduce its domestic greenhouse gas emissions and transition towards a low emissions future, while continuing to grow incomes and wellbeing[10]. But climate change remains a global problem requiring collective global actions and solutions. Those actions and solutions will have an impact on New Zealand, just as climate change will have an impact on us. So it's in our interests to be among the decision-makers and be part of international frameworks like the Paris Agreement rather than be out on our own.

Challenges

As I said at the start of my talk, in some countries – including in New Zealand – there has undoubtedly been a mood of uncertainty about the value of globalisation and, in fact, the value of free trade. It's important that those of us who support international connectedness and free trade acknowledge and address that mood.

In my view that mood stems primarily for two reasons: (1) the impact of change and (2) the lack of a narrative to help the community understand the change, and the benefits that we expect to be delivered.

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8 Robert Cooper (2003)

9 The Stern Review (2007) drew on scientific evidence to predict the economic impacts and risks arising from uncontrolled climate change. It concluded that the costs could be the equivalent of a 20 percent reduction in per capita GDP year after year and that the benefits of early action considerably outweighed the costs. Shifting the world onto a low-carbon path might take up around 1 percent of global GDP, but could eventually benefit the international economy by US$2.5 trillion a year.

10 Productivity Commission (August 2017)

The impact of change

In some countries around the world, the rapid growth in global trade, the creation of new value chains and the emergence of new markets and huge pools of relatively inexpensive labour have undoubtedly led to large-scale and relatively rapid economic dislocation.

Globalisation's big effect – the combination of greater and relatively friction-free connectedness – has been to enable the construction of intercontinental value chains and to create a much finer global division of labour. It has led to differentials in wages between high and low-income earners, due to the relative demand for skilled labour. The changes have happened quickly and impacted particular industries and communities significantly. There has been a huge reduction in global poverty: according to World Bank data, back in 1990 there were just under a billion people living in absolute poverty (less than US$1.90 per day in 2011 dollars) in the East Asia and Pacific region, more than the rest of the world's people living in absolute poverty combined. By 2013 that number had fallen to 71 million, a drop of around 93 percent in a single generation[11]. In the words of economist Max Roser, "The number of people in extreme poverty fell by 130,000 since yesterday' should have been the headline every day in the last two decades."[12]

But, as Branko Milanovic[13] has shown, lifting millions out of poverty has also been coupled with concerns about the living standards of those affected in other countries.

The truth is the benefits from free trade tend to be diffuse and long-term in nature, but losses are often sharp and very concentrated on particular individuals, firms and regions. Moreover, the people most affected are sometimes those with the least capacity to adjust on their own.

Some of these impacts are not a surprise. Eli Heckscher and Bertil Ohlin identified them in the 1930s. But the global community hasn't done a very good job to look to manage them. And, in turn, among other things, that has led to a significant element of scepticism and distrust.

Opponents of globalisation portray the process as captured by powerful corporations and financial institutions, and beset by insufficient transparency and accountability to citizens. There are, in particular, objections to the special supra-national institutions that are sometimes created by bilateral and plurilateral trade and investment agreements or dispute settlement mechanisms (ISDS or investor-state dispute settlement).

There are both substantive arguments, including that ISDS exceeds 'national treatment' obligations, extending special privileges to foreign corporations, and objections about process, such as that corporations and lobbyists have undue influence in the closed-door negotiations that produce the ISDS provisions. In fact, the cost-benefit balance on including such provisions looks increasingly questionable, especially when both sides in the deal are advanced economies with low risk of confiscation of investors' assets.[14]

But the key point here is that we're not just dealing with the consequences of free trade and greater international connectedness but with the challenge of adapting to change. As Paul Krugman said, over twenty years ago now, "technological change, not global competition, is

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11 World Bank (2016)
12 Roser (2013)
13 Milanovic (2016)
14 See, for example, OECD, Global Strategy Group (2016)

the really important story".[15] And a world of rapid change is likely to continue to dominate our lives in the foreseeable future.

It is clear that technological change will continue to be a major driving force of greater international connectedness but also of economic growth and development in domestic economies.

Advances in communication and computer technologies have significantly reduced the costs of supply chain management among global suppliers of goods and services. Digitalisation in particular is creating new opportunities, but it's also clear that technological change, as much as free trade, or tariff liberalisation, opens all countries to greater international competition and industries to greater change.

Technological change almost always generates a degree of unease. We've heard it for more than a century: "Factory workers replaced by automation", and we're hearing it again now. Though fears of massive unemployment caused by automation are exaggerated, it's true that significant changes are likely and jobs will be lost in some areas and industries. The extent of possible change in the labour market is as yet unclear, but OECD evidence using the Survey of Adult Skills (PIAAC) suggests that on average (across 21 OECD countries), 9% of jobs are at high risk of automation, and another 25% will likely experience significant retooling because of automation[16]. Other figures maintain that 47 to 81% of jobs as we understand them could be under threat from technology within 20 years[17].

Before you get too worried that the robots are taking over, these kinds of figures have to be taken with a grain of salt. As the reports assessing job impacts themselves recognise, they are likely to provide overestimates for a few reasons. The reports are based on what jobs or task it is possible to automate, not what will actually be automated. Cost and other factors will play a role, for example, the take up of new labour saving technology in New Zealand will be influenced by the cost of the technology and the cost of capital and labour. Moreover, the reports do not take job creation into account: new technologies will also generate new jobs.

But back to the increased scepticism over free trade. The political debate in some countries has persuaded some that the world is surely being engulfed by a relentless wave of anti-globalisation and protectionism. I acknowledge the debate, and the need to address the issues that have been raised. But I don't accept that retreat into a protectionist world will help any community. Quite the reverse, and with the added impact that expectations will not be realised and trust will be eroded, damaging social cohesion and, in turn, wellbeing.

The need for narrative

This brings me to my second point, the lack of a narrative to help communities understand the changes happening in the world, why they may be experiencing dislocation and change and why greater international connectedness will, in fact, improve their living standards.

Narratives matter. As Robert Shiller has pointed out, "the spread and dynamics of popular narratives, the stories, particularly those of human interest and emotion, and how these change through time" have an impact on the economy. For example, according to Shiller the US recession in 1920-21 wasn't only caused by the Federal Reserve's decision to raise interest rates as others have claimed but by narratives of anger that prompted boycotts against businesses seen as wartime profiteers. Those boycotts led to a minor recession,

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15 Krugman (1997)
16 OECD (2016)
17 Kaila Colbin (2016)

which led to falling prices, which in turn led to the public assuming there was an economic recession, which led to them spending even less than before, which led to a deeper recession[18].

As I said, narratives matter. And there's always a narrative, one that may be created by the main actors in a story, intermediaries like the media, or simply by events. Vacuums are quickly filled. And with the speed and reach of the internet and social media, the multiple narratives that fill the vacuum won't all be accurate or benign.

We have not been good at creating a narrative of international connectedness. We have assumed that the benefits are self-evident. Perhaps that's true for some but the evidence indicates that it hasn't been true for everyone.

Moreover, narratives from elsewhere often make their way to New Zealand through what I describe as the pathology of foreign paradigms. It worries me that we sometimes have a propensity to take events from overseas and assume they apply over here. We shouldn't swallow these paradigms without chewing them first. We risk misunderstanding something that's important, jumping to the wrong conclusions and making inappropriate decisions in response, instead of making a clear-headed assessment about whether the imported story matches our domestic reality.

I am told Winston Churchill once said that "when the eagles are silent, the parrots begin to jabber"[19]. We need more 'eagles' in the community, in academia and in business to be heard. New Zealand's circumstances are not identical to those of New York and New Hampshire in the United States, nor those of York and Hampshire in the United Kingdom.

For example, New Zealand is further along the international connectedness path than most countries. We removed most tariff barriers earlier and went through the necessary adjustments at the time. So the pains of disruption that some other countries are feeling now have largely played out already here.

The scale of the impacts of technological change and globalisation has also been smaller in New Zealand than many other countries. From available data – which admittedly is not always very extensive – it seems the New Zealand workforce is not experiencing an increase in displacement rates and does not appear to exhibit any significant increase in the proportion of non-standard working arrangements.

In fact, what the data indicates is that our system supports resilience in a number of ways. Relative to other OECD countries, New Zealand's displaced workers have high rates of re-employment; we have a skilled workforce with a strong trend towards higher skills; and high rates of on-the-job training. One area where we do have some concerns – and I hear this from business across the country – is about the availability of skills. But that is for another day.

My main point here is that we need to develop accurate New Zealand-specific narratives that help the public to understand what's happening in Aotearoa and the world around them, and to evaluate the chances, choices and challenges they face. New Zealand's response to globalisation has to be determined by New Zealand thinking hard about international connectedness and what's best for New Zealand.

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18 Shiller (2017)

19 Sir Winston Churchill (attribution unsourced)

Meeting the challenges

A narrative for New Zealand

So what is the narrative that I see for New Zealand?

For the first time in our history, we're part of the fastest growing region in the world. There is a growing middle class not just in China but in India, Vietnam, the Philippines, Malaysia, Indonesia and elsewhere in the Asia-Pacific region. One estimate is for the Chinese, Indian and Southeast Asian middle classes to be almost 2 billion people by 2020. That is a vast group of markets for New Zealand tourism, for our export education, for our services, for the high quality agricultural commodities that we produce now and the new products and services we will develop in the future.

International connectedness is alive and well in our region and across most of the rest of the world. In fact in Asia the debate isn't about closing up; it's about how to grow, how to improve infrastructure, how to connect with trade partners in the region and beyond and how to enjoy increased prosperity.

To add to that, digitalisation offers us the most significant transformational opportunity since the arrival of refrigeration in the 1880s.

New Zealand was once the most isolated country in the world given the expanse of ocean surrounding it. But technological innovation has gone a long way towards lowering the barriers of time and distance and integrated us into the global economy. Wide-bodied jet aircraft, cheap and reliable telephone connections, containerisation and computer networking have all facilitated flows of information, goods, people and capital in and out of New Zealand with great speed and ease.

Now with digital technology, we can connect with the world at about 200,000 kilometres per second. Distance has, in effect, disappeared.

The McKinsey Global Institute has reported that cross-border digital flows already have a larger impact on global economic growth than traditional flows of traded goods[20]. Digitalisation eliminates the challenge of distance. It promotes diversification – of markets and products – by enabling us to join value chains we would have previously found impossible, to deliver services to time zones that would have been unimaginable and to minimise our impact on the environment in ways we would have thought improbable.

We are no longer just sending our goods to the world; we are competing in a global market for intellectual property and services where geography is irrelevant and time zones can work to our advantage. It's a massive opportunity for our country.

Addressing the challenge of change

So we need to create a narrative but one thing that we should not do is halt or reverse the liberalisation of trade and investment flows which remain an important driver of our growth. Turning back the clock isn't an option, and I doubt many in New Zealand would want a return to high tariffs, import licences and restrictive quotas any more than they would want to throttle international flows of information and ideas by shutting down the internet.

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[20] McKinsey Global Institute (2016)

But at the same time as we aim to take advantage of international connectedness, we must address its challenges. And the most significant challenge is likely to be on jobs from both greater international connectedness and greater digitalisation.

The IMF, WTO and World Bank all stress the need to support the individuals and communities at risk of being left behind by the dislocation of globalisation[21]. As economist Larry Summers has said, "What is needed is…an approach where it is understood that countries are expected to pursue their citizens' economic welfare as a primary objective… International agreements would be judged not by how much is harmonized or by how many barriers are torn down but whether citizens are empowered."[22]

They point to the importance of domestic policies on training, income support, education and other areas to ease the transition for affected people. This all applies to New Zealand too, though we already have relevant policy in each of these areas and probably more substantial support than in most impacted countries. However, in the face of uncertainty about the pace and scope of change, it's important that we ensure our policy settings encourage adaptability and resilience. We need to monitor change, continue to focus on building a skilled and resilient workforce, and expect and enable the economy to adapt to change as it happens.

Policy should aim to enable small but frequent adjustments to changes caused by economic forces.

It's important that New Zealanders have skills that are adaptable and transferable. People need to be able to move from industries that may be affected by technology and competition to those that are growing, taking up new opportunities that technology and greater international connectedness actually creates.

To help achieve this there should be an emphasis on attainment of cognitive and non-cognitive foundational skills that are transferable and support life-long learning, as well as greater rates of progression to higher tertiary qualifications.

New Zealand is well-placed in that our early childhood and schooling curricula are based on a broad range of foundational skills and competencies, and our performance in international tests like PISA suggest our school system teaches these very well to most students. New Zealanders also have the highest rates of education participation between the ages of 25-60 in the OECD[23], supported by our open entry to tertiary education and the provision of student funding regardless of age.

But we need to think about how we can do better to ensure that every student has the foundational skills and knowledge they need to be resilient and adapt to economic change. This is as much about equity as it is about growth. For many years, New Zealand has had a long tail of students without foundational skills such as literacy and numeracy. The negative impact this has for both the person and the community means we need to do better for all.

A question we might ask ourselves is whether our education system – and particularly our tertiary system – helps people with ongoing learning, a theme raised by the Productivity Commission in its tertiary education report[24]. We might also consider whether our social

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21 See, for example, 'Understanding the downward trend in labour income shares', Chapter 3, IMF (April 2017)
22 Larry Summers (2016)
23 OECD (2017)
24 Productivity Commission (March 2017)

welfare system, which was initially set up to help people make transitions from one job to another in what was expected to be a similar trade, is optimal for the changing world ahead of us.

As Richard Baldwin of the Graduate Institute of International and Development Studies has said, “One rule for twenty-first century social policies is that they should adhere to the principle of protecting individual workers, not individual jobs.”[25]

Global leadership

In my view we can also manage the challenges of globalisation by continuing to play a leadership role in international fora and with our partners around the world. All countries have a stake in deeper, stronger and effective international connectedness. We can help each other develop clear narratives, deal with problems quickly and build stronger partnerships.

Together we can also make sure that the international architecture – the rules-based frameworks – remain fit for purpose. As we showed with the creation of the AIIB, we may be a small voice at the table but we are a voice that is listened to. And at the moment global leadership needs as many voices as it can get.

It’s important that we avoid any loss of faith in established global economic institutions such as the WTO, the IMF, the World Bank and the OECD. We rely – and this applies in particular to all small states – on the internationally-accepted rules and norms which those institutions represent. Of course they – like any institution, whether domestic or international – have to remain fit for purpose. All institutions need to keep pace with change (perhaps even be ahead of it) otherwise their relevance fades, confidence in them wears thin, and their effectiveness diminishes.

As for globalisation itself, the future is about more than just trade liberalisation. It’ll be less about tariffs and more about services, about harmonising the rules under which greater market access will be granted, and about greater people-to-people connections.

The question for global trade policy is not whether there will be less or more trade, but who will shape the future patterns of old and new trading relationships, which rules will govern them and to whose advantage these patterns and rules will work the most strongly.

A big prize here is not primarily more trade, but for trade to be shaped in ways that spread the benefits equitably — including in such important areas as workers’ rights, consumer rights and environmental protection – all of which are important to New Zealanders.

It is important that New Zealand is at the table to help shape the agenda. Our hosting of APEC in 2021 is an opportunity for us to lead that shaping.

[25] Richard Baldwin (2017)

Conclusion

Let me conclude.

A connected, open, global economy is a route to prosperity. Protectionism is a recipe for perpetuating poverty.

In the debate on globalisation, we have the choice of retreating into the past or embracing the present and dealing with the challenges of the future. Of course this is not a realistic choice. Choosing the past because it looks better from a distance is not a route to prosperity for our children. Our anxieties about the present should not cloud our judgement about the world our children will want to live in or indeed have to live in.

For smaller countries like New Zealand our only real option is to retain – and, probably more accurately, deepen – our openness unless we want to be poorer.

We should embrace international connectedness and seize the opportunities in front of us by:

- sinking deeper roots in Asia's fertile ground, and in the Asia-Pacific more broadly, through investment, through trade and through stronger people-to-people connections. Strong international connections are built through relationships, not through transactions

- recognising that change brings challenges that we need to manage and be prepared for, rather than look to avoid them

- creating a narrative that tells the *New Zealand story* (and isn't a foreign paradigm), helping the community understand how we can maximise the upsides of greater globalisation and technological change while managing the downsides.

In brief, let's embrace international connectedness; let's reject protectionism and focus on the chances, choices and challenges and on how we can enhance the opportunities, capabilities and incentives of individuals to live the kinds of lives they have reason to value.

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