

The Future of Knowledge Societies
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It's a tough job for an Australian political leader, even a former one, to turn up in Auckland and tell New Zealanders what they should be doing.

However, I bravely accepted the challenge, partly because I admire the work Prime Minister Helen Clark and Dr John Hood and their colleagues are doing in seeking to facilitate a national debate about the country's direction.

And partly because I had years of being the resident New Zealandophile around the Australian Cabinet table I hope I've earned some brownie points which might allow me to venture a comment. So while not everything I say tonight might be welcome to everyone, you can be sure it is not badly motivated.

I think the best way for Australia and New Zealand to think about each other is not in the familiar language of family, but as foreign countries. We need to acknowledge the differences between us as much as the similarities. The trans-Tasman relationship is unique for both of us. We have free trade in goods, substantially free trade in services, free movement of people. But socially, culturally, politically and economically we differ substantially, and it is at least arguable that the differences are getting greater. We get into all sorts of difficulties when we see our neighbour as a flawed version of ourselves.

You are going to be bombarded with insights and data at this conference from people far more expert than me about New Zealand and education policy. I'm not going to add to that part of the debate. But you won't find many others here who have the scars I have trying to bring about change in society moving on a broad front.

And when this conference is over, and the broader national debate it is designed to encourage has taken place, it is not going to be enough for New Zealanders simply to know that research and development are important, that education is critical and that learning needs to be a life-long experience.

These are all important – in fact vital – things to understand. But the difficult part is going to be translating that knowledge into action. And that is where politics and politicians come into it.

There is no doubt that change is needed. The prospects facing New Zealand are daunting. As some of the preparatory work for this conference has pointed out, New

Zealand is slipping steadily down the OECD league table, declining from 9th place in GDP per capita ratings in 1970 to 20th by 1999.

You are not alone in asking the sort of questions being raised here. A similar debate is going on in Australia. The answers will not be the same in each place but the questions are broadly similar. What they boil down to is, this: in the information age, what is the future for countries like ours, on the edge of a globalising world, far from the world's major markets?

For New Zealand, as for Australia, globalisation challenges our international position and demands some fundamental rethinking about the way we do things.

Our national image of ourselves – and our view of where we are entitled to sit in the international pecking order - was largely set in the nineteenth century and early twentieth centuries, at a time when a combination of British imperial power and the industrial revolution gave us a privileged international position as commodity producers with secure markets.

That world has gone forever.

The end of the strategic certainties of the Cold War and the transforming changes brought about by the intertwined forces of the information revolution and economic globalisation have made the external environment more competitive than we have ever known.

Globalisation has almost as many definitions as it has writers about it.

At its core is the greater integration of global production and capital flows through the 1980s and '90s – the explosion of inter-firm alliances, the geographic dispersion of production and the growing opportunity cost of being isolated from FDI. Over the decade from the mid-1980s world trade grew at twice the rate of world output, and more than one-third of that was conducted by firms trading within their own structures. FDI doubled from the end of 1988 to the end of 1993.

You can also add to the definition of globalisation, the revolution in the cost, speed and ease of distribution of information that made it possible: the new communications and digital technologies like the fax, the mobile telephone, the PC, the internet and email and all the forces they unleashed.

Then you need to look further at the interaction of these forces with geopolitics, which brought about the end of the bipolar international structure we'd lived with for half a century.

Globalisation is a great glacier slowly, powerfully but inexorably reshaping the international economic and political landscape.

And short of the calamitous prospect of global war it is not going to be stopped in its tracks.

- The technologies that facilitate it – that is, digital technology and cheap communications - aren't going to disappear or slow down.
- Developing countries in Asia, Latin America and Eastern Europe are not going to give up their hard-won efforts to integrate themselves into the global economy. Asia has had deep problems, but even in Indonesia, the country worst affected by the financial crisis, poverty is still much less than it was before opening up began.

The stark message for both New Zealand and Australia is that the global terms of trade aren't going to suddenly flow back in the direction of commodity producers. Power relativities among nations are changing in the direction of those societies that can handle all the dimensions of information; communities which can maximise the use of information and draw on all the capabilities of their members.

Compounding the problem is the fact that we find ourselves in an uncertain world, without a guiding light. When the US won the Cold War, it cried victory and walked off the field, leaving no new structure behind.

We thought at the time of the Gulf War that we were moving towards some sort of new international order, a UN-based system of international management. But that turned out to be just a chimera.

Instead we've had a decade of US growth, wealth and triumphalism, but no attempt to create a new order which reflects the involvement of the body of great states like China and India. The world is not being cooperatively run.

The US is becoming more introspective and unilateralist. And now we have a President who has not only turned his back on nuclear disarmament but is promoting a new nuclear arms race by failing to ratify the Comprehensive Test Ban Treaty; seeking to overturn the ABM treaty and rejecting the biological weapons protocol.

The reason we're seeing such resistance to globalisation at the G8 meeting and elsewhere is that global political leadership hasn't kept pace with the economic forces globalisation has spawned. People who suffer the harsher effects of globalisation aren't satisfied that leaving the world to be sorted out by multinational corporations is necessarily a good thing. And they are right.

In this new and uncertain world, neither New Zealand nor Australia carries the unearned weight of size. China has weight; Indonesia has bulk; the US can live with a savings ratio worse than Australia's simply because of its size. We don't have any of that. We need to make our own way in the world, with no one much to help us.

How is this to be done?

I want to make these quite simple points tonight.

- The first is that information and technology are changing our societies profoundly but the fundamental rules of economics, including comparative advantage, have not been suspended. We should not assume they have in some way, become passé.
- The second is that the way countries think about themselves is as important as any particular economic or social policy response in determining success in the information age.
- The third, which follows from the second, is that in terms of its nearest and most immediate market, New Zealand needs to lose its inhibitions about Australia.

The first point I want to make is that if you want to succeed in the information age, openness is essential. Power relativities among nations are changing in the direction of those societies that can handle all the dimensions of information. In a globalising world we need agile and flexible economies that can understand foreign markets and learn rapidly from them. The only way to cultivate these qualities is to be open yourself, including to foreign direct investment.

Only openness can deliver the growth necessary to maintain your position in a more competitive world. New Zealand needs to look for growth and to embrace it, and not shy away from it.

Without getting into a discussion about monetary policy I believe that New Zealand should be making every effort to focus on activity as well as price stability.

Australia averaged a GDP growth rate of over four per cent throughout the nineties in the context of decelerating inflation. Microeconomic reform and a cooperative approach to the labour market produced a doubling of trend productivity. From 1.4% to 2.8% per annum.

This mushrooming bounty made economic management so much easier, particularly as the exchange rate was able to take the shock of external adjustments, leaving interest rate settings more accommodating to growth.

New Zealand has already experimented with a relatively rigid monetary regime. It has since changed.

The whiff of price deflation in the presence of high real rates of interest is always a sign that, like the Muse of History seeking to restrain Time, prudence can often restrain prosperity. Often needlessly.

I think it is always important to look for growth rather than to see it fall out of the numbers as a residual.

Poverty in a picturesque setting remains poverty nonetheless, and the consequence of poverty is that the full potential of each individual in society will not be realised.

Competition is what sustains openness and it needs to be constantly nurtured.

Both Australia and New Zealand are small economies and easily monopolised or duopolised. The only thing that can guarantee our future is competition. Competition leads to higher productivity, lower prices and higher living standards. I spent much of the 1980s trying to convince the Australian Labor Party that competition was a Labor word. It is what guarantees working people a growing living standard and ensures that they are not going to be used and abused by businesses trying to lay off sub-standard products and services on them. Competition provides the spice to the economy.

Next, comparative advantage is still important. And that means that it is important not to overlook the staples of the economy.

Neither Australia nor New Zealand is going to be a global manufacturing centre. Is New Zealand likely to be a centre for research into semiconductors or photonics? Probably not. But it can certainly be a centre for global excellence in the things that play to its natural advantages, whether these are the seas or the forests –with sailing boats or paper manufacturing - or the clean environment or the beauty of the landscape or the strength of your education system.

A richer, more crowded, more polluted world is going to want New Zealand's green, disease-free products. And its green places. The challenge is to use every scrap of ingenuity to add value to them.

That brings me to the next point, which is that governments still matter.

In a globalised world, governments have more to do economically than simply appoint a regulator and sit back to watch creative destruction at work. They have an important role in ensuring that globalisation's centralising tendencies don't drive out the small and the weak. We can't afford to achieve that goal any longer through tariffs and quotas, and in any case that approach doesn't benefit the nation most effectively. We've got to find fresh ways of supporting the small and the new, including by ensuring that an active venture capital market is available even if we have to make a special effort to provide it.

As the structures of our societies change and fragment, young people in particular are swimming alone in a way their parents were not. The key task for any government is to make certain that the water they swim in is full of nutrients. And the key nutrient in any society at any time is education.

In an economy in which the old certainties have gone forever, and services form an increasingly important part of our domestic economy and our exports, connections, both formal and informal, are vital. Governments have a facilitating role here that can range from ensuring equality of access to information to more active efforts to draw together coalitions of different individuals.

Laissez faire conservatism simply can't provide the answers to the complex problems of social change. The only answer is the sort of social democracy at which both New Zealand and Australia have excelled. We are good at it, and have been leading the world at it for over a century. That ought to give us confidence in our ability to respond to the new challenges.

Politicians have had a bad rap in New Zealand. Some of the worst examples of the new populists even pretend that they are not politicians. But whoever the members of your parliament are, and however they define themselves, you can't have representative democracy without politicians. They are the only means we have for achieving legislative change.

My second point is one which guided me throughout my public life. It is the proposition that nothing is more important to a country than the way it thinks about itself. In other words, the commonly shared model of what its national values and priorities are. Everything else, including economic growth, flows from that.

That's why I think that Australia's future success requires us to think about our nation in a different way from the past. We cannot reach success in the information age if we cling to the monoculture and fail to embrace ethnic diversity, if we don't reach a proper reconciliation with our indigenous people, if we don't recognise that you cannot in the 21st century borrow the hereditary monarch of another country as the symbol of your own nationhood.

The way we handle these large issues of national identity is directly relevant to the success we will have in building a knowledge society. Once our economies begin to depend more heavily on the export of services than bulk commodities, the way we present ourselves to the world becomes more important.

Decisions about where to educate your children, or seek health care, or look for legal assistance, or buy your entertainment are quite different from decisions based essentially on cost and reliability of supply which affect decisions on where to source dairy products or other commodities. They involve much more subjective judgments about the 'brand' of the place you are buying from: its technical sophistication, its commitment to quality, its reputation for innovation and imagination.

And those qualities are directly connected to the confidence and ambition of the community.

In New Zealand's case I believe that the danger you face is to limit your horizons and ambitions; to decide that being a beautiful, clean, South Pacific nation – the largest country in Polynesia – is enough.

It won't be.

If I can urge one thing upon New Zealand it would be to see yourself as part of the broad Asia Pacific.

You can draw comfort from small countries like Finland and Ireland which, by building knowledge economies, have reaped substantial economic rewards. But they are on the edge of Europe and one of the world's great economic groupings. You cannot assume that, with the same policy prescriptions, their future is yours.

Australia and New Zealand have to look to Asia for our future. This doesn't mean that you won't retain and seek important markets in Europe and North America.

But the markets in the fastest growing area of the world will be in Asia, including for services which New Zealand is well able to provide. Engagement with Asia is not just about seeking markets. It also means seeking institutional integration with the region. Participating in shaping the architecture of regional cooperation. It means opening ourselves to immigration and investment.

But of all the policies that New Zealand could pursue the one that is most natural, and I believe most profitable for New Zealand, is economic integration with Australia. Australians have always had a very accommodating view of this prospect. That is why, unhesitatingly, save for some points of negotiation, Australia agreed to CER in the late 1970s and early '80s.

But there are many parts of the New Zealand psyche that find dealing with Australia difficult. As one of the New Zealandophiles in the Australian cabinet I found myself constantly on the back foot as a result of New Zealand's approach. I pushed solidly for a free market between Australia and New Zealand not only in goods but services, and not only in services, but with a common border enveloping both countries.

But New Zealand skirted around and eventually walked away from each opportunity. It wanted to keep a different set of border arrangements because it could see some short-term advantage in tourism from visa-free arrangements with a couple of countries like Taiwan.

Despite constant offers on my part, a former New Zealand government walked away from the opportunity to put Telecom New Zealand in exactly the same place that C&W Optus now occupies in Australia; the second carrier with a market capitalisation of \$15 to \$16 billion.

The same attitudes prevailed in respect of transportation. Australasia should operate as an integrated aviation market. The government I led left open the opportunity for Air New Zealand to negotiate the purchase of Ansett at a time when it could have put a stamp on Ansett and Australian airline policy in a way that was far more advantageous to New Zealand than now. Instead the New Zealand government seemed to believe that New Zealand's interests were the same as those of Brierly Investments.

It has always seemed to me that, when dealing with Australia, New Zealand too often looked for the angle rather than the opportunity. Faced with a range of options, New Zealand seemed to constantly take the one that was, in the long term, least strategically favourable to it.

One is driven to believe that much of this results from a sort of wariness about Australia, a wariness tinged with some resentment. This, I believe, is needless and completely counterproductive.

Unlike Australia, and I repeat, unlike Australia, New Zealand has the opportunity of integrating with a market five times as large as itself. That is much more important, I think, than the pursuit of Free Trade Agreements with Singapore or Hong Kong or Chile or chasing the illusion of NAFTA membership.

New Zealand ought to make the best of its relationship with Australia; to think of New Zealand as part of an Australasian market and to try to make the whole thing, our joint raft, bigger and stronger. Over the past twenty years Germany and France, real historical adversaries, have done better at this business than Australia and New Zealand have done and yet there is nothing in our history other than a shared friendship.

Let me say by this I don't mean political integration or any of the other paraphernalia that cuts across the issue of sovereignty.

I think New Zealand needs to embrace every opportunity to integrate its markets, including its capital markets, with the Australian market; to embrace, unilaterally if necessary, opportunities to merge its regulatory regimes and standards.

But unlike Hong Kong and China, with their One Country, Two Systems, it is entirely possible for New Zealand and Australia to form Two Countries, One System.

My final point tonight is that knowledge is not enough. A country also needs wisdom. Nation building is a sophisticated matter; it is only done over time with people able to peer through the screen of the obvious to the more distant grail that is, in the end, more relevant.

Institution for institution, company for company, individual for individual I am have no doubt New Zealand has the ability to make the transition to an economy based much more substantially on knowledge, and to prosper in the new competitive world, just as I believe Australia does.

But it is going to need all our experience and skills to do it. Relatively, there are more competitors and no one in the market is standing still.

In truth, we haven't a second to lose.