

New Zealand's Place in the World

John Key

Prime Minister, New Zealand

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Presenter, BBC World News

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Lucy Hockings

Hello everyone. Welcome to Chatham House and today's conversation with the prime minister of New Zealand, John Key. I'm Lucy Hockings. I'm a presenter at BBC World News. I've lived here in London for about 15 years now, so I do see myself as a Londoner, but more than that I am a New Zealander still. My family is still at home and I keep across everything that's happening at home very, very closely. So I am delighted to be here to moderate today's session.

I want to start by asking a few of you a question. How many of you here are from New Zealand or have been to New Zealand? That's most of you. If you haven't, how many of you have seen *The Hobbit* or *The Lord of the Rings*? Next question. What about the All Blacks, have you all heard of the All Blacks? Yes, the most successful sporting team in the world.

Those two references that people use at the moment when they think of New Zealand, this place that has wizards and hobbits, this place of outstanding beauty, the place in the world that has the best front row, I have to say the best back row in rugby in the world, that is an easy sell, I think, if you're the country's prime minister.

What I think is a much harder sell is convincing the world that this tiny little country at the edge of the world can have a real say in big issues, like global security, peacekeeping, how we deal with China, tackling global terrorism, and at the moment, things that preoccupy our mind a lot, the issue of the rise of Islamic State and fundamentalism, something that I deal with every day in the job that I do.

While nothing would be more fun for me as a rugby fan, than talking to John about New Zealand's prospects at the World Cup, which are very, very good, and how they're preparing, we're not looking at those issues today. We're looking at the values and the attitudes that shape New Zealand right now, how those values and attitudes then shape John and his team's attitude to the world and how New Zealand sees itself, how New Zealand particularly now sees its place in this world of ours that is changing by the day.

All of this is very relevant, as New Zealand takes up its place on the UN Security Council. It's a coveted position. It's a chance, I think, to have a real say, for this tiny country to have a real say in what goes on in terms of the world's security. It's something that John Key has campaigned long and hard for.

John knows these issues inside out. He's a third term prime minister. He's just had lunch with David Cameron at Chequers. He's on his way to Davos as well. He's going to make a short address in a minute to all of you. Then I'm going to ask him a few questions, which I've been dying to do for a while. Then we're going to open it up to the floor. So if you have some questions, just keep them under your hat for the moment. We will get to you eventually.

This is on the record, today's session. But if you've got your phone on, make sure it's on silent, but feel free to tweet while we're underway. The hashtag is #CHEvents. For now, I'd like to welcome The Right Honourable John Key, Prime Minister of New Zealand.

John Key

Lucy, thanks very much. I certainly would love to talk to you about rugby, and I can say I have a great love of being in London. I lived here for seven or eight years, so having the opportunity to return to London is always a great experience. But I've told the All Blacks captain, Rich McCaw, I'm only coming back if he's in the final, and he's only coming home if he wins. So we've got a great agreement between the two of us.

Let me just start very, very briefly about what's happening basically in New Zealand a little bit, and then move onto at a high level, some of the issues that Lucy touched on and then we'll go through a variety of different conversations and questions.

I suppose as a starting point, economically New Zealand is doing well, I think. We're in our fifth year of economic expansion, so the economy is growing strongly. We expect to grow at about three, 3.5 per cent this year and we continue to do that over the course of the next three years, so the reserve bank have us growing at about 10 per cent over the course of the next three years. The government expects to get back into surplus this year, so really very much on a knife edge, but we still believe that we can achieve that surplus target.

But that's pretty good when you think that we came from a budget deficit that was eight per cent of GDP, right after the Christchurch earthquakes that took place. Debt to GDP in New Zealand will top out at around about 26 per cent. Again, pretty good when you pull in the context that when I first became prime minister in 2008, the expectations were that debt to GDP would rise to 60 per cent by 2020. So we've got debt topping out at very modest levels if you look at them in that context and continuing ultimately to fall with expected levels to be under 20 per cent of GDP by 2019.

Unemployment is falling in New Zealand. We're at about 5.1 per cent. If you contrast that to Australia, where typically employment rates have been a bit stronger, they now have an unemployment rate sitting at around about six and a half per cent. So you can see the divergence that's taking place there. We have around about 1,700 people a week leaving welfare to work and fundamentally real wage growth.

So I suppose if you take a step back and say, 'Well what's driving New Zealand?' the first thing without a doubt has been strong commodity prices. So the wild card there is really around dairy prices which have come back significantly in the last sort of 12 months. My own view is that dairy prices are not going to fall from this sort of point in any significant way.

Why is that? Because global demand is still very strong. So what's been happening around dairy prices in the short term have been three big issues. One: displacement of a product that would have gone to Russia, but isn't because of the sanctions. The second thing has been a big build up of supply in China. They sort of slightly over-calculated the demand. And the third thing has been very good growing conditions around the world. Typically you'll always get some part of the world that experiences a problem. The last 12 months or so, that hasn't been the case.

But if you think that New Zealand produces about three per cent of dairy output, and the world is growing broadly in demand terms at about a New Zealand a year, you can see that that demand curve is strong. The second thing is a lot of that demand, notwithstanding the current build-up in China, is driven by China. If you look at China as a producer, it's quite a sizeable milk producer, but of course it has a massive domestic population.

But if you look at Chinese milk pools and the amount of milk being produced by China, in the last five years it hasn't increased. So they have a number of reasons why, everything from disease issues that they've faced in the dairy sector, but fundamentally it hasn't increased. But the global demand, and the demand in China is very, very strong.

Second thing that's been driving the economy in New Zealand has been the Christchurch rebuild. So after the earthquakes, a \$40 billion rebuild programme, extremely significant. It was a massive earthquake, if you think about not on the Richter scale, but because of the shallowness of the earthquake and the impact it had. So well over 1,000 buildings in the CBD have been knocked down, around about 10,000 homes bought by the government, 750,000 individual insurance contracts and claims. So pretty significant.

Third thing driving New Zealand at the moment has been migration. I know that's an issue here in the United Kingdom, but actually New Zealand largely is seen for the reasons that it is, which is a success story I think. So when I first became prime minister in net terms it was probably about square. We probably had a small, modest population increase, maybe a few thousand people. We're now running at just under plus 50,000 people a year.

If you think the population is 4.5 million, it's a reasonable increase happening every year. Why is that? Not because necessarily a lot more people are coming, but New Zealanders aren't leaving. So typically when they would go to the Australian economy, they're not going in such big numbers. A few are probably going to the United Kingdom, but just in general terms, less people leaving, people returning and a lot of people staying. So it's been a pretty good story.

I think if we just sort of move ultimately to some of the broader issues that Chatham House considers, really around the international issues, firstly in terms of the international economy, what I'd say is that we're very optimistic about what's happening in the United States [indiscernible] a couple of weeks over the year. It's pretty clear from what we see in terms of economic activity in New Zealand that the US is back and it's back very strongly.

I think the corporate balance sheets in the US have actually been quite strong for a number of years, but in many respects it's been a jobless recovery, but that's now turning around and we see it through our tourism numbers. So the west coast of the United States is the big market for New Zealand. Five years ago, those numbers were significantly diminished and when those tourists came to New Zealand, they weren't spending in any significant way. Now they're back and they're back spending very aggressively.

So is China, by the way. Those numbers are growing exponentially in New Zealand at around about 30 per cent a year. That's now our second largest market, but to put a bit of

perspective on it, China broadly had about 80 to 100 million international trips undertaken by Chinese citizens last year. The expectations from the Chinese president are that within five years, that number will be 400 million. So we currently get about 250,000 Chinese. We have about 1.8 million Australians coming a year. So we expect that number out of China to be pretty significant within about five years.

We think that Asia broadly is doing quite well. I know there are a lot of concerns about China but our numbers on China are still very robust, notwithstanding the issues around the dairy build-up. My own view is that China will be able to continue with any credit issues it faces. It's got one or two in its banking system but it's got the capacity to deal with that, and I don't think they'll allow themselves to have a significant problem.

We think China will continue to grow at at least seven to 7.5 per cent. We think it will do that for quite some period of time. What we do see is a very significant shift in the Chinese economy away from a heavy manufacturing, highly energy intensive economy to a very strong producer of intellectual property. We think China will very much challenge some other countries that are considerable developers of intellectual property, like the United States, Korea and others. We think you can see a very dramatic shift in the make-up of industry within China.

Here in Europe, obviously you in this room probably understand better than we do, but putting Britain to one side, we still see very significant issues here in Europe and structural reform obviously is something that's significantly required. I mean, the ECB I'm sure will undertake its quantitative easing programme, whatever that looks like. But ultimately, as we can see from the Japanese experience, where they undertook, in terms of Prime Minister Abe's first era of quantitative easing and the second era of fiscal reform, in the end that only delivers you a certain amount of support, if you like. Ultimately, it's structural reform that's required and I think that's going to be the big challenge ultimately for Europe.

Moving I suppose to our role on the Security Council, we were last on the Security Council in 1992-1993. In fact, I think New Zealand played a very important role when it was on the Security Council, particularly for the people of Rwanda, and this time when we put our name forward, for a long time we were on our own actually with Spain, at the last point, Turkey came and became a contestant. We actually won with 145 votes, so we won on the first round against very stiff competition from both Turkey and Spain.

I think we won for a variety of reasons, but one of them was because New Zealand was prepared to be a good, solid, dependable voice and a listening post, particularly for small developing states. The second thing was that we want to see reform of the Council. I don't think we're going to see the meteoric reforms that some people would want, but I do think that we want to push very hard for the permanent five to be considering at all times not only what's in their own best interest, but ultimately the big issues that they face.

There will be very significant issues over the next few years. Clearly at the forefront of that, probably is what we're seeing in Iraq and Syria with ISIS and ISIL. Our experience of ISIL is interesting in the sense that we're a small country. If you think about the issues that an organization like Al-Qaeda, they typically were not nearly as well funded as ISIL from what we can see.

The modus operandi was large events that would bring the attention of the world media and the population of the world to focus on them. So 9/11 being a great example of that, all driven by the ambitions of Osama bin Laden. ISIS is completely different. It's extremely well funded, we think in the order of about \$2 billion a year. They have considerable resources that they've secured around the world and in Iraq. Most importantly, they're doing something that's completely different to Al-Qaeda.

That is that they're using social media as a form of outreach programme to connect with people who are disillusioned, disenfranchised and feel cut off from society. So even though we're a country that's at the bottom of the earth and you would argue with not a terribly large Muslim population, not likely to be a particular place where activity from ISIS could take place, we ourselves can identify 30 to 40 people at least who are of concern to the New Zealand government and New Zealand authorities.

That's because those people fit exactly in the category that I talked about. They are deeply focused and engaged in the outreach campaign that ISIS is running. They spend hours each day on the internet, researching the propaganda that ISIS has put out there. And ISIS's messages, 'Come and join us and fight in the caliphate, but if you can't or if you won't, then undertake a domestic terrorist action.'

I think what we saw in Paris, as terrifying and as horrible as it was a week or so ago, the bad news I think is that that may have been the first of 2015. I would be very surprised if it's the last. I think ultimately you've got a very motivated group of people trying to insight domestic terrorist activities. They're going to use and they are using social media far more effectively than we've really seen before.

They continue obviously to be the issues that the world worries about, some of those in terms of the Middle East. Obviously you've got a very serious position in Nigeria, Boko Haram, and New Zealand is going to continue to apply its voice on scenes and regions on some of those issues.

So that's really our take on what we see happening. Obviously you're in for a fascinating time over here in the UK over the next 15 weeks. I'll try and do my best to stay out of that, and leave that to you, but it's great to be back in the UK and have an opportunity to share some views. Thank you very much.