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PROSPECTS FOR ECONOMIC RECOVERY AND FUTURE GROWTH

Talking about economic recovery from the recession is important. But the decisions we, in both our countries, make now for the long term are far more important.

I have been fortunate to live and work in every major continent over the past three decades. I observe one major difference in the approach to decision-making between Asia and the rest of the world: Asia thinks, and acts, very long-term.

Three years ago, in 2006, the NZ Treasury released its first *Long Term Fiscal Statement*. It said New Zealand's economy was strong, but in about 25 years – if we did nothing about it – we might go into fiscal deficit as our population aged. We had plenty of time to address this.

This week Treasury released its second *Long Term Fiscal Statement*. Only three years on from the first, we are already in huge fiscal deficit, and our public debt is increasing at a terrifying rate of 1% of GDP every 7 weeks. Unless we make active and major decisions to change, within much less than two future generations our public debt will be over 200% of GDP – growing at an increasing rate, and unbounded.

In Japan, I understand public debt is already close to 200% of GDP.

But deficits, and debt, are not problems in themselves. The real problem is that we will be unable to pay for the basic essential services even that our people expect now – health and social welfare services – let alone the increased demand for these from an aging population, and more technically skilled workforce.

In NZ today 25% of government spending is on the 12% of population over 65 years old. But the number of NZers over 65 will double in the next generation. In Japan, within two generations, there will be 75 people over 65 for every 100 people of working age.

This is the challenge – the nearly insurmountable crisis – that both our countries face.

But – the news is worse. The global challenge is even harder.

In the same timeframe – two generations – in the world we, our children and our grandchildren will live in:

- Global population will increase nearly 50%
- Global GDP will – at least in people's hopes and expectations – treble
- Global demand for food will double
- Global demand for everything to support feeding over 9 billion people, and support their expectations for significantly increased standard of living, will at least double.

This means the effective demand for good agricultural land, for fresh water, energy and primary resources, will all double.

Worse still, all this has to happen from a starting point today in 2009 where:

- We, the one billion “wealthy” people in the OECD, are only 15% of the world's population
- Population demographics means the “other 85%” will become the “other 90%” within two generations
- At least 20% of that other 85% lives in poverty and hunger today

In the past 12 months we have seen food shortages, food crises and food riots in nearly 50 countries.

So the real question is, increasingly, becoming: is it even possible for the world's supply of good agricultural land, fresh water, primary resources and energy to meet those expectations?

The bad news is that under the business as usual planning and expectations that are still pervasive in most countries, and especially given the “distraction” of a recession that, while severe, was for most of the world only temporary, this is not possible.

There is almost certainly not enough available good land, fresh water, energy and primary resources to achieve this growth, then sustain it. Technology will of course assist by increasing productivity. But at conventional rates of technology-driven productivity improvement this may contribute 25% of the 100% increase. That would still leave us 75% short.

This picture is very dark. Unfortunately it is also the bare facts.

At very least, global prices for all these essentials – globally traded primary resources and food – will rise steeply and continuously.

In this world, many countries, companies and people will struggle – or be big losers. They will struggle to afford the new global prices that only the rich will be able to pay. Many will struggle even to access supply of these essentials at all.

But at the same time some regions, countries, companies and people will have huge opportunities – and prosper.

In this world – in the next two generations – New Zealand is the luckiest country. Almost all the things the world will need more of, but will be increasingly short of, NZ has in relative abundance.

Good agricultural land. Fresh water. Primary resources. Energy. In all of these NZ's readily accessible natural resource is probably the highest per capita in the world.

We export 90-95% of our food production. That means we produce enough food to feed about 60 million New Zealanders – but that is enough food to feed 100 million people in that “other 85%” of the world.

We use only 4% of our fresh water. We “export” the other 96% - straight into the Pacific Ocean – unused. We are proud of this ... other countries would consider it wasteful.

We have highly productive, efficient primary industry – in many cases, the best in the world. We have good technology, well educated people and stable government. And internationally we are rated as the world's most corruption-free country.

This defines the opportunity – and the responsibility – very starkly for New Zealand.

We can nearly double our food production, our primary resource production, and to support those, our energy production. Based on this, we can produce enough food to feed 200 million of the world's people.

In doing this we can also increase our GDP – our national wealth per capita – at very least 10% above business as usual, through increased production, increased productive efficiency and rising global prices. We can return to fiscal surpluses, and deliver the services in health, education and social areas that New Zealanders expect.

This is truly a win-win – for the world that wants our products, and for us.

To do this, we need only three more things – and they are all ready and available:

We need capital for investment. We are a nation of spenders, not savers – but the capital is available and ready.

We will need some specialised technology and equipment – once again this is available and ready.

And, most important, we need to understand this picture, recognise our future, and make the decisions – now – to create this opportunity.

Japan has capital to invest. Japan has the technology and specialist equipment we need. Individual Japanese companies and NZ businesses have already shown over the past two generations that we know how to combine our separate strengths successfully.

Within the next two generations, New Zealand needs to make all this happen. Japan has been our close partner, and friend, for the past two generations. It is time now to make these decisions – together – that will take our relationship to a new level – out for the next two generations – and beyond.