

THOUGHT LEADERSHIP

THINKING GLOBAL

Food and fibre leaders need to re-learn how to trade in a less benign world. The stability we took for granted has gone. If the sector is to thrive in an era of change we need leaders who can think globally and act strategically.

Rapid and sustained change

In an era of rapid and sustained change, being able to think and act strategically is critical. This is especially so for practitioners, professionals and policy-makers in New Zealand's food and fibre sector because we are primarily an exporting sector. This point is not a small one. In the aftermath of COVID-19, food and fibre exports represent 82% of this country's merchandising exports. We are keeping New Zealand solvent.

Even when tourism and export education come back on-stream, New Zealand's economy will remain unique compared to most developed economies in that it is centred on primary industries. Despite the jingoism of the Rogernomics era, we are not, and never have been, a sunset industry. Food and fibre are as much part of our future as they have been the mainstay of our history.

However, the *Pax Americana* that has underwritten New Zealand's ability to send our goods across the world's oceans to far-away markets with historic ease is not something we should take for granted. No longer do we live

on the far bank of an American lake. The world is returning to a realist phase where raw power is challenging liberal ideals. The unique moment where the US was the sole superpower is now in the rear-view mirror.

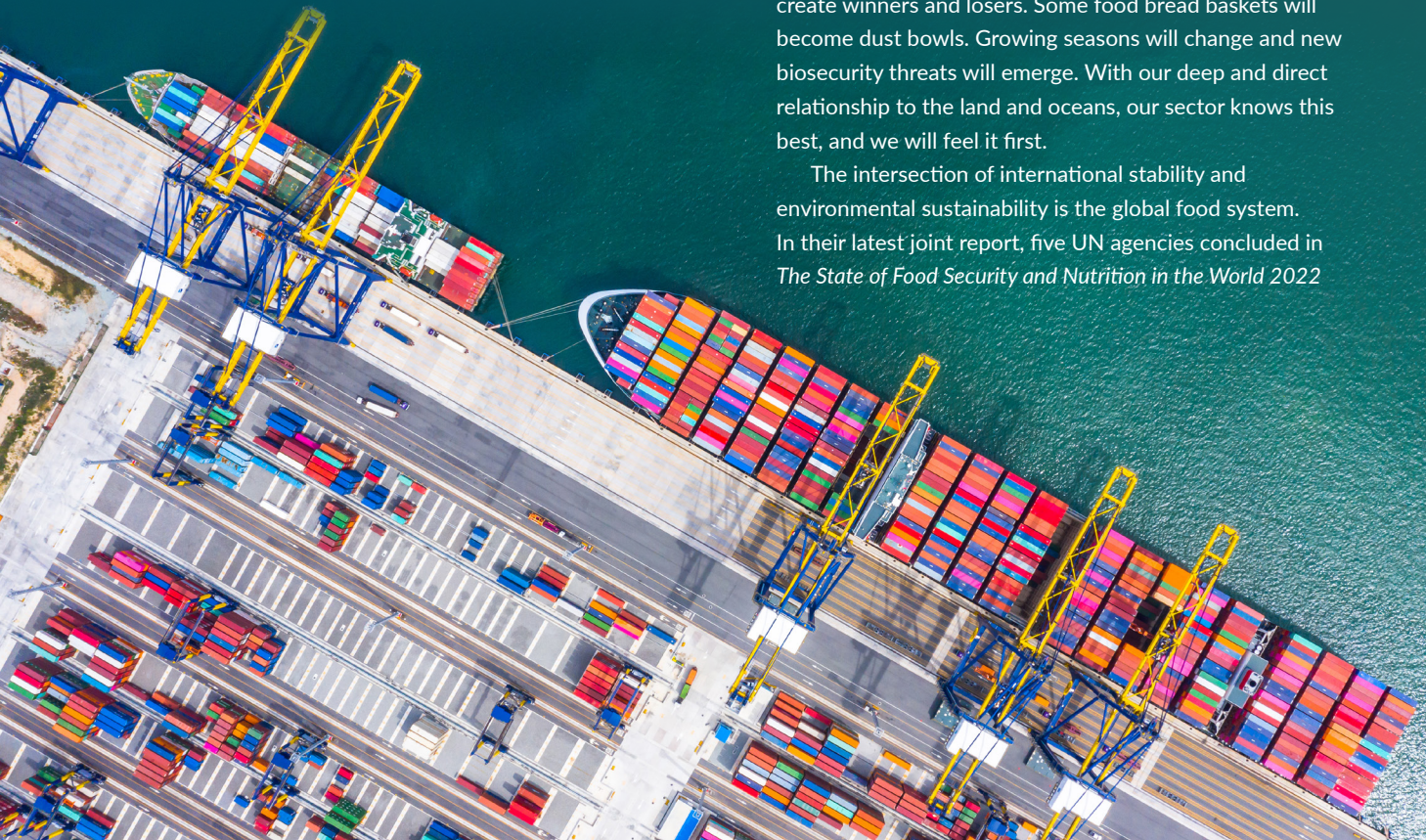
Today the world is returning to its norm: a multipolar world where the great powers jockey for competitive advantage. As a result, it is likely that we have reached the high-water mark of the integrated globalised system. The stability we have enjoyed since 1945 has given way to an era where global rules and prevailing values and systems are in transition. Food and fibre leaders will need to re-learn how to trade in a less benign world.

Climate change

The planet is also in transition, which makes our time different from those that have gone before. Climate change is fundamentally altering the grand bargain we have with the planet. Not only do we need to navigate political volatility, but we also need to manage climate volatility.

Climate change will impact where food can grow; it will create winners and losers. Some food bread baskets will become dust bowls. Growing seasons will change and new biosecurity threats will emerge. With our deep and direct relationship to the land and oceans, our sector knows this best, and we will feel it first.

The intersection of international stability and environmental sustainability is the global food system. In their latest joint report, five UN agencies concluded in *The State of Food Security and Nutrition in the World 2022*



that because of the triple header of climate, conflict and COVID, 'the world is moving backwards in its efforts to end hunger, food insecurity and malnutrition in all its forms.' If the world fails in this, the downside is food price inflation, mass migration, conflict and pain. So, if we are to thrive in an increasingly complex international environment we need to understand it.

For the sake of brevity, this article will paint with broad brush strokes. The aim is to touch on three areas that give a glimpse into a broad, deep and dynamic topic using the three lenses of politics, geography and demographics. Of these, geography is the constant, demography changes slowly, and while politics can change fast, over the long run there are discernible patterns that form the grand arc of history. Let's start with politics.

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Politics

'History never repeats itself, but it does often rhyme.'

– Mark Twain

Mark Twain, and more recently Ray Dalio in his book *Principles for Dealing With the Changing World Order*, both talk about the great arc of history. There is a pattern in international relations that repeats, and which is cyclic. Political orders rise for a time and then fade (often violently); when they do, the international rules-based system that was optimised for that order is re-ordered too. According to Dalio, we are in the late stage of the current world order.

The long peace post-World War II is fading. Our whole system for prosperity has been optimised for the world order that followed the war, and on the back of plentiful labour (and consumers) born during the Baby Boomer generation. Looking historically, we can see the pattern of ideological shifts.

World War II was a contest between fascism, communism and democracy, where fascism lost. The Cold War was a contest between communism and democracy, where communism went bankrupt. Since 1991, we thought that democracy had won. Francis Fukuyama wrote his book *The End of History*, we cashed in the peace dividend, and we forgot some old maxims. Today we see the rise of strong men like Putin, Xi, and Erdoğan in Turkey, and others across Europe, the Middle East, South America and Africa. According to the Democracy Index 2022, democracy reached a high point in 2015, but has been in decline since.

Today the Chinese, among others, are asserting a different vision from the liberal democratic model. Concurrently, US politics and trade policy are swinging

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back to a more nationalist phase, seemingly weary of subsidising world security so others might prosper. It is not a foregone conclusion that China will surpass the US in economic and military power, but even if the US remains the leading country in the world, the future will be different from the system that has served us so well since the end of World War II.

For example, the US is exacting a higher price for those security guarantees that remain within its national interest, as the South Koreans and Europeans have found out. At the same time, the US is re-shoring key industries, semiconductor manufacturing being one of the critical ones. We are moving into a multipolar world where once again different governance systems are competing to shape the global order.

It is highly possible that our future will see a contest between democracy and autocracy; at the very least it will be painted this way. This will create a dilemma for New Zealand. In the past our security and trade interests were aligned with the West. However, with the advent of the Chinese Free Trade Agreement our interests have increasingly been split – trade with China and the East versus security with the US and the West.

It will become harder and harder to walk that fine line. We will increasingly be asked to choose between our interests and our values. While this is nothing new in the art of diplomacy, New Zealand has long asserted a values-based foreign policy. In reality, the best foreign policy serves both our interests and our values, and one of the underlying drivers of our foreign and trade policy is our geography.

Geography

'If you know a country's geography, you can understand and predict its foreign policy.' – Napoleon Bonaparte

Geography has directed the affairs of people since the invention of politics. To highlight this, we will look at the Malacca Straits, the US, China and New Zealand. Each of these geographies is relevant to New Zealand's food and fibre sector.

The Malacca Straits is one of the world's most strategic choke points (**Figure 1**). The Straits have shaped Singapore's destiny, for good and bad. About 20% of global maritime trade passes the Port of Singapore and is a boon for its economy, but the need to control the Straits was also the cause of its most traumatic chapter during the Japanese occupation in World War II.



Figure 1: New Zealand export flow to the next international port. Source: Ministry of Transport

The Straits are also key to New Zealand's prosperity and security. Eighteen percent of our exports and 23% of our imports go through or to the Port of Singapore. Any disruption would have an impact on our prosperity. It is no coincidence that New Zealand is a member of the Five Powers Defence Arrangements, which provides assurances to the sovereignty of Malaysia and Singapore.

Further afield, the US's host of navigable rivers, an abundance of natural resources, and access to two oceans has allowed it to become one of the most productive and wealthy nations in world history. Given its moat and that its immediate neighbours are friendly and (under NAFTA) its biggest trade partners, the US is also one of the most secure states on earth.

There are two things that could challenge US impregnability: advanced technological innovations that

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defy geographic boundaries (e.g. cyber-threats, hypersonic missiles and a return to nuclear proliferation), and internal fragmentation fuelled by populist leaders who encourage outrage rather than galvanise the incredible creativity of the US's free society.

China's geography is tricky. It faces water scarcity, and lacks sufficient natural resources and arable land to feed its population and keep its economy growing. Hence, it imports significant amounts of food and fibre, including from New Zealand.

Trade with the Eurasian continent requires transportation networks to traverse borders, rivers, mountains and deserts. Their Belt and Road Initiative is a marvel and attempts to do this, but it is far more expensive to build and maintain than plying the world's oceanic trade routes.

To be a truly global superpower, China needs unfettered access to the global oceans, which raises the Taiwan question. There is a 'great maritime wall' (or 'first island chain' running from Japan and its outer islands to Taiwan, the Philippines and Malaysia), which bounds the South China Sea and constrains China's freedom of action. This is a core reason for President Xi's public and repeated statements that Taiwan will be reunified with China, by force if necessary.

The South China Sea should be of deep interest to New Zealand food and fibre leaders. This country is highly exposed to tensions there and any resulting friction to trade. According to the Ministry for Primary Industries *Situation and Outlook for Primary Industries* (December 2022), four of our

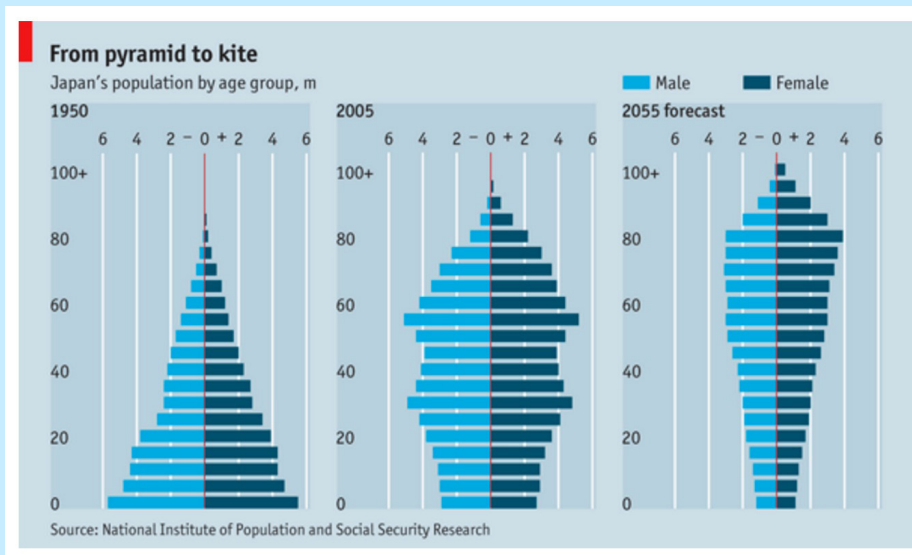


Figure 2: Japan's population 1950, 2005, 2055. Source: National Institute of Population and Social Security research (Japan)

top 10 export destinations (60% of top 10 revenue) are with countries adjacent to the South China Sea. If Malaysia were included this would be five destinations comprising 62% of top 10 revenue. We should not forget that our prosperity is based on the freedom of the high seas.

Ninety-nine percent of New Zealand's trade, by weight, goes by sea (Figure 1). Most of that trade plies the Pacific Ocean. We also claim the fourth largest exclusive economic zone in the world. Given our modest naval capabilities, we are reliant on a functioning rules-based system and a network of security partners to underwrite our prosperity. This also implies that we would do well to invest in it.

Beyond the Government's obvious requirement to make substantive contributions to the rules-based system and our international relationships through the Ministry of Foreign Affairs and Trade and the New Zealand Defence Force, food and fibre leaders can also contribute.

The more we engage with global food and fibre organisations and have a voice in creating policies and systems that suit our interests and values, the better. That said, regardless of how politics or demographics might change, our geographic reality will not. We will always be a long way from global markets, and we will still rely on the sea. The clue is in our name, as Zealand literally means 'sea land'.

Demographics

'Demography is destiny.' – Auguste Comte

If the 21st century is an Asia-Pacific century, the next is an Indo-African one. This is not a wild prediction; the future is baked in already. Just as livestock leaders understand flocks and herds, demographers can predict much about humanity's future.

At a basic level, there are three 'herd' shapes:

- **A growing population** has more young people than old, and when you chart this, it looks like a triangle with the young forming a wide base and a numerically smaller aged population at the top. Typically, the number of boys and men are shown on the left and the numbers of girls and women are represented on the right. If the numbers of each are evenly distributed a growing and balanced population forms an equilateral triangle.
- **A static population** has similar numbers of youth as it does elderly, and when charted it looks like a rectangle.
- **An ageing population** with more old people than young looks like an inverted triangle.

These three basic shapes can tell you a lot about a country's future. For instance, what a country's productive capacity is, what their consumer base will be in the future, and much more. Figure 2 illustrates Japan's transition from a growing population in 1950 to the most aged country in the world today.

Turning to China, its demographics look like an inverted triangle. The Chinese economic miracle has been largely based on a demographic wave that has now passed. China is now the fastest ageing population in the world (e.g. it reduced by 850,000 people in 2022). Some time between 2050 and 2100, its population will be less than 700 million.

By contrast, India is, or soon will be, the most populous country in the world. Looking further ahead, the only continent with a growing population base is Africa. These factors should give New Zealand's food and fibre leaders pause for thought when we consider the location of our future consumers.

When coupled with the geopolitical factors above, there is an argument for New Zealand to focus on markets in the Indian Ocean, not just the Pacific Ocean. As Figure 3 shows, there are several gateway countries on the Indian Ocean Rim

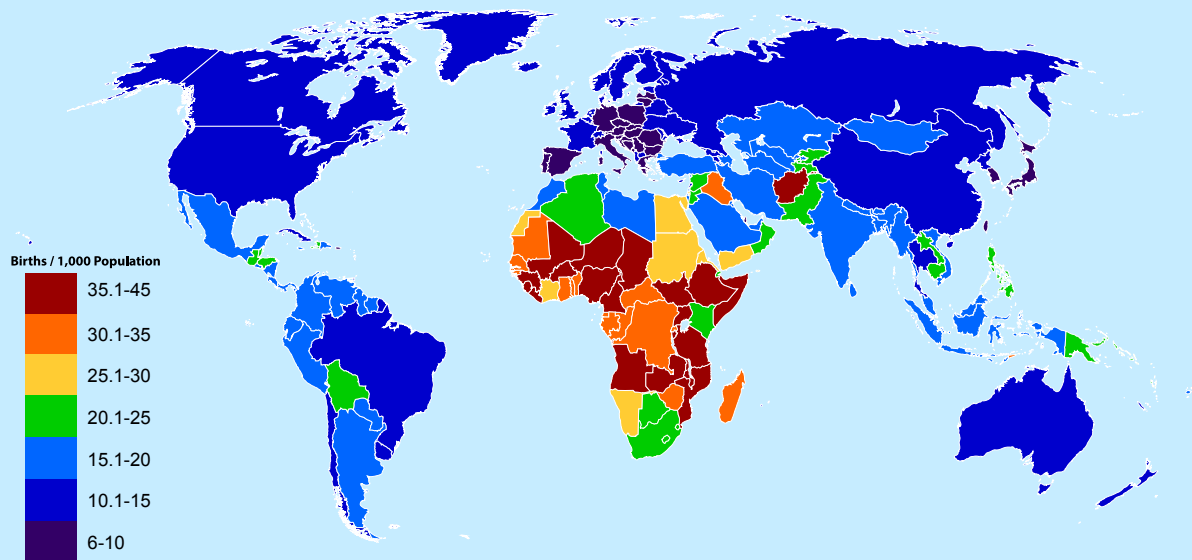


Figure 3: Countries by birth rate in 2017. Source: Wikimedia Commons

that have better demographic prospects than our established markets in Asia-Pacific, and (as a bonus) the shipping routes avoid the South China Sea.

We should be considering how to improve our trading relations with Indonesia, India, the gateway countries in the Middle East and the east coast of Africa. However, in all these markets, trade agreements will only eventuate if we have taken the time to forge deep relationships. The food and fibre sector needs to think about how we get to know our Indian Ocean neighbours. We need to post fast-track professionals into the 'market' and build their cultural understanding. This is a long game, and with all long games the earlier we start the better.

New Zealand has demographic challenges too, but they are not as acute as some other nations. We have been successful at offsetting our demographic decline with immigration. However, sensible immigration policy can only occur at a speed that infrastructure and cultural integration can support.

Until recently, New Zealand's immigration has arguably occurred at the faster end of the spectrum. Besides the obvious creaking noises coming from our national and housing infrastructure, the cultural shift has been rapid too, which has implications for food and fibre leaders.

According to Statistics NZ, by 2043, 50% of the food and fibre workforce will be Asian, Māori and Pacifica and by 2048 the average New Zealander will be 6.5 years older than today. Tomorrow's workforce will be more multicultural and older. To be effective, food and fibre leaders will need to lead from a bicultural foundation and in a multicultural context. They will also need to re-think work systems and incentives to cater to an older demographic.

Coupled with smaller generational cohorts (Y and Z) entering the workforce, global and local competition for talent will be sustained. The era of 'HR' is over: if food and

fibre firms want to keep their talent they will need to treat them as 'people'. not 'HR'.

Conclusion

New Zealand has long enjoyed a stable trading environment, brought about through the sacrifice of the World War II generation. That world order is changing and changing fast, but so is the natural environment we rely on.

Our prosperity comes from working with the land, our sea trading routes that connect us to global markets, and an international rules-based order that puts us on an equal footing with larger and stronger countries. To maintain and enhance our security and prosperity, New Zealand's food and fibre sector needs to diversify its markets as we are overly-exposed to markets in the South China Sea.

Food and fibre leaders should play a more active role in supporting the rules-based system that underpins our prosperity. As a sector, we need to actively broaden and deepen our international relationships and understanding, so we can thrive in an era of rapid and sustained change.

However, there is a bigger point here too. Perhaps more than at any time in its history, the world needs practical, progressive and entrepreneurial leaders who can find sustainable ways of providing food, warmth and shelter to the many millions who need it. New Zealand has its part to play. If we are truly a leading food and fibre-producing nation, the part we play is more than just exporting produce. We have the potential to export our ideas, innovation and talent as well.

Whether the future is failing or flourishing, the difference is leadership.

Chris Parsons, MNZM, DSD, is CEO of NZ Rural Leaders based in Lincoln. Email: chrisparsons.nz@gmail.com