

Hon Murray McCully, Minister of Foreign Affairs

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**Speech to the New Zealand Institute of International Affairs
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I want to commence tonight by thanking the Institute for its kind invitation to me to make this address. The Institute extended the invitation for the very best of reasons: I suggested to them that they should do so.

I, in turn, made the suggestion for the very best of reasons: I wanted an opportunity to set out, for an informed audience, the sort of challenges that we confront in the Ministry of Foreign Affairs and Trade over the next few years and give some indication of the approach we are taking to meeting these challenges.

We live in a world that is changing dramatically.

We are seeing a shift in power to emerging economies.

We also live in times of fiscal restraint.

The brutal reality is that if we do not manage change, change will manage us.

The Ministry of Foreign Affairs costs New Zealanders around \$400 million per year.

It has approximately 1300 staff and runs offices in over 50 countries.

It also administers over \$500 million a year in aid.

For those who are inclined to observe that a \$400m Ministry is too great an investment in the conduct of foreign relations I simply say this:

New Zealand is a trading nation.

In the year to March 2010 we achieved foreign exchange earnings of \$58.9 billion and exported goods to 189 countries.

An investment of \$400 million a year in the machinery that maintains our relationships with trading partners, negotiates trade agreements, and supports the arrangements that keep the world safe for travellers and trade is not out of place.

But clearly there are fundamental questions that need to be asked about the future shape of the Ministry, starting with: where do we wish to be represented, for what purpose and in what way.

I should note in passing that my comments this evening are focused exclusively on the Ministry of Foreign Affairs and Trade.

There are a number of other external agencies that operate in the same space, most notably New Zealand Trade and Enterprise.

While we have achieved some improvements in inter-agency cooperation in recent times I believe that there are still real efficiency and effectiveness gains to be secured in this area, but that is a topic for another occasion.

As you know well, we retain representation overseas with a variety of objectives in mind.

We have been reminded by events in Japan and in Libya over recent days of the consular role that the Ministry plays.

New Zealand citizens travelling abroad and the news media at home set high expectations, sometimes very high expectations indeed, of Foreign Ministry staff.

And we do our best to meet all reasonable and practical expectations.

As a smaller, relatively remote country we have a huge stake in international organisations and systems that promote security, stability and fair play, and which underpin principles of democracy, human rights and the rule of law.

That requires a certain level of representation abroad, and certain capabilities at home.

It is one of the reasons we need to think hard about our role in the Pacific region and about the leadership responsibilities we need to resource.

But the most important objectives under the current government lie in the area of trade.

We are a small country that is highly dependent upon our capacity to earn foreign exchange.

The Key Government has formally communicated to the Ministry a view that trade and economic objectives must receive priority.

We have also expressed a commitment to lifting exports as a share of GDP from 30% to 40%.

So I make no apology for the fact that trade and economic opportunities are at the forefront of our thinking about the future shape of the Ministry.

That has huge implications for a Ministry that has traditionally been heavily invested in assets in Europe in a world where the balance of trade and economic opportunity has moved sharply towards Asia and where regions like the Gulf States, South America and Africa will be increasingly significant players over the decades ahead.

There are some predictions that the E7 emerging economies - China, India, Brazil, Russia, Indonesia, Mexico and Turkey – will be bigger than the current G7 – US, Japan, Germany, UK, France, Italy and Canada – by the year 2020.

That is only nine years away.

China's GDP may overtake that of the United States in that time.

And India is now on a trajectory to overtake Japan as the third largest economy around 2020 to 2030.

We can, I believe, be satisfied that so far our trade architecture has responded well to changes to the balance of economic power.

Exports to China have doubled since the establishment of a Free Trade Agreement with that country.

And the ASEAN-Australia-New Zealand FTA creates a new regional market of 600 million people.

But we have huge challenges ahead in some parts of Asia, and also the Middle East and Africa.

My own view, for what it is worth, is that in ten years time business people will be saying about economic opportunity in Africa what we hear them say about India today and what we heard them say about China ten years ago.

Yet New Zealand has one post in Africa, in Pretoria – two if you include our post in Cairo.

So let me be very clear about this: over the next few years we will need to be represented in more capitals than we are today.

But they will be very different missions from those many of you will have been used to.

In times of constrained budgets we can only open new missions by dramatically changing the way in which we do business, and fairly dramatically changing the size and configuration of our posts.

In a fiscal environment that has just become much tougher as a result of the tragedy in Christchurch, we need to ensure that we achieve better value for money.

Prior to the Christchurch earthquake the budgets of all major departments of state had been flat-lined for several years ahead.

For a Ministry that is attempting to operate over 50 posts with costs continuously escalating around the world, flat-lined baselines were always going to present a challenge two or three years out as our capacity to absorb those costs was exhausted.

Remember in Budget 2009 we reversed approximately \$23 million a year of so-called step change increases over five years.

Given the circumstances in which New Zealand now finds itself I am determined to find meaningful savings to assist the Minister of Finance with both the 2011-12 and 2012-13 Budgets and to emerge from the change process upon which we are now embarked able to live within a flat-lined Vote at roughly current, that is 2010-11 levels, for at least a year or two after that.

The strategy that we are pursuing is quite simple:

First, where we do not need to have missions, we will close them.

That is why we closed the Ministry's missions in Melbourne and Brisbane last year.

While there are obvious reasons for maintaining a diplomatic mission in Canberra, there is no good reason why the Ministry cannot conduct its business in Melbourne and Brisbane in the same way as New Zealand business people do – through travelling, even for a single day visit, through teleconference and videoconference facilities.

Second, we need to modernise the Ministry and rebalance resources between the back office and the front line - that is the unambiguous message that I have given to the chief executive, John Allen.

That is the reason that we have embarked upon a major change programme to make the Ministry a leaner, more adaptable organisation, better able to meet New Zealand's future needs.

For the Ministry this means we need to use new technology and better systems to take resource out of back office functions, both at home and abroad, to reinvest in front line services – that is our representation overseas.

This will mean significant economies in back office services in Wellington, and the elimination of many seconded administrative positions in overseas posts.

We need to try new, less resource intensive ways of providing representation in many overseas capitals, with fewer seconded staff and more locally engaged staff.

With a million New Zealanders around the world we need to learn that it is possible in most places to engage talented Kiwis for specific roles without the substantial extra cost of seconding Ministry people from Wellington.

We need to ask hard questions about how we organise our consular services.

And we need to ask even harder questions about how we allocate our capital.

These are the sorts of changes we need to make if we are going to apply our current resources in a way that will enable us to meet our current and future opportunities and needs in a world that is changing very rapidly around us.

They are changes that will carry profound implications for Ministry staff in the future.

While there will still be the opportunity for talented graduates to be recruited and developed through a range of roles in a range of locations, many positions will be open to a much greater level of competition.

In Europe we are moving to put in place what we call a hub and spoke model.

Operating with London as a hub, smaller missions are being maintained in Warsaw, Stockholm, and Madrid – essentially a seconded MFAT ambassador with locally engaged support staff.

We are taking a similar approach with new missions.

Two weeks ago we opened a new post in Abu Dhabi, capital of the United Arab Emirates, to bolster our ties with the Gulf Cooperation Council – a zone of enormous economic opportunity for New Zealand.

That office consists of a seconded ministry staffer as ambassador, supported by locally engaged support staff.

You can expect this general approach to guide further changes in some of our existing missions and to shape any new ones in the period ahead.

In part the objective of making these changes both to head office and within posts is to give us space to be represented in more places.

I have already mentioned the opening of the Abu Dhabi Embassy to pursue trade opportunities within the GCC.

Many of you will know that Guam is currently the centre of a massive expansion due to the United States base relocation there.

The US Government plans to spend US\$367 million on its construction programme in the upcoming financial year and to relocate 8000 military personnel there.

Yet our closest representation is in Tarawa – hardly a major transport hub.

And three members of the Pacific Islands Forum – the Marshall Islands, Palau and the Federated States of Micronesia – lie in the North Pacific.

So my own view is that we need to work towards some form of representation in Guam in due course.

I spoke earlier about the economic potential of Africa, but that is not the only reason we need to think hard about the fact that we have only one post in a continent more than 50 countries.

Some of you may know that there are more diplomats based in Addis Ababa, the headquarters of the African Union, than there are stationed in Brussels.

New Zealand has, this year, obtained accreditation to the African Union.

We need to think creatively not just about how we maintain that accreditation, but about where and how we want to be represented in Africa as our resources permit.

Of course maintaining a standalone mission is not the only means of providing representation in a foreign capital.

In Kabul our ambassador shares space in the British Embassy.

In Vienna we sublet from our Australian friends.

Placing a seconded ambassador in a mission operated by one of our close friends as we have in Kabul is a very efficient way of operating in a challenging environment.

Some countries make very effective use of accredited ambassadors based in the home capital, travelling on a regular basis to undertake that work.

There are other possibilities too if we want to think creatively about how we manage our representation around the world.

I am not going to ask how many of you have read the situations vacant pages of the Dominion Post in recent weeks.

If you had, you might have noticed an advertisement for the role of High Commissioner in Kiribati – arguably the toughest assignment in the Ministry heading our representation in a Pacific nation with more challenges than most.

This is the most overt signal I have sent so far that heads of mission roles – ambassadors and high commissioners – are not the exclusive preserve of staff of the Ministry of Foreign Affairs.

While there are good internal candidates for this very demanding role in Tarawa, we are testing the market.

While personnel decisions in the Ministry are totally the preserve of the chief executive, the appointment of heads of mission is my responsibility in consultation with the chief executive.

Very simply we are taking the approach that we will pick the best person for the job.

You will be aware that our Ambassador in Washington is former Prime Minister and World Trade chief Mike Moore.

Our ambassador at the United Nations is former deputy Prime Minister and Auckland businessman Jim McLay.

I have just appointed former Army General and current head of our Customs Service Martyn Dunne as High Commissioner in Canberra.

Some of these appointments have occasioned a letter from the MFAT union, the Foreign Service Association.

I have made the point to them and I make it to you - that my job is to enhance New Zealander's interests overseas, not to keep the union happy.

In each case, they were the best person for the job.

At the same time the chief executive and I are trying to reach down into the middle ranks of the Ministry to promote younger talented people into head of mission roles.

The Ministry has a track record of losing too many talented younger people because they have been forced to wait far too long for their opportunities.

We need to acknowledge that experience in the private sector, or another relevant government agency, can bring significant benefits for our diplomats.

We should not just facilitate but reward this type of career development.

The Ministry has also, in my view, provided insufficient opportunity for the developments of specialists in recent years, especially in the Pacific.

In relation to the Pacific Division of the Ministry I have made plain my view that New Zealand should boast the most expert and connected group of officials on Pacific matters of any foreign service in the world.

To our partners, the Pacific is a large, complex part of the globe with all manner of development, humanitarian, stability and security challenges.

Rather than investing their own resources in understanding the region closely, they would much rather take guidance from us and from our Australian friends, and partner us in development work in the region.

This is a unique contribution we can make to our partners and one they greatly value.

This is not a pitch for more of the Ministry's diplomatic resources to be spent in the region – I believe we have sufficient budget to do the job.

But I have asked that a high priority and high quality resources be allocated to what I regard as a key flagship of our foreign policy.

Within our Pacific posts we have yet to bank the economies that will come from the re-integration of the aid agency into the Ministry.

That will happen slowly, but it will happen.

It is part of a wider exercise of securing greater efficiency in our aid expenditure.

Currently it costs \$63 million to administer our half a billion aid budget – that is around 12% of the budget goes in overheads.

That is simply too high.

The first round of changes has been announced and more will follow.

A key driver of this process will be the slimming down of the number of individual programmes we fund – over 800 last year – all with their own assessment and audit requirements.

But that is not the biggest problem we, and the international community have in relation to aid budgets.

I came into this role a serious critic of the value for money achieved with massive and growing aid budgets around the world.

After two years in office I have seen nothing to diminish my concerns.

I can tell you tonight that we are working hard to try to improve the effectiveness of our spend, and taking an increasingly tough line with multi-lateral organisations that demonstrate poor accountability.

In our bi-lateral programmes we are securing some successes.

I hope that we will soon be able to place our partnership with the Niue Government in creating a sustainable income from tourism in that category.

But we still have many challenges.

And I would have to place the Solomon Islands, where we have spent the thick end of \$400 million in the last decade – and where between us, New Zealand and Australia spend a quarter of a billion dollars a year on a country of half a million people – in that category.

In the aid area I am keen to do more of our work through partnerships with NGOs.

And for some time we have been trying to develop a model that will make it easy for business and professional people to volunteer their services for a finite period of time to provide leadership in aid projects in the region.

New Zealand's aid budget has for too long been operated as a closed shop.

I want to create more opportunities for New Zealanders to be part of our development work and to make it relatively easy for them to do so.

This makes real sense when it comes to capacity building in some specialist areas like agriculture or tourism, or in relation to major infrastructure development, which is increasingly a focus of our work.

Over the next few weeks I will be engaging with the leaders of the agricultural sector to kick off what I refer to as our agricultural diplomacy initiative.

We are known around the world for our expertise in agriculture.

And in places as far apart as Afghanistan, Africa, South East Asia, and the Pacific governments tell me that they want our help in working towards food security.

This seems to me a very sensible way of using our modest aid resources in partnership with our considerable agricultural expertise to do something distinctive that will make a difference.

What I have discovered from my discussions with leading players in these sectors is that many are happy to volunteer their time for free to be part of a New Zealand Inc approach to development work if we can take a more flexible approach to the way in which we, the Ministry, do business.

So ladies and gentlemen, we are in the process of opening some doors and windows at the Ministry of Foreign Affairs and Trade.

I hope the result will be a Ministry that makes a significant contribution to our improved economic performance as a country, and one that plays an enhanced leadership role in our region.