

# Wellington Regional Strategy



In association with Positively Wellington Business

## Wellington Regional Strategy: Development of Focus Areas

CityScope Consultants Ltd

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# Executive Summary

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This report presents CityScope Consultants' recommendations for focus areas for the Wellington Regional Strategy.

Our approach has been primarily focused on the economic development potential of the region, and our conclusions in relation to urban form have driven from this analysis. We have also placed an emphasis on examining the potential for sea change events to have a major influence on the future direction of the region.

Our assessment of the current situation is that the region's economic growth goal cannot be achieved by continuing along the current path. At best, such an approach will allow modest gains in overall economic performance; at worst, however, a "more of the same" approach risks a gradual decline in Wellington's relative economic position. This means that an external focus is required, which takes account of the global drivers of economic change.

We have addressed some of the overarching "realities" associated with economic growth and urban development, including globalisation, pluralism and environmental constraints. Our assessment has identified five key drivers of change that are likely, in combination, to shape Wellington's future economic performance:

- Demographic changes
- The changing nature of production
- The nature of future demand
- Quality of life drivers
- Government and governance

A framework for determining focus areas has been developed, which considers how these drivers might interact in the future. By considering a range of future scenarios, we have sought to highlight those drivers likely to be most influential on Wellington's development. These have been used, together with a set of evaluation criteria, to select and prioritise prospective focus areas.

Our resulting recommended focus areas for the WRS are divided into four categories:

## 1. **Build on Wellington's strengths**

- **Wellington's lifestyle advantage:** enhancing those things that people love about Wellington, through planning, service provision and events.
- **Wellington as a centre of public policy expertise:** take advantage of the Government sector as a strong element of the Wellington economy, and seek out collaborative arrangements with Government, connections to other capital cities and NGOs, selling Wellington's expertise in public policy issues.

## 2. International Connectedness

- **Wellington as a centre of knowledge:** build on university and CRIs within a central capital city context, to attract education and research based activities focussed on Wellington's attributes: public policy, hazard management, urban sustainability, etc.
- **Wellington educated:** focus on developing a sustainable international education sector, taking advantage of the government connections, and promoting diversity and international connectivity (in both directions)
- **Wireless Wellington:** develop an internationally connected, tech-savvy population across the whole region, and promote freedom of information through free wireless broadband, initially in the city centre for business and tourism.
- **Wellington as a tourism centre:** put Wellington on the domestic and international tourism routes within NZ, taking advantage of its gateway location, and a cultural hub in close proximity to wine and food regions.
- **Migration destination:** build on Wellington's lifestyle advantage to attract migrants who can add to the skills and diversity of the region

## 3. Flexibility

- **Removing barriers to growth and innovation:** foster an enabling regulatory environment, a can-do attitude, and allow things to happen without delay. Promote an entrepreneurial culture, and provide an environment where small businesses can network, share information, and raise their market awareness.
- **Enabling responsive and resilient communities:** providing resources to foster community networks and promote community self-sufficiency
- **Keep Wellington moving:** address airport and highway constraints in a positive way, and build on Wellington's physical attractiveness, compactness and good public transport system to develop a reputation as a city with excellent internal connections.

## 4. Regional leadership

- **Advancing Wellington's brand:** continue to develop Wellington's brand that captures Wellington's essence to its citizens and internationally. Fly the flag, with simple, pervasive messages, and through consistency of actions across local government.
- **Joined-up local government thinking:** promote a single, strong, regional voice to key regional issues, while maintaining local community identity and empowerment
- **Looking after each other:** focus on ensuring that resources are distributed fairly, that all of the region shares in its prosperity, and that negative impacts on social exclusion are mitigated.

# 1. Introduction

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## 1.1 Purpose of this report

This report sets out CityScope Consultants' recommendations for focus areas for the Wellington Regional Strategy (WRS). The report outlines the approach that has been followed in the development of focus areas. This was presented in the CityScope input to the 6 May 2005 WRS workshop, and has been refined to reflect the discussion at that workshop.

The aim of the focus areas project is to identify the key economic and urban development interventions that the WRS should focus on in order to address as many of the identified regional issues as possible, and to deliver on the overarching goal of lifting regional GDP per capita. CityScope has been asked to consider and select the most appropriate and effective economic and urban form focus areas for the WRS, based on the material provided, CityScope's professional experience, and experiences elsewhere. The intervention logic for each proposed focus area, and for the package of focus areas as a whole, is also required.

## 1.2 CityScope's approach

CityScope brings together the complementary expertise in economics, strategy, and planning, with a particular emphasis on urban development matters. This covers economic development, urban form, transport, community development and natural resource planning.

Each of the CityScope principals has independently reviewed the material provided for this assignment, and these independent perspectives have been drawn together into the "CityScope position" which is outlined in this report. This approach builds on the diverse experiences and skills of the team, and allows a consideration of both the economic and urban development dimensions of the project.

Our starting point for this task has been to review the vision, goals and outcomes of the WRS, and to gain an understanding of the key issues that need to be addressed. This understanding has been supplemented by a review of the background material already prepared for the WRS. In addition, we have drawn on our experience and understanding of economic development issues to identify some of the global influences that will help to shape Wellington's future. In this way, we have addressed Wellington's prospects from both an "outside-in" and an "inside-out" perspective.

Our approach has been primarily focused on the economic development potential of the region, and our conclusions in relation to urban form have driven from this analysis. Given the relatively modest level of population growth in the region, especially from natural increase, we have taken the view that future urban form will be more heavily influenced by the economic development of the region (including its impact on migration), than from underlying population and urban growth dynamics.

We have also placed an emphasis on examining the potential for sea change events to have a major influence on the future direction of the region. The development of future focus areas from an extrapolation of current trends can carry the risk that the strategy chosen is not relevant if major change events occur. By assessing regional initiatives against a range of possible global scenarios, we have drawn some conclusions about the risks associated with certain initiatives. Our choice of focus areas has therefore been influenced by the need for the strategy to be as resilient as possible to future changes in direction over which Wellington may have little or no control.

### 1.3 Report structure

The remainder of this report is structured into the following sections:

- **Where is Wellington now?** An outline of Wellington’s current economic position, presented as a set of themes which require attention in the development of focus areas.
- **Overview concepts**, where we briefly address some of the overarching “realities” associated with economic growth and urban development
- **Drivers of Change**, which sets out five main types of driver that will influence change in economic fortunes and urban development. These include:
  1. Demographic changes
  2. The changing nature of production
  3. The nature of future demand
  4. Quality of life drivers
  5. Changes in government and governance arrangements
- **Scenarios for the future**, where we consider the potential impact of “sea change” international scenarios on Wellington, and highlight the implications for the development of the WRS
- **From drivers to focus areas**, where we identify the key themes that have emerged from our analysis, and evaluate these against a set of criteria
- **Recommendations**, where we set out our recommendations for the WRS focus areas.

## 2. Where is Wellington now?

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The work undertaken to date in the WRS provides a wealth of information on the current situation in Wellington. CityScope has used this material to summarise the key strengths and weaknesses of the region from the perspective of its attractiveness to the future drivers of economic growth (ie a growing and prosperous domestic market, migration, international connectedness, etc).

The summary of these strengths and weaknesses is summarised in Appendix 1. From this, the following key themes have emerged:

- Wellington's economy is strongly focused on the domestic market. This is particularly driven by the Government sector, and firms that exist to serve the demand that is generated by the Government, either directly or indirectly.
- Wellington has a unique place as a sophisticated urban centre within a striking and sometimes "wild" physical setting. This imposes some significant constraints and vulnerabilities, particularly in hazards management, transport and land supply. On the other hand, these challenges can act as a unifying, positive force.
- Wellington's growth has been sluggish and uneven. Future population growth will be increasingly dependant on migration, which will require close attention to the things that make Wellington attractive (and unattractive) to potential migrants.
- A division exists, and appears likely to widen, between the demographic and economic structure (and prospects) of Wellington City, and the rest of the region. A key to sustainable regional economic growth will be the ability for the region to share its gains equitably.
- Wellington's economy is dominated by small businesses, many in the business services sector. There is a solid entrepreneurial base to the economy and an emerging creative focus, but the size, fragmentation and inward focus of the small business sector creates a degree of inertia.

Our assessment of the current situation is that the region's economic growth goal cannot be achieved by continuing along the current path. At best, such an approach will allow modest gains in overall economic performance; at worst, however, a "more of the same" approach risks a gradual decline in Wellington's relative economic position. This means that an external focus is required, which takes account of the global drivers of economic change. These are considered in the following sections.

### **3. Overview Concepts: Referencing the Future**

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Any attempt to anticipate and shape the region's future is inevitably based on our understanding of the current position. This is reflected in the bulk of the WRS papers.

For example, population futures are considered by cohort projection, in which outcomes are shaped by a combination of trends in birth and mortality rates and extrapolation of recent migration experience. Similarly, consideration of future economic prospects and options commences with consideration of the performance of existing ANZSIC sectors. An understanding of how the Wellington region might act as a collective player in a competitive global environment is based on analysis of what broadly comparable cities are doing today.

Without denying the validity and utility of the models underlying the analyses – and indeed, our analysis leads us to emphasise and support certain areas among them – we have sought to highlight some key but broader concepts in our analysis. These are the importance of globalisation, pluralism and environmentalism.

#### **3.1 Globalisation – the process and its outcomes**

Much of the analysis is concerned with the flow of goods and services (trade), funds (investment), people (skills and tourist markets), and expertise (technology) between Wellington and its markets. A distinction is made between the local, domestic (national), and international markets.

These flows can be generalised within the concept of globalisation, which the Ministry of Foreign Affairs describes as:

*The growing interdependence of countries world-wide through the increasing volume and variety of cross-border transactions in goods and services, and also through the more rapid and widespread diffusion of technology. Not just an economic phenomenon, but frequently described as such.*

We see globalisation as more encompassing than this. It is marked, for example, by the emergence of joint international markets for goods and services by way of trade blocs, for labour and skills, for finance, and for arts and culture. It sees the interpenetration of domestic, national and global economic social and cultural life.

A growing velocity and falling cost of exchange marks globalisation. People and products are transported rapidly among places through an array of hub and spoke air and surface transport systems, underpinned by seamless logistics systems. Funds, services, and documents can be transported almost instantaneously to most parts of the world.

Border regulations that have been slowly easing, are now falling with increasing speed, virtually collapsing in areas as nations free trade agreements open up a wide array of possibilities for economic, social and even cultural exchange, much now subject to regulation and adjudication by non-governmental organisations (NGOs) rather than individual states.

The mark of the international city is as much the diversity of its permanent and transient populations and the density of its connections as the pre-eminence of its producers of goods and services.

The process of globalisation is not even: indeed this is one of its contemporary features. The emergence of bilateral and multi-lateral blocs of economic and political cooperation are seen by some as impeding global free trade. Yet the process of regionalisation may be the way in which globalisation is given effect. Regional agreements may be the most effective means of reducing barriers to the non-trade elements of globalisation, accelerating the movement, for example, of people, the harmonising of social, economic and even judicial regulation on a progressive basis.

### **3.2 Globalisation – the challenge**

The challenge for individual cities is one of engagement in globalisation and participation in the many economic and other relationships it fosters.

The risk is that in our analyses of economic prospects, we are too singular, and adopt a reductionist mode of thinking by focusing just on trade in goods and services by individual sectors. This leads to the high-risk practice of picking winners (and consigning other activities, by implication, to “loser” status)

A more fundamental approach would be to identify, first, the levers that ensure global engagement. These may be key sectors, certain elements of infrastructure, the cultural environment, the quality of the physical environment, a strong sense of place, the nature of governance, or some combination. These levers, though, are enablers; a means to a wider end, not the exclusive subject of our strategic goals.

The aim, then, is not to pick winners in a traditional sense, highlighting current or anticipated growth sectors, for example, or nominating the skills likely to be in most demand over the coming decade (these may still have a place). Rather, it may be to nurture and promote those characteristics of Wellington that give its people and businesses a claim and capacity to operate globally. For the public sector, it also implies an emphasis on facilitating information flows and assisting businesses to develop and maintaining relationships and within an international context.

This is a greater challenge than the more tangible and familiar focus on picking winners. The positioning implied is more fundamental and the results, potentially, more encompassing and more enduring. The question is how far Wellington will – or wants – to engage in globalisation

### **3.3 Pluralism – Yang to the Yin of globalisation**

Whether or not engagement in globalisation is an option is debatable. The issue may be to consider how far a city seeks influence over the form and consequence of engagement.

This reflects the other side of the notion of international integration, – growing pluralism as localities, communities, and individuals seek to express their particular character.

One understanding of globalisation is that it is based on the proliferation of global brands and the unification of global taste. The opposite may be the case.

The contradiction inherent in globalisation is that proliferation of exchange highlights differences. Cultures and communities may react to the increasing pervasiveness of particular brands or modes of behaviour by highlighting their particular differences. Pluralism, then, is about the “multiple realities” that coexist side by side, even as some elements of culture and consumption are becoming universal. In the beer market for example, Guinness, Fosters, Steinlager and Heineken are now truly global brands but local brands (eg Speights, Tui and Macs) are also growing local market shares.

In social theory, pluralism involves different groups living along side one another with no unifying ideology. Ideally, pluralism is the condition of respect and tolerance among different groups that in fact enables them to interact without conflict or assimilation and thereby advances globalisation.

Any assumption of convergence and conformity that may be associated with globalisation is highly questionable. While the current economic climate is heavily influenced by US hegemony, which may underlie the notion of integration and convergence, this is historically a highly specific condition and one without any guaranteed time span.

### **3.4 The first challenge of pluralism – embracing diversity**

In the current context, the notion of pluralism reminds us that:

- There are many different communities and opportunities that we might interact with locally, nationally and globally. The notion of an “international market” and the distinction between local, domestic and international markets of diminishing value;
- Interacting with international markets means understanding their particular characteristics – a move from commodity goods and services represents a move towards servicing particular forms of need among particular groups;
- The outcomes sought from the regional strategy exercise will need to encompass a range of groups and expectations within the region itself, without necessarily engaging any, or even many, of them. This raises issues of equity that need to be considered in developing strategy, especially when addressing the quality of life within the region.

Recognising pluralism means responding to the diversity of markets by extracting value from particular niches. Wellington does not need a global presence to participate in globalisation.

### **3.5 The second challenge of pluralism – being nimble**

Globalisation and pluralism lead to encounters with different practices and expectations, unpredictable shifts in taste and preference, and multiple competitors. Engagement calls for speed and flexibility.

This raises questions over the institutional and regulatory context within which Wellington region operates. For example, Government sponsored research and development in New Zealand is inevitably rule-bound and time consuming. The means of prioritising and dispersing public funds is ruled by a combination of accountability, the pursuit of economies of scale, and an apparent preoccupation with current rather than future knowledge as the basis for deciding priorities (through the consultation and peer review process). Priorities are set initially across sectors and then by projects. The outcome is large, joint, and long-term programmes that may not offer the speed and flexibility that globalisation demands of the research-innovation-development chain.

Similarly, the education process locks new ideas up through the duration and cost of degree courses and the focus on inevitably drawn out peer review publication processes.

Even the basis for investment, the regional and district planning approvals required, compliance with OSH requirements, and the like reduce the speed and flexibility that will be the hallmark of a global company.

Creating an environment in Wellington in which institutional requirements for compliance do not disadvantage companies and do not restrain unduly the response to market opportunities is something the region's councils can address.

### **3.6 Environmental constraints – the bottom line**

If globalisation unshackles the boundaries within which regional strategy operates and pluralism demands that we think outside current societal and structural constraints to development to take advantage of the opportunities, then environmentalism is an emerging feature of globalisation that imposes some bottom lines.

The environmental movement is bound up with globalisation as governments individually and jointly respond to growing evidence of environmental breakdown through increased hazards and disasters (e.g., floods, mud and landslides as a result of clearance or over-intensive urbanisation), loss of valuable and valued species, climatic change, and resource exhaustion.

Environmentalism impinges on economic activity directly through the adoption of environmentally benign (or less damaging) practices by companies, and indirectly through the local, national and international regulations.

The adoption of environmental standards in production (and the move towards triple bottom line accounting) is becoming an important condition of participating in international trade. Adopting environmentally benign practices, then, may be an important qualification for participating in global markets.

## 4. Drivers of Change

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Our assessment has identified five key drivers of change that are likely, in combination, to shape Wellington's future economic performance:

- Demographic changes
- The changing nature of production
- The nature of future demand
- Quality of life drivers
- Government and governance

These drivers are discussed below.

### 4.1 Demographic changes

This section addresses the nature of demographic changes and their influence on economic activity and urban form in the Wellington context. It also highlights the implications of these changes for the development of focus areas for the WRS. The key drivers are:

- Population growth
- Migration and population mobility
- Age structure
- Ethnic composition and cultural diversity
- Employment and income patterns
- The spatial distribution of these factors

#### ***Sluggish growth, reliant on migration***

The Wellington region's population has a low level of natural increase, with most recent growth being driven by migration (both internal and external). This is a common feature of developed economies, with some important implications for economic development arising both from changing patterns of consumption, and changing profiles of economically active population. The key elements are:

- Lower fertility rates, slowing the rate of natural increase in developed countries to sub-replacement levels
- An increased reliance on migration to fuel population growth
- Aging population, with a lower proportion that are economically active
- Increased competition for skilled labour, with highly skilled people increasingly likely to be attracted to key centres based on employment opportunities and lifestyle
- Lifestyle attributes, which become more important locational drivers as the population ages. While employment opportunities and education quality will remain important, local environmental quality, proximity to healthcare and recreational opportunities will also feature in locational choices. This can exacerbate spatial differences within the region.

- Smaller households, which can fuel an increase in household growth even where population growth is static or declining
- Ethnic differences in natural increase and migration will result in a more diverse population in future, but ethnicity is often related to deprivation

While these changes can ease growth pressure on the built and natural environment, they can also result in less “dynamic” urban development, and can limit the ability to change urban form and adapt to new opportunities. Where slow growth overall is accompanied by a spatial redistribution of activity within the region, it can also lead to a mismatch between supply and demand, and limited resources to address the problems that this brings. At the extreme, this can result in strong geographic segregation by age, ethnicity or income, with little pressure for redevelopment in some parts of the region.

### ***A disjointed region***

Wellington’s population growth profile and demographic structure shows some signs of these elements. Population projections show a strong reliance on migration, with recent growth particularly due to inflows for international education, a relatively fickle market. The “low” population projections for the region indicate a medium term decline in population in the region. Indeed, some parts of the region are already experiencing population decline while others, notably Wellington City and Kapiti, are growing at faster rates than the regional average.

These growth rates reflect, and in turn reinforce, sub-regional differences in economic activity, housing needs, and consumption preferences. Wellington City’s demographic profile reflects its position as a centre of economic activity, with a predominance of working age residents. Conversely, Kapiti’s profile reflects its attractiveness as a retirement location. Both districts are growing, but for quite different reasons.

In other parts of the region, population growth is sluggish at best, and economic prospects are constrained by an out-migration of working age young people. With diverging growth patterns, the potential for more pronounced sub-regional differences in income, ethnicity, and social deprivation increase. The slow growth can also limit the ability to shift existing patterns land use patterns. A key challenge for the WRS will be responding to these patterns.

### ***What councils can do: implications for focus areas***

The demographic patterns that are emerging in Wellington suggest that the region’s councils will need to pay close attention to the spatial differences that exist, and are likely to become more pronounced. It is important that the councils take a collective responsibility in this regard, as the benefits of economic growth are unlikely to be fully realised by the region unless the distributional issues are successfully addressed.

The demographic analysis has highlighted the following matters which need to be considered in the development of WRS focus areas:

- The need to retain the attractiveness of existing areas
- Pay attention to the elements that make Wellington attractive to in-migration. This probably implies a focus on Wellington City as a vibrant employment centre, and a sustainable education-based approach to international migration.
- Ensure that housing, transport and recreational facilities are in place to deal with the needs of an aging population, and that there is planning flexibility to meet changing consumption patterns
- Attention is needed on the distributional impacts of economic growth: Wellington City is likely to continue to be the source of high-end employment opportunities, which will drive a significant share of the economic growth of the region as a whole. The region needs to consider the extent to which growth and prosperity in one part of the region can assist in paying for the retention of facilities and quality of life in others.
- This may require support for specific activities to be located in Hutt and Porirua. (potentially services to support the activities in Wellington City). This in turn will require attention to transport connectivity between these key centres.

## 4.2 The changing nature of production

This section addresses the changing nature of production in the global economy, and draws some conclusions for how Wellington might position itself within this context.

### *The current analysis*

The economic growth model underlying much of the WRS analysis appears to build on four frameworks:

- A growth accounting model, in which differences in performance among economies is influenced by relative endowment and application of the application of factors of production (e.g., labour, capital) with any remaining variance explained by the “residual” technology component. This provides the grounds for focusing heavily on skills and innovation.
- A trade-based model in which “basic” activities a focus generate income from external trade which is subsequently “multiplied” through internal circulation. Again, a propensity to trade draws attention to endowments of resources and expertise that yield a competitive advantage.
- An agglomeration model, through which firms might exploit external economies of scale (which may be monetary or non-monetary in nature) through co-location. This is usually associated with urban areas generally, but has been extended to suggest that benefits might arise from more localised “clustering”.
- A structural model based on sector performance that suggests that a greater share of high performing sectors will lead to strong regional performance.

As a consequence, the economic model highlights the importance of investment in technology, innovation, and human capital as a way as creating or sustaining nationally or internationally competitive sectors to drive Wellington’s economic performance.

In considering the relevance of this approach, and a basis for refining the focus on production, our focus is on how production takes place, rather than what is produced or what technologies are involved. A more generic approach enables us to focus on the conditions of production and the circumstances faced by individual producers.

Our analysis is based on an assessment of some underlying developments in the nature of production globally, and where they might take the region in the future.

### ***Dealing with production – after Ford***

The “Fordist” production model dominated the second half of the 20<sup>th</sup> Century. This involved a range of regulatory and institutional arrangements that supported mass production for the economies it yielded. A key component was mass production, supported by such things as collective bargaining by unions, the growth of household credit, Keynesian demand management to mediate the impacts of medium-term cyclical movements, welfare state support of to provide some certainty of household income, border protection to yield local monopolies, and the like.

With the winding down of the Fordist model of what was essentially state supported mass production, commentators have sought to explain new trends in production. Free trade, trans-national labour markets, and the increasing global mobility – and velocity – of capital underpin models of neo-Fordism, on the one hand, and flexible specialisation on the other.

### ***Back to the future – flexible specialisation***

Flexible specialisation refers to the durability and revival of clusters of specialisation in which skills are embodied in people, organisations and the linkages among them, often in geographic proximity. It echoes both the craft concentrations of bygone times as well as the vertically integrated industrial complexes which marked some of the heavier industries of the late 20<sup>th</sup> century. Such complexes offered external economies of scale, vertical linkages among producers of varying scale, and production and product knowledge and organisational learning that was embedded in social relations.

The emergence of Japan as an industrial power reflected a variant on this model of this sort (*keiretsu*). In corporate culture, keiretsu refers to a uniquely Japanese form of corporate organisation. A keiretsu is a grouping or family of affiliated companies that form a tight-knit alliance to work toward each other's mutual success. The keiretsu system is also based on an intimate partnership between government and businesses. It can best be understood as the intricate web of relationships that links banks, manufacturers, suppliers, and distributors with the Japanese government. Michael Porter attributed Japan's success from the 1960s to the 1980 to the distinctive social character of Japanese society.

Porter went further and popularised the notion of agglomeration and interdependence the form of “clusters”. The resulting mantra is a prescriptive response to the more subtle and abstract construct of flexible specialisation.

### ***Responding to Differentiation***

Flexible specialisation is more than just taking advantage of geographic association and social relations. It reflects the view that markets are increasingly differentiated and that products should reflect this. It aligns with ideas like niche production and targeted markets, with differentiation calling for fine-tuning to extract maximum value from products and services.

There is a risk that with popularisation, clusters may be promoted as a favoured mode of production for an area or sector without recognising this interdependence with demand.

They may also be hard to give effect to in the face of globalising competition and the day-to-day challenges of business survival in a small-scale economy.

Clusters do, however, offer an optimistic prospect to an economy in which enterprise is small, skill levels are relatively high, and resource endowments, or tradition, offer a starting advantage to existing businesses.

The trick is to ensure that those businesses are highly responsive to market shifts. Given the constraints they almost inevitably operate under, the public sector may well have a role in facilitating the inter-organisational transactions (learning, trade, partnership) that underpin a healthy cluster.

### ***Neo-Fordism – mass production without borders***

Neo-Fordism is a view that the future of production lies in horizontally integrated global enterprise, with highly specialised factories interacting through sophisticated logistical arrangements to produce low cost products for global markets.

Product differentiation is achieved through branding in the case of final demand. However, price, consistency and product performance or predictability drive the demand for and investment in intermediate goods.

### ***The challenge of the global car – and boat***

The global car demonstrates this distinction, the outcome being a variety of models built on common components. With sophisticated production systems driving down prices in a range of consumer goods categories, and the capacity to brand output to meet the expectations of different markets, much of the “advantage” of flexible specialisation is lost.

In an example closer to home, mass-produced US boats can offer the features and quality offered by more traditional, craft-built New Zealand boats. The challenge is for the New Zealand boat building to exploit the “social knowledge”, craftsmanship and reputation (brand) on which it is built, while responding to the “price and feature” challenge of sea craft off global assembly lines.

### ***The China challenge – mass specialisation?***

In any case, the global production challenge is being transformed once more, as China moves towards being the dominant producer economy. China is today moving (as Japan did before it) from mass production based on low cost labour, to **mass specialisation**, that is, achieving small runs and customised products from high volume factories.

It is doing this using global capital to invest in highly sophisticated and productive facilities, capable of specialised and sophisticated products. The deepening of capital, the up-skilling of a relatively low cost labour force, and the development of increasingly sophisticated distribution systems makes the delivery of modest consignments of specialised products in small remote markets (like New Zealand) commercially attractive.

The challenge for New Zealand and Wellington producers is how to take advantage of such developments over and above the obvious response of switching from producer to importer.

### ***Responding – local specialisation ...***

The wider challenge for Wellington businesses is to establish where they fit within global production and distribution chains (also referred to as value chains).

One response is through local specialisation. This means extending the idea of clusters beyond simple geographic proximity to focus on those specialist areas Wellington possesses, or can develop: promoting investment in innovation to sustain the position, encouraging collaboration across regional organisations (covering research, design, standards, distribution and production), and supporting their participation with other companies, wherever they are located, to secure a presence in their particular markets.

### ***... Fast footwork, ...***

Another is the capacity to move quickly, to respond to openings in the market or changes in existing market conditions. Responsiveness to market demands and continuous innovation go hand in hand.

The composition of demand is increasingly unpredictable (see below). So, the capacity to be part of changes in tastes and preferences rather than simply responding to them calls for alliances across the design, production, distribution and marketing chains. Information needs to be shared in an environment of cooperation and mutual benefit.

### ***... Business infrastructure, ...***

Part of the secret to fast footwork and responsiveness will be a modern business infrastructure. This implies a totally wired region enabling businesses at any point to interact with suppliers, markets, designers, and clients at minimal cost with maximum speed.

It also means developing domestic and international transport distribution systems that are responsive and cost effective. In the era of modern logistics this is not just about building bigger runways, more roads, or additional berths. Rather, it is about working with international logistics companies (including road and rail operators) to plan and develop distribution arrangements that might, for example, pass through Auckland or Sydney Airport, or the Port of Tauranga, depending on schedules.

The availability and quality of land for business and investment purposes, the quality of the local environment, issues of local accessibility for suppliers, workers, and customers, the quality of underground services are all issues that need to be addressed to ensure that the base line for local investment is of a high standard internationally.

The quality of professional services, covering research, design and engineering, accounting, financial, management and legal advice also need highlighting, recognising the flexible production requires the capacity to draw quickly and effectively on a range of skills and expertise.

### ***... and international connectedness***

The final ingredient in participation in international production and distribution is to ensure a high degree of connectedness with international players. Continuous contact with and an understanding of markets, producers and regulators, compliance with international regulations, and partnering with other producers and distributors close to the market are ingredients which go beyond the traditional marketing and sales investment in offshore markets.

Connectedness can be enhanced by focus on particular markets, limiting geographic spread in favour of depth. The strategy is one of building a presence and capacity in targeted markets rather than offsetting risk with a wide geographic spread. Under these circumstances, relationship building and becoming a part of the local scene are both important. Going it alone is less likely to provide enduring success.

Political and commercial alliances, cultural connections and social and consumption behaviour point to the sorts of areas that may be the appropriate focus. Tourist and migrant flows will suggest areas worthy of attention.

### ***What councils can do: implications for focus areas***

The analysis:

- Confirms the importance of research and development, skills and knowledge as a basis for participating in global production and marketing chains;
- Highlights the importance of market responsive production and distribution systems, and the benefits of focusing on niche markets to achieve maximum value;
- Points to the importance of flexibility and speed of response to rapidly changing international market and competitor environments;

- Raises issues of how to participate in the “global production chains” which are becoming increasingly influenced by the Chinese model which facilitates customisation utilising the cost benefits of large, modern factories, skilled labour, and efficient distribution systems.

While business generally is concerned with compliance costs in New Zealand, and the government continues to address them, the answer for Wellington region may be to create an environment within which they are less influential.

The aim may be to create an “enterprise environment” – in which a framework of support ensures that approvals can be rapidly acquired for conforming activities and non-conforming activities can be supported to “come into line” across the range of matters.

The development of a framework which facilitates and accelerates innovation and development, which accepts that research will involve some risks if it is to be effective, that encourages learning across organisations, and supports international engagement may be worth councils jointly considering.

Councils can also build initiatives that can help build the region’s international connectedness, recognising the facilitation that can be provided by city-city contacts or region-region contacts at the highest level.

### 4.3 The nature of future demand

This section looks at global trends in consumer demand and identifies the possible implications for the Wellington region.

The prominent themes of globalisation and pluralism have acted together to enable major changes in consumer behaviour.

#### ***The predominance of brand: it’s all in the mind***

Globalisation, through the media, has exposed individual cultures to comparison with others. The result has been a trend towards mixing and matching of cultures and their iconic goods and services to suit the wishes of consumers.

“In an extreme version of consumer sovereignty, “...consumer identities are being reflected in new brands which relate to style and form, rather than content. The post-modern consumer may be in an open-ended project of self creation where the idea is to continually circulate through new experiences, things and meanings, to play with different identities by consuming the goods and services associated with them”. (Douglas B Holt, *Boston Review* 1999)

Brand strategies are therefore becoming less about tangible aspects of products and services which are often easily copied and more about generic values or concepts that can mean different things to different people.

Examples include:

- Nike; “Just Do It” – Do what?
- Tourism New Zealand; “100% Pure” – Pure what?
- “Absolutely Positively Wellington” – Positively what?

In an international consumer market place therefore, Wellington’s export potential is less about the competitiveness of commodity products, than about ideas and marketing.

### ***Wellington’s lifestyle advantage***

The Wellington lifestyle is a key strategic asset in this regard. It can be used to attract skilled migrants to boost the region’s human capital, but its underlying values can also be “exported” as distinctive brands for products and services. These may include:

- Café and restaurant brands
- Tourism services
- Working lifestyles (professional services)
- Architecture
- Fashion
- The Arts
- Media

In the field of innovation, we can make the distinction between product innovation and process innovation. Product innovation creates new products and services for new markets, while process innovation is focused on reducing costs, usually in large scale operations. There is an overlap where new products can reduce operating costs (intermediate goods). It is in product innovation where opportunities are most likely to exist in the small creative businesses that predominate in Wellington.

### ***Harnessing the power of the internet***

The internet is beginning to have a major impact on both business and consumer distribution systems, particularly in knowledge-based service industries. In the UK, the value of consumer purchases on-line doubled between 2002 and 2003. Penetration of personal computers and internet access is high in New Zealand by international standards and New Zealand has consistently shown itself to be an early adopter of new technology. The UK trends are therefore likely to be represented in New Zealand as well.

There will be a need to use the skills of web designers to market Wellington’s innovations in the international marketplace. Beyond this, however, it is the potential of the internet to facilitate the creation of new products and services that creates the breadth of opportunities that Wellington, with its current human capital strengths, should look to exploit.

An example of this product innovation comes from the tourism industry, where the role of the internet is already significant and likely to become more so. New internet technology (so called 3<sup>rd</sup> generation or semantic models), combined with mobile phones, will provide electronic, interactive “guide books” which customise information to the individual’s interests and preferences: for example your mobile phone will tell you when you are near to an art gallery (if that is your passion) while you stroll around the city.

These systems will generate new economic activity, but will require substantial investment in technology. European cities are currently engaged in a major project to have their cities prepared for this technology when it becomes more widely available. This is an example of how technological breakthroughs can be used to generate markets.

The City of Philadelphia is engaged in a similar project to make **free** wireless internet access available in the city centre- who knows what new business this innovative policy will generate.

The internet is also a major driver of business-to-business e-commerce activity. Significantly for Wellington, the internet makes possible the trade in information and services with no disadvantage of location. The potential to build on Wellington’s education sector strength by offering distance learning courses by internet is one example.

In summary, technology and consumer trends are moving in a symbiotic process, each contributing to the other. Global media and economic short production runs have facilitated the multi-faceted characteristics of post-modern consumerism.

### ***Some cautions***

While most of these trends open up opportunities for Wellington by lowering barriers to entry (internet) and increasing market demand for product innovations, there are also some cautions.

First, the openness afforded by the same global trends, combined with the relative affluence of households in the Wellington region, will make Wellington a potential target for overseas companies. The “mass specialisation” of China and the strength of global brands like Starbucks and McDonalds will encourage more importing and make exporting all the more important for the future.

Secondly, some commentators view the post-modern consumerism as an aspiration for status brands, products and services. This pressure may fuel increasing household debt and declining happiness. It is blamed by some for environmental degradation and reduced public provisioning. This analysis hints at social unrest and social exclusion, which could destabilise communities.

This caution demonstrates the importance of considering the distribution of economic growth within the Wellington region, as well as the net gain in GDP per capita.

If the Wellington lifestyle is the region's major asset, then clearly the strategy needs policies that will ensure it is a sustainable advantage.

***What councils can do: implications for focus areas***

The analysis suggests a need to focus on the following areas:

- The importance of a Wellington brand that “captures minds” and confers values on other Wellington business brands. The importance of working together with central government and local businesses (including “clusters”) to add strength to international market connectedness.
- Lifestyle as a product. The attributes of the Wellington lifestyle that contribute to the quality of life (see next section) can be used in the brand development to address the needs of consumers and encourage migration of skilled labour.
- Broadband access and ability to take advantage of internet opportunities. The full exploitation of internet technology for business development and for distribution is essential for Wellington. This is a critical element of the “new economy” and one where the small size and geographical isolation of Wellington need not be a disadvantage.
- Distribution of economic gains. There is a danger that the benefits of future economic success will accrue to an increasingly narrow group within our society. This could lead to social tensions which in turn could destroy the very basis of the success; the quality of life. There is a need therefore to try to spread the benefits of growth through multi-level access to public sector intervention (ie not just the already successful businesses) and other means (such as community development initiatives). The development of the Wellington branding and communications strategy should take account of the comparative strengths of the different parts of the region and the potential for further benefits from neighbouring regions.

#### **4.4 Quality of life drivers**

This section focuses on the importance of quality of life drivers to economic growth. A high quality of life rating is an important factor in attracting the skills, talent and capital required for increasing innovation, the development of key industries and subsequently economic growth. Quality of life is also important for attracting tourism to the capital city.

***Building on the positives***

The recent 2005 Mercer International Survey of Quality of Living has Wellington rated 14<sup>th</sup> of 215 cities (Auckland rated 8<sup>th</sup>). In fact, several cities have similar ratings so that Wellington is in the seventh group (Auckland in the fourth group).

The survey is based on 39 quality of living factors for each city, including political, economic and environmental factors, personal safety and health, education and sport and other public services. The survey is conducted to assist multi-national companies in assessing comparative international quality of living standards for the expatriate workers.

A distinction is made between the quality of living (objectively measured by the Mercer report) and quality of life (subjective assessment by residents) concepts. The New Zealand Big Cities Project measures the subjective quality of living scores across 12 cities in New Zealand. In this survey, Wellington rates overall on par with the average for all cities, however, the number of people in Wellington who rate the quality of life as excellent is higher than for any other city.

Wellington City has particular strengths in the following attributes:

- Public transport
- Crime and safety
- Being pollution free
- Being culturally rich and diverse
- Having pride in the city's look and feel

Porirua City and Hutt City also rate well overall with particular strengths in having a sense of community with others and having pride in the city's look and feel. Porirua has a relatively high rating for having a rich and diverse culture, although Hutt City rates relatively low on this measure.

Wellington City also stands out as having a relatively favourable attitude to cultural diversity with 75% saying that cultural diversity makes the city a better place to live. Reasons given for this attitude were the generation of new ideas and a broader outlook or perspective gained from cultural diversity.

There is also a need to enhance these positive lifestyle attributes in order to attract and retain skilled people. As noted above, migration is increasingly the driver of population growth, and can also fuel the innovation, diversity and dynamism that contribute to economic success, and the lifestyle advantage that Wellington enjoys. As the distance barriers to trade diminish, lifestyle attributes will become increasingly important determinants of where migrants wish to settle.

### ***Lifestyle for visitors***

Lifestyle attributes will also impact on the potential of the region as a tourism destination. Wellington is already an important destination for both domestic and international travel. Its government and commercial roles mean that it is the second largest business travel destination in the country. Its large population sustains strong VFR (Visiting Friends and Relations) traffic and the international airport and the Inter-Island Ferry Terminal make it an important transport hub.

For New Zealand as a whole, the value of domestic and international tourism is roughly similar, but for the Wellington region, (in 2003), domestic tourism was estimated to be worth almost double that of international tourism. This differential is projected to narrow over the period to 2010 with relatively faster growth in international visitor expenditure, but still strong growth in domestic expenditure.

For Wellington therefore, it is important to maintain its positioning within the domestic travel market, but also to do what is possible to gain an increase in share of international visitor arrivals.

***What councils can do: implications for focus areas***

- Maintaining and enhancing Wellington’s lifestyle advantages. There are a number of reasons why the lifestyle advantages of the Wellington Region are potentially the regions greatest economic asset. The analysis of background reports indicated that population growth was dependent on positive migration flows. This is important for stimulating domestic demand as well as providing the labour force. Other papers highlighted the need to attract and retain the high quality human capital that will produce the innovations and higher productivity that the region requires.
- Reflect lifestyle in Wellington’s “brand”. Export markets, particularly for consumer products, will need strong brands to appeal to the new consumers. Investment in branding is costly and market failure will prevent all but the largest businesses making an impression in overseas markets. It is important that Brand Wellington works with Brand New Zealand to provide leverage for local businesses. This is an aspect of international connectedness that can create opportunities as well as make the most of existing opportunities. The lifestyle advantages of the Wellington region can be used to develop a unique brand under the umbrella of brand NZ.
- Tourism potential, connected to lifestyle opportunities. Clearly the Absolutely Positively Wellington branding has been a major success for Wellington in the domestic tourism industry and attention now needs to turn to the international market. The attributes that will attract tourists need to be considered in the branding and communications strategy and given equal weight to the other aspects of economic development.
- Migration focus, based on lifestyle. As referred to above, the lifestyle is a major aspect of the attractiveness of different cities for skilled migrants. One of the background reports discusses the complex interaction between human and social capital. Local government is not seen as having a major direct role in building human capital but can have a strong influence through its impact on social capital creation. Maintaining the Wellington region’s quality of life rating should be seen as a strategic imperative for the WRS.

## 4.5 Government and governance

Governance is about “ruling with authority”, with authority usually conferred by democratic mandate, as with an elected government or council, or the board of a company.

Governance is concerned with direction rather than management, the broad rules that companies, councils or countries operate under. There is a hierarchy in governance such that higher order institutions set the rules under which lower order institutions operate. This hierarchy may be enshrined in a constitution, or evolve through custom, and upheld by law. By and large, the sovereign state sits at the top of the hierarchy.

Neither the scope or governance, nor the powers with which it is enforced are fixed.

### ***Local Governance – Subsidiarity and Partnership***

Within nations, the relative responsibilities of the central and regional, or federal and state, and local governments vary, although ultimate authority generally resides at the centre.

The traditional division among local and regional councils in New Zealand assigns an environmental mandate to the regional council (concern for water, soil and air) and the land use and developmental mandate to the local council. There are inevitably blurred boundaries between these responsibilities, and the treatment of transport planning as a regional function creates inevitable overlap given its close association with land use and therefore economic development.

The key to developing a coherent strategy for Wellington’s development then, lies in maintaining effective relationships among local councils and the regional council. The current collaboration on a regional economic strategy is a starting point. However, the experience in Auckland has been that maintaining unity of direction and purpose is not easy, and assigning accountability for the implementation of the resulting strategy inevitably fraught.

An attempt to impose a singular vision on multiple councils requires that the vision be well founded and compelling, else individual council will almost invariably place local development, no matter how opportunistic, ahead of the regional direction.

Second, a regional direction will involve trade-offs and highlight differences among the roles of different parts of the region. In Wellington’s case the pre-eminence of the City in the emerging areas of the creative industries, its dominance in consumption-based activities (retailing, entertainment, tourism) and its administrative role give it a primacy off which the other areas can trade. The Hutt Valley in many ways contains “middle New Zealand” and offers an opportunity for significant redevelopment to accommodate future population growth. This implies strategic transport investment, urban design work, etc

The Kapiti Coast, by contrast, is Wellington's sunshine belt attracting retirees, especially, and households looking to a semi-urban coastal or country lifestyle. These drivers guarantee it a high level of growth. Porirua is experiencing a cultural revival at the same time as it undergoes the transformation from a heavy manufacturing belt to a centre of services. These distinctive characters spell out different, sometimes competing, often complementary futures. Making the pieces work as a region is a major but positive challenge.

At the same time, there will be groups within the region that stay on the margins of development, which sit outside the sphere of globalisation, and do not participate in its benefits. Working with communities within council areas to help them define and secure their particular futures is consistent with a regional strategy that focuses Wellington on an outward looking role. On these grounds, at the same time as councils are seeking ways of working with each other in the long term, they will be refining the ways in which they can empower their communities, the advantaged and disadvantaged, to exploit their differences.

### ***The Erosion of the Sovereign State***

The picture is less precise among nations. The sanctity of sovereignty in general prevents nations interfering in one another's internal matters, although this is over-ridden by conflict over, for example, resources or boundaries. Of more immediate interest is the growing importance of inter-governmental agreements, protocols, and bodies, non-governmental organisations (NGOs) in mediating the affairs of individual nations. The United Nations and its divisions, the World Bank and the IMF are among the more obvious examples.

While governance among nations is a cloudy area, and relies essentially on mutual consent, globalisation is increasingly driving an international agenda into the rules and regulations of individual nations. This is evident in free trade protocols and agreements, environmental agreements, food health and hygiene standards, arrangements for banking and contracts, regulation of the seas and skies, management of marine resources, and criminal proceedings. Contentious areas remain, but increasingly international conventions constrain and shape the behaviour of the sovereign state.

One consequence is new forms of inter-governmental governance emerging within which cooperation and partnership parallel the opening up of global commerce. This helps shape the international domain within which New Zealand business – and cities – might operate. Clearly, interests are being realigned in the direction of APEC. The development of free trade areas reflect a wider political, social and potentially cultural engagement. In these areas of internationalisation Wellington has the skills and capacity to provide not just national leadership, but also regional leadership.

### ***What councils can do: implications for focus areas***

In dealing with governance issues in relation to the WRS, there is an opportunity for councils to think outside the square. Traditional local authority boundaries and functions may not be best suited to the future needs of the region, as the issues associated with the region's economic development are unlikely to have a spatial context that coincides with existing local government units.

At one extreme, the increased emphasis on NGOs creates opportunities for Wellington to position itself as a centre of expertise. At the other extreme, the diversity of community requirements suggests the need for greater community leadership.

Within the region, the analysis suggests that existing boundaries may have less relevance over time, and may in fact hinder an effective regional development approach. In fact the Wellington region, as currently defined, may not be the appropriate spatial context for some initiatives (eg tourism, where a "regional" sphere of influence across the lower North Island and Marlborough/Nelson may have merit). Similarly, the "domestic" market is likely to be increasingly defined as Australasia in the future.

At the local level, the ability to recognise and foster community leadership will be important if all parts of the region are to share in its economic success.

## 5. Scenarios for the Future

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This section considers how the drivers discussed in the preceding sections might interact in the future, through the development and assessment of a range of future scenarios. By considering possible future outcomes in this way, we have sought to highlight those drivers likely to be most influential on Wellington's development. These can then be used to select and prioritise prospective focus areas.

### 5.1 Dealing with an unpredictable future

Most approaches to thinking about the future rely on extrapolating the past. Yet experience over the late 20<sup>th</sup> Century demonstrated the shortcomings of extrapolation. Each decade was seemingly shaped by “sea-change” events that fell outside the projections of most analysts and prevailing expectations.

It is not that these formative events were unpredictable or unfathomable – but that the timing and scope of the changes went beyond prevailing expectations. The challenge for the WRS, then, is to project discontinuity and predict the unpredictable. This allows the region to relate what might happen in the external setting to Wellington's prospects and options, without being overwhelmed by the uncertainties that beset the bigger picture, or by a sense of powerlessness in the face of increasingly pervasive global events and institutions.

In Appendix 2, we set out a framework for addressing this challenge in the Wellington context. From this framework, we have developed a set of global scenarios that would, if they came to pass, have potentially significant implications for Wellington's economic prospects – some positive, some negative.

The scenarios have been described in the following dimensions:

- The **geo-political** dimension recombines, for example, governance, globalisation, the future of organisations and the future of work.
- The **economic** framework recombines Science & Technology, CER and FTAs, and the knowledge economy, for example.
- The **community** framework recombines demography, attitudes and values, alliances and relationships, the future of organisations, cities and mobility.

The scenarios are briefly summarised below, and a more detailed outline is included in Appendix 2. The Scenarios are not intended to be mutually exclusive nor exhaustive, but highlight the different emphasis of outcomes, as well as different prospects for the future.

Scenario	Key Features
<b>1: Sun Sets in the West – Rises in the East</b>	<ul style="list-style-type: none"> <li>▪ Decline of US political and economic hegemony</li> <li>▪ New global powers emerge: China, India, Eastern Europe</li> <li>▪ Balancing of relations among world powers</li> <li>▪ A wide range of NGOs mediate trade relations</li> <li>▪ Global trade and production systems become stronger and more complex, driven by regional blocs</li> <li>▪ Consumption expand rapidly in the emergent nations</li> </ul>
<b>2: The China Century</b>	<ul style="list-style-type: none"> <li>▪ China's investment in productivity, integration, free trade, and deregulation sustain its boom, and displace Japan and the US as the world's leading producers.</li> <li>▪ Rapid growth of China the centre of consumption (but dampened by rapid ageing after 2030).</li> <li>▪ China strongly increases its share of global trade</li> </ul>
<b>3: A Globe Divided</b>	<ul style="list-style-type: none"> <li>▪ The Christian West and the Muslim East move apart, with no end to the war on terrorism.</li> <li>▪ Peaceful co-existence possible, but tensions continue over access to resources</li> <li>▪ Economic growth and productivity is prejudiced by the diversion of resources into military activities</li> <li>▪ Trade blocs continue along regional and ideological lines</li> </ul>
<b>4: The Disappearing Sovereign State</b>	<ul style="list-style-type: none"> <li>▪ Globalisation gives increasing weight to NGOs, including the World Bank, IMF, the United Nations and its various agencies</li> <li>▪ Global labour markets evolve in areas of high skill and expertise</li> <li>▪ Common standards (production, environment, health, safety) developed by collaboration.</li> <li>▪ Boundaries cease to dominate</li> </ul>
<b>5: Age of Gratification</b>	<ul style="list-style-type: none"> <li>▪ Continuation of the current path of consumerism</li> <li>▪ Over-consumption, intensive market and product differentiation, consumption as creativity, and pluralism become the norm as the market prevails</li> <li>▪ Hot points emerge from pressure on resources and the environment.</li> <li>▪ Potential increasing socio-economic divisions and social alienation as local cultures become subsumed.</li> </ul>
<b>6: Blowing Hot and Cold</b>	<ul style="list-style-type: none"> <li>▪ Increasing evidence of global warming: sea level change, climatic shifts, and extreme weather events</li> <li>▪ Radical changes in patterns of production and consumption</li> <li>▪ Shift from fossil fuel based energy</li> <li>▪ Destabilisation in the face of conflicts over resource consumption and pollution.</li> <li>▪ Divisions between rich and poor increase.</li> </ul>

None of these scenarios see an early end to current issues of destabilisation – terrorism in response to resource shortages and ideological differences, and an emerging schism between the western allies and Muslim Arab states. Instability and volatility are likely to be the starting point regardless of outcome.

Continuing globalisation also appears inevitable, but could go down different paths depending on the outcome across the following dichotomies underlying the scenarios:

Global economic interdependence	← →	Growing global divisions
Growing global consumerism	← →	Emergent environmentalism
Global production systems	← →	Resource constrained production

## 5.2 Implications for Wellington

Just as the prediction of future scenarios is imprecise, so too is an assessment of the impact that they may have on Wellington’s economic prospects. Nevertheless, a key to the success of the WRS will be its ability to enable the region to respond to the types of future that the scenarios (or others) represent. The following table summarises some of the possible implications for the Wellington region that arise for each scenario:

Scenario	Possible Implications for Wellington
<b>1: Sun Sets in the West – Rises in the East</b>	<ul style="list-style-type: none"> <li>▪ Opportunities to take part in stronger NGO focus, building on public policy expertise</li> <li>▪ Connection to Asian and Eastern European economic blocs</li> <li>▪ Increased consumption from Asia and Eastern Europe provides opportunities for tourism, education, and business services</li> <li>▪ Physical and technological connectivity to/from Asia and Eastern Europe important</li> <li>▪ With the growth of India as a centre for service industries, partnerships between Wellington and Indian businesses may be a means to mechanism for growth.</li> </ul>
<b>2: The China Century</b>	<ul style="list-style-type: none"> <li>▪ Similar to implications from Scenario 1, but a more specific focus on China</li> <li>▪ Tourism and education can create longer term connections which will assist business development</li> <li>▪ However, China may “internalise” its business support needs</li> <li>▪ Potential for Wellington businesses to focus on ideas and market relationships and outsource manufacturing operations to China.</li> </ul>
<b>3: A Globe Divided</b>	<ul style="list-style-type: none"> <li>▪ Less trade and security concerns may dampen visitor markets from new and traditional markets</li> <li>▪ NZ may be seen as a “safe haven” and attract ex-pats and migrants: Wellington’s safe reputation can assist this.</li> <li>▪ Ethnic diversity compromised, with increased tensions</li> <li>▪ More insular lifestyles, but increased reliance on virtual rather than face to face connections: may further reduce the barriers imposed by distance, which Wellington may be able to exploit</li> <li>▪ NZ reputation as non-aligned in military terms could provide opportunities for political mediation roles similar to the NGO opportunities outlined above.</li> </ul>

<b>4: The Disappearing Sovereign State</b>	<ul style="list-style-type: none"> <li>▪ Strong emphasis on NGOs creates opportunities to leverage off public policy expertise</li> <li>▪ Wellington could position itself as an NGO base</li> <li>▪ Boundaries less important: Wellington as part of a wider regional market, means that physical connections to Australia and Asia are important</li> <li>▪ Lesser role for Government may reduce its importance as an economic driver in Wellington: need to replace this</li> </ul>
<b>5: Age of Gratification</b>	<ul style="list-style-type: none"> <li>▪ Consumption focus, but increased opportunities for products and services which carry a distinctive brand</li> <li>▪ Lifestyle and leisure opportunities, with focus on connections to wine, food and culture: Wellington as a cultural hub within a wider tourism circuit</li> <li>▪ Relative efficiency in resource use may enable Wellington to avoid problems of resource shortages</li> <li>▪ Role of tourism marketing in defining community identity may become an important antidote to globalisation and trends towards social alienation and social unrest.</li> <li>▪ Need to maintain the overall quality of life in Wellington to maintain community cohesion and basis for social and human capital growth.</li> </ul>
<b>6: Blowing Hot and Cold</b>	<ul style="list-style-type: none"> <li>▪ Resource constraints but, as above, Wellington's relative efficiency may enable avoid problems</li> <li>▪ This implies a need to ensure that resource-efficient transport options are retained</li> <li>▪ Communications technology more important as travel constrained</li> <li>▪ Expertise in environmental management, urban sustainability and hazards management increasingly valued internationally</li> </ul>

Many of the implications for Wellington that have been identified in this exercise are common across a number of scenarios. This suggests that the following matters should be included in the WRS focus areas:

- Actions that assist international connectivity, particularly to the Asia-Pacific region. This includes opportunities for direct exchange within the Wellington environment, form tourism, conferences, export education, and government and diplomatic activities.
- An emphasis on communications technology, to overcome the disadvantage of remoteness, and to retain flexibility for futures where travel may be more difficult.
- An emphasis on Wellington's lifestyle attributes, and a focus on retaining a safe and efficient urban form.
- Taking advantage of Wellington's public policy expertise, to engage more positively in futures with different governance arrangements and trade blocs.

## 6. From Drivers To Focus Areas

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This section sets out the framework within which we have developed our recommendations for focus areas for the WRS. It highlights the key conclusions from the preceding sections on the drivers of change and future scenarios, and sets out four key themes within which our recommendations have been developed.

The section also provides a brief evaluation of these themes against a set of evaluation criteria adapted from the project brief. In adopting these criteria, the emphasis has been on ensuring that the focus areas chosen have the potential to make a meaningful difference, and that actions are concentrated on matters that the region's councils are able to influence.

### 6.1 Pulling together the pieces: themes to focus on

At the conclusion of the discussion on each of the drivers of change in section 4, the implications for the development of focus areas were summarised. We have also highlighted the implications arising from the possible future scenarios at the conclusion of section 5.

Our analysis of these implications has led to the conclusion that there are four overarching themes within which the WRS focus areas should be developed:

- **Build on Wellington's strengths:** By building on its positive attributes, Wellington will attract and retain skilled people, and enhance the quality of life of its residents. There is also potential to build off existing attributes to Wellington's economic advantage.
- **International connectedness:** Our analysis has highlighted the importance of connecting Wellington to the global economy. A continued reliance on the domestic market will not provide sufficient scale and depth to deliver the region's economic growth aspirations. The changing nature of production and demand mean that distance should not be a barrier to extending the region's economic horizons.
- **Flexibility:** Our assessment has highlighted the need for the Wellington region to adopt a fleet-footed approach to economic development. This means that the focus for the public sector should not be on picking winners, but rather on creating the environment for business to succeed.
- **Regional leadership:** The success of the WRS will require a strong commitment on behalf of the various agencies involved, and a willingness to make some difficult decisions for the wider regional good. Regional leadership may require more than collaboration. A willingness to explore alternative governance and funding structures which better align with the intent of the WRS may be required.

The following table summarises how the conclusions from the analysis in sections 4 and 5 supports these general themes.

Conclusions from analysis	Focus Area Themes			
	Build on Strengths	International Connectedness	Flexibility	Regional Leadership
<b>Demographic changes (section 4.1)</b>				
• Retain the attractiveness of existing areas	•			
• Make Wellington attractive to in-migration	•	•		
• Promote education-based approach to migration		•		
• Planning flexibility to meet changing consumption patterns			•	
• Pay attention to the distributional impacts of growth			•	•
• Transport connectivity between key centres			•	
<b>Changing nature of production (section 4.2)</b>				
• Importance of R&D, skills and knowledge		•	•	
• Importance of market responsive production & distribution		•	•	
• Flexibility & speed of response to changing environments			•	
• Participate in “global production chains”		•		
• “Enterprise environment” with lower compliance costs			•	
• Facilitate and accelerate innovation and development		•	•	
• Encourage learning across organisations		•	•	
<b>Nature of future demand (section 4.3)</b>				
▪ The importance of a Wellington brand that “captures minds”	•			•
▪ Work together with central government & local businesses		•		•
▪ Lifestyle as a product	•	•		
▪ Broadband access: take advantage of internet opportunities		•	•	
▪ Distribution of economic gains			•	•
<b>Quality of life drivers (section 4.4)</b>				
▪ Maintain & enhance Wellington’s lifestyle advantages	•			
▪ Reflect lifestyle in Wellington’s “brand”	•			•
▪ Tourism potential, connected to lifestyle opportunities	•	•		
▪ Migration focus, based on lifestyle	•	•		
<b>Government and governance (section 4.5)</b>				
• Think outside the square on local boundaries and functions				•
• Increased NGO emphasis: position as a centre of expertise	•			•
• Existing boundaries may hinder effective development				•
• Recognise and foster community leadership			•	•
<b>Future scenarios (section 5)</b>				
▪ Assist international connectivity		•	•	
▪ Opportunities for direct exchange within Wellington	•	•	•	
▪ An emphasis on communications technology		•	•	
▪ An emphasis on Wellington’s lifestyle attributes	•		•	•
▪ Take advantage of Wellington’s public policy expertise	•		•	

## 6.2 What can focus areas deliver?

The brief for this project outlined a number of possible criteria against which possible focus areas might be evaluated. These included the following:

- Contribution to vision and outcomes
- Addresses (several) regional issues
- Proven track record to deliver economic growth and more efficient urban form
- Suits the Wellington context, including capacity of local authorities to deliver actions
- Compelling and galvanising: inspire focus for regional efforts
- Direct efforts to where there is proven market failure
- Potentially highly effective: high gain relative to investment
- Acceptable level of risk (funds, resources, politically acceptable)

Our approach to the development of focus areas in the preceding sections has implicitly addressed a number of these criteria. For others, particularly those related to track record and cost effectiveness, evaluation is difficult until more specific proposals for action are developed and assessed within the Wellington context.

Accordingly, we have focused on four main issues in evaluating the focus areas for recommendation in this report, as follows:

- Can local government make a difference in this area?
- Is the action likely to make a positive contribution to Wellington's economic fortunes?
- To what extent is the action specific to Wellington (rather than generic)
- Does the action increase Wellington's resilience to the opportunities and risks associated with major global change?

The table below summarises an assessment of the focus area themes developed in this report against these criteria. This assessment has been taken into account in the development of focus area recommendations, which are presented in the next section.

<b>Focus area</b>	<b>Can local govt make a difference?</b>	<b>Specific to Wellington</b>	<b>Positive contribution to economy</b>	<b>Resilience</b>
<b>Build on Wellington's strengths</b>	Can use environmental management & planning role. Focus on community outcomes	Strengths are Wellington specific, especially environment and seat of government	Increased use of existing resources should be a starting point of successful strategy	Less risk likely in building on existing strengths. Potential identified from scenario assessment
<b>International Connectedness</b>	Promotional activities and investment in services	Not particularly specific to Wellington, but could develop some Wellington themes, eg wireless access.	Significant growth potential, well beyond the potential that exists in existing domestic market	Some risks identified from scenario assessment, but better connections allow risks to be mitigated
<b>Flexibility</b>	Able to influence regulatory environment, provide services, & transport infrastructure	Not particularly specific to Wellington, except for transport connections	Ability to respond to international changes is important to innovation-led growth	Focus on fleet-footed ability to deal with change, gives greater ability to mitigate risks.
<b>Regional Leadership</b>	Primary role of local government. Ability to look beyond boundaries important	Related directly to Wellington's particular spatial patterns and governance arrangements	Leadership at regional and local levels likely to be key element in success	Leadership in relation to strategy should enable greater acceptance of difficult actions. Distributional issues need attention

## 7. Recommended Focus Areas

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Our recommended focus areas for the WRS are divided into the four themes identified in section 6 above. They are briefly described below..

### 7.1 Build on Wellington's strengths

International and national surveys have rated Wellington as a good place to live, with a number of lifestyle advantages over other regions. By building on its positive attributes, Wellington will attract and retain skilled people, and enhance the quality of life of its residents.

There is also potential to build off existing attributes to Wellington's economic advantage. Wellington's combination of the seat of Government with strengths in education and research present a unique opportunity in this regard.

In particular, we recommend a focus on:

- **Wellington's lifestyle advantage:** enhancing those things that people love about Wellington, through planning, service provision and events.
- **Wellington as a centre of public policy expertise:** take advantage of the Government sector as a strong element of the Wellington economy, and seek out collaborative arrangements with Government, connections to other capital cities and NGOs, selling Wellington's expertise in public policy issues.

### 7.2 International Connectedness

Our analysis has highlighted the importance of connecting Wellington to the global economy. A continued reliance on the domestic market will not provide sufficient scale and depth to deliver the region's economic growth aspirations. The changing nature of production and demand mean that distance should not be a barrier to extending the region's economic horizons.

Wellington does not need a global presence to take part in the global economy, but it does need to be well connected. The public sector can play an important role in facilitating this. Five particular areas of focus are recommended:

- **Wellington as a centre of knowledge:** build on university and CRIs within a central capital city context, to attract education and research based activities focussed on Wellington's attributes: public policy, hazard management, urban sustainability, etc.
- **Wellington educated:** focus on developing a sustainable international education sector, taking advantage of the government connections, and promoting diversity and international connectivity (in both directions)

- **Wireless Wellington:** develop an internationally connected, tech-savvy population across the whole region, and promote freedom of information through free wireless broadband, starting in the central city for business and tourism.
- **Wellington as a tourism centre:** put Wellington on the domestic and international tourism routes within NZ, taking advantage of its gateway location, and a cultural hub in close proximity to wine and food regions.
- **Migration destination:** build on Wellington's lifestyle advantage to attract migrants who can add to the skills and diversity of the region

### 7.3 Flexibility

Our assessment of a range of possible future scenarios has highlighted the need for the Wellington region to adopt a fleet-footed approach to economic development. This means that the focus for the public sector should not be on picking winners, but rather on creating the environment for business to succeed.

This builds on the actions identified under international connectedness, but focuses on actions that can be taken within the region to foster the development of a flexible business sector which is able to build internal and external networks, share information, identify opportunities, and react quickly to them.

The following areas of focus are recommended:

- **Removing barriers to growth and innovation:** foster an enabling regulatory environment, a can-do attitude, and allow things to happen without delay. Promote an entrepreneurial culture, and provide an environment where small businesses can network, share information, and raise their market awareness.
- **Enabling responsive and resilient communities:** providing resources to foster community networks and promote community self-sufficiency
- **Keep Wellington moving:** address airport and highway constraints in a positive way, and build on Wellington's physical attractiveness, compactness and good public transport system to develop a reputation as a city with excellent internal connections.

### 7.4 Regional leadership

The success of the WRS will require a strong commitment on behalf of the various agencies involved, and a willingness to make some difficult decisions for the wider regional good. In some respects, the development and articulation of a strategy is the easy part; the real challenge comes with ensuring an ongoing commitment to implementation by all parties.

A clear area of focus, therefore, needs to be on regional leadership. This may require more than collaboration. A willingness to explore alternative governance and funding structures which better align with the intent of the WRS may be required.

Three particular areas of focus have been identified in this regard:

- **Advancing Wellington's brand:** continue to develop Wellington's brand that captures Wellington's essence to its citizens and internationally. Fly the flag, with simple, pervasive messages, and through consistency of actions across local government.
- **Joined-up local government thinking:** promote a single, strong, regional voice to key regional issues, while maintaining local community identity and empowerment
- **Looking after each other:** focus on ensuring that resources are distributed fairly, that all of the region shares in its prosperity, and that negative impacts on social exclusion are mitigated.

## Appendix 1: Wellington's strengths and weaknesses: a summary

Driver	Strengths	Weaknesses
<b>Domestic Economic Drivers</b>		
Population growth	<ul style="list-style-type: none"> <li>Stable population</li> <li>Growth in some areas (eg Kapiti)</li> </ul>	<ul style="list-style-type: none"> <li>Lack of critical mass to sustain domestic economic growth</li> <li>Some parts of region likely to decline (Hutt, Porirua)</li> <li>Potential for medium term population decline</li> <li>Lack of "growth dynamics"</li> </ul>
Migration & population mobility	<ul style="list-style-type: none"> <li>Wellington City gains</li> <li>Education focus</li> <li>People willing to move in and out of Wellington</li> </ul>	<ul style="list-style-type: none"> <li>Young shift out of peripheral areas</li> <li>Transient population</li> </ul>
Productivity	<ul style="list-style-type: none"> <li>Focal point for NZ skills &amp; talent</li> <li>Attractive to working age population (in-migration)</li> </ul>	<ul style="list-style-type: none"> <li>Brain drain from NZ</li> <li>Reduction in working age population share</li> </ul>
Income distribution	<ul style="list-style-type: none"> <li>Relatively high incomes in Wellington City</li> </ul>	<ul style="list-style-type: none"> <li>Income &amp; deprivation disparities within region (esp peripheral areas)</li> </ul>
Age distribution	<ul style="list-style-type: none"> <li>Kapiti Coast attractive to retirees</li> <li>Hutt may have capacity &amp; better topography</li> </ul>	<ul style="list-style-type: none"> <li>Topography may not suit aging population; need to retrofit facilities?</li> </ul>
Government sector	<ul style="list-style-type: none"> <li>Relatively insulated from economic cycles</li> <li>Supports business services, research institutes &amp; national institutions</li> <li>Attracts skilled workforce &amp; high earners</li> </ul>	<ul style="list-style-type: none"> <li>Economic reliance: Govt could retrench or decentralise</li> <li>Bureaucratic reputation?</li> </ul>
Business services sector	<ul style="list-style-type: none"> <li>Supported by Government sector</li> </ul>	<ul style="list-style-type: none"> <li>Limits to growth base if focus on Government?</li> </ul>
<b>Global Economic Drivers</b>		
R&D linkages, highly skilled people	<ul style="list-style-type: none"> <li>Crown Research Institutes</li> <li>Victoria University</li> <li>Government</li> </ul>	<ul style="list-style-type: none"> <li>University lagging behind internationally?</li> </ul>
Inbound tourism	<ul style="list-style-type: none"> <li>Proximity to wine regions</li> <li>Cultural focus, national facilities (eg Te Papa)</li> </ul>	<ul style="list-style-type: none"> <li>Not currently on "the route"</li> <li>Airport constraints</li> </ul>

Export education	<ul style="list-style-type: none"> <li>• Victoria University</li> <li>• Language schools</li> <li>• Secondary schools</li> </ul>	<ul style="list-style-type: none"> <li>• Competing with other centres and overseas</li> </ul>
Labour and trade linkages	<ul style="list-style-type: none"> <li>• Central location</li> <li>• Seat of Government</li> </ul>	<ul style="list-style-type: none"> <li>• Airport constraints</li> </ul>
<b>Environmental Drivers</b>		
Physical location & natural environment	<ul style="list-style-type: none"> <li>• Dramatic natural setting: urban centre within “wild” environment</li> </ul>	<ul style="list-style-type: none"> <li>• Earthquake hazard</li> <li>• Tsunami &amp; inundation</li> </ul>
Climate	<ul style="list-style-type: none"> <li>• Kapiti &amp; Wairarapa</li> <li>• Marketing theme?</li> </ul>	<ul style="list-style-type: none"> <li>• Poor perception</li> <li>• Hard to compete with other locations: retirement outflow</li> </ul>
Land supply	<ul style="list-style-type: none"> <li>• Brownfield opportunities in Hutt, Porirua</li> </ul>	<ul style="list-style-type: none"> <li>• Limited easy land in central Wgtn</li> </ul>
Existing urban form: linear development pattern	<ul style="list-style-type: none"> <li>• Suited to public transport, esp rail</li> </ul>	<ul style="list-style-type: none"> <li>• Vulnerable to traffic disruption</li> <li>• Long distances to commute</li> </ul>
Transport infrastructure: Port, airport, rail, highways	<ul style="list-style-type: none"> <li>• Deepwater Port</li> <li>• Gateway to inter-island travel</li> <li>• Well developed rail &amp; PT system</li> </ul>	<ul style="list-style-type: none"> <li>• Reliability issues</li> <li>• Reliance on two road corridors</li> <li>• Peak period &amp; recreational congestion</li> <li>• Airport constrained by runway length &amp; noise</li> <li>• Port separated from hinterland</li> <li>• Rail system needs reinvestment</li> </ul>
Water supply	<ul style="list-style-type: none"> <li>• Plenty of water in catchments</li> </ul>	<ul style="list-style-type: none"> <li>• Some local supply constraints, esp Kapiti</li> </ul>
Open space	<ul style="list-style-type: none"> <li>• Waterfront &amp; harbour</li> <li>• Green belt</li> <li>• Wilderness close by</li> </ul>	<ul style="list-style-type: none"> <li>• Sportsfields: limited flat land</li> </ul>
Pollution levels	<ul style="list-style-type: none"> <li>• Clean air</li> <li>• Active coastline</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>
Heritage values	<ul style="list-style-type: none"> <li>• Central city character</li> </ul>	<ul style="list-style-type: none"> <li>•</li> </ul>
<b>Social Drivers</b>		
Housing supply and affordability	<ul style="list-style-type: none"> <li>• Population pressures generally not acute</li> </ul>	<ul style="list-style-type: none"> <li>• Limited supply of land in some areas</li> <li>• Supply/demand mismatch</li> </ul>
Education & health facilities	<ul style="list-style-type: none"> <li>• University</li> </ul>	<ul style="list-style-type: none"> <li>• Kapiti supply lagging demand?</li> </ul>
Recreation, leisure & entertainment	<ul style="list-style-type: none"> <li>• National institutions &amp; amenities</li> <li>• Stadium</li> </ul>	<ul style="list-style-type: none"> <li>• Some local pressure on sports fields?</li> </ul>

Accessibility	<ul style="list-style-type: none"> <li>• Good public transport</li> </ul>	<ul style="list-style-type: none"> <li>• Limited access routes</li> <li>• Vulnerable to disruption</li> <li>• Port relatively distant from markets</li> <li>• Airport constraints</li> </ul>
Cultural	<ul style="list-style-type: none"> <li>• National facilities</li> <li>• Strong creative focus</li> </ul>	<ul style="list-style-type: none"> <li>• Spatial ethnic divisions</li> </ul>
Safety & Security	<ul style="list-style-type: none"> <li>• Low crime rate</li> </ul>	<ul style="list-style-type: none"> <li>• Geographic differences in perceptions of safety &amp; security</li> </ul>
Governance structures	<ul style="list-style-type: none"> <li>• Close to central Government</li> <li>• Open style</li> <li>• Good quality human resources</li> </ul>	<ul style="list-style-type: none"> <li>• Local government powers &amp; revenue capability split between GW and TAs</li> <li>• Silo approach</li> <li>• Lack of joined up thinking</li> </ul>

## Appendix 2: Dealing with an Unpredictable Future: Scenario Development

### *Dealing with the future – the unpredictability of sea change events*

There are a number of ways of thinking about how the future will unfold. It is difficult, though, to move away from extrapolating the past – whether through trend analysis, scenario building, or simple speculation. Knowledge of past events and current conditions, and connections among them, naturally constrain thinking.

However, experience over the late 20<sup>th</sup> Century demonstrated the shortcomings of extrapolation. Each decade was seemingly shaped by sea-change events that fell outside the projections of most analysts and prevailing expectations. They included:

- The oil and energy crises of the 70s
- The unravelling of Keynesian economic policy in the 80s
- The crumbling of the Iron Curtain in the 80s and 90s
- The reach of the PC and internet in the 90s and beyond
- The transformation of the Chinese political economy in the 90s and beyond

It is not that these formative events were unpredictable or unfathomable – but that the timing and scope of the changes went beyond prevailing expectations (Bill Gates' understanding of the potential of the PC and Internet an obvious exception).

### *Frameworks for thinking about long-term change*

The conundrum is how to project discontinuity and predict the unpredictable. While this is an impossible challenge on the face of it, we propose that intersection of the two paradigms underlying the literature on economic and social development offers a framework from commencing the task; and suggest some scenarios that can be used to identify the most likely drivers from across a range of possible outcomes.

The examples of the unexpected critical events bulleted above can be considered as turning points, or points of discontinuity. The political economy literature deals with such sea change in terms of long-term shifts (the Kondratieff Cycle), technology cycles (e.g., Schumpeter's model of creative destruction displacing prevailing technologies), or transformations of capitalism as it responds to emergent "crises of accumulation" (the depression of the 1930s, the stagflation of the 1980s, etc).

Whatever the explanation, the issue is how nations, regions and communities might progress along the path to "modern development".

Futurist thinkers may work from the classical "structural functionalist" paradigm of technology driven, incremental change, a paradigm that carries with it a view of the continuity and inevitability of progress. Or they may work within a "historical materialist" view through which the future will be marked by discontinuity and subject to crisis-driven transformations but, at as a result of each, progressively moving to a more advanced, some sustainable level of development.

**Structural functionalism** focuses on economic specialisation, technical progress (innovation, expertise, skills and knowledge), and product cycles. **Historical materialism** deals with institutional capacities, the relationships between states, the nature of capital, its relationship to labour and societies (e.g., through the impact on places of trade in resources, goods and services, and investment flows), and the role of regulation in mediating these relationships. When prevailing relationships can no longer be sustained, or are disrupted by new technologies, new strategic alliances, or shifts in the control of resources, volatility prevails until a new and sustainable set of economic and political relations emerges to provide a period of stability.

### ***Reconciling continuity and change***

There are elements of reality in both paradigms: technology change and organisational development can resolve potentially destabilising crises. The emergence of new institutions or perhaps the renewal of old ones can mediate and realign economic and political relationships under pressure.

Nevertheless, we can see even in the recent past, ample evidence of discontinuity and rapid transformations in relations among states, institutions and economies.

Consideration of these intellectual frameworks as they are applied (consciously or not) by futurists should refine our understanding and sharpen our expectations of the future. For example:

- On the one hand, extrapolating current economic and political relations (among sectors, for example, or among governments) may reduce our capacity to anticipate discontinuities and obscure the potential rate of change. The determinism of structural functionalist thinking may lead to complacency in developed economies, and to fatalism in under-developed economies.
- On the other hand, preoccupation with radical transformation underestimates the capacity of the prevailing system to respond to threats, to adapt to and defer or dilute potential crises, supported by resilient or reinvented institutions. The capacity of Asian nations to work through the financial crisis of the late 1990s is one example. In another example, the World Bank has over the past two decades moved from a tradition of building physical infrastructure to a greater emphasis on local social capacity building. The Chinese Communist Party has reinvented itself to sustain a capitalist system under a one-party state, while India is moving rapidly away from a highly centralised and regulated economic model.

Any view of the future, then, has to take into account and, possibly, plan for the increasing flexibility of the global economic system and the resilience of institutions within it. This does not mean that we can be comfortable with extrapolating growth expectations. The globalising of the economy means that resistance will be sustained and pressure points build up, even as relationships among nations and sectors are transformed.

Hence, for example the key economic relations of the next twenty years may be shaped by the emergence of China and India as the powerhouses of global production and services, and by a re-emergent Europe driven by the energies of the former eastern bloc economies.

Under these circumstances, a nation like New Zealand has to be wary not to be marginalised; while a region like Wellington may confront a range of opportunities to interact with other cities or even international institutions if it seeks to maintain an international presence.

### ***Relating the big picture to Wellington***

The challenge for the strategic planning exercise is to relate what might happen in the external setting to Wellington's prospects and options, without being overwhelmed by the uncertainties that beset the bigger picture, or by a sense of powerlessness in the face of increasingly pervasive global events and institutions.

### ***The current position***

It is almost inevitable that our consideration of the future will be rooted in the present, first because of a limited to ability to forecast sea change (the exceptions lie mainly in fiction), and, secondly, because for the current exercise it is only necessary to look two decades out.

We do have a reasonable feel for the issues that might influence our futures – this is reflected in the Delaney & Associates report – but we are not sure how they will play out, nor how they will impact on Wellington.

The Delaney Report provides a systematic view of topics about the future. It falls short of scenario building, exploring instead the range of assumptions that might inform a scenario.

The result is a proposal for “shaping and hedging” strategies:

1. The challenge of confidence [and knowledge] in government
  2. The distribution of clout (and who has it)
  3. The management of people and ideas on the move
  4. The economy moving past money
  5. Te emergence of networks and cyber-life/business
  6. The small stuff
    - [Information & communications, biotechnology and nanotechnology]
  7. The propensity or ability to ‘hide’ in an open world [new types of crime]
  8. The significance of teaming
  9. The importance of timing.
- (page 6)

This future is very much technology driven and leans towards a Schumpeterian view of “surprises” although it also allows for external shocks (“climate and economic”), and calls for “contingency arrangement(s)” to be put in place.

The bottom line in the Delaney & Associates report is that

“the advances in technology and knowledge – coupled with proximity and geographic advantages – enhance the Region’s capacity to respond to the external, global challenges that it faces in the next twenty-five years”.

This view is a variant on the fashionable preoccupation with sustainability.

Deferring to sustainability is a one way planners seek to bring order to the future and impose some certainty on the unknowable. It projects current values and behaviours onto future generations. It reflects a view that without a more conservative approach to environmental matters, in particular, the next wave change will be forced on us by the finite and fragile nature of physical systems. This takes futures thinking down a path of conscious containment (of demand and development) and continuity (leaving choices to future generations) as the means of crisis aversion. It may give primacy to “natural” systems over societal systems in some localities and seeks a benign accommodation between them in others.

The question remains as to what the most significant events that challenge “the Region’s capacity”, threaten its sustainability, or create opportunities from “advances in technology and knowledge – coupled with proximity and geographic advantages” might be?

### ***Putting the pieces together***

The Delaney report deals with a range of topics under sub-headings which reduce the “problem” of the future to individual dimensions. The propositions under each are reasonable. The challenge is to recombine them in a way relevant to how which (small) regional economies operate. There will be at least three dimensions to such a framework:

- The **geo-political** dimension recombines, for example, governance, globalisation, the future of organisations and the future of work.
- The **community** framework recombines demography, attitudes and values, alliances and relationships, the future of organisations, cities and mobility.
- The **economic** framework recombines Science & Technology, CER and FTAs, and the knowledge economy, for example.

Even these categories overlap. Interestingly, a fourth dimension, the **environment**, probably spans them all.

A framework like this enables us to look at the relationships among emergent issues to build individual scenarios with which to evaluate drivers and identify key focus areas. Some plausible scenarios are sketched below, and the consequences for Wellington suggested. The Scenarios are not intended to be mutually exclusive, but highlight different emphasis of outcomes, as well as different prospects for the future.

## **Scenario 1: Sun Sets in the West – Rises in the East**

### Description

Structural weaknesses and a reaction against the long-term hollowing of the US economy, and a loss of allied support for sustaining existing trade and resource relationships (oil being the obvious one), and inconsistencies in foreign policy could see a return of a more isolationist US, focusing on domestic and western hemisphere issues. New global giants may begin to emerge, including China, India, Eastern Europe and, later, Indonesia, fill the gap and create a truly global community of economy and influence. Southeast Asia will prosper through its association and location relative to the new power houses. The interests of South, Southeast and North Asia will converge. The mature economies of Europe and Japan will prosper from progressively opening their borders.

### Geopolitical:

The decline of US political and economic hegemony will see a balancing of relations among world powers, reflected in a reformed and re-energised UN, or equivalent. A wide range of NGOs will mediate trade relations. Local areas of conflict will remain and could spread as the new prosperity is inevitably unevenly spread among the emergent nations with their traditional sectarian, religious and ethnic divisions and diversity.

### Economic:

Global trade and global production systems will become stronger and more complex, driven initially by regional blocs and alignments. Consumption will expand rapidly in the emergent nations, underpinning a continuing explosion in travel. E-commerce will be prevalent, although the burgeoning of trade will still call for global currency standards - with the Euro perhaps the new benchmark initially.

Resource and skill shortages may provide bottlenecks. The former is a potential source of conflict; the latter will encourage harmonisation of labour market regulation and drive greater levels of mobility, not all of which will materialise as migration in the sense of changing the nation of domicile.

### Community:

Ageing issues will slow down the rate of expansion of economies that do not adjust to the new global economy. It will also drive productivity and the export of consumption goods from the new global producers in Asia. It will also create large conservative, service-focused regional communities in sun belts; and drive tourism as the baby boomers of the west move into the realms of super-consumption (the cruise boat belt).

Local communities will be challenged to maintain and assert their identities in the face of growing diversity and mobility. The challenge will be made greater by uneven resource endowment among communities. The strains of globalisation may show up a thousand miles away from the action, where relative deprivation is highlighted by images of prosperity conveyed by television (and its derivatives) and tourists.

Living together will be a challenge to local governance.

## **Scenario 2: The China Century**

### Description

This is in some ways a variant on Scenario 1. China's investment in productivity, in regional integration inside and outside its borders, its embrace of free trade, deregulation and reform of financial systems under the auspices of a single party system see it sustain its boom and displace first Japan and then the US as the world's leading producers. This is followed by the rapid growth of China the centre of consumption; dampened by rapid ageing after 2030.

### Geopolitical:

China's relations with its regional neighbours will begin to shape the direction of Asia. Developments in the east will also see it assert its presence in Central Asia and eastern Europe, where it will forge alliances. Outstanding issues in the region, including relations with Taipei, Tokyo and Hanoi will need to be resolved, and an emergent China could bring significant influence to bear on the re-unification of Korea.

### Economic:

By opening up its borders to investment, travel and trade China will continue to absorb finance and resources and account for ever increasing shares of regional and world export of consumer goods. This will fuel the import for a time of intermediate and capital goods and for services, including education and training, but these could slowly be displaced by local supply.

Within 20 years, China, like the US and Japan before it, will become a powerful overseas investor, in resource development throughout Asia and Eastern Europe, and importing, distribution and consumption services, including tourism, elsewhere.

China will carry with it the rise of Asia and its emergence will be marked by increasing north-south economic integration in Asia as other nations become bound into far-reaching multi-lateral agreements.

### Community:

The community issues are similar to those of Scenario 1. China, in particular, will have to be aggressive in both its investment and its governance policies to avoid or subvert resistance among minority populations to the north and west, while maintaining progress and stability in its prosperous east and south (which are themselves highly diverse).

The role of the Chinese diaspora may become important in evolving relations elsewhere in the region.

## **Scenario 3: A Globe Divided**

### Description:

The Christian West and the Muslim East move apart, with no end to the war on terrorism. A peaceful coexistence or detente could emerge as one variant, especially as oil dependence diminishes. (This is an outcome that may be consistent with the preceding scenarios). There is acknowledgement that there is more than one end game – modernity for the west; something else for the east. The western model still depends on quasi-colonial access to global resources so tensions flare up from time to time.

Economic growth and productivity is prejudiced by the diversion of resources into defensive and aggressive military exercises, global mobility is constrained.

Geopolitical:

Regionalism dominates trade, but multi-lateral alliances across regional divisions are required for defensive and security reasons. These may also influence the flow of funds and aid. The challenge is to achieve peaceful coexistence not just of ideologies but also of quite different political and value systems. The UN will continue to struggle to resolve tensions'

Economic:

Trade blocs will continue along regional and ideological lines. Contrasts will strengthen among developed, developing, and underdeveloped nations. Asia will drive growth Resources will continue to increase in costs and be a focus of conflict.

Community:

Compared with other scenarios, travel will be constrained and along familiar lines across the Atlantic and Pacific, or within regional blocs (Asia).

Within nations, divisions will continue among ethnic and minority groups. Economic advantage will be defined along migrant/non migrant and minority lines. Diversity will be a source of conflict.

**Scenario 4: The Disappearing Sovereign State**

Description

This scenario assumes that globalisation gives increasing weight to NGOs, including the World Bank, IMF, the United Nations and its various agencies, and international collaboration for "nation building", world health and aid. International organisations will progressively harmonise the rules of trade and finance across boundaries working from regional blocs upward.

Global labour markets will evolve in areas of high skill and expertise, at one end of the scale, and among semi-skilled productive workers at the other. Consequently, the licensing and regulation of professions and standards will be aligned across nations. Common standards (production, environment, health, safety) will be developed by collaboration among professional associations for collective governmental endorsement and enforcement by individual governments. Security will increasingly work to common objectives, share information, and develop joint operative arrangements.

All of this will facilitate and accelerate exchange at the broadest level. Boundaries will cease to dominate the rules of business, investment, and even the rights of citizenship.

Geopolitical:

This is an outcome of cooperation and, occasionally, coercion, as countries define the areas in which they move towards common standards and allow governance – ruling with authority – to shift towards regional or international bodies. It is happening at present, both through regional cooperation and through international institutions.

At this stage, the drivers of cooperation are uneven, the institutional arrangements still reflect the pre-eminence of the North Atlantic nations. However, there are signs that this is changing, and the outcome may be new levels of real international cooperation.

Economic:

The erosion of the sovereign state is most likely associated with Scenario 1, and implies a move towards the free flow of trade and factors of production (labour, capital). It represents a future in which global interdependence drives the regulatory environment. It assumes a reasonable balance in economic as well as geopolitical relations as a result of the rise of Asia and eastern Europe. There must be provision, too, for agencies to boost the development of the lagging southern lands - South America and Africa in particular.

Community:

People will identify with international communities – professional associations, multinational enterprises, as well as communities of interest of a non-vocational nature. This will not diminish the importance of local identity and citizenship, especially for large groups of people and communities operating on the margins or outside the global economy. There will be a challenge of social inclusion, both for a growing group of “citizens of the world” and for those obliged, or committed, to reside in distinctive local environments.

**Scenario 5: Age of Gratification**

Description

The continuation of the current path of consumerism most evident in the developed west already rapidly burgeoning in Asia and beginning to appear in parts of Eastern Europe suggests that post-modernity becomes the new modernity. Over-consumption, intensive market and product differentiation, consumption as creativity, and pluralism become the norm as the market prevails.

Geopolitical:

The European model prevails, as ASEAN + 10 envelops all of Asia; NAFTA provides a focus for the integration of the Western Hemisphere, and Australasia seeks partners throughout Asia, as well as South Africa and Chile. The strongly Muslim countries remain as a bloc, with Malaysia, Indonesia, Pakistan and some of the Arab states acting as intermediaries in the flows of goods and finance.

The main hot points emerge from pressure on resources and on the environment.

Economic:

Industry and technology meet the challenge of ever expanding consumption, communications and travel. There is a concerted drive for productivity and to shift to new sources of fuel.

Global production systems prevail, but with the capacity to meet an ever-increasing range of product specifications and consumer preferences.

### Community:

The loss of local identity in the face of increasing global branding will contribute to a growing sense of alienation. The drive to acquire the latest and greatest consumer goods will create tensions between the rich and poorer sections of society and could lead to social unrest. Communities of interest will be defined according to fashion and tastes rather than geography or demographics and will be sustained by increasing travel and virtual communities. Perhaps the greatest conflict will be with the environment. The consumer ideology is not one willingly constrained by concerns about future generations unless these become the values of society.

## **Scenario 6: Blowing Hot and Cold**

### Description:

Under this scenario, increasing evidence of global warming by way of sea level change, climatic shifts, and extreme weather events drives radical changes in patterns of production and consumption.

A shift from fossil fuel based energy supplies see major changes in economic performance, growth rates and the distribution of wealth. A move towards community self sufficiency reshapes consumption behaviour, although substantial investment in technology advances enable progress to be made on a wide range of fronts, including nuclear and hydrogen based power and fuels systems.

### Geopolitical:

International politics are destabilised in the face of conflicts over resource consumption and pollution. International law moves to create enforceable protocols governing production energy and production technologies.

### Economic:

The global economy is destabilised by energy, resource and environmental crises, the later including an increasing incidence of natural disasters that undermine confidence and productivity.

Some areas remain relatively immune, and advantages are sought in increased energy efficiencies, resource conservation and environmental management practice.

### Community:

Conflicts among nations continue, and tensions may deepen between global regions. Locally and globally, divisions between rich and poor increase. Islands of sustainability emerge and are under pressure from environmental refugees, as well as the refugees of conflict.

## **Overview**

None of these scenarios see an early end to current issues of destabilisation – terrorism in response to resource and ideological differences and an emerging schism between the western allies and Muslim Arab states. Instability and volatility are likely to be the starting point regardless of outcome.

Continuing globalisation also appears inevitable, but could go down different paths depending on the outcome across the following dichotomies underlying our scenarios:

Global economic interdependence	← →	Growing global divisions
Growing global consumerism	← →	Emergent environmentalism
Global production systems	← →	Resource constrained production