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Speech

THE FUTURE OF GLOBAL TRADE: US AND NZ AS PARTNERS IN THE ASIA PACIFIC: COMPLETING THE TPP NEGOTIATION

*Address by the Hon Tim Groser, Minister of Trade and Minister of Climate Change Issues:
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I would like to thank our two co-chairs, the Hon Simon Power, Chair of the NZ-US Council and Stu Van Soyoc, President of the US-based counterpart organisation for assuming joint responsibility for the Partnership Forum. I think it is a great idea for us to get together once a year with Government, media, business and other stakeholders to take a helicopter view of the relationship.

The United States is still the indispensable global power – indeed, the United States defines the essence of hard power. And from our side of the Partnership, I think it is fair to say that from time to time New Zealand has also shown in international social, political and economic affairs, a capacity to be an ideas factory. Taken too far, as it regrettably sometimes is, this claim becomes gross self-deception. It appears this has been a problem for some time. One hundred years ago, a French political commentator, Andre Siegfried, wrote –

“Many New Zealanders are honestly convinced that the attention of the whole world is concentrated upon them, waiting with curiosity and even with anxiety to see what they will say and do next.”

But when the ideas are professionally, rather than breathlessly, articulated and have a wider currency than just ‘made-to-measure’ for New Zealand interests or views, yes, we have been able to marshal soft power effectively. And if ever there were a project in the economic sphere that exemplifies an effective partnership between US hard power and NZ soft power it is TPP, the Trans-Pacific Partnership. It is not by chance that New Zealand is the official Repository, or Administrator, of TPP.

The first block was laid down by New Zealand proposing in 1998 to Singapore an FTA as

a possible bridge to what we called P5, or Pacific Five. However, the central idea was not to create a bilateral deal just between two small and already open economies, but as a first step towards a wider, regional FTA that we called P5, or Pacific Five. Crucially, we identified the United States as its engine room representing North America with the other Members being from the Pacific, Asia and Latin America – in other words, the four geographical corners of the APEC footprint. If we could pull that off, we figured at the time, we would simply see where it went from there in the wider APEC context.

There was no timetable or ‘road-map’ of the type beloved by generations of Geneva negotiators who invest such unwarranted faith in the false precision of such procedural devices. As the great 19th Century Prussian General Von Moltke famously said – *‘no battle plan survives the first encounter with the enemy’*. A more effective strategy, I think, is to maintain a core idea and then improvise around it as the political facts on the ground, and therefore opportunities, change. Frankly, I don’t know any other way to negotiate in the real world.

Like so many strategic trade initiatives, we had a few false starts and twists and turns – but the original strategic vision always remained intact. As always, this had to be sustained through shifts in the electoral cycle. Over the years in New Zealand, three Prime Ministers, several Ministers from different sides of the political fence and many NZ officials have contributed to this project and I do want to acknowledge the huge collective contribution of them all. Countries whose major political parties are incapable of forging a core shared idea on certain issues in Foreign Policy theatres like this are condemned to be marginalised.

The project became supercharged only when President Obama decided in 2010 on his way to the APEC Leaders Meeting in Singapore to use P4, or Pacific Four, as the base of his and his then Secretary of State Hillary Clinton’s ‘Pivot to Asia’. P4 became P7 – Australia and others immediately wanted a seat around the table when the US sat down and put some chips on the table for the first time. It then became P9, got renamed TPP, or Trans-Pacific Partnership, and at Los Cabos in Mexico at the G20 Summit became a 12 country negotiation when Canada, Mexico and Japan entered TPP. We are now ready, ladies and gentlemen, to complete it.

The US Cavalry Arrives

But to complete TPP, we first had to wait, continuing briefly with 19th Century military metaphors, for the US cavalry to arrive in the form of TPA – or Trade Promotions Authority. And what a tense few weeks it has been, as we watched the most important of all Parliaments – the US Congress – do its business.

I know it is an old US political joke, but as I watched the extraordinary ebb and flow of the process both in the Senate and the House I could not help but recall the saying that

‘Making laws and making sausages are very similar. The public will generally consume the final result, but you wouldn’t want them to watch exactly how they are made’.

Alternatively stated, democracy is a very messy process.

I know many US political leaders, including leading Republican Congressional leaders, played a vital and extremely responsible role in getting this through. But I do want to put on the record our thanks to the indefatigable efforts of US Trade Representative Mike Froman, and the team he leads.

We were never going to start the endgame of the TPP Negotiation without the US

Congress providing the requisite authority to the Administration in the form of Trade Promotions Authority. The stakes of a successful outcome were high, not just for those of us who know that a liberal, well regulated trade and investment regime serves the interests of small countries like ours. The strategic stakes were also very high for the United States.

I do not think it is an exaggeration to say that if the representatives of the United States people, namely, the Members of the 114th US Congress, had not backed the President's Trade Strategy, not only would the US 'pivot to Asia' have been effectively shelved at least in the economic area for some years to come, but it would have meant the near certain failure of the other arm of US strategic trade policy across the Atlantic – TTIP, or the Trans-Atlantic Trade and Investment Partnership between the United States and Europe. Further, with the WTO teetering towards the WTO Ministerial Meeting in a few months' time either with a very small result after thirteen years of negotiations or literally nothing to show for the effort, I am not sure what options the United States would have had to advance its agenda.

Under that scenario, New Zealand, Australia and other close friends and collaborators of the United States would not have sat on their hands watching what was then going to happen inside the Beltway. No, we have had only too recent an illustration of what would have happened in the field of international development finance to know that would never have happened.

Without going into the political entrails of the extraordinary developments around the Chinese led Asian Infrastructure Investment Bank, or AIIB, we would have gone ahead with our trade and investment agendas without the participation of the United States, at least for some years. Clearly, that would not have been our wish, but that is exactly what has happened in the case of the AIIB and it would have happened here. We have our own interests to protect and enhance and we take the world as it is, not as we would wish it to be.

US and China Economic Leadership – Some Reflections on Trade and Climate Change

It is perhaps appropriate to state our position on the very sensitive matter of US and Chinese leadership in the early 21st Century in international economic matters because it has become part of the TPP debate, including in China and the United States.

First of all, and specifically with respect to TPP, we reject completely the proposition that TPP is some type of 'China containment' strategy. At least one Australian Trade Minister and I have said in public, neither Australia nor New Zealand would be part of TPP if it became a 'China containment' strategy. For years our model has been open regionalism.

Indeed, we absolutely do not exclude the longer-term possibility of China becoming party to TPP in some later iteration of TPP or some later evolution of TPP into something we cannot quite envisage today. I have had many discussions of an informal nature with senior Chinese officials on TPP that lead me to the conclusion that while this is not a current possibility, it cannot be excluded.

Further, New Zealand, Australia, Singapore and others are also involved in another mega-regional Trade Negotiation called RCEP, or Regional Comprehensive Economic Partnership Agreement. This is a negotiation involving 16 countries that currently includes China and not the United States. I leave for an RCEP Trade Ministers' meeting in Kuala Lumpur in a couple of weeks' time. It is not as mature as TPP but is making some progress.

Finally, we see all these efforts as ever-increasing and broadly consistent concentric rings

of trade and investment integration that point towards the ultimate vision that all APEC economies and their Leaders have accepted – an APEC-wide FTA. Whether we will ever quite get there or when, I have no idea. But this is the strategic vision unifying these various negotiations and bilateral FTAs of the type that all TPP partners have with non-TPP economies.

I will not comment on broader political, military or strategic matters involving Beijing and Washington because it is not my responsibility to do so. But sticking within the theme of US-China leadership in the international economic arena, there is a very interesting counterpoint model in the field of Climate Change.

First, while I have no time today to elaborate on this, members of this Forum would, I am sure, be interested to know that the partnership New Zealand has with the United States is at least as close on climate change as it has been on trade for decades. The NZ proposal on one of the most sensitive issues in the negotiations - the legal form of the proposed new Comprehensive Climate Change Agreement - is clearly the most realistic solution available for the United States, given certain political realities US negotiators have to take into account. This has been acknowledged in so many words by my colleague, Todd Stern, the US Special Envoy on Climate Change. I should add quickly that it is also clearly consistent with Chinese political interests and I have had excellent discussions with Chinese Ministers and officials on exactly this point.

But my reason for mentioning climate change is a broader political point and it is about US-China leadership on international economic issues. It is, in my view, very difficult to over-estimate the strategic significance of the bilateral US/China Agreement on Climate Change, announced jointly in Beijing last November by President Obama and President Xi.

This will help enormously in a diplomatic and negotiating sense towards getting an international consensus – to put it bluntly, China is now politically invested in the success of Paris. It obviously also matters enormously in a material sense. After all, the United States and China are together responsible for more than one third of global emissions.

In the ongoing debate over 21st Century global governance, where multilateralism seems so difficult to advance without the United States any longer playing the role of a single hegemonic power as it did so effectively after World War II, we have looked to forums such as the G7 for more collective political leadership. Then there was briefly the G8, which fell apart after the annexation of Crimea and consequential and ongoing repercussions in the Eastern Ukraine. For about a decade, we have looked to the G20 to provide leadership, since clearly the day has long since passed when developed countries alone can point the way forward. The essential problem is that the habits of shared responsibility for ‘the system’ are not ingrained.

These groupings all no doubt have their place and will of course evolve, but for those of us outside the central corridors of power, we need operationally effective results, not just communiqués, to point the way forward for the broader international community. And we see that in climate change, this is the world of the G2 – convergence on crucial matters between Washington and Beijing. We welcome it and in the early 21st Century I would say we need more of it.

Before I conclude with some reflections on how we are going to close the deal on TPP, I want to go back to fundamentals: the case for open economic markets.

The Benefits of Trade and Investment Integration

At one level, I consider it is disturbing that the case even needs re-stating. But clearly it

does. Consider the sound and fury surrounding TPP in various countries as carefully stage-managed leaks of supposed current TPP texts take place. Consider the torturous process of getting Trade Promotions Authority (TPA) and the difficulties the President had marshalling sufficient support within the US Democratic Party – not a new problem of course, as those of us who remember what happened to Fast Track Authority in the House of Representatives during the first term of President Clinton’s Presidency.

First, the case for open trade policies starts with economic theory. Please don’t switch off – I do recall Keynes’ famous observation that:

“Practical men who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist. Madmen in authority, who hear voices in the air, are distilling their frenzy from some academic scribbler of a few years back”

To avoid unnecessary speculation, and since I am catching a plane this afternoon to go to Peru for the Pacific Alliance Summit, let me assure you that I cannot off-hand think of any ‘madmen in authority’, let alone ‘academic scribblers’ in either of our two countries working on the politics of trade. Thank heavens.

The core intellectual idea underpinning trade liberalisation is the theory of comparative advantage, formulated almost 200 years ago. There have always been outlier economists who question it, or posit special conditions, under which it might not work; there always will be a few sceptics, as in any field or academic discipline. Similarly, one recent survey in the United States estimated that there are about 3% of highly trained and reputable climate change scientists who do not believe anthropogenic greenhouse gases are a leading cause of climate change, compared with 97% of climate change scientists who do.

Back in the world of economics, certain sceptics of trade liberalisation, like the Cambridge University mid-20th Century Marxist economist, Joan Robinson, are formidable minds, not ‘academic scribblers’. But such thinkers are marginalised.

All in all, the underlying theory of comparative advantage is generally considered the most widely shared foundation theory in economics. In one recent survey I read, it was described as “an unassailable intellectual cornerstone”. For those like me who were educated in economics in the 1960s and 1970s, the man who wrote the basic undergraduate text we all started with right around the world, Paul Samuelson, called the theory underlying liberal international trade - “the only proposition in social science that is both true and non-trivial”.

OK – you don’t like, or choose to reference, economic theory? You feel it would embarrass you in the pub to acknowledge any interest in theory? You would not pass the Tui Ad test? You are one of Keynes’ practical men or women? Have I got an empirical study for you!

Well, actually I have a compilation of over 150 empirical studies analysed by experts from the OECD, WTO, UNCTAD, the World Bank and the ILO – in fact 10 international organisation in total produced the most comprehensive and collaborative study of the empirical evidence that I am aware of - and I have been following this issue for 40 years. It was published in 2012 and called - *‘Policy Priorities for International Trade and Jobs’*. Here are the key findings.

- First, consider the evidence for developed countries. Of the 14 main OECD multi-country econometric studies undertaken since 2000, all 14 have concluded that

trade plays an independent and positive role in raising incomes.

- Second, the evidence for developing countries leads to exactly the same conclusion. Case studies reviewing the experience of the 12 most rapidly growing emerging economies over the past 60 years concluded that harnessing the power of the global economy was a central feature common to all and that there was what they called 'overwhelming' evidence that trade played an essential role in raising incomes. Sorry guys, the North Koreans got it wrong. The South Koreans got it right.

The final concluding comment of these international experts is dripping with irony. Normally, international officials don't do irony; it takes extreme frustration to drive experts to use ironic humour. Listen to their words:

"Despite all the debate about whether openness [on trade] contributes to growth, if the issue were truly one warranting nothing but agnosticism, we should expect at least some of the estimates to be negative...The uniformly positive estimates suggest that the relevant terms of the debate by now should be about the size of the positive influence of openness on growth....rather than about whether increased levels of trade relative to GDP have a positive effect on productivity and growth".

I can of course understand vested interests who oppose trade agreements. If, say, your family owns an inefficient sugar processing plant in the wrong part of the United States and which survives only because of sugar subsidies and high protection, I get it. What you need is a long time to adjust to competition, sweetened by a good dose of adjustment assistance. You may even surprise yourself by what you can do to improve your competitive position over a long period of time – I could take you to dozens of examples in this country of industries and companies which vigorously contest our first liberalisation moves in the 1980s, starting with the NZ wine industry which used to be deeply protectionist and for understandable reasons. But I am zeroing-in here on the anti-trade, anti-globalisation ideologues who are present around the globe. Even in Germany, a post-war bastion of the open trading system, they have become quite recently a growing element of the political debate on trade. This will complicate the TTIP negotiation.

Here in New Zealand we have anti-trade activists who are relentlessly consistent: they have never supported a single Trade Agreement and they never will. They are politically irrelevant to my political party. However, they get an enormous amount of airplay and are not politically irrelevant to other important elements in our democracy. For reasons I explained earlier, I believe broad bipartisan support for open trade strategies is vital to avoid your country being marginalised.

There is no point in asking them to explain how on earth New Zealand could have survived, let alone prospered, without CER, without the Uruguay Round, the China FTA, the network of FTAs that New Zealand has with ASEAN countries – they opposed even the Singapore/NZ FTA, the first building block of the DNA of TPP. To paraphrase a well-known quote of our Prime Minister, are we meant to earn our living just by selling to ourselves?

There is no point in asking them to explain this, because this is not an evidence-based fight. This is about ideology and the role of markets. On a purely personal note, and going back to my political past in the late 1960s and on which I will not elaborate, I understand exactly how and why these people think like this. I recall wistfully an old political doctrinal statement 'The final battle will be between the socialists and the ex-socialists'.

If it were just these anti-trade activists, they could be safely ignored by everyone. But their modus operandi is to give currency to concerns about policies that middle New Zealand, which is anything but ideological, cares about – and then to exaggerate those concerns out of the park.

Happily, those concerns of middle New Zealand are widely shared starting with me, my colleagues in Cabinet and Caucus and the Kiwi voters who elected us. And as I survey the likely landing zone for these issues, I am extremely confident that our negotiators, who are world class, have done an excellent job. We shall be able to defend our position.

So, to put it bluntly, we are not going to sign up to poorly constructed ISDS provisions that 'transfer control of the country's sovereignty' to foreign corporations. We are not going to sign up to agreements that undermine a central pillar of our Public Health system – the pharmaceutical purchasing agency called Pharmac, which is used to keep the cost of medicines very affordable for middle New Zealand. We are not going to sign up to agreements that stop this or future Governments putting well-designed environmental protections in place. We are not going to sign up to provisions on ISPs that make every mother in Lower Hutt worry that the TPP electronic police are going to fly in from Houston to cart their 16 year old son off to jail for file-sharing with his girlfriend.

If and when we get TPP in place, extreme claims that the sky is going to fall in will be made, irrespective of a balanced and sober reading of the final agreed TPP texts. It will be ground hog day for Chicken Licken. I recall, for example, at the end of the Uruguay Round where I was our chief negotiator, absurd claims that the Uruguay Round TRIPs agreement would 'destroy the Maori economy', in spite of the fact that the vast bulk of Maori assets, today valued at \$40 billion, are in the export sector with much to gain from the Uruguay Round.

That exciting new dairy export company near Taupo called *Miraka*, the Maori name for milk, that combines significant Maori business assets, locally available renewable geothermal energy and overseas capital invested in it, simply would not exist without the Uruguay Round export subsidy disciplines that allowed our dairy industry to grow against grossly unfair competition, along with the more recent FTAs that created markets and created the interest of Asian investors in investing in New Zealand's future alongside our own people.

Closing the Deal

Now that Congress has spoken, it is show time. I have learned never to be dogmatic about time-tables, but the scenario that I and my negotiators are working to is that we have to get the basic political deal done by the end of July, including finalising all the chapter texts, leaving only legal rectification by experts to be done thereafter.

The deal is ripe for the picking politically, which does not mean it will be easy to reach up and pick nice ripe fruit without damage. I have been deeply involved in the endgame of some pretty significant international negotiations over the last few decades and sometimes it isn't very pretty. If I told true stories of what I have seen – right up to and including fist fights and negotiators sobbing over the phone, I really don't think people would believe me.

So please remember this: nothing is 'too big to fail'. Nor can I be 100% sure that all twelve countries will arrive on the right page at the same time. The one thing I can say with near certainty is that in the course of the endgame, something will come out of left field that we knew about but which no-one had seen before as a deal-breaker. Anyone involved in settling the last major political fight in the Uruguay Round, which was over audio-visuals, would have anticipated that that issue would be last deal-breaker that needed to be

resolved. Even then, technical negotiators in services were still arguing with each other when the bell rang to stop.

But I think we will get there – metaphorically, I have called it in some interviews a 7/10 probability. It is not going to be a perfect deal – there never will be a perfect deal because compromises are now required. From a New Zealand point of view, the assessment my team of negotiators, led by Dr David Walker, and I have made and conveyed to other Ministers including the Prime Minister is that there is potentially a landing zone for a good deal that will indeed shape the future of trade and investment integration in the Asia Pacific region and quite decisively.

I would be much more positive in public than this, but for the current lack of clarity on a possible landing zone for our most important export – dairy. It is not that there is nothing on the table on dairy. Nor, let me assure the deep pessimists, do I believe there is any possibility of dairy simply being ‘excluded’ simply because it is too sensitive. That of course would take New Zealand right out of TPP. The issue for us is the quality of the deal on dairy and it is nowhere near there yet.

That will change because it has to change. People have not been putting their real cards on the table until they knew they had to. And until we heard from the US Congress, they were never going to do that. It is going to be an interesting few weeks.

Ladies and gentlemen, if the negotiators representing the 12 countries involved in TPP – almost 40% of global GDP – can pull this together, it will indeed be a big deal. Andrew Robb, my Australian counterpart, calls this ‘the biggest trade deal since the Uruguay Round’. I think he is right. And if we can do it, the TPP bus will not stop finally at the Tokyo station – Japan being among the last TPP entrants. TPP will indeed shape the future integration of the region and possibly strategic thinking elsewhere.

The future for New Zealand is not to shut up shop, to be fearful of foreigners, foreign investment, even targeted migration and suspicious of all Trade Agreements – my word, it must be so depressing to be part of the anti-trade movement. We need to engage with the world. We should back ourselves. We have every reason to be optimistic about our place in the world in the first quarter of the 21st Century. Concluding a high quality TPP Agreement is part of that future.

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