

Address of New Zealand Trade Minister Tim Groser to Japan National Press Club



Hon. Tim Groser

By the New Zealand Embassy, Tokyo

Since the change of administration in December there has been a high level of international interest in the economic policies adopted by Prime Minister Shinzo Abe and his new cabinet. Within the growth strategy, trade policy and the decision to join the Trans-Pacific Partnership (TPP) negotiations have been areas of special interest.

We are therefore delighted to have an opportunity to contribute a New Zealand perspective to this special issue of *Japan SPOTLIGHT* focusing on “Abenomics”. New Zealand Trade Minister Tim Groser visited Japan in April shortly after TPP ministers met in Surabaya, Indonesia, to welcome Japan into the TPP negotiations. During the visit Mr Groser delivered a speech at the Japan National Press Club setting out his thoughts on the regional and bilateral trade agenda, including the TPP. We are pleased to share the text of that speech with readers of *Japan SPOTLIGHT*.

Address to Japan National Press Club

New Zealand is the formal administrator, or legal “Depositary” of the TPP Agreement. This reflects the real negotiating history of the TPP, which started as a strategic decision by Singapore and New Zealand to negotiate a bilateral FTA in the 1990s with precisely this concept — a wider Asia-Pacific FTA — in mind. That led eventually to P4 and, in turn, to the TPP today.

So four days ago, at midnight New Zealand time, I issued a brief formal statement on behalf of the United States and all other 11 existing TPP members welcoming Japan into the negotiation. As soon as each of the 11 has finished their formal domestic procedures — and this is only a matter of time — Japan will be able to take its seat at the negotiating table alongside the rest of us.

Let me now take off my hat as the administrator of the TPP and talk on behalf of the New Zealand government as our trade minister. I should emphasize that I had earlier made this clear in private to Minister Akira Amari, Japan’s minister for economic revitalization and for the TPP, and to Minister of Economy, Trade and Industry Toshihiko Moriguchi. Now that the formal procedures have been completed, I can repeat in public what I said in private to your ministers: New Zealand is delighted that Japan will now be part of this negotiation. It makes the TPP a far more interesting and important initiative.

Japan-NZ Economic Relations: In Need of Revitalization

New Zealand, with only 4.5 million people, is obviously a small economy. But the pathway of our economic relationship with Japan over the last two decades is perhaps a metaphor for the much wider agenda of economic revitalization that your government has in mind.

The title of Minister Amari’s political responsibilities — minister in charge of economic revitalization and minister responsible for the TPP — is itself very interesting, given the linkages between the TPP and economic revitalization.

We have always enjoyed the best possible political relationship with Japan, but our economic relationship with Japan has gone nowhere over the last 20 years. In fact it is worse than that. It has gone backwards. In terms of our economic relationships with all other important Asia-Pacific economies, this is unique. All our other important economic relationships are moving forward, some rapidly.

About two and a half years ago, New Zealand celebrated the day our exports to China first exceeded \$4 billion. Today our exports to China, helped both by Chinese economic development and a comprehensive FTA between New Zealand and China, are \$7 billion and China has become our largest source of imports, displacing Australia. But while, a couple of years ago, my officials and New Zealand business people were rightly celebrating passing the earlier high-water mark of \$4 billion in our exports to China, I was recalling that we had actually passed the same high-water mark of \$4 billion exports to Japan 20 years earlier in the 1990s. Further, at that time we had regarded Japan as the center of our trade diversification strategy. Today, our exports to Japan are 25% less than they were 20 years ago. We have literally gone backwards in our economic relationship with Japan.

The Japanese government’s economic revitalization agenda is a huge undertaking, with far, far more important objectives than this in mind. But the two are linked and I wanted to use your economic relationship with one small and friendly country to give a practical, real world example of the broader problem, one that was set out clearly by Prime Minister Abe in his 15 March speech.

We are keen to revitalize our economic relationship with this great economy — the third-largest in the world. As a result of recent

political developments, and the decision by your government to join the TPP, I have said to my team that we finally have grounds for some optimism that the next 20 years of our economic relationship with Japan will reverse the stagnation and decline of our bilateral trade and investment relationship.

TPP: What It Will Change & What It Will Not

I have tried to follow closely the debate in Japan over the past two years or so on whether Japan should join the TPP. It is fundamentally a debate about change. As is the case in other countries, it is important to keep matters in perspective. Wildly exaggerated accounts of what the TPP might or might not do should be treated with extreme suspicion. We hear a few of these voices in my own country as certain people attempt to make the case against the TPP.

We need to differentiate those exaggerated claims, often made by people who have an ideological problem with all trade agreements, from legitimate public concerns about the implications of a poorly drafted agreement. In public health, for example, it is essential in my country that our public health system is fully protected as we work through the detail of some of the provisions. And I have given absolute assurances to the public that the New Zealand government will never enter into any agreement, whether it is the TPP or another international agreement, that would undermine fundamental institutions in our public health system.

Investor-State Dispute Settlement provisions are another example. Drafted without care and without proper safeguards, they would indeed be a problem for sovereign governments. Drafted appropriately and with adequate safeguards to ensure that this or any trade agreement does not interfere with the legitimate right of future governments to legislate proper public policy in fields such as health and the environment, they are a useful part of the agreement. We have such provisions in other trade agreements, such as our FTA with China and the FTA between Australia, New Zealand and ASEAN. We value those provisions. We want to encourage outward investment into Asian emerging markets. These provisions provide an additional element of security to such investments.

Having said that, we should be clear about one thing: the TPP is indeed about change. But it is about economic change of a manageable, useful and finally necessary nature if our economies are to continue to participate fully in the extraordinary development of the 21st century Asia-Pacific economy. The TPP is a building block, possibly the decisive building block, for the ultimate vision of an APEC-wide zone of trade and investment integration, called the Free Trade Area of the Asia-Pacific or FTAAP.

Take a step backwards and consider why trade liberalization is sensitive in all countries. It is sensitive because it is about change

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New Zealand wine

and change is difficult to handle politically in all countries, especially when democratically elected governments deliberately initiate it. Trade policy — such as a decision to join the TPP — is always controversial.

Change can arise from many sources, not just trade. Armed conflict is the most extreme source of change. Technology is another. It has been said that if certain people had been around when Benjamin Franklin experimented with electricity, they would have been opposed to it because of its impact on candle-makers.

Imprudent macro-economic management over many years also leads to forced change. In some countries, the deleveraging process is being effected through huge cuts in public services, reductions in pensions, slashing of subsidies, and unheard of reductions in public service salaries. The worst consequence of this is youth unemployment in one or two cases reaching 50% of young people. I am not surprised there is a very sophisticated debate underway, centered on the highly technical issue of fiscal multipliers under extreme economic conditions, as to whether this process of fiscal rebalancing may be being attempted at too fast a pace.

In New Zealand's case, we are much better placed. We are confident that we are managing the necessary readjustment of private and public sector balance sheets in a prudent, moderate and successful way. Unemployment, still higher than we want it to be, is under 7%; inflation is around 1%; our government gross debt to GDP ratio is 38% and our net government debt is less than 30%; our real GDP growth rate is slightly more than 3%. We are not satisfied with this and are determined to do better. However, in these difficult international conditions, this data set is about as good as you would find in any developed country today.

Trade policy, by contrast, is about managed change and it comes with a huge upside — export-led growth, higher wages and higher

incomes. The empirical evidence for this is no longer debatable — it is only the size of positive change that can be argued about.

So yes, the TPP will involve economic change in Japan — as it will for many TPP economies. Given my background, and New Zealand's export structure, I naturally focus on the sensitivities in agriculture. Japan is far from the only country involved in the TPP with sensitivities on agriculture market access. The United States itself has similar sensitivities in certain agriculture sectors. And we should not overlook a whole range of other issues under negotiation that have nothing to do with agriculture. These are just as sensitive politically and, from the perspective of the larger TPP economies, more important economically.

However, we will not handle these sensitivities in agriculture, autos or whatever, by exclusions from trade liberalization — we passed that bridge 20 years ago in the last successful multilateral trade negotiation, the Uruguay Round. The TPP is not a “WTO-minus” negotiation. That said, we fully understand these are genuine and legitimate sensitivities. We will deal with them in a sympathetic, responsible and reasonable way. I can assure you that we have all the tools in the trade policy toolbox to do that, but not through exclusions.

Finally on the TPP, while the political debate is, as always, focused on managing political sensitivities, we must keep at the forefront of our attention the bigger picture as to why we are doing this.

We have entered this negotiation because we want growth and better paid jobs that come with growth. We are doing this to create some new ground rules to govern the increasingly complex patterns of 21st century international trade and the global value chain. Both our countries know what it is to face discrimination in export sectors where we are strong. We know that the rules have not kept pace with globalization and the marketplace. The TPP can be a rule-making

laboratory here. Our traders, investors, governments and consumers will all benefit from increased predictability and confidence.

The negotiation is now ahead of us. Let me leap right over the formal negotiation and explore the strategic implications behind it.

WTO: Its Place in Trade Policy Architecture

The WTO, meant to be the center of trade policy, is in serious trouble. It is in danger of becoming irrelevant. If one thinks of the WTO in schematic form, the WTO, the institution responsible for multilateral trade, is the “center” and regional trade agreements are the “periphery”.

However, like those children's spinning wheels at fairgrounds, called I think “orbiters”, that force you and your children or, in my case, grandchildren, from the center to the sides as the fairground circle gains speed, the centripetal forces now operating in the international trading system are enormous and accelerating. Power and momentum are being leached from the center to the periphery.

The problem is that, one or two baby steps aside, the WTO is facing paralysis in its negotiating function. The WTO is more than this, of course, but ultimately all political roads lead back to its negotiating function. Respect for its crucial judicial role cannot last forever if it is not politically refreshed.

I have just come back from the APEC trade ministers meeting in Surabaya, where the final details of Japan's decision to participate in the TPP were ironed out in a friendly and efficient way in the margins of that meeting.

With respect to the formal APEC meeting itself, this was chaired by Indonesian Minister of Trade Gita Wirajawan, who has an outstanding past and an even brighter future ahead of him. On that agenda was the Bali ministerial meeting which will take place in December. I am sure we will have a success at Bali — the real issue is the quality of the success, given the huge commitment of negotiating and political resources that have been invested in it. Even if, however, we attain success at the outer limits of what is under active consideration, there will still be a mountain to climb after Bali.

Meantime, in sharp contrast to the glacial pace of negotiations at the center of the multilateral trading system, the WTO, the pace of developments at the regional trade policy level accelerates with astonishing speed. The two are linked. Far from current economic difficulties creating resistance to trade and investment integration agreements, the exact opposite is the truth. Trade is a source of growth. Most governments get it and we all need growth. If we cannot move forward at the center — the WTO — we will move forward in regional trade agreements, the periphery. The desire to move forward is akin to steam in a kettle. You cannot contain it; it is only a question of where it comes out.

Photo: Tourism New Zealand (<http://www.newzealand.com/int/>)



South Island, New Zealand

Japan's decision to participate in the TPP has to be seen in this light. Japan, I know only too well, would love to see the WTO and the multilateral process move forward, but Japan, like other TPP economies, has to have a Plan B or get left behind.

It is not just the TPP. Both of our economies are involved in another TPP-like negotiation — the RCEP. Trade negotiators are notorious for inventing acronyms that no one outside their inner circle can understand. In this case it stands for “Regional Comprehensive Economic Partnership”. It was launched recently in Cambodia by 16 countries, most of them at head-of-government level.

This, too, is a huge undertaking, but much less mature than the TPP from a negotiating perspective. The RCEP does not include the United States, but it does include China. This is very important politically as well as economically. China is of immense importance to all our futures. In the TPP we negotiate with the United States, amongst others; in the RCEP the largest player is China. Ultimately we see both as building blocks for a Free Trade Area of the Asia-Pacific. Think of these two negotiations in which both our countries are involved as “two wings on a plane” balancing each other out as we travel to our long-term goal.

In case you think that this is all about talk — neither of these negotiations have been completed — let me emphasize that other large plurilateral agreements have been completed and are in the process of being implemented.

From our point of view the AANZFTA is a great example. AANZFTA stands for the “Australia, ASEAN, New Zealand Free Trade Area”. The negotiation is complete and it is in the early stages of being implemented. It merges two geographically contiguous FTAs — the CER and ASEAN's AFTA — into one larger grouping of trade and investment integration.

It is not just in the Asia-Pacific region that this is happening. Of huge political and economic significance is the recent announcement of the US-EU Trade and Investment Agreement. This covers over 40% of global GDP. These developed countries have been largely responsible for providing the political leadership for past multilateral negotiations. Japan and the EU have also announced initiation of a comprehensive negotiation. In Latin America, a group of outward-looking Latin economies — Mexico, Colombia, Chile and Peru — have formed the “Pacific Alliance”. It will be fascinating to see the response of Mercosur, led by Brazil and Argentina. This is what former US Trade Representative Robert Zoellick called “competitive liberalization” on steroids.

Meantime, the WTO is caught in slow traffic — very slow political traffic — on the Rue de Lausanne in Geneva where the WTO is headquartered. This is not good, for all manner of reasons. The reality is that we need a system of global rules, brought up to

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Tourist site on South Island, New Zealand

contemporary standards, not reflecting solely conditions 20 years ago, at the center of the global value chain. Only the WTO can perform this function. When enthusiasm for Asia-Pacific integration gets a little ahead of what I think is this central reality, I like to pose the question — who is China's largest trading partner? The answer is of course the EU-27.

Further, there is convincing logic that not even these giant plurilateral negotiations can resolve certain pervasive trade problems which require global solutions. That is reasonably well understood amongst trade experts.

But I go further, and I am not convinced that this further point is yet deeply understood. Many of these regional trade initiatives on the periphery of the global system will become far more complicated to negotiate if the center is allowed to weaken and atrophy further. The problem of trade and production distorting agriculture subsidy peaks and the link with agriculture market access is only the most obvious thematic problem. There will be others across all areas of these negotiations.

I am, in effect, describing an acutely difficult responsibility that will fall on the shoulders of the next director general of the WTO. Whoever that may be among the five remaining candidates, she or he may have more than one reason to reflect on the old phrase — “be careful what you wish for”.

Thank you very much.

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The Hon. Tim Groser is New Zealand's minister of trade, associate minister of foreign affairs and associate minister of climate change issues. He was formerly ambassador to Indonesia and to the WTO.