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NEW ZEALAND'S TPP VISION

It's a pleasure to be in Tokyo and to speak to you about the power of a big idea.

The idea is not a new one, as I will outline, but it has the potential to transform the way we do business in the Asia Pacific region.

The idea is to create a freer, more coherent, seamless economic space in the region.

To do that we are working to build a region-wide free trade area from the bottom-up, starting with a few forward-thinking economies and gradually building up the membership over time.

That is essentially the story behind the Trans Pacific Partnership (TPP).

It is a long term strategy that New Zealand has been implementing since before the end of the Uruguay Round.

It is a strategy that has been pursued with commitment and patience and under the leadership of several Trade Ministers, including of course Minister Groser, through the perseverance of officials and negotiators and with the support of business.

Today I'd to talk about this bigger picture against which TPP is being pursued, about where we have got to in this process and to suggest why I believe it would be in Japan's interest to join this endeavour.

The context

Any sensible discussion about the Trans Pacific Partnership needs to be put in the context of the extraordinary growth of trade and investment in the region which both Japan and New Zealand call home.

Since APEC was established in 1989 intra-APEC merchandise trade (exports and imports) has grown from US\$1.5 trillion to US\$6.5 trillion in 2009 - an annual average increase of 7.6% per year

Merchandise trade within the region accounted for 65.9% of APEC's total merchandise trade in 2009.

Similarly, APEC economies' trade with the rest of the world increased from US\$0.7 trillion in 1989 to US\$3.4 trillion in 2009, an average increase of 8.2% per year.

That's why this century has been called the Asia Pacific century (although some are now starting to talk about the Indo Pacific century as well).

What's even more significant is in that time also the nature of business in the region has fundamentally changed.

Business models based on import/export have given way to the emergence of complex supply and value chains where business processes often takes place in multiple locations.

Indeed Japan has been a leader of global supply chain trading system notably in relation to the production and supply of high end componentry.

Japan has championed this system and made it tick through the creation of processes such as the "just-in- time" low inventory approach.

New Zealand participates in these global supply chains whether as a supplier of natural resources into manufacturing processes, agricultural products into food processing or off-shoring manufacturing to various parts of the region for established New Zealand brands of whiteware, children's clothes or optical touch screen technology.

The point is that companies are trying all the time to lower costs, to get closer to consumers, and to increase the speed of delivery.

Trade can no longer be disaggregated from investment, the production of goods and services are now more closely inter-related than ever, border restrictions – while still a problem – are becoming less significant than behind the border regulations.

As a result the success of economies, indeed whole regions, is becoming determined less by comparative advantage – although in some sectors and especially in agriculture that is still a big factor – than by competitive advantage.

Maximising competitive advantage is a top of mind issue for politicians and business leaders today.

Earlier we heard about the important role played by innovation in driving business success.

Innovation cannot flourish where the costs of doing business are too high, where the regulatory environment is poor and where an economy is losing ground in terms of competitiveness.

Trade agreements like TPP are certainly not the whole picture when it comes to driving competitive advantage but they aim to address the broader context in which national economies are operating.

The fact is that trade agreements – even the name sounds a little archaic – are having difficulty keeping up with the pace of change in the way business is being done.

Is it any surprise that business finds it hard to get excited about the demise of the Doha Round when its agenda is focused largely on issues of border restrictions when the real action is going on behind the border?

That is not to suggest Doha is no longer relevant.

Of course we should finish Doha, and finish it soon, precisely so we can move the multilateral agenda on to this bigger picture.

In the meantime countries including Japan and New Zealand have resorted to bilateral free trade agreements.

In fact we are mostly negotiating with the same people!

The positive thing is that this creates a momentum for freer trade and investment which supports an open regional economy.

The negative thing is that this increasingly dense network of overlapping and sometimes contradictory agreements can create problems of its own.

That's the problem of the noodle bowl.

APEC has already focused on the need to untangle some of those noodles.

The proposed Free Trade Area of the Asia Pacific (FTAAP) – endorsed by the leaders of both Japan and New Zealand, most recently at the APEC Yokohama Summit - would be a means to create a more rational framework for trade and investment in the region.

The problem is – how to get there (or as the negotiators put it “what is the pathway?).

That essentially is where TPP comes in.

Negotiating process

Minister Groser said recently in relation to TPP that if you don't understand where you've come from, you won't understand where you're headed.

The proposal to expand TPP's existing membership of four to a membership of nine and possibly more didn't just come from nowhere.

As I said at the outset it is a long term strategy which dates from the early nineties, prior to the end of the Uruguay Round, when it was far from certain that multilateral negotiation might conclude in a satisfactory way.

How trade history has a habit of repeating itself ...

The idea was mooted for a group of the more open and liberal economies to come together – at that time Australia, Chile, New Zealand, Singapore and the United States, or “P5”.

Initial enthusiasm waned as the Uruguay Round, spurred on in fact by APEC, burst back into life.

New Zealand persevered and in 2000 concluded the first FTA with Singapore.

Then in 2005 New Zealand, Brunei and Chile joined as “P4” in the existing Trans Pacific Partnership.

Now there is the prospect of a P9 or even P10, 11 or 12.

In the meantime we have also negotiated ground-breaking comprehensive agreements with China and together with Australia with the members of ASEAN.

Some of the same factors exist now as then – an uncertain multilateral process, a need to stimulate economic recovery.

What has changed however is the new business model I have just described, the rise of high performing developing economies in the region and increasingly affluent middle classes in those countries who increasingly want access to the same range of goods and services as Japanese, Americans and New Zealanders.

The stakes of a successful outcome to TPP have raised significantly and along with this the complexity of the issues under negotiation.

That’s because TPP has the capacity to reach further into domestic economies and domestic policy settings than other more conventional trade agreements, as it must if the essential requirements of business are to be addressed and a real difference made.

I know this tends to alarm some parts of our community.

But governments are not about to negotiate away their right to regulate or to take policy actions that they deem to be in the national interest.

What we as business want to see from TPP is better regulation rather than no regulation, better government rather than no government and certainly better business rather than business which is constrained in its ability to meet customers’ needs.

For all this history it was not until September 2008 when the United States signaled its interest in joining TPP that the strategy moved forward significantly.

After an initial delay in the aftermath of the election of the Obama Administration, the strategy moved forward again as the United States confirmed its interest and other parties – Australia, Peru, Viet Nam, and then Malaysia, joined the negotiation.

Seven rounds have been held to date with the intention of having the “broad outlines” of an agreement ready by the time APEC meets again in November in Peru.

To be successful, and to live up to its promise as a new generation agreement, TPP will have to address some key business needs.

It will need to finish the old agenda of market access and achieve comprehensive liberalization over a reasonable timeframe – the existing TPP sets a benchmark of 10 years - for all products, goods and services included with flexible rules of origin.

It will also need a strong market integration agenda focused especially on services, investment, behind the border issues and regulatory coherence and co-operation.

It will need to incorporate a range of other issues relevant to business and to take account of the views of stakeholders who have become distrustful of the way agreements have been negotiated in the past.

Japan and TPP

To be an effective as a pathway to the wider FTAAP, TPP also needs broader coverage in the region.

At this point I'd like to say a few words about Japan's interest in TPP which to us in New Zealand business is very welcome.

We appreciate the careful and deliberate way the Japanese Government is consulting both domestically and externally.

We understand the sensitivity of some of the issues involved especially for the agricultural sector.

We also sympathise deeply for Japan over the disaster in Tohoku and accept fully that this must have an impact on the consultation process.

This is a decision for Japan to make and in the timeframe that Japan itself needs to set.

If Japan were to decide to seek to join TPP it seems to me that Japan should do so only if shares the vision I have just outlined.

As I mentioned Japan is already one of the world's leading champions of the global supply chain.

The inherent risks and vulnerabilities of global supply chains have been highlighted following the set of disasters last March.

Companies throughout the region have seen what happens when a key link in the supply chain is weakened.

This merely heightens the relevance of TPP which seeks to reduce costs and optimise supply chain efficiency.

Japan will need to decide whether it is in Japan's interest to be part of or stand aside from the move towards greater economic integration through TPP and FTAAP.

The implications of engagement are very clear: TPP aims to be a high quality, comprehensive agreement and all the parties need to be able to live with that level of ambition.

Conclusion

I started out by talking about the enormous growth of business activity in the Asia Pacific region and how the nature of business has changed profoundly in recent years.

These are trends which go beyond the power of any one government let alone business to influence.

By working together it should be possible to bring some greater coherence and rationality in the region's economic space.

Clearer rules, lower costs, greater ease and certainty for business can all play their part in fostering competitive advantage.

New Zealanders are patient people – our vision for TPP has been built up over time.

Recent developments make that vision even more compelling.

There is a lot at stake.

The negotiating process is complex, the level of public scrutiny very high, the prize in getting it right very big.

When Japan decides the time is right – and we hope this is sooner rather than later - it will be good to have you join us.