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TPP: A New Zealand Perspective

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These comments are my personal comments. In making these comments I am not seeking to reflect the official position of the New Zealand Government.

I have a near unique view of the TPP negotiation as I believe that I was one of the few people to be sitting in a room in the late 1990s where the idea of the Pacific Five was hatched. The idea was to get the five APEC members most committed to trade liberalisation (New Zealand, Australia, Singapore, Chile, USA) to negotiate a high standard plurilateral FTA to serve as a model which the rest of APEC, and then the rest of the WTO might chose to follow. There were several meetings of Pacific Five senior officials and Trade Ministers in 1998 and 1999 but the concept did not get launched in 1999 as we were hoping it would.

I was also one of the architects of plan B. This was for New Zealand and Singapore to negotiate a bilateral FTA which would hopefully set off a chain reaction within the region. I was one of the people who peer reviewed a paper written for then Singapore Trade Minister George Yeo by New Zealand's now Trade Minister Tim Groser, setting out the strategic reasons for a bilateral FTA between Singapore and New Zealand. And I was heavily involved in that negotiation. And was then involved in setting the case for the expansion of that agreement to include Chile and eventually Brunei. That agreement the Trans-Pacific Strategic Economic Partnership (sometimes known as P4) is the precursor to the Trans Pacific Partnership now under negotiation.

In between this activity on region wide liberalisation I built the case for and launched the New Zealand FTA with China. And more recently negotiated the Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Cooperation (ANZTEC). ANZTEC is due

to enter into force late this calendar year or very early 2014. These experiences also colour my comments.

First, I still see TPP very much as I saw the proposed P5 in the late 1990s. It is designed to be what in APEC used to be called a pathfinder initiative. 12 APEC members are negotiating a high quality agreement which will hopefully be so good and so successful that all other APEC members will eventually be wanting to join. The Agreement must be designed so that others may accede.

Because of this first point, my second point is that TPP is not an anti-China initiative. I hope that one day that China seeks membership of TPP and that the existing members of TPP encourage this. The proviso is that China would be committing to meet the high standards set by the agreement. Given the quality of the China-New Zealand FTA I have no doubt that China can meet that standard. I would hope that Taiwan and Hong Kong accede to TPP at the same time as China assuming that they are not already members.

Third, TPP has to be very high standard. It has to be fully comprehensive in its goods coverage and all goods need to be fully liberalised within a reasonable timeframe. Services and Investment provisions must be WTO plus, and it should be addressing many behind the border regulatory barriers also. I doubt that TPP will actually be finalized unless it meets this standard test.

For the US it is critically important that TPP be high standard. The US is engaged in an equally important negotiation with Europe on the TTIP. This has started after TPP and which will most probably be completed well after TPP is completed. Agreeing a poor standard TPP (assuming that a poor standard TPP can be completed) is no recipe for achieving a high standard agreement with the EU.

Our meeting this week is extremely well timed as it is following hard on the heels of the meeting of TPP Leaders being held in the margins of the APEC Economic Leaders' Meeting. The deadline for submitting this paper does not allow me to report on or analyse the outcome. But I am hoping for a very clear commitment to high level principles, including on the issue of comprehensiveness.

If we are looking at an agreement that will be comprehensive in its goods coverage then I am hopeful that we could have a finalized agreement (subject to legal scrubbing) completed by very late 2013 or early 2014.

If we have the prospect of product exclusions I fear a much more protracted negotiation and the possibility of failure.

Let me paint a scenario. Japan wants to exclude rice, but is being told that everything has to be on the table. Rice being included in an eventual liberalisation outcome is the price that Japan will have to pay for TPP membership. But what happens if Japan discovers that the US is refusing to liberalise sugar? How can Japan be expected to liberalise everything if the US isn't doing the same? Japan will have strong grounds for resisting the inclusion of rice.

Now Canada doesn't much want to liberalise dairy products. It fears a flood of imports from the US, Australia and New Zealand. Will Canada really be leaving dairy on the table if Japan is proposing to exclude rice and the US is proposing to exclude sugar?

Now after rice, Japan regards dairy products as its next most sensitive agricultural import item. If Canada is withdrawing dairy from the table, why should Japan not do the same? It does.

To this point US dairy interests have been seeing TPP as more of an opportunity than a threat. They see TPP as, at long last, offering the prospect of change to the Canadian supply management regime and of meaningful access to the Japanese market. But if access to Canada and Japan is withdrawn from the table this equation changes. Why allow increased competition from New Zealand in the US market if the US isn't going to benefit from increased exports from TPP. The US dairy lobby then demands that the US withdraw dairy from the table. Other lobbies then start demanding that their products be withdrawn. Why should textiles, clothing and footwear be liberalised for Vietnam if the agriculture sector is being excluded from negotiations? And why should the auto industry be left in the negotiation if agriculture and TCF is being withdrawn?

All of a sudden the negotiation has become a whole lot more complicated than it was before. And there is a serious risk that the negotiation will begin to unravel. I hope that this is not the scenario we are discussing at Stanford.

Assuming that the Bali talks go well, and assuming that USTR still has money to pay staff and travel, I am quite optimistic that we will be close to having a final agreement by the time of the WTO Ministerial meeting – also in Bali – at the end of the year (3-6 December). I am anticipating that TPP Trade Ministers will meet in the sidelines of this meeting and seek to thrash out agreements on key outstanding issues. If they succeed I see no reason why TPP cannot be ready for signature by the middle of 2014. I make no predictions on ratification....

Once TPP enters into force it will be interesting to see what happens in the rest of APEC. My current feeling is that Korea will move quickly to seek membership. Taiwan will also put its hand up – but that is a bit more complicated and I will comment specifically on that possibility in due course. Colombia will seek to join but Colombia is not part of APEC. Thailand should seek to join, but may be reluctant to because of the pressure this will place on the services sector where imported vested interests do not want change. Indonesia will be interesting to watch too.

China has been watching TPP develop very closely. While some initial commentary was interpreted as hostile, my view is that there is considerable positive interest in TPP in China and that we should not rule out Chinese interest in joining sometime within the next 5 years. By that time China will have completed FTAs with many of the TPP participants so this will essentially be a negotiation between the US, China and Japan.

China's joining TPP will be a positive thing for world trade and for APEC and therefore should be encouraged by all TPP members. China joining TPP also makes it essential that Taiwan and Hong Kong also join TPP. China and Hong Kong have a high quality trade agreement in place. And in 5 years time the China-Taiwan Economic Cooperation Framework Agreement will have expanded its scope considerably. Taiwan will have agreements in force with New Zealand and Singapore, and as the New Zealand agreement proves, Taiwan is more than capable of meeting the TPP standard.

I believe that it will be in the interests of all TPP members to support an APEC or WTO type solution to the expansion of TPP to China and the two separate customs territories. In APEC China, Taiwan and Hong Kong joined at the same time. And China and Taiwan joined the WTO within minutes of each other. It is a formula that works.

Once China, Taiwan and Hong Kong join TPP I would anticipate the rest of the APEC membership to move quickly to join.

A TPP that includes all of APEC, will have huge impact on the WTO process. Can those not part of TPP continue to resist global liberalisation? I expect another serious attempt to re-launch global trade talks about the same time as China begins to negotiate membership of TPP. Should these talks not get launched or should the talks fail (yet again) then the logical step would be to link TPP with the outcome of the TTIP process. In seven years that negotiation should have been completed. That would essentially force the rest of the world back to the negotiating table in Geneva and encourage a much more ambitious outcome from the WTO process than we have seen in the past.

So, from my perspective TPP has a critical role to play in determining the future shape of the global trade policy architecture. It will have significance not just for the APEC process, but for the TTIP and the WTO processes also.

As often happens in the trade policy game, outcomes take much longer than are initially hoped for. But the vision that some of us were discussing back in 1997 and 1998 is remaining intact. TPP looks as though it might succeed, indeed its initial membership is much larger than we thought possible in the 1990s. If it is a high quality agreement (and it can be) an expansion of TPP will be inevitable. Those that stand outside will become increasingly non-competitive. We can't allow this to happen within APEC. All APEC members need to be encouraged to join. And we can't allow the rest of the world to become uncompetitive. TPP must be allowed to grow beyond APEC. I have above suggested two possible ways this growth might happen.

Thank you again for this invitation to participate in this well timed event. This is an optimistic view. I hope the outcome of the Bali TPP Leaders' meeting supports this optimism. The next few months will be critical to the delivery of this vision. I will be observing with great interest, as should the world.