

**Remarks by Rt Hon Mike Moore,
Ambassador of New Zealand to the United States
to the 20th General Meeting of the
Pacific Economic Cooperation Council**

Thank you to the organisers. It's a pleasure to be here as part of the 20th General Meeting of the Pacific Economic Cooperation Council.

I've been asked today to talk about the emerging role of bilateral FTAs in the Asia Pacific.

Importance of multilateral trading system

Before I begin talking about the region I'd like to first acknowledge the importance of the WTO as the overriding trade priority for my country.

We've always pursued Asia Pacific regional economic integration on the assumption that the WTO would continue to provide the essential unifying framework.

I'm personally heartbroken that it is taking so long to conclude the Doha Round. We just can't seem to get the political stars to align at the moment.

New Zealand is totally committed to the WTO and to the conclusion of the Doha Round. But we're realists. We know that the Round isn't going to conclude this year. Some expectations are unrealistic - and we need to take time for the system to work through how it will respond to the realities of the negotiating environment in Geneva.

We don't need more high level pronouncements calling for redoubled efforts, or renewed flexibilities. We've tried that. It didn't work. We need to be honest about where we're at, and encourage honest conversations in Geneva about the way ahead.

In today's world of global supply chains, a multilateral agreement makes the most sense. Today, over 50% of non-fuel world merchandise trade comprises trade in intermediate goods - parts or components that trade across national borders before becoming part of a final traded product.

Regional and global supply chains deepen the interdependency of trade relations. One recent study gave the example of the Boeing 787 Dreamliner - which has a wing box made in Japan, engines made in the UK, landing gear made in France, a control fuselage made in Italy, wing tips made in Korea, and the pilot control system in the US.

It is not too much of a stretch to say, as the study does, that many products are no longer made in a single country but are rather "made in the world".

Regional supply chains in Asia-Pacific

Nowhere has this trend been more evident than in the Asia-Pacific region. In Asia, intermediate goods are more than 60 per cent of imports. Add to this trend the development of government policies in Asia that are conducive to international investment and trade, and you have an ever deepening integration of national economies.

In the context of deeper economic integration in the Asia-Pacific, the logic is compellingly in favour of having a coherent set of regionally agreed regulatory rules for trade and investment.

But, as we know, at present the reality of trade rules in the Asia-Pacific region is very different. It has been famously described as a "noodle-bowl" of overlapping and sometimes contradictory regimes.

Long history in Asia-Pacific region of pursuing bilateral and regional FTAs

The number of intra-Asian free trade agreements (FTAs) has exploded, rising from 6 to over 70 in the past 15 years; on top of that 18 more have been completed but not yet implemented; and an additional 70 are under negotiation. By contrast, the United States has negotiated only 2 FTAs with the Asia-Pacific (with Singapore and Australia).

New Zealand's first FTA was with Australia back in 1983 and this has now expanded to the extent where we no longer only talk about Closer Economic Relations - we also talk explicitly about two countries, and one market - we're striving for a true, Single Economic Market.

But we only seriously got into the FTA business in the early 2000's and we now have FTAs with Singapore, ASEAN, China, Hong Kong, Malaysia and Thailand. We are currently negotiating the Trans-Pacific Partnership, which I'll talk about later and we are also negotiating with India, Korea and Russia. Our FTA with China was signed in 2008. It is a comprehensive agreement and we've seen our exports to China double in the last two years under the FTA.

Let's be honest, the first trade deals in Asia in the late '90s and early 2000's, like in other regions, were low quality deals. But increasingly we've been seeing what my Trade Minister, Tim Groser, likes to call a "flight to quality".

And these FTAs are not just more comprehensive but we are also converging into broader groupings. This is a natural progression to clean up the noodle bowl that is so frustrating for business, especially small business exporters.

Ultimately, trying to move forward using a patchwork of bilateral FTAs does not make sense economically, strategically or geo-politically.

For this reason NZ is an enthusiastic supporter of the various regional economic integration initiatives under way. And, importantly, we see these as complementary - as potential pathways towards the same ultimate strategic objective.

The Trans-Pacific Partnership (TPP) is one pathway that New Zealand is pursuing toward a high quality, free trade agreement in the Asia-Pacific. It is, of course, not the only one. APEC is doing some valuable work in this space. And New Zealand is closely involved in the economic integration initiatives in the East Asia Summit.

EAS – ASEAN +3, ASEAN+6 and CEPEA

ASEAN+3 and ASEAN+6 are bold concepts which are proceeding incrementally, led by officials in technical working groups. No political decisions have yet been taken on how to translate these ideas into a mandate for an actual trade negotiation, but it is clear they are moving forward.

New Zealand is involved in the ASEAN+6 as one of the 6 partner countries that includes Australia, China, India, Japan and Korea.

We are also very interested in ASEAN's intention to develop an ASEAN "plus plus" template.

AANZFTA

This is actually very similar to the strategy that Australia and New Zealand adopted in negotiating an FTA with ASEAN. In 2010, we began to progressively phase in the AANZFTA agreement over an eight-to-nine year period to create a single unified trade zone between Australasia and the nations of South East Asia.

What is of particular importance to our businesses is that we have cleaned up the rules of origin. Within AANZFTA we have region-wide rules of origin and are effectively dealing with the noodles in the bowl.

APEC

APEC is also doing valuable work on regional economic integration with particular focus this year on next generation issues: facilitating global supply chains, integration of SMEs into global supply chains and innovation policies. This is all in the context of working toward a Free Trade Agreement of the Asia Pacific.

TPP

And one possible building block to the FTAAP is the TPP. .

One obvious point about the TPP that differentiates it from the other concepts I've mentioned today and something that is of great importance for New Zealand is that it includes the US.

Asian manufacturing still depends crucially on the US as an export destination and draws on US entrepreneurial energy and innovation. And this goes deeper than just providing a destination for final products. The US is part of the regional supply chain so there is a need to ensure the US is built into the trade architecture in the Asia-Pacific.

It's also important from a geo-political perspective that the US is engaged in the region. The Obama Administration has clearly grasped the crucial role the Asia-Pacific region will play in the 21st century and sees the TPP as a way to embed the US as a partner in this region.

The history of TPP is worth bearing in mind because it reminds everyone that this is a moving game.

New Zealand and Singapore concluded an FTA in the late 1990s. The point of this negotiation was almost purely strategic - to build a strategic bridge between two small, open economies that could set the basis for future trade integration in the wider region.

Then in 2005 we formed an agreement between the Pacific Four or 'P4' countries which added Chile and Brunei. This has now expanded further to the current TPP negotiations, which includes nine APEC economies – the original 'Pacific 4' countries plus US, Australia, Malaysia, Peru, and Vietnam.

If TPP is successful, it will not stop with the current membership of nine APEC economies. The TPP is a regional building bloc, open to all countries able to meet its high standards. New Zealand sees it very much in these inclusive terms: it will expand the opportunities for all our economies by wider and wider concentric rings of freer trade and investment.

The negotiation itself is making progress. 450 TPP negotiators from the nine participants met recently in Chicago for the eight negotiating round and continued to make good progress across the 20+ chapters which are under negotiation.

We will use the next negotiating Round in Peru, in mid-October, to continue to build momentum. Our hope is that, when President Obama hosts APEC in Honolulu later this year, he will be able to announce the broad outlines of an agreement

We are under no illusion that much of the difficult negotiation lies ahead of us. But this is a big objective aimed at developing pathways toward an Asia-Pacific FTA. No-one would expect that to be easy.

Thank you for the opportunity to talk with you today about the trends of trade agreements in the Asia Pacific region. I look forward to the discussion.