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## **AND THEN THERE WERE FIVE**

**By Stephen Jacobi<sup>1</sup>**

*Stephen Jacobi comments on the significance of the United States joining the P4 negotiations on financial services and investment.*

“Free at last ?” Are we finally drawing closer to the time when Martin Luther King’s immortal words might apply to trade between New Zealand and the United States ?

Well maybe. Last week’s announcement by US Trade Representative Susan Schwab that the United States would join the P4 partners - New Zealand, Singapore, Chile and Brunei – in negotiations on financial services and investment was immediately welcomed by the NZ US Council and other business organisations. Why ? Because this is the first time – at least since the abortive APEC negotiations in the late 90s – that the United States has been prepared to enter into binding negotiations to reduce trade barriers with New Zealand. And because the Administration is also beginning a “detailed exploratory process” to determine whether it should participate in full free trade negotiations with P4.

What is P4 ? This unlikely grouping committed to a Trans Pacific Strategic Economic Partnership in 2006 but while the trade involved might have amounted to small beer the strategic value of the partnership has been borne out by the announcement from Washington last week. The four partners represent the more open trading economies within APEC and their geographical spread effectively links one side of the Pacific with another. When P4 was first mooted in the 90s, the US was one of the four. That they were eventually replaced by Brunei says something about the pace of trade liberalisation in the Asia Pacific region and about the difficulty which small nations like New Zealand have in hooking the big fish.

I admit to having been sceptical about the significance of P4 but now take my hat off to those trade negotiators who took a longer term view. In an environment where multilateralism through the WTO appears to be giving way to a confusing network of bilateral and regional trade agreements, New Zealand’s trade policy has become a matter of moving ahead one step at time, building linkages which are important for the future, remaining part of the emerging picture.

As it is today P4 should not be such an enormous leap for the Americans. They already have FTAs with Singapore and Chile. New Zealand possibly presents the biggest hurdle with dairy interests in the US already having made clear their

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opposition to any future deals with New Zealand. Their opposition is offset by strong support from the US Chamber of Commerce, the National Association of Manufacturers and the Coalition of Service Industries.

There is some risk also from the current electoral process in the US: while Senator McCain is on record as saying “free trade should be the continuing principle that guides this nation’s economy”, Senator Clinton has called for “time out” on future negotiations. Barak Obama admits “global trade is not going away” and the focus should be on assisting workers displaced by competition.

In any event we are not at the point yet of a comprehensive negotiation. That will depend on the quality of the consultation process which may take several months bringing it close to US general election in November. That the US is prepared to enter negotiations on financial services and investment shows that US trade policy does not stand still, even in the face of political uncertainty.

The P4 announcement is significant in another way too – it cements the progress that has been made in strengthening the relationship with the United States in recent years. Government, MPs from both sides of the House and business have worked well together to bring this about, notably through two successive Partnership Forum events, one in Washington in April 2006 and one in Auckland in September 2007. As a result New Zealand now boasts a high level constituency in the United States that is fully aware of the value of the relationship with New Zealand.

The NZ US Council has consistently advocated that a closer economic relationship with the United States is in New Zealand’s interests. US investment, technology and business ideas are vital to economic development. New Zealand companies need a level playing field in the US market alongside competitors including Australia and Chile. The US can find no better ally than New Zealand in the cause of freer trade globally.

If successful, the current negotiations could provide a pathway to a future comprehensive “P5” arrangement. Hopefully others like Australia and Korea might be persuaded to join thereby developing new momentum towards the thus far elusive goal of free trade within APEC. We shouldn’t count all our chickens before they’re hatched. There will be battles to be won in completing the current limited negotiations.

But P4 helps us to move beyond wishful thinking and look forward to the day when we might just be able to say, in the words of that old spiritual, “free at last – thank God almighty free at last !”