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“NZ US BUSINESS RELATIONS: BEYOND FRIENDS”

It's good to be with you, and in such distinguished company, to give a business perspective on New Zealand's relationship with the United States.

I do so on behalf of the NZ US Council, a non partisan organisation funded chiefly by business but also by the Government, and committed to fostering the strongest possible relationship with our second largest trading and investment partner.

The Council brings together a number of companies and business organisations with interests in the United States.

We work actively with our counterpart organisation in Washington DC which brings together a similar grouping of American interests.

I'd like to reflect for a moment on the context of this symposium.

The events to be recalled over the coming weekend were a landmark in the history of both New Zealand and the United States.

The end of hostilities in Europe 89 years ago must have come with a profound sense of emotional and physical relief to those service personnel who had bravely answered their country's call but found themselves caught up in this nightmarish and for the most part utterly senseless conflict.

The New Zealanders who fought in the “war to end all wars” had only beginning notions of distinct nationhood.

They saw themselves as British, first and foremost, as the war memorials dotted all over this country attest.

They were part of a great Empire whose declining days were beginning to be felt.

Their home economy - notwithstanding the early history of trading with both Australia and the United States - was firmly dependent on the mother country.

Fast forward ninety years or so, and how the picture has changed !

New Zealand and American service personnel continue to serve together in places like Afghanistan and in the Gulf.

The two countries have stood alongside one another in every major conflict of the 20th century, if not in the current conflict in Iraq.

But it is no longer mother Britain that rules the waves or commands New Zealand's armies to battle.

New Zealand's distinct sense of nationhood has led to the development of an independent foreign policy just as the development of our economy has led us to diversify our economic partners.

In economic terms the two countries are far more closely connected than those fighting alongside each other 89 years ago might ever have imagined.

It should therefore come as no surprise if my thesis for this presentation is that, as far as business relations goes, New Zealand and the United States are certainly more than just friends, even very, very, very good ones.

At the second US NZ Partnership Forum held here in Auckland last September the former Secretary of State, Rich Armitage, told the press that the United States and New Zealand were "on a date".

If that is the case, this is not the first time we have been out together.

So comfortable are we in each other's company in fact that we on the New Zealand side would like to commit to a more formal economic relationship – a sort of marriage made in heaven, if you like, or at least a free trade agreement.

Against that background then let me consider both the present shape and the future direction of the economic relationship between us.

A significant relationship

I sometimes wonder whether many New Zealanders realise just how important the United States is for us in economic terms.

The US is already New Zealand's second export market overall and the largest export market for dairy products, beef, and seafood, the second largest purchaser of manufactured goods and among the top five markets for sheep meat, forest products, fruit and vegetables.

But these statistics don't tell the full story.

Alongside the volume of trade needs to be counted the United States as a source of business ideas, entrepreneurship and strategic alliances for the growth in new business in global markets.

As well as academic and scientific exchanges, which I know my colleague Mele Wendt will be talking about later, there is the role of the United States as a fulcrum of thinking, scholarship, research and innovation.

And not least there are the shared interests of both countries in free and open trade and the spread of the rule of trade law which gives rise to extensive co-operation between the two in the World Trade Organisation and APEC.

In these latter areas the United States finds in New Zealand not just a very, very good friend, but quite simply no better ally.

Something of the dynamic nature of the relationship is captured in success stories about business between the two countries which feature regularly on the Council's website – www.nzuscouncil.com.

Here is a recent selection:

- North America is New Zealand's second largest sheepmeat export market after the EU representing 14% of the value of total sheepmeat exports from New Zealand. The New Zealand industry is spending over \$2 million to stimulate North American consumer demand for high value rack and middle cuts of New Zealand lamb
- Comvita, the honey producer, has won a contract to supply the first manuka honey dressings to the American wound care market. That total market is worth around US\$2.9 billion – no licking of the wounds there !
- Wendy Pye, the well known New Zealand publisher and designer of the leading edge reading systems, has signed a contract with Time Warner to deliver internet based reading programmes to over 7 million cable subscribers in the United States
- The Blenheim company Wine Technology Marlborough is making significant inroads into the American market for winery management systems: meanwhile New Zealand wine exports continue to enjoy improved brand recognition and significant sales growth in the US market
- The leading Wellington outdoor clothing firm, Icebreaker, has set up a new design team for new merino products based in Portland, Oregon

- With the support of New Zealand Trade and Enterprise over sixty meetings were set up for 35 New Zealand firms attending the biotech conference, Bio, held in Boston last June.

This relationship is big - very big - like our partner country itself, but despite all the good news a closer analysis of statistics and trends reveals a less than comforting picture.

For this analysis I'm grateful to the NZ Institute which undertook this work for the Council.

The Institute points out the extent of the gap in the size of the relationship – New Zealand ranks only 43rd as an export market for the United States.

There's also a gap in terms of wealth.

The US ranks 3rd in the world for per capita income compared to New Zealand's ranking of 22nd.

New Zealand's income level is currently about 60% of the US.

Over the past 15 years or so, the economic growth rates of New Zealand and the US have been about the same.

Both countries have generated strong economic performance but the income gap has remained pretty much constant.

There are strong similarities between the two countries in terms of economic policy settings.

The US and New Zealand are both ranked third even in the Economic Freedom Index compiled by Canada's Fraser Institute.

The World Bank provides a similarly high endorsement of both economies in terms of ease of doing business, with New Zealand ranked second and the US ranked third.

On the other hand the World Economic Forum's Global Competitiveness Report, suggests a significant gap remains between New Zealand and the US.

A review of the goods exported and imported reveals that New Zealand is largely sending products from the agricultural sector to the US, and receiving higher technology complex manufactured goods from the US.

That's fair enough if it were not for the fact that the value of trade between the two nations has grown at a slower rate than with the rest of the world: this means that each country has effectively lost market share in the other.

New Zealand's declining market share of US imports means that New Zealand firms have not grown their business in the US as fast as firms from other countries.

There are more positive signs in the bilateral investment relationship.

The US takes 7% of total outward investment, our second largest destination.

And the US is a significant investor in New Zealand, with 11% of New Zealand's inward direct investment (valued at \$9 billion).

The recent growth in New Zealand foreign direct investment into the US in particular indicates a view that the US is a market that provides significant opportunity.

Fletcher Building's recent acquisition of Formica Holdings and Mainfreight's purchase of Target Logistics are recent examples.

Encouragingly also direct investment from US firms is also increasing, which indicates positive sentiment towards New Zealand despite concern amongst American investors about the high cost of environmental regulation and the operation of the Resource Management Act.

On the other hand a recent survey by the American Chamber of Commerce also pointed to the departure of a number of significant American companies from New Zealand.

To assess whether the size and growth of the New Zealand's economic relationship with the US represents good, bad, or indifferent performance, it is useful to benchmark against other countries.

We are particularly interested in benchmarking with countries with a similar population size to New Zealand and that are physically distant from the US, as well of course as Australia.

For New Zealand, the economic relationship is sized at about \$7 billion or about 4% of domestic GDP.

This compares to an economic relationship with the US of 10% of GDP in the case of Australia, 11% of GDP in Denmark, 7% of GDP in Finland, and 16% of GDP in Sweden.

The stock of investment is a major driver of the difference in the size of the economic relationship.

Australia has US\$50 billion of FDI in the US, Sweden has \$23 billion, compared to New Zealand at US\$270 million.

There are big differences in terms of exports of goods and services as well.

Some other countries have also been growing their relationships at a much more rapid rate than has New Zealand (Australia at 10%, Denmark at 19%).

So although New Zealand is growing its economic relationship with the US, the growth that New Zealand has achieved does not compare well to the growth achieved by several other countries.

This means that there is considerable opportunity for New Zealand to do better in terms of growing the economic relationship.

So what can be done ?

Increased focus by New Zealand companies, more assistance and support for exporters in addition to that already provided by NZ Trade and Enterprise, an improving climate in New Zealand for competitiveness and investment are all important factors.

There is no doubt that a free trade agreement, if one could be achieved, would also help take the already substantial economic relationship to a new level.

An FTA with the United States could be expected to focus unprecedented commercial attention on New Zealand as a trade partner and lead to even greater trade flows and investment in both directions.

Already our two competitors, Australia and Chile, both have FTAs with the US and they will use these agreements to develop their economic relationship even further.

The lack of an FTA is not an absolute impediment to the development of successful business – the US is for example the largest offshore market for the dairy company Fonterra even though excessively high tariffs prevent the sales of consumer dairy products.

The point is that some potentially lucrative markets continue to be denied to us.

If the trade relationship is to be the best it can be, we need access to the US market at least equivalent to our competitors.

The future outlook for an FTA is closely linked to the issue of the President's authority to negotiate trade agreements – the so called TPA or Trade Promotion Authority.

This is the authority granted to the Administration by the Congress to negotiate trade agreements without the requirement for a clause-by-clause vote by Congress.

Negotiating in the absence of TPA is not impossible, just more difficult, as it is uncertain whether the final result would be accepted by Congress.

The current TPA expired on 30 June 2007 and there is currently a stand-off between the Congress and the Administration about whether it will be renewed at all in the remaining term of the current President.

This makes it difficult to make progress on an FTA with New Zealand for the time being.

It's just as well that New Zealanders are a patient people, although it seems more than a little strange that we might achieve free trade with China before the United States.

For the present our strategy is to continue to build the relationship with the United States so that when the President receives a new TPA from Congress there can be no question that New Zealand is at the top of the list.

Some are inclined to argue that an FTA is not worth having.

I suggest they tell that to the meat industry whose competitors in Australia enjoy a \$13 million tariff advantage over New Zealand beef exports.

We at the Council intend to use the time between now and the granting of a new TPA both to strengthen the constituency for New Zealand in the United States as well as updating the research on the value on an FTA to both countries.

An improving relationship

It's against this background that the Council has been delighted to welcome the significant improvement in the relationship over the last eighteen months.

Success invariably has a thousand fathers and mothers but a lot of people have contributed to this improving relationship.

Both Governments deserve our thanks as do key officials on both sides, especially Assistant Secretary for East Asian and Pacific Affairs in the State Department, Chris Hill, who was with us at our Forum in Auckland in September.

In New Zealand there has been a bipartisan approach to the goal of relationship improvement which has been very helpful.

Ambassadors Ferguson in Washington and McCormick in Wellington have also played a key role, notably in preparing the visit to Washington by Prime Minister Helen Clark last March.

The significance of Helen Clark's visit is that is now acceptance at the highest level of the Administration that past differences need not act as a barrier to expanding co-operation with New Zealand in a range of fields, including trade.

When they met at the White House both Helen Clark and George Bush focused on moving around what are termed "the rocks in the road".

Those rocks are the nuclear issue which has bedeviled the relationship for some twenty years and latterly the war in Iraq.

We should be under no illusions that on both these issues there continues to be a significant difference of view between Wellington and Washington.

But Helen Clark's visit underlined a recognition that these past differences need no longer define the relationship or act as a barrier to even greater co-operation.

That is important precisely because New Zealand's interest is an enhanced relationship across the board - one that reflects the things the two countries have in common, one that can see above and beyond past differences or sectoral interests, one that can overcome the inevitable opposition to an FTA on the part of subsidised American farmers and deliver greater economic value to both partners.

An expanding partnership

Another significant step in relationship building took place in Auckland last September at the second US NZ Partnership Forum organised by the Council in association with our counterpart in Washington.

The first ever Forum took place in Washington DC in April 2006.

That event was credited in helping build the new momentum in the relationship which led ultimately to the Prime Minister's visit.

The Auckland event brought together the most senior American delegation to have ever visited New Zealand – 47 delegates in total drawn from government, business and civil society.

They met with an equally senior delegation of New Zealand business and government leaders.

Under the theme of “Partnership and Innovation” the Forum focused on the potential for the United States and New Zealand to cooperate on matters of regional growth, economic and enterprise development, sustainability and renewable energy.

The Forum was chaired for the US by former Trade Representative Clayton Yeutter and former Governor of Iowa Tom Vilsack.

Jim Bolger and Mike Moore chaired for New Zealand.

Over two days the Forum examined in detail those innovative ways in which a small country can co-operate with a large one to address the challenges of doing business in today’s complex environment.

For example a series of case studies highlighted examples of entrepreneurial collaboration in key sectors.

Each of these featured a different example of how New Zealand can work with the United States – a large co-operative perspective in the case of Fonterra and Dairy Farmers of America; a small company like Wendy Pye working with a huge company like Time Warner; niche opportunities in biotech leveraging New Zealand’s agricultural research expertise; talented New Zealanders working inside global companies like Google.

The Forum aimed to motivate an influential group of advocates from each country with a common agenda to promote an even deeper partnership between the two countries.

It concluded with delegates agreeing that a further Forum would be held in Washington DC in early 2009.

Two particularly positive developments were the resolve to broaden the dialogue to include a younger generation of leaders in both countries and the request from the American side that the next Forum should also include discussion of the security situation in Asia and the Pacific.

It is significant that we are confident enough to talk about security without engendering a re-examination of the nuclear issues on which both countries retain positions of principle.

This also demonstrates most graphically the considerable distance that has been travelled in this relationship over the last eighteen months.

Conclusion

In his concluding remarks at the Forum my colleague and friend John Mullen, President of the US NZ Council, quoted that old Bing Crosby song: “You’ve got to accentuate the positive, eliminate the negative, latch on to the affirmative, don’t mess with Mister-In-Between”.

There is much in the relationship that is positive – the scope and dynamism of the current economic relationship and the expanding sense of partnership between the two countries in fields beyond the trade and investment.

Yet even after the highly successful Partnership Forum in Auckland there remains more than an element of “in-between-ness” in the relationship.

We are “very, very, very good friends” rather than the allies of 89 years ago.

In economic terms we are closer than ever, although our performance leaves room for improvement.

We at the NZ US Council have no doubt that a future free trade agreement would help address the gaps in the relationship and put us on a level playing field in the American market alongside our key competitors Australia and Chile.

Above all it would build on the legacy of a shared history forged in Flanders fields and later on Pacific atolls and bring the relationship firmly into the 21st century where new challenges and new opportunities await.