



## Trade update

Nearing the end of 2016 the prospects for international trade seem fairly mixed.

Many New Zealand exporters say this has been a good trading year and expect similar in 2017.

But the wider trade scene is less certain. There's been much inertia in global trade over the last decade. During the previous twenty years - roughly 1985 to 2005 - global trade grew twice as fast as global GDP. Since the global financial crisis however it has barely kept pace.

The World Trade Organisation has cut its 2.8 percent forecast for this year's trade growth down to 1.7 percent.

There's been a rise in protectionist-type behaviour by some countries and anti-dumping penalties have been on the rise.

The most striking setback for trade has been Donald Trump's announcement that on his first day in office he will issue an executive order withdrawing from TPP.

As with some other pronouncements by the President-elect it's hard to know how seriously to take this.

Many members of his own party and some of his cabinet nominees - secretary of state, commerce secretary, head of defence department and ambassador to China - have previously supported TPP, and it may be that the weight of advice and evidence will eventually lead to a softening of attitude towards free trade and the TPP.

Some Republicans are making a case for renegotiating and improving parts of the TPP. They would like longer protection periods for pharmaceuticals, rules against currency manipulation, and some way of guarding against abusive litigation against governments by multinational companies.

It's encouraging to see the TPP being defended but the likelihood of being able to renegotiate parts of the TPP with all the other parties is pretty remote.

The best chance of saving the TPP might be for the remaining 11 partners to renegotiate the parts that are dependent on US ratification, and carry on without the US. It's possible that the US might then reconsider and seek admittance to the deal at a later date.

But having the US stay in TPP now would be the best outcome for New Zealand.

The greatest value of TPP for New Zealand has always been its potential to deliver free trade with the three large economies of the US, Canada and Japan. We have so far failed to achieve this with any of the three.

Attempts at a bilateral deal with Canada have been made regularly over the years but they have always failed because of agriculture.

Japan has also been wary of opening up to agricultural and food imports.

And the US has nothing in particular to gain from allowing New Zealand greater access to its market.

Getting all three together within the TPP would have kept New Zealand competitive in those markets.

With the US probably gone, it's fortunate that Japan appears to be staying the course with TPP, even though its main reason for taking part was to get access to the US consumer market.

Japan has other reasons for staying in the fold, realising they need to embrace international trade as a way of stimulating an economy that has been underperforming for years.

While the TPP totters on amid some uncertainty, RCEP appears to be moving forward.

This huge Asian-based trade deal overlaps the TPP to some extent – seven of its 16 proposed members including New Zealand would also be members of TPP.

RCEP is a simpler deal than the TPP. It's mainly focused on cutting tariffs rather than protecting intellectual property or aligning investment or procurement rules.

Once it passes the finish line RCEP might bring some order to the current noodle-like array of bilateral trade deals in the region – Asia currently has 147 free trade agreements in force and a further 68 under negotiation.

The most strategic feature of RCEP is that it includes China - all other RCEP members have a huge interest in reducing tariff barriers to the enormous Chinese market.

RCEP is also strategic in demonstrating the importance of being at the negotiating table with China - and could conceivably lead the US to reconsider any decision to remain outside the multilateral trading system.

That would be a good outcome for 2017.

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