



Globalism Over Protectionism: Guarding the Interests of New Zealand and the Asia-Pacific Region

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Hello everyone, and thank you for the opportunity to join you for this conference. Today I want to talk about how we can best guard the interests of New Zealand and the Asia-Pacific region by strengthening our international connections, not by building protectionist barriers.

Without question, protectionism has been a word that has had a resurgence in 2016. You know what I'm talking about. You've read it or heard it. It largely stems from the US and parts of Europe, and reflects a view – misguided from my perspective – that prosperity comes from putting up barriers rather than building connections.

I have to say that I'm neither reading nor hearing similar sentiments from the Asia-Pacific, where most of the world's people live, the fastest-growing part of the world and the region that we are based in. Asia has seen first-hand the incredible benefits that greater connectedness can bring. According to World Bank data, back in 1990 there were just under a billion people living in absolute poverty (less than US\$1.90 per day in 2011 dollars) in the East Asia and Pacific region, more than the rest of the world's people living in absolute poverty combined. By 2013 that number had fallen to 71 million, a drop of around 93 percent in a single generation.

In the words of economist Max Roser, “The number of people in extreme poverty fell by 130,000 since yesterday’ should have been the headline every day in the last two decades.”

A connected, open, global economy helped make that happen. By contrast, protectionism is a recipe for perpetuating poverty.

But there’s undoubtedly been a mood of uncertainty about the value of globalisation and the value of free trade that we haven’t seen for some time. And if it spreads it would be a big risk for New Zealand’s living standards. A small open economy like ours can’t get rich by just selling to itself. We need to be connected with others, to trade, invest and exchange ideas. We’ve learned from experience.

Over the last twenty to thirty years barriers have come down – although we do need to address the issue of non-trade barriers – and New Zealand exporters have gained greater access to markets around the globe. Trade has undoubtedly prospered. If some of our major trading partners move towards greater protectionism, it will hamper our ability to export and compete for markets.

A world closing in on itself could hit New Zealand hard.

So what can we, and other nations in the Asia-Pacific region, do to push back against protectionism?

I suppose that, for a start, we shouldn’t jump to the conclusion that the triumph of protectionism has somehow been sealed by events over the past year. It hasn’t. Let’s look at some examples that many point to as evidence supporting the end of international connectedness:

- The UK has indeed decided to leave the largest single market in the world. But I’ve also heard UK Ministers talk about free trade in terms that all of us in New Zealand would recognise.
- The FTA between the EU and Canada did indeed almost fall at the last minute but in the end the two parties did sign an agreement.
- The TPP – in its current form anyway – does look as if it will not proceed but there are many free trade agreements in existence around the world and also many that are being explored or negotiated. The EU, for one, is actively engaged in free trade negotiations.

And take the Regional Comprehensive Economic Partnership (RCEP) as an example. It’s an FTA that’s being negotiated between the 10 ASEAN members and Australia, China, India, Japan, South Korea and New Zealand. These countries have a total population of more than 3 billion, a total GDP of around \$US23 trillion and account for about 27% of global trade and 55% of our goods exports.

So the international connectedness that we’ve seen grow over the last century – what we call globalisation – appears to have some life left in it. In my view, it’s here to stay.

On the other hand, ignoring the debate that’s happening in some parts of the world would be a mistake. I suggest that we need to do four things.

First, we need to recognise that while free trade and globalisation have undoubtedly been good overall, they haven't been good for everyone all of the time.

For example, across countries and regions, industries have changed dramatically or disappeared or new ones created. That may have happened anyway, whether or not the world was as connected as it is now. But globalisation has accelerated the pace of change and that has led to dislocation as well as opportunity. In some advanced economies low and middle-income earners have seen their incomes stagnate; they believe the benefits of globalisation have accumulated to other people and to other countries while leaving them behind.

The impacts of globalisation – real or perceived – have to be recognised and addressed head-on.

How that's done will vary from country to country, and industry to industry. For one thing, we see it as important that New Zealanders have skills that are adaptable and transferable. People need to be able to move from industries that may be affected by competition to those that are growing, taking up new opportunities that openness actually creates.

Second, with the anti-globalisation movement getting so much air-time, the public need the chance to hear clear and compelling reasons why international connectedness is good for the community at large, especially in a post-truth world facing the modern challenge of so-called 'fake news'.

We need to get better at both explaining the benefits of free trade and greater connectedness as well as listening to the valid concerns of people. And it isn't just the government or think-tanks who need to do this. The business community in particular needs to be making the case for free trade, loudly, clearly and regularly.

Third, let's make that case tangible. Having an internationally connected and competitive economy helps to create jobs, and free trade has given New Zealanders fantastic access to goods and services that would otherwise be hard to get and hard to afford.

It's not only about our links across the distant corners of the world; just consider the benefits of our links across the Tasman.

Our trade and economic relationship with Australia helps drive the New Zealand economy. Rather than have a market of four and a half million people, we have one of 29 million. Australia is our biggest market for goods and services exports (\$13 billion in exports in the year to June 2016, 18.3% of total exports), our biggest source of capital (51% of the foreign direct investment stock) and our biggest destination for overseas investment (\$60 billion). We are each other's largest source of inbound visitors, with over 2.5 million trips across the Tasman every year.

So if you want to see evidence of the advantages of free trade, of interconnectedness and of globalisation, well it's on our doorstep.

Yet some people are attracted to protectionism in the belief it will mean more jobs and higher incomes. A recent study of 40 countries suggests that what they could get instead is a big

drop in their purchasing power. A closing off of cross-border trade is projected to knock 28 percent off the purchasing power of the highest decile of consumers, and a massive 63 percent off the purchasing power of the poorest decile.

And incidentally, don't assume that new tariffs between other countries don't matter to us. Tariffs on imports from Mexico – to pick an example out of the air – would impact New Zealand businesses who export from there as much as a Mexican or any other business.

Fourth, let's seize the opportunities in front of us. Globalisation is alive and well in our region and across most of the rest of the world. In Asia the debate isn't about closing up; it's about how to grow, how to improve infrastructure, how to connect with trade partners in the region and beyond and how to enjoy increased prosperity.

New Zealand is closer to the driving force of global economic activity than ever before, and we must take advantage of this if we are to keep raising our living standards.

There is a growing middle class not just in China but in India, Vietnam, the Philippines, Malaysia, Indonesia and elsewhere in the Asia-Pacific region. One estimate is for the Chinese, Indian and Southeast Asian middle classes to be almost 2 billion people by 2020. That is a vast group of markets for New Zealand tourism, for our export education, for the high quality agricultural commodities that we produce now and the new products and services we will develop in the future.

Sinking more roots in the ground in Asia – and indeed elsewhere – will help New Zealand's economy to grow in the good times and be more resilient in the bad times.

Of course the flow of trade is a critical factor but it's not the only one.

The international flow of capital helps bring in financial resources that enable our businesses to grow, as well as enable New Zealanders to pursue opportunities to invest beyond our shores. Flows of people and ideas have the potential to lift the skills of our workforce, raise our productivity, improve our cultural literacy and open up deeper links to overseas markets.

In summary, we need to strengthen our international connections, not sever them. We need to continue to embrace globalisation, not look toward protectionism. Let New Zealand and our Asia-Pacific neighbours keep our doors open to each other and work together for the sake of our current and future prosperity. Let's make the case loudly, clearly, regularly and persuasively.