

Economic Interests

The Fruits of a Kiwi Agreement

By Bruce Stokes

WELLINGTON, New Zealand—A plaque in the harbor here carries a message from the U.S. Marines, who used this port as a staging area during World War II. It reads: “If You Ever Need a Friend, You Have One.”

Such bilateral amity has been sorely lacking in recent years, thanks to New Zealand’s 1987 ban on nuclear-powered or -armed ships entering Kiwi waters. The policy so enraged the U.S. Navy that New Zealand was tossed out of America’s security treaty with it and Australia.

But with the U.S. military stretched to the breaking point by the Iraq war, failed island states proliferating in the Pacific, and China’s influence growing in the region, the Bush administration is signaling that it is ready to agree to disagree about New Zealand’s nuclear-free zone. “The stage is now set to expand our cooperation,” Assistant Secretary of State Christopher Hill said in a mid-September speech at the U.S.-New Zealand Partnership Forum in Auckland.

Translation: In return for New Zealand’s help in the Pacific and in Afghanistan, where 150 Kiwi soldiers are already serving, Washington is willing to consider a free-trade agreement with Wellington, something that has long been a Kiwi goal. The catch: No deal for at least two more years to accommodate American electoral politics.

This implicit U.S. quid pro quo is a reminder that trade agreements are likely to remain a tool of American foreign policy, no matter who the next president is. Despite the U.S. business community’s frustration with the White House over its pursuit of economically insignificant trade pacts for security reasons, the next administration will face similar pressure from small countries wanting closer economic ties.

New Zealand is a case in point: American-Kiwi commerce totaled a mere \$6 billion last year. Consequently, “the deal only becomes interesting if this is a template for other deals,” acknowledged David Skilling, chief executive of the New Zealand Institute, a local think tank.

The most important element of such a model agreement may be what would not be in it. “We won’t be expecting the United States to go to fully free trade in dairy,” said Tim Groszer, the spokesman for trade for New Zealand’s opposition conservative National Party. Such pragmatic recognition of the clout that U.S. milk producers have on Capitol Hill highlights

the fact that some sectors of both economies will necessarily be excluded from future trade deals. Washington exempted sugar from its 2004 trade pact with Australia, for example, and South Korea excluded rice from its pending agreement with Washington. So a dairy-free Kiwi accord would merely make explicit what is already implicit U.S. trade policy.

But there could also be new elements in a trade deal with New Zealand. Wellington now screens, but does not necessarily block, investments that would give foreigners more than 25 percent control of local firms. Washington objects to that policy but is under growing pressure of its own to give greater scrutiny to foreign investment. With foreign-investment controls also under consideration in Europe, a U.S.-New Zealand negotiation might develop common investment standards that could become a model for other agreements.

About 80 percent of pharmaceutical spending in New Zealand is done by the government health insurance program, which U.S. drug companies complain is often reluctant to pay for high-priced imported medications. The same issue frustrated U.S. companies in both the Australian and South Korean free-trade negotiations, and it promises to come up in future trade talks. A U.S.-New Zealand negotiation would be an opportunity for a compromise that allows

caps on drug spending yet affords New Zealand consumers greater access to innovative U.S. drugs and ensures that Kiwi consumers pay their fair share of drug-development costs.

Furthermore, at a time when countries throughout the Asia-Pacific region are engaging in bilateral free-trade discussions, said Myron Brilliant, the U.S.

Chamber of Commerce’s vice president for East Asia, a U.S.-New Zealand negotiation could set principles on intellectual-property rights and antitrust policy that could be models for others.

In Kiwi eyes, now that the nuclear friction has been put aside, a free-trade agreement with the United States is a question of “not if, but when,” said Jim Anderton, New Zealand’s agriculture minister.

In Washington, the deal is not such a certainty. But U.S. strategic interests in the Pacific suggest that one is highly likely. To make the agreement worth the effort in trade-policy terms, the negotiation should be used to develop a model for bilateral free-trade deals. ■

A free-trade deal between New Zealand and the United States could be a valuable template for future bilateral accords.

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