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# LIBERAL ECONOMICS: NEW ZEALAND FREE TRADE AGREEMENTS

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**Abstract:** Riding the crest of the “third wave” of regionalism, New Zealand has entered into free trade agreements with an increasing number of bilateral and regional partners. The focus has been on the Asia-Pacific, consistent with its economic and trade potential. The paper argues that if New Zealand is to prosper, particularly as an agricultural country, it must continue to pursue a trade liberalisation agenda. Political and strategic considerations, in addition to economic rationale, play an important role to this end and have largely driven New Zealand’s integration into the Asia-Pacific. This integration can provide a catalyst for developing political and economic relations with other outside the Asia-Pacific. This potential may be more significant than the international political importance or size of New Zealand’s economy would suggest.

**Keywords:** free trade agreements, liberal economics, New Zealand.

## 1. Introduction

This paper begins by contextualising New Zealand’s approach to international trade liberalisation within the history and structure of the New Zealand economy. New Zealand has developed a network of Free Trade Agreements (FTAs) to ensure long term prosperity despite its geographic isolation. The paper provides a brief overview of agreements in force and under negotiation, which will demonstrate New Zealand’s focus on trade within the Asian region. To conclude, the relevance of this for New Zealand’s wider international political relations is outlined.

## 2. The New Zealand economy

New Zealand is an island nation located in the South Pacific Ocean, neighbouring Australia, with a land mass of 269,000 km<sup>2</sup>, roughly the same size as Great Britain or Japan. New Zealand’s most important historical and cultural connections are with Europe, the source of much of its population of 4.3 million. However since the 1980s

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<sup>1</sup> *Disclaimer:* The views expressed in this paper are the views of the author and do not necessarily reflect the views or policies of the New Zealand Ministry of Foreign Affairs and Trade.

New Zealand's national identity has been that of an Asia-Pacific country.<sup>2</sup> This shift in orientation is a function of the developments that have occurred over the period since New Zealand's founding.

The history of the New Zealand economy can be divided into three eras, each of which can be distinguished by a particular approach to economic policy and trade that is reflective of global trends.<sup>3</sup> The first is the period from the 1890s until the Great Depression in the early 1930s when New Zealand expanded its pastoral production and export of commodities based on livestock, mostly sheep and cows. Due to technological advancements, particularly the introduction of refrigerated transportation in 1882, the pastoral export of wool was supplemented by exports of meat, butter and cheese. This in turn stimulated an increase in manufacturing to support the refrigerated economy.<sup>4</sup> Nevertheless the New Zealand economy displayed attributes of a settler economy, with dependence on the mother country, Britain.<sup>5</sup> Between 1900 and 1950 the United Kingdom share of New Zealand's exports fluctuated around 80%.<sup>6</sup>

The Great Depression of the 1930s led to a more inward looking and insular approach, which lasted until 1984. The Government played a greater role in economic management and attempted to insulate the New Zealand economy from the shocks of international trade.<sup>7</sup> At the beginning of the period New Zealand still exported large quantities of agricultural products to the United Kingdom. The proceeds were used to expand industrialisation, especially of import-substitution industries, and to maintain full employment. Industry was protected by import licensing, first introduced to New Zealand in 1938, exchange controls and high tariffs.<sup>8</sup> While there had earlier been a number of small programmes which supported the export sector, in 1979 export-oriented subsidies were raised in both the non-agricultural manufacturing sector, and in the agricultural sector through supplementary minimum payments for

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<sup>2</sup> According to the 2006 Census, 67.6% of New Zealanders consider themselves of European origin, while New Zealand's indigenous Maori make up 14.6% of the population, with 9.2% of the population originating from Asia and a further 6.9% from the Pacific. See *Statistics New Zealand: New Zealand in Profile 2009*, <http://www.stats.govt.nz> [published 15 July 2009].

<sup>3</sup> Historians have taken slightly different approaches to the division of New Zealand economic history, although they generally agree on the main turning points. The approach adopted here is that of G. Bertram, *The New Zealand economy, 1900-2000*, [in:] G. Byrnes (Ed.), *The New Oxford History of New Zealand*, Oxford University Press, Oxford and Melbourne 2009, pp. 537-572.

<sup>4</sup> J. McAloon, *The New Zealand economy, 1792-1914*, [in:] G. Byrnes (Ed.), *The New Oxford History of New Zealand*, Oxford University Press, Oxford and Melbourne 2009, pp. 197-218 at p. 216.

<sup>5</sup> See J. Belich, *Paradise Reforged: A History of the New Zealanders from the 1880s to the Year 2000*, Allen Lane, Auckland 2001, Chapter 2.

<sup>6</sup> G. Bertram, *op. cit.*, pp. 543-544.

<sup>7</sup> The 1950s and 1960s in particular saw economic management adopted along Keynesian lines, see M. McKinnon, *Treasury: The New Zealand Treasury 1840-2000*, Auckland University Press, Auckland 2003.

<sup>8</sup> G. Bertram, *op. cit.*, p. 557.

certain kinds of agricultural production, notably sheep, beef and dairy.<sup>9</sup> At its highest point, around 30% of total agricultural output was derived from government support in some form.<sup>10</sup>

Beginning in the 1950s and intensifying in the 1970s there was a strong move towards export diversification of both markets and products. From around 15% of the total goods exports in the late 1960s, forestry and non-pastoral exports such as fruit, aluminium, steel and manufactures rose to about 50% by 1980.<sup>11</sup> Markets also diversified away from the United Kingdom market, necessitated by the United Kingdom joining the European Economic Community (EEC) in 1973, as shown in Table 1. Over the period New Zealand went from essentially supplying the “mother country” to exporting to a wide range of countries located around the Pacific rim and beyond.<sup>12</sup>

**Table 1.** Diversification of export markets 1953 to 2008. Share of exports to selected countries

	1953	1963	1973	1983	2003	2008
UK	66.54	46.26	26.81	12.48	4.65	3.90
Australia	1.57	4.47	7.29	11.96	20.65	23.30
US	9.28	17.44	15.84	14.54	14.91	10.21
Japan	1.83	4.12	12.92	13.39	11.45	8.42
China	n/a	n/a	0.33	2.23	4.97	5.90
Other	20.78	27.71	37.14	47.63	48.34	48.27

Source: *Statistics New Zealand: Long Term Data Series*, Table H1.6: Share of Exports by Destination; *Global New Zealand: December 2008*, Table 1.1; at <http://www.stats.govt.nz>.

The third era comprises the period following the significant economic reforms of 1984 and after. There has been much written about the reform period.<sup>13</sup> In summary, commencing in 1984 the New Zealand economy was substantially deregulated: the exchange rate was floated, import controls were abandoned, subsidies to agriculture were abolished, tax exemptions to exporters were phased out, public sector trading

<sup>9</sup> P. Dalziel, R. Lattimore, *The New Zealand Macroeconomy: Striving for Sustainable Growth with Equity*, Oxford University Press, Melbourne 2004, p. 44.

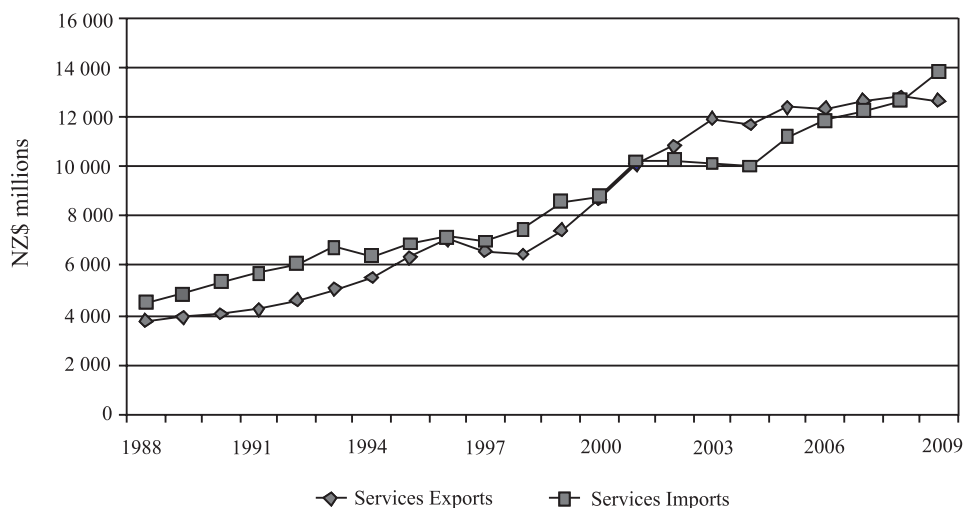
<sup>10</sup> A.B. Walker, B. Bell, R. Elliott, *Aspects of New Zealand's Experience in Agricultural Reform Since 1984*, Ministry of Agriculture, November 1993, Chapter 2, <http://www.maf.govt.nz/mafnet/ruralnz/profitability-and-economics/structural-change/reform-of-nz-agriculture/reform03/htm>.

<sup>11</sup> G. Bertram, *op. cit.*, p. 557.

<sup>12</sup> P. Briggs, Looking at the numbers: A view of New Zealand's economic history, *NZ Institute of Economic Research Monograph* 2003, No. 39, updated 2007, pp. 76-77.

<sup>13</sup> See for example, P. Dalziel, R. Lattimore, *op. cit.*; L. Evans, A. Grimes, B. Wilkinson, D. Teece, Economic reform in New Zealand 1984-1995: The pursuit of efficiency, *Journal of Economic Literature* 1996, Vol. 34 (December), pp. 1856-1902; B. Silverstone, A. Bollard, R. Lattimore (Eds), *A Study of Economic Reform: The Case of New Zealand*, North-Holland, Amsterdam 1996.

organisations were corporatised and the privatisation process begun, domestic markets were deregulated, and price stability became the key focus of monetary policy. The economic reforms shifted New Zealand from being one of the most regulated economies in the developed world to being one of the most liberal, open and market-oriented economies.<sup>14</sup>



**Figure 1.** NZ services trade 1988-2009

Source: *Statistics New Zealand: Balance of Payments Data*, Annual Data March 1988 to 2009, March 2010, <http://www.stats.govt.nz>.

This period also saw structural changes in the economy. Deregulation led to a swing towards services, particularly finance, education, tourism, business services and infrastructure utilities.<sup>15</sup> While the expansion of services had begun in the 1960s the economic reforms from the 1980s accelerated this process. The services sector grew from 52% of the economy in 1953 to 77% in 2006.<sup>16</sup> Services exports also increased significantly between 1988 and 2009, led by tourism, but also including transportation, communication and other financial, and business services (see Figure 1). Trade in services now makes up 20% of New Zealand's total exports and imports.<sup>17</sup>

<sup>14</sup> P. Dalziel, R. Lattimore, *op. cit.*, p. 30.

<sup>15</sup> G. Bertram, *op. cit.*, p. 558.

<sup>16</sup> *Economic Progress and Puzzles: Long-term Structural Change in the New Zealand Economy, 1953-2006*, New Zealand Institute of Economic Research Working Paper 2009/6, October 2009.

<sup>17</sup> *Statistics New Zealand: New Zealand in Profile 2010*, <http://www.stats.govt.nz> [published 11 January 2010].

### 3. Trade: the foundation of the New Zealand economy

Export performance has always been fundamental to economic growth and high incomes in New Zealand.<sup>18</sup> The economy displays the usual indicators of a developed economy, with a GDP of over US \$127 billion in 2008 and a per capita income of US\$29,900.<sup>19</sup> Between 1900 and 1953 New Zealand was consistently among the richest nations of the world.<sup>20</sup> Much of this wealth can be attributed to the export booms in meat, wool and dairy occurring over those years.<sup>21</sup>

A glance at the today's statistics will understate the importance of the agriculture sector to the New Zealand economy. The total proportion of income earned in New Zealand by the primary production sector in 2008 was 7.11%, compared to the services sector at 70%.<sup>22</sup> Over the last 50 years the primary sector of the New Zealand economy has shrunk from 26% of GDP in 1953 to 7% in 2006, while the tertiary sector has expanded from 52 to 77% over the same period.<sup>23</sup> In comparison with other developed countries, however, New Zealand's economy has a high dependence on the export of agricultural products such as meat, dairy, wool and horticulture. Throughout much of New Zealand's history, the ratio of exports to GDP has fluctuated around 30%.<sup>24</sup> This does not appear particularly high by developed country standards and the New Zealand Government's long term goal is to increase the ratio of exports to GDP by 10% before 2025.<sup>25</sup> However where New Zealand is differentiated from other developed countries is in the high proportion of goods exports attributable to the agricultural sector. In the year to June 2009, New Zealand exports of agricultural products totalled NZ\$ 23.8 billion, 55% of total exports of NZ\$43 billion.<sup>26</sup> These exports embody considerable value added from the manufacturing and services sectors, as well as primary production.<sup>27</sup>

<sup>18</sup> G. Bertram, *op. cit.*, p. 571.

<sup>19</sup> *Statistics New Zealand: New Zealand in Profile 2010*.

<sup>20</sup> A. Maddison, *Monitoring the World Economy 1820-1992*, OECD Development Centre, Paris, 1995, <http://www.ggdc.net/maddison>.

<sup>21</sup> G. Bertram, *op. cit.*, p. 566 and 568.

<sup>22</sup> *Statistics New Zealand: New Zealand in Profile 2010*.

<sup>23</sup> *Economic Progress...*, p. 4.

<sup>24</sup> P. Briggs, *op. cit.*, pp. 70-71.

<sup>25</sup> *Growing Successful New Zealand International Businesses*, speech by T. Gibson, CEO of New Zealand Trade and Enterprise, 24 August 2009, <http://www.nzte.govt.nz/press-room/NZTE-Press-Releases/Pages/Growing-successful-international-businesses/aspx>.

<sup>26</sup> *Statistics New Zealand: Global New Zealand*, Year Ended June 2009, Tables – Section 3, <http://www.stats.govt.nz>.

<sup>27</sup> New Zealand Treasury, *New Zealand's Production Structure: An International Comparison*, Treasury Working Paper 03/16, published September 2003, at <http://www.treasury.govt.nz/publications/research-policy/wp/2003/03-16>.

As a result of its agricultural dependence, the New Zealand economy has historically been vulnerable to price shocks in the global economy.<sup>28</sup> While the increase in the world growth in exports has helped to drive global economic growth, this increase has not been in areas in which New Zealand exports dominate.<sup>29</sup> New Zealand is also distant from markets and its main agricultural exports face not only high protectionist tariffs, but have to compete against the subsidised agricultural products of other countries. Nevertheless a study of New Zealand's comparative advantage shows that advantage largely remains with agricultural, horticultural and forestry based products.<sup>30</sup>

Three main policies have been developed to address these issues, each of which is essential for New Zealand's future economic prosperity. First, New Zealand has continued to diversify its trade relations globally. In 2008, 22.3% of trade was with Australia, 34.5% with Asia, 15.4% with Europe and 15.9% with the Americas.<sup>31</sup> The second direction has been towards innovation and the development of innovative export-oriented approaches, especially in agriculture. The economic reforms of the 1980s, particularly the removal of subsidies, had a significant, but positive, impact on agriculture. Rather than signalling the sector's death knell, they forced farmers to adapt in order to survive. The agricultural sector as a whole intensified its investment in innovation.<sup>32</sup> Farmers adjusted to the need for lower cost inputs, changed land use patterns in favour of more profitable farming ventures, produced goods more in tune with the consumer's wishes, and developed new varieties to expand demand.<sup>33</sup> The parallel reforms in other sectors, such as transportation, also helped agriculture by introducing competition and removing inefficiencies.<sup>34</sup> New Zealand now benefits from being a highly efficient agricultural producer producing value added products for international consumers.<sup>35</sup>

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<sup>28</sup> For example in the second period under discussion, the New Zealand economy was hit by the fall in the international price of wool in 1967-68, the two oil shocks during the 1970s, and the United Kingdom joining the EEC in 1973, all of which directly and significantly affected trade. See P. Dalziel, R. Lattimore, *op. cit.*, chapter 2, pp. 15-24.

<sup>29</sup> J. Ballingall, P. Briggs, *A Look at New Zealand's Comparative Advantage: Updating the Porter Study's Analysis of Exports*, New Zealand Institute of Economic Research Working Paper 2002/04, August 2002, p. 1.

<sup>30</sup> *Ibid.*

<sup>31</sup> A. Barnard, *Changing Places: New Zealand Export Market Diversification 1964-2008: From Europe to Asia – an Australia*, February 2010, Ministry of Foreign Affairs and Trade, Wellington New Zealand.

<sup>32</sup> V. Vitalis, *Trade, Innovation and Growth: The Case of the New Zealand Agriculture Sector*, paper presented to the OECD Global Trade Forum on Trade, Innovation and Growth, 14-15 October, 2007, OECD, Paris, <http://www.oecd.org/dataoecd/6/47/39519893.pdf>.

<sup>33</sup> For a description of this process see A.B. Walker et al., *op. cit.* See also B. Chamberlin, *Farming and Subsidies: Debunking the Myths*, Euroa Farms Ltd, Pukekohe 1996.

<sup>34</sup> A.B. Walker et al., *op. cit.*, Chapter 5.

<sup>35</sup> *Ibid.*, Chapter 10.

#### 4. New Zealand's Trade Agenda

The third policy approach has been that of trade liberalisation. Because of New Zealand's export dependence and liberal economic approach, New Zealand has taken a lead role in trade liberalisation efforts, both through regionally and through the WTO. As far back as the 1960s when New Zealand's main export market in the United Kingdom was threatened by its impending entry into the EEC, New Zealand looked to develop its economic relations with Australia. The New Zealand-Australia Free Trade Agreement (NAFTA), which provided a limited reduction of tariffs, was signed in 1965. In 1983 New Zealand and Australia signed the first of a series of agreements that make up CER (Closer Economic Relations), a comprehensive set of trade and economic arrangements with free trade in goods and services.<sup>36</sup> CER has created a single market economy between Australia and New Zealand, now worth over US\$1 trillion. CER is an ongoing process with both countries moving progressively towards deeper integration of policies, laws and regulatory regimes.<sup>37</sup> As the 15<sup>th</sup> largest market in the world it also serves as a positive example of the reality of economic integration in the Asia Pacific region.

Internationally, New Zealand during this period became a staunch supporter of the trade liberalisation processes, particularly during the Uruguay Round launched under the auspices of the General Agreement on Tariffs and Trade (GATT) and subsequently under the World Trade Organisation (WTO). While New Zealand is a small player on the international scene, the country has had trade policy successes attributable in part to the flexible and opportunistic approach of its negotiators.<sup>38</sup> The WTO Uruguay Round in particular had a significant impact on New Zealand's export earnings.<sup>39</sup>

In the late 1990s the multilateral trade regime faced challenges, exemplified by the clashes at the Seattle Ministerial meeting, which even the subsequent launch of the Doha Development Round has not overcome. International disagreements, including over liberalisation of agricultural trade as well as non-agricultural market access and the Singapore issues, have led to a bumpy ride in the WTO trade liberalisation agenda. While New Zealand's top trade priority remains the conclusion of the WTO Doha Round,<sup>40</sup> in the face of ongoing difficulties in reaching consensus,

<sup>36</sup> See K. Żołądkiewicz, *Integracja ekonomiczna Australii i Nowej Zelandii jako przykład współczesnych procesów integracyjnych*, Wydawnictwo Uniwersytetu Gdańskiego, Gdańsk 2007.

<sup>37</sup> For a description of this continuing process see [www.mfat.govt.nz/Foreign-Relations/Australia/1-CER/index.php](http://www.mfat.govt.nz/Foreign-Relations/Australia/1-CER/index.php).

<sup>38</sup> See C. Nixon, J. Yeabsley, *New Zealand's Trade Policy Odyssey: Ottawa, via Marrakech and on*, New Zealand Institute of Economic Research Monograph No. 68, 2003.

<sup>39</sup> Ministry of Agriculture and Forestry, and Ministry of Foreign Affairs and Trade, *An Assessment of the Gains to New Zealand from the Uruguay Round of Trade Negotiations*, 2003, <http://www.maf.govt.nz/mafnet/publications/wto-uruguay-round/index.htm>.

<sup>40</sup> *Agriculture Trade – New Markets on the Horizon*, speech by Wade Armstrong, Acting Deputy Secretary (External Economic and Trade Policy), 18 September 2008, <http://www.mfat.govt.nz/Media-and-publications/Media/MFAT-Speeches/2008/0-18-September-2008a/php>.

New Zealand has looked to bilateral and regional FTAs to reach its objectives.<sup>41</sup> Disenchantment with the pace of multilateral trade liberalisation has naturally fed an increase in FTAs.

## 5. New Zealand's core FTA objectives

The choice of regional integration partners is one that is largely dictated by the particular political as well as economic objectives being pursued, together with cultural affinities and historical perspectives.<sup>42</sup> Strategic motivations include New Zealand's perception of its place in the world and its interactions with its main economic and political partners. In the latest survey conducted in New Zealand on perceptions of Asia, 81% of respondents saw Asia as important to New Zealand's future and 78% considered that free trade agreements would have a positive impact on New Zealand's future.<sup>43</sup> In a strategic sense, regional integration is a way of strengthening influence in that region. Whereas in the past New Zealand's geographical location was once seen as a disadvantage, now its geographic location as a potential trans-Pacific hub between South America and East Asia, may be of strategic advantage.

Aside from strategic interests, there are both offensive and defensive interests in pursuing a regional trade agenda. A primary offensive goal is to establish and maintain preferential access with key trading partners, seeking greater access for products and an increased commercial profile for companies in the market concerned. An FTA locks in trade access for both parties and helps each country insulate itself from protectionism. This focus on combating protectionism has become particularly relevant in times of economic crisis.

On the defensive side, a country may be motivated by the concern for being marginalised as its trading partners and competitors enter into preferential trade agreements which may impact on the competitiveness of its exporters. Prior to New Zealand's own negotiations with the parties concerned, ASEAN had concluded goods agreements with Korea, Japan and China; Chile concluded FTAs with China, Korea, the United States and the European Union; and Australia had signed agreements with Thailand and the United States. The increase in such preferential trade agreements can divert trade from non-parties of such agreement towards the parties.<sup>44</sup>

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<sup>41</sup> The term "FTA" is used for convenience here and encompasses those agreements of various names, such as Closer Economic or Strategic Partnership Agreements, which are preferential trade agreements within Article XXIV of the General Agreement on Tariffs and Trade.

<sup>42</sup> United Nations Economic and Social Council, *Multilateralism Free Trade Areas in Asia and the Pacific: Progress, Challenges and Prospects*, Note by Secretariat, E/ESCAP/SCITI/1; 1 September 2004, para 4.

<sup>43</sup> Asia New Zealand Foundation, *Perceptions of Asia Study 2009*, <http://www.asianz.org.nz/our-work/knowledge-research/research-reports/social-research/perceptions-study-2009>.

<sup>44</sup> See also R. Baldwin, *A Domino Theory of Regionalism*, National Bureau of Economic Research, Working Paper No. 4465, issued September 1993, for a discussion of the domino theory of preferential trade agreements where pressure is placed on governments to enter into preferential trade agreements in order to address the disadvantage that the exporters of non-members suffer.



## 6. New Zealand's network of concluded trade agreements

The interplay of these objectives can be demonstrated through a review of New Zealand's network of concluded trade agreements. This network has developed outwards from the country's near geographic neighbours. As discussed earlier, the CER with Australia was a high quality comprehensive free trade agreement, the first of its type for New Zealand.

During the late 1990s New Zealand sought to integrate itself into the Asia-Pacific region through high quality, comprehensive trade agreements. At that time, economic regionalism was still a relatively new concept within New Zealand's neighbourhood.<sup>45</sup> The establishment and expansion of the European Union and establishment of the North American Free Trade Agreement (NAFTA) and Mercosur represent the first and second waves of regionalism.<sup>46</sup> Countries within the Asia-Pacific region began entering into bilateral and regional trade agreements at a relatively late stage, spurred by the aftermath of the Asian financial crisis of 1997-98. This is often referred to as "new regionalism" or "the third wave of regionalism".<sup>47</sup> Due to New Zealand's strategic focus on Asia, trade policy was effectively "riding the crest" of the third wave.<sup>48</sup>

The bilateral Closer Economic Partnership Agreement with Singapore which entered into force in 2001, signalled New Zealand's desire for integration with the Asia region. At the time of signing, Singapore was also a key trading partner for New Zealand and a hub for trade flows with the wider region.<sup>49</sup>

New Zealand's next FTAs were with other key trading partners in the region. The Closer Economic Partnership Agreement with Thailand which entered into force on 1 July 2005 can be seen partly as a response to the Australia Thailand Closer Economic Partnership Agreement concluded in 2004. The Trans-Pacific Strategic Economic Partnership Agreement (TPP), known previously at the "P4", was

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<sup>45</sup> The exceptions were New Zealand and Australia which created the New Zealand Australia Free Trade Agreement in 1965, and the Association of South East Asian Nations (ASEAN) which began its first steps towards a free trade agreement in 1992: S.N. Katada, *Political Economy of East Asian Regional Integration and Cooperation*, Asian Development Bank Institute Working Papers No. 170, November 2009, p. 13.

<sup>46</sup> E.D. Mansfield, H.V. Milner, The new wave of regionalism, *International Organization* 1999, Vol. 53, pp. 589-627.

<sup>47</sup> R. Sen, "New Regionalism" in Asia: A comparative analysis of emerging regional and bilateral trading agreements involving ASEAN, China and India, *Journal of World Trade* 2006, Vol. 40, pp. 553-596. See also United Nations Economic and Social Council, *Multilateralism Free...* for an explanation of the three waves of regionalism from a North-South perspective.

<sup>48</sup> S.N. Katada, *op. cit.*, pp. 13-17, has described the rapid increase in the number of FTAs in East Asia in the last ten years, and the choice of partners as "eclectic" the choice being driven by domestic political constraints and how the balance of the package of the partnership agreement is tailored.

<sup>49</sup> For a fuller description of New Zealand's trade free trade agreements see: <http://www.mfat.govt.nz/Trade-and-Economic-Relations/Trade-Agreements/index.php>.

concluded and signed in mid-2005 by New Zealand, Chile, Singapore and Brunei. Both of these agreements had a strategic underpinning of broadening and deepening engagement not only with the countries concerned, but also in the region. The TTP, as a high quality comprehensive agreement crossing the Pacific Ocean, was also foreseen as a potential magnet to attract other interested parties.

Of particular importance is the New Zealand-China FTA, which came into force on 1 October 2008 and was the first trade agreement concluded between China and an OECD nation. As New Zealand's third-largest trading partner, and an important global and regional player, integration with China is vital to New Zealand's economic prosperity. The Agreement will effectively provide free trade in goods by 2016, and for most goods well before that date. And it enables the building over time of a close relationship between regulators in areas that affect trade. Two-way trade between New Zealand and China in the year to July 2009 was over \$NZ 10 billion. In the first year since the agreement has been in force, New Zealand exports to China have increased by about 60%.<sup>50</sup>

The FTA with China has recently been supplemented following the conclusion of negotiations for the New Zealand-Hong Kong Closer Economic Partnership Agreement in November 2009.<sup>51</sup> Hong Kong is New Zealand's 16<sup>th</sup> largest export market and 8<sup>th</sup> largest source of foreign direct investment. It is of strategic importance as a major regional hub and platform to China.

AANZFTA (Free Trade Agreement between the Association of South East Asian Nations, Australia and New Zealand) provided a central pillar of New Zealand's integration with South-East Asia. It was the first time that New Zealand and Australia had jointly negotiated a FTA and AANZFTA followed the New Zealand agreements with three ASEAN members, Singapore, Thailand and Brunei. In turn, the bilateral FTA with Malaysia signed on 26 October 2009 built on AANZFTA by going beyond the commitments agreed to in AANZFTA.<sup>52</sup> It is another step in the broadening and deepening of New Zealand's integration into the ASEAN region.

Moving outside the Asia/Pacific region, in 2007 New Zealand entered into negotiations with the Gulf Cooperation Council (GCC), comprising Bahrain, Kuwait, Qatar, Oman, Saudi Arabia and the United Arab Emirates, and following six rounds of negotiations, the FTA was concluded in November 2009.<sup>53</sup> New Zealand was

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<sup>50</sup> *New Zealand-China: One-year on*, 1 October 2009, press release by New Zealand Minister of Trade, Hon. Tim Groser, <http://www.beehive.govt.nz/release/new+zealand-china+fta+one-year>.

<sup>51</sup> *NZ-Hong Kong Trade Agreement Strengthens Bond*, 13 November 2009, press release by New Zealand Minister of Trade, Hon. Tim Groser, <http://www.beehive.govt.nz/release/nz-hong+kong+trade+agreement+strengthens+bond>.

<sup>52</sup> *Malaysia-NZ FTA Boosts Profile in Vital Market*, 27 October 2009, press release by Hon. Tim Groser, Minister of Trade, <http://www.beehive.govt.nz.release/malaysia+-+nz+fta+boosts+profile+vital+market>.

<sup>53</sup> *Gulf States Trade Negotiations Open up New Middle East Markets*, 2 November 2009, press release by New Zealand Minister of Trade, Hon. Tim Groser, <http://www.beehive.govt.nz/release/gulf+states+trade+negotiations+open+new+middle+east+markets>.

looking to leverage into a high value market with the potential for real gains. Exports to GCC totalled NZ\$1.3 billion in the year to June 2009, an increase of 218% since 2000. The group now ranks as New Zealand's seventh largest trading partner with bilateral trade worth \$3.85 billion.<sup>54</sup>

## 7. The future directions

New Zealand's trade agenda is looking towards further integration into the North Asian and South Asian regions and is being pursued from both a bilateral and a regional perspective. Negotiations have commenced with Korea, the world's 13<sup>th</sup> largest economy and 6<sup>th</sup> largest goods export market for New Zealand. In April 2007 the New Zealand and Indian Trade Ministers agreed to undertake a joint study on the feasibility of negotiating a bilateral Comprehensive Economic Cooperation Agreement (CECA) or Free Trade Agreement (FTA). Following that tabling of that study, New Zealand and India announced at the end of January 2010 that negotiations would start toward a bilateral free trade agreement. At the time the New Zealand Trade Minister Hon. Tim Groser, emphasised both the trade and strategic drivers of the agreement.<sup>55</sup>

In April 2009 New Zealand and Japan announced the establishment of a Joint Officials Group to examine ways to develop the bilateral trade and investment relationship, with a mandate to include consideration of free trade issues so that both countries could decide whether to move to FTA negotiations in future.<sup>56</sup> New Zealand's long term objective remains to conclude an Economic Partnership Agreement (EPA) with Japan.<sup>57</sup>

New Zealand is also working with others in the Asia-Pacific region to promote economic integration.<sup>58</sup> There has been considerable work in the APEC context on APEC Best Practices for FTAs/FTAs and on Identifying Convergences and Divergences in APEC's RTAs/FTAs, with further work underway on Strengthening Regional Economic Integration including an FTAAP (Free Trade Areas of the Asia Pacific) as a long-term prospect.<sup>59</sup> There is also a possibility of a pan-Asian FTA

<sup>54</sup> Ministry of Foreign Affairs and Trade, *New Zealand-Gulf Cooperation Council (GCC) Free Trade Agreement*, <http://www.mfat.govt.nz/Trade-and-Economic-Relations/Trade-Agreements/Gulf-Cooperation-Council/index.php>.

<sup>55</sup> *NZ-India FTA Negotiation Set to Begin*, 31 January 2010, press release by Minister of Trade, Hon. Tim Groser, <http://www.beehive.govt.nz/release/new+zealand+and+india+agree+commence+fta+negotiations>.

<sup>56</sup> *Moving the NZ-Japan Economic Relationship Forward*, 9 April 2009, press release by New Zealand Minister of Trade Hon. Tim Groser, <http://www.beehive.govt.nz/release/moving+nz-japan+economic+relationship+forward>.

<sup>57</sup> Ministry of Foreign Affairs and Trade, *Statement of Intent 2009-2012*, <http://mfat.govt.nz/Media-and-publications/Publications/Statement-of-intent/0-Operating-Intentions.php>.

<sup>58</sup> *Moving the NZ-Japan...*

<sup>59</sup> See [www.apec.org/apec/apec\\_group/other\\_apec\\_groups/FTA\\_RT.html](http://www.apec.org/apec/apec_group/other_apec_groups/FTA_RT.html) and related links.

embracing the whole of ASEAN or South East Asia, the three East Asian giants of Japan, Korea and China, plus India, Australia and New Zealand. The first concrete step was taken in a meeting of Heads of Government, including New Zealand Prime Minister John Key, in Thailand in October 2009. While it is clearly a “work in progress”, the New Zealand Trade Minister believes that such an ambitious vision may be realised in a longer time frame.<sup>60</sup>

Extending beyond the immediate Asia-Pacific region, the Trans-Pacific Partnership concept is continuing to evolve. In February 2008 the United States decided to join negotiations in the outstanding P4 investment and financial services negotiations and Australia and Peru followed by Vietnam (initially as an observer) also signalled their intention to join. The first set of talks was postponed to allow time for the United States to review its trade policies. In November 2009 President Obama announced that the United States would engage with the TPP “with the goal of shaping a regional agreement that will have a broad-based membership and the high standards worthy of a 21<sup>st</sup> century trade agreement”.<sup>61</sup> According to the New Zealand Minister of Trade, Hon. Tim Groser, the Trans-Pacific Partnership initiative is “an opportunity for a new type of trade deal: one that brings together diverse economies separated by great distances, and that seeks to provide a foundation on which a wider regional deal might over time be built and that allows a special focus on the issues of concern to business in the 21<sup>st</sup> century”.<sup>62</sup>

It remains to be seen whether this drive towards regional integration will have an effect outside the Asia-Pacific region, or extend even as far as Europe. New Zealand has very close historical, political, cultural and personal ties with many of the European Union Member States. As the New Zealand Minister of Foreign Affairs, Hon. Murray McCully, has said, New Zealand effectively meets all the conditions necessary for EU membership except for geographical location.<sup>63</sup>

New Zealand shares a broad range of values with Europeans: values of democracy, openness, the rule of law and respect for human rights. It is a consistent advocate for these values across the full range of international organisations and institutions.<sup>64</sup>

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<sup>60</sup> *Climate Change, Trade and Agriculture*, 4 November 2009, address by New Zealand Minister of Trade, Hon. Tim Groser, to New Zealand Federated Farmers, <http://www.beehive.govt.nz/speech/climate+change+trade+and+agricultural+address+federated+farmers>.

<sup>61</sup> Ministry of Foreign Affairs and Trade, *Trans-Pacific Strategic Economic Partnership Agreement*, <http://www.mfat.govt.nz/Trade-and-Economic-Relations/Trade-Agreements/Trans-Pacific/index.php>.

<sup>62</sup> *Trade and the Road to Recovery: An Asia Pacific Perspective*, 14 May 2009, address by New Zealand Minister of Trade, Hon. Tim Groser, to US Chamber of Commerce, Washington DC, <http://www.beehive.govt.nz/speech/trade+and+road+recovery+asia+pacific+perspective>.

<sup>63</sup> *New Zealand: A Bridge between Asia and Europe*, 14 December 2009, address by New Zealand Minister of Foreign Affairs Hon. Murray McCully to the Swedish Institute of International Affairs, at <http://www.beehive.govt.nz/speech/new+zealand+bridge+between+asia+and+europe>.

<sup>64</sup> *New Zealand and the EU: A New Relationship*, 2 December 2009, address by Hon. Murray McCully New Zealand Minister of Foreign Affairs to German Council on Foreign Relations, Berlin, at <http://www.beehive.govt.nz/speech/speech+german+council+foreign+relations>.

Cooperation between New Zealand and Europe extends broadly across a range of areas including maintaining international peace and security, combating terrorism, cooperation in development assistance, protection of human rights, protection of the environment and climate change, transportation, science and technological cooperation, and educational and professional exchanges. There are also commercial and investment linkages between New Zealand and Europe, many of which, as this paper shows, are of long standing. The European Union is New Zealand's second largest market after Australia. It took 13.8% (NZ\$5.9 billion) of total New Zealand exports in the year to June 2008, and exported NZ\$7.9 billion over the same period, 17.1% of New Zealand's total imports.<sup>65</sup>

Developing an institutional framework to enhance political and economic connections would be the logical extension of the richness of the relationship. In 2009 New Zealand Prime Minister John Key and EU President Barroso discussed strategies for enhancing the bilateral relationship between New Zealand and the European Union. Exploratory discussions among officials have investigated a broad and comprehensive agreement. Good progress has been made to date and further consultations are scheduled.<sup>66</sup> As New Zealand increases its engagement in Asia and the Pacific, it does not want such enhancement to be at the expense of its relationship with Europe.<sup>67</sup>

## 8. Conclusion

New Zealand has embarked on a process of regional integration that has enhanced its political and economic linkages with the Asia Pacific region. Such integration can provide a catalyst for developing political and economic relations outside the Asia-Pacific region. Potentially New Zealand's like-minded approach could be of value to Europe in providing a platform for the projection of shared values into the Asia-Pacific region.<sup>68</sup> This potential is more significant than the international political importance or the size of New Zealand's economy would suggest.

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<sup>65</sup> *Statistics New Zealand: Global...*

<sup>66</sup> *Progress on EU-NZ Agreement Says McCully*, press statement by Hon. Murray McCully, New Zealand Ministry of Foreign Affairs, 17 December 2009, <http://www.beehive.govt.nz/release/progress+eu-nz+agreement+says+mccully>.

<sup>67</sup> *Ibid.*

<sup>68</sup> *New Zealand: A Bridge...*

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## EKONOMIE LIBERALNE: NOWOZELANDZKIE POROZUMIENIE O WOLNYM HANDLU

**Streszczenie:** Płynąc na „trzeciej fali” regionalizmu, Nowa Zelandia zawarła znaczną liczbę dwustronnych i regionalnych umów o wolnym handlu. Zgodnie z gospodarczym i handlowym potencjałem kraju, większość umów dotyczyła regionu Azji i Pacyfiku. Niniejszy artykuł przedstawia hipotezę, że jeśli Nowa Zelandia ma się dalej rozwijać, zwłaszcza będąc krajem rolniczym, musi nadal dążyć do liberalizacji handlu. Poza motywami ekonomicznymi, również względy polityczne i strategiczne odgrywają ważną rolę w tej kwestii i były ważnymi determinantami integracji Nowej Zelandii z regionem Azji i Pacyfiku. Dotychczasowa integracja może również stać się katalizatorem rozwijania relacji politycznych i ekonomicznych poza wspomnianym regionem świata. Ten potencjał może okazać się większy, niż wynikałoby to z międzynarodowej siły politycznej czy wielkości gospodarki Nowej Zelandii.