

## NEW ZEALAND'S TRADE AGENDA 2030 – SECURING OUR PLACE IN THE WORLD

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Policy brief no. 9 | June 3, 2017

Presented at the conference: 'Small States and the Changing Global Order: New Zealand Faces the Future' at University of Canterbury, Christchurch, New Zealand, 3-4 June 2017

New Zealand has launched its new trade strategy - Trade Agenda 2030 (TA2030) which provides a long-term directional guide to leverage growth and prosperity through trade.<sup>1</sup>

### Executive Summary

New Zealand's existing trade strategy dates to 1993 and was in need of updating to reflect the evolution in international trade policy since the end of the Uruguay Round, as well as the changed global and regional context in which New Zealand operates.

The new strategy posits an ambitious new target for 90 per cent of New Zealand's goods exports to be covered by FTAs by 2030 (the current level of coverage is 52%) and signals four 'shifts' – 1) sustaining the WTO, while intensifying FTA negotiations, while ensuring their effective implementation and modernisation; upgrades of FTAs; 2) intensifying work on Non-Tariff barriers; 3) greater focus on services, investment and the digital economy; and 4) appropriate assistance to exporters to enhance competitiveness.

### Why does this matter to New Zealand?

At the risk of stating the obvious, it is clear that the world has not become a simpler place. Francis Fukuyama was definitively wrong - history did not end in 1989. Brexit, President Trump, a migration and cultural crisis in the EU, a potential economic and political power vacuum in our region, deep unease about globalisation in general and trade policy in particular not least at home has led to a great unravelling of existing certainties.

There is a growing perception therefore that there is an unravelling underway and that this is something we have not seen before. This sense of singularity and novelty is not surprising – every generation feels that way. Those of us who can remember the escalation of US-USSR tension and the Pershing II crisis in West Germany in the 1980s will recall a similar sense of unease. In fact, this is a common theme in history. Two thousand five hundred years ago Thucydides described a similar unravelling during the Peloponnesian Wars when the tension between a rising power and a declining

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one was mitigated at first by the establishment of inter-governmental economic and political structures. For several decades these helped prevent the outbreak of war and facilitated the first wave of globalisation. This architecture eventually crumbled, however, fractured by aggressive bilateralism on the part of the two hegemonies of the era. They believed that these multilateral arrangements constrained them. The fragmentation and eventual collapse of these led to the eclipse and long term decline of both Athens and Sparta – leaving their ‘cities in dust’ to quote the ‘80s icon, Siouxsie and the Banshees.

For small countries like New Zealand there are other troubling lessons from the Peloponnesian Wars. The Melian Dialogue, for instance, is a brutal reminder of the realpolitik that operates between large and small states when the regional architecture fragments around them.

In the meantime, however, some things are immutable – diplomacy still matters. For small countries this is an existential truism and for New Zealand diplomacy comprises four inter-related elements in which economic diplomacy sits firmly and cohesively alongside national security, development assistance and foreign policy.

It is in this context that Prime Minister English launched Trade Agenda 2030-Securing our Place in the World (TA2030), saying that “we must remain ambitious and continue to make the case for free trade in a world where opposition has become louder.” This is only the second formal enunciation of a New Zealand strategy for international trade policy. The historical significance is clear. TA2030 builds on an approach which has guided our thinking since at least 1993 and it's worth providing some context for TA2030 and reflecting on the historical evolution of this strategy and on what precisely it comprises.

### **Why Trade Matters**

Perhaps the first and most obvious thing to say is that New Zealand benefits enormously from trade – nearly \$4 in every \$10 earned by the New Zealand economy is generated by trade. Jobs, innovation and competition are all driven by exports and - something we often forget - imports as well. It is also obvious that given the challenges posed by our size and limited scale, the benefits of trade are magnified in our economy. The other major 'fixed cost' challenge New Zealand faces relates to our distance from markets. As in real estate, location matters. Distance has a statistically significant and negative effect on New Zealand's GDP per capita - by as much as 10%. By way of contrast, Belgium is estimated to benefit by up to 7% of its GDP from its geographical location. And, despite the advances in technology and transportation, there is little evidence of the 'death of distance'. For most industries the distance-related costs of exporting have remained broadly unchanged. All of this simply underlines that having a strategy for internationalization - which is what TA2030 is all about - and implementing it properly will matter to our future prosperity.

### **The Evolution of New Zealand's Trade Policy Since 1945**

Turning to the evolution of New Zealand's approach, between 1945 to the end of the Uruguay Round in 1994 New Zealand's unstated trade strategy had essentially two objectives. First, to sustain the preferential access New Zealand enjoyed into the UK market by leveraging this into a series of codified legal commitments with the EU through the GATT. Second, and responding to the UK's various efforts to join the then European Community, New Zealand worked to diversify the destinations of its exports. New Zealand also seized the opportunity presented by CER as a catalyst for its exporters to



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test their ability to trade and develop 'international connections' across the Tasman before trying to export to other markets. Since then, CER has morphed into the Single Economic Market - still the most important building block for the New Zealand economy in general and the internationalisation of New Zealand firms in particular. Solid progress was made in diversification - exports to Australia which had accounted for just over 10% of all exports in 1975 - doubled by 1994. Trade with the ten-country ASEAN bloc has risen to such an extent that we trade more in a week with it than we did in a year in the 1970s and early 1980s. Most strikingly perhaps, New Zealand now trades with China in less than five hours what it traded in a whole year in 1972.

Given the beleaguered nature of the New Zealand economy and the challenges it faced in the 1970s and 1980s the role of diplomacy in leveraging market access was key. Looking with fresh - post-Brexit eyes- at what New Zealand negotiators achieved with the UK and then Brussels via the Uruguay Round underlines the enormous debt we collectively owe to their excellence and persistence. In fact the priority we placed on this kind of diplomacy during those difficult years explains perhaps why one New Zealand Prime Minister memorably said that New Zealand's "foreign policy is trade".

### **New Zealand's First Trade Strategy (1993)**

The first formal articulation of New Zealand's trade strategy was through the 1993 publication of 'New Zealand Trade Policy: Implementation and Directions: A Multi-Track Approach'. Tim Groser, a former WTO Chair of Agriculture, Chief Negotiator and our Trade Minister for a time, now the Ambassador in Washington was the primary author of this important document. It is hard not to overstate its significance. It stood the test of time delivering "New Zealand's economic growth through trade and thus improving the living standards of New Zealanders on a sustainable basis." This objective was pursued through four tracks - unilateral (i.e. domestic reform); multilateral (the GATT/WTO); regional (APEC, ASEAN etc) and bilateralism with an emphasis on "Asia first, but not first and last".

Fast forward to today and there are looming challenges in the international macroeconomic environment. As noted at the outset, these include Brexit, the actions of the new Administration in Washington and the mounting unease about globalisation in general and trade policy in particular, including here at home. The rise in real world protectionism is an additional concern. Over the past year G20 Members were launching 21 new protectionist measures per month. This is the highest monthly average registered since 2009. Taken together, these are non-trivial changes to our external operating environment.

There are two ways to think about this. Either this public scepticism about trade policy and these kinds of expanding trade restrictions will have a chilling effect on globalisation or this trend amplifies the urgency of efforts to support openness and trade.

TA2030 firmly places New Zealand diplomacy in the latter camp. And it's worth remembering, it is not alone. Australia, China, Japan, Singapore, others in South East Asia, Brazil, the EU and the UK are all still backing - at least rhetorically - an open rules-based trading system. In fact, one perverse but positive effect of the US turning inwards has been that it is prompting others to finally show some leadership. This was the driver, for instance, behind the progress we made with the Pacific Alliance earlier this month. It is what has triggered an interest in Mercosur to engage more seriously with us and Australia. It may also galvanise the RCEP negotiators to finally get serious about its emerging role in regional economic integration.



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## Trade Agenda 2030 and the Four Shifts

It is against this backdrop that TA 2030 was launched. The strategy itself is a straightforward and ambitious one. It sets an overarching target of FTAs covering 90% of our goods exports by 2030 – currently we are around 52%. Underpinning that target is a strategy that is operationalised through four inter-related shifts including:

1. to expand our network of FTAs and maximise the benefits of existing agreements (through enhanced implementation, upgrades and so on, while continuing to sustain the WTO institutions and their negotiating and dispute settlement functions);
2. ensure a greater focus on Non-Tariff Barriers, which continue to be a significant drag on our export performance;
3. a greater emphasis on services, investment and the digital economy writ large - acknowledging their collective role in driving competition, innovation and growth; and
4. to appropriately help businesses to succeed in markets we have secured access to.

Across all of this, are three very specific issues of immediate significance for trade policy evolution in New Zealand. The first is the intensification of work on NTBs. This is no longer 'nice to do' - it is 'must do'. A new system of addressing such barriers has been created in the Ministry of Foreign Affairs and Trade to grip up this.

The second area of work is enhancing collaboration and engagement - of the bi-directional kind - with civil society. This includes Maori and business, but it's also about the unions and NGOs. Their views matter and negotiators need to understand and engage on those. The Minister's establishment of the Ministerial Advisory Group is a practical manifestation of that commitment. There will be structural changes within the Ministry of Foreign Affairs and Trade to similarly facilitate such collaborative engagement.

Third, the Maori dimension. The data is revealing and unambiguous: the Maori economy matters. It has heft. It generates growth, employment, drives competition and thus influences the New Zealand growth trajectory in profound ways. At the same time, the Māori economy is heavily invested in many of the primary sector exporting industries which are particularly vulnerable to protectionism offshore. Māori therefore have a vital stake in the success of TA2030. It is a vital conveyor belt for growth. TA2030 is designed to: (a) enhance our understanding of this contribution; (b) convert that understanding into our economic diplomacy and our negotiations (inter-related but separate elements) and (c) leveraging the heft that this delivers for us internationally and ensuring the feedback loop to the domestic economy is active and facilitative.

The immediate challenge for New Zealand is to utilise the framework provided by TA2030 to deliver prosperity and growth. The Ministry of Foreign Affairs and Trade's role in the negotiation, implementation, upgrade and NTB space is clear and obvious, as it is for digital trade, services and investment. In all of these areas a New Zealand Inc approach will apply, whereby the relevant agencies will work closely together to deliver to TA2030. This will include the Ministry for Primary Industries – a centrally important collaborator, New Zealand Trade and Enterprise, EducationNewZealand and the Ministry for Business, Immigration and to deliver to the third shift in Trade Agenda 2030, not least to overcome Solow's Paradox.



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On the fourth shift – appropriate assistance to business – the same NZ Inc approach applies. To this end, the New Zealand-led Small Advanced Economies' Initiative met recently in Geneva to share knowledge and exchange perspectives, including on best practice in this space. That process along with other engagements internationally and domestically will inform the ongoing work on this 'shift'.

## Conclusion

These are challenging times for international trade in general and New Zealand trade policy in particular. But in those challenges lie real opportunities. TA2030 has been developed to provide a directional guide to securing and leveraging those over time.



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