

EMBARGO: NOT FOR PUBLICATION
UNTIL 13.00 HRS GMT 22 OCTOBER 1996

PRESS/TPRB/43
15 October 1996

NEW ZEALAND STARTS TO SEE BENEFITS FROM ITS BOLD REFORMS

Trade liberalization, privatization, and domestic deregulation have transformed New Zealand's economy from one of the most heavily protected and regulated into one of the most market-oriented and open in the world. Since 1984, when its economy was burdened with high inflation and unemployment and a fiscal deficit approaching 9 per cent of its GDP, New Zealand has persistently carried out bold economic reforms. They are now beginning to pay substantial dividends, including an increase in the economy's sustainable growth potential.

A new WTO Secretariat report on New Zealand's trade policies and practices notes that New Zealand's process of unilateral reform is in line with its belief that liberal trade policies are in the country's best interest, regardless of the trade policies of other countries. Trade liberalization and structural reforms have helped to reduce unemployment from 11 per cent in the mid-1980s to 6 per cent in 1993, to cut inflation in the last 10 years from 15 per cent to around 2 per cent and to achieve average, annual economic growth rates of 4 per cent since 1993. The report states that trade and other structural reforms are estimated to have increased New Zealand's real economic growth potential by about 1 per cent a year.

The WTO Secretariat report and one prepared by the government of New Zealand will be the subject of two days of discussion at the Trade Policy Review Body of the WTO on 21 and 22 October. The WTO report notes that New Zealand's reforms are aimed at improving competition and moving resources towards their most efficient uses. New Zealand has already implemented two tariff reduction and simplification programmes. Although tariffs for textiles and clothing, footwear and motor vehicles remain relatively high and lag behind reductions made for other products, average tariffs will drop from the current level of 6 per cent to 3 per cent by 2000. The report notes that since New Zealand's average bound rate will be near 12 per cent and its applied rate will be around 3 per cent, there is broad scope for New Zealand to reduce the level of its bindings and provide exporters with greater assurance about future applied tariffs. In regard to other measures, the report notes that import licensing requirements have been eliminated, as have subsidies and virtually all forms of government assistance to industry and agriculture. Most state-owned enterprises have been commercialized or privatized. New Zealand applies no export subsidies or taxes and uses few export measures.

New Zealand's agricultural sector is highly market-oriented. Agricultural subsidies as a share of GDP were reduced from 3.8 per cent of GDP in 1983 to 0.9 per cent in 1994. The report notes, however, that much of New Zealand's agricultural exports are subject to control by marketing boards,

amounting in some cases to export monopolies. Forestry is among New Zealand's fastest growing industries. Production increased by over 50 per cent from 1989 to 1995 and is expected to rise by a further 70 per cent. Merchandise exports rose by some 18 per cent in volume between 1990 and 1992. Overall, primary products account directly for about 13 per cent of goods and services exports. Services account for about 62 per cent of New Zealand's GDP and nearly one quarter of total trade. Competition in services is the rule. There is, for example, no telecommunications regulatory body in New Zealand. Foreign investment is encouraged and New Zealand maintains a liberal foreign investment régime with national treatment as the general rule. This helped to achieve a sharp increase in investment during the period 1992-1994.

Unlike most countries, whose Uruguay Round benefits stem primarily from their own reforms agreed under the Round, the report states that most of New Zealand's expected benefits result from policy changes in other countries. Because of unilateral reform, changes required of New Zealand by the Uruguay Round are relatively minor.

Trade with Australia comprises some 20 per cent of New Zealand's total merchandise trade. Other Asian Pacific Economic Cooperation (APEC) members account for half of New Zealand's trade, and the European Union accounts for some 17 per cent. New Zealand is a partner to several regional trade agreements. The Australia - New Zealand Closer Economic Relations Trade Agreement (CER) is among the most comprehensive trading agreements in the world. It extends free bilateral trade to all goods and most services. The CER is complemented by other areas of economic cooperation between the two countries, including free movement of labour, development of joint food standards, and national treatment for government procurement. Under the 1982 Agreement on Trade and Economic Cooperation with Canada, New Zealand grants tariff preferences on a broad range of imports. A member of APEC, New Zealand fully supports APEC's "open regionalism" approach, which New Zealand interprets to mean that measures agreed in APEC will be implemented on an m.f.n. basis and that APEC membership will be open to expansion.

The report concludes that the Uruguay Round led to substantial market-opening for products of export interest to New Zealand, products that have long been subject to significant import restrictions and export subsidies by other countries. In this respect, gains from the Uruguay Round, for which the WTO report cites estimates equivalent to 1 to 3 per cent of New Zealand's annual GDP, reflect the economic costs it has been suffering from the distortive trade measures of other countries. Whereas the New Zealand economy was highly regulated and protected until the mid-1980s, it now provides a clear, positive example of liberalization. Growth instead of a weak economy is the result of this conversion. The report notes that New Zealand views multilateral free trade as the best possible setting, and works to this end in the World Trade Organization.

Notes to Editors:

The WTO Secretariat's report, together with a report prepared by New Zealand, will be discussed by the WTO Trade Policy Review Body (TPRB) on 21 and 22 October 1996.

The WTO's TPRB conducts a collective evaluation of the full range of trade policies practices of each WTO member at regular periodic intervals and monitors significant trends and developments which may have an impact on the global trading system.

The two reports, together with a report of the TPRB's discussion and of the Chairman's summing up, will be published in due course as the complete Trade Policy Review of New Zealand and will be available from the WTO Secretariat, Centre William Rappard, 154 rue de Lausanne, 1211 Geneva 21.

The reports cover the development of all aspects of New Zealand's trade policies, including domestic laws and regulations, the institutional framework, trade policies by measure and by sector.

Since the WTO came into force, the "new areas" of services trade and trade-related aspects of intellectual property rights are also covered. Attached are the summary observations from the Secretariat and government reports. Full reports will be available for journalists from the WTO Secretariat on request.

Since December 1989, the following reports have been completed: Argentina (1992), Australia (1989 & 1994), Austria (1992), Bangladesh (1992), Bolivia (1993), Brazil (1992), Cameroon (1995), Canada (1990, 1992 & 1994), Chile (1991), Colombia (1990 & 1996), Costa Rica (1995), Côte d'Ivoire (1995), Czech Republic (1996), Dominican Republic (1996), Egypt (1992), the European Communities (1991, 1993 & 1995), Finland (1992), Ghana (1992), Hong Kong (1990 & 1994), Hungary (1991), Iceland (1994), India (1993), Indonesia (1991 and 1994), Israel (1994), Japan (1990, 1992 and 1995), Kenya (1993), Korea, Rep. of (1992 & 1996), Macau (1994), Malaysia (1993), Mauritius (1995), Mexico (1993), Morocco (1989 & 1996), New Zealand (1990), Nigeria (1991), Norway (1991 & 1996), Pakistan (1995), Peru (1994), the Philippines (1993), Poland (1993), Romania (1992), Senegal (1994), Singapore (1992 & 1996), Slovak Republic (1995), South Africa (1993), Sri Lanka (1995), Sweden (1990 & 1994), Switzerland (1991 & 1996), Thailand (1991 & 1995), Tunisia (1994), Turkey (1994), the United States (1989, 1992 & 1994), Uganda (1995), Uruguay (1992), Venezuela (1996), Zambia (1996) and Zimbabwe (1994).

TRADE POLICY REVIEW BODY

NEW ZEALAND

Report by the Secretariat - Summary Observations

In an effort to break from a history of poor economic performance, New Zealand has transformed its economy from among the most heavily protected and regulated to one of the most market-oriented and open in the world. The instruments of reform applied since 1984 have included trade and financial liberalization, privatization, and labour market and other domestic deregulation. Structural measures have been supported by disciplined macroeconomic policies.

A noteworthy aspect of New Zealand's reform process is that it has been largely unilateral; New Zealand has taken the clear view that lowering barriers is primarily for its own benefit. Reform has aimed at improving competition and thus moving resources towards their most efficient uses. In this spirit, New Zealand has already implemented two tariff reduction and simplification programmes, and further unilateral reductions are to follow. Import licensing has been eliminated, as have subsidies and most forms of government assistance to industry and agriculture. Most State-owned enterprises have been commercialized or privatized; commercial functions of government departments have generally been separated from regulatory and advisory ones; product and service markets have been deregulated and most cabotage restrictions on coastal shipping eliminated; the exchange rate has been floated and all foreign exchange restrictions removed; and the labour market has been reformed, facilitating the resource mobility that has proven vital to success.

These reforms have brought about a dramatic turnaround in the New Zealand economy. In the mid-1980s, growth was low and sluggish, the fiscal deficit approached 9 per cent of GDP, inflation was nearly 15 per cent a year, unemployment was rising toward its peak of 11 per cent and the balance of payments was in difficulty. Since 1993, real annual growth has averaged near 4 per cent, inflation has generally been below 2 per cent, the budget is in surplus and taxes are being cut, unemployment has fallen to 6 per cent and external debt is being reduced. Trade and other structural reforms are estimated to have increased New Zealand's real economic growth potential by about 1 percentage point a year, with important benefits for the nation's economic well-being.

The New Zealand Economy

The improved policy environment created the opportunity for a sharp recovery, led by exports. Merchandise exports rose by some 18 per cent in volume between 1990 and 1992 and exports of goods and non-factor services increased from the equivalent of 27 to 32 per cent of GDP. Growth then quickly became more broadly based. Producers moved to augment capacity; investment was up sharply in 1992-94. Subsequently, as employment and confidence grew, consumer demand increased. Growth now appears sustainable, marking a distinct change from the earlier experience when the impetus for growth came typically from fiscal expansion or a positive terms-of-trade shock.

The rapid increase in investment relative to savings has had its counterpart in a widening current account deficit, which moved from 1.6 to 4.5 per cent of GDP from 1993 to 1995. Concurrently, partly reflecting renewed confidence, the New Zealand dollar has appreciated in real terms, cutting into the competitiveness of some industries. This situation may actually be creating additional support for reform. Recognizing that the origins of the external imbalance lie in a shortfall of domestic savings relative to investment, export industries support maintaining substantial government budget surpluses as a source of domestic savings. Key groups representing export industries and unprotected import-competing industries, both of which are disadvantaged by the remaining import protection given some industries, advocate the need to eliminate this protection, and point out that this need is magnified at a time when some exporters may be under stress.

Services account for about 62 per cent of New Zealand's GDP, manufacturing for 21 per cent, primary industries for 11 per cent and other branches for 6 per cent. Driven by export growth, sectors such as dairy manufacturing, forestry and forest products, and non-commodity-based manufactures have expanded rapidly in recent years. Primary products account directly for about 13 per cent of goods and services exports; but if the primary products embodied in manufactures are included, then they account for over one quarter of exports. Over half the production of manufactured food products is exported, including 90 per cent of dairy products.

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The principal imports include transport equipment, non-electrical machinery, electrical machinery, and non-fuel crude materials.

As a result of close economic ties (including a trade agreement), geographic proximity and historical links, trade with Australia comprises some 20 per cent of New Zealand's total merchandise trade. Other APEC members account for half of New Zealand's trade, and the European Union accounts for some 17 per cent. Growth in exports to east Asia accounted for nearly three fifths of total merchandise export growth from 1990 to 1995.

Trade Policy Framework

Trade policy, as part of New Zealand's broader external strategy, attempts to expand on and complement the outward orientation of domestic economic policies, and is pursued on four tracks: unilateral, multilateral, regional and bilateral. Trade liberalization has been undertaken primarily on the unilateral track, in the recognition that liberal trade policies are in New Zealand's best interest whatever the policies of other countries. But New Zealand views multilateral free trade as the best possible policy setting, and works to this end in the WTO.

New Zealand is an original WTO Member, having ratified the Marrakesh Agreement on 7 December 1994. Its WTO obligations are given force domestically through legislation, regulations, administrative provisions and departmental policies. Substantial changes were made to legislation in areas such as intellectual property and anti-dumping in order to meet obligations resulting from the Uruguay Round. New Zealand grants at least m.f.n. treatment to all trading partners.

The Uruguay Round results are expected to be of great benefit to New Zealand. Unlike most countries, whose Uruguay Round benefits stem primarily from their own reforms agreed under the Round, most of New Zealand's expected benefits result from policy changes in other countries. First, because of unilateral reform, changes required of New Zealand by the Uruguay Round are relatively minor. Second, domestic adjustment has made the economy more flexible and better able to take advantage of new trading opportunities. Finally, the Uruguay Round led to substantial market-opening for products of export interest to New Zealand, products that have long been subject to significant import restrictions and export subsidies by other countries. In this respect, New Zealand's expected significant Uruguay Round gains reflect the economic costs it has been suffering from distortive trade measures of other countries.

The Australia-New Zealand Closer Economic Relations Trade Agreement (CER) is among the most comprehensive trading agreements in the world. It extends free bilateral trade to all goods and most services. With effect from July 1990, the two countries agreed not to apply anti-dumping measures to their bilateral trade, noting that they were moving from a "managed trade environment, including anti-dumping policy, to free trade" and reasoning that anti-dumping actions were an anomaly in the new environment. The extension of each country's competition law to cover trans-Tasman trade was an important political-economy consideration that facilitated the elimination of trans-Tasman anti-dumping. Standards are being harmonized and the Trans-Tasman Mutual Recognition Agreement, expected to enter into force in mid-1997, will allow imported goods sold in one country to be sold in the other without having to comply with additional requirements; it will also allow persons registered to practice an occupation in one country to carry out the same occupation in the other. The CER is complemented by other areas of economic co-operation between the two countries, including the free movement of labour, the development of joint food standards, and national treatment for government procurement.

New Zealand grants tariff preferences to Canada on a broad range of imports under their 1982 Agreement on Trade and Economic Co-operation. New Zealand extends unilateral preferences to developing countries under its Generalized System of Preferences (GSP) programme and to Forum Island Countries under the South Pacific Regional Trade and Economic Agreement (SPARTECA).

A member of the Asia-Pacific Economic Co-operation (APEC), New Zealand fully supports APEC's "open regionalism" approach, which New Zealand interprets to mean that measures agreed in APEC will be implemented on an m.f.n. basis and that APEC membership will be open to expansion.

New Zealand encourages foreign investment and maintains a liberal foreign investment régime, with national treatment the general rule. Approval requirements exist only under certain well-specified conditions, and sectoral restrictions are uncommon. Inward foreign direct investment has risen rapidly since the late 1980s.

Trade Policy Features and Trends

Policy instruments

Tariffs are New Zealand's main trade policy instrument. This reliance on tariffs is an important, positive aspect of New Zealand's trade régime: not only are tariffs more transparent than other types of import protection, they are also quantifiable and more amenable to reduction and eventual elimination. New Zealand's applied tariff rates are moderate and declining. New Zealand applies no export subsidies or taxes and uses few export measures; agricultural marketing boards are the main exception.

Substantial tariff reductions have been implemented over the past decade, including that in July 1996, which resulted in a 1 percentage point drop in the average rate. The statutory m.f.n. tariff today averages 6 per cent, though rates for some products, such as textiles and clothing, footwear, and motor vehicles, remain relatively high. The tariff average is effectively much lower because 40 per cent or more of merchandise imports enter duty free under tariff concessions, which apply to imports of some 23,000 narrowly defined products not produced in New Zealand and which would otherwise be subject to import duty. These concessions, however, increase the unevenness of the tariff and result in greater effective protection for those sectors that produce protected goods.

New Zealand's planned programme of further tariff reductions for 1997-2000 is expected to reduce such unevenness. By 2000, tariffs are programmed to average 3 per cent and tariff unevenness (measured by the standard deviation) will also be halved. Rates on textiles, clothing, footwear, motor vehicles and other sensitive products, cuts in which have in the past lagged behind those of other rates, are to be reduced from as high as 30 per cent to 15 per cent or less. Duties are again to be reviewed in 1998 to "determine how to move toward a zero end-point under a unilateral domestic tariff reduction programme." In the framework of APEC, the Government intends to eliminate all tariffs on an m.f.n. basis by 2010.

In the Uruguay Round, New Zealand increased the coverage of its tariff bindings from 55 to over 99 per cent of tariff lines and committed to substantial reductions for those lines already covered by bindings prior to the Round. When most of New Zealand's tariff commitments have been implemented, in 2000, the average bound rate will be near 12 per cent; applied tariffs at that time are to average one quarter of that level. Broad scope thus exists for New Zealand to reduce its bound tariff rates and provide traders with greater assurance about future applied tariffs.

Sectoral policy patterns

The agricultural sector is highly market-oriented, with very liberal domestic and import régimes. Agricultural subsidies as a share of GDP were reduced from 3.8 per cent of GDP in 1983 to 0.9 per cent in 1987 and 0.1 per cent in 1994. Similarly, the producer subsidy equivalent, a measure of support to farmers, fell during this period from its peak of 33 per cent to 3 per cent, a figure much lower than that for any other OECD country.

Much of New Zealand's agricultural exports are subject to licensing controls -amounting in some cases to export monopolies -operated by statutory marketing boards, which are directly or indirectly producer controlled. New Zealand has promoted competition in virtually all other areas of its economy, with remarkable results. However, the exceptional character of the boards is indicated by the exemption of some of their activities from competition legislation; throughout the rest of the economy such exemptions are rare. The effect of competition in other sectors has been to promote innovation and efficiency; the authorities thus keep the marketing boards under review with these ends in mind. Agricultural - and economy wide - resource allocation could still benefit from an easing, even eventual elimination, of such marketing restrictions.

Forestry is among New Zealand's fastest growing industries; its share of GDP has more than doubled, to 2.5 per cent, in the past decade. Production increased by over 50 per cent from 1989 to 1995; it is expected

to rise by a further 70 per cent, and export volume to perhaps double, by 2005. The ownership and control of the industry is changing, with much privatization of forestry assets in recent years. Tariffs on forestry and logging products are very low; duties on wood products and paper, however, are relatively high, ranging to 25 per cent.

The composition of New Zealand's manufacturing sector and its international trade in manufactures reflects the economy's strength in primary production. One third of manufacturing activity is in food processing, and manufactured food products comprise two fifths of manufacturing exports. In recent years non-commodity-based manufacturing output, stimulated by export demand, has grown rapidly.

The manufacturing sector was heavily protected by import licensing and high tariffs until the mid-1980s. With the elimination of licensing and the large reductions in tariffs, protection has been greatly reduced. Production patterns have come more into line with New Zealand's apparent comparative advantage, contracting in areas such as textiles and clothing and basic chemicals, and expanding in sectors such as food manufacturing. Tariff reductions in areas such as textiles and clothing, footwear, and motor vehicles and components have lagged those in other areas. The effective protection accorded these industries may well be at the expense of activities such as food processing, printing and publishing, petroleum refining, basic metals, and professional equipment. The 1997-2000 tariff reduction programme should substantially reduce this protection.

New Zealand's services sector has a key rôle in the economy. The sector accounts for some two thirds of economic activity; hence its efficiency and productivity impact greatly on economic well-being. Trade in services has a share of nearly one quarter of total trade. Moreover, services are important inputs into other parts of the economy, accounting, for example, for 40 per cent of direct input costs in food manufacturing. To the extent that service costs are being reduced, through open international competition and increased productivity, the competitiveness of industries such as food manufactures is enhanced.

Given their critical rôle, services were put in the vanguard of New Zealand's structural reform effort. Competition is now the rule for the sector, and direct regulation is largely absent; there is, for example, no telecommunications regulatory body. Virtually all key State-owned enterprises have been placed on a commercial footing, and many have been privatized. With the relatively small size of the New Zealand market, the openness of services markets to international competition has been vital to establishing the desired levels of competition.

Trade Policies and Trading Partners

The New Zealand economy was highly regulated and protected until the mid-1980s. The weak performance of the economy shows the shortcomings of such an approach. New Zealand now provides a clear, positive example of liberalization. Its persistence in carrying through bold reforms in virtually every aspect of its economy has begun to pay substantial dividends, with an increase in the economy's sustainable growth potential. Trade liberalization has been vital to this achievement.

The authorities are aware that remaining import tariffs impose a cost on the New Zealand economy and that their removal could provide a sustained increase in welfare equivalent to over 1 per cent of GDP. Some other aspects of the trade régime, including the export monopolies held by marketing boards, may also place certain costs on the economy. Thus, continuing trade reforms through to their conclusion remains a critical element of the policy agenda.

New Zealand also has a vital interest in the multilateral system. Markets in other countries were sufficiently open to allow a rapid expansion of New Zealand's exports in the early 1990s, which sparked renewed economic growth. Subsequently, through the Uruguay Round, with New Zealand as an active participant, the multilateral system has delivered new market opening, which is expected to be of great value to New Zealand. Substantial restrictions still remain on some products of export interest to New Zealand, however, lowering both its welfare and that of its partners. It is therefore important that New Zealand continues to work through the multilateral system to further open international trade and that it brings its special perspective and experience to bear on multilateral issues.

TRADE POLICY REVIEW BODY

NEW ZEALAND

Report by the Government - Summary Extracts

Introduction

New Zealand welcomes the opportunity to participate again in the trade policy review process as the economy being reviewed. The WTO's Trade Policy Review Mechanism, particularly through the detailed research of the Secretariat, provides valuable transparency in the evolution of Member economies' trade régimes and their progress towards the WTO ideal of free and open trade in goods and services. Council discussion in the Review Body meeting also provides a useful opportunity for peer review beyond the immediate framework of mutual rights and obligations which flow from WTO provisions and commitments.

Trade policy in New Zealand is part of a broader external policy strategy to foster openness of the domestic economy and stronger international economic linkages. The underlying policy objective is to promote New Zealand's economic growth through trade and thus improve the living standards of New Zealanders on a sustainable basis. Successive New Zealand Governments since the early 1980s have followed this strategy.

From being one of the most insulated and restrictive among OECD economies, New Zealand has become one of the most open and competitive. The reform process over the past 13 years has been described as the most comprehensive economic reform programme undertaken by any OECD country in recent decades. While the broad scope of the reforms is briefly outlined below, this report will concentrate on the period since the last multilateral review of New Zealand's trade policy in 1990. In that time New Zealand has continued to make considerable progress towards the goal of free and open trade and investment which it advocates for all economies at the multilateral level.

This report begins by briefly outlining New Zealand's trade policy strategy. Elements of each aspect of this strategy are then examined in more detail and their future evolution is considered.

Trade Policy Strategy

With a population of little more than 3.5 million, international trade is essential to New Zealand's prosperity. Exports of goods and services comprise around 30 per cent of New Zealand's GDP. The overall goal of New Zealand's trade policy is straightforward: to achieve sustainable economic growth through trade. This objective, directed at complete multilateral free trade, is simultaneously pursued through four interrelated policy tracks.

Domestic policy: the unilateral track

Open and outward-looking domestic economic policies are the foundation stone of New Zealand's trade strategy:

- reduction or elimination of industry assistance, protection and regulation over recent years has been fundamental to enhancing the efficiency and international competitiveness of New Zealand's economy;
- domestic reforms are consistent with the direction of multilateral reform but New Zealand has not waited for international reform to make decisions which are in its own best interest.

The bilateral track

The Government works closely with individual trading partners to solve problems and seek more open trade and investment relationships:

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- the Australia-New Zealand Closer Economic Relations Trade Agreement (CER) constitutes one of the most far reaching bilateral free trade arrangements in the world covering a single market of around 20 million people.

The regional track

Regional economic groupings (including NAFTA, EU, AFTA and MERCOSUR) have a growing influence on New Zealand's trade policy:

- within the overall goal of complete multilateral free trade New Zealand looks to promote and build liberalized trade arrangements in the Asia-Pacific region;
- APEC (Asia-Pacific Economic Cooperation) provides the most comprehensive forum for trade liberalization in the region;
- the Government has stated also that it would be open to explore WTO-compatible sub-regional free-trade options with any of New Zealand's significant trading partners on the basis of principles which reflect New Zealand's interests as an outward-looking economy in the Asia-Pacific region;
- such arrangements must be outward-looking, open-ended, trade-enhancing, Asia-Pacific friendly, comprehensive in sectoral coverage and not compromising of New Zealand's unilateral reforms.

The WTO: The multilateral track

For a small country with global trading interests a strong multilateral trading system is vital:

- complete multilateral free trade is the "first best" outcome for New Zealand; the successful outcome to the Uruguay Round marked a further solid step in that direction;
- beyond securing full and effective implementation of Uruguay Round commitments, New Zealand advocates further work in the WTO to remove impediments to free and open trade and investment at the multilateral level.

In the following material, aspects of each element of this strategy are examined and their future evolution is considered.

The Economic Reform Programme

As noted above, trade policy is only one part of a broader external strategy concerned with investment, transport and other external linkages. These factors are in turn linked to the Government's broader economic policies, the aim of which is sustainable economic growth and prosperity for all New Zealanders.

The economic reform programme has involved the creation of more open and competitive product and factor markets in New Zealand and also increasing integration of these markets with regional and international markets. There is thus a growing convergence between New Zealand's domestic economic policy and the various elements of its external economic policy. In considering its international linkages New Zealand has a policy framework based on the international contestability of markets; a framework which focuses on open and competitive product and factor markets through consideration of trade and investment policies at the border and related "behind the border" regulatory issues. Among the main areas of reform were:

Public sector restructuring

As government expenditure accounts for over 30 per cent of GDP, inefficiencies in the government sector impose significant costs on the business sector. Reforms such as corporatization, privatization and introduction of new financial management systems have led to major improvements. The key guiding principles in these reforms have been transparency, consistency and withdrawal of the State from activities that can be more

efficiently and effectively performed by the community or private enterprise. The central elements of the reforms included:

- transformation of government departments involved in commercial activities (eg postal services, electricity networks) into State-Owned Enterprises (SOEs) operating on private sector principles and exposed to greater competitive pressures;
- privatization of former government enterprises (eg telecommunications, aviation, railways, forestry) to maximize efficiency gains; more than 25 enterprises worth over NZ\$14 billion have been sold since 1987;
- financial management reforms for remaining government departments including introduction of full accrual accounting and individual performance contracts between Ministers and Chief Executives;
- liberalization and decentralization of government procurement with individual managers responsible for procuring goods and services on a value-for-money basis against tightly constrained departmental budgets;
- major redesign of the public social services sector and reconstruction of retirement income policy to achieve greater efficiency and better targeted assistance.

Monetary and fiscal policy

A consistent policy framework is important for reducing uncertainty in the business environment. Fiscal policy is geared to reducing the claims the Government makes on resources in the economy and monetary policy is aimed at delivering general price stability, a key ingredient in business planning. Among the reforms in these areas were:

- fiscal policy reoriented to medium-term objectives of achieving surplus in the adjusted fiscal balance, reducing debt levels and reducing government expenditure as a percentage of GDP;
- introduction of legislation requiring regular accrual-based fiscal reporting and articulation of fiscal objectives and strategies;
- monetary policy directed to the single economic objective of maintaining general price stability;
- formulation and implementation of monetary policy devolved to an independent authority, the Reserve Bank of New Zealand, pursuant to a policy targets agreement between Government and the Reserve Bank Governor (current agreement requires underlying inflation to be maintained in 0-2 per cent range).

Financial liberalization

The cost of capital is an important constraint on business activity. Removal of government imposed barriers to entry in banking and of regulatory distinctions between different institutional groups in the financial sector increased linkages with international financial markets and improved the range of services available. Businesses gained access to more flexible and cost effective ways of financing, bringing the cost of capital closer to world levels. Included amongst the reforms were:

- removal of controls on prices, interest rates, wages and the exchange rate;
- abolition of controls on capital movements;
- sweeping deregulation of financial markets including removal of restrictions on the number of banks and on bank competition.

Taxation

Distortions in the tax system influence business and investment decisions. New Zealand had a very complex tax system with high marginal tax rates offset by a variety of concessions for particular types of investment. Reforms have created a more neutral investment environment both internally and between New Zealand and offshore tax jurisdictions. Included were:

- broadening of the tax base through introduction of a comprehensive value-added tax;
- simplification of personal tax structure to a two-step scale with removal of specific exemptions and concessions;
- substantial reductions in rates of direct taxation with the company rate reduced from 48 to 33 per cent and the top personal rate cut from 66 to 33 per cent.

Infrastructure deregulation

Inefficiencies in infrastructure services imposed significant costs on the goods sector. Privatization and deregulation in telecommunications and in all modes of transport has increased the range of services available and substantially reduced costs to industry. Reforms included:

- substantial deregulation across most sectors of the economy;
- removal of government imposed entry barriers in major infrastructure industries such as road, rail, air and maritime transport, telecommunications, broadcasting and electricity distribution.

Labour market deregulation

Prior to 1991 the New Zealand industrial relations system was centralized. Collective bargaining was backed by compulsory unionism and government machinery to settle collective documents. This led to bargaining that was essentially national in character and based on occupational status; a system which produced rigid outcomes compounding the difficulties of labour market adjustment to economic conditions. Reforms to encourage decentralization of decision making have allowed for more rapid adjustment in the labour market where needed and has contributed to increased competitiveness and economic and employment growth. The reforms included:

- deregulation and decentralization of labour markets providing freedom for individual or collective bargaining between employers and employees at the workplace, firm or industry levels;
- accompanying legislation specifying minimum standards of employment (such as minimum wages, statutory sick leave provisions, annual and statutory holidays) and a remedy for unjustified dismissal applicable to all employees.

Investment liberalization

New Zealand recognises that foreign direct investment (FDI) is a vital contributor to its economic development and a key element in promoting international economic linkages in the global economy. As well as providing development capital, FDI provides access to technology, management skills and distribution channels beyond the capacity which can be generated by domestic firms. New Zealand has therefore created a liberal foreign investment régime applicable to investment from all countries without discrimination. Investment reforms included:

- liberalization and simplification of the screening régime, applicable to certain investments, administered by the Overseas Investment Commission;
- removal of sector-specific restrictions on investment outside the areas of fishing (restrictions remain on ownership of fishing quota) and civil aviation (foreign ownership of New Zealand international airlines is restricted in accordance with standard international practices).

Trade liberalization

Tariffs and quotas to provide protection from imports for one industry act as a tax on other sectors of the economy. New Zealand has followed a comprehensive, consistent and certain programme of liberalization to increase the exposure of domestic consumers and producers to international price signals. Included amongst the reforms have been:

- elimination, completed in 1992, of all quantitative controls and non-tariff measures on imports maintained for industry protection purposes;
- elimination of all export subsidies and trade-distorting agricultural subsidies;
- changes to agricultural marketing, including removal of domestic monopoly powers, in line with market conditions;
- comprehensive unilateral tariff reduction programmes designed to encourage international competitiveness in the domestic economy (tariffs were reduced by about 50 per cent between 1988 and 1992 and by a further 33 per cent between 1993 and 1996, resulting in a simple average m.f.n. rate for all tariff items of around 7 per cent).

Results

Results of the reform process were not immediate but over the past four or five years the benefits have been clear. Among the benefits are:

- in the five years since March 1991 the economy has grown, in real terms, by about 15 per cent;
- underlying inflation has remained below 2 per cent for most of the period since 1991, currently standing at 2.3 per cent for the year ended June 1996;
- export earnings over the five years to June 1996 have increased by 33 per cent with significant growth in exports of non-commodity manufactures;
- over a similar timeframe unemployment has fallen from 10.3 per cent in December 1991 to 6.1 per cent in June 1996 while the total number of people in employment has increased by more than 234,000 (16.1 per cent), with three quarters of this increase being in full time employment; and
- net public debt has fallen from 50.5 per cent of GDP in December 1991 to 32.4 per cent of GDP in June 1996.

The reform process has also attracted considerable international interest and recognition. For four successive years to 1995, the World Competitiveness Report¹ rated New Zealand as the top OECD country for government policies and for long term competitiveness of domestic economic policies. In the 1994 and 1995 reports New Zealand was rated top OECD country for overall competitiveness in the Executive Opinion Survey. This year, in the Global Competitiveness Report², New Zealand was ranked as the world's third most competitive economy after Singapore and Hong Kong.

¹World Competitiveness Report 1992-1995; jointly published on an annual basis by Institute for Management and Development, Lausanne and World Economic Forum, Geneva.

² Global Competitiveness Report, 1996; World Economic Forum, Geneva.

Future directions

A crucial feature of the effectiveness of the reform programme has been its comprehensive and co-ordinated nature. All aspects of the reforms were directed to improving the contestability and functioning of markets. Trade liberalization played a key rôle in this process and in the sustainability of the outcomes through increasing the exposure of producers and consumers to international market signals.

Reform to meet the challenges and take advantage of the opportunities of a globalizing economy must be an on-going process. New Zealand has therefore already embarked on a further unilateral tariff reduction programme which by the year 2000 will result in more than half of tariff lines being at zero while the majority of those lines in which tariffs are levied will be at a rate of 5 per cent. By that time no tariff will be higher than 15 per cent and the simple average m.f.n. tariff rate will have fallen to around 3 per cent.

A further review of remaining tariffs will be held in 1998 with the objective of determining how to move towards a zero end point for all tariffs under a unilateral domestic tariff reduction programme.

Australia-New Zealand Closer Economic Relations

The Australia-New Zealand Closer Economic Relations Trade Agreement (the CER Agreement) is the primary instrument governing the conduct of trade between Australia and New Zealand in goods and services. It is a dynamic agreement which, since its inception in 1983, has developed into one of the most comprehensive bilateral free-trade agreements in existence.

Since the achievement of full free trade in goods in 1990, through the elimination of all tariffs and quantitative import or export restrictions, the agreement has continued to be broadened and deepened in a number of respects including:

- elimination, upon achievement of free trade in goods, of anti-dumping actions on trans-Tasman trade in goods meeting CER origin rules coupled with adjustment to standards, procedures and enforcement of domestic competition laws to deal with certain anti-competitive behaviour by firms in one country that have market power in the other country or in the combined CER market;
- expansion of the coverage of free trade in services under the 1988 CER Trade in Services Protocol through reduction and/or removal of inscriptions from the annexed list of services to which the national treatment obligation of the Protocol does not apply;
- initiatives to facilitate standards harmonization through recognition and harmonization of conformity assessment systems pursuant to the formation in 1991 of a trans-Tasman Joint Accreditation System (JAS-ANZ) and establishment in 1995 of a framework for harmonization of food standards;
- conclusion this year of a trans-Tasman Mutual Recognition Arrangement providing for recognition of goods and professional qualifications under which a good which is legally able to be sold in one country can be legally sold in the other and a person who is registered to practise an occupation in one country is entitled to practise an equivalent occupation in the other country.

From its inception CER has been perceived by its Members as an outward-looking agreement. Australia and New Zealand have therefore each continued to implement unilateral tariff reductions on an m.f.n. basis and to participate actively in regional and multilateral trade liberalization processes. Consistent with the emphasis by both economies on open regionalism, Australia and New Zealand are participating in Ministerial level dialogue between CER and the economies of the ASEAN Free Trade Area (AFTA) and in a more recently initiated dialogue between CER and the economies of MERCOSUR.

Asia Pacific Economic Cooperation

New Zealand was a founder Member of APEC (Asia Pacific Economic Cooperation) established in Canberra, Australia in 1989. As a grouping which accounts for more than 50 per cent of world GDP, includes eight of New Zealand's top ten export markets and is the source of over 70 per cent of New Zealand's trade, APEC represents the most promising trade and investment forum for New Zealand outside the WTO.

At the 1994 APEC Leader's Summit in Bogor, Indonesia, all 18 APEC Member economies committed themselves to the goal of free and open trade and investment in the region by the year 2020. Along with the other industrialized Member economies of APEC, New Zealand is committed to achieving this goal by the year 2010.

In 1995 APEC Leader's adopted the Osaka Action Agenda as a means to give effect to APEC's goals. The comprehensiveness of the Bogor goal was reaffirmed as one of the overarching "General Principles" agreed as an integral part of the APEC liberalization and facilitation process. The Osaka Action agenda contains an extensive work programme covering trade and investment liberalization and facilitation, and economic and technical co-operation. Among the fifteen specific action areas³ New Zealand is co-ordinating discussion on competition policy and deregulation.

Following this agenda New Zealand and other APEC Members are working to progressively implement the Bogor goal through:

- concerted unilateral actions as detailed by each economy in Individual Action Plans; and
- co-ordinated actions as detailed by each economy in Collective Action Plans.

In each case plans are to cover actions in all 15 specific action areas and are submitted to the annual APEC Ministerial Meeting for assessment. Initial plans will be submitted this year at the Ministerial Meeting in Manila, The Philippines.

The origins of the APEC process lie primarily in the realisation that dynamic business-led growth in the Asia-Pacific region is creating growing economic interdependence and a common interest in sustaining that dynamism. The Osaka Action Agenda is designed to help this process by further liberalizing the regulatory environment in which trade and investment operate, and by promoting other forms of economic co-operation.

From its inception APEC has had the objective of developing and strengthening the open multilateral trading system. New Zealand recognises the need for regional and multilateral approaches to trade and investment liberalization to support and reinforce each other. This need underpinned the recent meeting of APEC Ministers in Charge of Trade in Christchurch, New Zealand at which APEC Ministers recognized the importance of ensuring that the multilateral trading system continues to develop in response to the evolution of the world economy and recognized the contribution that each APEC Member economy, in implementing the Osaka Action Agenda, is making in contributing towards a progressively more open world trading environment.

World Trade Organization

For New Zealand as a small country with global trading interests the existence of a strong, open, rules-based and non-discriminatory multilateral trading system is vital. New Zealand's trade policy strategy emphasises that complete multilateral free trade is the "first best" outcome for New Zealand. The WTO is central to the achievement of this outcome.

³Specific action areas are tariffs, non-tariff measures, services, investment, standards and conformance, customs procedures, intellectual property rights, competition policy, government procurement, deregulation, rules of origin, dispute mediation, mobility of business people, implementation of Uruguay Round outcomes, and information gathering and analysis.

Because of the long-standing absence of effective multilateral rules in New Zealand's main area of trade, agriculture, it was widely recognised that few countries had a higher stake than New Zealand in successfully concluding the Uruguay Round. Estimates suggested the benefit to New Zealand of the results of the Round were equivalent to between 2 and 3 per cent of GDP.

For New Zealand, which had already benefited from its own programme of unilateral liberalization, most of these gains stemmed from the opening of export opportunities in foreign markets. Reflecting the extent of the domestic reform programme, New Zealand was also one of the few participants in the Uruguay Round to actively promote trade liberalizing outcomes in all negotiating areas.

With the WTO approaching its second anniversary and the first of the biennial meetings of its Ministerial Conference in Singapore, the first and on-going priority for all Members is to ensure the full and timely implementation of the commitments contained in the Marrakesh Agreement. New Zealand is determined to play its part in this having accelerated the implementation of rules-based agreements such as Trade Related Aspects of Intellectual Property (TRIPS) and Trade Related Investment Measures (TRIMS), having fully integrated its textile sector under WTO rules and having implemented all committed tariff reductions other than those in sectors subject to tariff elimination.

Globalization and regionalism are twin forces shaping the evolution of the world economy. New Zealand recognizes that it is only through trade and investment liberalization at the multilateral level that the challenges and opportunities of globalization can be responded to fully for the benefit of all peoples. New Zealand is therefore convinced that Ministers meeting in Singapore need, through their deliberations on the work programme of WTO, to energize the multilateral trading system. The work programme must provide coherence in the rules of the system through addressing all liberalization issues relevant to a globalizing world economy and it must be such as to ensure convergence between regional and multilateral liberalization initiatives.

The ultimate success of the Uruguay Round lay in the fact that it addressed issues of interest to all participants. The initial steps agreed to liberalize world trade in agriculture would not have been possible without outcomes in areas such as services and intellectual property. But neither would progress have been made in the newer areas of negotiation unless the liberalization process had started in areas, such as agriculture and textiles, of significant residual protection in industrialized countries.

The Uruguay Round also anticipated much of the way ahead. It was the first multilateral trade negotiation to be inclusive of a broad spectrum of countries involved in the global economy and to produce meaningful liberalization in areas of interest across that spectrum. Significantly its outcome also contained the seeds of further progress in most of the areas of negotiation. The built-in agenda resulting from the Uruguay Round agreements, which covers future negotiations or reviews in a wide range of areas, constitutes a substantive and balanced work programme to take the multilateral trading system forward on a trade-liberalizing path.

Included, for instance, is agriculture, where it will be essential to continue the reform process in order to eliminate the substantial distortions to agricultural trade which will still exist by the year 2000, and services, where it will be important to continue the process of progressive liberalization in expanding the scope of specific commitments on market access and national treatment under the General Agreement on Trade in Services (GATS). In addition to other areas such as textiles, rules of origin and intellectual property, the built-in agenda, through the provisions of GATS and TRIMS, encompasses work on investment and competition and, again through the provisions of GATS, work on government procurement of services.

The Singapore Ministerial provides the opportunity to construct a work programme to carry forward the built-in agenda in a coherent and co-ordinated manner. In some cases work has already begun while in others detailed preparations will be necessary before undertaking the mandated negotiations and reviews. In some areas, such as investment and competition policy, consideration might be given to the means by which the necessary process of information exchange and analysis might best be carried out. Consideration should also be given to undertaking liberalization initiatives beyond those contained in the built-in agenda, such as further work on improvement of market access for industrial products.

In advancing the process of trade liberalization, New Zealand considers it is important for the multilateral trading system, through the work of the WTO Committee on Trade and Environment, to make its full contribution

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to ensuring that trade liberalization and measures to protect the environment remain mutually supportive of sustainable development.

New Zealand also considers it essential, if convergence between regional and multilateral liberalization initiatives is to be ensured, for the WTO to actively work towards the goal of achieving free and open trade and investment at the multilateral level. The work programme to be agreed at the Singapore Ministerial should begin to set in place the modalities for achieving this goal and Ministers should begin to reflect on the urgency with which it must be attained.

Conclusion

Under the current structure of the WTO Trade Policy Review Mechanism, New Zealand is one of those Members whose trade régimes are reviewed every six years. This report has briefly described the further steps which New Zealand has taken during the past six years, under each of the four elements of its trade policy strategy, to achieve sustainable economic growth through trade and the progress towards this objective which has occurred.

As a result of a comprehensive, co-ordinated and ongoing programme of domestic economic reform and unilateral trade liberalization New Zealand is well placed to further benefit from the additional export opportunities which are emerging as international market-opening initiatives in the bilateral, regional and multilateral tracks begin to bear fruit. New Zealand's trade policy strategy recognizes that for New Zealand to fully realise its goal of sustainable economic growth through trade, international markets must be contestable through the achievement of free and open trade at the multilateral level.

New Zealand has already indicated that it intends to continue its unilateral programme to foster openness of the domestic economy and stronger international economic linkages. Through this programme and through further work in bilateral and regional fora and multilaterally in the WTO, New Zealand expects that by the time of its next scheduled review in the year 2002 the goal of free and open trade and investment at the multilateral level will be considerably closer to being achieved.