

TRADE POLICY REVIEW

NEW ZEALAND

Report by the Secretariat

This report, prepared for the second Trade Policy Review of New Zealand, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the Government of New Zealand on its trade policies and practices.

Document WT/TPR/G/20 contains the policy statement submitted by the Government of New Zealand.

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SUMMARY OBSERVATIONS

1. 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.

2. 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.

3. 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.

(1) The New Zealand Economy

4. 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.

5. 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.

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

7. 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.

(2) Trade Policy Framework

8. 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.

9. 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.

10. 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.

11. 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.

12. 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).

13. 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.

14. 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.

(3) Trade Policy Features and Trends

(i) Policy instruments

15. 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.

16. 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.

17. 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.

18. 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.

(ii) Sectoral policy patterns

19. 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.

20. 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.

21. 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.

22. 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.

23. 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.

24. *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.*

25. *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.*

(4) Trade Policies and Trading Partners

26. *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.*

27. *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.*

28. *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.*

