



**New Zealand Chambers of Commerce and Industry
Submission
Foreign Affairs, Defence and Trade Committee
New Zealand China Free Trade Agreement
May 2008**

Introduction

The New Zealand Chambers of Commerce (Inc), NZCCI, is an umbrella organisation serving the interests of 30 Chambers of Commerce nationwide. These, in turn, represent over 24,000 businesses around the country. While many of our members are in the SME category our membership includes most of the largest corporations in New Zealand.

NZCCI is fully supportive of the historic Free Trade Agreement (FTA) between China and New Zealand and we congratulate the government and officials on the successful outcome.

While obviously, there is no scope to renegotiate the agreement there are some important points arising from this agreement which we believe should be considered when negotiating FTAs with other economies. Many of the comments in this submission should be taken in this context and interpreted as constructive criticism for future negotiations.

General Comments

The New Zealand China FTA is the most comprehensive and important FTA we have signed since CER with Australia 25 years ago.

New Zealand has gained unprecedented access to what will soon be the world's largest economy and China has achieved a milestone in signing its first FTA with a developed country - something of a trial run for future FTAs it is bound to negotiate.

While New Zealand would be best served from the multilateral dismantling of trade barriers and subsidies internationally, we support the government's pursuit of high quality and comprehensive bilateral and regional free trade agreements.

The negotiation of such a FTA with China is a great achievement. As well as being negotiated with such an important and growing trade partner, relative to previous agreements and to other agreements around the world, this FTA is impressive because there have been few compromises in terms of its comprehensiveness.

We now look forward to the successful negotiation of a free trade agreement with the US, Japan, Korea and India as well as those already under negotiation. We also hope negotiations with Hong Kong can now be quickly resumed.

Business Support

Currently polls show around 50% of the public support the New Zealand China FTA. What is significant about these polls is how they show support for such agreements has increasing over the years. Majority support for a free trade agreement with China would have been unthinkable two decades ago with fears of job losses being at the forefront of peoples' minds. It is also significant and pleasing that support for the FTA is particularly high amongst Labour voters.

In terms of the business community a Wellington Regional Chamber of Commerce poll taken last month shows 79.4% of businesses think the FTA will be good for the New Zealand economy. This is high given that only a portion of businesses are likely to experience direct and immediate benefits from it.

The Benefits of the FTA

The removal of tariffs on 96% of New Zealand's current exports to China by 2019 equates to an annual duty saving of \$115.5 million but is only a small component of the benefits which will come from the improved access under the agreement. Firstly there is the trade with China which has hitherto been deterred or diverted by the high tariffs. Secondly, and most importantly, is the trade likely to be generated as China's economy continues its phenomenal growth which will have preferential access over competitors from other countries.

We emphasise this is two way trade. While much focus has been on the benefits to exporters, we must not underestimate the importance of China as a supplier of cost effective consumables and business inputs. Notwithstanding this, it is the export sector which stands to benefit the most from the agreement.

As well as the direct benefits from tariff-free trade, there are other, less direct benefits coming from the agreement in the form of the higher commercial profile New Zealand companies are likely to achieve in China. There is also the new investment New Zealand is likely to attract from third party countries hoping to get into China through the New Zealand FTA.

New Zealand's Obligations

Under the FTA, tariffs on imports from China will be eliminated in nine years. As mentioned above, this should not be seen as a negative. New Zealand has already largely reduced tariffs on imports from China and our economy overall has benefited greatly from this. New Zealand's obligations under the FTA are essentially to speed up the removal of the few remaining tariffs.

While there may be some adjustment costs to those industries affected (textiles, footwear etc), the greater part of those adjustments have already occurred. It is likely that these industries will continue their transformation to producers of high-end product which does not compete with that able to be mass-produced with low-cost labour which China has a competitive advantage in. At the same time New Zealand businesses and consumers will receive access to cheaper imports. A few dollars off a pair of shoes may not seem much but aggregated across the whole economy, the savings are significant. It should also be noted that New Zealand tariffs on products

from China are now so low that exchange rate movements have more impact on the prices than do tariffs themselves

It is worth noting that New Zealand's unilateral tariff reduction of decades past have given us a head start in negotiating this FTA. It will be difficult for other countries negotiating a FTA with China, e.g. Australia, to match our offer of removing tariffs to Chinese imports in the time period we have. This also justifies New Zealand's decision to move ahead of other countries in unilaterally reducing tariffs and debunks the myth that a country's own tariffs should be retained so as to be used as a bargaining chip in trade negotiations.

Forest Sector excluded from Coverage

The tariff liberalisation under the FTA covers 96% of New Zealand's current exports. Forest sector products accounting for 4% of New Zealand's exports are not covered because, as part of its accession to the WTO, China agreed that any preferential commitments it makes on wood and paper products in an FTA would be offered to all WTO members. It is unfortunate New Zealand was not able to address this at the time China acceded to the WTO.

Services Sector

In contrast to previous FTA negotiations, the China-New Zealand FTA has achieved a very positive outcome for services. This is most welcome as the services sector has not been well served by New Zealand trade policy. Even though services constitute 70% of our GDP and almost 30% of our exports, and even though our single biggest export earner is tourism, the sector has been the poor cousin of agriculture and non-agricultural goods trade. The New Zealand-Thailand FTA left the sector out completely; we are being told to expect not much from services in the ASEAN/Australia/New Zealand FTA; and there is still not one item of commercially significant liberalisation on the table in the current WTO Round

In this FTA China goes beyond its WTO commitments in a number of areas – education and environmental services for example. We have access to more Chinese employees in several areas which is very positive given our people and skills shortages. What is more it is an outcome that is going to keep getting better. New Zealand has being guaranteed receipt of concessions that China grants to other countries in future FTA negotiations in a number of sectors –

- Construction services (for construction work for buildings, assembly and erection of prefabricated constructions, installation work and building completion and finishing work).
- Environmental services.
- Services incidental to agriculture and forestry (but limited to China's commitments made to the countries (including New Zealand) that are members of the Organisation for Economic Cooperation and Development (OECD)).
- Engineering services.
- Integrated engineering services.
- Computer and related services.
- Tourism services

China has granted New Zealand Most Favoured Nation status for these sectors. If any other country is granted preferential access to them, we will get the same access condition.

While we are positive about this outcome it is far from perfect. We would have liked to see a broader coverage of sectors that would be liberalised from the time that the agreement comes into force. The areas of actual liberalisation are quite small. We would also have liked to see a wider range of services covered by the MFN commitment – financial services and services such as accounting, engineering and architecture would have been helpful. Australia is talking about financial services as being a bottom line issue for its negotiation with China. We might have been expecting too much to have China agree to liberalise financial services for New Zealand – given that so few financial services are New Zealand owned, but if we had achieved preferential access to China at the same time as Australia, there was the hope that some companies might use New Zealand as their platform to enter or service the China market. Likewise we have a fledgling emissions trading sector developing in New Zealand. Having open access for this type of service for China would have been potentially interesting.

But we should be pleased with what we have got from China. New Zealand itself has been less than open on services. It has a formal policy of seeking not to change any policy settings in such negotiations:

The government does not intend to make any offers to change actual current policy settings (including for local government), and would be well within them. In other words, whatever decision is ultimately made as to the coverage of New Zealand's offer, at most we would be offering to commit to, on a conditional basis, settings that reflect our settled policy in certain areas. There is sufficient negotiating coin in this respect.

If this is our position how can we expect others to dig too deep?

Investment

The investment provisions of this FTA are more far-reaching than previous ones, including even CER and we support them

Labour Movement

The provisions on labour movement are very positive and the unfounded scaremongering surrounding them are unfortunate. One of the biggest problem faced by businesses is labour shortages. The agreement is helpful in this regard. We would have been happier if the provisions had been more extensive.

Intellectual Property

We welcome the provisions on intellectual property. More certainty and transparency over the provision of intellectual property rights is very important and applying the provisions of the WTO TRIPS Agreement is a good way to achieve this in FTAs.

Government Procurement

We support the Government Procurement provisions whereby China will begin negotiations on government procurement with New Zealand at the time when it joins

the WTO Government Procurement Agreement (GPA). At this time the obligation it has to transparently undertake existing government procurement ceases.

New Zealand is almost alone as a member of the OECD in not being a signatory to the WTO Government Procurement Agreement (GPA). We believe that New Zealand should take steps to join it in order to secure improved access to member-country government procurement markets.

Leveraging Opportunities from the FTA

For New Zealand to fully benefit from the FTA, New Zealand businesses and the public at large need to know how to take advantage of it and leverage opportunities from it. NZCCI supports the government role through NZTE and other agencies to facilitate this.

NZCCI will also assist in this and is in the process of organising workshops and other events as a platform for businesses to learn more about the FTA and its implications for New Zealand businesses.

Select Committee Hearing

Thank you for the opportunity to make these brief comments. We would like an opportunity to be heard on this submission.