



Asia-Pacific  
Economic Cooperation

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Agenda Item: III

## **Presentation by New Zealand – Outline and Presentation**

Purpose: Consideration  
Submitted by: APEC Secretariat



**Third Senior Officials' Meeting  
Cairns, Australia  
3 July 2007**

## IAP Address

First let me thank Joseph for moderating this session and to our experts Pierre Sauve and Bambang Brodjonegoro for the time and effort they put into compiling the Expert's report on New Zealand.

I would also like to acknowledge my colleagues from NZ Treasury, Customs and the Ministry for Economic Development who have come to Cairns to participate in this review session.

New Zealand highly values its participation in APEC as it captures, in one forum, the vast majority of our most important relationships.

We value APEC not only for the opportunity it provides to work collaboratively with members for a more prosperous Asia-Pacific region but also for exercises such as this which – in a non-adversarial environment – throw a spotlight on our own very specific economic and trade journey.

The Bogor Goals remain important to New Zealand. They have, since they were agreed back in 1994, served as a beacon towards which we all have to march – and have proved a continuing reminder of our collective intent to move in but one direction – namely towards greater, not less, openness.

New Zealand is broadly encouraged by the Experts' report. It is an affirmation that New Zealand has largely honoured the undertaking we embraced back in 1994.

New Zealand has travelled a long road since that time – and indeed since our last IAP Peer Review session. Many of the most significant developments are mentioned in the experts' report – so I won't seek to repeat them all here – but would just like to highlight a few specific achievements:

- 95% of imports enter the country duty free with the rest facing – in the main – tariffs of between 5 and 7.5%.
- This already open tariff regime is being further liberalised through the commencement last June of a further round of unilateral tariff reductions, which started in July 2006.
- NZ does not impose quantitative restrictions or import licensing
- Performance based export subsidies don't exist
- The openness of New Zealand's foreign investment regime is reflected in the fact that not a single foreign investment application has been declined through the screening process in the past 25 years. This already open regime has undergone further liberalisation during the review period, including through a doubling of the screening threshold for non-land business investment and greater flexibility in the monitoring and enforcement of the regime.

- We already operate an extremely open services regime as evidence by our GATS commitments.
- Additional trade and investment liberalisation continues to be achieved through bilateral and regional preferential trade agreements, including those recently concluded with Thailand and the 'P4' agreement involving NZ, Singapore, Chile and Brunei.
- Further progress has been made in implementing changes resulting from the comprehensive review of New Zealand's Intellectual Property Regime.
- All of this is in addition to a range of other reforms to strengthen the operation of markets in the electricity and telecommunications sector, and further refinements to competition policy and government procurement and regulatory review procedures.

Another way to illustrate this broadly positive picture is to reference some other indicators which are similarly complimentary in their assessment of our trade and economic policy settings:

- The Heritage Foundation's Index of Economic Freedoms ranks New Zealand fifth in the world
- The World Bank's 'Ease of Doing Business' survey ranks New Zealand second in the world – after Singapore.
- Transparency International has ranked New Zealand, along with Finland, as the second least corrupt country in the world
- The OECD in its annual review of the NZ economy released in late April described our economy as one of the most resilient and flexible within the group of developed nations – praising our policies as consistent with international best practice

While there is an element of art, as well as science, in all these types of surveys they do attest, I believe, to broadly positive views as to our openness, our transparency and our 'business friendliness'.

These economic Oscars, if we can regard them as such, are – of course - only meaningful if we can translate them into something tangible.

Openness is not an end in itself. As we all know it is but a means to an end – namely the pursuit of sustainable growth; per capita income growth and hopefully near full employment.

In this regard the New Zealand story is comforting. From a high unemployment, high inflation, high debt and low growth environment in the late 1970s/early 1980s the New Zealand economy has been largely transformed by a suite of economic policy, trade and investment reforms:

- Average real GDP growth rates over the last eight years, for instance, have exceeded 3% - faster than the average of developed countries – faster than Europe, Japan, the US and the UK and as fast as Australia;
- More New Zealanders than ever are in jobs and we have the second lowest unemployment rates in the OECD – below 4%. This is the lowest level in NZ in a generation;
- Our business sector has been prospering. Profit growth has averaged over 20% a year in recent years – up from growth of around 5% a year in the 1990s; and
- New Zealand has better public finances than nearly all other OECD countries – a particularly pleasing achievement considering where we stood in the early 1980s. Gross public debt is approaching 20% of GDP and the government is actually in a net financial asset position once the assets of the NZ Superannuation Fund are included.

This broadly positive story of New Zealand's economic performance has a direct link, we would contend, to our openness – to our performance in relation to the Bogor Goals.

Without this openness to the importation of ideas, people, investment, science and technology and enhanced international education links it would be difficult to think we would have turned our economy around – from the dire situation it was in early 1980s - to its current sustained growth path.

In this regard we have a positive attitude to our openness – it has permitted a small and distant economy to hold its own in an increasingly tough and competitive global environment.

Our very first trade agreement – that with Australia – dating back to 1983 paved the way for much of the openness which followed. Fearful of the prospects of opening our door to any foreign competition New Zealand could not at that time bring itself to open its door globally. So we started partially, albeit with a significant trading partner, and found that, to our relief, the sky did not fall in – to the contrary we continued to prosper. This was a significant milestone in convincing us we could open up to the world as a whole and not only survive as an economy but in fact become more – not less - competitive.

No economy, however, is free from challenges.

- In New Zealand we are having to deal with an infrastructure deficit built up over the last few decades.
- We are also, as a society, weak savers and as a result finance a lot of our investment needs from foreign borrowing.
- With the economy operating at, or above, capacity for some years now we have seen a rise in inflationary pressures, and a consequential increase in

interest rates and an appreciating dollar – something of particular concern to our export sector.

But in relative terms these ongoing challenges do not mask the overall positive picture painted earlier – a fundamentally reformed economy now enjoying sustained economic growth.

While we have done well, in broad, from openness and structural reforms – the full benefit of this reformed environment is constrained as a result of the high tariffs and other forms of protection we continue to face in many offshore markets – including within the APEC family.

I raise this point because there is a body of opinion within APEC – quite vocal at times - which suggests we should no longer worry about addressing tariffs and NTBs within APEC. It is argued that tariffs and NTBs are ‘yesterday’s issues’ and fail to recognise the new and more important trade agenda out there.

New Zealand fully accepts that the trade agenda is broader than it once was.

We also accept that average tariffs these days are low.

Nor do we disagree with the central importance of ‘structural reform’ to our collective ambition to promote a more economically healthy and resilient region – indeed NZ is, we believe, very active through APEC’s Economic Committee in promoting this body of work.

But we should not let those facts mask another reality – namely that while average tariffs might be reasonably low, tariff levels remain highly uneven, and in many sectors tariff peaks remain extremely high – typically in the food/primary production sectors. The Expert’s Report itself makes this point noting that “market access for agriculture is an important impediment to high income growth arising from primary commodity production”.

For this reason you will not find New Zealand suggesting APEC surrender or somehow down-grade its trade liberalisation agenda.

Equally we all know that trade liberalisation needs to continue if we are to honour the Bogor Goals – however narrowly or broadly we wish to define those goals.

At present there are no trade policy instruments – nothing in the diplomatic tool box - which is going to deliver those Bogor Goals of non-discriminatory trade and investment in the Asia-Pacific.

The outlook for the DDA remains uncertain. Unilateralism is hardly on the march. Bilateralism is the current favoured vehicle for liberalisation but, as we all know, it is not a model for non-discriminatory trade within the region.

Where does all this lead:

- It leads us to look for an instrument which is faithful to APEC’s trade liberalisation agenda

- One which is also faithful to the non-discriminatory pillar of the Bogor goals
- From a New Zealand perspective that takes us very squarely into the territory leaders tasked us with in Hanoi last year – looking at the idea of an FTAAP as a long term prospect. No other trade policy instrument exists, of which I am aware, which can deliver us the non-discriminatory goals we set ourselves back in 1994.

I would like to conclude my remarks by simply thanking again the Experts for their report, and to note that we believe we have a very respectable story to tell, but see an unfinished agenda out there which can only be realised by working more closely with the APEC family on a balanced agenda which includes continuing attention to trade liberalisation as well as those suite of new issues we are tackling including behind-the-border structural reform issues.

In this regard the reform agenda – whether one is close to best international practice or otherwise – never ends and has an enduring relevance to us all.



## Trade Policy Settings

- 95% of imports enter duty free
- Most other tariffs 5% - 7.5%
- No import licensing
- No quantitative restrictions
- No performance based export incentives
- Open FDI regime (not a single application declined in 25 years)
- Open services regime
- Additional liberalisation through bilateral/ regional FTAs



## New Zealand Rankings

- Heritage Foundation Index of Economic Freedoms = 5<sup>th</sup>
- World Bank 'Ease of Doing Business' Index = 2<sup>nd</sup>
- Transparency International Least Corrupt Countries = 2<sup>nd</sup>
- OECD late April review – 'one of the most resilient and flexible within the group of developed nations.... Policies consistent with best practice'



## NZ Economic Performance

- Average real GDP growth over last 8 years – exceeded 3% per annum
- Second lowest unemployment rate in the OECD – below 4%
- Business profit growth in recent years averaging 20% - up from 5% in the 1990s
- Better public finances than nearly all other OECD countries



## The Road to Bogor (Non-Discriminatory Trade and Investment within the APEC region)

- WTO / DDA ??
- Unilateralism ??
- Bilateralism ??
- FTAAP – “if the cap fits wear it”

