A JOINT STUDY REPORT ON A FREE TRADE AGREEMENT BETWEEN CHINA AND NEW ZEALAND

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EXECUTIVE SUMMARY

China and New Zealand are open and dynamic market economies that depend on international trade for stimulating economic growth. Strong global connections and improved access to markets are fundamental to the economic strategies of both countries. With this in mind, the Governments of China and New Zealand pursue active trade policy agendas and are leaders in regional trade and economic liberalisation and facilitation initiatives.

In October 2003 Chinese President Hu Jintao and Prime Minister Helen Clark of New Zealand agreed to negotiate a Trade and Economic Cooperation Framework. The Framework was signed by Chinese Minister of Commerce Bo Xilai and New Zealand Minister for Trade Negotiations Jim Sutton on 28 May 2004. In this framework the two countries agreed to undertake a joint feasibility study on a bilateral Free Trade Agreement (FTA) negotiation and to enter into negotiations in early 2005.

This study:

- Provides an overview of recent trends in bilateral trade and economic relations;
- Assesses recent international trade policy developments and the possible implications of these for Chinese–New Zealand trade and investment;
- Identifies and describes existing barriers to trade and investment flows covering goods, services, investment, and other issues that might be addressed in a bilateral FTA;
- Assesses the impact of the removal and/or reduction of existing barriers to goods and services trade and investment;
- Identifies possible cooperation measures to promote trade and investment liberalisation and facilitation between China and New Zealand;
- Makes recommendations on the scope of a bilateral FTA negotiation in order to facilitate commencement of these negotiations in early 2005.

CHINA AND NEW ZEALAND: TRADE RELATIONSHIP AT A GLANCE (2003)	
China	**New Zealand**
New Zealand is China's 31st largest overseas market.	China is New Zealand's fourth largest overseas market.
Chinese exports to New Zealand were worth US$800 million.	New Zealand exports to China were worth US$850 million.
Key export products include textiles, clothing, footwear, electronic goods and other manufactured products.	Key export products include dairy and other agricultural products.
More than 43,000 New Zealand tourists visited China.	Around 66,000 Chinese tourists visited New Zealand. More than 50,000 Chinese students studied in New Zealand.

China and New Zealand have a longstanding and healthy bilateral relationship. New Zealand has been an active partner in China's development. An FTA will signal a significant step forward, reflecting the maturity of the relationship.

An FTA between China and New Zealand will also underpin the two countries' leading role in multilateral and regional trade initiatives and enhance their longstanding cooperation in the WTO and APEC contexts. In the pursuit of trade liberalisation, the most important vehicle for both countries is the multilateral process through the WTO. Bilateral FTAs can however bring forward the benefits from international trade liberalisation, help add momentum to the global process, and offer wider benefits. It is therefore important that a China–New Zealand FTA contributes to regional and multilateral trade liberalisation efforts. China and New Zealand will need to take into account the compatibility of architecture and provisions with other agreements in the region, and in particular those to which they are party, while also exploring innovative approaches which can serve as examples of good practice.

Comprehensive and reciprocal elimination of trade barriers under bilateral FTAs allows people in both countries to benefit from increased competition, lower prices, and a greater variety of goods and services. Given the complementary nature of the two economies an FTA between China and New Zealand is expected to lead to an increase in bilateral trade in many areas.

Economic modelling undertaken as part of this study suggests positive GDP, trade and welfare gains for both economies flowing from the negotiation of an FTA. Ten years after the completion of an FTA the modelling shows that China's real GDP, real consumption and total output level will go up by 0.07, 0.17 and 0.07 percent respectively, while New Zealand's real GDP, real consumption and total output level would increase by 0.25, 0.55 and 0.25 percent respectively. Chinese exports to New Zealand are expected to grow by 10.9 percent in the first year after an FTA is implemented. New Zealand exports to China are expected to grow by 39 percent in the same year. Most gains would be achieved through the removal of tariffs and unnecessary non-tariff measures (NTMs). Gains would be expected across all sectors for both China and New Zealand – including in the agriculture and non-durable manufacturing areas.

Chinese and New Zealand businesses are cooperating at a range of levels in both markets. Greater economic interaction under an FTA should promote mutually beneficial business partnerships involving transfer of technology and skills, sharing of ideas, and improvements in business practice, all of which will enhance both countries' competitiveness in the global market place. Already, since an FTA was mooted, there has been a significant increase in New Zealand investor interest in China.

A recent international trend in trade policy development is increasing awareness of the linkages between sustainable development and trade. This has been reflected in international forums and agreements such as Agenda 21, the World Summit for Sustainable Development and associated Johannesburg Plan of Action, the WTO Committee on Trade and the Environment, and the International Labour Organisation. An FTA provides an opportunity to demonstrate both countries' commitment to sound sustainable development policies, taking into account social, environmental, cultural and economic circumstances in each country. China and New Zealand are parties to a range of multilateral agreements in these areas, and are interested in exploring how an FTA or other bilateral processes might be able to strengthen bilateral cooperation on sustainable development issues, and contribute to the development of appropriate global approaches. A range of possible examples is covered in this study. Both China and New Zealand oppose the use of standards in the sustainable development area as a form of economic protectionism.

This study has demonstrated that significant complementarities exist between the Chinese and New Zealand economies and that an FTA would benefit the people and economies of both countries. To secure these benefits and build on the long and warm relationships between the two countries, this study recommends that negotiations on an FTA between China and New Zealand covering goods, services and investment should commence as soon as possible.

CHAPTER ONE: INTRODUCTION

In today's increasingly competitive international environment, countries like China and New Zealand need to take every opportunity to improve both countries' competitiveness, to forge partnerships that will strengthen their positions in the global economy and encourage the sustainable development of the two nations. Efforts of China and New Zealand towards trade liberalisation at the bilateral level build on and promote their efforts at the multilateral level, including in the WTO and APEC.

1.1 Overview of Bilateral Economic Relations

China and New Zealand have an excellent relationship underpinned by a high level of interaction between Chinese and New Zealanders through trade and investment connections, education, tourism, and other people to people exchanges. We also have a long history of working together internationally and in the Asia-Pacific region to promote trade and economic liberalisation, facilitation, and cooperation.

The relationship is characterised by regular high-level contacts, an expanding range of official dialogues (both formal and informal), healthy and diversifying trade and economic flows in both directions, and strengthening people to people contacts.

2002 marked the 30th anniversary of diplomatic relations between China and New Zealand. During this period, the bilateral relationship has become one of New Zealand's most important. As a permanent member of the United Nations Security Council, a new and significant member of the WTO, a major player in APEC, New Zealand's fourth-largest trading partner, and a major source of migrants, students and tourists, China is increasingly important to New Zealand as a bilateral, regional and multilateral partner. China also attaches great importance to developing ties with New Zealand. New Zealand is an active supporter of the trade and investment liberalisation process in APEC and one of China's most important trading partners in agricultural and forestry products. China looks forward to promoting all-round cooperation with New Zealand, particularly in education, technology, agriculture and tourism.

Channels of communication on trade and economic issues between China and New Zealand have expanded over the years. Economic and trade talks are held regularly by senior officials. In 1988 China and New Zealand signed a bilateral Investment Promotion and Protection Agreement. Memoranda of Understanding establishing mechanisms for dialogue and cooperation on sanitary and phytosanitary issues, agriculture, and forestry were signed in November 2001. A Joint Ministerial Commission has now been established as a forum for regular trade and economic dialogue.

The trade and economic relationship was lifted to a new level of cooperation in 2003 when President Hu Jintao visited New Zealand and agreed with Prime Minister Helen Clark that China and New Zealand should begin negotiations on a Trade and Economic Cooperation Framework.

Additionally, in the course of the visit five economic arrangements and agreements were signed: two meat access protocols, an arrangement for consultation on technical barriers to trade (TBT), a renewed Science and Technology Agreement and an Arrangement on Mutual Recognition of Academic Degrees in Higher Education.

China and New Zealand have enjoyed close cooperation in APEC for a number of years. Their close association in the WTO was characterised by New Zealand being the first WTO member to finalise the bilateral negotiation associated with China's accession to the WTO. This close relationship has continued in the WTO with China and New Zealand working closely on many areas of the routine agendas and the Doha Development Agenda (DDA). China and New Zealand see the negotiation of an FTA as an extension of this cooperation. A high quality agreement covering all goods, service and investment offers the potential to add momentum to the WTO process, and to contribute to the achievement of APEC's important Bogor Goals.

1.2 The Trade and Economic Cooperation Framework

Bilateral economic cooperation between China and New Zealand is now underpinned by the Trade and Economic Cooperation Framework (the TECF), which was signed in New Zealand in May 2004 by Chinese Minister of Commerce Bo Xilai and New Zealand Minister for Trade Negotiations Jim Sutton.

The TECF covers the commencement of the FTA study, consequent FTA negotiations and New Zealand's recognition that China has established a market economy system (the first country to do so). It establishes a Joint Ministerial Commission as a forum for regular trade and economic dialogue and outlines the practical steps that China and New Zealand will be taking to strengthen cooperation across a range of economic sectors. It reaffirms objectives that the two countries have been working on through existing mechanisms in areas such as agriculture, including wool, forestry, science and technology, tourism, education, environmental protection and investment. It promotes opportunities for dialogue between business and academic communities.

The TECF lays the foundations for future economic and trade cooperation between the two states.

1.3 Objectives and Structure of Study

The TECF also sets out the following terms of reference for this joint feasibility study:

- To provide an overview of recent trends in bilateral trade and economic relations;
- To assess recent international trade policy developments and the possible implications of these for Chinese–New Zealand trade and investment;
- To identify and describe existing barriers to trade and investment flows covering goods, services, investment, and other issues that might be addressed in a bilateral FTA;
- To assess the impact of the removal and/or reduction of existing barriers to goods and services trade and investment;

- To identify possible cooperation measures to promote trade and investment liberalisation and facilitation between China and New Zealand;

- To make recommendations on the scope of a bilateral FTA negotiation in order to facilitate the commencement of these negotiations in early 2005.

Chapter One of this study provides an overview of bilateral economic relations between China and New Zealand, describes the TECF and sets out the objectives and structure of this study. Chapter Two provides factual information about the Chinese and New Zealand economies and an overview of trends in trade, investment and economic cooperation between China and New Zealand. It also describes the international context of the bilateral relationship.

Chapters Three, Four and Five consider the trends in the bilateral trade in specific goods and services sectors, and investment. They provide an overview of tariffs and other policies affecting trade and assess the impacts of liberalisation in each sector. Chapter Six identifies areas for strengthening bilateral cooperation between China and New Zealand. Chapter Seven covers competition and government procurement, and Chapter Eight assesses the feasibility of an FTA between China and New Zealand. Chapter Nine contains the conclusions and recommendations of this study.

This study was prepared jointly by China and New Zealand between May and September 2004.

1.4 Exchange Rates and Statistics used in this Study

All values quoted in this study are in US dollars unless otherwise specified. The Chinese RMB is pegged to the US dollar so a constant rate is shown throughout this period. The New Zealand dollar however is floating and as a result, unless otherwise stated, the exchange rates used in this study are the average exchange rate in existence over the period of the calendar year as shown in the table below:

TABLE 1.0: CHINA AND NEW ZEALAND EXCHANGE RATES USED IN THIS STUDY (US DOLLARS)

	1998	1999	2000	2001	2002	2003
New Zealand	0.526	0.512	0.409	0.415	0.496	0.625
China	0.121	0.121	0.121	0.121	0.121	0.121

Due to differences in the methods of compiling statistics in China and New Zealand there are some differences in statistics presented in this study.[1] Where possible these differences have been reconciled.

[1] These differences arise due to a number of reasons, including because of differences in the methods of valuation of goods, and also because some products shipped via intermediate ports or investments lodged via intermediate countries, appear as trade and investment flows with those intermediate countries instead of between China and New Zealand.

CHAPTER TWO: TRADE AND ECONOMIC RELATIONS BETWEEN CHINA AND NEW ZEALAND AND INTERNATIONAL CONTEXT

China and New Zealand are open and dynamic economies that depend on international trade for stimulating economic growth. Strong global connections and improved access to markets are fundamental to the economic strategies of both countries. With this in mind, China and New Zealand pursue active trade policy agendas and are active in regional trade and economic liberalisation and facilitation initiatives.

China and New Zealand have enjoyed considerable economic success over the past decade, with only modest disruption from domestic, regional and global economic shocks, such as the 1997 Asian economic crisis, the SARS epidemic, and drought. China's real GDP grew at an average rate of 8.1 percent over the past five years fuelled by high levels of investment accompanying economic reforms. New Zealand's five-year average economic growth rate of 3.4 percent is one of the strongest amongst developed economies.

The China–New Zealand trade relationship has grown significantly over the past decade, largely reflecting comparative economic strengths, economic complementarities and a strengthening investment relationship.

2.1 The Chinese and New Zealand Economies

2.1.1 THE CHINESE ECONOMY

Since its reform and openness policy was put into practice in 1978, China's economic development has been remarkable. GDP increased at 9.7 percent annually in the period 1980–90, and 10.7 percent in the following decade. The Chinese economy kept expanding rapidly in the first three years of the new millennium, with GDP growth at 7.5 percent in 2001, 8 percent in 2002 and 9.1 percent in 2003.

According to a preliminary estimate by the National Bureau of Statistics, China's GDP in 2003 totalled about US$1,405 billion, an increase of 9.1 percent over 2002 in comparable prices. Retail sales of consumer goods totalled US$555 billion. China's overseas trade has also increased rapidly. Total imports and exports amounted to US$851.2 billion in 2003, an increase of 37.1 percent over the previous year. This was the fourth highest import/export total in the world. Under the macro-economic regulation of the central Government, the aggregate price level rose only a little and the number of employed people increased. The international balance of payments improved, and foreign exchange reserves rose significantly. The exchange rate of RMB was kept basically stable. Current projections suggest that China's economy is likely to achieve sustained and rapid development in the long term.

2.1.2 THE NEW ZEALAND ECONOMY

New Zealand has been one of the most successful economies in the Organisation for Economic Cooperation and Development (OECD) in recent years. Annual growth since the early 1990s has been higher than the OECD average. Real Gross Domestic Product (GDP) growth of 4.0 percent was recorded over 2002, one of the best performances in the OECD. Growth averaged 3.3 percent over the past four years (1999 – 2002). New Zealand has the fourth lowest unemployment rate of all OECD countries, and has run budget surpluses consistently for over 10 years. New Zealand also is one of the most open economies in the world.

New Zealand has sizeable manufacturing and service sectors complementing a highly efficient agricultural sector. The economy is strongly trade-oriented, with exports of goods and services accounting for around 33 percent of total output. The agricultural, horticultural, forestry, mining, energy and fishing industries play an important role in New Zealand's economy, particularly in the export sector and in employment. Overall, the primary sector contributes over 50 percent of New Zealand's total export earnings.

Looking to the future, the New Zealand Government has formulated a set of growth-oriented policies designed to deliver the long-term sustainable growth necessary to improve the living standards of all New Zealanders. The Growth and Innovation Framework (GIF) identifies innovation and knowledge as key drivers of growth and has set a goal of returning New Zealand's per capita GDP to the top half of the OECD.

2.1.3 THE COMPLEMENTARY RELATIONSHIP BETWEEN THE TWO ECONOMIES

The two economies are of markedly different size, and at different stages of economic and social development. China is one of the largest economies in the world, and one of the fastest growing. Following years of relatively low economic growth, New Zealand is currently one of the fastest growing developed countries in the world. In 2003 New Zealand's GDP was 4.8 percent of China's while China's per capita GDP was only about 5.4 percent of New Zealand's (see Table 2.1).

China produces a wide range of goods of potential interest to New Zealand producers and consumers. In contrast, New Zealand's smaller economic size necessarily means that New Zealand's global exports are concentrated in fewer sectors than China's. However, in both cases improved access to the partner country's products and services have the potential to benefit domestic consumers and producers.

TABLE 2.1: PROFILE OF CHINESE AND NEW ZEALAND ECONOMIES

	NEW ZEALAND	CHINA
Surface land area (million km2)	.268	9.56
Population (million, 2003)	4.009	1287
GDP (US$ billion, current prices, 2003)	67.6	1,412.8
Real GDP Growth (1998–2003 average annual, percent)	3.4	7.9
Per capita GDP (US$/person, 2003, current price)	20,200	1,097.7
Export goods (US$ billion, 2003)	18.1	438.3
Import goods (US$ billion, 2003)	18.4	393.6
Export goods (percent GDP, 2003)	21.5	31
Import goods (percent GDP, 2003)	21.9	27.9
Export services (US$ billion, 2003)	6.9	46.7
Import services (US$ billion, 2003)	6.0	55.3
Export services (percent GDP, 2003)	8.2	3.3
Import services (percent GDP, 2003)	7.2	3.9
Current account balance (US$ billion, 2003)	-3.5	45.9
Capital and Financial account balance (US$ billion, 2003)	0.5	52.7
Foreign exchange reserve (US$ billion, 2003)	23.0	403.2
Inflation (2003)	1.6 percent	1.2 percent

Sources: Ministry of Foreign Affairs and Trade of New Zealand, World Bank, EIU and IMF, China State Administration of Foreign Exchange.

While these economic differences will shape each country's approach in negotiating an FTA, the presence of marked differences in levels of development would be expected to increase the scope for trade creation and positive benefits to each economy. In this sense, the general characteristics of the Chinese and New Zealand economies suggest that for both economies, there are likely to be complementary gains from closer economic integration.

2.2 Trends in Two-Way Goods Trade

Largely reflecting economic complementarities, the China–New Zealand commercial relationship has grown substantially over the last decade. From 1991 to 2002, the average annual increasing rate of bilateral merchandise trade was 12 percent. In 2003, Chinese statistics show the two-way trade between China and New Zealand reached US$1.83 billion, an increase of 30.7 percent over 2002, among which China's imports from New Zealand totalled US$1.02 billion, an increase of 27 percent over the previous year, and exports US$0.80 billion, an increase of 34.2 percent. According to New Zealand statistics, the two way trade in 2003 reached US$2,648 million, with New Zealand's exports to China comprising US$856 million and New Zealand's imports from China US$1,791 million. China is now New Zealand's fourth largest trading partner.

These statistics do not take account of New Zealand exports to China through Hong Kong. It is thought that about one-third of exports to Hong Kong are in fact destined for the mainland market, while the use of packaging plants in Singapore and other Southeast Asian countries means that some New Zealand products enter China as the goods of third countries.

TABLE 2.2: CHINA – NEW ZEALAND ANNUAL VALUE OF MERCHANDISE TRADE US $ MILLION, 1998–2003 (CHINESE STATISTICS)

	1998	1999	2000	2001	2002	2003
China's imports (New Zealand's exports)	409.9	481.3	638.3	736.8	803.2	1,023.6
China's exports (New Zealand's imports)	274.9	342.9	416	434.9	596.2	802.6
Total	684.9	824.2	1,054.3	1,171.7	1,399.4	1,826.2

Source: China Customs Statistics Yearbook 1999, 2000, 2001, 2002, 2003, compiled by Customs General Administration of China.

TABLE 2.3: CHINA – NEW ZEALAND ANNUAL VALUE OF MERCHANDISE TRADE US $ MILLION, 1998–2003 (NEW ZEALAND STATISTICS)

	1998	1999	2000	2001	2002	2003
New Zealand's exports (Chinese imports)	414.4	406.45	583.5	846.3	894.2	856.3
New Zealand imports (China exports)	746.6	900.5	1,210.5	1,388.5	1,629.5	1,791.7
Total	**1,161**	**1,306.9**	**1,794**	**2,282.8**	**2,523.7**	**2,648**

Source: Statistics New Zealand compiled by the New Zealand Ministry of Foreign Affairs and Trade.

2.2.1 CHINA'S IMPORTS FROM NEW ZEALAND

The high rate of economic growth achieved in China over the past two decades, as well as the complementary nature of the two economies, has generated significant opportunities for New Zealand exporters. China is now New Zealand's fourth largest merchandise export market. China's imports from New Zealand reached US$1.02 billion in 2003, according to Chinese statistics, and have increased at a trend growth rate of over 20 percent a year since 1998.

China's imports from New Zealand have traditionally been dominated by wool, but there has been rapid diversification in recent years with forest products (logs, sawn timber, pulp, newsprint), dairy products (especially milk powders but also casein, butter, whey), seafood (lobsters, mussels, hoki), horticultural products (apples, kiwifruit), agricultural products (live goats and cattle, sheepmeat, semen/embryos, casings), energy products (methanol, some LNG), hides, skins and leathers and high technology products (especially telecommunications products).

TABLE 2.4: CHINA'S TOP TEN MERCHANDISE IMPORTS FROM NEW ZEALAND US$000, 2000–2003 (CHINESE STATISTICS)

Tariff No.	Items	2000	2001	2002	2003
0402	Milk and cream	77,474	77,493	101,587	153,017
4403	Wood in the rough	28,193	383,229	100,493	125,212
5101	Wool	76,930	26,712	88,289	90,700
4407	Wood sawn or chipped	3,010	1,129	41,565	51,272
2905	Methanol	63,919	35,240	57,688	42,891
1502	Animal fat	27,460	15,955	17,728	31,552
4102	Sheep skins, raw	18,346	24,739	19,922	31,084
0204	Sheep meat	12,355	15,817	20,124	30,841
4411	Fibreboard of wood	19,900	20,687	28,945	27,654
4804	Paper and paperboard	15,457	28,787	27,693	26,529

Note: The items of merchandise are ranked according to the trade value of 2003.
Sources: China Customs Statistics Yearbook 2000, 2001, 2002, 2003, compiled by Customs General Administration of China.

2.2.2 NEW ZEALAND'S IMPORTS FROM CHINA

New Zealand's imports from China have grown rapidly in recent years and China is now New Zealand's fourth largest source of imports. Main imports include electrical machinery and equipment, textiles, clothing and footwear, toys, and a wide range of light consumer goods. The most significant growth has been in imports of computer equipment and mobile phones, while China continues to be an important source of imported clothing and footwear.

TABLE 2.5: NEW ZEALAND'S TOP TEN MERCHANDISE IMPORTS FROM CHINA US$000 CIF, 2000–2003 (NEW ZEALAND STATISTICS)

Tariff No	Items	2000	2001	2002	2003
8471	Computers	26,109	37,144	65,730	111,412
6204	Ladies apparel	30,430	34,073	47,292	62,689
9503	Toys	31,636	27,128	35,474	45,904
6110	Knitted apparel	26,039	34,831	36,717	44,631
6403	Footwear	24,139	24,061	34,404	43,545
6109	T-shirts	21,022	25,710	31,939	39,848
8525	Mobile phones		5,121	14,792	38,204
8516	Electric heaters and dryers	17,435	19,533	29,263	37,688
4202	Trunks and cases	21,077	21,451	26,495	33,769
6203	Men's apparel	20,784	23,976	27,848	31,681

Note: The items of merchandise are ranked according to the trade value of 2003.

Sources: NZ External Trade Statistics, December 2003.

2.3 Trends in Two-Way Services Trade

The bilateral services trade between China and New Zealand has expanded quickly in recent years. Tourism and education are among the fastest expanding sectors of the two-way services trade at present. In 2003 New Zealand's income from sales to China in these two sectors was roughly the same value as New Zealand merchandise (goods) sales to China.

In 1997 China accorded New Zealand 'Approved Destination Status' (ADS) for Chinese tourist groups, which has contributed to a significant growth of short-term visitors. The number of Chinese visitors to New Zealand increased by 183.9 percent in the past five years and reached 66,000 in the year ended December 2003. An agreement to expand the number of Chinese agents authorised to operate under the ADS scheme was reached in May 2004.

There is a steady growing market of New Zealand tourists to China. According to the China National Tourism Administration, the number of New Zealand tourists to China increased by 33.5 percent between 1999 and 2002. Total numbers in those years were 31,400 in 1999, 37,000 in 2000, 44,400 in 2001, and 50,200 in 2002.

Education is one of the fast-growing New Zealand service export sectors. Since 1998, there has been rapid growth in the number of Chinese students travelling to New Zealand for secondary, tertiary or English language study. In the year ended 30 June 2003, more than 50,000 Chinese students studied in New Zealand, double the numbers of 2001. New Zealand has become the fifth largest destination country for Chinese students studying abroad. Chinese students account for the largest proportion of foreign students studying in New Zealand. However, there has been a significant reduction in the number of Chinese students travelling to New Zealand to study since the middle of 2003.

While the two-way trade in services is currently dominated by tourism and education services, interest in trade in other services is growing. Areas of interest include professional and business services, architecture and design services, environmental services and construction and engineering services.

2.4 Two-Way Investment

Investment is a key area of the economic relationship. China and New Zealand concluded a bilateral Investment Promotion and Protection Agreement in 1988. Chinese investment in New Zealand has been expanding quickly during the past few years, most of it in joint ventures in the forestry sector. Sinotrans, which has invested in the Wenita Forest development, is probably the largest single Chinese investment. According to New Zealand statistics, total Chinese investment as at 31 December 2003 was US$915 million. There is also significant investment in manufacturing and commercial construction in New Zealand. Sectors such as property, meat processing, electronics, fish farming, tanning, light manufacture, and hotels and restaurants have all attracted the interest of smaller Chinese investors.

Up to the end of December 2003, the stock of New Zealand contractual investment in China, invested on 819 projects, amounted to US$812 million, with actual investment of US$405 million according to Chinese statistics. The main target areas of New Zealand investment include agriculture and forestry, metallurgy, food processing, biotechnology and information technology. Fonterra, Richina Pacific, and Carter Holt Harvey have major holdings in China. Investment in China is viewed by those companies as important to secure a long-term market for New Zealand products and also to assist in the penetration of the large consumer market developing in China. A number of new investment initiatives have commenced since the prospect of a China–New Zealand FTA was announced.

The liberalisation that occurred as part of China's entry to the WTO appears to have had a significant impact on the number of foreign investments in China. Investors point to the trend towards further liberalisation and improvements in areas such as business law, intellectual property protection, and the levels of economic growth in China as reasons for further optimism about business prospects in China. Future Chinese policy developments that support and build on progress to date will further build investor confidence, improving the attractiveness of China as an investment destination.

2.5 Trends in Economic Cooperation

China and New Zealand are currently engaged in economic cooperation in a number of areas including customs, education, sanitary and phytosanitary issues, forestry, agriculture, sustainable development, occupational health and safety, employment relations, training of tourism agents and technical regulation, including working toward a possible mutual recognition arrangement for electrical equipment. Cooperative efforts in these areas are outlined in the relevant sections of this study.

China and New Zealand are also Official Development Assistance (ODA) partners. Projects under the NZODA programme include promoting rural integrated land use in Yunnan and Gansu, poverty alleviation in Tibet, Sichuan, Guizhou, Gansu, Yunnan and Xinjiang provinces/autonomous regions, assistance in trade and economic policy advice, including WTO compliance, eco-tourism development and Agenda 21 implementation. New Zealand provides up to 10 post-graduate study awards to Chinese students annually.

The establishment of the Asia Development Assistance Facility (ADAF) in 1993 allowed the New Zealand private sector to be active in developing commercially sustainable cooperation with China while also providing an effective mechanism to deliver ODA. 38 projects were approved between 1998 and April 2003.

In 2003 China and New Zealand signed a Science and Technology Agreement to enhance cooperation between each other's research and innovation communities, especially in the priority areas listed in the Agreement: animal husbandry, environmental and ecological protection and restoration, forestry and the preservation of natural resources, information technology, biotechnology, geophysics, Antarctic and health research. The Agreement will promote sustainable development by improving scientific understanding through exchanges of scientific and technological knowledge. Bilateral economic cooperation is now underpinned by the Trade and Economic Cooperation Framework, which is discussed further under Chapter 1.3.

Sustainable development is essential for economic prosperity. The aims are to develop sound sustainable policies that support trade. To this end, bilateral cooperation on sustainable development activities has also extended to the promotion of labour and environmental objectives. New Zealand has hosted many delegations of Chinese labour and environment officials, providing opportunities to exchange information on domestic regimes. Officials from both countries are planning to increase collaboration on climate change through a joint modelling exercise on the effects of greenhouse gas emissions under the auspices of the United Nations Framework Convention on Climate Change, and further collaboration is anticipated in this area. China and New Zealand have also cooperated on a UNDP sponsored initiative, the China Green Lights Project, aimed at improving the efficiency and quality of lighting installations throughout China. The New Zealand Ministry for the Environment hosted a delegation from the environment section of the China National Institute of Standardisation (CNIS), which has been contracted to write the standards for this project. CNIS visited New Zealand to investigate the development and application of energy efficiency standards and how they fit into regulatory frameworks.

2.6 International Context

China and New Zealand are both members of the WTO. The close association between China and New Zealand in the WTO was characterised by New Zealand becoming the first WTO member to finalise its bilateral accession negotiation with China. This close relationship has continued in the WTO, with China and New Zealand working closely on many aspects of the Doha Development Agenda (DDA). The negotiation of an FTA between China and New Zealand would take place against the backdrop of agreement to an agenda for significant further liberalisation of world trade in the Doha Round.

As well as the WTO, China and New Zealand work together on trade and economic issues in a range of other multilateral organisations including the World Intellectual Property Organisation (WIPO), the International Labour Organisation (ILO), the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), the United Nations Development Programme (UNDP), the UN Conference on Trade and Development (UNCTAD) and the UN Food and Agriculture Organisation (FAO). China and New Zealand have accepted a range of relevant international legal standards, including standards for protection of the environment and biodiversity. Both participated in the World Summit on Sustainable Development in Johannesburg, which adopted the Johannesburg Plan of Implementation (JPol). The JPol built on the agreements entered into at the 1992 Earth Summit, including Agenda 21, and the commitments made to mutually supportive environment and trade policies to achieve sustainable development. China and New Zealand both acknowledge the importance of the ILO's Declaration on the Fundamental Principles and Rights at Work and the basic rights and principles underlying it. Consistent with the approach taken in the ILO, each country is free to promote the fundamental principles according to its own law and practices.

At the regional level, China and New Zealand are also both members of APEC and have enjoyed close cooperation in APEC for a number of years. APEC has made significant progress in facilitating and liberalising trade in the region, including through promoting mutual recognition and harmonisation of standards and procedures. APEC economies, including China and New Zealand, have also developed individual action plans that detail the paths by which they will reach the Bogor Goals (free and open trade and investment in the Asia-Pacific region by 2010 for developed economies and 2020 for developing economies).

There has also been continuing interest globally and in the Asia-Pacific region in expanded regional or bilateral FTA initiatives. China has completed Closer Economic Partnership Arrangements with Hong Kong and Macau, and is to complete negotiations on an FTA with ASEAN. Aside from this study with New Zealand, China is studying FTAs with Australia and Chile. New Zealand has a longstanding Closer Economic Relationship (CER) with Australia and a more recent Closer Economic Partnership (CEP) with Singapore. It is engaged in negotiations with Thailand and a tripartite CEP with Chile and Singapore. A negotiation with Hong Kong on a CEP is also underway. New Zealand is also exploring the possibility of an FTA with ASEAN as part of the AFTA-CER process.

An FTA between China and New Zealand would not only be fully consistent with this wider process, it would offer the opportunity for China and New Zealand to establish a high quality model which could be of assistance to this wider regional and the WTO and APEC processes.

CHAPTER THREE: IMPACT OF TRADE LIBERALISATION ON GOODS

China and New Zealand produce world-class and largely complementary goods for export to international markets. Exports underpin growth in both economies. Increased demand in each country for the goods of the other has lead to substantial growth in the bilateral goods trade between China and New Zealand in the last decade. Both tariffs and a range of non-tariff measures currently impact on the bilateral goods trade. Further liberalisation of this trade through an FTA offers significant potential benefits to both China and New Zealand.

3.1 An Overview of Trade Policies applying to Trade in Goods

3.1.1 TARIFFS

CHINA

Before entering the WTO, the average tariff level of China in 2001 was 15.3 percent. It was reduced to 11 percent in 2003 and 10.4 percent in 2004. The average tariff level on industrial products was 14.7 percent in 2001, 10.3 percent in 2003 and was further reduced to 9.5 percent in 2004. China's average tariff level for agricultural products is 15.6 percent.

TABLE 3.1 SIMPLE AVERAGE TARIFF LEVEL OF CHINA

Year	1992	1993	1996	2000	2001	2002	2003	2004
Tariff	40.30	37.50	23.00	16.40	15.30	12.00	11.00	10.40

Sources: Ministry of Finance, China.

In 2003, there were 7445 eight-digit tariff items in the Customs Tariff of Import and Export to China. Among these, there are 494 items with a zero tariff. The tariffs on 981 items are 0–5 percent, accounting for approximately 13 percent of all the items. There are 4015 items with a tariff of 5 percent–15 percent, accounting for 54 percent of all the items. The tariff on 1903 items is above 15 percent, accounting for approximately 26 percent of all the items. This shows that China is moving fast towards becoming an open market.

Tariff Quotas

At present, China administers Tariff Rate Quotas (TRQs) on the following agricultural products: wheat, corn, rice, edible vegetable oil (bean oil, palm oil, rape seed oil), sugar, wool, wool tops and cotton. Among China's imports of agricultural products from New Zealand, only wool and wool tops are subject to TRQ administration.

NEW ZEALAND

While approximately 95 percent of goods by value enter New Zealand duty free, only 37 percent of New Zealand imports from China enter duty free. Likewise, while the New Zealand trade weighted average tariff from global sources is 3.6 percent, the trade weighted average tariff from imports from China is almost twice as high at over 6 percent. Applied 'normal' tariff rates on protected sectors in New Zealand are typically in the region of 5–7.5 percent. However, certain sectors receive higher protection. For example, clothing, carpets and certain footwear items are currently protected by a 17–19 percent tariff (or more when 'alternative specific tariffs', expressed in dollars per garment, are applied to low cost clothing). New Zealand's average applied Most Favoured Nation (MFN) tariff rate is 3.6 percent. Average rates applied to agricultural and industrial products are 2.1 percent and 4.4 percent respectively. The average rate for textiles, clothing and footwear is 9.5 percent.

The outcome of the New Zealand Government's 'Post–2005 Tariff Review' was announced on 30 September 2003. Under the review (see table 3.3 below) New Zealand's applied tariff rates will reduce to either 5 or 10 percent. All tariffs currently at 12.5 percent or lower will reduce to 5 percent by 1 July 2008. New Zealand's highest tariffs (17–19 percent in Clothing, Footwear and Carpets sector) will reduce gradually between 1 July 2006 and 1 July 2009 to 10 percent. Tariffs currently between 0 and 5 percent will remain unchanged. All alternative specific tariffs will be removed and the relevant ad valorem rates will apply from 1 July 2005.

New Zealand does not maintain any quantitative non-tariff measures.

TABLE 3.3: NEW ZEALAND'S UNILATERAL TARIFF REDUCTION PROGRAMME FOLLOWING THE 'POST–2005 TARIFF REVIEW'

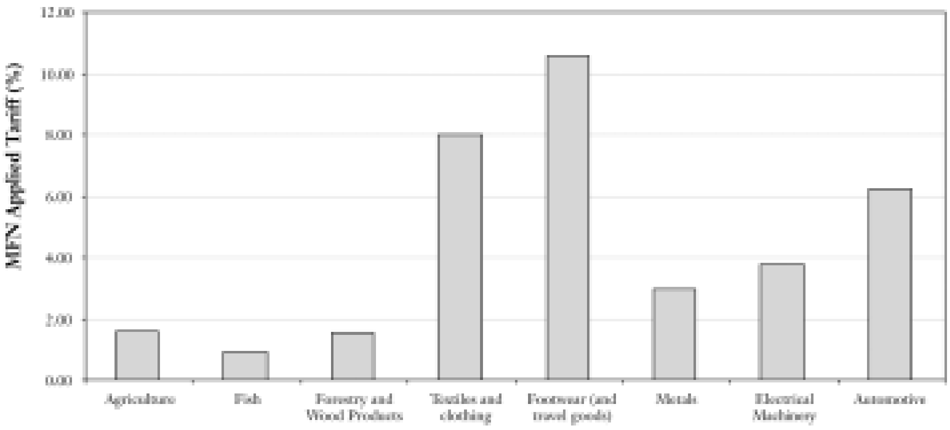
Current tariff	07.2006	07.2007	07.2008	07.2009
17–19	17	15	12.5	10
10–12.5	10	7.5	5	5
5–7.5	5–7.5	5–7.5	5	5

As of December 2002, there are 7,432 tariff items in the Customs Tariff of Import and Export of New Zealand. 54.86 percent of them, i.e. 4,077 items, are completely free trade goods with 0 tariff. There are 492 items with a tariff of less than 5 percent; 1886 items with the tariff 5–10 percent. There are only 555 items with the tariff above 10 percent, accounting for 7.47 percent of all the items. The above statistics show that New Zealand has an open market for trade in goods. However, relative to its average tariff, New Zealand does retain comparatively high tariff levels in textiles, clothing and some transport items.

TABLE 3.4 TRADE WEIGHTED TARIFF LEVEL OF NEW ZEALAND

Year	**1988**	**1993**	**1996**	**2000**	**2001**	**2002**	**2003**
Tariff	14.30	8.50	5.70	3.70	3.70	3.70	3.60

New Zealand's Average Applied Tariff Rates (Trade Weighted)



Source: Ministry of Foreign Affairs and Trade, New Zealand

3.1.2 OTHER ASPECTS OF TRADE POLICY

CHINA

Non-tariff policies implemented by China in foreign trade administration include rules of origin, an import licensing system, customs evaluation, pre-shipment inspection, technical regulations, sanitary and phytosanitary measures and trade remedies. Since China's accession to the WTO, the Chinese Government has been making great efforts to ensure that the policies adopted are WTO consistent.

NEW ZEALAND

A range of policies beyond tariffs can have an impact on goods coming into New Zealand. In general these fall into the areas of trade remedies, customs valuation, sanitary and phytosanitary measures, technical barriers to trade, competition policy, government procurement, and intellectual property. Details of New Zealand policy in these areas are outlined in relevant sections of Chapters 6 and 7. New Zealand conforms to WTO-consistent practice in these policy areas. While New Zealand participates in the WTO Group on Transparency in Government Procurement, it is not a party to the WTO Government Procurement Agreement. New Zealand's government procurement policy is, however, based around a global non-discriminatory approach.

New Zealand also maintains robust competition and fair trading laws. Governmental support is a minor component of government policy. With respect to agriculture, New Zealand has the lowest support levels in the OECD. All such support is WTO green box consistent and New Zealand does not apply any export subsidies.

3.1.3 RULES OF ORIGIN

Rules of Origin (ROO) are a critical component of any free trade agreement. Only goods that satisfy the specified rules of origin will qualify for preference. Clear and consistent rules of origin can facilitate trade by providing importers and exporters with certainty regarding the tariff treatment of their goods at the border.

Robust, coherent and predictable rules of origin are essential for partly manufactured goods traded under preference. It is recommended that China and New Zealand should adopt rules of origin in an FTA that:

- are economically efficient;
- maximise trade under preference ("preference utilisation");
- facilitate trade;
- are consistent with changing business practices in a globalised world;
- are simple in design with low compliance costs;
- minimise use of product-specific ROO;
- are readily enforceable at the border.

Preferential rules of origin should be negotiated under the framework of the China–New Zealand FTA in accordance with the specific circumstances of the two countries. Related government authorities of China and New Zealand should enhance information exchange and address ROO issues in a cooperative manner.

3.2 Trade Trends in Specific Sectors

3.2.1 AGRICULTURE

Bilateral agricultural trade largely comprises agricultural exports from New Zealand to China. China exports some agricultural products to New Zealand, including garlic, sugar, apple juice and peanuts. New Zealand exports an increasingly diversified range of agricultural products to China, which has become an important market for New Zealand products. These include live animals and genetic materials, meat and animal by-products, dairy products, wool, horticulture and floriculture products, seeds, seedlings and other plant materials. China and New Zealand have established a number of bilateral mechanisms to enhance cooperation on agriculture issues, particularly in the facilitation of regulatory measures. There is scope to improve these mechanisms to facilitate trade more effectively.

3.2.1.1 TARIFFS APPLYING TO AGRICULTURAL PRODUCTS

China's average tariff applicable to agricultural products is 15.6 percent in 2004. In accordance with China's WTO accession commitments, the final bound tariff rate for some of New Zealand's key agricultural products include: a 10 percent tariff on milk products, an 18–20 percent tariff on animal guts and bladders and a 15 percent tariff on sheep meat. New Zealand's tariffs on agricultural products are very low with a simple average tariff of 2.1 percent. Both China and New Zealand impose taxes on imports of agricultural products: China imposes a Value Added Tax (VAT) of between 13–17 percent and New Zealand imposes Goods and Services Tax (GST) of 12.5 percent. China values goods for duty on a cost-insurance-freight (CIF) basis with VAT paid on the total value of goods after the duty is paid. New Zealand values goods for duty according to the free-on-board (FOB) value of imported goods using the transaction value. GST is then paid on the total value of the goods, the cost of transportation, insurance of the goods and the duty paid.

It is recommended that issues relating to tariffs on agricultural products be addressed in any FTA negotiations.

3.2.1.2 OTHER POLICIES AFFECTING TRADE IN AGRICULTURAL PRODUCTS

In the course of conducting this feasibility study, taking into account the results of consultations with exporters, a range of non-tariff issues affecting bilateral trade in agriculture between China and New Zealand has been raised. These issues include SPS, labelling, standards and technical requirements, intellectual property protection, import licensing and issues relating to treatment of goods at the border. A number of cross-cutting themes have also been raised including *inter alia* the transparency, consistency of application and enforcement of relevant requirements, and whether some measures are more trade-restrictive than necessary. It is recommended that these issues be addressed in any FTA negotiations.

3.2.1.3 IMPACTS OF TRADE LIBERALISATION

Owing to the complementary nature of the Chinese and New Zealand economies and export profiles, trade liberalisation would be expected to bring net benefits to both parties. Removing tariffs and other barriers in agricultural trade will allow this complementary trade to reach its potential. Benefits from liberalisation in agricultural trade would include lower prices and access to a wider range of agricultural products for consumers, and improved opportunities for exporters through improved access to markets. This in turn will stimulate greater economic activity in both countries. These expectations are confirmed by the results of economic modelling undertaken during the course of this study which show the output of both China's and New Zealand's agriculture sectors increasing as the result of a future FTA. Nevertheless, because of the importance of the agricultural sector in both countries, the potential impact of greater liberalisation on rural development, rural employment, poverty alleviation and livelihood should be monitored.

DAIRY

Though the Chinese dairy sector has expanded, demand for dairy products in China has also grown enormously in recent years. Domestic supply currently falls well short of meeting this demand. Imports therefore play a critical role in supplying China's consumer and industrial demand for dairy products. Imported product and domestic supply complement each other well in China.

As a result of this increase in demand, New Zealand dairy exports to China have grown and reached a new high in 2003. Dairy products now contribute almost one quarter of New Zealand's goods trade to China in 2003. They are now New Zealand's largest export earner in the Chinese market, and China has become New Zealand's fourth largest market for dairy products overall. China is a particularly important market for whole milk powder and skim milk powder. New Zealand is China's largest supplier of milk powder (providing about 70 percent of China's imports).

TABLE 3.4: VALUE OF NEW ZEALAND DAIRY EXPORTS TO CHINA (US$ MILLION, CALENDAR YEAR)

Year	2001	2002	2003
US$	72.19	115.791	191.88

Source: World Trade Atlas

Increased liberalisation of the dairy market for New Zealand exports to China will have a number of benefits for both China and New Zealand. New Zealand producers will benefit from increased demand and potentially better returns for exports to China. Chinese consumers will benefit from lower prices and increased supply. Increased supply would also be of benefit to China's food processing industry.

Given the gap between demand and supply for dairy products in China, it would seem that the future is bright for both Chinese producers and New Zealand exporters. It is likely that Chinese and New Zealand producers will continue to complement each other, with China supplying the high value fresh milk market and New Zealand providing an important source of specialty products and supply for China's food processing industry. Owing to geographical constraints in China, currently about 40 percent of the total domestic raw milk is used to produce milk powder. Reconstituting milk from milk powder is necessary in some parts of China.

The potential impacts on Chinese raw milk suppliers and producers of further liberalisation of the dairy market will need to be taken into account. Similarly, the role played by New Zealand in China's dairy industry by the provision of expertise, capital and dairy cows should be recognised.

MEAT PRODUCTS (INCLUDING MEAT AND OFFALS)

New Zealand Exports to China in this sector have been growing steadily since 2001 with meat and edible offal accounting for 10 percent of New Zealand's total exports to China in 2003. Exports of frozen beef, for example, have also been expanding as demand for high-end product grows. Similarly, China is a key market for some cuts of New Zealand lamb.

TABLE 3.5: VALUE OF MEAT EXPORTS TO CHINA FROM NEW ZEALAND (CALENDAR YEAR, US$ MILLION)

Calendar Year	2001	2002	2003
US$	41.738	58.010	86.984

Source: World Trade Atlas

With the meat trade increasing, China and New Zealand are working bilaterally to direct this trade to the wider China general market. Two meat protocols – for beef and for sheep/goat meat – were signed in 2003. China and New Zealand are currently cooperating on steps to allow the existing trade to take place on a commercially viable basis into the long term.

Although the beef industry in China is diverse, the mass market accounts for almost 90 percent of all cattle slaughtered in China. Only about 10 percent of slaughtered cattle are sold through a small but now increasingly growing premium market into which New Zealand beef product is directed. Demand in China for sheepmeat, particularly for lamb, has also been increasing and is expected to increase further as incomes rise and urbanisation continues. China is a net importer of sheepmeat, the majority of which goes to hotels, restaurants and food processors rather than the retail market.

China remains an important market for meat by-products, including a wide range of offal. According to New Zealand statistics the value of edible beef offals to China in calendar year 2003 was US$4.7 million. The value of sheep offal exports (including casings) was US$37 million in calendar year 2003. The export of offal provides a genuine opportunity because there is a great deal of demand for this product in China, and New Zealand can provide a wide range of offal products. China is an important market for such otherwise low demand products as guts, bladders, aortas etc. China and New Zealand are currently cooperating on steps to allow the existing trade to take place on a commercially viable basis into the long term.

China is a major producer of meat products as well and has a comparative advantage in the export of poultry meat and pork. The world export value of poultry meat and pork from China in 2003 was US$280 million and US$270 million. Owing to New Zealand's SPS requirements there are no existing Chinese exports of pork and poultry to New Zealand.

Liberalisation of the markets for meat products will be beneficial for both China and New Zealand. Producers and exporters will benefit from increased demand, and consumers will benefit from lower prices and increased supply. Given the importance of SPS measures to the bilateral trade in meat products, these will be an integral element of any future FTA negotiation.

It is recommended that any FTA develops a mechanism through which existing barriers to the bilateral trade of meat products, whether tariff or non-tariff, can be addressed. However, any potential impacts on producers and associated processing sectors of further liberalisation of the meat markets will need to be taken into account and monitored during any FTA negotiations.

LIVE ANIMAL TRADE

TABLE 3.6: VALUE OF NZ EXPORTS TO CHINA OF LIVE ANIMALS (CALENDAR YEAR, US$ MILLION)

Year	2001	2002	2003
US$	0.357	0.359	8.894

Source: World Trade Atlas

New Zealand-bred cattle and export of bovine embryos are playing a central role in the rapid expansion of China's dairy herd through the improvement of breeding stock. With China's milk consumption rising rapidly and due to the gap between supply and demand, China is increasingly relying on the importation of breeding cattle to strengthen the national herd. Protocols relating to live cattle and deer exports were adopted in 1997. With the advent of BSE in North America, the focus for importations shifted to Australasia. As a result, the breeding cattle trade between China and New Zealand has increased significantly in the past few years and is now an important part of the bilateral trade. According to Chinese statistics, nearly 30,000 New Zealand cattle were imported by China between January and July 2004. These imports are expected to increase further.

There is also interest in Chinese and New Zealand businesses in developing the trade in live deer, as well as cervine germplasm and bovine IVF (Invitro Fertilisation) embryos. Draft protocols covering trade in cervine germplasm and bovine IVF embryos have been submitted by New Zealand. Facilitation of the live animal trade will therefore benefit China as it continues to seek to improve its national dairy, sheep and deer herds as well providing a better return to New Zealand exporters.

WOOL

TABLE 3.7: WOOL EXPORTS TO CHINA (CALENDAR YEAR, US$ MILLION)

Year	2001	2002	2003
US$	86.846	85.748	88.51

Source: World Trade Atlas

Wool is an important component of the bilateral trade in agricultural products between China and New Zealand. New Zealand has traditionally exported coarser wools to China, which have been widely used as an important input into the apparel, bedding, upholstery and carpet industries. Some is also used in the manufacture of hand knitting yarns. New Zealand wool exported to China is usually of a different thickness to that produced in China and often New Zealand wool is blended with Chinese wool. This complementarity can be expected to continue. Although the quantity of wool exported to China has fallen over the past eight years by two-thirds (from a peak of 75,800 tonnes in 1994/95 to 24,000 tonnes on a clean wool basis in 2002/03), China remains New Zealand's major market for wool exports.

TABLE 3.8: THE SCHEDULE OF TARIFF RATE QUOTAS FOR WOOL IN 2004

Products	Tariff No.	TRQ (10,000 ton)	Out-quota Tariff Rate (%)	In-quota Tariff Rate (%)
Wool	51011100	28.7	38	1
	51011900	28.7	38	1
	51012100	28.7	38	1
	51012900	28.7	38	1
	51013000	28.7	38	1
	51031010			
Wool tops	51051000	8.0	38	3
	51052100	8.0	38	3
	51052900	8.0	38	3

Source: The Import and Export Tariff Schedule of the People's Republic of China (legal text), 2004, New Zealand wool products are already entering China at very low duty rates – 1 percent for wool and 3 percent for wool tops (under a tariff rate quota system). Although removal of such low tariffs would be positive for Chinese consumers, as well as the wool processing industry and those farmers whose production is complemented by New Zealand product, some concerns have been expressed about the impact of liberalising trade in wool in relation to the potential impacts on farmers in the frontier regions and pastoral areas of China.

FRUIT AND VEGETABLE PRODUCTS

TABLE 3.9: VALUE OF NEW ZEALAND HORTICULTURE EXPORTS TO CHINA (US$ MILLION, CALENDAR YEAR)

Calendar Year	2001	2002	2003
Fruit and nuts	2.74	2.73	3.76
Vegetables	3.17	2.812	2.24

Source: World Trade Atlas

New Zealand's horticulture industry is based largely on the export of kiwifruit, pipfruit, wine and fresh and processed vegetables. However, there is a lot of niche product development and innovation in the industry, with avocados, olives, berryfruit, summerfruit and other crops being exported or having future export potential. Total horticultural exports worldwide have grown over the last 20 years from around US$100 million to US$1.04 billion in the year ended June 2002 and now make up about 6.5 percent of New Zealand's merchandise exports. The main export earners are kiwifruit and pipfruit. New Zealand however exports very little fruit and vegetables to China. Around US$6 million of apples and US$5 million of kiwifruit was re-exported to China via Hong Kong in 2003.

China has a comparative advantage in the production and export of fruit and vegetables. Chinese exports to New Zealand have increased in recent years but are relatively small. According to Chinese exporters SPS requirements may be one reason for China's limited exports to New Zealand. According to New Zealand statistics in the 2003 calendar year these exports totalled US$2.7 million for vegetables and US$2.63 million for fruit and nuts. These exports to New Zealand are mainly garlic and pears. New Zealand exporters have noted that high tariffs are proving a hindrance to increasing fruit and vegetable exports to China.

Given the counter-seasons, there is a complementarity in exporting horticulture products to each other and third markets. Trade liberalisation would allow better access for products and provide consumers with access to high quality fruit and vegetable products at a lower price. The potential impact on New Zealand of increasing Chinese exports of fruit and vegetables as a result of greater liberalisation will need to be monitored. It is recommended that the reasons for the current limited bilateral trade in this sector be explored in any FTA negotiations.

3.2.2 FISHERIES

TABLE 3.10: VALUE OF TWO-WAY TRADE IN FISH PRODUCTS (US$ MILLION, CALENDAR YEAR)

Year	2001	2002	2003
Chinese imports	46,831	60,290	62,387
NZ imports	6,181	7,263	5,929

Source: World Trade Atlas (using Chinese and New Zealand import statistics respectively).

Fishing and fish processing industries make important contributions to the Chinese and New Zealand economies. Both countries share concerns about the impact of over-fishing on global fisheries stocks and of the role played by government subsidisation in exacerbating this problem. They are working together in the WTO to develop new disciplines on subsidies in the fisheries area. The importance of sustainable management of New Zealand's fisheries resource is well known internationally, as is the leadership role of China in the global aquaculture industry.

China plays an important role in the global production and trade in fish and fisheries products. China produced an annual average 38 million tonnes of fish in the 1997–2000 period. According to recently released Food and Agriculture Organisation (FAO) preliminary statistics for 2002, China has for the first time overtaken Thailand to become the world's largest exporter of fish and fisheries products, with US$4.5 billion of exports in 2002. China is the world's eighth largest import market (fourth if the EU is considered a single entity). China's fish imports are now growing more rapidly than its exports. China's major export markets are Japan, other markets in East and Southeast Asia, the EU, and USA. It exports very few fish products to New Zealand and imports most of its fish products from Eastern Europe, South America, Japan, and Australia/ New Zealand.

New Zealand produced an annual average of around 700,000 tonnes of fish, fish products and seafood over 1997–2000. 76 percent of New Zealand's production was for export. China is an important and growing market for New Zealand fish and seafood. In 2003 China was New Zealand's fifth largest market for fish with New Zealand exporting US$49 million in 2003. If re-exports from Hong Kong are factored in, it is probable that China is New Zealand's fourth largest market for fish and seafood. There is evidence that the majority of the high value species (e.g. lobsters) exported by New Zealand to Hong Kong are ultimately destined for the mainland.

3.2.2.1 TARIFFS APPLYING TO FISHERIES PRODUCTS

China's import tariffs for fish products have dropped from a pre-WTO accession average of 15.3 percent to 10.95 percent in 2004. The highest tariff rate in China for a fish product is 23.6 percent. Eighteen items, accounting for 10.5 percent of all the imported fishery products, are exempt from tariff. Tariffs in the 10–16 percent range are common. Most products enter New Zealand free of duty. Tariffs of 6.5 percent remain on cooked shrimp and lobster. Frozen fish account for 50 percent of New Zealand's export of fishery products to China, and incur average import tariffs of 10.95 percent. It is recommended that issues relating to tariffs on fish products be addressed in the future FTA negotiations.

3.2.2.2 OTHER POLICIES AFFECTING TRADE IN FISHERIES PRODUCTS

In the course of conducting this feasibility study, taking into account the results of consultations with exporters, a range of non-tariff issues have been raised affecting bilateral trade in fisheries and seafood products between China and New Zealand. These issues include intellectual property protection and issues relating to treatment of goods at the border. It is recommended that these issues be addressed in the future FTA negotiations.

3.2.2.3 IMPACTS OF TRADE LIBERALISATION

Removing tariffs and other barriers will facilitate trade in fish and seafood products, resulting in economic benefits to both countries. There will be benefits for the consumers of both countries in the form of lower prices and access to a wider range of products, and the improved opportunities afforded to exporters through access to markets will in turn stimulate greater economic activity in both countries. Technology and investment exchanges that accompany the flow of goods will also lead to productivity gains. Owing to the complementary nature of the Chinese and New Zealand economies and export profiles, trade liberalisation should be expected to bring net benefits to both parties. Despite being the largest exporter of fish and fish products in the world and New Zealand having low applied tariff rates on fisheries imports, China's exports to New Zealand are limited. These issues should be explored and addressed in the future FTA negotiation.

3.2.3 FORESTRY

China is one of the world's largest importers of forest products. Over the past few years, New Zealand forestry exports to China have grown substantially with China now being New Zealand's fifth largest destination for forestry exports. Main exports to China continue to be unprocessed products with 65 percent of forestry exports in 2003 comprising logs and wood pulp. An increasing volume of the logs exported are being re-exported from China after being processed into higher value added products such as furniture.

TABLE 3.11: NEW ZEALAND'S EXPORTS OF FORESTRY PRODUCT TO CHINA

December years (US$000)	2001	2002	2003
Logs and poles	35,391	60,414	70,406
Sawn timber	14,237	22,023	22,380
Wood pulp	54,704	43,752	43,659
Paper and paperboard	30,470	27,209	17,988
Fibreboard	12,048	20,471	19,446
All other forest products	784	1,507	1,832
Total	148,174	175,376	175,712

Source: World Trade Atlas

3.2.3.1 TARIFFS APPLYING TO FORESTRY PRODUCTS

New Zealand's export of forestry products to China reached US$175.7 million in 2003. The export value of free trade items, such as wood in rough, wood sawn or chipped, and wood pulp, was US$136.4 million, accounting for 77.7 percent of New Zealand's gross export value of forestry products to China in this sector. For those wood and paper products with a tariff rate in the 2–10.4 percent range, the export value was US$39.3 million, accounting for 22.3 percent of New Zealand's gross export value of forestry products to China. Yet in terms of China's total imports of forest products, New Zealand's share amounted to only 2.8 percent.

China's exports of forestry products to New Zealand are very low, with the export value US$16.85 million in 2003 – accounting for only 2.1 percent in China's total commodity export to New Zealand. China's export of forestry products to New Zealand mainly include paper and paperboard, paper and paper products for household and sanitary uses, wooden picture frame and inlaid wood, etc. – most of which are further processed forestry products.

Both China's and New Zealand's overall import tariff level on forestry products is low. China's average bound tariff on forest products is 5.34 percent, while New Zealand's average bound tariff applicable to forest products is 3.65 percent. China has 43 forestry items bound at zero tariff, accounting for 16 percent of all the products in this category. New Zealand has 273 forestry items with a zero tariff, accounting for 73 percent of all the products in this category.

China's final bound tariff rate for some of the significant forestry imports from New Zealand includes a 4–7.5 percent tariff on fibreboard and a 5–7.5 percent tariff on coated writing papers.

Imports of logs from New Zealand attract a VAT of 13 percent. There are VAT exceptions for border trade of logs, which are only charged 8 percent.

It is recommended that issues relating to tariffs and taxes on forest products be addressed in the future FTA negotiations.

3.2.3.2 OTHER POLICIES AFFECTING TRADE IN FORESTRY PRODUCTS

China has recently recognised New Zealand's main commercial species, radiata pine, as an acceptable and versatile construction material within China's revised building code. New Zealand's forest industry and Chinese officials have been working to develop a handbook for the building code as a users guide which will contain scientific and technical information on New Zealand's pine (pinus radiata).

In the course of conducting this feasibility study, incorporating the results of consultations with exporters, a range of non-tariff issues have been raised affecting bilateral trade in forestry between China and New Zealand. These issues include SPS issues, technical requirements, import licensing and other issues relating to treatment of forest products at the border. A number of cross-cutting themes have been raised including *inter alia* the transparency, consistency of application and enforcement of relevant requirements, and the necessity and restrictive impact of some measures. It is recommended that these issues be addressed in any future FTA negotiations.

3.2.3.3 IMPACTS OF TRADE LIBERALISATION

Both China and New Zealand recognise the importance of sustainably managed forestry. There are strong complementarities between the New Zealand and Chinese forest products industries. China's demand for forest products is increasing at the same time as New Zealand's increased supply of wood products is coming on stream.

China's forest resources are relatively small, accounting for merely 3 percent of the worlds total forest resource. There has always been a gap between supply and demand in China's domestic forestry products market. With the implementation of the Wildwood Protection Project from 2000, the gap between demand and supply of forestry products, especially logs and timber, has become even bigger.

China is one of the world's largest importers of forest products. Facing the contradiction between the shortage of forestry resources and increasing market demand for forestry products, one solution for China is to increase imports in this sector. As China's economy develops, the demand for secondary and manufactured forest products will also continue to increase.

The complementarities between the two economies and differing export profiles will mean that trade liberalisation would be expected to bring net benefits to both parties. Removing tariffs and other barriers will allow this trade to reach its potential, resulting in economic benefits for both countries. There will be benefits for the consumers of both countries in the form of lower prices and access to a wider range of products, and the improved opportunities afforded to exporters through access to markets will in turn stimulate greater economic activity. Technology and investment exchanges that accompany the flow of forest products will also lead to productivity gains for both countries.

Under the framework of a future FTA, the related enterprises of the two countries in the forestry sector would seek to increase their export to each other's market through enhancing cooperation, and therefore will be beneficial for both China and New Zealand.

3.2.4 MANUFACTURING

The manufacturing industry of China has developed rapidly during the past two decades. As the fourth largest manufacturing country in the world, China ranks first in production of more than 100 manufactured products. These include steel and iron, cement, chemical fibre, and TV sets. In 2002, the overall output of manufacturing sectors accounted for nearly 41 percent of China's GDP and 88 percent of total industry output. Nearly one third of the national tax revenue comes from the manufacturing sectors. Total employment in the manufacturing sectors is about 80 million. These statistics indicate that manufacturing plays an important part in China's national economic development.

In 2003, manufacturing sector output accounted for around 15 percent of New Zealand's real GDP. The range of products manufactured by New Zealand companies is extensive, underlining the diversity of this sector. In 2002 more than US$163 million of automotive components was exported to 97 different countries, up from US$93 million in 1998. Primary sector processing (including food, wood and paper products) makes up a significant proportion of the sector. Exports have been a primary driver of growth in the manufacturing sector over recent years. Noncommodity manufactured exports have averaged over 9 percent growth annually since 1990. An international focus by New Zealand manufacturers, combined with attention to marketing, design, reliability, customer responsiveness and cost, have been key factors in this success.

3.2.4.1 TARIFFS APPLYING TO MANUFACTURED PRODUCTS

When it entered the WTO, China committed itself to reducing the average tariff level from 14 percent in 2001 to 10 percent in 2005, with the average tariff on manufactured products decreasing from 14.7 percent to 9.3 percent. Under this commitment, 98 percent of the tariff reduction on manufactured products is to be finished no later than 2005. An exception is the tariff on vehicles and automotive accessories, which is to be decreased respectively to averages of 25 percent and 10 percent on 1 July 2006. The tariff reduction on certain kinds of chemicals is not due to be finished until the end of 2008. In 2004, the average tariff rate applied to manufactured products was reduced to 9.5 percent.

New Zealand's tariff regime applying to manufactured products is described in Section 3.1.1 of this Study.

3.2.4.2 OTHER POLICIES AFFECTING TRADE IN MANUFACTURED PRODUCTS

Apart from tariffs, a number of non-tariff issues affecting bilateral trade in manufactured products between China and New Zealand should be considered by both sides, including rules of origin, import licensing and issues relating to treatment of goods at the border, customs valuation, standards and technical requirements, trade remedies, intellectual property protection and subsidies. It is recommended that these issues, together with the similar issues in other sectors of the bilateral commodity trade, be comprehensively addressed in any future FTA negotiations.

3.2.4.3 IMPACTS OF TRADE LIBERALISATION

Owing to the complementary nature of the Chinese and New Zealand economies and export profiles, trade liberalisation would be expected to benefit both parties. Removing tariffs and other barriers will allow this trade to reach its full potential. There will be benefits for the consumers of both countries in the form of lower prices and access to a wider range of products, and for exporters through improved access to markets, which will in turn stimulate greater economic activity. Nevertheless, because of the importance of the manufacturing sector to both countries, the negotiations should take account of the sustainability of domestic industries and potential for future growth and innovation.

TEXTILES AND APPAREL[2]

Textiles and apparel are China's top exports to New Zealand, accounting for more than half of New Zealand's total textiles and apparel imports.

Chinese statistics show that in 2003 the two-way textiles and apparel trade between China and New Zealand reached US$210 million, an increase of 28 percent over 2002. Of this total, China's exports to New Zealand comprised US$209.35 million.

[2] Raw materials such as wool are not included in bilateral textiles trade.

The textiles and apparel sector is currently protected by New Zealand's highest tariffs. For many apparel products, New Zealand applies either ad valorem or alternative specific tariffs on imports. The ad valorem rates range from 0 to 12.5 percent on various textile products and 0 to 19 percent on apparel products.

The alternative specific tariffs applying in this sector conceal some very high tariff peaks. Some of these specific tariffs have an ad valorem equivalent as high as 46.5 percent. Overall, however, the existence of the alternative specific tariffs raises the equivalent ad valorem tariff by an average of 1.7 percentage points.

In recent years New Zealand has experienced a transformation of its apparel sector. Production and resources have to a large extent switched from low cost apparel areas to niche, high value apparel sectors. Manufacturers have chosen to build on areas of natural advantage such as fast turn-around, quality, design and fit of product. A shift of focus toward design, logistics and marketing are also features of the industry over the past decade. There are clear complementarities between the Chinese and New Zealand textiles and apparel industries. However, given the differences in scale between the two countries' industries, the FTA negotiations should take account the potential impacts of increased liberalisation on New Zealand textile and apparel producers.

MACHINERY AND ELECTRONIC EQUIPMENT

In 2003, two-way trade of machinery and electronic equipment between China and New Zealand reached to US$357 million, an increase of 44.7 percent over 2002. China's imports from New Zealand totalled US$29.48 million, an increase of 9.6 percent over the previous year, and exports to New Zealand US$328 million, an increase of 49 percent.

China's exports to New Zealand in this sector can be divided into two main categories– machinery and electronic equipment. Office machines, general parts and engineering equipment rank as the top three machinery exports, which totalled US$42.30 million, US$40.65 million and US$37.62 million respectively in 2003. The exports of machine tools and agricultural machinery equipment also achieved rapid growth in recent years. Computers, transmission apparatus, electric equipment and apparatus, television apparatus dominate China's electronic equipment exports to New Zealand.

China has comparative advantages in relatively labour intensive electronic products such as TVs, computers and telephones, and has a considerable share of New Zealand's domestic market in these products.

New Zealand is also a competitive producer of mechanical and electrical machinery for its domestic market and for certain niche export markets. Examples include whiteware, mobile telecommunications equipment, ICT and specialist componentry and agricultural equipment.

FTA negotiations should offer the opportunity to encourage an expansion of trade in these products but should also take account of the impacts of increased liberalisation on New Zealand's machinery and electronic equipment producers.

FOOTWEAR AND ACCESSORIES

China's footwear exports to New Zealand have grown steadily in recent years. China now accounts for well over half of New Zealand's footwear imports. Its most important footwear exports to New Zealand are outer soles of rubber, plastics, leather or composition leather and uppers of leather.

New Zealand's tariffs on footwear remain quite high. Tariffs of between 17.5 and 19 percent are common.

New Zealand's footwear industry has down-sized in recent years and is now focused on high value, niche market production. The industry produces a wide range of products from industrial, safety, children's school shoes, women's comfort and fashion shoes, women's trainers, through to hand-made shoes. There is little manufacturing of men's footwear.

However, given the differences in scale between the two countries' industries, FTA negotiations should take account of the impacts increased liberalisation will have on New Zealand footwear and accessory manufacturers.

AUTOMOTIVE

Bilateral trade in automotive parts of vehicles is relatively small. Motor vehicle parts and accessories are China's major automotive exports to New Zealand.

New Zealand imposes relatively high tariffs, ranging from zero to 17.5 percent on imports of some automotive parts including radiators, exhaust pipes, alloy wheels, and other accessories. There are also some tariffs levied on imports of bicycles and trailers. Imports of cars and most light commercial vehicles have been duty free into New Zealand since 1998.

New Zealand is a competitive exporter of automotive parts and components and has significant expertise in bus and special purpose vehicle manufacture, including motor homes. Exports in this area topped US$120 million in 2003.

Chinese tariffs applying to imports of automotive parts and components from New Zealand range from 10 percent to 34 percent.

FTA negotiations should take account of the impacts increased liberalisation will have on Chinese and New Zealand automotive and automotive component manufacturers.

LIGHT INDUSTRY PRODUCTS

Light industry products, including toys, furniture, leather articles, handbags, ceramic and glass products etc, are the principal Chinese goods exported to New Zealand in recent years. The export value of this category reached about US$260 million in 2003, accounting for around 17 percent of China's total exports to New Zealand.

New Zealand's tariffs on light industry products fall in the 5–7 percent range.

New Zealand also produces a range of products in these areas. This sector is focused on high value niche markets both domestically and overseas. Some exports to China attract tariffs of between 12–20 percent.

FTA negotiations should take account of the impacts increased liberalisation will have on Chinese and New Zealand light industry producers.

STEEL AND STEEL PRODUCTS

New Zealand has significant deposits of iron sands. New Zealand also has a small but efficient steel industry that exports to China. New Zealand also exports iron ore and scrap steel products to China.

China's imports and exports of steel increased greatly in 2002–2003. The amount of steel imported from New Zealand increased by 258.3 percent in that time. In the same period, New Zealand's total steel exports increased by only 2.23 percent. This indicates that China has become an important market for New Zealand steel exports. China's exports of steel products have remained stable in recent years.

Imported iron ores are a zero-tariff commodity in China, while the import tariff rates for steel and steel products are mostly below 10 percent with some between 15 percent and 20 percent. Among New Zealand's fifteen four-digit HS code steel and steel products items, seven items are duty-free, and an average tariff rate of 5–7 percent is imposed on the other eight items.

At present, the steel and steel products trade volume between China and New Zealand is relatively small but shows potential for further development. Bilateral trade in this sector reveals some complementarity, with China the net importer in the bilateral iron ore and steel trade but the net bilateral exporter in the trade of steel products.

FTA negotiations should take account of the impacts increased liberalisation will have on steel and steel product producers.

ALUMINIUM

Trade in aluminium products between China and New Zealand has become important for both China and New Zealand. New Zealand has traditionally exported aluminium ingots or scrap to China, while China's exports to New Zealand have been processed products. According to New Zealand statistics, New Zealand exports to China grew to US$18 million in the year to June 2004, up from US$14.95 million in 2003 and US$11.65 million in 2002. Chinese exports to New Zealand have grown from US$2.822 million in 2002 to US$8.78 million in the year to June 2004. According to China's statistics, however, in 2003 China's total aluminium imports were US$4.42 million and total exports were US$4.19 million.

China's aluminium extrusion industry has grown very strongly in recent years and has demonstrated strong export competitiveness. New Zealand's industry is much smaller, although exports are also an important component of sales for New Zealand producers. China is becoming a major competitor for New Zealand's industry in key export markets.

FTA negotiations should take account of the impacts increased liberalisation will have on Chinese and New Zealand aluminium producers.

3.2.5 ENVIRONMENTAL GOODS

This sector comprises goods manufactured to measure, prevent, limit, minimise, or correct environmental damage to water, air and soil as well as problems related to waste, noise and ecosystems. This includes cleaner technologies, and products that reduce environmental risks and minimise resource use. Products include air pollution and control equipment, waste water management equipment, solid waste management systems, solar power energy systems, wind power etc. Bilateral trade in these products is not large at present, but as the global market for environmental goods is rapidly expanding there is considerable scope to increase trade in this area between China and New Zealand.

Under the Trade and Economic Cooperation Framework, both countries have agreed to encourage trade in goods (and services) that are designed to protect the environment, and will explore opportunities to meet this objective. Although the levels of protection in these products are not high, given the importance of sustainable development to both governments it is recommended that a future FTA examines the scope for liberalisation of goods used principally to benefit the environment.

3.3 Overall Impact of Liberalising Trade in Goods

The study has demonstrated that China and New Zealand have a complementary goods trade. A range of tariff and non-tariff barriers currently impedes trade. The overall impacts of comprehensive liberalisation of tariffs and removal of unnecessary non-tariff measures are expected to deliver positive results for both the Chinese and New Zealand economies. All potential impacts on both countries in different sectors should also be taken into account.

These expected results of bilateral liberalisation of trade and goods have been confirmed by the economic modelling undertaken during the study. Chinese exports to New Zealand are expected to grow by an annual average of between US$40–70 million a year in the 2007–2027 period. New Zealand exports to China are expected to grow between US$180–280 million a year over the same period. Non-durable items display the highest potential gains but all goods trade sectors show positive growth resulting from bilateral liberalisation.

The positive economy wide impacts of this liberalisation on both China and New Zealand are detailed in Chapter 8.

CHAPTER FOUR: IMPACT OF TRADE LIBERALISATION IN SERVICES

The services sector is becoming increasingly important in the international market place and is a significant contributor to both China and New Zealand's foreign exchange earnings. The export of services can take many forms, from the provision of a service to overseas consumers in the provider's home country through to service suppliers establishing a commercial presence or being employed overseas.

Services trade between China and New Zealand is governed by the WTO General Agreement on Trade in Services (GATS). Trade in services is an increasingly important element of the overall bilateral economic relationship between China and New Zealand. A growing number of Chinese and New Zealand companies are establishing cross border operations.

4.1 An Overview of Trade Policies Applying to Services

CHINA

China's trade in services has continued to maintain steady growth in recent years. WTO statistics indicate that in 2003, the total volume of China's services trade reached US$102 billion, of which exports (or revenue) accounted for US$46.7 billion and imports (or expense) accounted for US$55.3 billion. China's services imports and exports rank eighth and ninth in the world and comprise 3.2 percent and 2.7 percent respectively of the world's total services imports and exports. Nevertheless, the proportion of the services sector as a percentage of GDP in China is lower than that in most developed countries.

Since China's accession to the WTO, new laws and regulations related to services have been promulgated, such as *Regulations on Representative Offices of Foreign Law Firms in China*, *Regulations of the Peoples Republic of China on Chinese-Foreign Cooperation in Running Schools*, *Regulations on Management of Telecommunication Enterprises with Foreign Capital*, *Regulations of People's Republic of China on Financial Institutions with Foreign Capital*, *Regulations on Insurance Company with Foreign Capital*, *Regulations of People's Republic of China on International Maritime*, *Regulations on Contractual Joint Ventures for Sound Recording Distributions*, *and Decision of the State Council on Amending the "Regulations on Travel Agency"*. According to the commitments in the *Protocol on the Accession of the People's Republic of China*, China will further liberalise packaging services, maintenance and repair services, rental and leasing services, mobile voice and data services, construction and related engineering services, insurance, finance, tourism and transportation services in 2004.

NEW ZEALAND

Services dominate the New Zealand economy, contributing around two-thirds of GDP. The largest service sectors in 2003 were business services, wholesale trade, property services and retail trade. Communication services, cultural and recreational services, health and community services, finance and insurance, transport and storage and business services have been the fastest growing service sectors. Growth in services exports has also been significant. Transport, travel and education have been the main services exports, but the range of exported services has diversified in recent years.

By international standards, New Zealand's private services sector is considered to be open with few barriers to foreign services suppliers. Indeed, where immigration and qualification requirements have been met, national treatment is generally extended to foreign suppliers of services.

Foreign investment in the provision of services is subject to the Overseas Investment Commission,[3] while financial institutions with a commercial presence in New Zealand remain subject to the provisions of the Financial Reporting Act 1993 and the Companies Act 1993.

Immigration legislation and policy is administered by Workforce Services, which is part of the Department of Labour. Operational branches are branded as the New Zealand Immigration Service. The key legislation is the Immigration Act 1987, along with the Immigration Regulations 1999. Government Residence Policy and Government Immigration Policy are set out in the New Zealand Immigration Service Operational Manual. All policies are published in the online Manual, which can be found at www.immigration.govt.nz.

4.2 Trade Trends in Specific Sectors

In recent years, the services trade between China and New Zealand, especially New Zealand's services exports to China, has increased rapidly. According to New Zealand statistics, the services trade related to transportation is approximately US$262.5 million, tourism approximately US$312.5 million, and education approximately US$500 million. The total amount of the above three sectors is about US$1.075 billion. Compared with the US$2.6 billion of commodity trade between the two countries, the scale of services trade is considerable.

In the course of conducting this feasibility study, a range of issues affecting bilateral trade in services between China and New Zealand have been identified. These include, *inter alia*, restrictions on market access, regulatory and capital requirements, and transparency issues.

4.2.1 TOURISM

Domestic and international tourism trade is of growing importance to both the Chinese and New Zealand economies. Two-way tourism flows have increased substantially in recent years, reflecting the public interest of each country in the other. Both countries offer substantial opportunities for further growth in their tourism sector.

Tourism was one of the earliest open service sectors in China. At present, there are no restrictions on cross-border supply and foreign consumption of tourism services. China has established guidelines for attracting foreign investment and an overseas commercial presence in this sector. The proportion of foreign commercial activity in this sector remains considerably high in the Chinese economy. Foreign service suppliers are by and large permitted to enter into the main

[3] See Chapter Five for details

sectors and parts of the Chinese tourism market. With regard to the hospitality industry (including apartment buildings and restaurants), foreign services suppliers may construct, renovate and operate hotel and restaurant establishments in China in the form of joint ventures. Both foreign majority ownership and wholly foreign-owned subsidiaries are permitted. With regard to travel agencies, joint venture travel agencies with foreign majority ownership are currently permitted. Wholly foreign-owned travel agencies will be permitted in China within six years after the accession to the WTO.

At present, tourism is a very important service export sector for New Zealand. In the year ending 2003, tourism trade accounted for 48 percent of New Zealand's total service trade. Tourism service exports accounted for 62 percent of total service exports (this figure does not include airfare expenditure). New Zealand's total tourism service exports rose to US$4.303 billion in 2003, with a surplus of US$2.386 billion.

In 2003, the number of short-term visitors from New Zealand to China increased to 43,000. The attractions of China's scenery and culture should continue to build those numbers. The number of short-term visitors from China to New Zealand has been increasing during the past five years. Total numbers reached 75,000 in 2003.

China has become the sixth biggest source of tourists into New Zealand. This follows an agreement in May 2004 to expand the number of Chinese travel agents authorised to operate under the Approved Destination Status (ADS) scheme.

China and New Zealand have each become important tourist sources for the other. The establishment of a China–New Zealand FTA will promote the liberalisation of bilateral tourism, and improve demand and cooperation in the industry. At the same time, a future FTA will facilitate the tourists of both countries, and thus increase the demand for bilateral tourism.

4.2.2 EDUCATION

Education services are an important sector in the bilateral services trade between China and New Zealand. New Zealand's statistics show that more than 50,000 Chinese students studied in New Zealand in the year ended 30 June 2003. China has become the largest source country of international students for New Zealand.

Enhancing exchange and cooperation on education with other countries and regions is an important component of China's openness policies. At present, China allows foreign educational service organisations to provide services in primary, secondary higher, adult and other education sectors, including the establishment of joint schools. New Zealand's comparative advantage in education will help the two sides further promote cooperation. It is anticipated that, with the establishment of an FTA, more educational institutions from New Zealand will come to China to run schools in cooperation with Chinese education institutions, especially in the areas of telecommunication, technology, biology, new materials, energy, resources and the environment, management, finance, legal, high technology, and vocational education.

New Zealand's private education services sector is considered to be open, with few barriers to foreign services providers who wish to establish private institutions. Where immigration and qualification requirements have been met, national treatment is generally extended to foreign suppliers of education services.

China and New Zealand are encouraging diversification in modes of supply of education services, beyond the predominant mode of consumption abroad (ie Chinese students studying in New Zealand). Education providers in both countries are more actively considering the mode of commercial presence (i.e. New Zealand providers offering education services to students in China and vice versa), including through joint programmes and joint ventures. With clear and predictable guidelines for establishing an onshore presence in each country, education providers will be able to establish lasting, beneficial relationships with providers in the other country.

4.2.3 PROFESSIONAL SERVICES

There is growing interest in trade between China and New Zealand across a range of professional services – e.g. legal, accounting, architectural, design, consultancy, occupational health and safety etc. It is recommended that the possibility of developing and expanding trade in professional services should be considered in the FTA negotiations.

4.2.4 CONSTRUCTION AND RELATED ENGINEERING SERVICES

Wholly foreign-owned enterprises are allowed to invest in China's construction sector. They can undertake construction projects financed completely by foreign investment and by loans from international financial institutions or awarded through international tendering. They can also take part in Chinese-foreign jointly constructed projects where foreign investment is equal to more than 50 percent, or less than 50 percent if the project is technically too difficult to be implemented by Chinese construction enterprises alone. New Zealand construction enterprises with capital and technology expertise may find many new business opportunities in China. In recent years the demand for construction and engineering services in China has grown strongly. In any FTA negotiations there is potential to consider improved access for New Zealand suppliers of construction and engineering services to the Chinese market.

China, meanwhile, has some comparative advantages in the engineering and construction sector that it believes could benefit New Zealand in the development of infrastructure such as motorways and road projects. For the year ended 31 March 2004, the value of construction services in New Zealand was US$3.586 billion or 4.5% of New Zealand's GDP. The demand for construction and engineering services in New Zealand has increased rapidly. This means that in the context of FTA negotiations there is potential to consider improved access for Chinese construction and engineering services to the New Zealand market.

4.2.5 TRANSPORT SERVICES

AIR SERVICES

New air services arrangements agreed between New Zealand and China this year provide for New Zealand passenger airlines to operate seven times per week to any international airport in China, and for Chinese passenger airlines to operate seven times per week to any international airport in New Zealand. There are no restrictions on the number of airlines that may operate, or on the type of aircraft that may be used. There is flexibility in the election of intermediate and beyond points, and code sharing with third country carriers is permitted. “Open skies” cargo services were agreed.

These new arrangements, and the continued growth in visitor numbers and trade, are expected to lead to direct services between the two countries in future.

SERVICES ASSOCIATED WITH AVIATION

There is a healthy trade in a range of services associated with aviation between China and New Zealand. The trade takes place in both China and New Zealand. The range includes consultancies associated with the development of airports in China, aircraft service arrangements, metrological services, air traffic control services, aeronautical engineering, aviation software (aircraft and infrastructure), crew and pilot training, aviation law and regulation development. Given the pace of development of the aviation sectors in both China and New Zealand, the level of this trade can be expected to grow. It is recommended that means by which this trade can be facilitated should be considered in an FTA negotiation.

MARITIME TRANSPORT SERVICES

Foreign services suppliers are now permitted to establish joint venture shipping companies in China with foreign investment less than 49 percent of the total registered capital. Container line shipping between Asia and New Zealand is currently operated by the China Ocean Shipping (Group) Company (COSCO). Further cooperation between Chinese and New Zealand maritime transport enterprises is strongly encouraged.

4.2.6 ENVIRONMENTAL SERVICES

In China, foreign service suppliers engaged in environmental services are allowed to provide services in the form of joint ventures. Foreign majority ownership is permitted. A range of consultants is already trading environmental services between China and New Zealand. As outlined in the Trade and Economic Cooperation Framework, both countries are committed to exploring opportunities to share information and cooperate on measures to promote environmental protection, sustainable development and resource management, and biodiversity protection. Both countries offer experience and expertise that could help achieve these objectives and will look at what measures can be adopted to help facilitate the exchange of this knowledge and expertise.

4.2.7 INSURANCE AND FINANCIAL SERVICES

China’s market for financial and insurance services has been liberalised considerably since its accession to the WTO. New Zealand has one of the world’s most efficient and open insurance and financial services markets. Currently there is only limited financial and insurance cooperation between China and New Zealand.

Chinese and New Zealand companies offer a range of specialist products and services that may be of benefit to companies or consumers in the other country. It is recommended that possibilities for encouraging the expansion of trade in insurance and financial services between China and New Zealand should be considered in any FTA negotiations.

4.2.8 AUDIO-VISUAL SERVICES

Foreign service suppliers are permitted to establish contractual joint ventures with Chinese partners to engage in the distribution of audio-visual products, excluding motion pictures, and to construct and/or renovate cinema theatres with foreign investment of no more than 49 percent. China has also allowed the yearly importation of 20 motion pictures for theatrical release on a revenue-sharing basis.

Both China and New Zealand have considerable expertise in the film and motion picture industry. Both countries offer diverse and interesting scenery for the production and post-production of films. It is recommended that an FTA explore possibilities for encouraging the expansion of trade in film industry services between China and New Zealand.

4.2.9 AGRICULTURE AND HORTICULTURE (AGRITECH) SERVICES

China and New Zealand have advanced agritech sectors. There is already considerable cooperation between China and New Zealand in this area. It is recommended that the possibility of developing and expanding the agritech services sector between China and New Zealand be considered in any FTA negotiations.

4.2.10 OTHER SERVICES

Consultations conducted throughout the course of this study have demonstrated strong interest in expanding trade in a range of other services. This list is not exhaustive but includes services in the areas of distribution, retail, occupational and health consultancy, R&D, technical testing and analysis, and related scientific and technical consultancy. It is recommended that the possibility of developing and expanding trade in these services sectors be considered in any FTA negotiations.

4.3 Overall Impact of Liberalising Trade in Services

The study has demonstrated that services trade is an important component of total bilateral trade. A range of issues currently impedes trade in services. These issues include restrictions on market access, restrictions on operating wholly foreign-owned services companies, minimum capital requirements, restrictions on the repatriation of funds, regulatory requirements, variations in requirements at the central, regional and city levels, and the absence of a central register of rules applying to foreign service providers. It is recommended that that these issues be addressed in any future FTA negotiations. All potential impacts on both countries services sectors should be taken into account in any FTA negotiations.

There are a number of benefits from the possible liberalisation of controls on the services sector in both economies. Access to new technologies and expertise can be a significant positive factor for economic development and consumer welfare.

The overall impacts of further liberalisation in services trade are expected to deliver positive results for both the Chinese and New Zealand economies. These expected results of further liberalisation of services trade have been confirmed by the economic modelling undertaken during the study as outlined in Chapter 8.

CHAPTER FIVE: IMPACT OF INVESTMENT LIBERALISATION

5.1 An Overview of Investment Policy and Measures

Both China and New Zealand encourage foreign investment. They recognise that inward investment not only provides capital for increased production and job creation, but also assists in the exchange of technology, skills and sector knowledge. Investment flows contribute to the development of economic linkages between countries and so are a key aspect of both Governments' economic growth strategies. Reflecting this, New Zealand was one of the first countries to sign an Investment Promotion and Protection Agreement (IPPA) with China in 1988.[4]

CHINA

China attaches great importance to attracting foreign direct investment (FDI). Since China's accession into the WTO, it has worked to provide a more attractive environment for foreign investors. The legislative framework for foreign investment is becoming increasingly transparent and comprehensive. The number of sectors open to foreign investors is increasing.[5]

China's FDI legislative framework has basically taken shape since the Chinese law on Chinese-Foreign Equity Joint Ventures was enacted and implemented in 1979. Foreign-invested enterprises in China fall into three categories: Chinese-foreign equity joint ventures, Chinese-foreign contractual joint ventures and wholly foreign-owned enterprises.

Chinese-foreign equity joint ventures are those jointly established within China by foreign individuals, enterprises or other economic organisations on one side and enterprises or other economic organisations in China on the other. Laws covering Chinese-foreign equity joint ventures hold that they should take the form of limited liability companies and the proportion of investment contributed by the foreign participants to the registered capital of a venture should be not less than 25 percent. All parties to a joint venture must share the profits, risks and losses of that joint venture in proportion to their contributions to the registered capital. Each party to a joint venture may contribute cash, capital goods and other materials, as well as industrial properties, know-how and land use rights as its investment in the venture. The highest authority in a joint venture is the board of directors.

[4] The formal title of this agreement is the "Agreement between the Government of New Zealand and the Government of the People's Republic of China on the Promotion and Protection of Investments".

[5] Further detail on China's foreign investment policies is available from www.fdi.govt.cn

Members of the board shall be appointed by the parties concerned, while the chairman and vice chairman of the board must be selected through consultation or be elected by the board members.

Chinese-foreign contractual joint venture arrangements require parties to agree on the conditions for investment, ratio of distribution, sharing of risks, form of operations and management, and ownership of the assets at the time of the termination of the venture. A contractual joint venture may take the form of a limited liability company or an economic entity without legal person status Parties to the contractual venture may not share risks and profits in proportion to their contribution to the total investment. The form of contribution, the amount of investment and the rights and responsibilities of all parties to the cooperative venture must be specifically laid out in the contract. The profits as well as rights and liabilities of the parties are treated in accordance with the provisions of the contract. Contractual joint ventures are more flexible than equity joint ventures.

Wholly foreign-owned enterprises involving capital investment made solely by foreign investors may be established within Chinese territory. The term "wholly foreign-owned enterprise" does not cover branches of foreign enterprises established within the territory of China. The establishment of a wholly foreign-owned enterprise must be beneficial to the development of the Chinese economy.

In the case of a company limited by shares, its entire capital is divided into shares of equal value and shareholders are liable to the company to the extent of the shares held by them. A company limited by shares is liable to the debts of the company and all its assets. Chinese and foreign shareholders should jointly hold the company's stock.

The following are the details of the investment proposals and sectors that are subject or not subject to investment screening:

Proposals guidelines/conditions:

(i) Mergers: are permitted where they are regarded as a re-established corporation.

(ii) Acquisitions: are subject to confirmation of domestic assets administration departments and assessment by relevant state department.

(iii) Greenfield investments: are encouraged by the Government.

(iv) Real estate or land investments: Luxurious real estate projects are restricted and completion of land transfer formalities is required.

(v) Joint ventures: are permitted in accordance with the *Regulations on Guiding Foreign Investment.*

In the following sectors there are guidelines and conditions:

(i) Telecommunications: have been opened in accordance with the timetable of Chinese commitments on its WTO accession. Regulation on foreign investment in telecommunications has been promulgated.

(ii) Banking: more foreign banks have been granted the right to open operational agencies in

China. Geographical limitation on these has now been expanded from Shanghai and Shenzhen to other major cities of China. The regulations governing foreign banks' RMB business pilot projects have been improved.

(iii) Transport: investment in transport infrastructure is encouraged, automotive transport allowed, marine transport and air transport restricted. Agreed by the relevant industrial departments and then submitted for approval by Ministry of Commerce. Limit on the proportion of foreign investment: for marine transport, foreign investment proportion less than 49 percent of the total; for public aviation transport, foreign investment proportion less than 35 percent.

(iv) Agriculture: encouraged by the Government, especially new high-tech in explorative agriculture.

(v) Foreign trade: foreign investors are permitted to establish international trading companies by joint ventures.

(vi) Tourist agency: foreign investors are permitted to establish joint venture travel agencies, as well as wholly foreign owned travel agencies.

NEW ZEALAND

A key aspect of the New Zealand Government's growth strategy is the development of strong international linkages including both outward and inward investment. New Zealand has a very welcoming and open attitude towards inward FDI. New Zealand welcomes and encourages FDI from all countries without discrimination. This is reflected in the facilitative nature of the Government's foreign investment policy regime.

With regard to outward investment, there are no impediments to investing offshore. As New Zealand is a net capital importer with ongoing requirements for capital, the Government is more active in promoting inward rather than outward investment.

However, a minimal level of controls are maintained over "significant" overseas investment. The Overseas Investment Commission (OIC) is responsible for administering the Overseas Investment Act. It assesses applications to purchase certain land, business and fishing quota investments by overseas persons. Decisions are made by the OIC or by Ministers based on criteria set out in the Act and regulations made under it.

An "overseas person" must obtain consent to acquire or take "control" of 25 percent or more of•[6]:

- businesses or other assets worth more than NZ$50 million[7];

[6] For further information on the New Zealand Overseas Investment Regime and the procedures for seeking approval for foreign investments in the areas outlined is obtained on the website www.oic.govt.nz

[7] New Zealand's requirements are expressed in NZ dollars, but this amount is approximately US$33.5 million at a 1 October 2004 exchange rate of US$0.67=NZ$1.00

- land over 5 hectares and/or worth more than NZ$10 million[8];
- land on most offshore islands;
- land over 0.4 hectares that includes or adjoins "sensitive" land over 0.4 hectares (e.g. on specified islands, containing or next to reserves, historic or heritage areas, or lakes); and
- land over 0.2 hectares that includes or adjoins the foreshore.

Approval is also required for any overseas ownership or interest in fishing quota.

While 100 percent overseas ownership can be approved in all industry sectors, some New Zealand based companies have restrictions relating to foreign ownership:

(i) Telecom New Zealand: No single foreign investor may hold more than 49.9 percent of the total voting share in Telecom Corporation of New Zealand Ltd without the approval of the New Zealand Government;

(ii) Air New Zealand: The maximum allowable level of foreign investment in Air New Zealand Ltd is 49 percent foreign ownership, or 35 percent by foreign airlines or airline interests, or 25 percent by any one foreign airline or airline interest.

The New Zealand Government recently completed a review of the Overseas Investment Act. The objective of the review was to provide better protection for sites of special historic, cultural or environmental significance while also encouraging foreign investment where it can make a positive contribution to the economy. The key changes are:

- the threshold for screening non-land business assets will be raised from NZ$50 million to NZ$100 million[9];
- purchases involving land with an unimproved value of NZ$10–100 million[10] will no longer require consent where the land is not screened for other reasons;
- land adjoining some non-sensitive reserves, for example drainage and hospital reserves, will be removed from the purview of the Overseas Investment Act;
- land criteria have been expanded to include historic, heritage, conservation or public access factors relevant to the property as well as the economic development factors currently taken into account;
- the New Zealand Government will have a new right of first refusal over foreshore and seabed land where this would otherwise be sold into foreign ownership;

[8] Approximately US$6.7million at a 1 October 2004 exchange rate of US$0.67=NZ$1.00

[9] All results are expressed in New Zealand dollars but this amount is approximately US$67 million at a 1 October 2004 exchange rate of US$0.67=NZ$1.00

[10] Approximately US$6.7 to US$67 million at a 1 October 2004 exchange rate of US$0.67=NZ$1.00

- the regulatory functions under the Act will be performed within Land Information New Zealand (www.linz.govt.nz), with the existing Overseas Investment Commission being disestablished.

These changes require an amendment to the Overseas Investment Act. It is expected that this legislation will be introduced to Parliament later this year.

Promotion of investment opportunities in New Zealand is carried out by Investment New Zealand.[11] The agency actively promotes New Zealand as an investment destination, working closely with New Zealand companies and foreign investors on significant opportunities. It looks to match high growth potential New Zealand businesses with current and potential international investors, supports the management of multinationals' New Zealand subsidiaries to attract further investment from their overseas parents, and promotes New Zealand as a relocation destination.

Investment New Zealand's activities focus around six core sectors: biotechnology, creative industries, information and communications technology, specialised manufacturing, food and beverage, and wood processing. The first three sectors listed form the basis of the New Zealand Government's Growth and Innovation Framework.

5.2 Overall Impact of Liberalising Investment

There has been a significant increase in foreign investment in China in recent years and a more modest increase in New Zealand. As discussed in chapter 2, investment flows between China and New Zealand have been relatively modest when compared to investments by other countries. Both countries could benefit from an increase in bilateral investment, and the exchange and transfer of knowledge, technology, ideas and export opportunities that would flow from it. Intra-industry investment is particularly beneficial in the export sectors of both countries as companies are able to share in international market information and strategies leading to improved competitiveness in the global market place.

In the FTA negotiations between China and New Zealand, it will be important to consider potential areas where further liberalisation and/or cooperation could be considered in order to help facilitate even greater levels of investment between our two countries.

[11] For further information on Investment New Zealand see www.investmentnewzealand.govt.nz. This website offers information about investment opportunities in New Zealand and the services offered by Investment New Zealand.

5.2.1 STRENGTHENING INVESTOR CONFIDENCE IN BILATERAL INVESTMENT

Since the China–New Zealand FTA will be an international treaty, the parties can negotiate legal obligations into the commitments. Therefore, the future China–New Zealand FTA could provide more stable policy frameworks for investors, which could see the two countries developing bilateral trade and economic relations more actively, and open domestic markets to each other more quickly. Ways in which the FTA could contribute to these aims include:

- greater transparency of regulations or laws that affect foreign investments;
- more liberalised regimes which will facilitate the foreign investment in each country;
- improvements that can make it easier for New Zealand or Chinese investors to resolve any disputes that they may have.

5.2.2 PROMOTING BILATERAL INVESTMENT

In addition to promoting bilateral investment by strengthening investor confidence in bilateral investment, an FTA could be expected to promote bilateral investment through its impact on market perceptions, and lead to increased investor interest in new business opportunities in the other country. In addition, in the long run, more integrated markets based on the FTA could improve the competitive capacity of enterprises, the efficient distribution of resources, and promote two-way investment.

The opening of bilateral investment may encourage expansion of the current partnership into new areas of manufacturing and service industries. At present, the main target areas of New Zealand investment include agriculture and forestry, textiles, specialized manufacturing, food processing, and information technology. In New Zealand, Chinese investments include forestry, manufacturing and commercial construction, property, meat processing, electronics, fish farming, tanning, light manufacture, and hospitality and tourism. These trends suggest potential for bilateral investment cooperation beyond the traditional sectors.

5.2.3 PROMOTING INVESTMENT FROM INTERNATIONAL INVESTORS

Under a future FTA, it is expected that China and New Zealand would make new arrangements for liberalising two-way trade in goods and services, by lowering tariff and non-tariff barriers below their commitments to WTO (in APEC, there are no specific commitments). In addition, the establishment of the FTA would enhance bilateral cooperation on important issues such as trade and investment promotion, transparency and intellectual property protection. In order to take advantage of the opportunities provided by the China–New Zealand FTA liberalisation, international investors may establish or increase investments in the FTA partners.

5.2.4 INCREASED COOPERATION IN INVESTMENT PROMOTION

As referred to in the Trade and Economic Cooperation Framework between China and New Zealand, the Chinese Government is interested in economic development in Western China and the revitalisation of old industrial bases in North-East China. China is committed to providing information on the opportunities for New Zealand business to participate in these areas. China is interested in encouraging New Zealand businesses, to take part in this development particularly those with comparative advantages in animal and plant genetics, animal husbandry, forestry development, environmental protection, and food processing. New Zealand recognises the importance of investment in these regions by New Zealand businesses.

Under the Growth and Innovation Framework, New Zealand is interested in promoting investments in: biotechnology; creative industries; information and communications technology; specialised manufacturing; food and beverage; and wood processing. Investment New Zealand undertakes activities to promote opportunities for investment in these sectors.

Publicity surrounding the signing, implementation and promotion of the FTA will highlight investment possibilities in both markets and improve awareness of the opportunities for joint ventures and strategic alliances. Scope for greater cooperation between Chinese and New Zealand investment promotion agencies will need to be considered as part of the FTA negotiations.

5.3 Possible Future Investment Opportunities

As outlined above, a future FTA has the potential to encourage investment in both China and New Zealand across a wide range of industries. Some examples of investments of likely interest to investors in China and New Zealand are discussed below.

LIVESTOCK AND AGRICULTURE

As one of the world's largest exporters of livestock products, New Zealand has extensively adopted modern technologies and management methods in agriculture and livestock management. Chinese businesses wish to enhance cooperation with New Zealand enterprises in this sector, including in areas such as pasture management, herd improvement and product processing. In addition, there is also great potential for bilateral cooperation in fruit industries. An FTA can help encourage Chinese and New Zealand businesses examine investment opportunities in both China and New Zealand to further develop high value-added agriculture.

China and New Zealand also expect to enhance cooperation in the research and application of agricultural technologies.

DAIRY INDUSTRY

Demand for dairy products in China continues to rise along with the improvement of Chinese household living standards and income levels. China, with a population of 1.3 billion, is undoubtedly a potentially huge market for milk, milk powder, cheese and other dairy products. The Chinese dairy industry is likely to attract significant New Zealand investment. An FTA may encourage Chinese and New Zealand businesses to examine investment opportunities in the dairy industry in both China and New Zealand.

FORESTRY AND WOOD PROCESSING

New Zealand has a sophisticated sustainable plantation forestry industry. Given its vast territory, China's percentage of forest coverage is relatively low. Although China has been engaging in large-scale forestation, the timber supply still falls short of demand in the domestic market. New Zealand has some of the most advanced forestry management technologies in the world, and is also a source of quality forest products. An FTA may encourage Chinese and New Zealand businesses to examine forestry and wood processing investment opportunities, in both China and New Zealand, aimed at helping meet China's demand for forest products.

BIOTECHNOLOGY

China recognises the importance of science generally, and biotechnology in particular, to its future, and sees as beneficial the creative application of biosciences and biotechnology to areas such as food production. New Zealand investors can bring valued skills to Chinese industry and are looking for Chinese partners in biotechnology and agricultural research, as well as opportunities to scale up production. This suggests that biotechnology research and application will be a fruitful area of future investment in China and New Zealand.

INFORMATION AND COMMUNICATIONS TECHNOLOGY

As described above, the economic strategies of both China and New Zealand promote investment in the information and communications technology (ICT) sector. China and New Zealand have relatively complementary capabilities in this sector, suggesting that over time ICT will develop as an area of bilateral investment.

FISHERIES

China has a large fisheries industry and is the world's largest exporter of fish and fisheries products. With the improvement of living standards and rise in household consumption in China, demand for aquatic products is expected to continue to increase. New Zealand, with an exclusive economic zone of over 13 million square kilometres, the fourth largest in the world, is rich in fisheries resources. In view of this complementarity, an FTA may encourage Chinese and New Zealand bilateral investment in this area.

MANUFACTURING

China has a number of comparative advantages in this sector, including large labour and manufacturing infrastructure resources. New Zealand has abundant natural resources, some important industrial raw materials and strong specialised manufacturing sectors. Bilateral investment could take advantage of vertical integration brought about by complementary comparative advantages of the two economies. Two-way investment in these sectors could give full play to the two countries' comparative advantages and lower production costs, as well as the prices of the final manufactured products. This would be beneficial for the producers and consumers of both countries. A future FTA will also further enhance existing investments and future investment opportunities.

5.3.1 COOPERATION IN DEVELOPING THE WESTERN AND NORTH-EAST REGIONS OF CHINA

The Western region of China is abundant in natural resources such as energy, minerals, tourism resources and land. Furthermore, with a quarter of China's population, the Western region has enormous market potential. China welcomes investment by New Zealand businesses, including SMEs, in the development of Western China. This includes investments drawing on New Zealand's comparative advantages in sectors such as agriculture, stock breeding, forestry and tourism. China also welcomes New Zealand investment in ecological and environmental reconstruction, and environmental pollution treatment and control.

The rejuvenation of the North-East region as a heavy industrial base is an important economic development strategy of China. China welcomes New Zealand investment participation in the North-East region.

CHAPTER SIX: STRENGTHENING BILATERAL COOPERATION

Building on the Trade and Economic Cooperation Framework (TECF), it is agreed by China and New Zealand that the joint FTA feasibility study should address other sector-specific issues and broader horizontal topics of importance to the commercial relationship, and highlight possible areas for cooperation and facilitation to further promote bilateral trade and investment through an FTA. This chapter explores each of these issues in turn, including capacity building, custom facilitation, electronic commerce, intellectual property, sanitary and phytosanitary measures, SMEs cooperation, technical regulations and standards, temporary entry/mobility of business people, and trade and investment promotion.

6.1 Capacity Building

6.1.1 INTRODUCTION

In facing the opportunities and challenges brought about by globalisation, many countries have found that economic development problems cannot be solved merely through trade and investment liberalisation. They have realised the great significance of capacity building in helping to build up their resistance to potential economic crises and to strengthen their bases for healthy and sustainable economic development. In doing so they have allowed more benefit to be drawn from the globalisation process. They have also recognised the importance of building close government and business relationships to identify and take advantage of new market opportunities.

6.1.2 CURRENT POLICIES

CHINA

China attaches great importance to capacity building and regards it as the powerful driving force for deepening reform and promoting sound development of the national economy. In recent years China has been working to strengthen capacity building through institutional reform, market function enhancement, infrastructure improvement, human resource development and technological innovation. China's Agenda 21 has set up the goal of achieving sustainable development through the inter-dependent objectives of enhanced economic growth, strengthened human and social development, and protection of the environment. The population of China accounts for more than 20 percent of the total world population. In this sense, the sustainable development of China's economy would be a major contribution to the world economy.

China is also an active participant in capacity building cooperation under the framework of APEC. In 2001 China and Brunei held the APEC High-level Meeting on Human Capacity Building in Beijing. The meeting released the Beijing Initiative, in which human capacity building was recommended as one of the priorities for APEC.

NEW ZEALAND

New Zealand regards China as an important partner in the Asia-Pacific region. It is in New Zealand's interests to work together with China in achieving its shared goal of sustainable development. In recognition that government must lead the way in terms of sustainability, the New Zealand Government has developed the Sustainable Development Programme of Action. The programme of action provides a vision for New Zealand and a set of guiding principles for policy that require the Government to take account of the economic, social, environmental, and cultural consequences of its decisions.

Development cooperation between China and New Zealand started in the 1990s. In 1990, the Ministry of Foreign Affairs and Trade of New Zealand and the Ministry of Foreign Trade and Economic Cooperation of China formally launched a comprehensive program for technical cooperation. In 1992, New Zealand decided to provide NZ$1 million (about US$500,000) of assistance annually to China. Since 1993, the two sides have explored and developed various forms of technical cooperation to promote trade and investment. Although started at a later stage and on a smaller scale, China–New Zealand economic cooperation has developed in a steady way with flexible forms and effective results, enhancing the two countries' cooperation in the fields of forestry, animal husbandry, poverty alleviation and other fields of economic and trade relations. By the end of 2002, New Zealand's aid to China totalled US$13 million. New Zealand's Official Development Assistance (NZODA) and later-created NZAID have contributed a lot to bilateral development cooperation.

6.1.3 AREAS OF FUTURE COOPERATION

The establishment of a China–New Zealand FTA would set an even higher demand for strengthening governments' administrative management ability, the market environment, infrastructure construction, and human resource development. Based on their current economic and technical cooperation, China and New Zealand should further enhance cooperation on capacity building, which will help to consolidate the bilateral economic relationship and promote two-way trade and investment. China and New Zealand should also seek to deepen their government-to-government cooperative relationships with a view to facilitating mutually beneficial trade and economic outcomes for business.

In the context of a future FTA, further co-operation could be explored for capacity building, including:

- promoting long-term partnership of relevant sectors to improve the personnel capability to implement an FTA;
- strengthening human capacity building to promote personnel exchange of experts and scholars, technicians, and foreign students between the two countries;
- promoting technical exchange and cooperation on technology exploitation to improve the application of high-tech and drive the development of bilateral trade and investment;
- enhancing cooperation to promote sustainable social and economic development under the new environment of an FTA.

6.2 Customs Facilitation

6.2.1 INTRODUCTION

Effective customs facilitation is essential to the efficient conduct of trade and movement of people across borders, as the efficiency of customs clearance procedures affects the transaction costs of international trade. Cooperation can ensure that customs requirements are met, while minimising any disruption to the flow of goods and people, and avoiding any unnecessary costs to traders or restrictions on trade. There is significant potential to build on existing customs cooperation between China and New Zealand in order to further facilitate and develop the transparency of the bilateral trade.

6.2.2 CURRENT POLICIES

CHINA

The General Administration of Customs is responsible for managing China's customs framework. In December 2001, China Customs started full national implementation of the WTO (Customs) Valuation Agreement. On the same day, the 2002 version of the Harmonised System was implemented. Training courses for customs officers were carried out nationwide. In meeting the challenges brought about by globalisation and rapid advances in science and technology, China has worked to accelerate the modernisation of customs administration. For example, on the infrastructure side, China Customs has been equipped with 50 container scanning systems, 374 electronic platform balances, 129 identification systems for vehicle plates, 235 electronic gates and 66 identification systems for container codes. On the system side, the current H833 EDI system will be upgraded to H2000 at the end of 2004 in order to achieve paperless trading. China's e-port system, which deals with on-line processing of duty payment (electronic fund transfer), drawback and submission of documents, was put into operation in 2001. Risk management systems have also been in place in all customs houses since 2001. The integrated clearance system has also been enhanced to improve the effectiveness of customs and streamline customs procedures.

NEW ZEALAND

Customs functions in New Zealand are undertaken by the New Zealand Customs Service in accordance with the Customs and Excise Act 1996, and other relevant legislation. The New Zealand Customs Service is responsible for protecting the community from potential risks arising from international trade and travel, while facilitating the legitimate movement of people and goods across the border.

New Zealand Customs operates electronic import entry services available to all importers and the average turnaround time for processing entries is 12 minutes. In addition, with most of New Zealand's import and export entries now handled through this system, traders' costs in transmitting electronic data to Customs have also been reduced over the last two years from NZ$1.25 to NZ$0.40 (approximately US$0.84 to US$0.25) per message.

6.2.3 AREAS OF FUTURE COOPERATION

The Customs administrations of China and New Zealand enjoy a warm relationship and in 1995 signed a Customs to Customs Co-Operative Arrangement. Since that time, officers from both administrations have visited to study the other's procedures and, on New Zealand's part, to assist in China's adoption of modern customs management practices.

Both China and New Zealand are signatories to the GATT [Customs] Valuation Agreement,[12] under which regard China has adopted the CIF option for valuing imports whilst New Zealand has adopted the FOB option.

Both Customs administrations are members of the World Customs Organisation, signatories to the International Convention on the Harmonized Commodity Description and Coding System, contracting parties to the revised [Customs] Kyoto Convention, and parties to the Arusha Declaration concerning Integrity in Customs and the WCO Resolution on Security and Facilitation of the International Trade Supply Chain. China and New Zealand Customs administrations co-operate under the auspices of the APEC Sub-Committee on Customs Procedures to promote trade facilitation in APEC economies. A number of areas for cooperation have also been identified under the TECF.

A free trade agreement will expedite bilateral trade, requiring a higher standard of customs facilitation between China and New Zealand. Building on the current cooperative arrangements, Chinese and New Zealand customs administrations will explore ways and means to increase the efficiency of customs clearance procedures and mitigate the vulnerability of their respective supply chains.

6.3 E-Commerce

6.3.1 INTRODUCTION

The increasing use of electronic communications by business in China and New Zealand is improving efficiency and reducing the cost of transactions. Information technology and the development of digital networks are bringing markets closer together, facilitating existing trade and introducing new services. Small and medium sized enterprises in particular profit from the use of e-commerce as it lowers the cost of entering new markets, and from reaching a wider range of international suppliers and customers.

[12] Agreement on the Implementation of article VII of the GATT 1994.

6.3.2 CURRENT POLICIES

CHINA

With the development of its infrastructure, human resources and technology, China is in a position to further explore the use of electronic commerce.

Since 1993, China has gradually implemented its Gold Bridge Project. This is aimed at establishing a national economic information website, the Gold Customs Project for on-line foreign trade administration, and the Gold Card Project on electronic money. The Chinese central government also actively encourages its departments at various levels to go on-line.

By the end of 2003, the number of internet users in China had exceeded 80 million and the number of computers linked to the internet had reached 30.89 million. Most enterprises in China have established their own ERP systems and have been carrying out network marketing, SCM and CRM.

Chinese enterprises' e-commerce models vary from setting up websites for on-line expositions to on-line trans-national project fairs, never-ending on-line fairs and information portals. Chinese companies have been exploring markets using on-line negotiations, on-line sales promotions and on-line trading. Use of on-line purchasing, on-line auction and on-line bidding in China has been rapidly increasing.

The Electronic Signature Act of the People's Republic of China, which gives electronic signatures legitimate legal status in China for the first time, was endorsed by the Standing Committee of the National People's Congress in 2004.

NEW ZEALAND

In 2000, the New Zealand Government launched its e-commerce strategy. It detailed the Government's commitment to provide leadership and to work in partnership with business and the broader community to build the e-commerce capability of New Zealanders. To date, the Government has implemented a significant number of initiatives in all these areas including:

- consumer protection such as the New Zealand Model Code for Consumer Protection in Electronic Commerce;
- legislative changes including the Telecommunications Act 2001 and the Electronic Transactions Act 2002, and proposed legislation to outlaw spam;
- education initiatives to drive uptake of e-commerce by SMEs such as the work of the E Commerce Action Team; and
- continued rollout of e-government at the central and local government levels.

Currently, 75 percent of New Zealanders regularly access the internet, from home, work or public access points. In addition, business use is high, with 95 percent of large firms and 75 percent of small firms using the internet.

6.3.3 AREAS OF FUTURE COOPERATION

Cooperation between China and New Zealand on e-commerce could facilitate the use of digital solutions and ensure that the development of electronic commerce is not impeded by unnecessary or burdensome legislation and regulations. Cooperative work on e-commerce is also being undertaken in multilateral fora such as APEC, the UN and the WTO.

Under the TECF, China and New Zealand have agreed to explore the development of an MOU in regard to e-commerce, information technology and information industries in order to encourage cooperation in these fields.

China's three golden projects may offer areas for future bilateral collaboration in specific sectors between China and New Zealand.

Under the framework of the future FTA, China and New Zealand should make joint efforts to establish a framework that could ensure the sound development of e-commerce in both of the two countries and consistency with existing multilateral and regional trade rules and norms with a bearing on e-commerce.

Areas for future cooperation under the FTA that could be further explored include:

- minimisation of the regulatory burden on e-commerce;
- effective data and consumer protection;
- cooperation in the development of paperless trading; and
- implementation of related Capacity Building and human resource development projects for a wider application of e-commerce.

6.4 Intellectual Property

6.4.1 INTRODUCTION

Intellectual property rights protection is a key factor in facilitating economic development and international trade. The establishment and maintenance of effective intellectual property rights regimes provides incentives to innovate and to disseminate ideas and information. They also help to create an attractive environment for investment and technology transfer. Effective enforcement of these rights is a priority for both countries.

China and New Zealand are members of the World Intellectual Property Organisation, are Parties to the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs), and maintain comprehensive legal frameworks for the protection of intellectual property rights.

6.4.2 CURRENT POLICIES

CHINA

China regards protection of intellectual property rights as an important component of its reform and opening policies and legal framework. Since the 1980s, China has promulgated dozens of laws and regulations for IPR protection including *Trademark Law*, *Patent Law*, *Copyright Law*, *Regulations for Protection of Computer Software*, *Regulations for Penalizing Anti-IPR Crimes*, *and Regulations for Customs Protection if IPR*, etc. A comprehensive legal system of IPR protection has been established.

China attaches importance to enhancing public awareness of IPR protection. Measures taken include holding seminars, producing TV programmes and publishing books. The relevant authorities also provide training on IPR protection for officials, heads of enterprises and technicians. Since its accession to the WTO in December 2001, China has placed a high priority on intellectual property rights in conformity with its obligations as a member of the WTO. More stringent penalties for intellectual property infringement have been implemented, together with a large-scale campaign against piracy and counterfeiting.

While making great efforts to improve the domestic legal framework for IPR protection, China has also engaged actively in activities of related international organisations, and strengthened cooperation and exchanges with other countries in the field of IPR protection.

NEW ZEALAND

New Zealand legislation covers patents, trademarks, copyright, designs and plant variety rights. Enforcement is primarily through civil action taken by right holders through the courts. New provisions in trademark and copyright law have been introduced recently to deter intellectual property infringement and to facilitate enforcement. Effective border control measures are also in place. The maintenance of a modern, legally certain intellectual property rights regime that balances the interests of right holders and users of intellectual property, supported by effective enforcement, is important for fostering innovation and product development, and, more generally, economic growth.

6.4.3 AREAS OF FUTURE COOPERATION

An FTA would help to strengthen cooperation between China and New Zealand in the field of IPR protection, including through developing a better understanding of each other's IPR legal framework and enhancing transparency in the IPR policy regime.

China and New Zealand agreed in the TECF to work cooperatively bilaterally, regionally and multilaterally on matters of intellectual property protection for goods and services. Further cooperation under an FTA could be explored in the following areas:

- exchanging information and material on programmes pertaining to education and awareness of intellectual property rights;
- strengthening cooperation on the implementation of intellectual property rights, including in relation to legal, administrative and enforcement processes, as well as encouraging and facilitating the development of contacts and cooperation between the countries' respective government agencies;
- cooperative mechanisms to settle the problems identified in the intellectual property rights area; and
- providing technical assistance to China in the intellectual property rights area.

6.5 Sanitary and Phytosanitary Measures

6.5.1 INTRODUCTION

The WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement) establishes the international rules-based framework for developing and adopting SPS measures. The SPS Agreement acknowledges the right of members to undertake measures to protect human, animal or plant life and health. It requires that such measures should not be used to restrict trade unnecessarily, are based on scientific principles and are not maintained without scientific evidence.

6.5.2 CURRENT POLICIES

CHINA

Since accession to the WTO, China has established an SPS notification authority and an SPS enquiry point. China has committed itself to complying with the SPS Agreement and ensuring all laws, regulations, decrees, requirements and procedures relating to SPS measures conform to the provisions of the SPS Agreement. The boom in importation of agricultural products has led China to strengthen quarantine inspection measures against a potentially disastrous attack by exotic quarantinable infectious diseases.

The State General Administration of the People's Republic of China for Quality Supervision and Inspection and Quarantine (AQSIQ) is the law-enforcement administrative body of the State Council covering entry-exit commodity inspection, entry-exit health quarantine, entry-exit animal and plant quarantine, certification, accreditation and standardisation. It is the key government authority in charge of entry-exit animal and plant quarantine and food safety, which are the three main issues covered by the SPS agreement of the WTO. AQSIQ is the national SPS enquiry point of China.

The Certification and Accreditation Administration of the People's Republic of China (CNCA) is responsible for the unified management, supervision and registration of foreign manufacturing and processing establishments of imported food. CNCA, according to the Regulations for Administration of Registration of Foreign Food Establishments Importing into China, is authorised to register foreign-located enterprises that produce, process or store foodstuffs destined for importation to China. All foreign establishments exporting foods listed on the Imported Food Catalogue for Establishments Registration must apply to CNCA for registration. Only registered businesses are able to export food to China.

The Standardisation Administration of the People's Republic of China (SAC) is in charge of the drafting, amendment and public promulgation of national standards related to SPS.

AQSIQ is also responsible for risk analysis of entry-exit plants and animals, and for food safety. Based on its risk analysis, AQSIQ is authorised to establish requirements for entry-exit inspection and quarantine, and to negotiate agreements with the related government authorities of other countries, on general SPS issues or detailed inspection and quarantine requirements for specific products. To standardise the risk analysis procedure, AQSIQ has released detailed administrative regulations on risk analysis for animal and plant quarantine.

Non-discrimination is one of the core principles followed by Chinese authorities in the implementation of the WTO SPS Agreement. Local authorities are directly monitored by the AQSIQ to ensure that the laws and regulations on the SPS will be uniformly adhered to.

NEW ZEALAND

The Ministry of Agriculture and Forestry is the primary government department responsible for implementing the SPS Agreement. New Zealand manages its SPS systems in accordance with its rights and obligations as a member of the World Trade Organisation (WTO), Office International des Epizooties (OIE), Joint FAO/WHO Codex Alimentarius Commission (Codex) and as a party to the International Plant Protection Convention (IPPC).

New Zealand is a major participant internationally in SPS issues. Officials from both the Ministry of Foreign Affairs and Trade and the Ministry of Agriculture and Forestry regularly represent New Zealand's interests at the WTO SPS Committee in Geneva. Officials from the Ministry of Agriculture and Forestry, including the New Zealand Food Safety Authority[13], also hold key elected office positions in the relevant international standard-setting organisations recognised by the SPS Agreement (the OIE, Codex and IPPC). They also chair and provide high-level input to international committees and serve on WTO expert panels.

New Zealand's domestic legislation embodies and promotes the use of science-based risk assessment in managing the risk associated with the international movement of goods and people. The legislative basis for New Zealand's SPS system includes the Biosecurity Act 1993, the Hazardous Substances and New Organisms Act 1996, the Animal Products Act 1999, the Agricultural Compound and Veterinary Medicines Act 1997, the Dairy Industry Amendment Act 2001, the Food Act, and the Food Amendment Act 2002.

The main implementing agencies of New Zealand's SPS measures are the Ministry of Agriculture and Forestry's Biosecurity Authority (MAF BA) (from 1 November 2004 BA will be renamed Biosecurity New Zealand) and the New Zealand Food Safety Authority (NZFSA). The NZFSA administers all legislation covering domestic, import and export food safety requirements, as well as all sanitary and zoosanitary export certification for agricultural and aquatic products. NZFSA also regulates the sale and use of all agricultural compounds and veterinary medicines, wine and organics. MAF BA administers the biosecurity legislation dealing with the regulation of exotic animal and plant health diseases associated with imports and providing for eradication and/or official control of introduced animal or plant health diseases or pests. Along with MAF BA, the Ministries of Health and Fisheries and the Department of Conservation are the other key agencies involved in regulating biosecurity in New Zealand.

MAF administers the process for allowing the entry of primary products not previously imported into New Zealand. Detailed information on this process can be found on www.maf.govt.nz/biosecurity/SPS, but in general terms a potential exporting country makes an initial request to MAF. This request is prioritised based on a number of factors such as importer demand and commitment by potential exporters, along with the information available to undertake

[13] The New Zealand Food Safety Agency is mandated with protecting and promoting public health and safety and facilitates access to markets for New Zealand food and food related products.

the import risk analysis. During the process of developing the import health standard, considerable consultation and communication takes place between the two sides. An assessment for the new product may take around a year provided information is available in a timely manner.

The New Zealand Food Safety Authority is in the process of adapting its electronic sanitary certification system (e-cert) so that it can utilise Chinese characters. It is expected that the production of certificates destined to China using e-cert, and the encouragement of the Chinese authorities to verify the authenticity of at least a proportion of the paper certificates presented against the e-cert database, will help reduce the potential for fraud and counterfeiting. The use of e-cert will provide China and New Zealand with another level of assurance of the authenticity of any animal product presented at China's borders.

6.5.3 AREAS OF FUTURE COOPERATION

In 2001 a Memorandum of Understanding (MOU) was agreed between New Zealand (MAF) and China (AQSIQ) on SPS issues. The MOU set up a Joint SPS Commission that serves as an umbrella framework that provides officials with an annual high-level discussion forum. The Commission aims to promote co-operation through a range of initiatives and activities which include *inter alia* information exchange through the sharing of knowledge and experiences gained from relevant international standard setting bodies, a framework to discuss inspection standards and technical market access problems, and the establishment of a work programme to address specific issues.

An objective of the FTA would be to further develop and refine existing commitments and establish common understandings on the principles and mechanisms under which all SPS related interactions will occur, and to record the understandings reached.

In the context of a future FTA, China and New Zealand will have an opportunity to set up an agreed framework to:

- further develop cooperation and consultation through the Joint SPS Commission;
- deal with SPS issues in a framework of enhanced consultation and cooperation;
- improve the understanding of each other's measures and regulatory systems;
- work together to improve SPS operations and associated regulatory practices and to address problems as they arise;
- agree on the principles to be applied by both sides with respect to inspection, testing and certification procedures;
- work together to ensure that SPS measures or other standards do not result in unjustifiable restrictions on trade;
- agree on the principles and mechanisms to be applied to address issues of consistency and transparency;

- formalise and prioritise requests for consideration of equivalence of SPS measures and related processes;
- continue close cooperation between China and New Zealand in enhancing China's sanitary and phytosanitary capacities; and
- strengthen future SPS cooperation in the area of shipment of containers.

6.6 SME Cooperation

6.6.1 INTRODUCTION

Small and medium sized enterprises (SMEs) are viewed internationally as a source of flexibility and innovation, and make a significant contribution to economies both in terms of the number of SMEs and the proportion of the labour force employed. SMEs are a significant component of both the Chinese and New Zealand economies. Owing to their size, they can sometimes face particular challenges in accessing international markets. Nevertheless, SMEs in China and New Zealand are becoming more actively involved in international business activities, and accordingly could be expected to take advantage of the opportunities created by a future China–New Zealand FTA.

6.6.2 CURRENT POLICIES

CHINA

Chinese SMEs have multiplied rapidly in recent years and have become an important part of the national economy. By the end of 2003 the number of SMEs had reached ten million, accounting for 99 percent of the total number of China's enterprises. The value of products and services created by SMEs account for more than 50 percent of China's GDP.

To promote Sino-foreign SMEs cooperation, China established the International Coordination Centre for SMEs in 1985 and the International Cooperation Association of SMEs in 1990. The Chinese Government has also enhanced SME development through legislation. The Promotion Law of Small and Medium Enterprises was promulgated in June 2002 and came into force from 1 January 2003. This law is to promote the healthy development of SMEs by establishing a fair market competition mechanism and encouraging them to actively participate in international cooperation.

In the context of APEC, China has contributed to SME cooperation in the Asia-Pacific region by hosting both a Technology Exchange Exposition and a Business Forum for APEC SMEs.

NEW ZEALAND

The significance of SMEs to the New Zealand economy has been increasing, with further opportunities presented by globalisation and technological development. SMEs in New Zealand are defined as enterprises employing 19 or fewer full time equivalent employees (FTEs). SMEs constitute 96.8 percent of all enterprises in New Zealand and account for approximately 35.6 percent of GDP. SMEs employ 42.7 percent of all FTEs.

6.6.3 AREAS OF FUTURE COOPERATION

China and New Zealand work together on SME issues through international organisations such as the APEC Small and Medium-Sized Enterprise Working Group (SMEWG), which aims to encourage the development of SMEs in the Asia-Pacific region. APEC has designed tools to enhance international cooperation such as the APEC Small Business Information Hub and the APEC Centre for Technology Transfer and Training for SMEs.

Many areas of future cooperation between SMEs in China and New Zealand will occur within a regional framework of SME cooperation. For example, the 11th APEC SME Ministerial meeting held in October 2004 in Santiago, Chile produced a work plan for SMEs in the Asia-Pacific region. APEC has also identified the importance of e-based tools for SMEs, which could also assist cooperation between New Zealand and Chinese SMEs.

Barriers and restrictions on trade can have a proportionately greater impact on SMEs. SMEs may also find it more difficult to take advantage of existing market access opportunities because of their size. Areas for future cooperation that would facilitate bilateral trade by SMEs could include exchanges of information about the New Zealand and Chinese regulatory regimes, local markets and regional and national economies.

It is suggested that bilateral cooperation and exchange among SMEs be strengthened towards the goal of mutual development by:

- promoting cooperation and information exchange between government institutions, chambers of commerce, and industrial associations;
- exploring jointly the strategy and support policy for the development of SMEs, including financial support and intermediary services;
- holding trade fairs and investment marts involving both Chinese and New Zealand SMEs; and
- promoting training and personnel exchange between Chinese and New Zealand SMEs.

6.7 Technical Regulations and Standards

6.7.1 INTRODUCTION

Both China and New Zealand have institutions that set standards for the effective conduct of business and trade and to minimise risks to health, safety and the environment. China and New Zealand are also both parties to the WTO Agreement on Technical Barriers to Trade (TBT), which governs the use of technical regulations, standards and conformity assessment procedures and contains disciplines to ensure that such mechanisms do not create unnecessary obstacles to trade. Both countries accordingly recognise that regulators have an important role to play in facilitating trade.

6.7.2 CURRENT POLICIES

CHINA

China has been making considerable efforts to remove technical and regulatory barriers to trade, especially in the areas of standards and conformance, by taking measures consistent with the WTO TBT and SPS agreements. The adoption of international standards has been greatly increased.

To better carry out its responsibilities for accreditation and standardisation, the Chinese Government established in 2001 the China National Regulatory Commission for Certification and Accreditation (CNCA) and the China National Management Commission for Standardisation under the State General Administration for Quality Supervision and Inspection & Quarantine (AQSIQ), to undertake conformance and standards work respectively. To honour the commitments under China's accession to WTO, AQSIQ and CNCA merged the former two compulsory certification systems and the former "CCIB" and "Great Wall" marks into a new "CCC" Mark in 2002. This applies equally to imported and domestic products. China has amended and adopted new laws and regulations on technical regulations, and standards and conformity assessment procedures, to better implement its obligations under the WTO. Technical regulations will be reviewed and assessed every 5 years to ensure that they are consistent with Article 2.4 of the TBT Agreement. To date, more than 32 percent of Chinese national standards have been aligned with international standards.

China implements a unitary regulatory system for certification and accreditation. The Chinese Government has a certification and accreditation work mechanism in which joint implementation is conducted by relevant parties under the supervision, administration and overall coordination of the Certification and Accreditation Regulatory Department (CARD) of the State Council. A certification body may engage in certification activities only after it is approved by CARD and acquires legal person status according to law.

With regard to products subject to compulsory certification, China applies one product catalogue, one set of technical regulations and standards and conformity assessment procedures, one obligatory mark and one structural fee chart. The Unitary Product Catalogue is jointly formulated and adjusted by CARD and the relevant departments of the State Council. The Catalogue is announced and implemented by the certification and accreditation regulatory department of the State Council, in coordination with the parties. Products listed in the Catalogue must be subject to certification by the certification bodies designated by the certification and accreditation regulatory department of the State Council.

While encouraging harmonisation to international standards in the domestic market, China also looks into ways to strengthen bilateral or multilateral cooperation on standards and conformity. China is a full member of the International Organisation for Standardisation (ISO), the International Electrotechnical Commission (IEC), the International Telecommunications Union (ITU), Codex Alimentarius Commission (CAC), International Accreditation Forum (IAF), International Laboratory Accreditation Cooperation (ILAC), and International Auditor and Training Certification Association (IATCA). China actively participates in the activities of these organisations. It has also signed eleven bilateral agreements on cooperation in the field of conformity assessment.

NEW ZEALAND

New Zealand has relatively few regulations for traded goods and services. Manufacturers and traders largely take responsibility for the safety of their products through self-regulation. This is backed up by consumer protection legislation. In some cases industry may partner with consumer representatives and government regulators to develop relevant standards.

Some products do, however, pose a risk to users, consumers and the general public. In those areas, the New Zealand government has imposed mandatory technical requirements that must be met before the product is placed on the market. These requirements are in the form of regulations, administered and enforced by the relevant government agency with appropriate knowledge of the technical issues involved. New Zealand supports the development of international standards and conformity assessment systems that improve efficiency of production and facilitate trade. New Zealand therefore seeks to use applicable international standards where these exist and also unilaterally recognises foreign standards and conformity assessment in many industry areas.

To support this policy New Zealand has established a standards and conformance infrastructure that is comprised of:

- Standards New Zealand (SNZ): SNZ is a standards setting body, the trading arm of the Standards Council, and a Crown owned entity operating under the Standards Act 1988;
- International Accreditation New Zealand (IANZ): IANZ is the operating arm of the Testing Laboratory Registration Council, a statutory body established by the Testing Laboratory Registration Act 1972. It accredits testing laboratories and inspection bodies;
- Joint Accreditation System of Australia and New Zealand (JASANZ): JASANZ is an international organisation established by a treaty between the New Zealand and Australian governments. It accredits inspection bodies that certify management systems and organisations that license products;
- Measurement and Product Safety Service (MPSS): MPSS is part of the Ministry of Consumer Affairs and is responsible for legal metrology in New Zealand;
- Measurement Standards Laboratory of New Zealand (MSL): MSL is a Crown owned company that carries out physical metrology functions in New Zealand.

The Ministry of Economic Development has responsibility for overseeing the standards and conformance infrastructure and for monitoring the effects of technical regulations, standards and conformance on industry in relation to both domestic and export markets. It is also responsible for administering bilateral mutual recognition arrangements, including the Trans-Tasman Mutual Recognition Act 1997, which provides for market-to-market access for goods and services between Australia and New Zealand. The WTO TBT notification and enquiry point in New Zealand is Standards New Zealand.

6.7.3 AREAS OF FUTURE COOPERATION

A China–New Zealand consultation mechanism was established in October 2003 to discuss, cooperate and exchange information on regulatory approaches, technical regulations, standardisation and conformity assessments regimes for goods traded. Formal consultations under this mechanism were held for the first time in May 2004. China and New Zealand have already commenced discussions on the possibility of entering into a Mutual Recognition Arrangement on Electrical Equipment.

China and New Zealand have also participated through APEC in regional efforts towards harmonisation or mutual recognition of standards and technical requirements within the region.

An FTA between China and New Zealand could develop existing cooperation through identifying principles, disciplines and procedures for dealing with technical requirements and standards that impact on bilateral trade. Where appropriate, it could examine ways of enhancing Government-to-Government cooperation on these issues, including between regulatory bodies and standard setting agencies at national and provincial levels. The FTA could also promote technical cooperation and capacity building in this area, including through information sharing, seminars, secondments and exchange visits.

In the context of a future FTA China and New Zealand will have the opportunity to consider:

- improving information exchange and cooperation between the related government authorities of the two countries, particularly between regulators, and including enhancing transparency in the regime of technical regulations and standards;
- encouraging wider application of international standards in bilateral trade;
- identifying and eliminating existing technical barriers, to promote bilateral trade;
- strengthening cooperation on mutual recognition of conformity assessment;
- carrying out bilateral cooperation on human capacity building in the field of technical regulations and standards, such as organizing special training programs for officials of related government institutions and professional personnel; and
- strengthening cooperation in international organisations, such as the ISO and IEC.

6.8 Temporary Entry/Mobility of Business People

6.8.1 INTRODUCTION

Movement of business people between China and New Zealand is a necessary part of the bilateral trade and is essential to building and strengthening business ties. Therefore facilitating the mobility of business people promotes trade and investment, and helps Chinese and New Zealand industry identify new opportunities arising from an FTA.

6.8.2 CURRENT POLICIES

CHINA

China has improved regulations and policies to make the temporary entry of foreign business people easier. There are various types of visa and visa-extension procedures for both short business trips and stays of more than one year. Since 2002, multiple entry visas have been issued to foreign investors, qualified scientists and technicians, high-level management personnel, and foreign nationals who carry out inter-governmental aid agreements, who need to make multiple temporary visits to China over a certain period of time.

As an APEC member, China has always participated actively in APEC's cooperation programme on business mobility.

NEW ZEALAND

Under the New Zealand Immigration Act 1987, business people (including people making sales to New Zealand businesses, and people establishing, expanding, or winding up any businesses or deals) may enter New Zealand as visitors, for up to 90 days in any calendar year. The New Zealand Immigration Service has branches in Beijing and Shanghai and applications may be made in person or by mail.

Business people who need to spend more time in New Zealand to carry out their business-related activities have two choices. They may apply for a work visa. There are no caps, quotas or labour market tests under this policy; the applicant is simply required to show that their intentions are bona fide (that is, that they have genuine business reasons for travel to New Zealand for the period required). Or, the business person may use their APEC business travel card. The APEC card effectively functions as a three-year multi entry work visa.

6.8.3 AREAS OF FUTURE COOPERATION

China and New Zealand recognise the importance of making it easier for business people to move between their two countries. Further opportunities for facilitating movement of business people will be considered in the context of an FTA.

With the establishment of an FTA between China and New Zealand, business people will travel between the two countries more frequently. Ease of travel for business people becomes is a key element of facilitating and encouraging greater bilateral trade and investment links. Consequently, the visa authorities of the two countries should strengthen cooperation and in the context of the FTA negotiations further options to facilitate the issuing of visas will be explored.

An FTA between China and New Zealand could also provide for a wide range of specific steps to strengthen bilateral cooperation on business mobility, including:

- enhancing transparency on information and policies. Immigrants and visa-issuing authorities should make information on their regulatory visa regime more conveniently available to enterprises and business people. Mechanisms should also be established to enhance communications between the relative authorities of both countries;
- promoting an advance record mechanism and urgent remedial system for important enterprises and organisations of the two countries, to ensure quick and timely grant of entry visas;
- promoting a wider application of electronic methods, especially internet, in managing business entry; and

- carrying out closer cooperation and coordination on the APEC Business Travel Card scheme and other mechanisms to assist the easier movement of business people.

6.9 Trade and Investment Promotion

6.9.1 INTRODUCTION

International trade and investment is becoming increasingly important for economic development, so trade and investment promotion is now a significant part of a country's foreign economic policy framework. During the past two decades, trade and economic relations between China and New Zealand have made great progress, but there is still great potential for increased bilateral trade and investment. Consequently, trade and investment promotion will be an important element of a China–New Zealand FTA.

6.9.2 CURRENT POLICIES

CHINA

China attaches importance to trade and investment promotion, and to creating new opportunities of trade and investment for enterprises in all sectors. Established in May 1952, China's Council for the Promotion of International Trade (CCPIT) comprises enterprises and organisations representing the economic and trade sectors in China. It is the most important and the largest NGO for foreign trade and investment promotion in China. Its main aims are to enhance Sino-foreign economic and technological cooperation through trade and investment promotion.

In the mid 1980s, Foreign Investment Service Centres were established in many Chinese cities. With the support of the Ministry of Foreign Trade and Economic Cooperation (the predecessor of MOFCOM), the China International Investment Promotion Centre (CIIPC) was established in August 2001. The Federation of Investment Promotion Agencies of China (FIPAC) was set up by CIIPC and 15 local investment promotion agencies in March 2002. Another two important government institutions in charge of trade and investment promotion, the Executive Bureau of Investment Promotion of MOFCOM and the Trade Development Bureau of MOFCOM, were established respectively in March and June of 2003. Since then a comprehensive nation-wide trade and investment promotion network has been led and coordinated by MOFCOM.

At present, the China Export Commodities Fair, the China Trade and Investment Fair and the China New and High Technologies Fair – all of which are held annually – have constituted a nation-level framework of trade and investment promotion. Furthermore, organisations have been established at provincial level to implement trade and investment promotion activities for local economic development.

As an APEC member, China has always been an active supporter of the activities of the APEC Trade Promotion Working Group. This has involved hosting and participating in trade fairs, exchanging information on trade and investment with other member economies, and strengthening communication with business sectors.

NEW ZEALAND

Trade and Investment promotion in New Zealand is facilitated nationally by New Zealand Trade and Enterprise (NZTE) the Government's economic and trade development agency. On a regional and provincial level it is facilitated by regional economic development agencies (EDA) funded and administered by local government.

NZTE has a network of 48 offices around the world established to understand the local business cultures, speak the local language and provide hands-on assistance and trade promotion assistance for New Zealand exporters. The offices provide local buyers, importers and distributors with information and intelligence on New Zealand's business capability, assisting them to source quality New Zealand products and services.

Investment New Zealand is the Government's national investment promotion agency (IPA) and is a specialist unit within New Zealand Trade & Enterprise. Investment New Zealand's principal aim is to increase the quality and quantity of sustainable FDI into New Zealand. Investment New Zealand encourages and helps to facilitate all forms of foreign investment, which typically arise from corporate relocations, the establishment of new businesses in New Zealand, and/or joint ventures or partnerships with New Zealand companies either in New Zealand or off shore.

Investment New Zealand has direct representation in North America, North and South East Asia and Australia to facilitate investment and to be a local contact in the country of origin for the investor(s).

6.9.3 FUTURE AREAS OF COOPERATION

The establishment of an FTA will further enhance bilateral cooperation on trade and investment promotion by allowing the two countries to better share their successful experiences in this field. Under an FTA framework, the two countries could enhance communication and information exchange. Areas for future cooperation could include:

- exploring possible ways to enhance transparency and dialogue on trade and investment policies;
- enhancing cooperation between non-governmental organisations, especially guilds and chambers of commerce of the two countries;
- strengthening cooperation on human resource development and expertise related to trade and investment promotion; and
- creating more opportunities for business to benefit from trade and investment promotion activities, such as trade fairs and investment marts.

CHAPTER SEVEN: OTHER ISSUES

7.1 Competition Policy

7.1.1 INTRODUCTION

Recognising the important role of fair competition in strengthening markets, both China and New Zealand have made great efforts to improve their legislation and enforcement of competition laws and regulations to provide a transparent and fair competition environment. Both countries are endeavouring to strengthening implementation of the APEC Principles to Enhance Competition and Regulatory Reform (e.g. transparency, procedural fairness, and non-discrimination). The enforcement of good market practices works in the interests of socially responsible companies and ultimately promotes consumer confidence and growth in bilateral trade.

7.1.2 CURRENT POLICIES

CHINA

China's main competition and fair trading law is *The Law of the People's Republic of China for Countering Unfair Competition*, adopted by the People's Congress of China in 1993. Its objective is to encourage and protect fair competition, defend the lawful rights and interests of operators and consumers, and safeguard the healthy development of the socialist market economy. Key provisions prohibit:

- deceiving consumers by passing off a registered trade mark of another person, etc;
- abusing administrative powers;
- forcing others to buy goods designated by public utility enterprises or enterprises having monopoly status;
- making tie-in sales;
- selling products with prizes attached by fraudulent methods or bribery;
- damaging competitor's reputation by falsehood;
- squeezing competitors out by selling goods at price below cost, etc.

The Ministry of Commerce of China is responsible for research and policy relating to regulating markets. Enforcement is the responsibility of the Administration for Industry and Commerce of China. The State Administration for Industry and Commerce, an independent agency, organises the local administrative authorities for industry and commerce. Its work includes enacting rules, regulations and guidelines, and dealing with cases of monopoly and unfair competition. Sanctions rendered against activities of unfair competition include ordering the cessation of illegal acts, confiscation of illegal proceeds, imposition of fines of up to three times the amount of the illegal proceeds, revoking business licenses, and/or prosecution for criminal liability.

There are other laws and regulations containing provisions concerning the protection of competition, such as the *Foreign Trade Law*, the *Price Law*, the *Law on Chinese-Foreign Cooperative Joint Ventures*, the *Law on Wholly Foreign-Owned Enterprises*, and the *Law on Chinese-Foreign Equity Joint Ventures*. China has also promulgated the *Temporary Provisions on the Prohibition of Price Monopoly Activities* and *Regulations on Telecommunication*. It is presently in the process of drafting an Anti-Monopoly Law.

All these efforts aim to safeguard competition and defend the lawful rights and interests of both operators and consumers.

NEW ZEALAND

New Zealand maintains robust competition policy frameworks that underpin its competition and fair trading laws, and its regulatory approaches. The former proscribe general rules that apply across the economy, with some limited exceptions.

The main legislation governing competition in New Zealand is the Commerce Act 1986. The objective of this Act is to promote competition in markets in New Zealand for the long-term benefit of consumers. Key provisions prohibit arrangements between firms (e.g. price fixing) and mergers and acquisitions that substantially lessen competition. Monopoly is permitted, but abuses of substantial market power by a firm are not. There are also provisions relating to regulatory control where there is an absence of competition. Other sector-specific acts, such as the Telecommunications Act 2001, supplement these generic prohibitions.

New Zealand recognises that comprehensive competition frameworks are central to supporting strong and effective markets and sustained economic growth. The New Zealand competition policy framework reflects the key principles of transparency, non-discrimination, comprehensiveness and protection of the competitive process.

The Commerce Act has a presumption in favour of promoting competition as a means of increasing efficiency and overall consumer welfare. However, practices can be authorised by the Commerce Commission if it is shown that there are public benefits outweighing the anti-competitive detriments. Sanctions for contraventions of the Act include injunctions or cease and desist orders; pecuniary penalties of up to NZ$10 million[14] or three times the illegal gain for bodies corporate, and up to $500,000[15] on an individual; compensatory or exemplary damages; and, in case of anti-competitive mergers and acquisitions, divestment orders.

[14] Amounts given in legislation are expressed in NZ dollars, but these amounts are equal to US$6.7 million at a 1 October exchange rate of US$0.67=NZ$1.00.

[15] Equal to US$350,000 at a 1 October exchange rate of US$0.67=NZ$1.00

The main legislation governing fair trading in New Zealand is the Fair Trading Act 1986. Together with the Commerce Act and the Consumer Guarantees Act 1993 (which provides consumers with post-sales protection), it forms the essence of New Zealand's consumer protection regulatory framework. The objective of the Fair Trading Act is to provide consumer protection by prohibiting (i) misleading and deceptive conduct and false representations by sellers in trade, and (ii) certain unfair trade practices, such as pyramid selling schemes. It also provides for the making of Product and Service Safety Standards, as well as for Consumer Information Standards in respect of specified goods and services.

Thus, the Fair Trading Act seeks to provide consumers with accurate and meaningful information when making purchasing decisions, so they can transact with confidence. Effectively, the Act protects ethical traders, as they are detrimentally affected when their competitors engage in deceptive or unfair trading practices. Breach of the Fair Trading Act may result in a fine, injunction or award of compensatory damages. The Courts may also order corrective advertising or statements at the expense of the person or company that breached the Act. Other civil orders may be made declaring any contract or part of a contract to be void, varying a contract, or directing a person to refund money or to pay compensation.

The Commerce Commission, an independent statutory body, is responsible for enforcing the Commerce and Fair Trading Acts (although private parties may also take action). The Ministry of Economic Development (including the Ministry of Consumer Affairs) is responsible for advising the Government on policy matters.

7.1.3 AREAS OF FUTURE COOPERATION

China and New Zealand actively participate in the APEC Competition Policy Expert Group, which is a forum for discussion and information exchange on competition policy in APEC economies. The Group has developed the APEC non-binding principles on competition policy. China and New Zealand can use the information exchanged in the APEC context as a basis for further discussion of opportunities for bilateral cooperation.

7.2 Government Procurement

7.2.1 INTRODUCTION

Government expenditure is an important component of total economic activity in both China and New Zealand. Effective communication of the processes that govern government procurement contracts enables more efficient use of government funds and informs interested trading entities in both countries.

7.2.2 CURRENT POLICIES

CHINA

Though China's government procurement system only began in 1995, the government procurement market has grown quickly over the past few years. According to Ministry of Finance statistics, the government procurement value of China exceeded US$12.1 billion in 2002, and increased to a record high of US$20 billion in 2003.

The Government Procurement Law of the People's Republic of China was promulgated on 29 June 2002 and took effect on 1 January 2003. The Law contains 9 chapters, with 88 provisions on main issues such as the basic principles and patterns of government procurement, the format and enforcement of contract, supplier query and complaint, and the responsibilities of administrative supervision.

Administrative institutions for government procurement have been set up at all levels of government. In addition, an effective information publication system has been preliminarily established, three media organisations having been designated by the Ministry of Finance to provide government procurement information publications. These are *China Financial and Economic News*, *China Government Procurement Network* (www.ccgp.gov.cn), and the *Magazine of China's Government Procurement*.

Despite the improvements mentioned above, it should be pointed out that China's government procurement system is still in its infancy. Considerable further efforts are needed in order to create a more favourable environment for its development.

NEW ZEALAND

New Zealand participates in the WTO Working Group on Transparency in Government Procurement, but is not a member of the multilateral WTO Government Procurement Agreement. New Zealand's government procurement policy is to provide an open and transparent market based on the principles of best value for money; open and effective competition; full and fair opportunity for domestic suppliers and improving business capabilities. The global non-discriminatory approach is undertaken as a matter of national policy but is reinforced by bilateral commitments with New Zealand's CEP partners Australia and Singapore. A full description of New Zealand's government procurement policy regime is provided in the publication *Government Procurement in New Zealand: Policy Guide for Purchasers* (July 2002).

7.2.3 AREAS OF FUTURE COOPERATION

Both China and New Zealand are active participants in the APEC Government Procurement Experts' Group (GPEG), which is a forum for discussion and information exchange on government procurement regimes in APEC economies. The GPEG aims to further transparency and liberalisation of government procurement markets in accordance with the Bogor goals and the Osaka Action Agenda. The GPEG is also a forum for ongoing peer review of individual economies' action plans and progress towards the Bogor goals in the area of government procurement. Given the importance of government expenditure as a percentage of GDP, improving the efficiency and effectiveness of government procurement can contribute to economic growth. This can be achieved by pursuing transparency, value for money, more open and effective competition, fair dealing, accountability and due process, and non-discrimination. China and New Zealand can use the information exchanged in the APEC context as a starting point for further discussion of opportunities for bilateral cooperation.

CHAPTER EIGHT: MODELLING THE EFFECTS OF AN FTA BETWEEN CHINA AND NEW ZEALAND

This chapter investigates the likely economic impact of a future China–New Zealand Free Trade Agreement (FTA). The modelling results strongly support the propositions advanced throughout this Joint Study, i.e. that both China and New Zealand will gain from an FTA. The modelling also indicates a direct correlation between the size of the gains and the scope and ambition of any FTA outcome. Gains would, for instance, still be significant and positive from a tariff only arrangement, but they would increase substantially if key non-tariff measures were also covered by any agreement. Significant liberalisation of services and investment regulation would also have a further positive impact on the Chinese and New Zealand economies.

8.1 The Modelling Approach

The possible economic impacts of a China–New Zealand FTA were estimated for this Joint Feasibility Study using the intertemporal global general equilibrium model APG–Cubed. APG–Cubed is a dynamic model, and hence allows observation of the effects of any China–New Zealand FTA over time. The APG–Cubed economic model is forward looking (that is, economic agents have expectations and act in response to announced policy decisions), and considers both the real and financial sectors (including international investment links and/or flows between countries).[16] By including the financial sector, APG–Cubed can provide a sophisticated and representative evaluation of the FTA on the macro¬economy and welfare.

An economy-wide framework is the best tool available for quantifying the possible economic impacts of the FTA. By definition, economic models are a simplification of reality and rely on numerous assumptions about economic parameters, behaviour and relationships. As such, the initial and indicative modelling results reported here should be used only to infer the outcome of the FTA and the magnitude of such impacts (small or large).

[16] The model is able to simulate activity in the real and financial sector. It is able to account for flows of assets between regions, consistent with the flows of goods. The model specifies that money is required to undertake transactions, and so the demand for money is a function of GDP and short term nominal interest rates. The supply of money is exogenously chosen by the central bank in each region. Asset markets are assumed to be integrated across regions. The model allows for risk premiums on assets held in different currencies. These are calculated as part of the baseline of the model and are designed to replicate 2002. When undertaking simulations it is assumed that risk premiums are independent of the shock under consideration. Full documentation for the APG-Cubed economic model can be found at www.msgpl.com.au

Most models utilise a "baseline" or "business-as-usual" scenario against which results can be reported. This involves projecting the complete economic and trading relationship of economies into the future, using the best available information at the time. This baseline scenario may not be completely accurate in all respects over the time period being modelled (though it is based on the best available information). It nevertheless provides a point of comparison against which to measure changes against. Importantly, results of a scenario change can be reported as a percentage or absolute (i.e. dollar value) change from the baseline or a "deviation from the baseline" – i.e. a move away from business-as-usual conditions. The baseline is dynamic. It assumes growth from factors other than the future FTA in the two economies and bilateral trade flows over the period being modelled. In the case of the modelling reported in this chapter, the baseline or business-as-usual scenario is one in which there is no FTA between China and New Zealand. Consequently, all movements from that baseline are gains or losses as a consequence of the FTA between China and New Zealand.

The scenario investigated is the immediate removal of all trade barriers, tariff and unnecessary non-tariff[17] measures against bilateral merchandise and service trade in 2007. When reporting the macroeconomic results below, this chapter details the static gains from the FTA and subsequently the static gains combined with the benefits derived from dynamic productivity. It is of course acknowledged that the final outcome of a China–New Zealand FTA is subject to negotiation.

8.2 Dynamic Productivity Effects

Trade liberalisation and the accompanying increase in openness to trade is widely understood to promote productivity increases and economic growth within a country through an increase in the efficient allocation of resources between countries, and indeed encourages the efficient allocation of resources between sectors of the economy. This is generally understood to refer to the gains to economies from improvements in allocative efficiency arising from the removal of trade barriers, particularly, for instance, tariffs. These changes help generate improvements in the level of productivity and output as a consequence of the reallocation of resources between sectors of the economy. Allocative gains represent a traditional theory on productivity gains from trade liberalisation and suggest that countries that liberalise the most benefit the most.

More recently, however, work at the World Bank and elsewhere has indicated that there are other gains from trade openness that cannot be solely attributed to allocative efficiency changes. These are known as second-order and are frequently more substantive and have longer lasting effects over time. They result from the other benefits arising from openness to trade. Specifically, trade reform will increase competition with positive spill-overs for the wider economy. Businesses are encouraged through competition to use better technology and improve their business practices including through innovation and/or quicker adoption of new ideas, improved business processes and so on. These improvements to productivity in terms of efficiency as a consequence of improved work practices (as opposed to resource re-allocation) are referred to as 'dynamic productivity gains'.

[17] Non-tariff measures are captured to the extent they are reflected in the difference between the domestic price and the world price. Please note also that the border measures captured in the APG-cubed model may not fully represent restrictions to the trade in services.

The literature on dynamic efficiency gains from trade openness is relatively recent and dates to the late 1990s when trade economists sought to explain why economies with no or very low tariffs were still experiencing net improvements across their economies, despite the fact that the static gains (i.e. derived from tariff liberalisation) were now non-existent or minimal. Economic modellers have made significant improvements in their modelling techniques such that they are better able to understand, explain and determine the size of the link between competition (and its positive spill-overs) and dynamic productivity growth. Moreover, there is general agreement that dynamic gains are not only important over time, but if they are not fully reported there is the potential to under-estimate the net benefits to the economy.

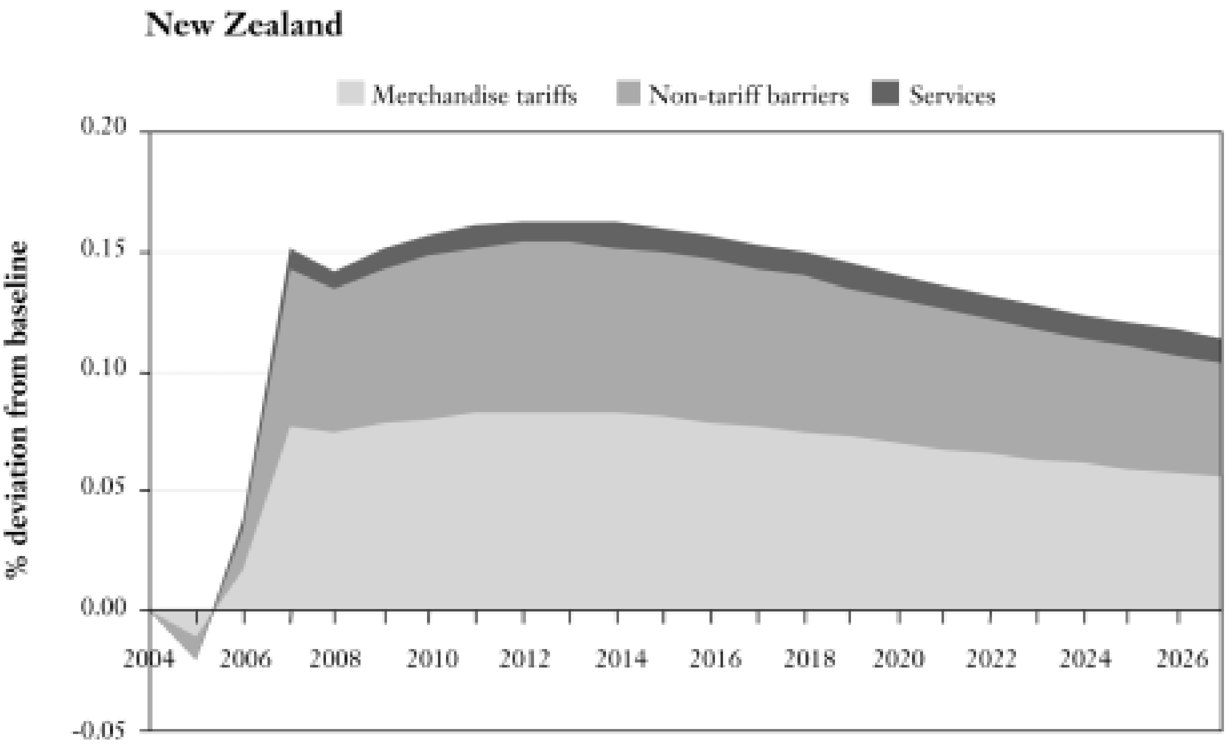
This chapter reports both the static gains from a future FTA and subsequently the dynamic productivity and static gains combined throughout the discussion below. This allows the reader to see two sets of results: the static gains to both economies from liberalisation through an FTA; and the benefits when static and dynamic productivity gains are combined.

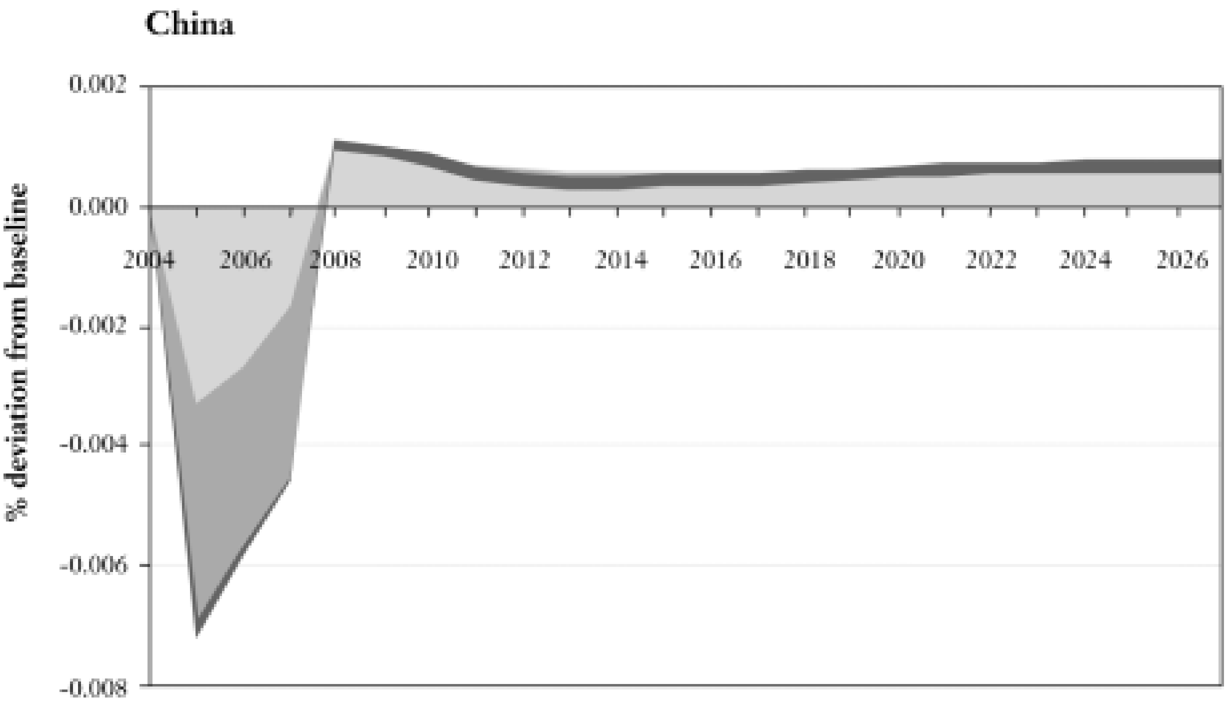
8.3 The Macroeconomic Effects

The change in GDP is a commonly used measure of the change in economic welfare resulting from trade liberalisation. Changes in real GDP, however, reflect adjustments in the overall level of economic activity and not changes in (net) national income or welfare per se. Given the likely change in income flows as a consequence of a future FTA between China and New Zealand, the change in real consumption is also used as an indicator of the benefits of the agreement because this captures the income flows accruing to domestic residents (that is, foreigners' earnings are excluded). This chapter therefore reports both the changes in real GDP and in real consumption as a consequence of a FTA.

As noted in chapter three of this Joint Study, trade liberalisation through an FTA offers significant potential benefits to both China and New Zealand. Charts 1 and 2 below show the possible macroeconomic effects (resulting from the static gains) of an FTA between China and New Zealand on production (real GDP) and welfare (real consumption). The results suggest that real GDP and consumption for both economies rise above the baseline if an FTA commences in 2007. Over a ten-year period, New Zealand's real GDP and real consumption will be 0.15 and 0.35 percent higher than it would be in the absence of a China–New Zealand FTA. China's real GDP and real consumption will rise by 0.001 and 0.006 percent respectively under similar conditions.

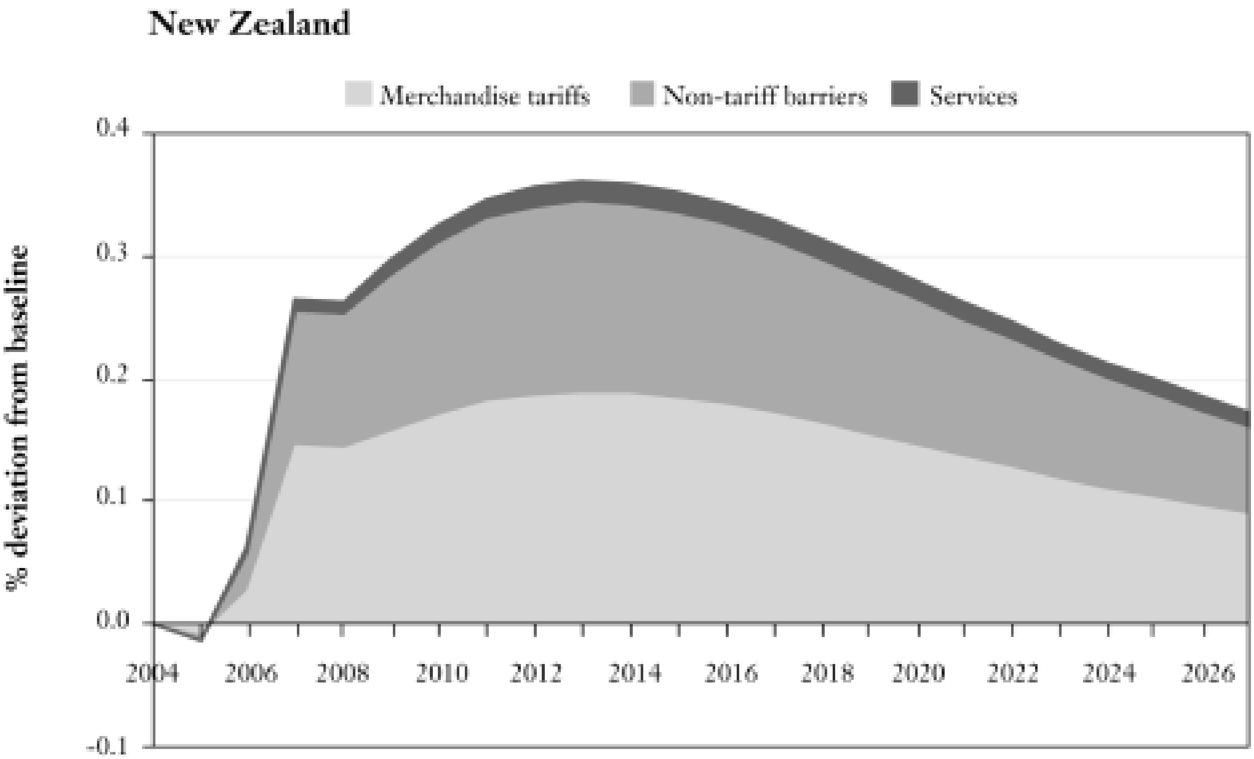
1. CHANGES IN REAL GDP RESULTING FROM STATIC GAINS (ASSUMING IMMEDIATE AND COMPREHENSIVE LIBERALISATION BY BOTH SIDES)

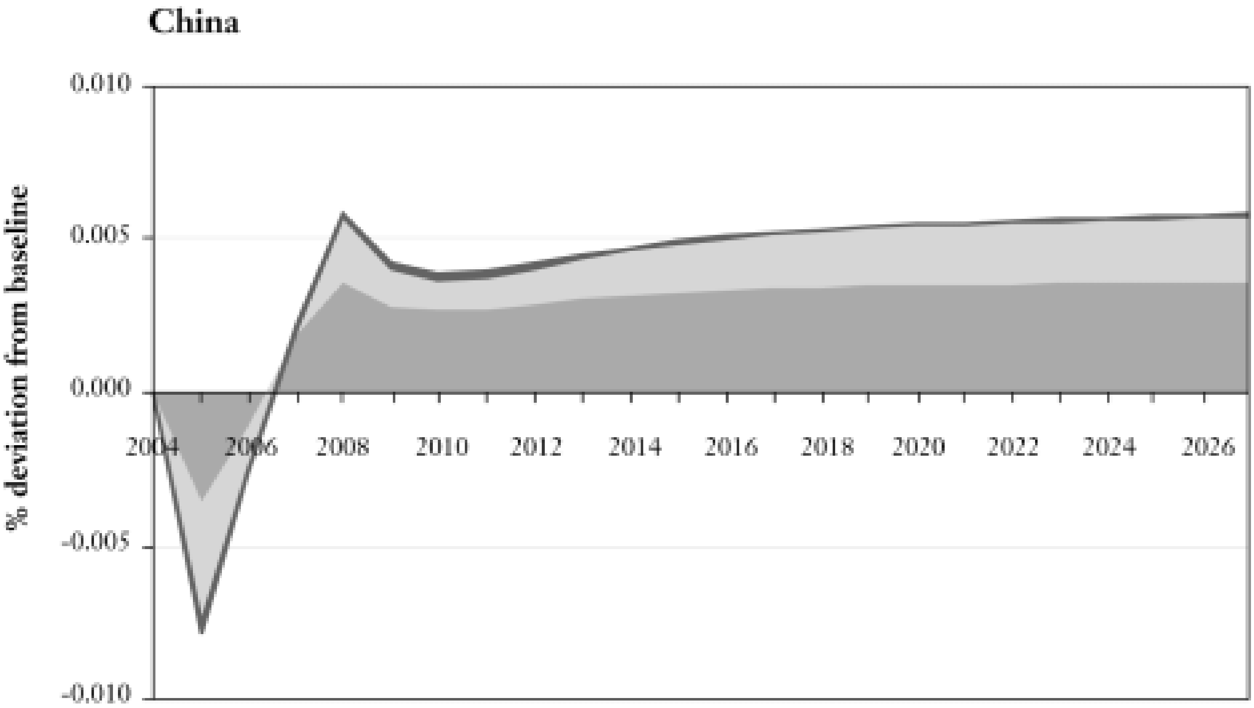




Data source: APG-Cubed modelling simulation.

2. CHANGES IN REAL CONSUMPTION RESULTING FROM STATIC GAINS (ASSUMING IMMEDIATE AND COMPREHENSIVE LIBERALISATION BY BOTH SIDES)

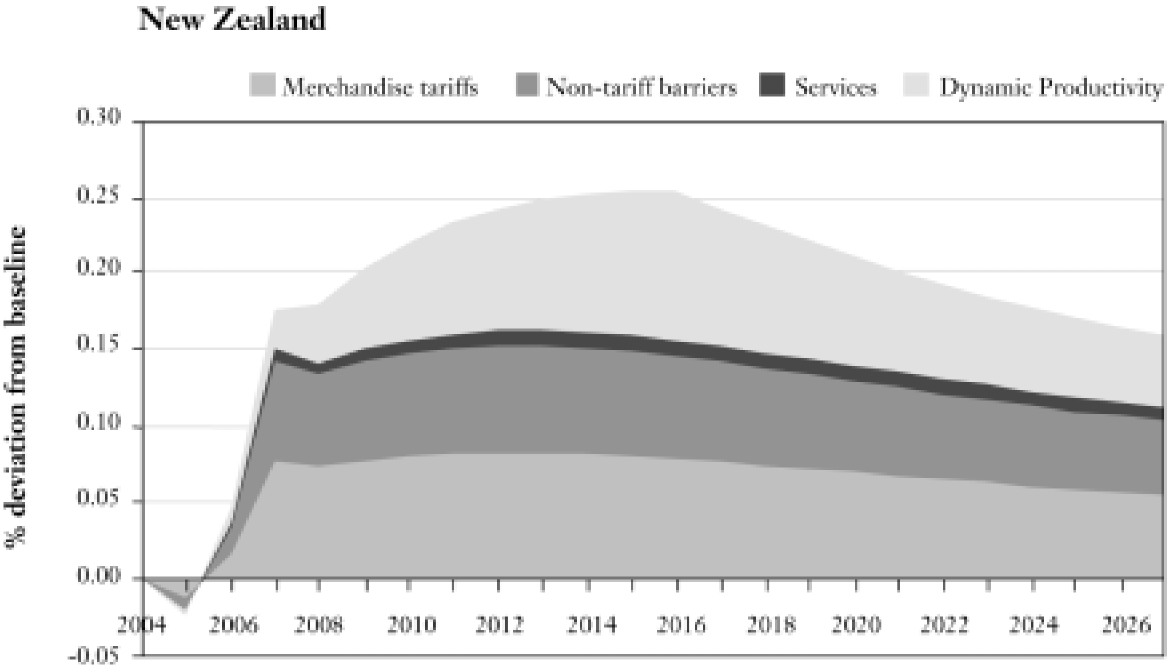


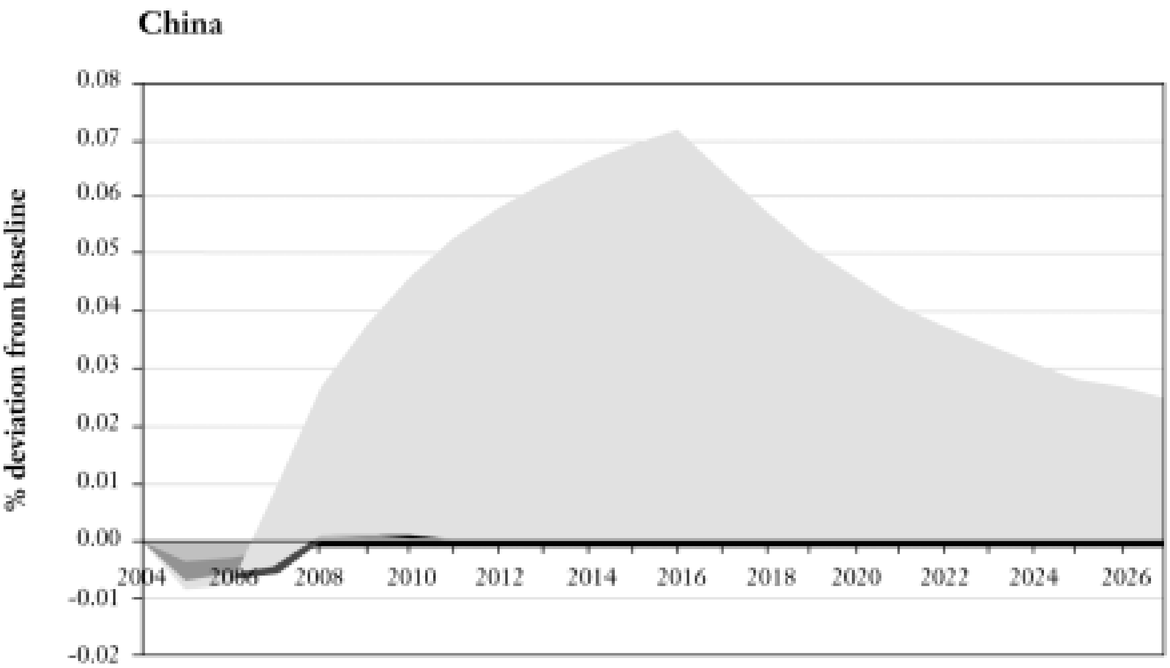


Data source: APG–Cubed modelling simulation.

The gains from a future FTA including benefits derived from static *and* dynamic productivity gains combined are reported in charts 3 and 4 below. These suggest that, as with the results reporting the benefits derived from the static gains, real GDP and consumption for both economies rise above the baseline levels if the proposed FTA commences in 2007. Over a ten-year period, New Zealand's real GDP and real consumption will be, respectively, 0.25 and 0.55 percent higher than the baseline levels. China's real GDP and real consumption will increase by 0.07 and 0.17 percent respectively as a consequence of a future FTA between China and New Zealand

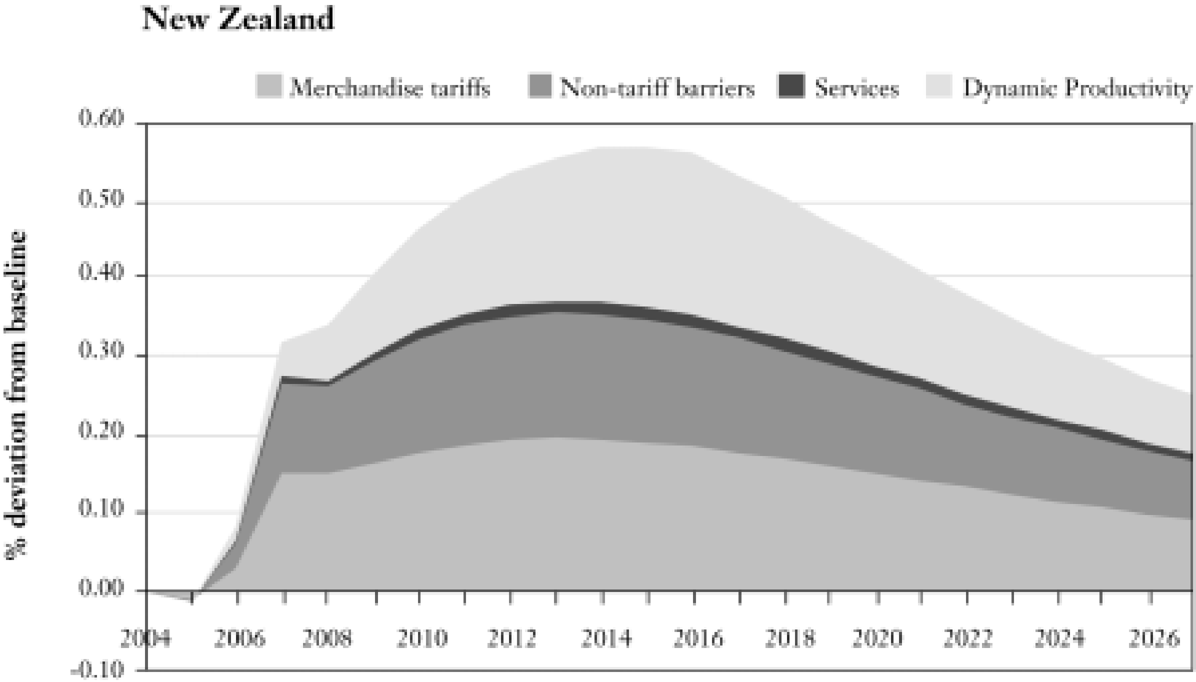
3. CHANGES IN REAL GDP – INCLUDING STATIC AND DYNAMIC PRODUCTIVITY GAINS (ASSUMING IMMEDIATE AND COMPREHENSIVE LIBERALISATION BY BOTH SIDES)

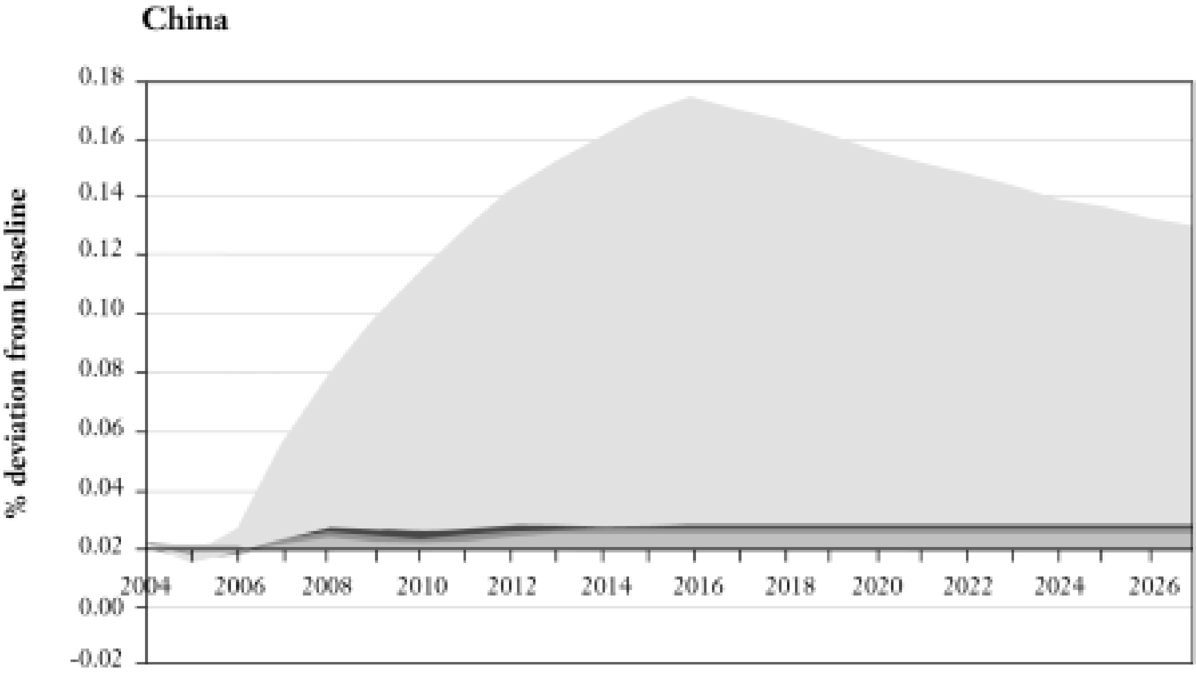




Data source: APG–Cubed modelling simulation.

4. CHANGES IN REAL CONSUMPTION – INCLUDING STATIC AND DYNAMIC PRODUCTIVITY GAINS (ASSUMING IMMEDIATE AND COMPREHENSIVE LIBERALISATION BY BOTH SIDES)





Data source: APG–Cubed modelling simulation.

In all four charts shown, real GDP and consumption experience a decline below the baseline in the years immediately preceding the commencement of an FTA. This occurs as a result of the behaviour – forward-looking expectations – assigned to economic agents in the APG–Cubed economic model. The model assumes that an FTA will be implemented in 2007. Economic agents (i.e. households, businesses) will therefore know that in a few years time, products from China and New Zealand will be cheaper. Hence there may be some delay today in purchasing capital items and the like (as they will be cheaper in 2007). This, combined with the adjustment costs associated with trade liberalisation (which APG-cubed assumes are incurred in the period before an FTA is implemented, but after an agreement is announced), sees income and hence GDP and consumption contracting slightly in the few years immediately preceding implementation of the FTA. As implementation approaches, however, and the process of structural adjustment begins to come to an end, economic agents expect that future income will be higher as a result of the FTA. The APG-cubed model assumes that as economic agents can borrow and lend money with the expectation of higher future income, agents borrow money and bring forward future consumption, which acts as a stimulus to economic activity (GDP and output) and raises welfare (consumption).

Chart 5 below shows in tabular form some of the results of the modelling derived from charts 1–4 and also charts 7–8 below.

5. MACROECONOMIC EFFECTS FOR BOTH ECONOMIES AT 2017 AND 2027, ASSUMING IMMEDIATE AND COMPLETE LIBERALISATION BY BOTH SIDES WITH STATIC GAINS AND WITH STATIC AND DYNAMIC PRODUCTIVITY GAINS

	CHINA		NEW ZEALAND	
	Total Change (US$) 2007-2027	**Percentage change at 2017**	**Total Change (US$) 2007-2027**	**Percentage change at 2017**
Real GDP (with static gains)	<200m	0.001	1.3b	0.15
Welfare/consumption (with static gains)	870m	0.006	1.6b	0.35
Real GDP (with static and dynamic productivity gains)	14.68b	0.17	1.93b	0.25
Welfare/consumption (with static and dynamic productivity gains)	24.7b	0.07	2.3b	0.55

Charts 5 (above) and 6 – 7 (below) support the perspective advanced in chapter three, i.e. that an ambitious FTA process offers the greatest benefit to both sides. The static gains from a full and comprehensive FTA that involves immediate and complete liberalisation on both sides is estimated to improve welfare (real consumption) in New Zealand by US$1.6 billion and by US$870 million in China over a twenty-year period. Again, including the static gains derived from the liberalisation process, there is a net benefit to both economies in real GDP terms. Real GDP is expected to rise by US$1.3 billion for New Zealand and about US$200 million for China. Results are presented in net present value (NPV) terms, which allow a current value to be placed on gains that may not be experienced until some time in the future.

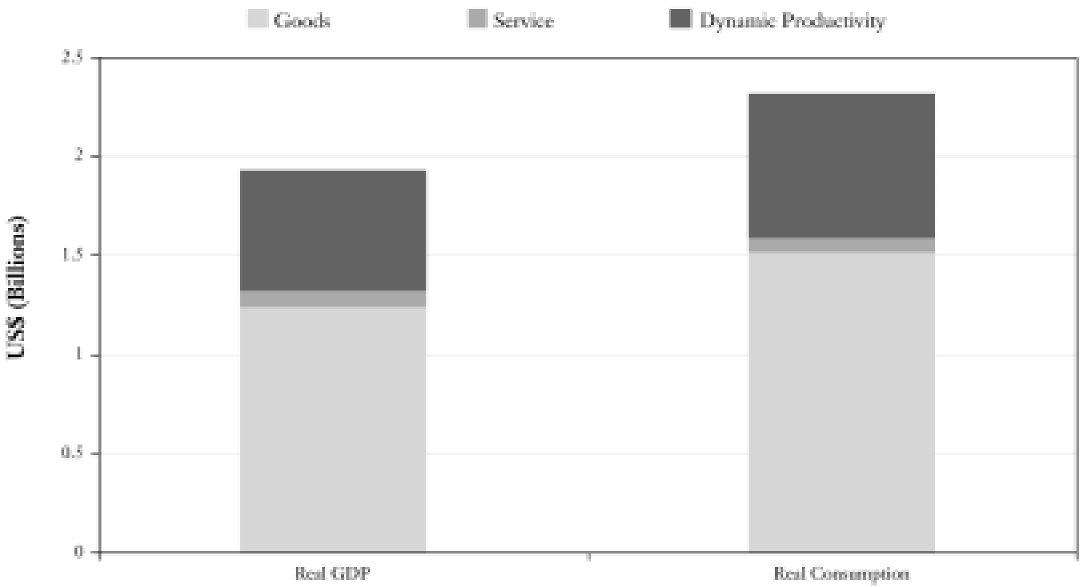
When dynamic productivity gains are included, the picture is further enhanced for both sides. Welfare (real consumption) in New Zealand is expected to rise by more than US$2 billion and by US$24 billion in China over a twenty-year period. Real GDP is also expected to improve by US$1.93 billion for New Zealand and US$14.68 billion for China. Results are again presented in net present value (NPV) terms.

China has higher gains in absolute terms than New Zealand. This is not surprising. The Chinese economy is more than 20 times greater than the New Zealand economy and, as a consequence, a small percentage change equates to a relatively large absolute change. Dominant gains from dynamic productivity improvement in China come from the large and immediate reduction of all China's tariffs and unnecessary non-tariff barriers. Although trade liberalisation happens on a bilateral basis in the case of a China–New Zealand FTA, the resultant productivity improvements apply to the whole economy and hence have a more profound and longer lasting impact on China. That is, an FTA not only improves China's competitive position in the New Zealand market, but also in all markets (both domestic and international) as a result of the productivity gains.

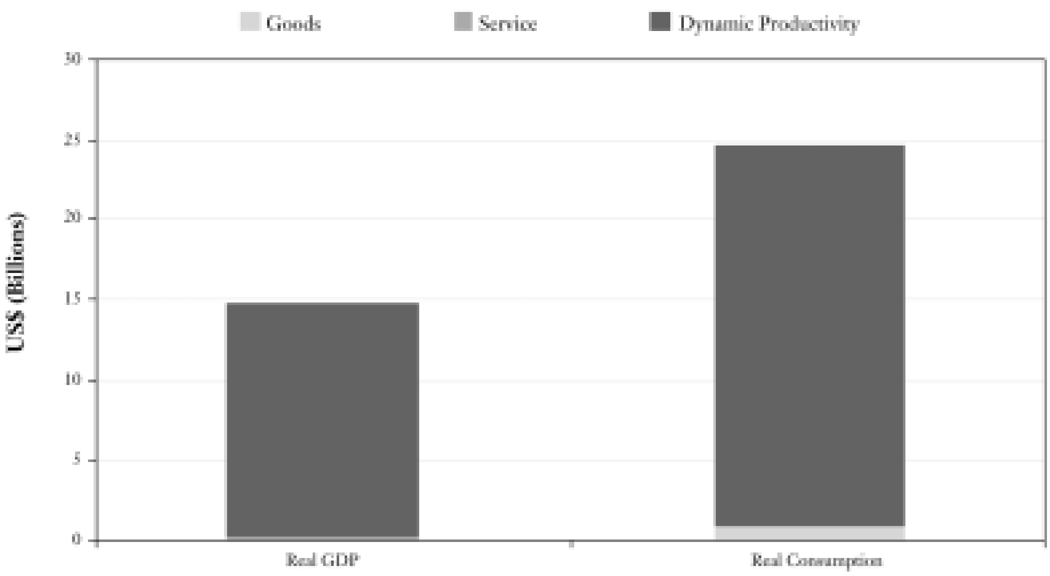
It is clear that New Zealand also gains significantly in macroeconomic terms from an FTA. It is notable, for instance, that while the absolute gain may favour China, the percentage change of the results of both the simulation with static gains and that with static and dynamic productivity gains suggests a significant proportionate increase in New Zealand's GDP and welfare. Given the smaller size of the New Zealand economy, the percentage change in GDP and real consumption is particularly important and beneficial to the economy's growth prospects over time.

Charts 6 and 7 below represent an alternative way of reporting some of the results tabulated in chart 5 above. These charts allow the specific identification of static and dynamic gains and the absolute gains to each economy in real GDP (production) and real consumption (welfare) for both countries are reported.

6. NEW ZEALAND: REAL GDP AND CONSUMPTION GAINS FROM THE FTA INCLUDING STATIC AND DYNAMIC GAINS (ASSUMING IMMEDIATE AND COMPREHENSIVE LIBERALISATION BY BOTH SIDES)



7. CHINA: REAL GDP AND CONSUMPTION GAINS FROM THE FTA INCLUDING STATIC AND DYNAMIC GAINS (ASSUMING IMMEDIATE AND COMPREHENSIVE LIBERALISATION BY BOTH SIDES)



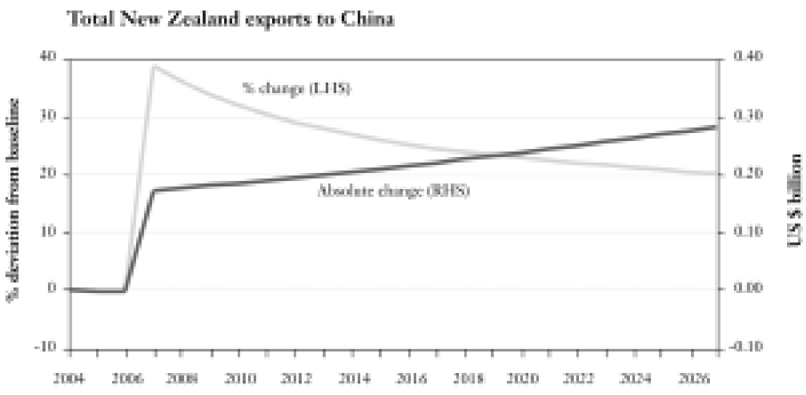
8.4 Bilateral Trade: Merchandise Goods

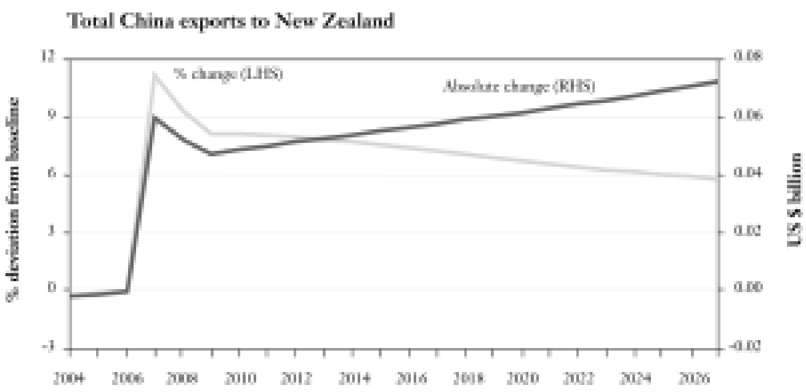
Chapters three and four of this study reported the expectation that an FTA between China and New Zealand would increase bilateral trade flows between both countries in merchandise goods and services. The modelling results strongly support this proposition.

It is interesting to note that the changes in bilateral trade between China and New Zealand do not appear to be affected by the impact of dynamic productivity gains. This is for two inter-related reasons. First, although both countries have lower production costs and thus export prices in the presence of dynamic productivity gains, the higher total exports go to third countries rather than to one another. Second, the dynamic productivity gains are generally spread across the wider economy and therefore those gains derived from the bilateral trading relationship alone are always going to be relatively small for both countries (and the modelling results suggest that they are statistically insignificant). For China the dynamic productivity gains derived solely from bilateral trade with New Zealand are insubstantial because New Zealand accounts for a very small fraction (in percentage and absolute terms) of China's overall trade. For New Zealand, the dynamic productivity gains affecting bilateral trade are also insignificant, primarily because, while China is a more significant trading partner for New Zealand than New Zealand is for China, the dynamic productivity gains are focused in the few remaining high tariff sectors in New Zealand. These sectors are simulated in the APG-cubed model as comprising a small component of the highly aggregated "non-durable manufacturing sector". Consequently, as with China, the model's generation of dynamic productivity gains affecting bilateral trade flows alone are therefore impossible to specifically identify and statistically insignificant for both countries.

With the complete removal of trade barriers against each other's imports, total bilateral trade in goods and services between China and New Zealand rises for both countries above the baseline level. Chart 8 shows the results for both countries over time and chart 9 presents the average annual gains in tabular form.

8. CHANGES IN TOTAL BILATERAL TRADE (ASSUMING IMMEDIATE AND COMPREHENSIVE LIBERALISATION BY BOTH SIDES)





Data source: APG–Cubed modelling simulation.

9. AVERAGE ANNUAL CHANGES IN TOTAL BILATERAL TRADE (ASSUMING IMMEDIATE AND COMPREHENSIVE LIBERALISATION BY BOTH SIDES)

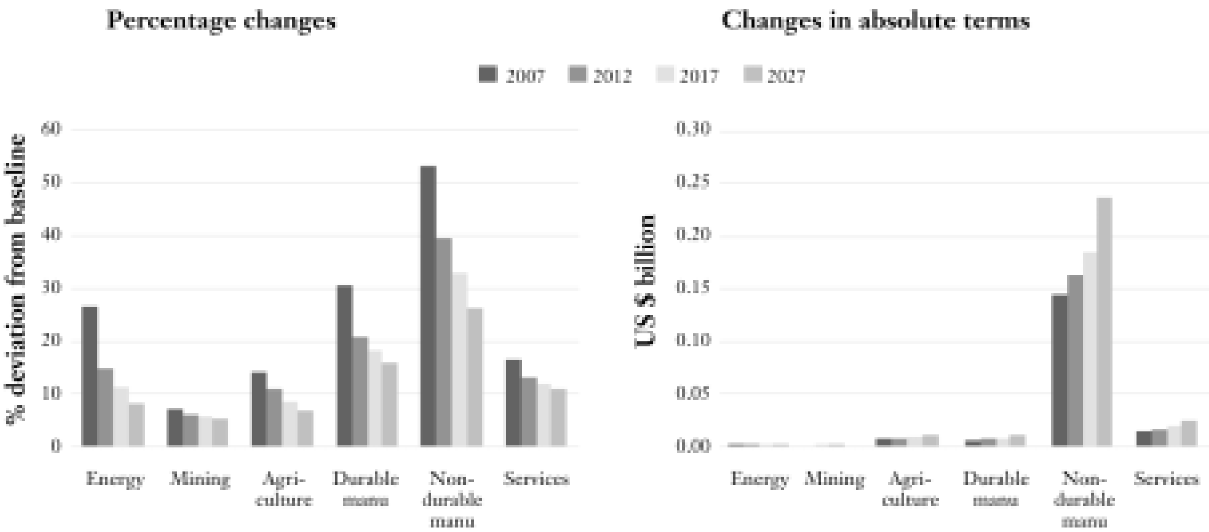
	Change in US$m (Annual average between 2007-2027)	**Percentage change (Annual average between 2007-2027)**
China to New Zealand	40 – 70	5 – 11
New Zealand to China	180 – 280	20 - 39

*Charts 8–9 indicat*e that New Zealand's exports of goods and services to China are *expected* to be between 20 to 39 percent higher than the baseline over a twenty-year period, while China's exports to New Zealand will increase by between 5 and 11 percent above the baseline. In *very broad terms*, the average annual change in New Zealand exports of goods and services to China is expected to be between US$180 million and US$280 million over twenty years; for China the gain is expected to be between US$40 million and US$70 million.

The difference between the magnitudes of changes in the two countries is a consequence of the relative importance/size of bilateral trade to each economy. More specifically, the differences are attributable to a combination of the relative market shares of both economies and the relative protection for both economies.

Chapter three of this Joint Study reported current and historical trade trends in a range of sectors of significance to both China and New Zealand. It also emphasised the opportunities for significant gains to both countries that an FTA might deliver in sectoral terms. The modelling results support this proposition. In addition to the overall increase in bilateral trade, higher bilateral flows occur in each of the six aggregated commodities (charts 10 and 11) – energy, mining, agriculture, durable manufacturing, non-durable manufacturing and services. The relatively high percentage increases in exports can translate into quite low absolute increases due to the small base level of exports for both economies. The charts reporting the sectoral outcomes provide the information for selected years i.e. 2007, 2012, 2017 and 2027.

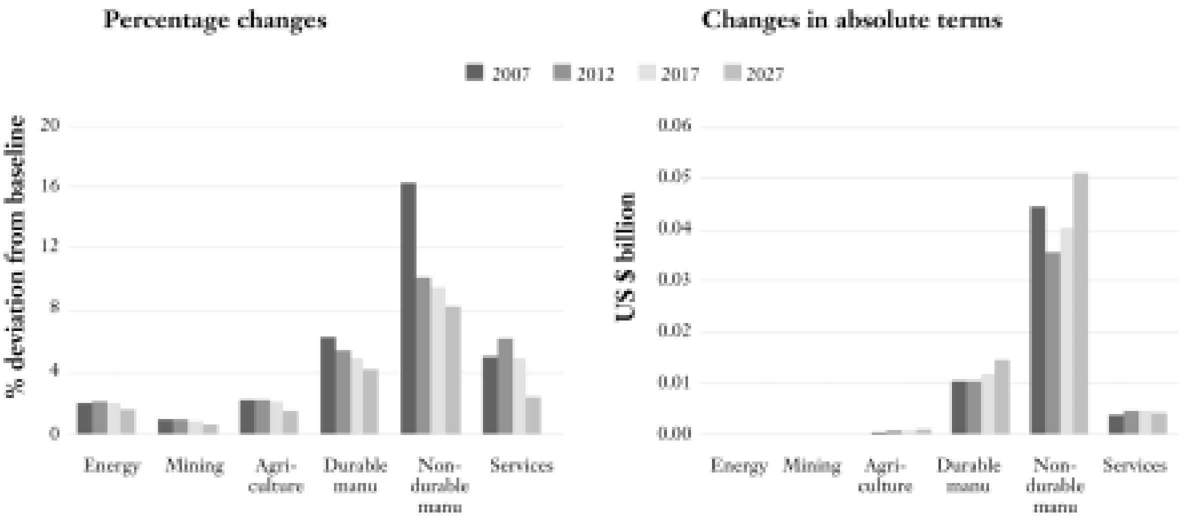
10. CHANGES IN NEW ZEALAND'S SECTORAL EXPORTS TO CHINA (ASSUMING IMMEDIATE AND COMPREHENSIVE LIBERALISATION BY BOTH SIDES) (SELECTED YEARS)



Data source: APG–Cubed modelling simulation.

Chart 10 shows that in percentage and absolute value terms, New Zealand's export of non-durable goods (e.g. processed foods, textiles, chemicals, plastics, vegetable oils and fats, wood products etc) to China increase most notably. This is a consequence of the assumed complete removal of protection of this sector. The positive changes in percentage and absolute value terms for New Zealand are followed by durable goods (electrical machinery, minerals etc), energy and services. However, because of the (vast) difference in the value of baseline exports between the different sectors shown, the absolute increase in non-durable goods exported to China dominates. This increase is the result of the relatively larger percentage change being applied to a larger base (right panel of chart 10). Moreover, it is important to note when considering these results that a high level of aggregation has been applied, i.e. each of the six sectors contains a very large number of products. In short, it is impossible to identify specific product changes or movements – rather a general trend only is observable across a range of broadly similar product categories.

11. CHANGES IN CHINA'S SECTORAL EXPORTS TO NEW ZEALAND (ASSUMING IMMEDIATE AND COMPREHENSIVE LIBERALISATION BY BOTH SIDES) (SELECTED YEARS)



Data source: APG–Cubed modelling simulation.

Chart 11 above shows that China's exports of non-durable goods to New Zealand also increase the most. As with the change in New Zealand's trade flows, this is a consequence of the assumed complete liberalisation of the highest levels of New Zealand protection that, in APG-Cubed's representation, is the "non-durable goods" sector. The removal of all protection leads to higher trade in this sector with ongoing positive movement away from the baseline throughout the period. In percentage and absolute value terms, China's exporters of durable manufactured goods (e.g. machinery, electrical goods etc) are the next most important beneficiaries of an FTA, with agricultural product exporters and services traders experiencing more modest improvements over time.

8.5 Bilateral Trade: Services

The preliminary results from the modelling suggest that both sides make modest gains in the trade in services as a consequence of an FTA. This lends support to the proposition in chapter four that an FTA can help develop trade between the two countries in services delivery.

While New Zealand may benefit marginally more than China as a consequence of an FTA (charts 1–4, 6–7 and 10–11 refer) this is, perhaps, not particularly surprising. The change for New Zealand is derived from a relatively low base and thus the percentage change appears greater than the actual absolute change, which is relatively modest. Moreover, another important reason explaining the relative difference in (small) gains to each economy from services liberalisation is that the barriers to service trade in New Zealand are already small, hence their removal has only a minimal effect for China. China's regulations on cross border trade in services are more substantial and, as one would expect, their further liberalisation sees the New Zealand service sectors modestly expanding their output. In terms of services trade occurring as a consequence of supply via commercial presence, for instance, this expansion is likely to be relatively limited — currently, New Zealand accounts for only a fraction (a maximum of 0.001 percent) of the FDI stock in China.

There is one important element in the next two sections that the model overlooks and is therefore unable to simulate. This is particularly relevant for the predicted changes in investment and services flows where the historical relationship has been relatively modest. This is the likelihood that an FTA between China and New Zealand will significantly improve the attractiveness to both countries' private sectors, and exporters in particular, of doing business with one another. It is expected therefore that one important outcome of an FTA will be the further expansion of bilateral confidence and therefore a sharp rise in interest in both economies with attendant positive spill-overs and multiplier effects for a significant expansion in bilateral services trade flows. These multiplier effects are significant and the model cannot simulate them.

8.6 Bilateral Investment

Chapter five reported that the investment relationship between China and New Zealand is relatively small when compared with other relationships. It is, however, gradually expanding, with total investment stocks (total investment stock comprises direct, portfolio, and other investment stocks) between the two countries on the rise. The modelling work undertaken for this study is, however, based on scaled historical information and therefore may not adequately reflect the potential outcomes of an FTA. It is clear, for instance, that as reported in chapter five, both countries could substantively benefit from an increase in bilateral flows of investment, not least in terms of the exchange and transfer of knowledge, technology and export opportunities.

As a result of trade liberalisation through a China–New Zealand FTA, there is likely to be increased interest by investors in expanding bilateral investment in both economies. For both sides, investment from the other partner has historically been relatively small, especially when compared with each country's primary investment partners. The model assumes that the change in investment and capital stock as a consequence of an FTA is minimal, therefore the model has been unable to reveal any specific or significant likely effects. Charts 1–6, for instance, were able to identify and specify gains in broad trade terms, but not specifically changes in investment (negative or positive). That said, given that some gains from trade will partly reflect changes in allocative efficiency, including more efficient investment decisions, it may be possible to attribute at least part of the gain to both countries from the aggregated results of trade liberalisation. Thus, one can reasonably assume that these factors will trigger increases in bilateral investment flows.

It is also important to acknowledge that one weakness of the model is that its assumptions and simulated results are driven by the available historical data. The model is therefore unable to take into account the very important point that an FTA between China and New Zealand is likely to significantly increase Chinese and New Zealand investor confidence in each others' economies. The model's inability to account for this important factor means that the results appear, at first glance, to be modest. It is expected, however, that the improvement in private sector confidence as a result of the existence of an FTA between China and New Zealand is likely to trigger positive improvements in the atmosphere surrounding bilateral investment decisions. Importantly, the positive demonstration effect of the two Governments signing an FTA should not be underestimated. The effect of such an agreement is difficult to mathematically quantify, but it is generally understood that such frameworks may assist in encouraging investor confidence and interest. This may occur, for instance, through positive changes in risk premiums applied to the respective economies (as these affect bilateral investment decision-making), or by improvement in the prospect of loan approvals. These are all difficult measures to simulate, but important additional factors which the model cannot adequately represent in its simulations. Their importance to the bilateral commercial relationship should not, however, be underestimated. In sum, the existence of an FTA is expected to have a positive net effect on bilateral investment flows between China and New Zealand in ways that the model utilised for this study cannot fully replicate.

CHAPTER NINE: RECOMMENDATIONS AND CONCLUSION

The study has identified specific ways in which liberalisation of trade in goods, services and investment would enhance trade and economic cooperation between China and New Zealand, and reinforce the two Governments' commitment to sustainable development. The study has also identified concerns that would need to be taken into account in the negotiation of an FTA.

The likely net benefits of an FTA have been confirmed by the economic modelling work undertaken during the course of this study. This suggests that bilateral trade between China and New Zealand will grow significantly, that production and welfare gains will flow to both the Chinese and New Zealand economies, and that there will be positive impacts for the goods and services sectors in both China and New Zealand. Over a 20–year period from 2007 to 2027, Chinese exports to New Zealand are expected to grow by an annual average of between US$40–70 million per year. New Zealand exports to China are expected to grow between US$180–280 million per year over the same period. In percentage terms, this equates to China's exports to New Zealand increasing by between 5 and 11 percent above the baseline. New Zealand's exports to China are expected to be between 20 and 39 percent higher than the baseline over the 20–year period. Over this timeframe the FTA is expected to deliver US$24.7 billion of total welfare gains to China (a maximum of 0.17 percent above the baseline) and US$2.3 billion of gains to New Zealand (a maximum of 0.55 percent above baseline). Bilateral investment is also expected to grow.

The study also notes the potential importance of a bilateral FTA for both the WTO and APEC processes. An FTA between China and New Zealand should therefore advance APEC goals, and be fully consistent with WTO rules.

GENERAL

This study also identified a range of areas of potential disciplines or cooperation with the potential to facilitate bilateral trade in both goods and services and investment. These include several cross-cutting issues and a range of topics set out in chapter six. It is recommended that these issues should be addressed in the negotiation of an FTA.

GOODS

Tariffs in China and New Zealand restrict bilateral trade. The study recommends that an FTA should remove tariffs on goods traded between China and New Zealand. While the study demonstrated that the removal of tariffs would benefit both China and New Zealand, the study also identified concerns about possible negative consequences for some producers from tariff removal that should be taken into account in negotiations.

While tariffs are a significant barrier to bilateral trade, a range of non-tariff barriers (NTBs) are identified in the study that also have a restrictive effect on trade. The economic modelling work undertaken during the course of this study has indicated that removal of unnecessary non-tariff measures would accrue benefits equivalent to the liberalisation of tariffs. The non-tariff barriers in question are identified in chapter three. The study recommends that the removal of unnecessary non-tariff measures (NTMs) and the negotiation of improved disciplines and enforcement in areas such as customs procedures, standards, and sanitary and phytosanitary measures should be a priority for these negotiations.

SERVICES

The services sector is an important component of trade between China and New Zealand and opportunities for liberalisation of this trade have been identified in chapter four of this study. The study also notes the generally open nature of New Zealand's services regime, and the major opening of China's services sectors associated with China's WTO accession in late 2001. Taking these factors into account, the study recommends that an FTA should further liberalise bilateral trade in services for the benefit of both countries.

INVESTMENT

Bilateral investment linkages between China and New Zealand are growing. The study identifies in chapter five a range of ways in which further liberalisation and cooperation could facilitate increased levels of investment between China and New Zealand. The study recommends that building on existing cooperation, an FTA should further liberalise bilateral investment.

OTHER ISSUES

A range of institutional issues would also need to be discussed in an FTA negotiation. This list is not exclusive, but would need to include issues such as dispute settlement, review and consultation clauses, general exceptions (including clauses on New Zealand's Treaty of Waitangi), relationships to other international agreements, relationships with taxation and immigration policies, entry into force, termination, and other standard treaty clauses. These issues were not canvassed in detail in this study but will need to be addressed in negotiations.

CONCLUSION

This study has demonstrated that significant complementarities exist between the Chinese and New Zealand economies and that an FTA would benefit the people and economies of both countries. To secure these benefits and build on the long and warm relationships between the two countries, this study recommends that negotiations on an FTA between China and New Zealand covering goods, services and investment should commence as soon as possible.