

8 May 2008

Mr Paul Weakley  
Clerk  
Foreign Affairs, Defence and Trade Committee  
Parliament Buildings  
WELLINGTON

Dear Mr Weakley

### **New Zealand China Free Trade Agreement**

This submission on the New Zealand China Free Trade Agreement is made by the New Zealand Business Roundtable, an organisation comprising primarily chief executives of major New Zealand business firms. The purpose of the organisation is to contribute to the development of sound public policies that reflect overall New Zealand interests.

We are fully supportive of the agreement and congratulate the government and its officials for a successful negotiation.

We see the agreement as furthering New Zealand's efforts to become an open and competitive economy with strong links to the rest of the world. Trade liberalisation policies going back some 25 years have put the country in a sound position to benefit from freer trade with China. It is pleasing that polls suggest there is substantial public support for the agreement.

The removal of most tariffs and other barriers to trade with China will improve resource allocation in New Zealand, thus contributing to economic growth, and will lower prices to consumers. Because tariffs on goods from other countries are already low, trade diversion will be limited. For the same reason, the economic adjustment faced by industries will be small compared with those required when import licensing was removed and high tariffs were reduced.

Exporters will benefit from better terms of access to the large and rapidly growing Chinese market, and investment and other business links will be strengthened.

The strategic value of the agreement may turn out to be its clean and relatively comprehensive nature. Like the former Closer Economic Relations agreement with Australia, it is a good FTA model and may signal a willingness by China to take a stronger leadership role in international trade policy. This would be very welcome at a time when protectionist pressures are strong in some countries and the World Trade Organisation Doha Round negotiations are struggling to make progress.

We have no serious concerns about any features of the agreement. We commend the most favoured nation provisions, the liberal rules on investment and the immigration arrangements.

We also support the government's expressions of concern to the Chinese government about human rights issues in China and agree that such concerns should be pursued as a separate matter from trade policy. Engagement with China and its increasing participation in world affairs offer greater prospects for progress on such matters than a policy that isolates it.

In order to gain maximum benefit from the agreement and reduce pressure on affected industries, we believe the government should focus on measures to improve the economy's productivity growth and international competitiveness. Trends in these indicators have been deteriorating in an alarming way in recent years. We see excessive government spending, taxation and regulation, infrastructure deficiencies and weaknesses in the education system as major causes.

We also see a need for the government to adopt consistent outward-looking policies. Within days of the conclusion of the FTA, the government moved to block overseas investment in Auckland airport and to freeze general tariff reductions. Such mixed signals damage confidence in New Zealand as a place in which to invest and do business.

In our view ongoing unilateral removal of trade barriers (which do not impede New Zealand's ability to achieve reductions in trade barriers in other markets, as the China agreement shows) and engagement in multilateral trade negotiations are the best policies to follow. However, we also support the pursuit of other bilateral or regional free trade agreements now that tariffs are low and the costs of trade diversion are small. We hope negotiations with Hong Kong on an FTA will be quickly resumed and completed now that rules of origin problems are more easily resolved. We see a free trade agreement with the United States as the most important priority for future FTAs.

It is pleasing that parliament has been given the opportunity to review the agreement and we hope it receives cross-party support. We would appreciate the opportunity to appear before the Committee on this submission.

Yours sincerely

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