

Trade Update

April 2008

If more detail is required on the items mentioned below please do not hesitate to contact Jules Croft, Jeff Blackburn, or Jenny O'Donnell.

1 China

The optimism and euphoria of the China Free Trade Agreement no doubt has exceeded the Government's expectations. By 2010 meaningful tariffs for most manufacturers will have disappeared. When tariffs got that low in the CER they were removed.

The reliance on land-based exports, which do not reflect the true cost of production, is not a matter of debate at this time. When looking at sensitive manufacturing industries, the national interest analysis declared there will be no volume effects. But staggeringly the analysis ignored price effects.

Some unexpected gains in the mutual recognition of electrical and electronic standards, but that is mainly a plus for Chinese exporters. A bit of muscle obviously exerted by China in the negotiations; tariffs remain in place into China longer than into New Zealand, China achieved non-reciprocal working holidays (apparently New Zealanders, according to the Prime Minister, don't want to work in a low wage economy!), temporary entry for business visitors and installers/servicers (whatever they are) and the 1800 jobs offered to China.

But New Zealand's access into China plays second fiddle to the access of ASEAN countries into China under the China ASEAN Free Trade Agreement. In that Agreement, from implementation (2005), agriculture and food products became free of duty immediately. This resulted in China's producers enjoying huge market gains.

The dynamics of the CER will continue to change with Australia only having now a small period of preferential entry into New Zealand.

Virtually all tariffs under the China-ASEAN FTA will be removed in 2009/2010. The Ministry of Foreign Affairs and Trade China website shows the New Zealand-China tariffs but doesn't show the tariffs of other importing countries into China. This of course is what New Zealand exporters need to know. We can supply this information. The Annex 1 Tariff Schedules contain errors, showing tariffs from China into New Zealand which are actually higher than the current duty rates.

The long-term effects of the China FTA will probably not increase New Zealand's exports in any meaningful way. New Zealand's exporting industry is incredibly small, 151 companies export

around 75% of total exports. Compare this with China where around 500,000 foreign owned firms account for 80% of total exports. But the rush for FTAs continues with ASEAN just concluding their FTA with Japan.

The Foreign Affairs Select Committee has requested submissions by 7 May 2008.

Perhaps the 10 year projections of the FTA could be pointed out to the Committee compared with the immediate tax free gains of the \$1.8 billion lost by Auckland Airport shareholders.

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