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The Impact of Free Trade Agreement on Economic Growth of Partner Countries: China and New Zealand

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ABSTRACT

China and New Zealand would be soon commencing negotiations on a closer economic partnership (CEP) agreement. Both parties believe that a CEP agreement would increase bilateral trade flows and generate new employment opportunities through export lead growth in their economies. The benefits of a CEP agreement with China are likely to outweigh the costs, especially in the long term. China's total value of import for 2009 was US$1.0056 trillion while its' total exports amounted to US$1.20166 trillion in the same year (Ministry of Commerce, People's Republic of China, 2010). Also, in terms of quality of trade, China still has a large gap with the top ten countries when it comes to international trade. However, this gap has already started to become smaller compared to what China had prior to the reforms and with the signing of the free trade agreement between New Zealand and China which came into force in April 2008. After the free trade agreement between China and New Zealand was signed, the Chinese Government has decreased tariff rate on agriculture products. Whether New Zealand gains more business opportunities from the free trade agreement, depends on tourism, agriculture and different forestry industries. Therefore, China's large population has created potential markets. In the meantime, China also exports electronic goods, footwear, clothing and computers to New Zealand because New Zealand is facing a shortage of these products. This paper examines the impact of the Free Trade Agreement (FTA) between New Zealand and China.

Keywords: *Free Trade Agreement, China, New Zealand, tariff*

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Introduction

Since 1978, China has been modifying its economic and trade policies rapidly and efficiently which has created a miracle for its economy; from a developing country to the biggest creditor to USA. The Chinese trade policy can be divided into five different stages as follows:

Firstly, from 1979 to 1987, it was the international trade policy decentralisation transition. Secondly, from 1988 to 1990, it was the boost stage in which the main task of international trade reforms was for the whole international trade industry to carry out contract operations responsibility system. Thirdly, from 1991 to 1993, it was the stage to transform operational mechanism of international enterprise where the main conduct was that all enterprises needed to take their own responsibility. Fourthly, from 1994 to 2001, it was to convert international trade constitution by ensuring the new target of the new constitution based on Socialist Market Economy and international trade standard be met. And fifthly, after China entered into WTO, China pursued the reform of international trade policy based on WTO standards whereby the main performances were focused on review and modification about 3,000 international related policies, thus creating a new international trade law system, a modified international trade regulation system and procedures.

China's total value of import for 2009 was US$1.0056 trillion while its' total exports amounted to US$1.20166 trillion in the same year (Ministry of Commerce, People's Republic of China, 2010). Also, in terms of quality of trade, China still has a large gap with the top ten countries when it comes to international trade. However, this gap has already started to become smaller compared to what China had prior to the reforms and with the signing of the free trade agreement between New Zealand and China which came into force in 2008. After the free trade agreement between China and New Zealand, the Chinese Government has decreased tariff rate on agriculture products.

China and New Zealand would be commencing negotiations on a closer economic partnership (CEP) agreement. Both party believe that a CEP agreement would increase bilateral trade flows and generate new employment opportunities through export lead growth in their economies. The benefits of a CEP agreement with China are likely to outweigh the costs, especially in the long term.

The aim of this paper is to examine the impact of international trade between New Zealand and China. We have used secondary data, especially export and import values, variations, etc. during last two decades between China and New Zealand.

This paper is organised as follows: Section 2 presents a brief literature review, Section 3 presents findings and discussion followed by conclusion and policy implications in Section 4.

Literature Review

The international trade system is an important part of the Chinese socialist market which includes international trade's organisational form, structure establishment, administration authority, operational division and benefit distributions. In addition, the international trade system includes enterprises' operation and China's international management measure's aspects and also relates to Chinese tax, financial, investment, planning and foreign exchange management (Wang, 2009).

Closer Economic Partnership (CEP) between New Zealand and China had commenced negotiation as early as in 2001. The Government believes that a CEP agreement would raise bilateral trade flows and generate new employment opportunities through export led growth in the economy. New Zealand already has a CEP agreement in place with Singapore and Australia.

China is the sixth largest market for basic manufactured exports in New Zealand with a growth of 73% since 2000. Major export products include sawn timber and wood goods; paper; processed food; paper goods and printing; leather; and non-ferrous metals. On the other hand, China is the fourth largest country of origin for manufactured imports with a growth of 34% since 2000. Major import products include clothing and knitted products; footwear; electronic equipment; and metal goods manufacturing. In reality, the benefits of a CEP agreement between China and New Zealand are likely to outweigh the costs, especially in the long term for both countries.

Since 1949, China has been practicing heavy industries' import as a trade strategy and to replace a planned economic system, where the country uses long term monopoly model as a national control trade system. The international trade system matched the planned economy of China at that time. The international trade system at that time had the following characteristics: Firstly, government controls operation of international trade. Secondly, all enterprises which could be referred to as international businesses were all under states-ownership. Thirdly, all departments and organisations which had international transactions had to be authorised by the Chinese government. Finally, the Government had planned to engage in international trade, and all international trade activities had to be operated under Government ownership. It is clear from the above discussion that from 1949 to 1978, before China's economic reforms, the typical characteristic of Chinese international trade system was strictly under government ownership.

Since 1980, New Zealand has decreased and in some cases, eliminated tariffs progressively to the extent that an important portion of the economy is no longer subject to any tariff protection. But New Zealand still keeps tariffs on a number of manufactured goods although for the most part, the rates are set relatively low by world standards ranging between 5% and 7.5%.

According to Turner, Maplesden, Walford & Jacobi (2005), some aspects of tariff and non-tariff barriers to New Zealand's export of wood-based goods to China till 2004 were: (1) Tariff is increasing according to the proportion of value added in the final goods, together with the lack of uniformity in application; (2) Inconsistent application of value-added tax and repays for exports; and (3) Non-transparent customs and procedures; subsidies in the wood and paper processing sectors; inconstant application of codes and standards; environmental regulations; illegal wood imports from Russian Far East; and weak enforcement of intellectual property rights.

China has tariffs in place across all imports. According to the APEC Tariffs Database (www.apectariff.org/tdb.cgi), China has rates of tariffs that are as high as 100% even for countries such as New Zealand. Therefore, China would appear to have tariff rates that are significantly higher for elaborately changed manufactures and finished customer products compared to basic inputs to a manufacturing process. Hence, there are certain sectors that China clearly wishes to control through particularly high tariffs, such as motor vehicles. Considering how high Chinese tariff barriers are across the whole range of goods, it is clear that there would be important benefits for New Zealand manufacturers exporting to China by the elimination or reduction of tariff barriers. Reducing or removing tariffs through a CEP with China would make New Zealand exports even more price competitive, particularly against competing imports from other countries.

China has not been a large investor in New Zealand, but it has made some high profile investments in New Zealand in the last five years, particularly in the forestry sector. A CEP agreement with China would be likely to act as a stimulus to encourage further Chinese investment in New Zealand's productive sectors. This would be an advantage for business and employment.

Findings and Discussion

Merchandise Trade

According to the change of merchandise trade, China's total exports increased from US$9.75 billion in 1979 to US$1.20166 trillion in 2009 and total imports increased from US$2.064 billion to US$1.0056 trillion in 2009 (Ministry of Commerce, People's Republic of China, 2010). It appears from data that the reform of trade policy has been impacting China's trade. However, due to the imbalance of import and export, import trade's growth is much faster than export trade. Also, from the quality of trade, China still has a large gap between the top ten countries of international trade, but this gap has already began to be smaller compared to before China's innovation and opening it's doors.

Table 1: China's Annual Value of Merchandise Trade: US$ billion, 2005-2008

	2005	2006	2007	2008
China's imports from New Zealand	64,4	131,465	153,761	155,018
China's exports to New Zealand	75,41	161,978	216,046	212,462

Source: Ministry of Commerce of the People's Republic of China (2010)

China and New Zealand are open and dynamic economies that depend on international trade for motivating economic growth. Therefore, strong global connections and improved access to markets are fundamental to the economic strategies of both countries. Furthermore, China and New Zealand chase active trade policy agenda and are active in regional trade and economic liberalisation and facilitation initiatives.

Table 1 shows the value of merchandise trade from 2005 to 2008. New Zealand's value of imports from China was more than exports to China from 2005 to 2008. In addition, New Zealand exports to China increased between 2005 and 2008. However, New Zealand imports from China rose between 2005 and 2007 and started to decrease in

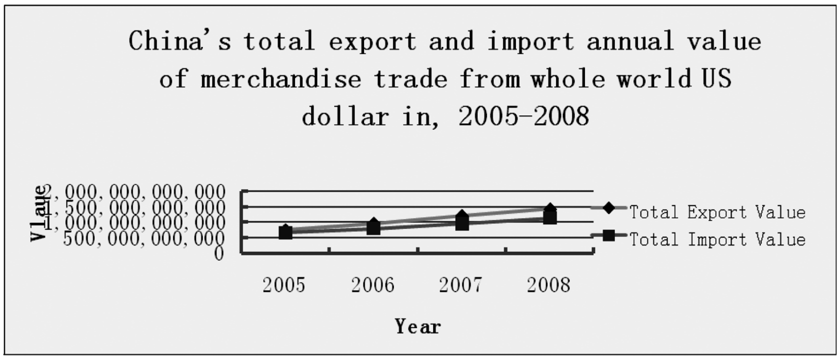

Figure 1: China's Total Export and Import Annual Value of Merchandise Trade from the Whole World in USD for the Years 2005-2008
(*Source*: United Nations Statistics Division, 2010)

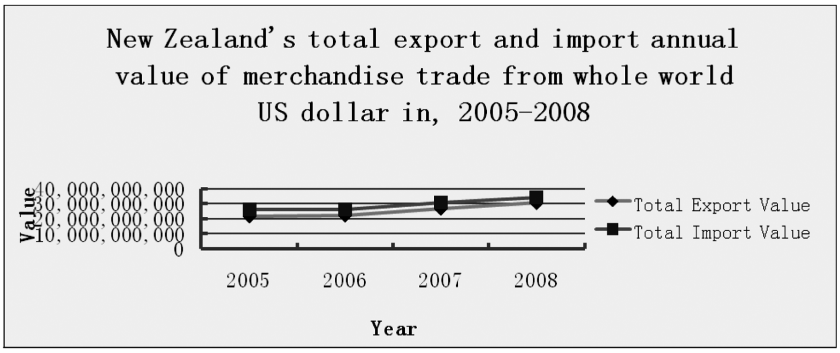

Figure 2: New Zealand's Total Export and Import Annual Value of Merchandise Trade from the Whole World in USD for the Years 2005-2008
(*Source*: United Nations Statistics Division, 2010)

2008. As a result, New Zealand had more benefits on import whereas China had more benefits on export.

Figures 1 and 2 show China's and New Zealand's total export and import values from the whole world for the years 2005 to 2008. The two countries did not obtain net gains from free trade agreement. Moreover, New Zealand and China are also members of APEC and also win benefits from APEC (Vaughn, 2004). From access of the WTO and having membership of APEC, both countries enjoy high benefits. However, the two countries could not get sufficient free trade liberalisation because China belongs to the list of developing countries. Even though China's

Government implements effective reforms and openness, poverty also surrounds many people there. Therefore, 29.9% of the people are in the poverty trap (China's Statistics, 2008) and 41.2% of the workers are fired from their enterprises (China's Statistics, 2008). They were not able to gain equal employment opportunities. In terms of intellectual right protection, piracy is very common in China. China and New Zealand could not implement sufficient free trade liberalisation (Vaughn, 2004). New Zealand is also a developed country in the Southern hemisphere. There exists a bigger gap between China and New Zealand on economic growth, technological environment and different foreign exchange markets. New Zealand owns rich agriculture products and a relatively small manufacturing industry. The gap between the poor and the rich restrict both countries' free trade liberalisation.

After the Free Trade Agreement between China and New Zealand is signed, China's Government will decrease tariff rates on agricultural products. From the reduction of trade barriers, New Zealand may obtain more business opportunities in China. The success of the Free Trade Agreement between China and New Zealand may push both countries' free trade and economic growth. New Zealand's milk products and different agricultural products may be exported to China free of tariffs. New Zealand's business may show a high performance from exporting of agriculture products and different goods because of there being a rich consumer market for these products. China has a 14 billion population which offers a different consumer market. New Zealand may segment their consumer market in China in order to obtain different business opportunities because the market segmentation strategy may help New Zealand businesses to find many niche markets for their exporting of different agricultural products such as kiwifruit, diary products and different fresh fruit. Exporting of different agricultural products may improve people's quality of life because consumers have more opportunities to select appropriate agricultural products. Different consumers may use the lowest price to select cheapest agricultural products from different agriculture markets. Fonterra's success in China shows more business opportunities. Fonterra used joint venture to create high performance in China's liquid milk market.

New Zealand is also known for its beautiful natural environment (Griffin & Pustay, 2002). Specific natural environment and mild climate condition create the best condition for the growth of different trees. New Zealand has the highest forestry coverage for its size in the world.

Although New Zealand is smaller than China, it has very high-level forestry coverage. Their trees push the development of the forestry industry. Based on the development, the New Zealand forestry industry may import different forestry equipment from China because of its rich supply. A high forestry consumer market will attract exporting of its wood, timber and different wood products to China. Currently, China's Government reforms and openness policy have already attracted many foreign investors to invest in China (Hill, 2006). China has almost become a world factory. China has an advanced furniture industry (Hill, 2006). Due to this advanced furniture industry, it needs to import different wood and timber from New Zealand. China has a serious shortage in the forestry industry (Hill, 2006). China has the lowest forestry coverage in the world (Hill, 2006). Hence, there exists a bigger gap between demand and supply on forestry products. After the Free Trade Agreement between China and New Zealand, the Chinese Government will decrease the tariff rate on wood products and will speed up its progress of free trade liberalisation. The New Zealand forestry industry will gain good benefits from sufficient trade liberalisation.

New Zealand also is a famous coastal country with thousands of kilometers of coastal area surrounded by the Pacific Ocean and the Tasman Sea. It consists of the North Island and the South Island. Its special geographical conditions create the best growing environment for different fish. Furthermore, New Zealand produces different seafood and different fishery products. After the Free Trade Agreement between China and New Zealand, China's Government will reduce tariff rates on different fishery products. It will help New Zealand's exporters to do fishery business in China. Definitely, China's market is bigger, so it is opportunity for New Zealand exporters. Free Trade Agreement between China and New Zealand is just the first step.

The Merchandise Trade of Imports and Exports

From the Free Trade Agreement, New Zealand may gain more business opportunities because New Zealand's economic growth depends on the tourism industry, agriculture industry and forestry industry. New Zealand is one of the biggest exporters of wool products and milk powder. New Zealand businesses export their milk products to China because there exists huge business opportunities in China. New Zealand milk businesses may make full use of China's abundant resources and raw materials to produce different products. New Zealand also has better competitive advantage for their business expansion and they may use competitive advantage to export their milk products to China market.

New Zealand products have a high reputation in the international market. Most Chinese people like to purchase New Zealand milk products because China has the biggest consumption of cheese and milk powder. In China, it is the large population which creates great potential market. They may use different programs and strategies to obtain good business opportunities. In the meantime, China also exports their products such as electronic products, footwear, clothing, printers and computers to New Zealand.

Due to the Free Trade Agreement between China and New Zealand, China will also increase exports to New Zealand. Most New Zealanders like to purchase China's porcelain, tea, silk and electronic products. Business organisations in China may also increase their income and fiscal income by exporting their products to New Zealand. China is the fourth largest trading partner of New Zealand. China takes over $1.6 billion of New Zealand's export merchandise. New Zealand may increase over $1 billion of services from China. According to China's statistics (2010), China's middle class exceeds 100 million people and its' growing with rapid economic growth and performance growth. They like to consume New Zealand's agricultural products because New Zealand provides a variety of milk products and different fruits and meats to the Chinese market.

New Zealand's negotiations with China will ensure that exporters defend existing market shares because China is the main customers of milk powder, wool and education (New Zealand's Ministry of Foreign Affairs and Trade, 2010). New Zealand also exports timber products to China because China has a rapid economic growth. China's Government encourages foreign investors and captures effective business opportunities.

China and New Zealand also make effective investment policies to encourage foreign investors and speed up economic development. Both countries use good investment policies and different economic policies to strengthen cooperation and relationship management. The New Zealand Government uses their democratic system to create good relations with China. China's Government also exports China's cultural products and culture to New Zealand. For example, due to China's culture influence, every year, the Chinese Lantern Festival is held in Albert Park in Auckland, New Zealand. Through its cooperation and agreement, China is contributing to New Zealand's education industry and tourism industry because most international students like to select New Zealand as a ideal country to study in. New Zealand depends on China to develop their tourism industry. Free Trade Agreement stimulates New Zealand's development. The FTA between China and New Zealand may expand the range of official dialogues (both formal and informal), healthy and diversifying trade and economic flows. New Zealand has better English studying environment for Chinese international students.

The FTA also may strengthen people to people contact (New Zealand's Ministry of Foreign Affairs and Trade, 2009). Both countries may use the Trade and Economic Cooperation Framework (TECF) to underpin bilateral economic cooperation between China and New Zealand because TECF was signed in New Zealand in May 2004 by the Chinese Minister of Commerce Bo Xilai and New Zealand Minister for Trade Negotiations, Jim Sutton. China's business organisations like to do business in New Zealand. Most New Zealand firms like to focus on Chinese market because the TECF established a Joint Ministerial Commission as a forum for regular trade and economic dialogue. They may use FTA to conduct effective business expansion and the TECF outlines the practical steps that China and New Zealand will be taking to strengthen cooperation across a range of economic sectors (New Zealand's Ministry of Foreign Affairs and Trade, 2009). The TECF reaffirms objectives that the two countries have been working on through existing mechanisms in areas such as agriculture, including wool, forestry and so on. The TECF promotes opportunities for dialogue between business and academic communities (New Zealand's Ministry of Foreign Affairs and Trade, 2009).

From 2004-2009, the average annual increasing rate of bilateral merchandise trade was 12%. In 2004, Chinese statistics show that the two-way trade between China and New Zealand reached US$1.83 billion, an increase of 30.7% from 2005, amongst which China's imports from New Zealand totaled US$1.02 billion (China's statistics, 2009). New Zealand's exports to China was US$856 million and New Zealand's imports from China was US$1,791 million (New Zealand's Ministry of Foreign Affairs and Trade, 2009).

China is now New Zealand's fourth largest export merchandise market because China's imports from New Zealand reached US$1.02 billion in 2009. The trend growth rate exceeded 20% since 2004 (New

Table 2: China - New Zealand Annual Value of Merchandise Trade
US$ Million, 2004 -2009

	2004	2005	2006	2007	2008	2009
Imports	409.9	481.3	638.3	736.8	803.2	1,023.6
Exports	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 2009, compiled by Customs General Administration of China

Table 3: China - New Zealand Annual Value of Merchandise Trade
US$ Million, 2004 - 2009

	2004	2005	2006	2007	2008	2009
Exports	414.4	406.45	583.5	846.3	894.2	856.3
Imports	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: New Zealand's Ministry of Foreign Affairs and Trade (2009)

Table 4: China's Top Ten Merchandise Imports from New Zealand
US$ Million, 2000 - 2009

Tariff No.	Items	2006	2007	2008	2009
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	30,010	31,129	41,565	51,272
2905	Methanol	63,919	35,240	57,688	42,891
1502	Cheese	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	Fiberboard 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 in 2009. *Source*: China's Customs Statistics Yearbook 2009, compiled by Customs General Administration of China.)

Zealand's Ministry of Foreign Affairs and Trade, 2009). China has a better political system and different economic situation now. China has the largest population in the world. There exists huge potential markets in China because they focus on different promotion programs and different strategies design.

New Zealand's imports from China have grown rapidly in recent years. China is New Zealand's fourth largest source of imports. Main imports include rice, frozen lobster, canned pork and other food products. New Zealand also imports soy beans oil, soy sauce and different vinegars. The most significant growth has been in imports of food products and seafood (New Zealand's Ministry of Foreign Affairs and Trade, 2009). Bilateral trade between China and New Zealand does not have dynamic productivity gains impact. The higher total exports go to third countries rather than to one another. 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 (New Zealand's Ministry of Foreign Affairs and Trade, 2009). Changes in real GDP result from static gains assuming immediate and comprehensive liberalisation by both sides (New Zealand's Ministry of Foreign Affairs and Trade, 2009).

However, New Zealand's Government should loosen immigration policy because the increase of immigrants may stimulate New Zealand's economic growth. New Zealand should make effective immigration policy to attract more immigrants. New Zealand's Government should learn more Chinese culture because it may help New Zealand develop it's economy due to China's abundant population.

With the increase of international students, the New Zealand Government should encourage international students to migrate to New Zealand because these students may have sufficient ability and skills to increase New Zealand's development. China's Government carries out effective reforms and openness policies to motivate China's economic growth. People who have high income would like to encourage their children to study in New Zealand in order to improve their level of English language. International students may use their knowledge to serve in New Zealand. The New Zealand Government should cooperate with China's Government in order to motivate more students to study in New Zealand.

Another reason why New Zealand should encourage Chinese students to study in New Zealand is because an increase in international students may develop New Zealand's education industry and also tourism industry. Many international students are able to bring their relatives and parents to visit them in New Zealand. After international students study in New Zealand, they are able to contribute towards New Zealand's economic development.

Conclusion and Policy Implications

It appears from the above discussion that just like economic reforms follow economic strategy change, international trade systems also need to follow service to international trade develop strategy's change as the international trade system is a part of the whole economic reform. During the last 30 years' reform, China's comprehensive national power has kept growing. This shows that China's international system's reform and construction is successful, where the traditional command government trade system is slowly giving way, to a market economy.

New Zealand and China signed a free trade agreement in April 2008. China is the sixth largest market for basic manufactured exports. Since 1980, New Zealand has decreased and eliminated tariffs progressively to the extent that an important portion of the economy is no longer subject to any tariff protection. New Zealand still keeps tariffs on a number of manufactured goods, although for the most part, the rates are set relatively low by world standards which is between 5% and 7.5%. China on the other hand, has tariffs in place across all imports. China would appear to have tariff rates that are significantly higher for elaborately changed manufactures and finished customer products compared to basic inputs to a manufacturing process.

China and New Zealand are dynamic economies that depend on international trade for motivating economic growth. Therefore, strong global connections and improved access to markets are fundamental to the economic strategies of both countries. Furthermore, China and New Zealand chase active trade policy agendas and are active in regional trade and economic liberalisation and facilitation initiatives.

New Zealand owns rich agriculture products and a relatively small manufacturing industry. The gap between poor and rich restrict both countries' free trade liberalisation. The success of the Free Trade Agreement between China and New Zealand may push both countries' free trade and economic growth. New Zealand milk products and different agricultural products may be exported to China free of tariffs. China's government will reduce tariff rates on different fishery products. It will support New Zealand to do fishery business in China. Definitely, China's market is bigger, so it is a good opportunity for New Zealand's exporters.

The Free Trade Agreement between China and New Zealand is just the first step. From the Free Trade Agreement, New Zealand may obtain more business opportunities because New Zealand's economic growth depends on the tourism industry, agriculture industry and forestry industry. New Zealand goods have a high reputation in the international market. They use sufficient resources to win high business opportunities. Most New Zealanders like to purchase China's porcelain, tea, silk and electronic products. China also is the biggest country that manufactures electronic products such as printers, computers, pens and other products. Business organisations in China also increase their income and fiscal income from exporting to New Zealand.

With the reform process, Chinese international trade system keeps innovating to suit its economic environment. As a developing country, China is still in the primary stage of socialism. As China requires to build its' socialist market economy system, it has decided that the Chinese international trade system will be different from the western international trade system. Therefore, Chinese economic innovations keep socialist characteristics but by connecting to international routine have achieved surprised success. In addition, New Zealand should have effective immigration policies to attract more immigrants. The New Zealand Government should learn more Chinese culture because it may help New Zealand develop its economy due to China's abundant population.

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