

Why international

trade is good for

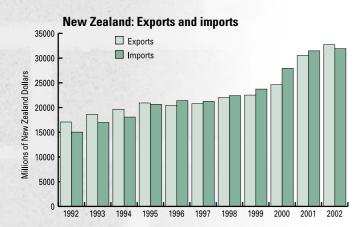
New Zealand and

New Zealanders

Trade rules. New Zealand's lifeblood!

"Trade is our lifeblood. We will do whatever we can to secure more access for our goods and services."

-Rt Hon Helen Clark
Prime Minister of New Zealand



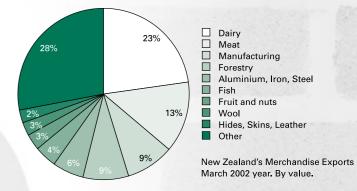
Since its earliest days, New Zealand has been a trading nation. Originally, the tangata whenua came here in search of new sources of food. Later, the early European settlers joined with investors in Britain and elsewhere to pioneer our international trade in meat, wool and dairy products.

These ventures have been repeated by many other traders - who have taken the goods and services that New Zealanders produce out to the markets of the world, and then returned with new investment, new ideas and technologies, and new products for New Zealanders to enjoy.

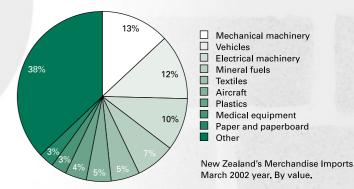
New Zealand is a small country, with limited but specific resources. We do not - and cannot - produce everything that we want to consume and enjoy. So international trade plays a key role in our economic growth - on which social development depends - and is a vital contributor to New Zealand's well-being and progress and our enjoyment of life.

- What we get for our exports helps pay for the goods and services we import and consume.
- Exports also pay for the machinery, technology, methods and ideas that we bring to New Zealand and use here to create jobs and produce goods and services.
- Exporting companies provide employment for many New Zealanders. It is estimated that 6 out of every 10 jobs depends in some way on international trade, tourism and investment.
- Because the domestic market is small, export growth is essential if New Zealanders are to enjoy higher living standards.
- Our exporters have to compete with the world's best producers and satisfy demanding customers around the globe. Those same products are also sold on the local market - to the benefit of New Zealand consumers.
- Trade helps reduce New Zealand's geographical isolation.
 Through trade, New Zealanders build business and personal links with people in every country of our global village.

What products do we export?



What products do we import?



Trade Rules. OK!

In just over 50 years, first through the General Agreement on Tariffs and Trade (GATT) and now in the World Trade Organisation (WTO), more than 140 nations have established a world-wide system of trade rules that is one of the great achievements of international co-operation.

This system of rules is not perfect, but the world would be a poorer and more risky place if there was no agreement on how nations should do business with each other.

All nations set conditions for outsiders who want to trade with them.

Just as all nations have rules or agreements to govern other aspects of their international relations.

Problems arise, however, when one country simply imposes restrictions on its trade with others. A government levies a tax, or sets a tariff, or introduces a quota or licensing system or some other regulation - designed to regulate the flow of imports into that country.

Governments always attribute good intentions to these measures. To benefit their country's own industries and companies. To protect local enterprises and jobs from overseas competition. To help start-up ventures get off the ground.

However, measures which promote and protect the industries of one country almost inevitably discriminate against exporters in other countries. Their governments then retaliate with more tariffs, more restrictions, and even higher trade barriers.

In time, this leads to less competition, less efficiency, less employment, less choice for consumers, and less economic growth.

The best alternative to trade barriers and protection is a system of internationally agreed rules for more open trade. Developing that system is the main aim of the World Trade Organisation.

Open Trade. OK!

Trade liberalisation, or open trade, are names we give the process of improving the system for international trade and business.

Rules are central to trade liberalisation. Governments agree on rules, undertake to abide by them, and accept that other countries may enforce them.

Without a system of rules, the law of the jungle would prevail, and

small nations would be at the mercy of the large and powerful.

Trade liberalisation aims to open up, or free up, international trade. By getting nations to agree to reduce or remove the restrictions they place on imports from other countries.

And it aims to make trade fairer. By ensuring that the same trade rules apply to all nations, regardless of their size or wealth.

Six benefits of trade liberalisation

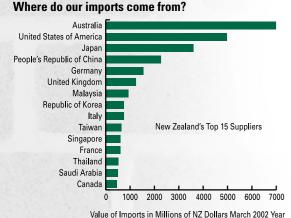
- Performance excellence. When trade is more open, our exporters have to compete with the best in the world. To be competitive, their products and services must use the best available technology, methods and working practices. Exporters are always striving for excellence.
- Consumer savings. Trade liberalisation leads to lower prices, better quality and wider choice for consumers.

- Competitiveness. Access to international markets and customers helps our exporters make the best of their competitive advantages.
- 4. Technology transfer. International trade agreements facilitate overseas investment. This investment is usually accompanied by new skills and technologies, which go to benefit the economy and society as a whole.
- Greater transparency and predictability.
 WTO agreements are a guarantee of stable rules for international trade and commerce.
 They give all stakeholders governments, producers, investors, workers, consumers, and citizens generally a clear picture of the rules they must observe.
- Faster innovation. Nations with open trade regimes enjoy greater innovation in products and processes.

Where do our exports go? Australia United States of America United Kingdom Republic of Korea People's Republic of China Germany Hong Kong Taiwan New Zealand's Top 15 Customers Malaysia Canada Philippines Belgium Indonesia 1000 2000 3000 4000 5000 6000 7000

Value of Exports in Millions of NZ Dollars March 2002 Year

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Trade Liberalisation. OK for New Zealand!

New Zealand is a very small country. We have neither political nor economic clout on the international stage. In economic terms, we are price-takers for most of the goods and services we export. In diplomatic terms, we are policy-takers as well - since large nations will always wield more power.

New Zealand benefits when other countries agree to drop or lower their trade barriers against the goods and services we want to export to them from New Zealand.

In the year 2000 alone, as a result of trade liberalisation agreements made during the Uruguay Round of international negotiations, New Zealand exports incurred \$525 million less in import duties in other countries than would otherwise have been applied.

And New Zealand consumers benefit substantially from the freeing up of imports. We now select from an ever-widening range of lower-priced imports, so that the duty-free purchase is no longer a big event on an overseas holiday.

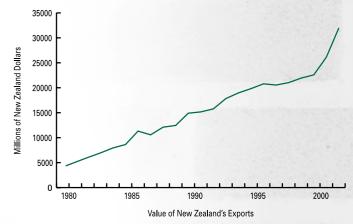
Lower trade barriers, increased trading opportunities, and stronger investment flows don't just happen. They are the result of treaties and agreements - or trade rules - which our government negotiates with other countries through:

- one-to-one agreements like the Closer Economic Relations Treaty with Australia;
- regional arrangements like APEC (Asia Pacific Economic Co-operation); and
- international bodies, especially the World Trade Organisation.

The international playing field may never be completely level - but agreed trade rules make it much less bumpy for a little country.

Trade rules provide the framework in which our exporters and importers do business. These rules are most effective when they are clear and transparent, and contain procedures for resolving disputes.

Trade and investment liberalisation over the last two decades has seen New Zealand's exports boom.



"New Zealand accounts for barely 0.06% of the world's population and our slice of the world's trade is a minuscule 0.27%. Like it or not, the world economy will always drive us; we will never drive it. Understanding and accepting the reality of the global economy is a key first step to shaping our response and lifting our living standards."

- Rt Hon Mike Moore

Prime Minister of New Zealand, 1990 Director-General of the World Trade Organisation, 1999-2002

WTO. OK for New Zealand!

There is one international forum where every member nation has an equal say. That forum is the World Trade Organisation.

Critics argue that New Zealand loses control of its own destiny by participating in the WTO. But no country is forced to join the WTO although more than 140 choose to belong and another 30 want to become members. Moreover, all WTO decisions and agreements are made by consensus. This means simply that every member has to agree, or no rules are made.

Technically, the undertaking to observe a set of multilaterally agreed rules involves some loss of sovereignty. But that is true of all international agreements. Clearly, many countries consider this a small price to pay for the benefits of a workable system of trade rules.

Small nations especially would face the loss of much more power if there were no agreed rules for international trade. "The WTO remains an unambiguously intergovernmental, rather than supra-governmental, entity. Changes to the organisation's rules are proposed by member governments and adopted by consensus. No government ever has to accept a new WTO rule because it was outvoted. Every one of the organisation's 142 members has a veto."

- The Economist

In fact, the WTO system gives New Zealand more influence over others, and more control over its own destiny, than a small nation would otherwise have.

This is because New Zealand can use the WTO system to resolve trade disputes - with the US over lamb tariffs, the European Union over butter, and South Korea over beef, to give three recent examples.

Where there is a dispute, the WTO doesn't prosecute or punish: its role is "to act as a referee while two or more governments fight it out" (*The Economist*, 29 September 2001). And the WTO doesn't impose penalties or sanctions if governments can't agree.

Trade Rules. OK for New Zealand!

Economists base the case for trade on the theory of "comparative advantage". It says that nations should specialise in making and selling products and services they are good at - and buy in those which other countries are better at producing. In this way, nations benefit from their strengths.

However, these benefits are compromised when countries put restrictions on the goods and services that others want to send them.

Standards New Zealand says that non-tariff barriers on our exports to other countries cost New Zealand about \$1 billion every year. In other words, the removal of those barriers would increase New Zealand's export income by \$1 billion.

We can put this another way. If just half the barriers that restrict New Zealand's trade with the rest of the world were removed, our Gross Domestic Product - the total market value of all the goods and services we produce - would shoot up by about 4% a year.

Trade liberalisation offers New Zealand the prospect of spectacular economic gains. And offers every New Zealander a higher standard of living.

"Duties paid on \$17.06 billion of New Zealand exports to WTO founding nations were \$525 million lower in 2000 than they might otherwise have been, because of the coming into force of Uruguay Round commitments. These figures are good news, but do not mean that it is time to have a cup of tea and slow down the trade liberalisation work. While the duties paid were lower, our exports still attracted tariffs of \$884 million - so there is still considerable scope to push for further reductions in access barriers to our exports."

- Hon Jim Sutton Minister for Trade Negotiations, New Zealand

Trade Rules. OK for Agriculture!

New Zealand's main sources of comparative advantage are a temperate climate - which helps crops and animals grow well and quickly - and a clever work force. Combining these advantages makes New Zealand the world's most efficient and innovative producer of agricultural products.

Agriculture, forestry and fishing earn 57% of New Zealand's total export income. Unfortunately, these products are also subject to some of the world's highest trade barriers. Still, our primary industries are an object lesson in how more open trade, supported by a system of agreed rules, can work to a nation's benefit.

After Britain joined Europe in the 1970s, New Zealand farmers came to accept that their future would depend on international competitiveness - and their ability to get products to markets.

During the 1980's, virtually all protection and subsidies were removed from New Zealand's agricultural industries - leaving them to compete solely on efficiency, productivity and quality. With some help from trade liberalisation.

Studies show that the Uruguay Round of trade negotiations - which brought agriculture into the rules-based trade system for the first time - brought gains of nearly \$600 million for New Zealand's beef, sheep meat and dairy industries in one year (2000). The value of those gains will continue, and increase, over the years ahead.

The fact that agriculture has continued to grow and prosper shows how trade liberalisation through the WTO system is a viable strategy for farmers and agricultural producers - and for New Zealand as a whole.

"It is virtually impossible for New Zealand to prevail against a powerful protectionist lobby in one of our large trading partners. But in the WTO we are equal partners."

> - Jeff Grant Chairman, Meat New Zealand

Open Trade. OK for Jobs!

More open trade is not bad news for workers: in fact, the opposite is probably true.

Unfortunately, the removal of trade barriers can cause job losses in companies and industries that previously enjoyed protection. But the workers whose jobs disappear can often find new employment in companies or industries which have a much brighter future.

The evidence is that any loss of jobs is more than offset by the new jobs that trade liberalisation creates in other sectors of the economy.

Of course, trade liberalisation is only one of the factors in economic change. Critics are quick to blame open trade and globalisation for job losses, but ignore the impact of poor management, domestic competition, changing consumer preferences, technological change, inadequate investment in new equipment, and so on.

World wide, international trade has become a major engine for job creation. During the 1990s, for example, APEC countries which had liberalised their trade policies created 195 million new jobs - far outperforming the rest of the world where trade liberalisation has been slower.

OK for Workers!

Australian research contradicts claims that international trade leads to lower wages and conditions as producers struggle to compete in overseas markets. The opposite is probably true. According to the Australian Trade Commission and the University of New South Wales:

- Australian exporters, on average, pay their employees more than non-exporters;
- Exporters are more likely to use collective bargaining to set wages and improve productivity;
- Exporters have a higher commitment to occupational health and safety;
- Exporters provide a higher proportion of full-time and permanent jobs than non-exporters.

Trade Rules. OK for Maori!

Critics complain that trade liberalisation offers nothing for indigenous people - and would in fact disadvantage them. As far as Maori are concerned, the critics are wrong. Research shows:

- Business ventures that are owned and operated by Maori are concentrated in forestry, fishing and agriculture - and thus depend on their ability to sell on overseas markets. Yet these industries are subject to high trade barriers. Reducing or removing those barriers would benefit Maori-based industries and their iwi and other stakeholders.
- Maori are more likely than non-Maori to work for exporting companies. If these companies prosper as they would if there were no trade barriers they will create more employment opportunities and provide better wages and working conditions.

Trade Rules. OK for Innovation!

There is a link between exporting and innovation. Studies show that companies which focus on export markets are likely to be more innovative than those which supply only a domestic market.

Innovative companies are likely to export their goods and services assuming there are overseas markets. This international involvement exposes them to more new ideas and more new challenges - which they bring back to the home base and turn into even more new products and processes for export.

In this way, innovation creates exports, and exporting encourages innovation.

In a globalised world, size and distance are less important. What matters more is the ability to compete through the strategies we adopt and the technologies we embrace. Innovation and entrepreneurial ability are more important than market dominance or government protection.

Trade Rules. OK for Growth!

The cause of trade liberalisation attracts powerful support. Some state the economic case for more open trade.

"Economic globalisation, epitomised by a liberal trade order, has led to the highest sustained growth rate in history. The past half-century has been a time of extraordinary growth, one that has lifted many hundreds of millions of people out of poverty."

> - Dr Supachai Panitchpakdi Former Deputy Prime Minister of Thailand WTO Director-General from September 2002

Others make a moral case.

"The struggle against hunger and malnutrition requires that all countries come together and adopt new and binding regulations responding to the changed demands of trade and international exchange and not to the interests of a small number of countries."

- Pope John Paul II

Perhaps most important, trade liberalisation has the support of many leaders in the developing world.

"We are firmly of the belief that the existence of the World Trade
Organisation as a rules-based system provides the foundation ... for
a partnership for development through trade and investment."

- Nelson Mandela President of South Africa, 1994-99

"In every case where a poor nation has significantly overcome its poverty, this has been achieved while engaging in production for export markets and opening itself to the influx of foreign goods, investment and technology."

- Ernesto Zedillo President of Mexico, 1994-2000

"By itself, aid cannot transform societies. Only trade can foster the sustained economic growth necessary for such a transformation. Africa needs opportunity, especially the opportunity to trade its goods in rich-country markets."

- Yoweri Museveni President of Uganda, 1986 -

"We have always recognised that international trade can be a powerful engine of economic growth around the world."

– A B Vajpayee

Prime Minister of India, 1996 and 1998

Trade Rules. OK for Developing Countries!

Critics of trade liberalisation claim that it helps rich nations at the expense of the poor. The critics are mistaken. Trade liberalisation, in fact, makes a powerful contribution to economic and, consequently, social development. According to the international aid and development agency Oxfam:

- Participation in world trade has figured prominently in many of the most successful cases of poverty reduction
- Trade has much greater potential than aid to benefit the poor
- Export production can concentrate income directly in the hands of the poor, creating new opportunities for employment and investment
- A 1% increase in the share of world exports for each developing country could reduce world poverty by 12%
- In East Asia, since the mid-1970s, rapid growth in exports has contributed to wider economic growth which has lifted more than 400 million people out of poverty.

New Zealand already provides an example of how the developed world can use trade to help the least developed nations. Since New Zealand removed all tariffs on imports from the 48 poorest nations, the value of their exports to New Zealand has increased by 150%.

Still, exports from developing countries face huge barriers in the developed world - barriers that cost them more than \$200 billion every year, twice as much as they receive in international aid.

Yet statistics show how trade liberalisation can help the people of developing countries out of the poverty trap.

The World Bank says the proportion of people living on less than a dollar a day fell from 28% in 1987 to 24% in 1998. In that time, the ratio of exports to GDP increased fourfold in the developing nations. The steepest declines in poverty were seen in East Asia and the Pacific, where trade liberalisation has moved more quickly than in other parts of the world.

Debates about trade often become involved with other issues - such as labour standards and environmental protection.

Some people argue, presumably because they think the WTO system of consensus-based rules is effective, that WTO agreements should be used to formulate standards for employment and working conditions - to protect workers in poorer countries from exploitation and to protect producers in richer countries from unfair competition and to protect the environment.

Others believe that the WTO's effectiveness would be threatened if it had to deal with a wide range of issues. They argue that the WTO should focus on trade and leave employment issues to the International Labour Organisation - and other issues, such as the environment, to specific agreements.

Some developing countries fear that dealing with labour standards in the WTO would become a form of protectionism - aimed at undermining one of their few competitive advantages, their low labour costs.

And most governments agree that the WTO should focus firmly on negotiating trade rules.

"Some have suggested using trade rules to achieve goals with respect to labour; the environment and human rights. I believe instead that full use should be made of the United Nations system to pursue such goals. To attempt to use the multilateral trading system to solve problems in these and other areas would place it under great strain, and would be much less effective than adopting policy solutions in the sectors themselves."

- Kofi Annan Secretary-General, United Nations

At a broader level, more open trade will enable countries - especially developing nations - to increase their national wealth. That will enable them to increase the resources they can allocate to measures to protect the environment, enforce labour standards, promote education, and improve health systems.

And it is wrong to accuse the WTO of ignoring social issues. In fact, the WTO rules allow countries to place restrictions on trade that are designed "to protect human, animal or plant life or health" and the need for "conservation of exhaustible natural resources".

Trade Liberalisation Network. OK!

The Trade Liberalisation Network brings New Zealand business together in a campaign of education and support for more open international trade. The Network's role is to:

- Promote the benefits of trade liberalisation;
- Produce information and other resources for those who want a better understanding of the importance of trade, and the benefits of trade liberalisation;
- Work with other groups in New Zealand and overseas to advocate trade policies which enhance economic and social development.

The Network's members and supporters represent New Zealand's agricultural, manufacturing and services industries. Together, they account for more than 70% of our total exports - making them significant contributors to the wealth and welfare of New Zealand and New Zealanders.

Trade liberalisation

- Means fair rules to play by
- Is vital for New Zealand's prosperity
- Promotes economic growth
- Leads to social progress
- Creates jobs
- Assists developing countries

For more information, contact the Trade Liberalisation Network - info@tln.org.nz. Or look on the Network's website - www.tln.org.nz - where there are links to many trade-focused organisations and resources. In particular, look for a collection of trade liberalisation resources prepared for the Network by the New Zealand Institute of Economic Research.



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