

The golden weather era is over



Vangelis Vitalis is Deputy Secretary, Trade and Economic for the Ministry of Foreign Affairs and Trade (MFAT) and New Zealand's Chief Trade Negotiator. He most recently led the conclusion of the New Zealand-India FTA, New Zealand-European Union FTA, Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), ASEAN-Australia-New Zealand FTA and New Zealand-Malaysia FTA as well as numerous other key trade negotiations. He has previously been New Zealand's Permanent Representative (Ambassador) to the World Trade Organization (WTO) in Geneva where he chaired the agriculture negotiations and helped draft the text of the WTO commitment to eliminate agricultural export subsidies.

The golden weather era for New Zealand trade policy from 1995 to around 2016 may be over, but New Zealand is still well placed to navigate the challenges ahead. It means we will have to adjust to a new world (dis)order and recalibrate the way we do things in trade.

The golden weather era had three distinct features – there was a set of enforceable global trade rules, protectionism was on the decline and the social licence for trade at home was strong.

It began in 1995 with the establishment of the WTO and the WTO Agreement on Agriculture. For the first time, agricultural trade was brought into an enforceable international rules-based system. For a little over two decades, those rules worked particularly well for New Zealand. We took and won cases against the US, the EU, Australia and most recently Indonesia, providing lasting benefits for New Zealand exporters.

These rules also helped drive down protectionism over the two decades, which was further reduced by our activist FTA policy.

Social licence for trade policy was also, on balance, positive. New Zealanders generally believed trade and trade agreements were a good thing, with more than a quarter of our jobs depending on exports. Our two major political parties showed bipartisan support to ratify a series of major trade agreements with China, ASEAN nations, the CPTPP countries, EU and others.

More recently, the golden weather has ended. There has been a loss of enforceability of the rules, protectionism is back and the social licence for trade agreements is fraying. The jungle is growing back over the rules-based trading system. This is not a counsel of despair. It is a diagnosis of a new reality. It means we have to think differently about how we protect the remaining rules. What kind of fences can we build to push that jungle back and who with? In doing so, we need to take account of three scenarios for New Zealand's trading future.

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Three possible scenarios for global trade

The first scenario is a disintegration of the rules-based trading system.

Unfortunately, there is evidence of accelerating disintegration. The recent WTO Ministerial Conference in Cameroon ended in disappointment. While more than 160 of the 166 WTO members agreed to keep prohibiting tariffs on digital trade, a small handful were able to block continuation. This collapsed the wider WTO talks. Combined with the continued block on appointing judges to hear appeals in the WTO, the system is teetering. Each of the major trading powers is increasingly prepared to step outside of what's left of the rules to protect its own interests.

Protectionism is back. Tariffs are in vogue for the big players – and with a vengeance. Agricultural subsidies are on the rise, when they appeared to be declining for good less than 7 years ago. The return of activist and lavishly funded industrial policy looks a lot like protectionism to a small export-dependent nation like ours. There is no mistaking the intent of 'America First', the 'Make in India' policy and the EU's doctrine of 'strategic autonomy'. China, too, has its dual circulation theory, which is about becoming self-sufficient.

The second scenario is fragmentation and regionalisation. New Zealand is well placed through the FTAs we are a part of, including the Regional Comprehensive Economic Partnership and CPTPP. But it also shows in the ones where we don't enjoy a seat at the table such as the South American trade bloc Mercosur, the EU as a major trading bloc and the USMCA (US-Mexico-Canada Agreement). Our challenge is that our exports are not regionally concentrated. Nor would we want them to be. We need access to all of these regional blocs.

The third scenario is the collapse of multilateralism to be replaced with plurilateralism.

The days of WTO deals that cover 166 members, including all the major trading players, may be over. For instance, the recent WTO Ministerial Conference in Cameroon broke new ground when 66 members announced the Electronic Commerce Agreement. In short, things can still get done under this scenario, even if we wished it would involve the full 166 country WTO membership.

What can New Zealand do about these three scenarios?

A three-part New Zealand strategy to manage the world trading (dis)order

We have agency here, and we're not alone.

Our three strategic responses to the end of the golden weather era are to pursue rules, resilience and innovation.

First, we will continue to build more rules by relying more on our bilateral and plurilateral trade negotiations and less on the WTO negotiations. This includes negotiating more new trade agreements like the New Zealand-India FTA and the New Zealand-United Arab Emirates Comprehensive Economic Partnership Agreement.

The second strand of the strategy is about resilience. This includes improving how our existing network of FTAs are implemented to maximise the benefits of the agreements we already have, expand their membership and upgrade them to keep pace with modern developments such as digital trade. We also need to enforce our rights through these international trade treaties. We are serious about defending our hard-won negotiated outcomes – as Canada discovered when we won the case we took through the CPTPP.

Resilience includes how we think in new ways to secure our supply lines and protect economic security, not least with fuel as we discovered during the crisis in the Middle East. The Agreement on Trade in Essential Supplies broke new ground when Singapore and New Zealand agreed to waive WTO rights to impose export restrictions on each other during a crisis. This is one way of ensuring that fuel and other critical inputs for exporters such as plastics, fertilisers and so on can continue to flow. Building resilience means government agencies working together to support New Zealand exporters internationally through activities like MFAT's market intelligence reporting, our tariff finder tool and pushing back on non-tariff barriers and other discriminatory restrictions on trade.

The third component of the strategy is innovation. As a small state, we must be activist and innovative to retain agency and preserve our ability to shape our external trading environment. When the larger countries step away from the rules, we can still work together with other small and medium-sized states to sustain rules among ourselves. For example, New Zealand's initiative – led by the Prime Minister – for a CPTTP-EU dialogue is trying to break the idea of regionalisation and fragmentation, and the 12-member CPTTP (originally created as the P4 by New Zealand, Singapore, Chile and Brunei in 2004) is expanding rapidly with more than 10 accession requests in the pipeline.

This is complemented by another innovation by small countries (New Zealand, Singapore and Chile) – the Digital Economy Partnership Agreement. Korea is now a full member, Costa Rica and Peru are about to join and accession requests are in the double digits for an agreement that has been shaped and moulded by New Zealand. We know that embracing digital trade can reduce costs for exporters by 10–20%.

Most recently, New Zealand, Singapore, United Arab Emirates and Switzerland established the Future of Investment Trade Partnership (FIT-P) group. This now consists of 16 countries working together to drive more certainty for businesses and push back against the rule breakers. We are using these coalitions to help us deliver more certain, secure and lower-cost supply chains.



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A nation with agency

The golden weather is over and the three scenarios for New Zealand trade are challenging for us. However, our strategic response of promoting rules, resilience and innovation mean we have the ability to drive our own destiny.

I am optimistic the strategy we have in place – alongside the quality of our food and agri sector and the work of core agencies like MPI, New Zealand Trade and Enterprise and Customs among others – sets us up to minimise that turbulence and mitigate the uncertainty out there as far as possible. We do have agency, and with this strategy, I am confident we can create new opportunities from the challenges before us.