trends + insights

International trade

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The international trading environment is struggling against sharpening geopolitical divisions, economic turbulence and increasing impacts of climate change.

The Russia-Ukraine war is nearing its third year with no end in sight and the possibility that the Israel-Gaza crisis could yet escalate into a full regional conflict is a risk that could destabilise the world economy.

The four-hour private meeting between US President Joe Biden and Chinese Leader Xi Jinping on 15 November, while they were both in San Francisco for the APEC Summit, seems to have restored some equilibrium to the relationship, resulting in refreshed common ground on matters including climate change, as set out in the Sunnylands statement.

Tensions will remain, however, for as long as China continues to assert its position globally and to maintain pressure on Taiwan, but the two leaders agreed to restore the "presidential hotline" (an undertaking to pick up the phone to each other) and to resume military-to-military communications, which had been discontinued by China as a reprisal against Nancy Pelosi's visit to Taiwan in 2022.

While it is clear that China has deep structural challenges and high debt levels, experience to date suggests that the Chinese Government should be able to maintain GDP growth - albeit at more subdued levels than over the last three decades.

And China's growing middle class means that, even on a slower growth track, China should continue to provide steady demand for New Zealand goods – encouraged by recent visits to China by Chris Hipkins as Prime Minister, Nanaia Mahuta as Minister of Foreign Affairs and former Prime Minister Sir John Key, who visited in a private capacity in November and still made the local media.

An ongoing focus on export diversification will, however, be important given the likely continuation of friction between China, the US and the West more broadly, and New Zealand's high exposure to the Chinese market (taking more than 30% of our exports, more for some sectors).

On the other side of the geopolitical divide, the US remains the world's largest economy, with recent strong economic growth despite domestic political challenges. The political dysfunction is likely to loom larger as the 2024 presidential elections near, with Donald Trump still the leading contender for the Republican nomination.

While a second Trump presidency would have significant implications for aspects of US policy, in particular climate change, on matters of trade the Biden and Trump administrations have operated on similar grounds.

The Biden Government has retained Trump's tariffs on Chinese imports, and on steel and aluminium, including from New Zealand, and has refused to negotiate traditional market access agreements, even with aligned countries. However, there is a real concern that a second Trump Administration would again embrace a protectionist agenda.

Already former President Trump has declared that, if elected, he would introduce a 10% across-the-board import tariff, a clear breach of World Trade Organization (WTO) rules which prevent WTO members from raising import tariffs above the levels provided for in their WTO schedules.

Extreme weather events are beginning to wreak havoc on goods production and trade. Severe drought, for example, has led the Panama Canal to reduce traffic from up to 38 ships a day to 32 in July with a projected phase-down to 20 in January and 18 in February.

The interconnection between trade and climate change is giving rise to measures such as the introduction of the EU Carbon Border Adjustment Mechanism (CBAM), a trade mechanism which is also under consultation in other key jurisdictions. The CBAM seeks to protect the competitiveness of EU producers and to prevent carbon leakage (where businesses relocate production to countries with weaker decarbonisation regimes) by introducing a tariff on carbon intensive products imported into the EU, such as cement.

While a positive for the environment, the nexus between trade and sustainability is also raising allegations of 'green protectionism' as governments direct support to their domestic producers. Examples of measures encouraging domestic low carbon investment include:

- the US Inflation Reduction Act, which earmarks billions of dollars to investments in clean energy and climate action, and
- the EU's Green Deal, which allows Member States to subsidise producers in sectors deemed critical to decarbonisation.

The line between justifiable climate change spending and subsidisation under these and similar programmes is likely to come into question as time goes on.

And there are also regulatory risks for New Zealand exporters; with the EU, for example, developing sustainability regulations and standards that require imports into the EU to be produced to the same social and environmental requirements as apply in the EU.

Despite the disruptions to the globalised business model nurtured by the WTO system, the evidence is that globalisation is not retreating. Instead, it is morphing into a more regionalised and politicised variant. Just in Time supply chains are becoming Just in Case, with some redundancy built in as insurance against the unexpected, and a measure of geopolitical de-risking (friend-shoring) is being applied rather than a straight commercial calculus.

China's trade, for example, is growing strongly with the ASEAN and BRICS countries (Brazil, Russia, India, China, South Africa) but is going into reverse with Japan and the US, and the US is now importing more from Mexico than from China. New Zealand needs to be aware of these currents but have confidence that our exports will remain in demand. We are accustomed to trading in a tough and unequal environment, we embraced our Asia-Pacific identity years ago, and we are used to balancing our relationships with China and the West. We will however need to embrace the burgeoning sustainability focus to make sure our exports remain the preferred choice in our preferred markets.

World economic outlook

The WTO is predicting 3.3% world merchandise trade volume growth in 2024, slightly higher than its earlier forecast of 3.2%, but has more than halved its outlook for this year – from 1.7% to just 0.8%.

The slowdown in the past year is broad-based, across a wide range of countries and products. The exact causes are not clear but contributing factors are inflation, high interest rates, US dollar appreciation, and geopolitical tensions. Passenger vehicle sales are bucking the trend by surging ahead while most other markets are flat.

Paperless trading

International trade involves multiple actors and multiple transactions all of which need to be documented, from the initial sales negotiation through transportation, insurance, finance, logistics and customs. Documents include sale of goods contracts, commercial invoices, packing lists, certificates of inspection, export and import licences, bills of lading, insurance policies, letters of credit and customs declarations. The costs of all of this documentation can be significant.

- a report by the UK Law Commission in 2022 found that a single trade finance transaction typically involves 20 different entities and as many as 20 documents, running to more than 100 sheets of paper. If a bill of lading is involved, the associated shipping paperwork will be around 50 pages, to be exchanged among as many as 30 parties, and
- a study by Maersk and IBM estimates that the costs of document processing and administration can amount to 20% of the physical transportation cost.

A paperless trading system where information flows are digitalised would provide significant cost reductions. Progress toward achieving this on a global scale remains patchy but a significant development was achieved this year with the passage in July of the United Kingdom Electronic Trade Documents Act 2023 (ETD Act).

In many international trade transactions, the document “embodies” the obligation rather than simply providing evidence of it. For example, when a bill of lading is transferred from seller to buyer, it gives the buyer “constructive possession” of the goods described in the bill, and a right to claim delivery of them from the carrier.

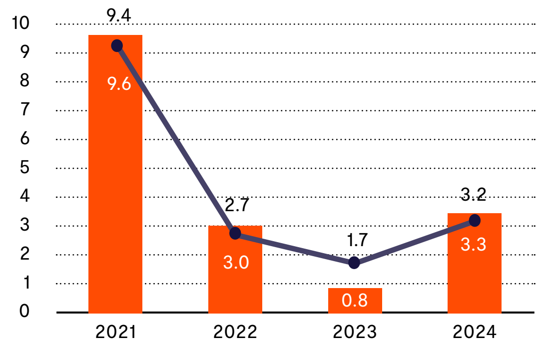
This has been an impediment to digitalisation but the ETD Act removes the problem in the UK by giving electronic trade documents the same legal recognition, functionality and status as their paper counterparts and, according to the Financial Times, will allow 80% of bills of lading worldwide to be paper-free by the end of this year.

World merchandise trade volume and GDP growth, 2021-2024

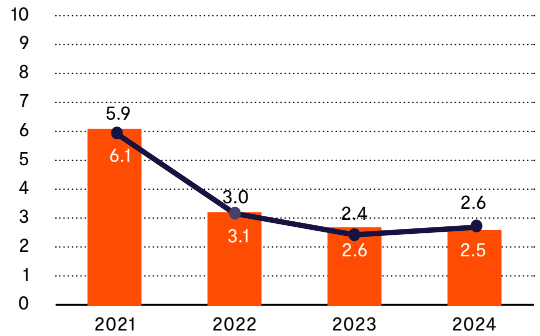
Annual % change

Current estimate — April 2023

Merchandise trade volume growth



Real GDP growth at market exchange rates



Note: Figures for 2023 and 2024 are projections.
Source: WTO for merchandise trade volume and consensus estimates for GDP.

Sustainability and trade

New Zealand has achieved top ranking in the Hinrich-IMD Sustainable Trade Index for a second consecutive year. The Index ranks the capacity of 30 economies to trade sustainably across 71 indicators, grouped into three pillars.

01 **Economic:** New Zealand ranked eighth, scoring 73.4 from a possible 100. Perceived strengths were exchange rate stability, low corruption, strong rule of law and good technological infrastructure.

02 **Societal:** New Zealand ranked second with a near-perfect 98.8. Perceived strengths were strong labour standards, low incidence of forced labour and strong social mobility.

03 **Environmental:** New Zealand ranked first with a perfect 100. Positives included our comparatively low levels of air pollution, high proportion of renewable generation, Emissions Trading Scheme and high environmental standards in trade.

The growing importance of sustainability values to national reputation is underscored by the fact that they were key themes at a range of international conferences this year.

- 'Green trade' was the focus of the World Trade Organization (WTO) Public Forum in September. Sessions included the Route to Transport Decarbonisation, Green Energy Investments in Africa, and Promoting Smallholders' Inclusion in the Advancement of Green Trade, and
- COP28 in November/December 2023, featured the first ever "Trade Day" to explore the role of trade as an essential part of the solution to climate change and an enabler of climate-smart growth, covering topics such as supply chain decarbonisation, greening, and resilience. More broadly, one of the key outcomes of this year's COP was the collective response to the Global Stocktake – the Paris Agreement's five-yearly 'temperature check' of progress towards achieving its goals. Reports going into COP indicated a global rise in emissions by 2030, rather than the 50% reduction that is needed to keep a 1.5°C future within reach. Language on the future of fossil fuels proved particularly contentious with negotiations going into overtime to secure agreement that calls for "transitioning away from fossil fuels". This landmark decision, whilst falling short of the "phase out" of fossil fuels that over 100 countries had pushed for, represents a world-first, and is accompanied by calls to triple renewable energy capacity globally and to double the rate of energy efficiency improvements by 2030.

New Trans-Tasman Sustainable and inclusive Trade Declaration

New Zealand and Australia celebrated 40 years of the Closer Economic Relations (CER) agreement in August by signing a new Sustainable and Inclusive Trade Declaration, committed to:

> "fostering open, rules-based international trade and economic cooperation among countries, and the importance of this effort in confronting global challenges such as climate change, biodiversity loss and pollution, and in delivering on the promise of sustainable development for all our people, including by embracing Indigenous values and knowledge".

Pursuant to the Declaration, Australia and New Zealand undertake to monitor progress and to engage regularly on sustainable and inclusive trade objectives.

The Ministry of Foreign Affairs and Trade (MFAT) has also updated two frameworks dating back to 2001 – the Trade, Environment and Climate Change Framework and the Trade and Labour Framework. They sit alongside the Trade for All agenda and the modern slavery agenda.

Although the refreshed versions reflect a significant shift in thinking from the originals, the 2023 Trade, Climate Change and Environment framework does not go as far as seeking the type of obligation seen in the New Zealand-EU Free Trade Agreement (FTA), which obliges Parties to "effectively implement" the Paris Agreement.

New Zealand formally accepts WTO Agreement on Fisheries Subsidies

New Zealand formally adopted the WTO Agreement on Fisheries Subsidies on 6 September. The Agreement, which was agreed by consensus at the WTO's 12th Ministerial Conference in June 2022, sets binding, multilateral rules to curb harmful subsidies – a key factor in the widespread depletion of the world's fish stocks.

Importantly, the Agreement recognises the needs of developing and least-developed nations by establishing a fund to provide technical assistance to help them implement their obligations.

EU developments relating to sustainability and trade

- The EU Carbon Border Adjustment Mechanism (CBAM) began a three-year transitional phase on 1 October during which EU importers of carbon intensive products will be required to submit quarterly reports. From 2026, tariffs will be phased in, achieving full implementation by 2034. The scheme now applies only to imports of cement, iron and steel, aluminium, fertilisers, electricity and hydrogen. Over time it may be extended to other sectors.
- In April, the European Parliament passed the EU Regulation on deforestation-free supply chains, banning imports into the EU of a range of commodities linked to forest destruction. The law has drawn criticism from Indonesia (the world's biggest palm oil exporter), which has accused the EU of regulatory imperialism.

Armed conflict: sanctions and responsible investment

E5 Joint Guidance on Countering Russia Sanctions Evasion: Exporting Commercial Goods

New Zealand, Australia, Canada, the United Kingdom and the United States ("the Export Enforcement Five" or E5) have released guidance on exporting commercial goods as part of collective efforts to counter Russia sanctions and export controls evasions (the Guidance).

The E5 is a sub-set of the 39-member Global Export Control Coalition (GECC).

For exporters: a risk-based approach

The Guidance prioritises controlled items in Harmonized System (HS) codes that Russia uses in its weapons system. The list has four tiers, with Tiers 1 and 2 being the most sensitive, covering microelectronics and wireless communications.

Exporters are encouraged to conduct additional due diligence to ensure end-user legitimacy if they encounter one of the listed HS codes, and to mitigate attempts to evade sanctions/export controls if, for example, they notice anomalous increases in the volume or value of orders by a customer. These checks should be undertaken *prior* to export.

When opening accounts for new customers, exporters are urged to evaluate the customer's date of incorporation (whether before 24 February 2022), the end-user and end-use of the item (for example, is the customer's business line consistent with the ordered items), and whether the customer's physical location and public-facing website raise any red flags.

Screening tools are available to assist with these processes. Although the Guidance does not appear to have legal force, failure to comply with its recommendations could result in fines or charges based on the relevant country's laws.

Responsible investment in situations of armed conflict

The Responsible Investment Association Australasia (RIAA) has produced an Investor Toolkit on Human Rights and Armed Conflict to provide guidance on how to identify whether a portfolio company may be operating in a conflict area, the potential risks, and what to do. The Toolkit draws on the UN Guiding Principles on Business and Human Rights, providing detailed and welcome guidance as to how investors can engage with portfolio companies affected.

Following Russia's invasion of Ukraine, many multinationals have announced their complete withdrawal from Russia, including BlackRock, BP, and Uber. Others, such as Nike, VISA, and IBM, have suspended all or almost all of their corporate operations.

Russia sanctions exemptions

We cover developments in the Russian Sanctions regime in our Brief Counsel here, including MFAT's publication of a guidance note for duty holders about sanctions reporting requirements, and a broader Regulatory Charter setting out practical guidance on compliance with the Russia Sanctions Act and Regulations. MFAT has also signalled in the Report of its Post-Implementation Review that further work on its sanctions enforcement strategy is underway. Further guidance is expected before Christmas.

MFAT has granted six exemptions since the Russia Sanctions Act came into force. They allow:

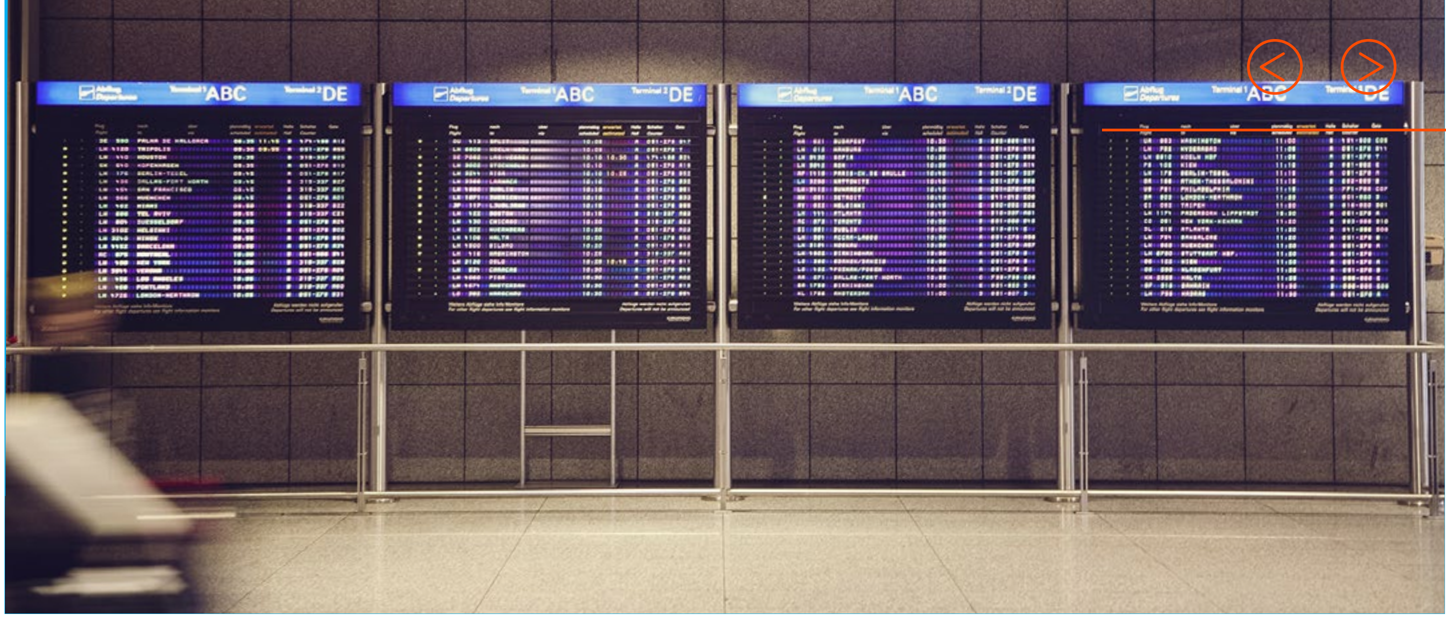
01 A New Zealand bank to facilitate a transaction between a non-sanctioned individual in Russia and a non-sanctioned individual in New Zealand using a sanctioned Russian bank.

02 A New Zealand person to import a prohibited luxury good where there is reasonable doubt that the item is of Russian origin.

03 A New Zealand person to import a prohibited good of Russian origin where a delivery obligation existed before the import prohibition came into effect.

04 A one-off exemption to the 35% tariff created by the sanctions regime where the relevant item is not prohibited *and* the importer was led to believe it was of non-Russian origin with no tariffs, *and* it is of a nature that it could not be returned.

Trade agreements



NZ-EU FTA

The EU Parliament voted on 22 November 2023 by a comfortable majority (524 votes of 705) to approve the New Zealand-EU free trade agreement (FTA), signed on 9 July 2023, following a four-year negotiation. Ratification in New Zealand has been held up by the change of government but is expected to allow the FTA to come into force in the first half of 2024.

The EU is New Zealand's fourth largest trading partner. Anticipated benefits from the FTA include:

$1.8b **increase per year in New Zealand exports to the EU.**

90% **of New Zealand goods exported to the EU will have duties immediately removed.** Among them; kiwifruit, Mānuka honey, fish and seafood, onions, wine and industrial products.

A small amount of new quota access for meat and dairy products. (The Meat Industry Association reports that the new beef quota accounts for less than 2% of New Zealand's annual beef exports).

For details on tariffs and customs procedures, geographic indications, and innovative provisions, including on sustainability, gender, and Māori trade, see our commentary.

UK accession to CPTPP

New Zealand hosted the CPTPP Commission Meeting in Auckland on 15-16 July, at which the UK's accession was announced. With the inclusion of the UK, the CPTPP covers more than 500 million people, representing over 15% of the world's GDP.

To show its commitment to CPTPP rules, the UK has undertaken to provide other CPTPP members with "commercially meaningful" market access. New Zealand agreed not to take up this offer given the favourable terms of the NZ-UK FTA, which entered into force on 31 May this year.

Attention now turns to the other economies wanting to join, the two next in line being China and Taiwan. Managing these applications will require diplomacy given China's "reunification" ambitions toward Taiwan and the attitudes taken toward this by other countries.

Export NZ notes that no progress was made at the Auckland meeting on how to handle the new applicants, although the terms of reference for a review of the CPTPP were finalised and useful discussions were held on customs cooperation and digital trade.

ASEAN-Australia-NZ trade deal updated

On 21 August 2023, New Zealand signed the Upgrade to the ASEAN-Australia-New Zealand Free Trade Area (AANZFTA), first entered in 2010.

The Upgrade reduces export barriers by expediting certain customs procedures and introduces a framework for cooperation on sustainable trade issues, including the environment, labour standards and women's economic empowerment. There is also a commitment arising from the COVID-19 experience, to ensure the flow of trade of essential goods during times of humanitarian crisis.

Indo-Pacific supply chain agreement

The text of the Supply Chain Agreement, achieved under the umbrella of the US-promoted Indo-Pacific Economic Framework for Prosperity (IPEF), was signed by the US and its 13 IPEF partners at the APEC Summit in San Francisco in November.

Next steps are for the 14 IPEF Parties, together representing 40% of world GDP, to complete the approval procedures necessary for ratification and enforcement. The Agreement will:

- promote regulatory transparency in areas which may impact IPEF supply chains,
- develop a shared understanding of global supply chain risks through each Party identifying their critical sectors and key goods,
- monitor for and address supply chain vulnerabilities, and
- promote responsible business conduct and transparency in terms of upholding labour rights in supply chains.

The IPEF has three other pillars beyond the supply chains pillar – a clean economy pillar, a fair economy pillar, and a trade pillar. Progress is being achieved on the first two, with the IPEF members announcing "substantial conclusion" of this work at APEC. Trade is proving more difficult. At APEC, the IPEF ministers chose just to confirm the progress made to date, and their commitment to continue negotiations into 2024.

The 14 IPEF members are: Australia, Brunei Darussalam Fiji, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Thailand, the US and Vietnam.

Other developments

- Australian Prime Minister Anthony Albanese is now acknowledging that the Australia–EU FTA is unlikely to be completed in this Parliamentary term. The negotiations have been stalled and the parties were unable to break the impasse during a side-meeting at the G7 Conference in Osaka in October.
- New Zealand is expected to enter exploratory discussions on a Comprehensive Economic Partnership Agreement (CEPA) with the United Arab Emirates (UAE). The initiative was announced by the Labour Government but is expected to be progressed by the new National-led Government given that New Zealand exports to the UAE are already worth almost $1b a year.
- New Prime Minister Christopher Luxon's ambition to achieve an FTA with India has attracted scepticism from MFAT officials and international trade experts, given India's known reluctance to expose its farmers to foreign competition. Notably, the coalition agreement between National and New Zealand First singles out India in a reference to pursuing free trade agreements with other nations.
- In March 2023, the US and Japan entered a minerals agreement to promote the adoption of electric vehicle battery technologies by strengthening and diversifying supply chains. The US has announced plans to pursue similar agreements with the UK and the EU to reduce reliance on China.
- US and EU negotiators are also considering the development of a Global Arrangement on Sustainable Steel and Aluminium to discourage carbon-emitting production in other parts of the world.

Enforcing trade obligations

CPTPP: New Zealand success against Canada

New Zealand was successful in its trade dispute with Canada, with an independent panel ruling in September 2023 that Canada's administration of its dairy tariff quotas (TRQs) was inconsistent with its commitments under the CPTPP. Then Trade Minister Damien O'Connor described the decision as a "significant win" for New Zealand.

TRQs involve a commitment to allow imports of a set amount of product each year at a reduced tariff rate, with any imports over the agreed limit at a higher (prohibitive) tariff rate.

Canada established TRQs for 16 different dairy product lines, but the fill rates have been extremely low to date – 10% or less for 13 of the 16 – a key reason being that Canada had allocated 80–85% of its TRQs to its own dairy processors, who were unlikely to import significant amounts of dairy products.

The Panel found that Canada was in breach of its CPTPP commitments. The CPTPP process allows Canada a "reasonable period of time" to come into compliance if it is not practicable to do so immediately. Canada and New Zealand have agreed on a deadline of 1 May 2024.

As is usual for trade disputes, the Panel did not provide any guidance as to what Canada needs to do to comply. New Zealand's view is that Canada should support full usage of its TRQs and open them fully to non-domestic producers.

The CPTPP makes provision for negotiation of mutually acceptable compensation if, following the expiry of the reasonable period of time, there is disagreement as to whether the responding Party has eliminated the non-conformity. CPTPP also allows for the successful Party (New Zealand) to "retaliate" if attempts to agree on compensation are unsuccessful.

Update on WTO Australia and China barley dispute

Australia has discontinued its WTO barley dispute with China after China announced in August 2023 that it was lifting the 80.5% antidumping tariff imposed in May 2020. A similar dispute over wine remains open because China has yet to reverse the countervailing duties in question.

Australian Trade Minister Don Farrell has indicated Australia will use the approach taken to barley "as a template" for resolving the other trade restrictions imposed on Australia by China, including those on wine.

WTO reform update

Since 2019, the WTO Appellate Body has been inoperable due to the US's refusal since late 2019 to renew or make any new appointments. Discussions among WTO Members aimed at restoring the WTO dispute appeals system to full functionality by the end of 2024, now in their third phase, are considering reform proposals produced by the US, but the proposals do not necessarily envisage that the Appellate Body would be restored.

US Trade Representative Katherine Tai has stated that the goals of reform should be to provide "confidence that the system is fair" and revitalize "the agency of Members to settle their disputes."

EU investigation into Chinese electric vehicles

The European Commission is investigating the import into the EU of cheap battery electric vehicles from China following a surge in sales.

The investigation, launched on 3 October and to be completed within 13 months, will determine whether the low prices benefit from illegal subsidisation and whether they cause or may cause economic injury to EU manufacturers. If the finding is yes, the imports will become liable to countervailing duties.

Tension on export controls between the US and China

In October 2023, the US introduced new export controls on advanced AI chips and chipmaking equipment, promoted by the Commerce Department as closing loopholes in existing regulations to prevent US producers from selling semi-conductors to China.

China immediately accused the US of unfair treatment toward Chinese companies and retaliated by announcing further export restrictions on graphite products to the US, to take effect on 1 December 2023. China is the world's largest producer of graphite which, in its refined form, is used in most EV batteries.

Dispute resolution

Reforms proposed to English Arbitration Act 1996

International arbitration remains a key method for resolution of disputes affecting New Zealand importers and exporters. New Zealand's Arbitration Act aligns closely with international model arbitration laws. The Law Commission of England and Wales has released its long-anticipated final report, including a draft Arbitration Bill, to reform the English Arbitration Act 1996.

Key recommendations include:

- clarification that the law of the seat of the arbitration will be the governing law of the arbitration agreement unless otherwise expressly provided. This change reflects the significant 2020 UK Supreme Court decision in *Enka v Chubb*,
- a new express power allowing an arbitrator to make an award on a summary basis where the issue raised has no real prospect of success, and
- a narrowed framework for challenges to awards on the grounds that the arbitrator lacked jurisdiction. This would be an improvement on the current appeal mechanism as it would limit the extent of appellate hearings of this nature.

The Law Commission also recommends that the law on confidentiality, an arbitrator's duty of independence; discrimination in arbitration; and availability of appeal on a point of law should all remain unchanged.

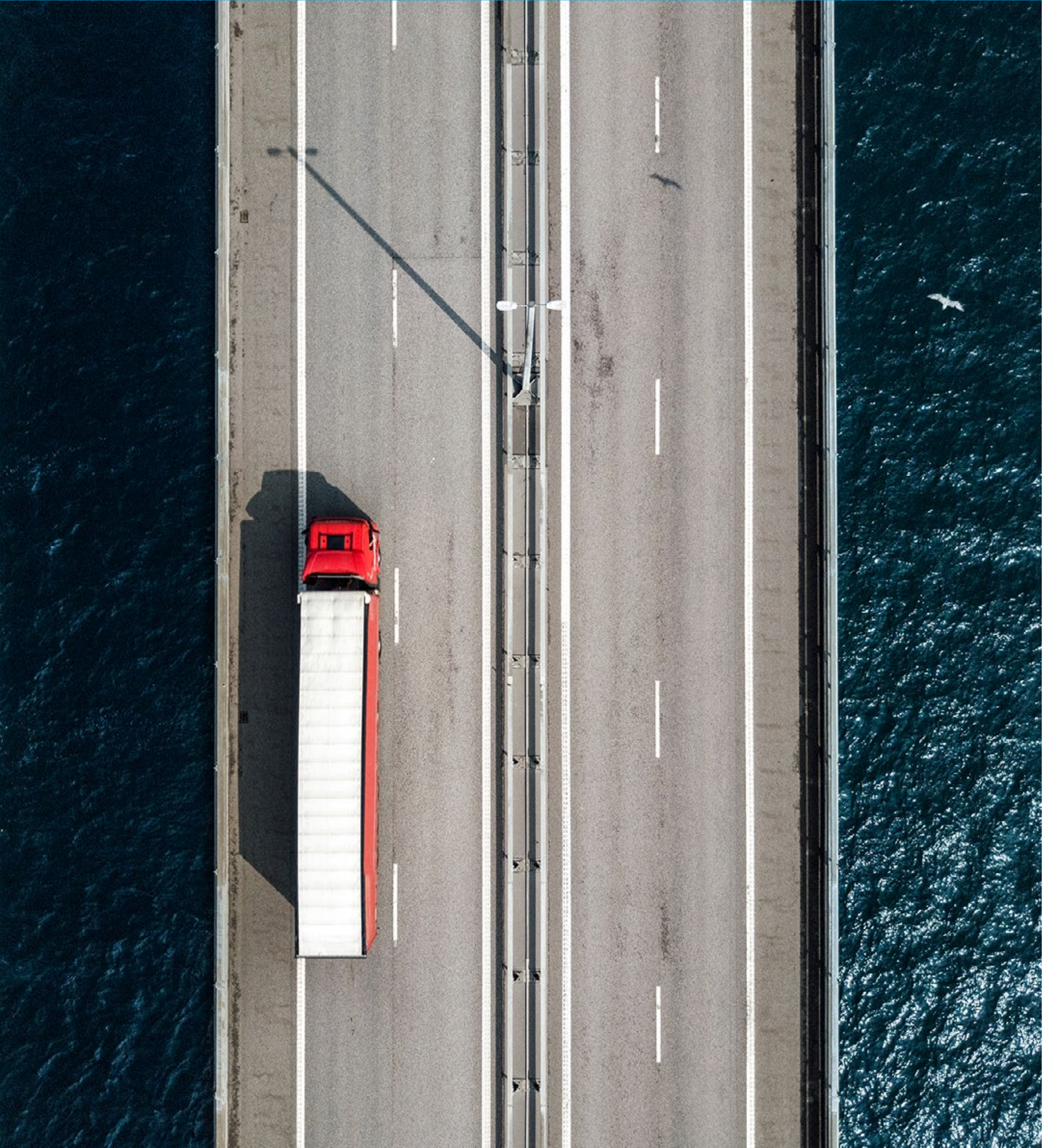
As of 21 November, the Law Commission's Arbitration Bill has been introduced into the UK Parliament under a fast-track procedure—any resulting changes are likely to come into effect in 2024, and potentially relevant for any international trade disputes involving New Zealand exporters/importers contracting with UK businesses.

International Tribunal for the Law of the Sea (ITLOS)

ITLOS is expected to issue an advisory opinion within 12 months on states' obligations to protect the world's oceans from climate change under the 1982 UN Convention on the Law of the Sea.

The process was initiated by the Commission of Small Island States on Climate Change and International Law (COSIS). It involved two weeks of public hearings in September, with submissions and/or oral arguments from more than 50 governments and organisations.

Separate but similar proceedings (yet to be heard) have been filed with the Inter-American Court of Human Rights and the International Court of Justice. Chapman Tripp (Nicola Swan) is assisting several Pacific Island states with submissions before the Inter-American Court of Human Rights.



2024 and beyond

The conclusion last year of the negotiations for the EU-NZ Free Trade Agreement (FTA) seemed to close a chapter in New Zealand's trade policy.

It followed the UK-NZ FTA which was widely recognised as a high-water mark for trade agreements in terms of its content (the tariff cuts achieved), its scope (it goes beyond commerce to enshrine values of sustainability and inclusiveness), and the willing spirit with which it was negotiated.

The EU FTA, by comparison, is much more modest in terms of what New Zealand was able to achieve for our meat and dairy industries although it, too, contains ambitious provisions in relation to matters such as climate change and sustainability.

New Zealand's trade goals are likely to remain the same as they have been in recent years – to support the multilateral system represented by the WTO and to continue to improve market access. But the wins from here may be narrower and harder to achieve, so will require unrelenting effort and optimism.

We highlight five of the National Party's campaign commitments in relation to international trade.

01

To double the value of New Zealand's exports

The focus on value as opposed to volume is desirable but will not be easy to achieve. A 2021 Business and Economic Research Ltd (BERL) report found that the economic complexity of New Zealand exports has been falling over the past two decades with the result that we are now ranked 49th in the world on this measure.

This is an important metric as it measures the level of knowledge embedded in exported products and is a predictor of income levels and future economic growth with BERL suggesting that, on current performance, the New Zealand economy will be confined to an average annual growth rate of just 2.4% over the next 10 years.

Increasing the sophistication and value of New Zealand's exports will require a multifaceted effort across a range of policy areas including education, research and development, immigration, trade promotion, and tariff free access to high value markets.

02

Aggressive pursuit of new FTAs

There has been much commentary on where to focus New Zealand's efforts. Again, a good objective but hard to achieve. Boutique consultancy Sense Partners, for example, suggests in a recent paper (Where next for New Zealand's trade policy?) that "it is hard to get excited about the potential economy-wide gains from future bilateral FTAs, relative to the resource costs of negotiating them".

It is true that, the US and India excepted, New Zealand already has FTAs with our largest markets. But our exporters continue to face market access barriers, particularly in the primary sector, and we should not give up on the prospect of gaining further market access opportunities. Given the increased risks in the trading environment which makes diversification more important than ever, continuing to push for better access to new markets remains critical.

03

A focus on India

India is one of the fastest growing economies in Asia. As Bharat Joshi wrote in his 2017 book, *Navigating India: $18 Trillion Opportunity:*

> "[I]n this brave new world, you ignore India at your own peril. Competitors will source goods, services or even top management from Indian shores, and gain an advantage; or sell their products, services, or ideas to this insatiable market. Either way, your hand is forced. It is only a matter of time before virtually every business actively engages India, either proactively and directly, or reactively."

New Zealand has had some successes in India but less in the agricultural and dairy sectors. Regardless of whether an FTA is achievable, there seems little downside to seeking to deepen and broaden the New Zealand Indian trade relationship.

04

Removal of non-trade barriers and assertion of WTO rules

New Zealand's successful legal challenge this year under the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP) Agreement regarding Canada's administration of its dairy quotas sends an important message to our trading partners that we will enforce our rights under international law.

05

Working to strengthen the WTO

The next WTO Ministerial Conference (MC13) will be held in Abu Dhabi in February 2024. Agenda topics will likely include agriculture and food security, dispute settlement reform, the e-commerce work programme and moratorium, the "second wave" of fisheries subsidies negotiations, and development issues.

President Biden has signalled a more cooperative attitude from the US than in recent times, telling the UN in September that the US would "continue our efforts to reform the World Trade Organization and preserve competition, openness, transparency, and the rule of law while, at the same time, equipping it to better tackle modern-day imperatives, like driving the clean-energy transition, protecting workers, promoting inclusive and sustainable growth." Focus will be on where our new Government will focus its efforts ahead of this next landmark on the international stage.

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