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New Zealand's Preferential Trading Arrangements: Implications for the New Zealand Dairy Industry

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Abstract

Since the mid 1980's when New Zealand liberalised its agricultural sector, the dairy industry has become a significant and growing contributor to the prosperity of the economy. Today, the dairy industry earns around a quarter of the total value of New Zealand's merchandise exports, and directly accounts for 2.8 percent of GDP (New Zealand Institute of Economic Research, 2010). The international trade of dairy products however remains heavily distorted due to the continued protectionist policies of many countries. The Doha round of the WTO multilateral trade liberalisation efforts, of which New Zealand is a strong supporter, have stalled and continue to face numerous impasses. Consequently, New Zealand has begun pursuing a complementary approach of establishing bilateral and regional preferential trade agreements with key trading partners. The aim of this study is to conduct a quantitative analysis of the economic impact of the existing and proposed preferential trade agreements on the New Zealand dairy industry. Two quantitative techniques are used for this purpose. An ex post gravity model finds mixed results for the effect of New Zealand's existing preferential trade agreements on its dairy exports, but data issues hamper the conclusions that can be drawn. An ex ante computable general equilibrium model, known as GTAP, examines the proposed PTAs that New Zealand currently has under negotiation and indicates a largely positive effect of those agreements on the New Zealand dairy industry.

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This project has been evaluated by peer review and judged to be low risk. Consequently, it has not been reviewed by one of the University's Human Ethics Committees. The researcher named above is responsible for the ethical conduct of this research.

If you have any concerns about the conduct of this research that you wish to raise with someone other than the researcher, please contact Professor John O'Neill, Director (Research Ethics), telephone 06 350 5249, e-mail humanethics@massey.ac.nz

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List of Abbreviations

AANZFTA	ASEAN, Australia and New Zealand Free Trade Area
AFTA	Association of South East Asian Nations Free Trade Area
AGE	Applied General Equilibrium
ANZCERTA	Australia New Zealand Closer Economic Relations Trade Agreement
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
AVE	Ad Valorem Equivalent
CAP	Common Agricultural Policy
CEP	Closer Economic Partnership
CER	Closer Economic Relations
CGE	Computable General Equilibrium
CIE	Centre for International Economics
CPI	Consumer Price Index
CUSTA	Canada – United States Trade Agreement
DDA	Doha Development Agenda
DIRA	Dairy Industry Restructuring Act
DR	Doha Round
EC	European Community
EEC	European Economic Community
EFTA	European Free Trade Association
EU	European Union
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GCC	Gulf Cooperation Council
GDP	Gross Domestic Product

GSTP	Global System of Trade Preferences among Developing Countries
GTAP	Global Trade Analysis Project
HS	Harmonised System
I-O	Input-Output
IV	Instrumental Variable
kgMS	Kilograms of Milksolids
LAIA	Latin American Integration Association
MFAT	Ministry of Foreign Affairs and Trade
MFN	Most Favoured Nation
MR	Multilateral Resistance
NAFTA	North American Free Trade Agreement
NLS	Nonlinear Least Squares
NTB	Non Tariff Barrier
NZIER	New Zealand Institute of Economic Research
OECD	Organisation for Economic Co-operation and Development
OLS	Ordinary Least Squares
PTA	Preferential Trade Agreement
RIA	Regional Integration Agreement
RPTA	Regional Preferential Trade Agreement
RTA	Regional Trade Agreement
SEP	Strategic Economic Partnership
SPS	Sanitary and Phytosanitary
TFP	Total Factor Productivity
ToT	Terms of Trade
TPP	Trans Pacific Partnership
TRAINS	Trade Analysis and Information System
TRQ	Tariff Rate Quota

UNCTAD	United Nations Conference on Trade and Development
UR	Uruguay Round
URAA	Uruguay Round Agreement on Agriculture
US	United States
USDA	United States Department of Agriculture
WITS	World Integrated Trade Solution
WTO	World Trade Organisation