

After Doha, what?

Dr David Skilling

As published in The Business, New Zealand Herald on Monday, November 20, 2006

As a small economy, strengthening the ability of New Zealand firms to access foreign markets is a vitally important priority.

New Zealand's approach to securing international market access has consistently placed a heavy emphasis on multilateral trade liberalisation through the World Trade Organisation (WTO). This emphasis can be understood in terms of New Zealand's reliance on the export of primary goods, which are subject to relatively high levels of import protection and export subsidies.

But it is not clear that viewing the WTO as New Zealand's "top trade priority" remains fully appropriate going forward. For one thing, New Zealand's relatively lacklustre performance in terms of exporting and outward direct investment indicates that the current approach is not sufficient to deliver the desired outcomes.

Second, the economic upside from a successful Doha Round is relatively small. At about \$1 billion a year, the estimated gains represent about 2-3% of New Zealand's exports. Although such benefits are obviously worth having, successful multilateral trade liberalisation will not deliver transformational gains to the New Zealand economy.

And third, the suspension of the Doha Round in June indicates that there are real risks around a successful and meaningful conclusion to the Doha Round. Michael Cullen has likened hopes for Doha to watching England in a World Cup penalty shoot out. If anything, David Beckham scoring from the penalty spot is a more likely outcome than a successful Doha Round.

Although New Zealand is right to continue to push for a good WTO outcome, New Zealand needs to re-weight its external strategy towards other priorities.

One obvious priority is a more ambitious, deliberate approach to bilateral and regional FTAs. There has been a proliferation of FTAs over the past decade, which reflects the uncertain future of the multilateral approach and the explosive growth in regional trade and investment flows.

Signing FTAs with important trading partners provides prospective economic upside for New Zealand. But FTA policy also needs to be viewed from a defensive perspective. If other countries obtain FTAs with important trading partners, and New Zealand does not, New Zealand companies may be placed at a significant competitive disadvantage.

However, other than the prospective FTA with China, New Zealand's FTAs have been with small countries like Singapore and Chile because it is these countries that have been prepared to negotiate FTAs with New Zealand. Going forward, New Zealand needs a more ambitious approach to FTAs, which is focused on investing in key countries with whom an FTA would be valuable such as Japan, so as to increase the likelihood of securing an FTA.

As part of this process, New Zealand should adopt a more pragmatic approach, including accepting the possibility of non-comprehensive FTAs, so as to make ourselves more attractive as a negotiating partner.

In addition to trade negotiations, significant changes in the global business environment mean that there are other increasingly important priorities for action.

For the increasing number of New Zealand firms that are selling branded products into sophisticated, competitive international markets, the fundamental market access challenge is not about getting their goods and services across the wharf without attracting a tariff or a quota. Rather the challenge is getting their products in front of the local consumers. Formal market barriers are of secondary importance compared to overcoming informal market barriers and accessing channels to market.

Trade liberalisation is helpful, but it is not the key driver of international expansion for many New Zealand firms. To illustrate this point, consider the difficulties that some New Zealand firms have faced in the Australian market despite CER, a particularly comprehensive economic agreement, having been in place for over 20 years.

It is also worth noting that trade liberalisation does not provide as much assistance to New Zealand firms going global in non-traditional ways; for example, firms that expand through outward direct investment or Kiwi 'mini-multinationals' that have a global production presence and produce in-market. Such activities are likely to become a much more significant part of New Zealand's international engagement.

Indeed, although trade liberalisation has made an important contribution to the globalisation process, other drivers have likely been more significant over recent years. It has been improvements in transport and communications technology, combined with new business models and global production chains, which have led to the explosive growth in international economic activity.

In this context, the suspension of the Doha Round is unfortunate but is not cause for despair. Rather, New Zealand needs to respond by placing greater emphasis on emerging priorities. In particular, New Zealand's external strategy should focus to a greater extent on making in-market investments that are aimed at assisting aspirational New Zealand firms to successfully expand into these markets by addressing informal barriers to market entry.

Such activities may include assisting New Zealand firms obtain market research from local providers, providing access to shared office and showroom space in offshore markets, shared international distribution platforms and so on, linking New Zealand firms up with local networks, and assisting New Zealand firms with trouble shooting in-market.

Such activities can take the cost and risk out of the international expansion process for New Zealand firms so that the move offshore happens more rapidly and more successfully than would otherwise be the case.

Of course, these activities can only provide a more supportive environment for international expansion by New Zealand firms. Ultimately what will drive increased levels of international economic engagement is the capacity and aspiration of New Zealand firms. But a more aggressive and deliberate external strategy will assist significantly in this process.

In sum, New Zealand needs to re-design its external strategy in response to the significant changes in the global business and economic environment. A much more aggressive, deliberate focus on investing in key markets, both by the government and the private sector, is needed in order to generate much improved levels of international economic activity. New Zealand needs to mobilise its resources to compete to win in international markets.

Dr David Skilling is the chief executive of the New Zealand Institute, an Auckland-based think-tank. The Institute's reports on these issues are available at www.nzinstitute.org