

5 May 2008



The Secretariat  
Foreign Affairs, Defence and Trade Committee  
New Zealand Parliament  
WELLINGTON

## **New Zealand – China Free Trade Agreement; Submission from FOMANA CAPITAL Limited**

### **Executive Summary**

1. FOMANA CAPITAL Limited fully supports the NZ-China FTA.

1.1. As resolved at *Hui Taumata* 2005, “the best way for Maori development to improve domestically and internationally is through economic growth”. A growing Maori economy through global trade also means a growing New Zealand economy.

1.2. Furthermore, the research report: *Hei Whakamarama i nga Ahuatanga o te Turua Po: Investigating Key Maori Business Characteristics for Future Measures: Thinking Paper 2006*: outlined the importance of Strategic Export Sector Outcomes, notably “*Increased level of scale, investment and strategic Maori co-operation that results in an increase in export activity and foreign direct investment*”.

### **Introduction:**

2. FOMANA CAPITAL is a commercial company that is fully owned by Maori – with the Federation of Maori Authorities (FOMA) being the majority shareholder. FOMANA CAPITAL was established in 2005, with the

purpose of assisting Maori to position to take advantage of strategic and commercial opportunities.

2.1. Our core business can be summarised as assisting Maori businesses with:

2.1.1. Mergers

2.1.2. Acquisitions

2.1.3. Organisational Strategy

2.1.4. Research & Risk Management

2.1.5. Investment & Brokerage Advice

## **Wider Context**

3. Maori businesses, and in particular export focused businesses know that the world does not owe New Zealand an income - and that the living we do create for ourselves has always depended vitally on trade. The path may be tough to Asian markets and beyond, but export-led growth will remain New Zealand's best option – indeed, our only viable one – for sustaining and lifting living standards here. Like most countries, our domestic market is too small and too under-capitalised to generate satisfactory wealth by ourselves.
4. In the globalising world economy, greater integration is inevitable. New Zealand needs to get the best terms for this integration with our leading trading partners. This isn't a matter of surrendering our sovereignty, but rather reinforcing our future viability as an independent nation state. We can only remain such if we are able to pay our way in the world.
5. Maori businesses and exporters also understand that international trade and globalisation through agreements like FTAs provides more certainty, and a platform that enables Maori businesses to plan and position within specific markets. This in turn provides an opportunity to strengthen the Maori point of difference internationally by utilising the latest technology and science coupled with Maori creativity, innovation and stories.

## The Trade Negotiations outlook for New Zealand

6. At the “big picture” global level, the WTO Doha Development Round continues to work towards further freeing up world trade in tough areas such as agriculture and services. Perhaps because the WTO is the biggest and therefore most powerful forum for trade liberalisation, progress is slow.
7. Regionally, both New Zealand and China are members of the 21-economy Asia/Pacific Economic Cooperation grouping. Eight out of our top ten trading partners are APEC economies - including other heavyweights such as the USA and Japan. APEC committed in 1994 to achieve full liberalisation on trade and investment by 2010 / 2020. Progress has been uneven but ongoing. A “Free Trade Area of Asia-Pacific” negotiation is supported by business communities in several APEC economies, including New Zealand.
8. Significant agreements such as New Zealand / China bring us closer step by step to this wider Asia Pacific vision – so too does the recent landmark announcement that the USA will engage with the “P4 Grouping” (i.e. New Zealand, Singapore, Chile and Brunei).
9. The third level is the bilateral one. China is the latest - New Zealand is already party to FTAs or “Closer Economic Partnerships” with Australia (CER), Singapore, Thailand and the P4 grouping above. New Zealand is likewise working on a number of other FTA negotiations with eg the Gulf Cooperation Council, Malaysia and (with Australia) the ASEAN Free Trade Area (AFTA).
10. All this is not just about a series of dry discussions and documents between international bureaucrats. The “take-out” for Maori businesses is that free trade agreements have a very dollar-specific purpose – to build a wider door and stronger platform offshore. Supported by NZTE and MFAT offices across the region, small kiwi exporters and a growing number of Maori owned businesses are striving for a foothold in China and other Asian markets.

## **New Zealand's best approach to international trade negotiations**

11. New Zealand's international trade policy does not function in a void. New Zealand is an open market and requires access to larger markets for New Zealand businesses.
  
12. Nationally, our approach to trade negotiations must be to:
  - a. Negotiate access to larger markets – while simultaneously removing or reducing the few remaining tariffs imposed by New Zealand on imports, to achieve full domestic competitiveness;
  - b. Going on the commercial offensive - use these FTAs and FTA negotiations as “beach-heads” for leveraging and positioning New Zealand businesses, providing policy support as they conduct their day-to-day commercial operations in markets.
  - c. Simultaneously, using FTA negotiations as a defensive mechanism to ensure New Zealand businesses' products are not disadvantaged by other countries entering exclusive FTAs (ie, trade diversion), and thus leaving New Zealand businesses in an uncompetitive and unsustainable environment.

## **New Zealand – China FTA**

13. The New Zealand / China Free Trade Agreement is historic for both countries. There is huge dollar value to our economy – \$2.9 billion over the next twenty years.
  
14. The deal is also of global significance. If the WTO negotiations remain stalled, it could be the most significant trade agreement worldwide in 2008 – because one party is China, to become the world's biggest economy sometime this century.
  
15. Maori business groups and exporters are not worried about talk of “loss of sovereignty” from this deal. There is no such thing as absolute, unfettered “free trade”. All countries regulate based on national wellbeing criteria (ie, health etc). The point of an FTA is to enable greater access to and equal treatment in each other's market.

16. New Zealand decided decades ago to pursue trade liberalisation outcomes wherever possible, while progressively reducing our own barriers. The answer to fears of a deluge by low-priced Chinese imports is that this has already occurred. Our few remaining tariffs (textiles, clothing, footwear and whiteware) will soon phase down to single digits. Full liberalisation for China is thus only a modest acceleration of a trend already well and truly set in motion.
17. Instead, the positive significance of the New Zealand / China FTA is that secures New Zealand's access to a much larger market. Viewed from the Chinese perspective, New Zealand is a small and non-threatening Western society, with nevertheless surprising weight and impressive expertise in trade negotiations.
18. There were some who said similar statements about trade liberalisation outcomes when New Zealand and Australia entered the CER, however the result from the CER has seen New Zealand do handsomely - they are now our largest export market.
19. Alongside other commentators and (most) politicians, Maori export businesses have thought through the strategic implications for New Zealand which inform this deal. For our exports, the FTA will see 96% of Chinese tariffs eliminated by 2019. More than \$200 million of these will go as soon as the FTA takes effect in October. There are other significant phased improvements in market access and national treatment for our leading exports, including services.
20. This agreement with China therefore makes very clear sense for New Zealand. We will sell more and thus earn more. Maori export businesses need to be part of this and moreover identifying high value niche markets to service.
21. New Zealand's success with the China FTA – given China's massive credentials in the global economy – is thus a highly strategic achievement, and deserves the full support of the New Zealand Parliament. The genuine quality of the deal – not just a political “piece of paper” – highlights the skill and tenacity of our negotiators. The supportive reactions from nearly all Members of Parliament show just how much “New Zealand Inc's” interests are in play.

## **The Response from New Zealand Business**

22. Notwithstanding strong growth in services exports over that past twenty years (particularly in “inbound” areas such as tourism and education), the New Zealand economy is based largely on product / commodity trading and exporting. Primary industry - ie pastoral farming, forestry, fishing, and other food - still comprises the major earner of our foreign income. We should remember Maori are significant players and growing more significant in the primary-food sectors.
23. This indicates two main desirable responses from New Zealand businesses generally to the China FTA:
  - (a) Intensifying the “innovation proportion” in product creation and development, and in production processes – in other words, adding more value onshore here in New Zealand;
  - (b) New Zealand businesses with genuinely global growth aspirations need to look harder at future inbound Foreign Direct Investments via these FTA connections (and not just China).

## **The response from Maori export business**

24. The challenges of scale and lack of critical mass common to most would-be kiwi exporters are no different at all for Maori businesses. This is where building on the already-valued and beneficial “partnership relationship” between Maori business on the one hand, and Central and Local Government economic development agencies on the other is of critical importance in a small and export-dependent economy such as Aoteroa / New Zealand.
25. As in other developing markets, increasing numbers of Maori export-focused businesses are now coming into view. As the commercial arm of the Federation of Maori Authorities, FOMANA CAPITAL is developing a strategic export and value-added programme called Tekau Plus. Such “Made in Aotearoa / New Zealand” strategies will help us take best advantage of FTAs, not only with China but across the wider Asia/Pacific region and beyond.

26. With judicious application and strategic positioning, the China FTA and others to come will present many opportunities for Maori businesses.
27. The real issue for Maori businesses that wish to be sustainable and export focused is: not whether Maori should take advantage of this and other FTAs – but where in the value-chain is it best to position Maori for the medium to long-term?
28. To reiterate this FTA provides both defensive and offence scenarios. Maori export focused businesses through the New Zealand / China FTA are provided a level of certainty and moreover access to one of the fastest growing markets. Our task now is to get organised, positioned and ready for the long-term.

## **Conclusion**

29. In conclusion, alongside other Maori business groups and exporters, FOMANA CAPITAL fully supports the New Zealand / China FTA, and is keen to see it speedily ratified by Parliament. In registering our support, we emphasise that New Zealand needs to move forward with other major bilateral negotiations.
30. FOMANA CAPITAL expresses its appreciation for the opportunity to provide this submission in support of the New Zealand / China FTA. We would be glad to appear before the relevant parliamentary committee to speak further to the points above.

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