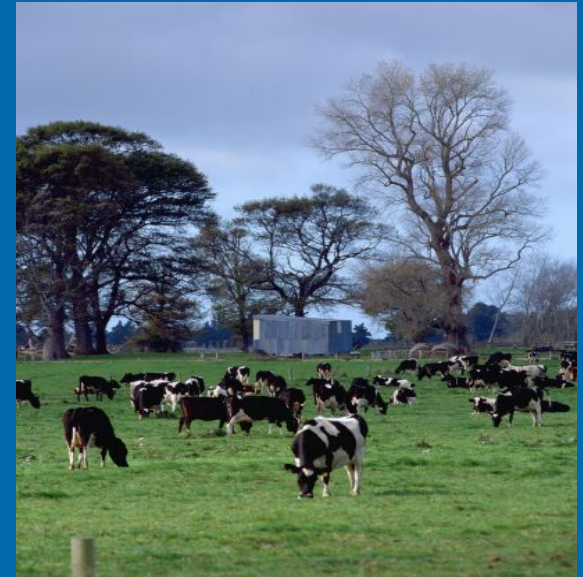
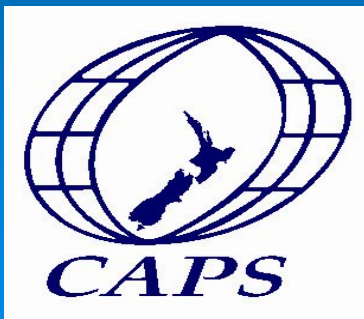


New Zealand Agriculture



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Some Comparisons between China & New Zealand Economies

	New Zealand	China
Population (million, 2003)	4.0	1287
Rural as % total population (2000)	14.3	63.8
Agricultural land (ha) per '000 population (2002)	4299	430
Primary industry as % GDP (2002)	8.8	15.4
Agriculture & food as % total exports (2003)	50.6	8.6
Agriculture & food as % total imports (2003)	9.2	6.0
Agricultural trade balance (US \$billion, 2003)	7.3	7.1
Export goods (US \$billion 2003)	18.1	438.3
Import goods (US \$billion 2003)	18.4	393.6
GDP per capita (current US\$, 2003)	20,200	1,098
Real GDP growth (1998-2003)	3.4	7.9

Outline

- Overview of New Zealand Agriculture
 - Production
 - Exports
- New Zealand agricultural & trade policies
- China – New Zealand Trade
- Trade Negotiations
 - WTO
 - China - New Zealand Free Trade Agreement

OVERVIEW OF NEW ZEALAND AGRICULTURE

Production

Exports

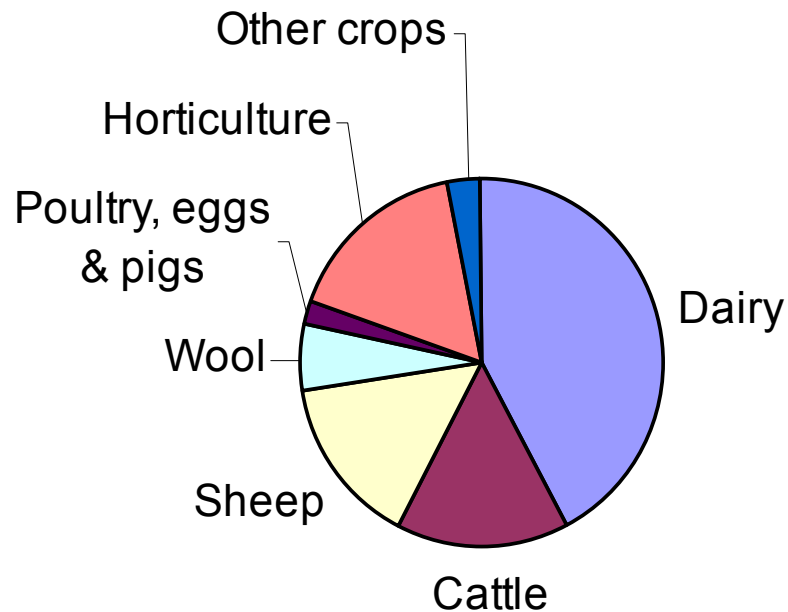
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New Zealand Has a Strong Comparative Advantage in Agriculture

- Farmland area is very large relative to the small population of 4 million
- New Zealand has a temperate climate
- Agriculture's share of New Zealand exports is 5 times greater than the share of agriculture in global exports
- Agriculture & forestry account for 65% of New Zealand's exports



New Zealand Agriculture Dominated by Pastoral Livestock Production: Share of Gross Farming Revenue 2001



Dairy



- New Zealand's top export earner
- New Zealand is world's leading dairy exporter
- >95% production is exported
- 5 million dairy cattle
- Production doubled since 1990
- Mainly in North Island

Meat



- New Zealand's 2nd largest export
- Lamb & beef the main meats
- 40 million sheep (down from 70 million in 1982)
- 4.6 million beef cattle
- Venison growing rapidly – now 1.7 million deer: EU is major market

Pig and Poultry



- Relatively minor sectors
- For domestic consumption only
- Absence of large-scale feedgrains industry
- Pigmeat also imported
- Quarantine prohibits fresh poultry imports
- Domestic consumption:
 - 19kg/person pork
 - 36kg/person poultry meat

Wool



- Importance as export industry has been declining
- New Zealand wool is stronger & coarser fibres
- Used in carpet & furnishing fabrics
- Also for hand-knitting
- China the major market
- Competition from synthetic fibres

Grains



- Constrained by lack of economies of scale, and climate
- Mainly for domestic use
- Only 50% self-sufficient in wheat
- Imported grains are used for milling into flour, and livestock feeds
- Grain output likely to fall in future, as other land uses more profitable

Fruit Industry



- Many types of fruits & vegetables are grown, including subtropical types
- Kiwifruit (*Actinidia chinensis*) is the major fruit export. Originally from China
- EU & Japan the major markets
- Recently developed a golden-fleshed variety

Apple Industry



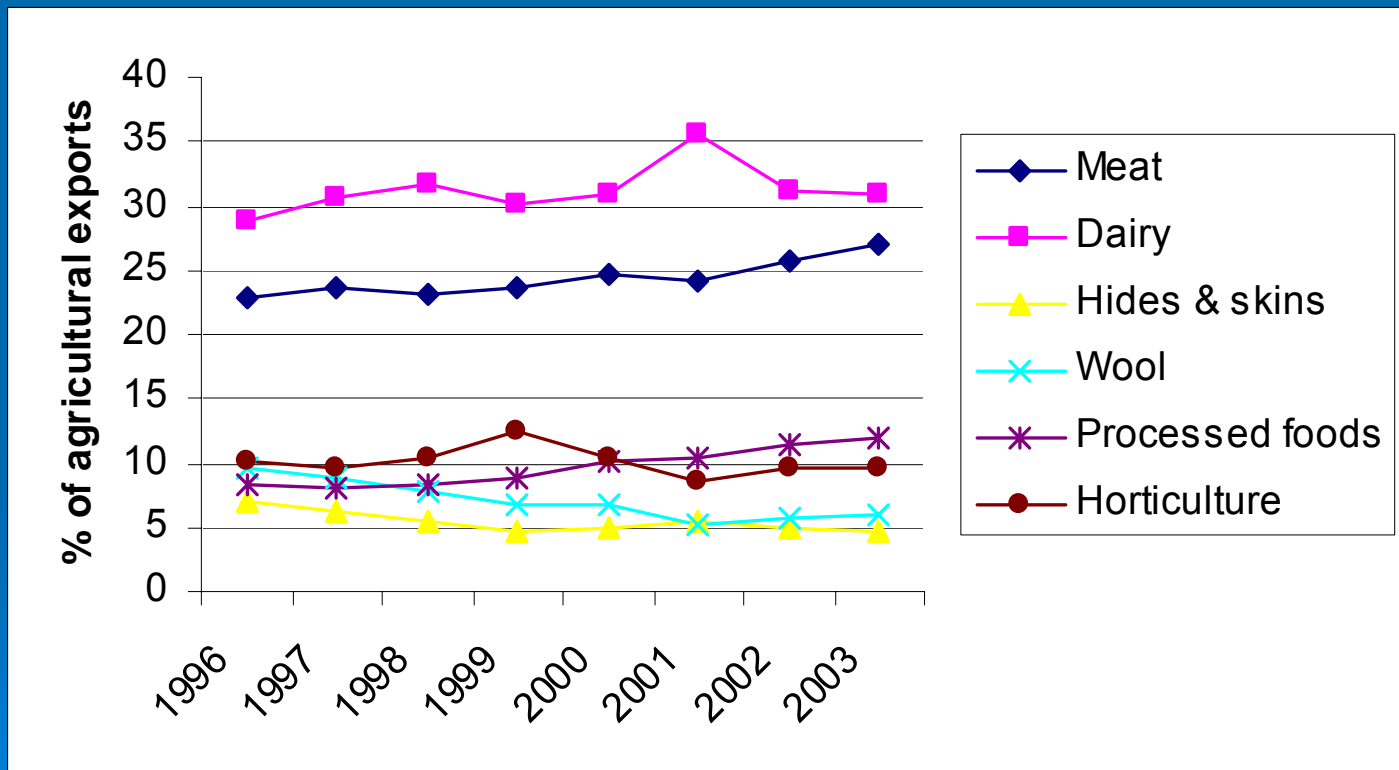
- Was the major fruit type until development of the kiwifruit industry in the 1970s
- 2nd largest horticultural export
- EU & USA are largest markets
- Breeding of new varieties very important to maintaining competitive advantage

Wine Industry



- Dramatic growth in last 15 years
- Area in wine grapes 19,600 ha (was 5,400 in 1990)
- Established widely throughout New Zealand
- Exports also grown rapidly to UK, Australia & USA.
- Focus on premium wines to overcome lower-cost international competition

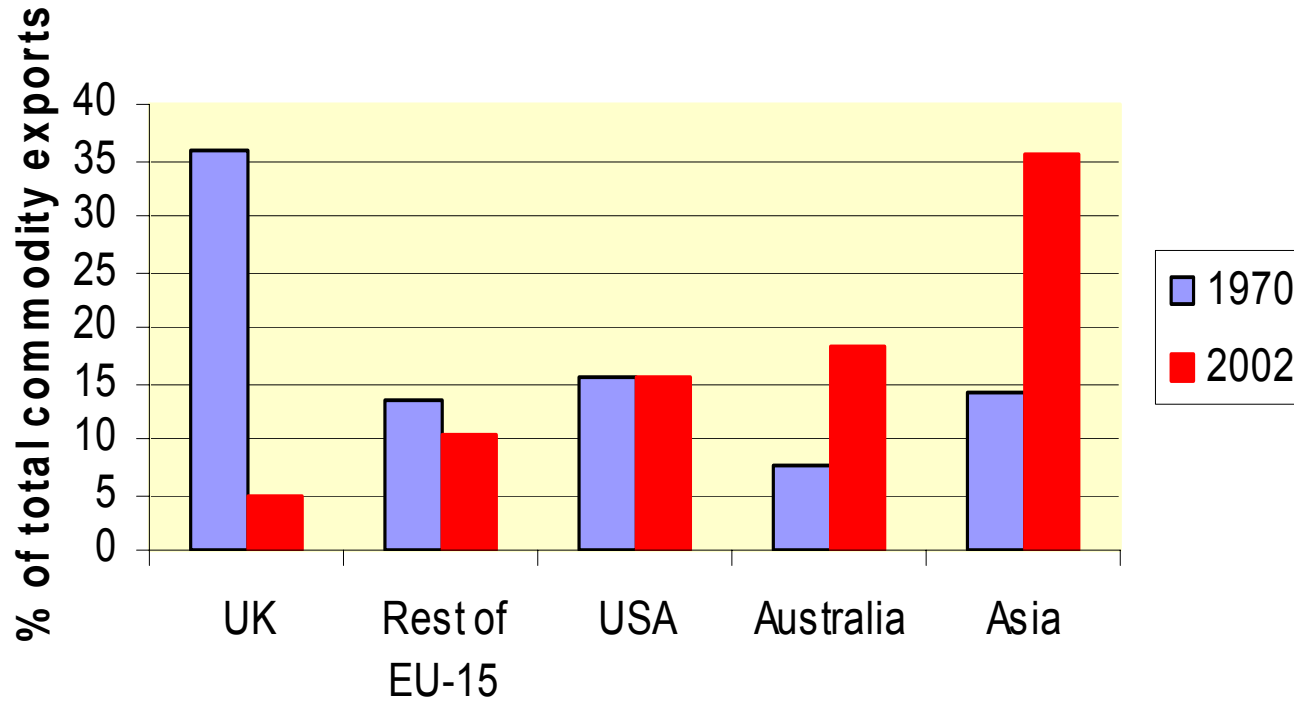
Pastoral Sectors Also Dominate Agricultural Exports



New Zealand Farm Exports: Who Buys Them?

- As a member of the British Commonwealth, New Zealand had preferential access to the United Kingdom market. This influenced the development of agriculture in New Zealand.
- So up to the 1970s, the UK was a major export market: butter, cheese, sheepmeat, fruit, wool
- The UK joined the EU in 1973 – preferential access was phased out and import quotas & tariffs introduced
- New Zealand exporters diversified export markets, especially in Asia-Pacific
- Encouraged by rapid Asian growth & dietary change...
- and a free trade agreement with Australia (1966 & 1983)

Major Destinations for NZ Exports



- **China's share of New Zealand exports rose from 0.4% in 1970...**
- **to nearly 5% by 2003**

AGRICULTURAL AND TRADE POLICIES

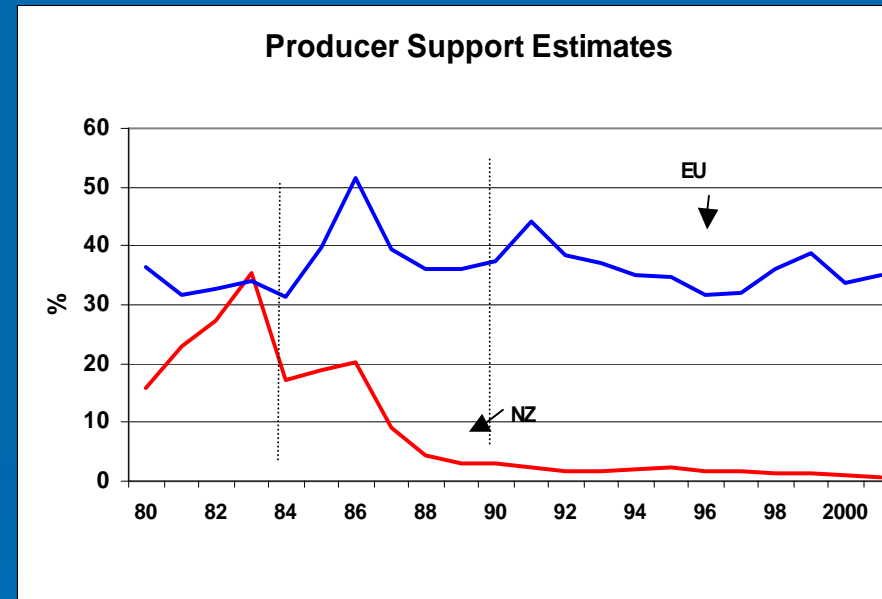


New Zealand Trade Policy Development

- In first half of 20th century, industrial development was encouraged through protection from foreign competition
- This increased costs to agriculture, and resulted in a negative effective rate of protection
- BoP problems in the 1960s saw the government introduce a range of assistance measures (price supports & subsidies) to agriculture to encourage export-led growth
- Deregulation: From the 1980s, agricultural assistance was ended, and barriers to manufactured imports were largely phased out.

The Rise & Fall of Government Assistance to New Zealand Farming

- Little assistance to farming before mid-1960s
- BoP crises led to objective of increasing farm production & export revenues
- New programmes to stabilise/support prices, subsidise inputs, tax concessions, grants for land development & stocking
- New Zealand farming PSE became same as EU
- Producer Support Estimate = value of all transfers to farmers from agricultural policies, as % of total farm revenue



- New Zealand farmers successfully adjusted to the removal of subsidies:
 - Market prices guided production decisions
 - Farmers increased productivity of their resources
 - Input price inflation was reduced due to removal of import barriers & better monetary policy
 - Greater competition throughout economy reduced agricultural marketing & exporting costs

Diversification: Changes in pasture use – 1984-94

- Grassland under sheep & cattle declined by 1.93 million ha (-16%)
 - Of this..
 - 1.08 mill. ha used for dairy, deer, horticulture, or semi-urban lifestyle farms
 - 0.85 mill. ha diverted to forestry, or marginal land retirement

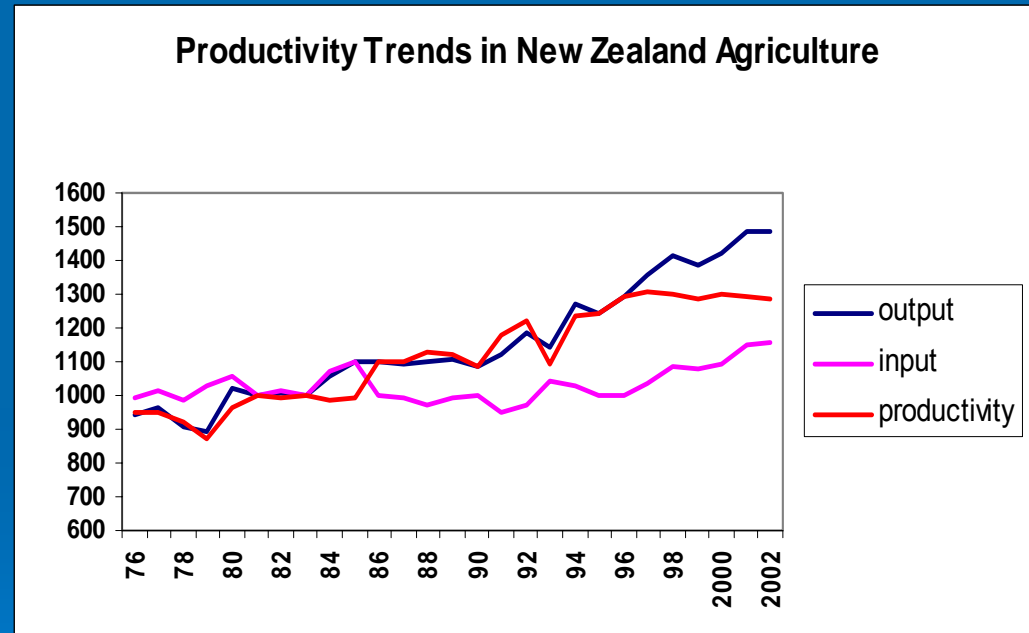
Productivity growth accelerated

➤ During the adjustment period following deregulation:

- Input volume fell
- Output volume unchanged

➤ TFP growth:

- 76-84 : 1.0%
- 84-90: 2.0%
- 90-97: 2.3%



New Zealand Current Import Policy

- 95% of goods enter New Zealand duty free
- The average applied tariffs are 2.1% (agricultural goods) and 4.4% (industrial goods)
- Clothing & footwear items can face tariffs up to 19%
- New Zealand policy is to reduce the higher tariffs to a maximum of 10% by 2009
- This should allow further Chinese penetration of New Zealand's industrial markets
- New Zealand manufacturers are responding by focus on high-value niche-market items

TRADE BETWEEN CHINA AND NEW ZEALAND



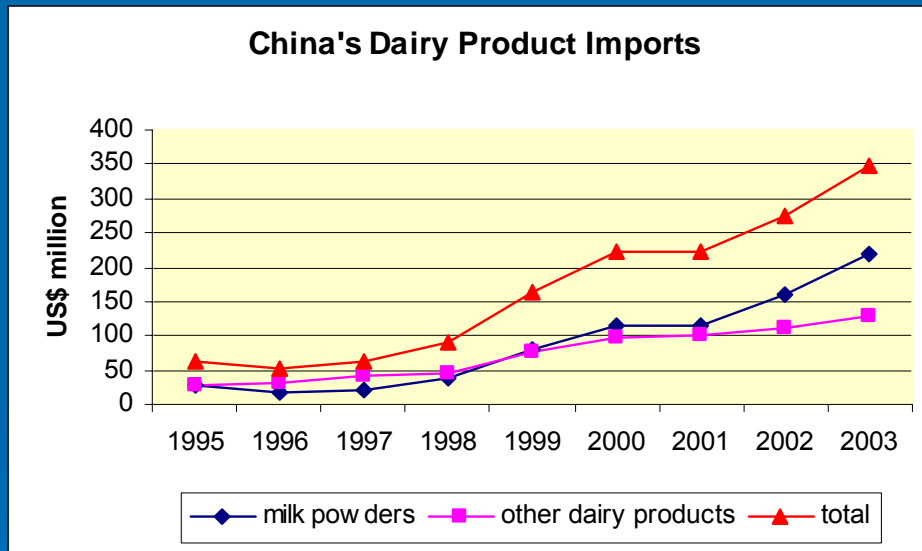
China has Become an Important Trading Partner for NZ

- By 2003,
 - 5% of New Zealand's exports went to China, and
 - 9% of New Zealand's imports were sourced from China
- Major exports – dairy, timber products, wool, hides & skins
- Major imports – computers, toys, clothing, footwear, other electrical products

Trade has Assisted Development of China's Dairy Industry

- Urban milk & dairy product consumption per person has increased by 150% from 1995 to 2003 in China
 - We estimate an expenditure elasticity of 1.1
- Helped by dairy imports that increased in value by 460% over the same period
 - We project China's self-sufficiency in dairy could continue to fall
- China has also increased imports of dairy cattle to help expand the domestic industry
- New Zealand has been a major supplier of both cattle and dairy products to China
- Massey University has assisted pasture-dairy development in Guizhou & increased household incomes

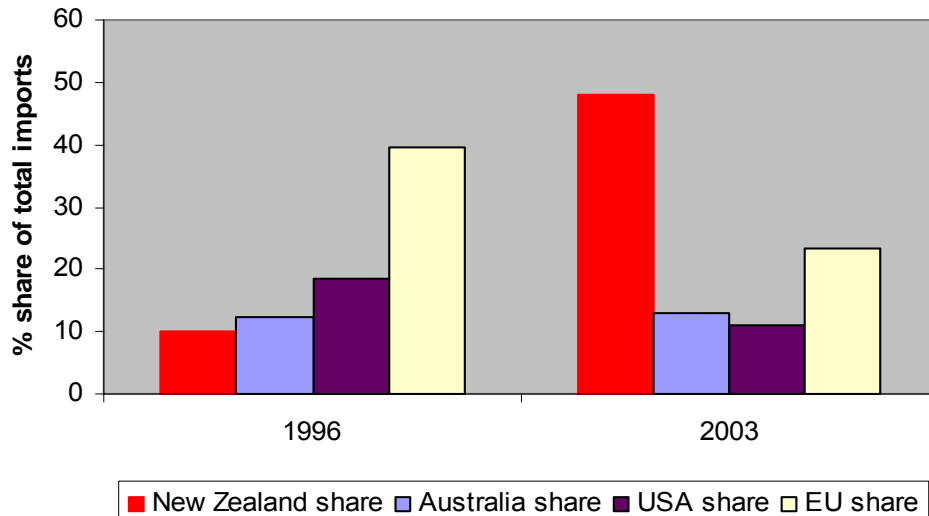
Demand Growth and Trade Reform Boost China's Dairy Trade



- Prior to 2001 China's import tariffs on dairy products were 50%
- After accession to the WTO, these tariffs were reduced to 10 – 20% by 2004.
- This will have helped to moderate milk prices, to the benefit of consumption and dietary quality.

Dairy Has Become a Major Export From New Zealand to China

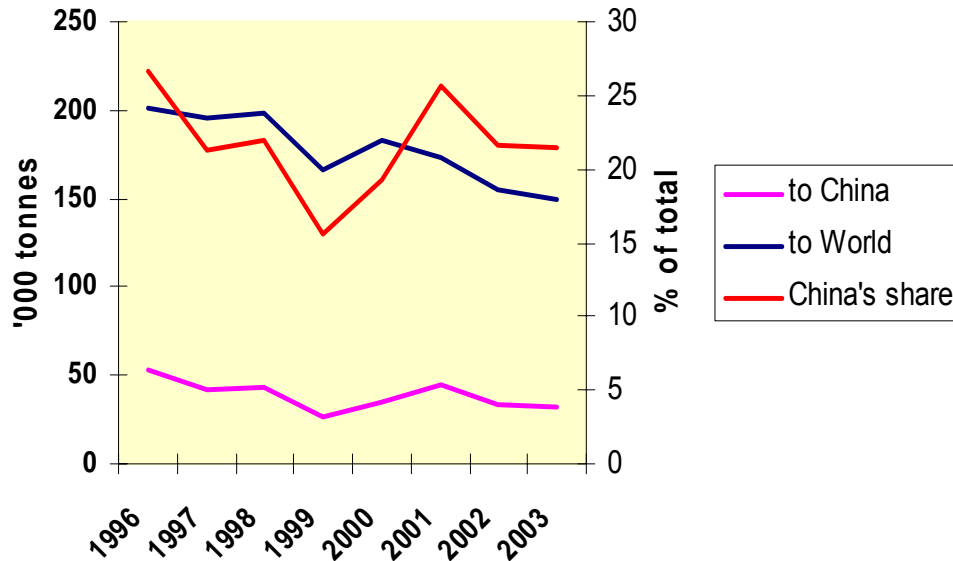
Exporter Shares of China's Dairy Imports



- Dairy is 22% of New Zealand's total exports to China in 2003
- Value of this trade has increased 200 times since 1996
- China is now New Zealand's 4th-largest dairy market
- New Zealand's dairy production is unsubsidised, does not require export subsidies, and is amongst the lowest-cost globally

Wool Exports Have Faced Fluctuating Demand

NZ Exports of Wool

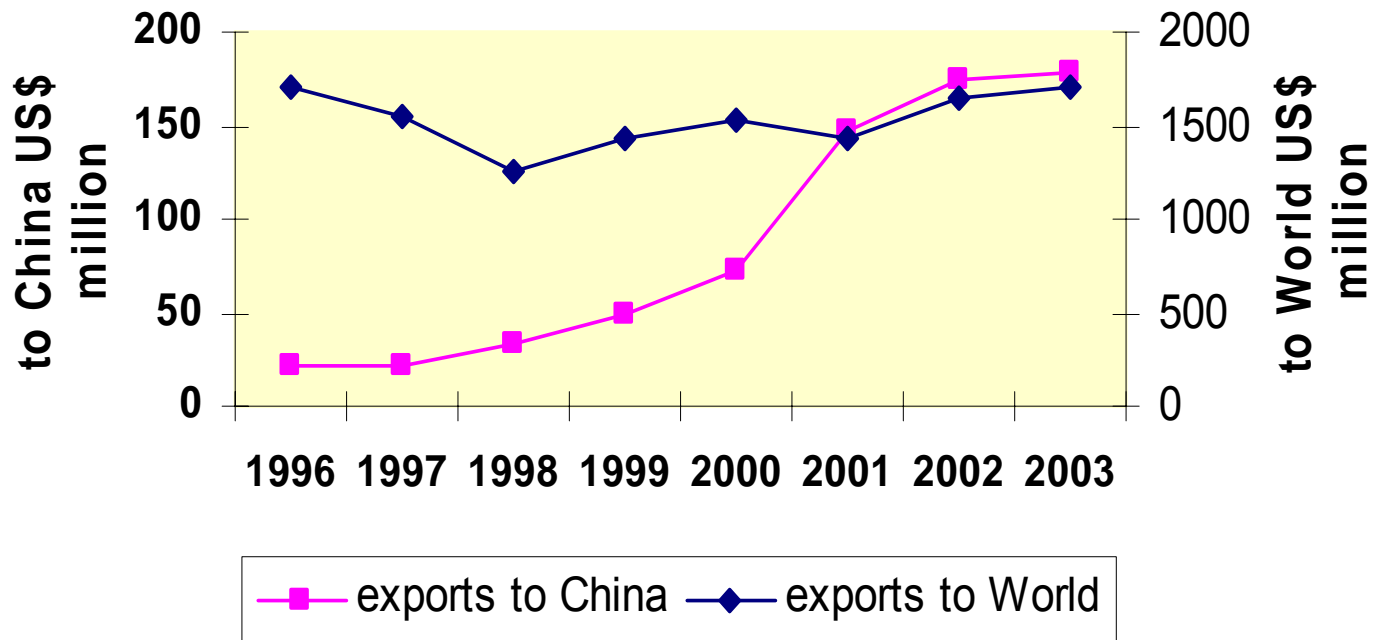


- Prior to China's WTO accession, imports decided by State Trading Enterprise
- Since then, a tariff rate quota is in place, with an in-quota tariff of 1%. The quota has not yet been binding
- China has been New Zealand's top market for wool
- Recently, China's demand has moved away from New Zealand wools to medium & fine wools for machine-knitted garments
- NZ wool used in hand-knitted garments

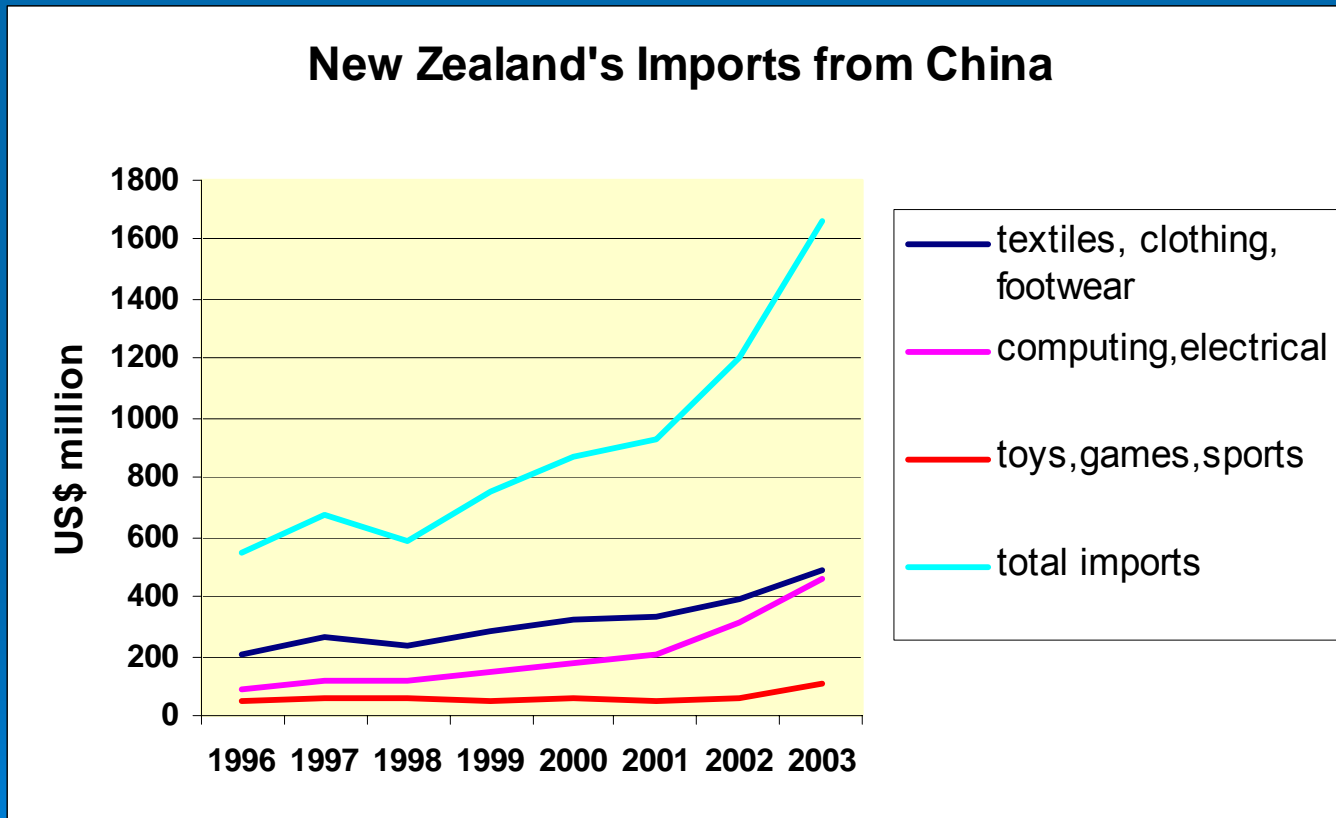
New Zealand Has a Major Forestry Sector

- Contributes 10% of New Zealand merchandise exports
- Also valuable in erosion control & as an efficient 'carbon sink' (Kyoto Protocol)
- China one of the world's largest importers of forest products
- New Zealand's main species *Pinus radiata* recently recognised as acceptable in China's revised building code
- China has become one of New Zealand's major export markets

NZ Exports of logs, timber, pulp & paper



China has Comparative Advantage in Labour-Intensive Clothing, Footwear & Electronics



TRADE NEGOTIATIONS

Doha Round

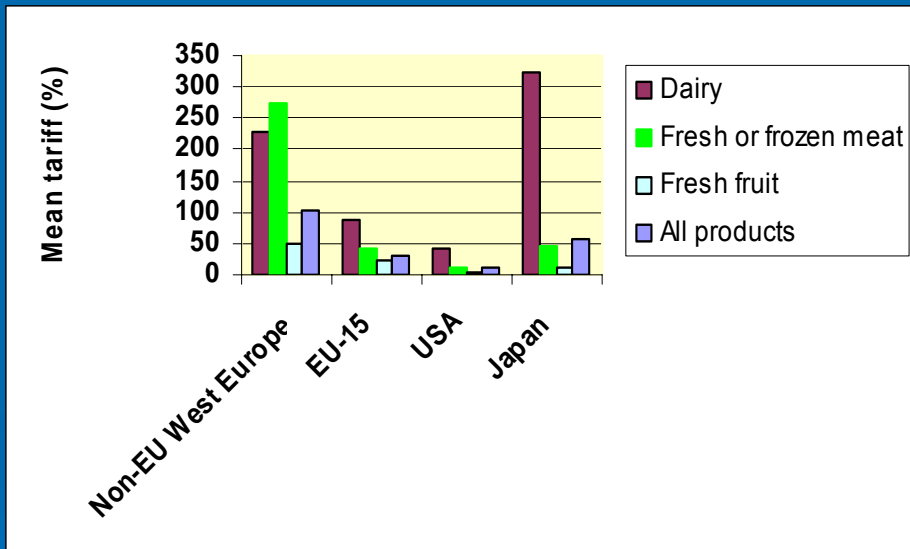
China – New Zealand

FTA

Globally, Agricultural Markets are Often Heavily Protected

- Changes in New Zealand's export patterns reflect market access problems, as well as demand growth.
- Average global agricultural tariff = 62%
 - (around 5% for manufactured goods)
- Tariffs particularly high for the foods that New Zealand exports

High Tariffs Often Confront New Zealand Agricultural Exporters



- In contrast, China's tariffs (2004) on imports of these products are generally within the range 10% ~ 20%

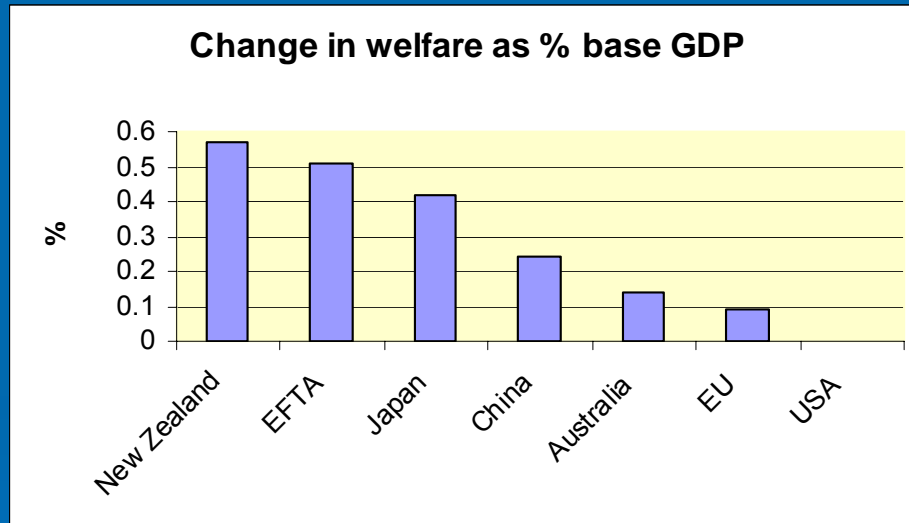
WTO & the Doha Round

- Agricultural negotiations are proving to be a major problem
- So far have agreed to:
 - eliminate agricultural export subsidies
 - Achieve substantial trade expansion through tariff reductions
 - Make substantial reductions to trade-distorting domestic support
- Definite commitments not yet made
- Suggested approach to domestic support reduction would require the major subsidizing countries to do very little

How Might the Doha Round Impact on International Trade?

- We used the GTAP applied general equilibrium model. We reduced all merchandise tariffs, as well as export subsidies & domestic farm subsidy programs
- Recognised lower reductions for developing countries (SDT)
- For example, agricultural tariffs in developed countries reduced by
 - If $t_0 \geq 55\%$, Swiss formula: $a=100$
 - If $5\% \leq t_0 < 55\%$, $t_1 = t_0 * 0.64$
 - If $t_0 < 5\%$, $t_1 = 0\%$

Our Research Shows New Zealand and China Gain from a Successful Doha Round



- EFTA, Japan & EU gain from more efficient allocation of resources
- New Zealand gains mainly from higher world prices of their major food exports
- New Zealand downsizes manufacturing & increases imports from China
- China increases dairy imports from NZ

China-New Zealand Free Trade Agreement

- President Hu Jintao and Prime Minister Helen Clark agreed in October 2003 to negotiate a FTA
- Agreed to enter into negotiations early 2005
- New Zealand is the first country to do so
- A joint feasibility study was released in November 2004
- This included economic modelling of possible FTA outcomes

The Economic Study of the FTA

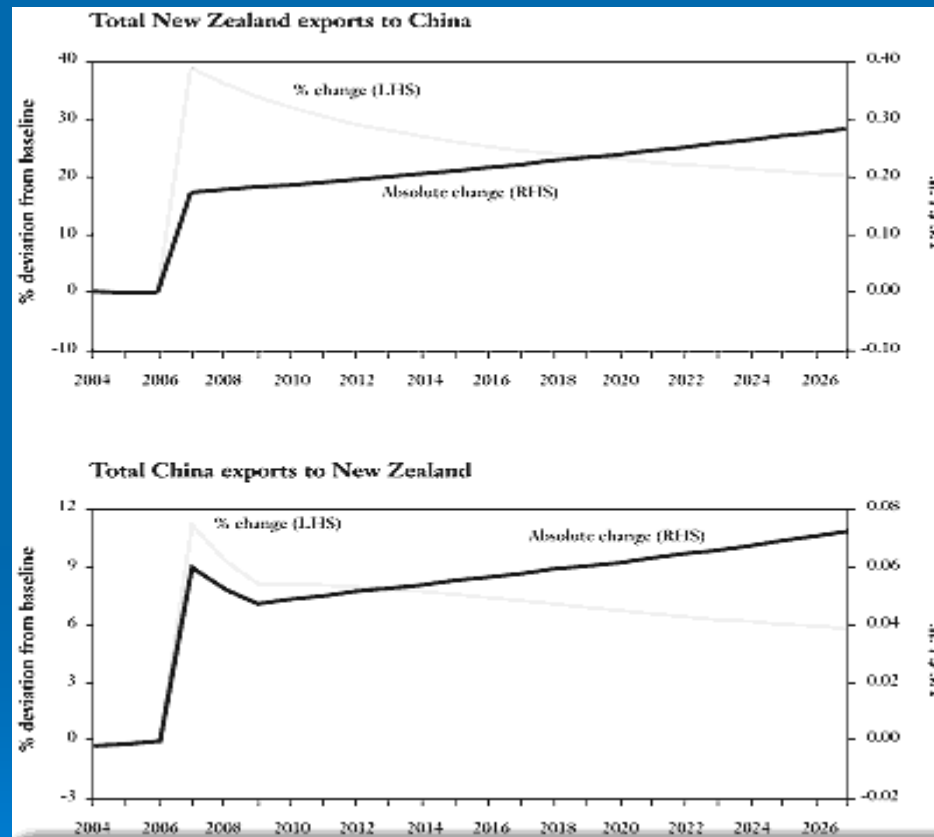
- Used a dynamic global general equilibrium model
- Recognised tariff as well as non-tariff barriers, and dynamic productivity gains that might result from greater competition
- Scenario: an immediate and complete removal of all tariffs and NTBs on New Zealand-China bilateral trade flows in goods & services
- Assumed liberalisation occurred in 2007, and measured impacts over following 20 years

Macroeconomic Effects of a Full FTA

Percentage changes above baseline by 2017

	CHINA	NEW ZEALAND
Real GDP	0.07%	0.25%
Real Consumption	0.17%	0.55%

Changes in Total Bilateral Trade Due to the FTA



Thank you for your
attention

And for inviting me to visit
Henan Agricultural University

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