

**Agricultural Issues in The Negotiations for An Upgrade of The New Zealand-China Free
Trade Agreement**

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ABSTRACT

Agricultural negotiations in international trade meet more difficulties than those in other industries. After the Doha Round, more countries tended to form free trade agreements within their regions rather than seek these through the WTO to identify new opportunities for the liberalisation of agriculture. This is truly important for countries like New Zealand, whose economy relies heavily on exports of primary products. However, in the case of the free trade negotiations between New Zealand and China, some specific trends can be observed from the literature. As the upgrade negotiations between the two countries started in April 2017, this provides a good opportunity to study the case. The research question of this study is "What are the agricultural issues in the negotiations for an upgrade of the New Zealand-China Free Trade Agreement?" This question will here primarily be studied from the point of view of New Zealand. The study finds that the focus of the negotiations can be categorised into four areas: safeguards on dairy, other non-tariff barriers, new areas and commodities to be included in the upgrade and environmental costs. Although the China-Australia Free Trade Agreement has forced New Zealand into a less competitive position in the Chinese market, the action of the upgrade negotiations on the eight-year agreement provides a good opportunity for New Zealand to strive for better trade terms, to get more opportunities for its businesses, and to show the world its determination on agricultural liberalisation.

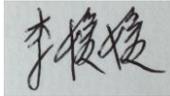
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ATTESTATION OF AUTHORSHIP

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

A square box containing a handwritten signature in black ink. The signature consists of three Chinese characters: '李媛媛' (Li Yuanyuan).

Yuanyuan LI

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CHAPTER 1: INTRODUCTION

Globalisation has appeared to be an unchangeable trend for the world's development. Trade between countries is ever increasing with ever more forms and advanced technologies, which leads to the growing reliance on each other at the same time. Free trade is likely an approach for most countries today whether under the framework of the WTO or with cooperation in the regions. Free trade agreements (FTAs) allow the participating countries to set up a high degree of free trade between each other with tariff reduction or elimination, non-tariff barriers reduction and other initiatives. An FTA also allows countries to be more competitive with other trade competitors outside of the agreement, and makes participating countries focus on their competitive industries while enjoying low price merchandise from the partner country. Arguably, especially after the failure of the Doha Round negotiations, more countries turn to form FTAs for trade liberalisation and to make profit from globalisation. However, in multilateral and other trade negotiations, it is likely that agriculture remains the most difficult part for FTA negotiations.

Being a small open economy, New Zealand relies highly on the international market. Export is critically important for the country, especially primary industry, which plays a dominant role in the country's total exports. The New Zealand-China Free Trade Agreement (NZ-China FTA), which came into force in October 2008, has been a big success for international market access and export growth in the past eight years. However, since the China-Australia Free Trade Agreement (ChAFTA) became effective in December 2015, the competitive position of New Zealand in its second largest trade partner's market has been threatened in many channels, especially the dairy industry. The New Zealand government has urged for an upgrade of the NZ-China FTA since then.

New Zealand is the world's 12th largest agricultural exporter (by value), and the largest exporter for sheepmeat and dairy products and the second largest exporter for wool and softwood log (Ministry for Primary Industries, 2017b). Primary exports accounts for over 70% of merchandise exports in New Zealand, which is to increase from \$32 billion in June 2012 to \$64 billion in real terms by 2025 under the government's goal for primary industry exports (Ministry for Primary Industries, 2017b). In 2012, agriculture accounted for 5.0 percent (\$10.6 billion) of New Zealand's gross domestic product (GDP) in the year ended March 2012 (Statistics New Zealand, 2015a). Considering the facts above, in the ongoing trade negotiations, better arrangements for agriculture would be the key concern for the government. In consideration of the complementary relationship between New Zealand and China and the significant role agriculture plays in New Zealand economy, the research question of this study is "What are the agricultural issues in the negotiations for an upgrade of the New Zealand-China Free Trade Agreement?" and it will pay particular attention to the New Zealand side of the negotiations.

The Agricultural Production Statistics programme in New Zealand is funded by the Ministry for Primary Industries and is administered by Stats New Zealand. Under "agriculture", the

programme includes “animal farming (including sheep, beef and dairy cattle, and deer), crop growing (including grain and seed crops, fruit and vegetables, wine grapes and nursery plants), forestry and farm practices (including irrigation and fertiliser use)” (Ministry for Primary Industries, 2017a). This is the scope of agriculture discussed in this research as well.

The structure of the research is composed of six parts and will start with a literature review on free trade negotiations and issues faced in agriculture negotiations, in Chapter 2. Following that, the research background is provided which looks at the case of the NZ-China FTA. In Chapter 4, the research methodology and method are discussed. Findings and discussion are presented after that in Chapters 5 and 6. At the end, the conclusion of this research is in Chapter 7.

CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

As mentioned above, globalisation has enhanced the connection between nations in all industries, as well as in agriculture. In fact, compared with other industries, agriculture is much less developed in international trade under the framework of the WTO. The reasons may include that agriculture is critically important for the security of a nation's food supply, the stability of employment and it affects the development of other industries in a country.

As for the role of agriculture in the world trade system, it is debated fiercely between different stakeholders, especially between developed and developing countries on the global platform. Unequal power between the two groups of countries and the inherited barriers of agriculture make agriculture more difficult in multinational negotiations. After the outcome of the Doha round, countries tend to find other alternatives for agricultural negotiations in international trade. The rise of regional trade agreements (RTAs) allows countries to negotiate in a more practical way to achieve trade agreements within a smaller number of participating members. According to WTO, RTAs are reciprocal trade agreements between two or more partners (WTO, n.d.-c). Free trade agreements and customs unions are the two forms of the RTAs (WTO, n.d.-c).

The establishment of the NZ-China FTA is one of the RTAs, but presents differently from most RTAs between developing and developed countries because of the substantial role of the agriculture sector in the developed economy and the unequal economy size between New Zealand and China. The upgrade of NZ-China FTA has been initiated in April 2017, eight years after the signature of the NZ-China FTA in 2008. The trading environment is different from eight years ago and the needs in trade between the two countries have also evolved with new features, such that the governments agreed it is necessary to review the agreement and seek new approaches to expand trade volumes, and to enhance the relationship between the two countries.

In order to further understand the agricultural issues in the negotiations for an upgrade of the NZ-China FTA, this study will first look into the empirical literatures in relevant areas to build a solid academic background.

2.2 OVERVIEW OF AGRICULTURE IN TRADE NEGOTIATIONS

Representing only 10% of world merchandise exports, agricultural products are constantly the tough area in international trade negotiations (Gaisford & Kerr, 2001). According to Murphy (2009), agriculture was relatively separate from global trade negotiations for a long period, although it was included in a limited number of the commodities agreements, such as the Generalized System of Preferences, by which duty-free or low-tariff access to some developed country markets are available for developing countries. There are many international institutions

that promote global trade and economy, but the WTO is regarded as having the role of watch dog in goods and services trade, foreign investment, and intellectual property rights etc. (Nagabhushana & Govindappa, 2013). With the establishment of the WTO, it is possible for the decrease of duties, tariffs and non-tariff barriers to be discussed and moderate for all member countries' need (Nagabhushana & Govindappa, 2013). In GATT negotiations, trade in agriculture was treated differently from that of non-agricultural industries before the Uruguay Round negotiations in 1986 (Ghazalian & Cardwell, 2010). In order to improve market access and moderate domestic support and export subsidies that distort global trade in the agricultural sector, the Uruguay Round Agreement on Agriculture (URAA) became effective in 1995 (Ghazalian & Cardwell, 2010). In URAA, policies in market access, domestic support, and export subsidies are included.

With a target to reinforce trade liberalization, another round of trade negotiations on agriculture was initiated in 2000 and was combined into the Doha Round which was started in 2001 (WTO, n.d.-b). The Doha Round is the latest round of trade negotiations among the WTO members with an aim to achieve major reform of the global trading system by introducing lower trade barriers and revised trade rules (WTO, n.d.-e). The negotiations on agriculture aimed to reduce trade distortions in agricultural areas related with high tariffs and non-tariff barriers (WTO, n.d.-b). The fundamental aim of these negotiations was to modify the trading conditions of developing countries, so the Doha Development Agenda is regarded as a semi-official name of the Doha Round (WTO, n.d.-e). "Market access improvement, export subsidies reduction with an ultimate aim of phasing out, and significant domestic support decrease" were the negotiation targets released in September 2001 by the Doha Ministerial (Martin & Anderson, 2008).

However, in 2006, the Doha Development Round stalled after six key trading members could not reach agreements over divisions on farm subsidies and tariffs reduction initiatives (International Center for Trade and Development, 2006). There are many studies on this event, throughout the whole process of the negotiations. Josling and Rae (2000) argued that the member countries' determination to take part in the multilateral negotiation may have affected the negotiation progress in agriculture. Kennedy, Koo and Marchant (1999) noted that the persistent difficulties for agricultural negotiations is caused by high level protection, non-tariff barriers, export subsidies, credits and limited market access, which distort the development of international agricultural trade. Reasons for the failure of the Doha Round are varied, but perhaps the most important one is that developing and developed members could not agree on conditions in the global trading system and especially on agriculture-related policies (Martin & Mercurio, 2017).

2.3 UNEQUAL POWER BETWEEN DEVELOPING AND DEVELOPED COUNTRIES IN TRADE NEGOTIATIONS

From time to time, the World Trade Organization has been criticised as being controlled by the developed countries, and the voices of the developing countries are often ignored

(Nagabhushana & Govindappa, 2013). The outcome of the Doha Round negotiations was influenced by diverse positions of developing, developed and potential members of the WTO (Kennedy, Koo & Marchant, 1999). In this context of multilateral trade negotiations, the different positions in terms of power between participating countries and the information and organisational resources determine that not all the participants are assured of achieving an outcome of welfare-enhancement (Drahos, 2003). Developing participants are likely to lose more than the developed ones (Drahos, 2003).

Although much agricultural production today takes place in developing countries, the US and the EU dominate in the global negotiations around policies affecting agricultural production and trade (Renwick, Islam & Thomson, 2012). They, therefore, have undue influence over the distribution of the economic benefits of agricultural activities. They are also vulnerable because of their dependence on agricultural imports from developing countries, and thus engage in high protectionism. In fact, many of the problems in agricultural world trade are caused by the approaches applied in developed countries to maintain their local goods prices. This makes the global agricultural commodity markets unsteady and undependable, which endangers the profits of developing countries badly because most of them rely heavily on the development of agriculture (Josling & Rae, 2000).

In fact, the protectionism in agricultural international trade is high compared to other commodities (Kennedy, Koo & Marchant, 1999). Tariffs for agricultural commodities are several times higher than those of manufactured goods (Josling & Rae, 2000). Protectionism on agriculture is a conflict which exists between developed countries and developing countries. The major concern for high-income countries' governments is restricting imports and expanding exports in agriculture (Kerr & Hobbs, 2015). On the other side, better market access to the high-income countries is always a high priority for developing countries in global trade negotiations (Anderson & Martin, 2005).

2.4 AGRICULTURAL ISSUES IN TRADE NEGOTIATIONS

The key foci of agricultural negotiations at the WTO have been additional market access, further reductions in (or even elimination of) export subsidies, and more discipline in trade-distorting domestic subsidies (Josling & Rae, 2000). Josling (2003) also argued the key issues for the Doha Round negotiations. These include how to integrate the trade rules in the agricultural sector and other nonagricultural sectors; how to fully incorporate developing members into the global trade system; how to manage the OECD nations' cash-out impact of the farm support operations, and how to provide assurance to the consumers that their health and safety will not be threatened merely because of the expanded trade.

The issues faced in agriculture trade negotiations have been studied in much academic literature. According to Kennedy, Koo & Marchant (1999), the key issues of the WTO agriculture

round were argued as the impact of RTAs on the WTO system, state trading enterprises, biotechnology development in agriculture and the environmental cost for agricultural development. It is also argued that the nature of agriculture itself justifies a restriction from free trade (Moon, 2011). Moreover, it is claimed that the huge export subsidies and domestic support in developed countries (Anderson & Martin, 2005; Ghazalian & Cardwell, 2010), increased concerns about food safety over imported food (Kerr, 2010; Liu, Kerr & Hobbs, 2009), and about the potential negative impact on the environment of imported foods by over-using natural resources and producing high volumes of greenhouse gases in the countries of origin (Holtby, Kerr & Hobbs, 2007) also contribute to the difficulties in the place of agriculture in trade negotiations today.

Together with all the issues mentioned above, it is also necessary to point out that though the tariffication achieved in the Uruguay Round has promoted more transparency in the agriculture trade, problems exist in the area of tariffs still blocking the liberalisation of agricultural global trade (Josling and Rae, 2000). This includes high level tariffs for agriculture commodities, different tariffs levels between different agriculture products, state trading approach to control the trade quality below the tariff rate quotas agreed in trade agreements, high protection in high-value goods and services, and removal of non-tariff barriers (completion of tariffication).

Moreover, Josling (2003) pointed out that the development of the political and economic environment determines the key issues in agriculture trade negotiations in the Doha Round. The developing countries want to have their influence in the new stage of the international trade system; the principles used to be under the responsibility of domestic regulation cannot provide updated guidance in the extended trade area. The food system has now turned into a global industry, in which consumers are the focus of the marketing strategy. In addition, the supermarkets or powerful retailers have dominated the distribution of food rather than farmers, which threatens farmers' profits. In many OECD countries, the agriculture protectionism approaches have transformed from price support to direct payments, which turns out to be an easier way to reform of the trade system. However, new demands and requirements from political environment have made these reforms problematic.

To conclude, the inherited features of agriculture, the history of agriculture's position in world trade negotiations, the limitations in the current trading system, and the changing economic and political environment all contribute to the difficulties in agricultural trade negotiations. The official failure of the Doha Round in 2015 indicates that multilateral trade policies will face significant change because a comprehensive agreement cannot be formed within the framework of the WTO after fourteen years of negotiation (Martin & Mercurio, 2017). Thus, while multilateral negotiations in the WTO are stalled, bilateral and multilateral RTAs are likely to proliferate (Martin & Mercurio, 2017; Mölders, 2016). The wide spread of RTAs is one of the most significant developments in the global trading system since the mid-1990s (Virág-Neumann, 2009).

2.5 DEVELOPMENT OF RTAs

Multilateral liberalisation is advanced in theory, but more challenging in trade exercises when all the members with different backgrounds want to have their say in the agreement (Moser & Rose, 2014). Compared with that, regional liberalisation is more practical in global trade with evidence that the number of RTAs has been increased a lot in the past 15 years (Moser & Rose, 2014). For the GATT's first 30 years, multilateralism was limited to shallow integration (mainly tariff cutting); deep integration including liberalisation of tariffs and many non-tariff barriers was more developed under regionalism (Baldwin, 2008). "RTAs are defined as agreements between countries formed in groups with the target of reducing barriers to trade between each other" (Virág-Neumann, 2009). RTAs allow countries to reach win-win agreements through a faster and easier approach than through the complex framework of the WTO. RTAs are significantly important in the global trading system today; most WTO member countries have signed at least one RTA (Kennedy, Koo & Marchant, 1999).

According to Eicher and Henn (2011), RTAs lead to strong growth in trade, but the outcome is uneven between different trade agreements. In recent years, RTAs are more often formed between developed and developing countries (Wei, 2011). The different phase of development, and the economic structure determine that the import and export demands of the two groups of countries are different, which makes them to establish trade agreements to achieve their trade goal nicely (Wei, 2011).

Moser and Rose (2014) argued that RTA formation between countries is not random but determined systematically by economic and political factors. It is also argued that the effects of RTAs depend on the characteristics of the bilateral partners (Eicher & Henn, 2011). According to Josling (1998), the benefits and costs of agriculture for participating countries in RTAs are determined by the changing role which agriculture plays in the agreements and the changing nature of the agreements details.

Moreover, it is argued that the dynamics for countries forming RTAs includes increasing trade volumes through RTAs and maintaining protection from countries outside of the RTAs (Kennedy, Koo & Marchant, 1999). In these cases, the large markets of the developing countries are opened to the developed countries, while agricultural protectionism in the developed markets often blocks companies from developing markets from entering them (Healey, 2014). However, this is not always the case; the character of the country pairs will affect the result of the agreements as mentioned above.

2.6 SUMMARY

In global trade negotiations, negotiations around agriculture have developed more slowly than other areas. One of the reasons is the different position and power between developing and developed countries. The issues faced in agricultural trade negotiations are discussed in

various works of literature, including the protectionism in agriculture, non-tariff barriers in trade, market access and even the environmental concerns on international agriculture trade. The failure of the Doha Round, demonstrates how difficult it is to reach an agreement for countries in the multilateral agriculture negotiations. Since then, more countries have tried to form RTAs to strive for agriculture liberalisation. This research looks into the case of New Zealand and China in the upgrading negotiations over the eight-year old free trade agreement between the two countries.

CHAPTER 3: RESEARCH BACKGROUND

3.1 INTRODUCTION

The literature review chapter has outlined an overview of negotiations around agriculture in world trade. Free trade is important for agriculture and its meaning for countries may differ, depending on the different development stage and the role that agriculture plays in the economy. Moreover, the key concerns in agriculture negotiations will add difficulties since the different stakeholders from each country will have different interests. It is challenging for governments to identify a trade agreement with consideration of the voices from domestic and external markets. This chapter will provide background information on New Zealand-China free trade and explain why the agricultural issues of New Zealand in the NZ-China FTA upgrades are important to study.

3.2 THE NEW ZEALAND-CHINA FREE TRADE AGREEMENT

The NZ-China FTA came into force on 1 October 2008, after four years of negotiations following the publishing of a “Joint Feasibility Report” in 2004 (Ministry of Foreign Affairs and Trade, n.d.-e). It represents the first FTA signed between an OECD country and China. In addition to removing barriers to trade in goods, services and investment, the NZ-China FTA strengthens the relationship between New Zealand and China in a broad range of cultural, social and political areas (Kirk, 2016e).

Abundant resources like farmland and a temperate climate to support the agriculture in New Zealand makes the country outstanding in some global markets (Rae, 2014). Referring to the development of world agriculture, Anderson (1998) stated that the total factor productivity in agriculture has developed faster than that of manufacturing globally which enables resource-rich countries to develop faster. Also, it is noted that exporters of these countries face more protectionist barriers in the global market than the exporters of other countries (Anderson, 1998). Sachs and Warner (2001) argued that an open trade policy matters enormously to the growth for these resource-rich countries.

This is truly the case for New Zealand, a small export-led economy with a significant share of its primary industry and a relatively small population. The long-term development of New Zealand's primary industries will depend on how it responds to various developments in both domestic and international environment, including the growing requirement for higher value consumer goods in the Asia market (Ministry for Primary Industries, 2017c). For example, Rae (2014) pointed out that the export of processed foods is superior compared with primary and semi-processed agriculture products in the New Zealand economy, and this will continue for a long period. Moreover, he argued that participation in global or regional free trade agreements that offer lower trade barriers for these goods is beneficial for New Zealand to expand its global market and strengthen its comparative advantage in these areas (Rae, 2014).

To open up further opportunities in the large Chinese market might be one of the most important motivations for the New Zealand government. The large and growing population of China's middle class provides abundant opportunities for New Zealand exporters. Moreover, with increasing preferential trade agreements in the global market, taking advantage in key trade markets relative to other competitors is also regarded as part of the key motivations for New Zealand to form the NZ-China FTA (Ministry of Foreign Affairs and Trade, n.d.-d). In contrast to New Zealand, China's intention to form an FTA with New Zealand might have less to do with market access, but more importantly to form an FTA with a developed country may be beneficial for further trade negotiations in the future. The intention can also be viewed from the position that the NZ-China FTA represents the first comprehensive FTA China has established covering goods, services and investment as a 'single undertaking' from the launching of the agreement (Tan & Cai, 2010).

As stated by the Ministry of Foreign Affairs and Trade (n.d.-e), the NZ-China FTA is a real success for both New Zealand and China. The treaty liberalises and facilitates the trade in goods, services and investment between the two countries. In the area of trade, goods exports to China have quadrupled since the FTA was signed and came into force (Ministry of Foreign Affairs and Trade, n.d.-e). China is now the second-largest trading partner to New Zealand, with two-way trade amounting to more than NZ\$22 billion in 2016 (Ministry of Foreign Affairs and Trade, n.d.-e).

In 2016, New Zealand's major goods exports to China were dairy (milk powder, butter and cheese), wood products and meat products while New Zealand's major imports from China were electronics, clothing, furniture, and toys (Ministry of Foreign Affairs and Trade, n.d.-e). These data pretty well illustrate the complementary nature of the two economies and the different needs in terms of the trading categories. In fact, the complementary trade relationship between the two countries can be observed from different industries over a long time (Zhang & Nie, 2008). It is also stated by Zhang & Nie (2008) that New Zealand's agricultural products are vital to China and manufactured goods originating from China benefit the New Zealand market with lower prices. Meanwhile, being a trading nation, New Zealand's capability in selling goods and services in the global market is central to the standard of living, jobs and growth of the economy (Ministry of Foreign Affairs and Trade, n.d.-c).

The FTA is much more than mere trade liberalisation. In the agreement, rules to govern trade, movement of people, facilitation for investment, measures to improve the business environment, conformity of assessment of electrical and electronic equipment, dispute settlement and environment and labour are also covered (Ministry of Foreign Affairs and Trade, n.d.-c). Within that, the tariff phasing-out plan has always been an significant part of any FTA.

On signing the FTA, tariffs on 96% of New Zealand's current trade to China were gradually to be eliminated over 12 years. Over 70% of New Zealand's exports, including exports other than

those of specific agricultural products, were duty free after six years (Ministry of Foreign Affairs and Trade, n.d.-c). On the other hand, on signing the agreement, tariffs on 37% of China's trade to New Zealand were eliminated and, from January 2013, more than 70% of China's exports were duty-free (Kirk, 2016e). Ultimately, all products from China were duty-free by 2016 (Kirk, 2016e). Nevertheless, according to Stats New Zealand (2015b), more than 80% of New Zealand's trade with China is in goods. China was the top export destination of New Zealand (\$13.2 billion) in the year ending June 2017 with dairy products and logs the top two export commodities by destination, accounting for \$3.3 billion and \$2.1 billion respectively (Stats New Zealand, 2017). Meanwhile, electrical machinery and equipment are the main imports from China in the same period, accounting for \$2.0 billion (Stats New Zealand, 2017). In the area of goods trade, the NZ-China FTA provides a schedule of tariff elimination for both countries together with the rules to govern the trade, which includes Rules of Origin and Operational Procedures, Customs Procedures and Cooperation, Trade Remedies, Sanitary and Phytosanitary Measures, and Technical Barriers to Trade. The success of the agreement is also echoed in the business area.

“Successive New Zealand governments have achieved significant trade outcomes that have benefited our industry (such as being the first developed country to negotiate an FTA with China). The government has had a clear vision of what industry needs to maintain and grow our trade access globally.”

Tim Ritchie, Meat Industry Association CEO (Ritchie & Mclvor, 2017)

Although the current agreement has made great efforts on tariff elimination in broad areas for bilateral trade, practical issues proved that the current agreement is to some extent out of date. For example, 11 out of 20 main dairy products are included in the “Special Agricultural Safeguard Measures” by China with different quantity trigger levels in different years. In addition to that, logs, wood and other forestry products, which are top exports, did not receive any concessions (Quinn, 2007). Moreover, certificates of origin and certification of non-manipulation are existing obstacles for New Zealand business (Quinn, 2007). There are signs the agreement today does not meet the requirements in the market (Leslie, 2016). Trade in multiple fields has increased faster than people expected (Rutherford, 2017). Being the first to form an FTA with China from the developed world, New Zealand has been pushing for an upgrade after other countries including Australia formed FTAs with China with better terms in some areas (New Zealand Herald, 2017b).

3.3 AGRICULTURE IN THE NEW ZEALAND-CHINA FREE TRADE AGREEMENT

New Zealand's major source of income is agriculture: about 50% of total export income comes from meat, dairy products and wool; the land supports some 68 million sheep and 4.8 million beef cattle (Products from New Zealand, n.d.). New Zealand is also a member of the Cairns Group of Fair Trading Nations, whose mission is to liberalise global trade in the agricultural industry (The Cairns Group, n.d.). The member countries aim to abolish export subsidies and

trade-distorting domestic support for agricultural products and work on market access for agricultural exports (The Cairns Group, n.d.). In the NZ-China FTA, the majority of tariffs on agricultural products originating from China were eliminated when the NZ-China FTA became effective in 2008 including all meat of beef cattle and sheep, milk and cream, butter and dairy spreads, cheese and curd, and kiwifruit. The remaining products were gradually phased out within five years (Saunders, Saunders, McLellan, Obadovic, & Driver, 2015).

Compared with New Zealand, China was more likely protective towards the agricultural sector. Arguably, the dairy industry in China was taken as a new industry, and was most heavily protected. The Chinese government is focused on the recovery and growth of its dairy industry. One of the reasons is that the confidence of Chinese consumers in China's domestic dairy industry has been severely damaged by the melamine contamination scandal in recent years. China wants to see its agriculture industry continue to grow and the safeguards have quite an impact on the price of dairy in the Chinese market as said by Economic Development Minister Steven Joyce (O'Sullivan, 2015). According to the Ministry of Foreign Affairs and Trade (n.d.-c), some of the key tariff phasing-out plan is as follows: Products including infant milk formula, yoghurt, casein, frozen fish, frozen fish fillets, methanol, animal fats and oils, apples and wine are planned be eliminated from the existing 6-29% Chinese tariff over five years. Cheese, butter and liquid milk with tariffs were agreed to be duty free in 10 years. For whole and skim milk powder, the tariff phasing-out plan takes 12 years. For these products, a specific safeguard mechanism is applied if the export exceeds the agreed quota. Sheep and beef, edible offal and kiwifruit are categorised as sensitive products to China with the tariffs to be eliminated over nine years. A country-specific tariff quota was offered on New Zealand wool exports. Most of the other tariffs on agricultural products were gradually abolished within five years. Durum wheat, maize seed, all types of rice, raw cane sugar and other sugars, soy bean oil, curd palm oil, sunflower oil and some other oils were not included in the agreement, and they are subject to MFN tariffs rates. It can be concluded that China is more careful on the terms of the "white gold"- dairy in New Zealand. The huge demand for dairy products in the Chinese market and the weak status of Chinese domestic dairy are part of the reasons for the safeguards.

3.4 THE CHINA-AUSTRALIA FREE TRADE AGREEMENT

Compared with the NZ-China FTA negotiation, ChAFTA took much longer before it came to a conclusion. The ChAFTA came into force on 20 December 2015, 10 years after the "Australia-China Free Trade Agreement Joint Feasibility Study" was published in 2005 (Department of Foreign Affairs and Trade, 2017). China is Australia's top trading partner and trade and investment with China is critical to Australia's future prosperity (Department of Foreign Affairs and Trade, 2017). In 2016, exports to China were worth \$93.5 billion, representing over a quarter of Australia's total exports; China is Australia's largest overseas market for agriculture, resources and services (Department of Foreign Affairs and Trade, 2017).

For China, the motivation to form the agreement with Australia could be viewed from both the political and economic perspectives (Jiang, 2008). China judged the relationship between the two countries to be trustworthy and needing further strengthening. Arguably, this step of an FTA reflects China's worry about Australia's strategic alliance with the US and Japan. From the economic perspective, the motivations lie in energy resources and raw materials supply and the recognition of China's market economy, which would be advantageous for further trade debates with the EU and the US in the framework of the WTO. According to the Department of Foreign Affairs and Trade (2017), ChAFTA has strengthened Australia's large and successful commercial relationship with China, by securing markets and providing Australian business with even better access to the Chinese market across a range of key business interests, including goods, services and investment, amounting to about a third of total exports.

As released by the Department of Foreign Affairs and Trade of Australia (2017), tariffs on over 96% of Australia's goods exported to China will be phased out or they will be given preferential access. Dairy products including cheese, milk formula powder, butter, liquid milk and yoghurt with 10% and 19% tariffs are to be phased out in four to nine years; boxed or frozen beef with 12-25% tariffs are to be eliminated in four to nine years, while cattle hides with 5-8% tariffs are to be abolished in two to seven years; live sheep and cattle with 10% tariffs are planned to be phased out in four years while sheepmeat with 12-23% tariffs are intended to be abolished in eight years and skins with a 7% tariff on to be abolished in four years; wool exports will enjoy a new Australia-only duty-free quota, which came into force on 1 January 2016, in addition to continued access to China's WTO wool quota; Australian barley and sorghum will be duty-free on the coming to effect of ChAFTA; citrus with 11-30% tariff will be duty-free in eight years and the same for other horticultural products in four years and wine with tariffs of 14 to 20% are to be phased out by 1 January 2019 ("Agriculture a big," 2014; Department of Foreign Affairs and Trade of Australia, 2017).

Dairy, beef, sheepmeat and horticulture are the main winners while some prime goods including rice and sugar will be left for review in a three-year review ("Agriculture a big," 2014). It can be possibly observed from the tariff reduction plan that the ChAFTA has reached more beneficial terms on goods trade than New Zealand, particularly in the agriculture industry. Most Australian dairy exports will not be subjected to the safeguards while these are still applied to New Zealand dairy products. Only whole milk powder is likely to be affected by the safeguards, which means that tariffs will be applied once a quota is reached (Barbour, 2014).

"In the negotiations we argued to get a New Zealand equivalent or better outcomes for red meat and dairy which would have made us very happy, but this has gone beyond that expectation and is a cracking agreement."

Brent Finlay, National Farmers' Federation President (Bettles, 2014)

3.5 SUMMARY

In this chapter, the background of the New Zealand-China FTA is provided. New Zealand is the first developed country to form a free trade agreement with China, the second largest economy in the world with the largest population. New Zealand has seen extreme growth since the signing of the agreement in 2008, especially in primary exports. It is also known that agriculture is critically important for the New Zealand economy with its dominant position in exports. New Zealand has pushed for an upgrade of the NZ-China FTA ever since Australia obtained better trade terms in agriculture in the ChAFTA, especially in relation to the dairy industry. In these circumstances, this study investigates agricultural issues in the negotiations for an upgrade of the NZ-China FTA.

CHAPTER 4: METHODOLOGY AND METHOD

4.1 INTRODUCTION

In the previous chapters, the focus of the project has been outlined. This chapter introduces the research methodology and methods applied in collecting and analysing the data for this project. The research question of this study is “What are the agricultural issues in the negotiations for an upgrade of the New Zealand-China free trade agreement?”

In order to generate an in-depth understanding of the role of agriculture in the NZ-China FTA, an interpretivist research paradigm is applied. Single case, embedded case study design with multiple units of data analysis (Yin, 2009) will be adopted in this research. Case studies are more focused in a research area (Gray, 2014). A case study can add significant value on how to understand and extend experience on the research topic and generate in-depth knowledge as well (Stake, 2000). The author will look into the role of agriculture in the NZ-China FTA in light of the literature on the different places of agriculture for developing countries and developed countries in global trade negotiations.

According to Ritchie and Lewis (2003), in the case study, often multiple perspectives are drawn from several methods of data collection or multiple accounts collected from one data collection method. In this study, discussions and studies on the NZ-China FTA and its upgrade will be drawn into a database from media, government, companies, organisations and academic sources. A rich and deep understanding of the context will be generated through combining and contrasting ideas from multiple perspectives (Gray, 2014). Given the various data sources from documents and official statistics, secondary data analysis will be adopted in this qualitative study to draw on empirical data as a basis for discussing agricultural issues in the negotiations for an upgrade of the NZ-China FTA. By re-analysing the data, additional, comprehensive knowledge on the primary data will be created and often from a new perspective or conceptual focus (Gray, 2014). Through analysing the data collected from multiple data sources, this study aims to understand the place of agriculture and agricultural issues in the context of the upgrade of the NZ-China FTA, which is different from most FTAs formed between developing and developed countries.

4.2 DATA COLLECTION

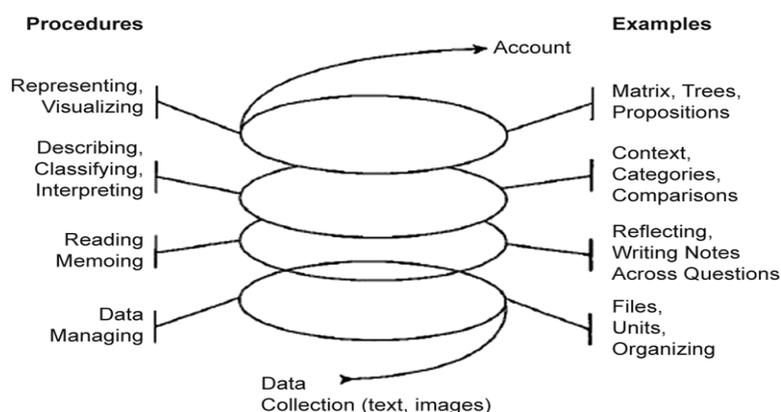
In a case study, the researcher can collect empirical data from multiple data sources including qualitative and quantitative data (Eriksson & Kovalainen, 2016). Case studies will be more accurate, convincing, diverse and rich if the study is conducted on data collected from several kinds of sources (Eriksson & Kovalainen, 2016). In order to get multiple sources of data on the role of agriculture in the discussions on the NZ-China FTA and its upgrade, different kinds of data sources including conference speeches, journal articles, news reports, statistics and publications from company, industry and government will be analysed.

Although it is often seen that in-depth interviews are utilised in business research as primary data collection whereas other kinds of data sources are presented as complementary, here secondary data sources better support the research aim (Eriksson & Kovalainen, 2008). The advantage of secondary data lies in the fact that it is often provided by professional researchers who have rich research experience in both conducting research and collecting data (Boslaugh, 2007). In addition, it is very helpful in developing explanations for understanding a phenomenon and the changes occurring in a context by analysing secondary data over a long time period (Gray, 2014). As this project will investigate agricultural issues in the upgrade of the NZ-China FTA, widely accessible secondary data will be collected. Utilising the data from multiple sources enables crosschecking within the data and achieves triangulation (Eriksson & Kovalainen, 2016). Ideas regarding agricultural issues in the negotiations for an upgrade of the NZealand-China FTA were collected from people with different backgrounds, from business to government, from NGOs to industry organisations.

In order to find out the most accurate and broad data, key words like ‘New Zealand-China free trade agreement upgrades and agriculture’, ‘New Zealand agriculture and free trade’, ‘New Zealand agriculture and environment’, ‘impact of New Zealand-China free trade agreement’, ‘benefits and cost of the New Zealand-China free trade agreement’ were used in the desk researching process. Media reports turned to be the most abundant source as the ideas on the agricultural issues in the negotiations for an upgrade of the NZ-China FTA were widely discussed and shared by the public. For example, Stuff, NZ Herald and Radio NZ provided many reports regarding people’s concerns about the ongoing upgrades of the NZ-China FTA. The concerns from the public are often found in media reports while the government’s standing can also be gathered from the official websites like Beehive and some ministry websites. Due to the election in 2017, the ideas about the interests and policies of the New Zealand government also changed. Hence, the negotiations on the upgrades of the NZ-China are also affected.

4.3 DATA ANALYSIS

Data analysis was carried out according to Creswell’s (2007) data spiral demonstrated as following:



Source: Creswell (2007)

First the data was searched in different sources with different key words being stored in separate folders. Second, in the reading memoing step, the researcher went through the data by folders, and noted which data were useful and what needs to be searched later to complement the existing database. During this process, some new folders were created at the same time for further data sorting and storage. After that, the ideas from the data were listed in an Excel form, which helped the researcher to find out the themes of the topic. With the basic ideas of the themes, the data was then categorised into a form for comparison later. Concerns with high priorities are discussed more frequently in the sources and are presented with orders accordingly. Positions of different stakeholders are retrieved from the form as well, which are illustrated below the same theme. However, during the writing process, modifications were often made to the original writings and the data collection needs to be adjusted accordingly. Some new data was added to the existing folders or presented as a new data item and sorted separately. This operation went back and forth sometimes but was managed under the rule of data management.

Thematic data analysis was conducted on primarily qualitative data. A theme means important topics presented in the data relating to the research question and means patterned discussions within the data (Gray, 2014). Through thematic analysis, comments with relatively high frequency were grouped and identified for further integration of understanding of how agriculture appears in the content of the NZ-China FTA upgrade. In qualitative analysis, the initial data description is divided into smaller topics, which creates an understanding of how they relate to new concepts (Gray, 2014). In this study, themes of the research were identified from the data on how agriculture is considered in the NZ-China FTA and its upgrade from all kinds of multiple sources, which were then presented in the order of importance. Articles categorised under the same theme were collected and analysed by coding and thematic processing while further analysis by different stakeholders was conducted later.

4.4 SUMMARY

This chapter has introduced the method and methodology adopted in this research. In this case study, empirical data sources were collected via desk research. Secondary data from multiple sources were utilised for wide and deep understand of the research question. The following chapter will present the key findings that emerged during the research.

CHAPTER 5 FINDINGS

5.1 INTRODUCTION

As introduced in the previous chapter, Creswell's (2007) data spiral was applied for data analysis. Upon the data analysis on empirical data, the agricultural issues in the negotiations for an upgrade of the NZ-China FTA are better understood. The upgrade is expected to modernise the agreement and to further free up trade for goods and services exporters (New Zealand Foreign Affairs & Trade, n.d.). Negotiations will focus on promoting areas already included in the existing FTA, including technical barriers, customs procedures, cooperation and trade facilitation, rules of origin and services (New Zealand Foreign Affairs & Trade, 2017).

Arguably, the original FTA was a big success for New Zealand with unexpected trade volume growth in the two-way trade. Now, after eight years, it is possibly a good opportunity to look into the needs that have developed from business, to make more efforts on non-tariff barriers removal, and hence to make New Zealand more competitive in the Chinese market. The upgrade would produce an arrangement of the "most advanced level" between the nations and "the first of its kind between China and a developed country", Li said (Straitstimes, 2017). The chapter will first outline the conditions under which the negotiations for an upgrade of the existing FTA took place, and then outline the four key themes of concern for New Zealand agriculture that emerged out of the analysis. These four key themes are safeguards on dairy, other non-tariff barriers, new areas and commodities to be included in the upgrade, and environmental costs.

5.2 AGRICULTURAL ISSUES IN THE UPGRADE OF THE NEW ZEALAND-CHINA FREE TRADE AGREEMENT

The "big three" - dairy, meat and forestry - have all said New Zealand is ready to gain from NZ-China FTA upgrades, which itself was essential in making China one of New Zealand's leading trade partners (Hutching, 2016). According to Trade Minister Todd McClay, the upgrade priorities for New Zealand are better terms for dairy, forestry and wood processing exporters, new rules to promote online and digital trade and improved measures to deal with non-tariff barriers (Boot, 2017). The dairy industry in particular had raised the need for an upgraded FTA between New Zealand and China since trade had grown beyond expectations under the FTA that the original quota for dairy exports in the safeguard was set too low (Tarrant, 2017). This was also supported by Chair of the Dairy Companies Association, Malcolm Bailey, who agreed that the safeguards were far too low for today's trade (Leslie, 2016). Additionally, chilled meat exports and agreements for horticultural access are also areas that need help from the government for better market access into the Chinese market according to ExportNZ executive director, Catherine Beard (Bradley, 2016).

Just before the formal upgrade negotiations started, a Memorandum of Cooperation was signed initiating a six-month trial period for New Zealand chilled sheep and cattle meat exports to China, with a commitment to pursue further trade opportunities afterwards; and a Memorandum of Cooperation committed Chinese onions for export to New Zealand as well (McBeth, 2017). New Zealand exported around \$1.2 billion worth of sheep meat, beef and offal in the year to the end of December 2016, a trade that has grown five-fold since 2011 (Meat Export NZ, 2017). Export of chilled meat to China will create new opportunities for products with higher value in the market. On the other hand, China being first exporter of onions has not yet had access to New Zealand to date, which will also be changed in the recent initiatives agreed by the two countries. In addition to that, the two countries have announced they will set up a project working on animal health and two research cooperation projects in agriculture (McBeth, 2017). These actions will strengthen both the academic relationships between New Zealand and China and potential commercial cooperation in agriculture, which is a priority sector for the two countries. This shows the determination of the governments in their efforts on agricultural liberalisation and also is a good omen for the coming negotiations.

5.3 NEW ZEALAND URGED FOR THE UPGRADE

The high-speed growth in the Chinese market and the disadvantages to New Zealand's exporters caused by ChAFTA are considered the main reasons for the new negotiations (Leslie, 2017). In fact, New Zealand had pressed hard for an upgrade of the NZ-China FTA, particularly for dairy trade under the agreement (Small, 2016). Former Prime Minister John Key and President Xi Jinping agreed to renegotiate the NZ-China FTA in November 2016 (Ministry of Foreign Affairs and Trade, n.d.-e) seven months after John Key pushed for a renegotiation on the original agreement during his visit to China in April 2016. During that visit, non-tariff barriers and tariff safeguards on dairy trade was the focus of New Zealand's argument (Kirk, 2016c).

The upgrade negotiations will take about a year according to estimates by the two countries on making this decision (Radio New Zealand, 2016). The first two rounds of negotiations took place in April and July 2017 respectively in Beijing (Ministry of Foreign Affairs and Trade, n.d.-e). In round one, New Zealand raised three issues in the upgrade negotiations, being non-tariff barriers affecting goods trade, market access for services exporters and digital trade (Ministry of Foreign Affairs and Trade, n.d.-e). The round two negotiations went smoothly, particularly on trade facilitation (customs procedures and rules of origin), technical barriers to trade issues, and competition policy (Ministry of Foreign Affairs and Trade, n.d.-e).

However, New Zealand has a more extensive table of desired outcomes than its counterpart in the upgrade negotiations. Stephen Jacobi, executive director of the New Zealand China Council said, "The problem we have in the negotiations, I think, is our list is possibly quite a bit longer than the Chinese list. " (Rutherford, 2017). The ChAFTA offers Australia better export terms on dairy products and meat than New Zealand's FTA terms, and the New Zealand government

desperately wanted to improve the terms for New Zealand through the upgrade negotiations in order to stay competitive with Australia (Kirk, 2016d). Ongoing talks with China over an upgrade to the bilateral free trade agreement are “part and parcel” of Belt and Road, Jacobi says, giving New Zealand the chance to discuss for some better terms for China as well as for New Zealand (Sachdeva, 2017).

By contrast, what China wants is less clear, with New Zealand already agreeing to be part of the belt and road initiative (Rutherford, 2017). The strengthened relationship with the US, particularly on the military side, was argued to be used by Chinese government for leveraging in FTA negotiations, which was not a factor when the original FTA was agreed by the two parties (Kirk, 2016d). John Key came to China to bargain early in April 2016 three months after the ChAFTA came into force (Kirk, 2016d), which not only indicates that China’s less active attitudes towards the upgrades of the FTA, but also shows the unequal power between the giant economy and its smaller and distant counterpart.

Although it is difficult to form an agreement between two countries, especially between developing countries and developed countries, the participant countries’ determination to form an agreement plays a critical role in pushing the progress of negotiations (Josling and Rae, 2000). “It’s going to be a challenging negotiation to get what New Zealand wants, but that’s nothing new,” and “We’re used to always negotiating trade agreements around sensitive issues, particularly around agriculture products,” Prime Minister Bill English said on March 2017 (Tarrant, 2017).

“Developing an Agricultural Growth Partnership” is an agreement signed during then Prime Minister John Key’s visit to China in April 2016 (Kirk, 2016c). This was before China agreed to upgrade negotiations on the NZ-China FTA. And in March 2017, two agricultural initiatives were signed during Chinese Premier Li Keqiang’s visit to New Zealand, which led to a new joint programme focused on animal health and a new research arrangement on biosecurity and plant protection (McBeth, 2017). As can be seen from the signature of the initiative between the two countries, New Zealand will take advantage of its advanced technology and science in the field of agriculture to help China with agriculture research and cooperation. This is a positive step for strengthening the relationship between industries and countries, and shows the government’s attitude to push for the upgrade negotiations proactively. New Zealand had been pushing for an upgrade of the NZ-China FTA after China formed FTAs with other countries including Australia on more favourable terms in some areas. Being the first to form an FTA with China in the developed world, New Zealand is the first to negotiate for an upgrade as well.

5.4 FOCUS OF NEGOTIATIONS FOR NEW ZEALAND’S AGRICULTURE INDUSTRY

In this part, the focus of agricultural negotiations for New Zealand is presented in four parts. It includes safeguard on dairy, other non-tariff barriers, new areas and commodities to be

included, and environmental costs.

5.4.1 SAFEGUARD ON DAIRY

“Safeguard measures are defined as “emergency” actions with respect to increased imports of particular products, where such imports have caused or threaten to cause serious injury to the importing Member's domestic industry” WTO (n.d.-d). According to the WTO (n.d.-a), there are three types of safeguards in agricultural negotiations, namely GATT safeguard, Special Agricultural Safeguard (SSG), and the proposed Special Safeguard Mechanism (SSM). Within that, the SSG can be triggered by import surges or price falls, with no need to test injury or to negotiate compensation. The SSG can only be applied on products that were “tariffed” (e.g. quantitative restrictions converted to equivalent tariffs). Moreover, in order to use this safeguard, the government needs to have the right reserved for doing this in its lists or “schedules” of commitments on agriculture. This safeguard raises tariffs, but imports under tariff quota commitments are not affected. This is the safeguard used on the New Zealand dairy industry in the NZ-China FTA.

Safeguards on dairy are clearly a key interest for New Zealanders in relation to the ongoing upgrades negotiation. New Zealand is the world's No. 1 dairy product exporter by value, dairy represents a third of New Zealand's goods exports (Ministry for Primary Industries, n.d.; Dairy at work, 2016). In 2016-2017, dairy farming accounted for 28% of the total value that New Zealand earned from its merchandise exports, that is 35% of New Zealand's total primary industry export value (Dairy at work, 2016). New Zealand exported NZ\$2.77 billion of dairy products to China in 2015(Scoop, 2016).

As mentioned above, in signing the NZ-China FTA, China was more protective of its dairy sector than New Zealand. For example, the tariff on all other products such as cheese and liquid milk and cream will be eliminated by 2017 and on milk powders by 2019 (O'Sullivan, 2015). In addition to that, safeguards on dairy are a measure applied to protect China's domestic dairy industry. According to the safeguards, the dairy exports exceeding the quota in the agreement will face most-favoured-nation tariffs. It means that New Zealand exporters will face the same duty rate that China offered to other trading partners under the frame of WTO who is excluded from the NZ-China FTA. Milk powder, by far the largest component of NZ's dairy exports to China, is also influenced. By contrast, all products from China were duty-free by 2016 (Kirk, 2016e).

However, it is argued by the Dairy Companies Association of New Zealand that the fast expansion of dairy products needs in the Chinese market was not expected when the agreement was originally negotiated (Scoop, 2016). In 2015, the safeguards were to be triggered when 135,675 tonnes of skim and whole milk powders was exported to the Chinese market (O'Sullivan, 2015). In 2016, this trigger and pre-agreed tariff of 10% was triggered for whole milk powder, New Zealand's biggest dairy export to China, in the first half of January,

right at the start of the export season (Leslie, 2016). It proves that those volumes have been exceeded easily each year, and while China has the option of not applying the safeguard measures it has used them every year since the FTA began (Leslie, 2016).

Under the current FTA, a complete removal of import tariffs on all New Zealand dairy products is due in 2024; the FTA will already allow duty free access for dairy exports into the Chinese market in a few years (Tipa, 2017). However, safeguarding dairy is still the critical concern for New Zealand. Moreover, the quantitative limits on tariff preferences for butter and skim milk powder are not required in the ChAFTA (Scoop, 2016). "We would like to see a move to all New Zealand dairy exports going in on a lower tariff basis rather than have these safeguards," said Malcolm Bailey, Dairy Companies Association of New Zealand Chair (O'Meara, 2016). This is also supported by Stephen Jacobi, noting that New Zealand wants to speed up the phasing out of restrictions on tariff-free dairy exports (Rutherford, 2017). The focus of the upgrades negotiations must be broadened to include new emerging issues, but also improve the quality of the existing dairy deals with safeguards in the agreement (McClay, 2016). "We won't be kickstarting a negotiation unless we can talk about the dairy safeguards," said the Primary Industries Minister, Nathan Guy (Leslie, 2016).

5.4.2 OTHER NON-TARIFF BARRIERS

"Different from standard border tariffs, non-tariff barriers (NTB) are regulatory tools that can be applied to bring a potential economic effect on trade - to decrease trade quantities, to increase their price, or some combination of the two" (New Zealand Institute of Economic Research, 2016). As tariff barriers are decreased through trade agreements, non-tariff barriers multiply. As the WTO has recently estimated, the number of trade-restrictive measures in effect in 2015 was around three times as great as the number operating in 2010 (Stanley, 2016b).

"Non-tariff barriers include government laws, regulations, policies and/or practices, other than tariffs, that are used to distort international trade while protecting local products from the full weight of external competition or artificially stimulating exports of specific local produced products" (Asia-Pacific Economic Cooperation, 2000). Non-tariff barriers include "technical measures such as sanitary or environmental protection measures, quotas, price controls, export restrictions, contingent trade protective measures, and other behind-the-border measures, such as competition, trade-related investment measures, government procurement or distribution restrictions"(United Nations, 2013). The overall cost of non-tariff barriers on New Zealand's primary sector exports to APEC economies is US\$4.7 billion (based on 2011 trade) with the majority of these costs being imposed on the dairy (US\$2.7 billion), beef (US\$768 million) and food products sectors (US\$717 million) (New Zealand Institute of Economic Research, 2016).

While the original FTA has largely removed tariff barriers between New Zealand and China, non-tariff barriers remain as challenges to doing business. "Non-tariff barriers are only growing in number and costing NZ industry millions of dollars. We need the NZ Government to pay

urgent attention to overcoming these", said Brian Stanley, New Zealand Wood Council chairman (Stanley, 2016b). Part of the focus in the upgrade negotiations are technical barriers and trade and services barriers that still cause difficulties for New Zealand exporters and that might unfairly restrict trade (Bradley, 2016; McClay, 2016). For example, under the NZ-China FTA, various certification requirements have blocked New Zealand exporters from taking advantage of preferential rates, or even getting their exports over the Chinese border (Quinn, 2017). After all, it does not matter what a tariff rate is: successful access into the target market is more practical for business. "These negotiations give us the opportunity to future-proof our own FTA and address the remaining technical barriers that still exist on each side," said Stephen Jacobi (Bradley, 2016).

Trade Minister Todd McClay mentioned that getting rid of non-tariff barriers was a priority for the upgrade negotiations (Leslie, 2017). "There's more to free trade agreements than simply reducing tariffs – they must also break down technical barriers," he said (McClay, 2016). There are two areas in particular where the non-tariff barriers are of concern in the agricultural sector in New Zealand: the forest and wood sector, and the meat sector. Both of them will now be discussed in turn.

NZ's forest and wood sector is particularly exposed to non-tariff barriers in international markets. With 86% of the world's forests publically owned it is no surprise that overseas governments are heavily involved in subsidising their forest growing and wood processing sectors (Stanley, 2016b). In NZ, where forestry and wood processing has been in private hands for decades, the industry has relied upon new technology, efficiency and scale to maintain a competitive edge. Brian expressed his concern on how far these technical measures in free trade agreement can take the NZ industry (Stanley, 2016b).

Forest products are New Zealand's second most important export to China, at \$1.8b a year (Hutching, 2016). It is argued that a number of non-tariff barriers being applied in China were affecting New Zealand forest product manufacturers, particularly non-tariff trade barriers. A report released by the Wood Council of New Zealand argued that, being the world's largest country importer of wood-based products, China has limited barriers to trade in unprocessed wood products but provides significant assistance to the domestic processing wood products (Maplesden & Horgan, 2016). Procurement policies that favour domestic products, industrial policies that limit market access for imported goods and foreign manufacturers, regulations including price control measures, product labelling, and manipulation of value-added-tax rebates are some of the measures raised by the interviewees in the forestry industry in that report. "The Chinese timber industry has all sorts of government assistance against imports and, even when we are competing against other exporters there, such as the US and Canada, the Chinese regulations are stacked against us. We'd also want more transparency in their phytosanitary rules," says Brian Stanley (Hutching, 2016). He also argued that it doesn't mean a real free trade agreement for the forestry industry (Stanley, 2016a).

Until much more attention is paid to eliminating non-tariff barriers, the full benefit of free trade agreements will not be attained. "Non-tariff barriers are effective in restricting access to foreign markets because they are not directly visible and are hard to quantify", says Brian Stanley (Stanley, 2016b). The report finds that even when tariffs are low or non-existent, the barriers remaining to NZ wood exports are significant. The removal of these non-tariff barriers will potentially bring more gains for the NZ economy than the removal of tariff barriers (Stanley, 2016b).

"As an industry we are continuing to run faster to keep pace with competitors in countries where state subsidies and a myriad of other support measures are the norm. We urge our trade officials to read and act upon this report. We must go into trade negotiations with a much more comprehensive understanding of the impact of non-tariff trade barriers and how to remove them."

Brian Stanley, Chair of the Wood Council of New Zealand (Stanley, 2016b)

Meat industry is the largest manufacturing employer in New Zealand: exports of sheepmeat, beef and co-products were worth \$7 billion in the year ended 30 June 2017 (Meat Industry Association, 2017). Exports are the lifeblood of the sheep and beef sector since 92% of New Zealand's sheepmeat production and 83% percent of beef production are exported to over 120 countries (Meat Industry Association, 2017).

"Our industry is experiencing a significant increase in regulatory and non-regulatory requirements that can either block our trade or make it very expensive. Addressing NTBs and removing the outstanding tariffs will help to level the playing field for New Zealand companies."

MIA Chief Executive, Tim Ritchie (Mclvor & Ritchie, 2017)

As a result of the China-New Zealand FTA and China's growing demand for safe, quality food, China has become New Zealand's largest market for sheepmeat and second market for beef exports. It is also New Zealand's largest market for co-products and total industry exports were worth \$1.4 billion in 2016/17 (Meat Industry Association, 2017). China continues to be a major focus for the industry. There are no tariffs applied to meat exports to China, but exports of some meat products such as chilled meats are restricted. The meat industry would like to see the removal of technical barriers and some speeding up of processes that facilitated trade as noted by Meat Industry Association chief executive, Tim Ritchie (Hutching, 2016).

"It is vital for the government to remain focused on trade liberalisation and the announcement of additional resources for government to further improve market access and tackle NTBs is key to this" (Mclvor & Ritchie, 2017). The meat sector was highly supportive of the greater emphasis in the strategy on tackling non-tariff barriers (Mclvor & Ritchie, 2017). On the invitation of the Minister of Trade, the MIA CEO has joined the Ministerial Advisory Group on Trade and, separately, MIA has argued the importance of trade and the need to address NTBs spoken at a number of domestic and international events (Meat Industry Association, 2017).

In addition to the forestry and meat industries, the New Zealand government is also trying to get better market access for a range of fruits, vegetables and wood products, which are facing difficulties in import clearance from the Chinese regulator, the General Administration of Quality Supervision, Inspection and Quarantine (Leslie, 2016).

"One of the keys to the success of this agreement has been the determination by our negotiators to focus on non-tariff trade barriers, which can often be as costly as tariffs."

Dr. William Rolleston, Federated Farmers president (Hutching, 2016)

5.4.3 NEW AREAS AND COMMODITIES TO BE INCLUDED IN THE UPGRADE

Although China is now New Zealand's second largest export market, the exports are still mainly primary-based. In 2016, top goods exports to China were milk powder, untreated logs, meat (beef and lamb), seafood and wool (New Zealand Herald, 2017a). The upgrade negotiations are a good opportunity for New Zealand to involve more value added, technology-based goods to trade with China from its advanced industries (New Zealand Herald, 2017a). "While the existing FTA has largely removed tariff barriers between China and New Zealand, areas that could be improved include dairy volumes, chilled meat exports, processed wood products and agreements for horticultural access," said ExportNZ executive director Catherine Beard (Bradley, 2016). These products including agri machinery and functional and high-value foods will now be discussed in turn.

"Extending the coverage of tariff preferences will reduce tariff related costs for Chinese consumers. It will also ensure that New Zealand exporters do not end up at a tariff disadvantage to Australian exporters as we transition towards tariff elimination."

Malcolm Bailey, Chairman of Dairy Companies Association of New Zealand (Scoop, 2016)

New Zealand's forestry sector needs to export value added wood and paper products to Chinese market, the world's biggest market for logs and wood products but the existing NZ-China FTA cannot meet that need (Stanley, 2016a). In addition to that, Brian said, "At the moment China takes more than two-thirds of our log exports, but it lags behind the United States, Australia and Japan for importing processed timber from New Zealand, such as sawn timber, panels and paper." (Hutching, 2016). The independent report on the non-tariff trade barriers that face the forestry industry released by Wood Council of New Zealand tells that the focus on lowering tariffs on international trade has achieved little for the forestry industry, especially on processed wood products (Stanley, 2016b).

The Government's Associate Primary Industries Minister, Jo Goodhew noted forestry would be a big part in achieving the Government's goal of doubling primary export returns by 2025 (Radio New Zealand, 2014). To achieve this goal, nearly 50% of the existing log exports will need to be processed into products and sold competitively in global markets according to former Chair of the New Zealand Wood Council, Bill McCallum (Radio New Zealand, 2014). However, he also argued that the FTA with China, by far New Zealand's biggest log market, is a barrier to that.

Brian Stanley said the New Zealand industry would expected to see the China FTA leads to more production and work for processors in New Zealand (Hutching, 2016).

China now accounts for 35% of the volume of New Zealand's total sheepmeat exports, 17% of our beef exports and a significant proportion of co-products (Meat Export NZ, 2017). New Zealand meat exports to China have increased since the signing of the original FTA, from \$96 million in 2008 to over \$1.2 billion in 2015. But most of the exports are lower-value frozen meat cuts that are used in Chinese hotpot dishes (Leslie, 2016). According to the original agreement, China does not accept chilled beef and lamb, offal, blood or manufactured meat products (Leslie, 2016). The establishment of the ChAFTA put New Zealand exporters in a less competitive position in many areas in the Chinese market. It also sends signals for New Zealand exporters who experience difficulties in the chilled beef market. The largest beef exporter in New Zealand, ANZCO Foods, called for improved access for meat into the Chinese market (Leslie, 2016).

"If we can get into chilled meat in China, and I'm very confident soon we'll be able to talk positively about that, that has an opportunity for us to get into top-end restaurants,"

Nathan Guy, Primary Industries Minister (Leslie, 2016)

"As global demand for protein increases, New Zealand – as a protein exporter of the highest standard – should assertively use this leverage to resolve long-standing trade impediments and shape the global trade environment to our needs." (Meat Industry Association, 2014) In March 2017, during the Chinese Premier's visit to New Zealand, the industry welcomed the signing of a Memorandum of Cooperation to allow the export of chilled meat to the Chinese market on a trial basis (Meat Industry Association, 2017). Under the trial, 10 processing establishments can export chilled beef and lamb to China for a period of six months and, if the trial is successful, permission to export chilled meat will be extended to all China-approved plants (Meat Industry Association, 2017). "To export high-value chilled meat into the Chinese market has been a high priority for Meat Industry Association members for several years and, while access is still limited, the trial is a significant step for the meat industry" (Meat Industry Association, 2017).

Meat Industry Association (MIA) Chief Executive Tim Ritchie the news of the chilled trade opening will give New Zealand's higher-valued chilled meats a foot in the door of China's premium retail and foodservice sectors, what New Zealand's competitor, Australia, has experienced since the signing of ChAFTA in December 2015 (Meat Export NZ, 2017).

"As New Zealand's largest lamb processor and exporter, we are delighted an agreement has been reached. This is an important first step and great news for New Zealand agriculture. Chilled lamb exports to China offer significant opportunities for the co-operative, our farmer shareholders, particularly in the foodservice sector, which is a growing segment of our business and a key part of our strategy to capture more market value."

David Surveyor, Chief Executive of Alliance Group (Meat Export NZ, 2017)

The new market access to the Chinese market is also a big achievement for the New Zealand government. “This is a fantastic step forward to New Zealand’s red meat sector and a sign of the great relationship we share with China,” says Minister for Primary Industries Nathan Guy (Meat Export NZ, 2017). “The agreement has the potential to be worth hundreds of millions of dollars for New Zealand’s farmers, exporters and the wider economy”, says Trade Minister Todd McClay (Meat Export NZ, 2017).

However, the value of this progress has also been thrown into doubt because of the perceived reason that China agreed to this requirement from New Zealand. As the Deputy Prime Minister, Winston Peters asked, “Why is the door to high-value chilled lamb exports being opened only after China has got control of New Zealand’s largest meat exporters, Silver Fern Farms Ltd, Taranaki Abattoir Company Ltd, Prime Range Meats Ltd, Oamaru Meats, and Hutton’s?” (New Zealand Parliament, 2017). NZ First gets considerable support from companies involved in the primary sector – fishing, horse racing, meat, dairy and forestry. However, Winston Peters famously opposed the FTA with China. Furthermore, with the forming of the Labour-led government in late 2017, the progress of the NZ-China FTA upgrades will be facing new challenges. A senior Chinese visit was due before the end of 2017 (Export New Zealand, 2017).

In addition to the “big three”, other industries including avocados, apricots and paper also want help to ease the path for exports into China (Rutherford, 2017). Furthermore, according to New Zealand Herald (2017a), New Zealand has real expertise and competitive advantages in the areas of agri machinery and functional and high-value foods, these should also be considered in the ongoing upgrade negotiations.

5.4.4 ENVIRONMENTAL COSTS

There is also concern that the government will give away too much to get better market access for the agricultural commodities in China (Coates, 2016). The environment is the most important asset for New Zealand. The dependence on the natural environment can be clearly viewed in the tourism and agriculture sectors (Ministry for the Environment, 2001). “100% Pure New Zealand” is the brand of the country. It was first used as a promotional tagline in the tourism sector (Roper, 2012). Now, it has become an umbrella brand (MacDonald, 2011), which is highly valuable for other sectors, especially agriculture and food exports where the clean green image is closely related to food quality and safety (Clemens & Babcock, 2004).

The Green Party and environmental advocates are concerned that enough attention should be paid to the protection of the New Zealand environment in the upgrade negotiations. Green Party Trade spokesperson Barry Coates argued that the goal of the FTA upgrades should not be achieved at the cost of New Zealand’s strategic assets, like the land and business (Coates, 2016). Some of what the New Zealand government sees as unjustified barriers relates to environment and they need to be renegotiated because the New Zealand economy relies on

that in order to protect public health and the environment (McClay, 2016). As Russel Norman, former Co-leader of the Green Party, stated in 2008, "The trade agreement between New Zealand and China places significant restrictions on the future ability of the New Zealand Government and Parliament to pass regulations to protect the people and environment of Aotearoa New Zealand" (Norman, 2008). For example, Paragraph 3 in annex 13 states: "In order to constitute indirect expropriation, the state's deprivation of the investor's property must be: (a) either severe or for an indefinite period; and (b) disproportionate to the public purpose." Norman argued that "Clearly, if the State was trying to regulate to protect the environment it would be permanent, and the question of whether it would be disproportionate would be decided by an international panel. Whether the Government's judgment was allowed would be determined by an international disputes panel" (Norman, 2008).

According to the OECD, New Zealand's environment is under increasing pressure due to the high dependence on primary industries for its economy (Mitchell, 2017). The environmental trade-offs has threatens the country's green image, especially by the continued expansion of dairy farming and the development of urbanisation (Mitchell, 2017). For example, environmental advocates are calling for urgent measures to limit the conversion of beef and sheep farms to dairy to avoid a "freshwater quality disaster"(Young, 2013). The report "Water quality in New Zealand: Land use change and nutrient pollution" released in 2013 by the Parliamentary Commissioner for the Environment highlights how the country is facing a "classic economy versus environment dilemma" (Parliamentary Commissioner for the Environment, 2015). "The report serves as a stark warning that the nation is at a crossroads; we can either continue with the Government's and primary production sector's agenda of doubling agricultural output by 2025 - completely wrecking the environment, our waterways, our estuaries and beaches, our tourism sector, our international brand, and the kiwi way of life in the process - or we can look at smarter ways to grow the economy," said Fish & Game chief executive Bryce Johnson (Young, 2013). He also argued the report showed intensive agriculture in New Zealand had gone too far and was "out of control" (Young, 2013).

Former Fonterra Group Director Cooperative Affairs Todd Muller said the organisation understood the concerns about the risks to New Zealand waterways and recognised the responsibility they had in improving water quality. At the same time, he noted that the growing global demand for dairy products over the past 20 years had been economically beneficial to New Zealand and farmers had responded well by managing their impact on water in business practice (Young, 2013).

The dairy industry plays an important role in lifting the country's income and it is not the only threat to the green image of New Zealand. However, it is an example from the agricultural sector, which is essential for the development of the nation and at the same time puts New Zealand in the dilemma between wealth and the environment.

5.5 SUMMARY

In this chapter, the findings are presented in four parts. The focus of agricultural negotiations for New Zealand is divided into four aspects: safeguard on dairy, other non-tariff barriers, new areas and commodities to be included, and environmental costs. In addition, the agricultural issues in the upgrades, the power of New Zealand and the upgrades of the free trade agreement's importance for New Zealand are also outlined. In the next chapter, the implications of these findings will be discussed accordingly.

CHAPTER 6: DISCUSSION

6.1 INTRODUCTION

The findings chapter has provided an overview of the findings of the thematic analysis of this study. Based on these findings, this chapter will provide a discussion of these findings in light of the literature reviewed and their implications.

6.2 AGRICULTURAL ISSUES IN THE UPGRADE OF THE NEW ZEALAND-CHINA FREE TRADE AGREEMENT

It is argued in the literature that high-level protectionism, non-tariff barriers, credits and limited market access distort international agricultural trade (Kennedy, Koo and Marchant, 1999). Safeguards on dairy, non-tariff barriers and better market access for New Zealand products are the priorities for the ongoing upgrade negotiations with China. Although dairy was the largest export to China in 2016, the safeguard for dairy exports has seriously limited business capability in the Chinese market. The voices from the forestry and meat industry also indicate the non-tariff barriers' negative influence on New Zealand business in the Chinese market. Better market access is also a concern for the government given that the trade environment is different from eight years ago, and the needs for New Zealand businesses are different given the huge change in the Chinese market.

6.3 NEW ZEALAND'S POWER IN THE UPGRADE NEGOTIATIONS WITH CHINA

Unequal power between the developing and developed countries often makes the voice of developing countries unheard in the negotiations (Drahos, 2003). In the case of New Zealand and China, the power position seems different from the case often seen in the global market. New Zealand is a small, open economy, which relies heavily on export. Being one of the world's fastest-growing economies and the most populous country with growing middle class, China represents a huge potential for New Zealand (Ministry of Foreign Affairs and Trade, n.d.-a). It is now the largest trading partner in goods for New Zealand (Ministry of Foreign Affairs and Trade, n.d.-a). By contrast, exports from China to New Zealand only represent a relatively small part of its total exports because of the size of the economy and its much smaller population. New Zealand does not have as much power as other big developed countries.

In the academic area, it is noted that developing countries complain about the approach applied by developed countries, which distorts international agriculture trade since most of the developing countries rely on agriculture for their prosperity (Josling & Rae, 2000). In this research, it is the developed country, which is complaining, not the developing country. Agriculture is the biggest industry for New Zealand and, being an export-oriented economy, this country is concerned about the fair international trade system and regulations much more than other developed countries. As presented above, the forestry industry has released a report

pointing out that non-tariff barriers in the Chinese market seriously affect their capability to make profits under the New Zealand-China FTA.

Better terms in some areas especially in dairy in ChAFTA have been one of the important reasons for New Zealand to push for an upgrade. It was also admitted by New Zealand that it holds a longer wish list for the negotiation than its counterpart when the decision to push for an upgrade was announced. What New Zealand needs is clear, but in what way China wants to benefit from the upgrade is unclear given that New Zealand and China have already signed a memorandum of understanding on the Belt and Road Initiative.

Better market access to China is critically important for New Zealand. Goods exports to China have quadrupled since the FTA was signed and became effective in 2008. This is different from the normal case where better market access to the high-income countries is always a high priority for developing countries in global trade negotiations (Anderson & Martin, 2005). New Zealand is making every effort to get better trading terms in the Chinese market. New Zealand is targeting China, the giant trading partner.

6.4 AGRICULTURAL ISSUES IN THE NEGOTIATION

6.4.1 SAFEGUARDS ON DAIRY

Removal of non-tariff barriers presents as one of the items that blocks the liberalisation of agricultural trade (Josling and Rae, 2000). Safeguarding measures are used commonly by developing countries. In the case of New Zealand and China, the safeguards on dairy are a significant example. The threshold has been reached early each January in recent years, which seriously limits New Zealand business' access to the Chinese market. This has turned out to be the key focus of the upgrade negotiation for New Zealand. "New Zealand's dairy industry wanted the safeguards removed sooner, possibly in a phased manner, however the Chinese may not find it easy to agree, given its attempts to reform its own dairy industry," said Stephen Jacobi (Rutherford, 2017). It is challenge for the government to find a way to meet the needs of the business.

Although the safeguard measures will be eliminated in 2024 according to the original agreement, the NZ dairy industry wants it much sooner. Given that the safeguard measures are not applied to Australia and given the booming dairy demand in the large Chinese market, New Zealand does not want to wait to push the modification of the terms on the dairy industry, which is white gold for the country's prosperity.

6.4.2 OTHER NON-TARIFF BARRIERS

Non-tariff barriers are extremely difficult for exporters to overcome and tend to be more effective as barriers to trade than a simple tariff, which is often the true intent of those non-tariff barriers (Stanley, 2016b). Other non-tariff barriers than the safeguards on dairy can also be viewed in

New Zealand's trade with China as presented in the findings part. As mentioned by professionals from the meat and forestry industry, the non-tariff barriers in these industries have seriously affected their business capability in the Chinese market.

Tariffs tend to take the headlines, but equally as pressing are non-tariff barriers. They tend to be unpredictable and, therefore, costly. Often the critical factor in resolving non-tariff barriers is political will. Governments therefore need to commit resources to building relationships and influence with key overseas officials, including future leaders (Meat Industry Association, 2014). Non-tariff barriers removal is one of the focuses of the government in the upgrade talks. Removing NTBs was "equally as important" as removing tariffs (Kirk, 2016a). However, non-tariff barriers were not as transparent as tariffs, and in order to better understand the barriers, the government often needs to get interactive with business. "New Zealand uses a range of tools to address NTBs. In many cases, direct engagement with our trading partners can address industry concerns (Kirk, 2016a). Trade Minister Todd McClay said that Ministers have been working on effective approaches to better engage with industry to identify the barriers that are most concerning to them (Kirk, 2016a).

6.4.3 NEW AREAS AND COMMODITIES TO BE INCLUDED

Additional market access is one of the focuses of the global agriculture negotiation (Josling and Rae, 2000) and this is also the case for the upgrade negotiations here. In addition to the safeguards on dairy and non-tariff removal, to involve more areas and products in the agreement is also an important focus for the upgrade negotiations.

Increased dairy volumes, chilled meat, processed wood products and other value-added commodities are the existing needs for the business and the government as presented in the findings part. In order to meet the targets in the "Trade Agenda 2030" approved by the government in March 2017, high value goods should be lifted in New Zealand's exports. Chilled meat is a premium, high value and high growth products, so opening of market access to the Chinese market is great news for farmers, producers and the wider red meat industry. The export of New Zealand chilled meat to China is an exciting opportunity in addition to the original significant frozen meat exports (Guy, 2017). Processed wood products and other high value exports to be added in the upgrade negotiations will certainly open broader vistas for New Zealand business, and promote New Zealand's prosperity.

6.4.4 ENVIRONMENTAL COSTS

In the literature it is pointed out that reassuring consumers that their health and safety will not be threatened merely because of the expanded trade is an important concern in the agriculture trade negotiations (Josling, 2003). This is especially the case for New Zealand. "100% Pure New Zealand" is an international brand for the country, which is critically important for industries like dairy and tourism and, more importantly, the pure environment is a strategic asset for the people. The public have raised concerns about the environment and called for the government's attention in the upgrade negotiations with China not to give up too much in relation to the

environment in ways that will threaten the public's safety and health.

The heavy reliance on primary products in exports has already put the New Zealand environment at risk as argued by OECD. Farming in New Zealand has already threatened the water quality. In addition, methane and nitrous oxide gases created by farming represent about half of New Zealand's total greenhouse gas emissions (Ministry for Primary Industries, n.d.). There is also support in the literature for environmental concerns regarding agricultural development, including the potential negative impact on the environment of imported foods arising from the overuse of natural resources and production of high volumes of greenhouse gases in the countries of origin (Holtby, Kerr & Hobbs, 2007; Kennedy, Koo & Marchant, 1999).

6.5 THE IMPORTANCE OF THE FTA UPGRADE FOR NZ

"FTAs open up market opportunities, streamline processes, reduce costs, and create more certainty and security for companies doing business overseas." (Ministry of Foreign Affairs and Trade, n.d.-b). As commented by Premier Li Keqiang, rising instability and uncertainty in the world "have made it all the more important for China and New Zealand to work together to turn challenges into opportunities." (Straitstimes, 2017). This is truly important for New Zealand, which depends heavily on exports. Former Prime Minister Bill English and former New Zealand Reserve Bank Governor Graeme Wheeler have similarly suggested that possible disruptions of global trade are the biggest threat to prosperity (Straitstimes, 2017).

New Zealand has been proactive and open to forming an agreement with China since 2008 in the agriculture area. The facts can be seen in the tariff phasing-out plan for each country. Now, after eight years, New Zealand wants to get better market access for its agriculture products through the upgrade negotiations. This has shown a different case from most common situations in the literature field, where the large markets of the developing countries are opened to the developed countries while agriculture in developed markets often remains protected (Healey, 2014).

The free trade agreement formation between countries is not random, it is determined by elements of economy and politics (Moser and Rose, 2014; Eicher & Henn, 2011). In fact, the complementary trade relationship between the two countries can be observed from different industries over a long time, including that New Zealand's agricultural products are vital to China and manufactured goods originating from China benefit the New Zealand market with lower prices (Zhang & Nie, 2008). The well-maintained relationship between the two governments also provides a strong support for the formation and modification of the trade agreement between them.

Pushing for an upgrade of the agreement is necessary and critically important for New Zealand. Agriculture exports play a dominant role in the country's total exports. Being the second largest

goods export markets, China has always been drawn to New Zealand's attention. With better trade terms for dairy and meat sectors, the forming of ChAFTA has been a disadvantage for New Zealand, but now there is a good opportunity for New Zealand to negotiate with China and create more opportunity for its business, which is important for achieving the export goal as set in the Trade Agenda 2030 and also for the prosperity of the country and the influence of New Zealand in global trade negotiations. "It will give a strong boost to trade links, and show the world we are committed to free trade," said Bill English (SBS News, 2017). He also made a comment that, "compared with China's agreements with other countries, the agreement with New Zealand is the most advanced." (SBS News, 2017). The benefits and costs of agriculture for member countries are determined by the changing role which agriculture plays in trade agreements and the changing nature of the agreements themselves (Josling, 1998).

6.6 SUMMARY

The NZ-China FTA is definitely a big success as a proven case of free trade. Considering the huge scale of China's economy, strategic meaning is more important for China than the economic advantage that the agreement has generated. But, for New Zealand, the deal is no less than an "export explosion" (Chinese New Zealand Herald, 2017), especially in the key export areas like dairy products. However, beyond the tariff barriers, there are some other non-tariff barriers that limit New Zealand business' potential in the Chinese market. As well as that, after eight years, there are some new issues, which have emerged in the trade area as mentioned in the background part, which also need to be considered in the upgrade negotiations.

According to the analysis of the data in this study, the focus of the upgrade negotiations from New Zealand is more inclined to areas related to agriculture considering the significant position of agriculture in the economy. However, people from different backgrounds could hold different definitions of agricultural issues for New Zealand. Safeguards on dairy, non-tariff barriers elimination, new areas and commodities to be involved in the trade, and the concern regarding New Zealand's environment are the focus of the agricultural issues in the upgrade negotiations.

Concluding trade negotiations involves making trade-offs and agreeing to compromises. Participating countries cannot expect to achieve all their initial goals in trade negotiations. Instead, they try to sort out the maximum benefits they can gain from each negotiation. For New Zealand, the benefits for its agricultural industry are always important considering the industry's important role in the country. These negotiation efforts around agricultural matters can also be observed in other FTAs/RTAs that New Zealand is involved in. Tariffs and quotas are often the focus in trade negotiations, but it is also argued that how participating countries cooperate on differences on issues of sanitary and phytosanitary (SPS) measures and technical barriers to trade (TBT) can have more significant impact on agricultural trade prospects (Jurenas, 2015). However, it is likely that strengthened SPS and TBT clauses in agricultural trade agreements

would reduce exports from less developed countries (Jurenas, 2015). The Regional Comprehensive Economic Partnership (RCEP) is now under negotiation, and both China and New Zealand are participating in the negotiations. Given the considerable number of participating countries – 16 in total – it would however be a challenge for New Zealand to find an advantageous position balancing market access to a larger market with requirements for SPS and TBT.

CHAPTER 7: CONCLUSION

7.1 DISSERTATION SUMMARY

This dissertation started with an introduction in which free trade and agriculture in global trade were discussed, and justified looking at the context of New Zealand in the upgrade negotiations of the NZ-China FTA. In order to provide a solid academic foundation of the research, extant literature were reviewed in Chapter 2. Following that, Chapter 3 outlined the background of the research. Chapter 4 introduced the case study methodology and the desk research data collection method. In addition, the data analysis strategy of thematic data analysis was discussed. In Chapter 5, findings were presented. At the end, Chapter 6 discussed the implications of the findings in light of the literature reviewed.

7.2 RESEARCH CONTRIBUTION

This research provides an important insight into the NZ-China FTA upgrade negotiations. In the literature, typically developed countries are more protective of their agriculture industry in international trade than developing countries. However, in this case, because of agriculture's critical role in the New Zealand economy and the export-oriented economic character in this country, New Zealand is more open than its counterpart in agricultural liberalisation.

This research also outlines the issues faced in the agriculture trade negotiations with views from different stakeholders. Safeguards on dairy, non-tariff barriers being eliminated and new areas and commodities to be included in the upgrade negotiations are supported by business, industry and government. However, the NGOs and environmental protection organisations have shown their concerns regarding the environment of New Zealand and public safety and health.

In this research, the unequal power of New Zealand and China appear different from the discussion in the academic field. The reason lies in that New Zealand is a small, open economy that relies heavily on its exports, and China is the second largest economy in the world with a broad market.

This research also demonstrates that the participating countries' attitude is critically important in the progress of FTA formation. New Zealand has pushed for an upgrade of the agreement ever since the ChAFTA came into force. The government's visit to China, the signing of "Developing an Agricultural Growth Partnership" and joining the "Belt and Road", have shown New Zealand's determination and attitudes towards agriculture liberalisation with China. The formation of ChAFTA has put New Zealand in a less competitive position in the Chinese market but, with the action of the upgrades of the NZ-China FTA, New Zealand has gained a good opportunity to form better trade terms for itself.

7.3 LIMITATIONS AND FUTURE RESEARCH

Considering the limited scope of this research, there may be some useful data being not identified. More views from broader stakeholders could provide more voices for agricultural issues in the ongoing upgrade negotiations. In addition, during conduct of the research, the New Zealand government election occurred, so the new government's perspective on the upgrade negotiations is relatively limited through desk research. Most of the voices of government are collected from the former government. The third round of negotiation was scheduled for the end of 2017 during July 2017, but it was postponed and no useful data could be found.

In addition, the upgrade negotiations are still in progress. So, it is impossible to see how the agricultural issues are balanced in the result of the negotiations. Future research could take account of the negotiations results, and conduct further study on the influence of the agricultural issues.

Moreover, environmental protection agencies are concerned and are against the upgrade of the agreement as well as against the original agreement. It is possible for other researchers to conduct a study focusing on the environmental effects from the NZ-China FTA upgrade and the original agreement.

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