

The benefits of trade

Key points

- The tradable sector directly and indirectly accounts for \$85 billion (43%) of New Zealand's real GDP and almost three-quarters of a million jobs.
- Trade helps Kiwi households buy higher quantities of goods and services with their wages, and lets them access a wider variety of products.
- The gains to New Zealand households from improved product choice from trade alone come to \$3.9 billion, or around \$2,300 per household, based on estimates from the literature.
- One US study estimates that trade contributes about 30% of an average US household's purchasing power. In New Zealand this share would be far higher, given how trade-reliant we are compared to the US.
- When tariffs were removed in the late 1980s in New Zealand, import prices dropped sharply, boosting Kiwi households' purchasing power by 2%.
- Further multilateral trade liberalisation would deliver huge benefits to New Zealand: the OECD estimates that New Zealand's real GDP would increase by \$18 billion over the long run if G20 tariffs and non-tariff barriers were halved. This scenario would also create over 42,000 skilled jobs and 20,000 low-skilled jobs.
- 'Trade policy' is now about much more than reducing border tariffs on trade in goods: services, investment, global value chains, non-tariff measures, people movements and the flow of technology are hugely important.
- Global services trade liberalisation has been estimated to potentially lift New Zealand's per capita GDP by over \$1,000 by 2020.
- A comprehensive Trade Facilitation Agreement which reduces red tape associated with trade could reduce trade costs by 14.5% globally and boost global GDP by between US\$345 billion and US\$555 billion per year.
- The reduction of non-tariff measures could deliver significant gains for New Zealand. The cost to New Zealand exporters of these measures in the APEC region has been estimated at \$8.4 billion.
- Around 70% of the economic benefits accruing to New Zealand from the TPP are estimated to come from a reduction in non-tariff barriers.
- There are some valid concerns about how the benefits from globalisation are shared, but its positive impacts are undeniable: the World Bank states "The number of people living in extreme poverty around the world has fallen by around one billion since 1990. Without the growing participation of developing countries in international trade, and sustained efforts to lower barriers to the integration of markets, it is hard to see how this reduction could have been achieved".
- Addressing New Zealanders' concerns about globalisation and the future of regional economic integration will require more detailed research into the benefits and trade-offs involved in 'new' trade issues, and continued reminders about the costs to households of more isolationist policy settings.

Global sentiment has shifted against trade liberalisation and globalisation. There are concerns that increased imports are causing job losses and that economic integration initiatives like the Trans-Pacific Partnership (TPP) are restricting governments' sovereign rights to legislate. Politicians are tapping into this rising tide of protectionism, most notably in the US and UK, but also closer to home in New Zealand. Against this backdrop, it is timely to remind ourselves why trade matters for Kiwi living standards.

Trade liberalisation is getting a bad rap...

There exists in many countries an underlying alienation of a significant portion of the population concerning the exercise of power by what they see as economic and political elites that the voters cannot influence... Some sense of democratic renewal is needed to avoid alienation; there is a sickness in western democracies.¹

Concerns about globalisation and trade liberalisation are growing. The rise of Donald Trump, the UK Brexit vote and the rise of nationalist political parties in much of Europe all point towards a sea change in public attitudes around trade and economic integration.

And domestically, we have seen a breakdown in New Zealand's long-cherished bipartisan support for trade deals, with Labour choosing to vote against the passing of legislation to enact the TPP. The extent of public opposition to TPP dwarfed that associated with the New Zealand-China Free Trade Agreement (FTA).

...and is bearing the brunt of a wider set of public concerns

One possible explanation: When Americans talk about "trade" today, we're not really talking about trade. Rather, "trade" has become a scapegoat for other economic forces and policy choices that have increased inequality, and a proxy for ethnic tensions and white anxiety about loss of social status.²

It is true that in some parts of the US and Europe there has been broad economic decline over the last decade; heightened exposure to international markets has certainly had an impact on some uncompetitive industries in some places (and often without the benefit of any significant social safety nets).³

However, technological change and ongoing ripples from the 2008 Global Financial Crisis have also had a large impact on the prosperity of these depressed regions. The former has led to greater automation, which boosts workers' productivity – a good thing, albeit at the expense of more jobs in some sectors.⁴ The latter has dented households' wealth and restricted the ability of many governments around the developed world to use fiscal policy to boost growth (e.g. via tax cuts).

It is also salient to recall that the **growth in trade since the 1950s has resulted in an unprecedented rise in global living standards**, lifting hundreds of millions out of extreme poverty.⁵ However, a fair portion of the public's current concerns about trade liberalisation is due to the perception that its benefits are not evenly shared.

¹ Geoffrey Palmer. <http://thespinoff.co.nz/politics/29-06-2016/the-political-elites-foisted-a-new-system-on-ordinary-brits-little-wonder-theyre-grabbing-it-back/>

² Washington Post. 30 June 2016. 'Trade' has become a hot election topic. Here's what it really means.' https://www.washingtonpost.com/opinions/what-trade-opponents-really-dont-like/2016/06/30/2e9939e0-3ef7-11e6-80bc-d06711fd2125_story.html

³ See for example, Autor, Dorn and Hanson. 2016. 'The China shock: Learning from labor market adjustment to large changes in trade'. NBER Working Paper No. 21906, January 2016. <http://www.nber.org/papers/w21906>

⁴ See OECD. 2012. *Policy Priorities for International Trade and Jobs*, (ed.), D. Lippoldt, www.oecd.org/trade/icite for an overview.

⁵ The number of people living in extreme poverty around the world has fallen by around one billion since 1990; since 1990 the share of world GDP made up by trade has grown from \$3.5 trillion to \$18.9 trillion in 2014 (World Bank Group and World Trade Organisation. 2015. 'The role of Trade in Ending Poverty').

While the empirical evidence on income inequality in New Zealand doesn't bear these concerns out – at least not in recent decades⁶ – and cause and effect are often confused, these perceptions matter.

New Zealand is a 'global player'⁷

They matter because **New Zealand benefits from a liberal global trading environment**. The goods that New Zealand is best at producing are often highly protected in our key export markets. Likewise, the potential expansion of our dynamic services economy – sectors such as ICT, transport, international education, financial services, or professional services such as engineering – can be curbed by heavy regulation in some markets.

Lower tariffs and non-tariff barriers, as well as reduced production and export subsidies in agriculture (and freeing up constraints on trade in services), will help Kiwi firms compete on a more level playing field. This in turn should lead to increased exports, firm expansion and more job opportunities.

New Zealand households also benefit from trade liberalisation that lifts imports. As discussed below, when we import goods and services that we are relatively less competitive in producing, this **lifts the purchasing power of our income** (i.e. how many goods and services we can buy) and **allows a wider variety of products** to be enjoyed.

A small and distant country like New Zealand also needs **internationally-agreed trade rules** in order to continue to enjoy the benefits of trade – without agreed rules in the shape of free trade agreements or multilateral treaties, if our key trading partners decided to put up the drawbridge, we would have little ability to insist that they keep their markets open.

New Zealand is not the US or EU

We need to be **careful to avoid blindly 'importing' other economies' concerns** (e.g. the US 'rust belt' perceptions of the hollowing out of manufacturing due to Chinese imports). New Zealand has a much more flexible economy than those of rural US states and much of Europe:

- Our industries have been exposed to international competition for almost thirty years since the mid-1980s reform period, and the structure of the economy has adjusted accordingly. Our industries don't hide behind tariffs or other trade barriers that just lead to inefficiencies and misallocated resources that make any eventual adjustment to trade liberalisation more painful.
- Our manufacturing sector in particular has already changed in size and scope in response to changes in global production patterns and technological change. It is no longer in decline, despite common misperceptions. Manufacturing has stabilised at around 10-11% of the New Zealand economy in recent years and its share of New Zealand's exports has not materially changed for a decade.
- Our labour market is able to respond quickly to changes in global economic conditions, as witnessed by our adjustment to the GFC, which was far less severe and much shorter than in many other places.
- Our fiscal policy settings place a priority on avoiding ongoing budget deficits and we are now paying down debt, which will help us cope with future economic shocks.
- Our monetary policy is independent and, while struggling to be effective in a world awash with unprecedented amounts of 'cheap' money, is generally regarded to have been effective in controlling inflation and contributing to economic stability.

And historically, there has been widespread support of globalisation and trade liberalisation in New Zealand – more so than in many other parts of the world. Yet the 'social license' granted to New Zealand's politicians to

⁶ "[T]here have been some fluctuations since the mid 1990s, but there is no evidence of any sustained rise or fall in BHC household income inequality in the last 20 years using the Gini and top 1% share, or the last 10-15 years using the 90:10 percentile ratio". Ministry of Social Development. 2016. 'The 2016 Household Incomes Report and the companion report using Non-income Measures (the NIMs Report): Summary'.

⁷ Yeabsley, J. (ed). 2001. *Global player? Benchmarking New Zealand's competitive upgrade*. NZIER Research Monograph 67.

pursue FTAs and multilateral treaties to open up access for New Zealand exporters and investors, while not yet revoked entirely, has been put on notice.

We need a new narrative on trade, because trade itself has changed

Trade creates many losers, and rapid immigration can disrupt communities. But the best way to address these problems is not to throw up barriers. It is to devise bold policies that preserve the benefits of openness while alleviating its side-effects.

Let goods and investment flow freely, but strengthen the social safety-net to offer support and new opportunities for those whose jobs are destroyed. To manage immigration flows better, invest in public infrastructure, ensure that immigrants work and allow for rules that limit surges of people (just as global trade rules allow countries to limit surges in imports). But don't equate managing globalisation with abandoning it.⁸

To be durable, policy solutions need to be politically feasible, able to be practically implemented, and effective and efficient in achieving their goals.⁹

One of the challenges in determining whether policy solutions are “effective and efficient” reflects the nature of trade in the 21st Century. These days, “trade” goes beyond traditional models of bulk commodities being sold from one country to another, and into areas such as investment, intellectual property, services and even environment- or labour standards-related aspects. **Goods are increasingly made “in the world”**, crossing borders and using multiple inputs of goods, services, technology, intellectual property and processes in many different markets.

Modern trade agreements accordingly go beyond the old tariff-cutting models and into areas such as behind-the-border regulatory coherence, rules for cross-border investment, protection of the environment or intellectual property provisions.

Change is the only constant; we can't wind back the clock

Our impression is that issues such as investor-state dispute settlement, or patent rules for medicines – decried by opponents of trade liberalisation over the past few years – have created a degree of doubt amongst many different groups of people in New Zealand as to why FTAs matter and who benefits (and doesn't) from them, as well as broader questions about perceptions of “sovereignty”.

As a result, it has become more difficult for these groups to determine whether trade liberalisation will be ‘effective and efficient’ in improving their living standards.

The response of politicians, policymakers and researchers to these concerns has not been sufficiently compelling. **More needs to be done to remind stakeholders of the benefits of trade liberalisation – and the costs of the alternative.**

There must also be an acknowledgment that globalisation is a reality and the clock cannot (and should not) be turned back to pre-globalisation days, no matter how much some governments may think that this would satisfy domestic constituencies.

A good starting point is to shift the focus of the public narrative away from “Trade liberalisation will boost exports” back towards a more household-centred story. **Trade should only ever be considered as the means to a far more important end: lifting household living standards.** Recent media releases by the Minister of Trade, including on the Trade Agenda 2030, are starting to emphasise this point, which is to be welcomed.

⁸ <http://www.economist.com/news/leaders/21702750-farewell-left-versus-right-contest-matters-now-open-against-closed-new?frsc=dg%7Cc>

⁹ Nixon, C. 2016. ‘Durable policy approaches: Framework development and literature review’. NZIER Public Discussion paper 2016/2. http://nzier.org.nz/static/media/filer_public/b3/19/b3191379-4adf-4686-989f-1dd9eb973410/wp2016-2_final_durable_policy_bargains.pdf

Trade gives households greater choice...

Exports are the only way that people living in a small economy can get access to a variety of products and services and having access to a wide and increasing variety of products is a mainstay of economic and social progress... To access a growing range and quality of products and services, something needs to be given in exchange. In a large country this exchange can take place within national borders. In a small country [like New Zealand], making this exchange means exporting.¹⁰

Going back to basics for a moment, New Zealand cannot affordably produce all of the goods and services that its population demands. It's unrealistic to expect a country of 4.5 million people to produce sufficient quantities of high quality agricultural products, low cost basic manufactured goods, premium hi-tech manufactured goods, non-traded services and export-focused services to meet households' demands.

We therefore **focus on producing what we have a comparative advantage in**. We generate export revenue from this specialisation, which we can then exchange for imports of goods and services from other countries (including imported intermediate inputs to help us produce more efficiently).

As well as this specialisation allowing more efficient use of resources and hence higher household incomes, **trade also facilitates greater choices**. There is a large literature that discusses the gains to households from access to greater product variety due to trade.¹¹

One seminal paper showed that the variety of US households' imported goods increased three-fold from 1972 to 2001, which delivered benefits to US consumers valued at 2.6% of GDP.¹² By way of illustration, if we applied this result to New Zealand's GDP in 2001, **the gains to New Zealand households from improved product choice from trade would come to \$3.9 billion, or around \$2,300 per household.**¹³

The EC (2010) has estimated that the gains to the average EU consumer from enhanced trade are around €600 per year.¹⁴

...and makes households' budgets go further

Exchanging our export revenue for imports is more beneficial for Kiwi households when the prices of those imports are falling, or at least rising slower than export prices. Lower import prices happen primarily through two channels: trade liberalisation (which reduces tariffs on the things we like to import) and technological change (which lowers the costs of production overseas).¹⁵

As Figure 1 shows, the prices of traded goods that all households buy, such as clothing, appliances and tools, have either fallen over the past decade, or only risen very slightly. In contrast, the prices for domestically-produced items in those groups have all risen by 40-50%.

The chart also shows the power of technological change on households' purchasing power: **the prices of imported telecommunications equipment and audio-visual and computer equipment have dropped massively** over the past decade.¹⁶

¹⁰ NZIER. 2013. 'Lifting export performance: Actions to drive growth in exports'. Report to Export New Zealand.

¹¹ Or 'the extensive margin of imports', in the jargon.

¹² See Broda and Weinstein. 2006. 'Globalization and the gains from variety'. http://web.stanford.edu/~klenow/Broda_and_Weinstein.pdf

¹³ This back of the envelope calculation is purely illustrative. We would not expect the gains to New Zealand households to be the same as the gains to US households due to different trading patterns, different tariff levels and reductions, different preferences, etc. But as a rough indication of magnitude, and in lieu of any New Zealand-specific research on this issue that we are aware of, it is hopefully of some value.

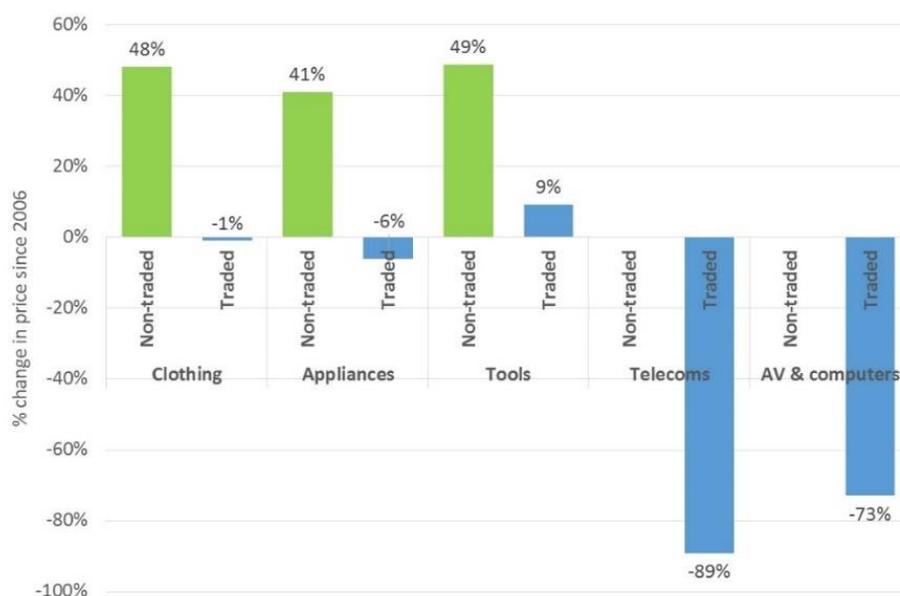
¹⁴ EC. (2010). 'Trade as a driver of prosperity'. Commission Staff Working Document.

¹⁵ Consumers also tend to benefit when the exchange rate appreciates, which allows the purchase of more foreign currency for each New Zealand dollar.

¹⁶ These CPI figures are quality-adjusted, so that they take into account the rapid improvement in computing power within your phone or TV, for example.

Figure 1 Traded and non-traded goods prices

% change in CPI sub-index, 2006Q2 to 2016Q3



Source: NZIER, Statistics New Zealand

One US study estimates that **trade contributes about 30% of an average US household's purchasing power**.¹⁷ In New Zealand this share would be far higher, given how trade-reliant we are compared to the US. And the contribution of trade to purchasing power increases for lower-income families, who tend to spend more on imported items as a fraction of their income than richer families.

Another US study¹⁸ looked at the gains to US households of increased manufacturing imports from China between 1998 and 2008, and estimated it to be around US\$250 per person per year.

A US think-tank has recently explored the potential negative impacts of tariffs on household budgets in the US.¹⁹ They estimate that if the US were to impose tariffs on Chinese imports, as was suggested during the recent presidential campaign, "the total added cost of Trump's tariffs on your back-to-school shopping could cost nearly \$300".²⁰

There is limited New Zealand data on this issue, but one study²¹ explored the gains to Kiwi households from New Zealand's unilateral removal of import tariffs and other trade barriers in the mid-1980s reform period. It concluded that the **reduction in tariffs generated around a 2% increase in Kiwi households' purchasing power**. This was mainly due to lower prices for footwear, cars, household appliances and clothing.

¹⁷ USTR. 2015. 'The economic benefits of US trade'. May 2015.

¹⁸ R. Lawrence. 2015. 'China's rise and American welfare'. Chapter 5 in *China's economic transformation: Lessons, impact and the path forward*.

¹⁹ See <http://www.thirdway.org/memo/trade-blues-how-trump-hurts-your-back-to-school-shopping-list>

²⁰ This of course assumes US consumers don't switch to cheaper alternatives to Chinese imports, and that consumers bear the entire burden of the tariff; neither of which will be true. But the message is nonetheless helpful for reminding households that it is they who get hurt by tariffs, not just Chinese firms.

²¹ NZIER. 1999. 'Trade liberalisation in New Zealand: Effects on consumer welfare'. Report to MFAT, March 1999.

Trade drives productivity and creates job opportunities...

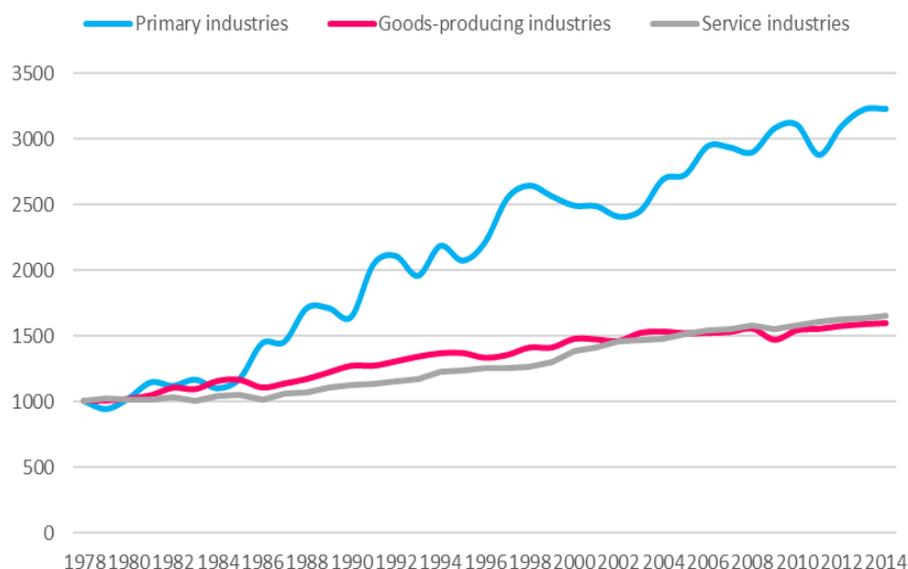
The number of jobs depending on international trade has never been so high. There is a serious threat for employment to be considered for countries introducing new protectionist measures.²²

The central reason why countries trade is because they are comparatively more efficient at producing some goods and services than others. In New Zealand's case, generally we are highly efficient at producing high quality food and beverages, and tourism, and less efficient at producing high-volume manufactured items due to our lack of scale. So we produce and export the former, and import the latter.

This specialisation lifts the economy's overall efficiency (or productivity), which should then lead to higher living standards. As Figure 2 shows, **the primary (trade-exposed) sector has shown far stronger productivity growth over the past 40 years than the largely non-traded services sector**. Since it is productivity that drives up living standards, this provides an indication of the positive contribution of trade to Kiwis' wellbeing.

Figure 2 Labour productivity, by broad sector

Labour productivity, index 1978 = 1000



Source: NZIER, Statistics New Zealand

The tradable sector accounts for over \$40 billion of GDP (20%) and over 350,000 jobs (17%) under a direct approach.²³ When accounting for upstream industries – that is, including sectors that rely on these export- and import-intensive sectors – **the tradable sector accounts for \$85 billion (43%) of real GDP and some 725,000 jobs.**²⁴

Further **trade liberalisation would support additional job growth**. The OECD (2011), for example, looks at the potential impacts of a 50% cut in tariffs and non-tariff barriers by the G20 economies.²⁵ Their modelling

²² OECD. 2016. 'Global Value Chains and Trade in Value-Added: An Initial Assessment of the Impact on Jobs and Productivity'. OECD Trade Policy paper 190. <http://www.oecd-ilibrary.org/docserver/download/5j1vc7sb5s8w-en.pdf?expires=1481054893&id=id&accname=guest&checksum=97D61C7632CCBE23802FC49F21FAE9CC>

²³ That is, looking only at the sectors that export more than 10% of their production or are reliant (>20%) on imported intermediate inputs.

²⁴ NZIER estimates, unpublished.

²⁵ OECD. (2011). 'The Impact of Trade Liberalisation on Jobs and Growth: Technical Note', OECD Trade Policy Papers, No. 107, OECD Publishing. <http://dx.doi.org/10.1787/5kgj4jfi1nq2-en>

suggests that in the long run, this would boost New Zealand's real gross domestic product by over 8%, lift unskilled employment by 2.6% and skilled employment by 2.0%. Based on today's data, this would equate to an additional \$18 billion of GDP (or almost \$10,000 per household), 42,000 additional skilled jobs and 20,100 more unskilled jobs.²⁶

...but can put pressure on some industries

The culprit in that [pre-NAFTA] era was both international competition and the introduction of mini-mills, which allowed the production of steel with far fewer man-hours. Because of that and other technological innovations that improved productivity, total American steel output is about the same now as it was in 1990, even with far fewer workers.

That steep contraction in steel production jobs has been more than counterbalanced by a rise in other types of work. The 5,100 steel production jobs lost in Pittsburgh are dwarfed by the 66,000 health care jobs gained in the same span. Pittsburgh has often been viewed as the very model of a city moving beyond its heavy industrial history to find new prosperity in areas like health care, banking and professional services"²⁷

Much of the recent backlash against trade liberalisation has been due to the perception that FTAs encourage imports from lower-cost producers, which can displace relatively higher-cost domestic production, causing job losses (including from shifting factories to lower-cost countries offshore), especially in manufacturing.

Two key points to note, however, are the following:

- This is **precisely what trade liberalisation is supposed to do**. It encourages countries to specialise in what they are most efficient at producing. The idea is that the resources (labour, land, capital) that were previously employed in industries that hid behind tariffs or non-tariff barriers should be able to move into other more productive sectors that can compete more effectively in freer global markets. This is good for the economy overall, but does cause some transitional costs – workers can't simply shift overnight from (say) steel production into high-tech medical equipment manufacturing. This is where government support for re-training is vital.
- It is **technological change, rather than trade liberalisation, that has caused the dislocation** of the manufacturing sectors in most developed economies. Automation and capital-deepening mean that fewer workers are required per unit of output, and the consequence is lower prices for domestic consumers and firms. This is not something we can or should try to fight with trade barriers.

As the OECD notes, imports and unemployment are not correlated in the long term.²⁸ This can be seen in the chart below – **there is no positive relationship between import penetration and the unemployment rate** in New Zealand.

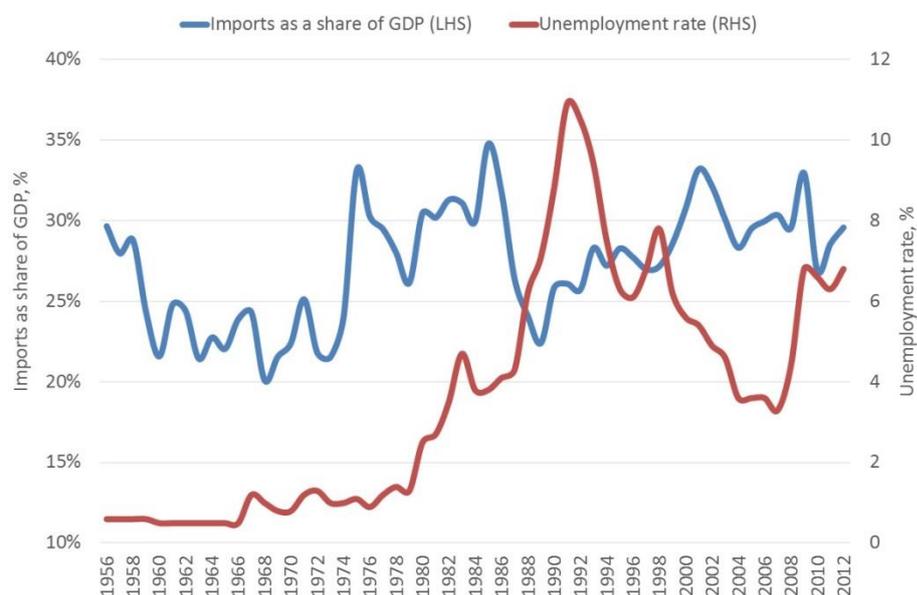
²⁶ Based on estimates of the skill levels of New Zealand's workforce at http://www.stats.govt.nz/browse_for_stats/income-and-work/employment_and_unemployment/skills-employed-people.aspx

²⁷ New York Times. 2016. 'Donald Trump's Trade Nostalgia'. 28 June 2016. <http://www.nytimes.com/2016/06/29/upshot/donald-trumps-economic-nostalgia.html?smid=tw-share&r=2>

²⁸ OECD. 2013. *Ibid.*

Figure 3 Imports and unemployment in New Zealand

Imports as a share of GDP (LHS); unemployment rate (RHS)



Source: NZIER, 1850 website

Imposing trade barriers to support job growth is like shooting yourself in the foot

There is little economic logic behind the idea that higher trade barriers will support domestic employment and living standards in the long run.

Protectionism may well 'save' jobs in some sectors, but this comes at a cost. There are no free lunches. These workers can no longer be employed in more internationally competitive sectors. This suppresses an economy's productivity and hence overall wage growth. And tariffs and other trade barriers push up the cost of living, which further exacerbates the negative impacts on households, especially poorer households.

By way of example, Donald Trump has threatened to impose huge tariffs on Chinese and Mexican imports on the basis that they are 'unfairly' displacing US domestic manufacturing production. One estimate is that such policies could result in the loss of up to 4.8 million US jobs.²⁹

As we have previously noted, if **isolationism from the global economy was the recipe for economic success, then North Korea would be the poster-child.**³⁰

Investment rather than protection is the key for helping these industries to adjust

The negative impacts on employment from deeper regional economic integration should not be dismissed out of hand. These costs are real, and can be painful for those displaced. New Zealand workers experienced such challenges in the post-reform period in the 1980s as previously protected sectors such as automobile production and assembly and apparel production – and even farmers – were exposed to greater international competition.

²⁹ Peterson Institute for International Economics. 2016. 'Assessing Trade Agendas in the US Presidential Campaign'. PIIE Briefing, September 2016. <https://piie.com/system/files/documents/piieb16-6.pdf>

³⁰ NZIER. 2016. 'Trumponomics; Risks to the New Zealand economy'. NZIER Insight 64/2016. http://nzier.org.nz/static/media/filer_public/f7/f9/f7f9becf-8dbf-459f-a207-adf442e14599/nzier_insight_65-trumponomics.pdf

Governments need to do all they can to prepare workers for such changes through greater investment in foundation education and skills and vocational training.³¹ They should also provide short-term assistance when alternative employment is not readily available.

But these costs also need to be weighed up against the very real benefits that households and firms gain from globalisation and trade liberalisation.

Trade agreements now have impacts beyond goods exports and imports...

*This changing [trade] landscape brings challenges. The beneficiaries of trade policies and the bearers of costs from barriers are becoming more diffuse than what they once were. There is a less vocal and identifiable constituency for reducing behind the border barriers or pursuing further economic integration than, say, reforming agricultural tariffs and subsidies*³²

Another reason why trade liberalisation's reputation has been dented in recent times is because of the changing nature of trade agreements. Modern trade agreements have extended well beyond the border (i.e. tariffs and quotas) and now commonly incorporate provisions that aim to regulate trans-national flows of people, intellectual property and investment, for example.

This has made many people wary about how they as individuals or households might be affected by FTAs. The recent TPP public debate rarely centred on market access provisions for our exporters or the extent to which New Zealand would have to lower its tariffs.³³ Rather, the main concerns in New Zealand were about the ability of foreign firms to influence New Zealand's regulatory settings such as the plain packaging of cigarettes, and the potential impacts of the intellectual property provisions on the costs of medicines.

...which means better evidence of the net benefits of trade liberalisation are required

*The consensus that trade makes the world richer; the tolerance that lets millions move in search of opportunities; the ideal that people of different hues and faiths can get along—all are under threat. A world of national fortresses will be poorer and gloomier.*³⁴

While most of these concerns were overblown³⁵, based on out of date negotiating positions or only marginally relevant precedent agreements, and fuelled by overseas social media commentators, they nevertheless highlighted a sea change in the way that the public engages with trade issues.

Members of the public want to know – and rightly so – what trade liberalisation and deeper economic integration will mean for their everyday lives. **Many Kiwis won't care about how many additional tonnes of quota access New Zealand gains from an FTA; they will care if the cost of their Netflix subscription rises or their prescription costs jump.**

In our view, the further that regulatory changes from FTAs extend back towards households (e.g. IP, medicines, sentiment around sovereignty), the tighter the supporting analysis needs to be to demonstrate the benefits of these changes to *households*, not to firms. Researchers and policymakers need to step up the mark here.

This will be challenging because establishing the 'right' answer about the balance and distribution of costs and benefits is more difficult with behind-the-border regulatory changes. The net effects across stakeholder groups are more uncertain. But the work needs to be done, reviewed, refined and updated to ensure that officials and

³¹ The Labour Party's 'Future of Work' programme touches usefully on many of these issues, albeit primarily with a focus on the dislocation that may occur through further automation in the workplace.

³² NZIER 2013, *ibid*.

³³ This is partly because New Zealand has very few tariffs to lower, and those that are in place are little more than negotiating coin rather than genuine industry protection measures.

³⁴ <http://www.economist.com/news/briefing/21702748-new-divide-rich-countries-not-between-left-and-right-between-open-and?frsc=dg%7Cc>

³⁵ See https://nzier.org.nz/static/media/filer_public/bc/21/bc21a5b2-3a6b-4ba2-8cf7-2f90fd5c6909/isds_and_sovereignty.pdf for a discussion on the controversial investor state dispute settlement provisions of FTAs.

politicians have the necessary evidence to hand to explain the wider net economic benefits of further trade liberalisation.

There are plenty of areas of the 'new' trade policy that warrant further analysis

Some initial areas to explore with further quantitative analysis might include:

- What are the benefits to Kiwi producers of creative arts from longer copyright terms (as was envisaged by TPP)?
- How do these compare to the additional costs that might be imposed on libraries and other users of such goods and services?
- How might New Zealand's services sectors benefit from reduced restrictions on their ability to trade in key markets? What impact would this have on employment and wages?
- What are the benefits to New Zealand investors offshore from an investor state dispute settlement that prevents their investments being unjustifiably expropriated?
- What additional gains could be made by improving New Zealand's trade facilitation procedures?
- How could trade-distorting non-tariff barriers be addressed through trade negotiations, and what might the benefits be for New Zealand firms and consumers?
- What could be the cost-savings or benefits for New Zealand firms (particularly in ICT) from new rules on the digital economy (for example, around data flows or protection of source code, as envisaged by TPP)?

The potential gains from these areas of trade liberalisation and economic integration are less well-known, partly due to the challenges of modelling them with confidence. But the evidence available demonstrates that the benefits to New Zealand to services and investment liberalisation, for example, are very large.

CIE (2010) explore the potential gains from a global agreement to remove the barriers to the cross-border supply of telecommunications, professional services and international air services, and eliminate barriers on foreign direct investment. This **services liberalisation would increase New Zealand's real GDP by up to 1.6% by 2020, equivalent to around \$4.8 billion or over \$1,000 per person.**

On trade facilitation – which is about how easy it is for exporters and imports to move their products around the global economy – the WTO estimates that a **comprehensive Trade Facilitation Agreement (TFA) would reduce trade costs by 14.5% globally and boost global GDP by between US\$345 billion and US\$555 billion per year.**³⁶ The OECD finds similar impacts of the TFA: a reduction in high income economies' trade costs of 12-13%. New Zealand-specific results are not readily available, unfortunately.

The evidence base around the potential gains from reducing harmful, trade-distorting non-tariff barriers is limited, largely because determining the severity of such measures is empirically challenging. Recent NZIER work has estimated the **potential cost to New Zealand exporters of APEC economies' non-tariff measures³⁷ at around \$8.4 billion per year.** NZIER also found the average *ad valorem equivalent* of APEC non-tariff measures is 9.7%, compared to an average tariff of 2.9%.

One New Zealand study³⁸ compared the gains to New Zealand from global liberalisation of tariffs compared to the gains from removing all NTMs, and found that the latter would deliver over ten times as much as the

³⁶ WTO. 2015. 'World Trade Report 2015: Speeding up trade: benefits and challenges of implementing the WTO Trade Facilitation Agreement'. https://www.wto.org/english/res_e/publications_e/wtr15_e.htm

³⁷ Note that non-tariff measures include 'legitimate' measures as well as more protectionist barriers. See NZIER. 2016. 'Quantifying the costs of non-tariff measures in the Asia-Pacific region: Initial estimates'. NZIER Public Good Working paper 2016/4, November 2016. http://nzier.org.nz/static/media/filer_public/51/5f/515f28b2-4c78-41f3-a908-5638613e10d8/wp2016-4_non-tariff_measures_in_apec.pdf

³⁸ Winchester, N. 2008. 'Is there a dirty little secret? Non-tariff barriers and the gains from trade'. University of Otago Economics Discussion Papers, No. 0801, January 2008. <http://www.otago.ac.nz/economics/research/otago077106.pdf>

former. A more recent study³⁹ of the potential gains to New Zealand from TPP estimated that **of the \$4.2 billion of benefits to New Zealand, 70% could be attributed to a reduction in NTBs.**

Conclusion

Kiwis rely on goods trade every day, in numerous ways; from the clothes we wear, the coffee machines and smart phones we rely on to function efficiently, the computers we sit in front of all day, the ethnic food we enjoy, to the wide-screen TVs we binge-watch Netflix on. Trade liberalisation has made these imports cheaper, which makes our wage packets go further, and has given us the export earnings to fund those wage packets in the first place.

Trade supports hundreds of thousands of jobs in New Zealand, providing households with income to spend on a wide variety of imported goods and services. Trade and trade liberalisation also helps New Zealand firms become more efficient, which supports productivity growth and higher wages.

Broader notions of trade, which include services trade, investment flows, and the movement of people and technology, also deliver daily benefits for Kiwis, even though they are harder to show in a tangible sense.

We take many of these benefits for granted – trade is as much part of the New Zealand way of life as watching the All Blacks win or enjoying a pavlova on Christmas Day. But we shouldn't.

At a time when there are increasingly vocal concerns overseas – and to a lesser extent in New Zealand – about how trade and globalisation affect households, it is important to remind ourselves of how we all benefit from New Zealand being integrated with the global economy. When parts of the community raise concerns about the potential downsides of becoming further integrated, those concerns need to be calmly heard and responded to.

The costs of the alternatives need to be pointed out too. A deeper trading relationship with the world will make us better off; more protectionist alternatives would impose costs across the economy that would cause our living standards to deteriorate.

With a nod to Churchill, the inherent vice of globalisation is the unequal sharing of blessings; the inherent virtue of isolationism is the equal sharing of miseries.

³⁹ A Strutt, P. Minor and A. Rae. 2015. 'A Dynamic Computable General Equilibrium (CGE) Analysis of the Trans-Pacific Partnership Agreement: Potential Impacts on the New Zealand Economy'. Report to MFAT, September 2015. Note that the benefits figures used in the government's communications were somewhat lower than this – see <https://tpp.mfat.govt.nz/assets/docs/TPP%20-%20CGE%20Analysis%20of%20Impact%20on%20New%20Zealand,%20explanatory%20cover%20note.pdf>