

NZ-China agreement has brought strong economic gains

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An Otago economist argues New Zealand should expand its trade agreements in the wake of COVID-19, as his new research shows the country benefited from the NZ-China free trade agreement.

University of Otago Economics Lecturer Dr. Murat Ungor and his former Masters student, Sam Verevis collaborated on the paper What has New Zealand gained from the FTA with China: Two counterfactual analyses, which has just been published in the *Scottish Journal of Political Economy*.

It is one of the first systematic studies to analyze the effects of the historic 2008 NZ-China FTA on the economic performance of NZ, and found evidence it has contributed strongly to NZ's [export](#) growth.

Its release comes as NZ renegotiates and diversifies its [trade](#) agreements to maintain [economic security](#) as the COVID-19 pandemic continues.

Dr. Ungor says China is still New Zealand's most important trade partner, and its emergence into the world market has caused unforeseen shifts in world trading patterns.

It has become NZ's top commodity export destination, with exports from NZ to China increasing from around US\$90 million in 1979 to more than US\$11 billion in 2019.

His co-authored paper with Mr Verevis sought to answer whether NZ's exports to China increased significantly due to the 2008 FTA, and how the [agreement](#) has affected NZ's per capita income.

"We find NZ exports to China were 200 per cent higher in 2014 than what they would have been, had the FTA never been signed," he says.

Food and live animal exports to China in 2014 were more than 180 per cent higher than the counterfactual model.

However, Dr. Ungor says while NZ made substantial export gains, the research did not find a significant or robust impact on NZ's GDP per

capita.

Globally, trade-exposed businesses have been among the hardest hit by the COVID-19 pandemic, and NZ has been very active to strengthen its economic ties.

China's [economy](#) was already showing signs of slowing down in 2019, and while it's plausible to expect it to continue to be NZ's major trading partner, there's no reason NZ can't diversify its trade agreements, Dr. Ungor says.

"There is no reason to put all of your eggs in the same basket.

"Diversifying export partners and export goods, improving the current agreements and developing new strategic ties are very important."

Rather than NZ reducing its economic transactions with China, it should expand the size of current [trade agreements](#) or sign new bilateral and multilateral agreements, he says.

He notes a key item on the agenda at a video meeting of trade ministers from the Asia-Pacific Economic Cooperation (APEC) later this month will be the implementation of inclusive policy measures to ensure a fast-track regional recovery from COVID-19.

"The economic consequences of the negotiations and renegotiations of NZ's FTAs in the age of COVID-19 is another direction for future research," he says.

Dr. Ungor suggests what could also be useful for policymakers is research on the spill over effect from a downturn in an economy of a large trading partner like China, on a smaller economy like NZ.

"It would be extremely interesting to examine how a small open economy is affected by trade with such a large open economy in terms of productivity, reallocation of capital, and labor," he says.

Mr Verevis and Dr. Ungor's study used a synthetic control method commonly used in economics, political science and international relations.

As it would be impossible to know what would actually have happened to the NZ economy if it had not signed the China FTA, a 'synthetic' counterfactual model of an alternate reality had to be created, Dr. Ungor says.

"We used a combination of 24 OECD countries to construct a 'synthetic' control NZ, which resembles relevant economic characteristics of the NZ economy before signing the FTA with China.

"This was our benchmark control group."

Countries used in the model had not signed FTAs with China.

More information: Samuel Verevis et al, What has New Zealand gained from The FTA with China?: Two counterfactual analyses †, *Scottish Journal of Political Economy* (2020). [DOI: 10.1111/sjpe.12260](https://doi.org/10.1111/sjpe.12260)

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