India – New Zealand Joint Study for a Free Trade Agreement/Comprehensive Economic Cooperation Agreement

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सत्यमेव जयते

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Executive Summary

1 India and New Zealand are dynamic market economies seeking to develop their international linkages and maximise the benefits that flow from international trade. They are intent on improving their positions in the global economy and promoting the competitiveness and sustainable development of their economies and the prosperity and welfare of their populations.

2 Building on their efforts to promote trade and economic liberalisation at the regional and multilateral levels and on their longstanding political and economic relationship, India and New Zealand have recognised the value of further strengthening their bilateral trade and economic relationship. In April 2007 Indian and New Zealand Ministers agreed to undertake this joint study into the feasibility of negotiating a Comprehensive Economic Cooperation Agreement (CECA) or Free Trade Agreement (FTA).

3 This study:

- Provides brief overviews of the economic profiles, trade policies and the trade and investment profiles of India and New Zealand.
- Describes the bilateral goods and services trade, investment relationship and other areas in which the two countries have cooperated over many years.
- Identifies and describes existing barriers to trade and investment flows and other issues that might be addressed in a bilateral CECA/FTA.
- Assesses the potential economic impact of the removal or reduction of these barriers that could occur under a comprehensive CECA/FTA.
- Identifies possible cooperation measures to deepen the economic and trade relationship.
- Makes recommendations on the scope of a bilateral CECA/FTA in order to facilitate commencement of these negotiations in 2009.

Economic Relationship

4 India and New Zealand have a longstanding and positive bilateral relationship. However, the bilateral trade and economic relationship is currently below potential, despite strong growth in recent years. Notwithstanding the difference in size and the distance between India and New Zealand, the two economies are essentially complementary and there is considerable potential to increase bilateral trade and economic relations, particularly if tariffs and other current barriers are adequately addressed through a CECA/FTA. Economic modelling undertaken during the course of this study supports this conclusion, demonstrating that a comprehensive CECA/FTA would increase both countries'

real GDP, welfare and bilateral merchandise exports. The modelling shows that both countries' welfare would rise over and above business as usual levels. These welfare gains would be expected to continue to accrue as investment decisions impacted positively on levels of trade.

Trade Facilitation Architecture

5 A CECA/FTA would enable: enhanced Rules of Origin, greater cooperation and dialogue on customs facilitation, standards, and mutual recognition, and a framework of practical measures to address non-tariff barriers and to ensure SPS measures and trade remedies are appropriate and not trade restrictive. It would enable additional market access for service providers in both countries, across a broad range of service sectors and in all modes of service delivery. It would enable the establishment of more liberal investment conditions to support increased investment flows between the two countries and stronger investment facilitation and protection provisions.

6 The JSG discussed other issues which can impact on trade including intellectual property, competition policy, government procurement, trade and labour and trade and environment issues. The JSG was unable to agree on how some of these issues should be taken up, but they agreed that these are all important issues and that the two countries should continue to discuss these issues as we progress a bilateral CECA/FTA.

Other Areas of Economic Cooperation

7 The study also describes a number of other areas where there is considerable potential for increased cooperation between governments and industry sectors as part of the dynamic expansion in the relationship that the study envisages. These include tourism, education, research, science and technology, audio-visual services, air services, agri-technology, forestry and energy.

Recommendations

8 The study has demonstrated that significant complementarities exist between the Indian and New Zealand economies and that a CECA/FTA would deliver a broad range of benefits to both countries. The study recommends to both governments that India and New Zealand commence negotiations as soon as possible on a comprehensive CECA/FTA agreement covering substantially all trade in goods and services; investment; trade facilitation; and other areas of economic cooperation, as a 'single undertaking', leading to additional trade flows and economic gains.

1. Overview and Objectives

1.1. Introduction

India and New Zealand are dynamic market economies, seeking to develop their international linkages and maximise the benefits that flow from international trade. They are intent on improving their positions in the global economy and promoting the competitiveness and sustainable development of their economies and the prosperity and welfare of their populations. Building on their efforts to promote trade and economic liberalisation at the regional and multilateral levels and on their longstanding political and economic relationship, India and New Zealand have recognised the value of further strengthening their bilateral trade and economic relationship.

In April 2007 the Indian Minister of Commerce & Industry and the New Zealand Minister of Trade agreed to pursue this objective by undertaking a joint study into the feasibility of negotiating a Free Trade Agreement / Comprehensive Economic Cooperation Agreement.[1] The terms of reference for the study were agreed in late 2007. These are set out below. The Joint Study Group (JSG) has met four times during the course of 2008. It concluded its work in February 2009 and submitted its Report to the respective governments in February/March.

1.2. Terms of Reference for the Joint Study Group

The objectives of the JSG are:

1. To identify the strategic and economic benefits that India and New Zealand can derive from the establishment of a CECA/FTA;
2. To review the existing institutional framework, infrastructure and mechanisms in bilateral trade and economic relations and to recommend measures to facilitate and optimise these relations;
3. To examine the feasibility of a policy framework, consistent with WTO principles, for enhancing trade flows in goods, services and investment for both partners through a comprehensive CECA/FTA including, inter alia:
    - to expedite the expansion of trade in goods through progressive liberalisation of tariffs and removal of other impediments to trade;
    - to expedite the expansion of trade in services through progressive liberalisation with substantial sectoral coverage;
    - to evolve an appropriate framework and modalities for investment, with a view to creating a favourable climate for encouraging cross-border investment flows; and

[1] Throughout this Joint Study, the terms Free Trade Agreement (FTA) and Comprehensive Economic Cooperation Agreement (CECA) are used interchangeably.

4. To enhance economic cooperation in areas of mutual interest and to discuss measures relevant to trade and investment flows.

2. Trade and Economic Profiles of India and New Zealand

To place the remainder of the Joint Study in context, this chapter provides a broad overview of the Indian and New Zealand economies, summarises each country's trade policy regimes, and presents each country's global trade and investment profiles.

2.1. Overview of Economies

2.1.1. India

The Indian economy has remained on a high growth path, despite some moderation in recent growth projections. The economy is characterized by strong macroeconomic fundamentals and an expanding domestic market. India's GDP growth has been predicted to remain higher than 8% until 2020 and India is also predicted to become the world's 2nd largest economy by 2050.[2] Similarly, other projections suggest that India will become the 5th largest consumer market by 2025 and India's aggregate consumption will quadruple in the next 20 years.

Much of the recent growth and development has occurred due to policy reforms and private sector initiatives. Worth noting are reforms in the areas of trade liberalisation, FDI openness, deregulated exchange rate management, banking and financial sector reforms, and trade finance, among others.

India is also considered to be a country with immense demographic advantage given the large proportion of its young population entering into the work-force. However, several relevant developmental challenges remain in the areas of health and education.

Broadly, developmental challenges also remain in the areas of infrastructural development, employment generation, balanced regional development, and poverty alleviation. Regional cooperation can play an important role in this regard.

2.1.2. New Zealand

New Zealand has been one of the most successful economies in the OECD in recent years. Annual growth since the early 1990s has been, on average, higher than the OECD average. Real Gross Domestic Product (GDP) growth of 3.1% was recorded over 2007. Growth has averaged 3.5% over the last six years (2002-2007). New Zealand has one of the lowest unemployment rates of all the OECD countries, and has run budget surpluses consistently for the last 15 years. New Zealand was ranked second in the latest 'Ease of Doing Business' report published by the World Bank.[3] New Zealand is also one of the most open economies in the world.

New Zealand has sizeable manufacturing and services sectors which complement a highly efficient agricultural sector. The services sector is

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[2] Goldman Sachs (2007), *BRICS and Beyond*, (http://www2.goldmansachs.com/ideas/brics/BRICs-and-Beyond.html)
[3] World Bank, *Doing Business 2008*

becoming increasingly important to the New Zealand economy. In 2007 it contributed 71% of GDP, with manufacturing contributing 21% and the primary sector contributing the remaining 8%.

The primary sector, comprising of the agricultural, horticultural, forestry, mining, energy and fishing industries, plays an important role in generating exports and in providing direct employment. Overall, the primary sector contributes over 50% of New Zealand's total merchandise export earnings.

Looking to the future, the New Zealand Government is looking to facilitate higher economic growth by looking at ways to increase the productivity of the economy. One of the paths the government is investigating productivity gains is through international connections. Typically, international connections relate to the flows of people, capital, trade and ideas. These connections can facilitate productivity growth by encouraging specialisation in areas of competitive advantage, access to international knowledge, and can stimulate competition to encourage innovation.

2.2. Trade Policy Regimes

2.2.1. India

India sees trade not as an end in itself, but as a means to economic growth and national development. The primary purpose is not the mere earning of foreign exchange, but the stimulation of greater economic activity. India's Foreign Trade Policy[4] is rooted in this belief and built around two major objectives. These are:

(i) to double its percentage share of global merchandise trade within the next five years; and

(ii) to act as an effective instrument of economic growth by giving a boost to employment generation.

The following strategies have been proposed to meet these objectives:

(i) Unshackling controls and creating an atmosphere of trust and transparency to unleash the innate entrepreneurship of Indian businessmen, industrialists and traders;

(ii) Simplifying procedures and bringing down transaction costs;

(iii) Neutralizing the incidence of all levies and duties on inputs used in export products, based on the fundamental principle that duties and levies should not be exported;

(iv) Facilitating development of India as a global hub for manufacturing, trading and services;

[4] Department of Commerce, 'Preamble', Foreign Trade Policy: 2004-2009, Ministry of Commerce and Industry, Government of India.

(v) Identifying and nurturing special focus areas to generate additional employment opportunities, particularly in semi-urban and rural areas, and developing a series of ‘Initiatives’ for each of these;

(vi) Facilitating technological and infrastructural upgrading of all the sectors of the Indian economy, especially through import of capital goods and equipment, thereby increasing value addition and productivity, while attaining internationally accepted standards of quality;

(vii) Upgrading India’s infrastructural network, both physical and virtual, related to the entire foreign trade chain, to international standards; and

(viii) Activating India’s embassies as key players in the export strategy and linking our Commercial Wings abroad through an electronic platform for real time trade intelligence and enquiry dissemination.

2.2.1.1 India’s Recent Regional Trading Engagements

Recently, India has embarked upon a fast track of economic cooperation engagements with various countries across the globe in the bilateral and regional frameworks. These include:

- Bilateral: Nepal, Bhutan, Sri Lanka, Thailand, ASEAN, MERCOSUR, Singapore, China, South Korea, Malaysia, GCC;
- Sub Regional: the Bay of Bengal Initiative for MultiSectoral Technical and Economic Cooperation (BIMSTEC), BBIN, Bangkok Agreement, GMC;
- Regional: with SAPTA, SAFTA;
- Pan-Asian: with the Asian Economic Community;
- Inter-regional: Brazil-South Africa (IBSA);
- Global: GSTP; and
- India-Developed Countries: GSP, Japan, EU.

2.2.2. New Zealand

Driving domestic productivity gains through improved international connections is a key aspect of New Zealand’s growth policies. One way New Zealand does this is by seeking improved access to overseas markets. Equally importantly, it also looks to promote openness to imports of capital, investment, ideas, science and technology, and education. It is through this greater integration into the world economy that New Zealand is able to take advantage of the best ideas, innovation and technology from around the world.

2.2.2.1 Unilateral, multilateral, regional, and bilateral approaches

New Zealand's trade policy is advanced along four parallel tracks: unilateral; multilateral; regional; and bilateral.

- Unilateral - Continuing on from reforms initiated in 1984 New Zealand has undertaken unilateral reductions in the past, resulting in cheaper consumption goods and intermediate inputs. The last review of tariffs was completed in 2003.

- Multilateral – New Zealand is committed to multilateral improvements, and is an active member of the WTO. In this area, New Zealand is working diligently towards positive outcomes in the Doha Development Round.

- Regional - New Zealand is actively involved in a number of organisations, including the Asia Pacific Economic Cooperation (APEC), the East Asia Summit, and the Pacific Islands Forum.

- New Zealand is also currently in discussions regarding a Free Trade Agreement for Asia Pacific (FTAAP), the Pacific Agreement on Closer Economic Relations (PACER), and with the East Asian Summit countries (ASEAN, South Korea, Japan, China, India, Australia, New Zealand).

- Bilateral and Plurilateral - New Zealand has signed agreements with Australia, Singapore, Thailand, the Trans-Pacific Strategic Economic Partnership (P4) (New Zealand, Brunei Darussalam, Singapore, Chile), and most recently the People's Republic of China. Additionally, New Zealand has concluded, but not signed an agreement with Australia and the ASEAN countries.

- New Zealand is currently negotiating agreements with the P4/US, the GCC, Malaysia, and the Hong Kong Special Administrative Region.

New Zealand negotiates comprehensive FTAs which are "WTO plus", i.e. they extend beyond WTO concessions.

New Zealand has included two specific exceptions of horizontal application in its recent free trade agreements. The first of these is an elaboration on the GATT XX (f) creative arts exception. This provision seeks to elaborate and modernise the "national treasures of artistic, historic or archaeological value" exception under GATT, but also includes the standard requirement that measures are not used as a means of arbitrary or unjustifiable discrimination or a disguised restriction on trade.

New Zealand also includes a specific Treaty of Waitangi exception. The Treaty of Waitangi (the Treaty) is the founding document of New Zealand. The Treaty provides a framework for the ongoing relationship of partnership between the Government and Maori, the indigenous people of New Zealand. As part of the principle of partnership between the two signatories of the Treaty, it is important that recognition be given to the special place of the Treaty.

In the context of international trade, this requires New Zealand to retain flexibility for successive governments to implement domestic policies of their choice in relation to Maori, including in fulfillment of obligations under the Treaty of Waitangi, without being obliged to offer equivalent treatment to overseas entities. This exception also contains built in protections for our trade partners as it is requires that such measures not be used as a means of arbitrary or unjustified discrimination against persons of the other Party or as a disguised restriction on trade. All of New Zealand’s contemporary trade agreements (including our most recent FTA, the NZ-China FTA) include such a provision.

2.3. Trade Profiles

In this section, brief profiles of trade in goods for both India and New Zealand are presented capturing shifts, if any, in their composition of exports and imports as well as directions/ sources of their exports / imports, respectively.

2.3.1.1 Trade in Goods

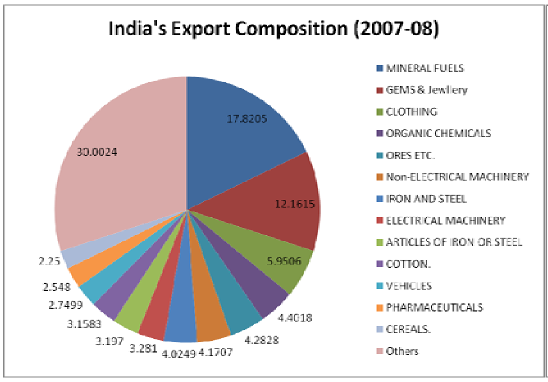
Merchandise trade as a percentage of GDP increased from roughly 21% in 2001/02 to approximately 33% in 2005/06, reflecting the increasing openness of India's goods markets. Imports have grown at a faster pace than exports, leading to a widening trade deficit. Despite the rise in international oil prices, the share of fuel imports declined marginally; nonetheless, they remain a major import item accounting for 33.7% of total imports (Table 0-3).

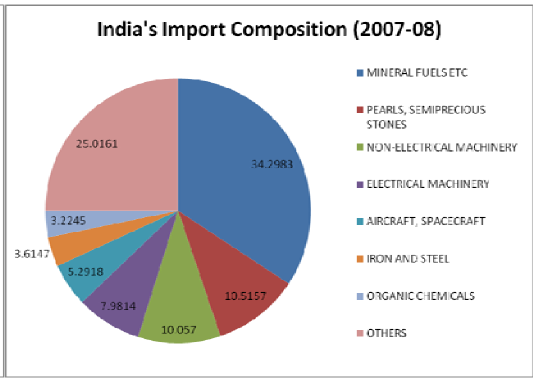
Whereas the share of manufactures in exports has declined, that of petroleum and iron ore has doubled in response to higher international commodity prices as well as increased domestic refining capacity (Table 0-4). Among manufactures, driven by higher commodity prices, the share of iron and steel products has risen.[5] The share of automobile exports has also risen as India strives to become a regional hub for the manufacture and export of small cars and motorcycles. On the other hand, the share of textiles and clothing (T&C) exports has fallen (Figure 2-1).[6]

Figure 2-1: India’s Trade Composition

[5] Share of iron and steel exports as a percentage of total exports fell in 2005/06 as total exports grew at a faster rate than iron and steel exports.

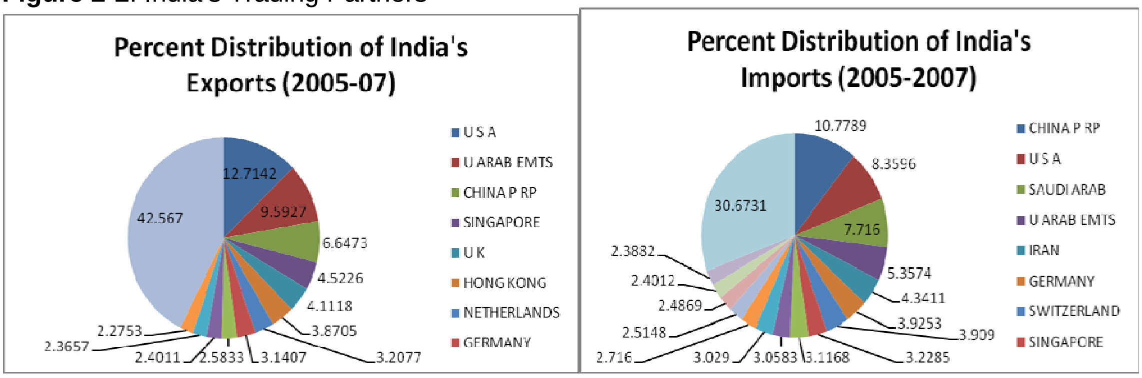
[6] Interestingly, India's merchandise exports have grown at an average annual rate of over 23% since 2002/03, compared with world merchandise export growth of approximately 14% between 2002 and 2005, and its share of world T&C exports has risen.





India's major export destinations are the 25 member states of the EU (22.5% of total exports), the United States (16.9%), the United Arab Emirates (8.3%), and China (6.6%) (Table 0-5).

Figure 2-2: India's Trading Partners



In recent years, there has been a shift away from Europe and the United States, while the share of the U.A.E. and Asia has increased. The same trend is witnessed with regard to the origin of imports; although the EU (17.2%) and the United States (6.3%) are major exporters to India, the share of Asia (27.4%) and the Middle East (6.7%) have been increasing (Figure 2-2 and Table 0-6).

2.3.1.2 Trade in Services

In the knowledge based economy, services are critical to the competitiveness of countries. In the year 2007, India was the eleventh largest services exporter in the world and the thirteenth largest services importer in the world.

The Indian developmental trajectory owes much to the service sector of the economy. Services have contributed around 68.6% of the overall average growth in the GDP in the past five years from 2002-2003 to 2006-2007. Services growth has been broad-based and has shown a positive incremental growth since 2000-01 unlike the manufacturing and agriculture sector.

Interestingly, services falling under the rubric of trade, hotels, transport and communications have clocked a double digit growth for the last four years.

The services sector has been a primary focus for India in the past decade. India's services-led export boom in the last decade and the surplus of the increased invisible earnings had in fact fully offset the net merchandise trade deficit till last year.[7] This rapid growth in services exports is also is the consequence of a more liberalised policy regime in services, compared with manufacturing. The emergence of India as one of the fastest growing economies in the world during the 1990s was attributable to a significant part to the rapid growth of its services sector, which grew at an annual average of 10%. In services, India pursued significant reforms, especially in telecommunications, financial services and, to some extent, in infrastructure services, such as power and transport. A further result also was that India's services exports have experienced one of the fastest growth rates in the last decade. India's growth rate for services was over 17% annually compared with the world average of 5.6%, exports of software and Information Technology enabled Services (ITes) have grown at 46% since the mid-1990s.

Services exports from India have continued to be one of the main sources of foreign exchange earnings in the country. Services exports have increased threefold during the last three years. Growth has been particularly rapid in the miscellaneous service category, which comprises software services, business services, financial services and communication services. The composition of India's services exports and growth in specific sectors is represented in Table 0-8:

An emerging feature of India's economy is the increasing levels of imported services. The volume of India's import of services was 10 times higher in 2005-06 than in 1990-91. The rapid growth in import of services is being fuelled by sustained 8% plus economic growth and increased engagement of India with the world economy. The growth in import of services is evenly spread across all the services sectors. The composition of India's services imports and growth in specific sectors is represented in Table 0-10.

2.3.1. New Zealand

Due to its size and geographical location, trade is vital to New Zealand. In 2007, New Zealand's merchandise and services exports were 30% of GDP, and total imports were 33%. New Zealand's trade has shown sustained growth, with merchandise exports growing at an average rate of 11.6% per year since 2002, and imports growing at an average rate of 15.8%. Table 0-11 and Table 0-12 show the level of New Zealand's merchandise and services trade between 2002 and 2007.

<u>2.3.2.1 Trade in Goods</u>

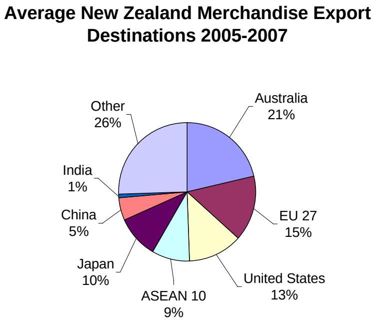
New Zealand exports to a broad range of destinations. Amongst these,Australia is the largest destination for New Zealand exports, and the largest source of

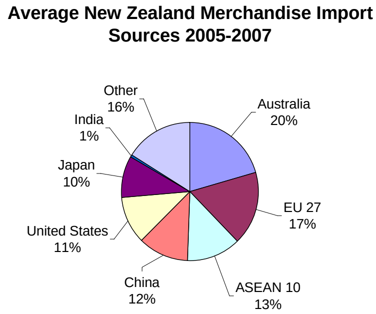
[7] Directorate General of Commercial Intelligence and Statistics data and RBI estimates.

imports into New Zealand. The level of trade between the two countries has undoubtedly been assisted by the development of the Closer Economic Relationship (ANZCERTA) since it was first signed in 1983. The recently signed FTA with China is expected to boost trade between New Zealand and China.

Figure 2-3 shows the importance of New Zealand's relationship with its various trading partners including Australia and other regional partners. 73 percent of New Zealand's exports were sent to either APEC members or Pacific Island countries. These partners were also the source of 74 percent of the imports entering New Zealand.

Figure 2-3: New Zealand Trading Partners





Source: Statistics New Zealand

New Zealand's merchandise trade profile is specialised, with the 15 largest product groups (at HS 2 level) accounting for 74% of exports, and 72% of imports. As Table 0-13 shows, agriculture and the other primary products are important to New Zealand's export profile. However, over recent years there has been strong growth in the production and export of specialised and electric machinery. New Zealand's most important imports are mineral fuels, including oil, machinery, and vehicles.

2.3.2.2 Trade in Services

Services are a vital component of New Zealand's economy and access to efficient, innovative and cost competitive services provides an essential underpinning for growth and innovation across the New Zealand economy as a whole.

Services dominate the New Zealand economy, contributing around 71% of GDP. The largest services sectors in 2007 were other business services, finance and insurance, and communication services. The finance and insurance services, and communications services sectors have been the fastest growing service sectors since 2002.

Growth in services exports has also been significant. In the year ending June 2007, total services exports were US$8,655 million, approximately 27% of

New Zealand's total exports. Travel, education, transport and business services have been the main services exports, but the range of exported services has diversified in recent years.

In New Zealand, trade in services is growing at a slightly faster rate than goods trade. Since the year ending June 2002, New Zealand services exports have increased by some 14.4%. Goods exports have in the same period increased by 8.1%.

By international standards, New Zealand's private services sector is considered to be open with few barriers to foreign services suppliers. Indeed, where immigration and qualification requirements have been met, national treatment is generally extended to foreign suppliers of services.

Foreign investment in the provision of services is subject to criteria administered by the Overseas Investment Commission. Where services are supplied through the presence of natural persons in the territory of New Zealand the entry of those persons to New Zealand is governed by the Immigration Act 1987 and the Immigration Regulations 1999. Relevant policies are set out in the Immigration New Zealand Operational Manual. All policies are published in the online Manual, which can be found at www.immigration.govt.nz

New Zealand's services exports are centred on tourism and education. Together these two sectors account for a larger proportion of New Zealand's export earnings than dairy merchandise exports. Over the last two decades these two sectors have exhibited strong growth especially the international education sector. International student numbers have grown from around 3,000 students in 1983 to over 91,000 students in 2007, enrolled in schools, universities, and polytechnics, and private training establishments in New Zealand. Over the same time period the number of tourists visiting New Zealand increased from just over 393,000 in 1983 to 2.4 million visitors in 2006.

Important services imports to New Zealand are transportation, travel and other business services. Table 0-14 and Table 0-15 show the breakdown of New Zealand's trade in services profile.

2.4. Investment Profiles

Both India and New Zealand have emerged as destinations of global FDI inflows in recent times. They are also becoming sources of outward investements in many countries. A brief description of such a two-way FDI flows for both the countries is given so as to provide a backdrop for exploring any investment complementarities in subsequent sections on investment cooperation within the framework of any bilateral CECA.

2.4.1. India

The total FDI[8] into India since the onset of the Indian liberalisation process has been nearly US$ 54.63 billion to March 2007. FDI inflows have increased by 72% between 2005 and 2006. Mauritius is the largest source of FDI with a share of 44.25%, followed by USA at 9.43%. The United Kingdom, Netherlands, and Singapore are the other main sources of investment into India.

Overseas investment by Indian companies has increased in recent years. Approved overseas investment between 1999-2000 and 2004-2005 was over US$10 billion, with 53% in the manufacturing sector, followed by non-financial services (37%), and trading (5%).

Actual overseas investment during the period 1999-2000 to 2004-2005 has increased from US$318 million to US$ 2088.76 million

Recent Indian outward investment has been mainly to Russia, Mauritius, and the Sudan among other countries.

India has also attracted portfolio investment over the years. In 2007, it was to the tune of US $ 16 billion. It is important to highlight that this stood lower than the FDI inflows in the same year.

2.4.2. New Zealand

Foreign direct investment stock in New Zealand stood at $275.7 billion as of 31 March 2008, a 52% increase since 2003. Australia and the United States are the largest contributors to total foreign investment in New Zealand, with investments worth $87.4 billion and $47.6 billion respectively. The United Kingdom is the third largest investor with a total of $44.2 billion

The three largest destinations for New Zealand outward investment are the same as the largest sources of investment in New Zealand.. Total New Zealand investments in Australia are $34.1 billion, and in the United States run to $25.6 billion. The United Kingdom is again third, with total New Zealand outward investment of $10.4 billion.

Portfolio investment is a key component of New Zealand's overseas investment profile. Of the $121.9 billion total New Zealand investment abroad as of 31 March 2008, portfolio investment comprises 36%, at $44.3 billion. Inward foreign portfolio investment in New Zealand is more than double that at $92.5 billion.

2.5. Summary

This chapter has shown that both India and New Zealand have highly dynamic, modern economies. Both countries are outward-looking and have entered into a wide range of trading arrangements at the multilateral, regional and bilateral levels. India and New Zealand are both internationally engaged through trade in goods, services and investment, and are becoming increasingly integrated into the global economy.

[8] Source: Secretary of Indian Approval, Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, India (2008)

3. Bilateral Trade, Economic and Cooperation Relations

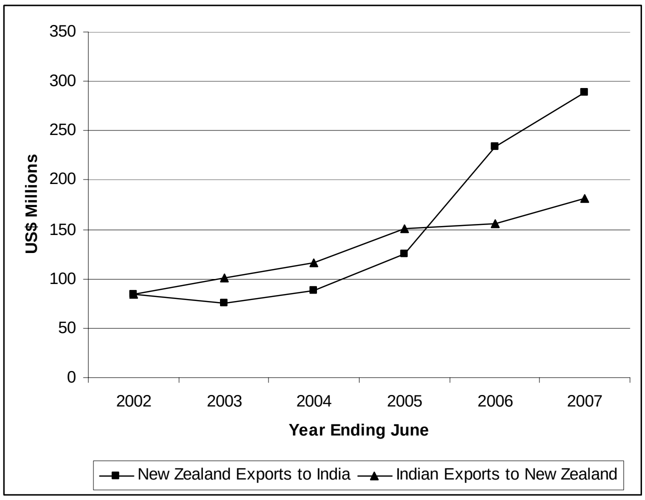
This chapter looks at the existing India-New Zealand bilateral trade relationship as well as touching on other aspects of the bilateral relationship. It considers the extent or strength of current bilateral trade linkages and the stability of such linkages.

Bilateral trade statistics reported by any two countries can at times differ. These differences arise for two reasons. First, when exports are required to travel through an intermediary country en route to their final destination, they may be counted as an export to that intermediary country instead. Second, the countries' customs authorities may classify specific products differently which will create statistical discrepancies. The solution to this problem used in this study is to use import statistics from each country, which are generally agreed to be more accurate. Therefore in this study, Indian exports are described using New Zealand import data and vice versa.

3.1. Goods

Historically the bilateral merchandise trading relationship between India and New Zealand has been under-developed. The recent trading performance is beginning to change this position. Since 2002, bilateral merchandise trade has nearly tripled in size from US$168.2 million to US$469.9 million, with an average growth rate of 23.5% per year. With improved market access, as a result of an CECA/FTA, there is great potential for the relationship to continue to develop.

Figure 3-1: New Zealand – India Merchandise Trade



Source: Department of Commerce, Statistics New Zealand

The under-developed nature of the merchandise trading relationship is highlighted by the low relative importance in mutual trade between the two countries. Bilateral imports from each country account for less than 1 % of each country's total imports. In the 2007 calendar year, India's exports to

New Zealand accounted for 0.64 % of total goods coming into New Zealand. This had increased from 0.57 % in 2003. In 2007, New Zealand's exports into India accounted for 0.15 % of all goods entering India. This had grown from 0.11 % in 2003. These increases show that the importance of trade with each country is increasing. It also implies that trade between the two countries is growing at a faster rate than each country's total trade.

New Zealand's sustained economic growth has fuelled demand for imports from India, which have grown at an average rate of 17.0 % per year between 2002 and 2007. Growth in India's exports to New Zealand has been consistently higher than from New Zealand's other sources of imports. This underscores the potential for this part of the trading relationship to be expanded further.

3.1.1. India's Exports to New Zealand

India's export profile to New Zealand is diverse. The key products at the HS4 level are diamonds, linen, medication, jewellery, and monument stone. On average, each year between June 2004 and July 2007, these products collectively only accounted for US$34.0 million, out of India's average exports to New Zealand during this period of US$162.3 million. These five products account for less than 20% of India's exports to New Zealand. This is a good indicator of the broad profile of India's exports.

However levels do not tell the whole story. Between 2002 and 2007, in terms of trade weighted growth, a number of other products also contributed significantly to the growth in India's exports to New Zealand. Growth in diamonds and jewellery contributed 12.7% of India's total export growth to New Zealand over that period. The next 8 most important products contributed an additional 20.1% towards the total export growth.

In addition, a number of other products have a lower level of trade, but have shown strong and consistent growth between 2002 and 2007. These products include sewing machines, plastic plates, sheets and film, base metal fittings and mountings, and semiconductors. The persistent growth of these products demonstrates that the growth of India's exports to New Zealand is driven by a broad range of India's export interests. This shows great promise for the bilateral trading relationship as it continues to develop.

India's recent spectacular economic performance has been well documented. This performance has led to a large increase in India's demand for imports. This increased import demand has generated opportunities for New Zealand exporters. India's imports from New Zealand have grown at an average rate of 31.8% per year between July 2002 and June 2007. The largest year on year gain was between 2005 and 2006, where New Zealand's exports grew 87.1%. With India's economic performance forecast to remain robust, there are prospects for further growth for New Zealand's exports although access/regulatory/SPS issues will significantly influence the ability for New Zealand firms to seize these opportunities.

3.1.2. New Zealand's Exports to India

Over the last five years massive growth in the export of coal and wood in the rough has changed New Zealand's export profile markedly. Since July 2002, exports of coal and wood in the rough have grown at an average rate of 81.8%, and 39.4% per year respectively. As New Zealand is naturally abundant in these products, there is scope for this trend to continue.

Prior to that period of change, New Zealand exported a reasonably diverse range of products to India. Typically, the products which New Zealand exports are unprocessed goods and machinery which contribute to production processes within India. New Zealand's key exports are in coal, wood in the rough, wool, butter, and scrap aluminium. Exports in these products have accounted for 73.8% of New Zealand's total exports to India on average since 2002. As India continues to grow, there will be a large degree of mutual benefit, as New Zealand will continue to be able to supply vital intermediate and final products to help drive India's economy.

In terms of products' direct share of New Zealand's export growth to India, energy related products are the dominant contributor. The growth in this area has accounted for nearly half of New Zealand's total export growth to India since 2002. Wood in the rough, wool, scrap zinc and scrap aluminium have also contributed significantly to the growth in exports.

While the share of growth has been dominated by coal, wood in the rough and wool, there are a number of other products which have exhibited very strong growth between 2002 and 2007. Scrap aluminium, scrap iron, and paper have on average, doubled each year since 2002, and are now among New Zealand's ten largest exports.

There are a number of products which are not yet dominant in New Zealand's export profile, but have grown strongly and consistently since 2002. The exports of these products are now at the level which products like paper, scrap iron, and scrap aluminium were at in 2002. A number of these are more highly processed, technical products such as parts for electrical apparatuses, liquid pumps, medical instruments, and semi-conductors. This ongoing development highlights the diversity of products which New Zealand has the potential to export to India.

These numbers indicate the considerable potential for New Zealand to contribute to India's ongoing economic performance through the export of vital intermediate, and final consumer products. Continued development of the merchandise trading relationship could deliver substantial benefits to both countries.

3.2. Services

Services trade represents an increasingly important channel of bilateral economic engagement between India and New Zealand. However, due to the inherent complexities and confidentiality issues associated with measuring bilateral services trade, it is difficult to obtain accurate official statistics to quantify the extent of the relationship.

Accordingly, we use secondary sources of data and industry statistics as indicators to describe the changes in the bilateral relationship, such as the number of student and visitor arrivals recorded.

As outlined in chapter 2, section 2.3.2.2, New Zealand's global services exports are centred on tourism and education. New Zealand's services export profile to India follows this same pattern.

The India-New Zealand education relationship is one that has been steadily growing. Since 2003 the number of Indian students studying in New Zealand has increased from approximately 800 students to over 4,000. The number of Indian students in New Zealand is projected to surpass 5,000 by 2009.

Tourist numbers have also been growing strongly in both directions. In the year ended March 2008, the number of Indian visitors to New Zealand was near 23,000. This was a 35% increase from five years ago from the year ended March 2003. New Zealanders visiting India in the year ended March 2008 numbered 26,500 people. This has increased nearly 300% since the year ending March 2003.

While the tourism and education sectors are significant contributors to the bilateral trade in services, and have exhibited strong growth, trade in other services sectors is also growing. Areas of interest include, among others, a wide range of professional and business services, environmental services and transport services.

3.3. Investment

3.3.1. Indian FDI Inflows

In terms of countries investing in India, New Zealand ranks 39th and accounts for about 0.13% of FDI into India. In the same period, actual cumulative FDI inflows from all countries amounted to US $ 67.33 billion. New Zealand ranks 55th and cumulative inflows (net of American Depository Receipts (ADRs) and/or Global Depository Receipts (GDRs)) from New Zealand were US$ 8.5 million (0.01%), excluding FDI inflows received for acquisition of existing shares (up to 1999), stock swapped, RBI's-NRI schemes & advance pending for issue of shares.

The top sectors attracting FDI approvals (from August 1991 to December 2007) from New Zealand were: the services sector (57.65%), food processing industries (28.37%), telecommunications (12.83%), boilers and steam generating plants (0.52%), and electrical equipments (including computer software & electronics) (0.36%). Top sectors attracting FDI inflows (from January 2000 to December 2007) from New Zealand were: power (90.79%), computer software & hardware (4.44%), and trading (2.17%).

3.3.2. New Zealand FDI Inflows

India’s outward investment to New Zealand has remained meagre. However, in more recent years New Zealand’s FDI inflows from India in the forms of Joint Ventures (JVs) and Wholly-owned Subsidiaries (WOS) have increased (Table 0-19) from a miniscule US $ 0.13 million (1996-2002) to US$ 2.745 million (2007-2008).

3.3.3. Technical Collaborations

In the last 16 years, India has engaged in nearly 8000 projects involving technical collaborations with other nations. New Zealand has been granted 20 technical collaborations since 1991. Top sectors attracting technology from New Zealand are electrical equipment (including computer software & electronics) and metallurgical industries.

Leading information and communications technology (ICT) solutions company CMC Limited is partnering with a New Zealand university to take New Zealand’s innovative ICT technologies and capabilities to the world. Tata owned CMC ltd has signed a Memorandum of Understanding (MoU) with Massey University’s e-Centre in Auckland, New Zealand. The two have jointly established a technology centre that will give New Zealand companies a direct pipeline into CMC’s domestic and international distribution and sales channels. Known as the CMC Technology Export Centre (CMCTEC), the New Zealand-based venture ensures products are suited to market needs before they are passed to CMC, with the first offering – performance-based software developed by Auckland company QLBS – already sent to CMC. The current focus is on securing Indian domestic sales for three NZ companies – the most advanced of these is Auckland-based email spam prevention specialist, SMX Ltd.

3.4. Other Areas of Cooperation

Drawing on a shared history, India and New Zealand have much in common - the English language, parliamentary democracy, a broadly similar legal system with an emphasis on the rule of law, Commonwealth ties, a fondness for cricket and the strong links developed by Sir Edmund Hillary.

The relationship between India and New Zealand is growing and expanding. Underpinning the bilateral trade and economic profiles described above sits a wide range of bilateral cooperation.

In recent years there has been an increase in high level visits between the two countries reflecting the greater importance both sides are now placing on the relationship.

India’s economic growth has been matched by an expansion in New Zealand’s trade and economic relationship with India. There is potential for growth in tourism, education, business interaction, timber exports, export of niche products and consultancy services. There has been solid growth in the number of Indian visitors and students to New Zealand. India's outreach to its diaspora in New Zealand has also served to strengthen people to people ties.

India's "Look East" policy and its participation in regional institutions such as the East Asia Summit (EAS) and ASEAN Regional Forum mean that India and New Zealand are increasingly interacting in the regional context. India's interest extends to the Pacific Island states and, in 2003, India became a dialogue partner of the Pacific Forum. Our common membership of the EAS has also provided a high level platform for bilateral dialogue, including on climate change. Other areas where out interests coincide include our interest in United Nations reform, Commonwealth matters, human rights, the Alliance of Civilisations process, counter-terrorism and other transnational issues.

3.4.1. Treaties and Arrangements

There are a number of bilateral treaties in force between New Zealand and India the earliest of which date from 1963. These cover a range of areas including air services, double taxation and wool purchasing. In terms of bilateral arrangements of less-than-treaty status, there are arrangements on areas including agriculture, plant quarantine, information technology, education, and the recent Joint Understanding on Science and Technology Cooperation signed during the then Minister Anderton's visit to India in March 2008.

3.4.2. Business Linkages

The India/New Zealand Joint Business Council (JBC) was established in 1988. The JBC brings together the business sectors of both countries for a stock taking and also looks ahead to future possibilities. In New Zealand, the India Trade Group is also actively promoting the bilateral economic relationship.

Officials met in New Delhi in June 1987 for the first meeting of the New Zealand/India Joint Trade Committee (JTC), which was established under the New Zealand/India Trade Agreement signed during the visit of Prime Minister Rajiv Gandhi to New Zealand in October 1986. The purpose of the JTC is to discuss and negotiate bilateral trade policy and trade access issues.

The JTC and the JBC last met in Wellington in late October 2007. At that meeting of the JTC, Indian and New Zealand officials agreed on the Terms of Reference (TOR) for this Joint Study.

It would be appropriate to review these institutional arrangements following the conclusion of a CECA/FTA or even during the course of a negotiation. Suggestions have been made elsewhere in this study for additional mechanisms to promote greater understanding, information exchange, dialogue and cooperation in particular areas of the trade and economic relationship. Other proposals may arise during the negotiation in relation to how aspects of the agreement are to be implemented. As new mechanisms and processes are established, either during or following a negotiation, the JTC could operate as an umbrella institution to monitor, discuss and coordinate these subsidiary mechanisms and processes. It might be necessary to alter the frequency and composition of JTC meetings, to ensure it can perform these roles adequately. The relationship between the JBC and these new mechanisms and processes might also need to be considered. These are matters that should be discussed further at the next meeting of the JTC.

3.4.3. Defence

New Zealand has modest but warm defence links with India. Most bilateral defence interaction occurs between the two navies. Most recently HMNZS *Te Mana* visited Mumbai in August 2008. Earlier, HMNZS *Te Mana* and *Endeavour* visited Port Blair in the Andaman Islands in May 2007 following exercises with Indian naval ships; HMNZS *Te Mana* visited Kochi and Mumbai ports in June 2006; and the Indian ship *Tabar* visited Auckland in 2006.

New Zealand has useful defence interaction with India in the ASEAN Regional Forum, through the defence dialogue process and through the Forum's range of confidence-building measures.

3.4.4. Diaspora

India has passed legislation that allows dual citizenship or "overseas citizenship of India" to citizens of a number of countries including New Zealand. Within New Zealand there are some 120,000 citizens of Indian descent/origin, many of whom have achieved considerable prominence in New Zealand society.

3.4.5. Cultural Linkages

The Asia New Zealand Foundation has organised highly successful Diwali Festivals to celebrate the Indian festival of lights, since 2002. The Diwali Festivals are well-attended and have become one of the largest annual events in the Auckland and Wellington calendars. The New Zealand International Festival of the Arts has also featured Indian artists and in each of the last three years there have been Indian entries in the World of Wearable Art show in Wellington. There is also now an annual World of Wearable Art event taking place at the New Zealand High Commission in New Delhi in conjunction with the Fashion Design Council of India.

In May 2003, as part of India's celebration of the 50th Anniversary of the ascent of Everest, Sir Edmund Hillary was honoured by the Indian government. A plaque was presented to Sir Edmund Hillary by the Indian Prime Minister, Atal Bihari Vajpayee, and two roads in front of the New Zealand High Commission in New Delhi were named after Sir Edmund Hillary and Tenzing Norgay. In January 2008, Sir Edmund Hillary was posthumously awarded the "Padma Vibhushan", India's second highest civilian honour.

New Zealand and India also have strong cricketing relations. New Zealand and Indian cricket teams play each other frequently at various international arenas and also tour each others' countries regularly. In 2009, the Indian cricket team will tour New Zealand. A former New Zealand opening batsman, John Wright, was the first international coach of the Indian cricket team. The new Indian 20/20 League, in which New Zealand players participate, has attracted wide interest in New Zealand and worldwide.

In October 2008, the Commonwealth “Youth” Games will be held in Pune attracting the participation of some 60 young New Zealand competitors. In 2010 India will host the Commonwealth Games.

3.4.6. High Level Visits

Ministerial visits in both directions are a valuable way of enhancing political connections and bringing the relationship to the forefront. On the New Zealand side, since the former Prime Minister’s visit to India in October 2004, there has been increased Ministerial interaction: the former Minister of Education, Hon Trevor Mallard (2005 and 2006), former Minister of Trade and Defence, Hon Phil Goff (2005 and April 2007), former Deputy Prime Minister, Dr Cullen (October 2007) and former Minister of Local Government and Youth Affairs, Hon Nanaia Mahuta (December 2007). The most recent visit was by the former Minister of Agriculture and Forestry, Hon Jim Anderton who led a forestry delegation to India in March 2008. The New Zealand Governor-General and Commander-in-Chief His Excellency the Hon Anand Satyanand visited India from 8-14 September 2008.

Visits by Indian ministers have included a 2006 visit by the Minister of Finance, Chidambaram and two visits in 2007, by the Minister of Textiles and the Minister of Panchayati Raj (Local Government). The Government of India was represented at the state funeral for Sir Edmund Hillary in January 2008 by the Minister of State for Environment and Forests, Shri Meena. The Minister of Youth, Sports and Local Government, Mani Shankar Aiyar, visited New Zealand in April 2008. In May 2008 Commerce and Industry Minister Kamal Nath visited New Zealand. There is an outstanding invitation for Prime Minister Manmohan Singh to visit New Zealand.

3.5. Summary

This chapter has shown that the bilateral economic relationship between India and New Zealand has evolved considerably in the areas of trade in goods, services, investment flows and a wide range of cooperation activities. These linkages provide a sound basis for further deepening the relationship through a comprehensive CECA/FTA that addresses these areas.

4. Bilateral Trade Liberalisation in Goods

The present chapter aims at analyzing the feasibility of setting in place a CECA/FTA between India and New Zealand aimed at reducing bilateral tariff and non-tariff barriers along with improving trade facilitation measures within a well structured institutional framework.

To this end, the present chapter considers all the necessary ingredients of a CECA/FTA including both tariff and non-tariff measures. It goes beyond the previous chapter to provide an analysis of the level, trend and composition of India - New Zealand bilateral trade in recent times, in relation to specific goods sectors.

The chapter attempts to identify sectors and products ripe for further bilateral liberalisation. An attempt has also been made, with the help of computable general equilibrium modelling, to quantify the potential for bilateral trade expansion between the two countries under different scenario of tariff reductions.

Trade linkages between the two countries could be intensified not only through tariff liberalisation but also by adopting various trade facilitation measures. This chapter considers a range of such measures.

4.1. Indian Tariff Profile

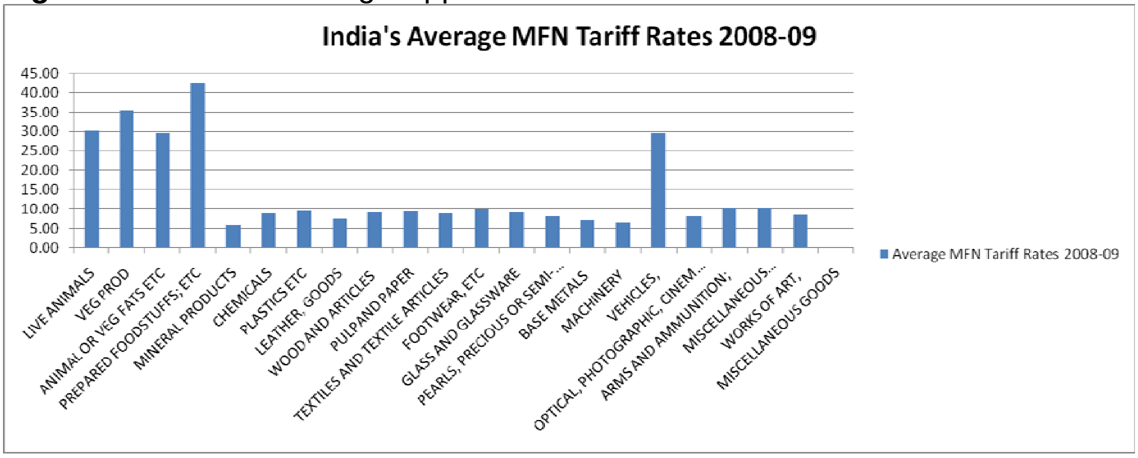
India has removed all quantitative restrictions maintained earlier on account of balance of payment reasons in a progressive manner, culminating in the completion of this process in March, 2001. Like other countries, some tariffs remain, for security, health, safety, and public morals as permissible under Articles XX and XXI of GATT. India continues to actively review these tariffs.

Export restrictions have largely remained unchanged since 2002. Currently, 171 tariff lines at the 8-digit level are subject to export restrictions. This excludes special chemicals, organisms, materials, equipment and technologies (SCOMET) items.

India's average applied tariff on non agricultural products was 24.5% during 2003-04, and this came down to around 9.36% during 2007-08 as per the announcements made in the Union Budget on 28 February, 2007. Duties on most chemicals and plastics have been reduced from 12.5% to 7.5%. The duty on seconds and defectives of steel has been reduced from 20% to 10%. All coking coal, irrespective of the ash content, has been fully exempted from duty. Customs duty on polyester fibres and yarns stands reduced from 10% to 7.5%. Also customs duty on raw-materials such as DMT, PTA and MEG has been reduced from 10% to 7.5%. The tariff rate on cut and polished diamonds was brought down from 5% to 3%; on rough synthetic stones from 12.5% to 5%; and on unworked corals from 30% to 10%. The general rate of import duty on medical equipment has been brought down to 7.5%. Duty on sunflower oil, both crude and refined, has also been reduced by 15 percentage points.

These reductions were over and above those made in January 2007, when the Government had announced a wide-ranging reduction in tariffs. In January 2007, import duties on capital goods, project imports, metals and specified inorganic chemicals were reduced by 2.5 percentage points and, in some cases, by 5 percentage points. Duties on some edible oils were reduced by 10 to 12.5 percentage points.

Figure 4-1: India's Average Applied Tariff Rates



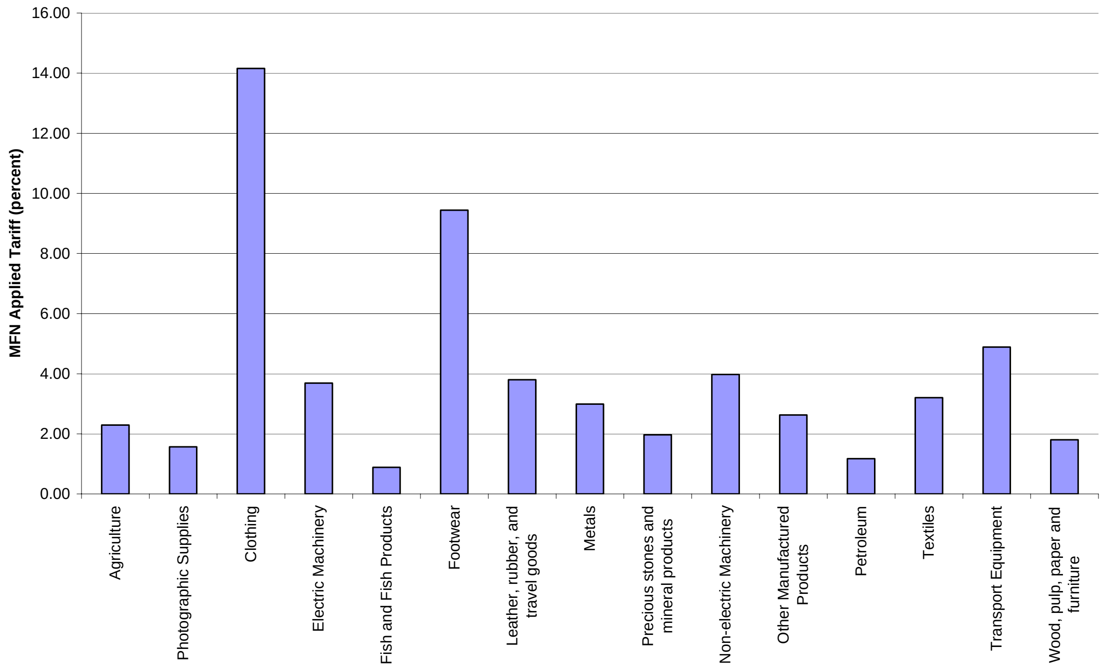
In terms of dispersion of tariffs, only 2.21% of the current tariff lines are above the average applied rates of 9.36% for non-agricultural tariffs in 2007-08, indicating that the duties on the bulk of India's non-agricultural tariff lines remain moderate to low. Around 8.4% of the tariff lines are equal to or below 5%. The average rate of tariff would be even lower if one took into account the exemptions available under several notifications issued by the Ministry of Finance.

4.2. New Zealand Tariff Profile

Prior to the period of reforms in the mid 1980s and early 1990s New Zealand had relatively high tariff rates. The reforms, which included widespread unilateral tariff reductions, transformed the New Zealand economy from one of the most closed in the world to one of the world's more open economies.

However New Zealand maintains higher tariffs on some products. For example, under the tariff effective from 1 April 2008, clothing, carpets and certain footwear items were protected by a maximum tariff of 15%. All other dutiable items faced rates of between 5% and 7.5%. Under this tariff, New Zealand's simple average tariff rate was 3.2%, and incorporated the average tariff on clothing products of 14.2%, and average rates applied to agricultural products and non-agricultural manufacturing products of 2.3% and 3.6% respectively. Figure 4-2 shows New Zealand's average applied tariff on 1 April 2008, across a range of product groupings. While the average tariffs imposed by New Zealand are relatively low by world standards, some areas remain protected to a reasonably significant degree.

Figure 4-2: New Zealand's Average Applied Tariff Rates



Source: Customs New Zealand

New Zealand does not maintain any quantitative non-tariff measures, such as quotas.

As of April 2008, there were 7,270 tariff items in the New Zealand Tariff. Based on MFN rates, 4,189 (57.6%) of these items entered New Zealand duty free. There were 2,638 items (36.3% of all items), with a tariff of between 5 and 7.5% (2,676 items if the tariff lines with specifics and parts are included). The remaining 405 items (5.6% of all items) faced a 15% tariff.[9]

Provisional data for the year ending June 2008 shows imports into New Zealand from the world face a trade weighted average tariff of 2.6%, while imports into New Zealand from India face a weighted average tariff of 4.3%. This indicates that India's export interests are weighted towards products which attract higher tariffs in New Zealand. This highlights an area of potential gain for India in improved market access negotiated through an FTA.

The outcome of the New Zealand Government's 'Post–2005 Tariff Review' was announced on 30 September 2003. Under the review (see Table 0-26 below) New Zealand's applied tariff rates will reduce to either 5 or 10%. Tariffs between

[9] In the New Zealand Tariff applicable on 1 April 2008 there were 2 tariff lines with a specific duty, and 32 lines which relate to parts or fittings.

5% and 7.5% will reduce to 5% on 1 July 2008. New Zealand's highest tariffs (15%, as at 1 July 2007, in clothing, footwear and carpet) will reduce to 10% by 1 July 2009.

4.3. Approaches towards Rules of Origin

Rules of Origin (ROO) are a critical component of any FTA. Only goods that satisfy the specified rules of origin will qualify for preference. Properly designed rules of origin can facilitate trade by providing importers and exporters with certainty regarding the tariff treatment of their goods at the border and the ability to continue to enjoy preference over time.

ROO are important because of their ability to check any possibility of third-country goods entering into a country's markets through the partner country on a preferential basis under and FTA. This phenomenon is well known as 'trade deflection,' which has the potential to undermine a country's MFN-customs' regime. It is however important to bear in mind that rules of origin are not to safeguard against imports per se instead they are to check deflected imports from third countries.

There are three different ROO methods to determine whether a product qualifies as 'originating' and is therefore eligible for tariff preference:

- Change in tariff classification (CTC);
- Value added based on regional value content; and
- Process definition.

There are advantages and disadvantages to each of these approaches. These approaches differ across bilateral and regional agreements in terms of how they are formulated. Most ROO modalities incorporate some kind of mixture of these approaches together with regional cumulation, treatment of packaging and non-qualifying operations. However, the exact mechanisms differ in NAFTA, agreements between the EC and its partners, ASEAN and its partners, MERCOSUR, and FTAs of Japan-Singapore, Australia-Thailand, and Singapore-USA, among others

The approach to rules of origin under preferential trade agreements has been evolving over the last decade primarily driven by the competitive forces of globalisation. Globalisation has led to a substantial growth in trade in intermediate products as manufacturing production models seek to take advantage of competitive inputs. The ability of manufacturers to compete globally is increasingly dependent not only on their cost competitiveness but their ability to add value through knowledge, design, and quality management. These factors require an approach to ROO that values these factors and allows firms to make dynamic adjustments to manufacturing processes without putting at risk their ability to claim tariff preference under an FTA.

Considering that rules of origin acknowledge production processes and value addition in the partner country they can have both trade and developmental effects if they are formulated with these objectives in mind. These rules should be designed in a manner that is not trade restrictive. They should not become trade barriers due to their complex methods of implementation. Rules of origin may recognize development objectives as appropriate.

It is also necessary to have close cooperation in the matter of verification of origin, which is required to check trade deflection and circumvention of rules of origin.

4.3.1. Recommendations

The JSG recommends that an FTA negotiated between India and New Zealand should ensure the agreed Rules of Origin:

- are simple in design with low compliance costs;
- are economically efficient;
- recognise the increasingly globally integrated nature of manufacturing process;
- acknowledge the principles of competitive and comparative advantage;
- facilitate exports between the two countries;
- recognise development implications;
- are readily enforceable at the border; and
- support innovative development.

4.4. Trade Facilitation Framework

Trade linkages between the two countries could be intensified not only through tariff liberalisation but also by adopting various trade facilitation measures. These measures could, *inter alia*, include entering into mutual recognition agreements (MRAs), to deal with issues of technical barriers to trade (TBT) and sanitary and phytosanitary measures (SPS); customs cooperation; harmonisation of standards and conformity assessment; and enhancing business to business dialogue. It is also necessary to put in place various trade remedial measures, and rules of origin, as mutually acceptable, designed in such a way as to facilitate trade creation between the two countries.

4.4.1. Customs Procedures and Cooperation

A lack of adequate customs cooperation can become a major hindrance to preferential trade flows. It is for this reason that customs cooperation need to be strengthened to enhance trade flows and reduce business costs. In this regard, customs processes and procedures have to be standardised, harmonised and benchmarked against international best practices. The scope of this cooperation could extend to various customs related procedures. An important aspect of customs cooperation in the context of trade facilitation is to facilitate clearance of consignments through increasing use of electronic means.

4.4.1.1 Approach to Customs Procedures and Cooperation

Countries' approach to customs procedures and cooperation combines World Trade Organization (WTO) commitments (particularly GATT Articles VII, VIII and X) and the aims of the World Customs Organisation (particularly – the HCDCS[10] Convention on tariff nomenclature and the Convention on the Simplification and Harmonization of Customs Procedures, as amended). Key principles to such an approach are:

- Facilitation of trade: ensuring that customs procedures and practices are predictable, consistent and transparent and facilitate trade. This is consistent with outcomes sought by the WTO and the WCO.

- Customs Cooperation: the opportunity to assist each other in the implementation and operation of customs' elements of the CECA/FTA, through exchanging technical advice for the purpose of risk assessment, simplifying and expediting customs procedures, maintaining technical skills as technology and risks evolve, and providing advance notice of any significant modification of laws or policies that may impact on customs provisions.

4.4.1.2 Recommendations

Focussing on bilateral trade, the JSG recommends that the objectives in an FTA chapter on customs procedures and cooperation between India and New Zealand should be to:

- simplify and harmonise customs procedures;

- ensure predictability, consistency and transparency in the application of customs laws, regulations and administrative policies and procedures;

- ensure efficient, economical customs border administration and the expeditious clearance of goods, means of transport and persons;

- facilitate bilateral trade and ensure the security of such trade;

- promote cooperation between the customs administrations; and

- provide a means for customs-customs consultation to enable early resolution of any issues affecting the movement of trade across borders.

[10] Harmonized Commodity Description and Coding System

4.4.2. Trade Remedies

While the main purpose of the FTA is to facilitate trade, there may be times when measures might be taken to counter injurious unfair trading practices resulting from dumping or subsidies or to provide temporary protection from injurious fairly traded import surges through safeguard action. The WTO has been evolving rules relating to anti-dumping, subsidies and countervailing measures and safeguards.

<u>4.4.2.1 Recommendations</u>

The JSG recommends that in FTA negotiations between India and New Zealand the handling of trade remedies could be discussed with the objective of maintaining adequate protection from unfair trading practices or import surges while ensuring that the benefits of trade liberalisation are not undermined.

4.4.3. Technical Barriers to Trade (TBT)

The pace and scope of globalisation of trade and manufacture and the provision of services today is driving demand by business for convergence of regulatory approaches and practical solutions to dealing with regulatory interface problems. The objective is to reduce transaction costs in a timely and effective way. This requires a common understanding of risk management and trade facilitation principles and a flexible approach to identifying practical options for reducing the negative impact technical regulations may have on trade.

<u>4.4.3.1 Generally Accepted Principles</u>

India and New Zealand are both Members of the WTO and signatories to the WTO Agreement on TBTs (the TBT Agreement). The TBT Agreement recognises the need to implement official measures in relation to goods to protect health, safety and the environment, and to prevent deceptive practices. Such measures should be risk-based and non-discriminatory, and should not seek to restrict trade. The TBT Agreement requires members to use international standards as the basis for their technical regulations. Countries need sufficient time, capacities and resources to adopt international standards, especially when international standards also are not constant but evolving. The TBT Agreement states that positive consideration should be given to accepting as equivalent technical regulations and outcomes of conformity assessment procedures of other Members.

<u>4.4.3.2 TBT Costs</u>

Differing domestic regulatory measures can make it difficult and expensive for suppliers to understand and comply with foreign requirements. These technical regulations can create significant transaction and compliance costs for exporters and give rise to higher costs for consumers. Such regulations could become TBTs if they do not comply with good regulatory practice principles identified above. The impediments to trade that may be created by technical regulations include:

- accessing information on what requirements for testing, inspection, certification and approvals must be met to export a product;
- the need to comply with different technical regulations and standards than those recognised in the domestic market;
- requirements for re-testing and certification of product to import county requirements;
- having to meet various costs associated with manufacturing plant inspection by the exporting country inspectors or auditors, which can often be superfluous to managing legitimate risks;
- onerous documentation requirements; and
- language barriers.

For these reasons, it is important that TBTs are addressed under multilateral, regional and bilateral initiatives, while recognising that legitimate measures to protect public health, safety and the environment can be acceptable. However, reduction of TBT costs needs to be approached in the context of the necessity of having technical regulations in place, given their role in protecting health safety and environment. The distinction between implementation of necessary technical regulations and the process of making them trade-facilitating needs to be understood.

4.4.3.3 A Possible Bilateral Approach

While the TBT Agreement provides clear disciplines and objectives on how to manage TBTs, it does not provide for processes and procedures to reduce these transaction costs. It is therefore important that an FTA includes a commitment to reduce TBTs, and where possible eliminate them, within the context of effective risk management strategies. However, the FTA needs to build adequate implementation mechanisms for the TBTs that are essential for human and environmental safety.

The TBT chapter should seek to create a platform for regulatory co-operation to support trade facilitation efforts. The FTA between India and New Zealand should build on the objectives and disciplines of the TBT Agreement. It should provide a framework of bilateral disciplines, processes and procedures for addressing TBTs. The framework needs to recognise different options for different circumstances based on an understanding of the supporting architecture of risk management within jurisdictions. It may include setting up enhanced consultation, information exchange and co-operative initiatives (joint work programmes), including between regulatory agencies. Co-operative initiatives may include processes to resolve issues with technical regulations, conformity assessment, or product surveillance requirements between India and New Zealand. Moreover, the fact that international standards by themselves have changed and shall be changing over time needs to be taken note of. To this end, building capacity through co-operation and technical assistance over sufficient time is imperative.

The TBT chapter should also provide for the development of implementing arrangements and specific instruments for regulatory coordination by way of annexes. These may include:

- Traditional Mutual Recognition Agreements (MRAs) on conformity assessment: these are modelled on reciprocal obligations of importing economies to recognise conformity assessment carried out by accredited conformity assessment bodies in the exporting economy to the requirements of the importing economy. These are one way of reducing transaction costs;
- Unilateral recognition: whereby a party seeks in its domestic law to unilaterally recognise the standards and regimes of other jurisdictions whose regimes meet its essential safety, health and environmental requirements;
- Reciprocal recognition of equivalence of regulatory measures, where appropriate; and
- Tailored formal arrangements: that recognise and work with the strengths of the institutional and regulatory regimes in each jurisdiction.

The key element that will underpin the efficacy of any option is the recognition of the importance of, and practical commitment to, deeper and sustained regulator-to-regulator dialogue to reduce unnecessary transaction costs and better manage risk.

The TBT chapter of the FTA should also provide for increased interaction and cooperation between the parties' standards and conformance infrastructure bodies, both directly and in international fora, such as at the International Organisation for Standardisation (ISO) and the International Electrotechnical Commission (IEC). This cooperation could also be extended to include activities for capacity building of institutions in both countries in identified priority sectors.

4.4.3.4 Recommendation

The JSG recommends that an FTA between India and New Zealand should include a chapter on TBT that builds on the foundations of the WTO TBT Agreement by providing a framework of bilateral disciplines, processes and procedures and a platform for pursuing implementing arrangements and annexes to address TBTs.

To progress this, contact points and technical experts should be established and tasked with confidence building through detailed exchange of information on their respective regulatory regimes with a view to developing a framework for negotiations.

4.4.4. *Sanitary and Phytosanitary (SPS) Measures*

The WTO Agreement on the Application of Sanitary and Phytosanitary Measures (the SPS Agreement) established the international rules-based framework for developing, adopting, and implementing SPS measures. The SPS Agreement acknowledges the right of members to undertake measures to protect human, animal or plant life and health. It requires that such measures should not be used to restrict trade unnecessarily, are based on scientific principles and are not maintained without scientific evidence. It also promotes the use of international standards and requires those countries to have a risk assessment supporting cases where they require measures designed to deliver a higher level of protection. Both India and New Zealand are founding members of the WTO and both regularly attend meetings of the WTO SPS Committee in Geneva and actively participate in the activities of the international standard setting bodies.

4.4.4.1 New Zealand's Approach to SPS

The Ministry of Foreign Affairs and Trade (MFAT) is the government agency accountable for ensuring New Zealand meets its obligations under the WTO. The New Zealand Food Safety Authority (NZFSA) and the Ministry of Agriculture and Forestry (MAF) are the competent government authorities responsible for the technical implementation the SPS Agreement. The New Zealand WTO/SPS notification and enquiry points reside within MAF.

New Zealand manages its SPS systems in accordance with its rights and obligations as a member of the WTO, World Organization for Animal Health (OIE), Joint Food and Agriculture Organisation (FAO)/ World Health Organisation (WHO) Codex Alimentarius Commission (Codex) and as a contracting party to the International Plant Protection Convention (IPPC). Internationally, New Zealand actively engages in SPS issues in relevant multilateral fora. Officials from MFAT, NZFSA and MAF regularly represent New Zealand's interests at the WTO SPS Committee in Geneva. Officials from NZFSA and MAF also hold key elected offices and other positions in the relevant international standard-setting organisations recognised by the SPS agreement (the OIE, Codex and IPPC).

New Zealand's domestic legislation embodies and promotes the use of science-based risk assessment in managing the risk associated with the international movement of goods and people. The legislative basis for New Zealand's SPS system includes the Biosecurity Act 1993, the Hazardous Substances and New Organisms Act 1996, the Animal Products Act 1999, the Agricultural Compounds and Veterinary Medicines Act 1997, the Wine Act 2003, the Food Act 1981, and the Food Amendment Act 2002.

New Zealand keenly promotes the use and recognition of international standards not only for imports and exports but also with respect to domestic food safety and biosecurity systems. Both NZFSA and MAF actively promote and use the concept of equivalence and the Food Act actively defaults to a variety of international standards such as Codex Maximum Residue Levels

(MRLs). New Zealand's sanitary legislative approach is primarily focussed on the setting of risk-based and outcome-focussed requirements as opposed to being process prescriptive.

While New Zealand's economy is heavily dependent on the exports of agricultural and seafood commodities, New Zealand also imports a significant percentage of its food. New Zealand maintains a variety of treaty level agreements covering the trade of agricultural and seafood commodities. New Zealand, through NZFSA and MAF has also established a wide range of SPS arrangements with counterparts throughout the world.

NZFSA administers the legislation covering domestic, import and export food safety and suitability requirements, as well as the legislation covering wine and the sale and use of agricultural compounds and veterinary medicines. It is relevant to note that the Food Act 1981 is in the process of being replaced, as is the system regulating imports www.nzfsa.govt.nz/imported-food/imports-portfolio/index.htm. NZFSA also provides the sanitary, zoosanitary and suitability export certification for agricultural and aquatic products and has developed a world leading electronic certification system (E-cert) to help facilitate this certification.

MAF Biosecurity New Zealand (MAFBNZ) is responsible for ensuring that New Zealanders, our unique natural resources, our plants and animals are all kept safe and secure from damaging pests and diseases. Within that mandate MAFBNZ administers the biosecurity legislation to prevent harmful organisms from crossing New Zealand's borders and establishing in New Zealand; and to reduce the unwanted harm caused by organisms already established in New Zealand, which includes official control of introduced animal or plant diseases and pests.

Import health standards, issued under the provisions of the Biosecurity Act 1993, are used to manage the importation of risk goods to New Zealand. Details about the process for application for development of a new import health standard can be found at http://www.biosecurity.govt.nz/commercial-imports/import-health-standards/funding-management-system.htm
New Zealand's import health standard process is rigorous. It demands review of all relevant science applicable to effective management of the identified risks with extensive public consultation through the process. There is also provision for independent review of any import health standard to consider whether MAFBNZ has had sufficient regard to the scientific evidence about which any person has raised concerns through development process.

4.4.4.2 India's Approach to SPS

In India, import control requirements are the responsibility of the Bureau of Indian Standards (BIS), the Directorate General of Foreign Trade (DGFT), the Ministry of Health and Family Welfare (MoHFW) and the Ministry of Agriculture (MoA). The Export Inspection Council (EIC) is responsible for export inspection and certification of commodities.

The import control in India for the food sector is operated under the Prevention of Food Adulteration Act by the MoHFW for health and safety aspects and the MoA for quarantine aspects. All products which are under compulsory certification by the BIS for the domestic market should conform to BIS standards when imported as well.

The Export Inspection Council (EIC) is the only agency in India responsible for export inspection and certification of a range of commodities in areas like food, chemicals, leather, engineering and footwear as commodities notified under the Export (Quality Control & Inspection) Act, 1963. To date, nearly 1000 commodities have been notified by the central government under the Act. The EIC also operates export inspection and certification on a voluntary basis by developing suitable inspection/ certification schemes. EIC is offering one such service in the tea sector, although it is not a notified commodity. The export inspections and certifications are based on standards recognised under the notification. These standards may be international standards, standards of importing countries, national standards prescribed in the notification, or even contractual specifications. Accordingly, EIC has statutory authority to certify against the standards and technical regulations of certain importing countries. EIC has obtained recognition from the European Communities (EC) and The United States Food and Drug Administraiont (USFDA), and recently from the Australian Quarantine and Inspection Service (AQIS) for fish & fishery products and the Sri Lanka Standards Institution for 84 products under their import regulations. This is individual recognition by the respective agencies and represents products of export interest to India, which are under regulatory import control in the respective countries.

As with TBT measures, India’s view is that SPS measures put in place in a CECA/FTA should be practical and consistent with the SPS Agreement in the WTO. Greater cooperation between regulatory agencies would need to be achieved through the FTA. This cooperation could also be extended to include activities which enable capacity development for the relevant institutions in both countries in identified priority sectors.

4.4.4.3 Areas of Future Cooperation

SPS issues have been a regular agenda item of the Joint Trade Committee (JTC). As noted previously, the purpose of the JTC is to discuss and negotiate bilateral trade policy and trade access issues. However, the wide range of topics discussed at such meetings and the infrequency of their occurrence has not been conducive to either making substantial progress on specific SPS issues or the establishment of close and collaborative relationships.

The current trade in agricultural commodities, especially food, between the two countries is disproportionately low relative to that which each has with other trading partners. In part this has been due to a lack of familiarity with both the production and processing situations which exist in each country and a lack of mutual understanding about how the differing risk profiles and risk management systems which exist in each country can potentially meet the other's required outcomes.

The potential exists for a significant increase in trade in agricultural and seafood commodities. However for this to happen, not only do the countries need a better bilateral framework to help prioritise and work through existing SPS issues, but one which promotes a more efficient, risk-based and outcome-focussed approach to any new issues that may arise as trade interest expands. While a commitment to appropriate principles and processes needs to be a core component of any such bilateral SPS framework, the framework should also provide for the ongoing administrative recording of the understandings and determinations made in accordance with these processes and principles. Central to all of the above is the need for a closer and more collaborative relationship between the respective competent authorities. This is to better ensure the development of the necessary knowledge, confidence and experience in how each country's risk management systems manage their differing risk profiles.

An FTA has the potential to further expand trade in agricultural and seafood commodities by both increasing the commercial certainty associated with existing SPS arrangements and providing a higher level of commitment and a more defined and predictable process for the parties to agree on the SPS conditions for new trade. The associated commitment from both parties should not only ensure the level of health protection required by each country is achieved but should also facilitate better multilateral cooperation and collaboration between the countries on SPS issues.

4.4.4.4 Recommendations

The JSG recommends that an FTA should establish a framework to:

- establish appropriate measures to protect human, animal or plant life and health
- further develop bilateral cooperation and consultation on SPS matters;
- foster a more interactive and collaborative exchange on SPS issues relevant to trade between the parties;
- improve the understanding of the differences in risk profiles and how each country's risk management systems address these;
- agree on the principles to be applied by both sides with respect to inspection, testing and certification procedures;
- work together to ensure that SPS measures or other standards do not result in unjustifiable restrictions on trade;
- agree on the principles and mechanisms to be applied to address issues of consistency and transparency;

- formalise and prioritise requests for consideration of equivalence of SPS measures and related processes;
- commit each party to a more defined, risk-based and outcome focussed process when reviewing existing arrangements or considering any SPS requirements associated with new trade; and
- formally record those understandings reached.

4.5. Sector Analysis

4.5.1. Agriculture

Agriculture is a significant sector for both New Zealand and India but currently the trade in agricultural products is limited. Key agricultural exports from New Zealand include wool; leather, hides and skins; and some horticultural products particularly apples and kiwifruit. Unusually, meat and dairy products, New Zealand's two key agricultural exports, do not feature. India exports some agricultural products to New Zealand including fruit, nuts, cereals, spices, coffee and tea.

New Zealand and Indian agriculture sectors are largely complimentary. In general they are not in competition. The reasons for this include: countercyclical seasons; different target markets (unlike Indian domestic product, New Zealand products are generally destined for the hotel restaurant trade, supermarket chains, and other niche markets); and, in general, New Zealand and India do not produce products which directly compete.

India is currently faced with food security issues. At the moment India cannot produce enough food to supply growing demand and this situation is made worse by high global food prices. It does not promote India's food security aspirations to constrain a range of New Zealand exports. If India cannot produce enough food to feed the population it needs to look to imports to meet its food security needs. New Zealand is an efficient and safe supplier of food and could be of real assistance to India.

While New Zealand can be an efficient and safe supplier of food for India, it is too small to "flood" a market of India's size. While New Zealand exports a large share of its agricultural produce and is a significant global trader, its share of world production is relatively small. New Zealand agriculture relies heavily on land and water resources and due to these factors production cannot increase.

There is potential to develop the bilateral agriculture relationship through a CECA/FTA and, in parallel, through other processes, to the benefit of both countries.

<u>4.5.1.1 Tariffs applying to agricultural products</u>

India's simple average MFN applied tariff rate for agricultural products was 36.81% in 2007; the final bound duty is a lot higher at 114.2 %. A number of key New Zealand agricultural products are significantly impeded by tariffs- tariffs on sheep meat are around 36%, apples for example have a 51.5% tariff (even though they are off-season to India) and kiwifruit 30.9%. New Zealand is particularly concerned with the import tariffs on wine which reached 150% in 2007.

New Zealand tariffs on agricultural products are very low. New Zealand's simple average MFN applied tariff rate for agricultural products is 1.7 % in 2006; the final bound duty is 5.7 %.

In addition to tariffs, India levies additional import duties and state level taxes on many agricultural products. Reducing these duties and taxes would benefit both Indian producers and New Zealand exporters. Imports can have an important role in growing India's markets. High import duties and state level taxes hinder this growth potential.

4.5.1.2 Other policies affecting trade in agricultural products

In the course of conducting this feasibility study, a range of non-tariff issues affecting bilateral trade in agriculture between India and New Zealand have been raised. The key issues relate to SPS measures.

4.5.1.3 Impacts of trade liberalisation

Owing to the complementary nature of the Indian and New Zealand economies and export profiles, trade liberalisation would be expected to bring net benefits to both parties. Removing tariffs and other barriers in agricultural trade would allow this complimentary trade to reach its potential. Benefits from liberalisation in agricultural trade would include lower prices and access to a wider range of agricultural products for consumers, and improved opportunities for exporters through improved access to markets. This in turn would stimulate greater economic activity in both countries.

4.5.1.4 Recommendations:

It is recommended that:

- issues relating to tariffs and taxes on agricultural products be addressed in CECA/FTA negotiations;
- the range of non-tariff issues affecting bilateral trade in agriculture between India and New Zealand, in particular those relating to SPS measures, be substantially addressed in association with the CECA/FTA negotiations so as to enable trade to flow; and
- enhanced cooperation between the respective agricultural sectors is provided for under the CECA/FTA framework as a means of increasing bilateral trade.

4.5.2. Dairy

The dairy sector is New Zealand's single largest merchandise goods export sector and a key contributor to the New Zealand economy. Dairy accounts for

19.5% of New Zealand's total merchandise exports in 2007 worth approximately NZ$6.5 billion. Ninety-five percent of manufactured dairy products are exported.

New Zealand has many already established markets around the world for its dairy products. The range of destinations for New Zealand dairy products is diverse, New Zealand exports dairy products to over 150 countries worldwide.

While New Zealand is one of the largest exporters of dairy products our share of world milk production is relatively small at just 2.2 %. India is one of the largest milk producers in the world producing approximately 14 % of world production.

Unusually for New Zealand, dairy does not feature in the bilaterally trading relationship with India. Access to the Indian dairy market for New Zealand dairy products could have a number of benefits for both India and New Zealand. New Zealand producers would benefit from having access to a new market and Indian consumers would benefit from increased supply and a wider range of products, especially specialised dairy ingredients for further processing. India's domestic producers would not be detrimentally affected by increased trade in dairy products with New Zealand as the export of liquid milk from New Zealand has been found to be uncompetitive.

India presently exports milk and milk products to over 80 countries. The products exported include milk powder (SMP, WMP), fat rich products (ghee, butter), condensed milk products and milk protein rich products (whey protein, casein). There is a good potential for export of traditional Indian dairy products such as Khoya, Rabri, Basundi, Paneer, Mishti Dahi, Kulfi etc. because of the strong presence of Indian Diaspora in New Zealand.

There is therefore potential for increased trade in both directions. It is recommended that in addition to tariffs, any CECA/FTA address any other barriers to bilateral trade of dairy products.

4.5.3. Meat

The meat sector is another significant part of the New Zealand economy representing 13.8% of merchandise exports. In 2007 meat exports comprised predominantly of sheep meat and beef totalled NZ$4.6 billion. Like the majority of New Zealand's agricultural products most of New Zealand's meat production is sold in the international markets; approximately 80% of meat is exported.

There is currently no trade in meat products between India and New Zealand. New Zealand has exported meat products to India in the past but has not done so for a number of years. With its growing and relatively affluent middle class India could be a significant future market for New Zealand meat exports. When New Zealand exported meat to India in the past, most meat supplied the hotel restaurant trade. Access to this hotel trade would be advantageous to Indian consumers and New Zealand exporters, especially with the growing numbers of Indian middle and upper-class families eating out in hotel restaurants. Access to high quality meat in supermarkets could also be another market channel which would be beneficial to both countries. Such a trade should not adversely affect Indian industries and farmers.

India is a major exporter of buffalo meat, presently exporting it to more than 60 countries. The meat exports from the country started as early as 1969 and have been progressively increasing. Buffalo meat has some characteristics that are distinctly different from beef making it a meat of choice for some cultures and processing operations. New Zealand does not produce commercial quantities of buffalo meat. With the large Indian and Asian Diaspora resident in New Zealand who are likely to be already familiar with some of these characteristics a good commercial potential exists for exports.

There is therefore potential for increased trade both ways. It is recommended that, in addition to tariffs, any CECA/FTA address barriers to bilateral trade of meat products.

4.5.4. Wool

New Zealand is one of the largest producers and exporters of crossbred wool in the world. Wool accounts for 2.4% of New Zealand's total merchandise exports in 2007 worth approximately NZ$800 million.

Wool is an important component of the bilateral trade in agricultural products between India and New Zealand. Wool exports to India have remained at a reliable level around the current NZ$58 million mark for a number of years, making India New Zealand's fifth biggest wool market globally. The wool is used in India's labour-intensive hand-knotted carpet industry – indirectly, New Zealand wool probably goes to support some 300,000 carpet makers in India.

There are few barriers to the wool trade; New Zealand wool products are already entering India at low duty rates of approximately 5%. Nonetheless, reduction of tariffs would still benefit both countries.

4.5.5. Horticulture

New Zealand's horticulture industry is based largely on the export of kiwifruit, pipfruit, wine and fresh and processed vegetables. However, there is a lot of niche product development and innovation in the industry, with avocados, olives, berryfruit, summerfruit and other crops being exported or having future export potential.

Total horticultural exports make up about 7.4% of merchandise trade in 2007 valued at around NZ$2.5 billion. The main export earners are kiwifruit and pipfruit (specifically apples) but wine is becoming increasingly significant. Last year New Zealand exported NZ$3.5 million worth of apples and NZ$1.1 million worth of kiwifruit to India.

Given the counter-seasons, there is a complementarity in exporting horticulture products to each other and third markets. Trade liberalisation would allow better access for products and provide consumers with access to high quality fruit and vegetable products at a lower price year round.

The complementary nature of Indian and New Zealand production suggests an FTA would offer further opportunities for New Zealand exporters without displacing the Indian domestic industry. Further, an FTA would ensure

New Zealand producers could compete with other countries exporting into the Indian market.

4.5.6. Forestry

India is New Zealand's fifth-largest export market for wood products worth $65 million in 2007. While only 3% of New Zealand's total wood products are exported to India, it is an important and fast-growing market.

Population growth pressures in India have resulted in continuous decline in the forest land. Most of India's formerly forested land has been converted to agricultural land. India is now trying to counteract forest depletion by implementing forest preservation schemes.

With the emphasis on protecting its native forest, India needs to import timber to meet growing demand in the construction and other industries. The wood processing industry in India is one of the fastest growing segments of the Indian economy, mainly due to the booming construction and furniture industry sectors and the increasing shift towards mass production of a range of wood products. There is a natural fit with New Zealand's huge and growing, sustainably harvested, plantation timber resource.

Both India and New Zealand recognise the importance of sustainably managed forestry. There are strong complementarities between the New Zealand and Indian forest product industries. India's demand for forest products is increasing at the same time as New Zealand's increased supply of wood products is coming on stream.

Currently 86% of New Zealand's total forest product exports to India are raw logs. New Zealand produces a variety of other products that would be of interest to India, particularly given the expansion of many of India's market segments. For example, in the construction sector, New Zealand could supply sawn timber, mouldings, and builders joinery. New Zealand is also starting to introduce new building systems to India such as Lockwood homes.

The complementarities between the two economies mean that trade liberalisation would be expected to bring net benefits to both parties. Removing tariffs and other barriers to trade would allow this trade to reach its potential resulting in mutual benefits. There would be benefits for consumers in the form of lower prices and access to a wider range of products, and improved opportunities afforded to exporters through improved access to markets.

4.5.6.1 Tariffs applying to forestry products

Over the past few years, India has unilaterally reduced tariffs on forest products. Nevertheless, India's applied tariffs for wood products are still relatively high compared to New Zealand's other key export markets. Tariffs for sawn logs are 5% and for most other wood products 10%. Tariffs on value-added timber are still of major concern, as these are up to 31.7%.

In addition to tariffs, India levies excise duties and charges on imported goods. Total duties, therefore, range from 9.4% for logs, through to 34.1% for more value-added timber products. These higher total duties on value-added products, as well as competition from Indian producers with lower costs, have meant that 86% of New Zealand's total forest product exports to India are raw logs.

It is recommended that issues relating to tariffs on forest products be addressed in the future CECA/FTA negotiations.

4.5.6.2 Other policies affecting trade in forestry products

In the course of conducting this feasibility study, a range of non-tariff issues have been raised affecting bilateral trade in forestry between India and New Zealand. These issues include SPS issues, technical requirements, and other issues relating to treatment of forest products at the border.

It is recommended that these issues be addressed in any future CECA/FTA negotiations.

4.5.6.3 Impacts of trade liberalisation

Both India and New Zealand recognise the importance of sustainably managed forestry. There are strong complementarities between the New Zealand and the Indian forest product industries. India's demand for forest products is increasing at the same time as New Zealand's increased supply of wood products is coming on stream.

The complementarities between the two economies means that trade liberalisation would be expected to bring net benefits to both parties. Removing tariffs and other barriers to trade would allow this trade to reach its potential resulting in mutual benefits. There would be benefits for consumers in the form of lower prices and access to a wider range of products, and improved opportunities afforded to exporters through improved access to markets.

4.5.7. Poultry Products

India is the third largest egg producer and fifth largest chicken meat producer in the world. The country is exporting hatching eggs, table eggs, egg powder, frozen eggs and poultry meat to a large number of countries, including USA, Japan, Denmark, Poland, Belgium and countries in the Middle East. New Zealand imports poultry products such as dried egg products and retort packaged fatty liver preparations and poultry meat. India exports most of these products to many other countries. However, New Zealand is not one of them. There is a good potential for export of these products from India to New Zealand.

4.5.8. Fisheries Products

India's exports of fisheries products to New Zealand are meagre. In view of the fact that India exports fisheries products - especially prawns and shrimps - to 130 countries, including to the member countries of the European Union and the USA, there is a scope to increase the level of fisheries exports to New Zealand as well.

New Zealand fisheries exports to India are also meagre. In view of the fact that New Zealand exports of fisheries products - especially bivalve mulluscan shellfish, crustaceans and finfish - are similarly broad and these products go to some 130 countries, including the EU and the USA. Again, there is a scope for enhancement of the export of fisheries to India.

4.6. Overall Impact of Liberalisation

4.6.1. Outline of analytical approach

The analysis presented below takes two forms. First, a Revealed Comparative Advantage analysis is used to identify each country's key areas of export interest. Second, a Computable General Equilibrium modelling exercise is carried out to estimate the potential gains from a comprehensive India-New Zealand CECA/FTA.

4.6.2. Identification of items of export interests for India and New Zealand

In order to help explore the feasibility of a CECA/FTA between India and New Zealand, and to also to provide some early guidance for negotiations, this section attempts to identify products and sectors where trade liberalisation and deeper integration could have a trade-augmenting effect. This analysis adds to the qualitative assessment provided in Chapters 2, 3 and 4.5.1 above.

A Revealed Comparative Advantage (RCA) index is used for this purpose. Broadly following the methodology in Porter (1990), Crocombe et al (1991) and Ballingall (2004)[11], we deem a country to have RCA in the production of a good if its share of world exports in that sector exceeds its total exports as a percent of total world exports. To estimate the extent of a sector's comparative advantage, we calculate the RCA index for each sector (Balassa, 1965)[12]. The index is estimated using the following formula:

$$RCA_{i,k} = 100 * [(X^k_i / X^k_w) / (X_i / X_w)]$$

Where:

X^k_i = exports of commodity k by country i
X^k_w = global exports of commodity k
X_i = total exports by country i
X_w = total global exports

This ratio is greater than 100 when a country's share of world exports for a particular commodity is greater than its share of total world exports. A value

[11] Crocombe, G, M Enright, and M Porter. (1991). Upgrading New Zealand's competitive advantage. Oxford: Oxford University Press.
Porter, M. (1990). The competitive advantage of nations. New York: Free Press.
Ballingall, J. (2004). Monitoring New Zealand's star performers. NZIER working paper 2004/1.
[12] Balassa, B. (1965). *Trade Liberalization and 'Revealed' Comparative Advantage*. Manchester School 33, pp. 99-123.

over 100 indicates that the country has specialised in this commodity – it has a comparative advantage.

The detailed results for products which India exports more than US$400 million can be seen in Table 0-27 These results highlight that India has a strong RCA across a number of sectors including: textiles, clothing, carpets, diamonds and jewellery, fisheries, coffee and tea, and nuts.

New Zealand has a strong comparative advantage across a range of sectors including: agriculture, forestry and wood products, horticulture, aluminium, and specialised machinery. These results for New Zealand's significant exports are shown in greater detail in Table 0-28.

For each commodity, we also analyse how the RCA index has changed between 2001 and 2006 in order to try to identify possible changes in each country's comparative advantage. It highlights sectors which are growing in importance to each country's trade profile. This analysis suggests that there are several highly dynamic comparative advantage sectors for India. The sectors include: gold and other precious metals, ships, textiles, clothing, machinery, and electric machinery. More detailed results are in Table 0-29.

For New Zealand, the list of sectors in the category of highly dynamic comparative advantage includes agriculture, machinery, prepared foods, foresty and wood products, and medical machinery. More detailed results are in Table 0-30.

This RCA analysis has shown that India and New Zealand have markedly different export structures. This suggests that New Zealand and India do not compete in many areas of merchandise, and thus that there are potential economic benefits to be gained from specialisation following bilateral trade liberalisation. These gains are estimated in the next section.

4.6.3. Computable General Equilibrium modelling of potential gains from an India-New Zealand CECA/FTA

In undertaking modelling it is possible to arrive at a range of scenarios depending on inputs and assumptions. The Study records both a conservative model – see main text – and one with more ambitious results – see boxed text – based on more liberal assumptions.

Estimating the economic effects of trade agreements is often attempted using general equilibrium modelling. The most commonly-used model is the Global Trade Analysis Project (GTAP) model and its associated database (version 7). This database is suitable for considering the liberalisation of merchandise trade only and does not yet adequately capture the potential gains from services and investment liberalisation.

In the context of this study, we modelled a comprehensive CECA/FTA between India and New Zealand, using a modified GTAP version 7 database that takes into account recent changes in both countries' trade policy settings. The modelling also incorporates gains from trade facilitation and dynamic productivity gains that arise from technology transfer and 'learning by doing' in the meat and dairy sectors. Such gains have been highlighted by the OECD (2006) as being important considerations when estimating the benefits from trade agreements.

The results show that both India and New Zealand experience small welfare gains as a result of the CECA/FTA, and that real GDP rises in both economies. Bilateral merchandise exports increase as trade barriers are removed. The gains are asymmetric, as would be expected given the relative size of the two economies and each country's respective initial level of trade barriers.

	India	New Zealand
Welfare, EV (level)	US$196m	US$59m
% change in real GDP	0.03	0.01
% change in bilateral exports	16%	117%

For major export sectors (as identified in Chapters 2, 3 and above in 4.5.2) increases in bilateral exports were recorded for New Zealand in dairy; grains and crops; meat; mining and extraction; textiles and clothing; and light and heavy manufacturing.

For the main Indian export sectors, increases were recorded in textiles, clothing and footwear; processed foods; light manufacturing products; and heavy manufucturing products.[13]

These headline results should be seen as indicative only, for two main reasons:

(i) The simulations considered look only at goods trade liberalisation. A comprehensive CECA/FTA would liberalise goods, services, investment and contain provisions on other issues. This additional liberalisation would likely lift the overall benefits from a CECA/FTA well beyond the estimates presented above.

(ii) The publicly-available Version 7 of the GTAP database is based on the world economy in 2004. Its representation of the current, dynamically-growing India-New Zealand trading relationship – and therefore the potential gains from liberalisation of this trade – is therefore less accurate than it could be.

[13] More detailed sectoral results can be seen in Table 0-2 to Table 0-5. However, these should be interpreted with care, as the percentage changes are often from a low base, reflecting the relatively low levels of bilateral trade recorded in version 7 of the GTAP database.

Further modelling, which extended the potential impact of a CECE/FTA on trade facilitation, resulted in considerably larger gains than those recorded above. This is discussed in Box 4-3 below. This suggests the potential welfare gains from an India/NZ bilateral CECA/FTA could be significantly higher.

Box 4-3: Estimates from CGE and Time-series Modelling: Some Liberal Scenarios

A. CGE Estimates

The economic gains of the proposed India –New Zealand FTA were also estimated under a more liberal scenario of 100 percent tariff liberalisation accompanied with trade facilitating measures in place, using a multi-sector computable general equilibrium (CGE) model. This is the standard Global Trade Analysis Project (GTAP) model, coordinated by the Center for Global Trade Analysis, Purdue University. The data is obtained from the GTAP database (version 7:2009).

Box Table 1: Welfare and Exports Gains under Full Tariff Liberalisation and Trade Facilitation Scenario

I. Welfare Gains	**US $ Million**	**% of GDP**
New Zealand	2499.46	2.4
India	12560.23	1.4
II. Bilateral Exports	**% Increase**	
New Zealand	11.6	
India	14.21	

The welfare gains can be considered modest but significant in the context of India-New Zealand FTA as evident from Box Table 1. The overall welfare gains range from US $ 2.5 billion for New Zealand (2.4 percent of GDP) to US $ 12.6 billion (1.4 percent of GDP) for India. The simulations suggest that the asymmetric gains emanate more from the trade facilitation measures rather than tariff liberalisation as exports do not show substantive increases. Given that the trade facilitation infrastructure and associated mechanisms in the case of India are much less developed, the gains accrue more to India than New Zealand. In this context, one of the assumptions made was that any improvements in trade facilitation infrastructure due to the sheer bilateral import volume that augments technical change would facilitate trade vis-a-vis the rest of the world as well. This was adopted uniformly for both India and New Zealand in the modelling simulation.

B. Trade Projections: Dynamic Scenario

Due to rather well-known inherent limitations of the CGE modelling bilateral trade projections were also made with the help of time-series modelling. While India's exports to New Zealand are projected to increase in the range of US $ 231 million (2015) to US $ 345 million (2020), New Zealand's exports to India are projected to increase in the range of US $ 298 million (2015) to US $ 435 million (2020)in a dynamic setting.

Box Table 2: Time-Series Projections of Bilateral Trade (US $ million)

	India's Xs to New Zealand	***New Zealand's Xs to India***
Year		
2015	*230.91*	*297.82*
2020	*344.95*	*434.53*

The asymmetric mutual exports gains can be explained in terms of New Zealand getting a relatively larger market access in India.

4.7. Summary

The qualitative and quantitative analyses in this chapter indicate that New Zealand and India would both benefit from a comprehensive bilateral CECA/FTA that covers goods, services, investment and other issues.

Economic modelling suggests that a comprehensive CECA/FTA that incorporates trade facilitation gains and dynamic productivity gains would increase economic welfare and real GDP for each country. Bilateral exports would increase, particularly in those sectors where each country has a comparative advantage.

When the potential gains from services liberalisation and investment liberalisation are added, and broader strategic and cooperative aspects taken into account, this indicates that the proposed India-New Zealand CECA/FTA would be positive for both countries.

5. Bilateral Trade Liberalisation of Services

This chapter identifies each country's areas of strengths in services trade and suggests potential options for expanding this trade through liberalisation under a CECA/FTA.

In the knowledge based global economy, services are critical to the competitiveness of countries. World commercial services exports rose by 18% to US$3.3 trillion in 2007. Among the three broad commercial services categories, transportation, travel and "other commercial services", the last of these has been the fastest growing category over the last seven years. It accounts for slightly more than one half of total services exports. In 2007, other commercial services expanded by 19%, again more than transportation and travel.

The acceleration in services exports can be observed in all major regions and in all three services categories. In the year 2007, India was the eleventh largest services exporter in the world and the thirteenth largest services importer in the world. Services also form a vital component of the New Zealand economy, contributing around 71% of GDP. Thus services are playing an important role in the economies of developed as well as developing countries alike.

5.1. Complementarities between New Zealand and India in the Services Sector

New Zealand offers an important market to Indian service providers. New Zealand is less populous than India and has world-scale business places with a high density of enterprises that enjoy high per capita income.

Likewise, the rapid economic growth taking place in India has created a vast opportunity for export of services to India from New Zealand. The improved availability of global standard services will be important to maintaining the high economic growth levels. Employment opportunities are being created in the rapidly expanding services sector and this in turn is also fuelling the growing demand for services. Disposable incomes are rising and so is consumption of services. International players have a big business opportunity due to the size of the market and the huge economy. The Indian government's emphasis on the growth of infrastructure is another big opportunity for service providers to leverage their expertise to set up base in India, especially as the growth phase appears to be sustainable and lasting. Increasingly there are opportunities for service providers to move off-shore processes to India. This is also helping them to ramp up their delivery model in India to reach out to their growing clientele.

The complementarities between New Zealand and India are evident both in terms of market structure and with respect to each country's sectors of expertise. It is clear that there exists significant potential for mutually beneficial services trade to take place between India and New Zealand under any CECA/FTA.

5.2. Potential for Trade in Services

The JSG examined the potential for enhanced trade in specific service sectors and modes of supply. Based on the JSG discussions, the sectors that have been identified are: tourism services; educational services; architecture engineering and integrated engineering services; computer related services; the range of professional services like accountancy services; construction services; audio visual services; environmental services; services incidental to agriculture and forestry; financial services; modes 1 and 2 especially in professional services; and other business services; and other services such as credit reporting services; collection agency services; telephone based support services including telephone call centre and other telephone based support services; duplicating services; mailing list compilation and mailing services; and trade fair and exhibition organization services etc.

Another important area identified by the JSG is the disciplining of domestic regulations. With regard to various sectors and modes of supply, both sides identified the need to move towards removing administrative barriers, eliminating foreign equity limitations and simplifying regulatory regimes.

The sectors and modes of supply identified as having particular potential and which need to be prioritized for future cooperation and mutual advantage are discussed below.

5.2.1. Modes 1 and 2 (Cross Border Supply)

Both countries should consider the scope for binding the existing level of liberal commitments as well as offering new commitments across a broad range of commercially meaningful sectors such as professional services, research and development (R&D) services, education services, environmental services and other business services.

The commercial importance of allowing cross border supply across a wide range of services sectors is growing. Some services which were considered to be previously technologically infeasible to export through cross border supply are now more and more being traded commercially. This is a dynamic area of growth experiencing continuous development. It is desirable to plug the gap between current levels of commitments in the WTO context and commercially meaningful market access opportunities that have arisen.

New Zealand as a country is small and physically distant from most of its markets. Many New Zealand services suppliers are small and operate on a smaller scale than their competitors in other countries. As a consequence, mode 1 is a particularly important mode of delivery for New Zealand.

5.2.2. Mode 3 (Commercial Presence)

The supply of services through commercial presence plays a key role in building infrastructure for economic activity and facilitating transfer of technology. Establishing a commercial presence is deemed important for facilitating business relationships and gaining credibility. Furthermore, commercial presence enhances economic integration and can be shown to have a close connection with other forms of transnational economic interactions including goods trade.

Given this, it is very important that mode 3 commitments are scheduled in a clear, transparent and precise manner and furthermore, that the sectoral mode 3 commitments are not undermined by particularly trade restrictive market access or national treatment reservations. The JSG noted the importance of eliminating reservations affecting the establishment and operation of a commercial presence, including limitations on foreign equity participation, limitations on the type of commercial presence and requirement to joint ventures.

5.2.3. Temporary Movement of Natural Persons (including Mode 4)

Temporary movement of natural persons is an area of great significance for India and New Zealand. Both Parties recognise the importance of addressing the issue in a future FTA, focusing on expanding and facilitating movement of business people for specific trade and investment related activities.

A chapter on temporary entry in the FTA would aim to reduce unnecessary impediments imposed on the cross-border movement of business persons. A chapter on business mobility could provide greater transparency to business with regards to the application processes for business visas and the rights and responsibilities attached to them. It could also establish the right conditions to ensure that parties expeditiously process temporary entry applications. Such provisions on business mobility are of considerable importance because they would complement commitments negotiated under other chapters of the proposed FTA, especially those that relate to trade in services and investment, and ensure that the maximum possible benefit of those chapters is realised.

With regard to mode 4 specifically, both countries should consider commitments in the categories of natural persons supplying services across various service sectors and sub-sectors. As is the case in the GATS, the JSG do not propose to include provisions covering persons seeking citizenship, permanent residence or employment in the other country.

5.2.4. Domestic Regulations

The JSG noted the importance of disciplining all elements of domestic regulation especially qualification and licensing requirements and procedures, which often impede effective market access to service suppliers. New Zealand and India share the view that robust disciplines on domestic regulation are needed to ensure that the value of any market access and national treatment commitments are not undermined through the misuse of domestic regulations for protectionist purposes. Processes toward recognition of qualifications and experiences of professionals, especially in professional services, should also be considered to make market access more effective.

5.3. Sector Analysis

5.3.1. Tourism Services

There is a great potential to facilitate trade and people-to-people co-operation between India and New Zealand. The travel and tourism industry in each country is working to establish its presence in the other, and develop attractive tourist packages and products with careful attention to the consumer psyche of each country's tourist. There is a need to increase awareness among tourists, through various forms of media, about the tourism potential of both sides.

The tourism potential of India needs to be marketed in New Zealand as a destination offering trans-Himalayan tourism, beach tourism, adventure tourism, wildlife and eco-tourism and tourism connected to teaching of yoga etc. India could promote MICE (meetings, incentives, conferences and exhibitions) tourism and health tourism.

At present, tourism is a very important service export sector for New Zealand. For the years ending June 2005 – 2007, tourism exports accounted for 40 percent of New Zealand’s total average service exports.

India and New Zealand have each become important tourist sources for the other. The establishment of an FTA would promote expanded bilateral tourism and improve demand and cooperation in the industry. At the same time, a future FTA would facilitate the tourists of both countries, and thus increase the demand for tourism.

5.3.2. Educational Services

Education services are a very important sector in the bilateral services trade relationship between India and New Zealand. The level of education development has direct bearings on the sustainability of the competitiveness and economic growth of a country. Against the background of economic globalization, the development of human capital very much depends on the internationalization of education. This reinforces the importance of substantive market access and national treatment commitments in this sector.

New Zealand is a major exporter of education services, predominantly in mode 2 but also increasingly in modes 1 and 3. New Zealand has a large proportion of Indian students studying in local universities. In fact, in recent years the number of Indian students studying in New Zealand has grown faster than that of students from other countries. With fewer than 100 students in 1998, the market for enrolment of Indian students in New Zealand has grown to around 3,736 in 2007. There are strong indications of further growth in 2008. Both technical and non technical education institutes in New Zealand could train Indian personnel, thereby further developing trade in this sector. Given New Zealand’s size and geographical location, its education exporters are particularly interested in distance delivered education (especially via the Internet) i.e. mode 1 commitments.

5.3.3. Information technology and telecommunications

In India, IT and IT enabled services have been the driving force of the services sector growth, contributing both in terms of output and foreign exchange earnings through exports. Growth of software services from India has seen the highest growth with business IT growth at over 21% during the 1990s and communications at over 15%. Markets for Indian software companies are traditionally in the West.

India has well established capabilities for business process outsourcing and knowledge process outsourcing. New Zealand is a developed economy and the Indian service providers can provide competitive supply of software and solutions to various sectors in New Zealand's economy.

India's IT and telecom sector is also characterized by the presences of a large number of foreign companies, who have come in encouraged by the liberal government policies and other incentives given to the sector. India has one of the fastest growing telecommunications markets in the world. Thus Indian markets which are fast growing in telecommunication and computer related services present investment opportunities for New Zealand.

5.3.4. Architecture Services Engineering and Integrated Engineering Services

India and New Zealand have developed a strong base for providing architectural services. The high skill services that can be provided by India have the potential to add value to architecture services provided by New Zealand firms in all modes of supply, and vice versa.

Similarly in the case of engineering and Integrated engineering services, India has technically qualified and trained personnel to cater to New Zealand's demand in these services through both mode 1 and mode 4.

Likewise, New Zealand has developed a specialisation for flexible and customised approaches in engineering. This includes in areas such power infrastructure, water and transport, oil and gas production and refinement, plant and equipment, food processing, agricultural machinery, aviation, airport engineering, and plastics.

5.3.5. Construction Services

Growth in the Indian economy has created a huge need for quality infrastructure. The government is focusing on public infrastructure and at the same time offering opportunities for private participation in the creation of infrastructure to support and sustain the rapid economic growth. Both sides are in a position to benefit from the recent decision of the Indian government to permitting 100% foreign direct investment (FDI) in construction and development projects, especially in construction of townships, housing, commercial premises, hotels, resorts, hospitals, educational institutions, recreational facilities, and city and regional level infrastructure. This creates opportunities for enhanced trade in the construction services sector.

In India, FDI is selectively permitted in the real estate sector. There is no cap on some sub-sectors of the construction sector and FDI is allowed through the automatic route. The New Zealand experience of developing world-class infrastructure and the new opportunities being created in India in the construction sector combine to create an opportunity for enhanced cooperation between the two industries.

5.3.6. Audio Visual services

India is the largest film producing country in the world and the Indian music industry is third largest in Asia. With a developed entertainment industry India has significant export potential in audio-visual services. Indian films have song and dance and melodrama which are universally liked and can find a ready market in New Zealand. This is especially so considering the large presence of Indian diaspora in New Zealand.

India's strength in this sector, especially for post-production activities including editing, sound mixing dubbing, animation and computer graphics gives it the potential to enhance bilateral trade in this sector. Other areas of interest to India are animation, video gaming, broadcasting and telecasting services.

Both India and New Zealand have considerable expertise in the film and motion picture industry and both countries offer diverse and interesting scenery for the production and post-production of films. The locations for film shootings also have the potential to attract tourism flows. It is recommended that an FTA explore possibilities for encouraging the expansion of trade in film industry services between India and New Zealand.

5.3.7. Financial Services

A bilateral trade agreement with commitments in financial services can create better conditions for the financial institutions of both sides to gain mutual access to the other's market. It can enhance competition between the financial sectors of the two sides, improve market structure and the level of development for the financial sector and the whole economy, and achieve a win-win result through cooperation.

India can provide banking solutions to the large and diversified banking services in New Zealand keeping in view that Indian software companies are the leading banking solution providers in the world. New Zealand has one of the world's most efficient and open insurance and financial services markets. Indian and New Zealand companies offer a range of specialist products and services that may be of benefit to companies or consumers in the other country. It is recommended that possibilities for encouraging the expansion of trade in financial services between India and New Zealand should be considered in any FTA negotiations.

5.3.8. Environmental Services

New Zealand has a particular expertise in a wide range of environmental services and New Zealand has a strong reputation in this area. New Zealand's firms that provide services in areas such as:

- air quality (for example air emissions abatement, environmental impact assessments, air quality assessments, air quality forecasting);
- water quality (including assessing environmental impacts, or finding ways to mitigate wetland impacts);
- water treatment and processing wastewater for the removal of contaminants;
- waste management, including land fill development and operations, liquid waste treatment, water quality management, site remediation; and
- more general services such as environmental impact assessments.

Commitments in environmental services offer the potential for a “win-win-win” outcome, as this translates into greater access to lower cost technologies that support governments’ environment and development goals. This sector is increasingly important given growing public demands for environmental sustainability.

Given that many New Zealand exporters are small and medium enterprises, consultancy is particularly important. A number of New Zealand firms deliver environmental services through a combination of mode 1 and mode 4, i.e. their services would involve travel and temporary entry into India as well as delivery via the internet.

5.3.9. Services incidental to agriculture and forestry

New Zealand businesses have distinct expertise in services incidental to agriculture and forestry given the very strong agriculture and forestry sectors in New Zealand and the important role they play in the New Zealand economy.

Services are a key component in the structure of the agricultural and forestry value chains. A number of New Zealand firms deliver services that focus on improving yields and productivity of farmers and forestry businesses through information technology and animal and plant-based biotechnologies. This includes in areas such as pasture and plantation management, livestock farming, improved genetics (animal and plant), animal health and traceability. Some specific examples in which services are integrated into wider agriculture products include:

- milk-meter technology to measure milk flows and biological characteristics of the milk;
- radio frequency identification system to more efficiently manage animals, milking plant and pastures. Among other benefits, this enables quick company stock reconciliation and traceability;
- management of specialised software providing advanced animal data processing capabilities; and

- management of dairy sector database providing suppliers with world-class genetics, herd information and R&D.

5.4. Summary

The JSG is of the view that both parties would gain in increased exports of services through preferential market access and with this in mind should undertake to make substantive, high quality commitments. It would enable New Zealand to expand and strengthen co-operation and collaboration activities in areas where India's strength lies and it would also enable New Zealand service providers to tap into the potential in the Indian market. India would gain by accessing New Zealand services markets in a range of sectors and Modes of interest. For maximising the gains India and New Zealand should aim to:

- agree to a Services Chapter that is high quality, has comprehensive coverage of modes and sectors and is GATS-plus in terms of both commitments and disciplines. The services chapter needs to be forward-looking and deliver meaningful commercial outcomes;

- have substantial sectoral coverage measured in terms of number of sectors, volume of trade and modes of supply;

- commit to provide for the best possible market access and national treatment both horizontally and sectorally;

- develop rules and disciplines on trade in services based on GATS provisions and improve on them further wherever possible including disciplines on domestic regulation;

- give priority to areas with greater potential and complementarities between both the parties;

- facilitate increased dialogue between the regulatory bodies of the two countries for possible Mutual Recognition Arrangements (MRAs);

- the FTA should include a separate chapter on the movement of natural persons designed to facilitate the movement of business people between the two countries; and

- maximise trade in services to the benefit of the economies of the parties.

6. Bilateral Liberalisation of Investment

Investment stocks and flows form key elements of any modern, dynamic economic relationship. Inward and outward foreign direct investment (FDI) between countries facilitates trade, deepens bilateral links between firms and encourages technology transfer. This chapter examines the investment regimes and policy frameworks of India and New Zealand and identifies options for forming and fostering closer relations in this area under a CECA/FTA.

6.1. Investment Opportunities

6.1.1. India

India offers immense investment opportunities in a variety of sectors, including manufacturing, infrastructure and services. Development of the infrastructure, i.e., power, roads, ports, telecommunication and civil aviation are given priority by the government. India has the potential to absorb high levels of FDI in the infrastructure sector in the next few years. The government is undertaking major programmes in the infrastructure sector. Private sector participation in these programmes can generate more investment opportunities. New Zealand has a good track record in the development of its infrastructure and companies from New Zealand can participate actively in these infrastructure projects. FDI up to 100% is already allowed in the development of power, roads, ports and airports. Manufacturing (particularly skill intensive activities), and knowledge based industries are areas where India has strong competitive advantages. Collaboration between Indian and New Zealand companies can be a mutually beneficial exercise for investors from both countries.

6.1.2. New Zealand

New Zealand offers a unique, innovative environment for foreign investment. Investors in New Zealand benefit from a business environment rated the best in the world (World Bank Doing Business Survey, 2004 and 2005), the third for ease of international transactions (World Competitiveness Yearbook, 2005) and the fifth in overall economic freedom (Heritage Foundation Index of Economic Freedom, 2007).

New Zealand has developed a network of industry-specific and regional groupings with a view to developing business growth, quality and innovation. These clusters include information technology (often in association with universities); food and biotechnology; creative and media; and, engineering and manufacturing. Examples of clusters in New Zealand are Auckland’s marine and boatbuilding centres; Christchurch’s aviation hub; and the Waikato Innovation Park, which specialises in agri-biotech.

As outlined below, there are few restrictions on the right to establish, own and operate a business in New Zealand. Starting a business takes just three days, and the process is among the simplest and easiest in the OECD.

6.2. Investment Regimes

6.2.1. India

Progressive reform measures undertaken since 1991, have resulted in more liberal and transparent FDI policy in India, where up to 100% foreign equity ownership is allowed in most sectors/activities under the automatic route (no prior government approval required). In the limited number of sectors/activities requiring prior government approval, proposals for FDI are considered by the government on the recommendation of the Foreign Investment Promotion Board (FIPB) in a time bound and transparent manner. FDI is prohibited only in a few sectors. In sectors which are not reflected in the prohibited list or in the Sector-specific policy, FDI is permitted up to 100% through the automatic route.

FDI policy in India is notified through Press Notes issued by the Department of Industrial Policy & Promotion, Ministry of Commerce & Industry. Press Note 7 (2008) read with Press Release dated 26.6.08 gives the latest FDI policy which is available on www.dipp.gov.in

Section 6 of the Foreign Exchange Management Act (FEMA), 1999 provides for formulating regulations for various capital account transactions. FDI policy is provided under the Foreign Exchange Management (Transfer and Issue of Securities to a Person Resident outside India) Regulations, 2000.

6.2.1.1 Automatic Route

Under the present policy, FDI up to 100% is allowed under the automatic route in all sectors/ activities except:

- proposals where the foreign investor has an existing joint venture, technology transfer/trademark agreement in the 'same' field in India. Detailed guidelines issued in Press Note 1 (2005 Series);
- where more than 24% foreign equity is proposed to be inducted for the manufacture of items reserved for the small scale sector; and
- where sectoral policies on investment in certain sectors limit FDI equity and/or access to automatic route.

FDI under the automatic route does not require any prior approval and only involves notification to the Reserve Bank of India within 30 days of inward remittances and/or issue of shares to non-residents.

6.2.1.2 Prior Government Approval Route

FDI in sectors/activities not covered under the automatic route requires prior government approval. Such proposals are considered by the government on the recommendations of the Foreign Investment Promotion Board (FIPB).

In a few sectors additional conditions for FDI, i.e., minimum capitalisation and investment lock-in period (e.g. defence production, built-up infrastructure projects, non-banking finance companies), and mandatory divestment condition (e.g., e-mail/voice mail/internet service providers without gateway; tea plantation) apply.

6.2.1.3 Prohibition on Investment

FDI is not allowed in retail trading (except single brand product retailing); lottery business; gambling & betting; and atomic energy.

6.2.1.4 Industrial Policy

India's industrial policy has been progressively liberalised dispensing with the requirement for industrial licenses in almost all sectors except for a few retained for public health safety and security considerations. An industrial license is required for manufacturing only in the following cases:

a. Industries retained under compulsory licensing:
   i. distillation and brewing of alcoholic drinks;
   ii. cigars and cigarettes of tobacco and manufactured tobacco substitutes products;
   iii. electronic aerospace and defence equipment;
   iv. industrial explosives; and
   v. hazardous chemicals.
b. Manufacture by non-small scale units of items reserved for exclusive manufacture in the small-scale sector.
c. Where the proposed location attracts locational restrictions, i.e. within 25 Km of the standard urban area limit of 23 towns which had a population of 1 million in 1991 census.
d. Rail transport, atomic energy and minerals are reserved for the public sector.

6.2.1.5 Investment under ADR/GDR

An Indian company can issue Rupee denominated shares to a person resident outside India being a depository for the purpose of issuing Global Depository Receipts (GDRs) and/or American Depository Receipts (ADRs). There are no end use restrictions except for deployment/ investment of these funds in real estate and the stock market. There is no limit up to which an Indian company can raise ADRs/ GDRs.

A limited Two-way Fungibility Scheme is available under which a stockbroker in India, registered with SEBI, can purchase shares from the market for conversion into ADRs/GDR. Re-issuance of ADRs/GDR would be permitted to the extent of ADRs/GDRs, which have been redeemed into underlying shares and sold in the domestic market.

An Indian company can sponsor an issue of ADR/GDR by offering its resident shareholders a choice to submit their shares back to the company so that on the basis of such shares, ADRs/GDRs can be issued abroad. The proceeds of the ADR/GDR issue is remitted back to India and distributed among resident investors who had offered their rupee denominated shares for conversion.

6.2.1.6 Portfolio Investment

The Portfolio Investment Scheme is incorporated as Schedule 2 under the Foreign Exchange Management (Transfer and Issue of Securities to a Person Resident outside India) Regulations, 2000. With progressive economic reforms, the policy on portfolio investment has also been liberalised. Foreign Institutional Investors (FIIs) registered with Security Exchange Board of India (SEBI) are eligible to purchase shares and convertible debentures under the Portfolio Investment Scheme (PIS).

In the case of FIIs, total holding of each FII/SEBI approved sub-account shall not exceed 10% of the total paid up capital or 10% of the paid up value of each series of convertible debentures issued by an Indian company and the total holdings of all FIIs/sub-accounts of FIIs put together cannot exceed 24% of the paid-up capital or paid-up value of each series of convertible debentures.

However, the limit of 24% can be increased to the sectoral cap/ statutory limit by the company's board of directors passing a resolution followed by a special resolution being passed by the general body of the company

6.2.1.7 India's Outward Investment Policy

Policy on overseas investment by Indian corporates has also been progressively liberalised. The objective has been to provide Indian industry access to new markets and technologies, increasing their competitiveness, and promoting exports. Indian corporates can invest overseas under the following routes:

a. Automatic Route: Indian corporate /registered partnership firms can invest in entities abroad up to 400% of their net worth in a year, without prior approval of the Reserve Bank or Government of India. Such investments would only be reported post facto to the Reserve Bank of India.
b. Normal Route: Proposals not covered under the automatic route are considered by the Special Committee on Overseas investments in the RBI.

6.2.1.8 Modes of Establishing Presence in India

A foreign company can operate in India as an incorporated entity (company with FDI) or as un-incorporated entity (branch/liaison office/project office) depending on the nature activity. Branches and liaison offices can perform only specified functions to undertake other activities a company has to be incorporated under the Indian Companies Act, 1956.

6.2.1.9 Acquisition and Transfer of Immovable Property in India for Carrying On a Permitted Activity

A foreign investor, who establishes a company or a branch, excluding a liaison office, can acquire immovable property in India which is necessary for or incidental to carrying on his business activity in India. The acquisition is subject to compliance with all applicable laws and must be reported to the Reserve Bank of India within ninety days from the date of acquisition.

6.2.2. New Zealand

New Zealand is a relatively open destination for foreign investment. Foreign investment/ownership of up to 100% is permitted in most sectors. New Zealand screens investments above the thresholds set in the Overseas Investment Act 2005 for certain specific assets that are deemed as follows:

- Business assets or investments valued at over $100 million and resulting in 25% or more ownership or control interest;
- Land that is deemed as sensitive because of its size, its nature, or the nature of adjoining land. Examples include non-urban land of more than 5 hectares, foreshore and seabed, or land of historic, cultural, or heritage value; and
- Fishing quota. All investments in fishing quota or entities that own fishing quota by overseas persons are screened subject to certain controls under the Fisheries Act 1996.

In practice, investment applications have only been declined authorization in exceptional cases, and at the time of publication, New Zealand has not declined any overseas investments in the business assets category since 1987.

Any specific limits on, or requirements relating to, foreign investment are generally limited to specific businesses. For example:

- foreign equity in Air New Zealand is limited to 49% (foreign nationals) or 35% (foreign airlines); and
- the Constitution of the Telecom Corporation of New Zealand Limited requires New Zealand government approval before the shareholding of any single overseas entity may exceed 49.9%. At least half the board of directors are also required to be NZ citizens.

6.2.2.1 New Zealand's Outward Investment Policy

New Zealand firms are free to invest overseas without New Zealand government approval. In addition, the New Zealand government recognizes the role of high-quality investment in strengthening firms. It supports New Zealand private sector efforts to create strategic partnerships or make investments overseas.

A new outward investment policy, announced in August 2007, is being developed to assist New Zealand firms considering investment overseas. Government assistance for outward foreign investment is targeted to strategic investments of appropriate scale and focus to allow for wider spill-over benefits in the New Zealand economy.

6.2.2.2 Foreign Exchange Administration Measures/ Movement of Capital

There are no specific regulations or legislation covering the administration of foreign exchange measures and the movement of capital other than for the item outlined below, and the general legislation outlined in the Securities and Commerce Acts

The Reserve Bank Act does give the Governor of the Bank the power to temporarily prohibit any registered bank from dealing in foreign exchange, either generally, or specifically. This power can only be exercised where the Governor is of the opinion that such prohibition is necessary to avoid disorder in the foreign exchange market.

6.2.2.3 Entry Modes Permitted in New Zealand

Foreign investors, like domestic investors, are able to establish investments as incorporated or non-incorporated entities in New Zealand. The requirements for incorporating an enterprise in New Zealand are set out in the Companies Act 1993 and regulated by the Companies Office (www.companies.govt.nz).

6.3. Investment Incentives

6.3.1. India

India offers attractive investment incentives to all investors, including domestic and foreign, for investments in the development of infrastructure, special economic zones, industrialisation of industrially backward regions and export oriented investments. These incentives are primarily in the form of exemption/reduction from income tax, exemption from customs or central excise duties.

6.3.2. New Zealand

New Zealand does not provide investment incentives, but works with potential investors into New Zealand to provide information and facilitate the investment process.

6.4. Investment Promotion and Facilitation

6.4.1. India

The Government of India extends investment guidance through the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion. Information on the investment policies and procedures, policies in Indian states and on investment climate in India is made available through its website (www.dipp.gov.in). The website also offers an on line chat facility and bulletin boards. Periodically, investment promotion events are organised in association with the apex industry associations in potential investing countries. The Foreign Investment Implementation Authority (FIIA) has been established to assist foreign investors to obtain the necessary approvals from the relevant authorities at the central, state and local government levels. FIIA also assist foreign investors in overcoming difficulties in the implementation of their projects. Destination India events are organized in various countries with FDI potential. These events aim to reach potential investors directly and disseminate information on investment climate and opportunities in India.

6.4.2. New Zealand

Investment New Zealand (INZ) is New Zealand's national investment promotion agency. INZ is a division within New Zealand Trade and Enterprise, a national economic development agency. INZ actively assists international corporate investors to relocate their business to New Zealand; to establish Greenfield operations; and to invest in and work with New Zealand companies in global ventures.

Investment New Zealand has a wide network of sector and region specialists that can help to match international investors with local businesses operating in strategic sectors. More information about the investment promotion work of Investment New Zealand is available at www.investmentnz.govt.nz.

6.5. Summary

An Investment Chapter under the CECA would be an opportunity to form and foster closer cooperation on investment matters. An Investment Chapter in the future India-New Zealand CECA would provide an opportunity to negotiate more stable policy frameworks for investors, which could see the two countries developing bilateral trade and economic relations more actively, and open domestic markets to each more quickly.

Ways that the CECA/FTA could contribute to these aims include:

- More liberalised investment regimes in order to increase the flow of bilateral investment;
- Provisions to secure market access for Indian and New Zealand investors, including through national treatment. An MFN treatment provision would ensure that investors are always accorded the best treatment. This would contribute to a high-quality, forward-looking agreement that would remain up-to-date and relevant to Indian and New Zealand investors into the future;
- Comprehensive investment protection provisions to safeguard investors' interests, including provisions that would make it easier for Indian or New Zealand investors to resolve investment disputes that they may have; and
- Consideration of bilateral and unilateral programmes and activities to promote and facilitate the increased flow of investment between the parties.

The JSG recommends that these issues be further discussed and elaborated as part of the FTA negotiations.

7. Other Issues to Complement a Trade and Investment Liberalisation

This chapter looks at other important economic and sustainable development considerations that could be discussed during the negotiation of a comprehensive CECA/FTA.

7.1. Competition Policy

Open and competitive markets are drivers of economic efficiency and consumer welfare. Competition Policy plays an important role in supporting the strengthening of markets to ensure and sustain growth. Competition policy I,s accordingly, an important part of modern free trade agreements. It can help to ensure that the benefits likely to flow from an agreement in terms of trade liberalisation are not undermined by anti-competitive conduct. There is growing recognition that addressing "behind-the-border" measures is important to the effective function of trade agreements by contributing to a more stable and predictable environment under which trade can take place.

New Zealand's Approach

New Zealand maintains competition policy frameworks that underpin its competition laws and its regulatory approaches. The former proscribe general rules that apply across the economy, with some limited exceptions.

The main legislation governing competition in New Zealand is the Commerce Act 1986. Its objective is to promote competition in New Zealand markets for the long-term benefit of consumers. Key provisions prohibit arrangements between firms (e.g. price fixing), mergers and acquisitions that substantially lessen competition, and abuses of substantial market power by a firm. There are also provisions relating to regulatory control where there is an absence of competition. Other sector-specific acts (e.g. the Telecommunications Act 2001) supplement these generic prohibitions.

The Commerce Commission, an independent statutory body, is responsible for enforcing the Commerce Act (although private parties may also take action). The Ministry of Economic Development is responsible for advising the government on policy matters.

Approaches to the treatment of competition policy in FTAs differ in their scope and reach. Common features include:

- a principles-based approach to substantive provisions on competition law;
- provisions for competition policy cooperation;
- provisions for consultation/notification, particularly where anti-competitive behaviour may have affected trade and investment between the parties; and

- the non-applicability of the agreement's dispute settlement mechanism.

These principles have been reflected in New Zealand's FTAs with Singapore and Thailand and with the members of the Transpacific Strategic Economic Partnership (Singapore, Brunei Darussalam, Chile) under their respective Competition Chapters.

India's Approach

The Indian Competition Law (The Competition Act, 2002) provides for setting up of a Competition Commission of India for the purposes of the Act. The Competition Commission of India has already been established but it is not yet fully functional and has not started taking cases under the law. At present it is performing only administrative and advocacy functions. More information is available at www.cci.gov.in

The Competition Act *inter-alia* provides that the Competition Commission of India set up under the Act may, for the purpose of discharging its duties or performing its functions under this Act, enter into any memorandum or arrangement with the prior approval of the central government, with any agency of any foreign country.

Consultations between the parties and the respective competition authorities may be undertaken as appropriate on various matters relating to competition including capacity building, exchange of information and notification procedures. This may only be practicable once the Competition Commission of India is fully functional.

The Competition Commission of India encourages consultations between countries and the respective competition authorities on various matters relating to competition including capacity building, exchange of information and notification procedures.

7.2. Intellectual Property

India's Approach

The Intellectual Property (IP) system in India dates back to a century and a half. Recognizing the importance of IP in the modern economy, India has strived to modernize its IP regime to meet its national and international aspirations. As a result, India has currently one of the most vibrant Intellectual Property regimes in the world, with well-established legislative, administrative and judicial framework to safeguard Intellectual Property Rights.

India's strategy in the area of Intellectual Property has been-

- to meet international obligations;
- to safeguard public interest
- to modernize her Intellectual Property Rights administration; and

- to create awareness about Intellectual Property Rights.

The major legislations in the field of Intellectual Property Rights in India are the following:

- The Copyright Act, 1957 as amended last in 1999
- The Patents Act, 1970 as amended last in 2005
- The Trade Marks Act, 1999
- The Geographical Indications of Goods (Registration and Protection) Act, 1999
- The Designs Act, 2000
- The Semiconductor Integrated Circuits Layout-Design Act, 2000
- The Protection of Plant Varieties and Farmers' Rights Act, 2001
- The Biological Diversity Act, 2002.

India is extremely concerned about the world wide large scale misappropriation of Indian Traditional Knowledge, especially grant/registration of copyrights, patents and trade marks on Yoga related postures and accessories, Indian traditional medical practices and medicinal preparations, etc. The Indian IPR laws contain appropriate provisions to prevent this domestically, but much remains to be achieved globally.

India attaches importance to the three main issues related to the TRIPS Agreement, namely, relationship between TRIPS and CBD, registration of GIs and extension of enhanced GI protection.

India has also established a Traditional Knowledge Digital Library (TKDL) related to Ayurveda, Unani and Sidha in five international languages. It is a digital database of traditional knowledge consisting of about 150,000 formulations in the field of traditional medicines. The aim is to prevent patenting of such knowledge and thus avoid misinterpretation of publicly available information as being an invention or a discovery. This library is also being extended to yoga. India is keen to provide access to TKDL to other countries/ agencies, after signing a disclosure agreement. EPO, USPTO, UKPTO has expressed interest in access to TKDL.

As a matter of policy, the stand of Government of India is that any dialogue/ bilateral agreement on IPRs between India and other countries in the field of Intellectual Property will be confined to issues of capacity building, human resource development, awareness creation and outreach activities. Issues relating to enforcement, policy and legislation are kept out of these agreements.

New Zealand’s Approach

New Zealand has a comprehensive intellectual property regime that is fully compliant with the obligations under the WTO TRIPS Agreement. New Zealand considers that any modern, high-quality and comprehensive FTA should include commitments on intellectual property and has sought to include intellectual property commitments in all of its recent FTAs, including with China. New Zealand also notes that high quality bilateral FTAs concluded between other jurisdictions include intellectual property commitments.

New Zealand’s approach to IP chapters in free trade agreements is to reinforce the TRIPS Agreement as the foundation for an IP chapter, by setting common obligations and standards and providing the flexibility for countries to determine the appropriate legal regime for implementation, and maintaining appropriate balances between right holders and interested users. An emphasis is also placed on deepening cooperation on intellectual property issues in areas to support FTA commitments, including cooperation on enforcement issues and strengthening cooperation between our respective intellectual property agencies. We also seek to include an appropriate provision on traditional knowledge.

7.3. Government Procurement

In relation to the area of Government Procurement (GP) the two Governments had differing points of view but have agreed to continue to discuss GP as we progress a bilateral CECA/FTA.

New Zealand’s Approach

In New Zealand’s view government spending accounts for a large proportion of national output in most countries. Practices that restrict the access of industry to government markets may, like other types of trade restriction, have the effect of eliminating or reducing the benefits that can be obtained from free trade.

Recent developments in both developed and developing countries in the area of government procurement have centred on increased transparency and enhanced liberalisation of government procurement markets. Fundamental to achieving these developments are the core principles of national treatment, non-discrimination and procedural fairness.

New Zealand's GP policy aims to provide an open and transparent market in which the individual government agencies are free to seek best value for money through global competition and in which domestic suppliers have full and fair opportunity to compete. New Zealand has traditionally adopted a “principles-based” approach and avoided imposing prescriptive procedural requirements on our purchasing departments/agencies, which are responsible and accountable for their own operations, including purchasing decisions.

New Zealand's own non-discriminatory procurement policy approach has been reinforced by mutual commitments to equal access and treatment for suppliers of FTA partner countries. New Zealand has encouraged a flexible approach based on principle, but allowing for differences deriving from varying circumstances and traditions.

New Zealand's objective in a chapter on GP is to seek transparency in and liberalization of the government procurement market, thereby enabling New Zealand businesses to have greater opportunities to compete for government procurement contracts in the trading partners' markets.

7.3.1. India's Approach

India's government procurement framework functions at local, state and union levels, and India's current policy is not to include government procurement in FTA negotiations.

7.4. Labour and Environment

In the area of Trade Labour and Trade and the Environment the two Governments have different points of view but have agreed to continue to discuss these issues as we progress a bilateral CECA/FTA.

7.4.1. New Zealand's Approach

In New Zealand's view sustainable development is a policy priority for many governments. In detail this means taking an integrated approach to the inter-dependent objectives of encouraging economic growth, strengthening social development, and improving environmental performance. In this regard, an FTA is an opportunity to promote mutually supportive policies on trade and labour and trade and environment, and to enhance cooperation to promote sustainable social and economic development and improved environmental performance.

For example, both countries work together in a number of multilateral fora, including the International Labour Organisation, United Nations, the Commonwealth and in follow up to the World Summit on Sustainable Development. Incorporating labour and environment into an FTA between New Zealand and India would offer further opportunity to deepen the policy dialogues and cooperation that already exist.

New Zealand would address the two issues of labour and enviornment separately under any FTA negotiation process. New Zealand believes that such cooperation between New Zealand and India would reinforce existing bilateral and multilateral cooperation on these issues.

New Zealand's approach is based on the 2001 Labour and Environment 'frameworks'[14]. These policies direct New Zealand officials, in the context of all FTAs, to secure provisions on environment and labour standards consistent with those frameworks including commitments that neither labour nor environment would be used to secure an unfair trade advantage or as a disguised barrier to trade.

New Zealand's approach on these matters provides an opportunity for both negotiating partners to reinforce, bilaterally, their commitment to principles which they share. It also emphasises dialogue and encourages cooperation activities in areas of shared interest. This cooperative focus distinguishes New Zealand's approach from other international models. New Zealand does not seek to judge the labour or environment standards of its trading partners. Nor does it seek to impose trade sanctions or fines, or link outcomes on labour and environment to FTA dispute settlement mechanisms.

While New Zealand's approach to labour and environment is not formulaic or prescriptive, there are certain key elements which officials seek to include in outcomes on these issues:

- a set of common understandings on labour and environment matters as they relate to trade and economic development;
- a framework and mechanism for facilitating cooperation in areas of mutual interest and benefit; and
- a consultation process which provides the means for communication between the parties on issues of interest (but which is not prescriptive or linked to any dispute settlement process).

The flexible and practical nature of New Zealand's approach has made it an attractive model for its trading partners. Since 2001, New Zealand has negotiated labour and environment outcomes in the context of all its FTAs, which have been with Thailand, P4 partners (between NZ, Chile, Singapore and Brunei), and China.

New Zealand takes a flexible approach to accommodate the concerns of its trading partners on matters of substance and on the question of where labour and environment provisions should reside. New Zealand prefers that such commitments be included within the FTA but excluded from the scope of the agreement's dispute settlement mechanism. New Zealand recognises, however, that many countries prefer to negotiate separate instruments on these matters. In that context, New Zealand has negotiated labour and environment agreements alongside FTAs, subject to agreement being reached on certain conditions.

[14] Both the 'Framework for Integrating Labour Issues into Free Trade Agreements' and the 'Framework for Integrating Environment Issues into Free Trade Agreements' are annexed to this paper.

7.4.2. India's Approach

India's current policy is not to include labour and environment in FTA negotiations.

7.5. Summary

The JSG discussed other issues which can impact on trade including intellectual property, competition policy, government procurement, trade and labour and trade and environment issues. The JSG was unable to agree on how some of these issues should be taken up, but they agreed that these are all important issues and that the two countries should continue to discuss these issues as we progress a bilateral CECA/FTA.

8. Other Areas of Bilateral Co-operation

This chapter identifies a range of cooperation activities that make a positive contribution to the bilateral relationship between India and New Zealand. These areas could be further enhanced and would complement the provisions of the comprehensive CECA/FTA.

8.1. Education

The New Zealand-India education relationship is one that has been steadily growing and has further potential for greater growth. The education relationship encompasses academic, research and commercial interests in both countries. The relationship ranges from Indian students studying in New Zealand to research and collaboration work between our institutions, to government-to-government signed arrangements for cooperation.

As noted previously in relation to trade in educational services, there has been a steady rise in the number of Indian students studying in New Zealand and the total number of students studying in New Zealand is projected to reach 5000 by 2009. These experiences add to the broader bilateral relationship and serve to strengthen people-to-people links.

There is increasing tertiary sector collaboration between New Zealand and Indian institutions. At least six of the eight New Zealand universities have one or more formal links with Indian institutions – activity includes delivery off-shore, academic and student exchange, and research collaboration. The Institutes of Technology and Polytechnics (ITPs) have also been active in developing Indian partnerships. In total there are about 30 partnerships between Indian and New Zealand tertiary institutions representing a range of educational linkages from academic research collaborations to certificate and diploma level twinning programmes.

At the government level, the *Education Cooperation Arrangement* between the New Zealand Ministry of Education and the Indian Ministry of Human Resource Development was signed in 2005. This *Arrangement* demonstrates the commitment from both the Indian and New Zealand governments to developing our education relationship further. Since then, New Zealand has appointed an Education Counsellor, based in India. The Education Counsellor has an important role in fulfilling the objectives of the *Education Cooperation Arrangement*. A Joint Working Group (JWG) meeting, under the framework agreement, was held in Wellington in January 2008. One key outcome of the JWG was establishment of a small working group to undertake dialogue on higher education qualifications recognition and quality assurance. This would assist NZ education provider interests in India and Indian provider interests in New Zealand.

Education is also one of the leading sectors for political engagement between India and New Zealand. There have been several high-level visits to promote the development of stronger education links. These included the visit by

New Zealand Prime Minister in 2004; and two tertiary-focussed education missions to India in April 2005 and in May 2006 led by Minister of Economic Development Hon Trevor Mallard. Deputy Prime Minister, also the former Minister for Tertiary Education, Hon Michael Cullen, visited New Delhi in September 2007.

There is great potential to build on the current education relationship. On the New Zealand side, the drive comes from both the government as well as the education sector's academic, research and commercial interests in India. In terms of services trade, there is potential for more Indian students to benefit from a world-class education in New Zealand. There is also potential for the development of more institutional linkages, joint programmes and research collaboration. India has responded enthusiastically to the New Zealand government's PhD scholarship programme and the PhDs at domestic fees policies (international students pay the same as New Zealand students). There has been a 414% increase in Indian PhD students selecting New Zealand for their PhD programmes in the last two years.

Looking towards the future, it would be valuable for both the education relationship and wider people-to-people links to see initiatives like India-New Zealand study centres established in each country. A transparent bilateral arrangement around information sharing and assisting each other where possible, to achiever qualifications recognition, and mutually beneficial quality assurance processes for transnational education partnerships would enrich the education relationship. New Zealand's early childhood curriculum, Te Whariki, is already being used in private centres in Mumbai, Bangalore, Hyderabad and Delhi. Further usage of New Zealand's expertise as India develops its early childhood sector would add value to the relationship.

As India changes and expands its technical and vocational education and training also, there is interest growing in New Zealand's expertise in this area to which the Institutes of Technology and Polytechnics are starting to respond. And finally it will be important that the bilateral policy dialogue continue facilitating the growth of our University research and academic connections, as both countries strive for well connected global research linkages in innovative areas. Potential connections already identified include sectors like marine pharmaceutical drug research and biotechnology related to animal genetics.

8.2. Research and Science & Technology

In March 2008, New Zealand and India signed a joint intention for developing a closer research, science and technology (RS&T) relationship between the two countries. It is likely that there is considerable potential to develop an RS&T collaborative partnership over time With India's rapid economic growth and expanding RS&T sector and New Zealand's expertise in niche areas, there is scope for further engagement between the two countries. India has developed excellence in five key research areas - space research, civil nuclear energy research, agricultural and water research, pharmaceutical research, and bio-technology. India is well set to become a significant global player in science and innovation. New Zealand has established international expertise in a range of disciplines including agriculture and biotechnology, horticulture, environmental science, certain areas of materials science, food-related research, aquaculture, geological science, forestry, and medicine.

Several institutional research linkages are already in place, including those with commercial application. For example Massey University, the Crown Research Institute Landcare Research and Punjab Agricultural University (PAU) have an MOU in place to strengthen research collaboration in agriculture – including in strategies for sustainable land use; efficient crop post-harvest management and food processing; greenhouse gas emissions. Otago University and the All India Institute of Medical Sciences (AIIMS) have undertaken joint research programmes. Auckland University is currently collaborating with an Indian company on 'polypills' to treat chronic heart disease. Auckland University's Department of Sports and Exercise Science have been working with sportswear company Nike to develop the 'ultimate shoe' for cricket bowlers, the Nike Air Zoom Yorker. Massey University's e-centre launched a joint venture with CMC (Mumbai-based IT subsidiary of Tata) that supports NZ IT companies break into the Indian market.

The niche opportunities for engagement between New Zealand's and India's research communities need to be explored in detail to determine the future direction for an expanded bilateral relationship between Indian and New Zealand.

8.3. Tourism

Tourist numbers, in both directions, have been growing strongly in the last five to ten years. In the year ended March 2008, the number of Indian visitor arrivals to New Zealand was close to 23,000 people. This was a 35 percent increase from five years ago (in the year ended March 2003 - 17,000 Indians visited New Zealand). New Zealanders visiting India in the year ended March 2008 was 26,500 people. This was more than twice, and nearly three times as many, New Zealand visitors to India five years ago. (The figure for the year ended March 2003 was 9,268 New Zealand visitors to India.)

New Zealand's international tourism industry is worth over $8 billion annually. Indian visitors to New Zealand contribute around NZ$70 million per annum to New Zealand's economy. Indian tourists are well regarded in New Zealand. Indian visitors are sophisticated and tend to stay in better quality accommodation, undertake a lot of activities while in New Zealand and are among our more affluent visitors. Another significant benefit of Indian visitors is that 40 percent visit during New Zealand's quieter months of April, May and June.

For India, tourism accounts for 6 percent of its GDP. In the latest projections, India is expected to see international visitor numbers double from 2007 to 2010. There is been a significant growth in India's tourism market and there is potential for even more. India is a rich and diverse country with scenic beauty and a rich historical past, as well as fascinating and diverse cultural traditions. New Zealanders increasingly are drawn to visit India as awareness grows of what India has to offer as a tourism destination.

New Zealand is viewed as a must-see destination among well-travelled Indians. It is popular with honeymooners, young couples and those seeking independent travel through self-drive holidays. In recognition of New Zealand's growing popularity in India, a Tourism NZ office was opened in Mumbai in 2003. Tourism New Zealand has recently launched its consumer advertising campaign under the 100% Pure New Zealand banner for the first time in India.

There is potential for growth in tourist numbers in both directions. Further cooperation between tourist agencies could assist in harnessing the potential of each country as a tourist destination for the other. However, air connectivity between Indian and New Zealand is an area both countries need to work on. The current air capacity is likely to limit future growth unless it is addressed (see further below).

8.4. Audio-Visual Services

Bilateral cooperation in audio-visual services ranges from negotiations for a film co-production agreement to links between New Zealand's and India's screen industries. In recent years New Zealand has been the location of several Bollywood films. The international success of New Zealand's creative industries is also changing the way New Zealand is perceived in India.

At the government level, negotiations towards a New Zealand-India Film Co-production Agreement began in September 2007. The negotiations were promoted during the visit of the New Zealand Minister of Finance to India in 2007. Negotiations on the film co-production agreement are progressing well. The aim of the proposed film co-production agreement is to expand and facilitate film co-production to benefit film makers in both countries, and to develop cultural and economic exchanges. Such agreements allow approved projects to gain status as official co-productions, entitling them to the benefits accorded national films in each of the co-producers' countries. Benefits include access to film financing, incentives, and government facilitation.

The Indian film industry (Bollywood) is growing as a rival to Hollywood. It has been built on a low-cost, high-quantity model of screen production. India is the world's largest producer of feature films by volume, producing between 800-1000 films per year, but accounting for around 1% of global film industry revenues. The New Zealand film industry focuses on high-quality films, and niche areas such as special effects, for which New Zealand has built a world-class reputation. Weta Workshop, a New Zealand company, created the Oscar-winning special effects for *The Lord of the Rings* movie trilogy. New Zealand produces a much smaller number of feature films (5-10 per year), usually with budgets between NZ$2-10 million and sometimes considerably higher.

While the New Zealand and Indian screen industries are based on rather different models, it is considered that opportunities still exist for engagement and cooperation. There is some existing connection between New Zealand and India regarding film production. New Zealand has frequently been used as a location for Indian films in recent years. Since 1995, over one hundred 'Bollywood' feature films have been partly shot in New Zealand. The most famous was the Indian hit movie, *Kaho Na Pyar Hai (Say You Love Me),* directed by Rakesh Roshan. This movie was shot in Queenstown and is widely accredited with boosting Indian tourism to New Zealand.

New Zealand was represented at the 38th International Film Festival of India in late 2007. The film *Out of the Blue* was shown at the festival.

The recently announced New Zealand Screen Production Incentive Fund initiative[15], added to the existing Large Budget Screen Production Grant,[16] also provide incentives for the development and filming of projects in New Zealand with significant levels of international involvement.

There is potential for the development of a closer connection between the screen production industries in New Zealand and India, beyond the basis of on-location shooting. The development of jointly produced screen projects could benefit the audiences and industries of both countries. Facilitating this kind of partnership is a key objective of the proposed New Zealand-India film co-production agreement.

8.5. Air Services

Air services are essential to the success of a trading relationship as well as to facilitating people-to-people exchanges. Air services arrangements with India were first negotiated in 1996. New air services arrangements between New Zealand and India were negotiated in 2005 and replaced the 1996 arrangements. The current Air Services Agreement between New Zealand and India was signed in 2006 during Minister of Economic Development Hon Trevor Mallard's visit to India.

Under the current Air Services Agreement, seven own-aircraft services per week are available for allocation among New Zealand and Indian airlines respectively. New Zealand carriers can operate services to Mumbai, and Indian carriers can operate services to Auckland, with the option of using Australia, Singapore or Hong Kong as intermediate points. There is no limit on code-share capacity. New Zealand carriers can code-share, with an Indian airline partner, to five Indian destinations (Mumbai, New Delhi, Chennai, Hyderabad and Kolkata). Indian carriers can code-share, with a New Zealand airline partner, to five New Zealand destinations (Auckland, Wellington, Christchurch, Queenstown and Dunedin). These code share services can also be via Australia, Singapore, or Hong Kong.

Seventh freedom cargo rights have been exchanged. Accordingly, New Zealand cargo airlines have the right to establish themselves in India and operate from

[15] a 40% grant on qualifying New Zealand production expenditure for feature film and 20% for television and other format productions
[16] a 15% grant for large productions

there to destinations in third countries without the requirement to serve New Zealand. Indian cargo airlines have the right to establish themselves in New Zealand and operate from there to destinations in third countries without the requirement to serve India.

With no flights being operated by New Zealand and Indian carriers, Singapore Airlines is the leading carrier connecting New Zealand and India. Thai Airways, Malaysia Airlines and Qantas are also significant. According to recent research by Tourism NZ, available seats offered by third-country carriers between India and New Zealand are already being utilised to their maximum. If tourism numbers and people-to-people links between India and New Zealand are to grow, the number of seats offered in the market would need to be increased. The potential for such increase exists, most obviously by way of New Zealand and Indian carriers utilising the seven frequencies per week available for own-aircraft services, but this is a commercial decision for those airlines. Perhaps more immediately, Air India's inclusion in the Star Alliance could create opportunities to code-share with Air New Zealand (a founding member of the Star Alliance).

In 2007, New Zealand imports by air from India increased by 10% from the previous year and accounted for 27 % by value of New Zealand's imports from India. In 2007 New Zealand exports to India by air increased by 191 % from the previous year and accounted for 13% by value of New Zealand's exports to India.

Commercial opportunities also exist bilaterally in areas such as air traffic control services, flight training, aircraft maintenance and airport services.

This is another potential area of cooperation between India and New Zealand civil aviation sectors.

8.6. Agri-Technology

There is considerable potential for partnering between Indian and New Zealand companies for the commercialisation of agricultural technology and services in the Indian market and in third country markets.

More and more the Indian agricultural sector has begun to attract the interest of India's corporate sector. A more commercial approach to agriculture may provide win-win opportunities for foreign firms with the requisite agricultural expertise and technology as well as providing benefits for India in terms of productivity and reduction of post-harvest wastage.

New Zealand, given its expertise in agri-tech, is well placed to work with India. A number of New Zealand companies are interested in the business opportunities that will arise from efforts to improve harvesting, grading, storage, transportation and marketing of agricultural produce in India. New Zealand Trade and Enterprise (the government's national economic development agency) has been developing relationships with the Indian corporate sector and working closely with New Zealand companies interested in entering the Indian market trying in an attempt to increase business interaction.

Already New Zealand companies such as Wyma Engineering and Compac Sorting Equipment, and agricultural research institutions, such as HortResearch and Crop and Food Research, are working with India to provide a range of agri-tech products and services.

There are several areas of opportunity for mutual cooperation in the agritechnology sector. Furthermore, potential for establishing mechanisms to realise opportunities need to be evolved by both sides.

8.7. Forestry

The New Zealand forestry sector already has valuable trade with India and well developed relationships but there remains significant potential for further cooperation in the sector.

Currently 86% of New Zealand's total forest product exports to India are raw logs. New Zealand produces a variety of other products that would be of interest to India, particularly given the expansion of many of India's market segments.

For example, in the construction sector, New Zealand could supply sawn timber, mouldings, and builders joinery. With this objective in mind New Zealand is starting to introduce new building systems to India such as Lockwood Homes.

Additionally for India to meet buyer demands in export markets the furniture sector needs a reliable supply of high quality sustainably-certified timber. New Zealand produced sawn and treated radiata pine timber can meet these requirements.

In March 2008 the New Zealand Minister of Forestry, Hon Jim Anderton, led a business delegation from the New Zealand wood and building sector to India. The delegation consisted of representatives from both the raw logs and processing industry.

During the visit New Zealand Trade and Enterprise organised seminars on New Zealand timber technology to profile the products, services and capability of New Zealand timber to members of the Indian building industry and timber processors.

There are considerable opportunities to strengthen existing relationships and to identify potential areas for further cooperation in the forestry sector.

8.8. Energy/Clean Technologies

Energy technology is another area of potential growth in cooperation between India and New Zealand. India, with its rapid rate of economic growth, has growing energy demands. In 2007 total power production in India was 130,000MW, and current projections are that this will need to double in the next decade. New Zealand has known expertise in energy technology, especially in relation to renewable energy and energy efficiency. As India seeks to increase its energy production in a sustainable way, opportunities for bilateral cooperation with New Zealand should be explored.

India’s energy mix has been largely coal dominant – coal currently accounts for more than 50% of India’s energy needs. India is the third largest consumer of coal in the world and has the fourth largest proven reserves of coal in the world. New Zealand coal exports to India and Indian investment in coal production in New Zealand are already important elements in the bilateral trade and investment relationship. India, however, has recognised the need to diversify its energy supplies and sources. India is one of the major markets in the world for wind energy – it is the world’s fourth largest wind energy producer with 7000 MWs installed capacity as well as 45,000 MW of potential capacity. Major hydropower projects are underway or planned across India. The increasing cost of energy and the decreasing supplies of fossil-fuels are economic imperatives for India to look at clean technologies.

New Zealand has a long history of being an active player in international sustainable development initiatives. It has set itself a target of becoming a sustainable country, including striving for carbon neutrality. As part of this New Zealand has pledged that 90% of its electricity will come from renewable sources by 2025. Currently 70% of New Zealand’s power generation comes from renewable sources.

Using energy more efficiently and so reducing greenhouse gas emissions and energy costs is a key means of addressing the twin challenges of energy security and climate change. To realise this opportunity countries need to cooperate and share expertise in areas including energy technologies; information on regulatory and policy settings to facilitate the development and deployment of low carbon energy technologies; the promotion of energy efficient buildings; and energy efficiency policies and programmes.

The Clean Development Mechanism (CDM) is designed for developed countries to invest in developing country projects that reduce greenhouse gas emissions or contribute to sustainable development. India has benefited significantly from the CDM, currently around 35% of registered CDM projects are based in India. In relation to New Zealand, the CDM is one of the means for New Zealand firms to acquire emissions units needed to meet their obligations under New Zealand's emissions trading scheme (ETS). New Zealand’s ETS is wide-ranging and will eventually cover all sectors.

New Zealand and India could jointly study the sector to:

- identify the key sectors for the future supply of CDM units and seek to potentially facilitate access for firms;
- identify the potential demand for sharing expertise in energy technologies and information on regulatory and policy settings’
- identify the potential demand for sharing expertise in energy efficiency policies and programmes;

- examine bilateral access to energy efficient and environment friendly technologies; and
- explore bilateral opportunities for enhancing capital and technology flow, through higher FDI / JVs.

8.9. Biotechnology

India is actively engaged in biotech research. It has also kept the bio-safety concerns at the forefront, especially in light of the WTO TRIPS Agreement and the Cartagena Protocol on Boisafety (CBD). India’s approach to biosafety has taken into account the interests of the farming community and the protection of the environment. Several institutions are engaged in promotion of biotechnology research in India namely, the Department of Science and Technology (DST), the Council of Scientific and Industrial Research (CSIR), the Department of Biotechnology (DBT), the Indian Council of Medical Research (ICMR), the Indian Council of Agriculture Research (ICAR), the University Grants Commission (UGC), and the Department of Scientific and Industrial Research (DSIR). India is developing capacities in several areas such as basic research in new biology and biotechnology, agriculture, bio-fertilisers and bio-pesticides, bio-prospecting and molecular taxonomy, plant tissue culture, medicinal and aromatic plants, animals, marine resources, environment and biodiversity, and medical biotechnology.

New Zealand also has strong interest in biotechnology. NZBio, an incorporated society representing the New Zealand biotechnology sector, has a broad range of members engaged in a number of different activities, and strong connections with national and international networks. NZBio offers advocacy support to the sector. It also provides valuable networking opportunities for society members, promoting this discipline in New Zealand and facilitating communication between those involved, both nationally and internationally

There is potential for cooperation and opportunity for both the countries to learn from each other and utilise their relative strength to their mutual advantage.

8.10. Pharmaceuticals

From a mere processing industry, India's pharmaceutical industry is today highly sophisticated with advanced manufacturing technology, modern equipment and quality control. The Indian pharmaceutical industry has achieved spectacular success during the last three decades. From being a major importer of bulk drugs and formulations, the Indian pharmaceutical industry has today become a net exporter of pharmaceutical products. Indian pharmaceutical products are being exported to a large number of countries including the US, Canada, Germany, France and Latin American Countries. Almost 95% of the domestic demand for pharmaceuticals is met through indigenous production. At present, there are 15,000-20,000 pharmaceuticals manufacturing units in the country, of which 5,000 are large scale units. Out of these, 45 manufacturing units have an international presence. The Indian pharmaceutical industry, today, ranks among the top 15 drug manufacturing countries in the world. India also has a rich tradition in using medicinal plants and herbs in its indigenous systems of medicine.

The New Zealand health sector has an annual capped budget. Health services or treatments, including pharmaceuticals, must be prioritised within the available funding. While there is significant growth in volume and use of more expensive treatments, expenditure growth is relatively low overall because of government activity. Pharmac, in its purchasing role on behalf of District Health Boards and community care, has based its purchasing strategy on the extensive use of generic pharmaceuticals from India and elsewhere, principally Australia, the US and the EU.

There is potential for an increase in trade in pharmaceutical products between India and New Zealand as many of these products are currently manufactured by Indian companies at competitive prices, lower than those sourced from the US or Europe. Besides this, both countries can share experiences in the areas of developing regulatory requirements for clinical trials, and regulatory controls for pharmaceuticals, vaccines and biotechnology products. There is also scope for India and New Zealand to cooperate on these matters in relevant international fora, with a view to global harmonisation of requirements so as to maximise mutual opportunities.

8.11. Medicinal herbs and complementary medicines

The availability of medicinal herbs in India provides the impetus for cooperation with manufacturing companies from India in the field of alternative medicine. India is also well-known for its expertise in the ancient art of ayurvedic and other complementary medicines.

New Zealand also has some interest in complementary medicines, which are currently regulated under the Medicines Act 1981 (although not under a scheme that identifies them as a sub-category of medicine) if they are being supplied as products to be used for a therapeutic purpose. Herbal tablets and capsules can also be sold under food legislation provided no therapeutic claims are made about them. While there is little clinical research capacity in New Zealand in relation to the therapeutic claims of complementary medicines, there is active research in relation to extraction techniques and the identification of bio-active components. New Zealand is also interested in initiatives leading to the development of professional standards in the ayurvedic area.

There may be potential for cooperation in these areas if common interests can be identified.

8.12. Health Care

India is in a position to tap the top end of the US$3 trillion global healthcare industry because of the high quality services and the brand equity of Indian healthcare professionals across the globe. The India government accords top priority to the healthcare sector and is focusing on indigenous R&D and creation of human capital. It is expected that the Indian laws and procedures relating to recognition of intellectual property and foreign investments will allow global pharmaceuticals and biotechnology companies to set up partnerships with Indian counterparts. India spends 5.2% of its GDP on healthcare, which is comparable with most other developing countries. The healthcare industry in India is expected to grow from US$19 million in 2001 to US$60 million by 2012.

New Zealand's healthcare system is funded mainly through general taxation. Treatments are usually free or subsidised. Medical treatment is generally very good. Private healthcare is also available. New Zealand has a well-developed health infrastructure, and facilities are of a high standard. Since the early 1980s, the healthcare system in New Zealand has undergone a number of reforms. Historically, healthcare provision has been almost entirely public, but changes implemented in 1993 introduced elements of competition and private enterprise into the healthcare sector. Subsequently, since 1999 the government has moved to a population health focused model implemented through District Health Boards with greater emphasis on primary care services, health promotion, disease prevention and management of chronic conditions.

There is potential for cooperation, including through the sharing of information and experience in respect of best practices in healthcare systems.

8.13. Summary

This chapter has shown that the bilateral relationship between India and New Zealand encompasses a wide range of cooperation activities, many of which have developed strongly in recent years. Enhanced dialogue in these areas may be facilitated by, and work effectively alongside, a comprehensive CECA/FTA. This would contribute to broadening and deepening the existing relationship.

9. Towards a Free Trade Agreement: Conclusions and recommendations

9.1. Broad Conclusions

The Joint Study Group (JSG) examined the feasibility of a Comprehensive Economic Cooperation Agreement/Free Trade Agreement (CECA/FTA) in the areas of trade in goods and services as well as investment between India and New Zealand. The JSG identified potential sectors for enhancing bilateral economic cooperation and discussed other measures relevant to trade and investment flows.

The JSG concludes that the proposed India-New Zealand CECA/FTA is feasible and mutually beneficial in expanding bilateral economic linkages. This conclusion is based upon an extensive study of various dimensions of the economies of the two countries, including an assessment of potential economic complementarities. The study has shown that both India and New Zealand have highly dynamic and modern economies. Both India and New Zealand have undertaken wide-ranging economic reforms to improve the conditions for business and encourage their companies to become globally competitive. Both countries are outward-looking and have entered into a wide range of trading arrangements at the multilateral, regional and bilateral level.

A summary of some of the specific conclusions and recommendations is presented below in order to underscore the feasibility of a bilateral CECA/FTA:

9.2. Possibilities of Cooperation in Trade in Goods

It was observed by the JSG that currently the bilateral trade flows between India and New Zealand are at very low levels compared to the global trade profiles of both countries. Bilateral trade is also confined to a narrow range of products. Reasons for this have been discussed in the report. Against the backdrop of trade policy reforms undertaken by both countries in recent times it is clear that there is considerable potential to both increase and diversify trade given the trade complementarities that exist between the two countries that so far remain relatively untapped.

Empirical estimates made by the JSG indicate that trade can increase considerably between India and New Zealand. Alternative methods have been used in the study to project future export demand in a dynamic setting. Detailed simulation-exercises using a multi-sector computable general equilibrium (CGE) model (GTAP) were conducted and are presented in the study. Estimates resulting from the different methodologies suggest positive and substantive trade gains can result from trade liberalisation under the proposed CECA/FTA.

The results show that both India and New Zealand experience welfare gains as a result of the CECA/FTA, and that real GDP rises in both economies. Bilateral merchandise exports increase as trade barriers are removed. The modelling shows that both countries' welfare would rise over and above business as usual levels. These welfare gains would be expected to continue to accrue as investment decisions impacted positively on levels of trade.

India's main export sectors in which the modelling showed an increase included: textiles, clothing and footwear; chemicals, rubber and plastics; metals; and manufacturing products not elsewhere classified.

New Zealand's major export sectors which showed increases included: dairy; vegetables, fruits and nuts; wool; forestry; natural resources (including coal); textiles, clothing and footwear; and chemicals, rubber and plastics.

Given some of the well-known limitations of such estimates from modelling exercises, the JSG also undertook Dynamic Revealed Comparative Advantage analysis with a view to identify potential sectors of export interest to both countries. The results suggest that there are several Highly Dynamic Comparative Advantage Sectors for both India and New Zealand. The sectors include: gold and other precious metals; ships; textiles and clothing; machinery; and electric machinery for India. For New Zealand the sectors include: agriculture; machinery; prepared foods; forestry and wood products; and medical machinery. There are also sectors which display strong static comparative advantage which are listed in the study.

The RCA analysis also shows that India and New Zealand have markedly different export structures. This suggests that New Zealand and India do not compete in many areas of merchandise trade, and thus that there are potential economic benefits to be gained from specialisation following bilateral trade liberalisation.

The JSG noted the global trends in trade that suggest that goods are increasingly being traded on an intra-industry basis rather than inter-industry basis. The modality of intra-industry trade acts as an avenue through which two or more countries could trade with each other in the event of a lack of trade complementarity in a traditional sense. The products amenable to intra-industry trade at HS 6-digit level are listed in the study. These could be given due attention in the proposed negotiations on tariff liberalisation in order to step-up bilateral trade flows.

In summary, the analysis of the various dimensions of trade in goods between India and New Zealand suggests that there is ample potential for bilateral trade expansion in a mutually beneficial manner. Adequate institutional mechanisms would need to be put in place to support such expansion. Accordingly, there is a strong case for setting in place an FTA in goods under the proposed bilateral CECA/FTA.

9.3. Trade Facilitation Architecture

The JSG noted that the trade linkages between the two countries could be intensified not only through tariff liberalisation, but also by adopting various trade facilitation measures. Some of these measures that the JSG studied, include developing stronger links between regulators and, in due course, entering into mutual recognition agreements (MRAs) to deal with issues of technical barriers to trade (TBT); sanitary and phytosanitary measures (SPS); customs cooperation and the harmonisation of standards and conformity assessment. The relationship would also benefit from additional mechanisms to enhance business-to-business dialogue. The JSG further emphasised that it is also necessary to put in place various WTO-consistent trade remedy provisions that do not undermine the benefits of trade liberalisation.

The JSG discussed other issues which can impact on trade including intellectual property, competition policy, government procurement, trade and labour and trade and environment issues. The JSG was unable to agree on how some of these issues should be taken up, but they agreed that these are all important issues and that the two countries should continue to discuss these issues as we progress a bilateral CECA/FTA.

9.4. Trade in Services

The JSG noted that, in respect of trade in services, the proposed bilateral CECA/FTA would include comprehensive coverage of sectors and all modes, in a GATS-consistent and GATS-plus framework.

The JSG also noted the complementarities between New Zealand and India in the services sector. There is considered to be significant potential for mutually beneficial services trade under a CECA/FTA. Based on the JSG discussions, some of the sectors identified that would benefit from substantive commitments include: tourism, education, information technology and telecommunications, architecture and engineering, construction, audio visual services, finance, environmental services, and services incidental to agriculture and forestry.

9.5. Investment

The JSG noted that while India and New Zealand are destinations of FDI inflows, both countries have also emerged as sources of outward investment in different sectors. It is recognised that, in order to encourage investment inflows, both the countries have liberalised their investment regimes. There is scope in the CECA/FTA to further increase the flow of bilateral investment through more liberalised investment regimes. While the bilateral investment linkages have grown they offer further scope for expansion. In this regard, comprehensive measures for the protection of bilateral investment and investors need to be set in place under the proposed CECA/FTA, and consideration given to investment promotion programmes.

9.6. Bilateral Economic Cooperation

Alongside the CECA/FTA, there are several other modalities for bilateral cooperation in various sectors. Some of these include, inter alia, sharing of successful developmental experiences, capacity-building, and enhancing people-to-people contact. Areas of economic cooperation of mutual interest in which India and New Zealand can foster closer collaboration include: agri-technology; forestry, education; tourism and air services; and research, science and technology, audio-visual services, energy/clean technologies and health.

This summary of the JSG research findings suggests that there is a strong case for concluding a CECA/FTA between India and New Zealand including trade in goods, trade in services, investment, trade facilitation and other areas of economic cooperation.

9.7. Overall Recommendation

In the light of the conclusions of the JSG on different dimensions of economic engagement between India and New Zealand, the JSG recommends the establishment of a bilateral Trade Negotiations Committee (TNC) and the negotiation of a comprehensive agreement covering substantially all trade in goods and services; investment; trade facilitation; and other areas of economic cooperation, as a 'single undertaking', leading to additional trade flows and economic gains.

Annex 1- Tables

Table 0-1: Exchange Rates used in this Study (US$)								
Year to June	2000	2001	2002	2003	2004	2005	2006	2007
New Zealand	0.504	0.425	0.431	0.521	0.627	0.695	0.669	0.685
India	0.023	0.022	0.021	0.021	0.022	0.022	0.022	0.023
Sources: Reserve Bank of New Zealand, Reserve Bank of India								

Table 0-2: Profile of India and New Zealand Economies

	NEW ZEALAND	INDIA
Surface land area (million km^2)	0.27	3.29
Population (million, 2006)	4.18	1,109.81
GDP (US$ billion, current prices, 2006)	105	912
Real GDP Growth (%, 2006)	9	2
GNI Per Capita (PPP, 2006, International $)	25,750	2,460
Export goods and services (% GDP, 2006)	28*	23
Import goods and services (% GDP, 2006)	30*	26
Merchandise Trade (% GDP, 2006)	47	32
Inflation, GDP deflator (annual %, 2006)	1	6

* 2005 figures

Sources: World Bank World Development Indicators Database

Table 0-3: India's imports by group of products, 2000-06 (US$ million and percent)						
	2000/01	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**
Total imports	51,377.3	51,908.5	61,118.1	77,202.4	108,248.0	149,750.0
			(Per cent)			
Total primary products	47.0	45.1	44.6	41.2	42.4	43.3
Agriculture	7.6	9.3	8.3	8.3	6.4	4.9
Food	4.4	5.5	5.4	5.3	4.0	3.1
Fuels	34.7	30.7	32.0	29.0	31.6	33.7
Manufactures	42.9	45.5	48.0	49.7	48.8	48.4
Iron and steel	1.5	1.6	1.5	1.9	2.4	3.0
Chemicals	9.0	10.1	9.2	9.5	10.0	9.3
Machinery and transport equipment	15.1	16.2	18.9	20.9	20.1	22.8
Power generating machines	0.7	0.8	0.6	0.7	0.8	0.8
Other non-electrical machinery	4.8	5.0	5.2	5.6	5.5	6.2
Agricultural machinery and tractors	0.0	0.0	0.0	0.0	0.1	0.0
Office machines & telecommunication equipment	5.3	5.4	7.1	7.8	7.4	7.3
Other electrical machines	2.1	2.3	2.4	2.2	2.0	2.0
Automotive products	0.7	0.7	0.7	0.9	0.9	0.8
Other transport equipment	1.6	2.0	2.9	3.7	3.4	5.6
Textiles	1.1	1.3	1.5	1.4	1.3	1.3
Clothing	0.1	0.1	0.0	0.1	0.0	0.0
Other consumer goods	3.9	4.4	4.5	4.1	3.8	3.6
Other	10.1	9.4	7.4	9.1	10.4	8.2

Sources UNSD, Comtrade database (SITC Rev.3)

Table 0-4:: India's Merchandise exports by group of products 2000-06 (US$ million and per cent)						
	2000/01	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**
Total exports	45,249.6	44,306.5	52,471.4	63,035.5	79,834.1	103,404.2
	(Per cent)					
Total primary products	21.3	22.3	22.8	22.7	31.4	29.2
Agriculture	14.1	14.1	13.4	12.6	14.0	10.4
Food	12.9	13.1	12.3	11.3	12.9	8.9
Agricultural raw material	1.2	1.1	1.1	1.3	1.1	1.5
Fuels	4.3	5.0	5.1	5.8	10.3	11.5
Manufactures	76.5	74.7	74.8	76.1	76.0	69.8
Iron and steel	2.9	2.6	4.1	4.5	6.0	4.8
Chemicals	10.5	10.8	11.2	11.6	12.9	11.6
Other semi-manufactures	21.1	20.8	21.2	20.2	19.4	17.5
6672 Diamonds (excl. industrial, sorted) not mounted/set	13.9	13.5	14.1	13.0	12.9	11.3
Machinery and transport equipment	7.9	8.6	8.4	9.7	10.8	10.9
Power generating machines	0.3	0.4	0.4	0.4	0.6	0.4
Other non-electrical machinery	2.2	2.4	2.4	2.9	3.4	3.2
Agricultural machinery and tractors	0.1	0.1	0.2	0.2	0.2	0.2
Office machines and telecommunication equipment	1.1	1.4	1.1	1.3	1.4	1.0
Other electrical machines	1.6	1.8	1.7	1.8	1.5	1.7
Automotive products	1.4	1.3	1.4	2.1	2.3	2.6
Textiles	13.3	12.1	11.5	10.9	8.8	8.2
Clothing	13.7	12.4	11.5	10.5	8.3	8.9
Other consumer goods	7.2	7.4	6.9	8.7	9.8	7.9
Other	2.2	2.9	2.4	1.1	1.2	1.0

Sources UNSD, Comtrade database (SITC Rev.3)

Table 0-5: India's Merchandise exports by destination, 2000-06 (US$ million and per cent)						
	2000/01	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**
Total exports	45,249.6	44,306.5	52,471.4	63,035.5	79,834.1	103,404.2
			(Per cent)			
America	24.7	23.1	24.6	21.0	20.1	20.8
United States	20.9	19.4	20.7	18.0	16.5	16.9
Other America	3.8	3.6	3.9	3.0	3.6	3.9
Brazil	0.5	0.5	0.9	0.4	0.8	1.1
Europe	25.9	24.8	24.2	24.6	23.4	24.2
EC(25)	24.0	23.2	22.5	22.7	21.5	22.5
United Kingdom	5.2	4.9	4.7	4.7	4.4	4.9
Germany	4.3	4.1	4.0	4.0	3.3	3.5
Belgium	3.3	3.2	3.2	2.8	3.0	2.8
Italy	2.9	2.8	2.6	2.7	2.7	2.4
The Netherlands	2.0	2.0	2.0	2.0	1.9	2.4
France	2.3	2.2	2.1	2.0	2.0	2.0
Spain	1.5	1.5	1.5	1.6	1.6	1.6
EFTA	1.1	1.1	0.9	0.9	0.8	0.6
Other Europe	0.8	0.6	0.8	1.1	1.1	1.1
Commonwealth of Independent States (CIS)	2.4	2.2	1.7	1.6	1.3	1.2
Africa	5.3	6.6	5.9	6.0	6.7	6.8
South Africa	0.7	0.8	0.9	0.8	1.2	1.5
Middle East	11.3	11.5	13.0	14.7	15.5	14.6
United Arab Emirates	5.8	5.7	6.3	8.0	8.8	8.3
Saudi Arabia	1.8	1.9	1.8	1.8	1.7	1.8
Asia	26.2	27.0	30.2	31.7	32.5	32.2
China	1.9	2.2	3.7	4.6	6.6	6.6
Japan	4.0	3.4	3.5	2.7	2.5	2.4
Singapore	2.0	2.2	2.7	3.3	4.8	5.3
Hong Kong, China	5.9	5.4	5.0	5.1	4.5	4.3
Korea, Rep. of	1.0	1.1	1.2	1.2	1.2	1.8
Malaysia	1.4	1.8	1.4	1.4	1.3	1.1
Sri Lanka	1.4	1.4	1.7	2.1	1.7	2.0
Bangladesh	2.1	2.3	2.2	2.7	2.0	1.6
Indonesia	0.9	1.2	1.6	1.8	1.6	1.3
Other	4.1	4.8	0.4	0.3	0.5	0.2

Sources UNSD, Comtrade database (SITC Rev.3)

Table 0-6: India's Merchandise imports by origin, 2000-06 (US$ million and per cent)						
	2000/01	**2001/02**	**2002/03**	**2003/04**	**2004/05**	**2005/06**
Total imports	51,377.3	51,908.5	61,118.1	77,202.4	108,248.0	149,750.0
			(Per cent)			
America	8.2	9.1	9.9	8.9	8.8	8.8
United States	6.0	6.1	7.3	6.4	6.3	6.3
Other America	2.2	3.0	2.6	2.5	2.5	2.4
Europe	27.6	26.6	25.0	24.0	23.0	22.2
EC(25)	21.1	20.6	20.8	19.2	17.1	17.2
Germany	3.5	3.9	3.9	3.7	3.6	4.0
Belgium	5.7	5.4	6.0	5.1	4.2	3.2
France	1.3	1.6	1.8	1.4	1.7	2.8
United Kingdom	6.3	5.0	4.5	4.1	3.2	2.6
Italy	1.4	1.4	1.3	1.4	1.2	1.2
Sweden	0.5	0.8	0.8	0.9	0.8	0.8
EFTA	6.3	5.7	4.0	4.6	5.5	4.6
Switzerland	6.3	5.6	3.8	4.2	5.3	4.4
Other Europe	0.2	0.3	0.2	0.2	0.3	0.4
CIS	1.3	1.4	1.4	1.6	1.7	2.0
Russian Federation	1.0	1.0	0.9	1.2	1.2	1.4
Africa	4.1	5.1	5.6	4.1	3.5	3.3
South Africa	2.0	2.8	3.4	2.4	2.0	1.7
Middle East	5.2	5.2	4.9	5.7	7.9	6.7
United Arab Emirates	1.3	1.8	1.6	2.6	4.2	2.9
Saudi Arabia	1.2	0.9	0.8	0.9	1.2	1.1
Asia	22.6	25.3	24.3	29.1	27.3	27.4
China	3.0	4.0	4.5	5.2	6.2	7.3
Japan	3.6	4.2	3.0	3.4	2.9	2.7
Korea, Rep. of	1.8	2.2	2.5	3.6	3.1	3.1
Singapore	2.9	2.5	2.3	2.7	2.4	2.2
Malaysia	2.3	2.2	2.4	2.6	2.1	1.6
Hong Kong, China	1.7	1.4	1.6	1.9	1.6	1.5
Chinese Taipei	1.0	1.1	1.1	1.0	1.0	0.9
Thailand	0.7	0.8	0.6	0.8	0.8	0.8
Australia	2.1	2.5	2.2	3.4	3.3	3.3
Indonesia	1.8	2.0	2.2	2.7	2.3	2.0
Other	31.0	27.4	29.0	26.6	27.8	29.7

Sources UNSD, Comtrade database (SITC Rev.3)

Table 0-7: Growth of Services Sector in India (in %)							
Services	**Percentage change over the previous year**						
	2000-01	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**
Services	5.7	7.2	7.4	8.5	9.6	9.8	11.2
Trade, hotels, transport and communication	7.3	9.1	9.2	12.1	10.9	10.4	13.0
Financial, real estate & business services	4.1	7.3	8.0	5.6	8.7	10.9	11.1

Table 0-8 India's Export of Services (US $ Million)

	1990-91	**% Share**	**1994-95**	**% Share**	**2000-01**	**% Share**	**2005-06**	**% Share**
Total Services Export	4551		6135		18870		61404	
Travel	1456	32	2365	39	3168	17	7853	13
Transportation	983	22	1696	28	1913	10	6291	10
Insurance	111	2	152	2	257	1	1050	2
G.n.i.e.	15	0	41	1	657	3	309	1
Miscellaneous	1986	44	1912	31	12875	68	45901	75
of which								
Software Services							23600	
Business Services							12858	
Financial Services							1704	
Communication Services							2182	

Table 0-9: India's Business Services Export 2005-06 (in US$ billion)	
Exports of Business Services	**2005-06**
Architectural & engineering	US$ 3 billion
Management & consultancy	US$ 1.6 billion
Financial Services	US$ 1.9 billion

Table 0-10: India's Import of Services (US $ Million)

	1990-91	**% Share**	**1994-95**	**% Share**	**2000-01**	**% Share**	**2005-06**	**% Share**
Total Services Import	3571		5533		16392		37523	
Travel	392	11	818	15	2874	18	6464	17
Transportation	1093	31	1863	34	3170	19	7841	21
Insurance	88	2	181	3	122	1	1028	3
G.n.i.e.	173	5	165	3	341	2	506	1
Miscellaneous	1825	51	2506	45	9885	60	21684	58
of which								
Software Services							1338	
Business Services							10496	
Financial Services							1308	
Communication Services							808	

Table 0-11: New Zealand's Merchandise Trade with the World (US$ Million)

Year ending June	2002	2003	2004	2005	2006	2007
Exports	13,936.8	15,250.0	18,731.6	21,288.8	21,699.8	23,943.5
Imports	13,721.3	16,744.0	20,935.5	24,886.9	26,122.0	28,210.1

Source: Statistics New Zealand

Table 0-12: New Zealand's Services Trade with the World (US$ Million)

Year ending June	2002	2003	2004	2005	2006	2007
Exports	4,776.5	6,193.5	7,418.8	8,513.3	8,212.7	8,655.4
Imports	4,408.9	5,175.6	6,467.3	7,948.1	7,927.0	8,280.5

Source: Statistics New Zealand

Table 0-13:Top 15 New Zealand Merchandise Exports and Imports Average Top 15 New Zealand Merchandise Exports, Year to June 2005-2007, US$ Millions		Average Top 15 New Zealand Merchandise Imports, Year to June 2005-2007, US$ Millions	
Dairy	3,933.2	Mineral fuels	3,491.5
Meat	3,117.3	Machinery	3,480.6
Wood	1,400.3	Vehicles	3,491.3
Machinery	1,206.0	Electrical machinery	2,334.7
Aluminium and articles	882.7	Plastic	997.7
Fruit	820.3	Aircraft	855.6
Fish	781.8	Photographic	780.8
Special Other	753.0	Pharmaceutical	643.8
Electrical Machinery	718.1	Paper	660.9
Starch	612.8	Iron and Steel articles	483.2
Beverages	473.2	Iron and Steel	437.9
Wool	559.1	Furniture	380.2
Misc. Food	432.0	Inorganic chemicals	342.5
Pulp	383.8	Ships	219.4
Iron and Steel	337.7	Apparel knitted	336.7
Source: Statistics New Zealand			

Table 0-14: New Zealand Service Exports Average New Zealand Service Exports, Year ending June 2005-2007, US$ Millions		
Transportation		1,684.4
Total Travel	including	5,056.0
	Business Travel	512.2
	Education Travel	1,143.7
	Health Travel	7.9
	Other Travel (including Tourism)	3,392.2
Communication*		222.9
Construction*		47.2
Insurance		28.1
Financial		81.0
Computer and information		187.0
Royalties and licence		111.2

fees		
Other business services	including	806.5
	Legal, accounting, management consultancy and public relations	188.2
	Advertising, market research and public opinion polling	51.5
	Research and development	63.0
	Architectural, engineering and other technical services*	75.5
	Agricultural, mining and on-site processing services*	3.5
	Other services	231.0
Personal, cultural and recreational		176.2
Government services nie		101.2
Source: Statistics New Zealand	*Due to confidentially constraints at least one year has been withheld.	

Table 0-15: New Zealand Service Imports
Average New Zealand Service Imports, Year ending June 2005-2007, US$ Millions

Transportation		2,712.7
Travel		2,604.5
Communication*		239.4
Construction*		49.5
Insurance		232.6
Financial		102.6
Computer and information		257.5
Royalties and licence fees		529.0
Other business services	including	1,178.1
	Legal, accounting, management consultancy and public relations	172.4
	Advertising, market research and public opinion polling	118.9
	Research and development	37.0
	Architectural, engineering and other technical services*	137.4
	Agricultural, mining and on-site processing services*	5.7
	Other services	352.1
Personal, cultural and recreational		44.5
Government services nie		102.6

Source: Statistics New Zealand	*Due to confidentially constraints at least one year has been withheld.

Table 0-16: Bilateral Merchandise Trade (US$ Million)						
Year ending June	2002	2003	2004	2005	2006	2007
New Zealand Exports to India	84.5	74.9	88.2	124.7	233.4	288.9
Indian Exports to New Zealand	83.7	100.4	115.8	150.3	155.7	181.0
Total Merchandise Trade	168.2	175.3	204.0	274.9	389.0	469.9
Sources: Department of Commerce, Statistics New Zealand						

Table 0-17: India's Top Ten Exports to New Zealand 2002 – 2007 (US$ Million)								
Year ending June	2002	2003	2004	2005	2006	2007	Average Annual Growth (%)	Share of Total Export Growth (%)
Diamonds	5.5	8.4	10.0	12.3	9.7	11.8	19.3	7.6
Medication	4.3	5.2	3.2	5.1	4.5	6.7	16.3	2.9
Linen	4.1	4.7	4.1	6.9	5.8	6.4	13.1	2.8
Jewellery	0.9	1.4	2.1	4.0	3.9	5.1	45.3	5.1
Articles of Iron or Steel	1.0	2.0	2.1	3.4	3.1	3.7	37.3	3.3
Parts of Footwear	2.1	3.2	3.4	2.2	2.9	3.7	16.6	1.9
Monument Stone	1.8	2.5	3.1	3.9	3.2	3.7	17.2	2.2
Petroleum Coke, Bitumen & Other Residues	0.0	0.0	0.0	0.0	0.0	3.1	-	-
Women's Or Girls' Suits	2.3	2.2	1.7	2.1	2.8	3.1	8.6	1.0
Sports Equipment	1.5	1.9	2.3	2.5	2.4	2.9	15.0	1.7
Source: Statistics New Zealand								

Table 0-18: New Zealand's Top Ten Largest to India 2002 – 2007 (US$ Million)								
Year ending June	2002	2003	2004	2005	2006	2007	Average Annual Growth (percent)	Share of Total Export Growth (percent)
Coal	8.8	6.2	18.9	30.7	95.3	99.5	91.0	46.6
Wood In The Rough	11.2	7.3	11.0	24.6	42.2	67.6	54.2	17.8
Wool	26.5	24.1	23.2	29.3	33.4	32.1	4.7	7.4
Butter	5.1	5.0	0.9	0.0	0.8	11.6	228.0	1.9
Scrap Aluminium	0.2	0.2	0.1	0.8	2.3	8.1	267.6	2.5
Sheep Or Lamb Skin Leather	3.4	3.5	5.1	5.0	4.3	4.8	8.7	0.8
Scrap Iron	0.1	0.4	0.4	1.0	2.1	4.4	154.3	1.5
Sorting and Screening Machinery	1.4	1.0	0.8	0.8	2.4	4.0	44.2	1.5
Apples, Pears And Quinces	1.6	1.9	1.8	1.5	2.4	3.4	20.2	0.9
Paper	0.5	0.2	1.3	1.1	3.0	3.4	112.1	1.4
Source: Department of Commerce								

Table 0-19 : India's Joint Ventures and Wholly Owned Subsidiaries in New Zealand (US$ Millions)	
Year	
1996-2002	0.13
2002-2003	0.57
2003-2004	0.03
2004-2005	0
2005-2006	0.102
2006-2007	0.596
2007-2008	2.745
Total	4.173
Source: Ministry of Finance (2008), Government of India	

Table 0-20: FDI Inflows in India (2000 – 2007)			
Rank	**Country**	**FDI Inflows (US$ million)**	**Percentage of total inflows**
1	Mauritius	20,103.6	44.46
2	U.S	4,070.58	9.12
3	U.K.	3,460.86	7.79
4	Singapore	2,694.81	5.76
5	Netherlands	2,535.17	5.66
54	New Zealand	5.23	0.01
	Total	45,248.30	100.00
Source: India FDI Fact-sheet, DIPP, GOI, March 2008			

Table 0-21: India's Approved FDI (US$ Millions)		
	With New Zealand	With all Countries
August 1991- Dec.1999	21	21
2000	0.1	4,008.6
2001	24.5	4,653.3
2002	0.1	2,303.8
2003	0.2	1,177.5
2004	0.4	1,900.3
2005	0.01	1,775.3
2006	0	5,111.2
2007(Jan.-December)	0	4,772.8
Total (1991-2007)	**100.5**	**25,723.8**

Table 0-22 India's FDI Inflows (US$ Millions)		
	With New Zealand	With all Countries
August 1991- Dec.1999	22	22
2000	0.0	2,873.0
2001	0.0	3,728.4
2002	0.1	3,790.7
2003	0.0	2,525.5
2004	0.1	3,753.4
2005	0.1	4,361.5
2006	0.1	11,119.5
2007(Jan.-December)	4.8	19,155.9
Total (1991-2007)	**27.2**	**51,329.9**

Table 0-23 Indian foreign collaborations approved with New Zealand					
	Number of Foreign Collaborations Approved				NZ % of Total
	With New Zealand		With all Countries		
	Total	Financial	Total	Financial	
August 1991- Dec.1999	23	23	23	23	
2000	4	3	2,120	1,702	-
2001	2	2	2,264	1,976	-
2002	4	4	2,270	1,963	0.18
2003	3	2	1,871	1,550	-
2004	4	4	1,551	1,436	-
2005	1	1	526	445	-
2006	-	-	336	266	
2007(Jan.-December)	-	-	383	257	
Total (1991-2007)	**41**	**39**	**11,344**	**9,618**	**0.18**

Table 0-24 Share of Top Sectors Attracting FDI Approvals in India				
Rank	Sector	No. of FDI Approvals	FDI Approved Amount (US$ million)	%age of FDI Approved for NZ
1.	Services Sector (financial & non-financial)	6	58.5	57.65
2.	Food Processing Industries	4	24.8	28.37
3.	Telecommunications	4	16.0	12.83
4.	Boilers and Steam Generating Plants	1	0.6	0.52
5.	Electrical Equipments (including computer software & electronics)	9	0.4	0.36
		24	**100.3**	**99.73**

Table 0-25 Share of Top Indian Sectors Attracting FDI Inflows from New Zealand (2000–07)			
Rank	Sector	FDI inflows (US$ Million)	%age of FDI Inflows from NZ
1	Power	4.7	90.79
2	Computer Software &Hardware	0.2	4.44
3	Trading	0.1	2.17
		5	**97.4**
Note: (i) Amount includes the inflows received through SIA/ FIPB route, acquisition of existing shares & RBI's automatic route only. (ii) The amount of FDI inflows in respect of the Country & Sector specific data is not provided by RBI, Mumbai prior to January 2000.			

Table 0-26: New Zealand's Unilateral Tariff Reduction Programme Following the 'Post-2005 Tariff Review'

July 2007	July 2008	July 2009
15	12.5	10
7.5	5	5
5-7.5	5	5

Source: Ministry of Economic Development

Table 0-27: India’s Revealed Comparative Advantage (US$ Million)				
HS Code	Simple Description	World exports	India’s exports	RCA Index
7102	Diamonds	76,788.9	12,814.5	1,624
2710	Petroleum oils, not crude	380,469.9	10,467.9	268
2601	Iron	45,427.2	5,507.6	1,180
7113	Jewellery articles	28,770.5	4,083.6	1,381
6204	Suits; women's or girls	49,193.1	2,124.3	420
7210	Iron or non-alloy steel; flat-rolled products	35,095.4	1,692.1	469
7108	Gold	45,830.4	1,553.2	330
6302	Bed linen, table linen	12,738.1	1,506.9	1,151
6109	T-shirts etc.	25,826.2	1,392.7	525
7403	Copper; refined and copper alloys	43,152.6	1,367.7	308
6206	Blouses; women's or girls	10,020.9	1,364.3	1,325
5205	Cotton yarn	8,072.8	1,220.9	1,472
1006	Rice	7,009.0	1,136.4	1,578
6403	Footwear; rubber, plastic, etc.	43,642.8	1,074.4	240
2933	Heterocyclic compounds	52,155.7	1,043.5	195
0306	Crustaceans	15,718.6	1,016.4	629
5201	Cotton	9,750.4	1,002.2	1,000
2902	Cyclic hydrocarbons	29,973.9	840.0	273
8504	Electric transformers	54,895.0	833.7	148
6205	Shirts; men's or boys	11,330.1	802.9	690
2304	Oil-cake etc, of soya-bean oil	10,984.3	797.5	707
6110	Jerseys etc.	43,047.3	760.9	172
3204	Synthetic organic colouring matter	10,038.7	759.5	736
4202	Trunks and cases	31,353.6	722.5	224
6802	Monumental or building stone	8,545.1	708.3	807
6203	Suits; men's or boys	32,070.2	686.6	208
7208	Iron or non-alloy steel; flat-rolled products	47,285.2	675.1	139
7110	Platinum	24,554.7	659.4	261
5702	Carpets, woven	2,672.1	612.2	2,230
4203	Leather apparel	7,518.8	596.1	772
8481	Taps, cocks, valves etc.	49,636.1	590.3	116
0801	Coconuts, Brazil and cashew nuts	2,138.9	573.6	2,610
2516	Granite	1,879.0	517.6	2,681
6105	Shirts; men's or boys	5,895.8	513.6	848
7112	Waste and scrap of precious metal	10,147.2	493.2	473
2941	Antibiotics	10,502.3	478.3	443
7408	Copper wire	18,074.9	467.4	252
2934	Nucleic acids and their salts	19,425.9	465.6	233
8523	Media, unrecorded	21,210.7	448.8	206
5701	Carpets, knotted	1,566.4	411.6	2,557
3902	Polymers of propylene	24,949.7	409.1	160
0902	Tea	3,032.5	400.2	1,284
Source: Data – UN COMTRADE 2006, Calculation - New Zealand Ministry of Foreign Affairs and Trade				

Table 0-28: New Zealand's Revealed Comparative Advantage (US$ Million)				
HS Code	Simple Description	World exports	New Zealand's exports	RCA Index
0204	Sheep meat	3,864.59	1,672.0	23,515
0402	Milk powder	7,835.11	1,355.3	9,401
0202	Frozen beef	7,766.67	957.5	6,700
7601	Aluminium; unwrought	51,412.34	750.0	793
0406	Cheese	17,022.50	742.9	2,372
0810	Fresh fruit, nes.	4,932.74	648.3	7,143
0405	Butter	4,165.34	636.6	8,307
4403	Logs	13,637.53	547.3	2,181
3501	Casein	1,942.32	493.3	13,803
4407	Timber	31,957.93	474.7	807
5101	Wool	2,906.49	441.2	8,250
2204	Wine	22,678.98	426.1	1,021
0808	Apples	6,066.14	389.7	3,491
2106	Food preparations	17,365.62	312.5	978
2701	Coal	55,039.16	288.3	285
0404	Whey and products	2,421.42	230.0	5,163
0304	Fish fillets	15,005.51	207.2	750
0208	Venison	768.25	192.0	13,586
0303	Frozen fish	14,359.99	191.6	725
7108	Gold	45,830.36	188.1	223
4703	Chemical wood pulp	20,841.00	184.8	482
0307	Molluscs	7,426.10	181.7	1,330
1901	Malt extract	6,368.14	180.2	1,538
4411	Fibreboard	7,294.65	163.5	1,218
0201	Chilled beef	13,862.46	138.5	543
9019	Mechano-therapy, massage appliances	5,663.14	132.8	1,274
4801	Newsprint, in rolls or sheets	10,597.67	124.6	639
4104	Leather of bovine	5,591.20	121.8	1,184
0206	Meat offal	2,491.13	111.6	2,434
8422	Dish washing machines	17,456.64	106.1	330
0101	Live horses	2,280.14	105.0	2,503
0504	Offal	2,186.43	102.3	2,542
8418	Refrigerators, freezers, etc.	28,218.36	98.9	190
7208	Iron or non-alloy steel; flat-rolled products	47,285.17	95.7	110
0710	Frozen vegetables	4,163.23	93.3	1,218
3502	Albumins	555.17	91.4	8,945
4412	Plywood	11,684.27	88.4	411
3504	Peptones	1,181.54	86.6	3,982
0709	Vegetables nes.	7,914.33	86.3	592
2905	Acyclic alcohols	22,718.33	81.5	195
3923	Plastic articles	32,406.08	80.6	135
Source: Data – UN COMTRADE 2006, Calculation - New Zealand Ministry of Foreign Affairs and Trade				

Table 0-29: India’s Dynamic Revealed Comparative Advantage Between 2001 and 2006 (US$ Million)				
HS Code	Simple Description	World exports	India’s exports	∆RCA Index
7108	Gold	45,830.4	1,553.2	44,686
7901	Zinc; unwrought	12,245.1	276.4	5,169
5201	Cotton	9,750.4	1,002.2	3,563
2507	Koalin	1,998.3	101.0	3,203
7110	Platinum	24,554.7	659.4	2,585
7408	Copper wire	18,074.9	467.4	1,590
7218	Stainless steel in ingots	2,311.0	118.3	1,198
4107	Leather	10,817.3	396.8	1,172
7407	Copper; bars, rods and profiles	5,221.6	137.0	1,029
7112	Waste and scrap of precious metal	10,147.2	493.2	997
4001	Natural rubber	13,846.6	143.4	722
7305	Iron or steel tubes and pipes	6,570.8	312.5	678
8525	Transmission apparatus	196,247.3	308.1	491
8502	Electric generating sets	12,660.9	267.1	472
2901	Acyclic hydrocarbons	15,404.4	107.3	444
2608	Zinc	9,308.5	396.6	440
7403	Copper; refined and copper alloys	43,152.6	1,367.7	293
8703	Motor vehicles	512,515.6	874.7	269
7303	Cast iron tubes and pipes	1,461.1	107.4	235
8419	Lab heating equipment	22,693.6	221.8	198
8474	Machinery for sorting, etc.	10,860.2	108.4	192
7207	Iron or non-alloy steel	19,710.3	123.1	190
8701	Tractors	33,501.7	210.7	150
2306	Oil-cake etc, other	1,969.4	114.7	138
7210	Iron or non-alloy steel; flat-rolled products	35,095.4	1,692.1	127
2606	Aluminium	1,975.5	133.1	122
8528	Television receivers	75,882.9	229.5	113
8504	Electric transformers	54,895.0	833.7	99
2001	Vegetables, fruit, nuts; preserved	1,258.9	101.5	99
7223	Stainless steel wire	1,660.7	151.0	99
8483	Transmission shafts	31,809.2	342.8	96
2710	Petroleum oils, not crude	380,469.9	10,467.9	83
8471	Computers	299,369.5	139.9	81
2932	Heterocyclic compounds	6,211.6	217.2	78
8409	Engine parts	47,924.7	444.8	73
8414	Air or vacuum pumps	45,647.5	261.0	65
8708	Motor vehicles; parts	234,737.7	1,058.5	65
7219	Stainless steel; flat-rolled products	29,725.8	311.4	59
2933	Heterocyclic compounds	52,155.7	1,043.5	59
3903	Polymers of styrene	19,615.0	157.2	58
8536	Electrical apparatus	65,901.1	361.9	58
2934	Nucleic acids and their salts	19,425.9	465.6	56
Source: Data – UN COMTRADE 2001, 2006, Calculation - New Zealand Ministry of Foreign Affairs and Trade				

Table 0-30: New Zealand's Dynamic Revealed Comparative Advantage Between 2001 and 2006 (US$ Million)

HS Code	Simple Description	World exports	New Zealand's 2006 exports	∆RCA Index
8430	Moving, grading, levelling machinery	7,798.8	20.7	758
9014	Navigational instruments	6,002.1	40.1	586
8535	Electrical apparatus	4,803.4	22.8	464
8411	Turbo-jets	64,921.3	115.2	424
0102	Live beef	5,099.4	46.7	421
8526	Radar apparatus	11,562.4	40.4	410
7404	Copper; waste and scrap	14,981.6	35.9	407
8409	Engine parts	47,924.7	43.8	403
3915	Plastic waste	5,495.4	27.7	351
5106	Carded wool	732.1	65.1	242
4104	Leather of bovine	5,591.2	121.8	236
4408	Veneer	3,438.2	21.2	226
1704	Sugar confectionery	6,043.0	31.0	214
2204	Wine	22,679.0	426.1	204
7602	Aluminium; waste and scrap	9,675.2	50.5	200
4818	Paper towels, etc.	14,659.6	52.3	185
0409	Honey	805.3	28.0	165
8505	Electro-magnets	5,021.2	39.4	164
8541	Diodes, transistors, etc.	57,089.5	44.7	146
0101	Live horses	2,280.1	105.0	143
8471	Computers	299,369.5	46.6	133
8436	Agricultural, horticultural, etc. machinery	3,530.9	40.7	133
2701	Coal	55,039.2	288.3	133
8544	Insulated cable and other electric conductors	68,305.1	75.6	124
0208	Venison	768.2	192.0	119
9019	Mechano-therapy, massage appliances	5,663.1	132.8	111
8451	Washing etc. machines	5,298.6	33.9	102
7113	Jewellery articles	28,770.5	41.7	102
8433	Harvesting machinery	11,720.0	42.7	98
2104	Soups	1,846.6	50.7	96
8415	Air conditioning machines	23,573.3	29.2	95
5703	Carpets, tufted	5,671.9	68.5	95
1905	Bread, pastry, cakes, etc.	15,728.0	62.0	93
1209	Seeds, for sowing	3,653.5	72.1	87
1502	Fats of animals	859.0	52.8	77
4705	Wood pulp	1,091.5	42.8	72
8422	Dish washing machines	17,456.6	106.1	69
9018	Medical or veterinary instruments	61,597.1	45.3	61
8413	Pumps	35,876.0	31.6	60
1602	Prepared or preserved meat	8,628.2	34.3	60
0206	Meat offal	2,491.1	111.6	55
0204	Sheep meat	3,864.6	1,672.0	53

Source: Data – UN COMTRADE 2001, 2006, Calculation - New Zealand Ministry of Foreign Affairs and Trade

Annex 2: New Zealand Standards and Conformance Infrastructure and Regulatory Approach

Infrastructure

New Zealand's standards and conformance infrastructure is comprised of:

- Standards New Zealand (SNZ): SNZ is a Crown entity operating under the Standards Act 1988 that promotes standardisation, and develops and adopts standards; and maintains New Zealand's TBT notification and enquiry point;
- International Accreditation New Zealand (IANZ): IANZ is a Crown entity established by the Testing Laboratory Registration Act 1972 that accredits testing and calibration laboratories and inspection bodies;
- Joint Accreditation System of Australia and New Zealand (JAS-ANZ): JAS-ANZ is an international organisation established by a treaty between New Zealand and Australia. It accredits inspection bodies and certification bodies (for product, system, and personnel certification);
- Measurement and Product Safety Service (MAPSS): MAPSS is part of the Ministry of Consumer Affairs and is responsible for legal metrology in New Zealand; and
- Measurement Standards Laboratory of New Zealand (MSL): MSL is a Crown entity company that is New Zealand's physical metrology institute.

The Ministry of Economic Development (MED) has responsibility for overseeing the standards and conformance infrastructure and for monitoring the effects of technical regulations, standards and conformance on industry in relation to both domestic and export markets. It is also responsible for administering bilateral mutual recognition arrangements (MRAs), including the Trans-Tasman Mutual Recognition Act 1997, which provides for market-to-market access for goods and services between Australia and New Zealand.

New Zealand is an active participant in international and regional organisations and fora concerned with standards development, accreditation and other conformity assessment activities. MED leads New Zealand's participation in the APEC Sub-Committee on Standards and Conformance, for example. New Zealand is represented in the International Organisation for Standardisation (ISO) and International Electrotechnical Commission (IEC) by SNZ.

IANZ participates in the International Laboratory Accreditation Co-operation (ILAC) and JAS-ANZ participates in the International Accreditation Forum (IAF). Both IANZ and JAS-ANZ have a role in the Asia Pacific Laboratory Accreditation Cooperation (APLAC). New Zealand's standards and conformance infrastructure bodies place great importance on maintaining recognition by their peer bodies overseas through these and other international fora. This underpins acceptance by New Zealand's trading partners of the test or inspection results or certificates that IANZ or JAS-ANZ accredited conformance assessment bodies (CABs) produce.

Regulatory Approach

New Zealand has relatively few prescriptive regulations for traded goods and services. The most common regulatory approach is to set the key outcomes – that products and services are safe and fit for purpose – and to allow manufacturers and traders a large degree of flexibility as to how they ensure that their products meet those outcomes. This is backed up by broad consumer protection legislation that provides penalties and redress for any breaches by producers and suppliers. In some cases industry may partner with consumer representatives and government regulators to develop relevant standards.

Some products pose a risk to users, consumers and the general public. In those areas, the New Zealand government has imposed mandatory technical requirements that must be met before the product is placed on the market. These requirements are in the form of regulations, administered and enforced by the relevant government agency with appropriate knowledge of the technical issues involved.

Generally, regulators are responsible for developing regulations, and where appropriate, adopting standards as mandatory requirements or recognising standards as one of several means of complying with regulations. Regulators' competence extends to deciding the standards, establishing the methodologies for making conformity assessments, and setting out the criteria that will be recognised for accrediting. These regulators are also responsible for surveillance to ensure that products on the market comply with mandatory requirements.

New Zealand supports the development of international standards and conformity assessment systems that improve efficiency of production and facilitate trade. New Zealand therefore seeks to use applicable international standards where these exist and also unilaterally recognises foreign standards and conformity assessment in many industry areas.

Regulators generally accept conformity assessments carried out by laboratories and other CABs that have been accredited by IANZ and/or JAS-ANZ as evidence of compliance with mandatory requirements. They also accept conformity assessment documentation from CABs accredited by foreign organisations which have mutual recognition arrangements with IANZ or JAS-ANZ including the ILAC Mutual Recognition Arrangement and the IAF Multilateral Recognition Arrangement.

Annex 3: India's Standards and Conformance Infrastructure and Regulatory Approach

There are four organisations in India with responsibility for import control requirements. These are:

- Bureau of Indian Standards (BIS);
- Directorate General of Foreign Trade (DGFT);
- Ministry of Health and Family Welfare (MoHFW); and
- Ministry of Agriculture (MoA).

The Export Inspection Council (EIC) is responsible for export inspection and certification of commodities.

The BIS is empowered through the Bureau of Indian Standards Act1986, to operate a product certification scheme under which licenses are granted to enable manufacturers to use the standard mark (popularly known as the ISI Mark). The BIS product certification scheme is essentially voluntary in nature. However, in consideration of public health and safety, mandatory certification of 135 products has been specified. A sizeable number of Indian Standards have also been harmonised with ISO/IEC Standards to facilitate acceptance of Indian products in international markets.

The BIS Product Certification Scheme is open to all domestic manufacturers. The broad product categories now under certification are: textiles; chemicals and pesticides; rubber and plastic products; cement and concrete products; basic metals and fabricated metal products; machinery and equipment; electrical, electronics and optical equipment; automotive components; agriculture, food, beverages and tobacco; leather products; wood products; paper and pulp products; testing instruments; building materials; and, pumping, irrigation, drainage and sewage equipment.

Besides the normal product certification scheme, the BIS also grants licenses to environmentally friendly products under a special scheme and awards the ECOMARK to such products.

The BIS is also a national certifying body (issuing and recognising) under the IEC System for Conformity testing and certification of electrical products (IECEE). The product categories for which BIS has IECEE acceptance are: cables and cords; capacitors and components; low voltage high power switching equipment; installation protective equipment; and electronics equipment.

In addition, the BIS is the national authorised institution and the national standards organisation under the IEC System of quality assessment of electronics component (IECQ). The BIS operates a product certification scheme for foreign manufacturers and Indian importers. In this scheme, a licence can be granted for any product against an Indian standard specifying product characteristics, which is amenable to certification. The scheme operates on a self-certification basis, whereby the manufacturer is permitted to apply the standard mark on the product after ascertaining its conformity to the Indian standard for which it is licensed. Through its surveillance operations, the BIS maintains a close vigil on the quality of goods certified.

The import control for the food sector is operated under the Prevention of Food Adulteration Act by the MoHFW for health and safety aspects and the MoA for quarantine aspects. All products which are under compulsory certification by the BIS for the domestic market should conform to BIS standards when imported as well.

The Export Inspection Council (EIC) is the only agency in India responsible for export inspection and certification of a range of commodities in areas like food, chemicals, leather, engineering and footwear as commodities notified under the Export (Quality Control & Inspection) Act 1963. To date, nearly 1000 commodities have been notified by the central government under the Act. Besides, wherever required, EIC operates export inspection and certification on voluntary basis also by developing suitable inspection/certification schemes. EIC is offering one such service in the tea sector, although it is not a notified commodity. The export inspection and certification activity of the EIC is based on standards recognised under the notification, which invariably are international standards or standards of importing countries or national standards prescribed in the notification or even contractual specifications. Therefore, EIC has statutory authority to certify against the standards and technical regulations of the importing countries. EIC has obtained recognition from the European Communities (EC) and USFDA, and recently from the Australian Quarantine and Inspection Service (AQIS) for fish & fishery products and the Sri Lanka Standards Institution for 84 products under their import regulations. This is individual recognition by the respective agencies and represents products of export interest to India which are under regulatory import control in the respective countries.

Annex 4: Technical Annex – Economic modelling approach

Methodology

This analysis uses an economy-wide economic framework known as the Global Trade Analysis Project (GTAP). The standard GTAP model is a static, multi-region, multi-sector, computable general equilibrium model with perfect competition and constant returns to scale. Bilateral trade is handled via the Armington assumption that differentiates imports by source. The static nature of GTAP implies that the time profile of policy changes or lags in impacts are not modelled. The results simply compare the state of the global economy before and after a policy change is implemented.

This model is widely used to assess the likely effects of trade policies on trade, output and welfare. The central ingredient in GTAP's popularity is its global database (version 7) which contains: bilateral trade; transport and protection data characterising economic linkages between regions; and, individual input-output databases that account for inter-sectoral linkages within each region.[17]

Updating and aggregating the GTAP v7 database

The GTAP v7 database provides a representation of the global economy in 2001 and identifies 113 regions, 57 sectors and five factors of production. Aggregation of the database is, however, necessary for computational convenience and we have chosen to aggregate the database to 16 regions and 15 sectors. The composition of the regional and commodity aggregations are outlined in the table below.

In order to provide a more accurate representation of the global economy, this aggregated database has been updated from its 2004 base to reflect a number of changes to India and New Zealand's trade policy settings.

The simulations that have been implemented are: NZ's unilateral tariff reductions to 2009; NZ FTAs: NZ/Singapore; NZ Thailand; P4; and NZ/China; India's unilateral programme 2004-current; India's FTAs: India/Singapore; India/Chile.

The CECA/ FTA simulation is then run from this updated database.

[17] See Hertel, T. (1997). *Global trade analysis*. UK: Cambridge for more details on the GTAP model and database.

Table 0-1: Regional and Industry aggregation	
	Commodities
1. **New Zealand**	1. **Dairy products**
2. **India**	2. **Milk**
3. **Australia**	3. **Grains and Crops** Paddy rice; Wheat; Cereal grains nec; Vegetables, fruit, nuts; Oil seeds; Sugar cane, sugar beet; Plant-based fibers; Crops nec; Processed rice.
4. **China**	4. **Meat products** Wool, silk-worm cocoons; Meat: cattle, sheep, goats, horse; Meat products nec.
5. **Singapore**	**5. Livestock** Cattle, sheep, goats, horses; Animal products nec.
6. **Thailand**	6. **Fisheries** Fishing
7. **Chile**	7. **Forestry**
8. **Rest of East Asia** Hong Kong, Japan, Rep. of Korea, Taiwan, Rest of East Asia	8. **Mining and Extraction** Coal; Oil; Gas; Minerals nec.
9**.** **Rest of Southeast Asia** Indonesia, Lao, Myanmar, Malaysia, Philippines, Viet Nam, Rest of Southeast Asia	9. **Processed food** Vegetable oils and fats; Sugar; Food products nec; Beverages and tobacco products.
9. **South Asia** Bangladesh, Pakistan, Rest of South Asia	10. **Textiles and clothing** Textiles; Wearing apparel.
10. **North America** Canada, USA, Mexico, Rest of North America	11. **Light Manufacturing** Leather products; Wood products; Paper products, publishing; Metal products; Motor vehicles and parts; Transport equipment nec; Manufactures nec.
11. **Latin America** Argentina, Bolivia, Brazil, Colombia, Ecuador, Paraguay, Peru, Uruguay, Venezuela, Guatemala, Nicaragua, Panama	12. **Heavy Manufacturing** Petroleum, coal products; Chemical, rubber, plastic prods; Mineral products nec; Ferrous metals; Metals nec; Electronic equipment; Machinery and equipment nec.
12. **EU25** Austria, Belgium, Denmark, Finland, France, Germany, UK, Greece, Ireland, Italy, Luxemburg, Netherlands, Portugal, Spain, Sweden, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia	**13 Utilities and Construction** Electricity; Gas manufacture, distribution; Water; Construction.
13. **Middle East and North Africa**	**14. Transport and Communication** Trade; Transport nec; Sea transport; Air transport; Communication.
14. **Sub-Saharan Africa**	15. **Other Services** Financial services nec; Insurance; Business services nec; Recreation and other services; PubAdmin/Defence/Health/Educat; Dwellings.
15. **Rest of World (ROW)** All other regions	

CECA/FTA Simulation

The simulation is a fully liberalised India-NZ CECA/FTA, with the addition of trade facilitation benefits accruing to NZ exports to India and productivity gains in India's meat and dairy sectors.

We assume a trade facilitation (TF) shock on NZ exports to India of 5% i.e. we assume there are efficiency gains to be achieved by improving India's trade facilitation processes under a CECA/FTA.[18]

[18] See, for example, Lee, H and D. Van der Mensbrugghe (2008); and the final report of the Track II Study Group on a Comprehensive Economic Partnership in East Asia (CEPEA).

We also apply a productivity shock of 1% to India's meat and dairy sectors (excluding raw milk), recognising that NZ agricultural technology and know-how is being imported into Indian agriculture through the various channels such as investment, learning by doing, embodied technology in imports, etc19.

CGE modelling results

Table 0-2: New Zealand exports to India			
	Baseline value, US$	Post-liberalisation value, $US	% change
1 Dairy	2.1	15.2	632.5
2 Milk	0.0	0.0	34.8
3 GrainsCrops	2.7	13.7	407.4
4 Meat	5.4	18.6	243.0
5 Livestock	3.7	4.0	10.1
6 Fish	0.0	0.0	78.9
7 Forestry	33.5	47.7	42.4
8 Extraction	11.8	67.3	469.4
9 ProcFood	1.6	5.8	265.1
10 TextWapp	49.9	225.7	352.3
11 LightMnfc	21.0	47.6	126.3
12 HeavyMnfc	17.9	52.7	194.8
13 Util_Cons	0.9	1.0	18.4
14 TransComm	31.3	35.7	13.9
15 OthServices	19.6	22.4	14.0
Total	**201.4**	**557.3**	**176.7**

Table 0-3: India exports to New Zealand			
	Baseline value, US$	Post-liberalisation value, $US	% change
1 Dairy	0.2	0.2	7.3
2 Milk	0.0	0.0	0.5
3 GrainsCrops	7.1	7.2	1.9
4 Meat	0.1	0.1	8.3
5 Livestock	0.1	0.1	0.0
6 Fish	0.1	0.1	0.0
7 Forestry	0.2	0.2	0.2
8 Extraction	0.9	1.0	2.0
9 ProcFood	4.2	4.8	12.7
10 TextWapp	16.0	27.5	71.3
11 LightMnfc	34.4	42.3	23.0
12 HeavyMnfc	37.6	44.3	18.0
13 Util_Cons	0.1	0.1	0.6
14 TransComm	21.0	21.1	0.4
15 OthServices	46.1	46.3	0.4
Total	**168.3**	**195.3**	**16.1**

[19] See OECD. (2007). *Dynamic Gains from Trade*. Paris: OECD.

Table 0-4: New Zealand exports to World			
	Baseline value, US$	Post-liberalisation value, $US	% change
1 Dairy	3422.5	3410.5	-0.4
2 Milk	0.6	0.6	-0.5
3 GrainsCrops	1161.1	1167.2	0.5
4 Meat	3690.9	3662.7	-0.8
5 Livestock	556.3	555.5	-0.1
6 Fish	119.9	120.0	0.1
7 Forestry	489.8	499.0	1.9
8 Extraction	188.7	225.6	19.6
9 ProcFood	2240.4	2236.0	-0.2
10 TextWapp	1140.5	1306.6	14.6
11 LightMnfc	3231.1	3228.8	-0.1
12 HeavyMnfc	4765.7	4746.9	-0.4
13 Util_Cons	55.5	55.2	-0.5
14 TransComm	3672.3	3657.3	-0.4
15 OthServices	2550.6	2538.7	-0.5
Total	**27285.9**	**27410.8**	**0.5**

Table 0-5: New Zealand exports to World			
	Baseline value, US$	Post-liberalisation value, $US	% change
1 Dairy	135.6	144.7	6.8
2 Milk	5.0	5.0	0.3
3 GrainsCrops	4853.1	4853.1	0.0
4 Meat	535.3	571.3	6.7
5 Livestock	135.6	135.6	0.0
6 Fish	60.0	60.0	0.0
7 Forestry	149.7	149.8	0.1
8 Extraction	5199.5	5202.2	0.1
9 ProcFood	3856.3	3857.7	0.0
10 TextWapp	16490.4	16530.7	0.2
11 LightMnfc	24220.4	24239.6	0.1
12 HeavyMnfc	31032.6	31056.9	0.1
13 Util_Cons	323.6	323.7	0.0
14 TransComm	4629.2	4630.3	0.0
15 OthServices	13476.0	13477.7	0.0
Total	**105102.3**	**105238.4**	**0.1**

Annex 5: Framework for Integrating Environment Issues into Free Trade Agreements

In 2001 the New Zealand government adopted a framework to incorporate environmental considerations into its free trade agreements. This guides New Zealand's trade negotiations with other countries and covers the following issues:

- Environment and trade policies;
- Linkages between trade and environment policy principles; and
- Environment and trade policy principles.

Environment and trade policies

New Zealanders place a high value on protecting and enhancing the environment. They expect it to be cared for at home and they expect their government to play its part in meeting challenges to sustainable development at the global level, including climate change, ozone depletion, collapsing fishing stocks, and conservation of biodiversity, which require international action. Some of the actions taken in pursuit of domestic and international environment objectives may, legitimately, have an impact on trade.

New Zealand is also a trading nation - the agreements of the World Trade Organisation (WTO) are not merely technical rules with which New Zealand seeks to advance its national interest. They embody important principles which aim to make the world more equitable, prosperous and peaceful.

The government's aim is to harmonise its objectives for trade and for the environment, with both serving the overarching objective of promoting sustainable development.

Linkages between trade and environment policy principles

The linkages between trade and environment policy are complex and important. Complex, because trade liberalisation, and the greater economic activity which comes from it, may increase the strain on the environment and the earth's resources, while, at the same time, increasing the wealth which enables societies to meet their economic needs. Trade liberalisation, therefore, may, in itself, be neither necessarily beneficial nor necessarily harmful to the environment. The impact on the environment will depend on how liberalisation and environment policies are designed and implemented.

The New Zealand government believes that maintaining high standards for environment protection is both important in its own right and fully compatible with economic prosperity. Our aims, domestically and internationally, are to develop sound, sustainable policies in both trade and environment management and to ensure that the policies are mutually supportive. When constructed with care, trade agreements can and do provide scope for action to be taken to mitigate any harm that comes from increased economic activity.

Given the importance of trade to development, it is vital that environment standards are not misused for protectionist reasons. Genuine environment objectives are never served by discriminating between products on the basis of their respective national origins. Governments should design environmental standards to meet their objectives rather than seek to prescribe the ways in which others must meet the standards. Not all countries will have access to the same technologies.

Environment and trade policy principles

New Zealand policy in multilateral trade and environment fora, and in bilateral negotiations, will be informed and guided by the following principles.

a) The government is committed to ensuring that its objectives for sustainable development are reflected in all its international negotiations.

b) The government will promote greater coherence between multilateral environment and trade agreements and greater cooperation between the institutions which service them.

c) The government is committed to providing a liberal and rules-based trading environment. In all trade and economic agreements New Zealand negotiates, it will be careful to ensure that the government's ability to regulate as it sees fit for the protection of New Zealand's environment is not compromised or encumbered.

d) Agreements to advance international environment objectives sometimes need to be reinforced by trade measures. New Zealand will work to ensure that the WTO continues to show proper respect for internationally agreed rules for the protection of the environment.

e) New Zealand wants a sustainable international trading system which maximises the opportunities for all countries to participate in the global economy. To this end New Zealand will:

- seek standards that focus on the environmental objective which is being promoted, rather than seek to prescribe unnecessarily the method by which the objective should be reached;

- respect the right of other governments to determine their own domestic regulations where these impact only on the environment in their own jurisdictions and do not result in breaches of international rules on either environment or trade;

- work to eliminate export subsidies and other payments which encourage increased production;

- oppose the use of environment standards as a form of economic protectionism from lower priced international competition; and

- oppose the use of measures that discriminate between products on the basis of their respective national origins.

Annex 6: Framework for Integrating Labour Issues into Free Trade Agreements

In 2001 the New Zealand government adopted a framework to incorporate labour related issues into our free trade agreements. This framework guides its negotiations with other countries and covers:

- objectives of trade and labour policy;
- linkage between trade agreements and labour policy;
- the ILO fundamental principles: a basis for discussing labour standards; and
- integrating the fundamental principles with trade agreements

The government wants labour standards better integrated with trade agreements, without allowing developed countries to use this as a pretext to keep out exports from developing and other countries.

Objectives of trade and labour policy

Economic and trade partnership agreements are not ends in themselves. The goal they serve is to improve living standards in the countries whose governments have negotiated them. This government believes that to reach that goal, economic and trade agreements need to be crafted in a way which promotes decent work. By this it means opportunities for work in which minimum standards are protected and adequate income is generated within an infrastructure which ensures social protection.

The government also recognises that agreements need to be negotiated in a way that makes them acceptable to developing countries. Developing countries should not be denied legitimate comparative advantage of lower labour costs but this advantage should not be secured by deliberately neglecting fundamental labour principles.

The government, therefore, supports the International Labour Organisation's (ILO's) overarching objectives of promoting decent work in the global economy and adheres to the principles of the core labour standards as reflected in the ILO's Declaration of Fundamental Principles and Rights at Work.

Linkage between trade agreements and labour policy

The principal contribution that trade agreements can make to the improvement of living standards is to provide a liberal and rules-based trading environment. But trade, whether in goods or services, does not take place in a vacuum. It is the product of people's employment. Trade agreements should be negotiated in a way that acknowledges this and aim to enhance the conditions under which people work.

In both multilateral and bilateral contexts, the government will take a consistent approach that will reflect its objective of promoting decent work in the global economy. Bilateral contexts provide a more direct opportunity for dialogue and co-operation on specific initiatives to improve employment outcomes. But setting and monitoring labour standards requires the expertise and legitimacy of a specialist international forum. The government is always mindful in trade agreements, whether bilateral or multilateral, of the need to avoid anything which could undermine the status of the ILO.

The ILO fundamental principles: a basis for discussing labour standards

The government believes that the ILO's Fundamental Principles and Rights of Work provide an appropriate basis for the discussion of labour standards within the framework of trade agreements.

These core principles are:

- freedom of association and the effective recognition of the right to collective bargaining;
- the elimination of all forms of forced or compulsory labour;
- the effective abolition of child labour; and
- the elimination of discrimination in respect of employment and occupation.

Consistent with the approach taken in the ILO, each country would be free to implement those fundamental principles according to its own laws and practices. But as a minimum, the outcomes of all trade agreements to which New Zealand is a party must be generally consistent with and not undermine these core principles, the promotion of decent work, and the promotion and protection of universal human rights standards.

Integrating the fundamental principles with trade agreements

In any provisions agreed in the context of negotiating a bilateral trade or economic agreement, dialogue and consensus will be preferred to penalties or sanctions as a way of making progress on labour standards issues. The government's aim will be to focus discussion of labour issues, and provide a forum for action and progress to be made, by consensus and not coercion, in a bilateral context. Whether this is done in provisions in the agreements themselves, or in some other manner, is a matter on which the government is willing to show flexibility. It is interested in the content rather than the form.

While the details would need to be determined on a case by case basis, the government would look to include any or all of the following elements in the framework of any bilateral/plurilateral trade and economic partnership agreements:

- a workplan of initiatives or objectives;

- a mechanism for regular reviews of objectives or initiatives, and regular dialogue on how to better promote decent work; and
- a mechanism for resolution of issues raised by parties or their social partners.