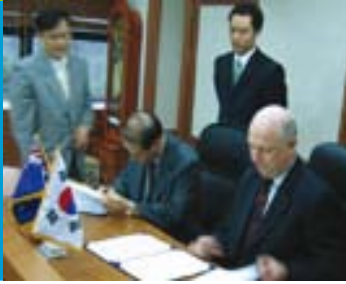


New Zealand - Korea Closer Economic Partnership



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NEW ZEALAND - KOREA FREE TRADE AGREEMENT

A Partnership for the 21st Century

New Zealand and Korea
- Good friends

Korea-New Zealand

There are few countries with a more complementary relationship than the Republic of Korea and New Zealand. We are both democracies, committed to free market economic policies, strong education and health systems, the development of business, science and technology and a commitment to cultural assets. Our relationship was first established during the Korean War when New Zealand answered the United Nations call to assist Korea. Among foreign nations, New Zealand's contribution of troops was the second largest per capita. Subsequently New Zealand assisted with Korea's economic development and entry into the United Nations. Together we have built a strong and complementary trading relationship. We share many regional and international interests, including through APEC, the newly established East Asia Summit process, the World Bank and IMF (where we belong to the same constituency) and the OECD. The modern relationship is wide-ranging, involving multiple consultative processes and cooperative activities. A bilateral Free Trade Agreement (FTA) would be a logical addition to the current relationship architecture and it would open new opportunities for cooperation, collaboration and mutual economic benefit.

Real benefits

An FTA between New Zealand and Korea would provide real benefits for the people, businesses and economies of both nations. It would underpin and enhance the important bilateral relationship between New Zealand and Korea at a time when new developments in the regional political and economic architecture are providing challenges and opportunities for our existing pattern of interaction. In the current international trade environment FTAs are increasingly being used as a tool to strengthen and develop political as well as economic relationships. A New Zealand-Korea FTA would prevent further damage caused by the trade diversionary impact of Korea's other FTAs on the bilateral relationship with New Zealand.

An ROK/New Zealand FTA
offers a gateway
into the Oceania region

New Zealand and Korea have experienced solid growth in two-way trade. Korean exports to New Zealand from 1999-2004 increased by 17.5 percent annually. This is a faster rate of growth than Korea's exports to the world and was one of the highest export growth rates amongst Korea's top 50 trading partners. But much more can be achieved. An FTA would improve market access for exporters in both markets.



New Zealand was the first country with which Korea undertook an FTA study. During his 1999 State visit to New Zealand, President Kim Dae-jung agreed that each country should complete a study on the benefits of an FTA. The Korea Institute of International Economic Policy (KIEP) and the New Zealand Institute for Economic Research (NZIER) both carried out studies that found a net economic benefit to Korea and New Zealand if they were to conclude an FTA. These analyses did not take into account the dynamic productivity gains which are likely to flow from an FTA. Dynamic productivity gains are driven by improved competitiveness, innovation and use of more sophisticated and technologically advanced production, increased investment, and availability of less expensive intermediate inputs.

Korean consumers would also benefit from an FTA between New Zealand and Korea. The counter-seasonal nature of New Zealand's and Korea's growing cycles would ensure a steady supply of high quality agricultural produce year-round. An FTA would also mean cheaper goods for consumers and a wider range of products to purchase. These benefits would contribute to reducing the cost of living for the average Korean consumer, allowing greater freedom to spend more money on other priorities such as education and leisure.

New Zealand and Korean growing patterns are counter-seasonal

New Zealand's agricultural strengths are not a threat to Korea. New Zealand is not a rice-producing nation. Many New Zealand primary and intermediate products are an important source of inputs for Korean manufacturing and demand for these products will be under greater competition in the wake of the New Zealand-China FTA. An FTA with New Zealand would be a tool for ensuring ongoing supply to Korea of much needed primary products for domestic consumption and manufacturing processes.

A new level of political and economic engagement

A New Zealand – Korea FTA would bring a new level of political and economic engagement to the relationship between New Zealand and Korea. It is a chance to build on existing areas of cooperation (notably in film and research, science and technology) and focus efforts on further areas of opportunity in economic, scientific, technological, educational, cultural and primary industry cooperation.

An ROK/New Zealand FTA makes strategic sense for Korea's ambition to be the trade hub of the Asia Pacific



An agreement would facilitate the increased exchange of skilled people, capital, ideas and knowledge. It would also allow for measures to enhance goods and services trade by improving the regulatory environment for business transactions. For example, an FTA could facilitate technological exchange in agriculture that would help improve efficiency and productivity gains for Korean farmers.

Strengthening ties with New Zealand also serves to underpin Korea's efforts to become the Asia Pacific's primary regional business and logistics hub.

Strong bilateral relationship

New Zealand's relationship with Korea stretches back to New Zealand's support and participation in the Korean War. New Zealand's contribution of over 6000 troops was the second highest per capita. New Zealand has been a strong supporter of Korea since the Korean War. We played a lead role in efforts to bring Korea into the United Nations and New Zealand continues to participate in the United Nations Command managing the armistice that ended the conflict in 1953.

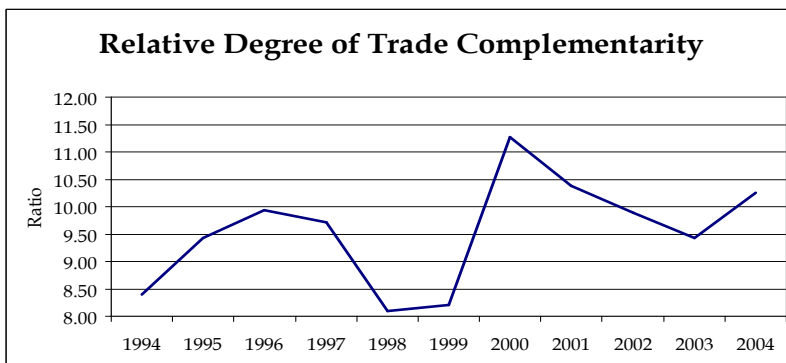
New Zealand's Korean community is one of the largest per capita in the world

As our cultural, political and economic relationship has grown, so too has New Zealand's Korean community. New Zealand's Korean community of approximately 40,000 people comprises 1% of New Zealand's total population, one of the highest per capita expatriate Korean communities in the world. New Zealand's high quality education system, safe and transparent investment environment, and relaxed lifestyle provide some strong pull factors for Korean emigrants and investors. As at 2005, Korea is the 2nd largest provider of students to the New Zealand education market, 5th largest source of tourists (over 110,000 each year) and 7th largest source of immigrants.



Natural partners

New Zealand and Korea are natural trading partners. Both countries already trade intensively. Korea is New Zealand's 7th largest trading partner and 6th largest export destination. The two economies are highly complementary as evidenced by the very high ratio (10.25 in 2004) in the 'relative degree of trade complementarity'¹ graph below. A ratio of more than 1.0 indicates a good market match; a ratio below 1.0 points to the converse. In essence the New Zealand and Korean economies are a very good match. New Zealand is selling what Korea wants to buy (primary products) and Korea is selling what NZ wants to buy (manufactured goods).



New Zealand provides Korean consumers with high quality agricultural products. New Zealand also exports primary and intermediate goods like wood, aluminium articles and hides and skins, which are then used by Korean food, manufacturing and industrial processing industries. Korea, on the other hand, exports a wide range of consumer goods and manufactured products to the New Zealand market.

¹ The relative degree of trade 'complementarity' is, in effect, a measure of market match between the New Zealand and South Korean economies. The graph above compares the composition of New Zealand exports with the composition of Korea's imports, and measures patterns of comparative advantage in export products to the shares of each product in South Korea's total imports.

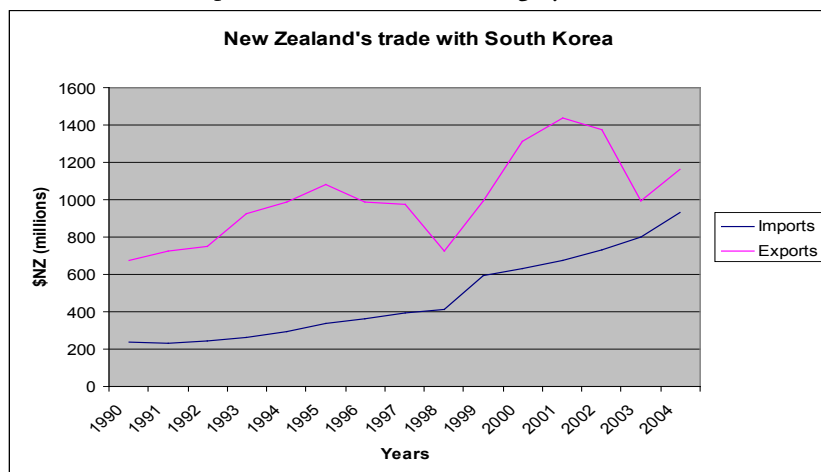


Composition of trade between South Korea and New Zealand, 2004

NZ exports to South Korea	Value (\$ millions)	NZ imports from South Korea	Value (\$ millions)
Wood	269.2	Electrical machinery	211.8
Meat	235.3	Vehicles, not railway	135.2
Dairy, eggs & honey	81.3	Machinery	111.6
Aluminium	65.0	Mineral fuel, oil etc	96.5
Edible fruit & nuts	57.3	Iron & steel	80.6
Woodpulp	40.8	Plastic	67.3
Fish & seafood	40.6	Rubber	29.8
Hides & skins	38.9	Paper & paperboard	27.6
Albumins & glue	38.8	Iron/steel products	21.3
Miscellaneous food	26.7	Aluminium	21.2
Total	1,082.3	Total	960.3
Top Ten (% of total)	893.8 (83%)	Top Ten (% of total)	802.7 (84%)

Source: Statistics New Zealand

Since the New Zealand Embassy was opened in Seoul in 1972, two-way trade has increased from NZ\$2 million to over NZ\$2 billion in 2005². Between 1999 and 2004 Korea's exports to New Zealand grew by 17.5 percent per annum, well above growth in Korea's exports to the world of 12.1 percent per annum. This was one of the highest export growth rates amongst Korea's top 50 trading partners. Trade in both directions continues to grow with the value of Korean exports to New Zealand rising by 13% in 2005.



²The average New Zealand/US exchange rate for 2005 was New Zealand \$1:US\$0.70



But competitiveness is under pressure from competing FTAs

A Korea – New Zealand FTA is needed to consolidate the gains that have been made in the economic relationship over the past 50-60 years. The rapid proliferation of regional and bilateral free trade agreements, particularly in the Asia Pacific area, is changing the way we do business. While FTAs have benefits for the negotiating parties, they also have the potential to undermine valuable trading relationships with countries outside of the agreement by diverting trade.

Market share in New Zealand

New Zealand is an important market for Korean manufacturers but they risk losing market share to competitors in other countries where New Zealand has concluded, or is in the process of, concluding FTAs. An FTA with New Zealand would allow Korean exporters to compete on an equal footing with these competitors.

For example, Korea currently faces increasing competition from China in the supply of manufactured goods to the New Zealand domestic market. This competition will be fuelled by a successful conclusion to the current negotiation of a New Zealand – China FTA.

While New Zealand's average tariff levels are low by world standards, tariff peaks restrict trade in certain sectors. Textile and apparel items still attract tariffs in the range of 5–19 per cent for example. New Zealand imported around NZ\$36 million worth of textiles and apparel from Korea in 2004. Imports of automobile parts also have tariff rates as high as 17.5 per cent. Korean companies currently exporting in these sectors could expect to receive real gains following implementation of an agreement.

New Zealand has negotiated FTAs with Australia, Singapore, Thailand, and Chile as well as a Trans Pacific Economic Partnership, with Brunei, Singapore and Chile. It has also entered negotiations with China, ASEAN and Malaysia.



Market share in Korea

Korea faces stiff competition from China for New Zealand import supply

Korean importers are also competing with China's and New Zealand's other FTA partners for supply of New Zealand primary products. Naturally, New Zealand exporters will prefer markets with lower tariffs.

Some New Zealand exporters are experiencing difficulty in the Korean market due to the recently concluded Korea/Chile FTA. For example, New Zealand kiwifruit exports are being affected by the tariff preference given to Chilean kiwifruit exports.

Given that New Zealand is a competitive producer in a range of agricultural and intermediate products there is a significant risk for trade diversion to occur in the future if Korea concludes FTAs in other markets. Trade diversion erodes the benefit of a free trade agreement by creating a situation where, due to tariff preferences, members of the agreement buy from higher cost sources.

An FTA with New Zealand would protect against this unintended consequence while ensuring that Korean exporters compete on a level playing field.

New Zealand Agriculture – An Opportunity not a Threat

New Zealand does not produce rice

Perceptions that a New Zealand – Korea FTA would threaten the Korean agricultural sector have no basis in fact. New Zealand is not a rice-producing nation. Nor do we export other items sensitive for Korea, like garlic, sesame, chilli, and ginger. In 2001, the Korea Institute for International Economic Policy (KIEP) found that an increase in exports under a New Zealand – Korea FTA would reduce Korea's domestic production of agricultural and forestry goods by no more than 0.06%³.

New Zealand's and Korea's optimal growing periods are counter-seasonal, providing the opportunity for Korean consumers to purchase their favourite produce all year round. Under a New Zealand – Korea FTA Korean consumers would enjoy lower food prices and a greater selection of fresh fruit and vegetables.

Korea relies on imports for 60-70% of its agricultural needs. For example, local demand for Korean beef exceeds supply. New Zealand beef is grass fed, providing consumers with a healthy and affordable alternative to imports of grain fed beef.

³Economic Relations between Korean and New Zealand and Impacts of Bilateral Free Trade (2001) Korea Institute for International Economic Policy, p63.



Most of New Zealand's agricultural exports are goods that complement Korea's supply requirements.

In the dairy sector, New Zealand is not in a position to compete in the liquid milk area, which comprises 79% of Korea's dairy production. Hence, an FTA that lowered barriers for New Zealand's dairy exports would not result in the displacement of liquid milk sales by Korean producers. There are longstanding links between our respective dairy sectors as New Zealand helped to establish Korea's dairy industry after the Korean War.

New Zealand primary and intermediate goods like wood, aluminium articles and hides and skins, are very often used by Korean food, manufacturing and industrial processing industries. An FTA would lower the cost for these products. This would be good for Korean producers and help create jobs.

New Zealand's approach to FTAs is to seek comprehensive agreements, which are consistent with relevant WTO rules and are complementary to multilateral liberalisation. New Zealand recognises that many countries invariably have some sensitive sectors and we have been able to successfully negotiate FTAs that cover these sectors, including agriculture – with mutually beneficial outcomes. It is acknowledged that any agreement must provide time for sensitive domestic sectors to adjust to gradual tariff reduction.

Services

The WTO estimates that by 2020 services will represent 50% of world trade. Services are extremely important to the Korean economy totalling over 60% of GDP. In recent decades the New Zealand economy has also become reliant on producing and exporting services. The services sector now accounts for around 67% of New Zealand's economic output, compared to 50% in 1960.

Services restrictions impose costs on firms and consumers and prevent efficiency gains in the economy. Studies have shown that countries that have more open services sectors tend to have higher long-run potential growth rates driven by dynamic productivity gains.

An FTA with New Zealand would provide an enhanced basis to trade in services for Korean providers. For example, Korean service providers could look forward to similar provisions to those available to service exporters from Singapore, Chile and Brunei under the recently concluded Trans-Pacific

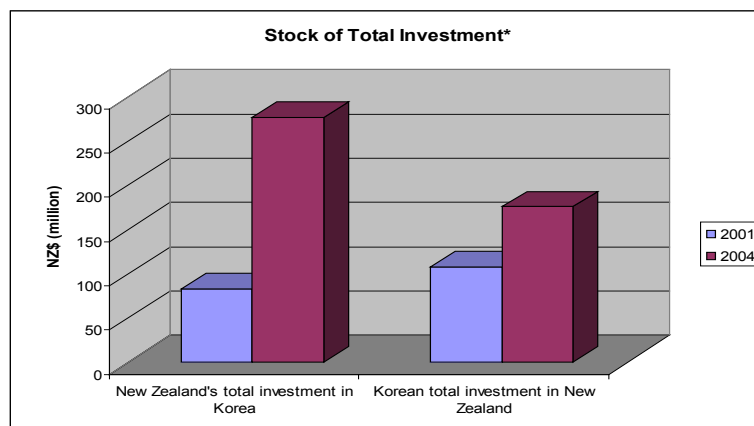
Korea has requested further liberalisation from New Zealand in the WTO context on a number of service sectors that New Zealand has included in previous FTAs



Strategic Economic Partnership Agreement (TPSEP). Under that Agreement New Zealand made a number of new commitments (beyond WTO obligations) in terms of national treatment in several service sectors including: services relating to business tax planning; collection agencies; computer repairs; credit reporting; energy distribution; mining; speciality design; telephone answering; and private health services. Korea has requested further liberalisation from New Zealand in the WTO context in a number of these areas.

Investment Opportunities

New Zealand and Korea have an important and growing investment relationship, shown by the chart below.



* Source: Statistics New Zealand. NB: Total Investment includes both Foreign Direct Investment and Portfolio Investment

New Zealand has a very welcoming and open attitude towards foreign investment. Leading Korean firms such as Hansol Forem, Daesung Group, Daeju Group and Ottogi Corporation have already made substantial investments in New Zealand but thus far significant investment flows from Korea have been modest. Other Korean investment in New Zealand has included property, hides and skins, tourism, timber, food processing, fisheries and small businesses. The Korean community in New Zealand has also been active in small-scale investment.



New Zealand companies that have a presence in Korea include the New Zealand Centre for Culture and Education, Zespri International (Asia) Limited, Richmond Korea, Velexco Korea Limited and Fonterra.

But there is significant untapped potential and both countries could benefit from an increase in bilateral investment. Investment can create export opportunities and help drive the exchange of knowledge and technology which are crucial to productivity growth.

An FTA can be beneficial to market perceptions and investor confidence. This can lead to new business opportunities. Coverage of investment issues in an FTA between New Zealand and Korea would help facilitate investment in each country. Korea's and New Zealand's complementary trade structures provide potential for investment creation following an FTA. There is a significant range of opportunities in New Zealand in areas such as forestry and wood processing, livestock and agriculture, biotechnology, and information and communications technology (ICT).



Annex

Korea and New Zealand: Comparative Economic Indicators

	Korea	New Zealand
Real GDP growth (2004) ^a	4.6	4.8
GDP per capita, \$US (PPP)	21,419	23,943
Primary sector - % GDP ^b	3.2	6.9
Industrial sector - % GDP ^b	34.6	22.3
Services sector - % GDP ^b	62.6	66.8
Exports - % of GDP ^b	38.2	32.6
Imports - % of GDP ^b	35.6	32.3
Inflation (2004) ^a	3.6	2.3
Unemployment rate - %	3.5	3.9

a. Annual % change

b. Korea data is for 2003, New Zealand 2004

