

# The Making of the Indo-Pacific Economic Framework for Prosperity (IPEF)



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# Perspectives on IPEF from *Aotearoa* New Zealand

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This paper articulates the rationale behind New Zealand's decision to join the Indo-Pacific Economic Framework for Prosperity (IPEF) based on a study of official documents, publicly available submissions and other printed materials, as well as conversations with a number of experts. It discusses the challenges that might be faced in the negotiation process and later in the implementation of the negotiated agreements. The paper argues that the rationale is not to be found in the conventional market opportunity (or trade creation) arguments. Instead, it is linked to opportunities to pursue non-trade and non-economic objectives incorporated in the strategies put in place by New Zealand in recent years. These include, inter alia, the Industry Transformation Plans, Trade for All, and Trade Recovery Strategy 2.0. The fact that the IPEF was introduced as an unconventional trade agreement while still incorporating trade-related instruments has opened an avenue for New Zealand to find support in international agreements for its package of developmental objectives. Among several negotiation and implementation issues, the paper examines the obligations to Māori under *Te Tiriti o Waitangi*/Treaty of Waitangi on the negotiation side, and the potential difficulty to bring it into implementation due to its 'non-trade agreement' status.

## List of Abbreviations

<b>AANZFTA</b>	ASEAN-Australia-New Zealand Free Trade Area
<b>APEC</b>	Asia-Pacific Economic Cooperation
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>AVE</b>	Ad-Valorem tariff Equivalents
<b>CPTPP</b>	Comprehensive and Progressive Agreement for Trans-Pacific Partnership
<b>ESCAP</b>	Economic and Social Commission for Asia and the Pacific
<b>ETC</b>	Economic and Technical Cooperation
<b>EU</b>	European Union
<b>FADTC</b>	Foreign Affairs Defence and Trade Committee
<b>FTA</b>	Free-Trade Agreement
<b>FTE</b>	Full-Time Equivalent
<b>GATT</b>	General Agreement on Tariffs and Trade
<b>GDP</b>	Gross Domestic Product
<b>GVC</b>	Gross Value Chain
<b>IAP2</b>	International Association for Public Participation
<b>IPEF</b>	Indo-Pacific Economic Framework
<b>ITPs</b>	Industry Transformation Plans
<b>MFAT</b>	Ministry of Foreign Affairs and Trade
<b>MFN</b>	Most Favoured Nation
<b>NIA</b>	National Interest Analysis
<b>NTMs</b>	Non-Tariff Measures
<b>NZ</b>	New Zealand
<b>PACER</b>	Pacific Agreement on Closer Economic Relations
<b>RCEP</b>	Regional Comprehensive Economic Partnership
<b>ROW</b>	Rest of the World
<b>RTAs</b>	Regional Trade Agreements
<b>TPP</b>	Trans-Pacific Partnership
<b>US</b>	United States
<b>USTR</b>	United States Trade Representative
<b>WTO</b>	World Trade Organization

## Introduction

For the last four decades, *Aotearoa*<sup>1</sup> New Zealand has been a poster child for an open and fair-playing economy in the world.<sup>2</sup> One of the fastest trade policy reformers in the late 1980s, the country became a zealous pursuer of bilateral and plurilateral trade agreements in the period of ‘the golden weather for New Zealand trade’.<sup>3</sup> With the trade skies turning grey even before the COVID-19 pandemic, New Zealand, cognisant of the critical importance of trade for long-term prosperity, intensified its engagements with various economies around the region and the world to ease its navigation through an increasingly uncertain global trade and investment environment.

While a staunch advocate of the multilateral approach to trade governance, New Zealand embraced the so-called ‘concerted open plurilateralism’.<sup>4</sup> This approach enabled New Zealand to seek and leverage market opportunities through bilateral and plurilateral trade agreements. It also allowed for promoting the multilateral system by building the World Trade Organization (WTO) rules into these trade agreements as well as working with partners on modernisation of some outdated rules and building forward-looking rules. Trade has been helpful as an engine of growth, and economic and social scarring from the COVID-19 pandemic certainly requires trade to heal and move on. For New Zealand, this means engaging in trade that is based on principles of inclusivity, including the interests of women and Māori, and the principles of sustainability. New Zealand utilised its hosting role of the Asia Pacific Economic Cooperation (APEC) in 2021 to, whenever possible, insert these principles into the region’s initiatives and escalate them to the global level.<sup>5</sup>

In the context of deepening policy uncertainty and worsening of global geoeconomic tensions, the proposal for the Indo-Pacific Economic Framework for Prosperity (IPEF) initiated by the United States (US) in October 2021 was welcomed by New Zealand and others interested in safeguarding economic relations with the US and with each other, for the purpose of boosting the post-COVID-19 recovery. Most of these economies were also not averse to placing resilience, inclusivity and sustainability squarely onto the trade agenda of the region. Moreover, the IPEF proposal was interpreted as a chance for the US’ pivot to Asia for the second time, after several years of the ‘region’s neglect’.<sup>6</sup>

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- 1 *Aotearoa* is one of the names that the indigenous Māori use to refer to New Zealand. See “Trade Policy Review – Report by Country New Zealand,” WT/TPR/G/426, World Trade Organization, 6 April 2022, [https://www.wto.org/english/tratop\\_e/tpr\\_e/g426\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/g426_e.pdf)
  - 2 “Trade Policy Review Report by the Secretariat - New Zealand,” WT/TPR/S/426, World Trade Organization, 6 April 2022, [https://www.wto.org/english/tratop\\_e/dispu\\_e/find\\_dispu\\_cases\\_e.htm](https://www.wto.org/english/tratop_e/dispu_e/find_dispu_cases_e.htm). This document refers to New Zealand as “one of the most open economies in the world” (p.11). As of 1 June 2023, there is no record of New Zealand being an object of a complaint in the WTO Dispute Settlement process.
  - 3 This period refers to 1994-2018. See “A key-note address at the opening of the seventh session of the Committee on Trade and Investment United Nations ESCAP” speech by Vangelis Vitalis, Deputy Secretary, Trade and Economic Group, Ministry of Foreign Affairs and Trade, New Zealand, 27 January 2021, [https://www.unescap.org/sites/default/d8files/event-documents/V%20Vitalis%20opening%20transcript\\_clean.pdf](https://www.unescap.org/sites/default/d8files/event-documents/V%20Vitalis%20opening%20transcript_clean.pdf)
  - 4 Jonathan de Leyser, “The case for Concerted Open Plurilateralism”, *Institute for Free Trade*, [https://ifreetrade.org/article/the\\_case\\_for\\_concerted\\_open\\_plurilateralism1](https://ifreetrade.org/article/the_case_for_concerted_open_plurilateralism1)
  - 5 See more details on these initiatives (sections 3, 5 and 7) in the “Trade Policy Review – Report by Country New Zealand,” WT/TPR/G/426, World Trade Organization, 6 April 2022, (*op. cit.*)
  - 6 The US’ economic relations with the Asia-Pacific was heavily interrupted by its withdrawal from the Trans-Pacific Partnership (TPP) agreement in January 2017. Some commentators suggest the US failed to counterbalance China’s increasing presence in the region from much earlier. See Mohammadbagher Forough, “America’s Pivot to Asia 2.0: The Indo-Pacific Economic Framework,” *The Diplomat*, 26 May 2022, <https://thediplomat.com/2022/05/americas-pivot-to-asia-2-0-the-indo-pacific-economic-framework/>

## New Zealand's trade patterns and the use of trade instruments relevant to the IPEF

As a small economy, New Zealand is expected to be dependent on global trade. However, its distance to markets and the small size of its manufacturing sector have prevented it from growing into a key actor in regional and Global Value Chains (GVC). Nevertheless, prior to the COVID-19 pandemic, in 2019, the share of external trade in its Gross Domestic Product (GDP) was 55 per cent. By 2021, this fell to 44.5 per cent, with four-fifths of it contributed by merchandise trade, signalling a much slower recovery of commercial services trade after the COVID-19 pandemic.<sup>7</sup>

In 2021, almost 60 per cent of the merchandise exports went to four destinations: China (31.7 per cent), Australia (12.4 per cent), the US (10.6 per cent), and the European Union (EU) (5.1 per cent). This reflects a continued geographical concentration of the country's exports as, in 2015, these four markets absorbed only 53 per cent of exports. From 2015 - 21, China's share increased by 14 percentage points at the cost of a reduced share of all other traditional export markets of New Zealand.<sup>8</sup> It is important to note that this growing reliance on China happened while the country's total exports expanded by US\$10 billion. At present, China is New Zealand's largest trading partner on both the export and import side.<sup>9</sup>

Services trade has still not recovered after the serious contraction caused by disruptions during the COVID-19 pandemic, especially in international travel and education sectors. The figures for 2020 show somewhat smaller geographical concentration, with 50 per cent of exports of commercial services destined to Australia, the US, United Kingdom (UK), India and Singapore. The largest trading partner in services trade is Australia, followed by the US.<sup>10</sup>

Despite strongly supporting the multilateral trade governance under the WTO, New Zealand has used bilateral and plurilateral trade negotiations for enlarging market access opportunities for its exports. Out of its 15 signed or enforced trade agreements,<sup>11</sup> only the agreement with Australia predates the establishment of the WTO. Nine agreements are bilateral (all but the one with the UK are with Asian economies) and six are plurilateral (including the one with the EU).

Figure 1 shows that about 72 per cent of total merchandise exports goes to economies with whom there are major bilateral and plurilateral trade agreements in force or signed. Signing bilateral trade agreements with the US and India would increase that coverage by about 12 percentage

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7 "Trade Profiles 2022", World Trade Organization, 2022, 262-263, [https://www.wto.org/english/res\\_e/statis\\_e/daily\\_update\\_e/trade\\_profiles/NZ\\_e.pdf](https://www.wto.org/english/res_e/statis_e/daily_update_e/trade_profiles/NZ_e.pdf);

"Asia-Pacific trade and investment trends brief 2022/2023 : New Zealand", 9 January 2023, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), <https://www.unescap.org/kp/2023/asia-pacific-trade-and-investment-trends-brief-20222023-new-zealand>

8 *op. cit.*

9 China is the largest goods trading partner of most IPEF members (excluding Brunei Darussalam, Fiji, India and the US). See Han-Koo Yeo and Wendy Cutler, "Strengthening Regional Supply Chain Resiliency Through the Indo-Pacific Economic Framework (IPEF)", Asia Society Policy Institute, Issue Paper, May 2023.

10 *Ibid.*

11 As of June 2023, 13 out of these 15 agreements have been notified to the WTO. Agreements with the EU and UK are yet to be ratified.

points.<sup>12</sup> India and the US are members of the IPEF and if the IPEF were a conventional trade agreement, negotiating trade under it would have allowed access to both markets. However, the IPEF is conceptualised as a non-traditional agreement which does not seek to create market access through tariff reductions among members. From the beginning, this feature of the IPEF did not sit well with most of its developing country members.<sup>13</sup> Increasingly – and most likely as the response to not only the Asian developing country members, but also some of the US’ businesses – it has been pointed out that market access could (and should) be leveraged through instruments other than tariff concessions.<sup>14</sup>

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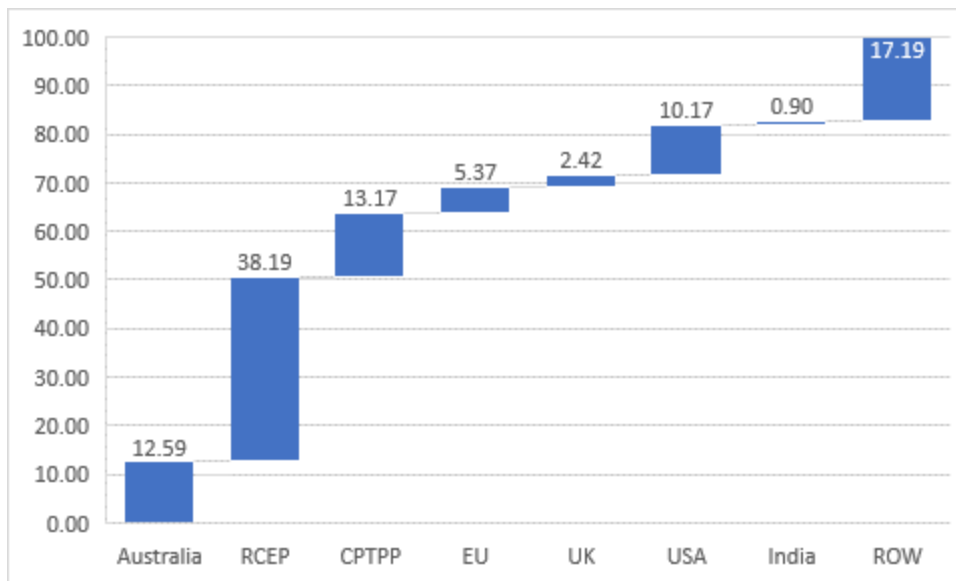
12 As observed with the expansion of trade with China after the signing of the China-New Zealand Free Trade Agreement (FTA) in 2008 (upgraded in 2022), the share of bilateral trade with China in New Zealand’s total trade has doubled since 2015. While it is highly unlikely that bilateral trade with India and the US would follow the same trajectory, they can rise faster with, than without, agreement-based preferences.

13 Gary Clyde Hufbauer and Megan Hogan, “Security not economics is likely to drive US trade engagement in Asia,” *East Asia Forum*, 9 Jan 2022, <https://www.eastasiaforum.org/2022/01/09/security-not-economics-is-likely-to-drive-us-trade-engagement-in-asia/>

14 In the press conference announcing the completion of the IPEF Supply Chains Agreement, US Commerce Secretary Gina Raimondo and the USTR Katherine Tai argued that the absence of focus on tariff elimination is not a weakness of the IPEF. Instead, the USTR argued that “from the very beginning, [the IPEF] is not a traditional trade deal. We’re not just trying to maximise efficiencies and liberalisation. We’re trying to promote sustainability, resilience and inclusiveness.” See “Indo-Pacific nations vow to fortify supply chains for critical items”, *The Japan Times*, 28 May 2023, <https://www.japantimes.co.jp/news/2023/05/28/business/us-indo-pacific-deal/>



**Figure 1:** Contribution of Regional Trade Agreements (RTAs) to total exports (% averages for 2019-2021, merchandise exports)<sup>15</sup>



**Source:** Calculated by author using UNCOMTRADE data downloaded from World Integrated Trade Solution, June 2023

An evidence-based view on the value of a trade deal can be obtained from the openness of one's own and potential partners' markets. Traditionally, tariffs were the main trade policy instrument. At present, various forms of non-tariff measures (NTMs) claim attention of both trade negotiators and businesses.<sup>16</sup>

Table 1 shows that New Zealand's Most Favoured Nation (MFN) applied tariff rate averages 1.9 per cent across all tariff lines. The country does not impose any tariffs on about 66 per cent of its tariff lines, leaving less than 35 per cent of tariff lines as the potential object of negotiations for tariff elimination or reduction.<sup>17</sup> These lines contain commercial value for trading partners to negotiate with New Zealand. The average applied rate for these tariff lines is 5.7 per cent (2021) with relatively small number of domestic peaks (5.6 per cent) and no international peaks. This does not give much negotiating power to the New Zealand trade negotiators as, in addition to the small domestic market, entry barriers in the form of tariffs are not high enough for partners to

15 To prevent double-counting, the RCEP excludes Australia and the CPTPP excludes Australia, Brunei Darussalam, Japan, Malaysia, Singapore, and Vietnam. Rest of the World (ROW) includes some economies with whom New Zealand has trade agreements (for example, Hong Kong, China, Chinese Taipei, and members of the Pacific Agreement on Closer Economic Relations [PACER plus])

16 This does not mean that tariffs are unimportant. Low level of bindings, tariff peaks, as well as nuisance tariffs and uncontrolled unilateral increase of tariffs can significantly increase trade costs and consumers' prices, as seen with the US tariffs under President Trump. See Inu Manak, et. al., "The Cost of Trump's Trade War with China Is Still Adding Up", *Council on Foreign Relations*, 18 April 2023, <https://www.cfr.org/blog/cost-trumps-trade-war-china-still-adding>

17 New Zealand's most protected industries are footwear, textiles, and textiles articles, with the highest simple average applied MFN rate for clothing at 9.6%. According to the WTO, New Zealand's tariffs show positive escalation, suggesting more processed goods enjoy higher protection than raw materials or semi processed goods. See "Trade Policy Review Report by the Secretariat - New Zealand", WT/TPR/S/426, World Trade Organization, 6 April 2022, [https://www.wto.org/english/tratop\\_e/tpr\\_e/s426\\_e.pdf](https://www.wto.org/english/tratop_e/tpr_e/s426_e.pdf)

offer much reciprocating access. Understandably, in the agreements already negotiated, almost all these tariff lines were made duty-free.<sup>18</sup>

The structure of tariff protection in other IPEF members varies (see Table 1). Simple average applied MFN ranges from 0 for Singapore to 18.3 per cent for India; the share of zero duties in all tariff lines ranges from 100 per cent for Singapore to 1.9 per cent for India; the share of tariff rates higher than 15 per cent ranges from 0 (Australia, Brunei, New Zealand and Singapore) to 37.7 per cent for India, and the maximum rates go from 45 per cent in New Zealand to over 1000 per cent in Fiji and Malaysia. This shows that despite relatively low applied tariffs, there is scope for commercial gains from negotiations on tariff reductions among countries that do not have free trade agreements with each other (mostly with respect to Fiji and the US). For example, New Zealand does not have a Regional Trade Agreement (RTA) with either India or the US; the Association of Southeast Asian Nations (ASEAN) members of the IPEF (except Singapore) and Korea do not have an RTA/FTA with Fiji and the US. Therefore, the benefits to be harvested from the elimination of tariffs, while not negligible, would vary among the IPEF members. Nonetheless, tariff elimination is not only about market access; it contributes to improving predictability and stability of the business environment, especially for GVC-linked producers operating with thin profit margins.

**Table 1:** Tariff structure of New Zealand and other IPEF members

Country	Simple average MFN applied (%)	Duty free (shares) MFN applied* (%)	Tariff rate applied >15\$ (%)	Max. duty MFN applied (%)
Australia	2.4	52.0	0.0	22
Brunei Darussalam	0.3	95.8	0.0	135
Fiji	7.9	26.1	5.3	> 1000
India	18.3	1.9	37.7	328
Indonesia	8.1	13.1	9.8	150
Japan	4.2	53.1	3.6	628
Korea, Rep.	13.6	17.1	10.7	887
Malaysia	5.6	66.5	13.1	> 1000
New Zealand	1.9	66.1	0.0	45
Philippines	6.1	12.8	3.3	65
Singapore	0.0	100.0	0.0	91
Thailand	11.5	37.0	26.7	226
United States	3.4	47.3	2.7	350
Vietnam	9.6	35.3	24.4	135

Source: Prepared by author from data in WTO, World Tariff Profiles, Summary tariff tables, 2022

**Notes:**

\* Share of HS 6-digit subheadings in per cent

\$ Share of HS 6-digit subheadings in per cent

<sup>18</sup> *Ibid.* (See Table 3.5 Summary analysis of New Zealand's preferential tariffs, 2021).

While tariffs still matter, NTMs matter much more. Often seen as being distortionary, they are associated with adverse impacts on trade costs/efficiency as well as transparency. However, they are also credited with achieving non-economic objectives that are part of public policies.<sup>19</sup>

NTMs encompass a range of different border and behind-the-border instruments. Ad-valorem tariff equivalents (AVE) are used for assessing the impact of NTMs on trade costs and various prevalence indicators to gauge potential distortionary impacts. According to data from the United Nations Conference on Trade and Development (UNCTAD) Trade Analysis and Information System (TRAINS) database, 95 per cent of New Zealand’s exports to the US, and 82.6 per cent of its exports to Australia, faced at least one NTM. For all other trade partners, the average coverage ratio was around 78 per cent. Exports to the US and Australia faced 4.8 and 4.1 NTMs on average, respectively. The prevalence score for all other trade partners was 2.7 NTMs on average (Figure 2).

The cost impact of NTMs on exporters are only indicative<sup>20</sup> since compliance costs of NTMs vary widely between sectors and countries, and even between firms within countries. Nonetheless, higher NTM AVEs have the same impact as high tariffs in terms of conferring a competitive advantage on some exporters. Indeed, it is useful to note in the context of the IPEF: “Established traders from countries that have strong commercial, social and cultural connections (that is, better networks) may well be less affected by NTMs than those in less well-connected countries.”<sup>21</sup> For New Zealand, exports with highest costs from NTMs are beverages, wool, and other animal products.

**Figure 2:** NTMs faced by New Zealand’s exports to trade partners (Coverage ratio in % and prevalence scores)



Source: UN ESCAP, “New Zealand Trade Brief,” Asia-Pacific Trade and Investment Trends 2022/202322

19 “Navigating non-tariff Measures towards Sustainable Development”, United Nations, Asia-Pacific Trade and Investment Report 2019, 2019, <https://www.unescap.org/publications/APTIR2019>;

“Non-tariff measures - Impacts, trends and effects on exports from New Zealand”, Sense Partners, January 2022, <https://www.mfat.govt.nz/assets/Trade-General/Trade-stats-and-economic-research/Non-tariff-measures-Impacts-trends-and-effects-on-exports-from-New-Zealand-January-2022.pdf>

20 *Ibid.*

21 *Ibid.*, p. 21.

22 *op. cit.*

Subsidies, as NTMs, have caused deep concerns given the significant rise in their number, as they are often distortionary, trade-restrictive and difficult to be dialled down.<sup>23</sup> There is growing reliance on the use of distortive subsidies by some IPEF members (for example, the US) as a chosen instrument of new industrial policy for promoting strategic sectors in pursuit of greater resiliency. As argued elsewhere, this can bring into play even more subsidies if the IPEF members choose a competitive subsidisation path, and it is not clear how the IPEF would be able to deal with this potential problem.<sup>24</sup>

### How does the IPEF fit into New Zealand's 'Trade for All' agenda?

When Minister Damien O'Connor announced the launch of IPEF negotiations on 10 September 2022, he emphasised "a strong overlap between the underlying objectives of IPEF and New Zealand's Trade for All Agenda as well as our Trade Recovery Strategy 2.0."<sup>25</sup> Earlier in May 2022, the then Prime Minister Jacinda Ardern had pointed to the importance of New Zealand contributing to the making of future rules for digital trade. She said that digitalisation offers opportunities for addressing challenges that New Zealand still has due to its distance from the major markets.<sup>26</sup> Indeed, the four pillars of the IPEF – Trade, Supply Chains, Clean Economy and Fair Economy (Figure 3) – present a cooperative forum with a potential of rulemaking and norm-setting in the future-shaping areas of digital trade, carbon pricing and border adjustment measures, and critical minerals governance. Furthermore, it can provide a new impetus for addressing old issues related to NTMs, including subsidies, and better link advances in trade facilitation to supply chain resilience. All these are significant for the three instruments of new approach to New Zealand's trade policy.

### Trade for All Agenda

The Trade for All Agenda was launched in March 2018 in response to public concerns regarding the country's participation in trade agreements and ensuring that trade policy delivers for all New Zealanders. The initiative benefited from broad public consultations over several months in 2018, providing feedback from stakeholders on how to approach all phases of trade policy, from design to monitoring and evaluation to ensure fairer impacts. A Trade for All Advisory Board was established, which produced an independent report with recommendations to the government. The findings and recommendations of the report and the core principles approved by the Cabinet are the foundation of the Agenda, which, along with other policies, aims to support sustainable and inclusive economic development.

The core principles are:

1. Open conversation with the public and key stakeholders around the future direction of New Zealand's trade policy, including consultation with the Māori, consistent with their role as a Treaty partner

23 "Subsidies, Trade and International Cooperation", IMF, OECD, World Bank and WTO, 2022, [https://www.wto.org/english/news\\_e/news22\\_e/igo\\_22apr22\\_e.pdf](https://www.wto.org/english/news_e/news22_e/igo_22apr22_e.pdf)

24 More subsidies put smaller and financially weaker developing countries at a disadvantage, as they cannot afford to compete against industrialised countries with more resources.

25 "IPEF Negotiations Launched", Speech by Damien O'Connor, Minister for Trade and Export Growth of New Zealand, 10 September 2022, <https://www.beehive.govt.nz/release/ipef-negotiations-launched>

26 Sam Sachdeva, "NZ eyes on US-led trade initiative as ministers meet", *newsroom*, 9 September 2022, <https://www.newsroom.co.nz/nz-eyes-on-us-led-trade-initiative-as-ministers-meet>

2. Creating new and more sustainable economic opportunities for New Zealanders of all incomes and backgrounds
3. Supporting the international rules-based system and New Zealand's contribution to its modernisation
4. Supporting multilateral negotiations as a first-best option for New Zealand, followed by open plurilateral negotiations
5. Enhancing New Zealand's economic integration with the Asia-Pacific region, and economic connections to other regions, including through RTAs and FTAs
6. Supporting trade policy for maximising the opportunities and minimising risks associated with global issues<sup>27</sup>
7. Preserving the right of governments to regulate in the public interest, including for national land markets, taxation of multinational businesses and public services
8. Developing specific directives for future trade policies and negotiations to operationalise Trade for All.

### Trade Recovery Strategy 2.0

The Trade Recovery Strategy was launched in response to the COVID-19 pandemic in 2020. It was enhanced into the Trade Recovery Strategy 2.0 in 2022. The Strategy encompasses four work areas under the organising framework STAR:<sup>28</sup>

1. *Sustainable and inclusive trade* aligned with the Trade for All agenda
2. *Trade and export lift* focused on assisting New Zealand exporters to compete in international markets by utilising economic diplomacy and trade mission
3. *Architecture* comprising all three levels of governance of trade (bilateral, plurilateral and multilateral) requiring continued and enhanced efforts in modernising the chapters on Economic and Technical Cooperation contained in trade agreements for use by New Zealand in working with others for promoting new priorities and principles<sup>29</sup>
4. *Resilience* addressing vulnerabilities exposed or exacerbated by the COVID-19 pandemic and strengthening New Zealand's trade against future shocks by promoting diversification of trade, mitigating supply chain pressures, and working with other cross-government economic strategies, particularly for emissions reduction.

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27 Global issues include: Environmental issues such as climate change, Protecting New Zealanders' health and wellbeing, Labour rights, Gender equity, The rights of indigenous peoples, SME participation in international markets, Inclusive regional economic growth, poverty reduction and sustainable job creation, Protecting traditional knowledge.

28 "Trade Recovery Strategy 2.0", Ministry for Foreign Affairs and Trade, 2022, <https://www.mfat.govt.nz/en/trade/trade-recovery-strategy/trade-recovery-strategy-2-0/>

29 See for example an updated version of AANZFTA or the new agreements with the United Kingdom and the European Union.

## Industry Transformation Plans 8

The Government introduced the Industry Transformation Plans (ITPs) in 2019 to support its economic goal of building a productive, sustainable and inclusive economy.<sup>30</sup> The ITPs aim to transform key industries through partnerships between government, industry (businesses and workers) and the Māori. Eight ITPs are in progress: agri-tech, advanced manufacturing, construction, digital technologies, fisheries, food and beverage, forestry and wood processing, and tourism. ITPs have 20-30-year visions for lifting productivity by scaling up highly productive and internationally competitive clusters in areas where New Zealand has a comparative advantage, and to transform environmental and labour market outcomes.

By joining the IPEF, New Zealand is seeking opportunities and mechanisms for addressing several critical issues facing Indo-Pacific economies, including itself. While tariff cuts are not on the agenda, New Zealand anticipates meaningful commercial gains that could be obtained from addressing other obstacles and barriers to trade and cooperation. Most importantly, there is an overlap between the IPEF and New Zealand's objectives of expanding inclusive and sustainable trade, harnessing the benefits of the digital economy, strengthening resilience of regional supply chains, and boosting collective climate action.

**Figure 3: Synergies between New Zealand's trade objectives and IPEF**



Source: Compiled by author

New Zealand stakeholders are aware of possible adverse spillovers from the IPEF. This includes the possibility of the IPEF being an instrument of *friend-shoring*. The underlying motivation for the IPEF (or at least some of the pillars) can be seen as 'to collaborate to reduce dependencies on unreliable sources of strategic supply, promote reliable sources in our supply chain cooperation, and engage

30 According to the Ministry of Business, Innovation and Employment, the ITPs are a key mechanism for implementing the Government's industry policy adopted in 2019. They involve partnership of multi-stakeholders (business, workers, Māori, and Government). They are focused on long-term transformation and target industries with significant potential to contribute to high productivity, high wage, and lower emissions economy. See "Industry Transformation Plans", Ministry of Business, Innovation and Employment, 2022, <https://www.mbie.govt.nz/business-and-employment/economic-development/industry-policy/industry-transformation-plans/>

with trusted partners'.<sup>31</sup> If this is accompanied by putting in place IPEF-wide instruments for restricting trade with these 'unreliable' sources, then the IPEF could be perceived as adding to the fragmentation of the world economy and weakening, rather than strengthening regional stability. This would also adversely impact the health of the multilateral trading system and the WTO.

Another possible cost of the IPEF could be weakening of the APEC process. Given the diversity of members in their development and the associated negotiating ambition and capacity, it is unlikely that the agreed text under any of the four pillars of the IPEF contain binding language. If that is so, then the impact of the IPEF for New Zealand and other APEC members of the IPEF will be more similar to what was experienced from the membership in the APEC. New Zealand both benefited from the APEC process, and used its standing of an open and fair-playing economy to influence the evolution of the APEC. Given that after the Russian invasion of Ukraine the APEC could not operate smoothly due to difficulties in achieving consensus-based decisions, the IPEF members, which are also APEC members (except Fiji and India), could see this weakening of the APEC as additional motivation for speeding the work to fill in the space.

### Potential negotiation and implementation issues

Based on the discussion above, several negotiation and implementation challenges could be identified for New Zealand. On negotiations, possible issues could be both procedural and substantive. With respect to procedural issues, the concerns might be raised about meeting some of the principles of the Trade for All agenda, such as:

- a) Ensuring that consultation with stakeholders and the Māori meet the standards laid out by the Trade for All agenda<sup>32</sup>
- b) Notwithstanding negotiating constraints, releasing draft negotiation texts and keeping the public engaged throughout the process
- c) Allocating sufficient resources in the responsible government departments for supporting frequent and intensive negotiations

The Ministry of Foreign Affairs and Trade (MFAT) that negotiates trade agreements called upon New Zealand stakeholders, including businesses, the public, and civil society, to comment on New Zealand's membership and the upcoming negotiations guided by the following questions:

1. What issues would you want to see prioritised in negotiations on the scope of IPEF?
2. Are there specific issues you would want to see addressed through New Zealand's participation in IPEF?

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31 Halit Harput, "The hidden costs of friend-shoring", *Hinrich Foundation*, 15 Nov 2022, <https://www.hinrichfoundation.com/research/article/trade-and-geopolitics/the-hidden-costs-of-friend-shoring/>

32 "Report of the Trade for All Advisory Board", Trade for All Advisory Board, November 2019, 62-72, <https://www.mfat.govt.nz/assets/Trade-General/Trade-policy/Trade-for-All-report.pdf>

Recommendation 19 states: "Because New Zealand has a population that is increasingly diverse, culturally and linguistically, MFAT needs to develop and apply a superdiversity lens to all consultation and engagement processes. Engagement on trade must be consistent with guidance from the International Association for Public Participation (IAP2) and in line with the New Zealand Open Government Partnership commitments. This needs to be done with genuine openness to the diversity of ideas about trade policy and its implementation."

3. Are there any areas where New Zealand and IPEF members could cooperate more closely to enhance regional economic integration and / or climate action?
4. As a New Zealander, what outcomes would you like to see for New Zealand businesses, or for the general population, through the IPEF?

The call was open from 3 to 20 June 2022 and 13 submissions were received. Further opinions can be placed through the MFAT's *Have Your Say* website.<sup>33</sup>

Lack of adequate transparency is always an issue in negotiating trade agreements. While the negotiation process (driven still by mostly mercantilist interests) must allow for some of the content to be withheld from the public eye, New Zealand has committed, through a new approach to trade, to more transparency, especially to the Māori. In the communication between the US and New Zealand on the treatment of documents related to negotiations, New Zealand indicated its intention of sharing its own information related to negotiation prior to the expiry of the non-disclosure five-year period (with the condition of not revealing any information about the positions of other participants or the agreed text); and also indicated that negotiating participants will be able to “develop their positions and communicate internally with each other, and engage with their public, and in New Zealand’s case, with Māori, as they consider appropriate in developing and communicating their own positions”.<sup>34</sup>

The issue of allocation of appropriate resources has been discussed in the Parliament.<sup>35</sup> The MFAT has appointed a dedicated Senior Official/Chief negotiator and 3.0 full-time equivalent (FTE) of staff resource. It is also relying on expertise of other staff from within and outside the Ministry. More resources might be needed depending on the complexity of negotiations as they evolve.

Given that the texts under negotiations (included the closed text on Pillar 2) are not publicly available, it is difficult to comment on possible content-related negotiation issues. Review of the submissions received by the Government in June 2022 reflects that stakeholders share concerns about the absence of market access negotiation with the US. This is regarded as a lost opportunity not so much for the domestic exporters but for the US to unambiguously show its economic commitment to Asia and the Pacific. At the same time, the IPEF provides the opportunity to steer negotiation towards binding rules on at least some of the NTMs.<sup>36</sup>

Digital economy is part of the Trade pillar. This is the only pillar where negotiations are led by the Office of the United States Trade Representative (USTR) (as opposed to the Department of Commerce for the other three pillars). The Singapore Round of negotiations held in May 2023 was reportedly expected to discuss the text on the digital economy. However, there was no agreement among the countries on how to proceed after the developing countries refused to

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33 “Indo-Pacific Economic Framework for Prosperity”, Ministry of Foreign Affairs and Trade, <https://www.haveyoursay.mfat.govt.nz/>

34 “IPEF Treatment of Documents Related to Negotiations”, United States Trade Representative, 13 April 2022, [https://ustr.gov/sites/default/files/foia/US-New%20Zealand%20Signed%20IPEF%20Confidentiality%20Arrangement\\_04132022.pdf](https://ustr.gov/sites/default/files/foia/US-New%20Zealand%20Signed%20IPEF%20Confidentiality%20Arrangement_04132022.pdf)

35 MFAT, Estimates 2022-23, Post-Hearing Questions (209-217), Vote Foreign Affairs

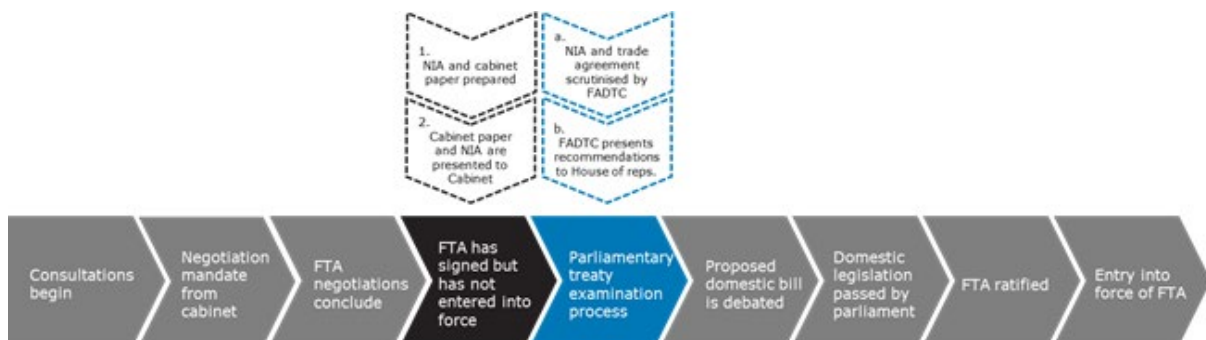
36 “IPEF Public Submissions Summary - June 2022”, Ministry of Foreign Affairs and Trade, June 2022, <https://www.mfat.govt.nz/assets/Trade-agreements/IPEF/IPEF-Summary-of-Written-Public-Submissions-June-2022.pdf>



endorse the proposed text for further negotiations.<sup>37</sup> From the point of view of one stakeholder in New Zealand, if the proposed text would follow the CPTPP chapter on e-commerce, then it might be a potential problem for New Zealand as it would constitute a breach of state obligations to *Te Tiriti o Waitangi / Treaty of Waitangi*.<sup>38</sup> The impacts that are deduced on the CPTPP text, other US agreements<sup>39</sup> and further consultations would be in a form of a closure of policy space and options, implicit preference to big-tech companies, perpetuation of profiling and the biases through allowing secrecy of codes, and transparency rules that empower big tech and the lobbies, preventing change in laws.<sup>40</sup>

Among the implementation issues, most arise due to uncertain political circumstances in the US. However, even if the CPTPP history repeats itself and the US withdraws from the IPEF process after 2024, there are advantages to engaging in this process, including providing smaller countries with additional confidence for pushing their trade agenda forward. There also might be some lack of clarity on the ratification process of the completed agreements; at present, only Pillar 2 on the Supply Chains falls into this category. There is a set process in New Zealand before the trade agreement, after signing, is ratified and put into force (Figure 4). Concerns arise because this process is designed for trade agreements (“multilateral or major bilateral treaty of particular significance”<sup>41</sup>). However, since the IPEF is not being treated as a trade agreement, it is unclear if this process would apply. The Minister of Foreign Affairs has the discretion to decide which agreements need to go through this scrutiny.

Figure 4: Scrutiny process before trade agreements is enforced



Source: MFAT, Trade Engagement

Notes:

NIA – National Interest Analysis

FADTC – Foreign Affairs Defence and Trade Committee

37 Su-Lin Tan, “Disagreements between US, Asian nations complicate IPEF negotiations”, *South China Morning Post*, 23 May 2023, <https://www.scmp.com/week-asia/economics/article/3221547/disagreements-between-us-asian-nations-complicate-ipef-negotiations>

38 “The Treaty in brief”, New Zealand History – Ministry for Culture and Heritage, <https://nzhistory.govt.nz/politics/treaty/the-treaty-in-brief>; Ngā Toki Whakarururanga, “Briefing Paper on Digital Sovereignty and Governance,” IPEF – Singapore Round, May 2023, <https://static1.squarespace.com/static/62d0af606076367ebf83b878/t/6455ef867c527350f5c68e4e/1683353482072/NTW+IPEF+Digital+paper+3+May+2023.pdf>

39 *Ibid.*

40 *Ibid.*

41 “International Treaty Making”, ISBN: 978-0-477-10258-2, Ministry of Foreign Affairs and Trade, September 2021, p.5, <https://www.mfat.govt.nz/assets/About-us-Corporate/Treaties-Model-instruments/International-Treaty-Making-Guide-2021.pdf>

## Concluding caveats

With the adoption of a new approach to trade based on Trade for All, Trade Recovery 2.0 and ITP8, New Zealand has begun transforming its economy from volume-based to value-based, that is, by creating more productive companies with higher value jobs and higher incomes, based on sustainability principles that can result in a better quality of life for New Zealanders.<sup>42</sup> Trade remains vital in this process as one in four New Zealanders' jobs (and one in three Māoris') depend on exports and trade is considered the critical enabler of post-COVID-19 recovery and decarbonisation.

Obstacles facing New Zealand exporters in the global market are more from NTMs than tariffs. These are being faced increasingly in the form of subsidies and export restrictions, labour and environmental regulations and other behind-the-border destination country regulations. It is just a matter of time before new instruments for addressing climate change, digital economy and labour markets come up. It is troubling to visualise that these instruments might be motivated more by a somewhat fuzzy concept of national security rather than economic factors.

As a small and trade-reliant economy, New Zealand rightly understands the importance of having a seat at the table where these new rules will be created. It remains a strong supporter of multilateral trading rules and contributes proactively to their modernisation. It also uses the architectures of its bilateral and plurilateral trade agreements and the new arrangements and initiatives (in areas of gender equality, fossil fuel subsidies, environmental services, and digital economy, to name some) for shared and sustainable prosperity.

The IPEF has the opportunity of working with a subset of WTO members, most of whom are interested in finding solutions to new problems in the post-COVID-19 world. As experienced in the APEC process, new policy options and rules take time to finetune and are thus adopted by countries on a voluntary basis, almost as a learning-by-doing. The IPEF has the potential to serve as a laboratory for yet untested approaches for building resilience while promoting diversification, inclusivity and sustainable growth. The key to its success will be in its willingness to allow positive spillover effects from its new regulatory solutions to reach the developing and developed countries outside the Framework. If successful in this, it just might be a new dynamo both regionally and globally.

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42 Tim Green, "Moving from volume to value: how do we make it happen", *New Zealand Trade and Enterprise*, 16 August 2021, <https://www.nzte.govt.nz/blog/moving-from-volume-to-value-how-do-we-make-it-happen>

### About the author

**Dr Mia MIKIC** is a Research Fellow at Waikato University, New Zealand, and Advisor at Large, at the Asia-Pacific Research and Training Network on Trade (ARTNeT). She is a trade economist with a keen interest in sustainable development and has a proven track record and experience in academia and international civil service. She coordinated the ARTNeT from 2009 to 2021. She also served as a Director of Trade, Investment and Innovation Division at the UNESCAP.

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Dr Mikic's current research and advisory work focus on the impact of the COVID-19 pandemic on trade and global value chains, frontier technologies and inclusive future of work, advocating for women as influencers in policymaking, services trade, and promotion of evidence-based policymaking. She is collaborating with several universities on modernising trade curricula. She has a Doctorate in Economics from the University of Zagreb.