

**An Assessment of the Potential Benefits from
an Economic Cooperation Agreement
Between the Separate Customs Territory of
Taiwan, Penghu, Kinmen and Matsu
(Chinese Taipei) and New Zealand:**

**A Report Prepared for the New Zealand Commerce and Industry
Office, Taipei**

Neil Quigley

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1. Introduction

This study of the feasibility of an economic cooperation agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei) has been prepared under the supervision of Professor Neil Quigley, Victoria University of Wellington, at the request of the New Zealand Commerce and Industry Office in Chinese Taipei (NZCIO). It follows the announcement of a feasibility process on 25 October 2011 by the NZCIO and the Taipei Economic and Cultural Office in Wellington.

The feasibility of an economic cooperation agreement is considered principally from a New Zealand perspective, as we understand that a separate study has been commissioned by the Taipei Economic and Cultural Office in Wellington. In due course, we understand that a “joint study” may be undertaken by these two offices.

Aside from informing decisions about whether an economic cooperation agreement between New Zealand and Chinese Taipei is feasible, this study may prove useful as a discussion document for any consultation programme that NZCIO may wish to undertake as part of any future studies.

This study:

- provides an overview of recent trends in trade and economic relations between New Zealand and Chinese Taipei;
- assesses recent trade policy developments and the possible implications of these for Chinese Taipei-New Zealand trade and investment;
- outlines some existing barriers to trade and investment flows covering goods, services, investment and other issues that might be addressed in a future economic cooperation agreement;
- assesses the impact of the removal and/or reduction of existing barriers to goods and services trade and investment;
- identifies some possible cooperation measures to promote trade and investment liberalisation and facilitation between Chinese Taipei and New Zealand;
- makes recommendations on whether the NZCIO in Chinese Taipei and the Taipei Economic and Cultural Office in Wellington should consider a joint study on the feasibility of an economic cooperation agreement.

2. Overview of Bilateral Economic Relations

Trends in Aggregate Trade Flows

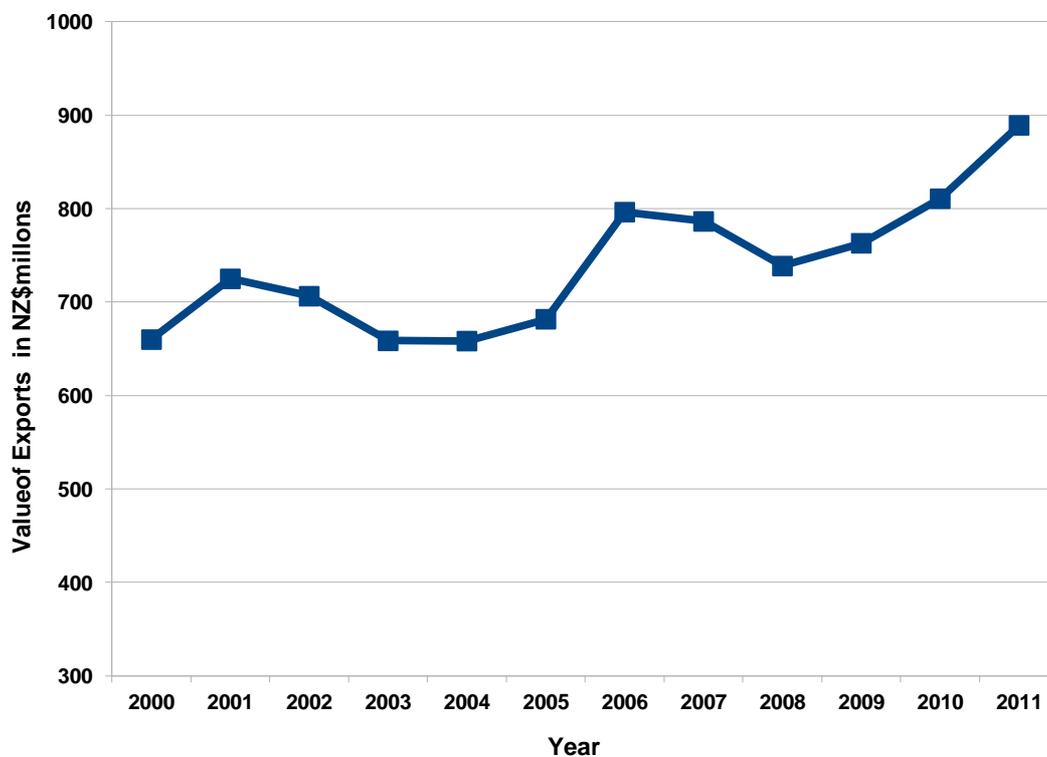
Chinese Taipei has been an important trading partner for New Zealand for many years. For most of the last 20 years it has been one of New Zealand’s 10 most important markets for goods. It has been an important source of migrants, students and tourists

and has been a significant investment partner. Chinese Taipei and New Zealand are both members of Asia-Pacific Economic Cooperation (APEC) and the World Trade Organization (WTO).

Chinese Taipei is the 26th largest economy in the world, built on four decades of success in the development of its export industries. The New Zealand and Chinese Taipei economies are highly complementary, with New Zealand exporting largely primary sector products, and Chinese Taipei's exports being largely from the manufacturing sector. According to the CIA World Fact Book Chinese Taipei's per capita income in 2010 on a Purchasing Power Parity basis was US\$35,700, compared with US\$27,700 for New Zealand, while on a nominal or current exchange rate basis Chinese Taipei's per capita income in 2010 was US\$18,700, compared with US\$33,000 for New Zealand.

Despite the relatively high per capita incomes, and the success of some New Zealand exporters in the Chinese Taipei market, the value of New Zealand's trade with Chinese Taipei has not kept pace with the overall growth of the Chinese Taipei economy. The value of New Zealand's exports to Chinese Taipei for the years ended June 2001 to June 2011 (Figure 1) has increased at a compound rate of 2.8 %per annum, while the Chinese Taipei economy has grown at a compound rate in excess of 3.5% per annum for the same period.

Figure 1: Value of Exports from New Zealand to Chinese Taipei 2000 - 2011 (June years)



Source: Statistics New Zealand Harmonised Trade-Exports, 2011.

Reflecting this relatively weak export performance, the proportion of all New Zealand exports going to Chinese Taipei has fallen from 2.65% in 2000 to 2.01% in 2011.

However, the fall in the proportion of Chinese Taipei exports coming to New Zealand has been more marked, down from 2.43% in 2000 to 1.44% in 2011.¹

The reduction in the relative importance of trade between New Zealand and Chinese Taipei reflects the rise of mainland China as a trading partner for both economies over the last decade. But even so, the complementary nature of the exports from the two economies suggests that there are considerable benefits to be obtained by New Zealand from the reinvigoration of trade that would be promoted by a closer economic relationship with Chinese Taipei.

3. Products Traded Between New Zealand and Chinese Taipei

The main products traded between New Zealand and Chinese Taipei are indicated by Tables 1 and 2 below.

Chinese Taipei is currently New Zealand's eighth largest goods export market, just behind India, and just ahead of Indonesia, Malaysia, Singapore, Hong Kong and Germany. New Zealand goods exports in the year ending June 2011 totalled NZ\$889 million.

Over the last decade the pattern of New Zealand exports to Chinese Taipei has been relatively stable. There has been an increase in dairy, meat, fruit, nut, and other food products, in wool, paper and cardboard, iron and steel products, and some chemical products exports to Chinese Taipei over the last decade. Conversely, wood products, electrical and other machinery, organic chemicals and crude oil exports to Chinese Taipei have declined. In addition, aluminium exports from New Zealand to Chinese Taipei peaked in 2006 at NZ\$49 million and have declined sharply since that time.

New Zealand imported NZ\$690 million in goods from Chinese Taipei in the year ending September 2011. This made Chinese Taipei New Zealand's 15th largest source of goods imports, just behind the United Arab Emirates and ahead of France. With the exception of a substantial trade in petroleum oils, including bituminous products, New Zealand's imports from Chinese Taipei are dominated by manufactured goods, including stainless steel, bicycles, computers, electrical machinery, steel fastening products, plastic and rubber products.

Beyond the merchandise trade set out in Tables 1 and 2, there is a substantial trade in services between Chinese Taipei and New Zealand. Chinese Taipei was in 2010 New Zealand's 11th largest source of students, behind Malaysia but ahead of Vietnam. 1,967 students from Chinese Taipei studied in New Zealand in 2010. 57% of these students were at private training establishments, 16% were at university, 16% at schools, 6% were with subsidiary providers and 5% were at polytechnics.²

Chinese Taipei was the 17th largest short term tourism market in the year ended September 2011, just behind Hong Kong and ahead of Switzerland.

¹ Statistics New Zealand, *Harmonised Trade-Exports*. Accessed on Infoshare, November 2011.

² Ministry of Education, *International Student Enrolments in New Zealand, 2004-2010*. 31 March 2011.

Table 1: New Zealand's top 20 product exports to Chinese Taipei in the 12 months ending December 2008, 2009, and 2010

HS Code	Product Description	2008 (NZ\$000 fob)	2009 (NZ\$000 fob)	2010 (NZ\$000 fob)
0402	Milk powder	103,294	134,961	143,146
0202	Frozen beef	107,233	109,148	106,161
0405	Butter	37,969	34,003	64,052
1901	Malt extract	58,206	63,512	64,015
0810	Fresh fruit NES	53,292	64,446	62,856
0204	Sheep meat	55,329	45,888	59,635
0406	Cheese	34,933	33,969	40,868
4407	Timber, sawn or chipped	26,843	21,805	30,168
0808	Apples	27,779	27,242	22,225
4703	Chemical wood pulp	16,090	19,960	22,028
8541	Diodes, transistors etc	25,344	17,185	16,823
9809	Confidential items	2,172	9,600	15,479
7204	Ferrous waste and scrap	1,616	2,611	13,118
1502	Fats of animals	14,374	4,728	12,328
4403	Logs	7,782	7,735	10,374
0809	Cherries	7,793	11,346	10,024
0201	Chilled beef	8,027	8,838	9,590
4705	Wood pulp	10,437	10,009	9,522
5101	Wool	4,380	5,789	8,982
0401	Fresh milk	8,688	9,696	8,404
	Top 20 subtotal	611,583	642,471	729,798
	NZ total exports to Chinese Taipei	751,611	755,598	843,079
	Top 20 as a % of total exports	81	85	87

Adapted from Statistics New Zealand Harmonised Trade Data-Exports, 2011.

Table 2: New Zealand's top 20 product imports from Chinese Taipei in the 12 months ending December 2008, 2009, and 2010

HS Code	Product Description	2008 (NZ\$000 cif)	2009 (NZ\$000 cif)	2010 (NZ\$000 cif)
2710	Petroleum oils, not crude	267,922	53,206	118,574
7219	Stainless steel; flat-rolled products	61,426	36,511	42,065
8712	Bicycles	28,171	18,758	24,591
8471	Computers	34,755	18,353	23,603
7318	Screws, bolts, nuts, coach screws, etc	22,927	16,267	22,077
8517	Telephone equipment	18,527	15,986	19,924
8473	Machinery parts and accessories	25,288	20,564	18,680
5503	Synthetic staple fibres	8,200	14,284	17,213
8526	Radar apparatus	2,772	9,498	16,709
3907	Polyacetals	15,059	13,169	14,318
4011	New rubber tyres	10,532	10,080	13,977
8523	Media, unrecorded	14,775	12,933	13,454
3920	Plastic plates, laminated	14,575	12,334	12,656
8708	Motor vehicles; parts	11,847	10,749	11,743
7214	Iron or non-alloy steel; bars and rods	19,699	6,747	10,654
7306	Tubes, pipes, and hollow profiles	13,338	7,601	9,520
7216	Iron or non-alloy steel, angles etc	15,987	9,092	9,166
8714	Vehicles; parts	7,067	7,552	8,695
3926	Other articles of plastic	8,195	7,823	8,656
8536	Electrical apparatus	7,528	6,874	8,207
	Top 20 subtotal	608,590	308,381	424,481
	NZ total imports from Chinese Taipei	973,442	607,171	731,568
	Top 20 as a % of total imports	63	51	58

Adapted from Statistics New Zealand Harmonised Trade Data -Imports, 2011.

Since the mid-1980s a significant number of Chinese Taipei residents have migrated to New Zealand. During the mid-1990s this was a major feature in the bilateral economic relationship. The flow has eased considerably in recent years. In the year ending September 2011, 753 people moved to New Zealand from Chinese Taipei.

4. The Trade Policy Environment

New Zealand does not maintain diplomatic relations with Chinese Taipei, but this does not stand in the way of a vibrant trading, economic and cultural relationship. New Zealand's economic and cultural interests in Chinese Taipei are represented by the NZCIO and Chinese Taipei's interests in New Zealand are represented by the Taipei Economic and Cultural Offices in Wellington and Auckland. The work of these offices is supplemented by informal travel by officials. There are annual economic consultations between agencies responsible for trade and economic matters.

Chinese Taipei and New Zealand are both members of APEC and have enjoyed close cooperation within that organisation for a number of years. APEC has made significant progress in facilitating and liberalising trade in the region, including through promoting mutual recognition and harmonisation of standards and procedures.

Chinese Taipei acceded to the WTO in January 2002. This was a welcome development as it saw a substantial improvement in the market access conditions for many New Zealand goods and services exports. Chinese Taipei acceded to the WTO Government Procurement Agreement in 2009. New Zealand only observes this Agreement.

Chinese Taipei is a member of the Asian Development Bank and the World Organisation for Animal Health. It participates as an observer at the OECD Steel, Competition Policy, and Trade Committees. Chinese Taipei is also a member of two regional fisheries organisations: the Convention for the Conservation of Southern Bluefin Tuna, and the Western and Central Pacific Fisheries Commission.

While investment from Chinese Taipei in the Mainland has been substantial for many years, trade and direct links have been more limited. This picture has changed substantially since 2008. During this administration's term in office 17 cross strait agreements have been concluded covering direct air, mail, shipping, tourism, food safety, financial cooperation, joint crime-fighting mechanisms, agricultural quarantine inspections, industrial product standards, nuclear safety, and fishing crew cooperation.

A cross strait Economic Cooperation Framework Agreement (ECFA) was signed on 29 June 2010. This entered into force on 1 January 2011 and included an "early harvest" list covering 539 Chinese Taipei products valued at US\$13.8 billion and 267 Chinese products valued at US\$2.9 billion moving to full tariff liberalisation.

Chinese Taipei's changing trade and economic relationships, including with the Mainland creates new opportunities for New Zealand exporters and investors. It has helped underpin growth in the Chinese Taipei economy.

Chinese Taipei has completed a separate and a joint feasibility study on an economic cooperation agreement with Singapore and is currently in negotiations with Singapore on such an agreement.

New Zealand has a more extensive network of trade and economic agreements than Chinese Taipei. It has bilateral agreements with Australia, Singapore, Thailand, Malaysia, China and Hong Kong. It has a joint agreement with Australia and all of ASEAN. New Zealand is also a member of the Trans-Pacific Strategic Economic Partnership involving Singapore, Brunei, Chile, and New Zealand.

New Zealand has negotiations underway with India, Korea, Russia, Belarus, Kazakhstan and the Gulf Cooperation Council and is part of the nine party Trans Pacific Partnership negotiation involving Australia, Brunei, Chile, Malaysia, Peru, Singapore, United States, Vietnam and New Zealand.

We note that New Zealand appears to be in a unique position in having such agreements already negotiated and in force with China and Hong Kong.

Given the trade profile with Chinese Taipei and its location and economic development and growth prospects, New Zealand's engagement in enhanced economic cooperation with Chinese Taipei would be a logical step.

5. Barriers to Trade

As noted above, the accession of Chinese Taipei to the WTO in 2002 saw a substantial liberalisation in access conditions for New Zealand exporters of goods and services to that economy. Substantial barriers however remain, particularly for New Zealand exporters of primary products.

New Zealand also maintains barriers to some Chinese Taipei exports (Chinese Taipei has raised concerns in public about the levels of New Zealand tariffs applying to hand machine tools, steel products and polypropylene film). Significantly New Zealand is not a party to the WTO Government Procurement Agreement. This means that Chinese Taipei companies do not benefit from the provisions of this agreement when trying to sell into this multi-billion dollar market in New Zealand (though New Zealand does have an open and non-discriminatory procurement regime in place).

This section of this study simply outlines some of the currently known trade barriers that exist between New Zealand and Chinese Taipei. In a separate section we outline the expected economic impacts that will flow to both the New Zealand and Chinese Taipei economies from the removal of these barriers.

Dairy

As Table 1 shows dairy products (particularly milk powders) are New Zealand's largest export to Chinese Taipei. Chinese Taipei is New Zealand's largest single market for goat's milk. New Zealand enjoys a strong reputation in the market for reliability of supply and quality of product. Chinese Taipei has a domestic dairy industry which

supplies the fresh milk and drinking yoghurt markets. Due to the distances and costs involved New Zealand is not able to export fresh milk to compete with Chinese Taipei product.

The main barrier to New Zealand dairy exports is the tariff. The current bound tariff rates applying to dairy products range from 5% for butter and cheese through to 20% for sheep and goat milk products. Skim and whole milk powder both attract 10% tariffs. Fresh milk and long life milk are subject to a tariff quota regime. The in quota rate is 15%. Anything imported above the quota (currently 14,251 tonnes a year) is subject to a specific tariff (NT\$15.6 per kg – equivalent to US\$489 per tonne). Import rights under the quota are auctioned twice a year (with a third allocation round to be added in May 2012). To date, the full quota has not been taken up so the out of quota rate has not been triggered. Given that demand has yet to exceed the available quota the cost of bidding for the quota has been relatively low. It is understood in the market that successful bidders have been paying the minimum tender operation fee of US\$15 per tonne to secure their quota rights.

Aside from the tariff quota regime Chinese Taipei also has a special safeguard policy in place for fresh milk. This can be triggered by volume surges or a drop in price. The safeguard would only come into play should the tariff quota be exceeded. The current quantity trigger is 4,215 tonnes. Should the safeguard be triggered an additional 33.3% tariff would be imposed.

Even though the quota level has not been exceeded, demand for liquid milk in Chinese Taipei is growing and it is unlikely that this increased demand will be satisfied by increased domestic production, particularly in the summer months when domestic production is low. Demand is being fuelled in particular by a change in consumer preference for liquid milk over powdered milk in the winter months and the growing popularity of tea and coffee shops.

Sheep and goat milk is not subject to the tariff quota or special safeguard regime.

Dairy milk powders are currently benefiting from a temporarily reduced tariff rate of 7.5%. Seven food staples, including milk powders, are currently receiving reduced tariff rates of up to 50% as a response to increased inflation. The inclusion of milk powders in this policy reflects the importance of this product as an input into the Chinese Taipei food production and food processing industry. Unfortunately there is no guarantee that this temporary tariff treatment for this major component of New Zealand exports to Chinese Taipei will be maintained into the long term.

Meat

Chinese Taipei Importers of New Zealand beef and sheep meat paid around NZ\$19 million in tariffs in the last 12 months. Chinese Taipei is New Zealand's fifth largest market for beef and 8th largest market for sheep meat.

New Zealand product is subject to a range of specific and ad valorem tariffs in Chinese Taipei. The tariff on beef is NT\$10 per kilo (equating roughly to a 15% tariff). Beef offal

attracts a 15% tariff. Sheep meat attracts a tariff of NT\$11.3 per kilo or 15% whichever is the higher. The duty on sheep offal is particularly high at 42.5%.

Chinese Taipei does produce some beef but the industry is small and closely integrated with the dairy industry. Removal of this tariff protection on product from New Zealand is unlikely to have any significant impact on the Chinese Taipei industry. New Zealand would be expected to increase its market share of the imported product market.

New Zealand does not export significant quantities of pork or poultry.

Seafood

Prior to its WTO accession the Chinese Taipei fish and seafood market was highly protected. Some high tariffs remain (up to 42.5%) but the average tariff rate has dropped to around 18.5%.

Chinese Taipei has been a major market for New Zealand in the past. Competition from the domestic and Chinese aquaculture industries has impacted significantly on New Zealand exports. And the negotiation of FTAs in the region have diverted trade to higher yielding markets. A reduction in tariffs and clarity on market conditions may create new opportunities in the Chinese Taipei market for New Zealand fish and seafood exporters, including of farmed aquaculture products such as shellfish and finfish.

Horticulture

Chinese Taipei is New Zealand's fifth largest market for New Zealand horticultural exports. The value of these exports was NZ\$104,896,066 in 2010. Exports are subject to a range of barriers, tariffs ranging from 7.5% to 35%, sanitary and phytosanitary requirements and, in one product areas, tariff quotas.

As Table 3 shows, the total tariffs paid on New Zealand's horticultural goods exports to Chinese Taipei in 2010 were NZ\$19,263,298. This equates to an average tariff rate of 18%.

Aside from tariffs, Asian pears are also subject to a tariff quota arrangements. Chinese Taipei applies a quota of 9,800 tonnes to Asian pears. An 18% tariff applies to imports up to this volume. Beyond this total imports attract an out of quota tariff rate of NT \$49/kg. The tariff quota incentivises importers to rush to fill the in quota volume as the out of quota rates are so high. Perversely this will from time to time result of oversupply of these products and a resultant reduction in price.

Wine

Chinese Taipei is growing in importance as a wine market and several New Zealand exporters are already present in the market. A range of barriers exist to exports. Still wine attracts a 10% tariff while sparkling wine attracts a 20% tariff. A wine tax of NT\$7 is applied to each percentage point of alcohol and a sales tax of 5% is also applied. All wines are expected to meet a chemical standard test. This imposes an extra cost on exporters.

Table 3: Tariff Rates on Horticultural Products Imported into Chinese Taipei

Tariff code	Product	Volume (tonnes)	Value (NZ\$ FOB)	Tariff rate	Cost of tariff (NZ\$)
0702.00.00.00	Tomatoes	64	229,120	10%	22,912
0703.10.01.00	Onions	2,869	2,144,512	12%	257,341
0706.10.00.01	Carrots	311	175,242	20%	34,048
0709.60.00.00	Capsicum	1	3,833	20%	767
0709.90.19.02	Buttercup squash	48	28,562	25%	7,141
0710.21.00.09	Frozen peas	296	281,123	15%	42,168
0710.80.00.19	Other frozen vegetables	48	71,991	20%	14,398
0712.90.01.00	Dried corn	122	1,160,064	20%	232,013
0713.10.08.19	Dried peas	94	118,439	20%	23,688
0804.40.00.01	Avocados	7	36,183	15%	5,427
0808.10.00.00	Apples	16,959	21,126,186	20%	4,225,237
0808.20.00.01	Pears	432	682,743	10%	68,274
0809.20.00.00	Cherries	744	9,470,726	7.5%	710,304
0810.10.00.00	Strawberries	78	522,978	20%	104,596
0810.40.00.01	Blueberries	13	154,143	7.5%	11,561
0810.50.00.00	Kiwifruit	24,107	66,754,442	20%	13,350,888
0810.90.00.60	Persimmons, fresh	11	58,118	35%	20,341
2004.10.00.00	Frozen prepared potatoes	982	1,049,542	12.5%	131,193
Misc	Other	360	828,119		
TOTAL		47,546	\$104,896,066	18%	\$19,263,298

An economic cooperation agreement would be expected to remove the tariff and possible the chemical standard test (all New Zealand wine already requires export certification). This would give New Zealand a competitive edge against all competitors – Europe, US, Chile and Australia are the principal competitors in this market. Reduced tariffs would also benefit consumers and the hospitality industry in Chinese Taipei.

As an example of the potential impact of a reduction in the barriers to trade in New Zealand wine we note the rapid increase in imports of New Zealand wine to Hong Kong following the unilateral reduction of taxes, together with the rise in the role of Hong Kong as a marketing and distribution point for New Zealand wine in the rest of Asia.

Deer Velvet

Frozen deer velvet has very restricted access to Chinese Taipei. There is a low volume (5 tonne) quota and a high out-of-quota tariff of 500%. More liberal access to frozen deer velvet presents opportunities for the deer industry in both jurisdictions. Any negative impact on Chinese Taipei's local industry would be limited due to the complementary nature of New Zealand exports and Chinese Taipei's production of deer velvet. For example, deer farmers in Chinese Taipei tend to offer tourist experience and sell direct from farm to consumer, whereas imported velvet is generally used in traditional medicine.

Forest products

Forest products exports to Chinese Taipei were a major beneficiary of Chinese Taipei's WTO accession. Most products of interest to New Zealand are already duty free. Some tariffs remain. These are usually 10% or below.

Services

Services are a major component of bilateral trade between New Zealand and Chinese Taipei. Most of this trade occurs in the education and tourism sectors. The barriers that exist to trade in these sectors are limited. New Zealand has requested in the WTO extension of Chinese Taipei's WTO commitments on Education into modes 3 and 4. Liberalisation of barriers to investment in the banking sector since WTO accession have seen New Zealand's largest bank, ANZ opening an extensive network in Chinese Taipei. Film, television, gaming, professional services, and financial services all offer opportunities for expanded bilateral activity.

The extent of interest is yet to be tested fully but possible areas for attention beyond education and tourism.

Business services

New Zealand has requested in the WTO the elimination of limitations specifying that certain professions need to be licensed in Chinese Taipei. New Zealand has also requested that the range of business services covered by commitments extend to primary industries and scientific and technical consulting. New Zealand considers that there is a need for consideration of mutual recognition of qualifications and licensing requirements, including in professions such as patent attorneys and medical

technicians. In this respect other professional services sectors that are of interest to New Zealand include legal, accounting, architectural, engineering, urban planning and some medical and veterinary services.

Installers and servicers

New Zealand has requested Mode 4 commitments in the WTO.

Environmental services

New Zealand has requested extended coverage in the WTO.

Transport

New Zealand has requested extended coverage of Chinese Taipei's commitments and new commitments on maritime services in the WTO.

There are good shipping and aviation links between Chinese Taipei and New Zealand but the lack of scheduled direct air services (China Airlines flies from Chinese Taipei to Auckland via Brisbane) does act as a brake on the expansion of trade and people movements. Air New Zealand ceased flying to Chinese Taipei in 2005. In the medium term, New Zealand and Chinese Taipei should move to fully liberalised "open skies" arrangement.

Since 30 November 2009 Chinese Taipei visitors to New Zealand have entered under a visa waiver policy.

Healthcare and Aged Care Services

Chinese Taipei requires that all healthcare services including aged care services to be provided by non-profit organisations.

The number of foreign directors for healthcare service providers is restricted to no more than one third. Likewise there is a requirement that one third of directors must have medical qualifications.

Chinese Taipei does not license or recognise chiropractors as legitimate medical practitioners, and allows chiropractors to practice in Chinese Taipei only if they do not advertise their services and make no claims about results and efficiency of treatments.

Telecommunications Services

The relationship between Chunghwa Telecom (Chinese Taipei's dominant supplier – 50% of the market) and the Ministry of Transport and Communications is an issue that has been raised as a potential concern. Interconnection is also an issue that may need to be addressed. Fee controls have also been identified as a problem by some suppliers.

Investment

In the WTO New Zealand has requested Mode 3 commitments from Chinese Taipei on agricultural land (New Zealand would like restrictions on foreign investment in Chinese Taipei agricultural land removed).

Intellectual Property Rights (IPR) Protection

IPR protection and enforcement in Chinese Taipei has improved considerably in recent years.

However there are complaints expressed by rights holders about infringements of copyrighted material on the internet and illegal text book copying on and around university campuses. Counterfeit product from businesses operating illegally on the Mainland is also cited as a growing problem. Most of these products (mobile phones, notebooks and other electronic devices) are of limited export interest to New Zealand but New Zealand companies do supply high value componentry into this market.

The New Zealand film, television, gaming, software and music industries all have an interest in robust IPR protection.

Changes to the Copyright Law in 2009 and 2010 have generally been welcomed by Chinese Taipei's trading partners.

Government Procurement

Chinese Taipei is a member of the WTO Government Procurement Agreement (GPA). New Zealand has yet to become a party to this agreement.

The GPA is a plurilateral agreement and members are only required to apply the commitments made and the disciplines of the Agreement to other members. New Zealand could therefore be discriminated against in this large part of the Chinese Taipei market.

Environment

Chinese Taipei is active on matters environmental and is undertaking unilateral action in this space. It is an active participant in APEC activity on environmental goods and services.

An economic cooperation agreement with New Zealand might allow New Zealand and Chinese Taipei to expand cooperation on global and domestic environmental issues.

Labour

Chinese Taipei is not a member of the International Labour Organisation. It is therefore not a party to the same international commitments as New Zealand. However, Chinese Taipei is a thriving democracy with an active organised labour movement. It has labour laws that are comparable with those of many other democratic systems.

Film and Television

There is already some cooperation between New Zealand and Chinese Taipei in the film and television area. One New Zealand animation company has invested in Chinese Taipei and there are ad hoc collaborations on range of projects. The scope for a film and television co-production agreement (including film, TV and other areas of digital content) as part of a wider economic cooperation agreement could be explored.

Indigenous People

DNA evidence shows that the island of Taiwan has ancestral connections to the Maori. This has, in recent years, stimulated further growth in a range of cultural and economic linkages between Maori and the aboriginal people living in Taiwan. There is considerable scope for these links to broaden and deepen. Expansion could occur in indigenous arts and culture and tourism, as well as in investigation of indigenous business connections.

6. Economic Analysis

In this section we consider the likely economic impact of a closer economic relationship between Chinese Taipei and New Zealand. At this point, estimating the economic impact is difficult to do with any precision, since it will depend not only on the extent and timetable for any reduction in tariff barriers, but equally importantly, on the extent to which a range of complementary non-tariff areas of cooperation are implemented. The comments in this section must therefore be taken only as indicative of the general magnitude of the likely impact.

Economists normally consider the impact of reductions in barriers to trade in two areas:

- (i) Static (allocative) efficiency, including deadweight losses from tariffs.
- (ii) Dynamic efficiency and impact on productivity.

We consider each in turn below.

Static Efficiency and Deadweight Losses

Allocative efficiency occurs where prices allocate all of the resources available to a society to their best use. Allocative efficiency implies that firms in the economy should expand output up to the point where their marginal cost of production is just equal to the marginal revenue received. Tariffs distort these allocative decisions by firms, because they drive a wedge between the prices that producers receive, and the prices that consumers pay. In the presence of a tariff, and assuming that consumers will buy less of an imported product as its price increases (both absolutely, and relative to domestically-produced alternatives) then production of goods for export, and consumption of those goods in the importing jurisdiction, will be lower than at the price which would prevail in the absence of a tariff.

Tariffs also create deadweight losses when the volume produced and consumed in the market is reduced by the higher (tariff-inclusive) prices. Specifically, in the presence of a tariff, and so long as demand increases with price:

- Consumers pay more and buy less of the product,
- Producers sell less and earn less revenue,
- The customs authority collects the tariff revenue on the volume of products actually sold, but

- The consumer surplus on the goods not sold because of the higher price represents a deadweight loss that cannot be captured in tariff revenue.

Given New Zealand's relatively low tariff barriers, and the small share of imports from Chinese Taipei in New Zealand's total imports, the reduction in deadweight losses and the increase in productive efficiency in the New Zealand economy associated with any economic cooperation agreement with Chinese Taipei would be small. However, the impact on allocative efficiency – that is, the impact on the allocation of resources in the economy – may be more material. This is because the impact of increased market access to Chinese Taipei may result in a reallocation of resources within the economy to those industries where New Zealand has a comparative advantage over Chinese Taipei.

Productive and Dynamic Efficiency

Productive efficiency occurs when no additional output in aggregate could be produced (and in particular, that firms adopt the best available production technology). Tariffs reduce productive efficiency, by protecting firms from competition with more (productively) efficient foreign firms. While we would expect reductions in tariff and non-tariff barriers to have an immediate impact on productive efficiency, studies of the impact of tariff reductions now demonstrate that these effects are dynamic – that is that they go on having an impact on efficiency in the economy over a long period of time. This is in part because of the way in which more efficient practices are reinforced in the firms adopting them and spread to other sectors of the economy. But it is also because of the way in which more efficient practices are reinforced by direct investment and trade in services that improve decision-making and result in further rounds of productive efficiency gains.

Magnitude of Likely Gains

The estimation of formal general equilibrium models of the economy that would capture the static and dynamic impacts of trade liberalisation are beyond the scope of this study. However, the parameters used in these models are well enough known, and the evidence from recent trade liberalisation episodes is sufficiently clear, as to allow some preliminary estimates of the impact of trade liberalisation to be provided.

The largest initial gains will come in those New Zealand products that currently face the highest tariffs exporting into Chinese Taipei. As we have noted above, the dairy industry currently benefits from a relatively low temporary tariff into Chinese Taipei for milk powders, and paper and wood products also face relatively low tariffs. But other dairy products face much higher tariffs, and higher tariff and non-tariff barriers also impact on a wide range of New Zealand agricultural exports including seafood, horticultural products, wine, beef and sheep meat exported to Chinese Taipei.

The static gains from tariff reduction can be estimated using standard assumptions about the elasticity of demand for products, and thus the likely impact on demand of a fall in the price of a product as tariffs are removed. Elasticities³ of demand for some

³ Price elasticity of demand (PED or E_d) is a measure used in economics to show the responsiveness, or elasticity, of the quantity demanded of a good or service to a change in its price.

New Zealand exports may be quite high given their premium or luxury niche in the market – and this might apply to high quality, branded food products such as meat, horticulture, wine, fresh milk and cheese. For these products elasticities of demand in the range of -3.0 are plausible. Lower elasticities of demand are likely to apply to other products such as wood products and packaging.

Taking the above factors into account, Table 4 provides an indication of the possible magnitude of the static gains from the removal of tariff barriers to New Zealand exports to Chinese Taipei. It divides New Zealand exports to Chinese Taipei into two groups, those high value (“luxury”) products in the market for which tariff and non-tariff barriers are relatively high, and elasticities of demand may also be assumed to be relatively high, and those lower value products that are also facing lower tariffs, and for which elasticities of demand may be assumed to be lower than for the luxury goods.

Table 4 demonstrates that even on the most simplistic assumptions about the impact of tariff and non-tariff barriers on the demand for New Zealand products in Chinese Taipei, the removal of those barriers to trade could generate an increase in New Zealand exports of \$100 million (in 2010 dollars). Because this estimate relates only to merchandise trade, and is designed only to capture the static impact of the removal of trade barriers under an economic cooperation agreement, it should be considered as a lower bound to the potential benefits available to New Zealand.

The increases in trade volumes associated with the free trade agreement between New Zealand and mainland China signed in 2008 have been much larger than the figures in Table 4 imply. Over the period from June 2009 to June 2011 compound increases in New Zealand exports to China have been 65% in dairy products, 32% in seafood, 18% in meat, and 25% in horticulture.⁴ These figures reflect both an effect from improved trading conditions as well as a rapid growth in the demand for protein and for luxury foods among China’s rapidly growing middle class.

⁴ Statistics New Zealand. Harmonised Trade Data–Exports. Accessed on Infoshare, November 2011.

Table 4: Indicative Gains from the Removal of Tariff Barriers to New Zealand Exports to Chinese Taipei

High Value Products (Tariff and non-tariff barriers = 22.5% of value, elasticity of demand = -3.5)	2010 Export Value (NZ\$ million)	17.5% Increase in Exports When Tariffs Removed (NZ\$ million)
Frozen and chilled beef	106,161	
Horticulture products (Table 3)	104,896	
Butter and cheese	104,920	
Malt extract	64,015	
Sheep meat	59,635	
Fats of animals	12,328	
Fresh milk	8,404	
Total	460,359	80,563
All other products (Tariff and non-tariff barriers = 15%, elasticity of demand = -2.0)	2010 Export Value (NZ\$ million)	5% Increase in Exports When Tariffs Removed (NZ\$ million)
Total	382,921	19,146

Adapted from data in Table 1, 2 and 3 above. Source: Statistics New Zealand.

Chinese Taipei is well-positioned to benefit from and link its economy to growth in China. Given Chinese Taipei's relatively high level of per capita incomes, the rates of growth in trade observed between New Zealand and China could not be expected to eventuate from a closer economic relationship with Chinese Taipei, but to the extent that the rate of growth in the Chinese Taipei economy is increased by closer economic interaction with Mainland China, then larger increases in trade between New Zealand and Chinese Taipei may result.

If New Zealand and Chinese Taipei decide to undertake further study of the potential for an economic cooperation agreement, this simple analysis of the potential benefits could be extended with a general equilibrium analysis that would attempt to capture some of the dynamic gains from an economic cooperation agreement. Such a modelling framework might attempt to capture the efficiency benefits associated with reallocation of resources in addition to intensified competition for producers in both jurisdictions, the flow of new ideas about production processes and business opportunities generated by greater economic interaction, and enhanced flows of direct investment between the

two jurisdictions. For example, we would expect Chinese Taipei to obtain significant welfare gains from a transfer of its agricultural resources out of those areas of production in which New Zealand has a comparative advantage, and into those areas of production where New Zealand is not internationally competitive.

In addition to these potential increases in merchandise trade, New Zealand could expect to increase trade in services as a result of a closer economic cooperation with Chinese Taipei. In particular, education and tourism appear to offer considerable potential for expansion, in part as a result of the higher profile that New Zealand would have as a result of formalising an economic cooperation agreement.

We therefore conclude that New Zealand could conservatively expect to generate increases in merchandise exports in excess of NZ\$100 million (at 2010 prices) as a result of an agreement which removed tariff barriers to New Zealand exports to Chinese Taipei. With low tariff barriers already in place, the impact of increased imports from Taiwan on the New Zealand economy are unlikely to be substantial. The potential increase in exports of services, and the impact of a closer economic relationship on a wider range of economic relationships, including migration and investment, should ensure that the value of the long-term static and dynamic benefits to New Zealand is substantially in excess of this amount.

7. Conclusion

An economic cooperation agreement which removed barriers to trade in goods between Chinese Taipei and New Zealand would benefit both economies. For New Zealand a lower bound estimate of the direct impact of removing barriers to trade with Chinese Taipei is that it will result in at least NZ\$100 million a year in increased exports. Chinese Taipei is also likely to benefit from expanded exports to New Zealand, but also, and more significantly, from efficiency gains in its domestic economy resulting from a reallocation of resources and lower prices paid by its consumers.

An economic cooperation agreement also offers the opportunity to expand services and investment linkages between Chinese Taipei and New Zealand, and to encourage the business communities in both jurisdictions to look at opportunities in both markets and also a joint opportunities in markets outside New Zealand and Chinese Taipei. There is also the potential to use the agreement to encourage enhanced cooperation in a range of other areas such as film and television and linkages between Maori and the aboriginal people living in Chinese Taipei.

It is recommended that as a next step, Chinese Taipei and New Zealand jointly study the potential for an economic cooperation agreement and make recommendations on the scope and content for any negotiation.

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