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International Trade 2020

Trends & insights

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Covid will likely continue to dominate world trade until mass vaccination is achieved – and beyond, as some of the Covid trade responses are embedded in the new normal.

Contents

Trade conditions still tough but light on the horizon

In our 2019 Trends & Insights publication, we talked about a turbulent present and an uncertain future for global trade – and that was before Covid dealt the world the worst health, economic and social crisis in a generation. So 2020 was tough, and economic forecasts suggest that 2021 is not likely to be much easier. Still, as the year draws to an end, there is also cause for hope.

Three developments of particular relevance to New Zealand exporters are:

- the signing on 15 November 2020 of the Regional Comprehensive Economic Partnership (RCEP), engaging the 10 members of ASEAN together with Australia, China, Japan, New Zealand and South Korea. Together they account for almost a third of the world's population, 30% of global GDP and seven of our top 10 trading partners
- the recent progress toward securing effective vaccines against Covid, and
- the impending change of administration in the US (see below our analysis on what the US election result may mean for New Zealand).

This is not to suggest that the march toward ever greater liberalisation, which had marked the post-World War II era, is now back on track. It has been under challenge since the 2008 Global Financial Crisis (GFC) and reflects deep-running concerns around inequality, technological displacement, climate change, and increasing populism.

We refer you to the theory advanced by Roberts, Choer Moraes and Ferguson that a shift is taking place from the highly globalised post-Cold War Neoliberal Order where states applied an "economic mindset" and sought to maximise material gains through trade and investment to a new "Geoeconomic Order" which is characterised by a much stronger "security mind-set".

This has come about in response to changing geopolitical power patterns of behaviour among key states and is marked by:

> “a greater focus on relative – rather than absolute – economic gains in view of their implications for security, heightened concern over the security risks posed by economic interdependence and digital connectivity, strong competition over technological development, and increased invocations of security exceptions in ways that make it difficult to disaggregate motivations of protection and protectionism.”

We think this shift will continue to reshape the global economic order well beyond 2021. In the shorter term, Covid will likely continue to dominate world trade until mass vaccination is achieved – and beyond, as some of the trade responses to Covid are embedded into the “new normal”.

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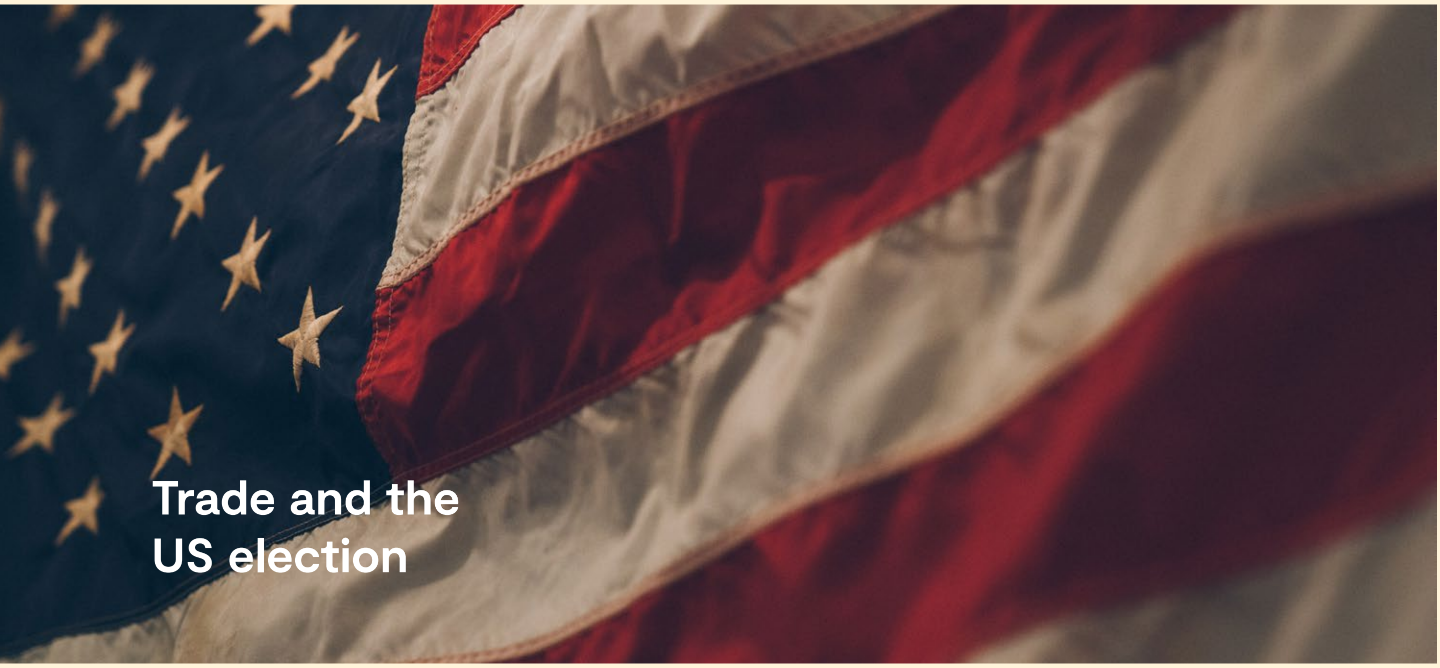


Trade and the US election

The trade war with China has been a central feature of US trade policy since 2017. The US has also forced some deep soul searching among World Trade Organisation (WTO) Members on the multi-lateral system through its blocking of Appellate Body appointments.

So what can we expect under a Biden/Harris administration?

President-elect Biden has stated unequivocally that he intends to bolster "American industrial and technological strength and ensure the future 'is made in America' by all of America's workers". His stated policies include to:

- make 'Buy American' real, including a $400b procurement investment fund ("when we spend taxpayer money we should buy American products and support American jobs")
- retool and revitalise American manufacturers (including a manufacturing tax credit and capital for small-medium manufacturers)
- invest $300b in Research and Development (R&D) and breakthrough technologies, and fight back against unfair trade practices and the theft of American intellectual property
- ensure investments reach all of America
- pursue a pro-American worker tax and trade strategy, including through:
  - revising international trade rules on procurement to ensure that the US and allies can use "their own taxpayer dollars to spur investment in their own countries"
  - taking aggressive trade enforcement actions against China or any other country seeking to undercut American manufacturing through unfair practices, including currency manipulation, state-owned company abuses, or unfair subsidies
  - rallying US allies in a coordinated effort to pressure the Chinese government and other trade abusers to follow the rules and hold them to account when they do not
  - confronting foreign efforts to steal American intellectual property
  - reversing tax policies that encourage outsourcing
  - supporting trade unions in the US and in "every one of our trading partners", and
  - introducing a carbon adjustment fee against countries that are failing to meet their climate and environmental obligations, and
- bring back critical supply chains to America (including putting Americans to work "making critical products, from medical equipment and supplies to semiconductors and communications technology, here in the United States").

Implications for international trade and New Zealand

1. The Biden policy package is consistent with concerns about the impacts of globalisation and the failure of trade policy to ensure equality of opportunity for all sectors of society. It is also consistent with the big picture trends towards a greater degree of strategic capitalism.

   The world is moving into a new era of international economic policy and countries will need to work together to find the right balance. As Roberts, Choer and Ferguson suggest, it may not be easy to identify the difference between protection and protectionism. But it is our new reality.

2. Aggressive action against China will continue, but Biden has stressed his desire to work more closely with US allies. New Zealand will continue to tread a fine line between safeguarding its trading relationship with China and its strategic relationship with its longstanding security partner, the US.

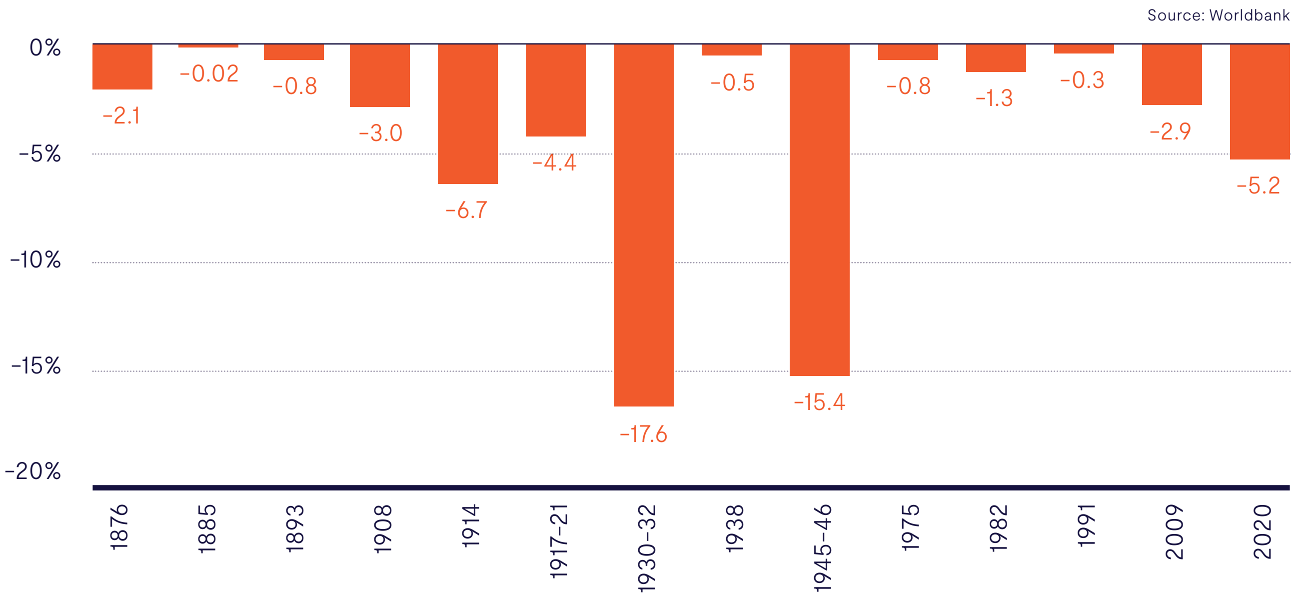
3. The Biden strategy may create areas of potential cooperation between New Zealand and the US. Biden's "Invest in All of America" platform includes guaranteeing that funding is equitably allocated so that women and communities of colour receive their fair share of investment dollars. As such, it may provide an opportunity for New Zealand to work with the US on matters that are central to our Trade for All Agenda.

4. There is no mention of the WTO. But we do not think this means that the Biden/Harris administration will not work with other WTO Members to address key issues in the institution.
   - There is an impasse over the appointment of the next Director-General. Ngozi Okonjo-Iweala has been recommended for the role under WTO procedures but the US has challenged the selection. A scheduled November meeting of the General Council to make a formal decision has been delayed following renewed COVID-19 restrictions in Geneva.
   - The lack of a quorum for the WTO Appellate Body also continues – and, crucially, the concerns, both substantive and procedural, which are behind the US block on appointments pre-date (so will likely post-date) Trump, meaning there may be no obvious end in sight. While the impasse continues, New Zealand and 18 other WTO Members have established the Multiparty Interim Appeal Arbitration Arrangement to hear appeals in the WTO until the Appellate Body becomes fully functional again.

5. There is also no mention of the US joining the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP). Membership would bring deeper integration in the Asia-Pacific region, which has only grown in political and economic importance since the precursor Trans-Pacific Partnership (TPP) was signed in 2015. There would inevitably be some significant obstacles to re-entry, but it is not impossible. Many expected TPP to die a quiet death when Trump pulled the US out, but instead the remaining parties came together to conclude an agreement among themselves. Never say never.

COVID-19 and trade

Deepest global recession since World War II



A shrinking global economy

World Bank forecasts have the global economy shrinking by 5.2% this year, making it the worst recession since World War II. The effects are worst among countries where the pandemic has been most severe, or where there is heavy reliance on global trade, tourism, commodity exports, and external financing.[1]

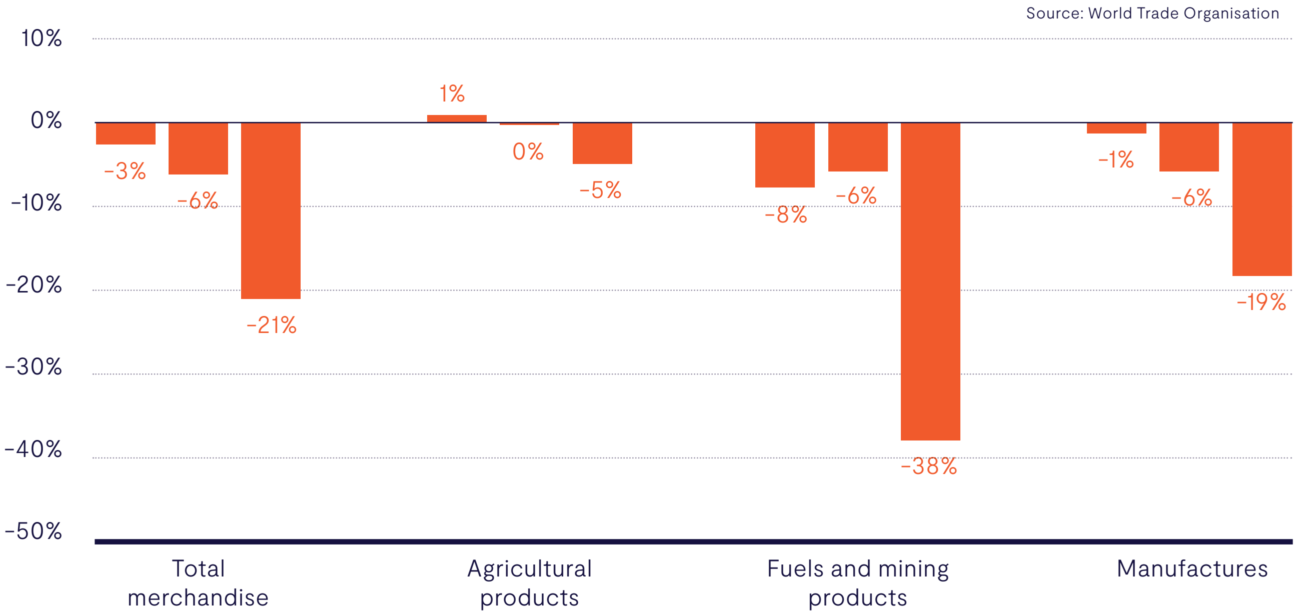
Goods trade has not suffered as badly as first feared, leading the WTO in October to revise down its forecast decline for this year from between 13% and 32% to 9.2%. The more positive figures likely reflect an easing in lockdowns and an associated acceleration of economic activity in June and July, along with trade growth in Covid-related products. Looking ahead, however, the WTO has chopped back its forecasts for trade growth in 2021 from 21.3% to just 7.2% – which would not be enough to return to pre-Covid levels.

These estimates are subject to an unusually high degree of uncertainty since they depend on the evolution of the pandemic and government responses.[2]

1 https://www.worldbank.org/en/news/press-release/2020/06/08/COVID-19-to-plunge-global-economy-into-worst-recession-since-world-war-ii

2 World Trade Organisation 'Trade shows signs of rebound from COVID-19 recovery still uncertain' (6 October 2020) https://www.wto.org/english/news_e/pres20_e/pr862_e.htm

Year-on-year growth in world merchandise trade, 2019 Q4-2020 Q2



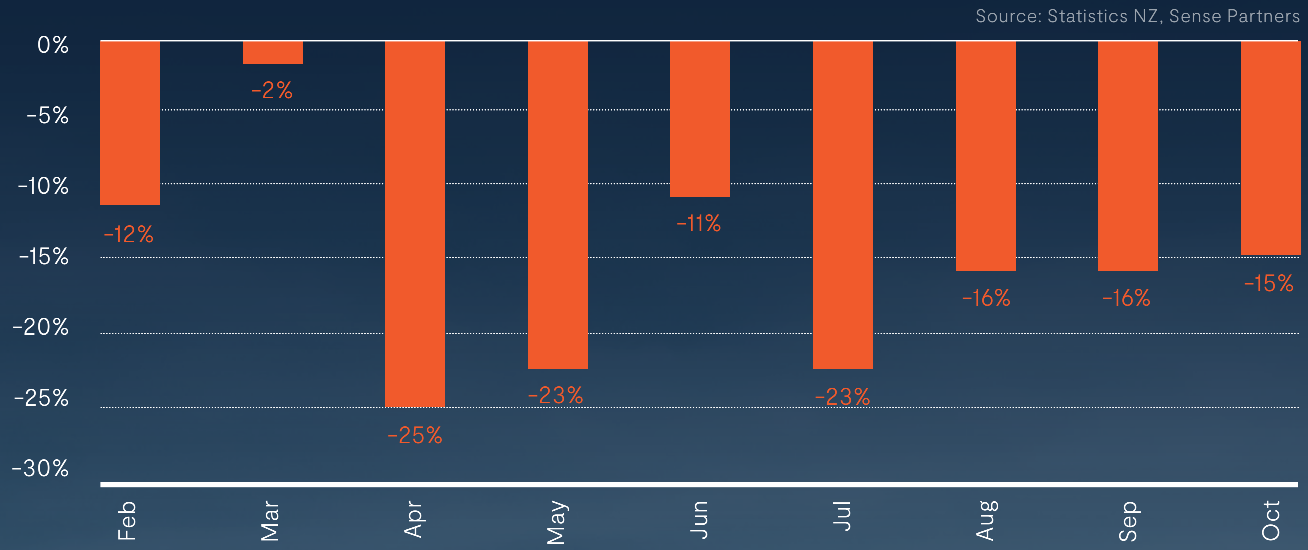
The degree of decline varies depending on the goods in question. Trade in agricultural products – of particular importance to New Zealand – has been less affected, falling only 5% in the second quarter of 2020 against an overall decline across all trade of 21%.

There are no comprehensive statistics on services trade but the WTO estimates a much steeper year-on-year decline from Covid than from the GFC – at 23% and 9% respectively.[3]

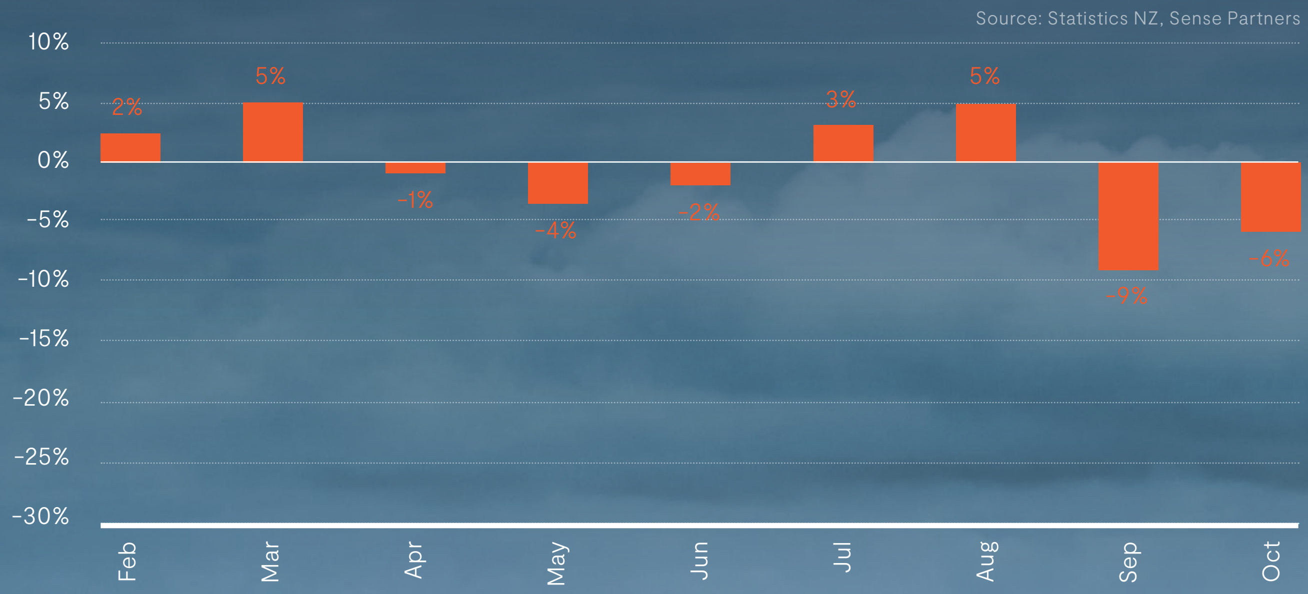
3 World Trade Organisation 'Trade shows signs of rebound from COVID-19 recovery still uncertain' (6 October 2020) https://www.wto.org/english/news_e/pres20_e/pr862_e.htm

Supply chain disruption; demand issues emerging

Import growth



Export growth



New Zealand trade

Imports have been consistently down in 2020 as New Zealanders drive, spend and invest less. There are also anecdotal suggestions of supply chain disruptions in getting product to New Zealand.

Exports, on the other hand, have proven relatively resilient. This is so even accounting for technicalities in the statistics that could be misleading – e.g., our largest export growth came from aircraft sent offshore because there was no longer use for them here.

China's quick recovery, and a surge of exports (meat, wine, and medical equipment) to the US, Europe and the UK kept exports on track through much of the year but they eased off in September and October, which could be the beginning of the global recession catching up with us.

Coming months will be telling.

Global supply chains

Even before Covid, the Economist was reporting that global value chains were slowly unravelling due to a mix of causes, including:

- a shift from policy harmonisation to localisation, such as the EU's data privacy laws
- a decline in the "cheap China" sourcing model as increasing salaries and environmental costs in China push up costs, and
- most significantly, President Trump's imposition of tariffs.

Technology was also predicted to play an increasing role – with artificial intelligence (AI), predictive data analytics and robotics changing how factories, warehouses, distribution centres and delivery systems work.[1]

Covid added a fresh level of disruption by exacerbating and laying bare vulnerabilities in global supply chains. If a link in the chain breaks, upstream and downstream suppliers and consumers are impacted too – often to disastrous effect as production processes across dozens of firms in multiple countries can be involved.[2]

For example, after the 2011 earthquake, tsunami and nuclear disaster in Japan, Toyota cut production by 40,000 vehicles, costing the company $US72m each day. It sought to hedge against this risk by expanding its supply chain to Europe, North America and Asia – only to increase its exposure to the effects of Covid. The challenge for companies moving forward will be to make their supply chains more resilient without hindering their competitiveness.

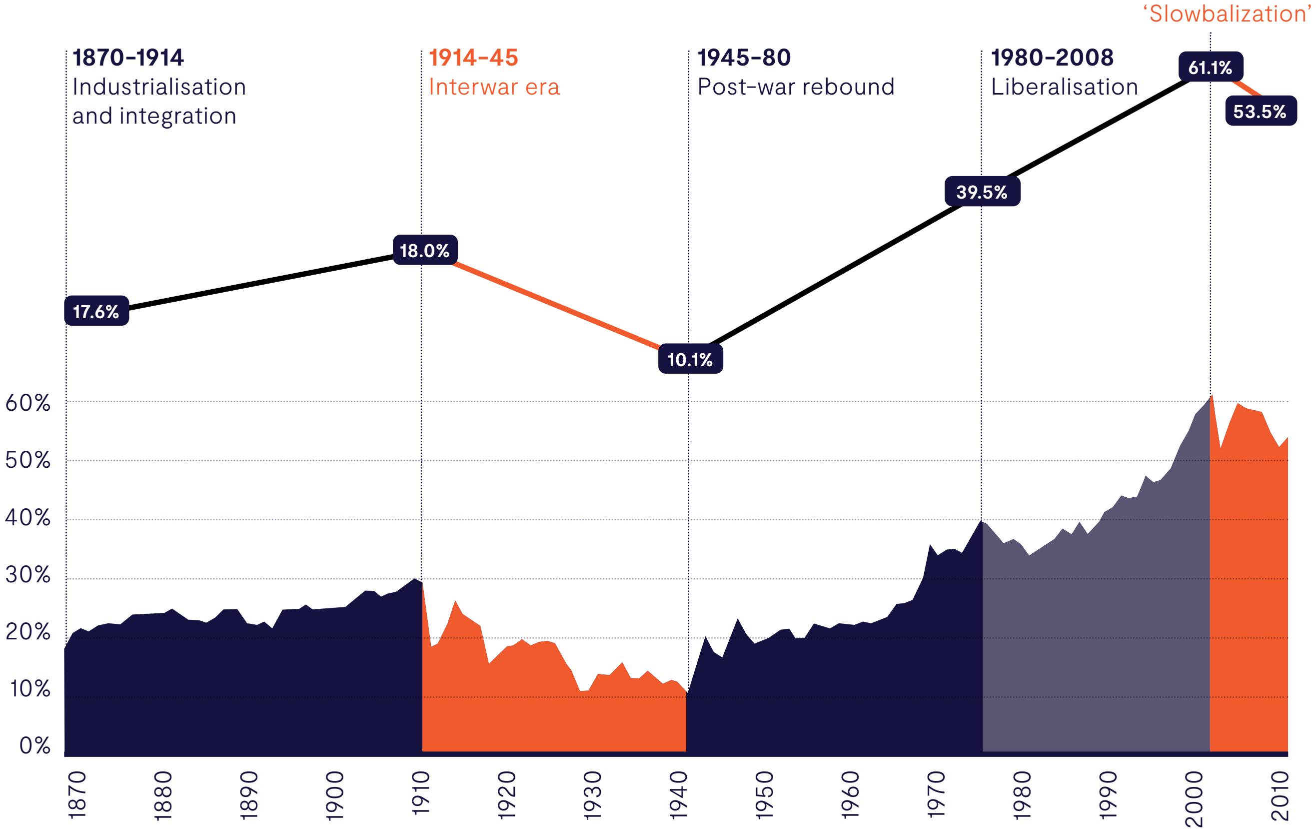
Recent evidence suggests that supply chains have not been entirely wrecked but will continue to change and evolve. An October poll of 450 senior US decision makers found that more than 90% of companies expect the disruption of global supply chains caused by the pandemic will have long-lasting effects on their businesses.[3] And a survey in May identified 180 products where a single country accounts for over 70% of exports and predicted that the production of 16% to 26% of goods exports could change location in the next five years.[4]

1 "Supply chains are undergoing a dramatic transformation", The Economist, 11 July 2019.
2 Geoffrey Gertz, "The coronavirus will reveal hidden vulnerabilities in complex global supply chains", Brookings Institute, 5 March 2020.
3 Interos "Covid Resilience Report: The Impact of COVID-19 on Supply Chains and How Businesses are Preparing for the Next Shock" (October 2020).
4 McKinsey Global Institute "Risk, resilience, and rebalancing in global value chains" (August 2020).

Globalisation is in retreat for the first time since World War II

Source: Our world in Data, https://ourworldindata.org/grapher/globalization-over-5-centuries

Trade openness index, 1870-2017



Trade policy responses

Trade restrictive measures

By the end of March, which was quite soon into the Covid crisis, 54 governments had introduced 46 export restrictions on medical supplies.[4] By September, this had increased to 91 governments putting in place a total of 202 export controls.[5] This contraction, not all of which may be reversed, played into an already existing drift away from globalisation and toward protectionism, as illustrated in the graphic above:

The increased openness in the post-WWII period was aided by signing of the General Agreement on Tariffs and Trade (GATT) which enabled countries to open their economies to trade and investment once again. The steady ascent from 1980 to 2008 reflects the industrialisation of China and India, the fall of the Berlin Wall and the integration of the Soviet Bloc in Eastern Europe. The subsequent backlash against globalisation ("slowbalisation") began with the GFC and has continued momentum with Covid providing an accelerant.

Note: The trade openess index is defined as the sum of world exports and imports divided by world GDP. 1870 to 1949 data are from Klasing and Milions (2014); 1950 to 2017 datat are from Penn World Tables (9.0)

4 Global Trade Alert 'Tackling COVID-19 together' at 5.

5 Simon Evenett "Chinese whispers: COVID-19, global supply chains in essential goods, and public policy" *Journal of International Business Policy* (2020).

Government support

Governments worldwide have come under huge pressure to prevent Covid from destroying livelihoods, businesses and industries by providing direct support to local industries. Examples include: a €650m scheme to compensate Dutch companies in the floriculture, specialty horticulture and potato sectors; Swedish credit guarantees of SEK 5b for airlines and, in Australia, a AUD$500m facility to assist previously profitable Australian exporters.

Many of these schemes are legitimate and their compliance with international trade rules is unquestioned. Others are sailing closer to the wind. There will be continued pressure on many governments to implement protectionist policies – including tariffs, quotas and various forms of subsidies – as a way of 'saving' domestic jobs and enterprises. But once the Covid waters ebb, governments will need to take a careful look at the measures introduced to ensure that they have not become a source of unfair competition and distortion in the global economy.

International initiatives

New Zealand has kept its eye on the trade ball, engaging in several international initiatives to combat the effects of Covid on the international economy. These include:

- the Joint Ministerial Statement spearheaded by New Zealand and Singapore, to keep supply chains open and remove restrictive measures on essential goods, which seven other countries subsequently signed on
- the Plurilateral Declaration on Trade in Essential Goods under which New Zealand and Singapore agreed to remove any tariffs on goods essential to the Covid response and to restrict non-tariffs barriers to these goods
- joining with Australia, Canada, Korea and Singapore in committing to enable the continued flow of essential goods and services, and, in due course, people, and
- affirming with 42 other Members of the WTO our support for the multilateral trading system and highlighting the WTO's role in responding to Covid.

New Zealand also supported a 24-Member statement that calls for governments to ensure that any response measures they adopt will not adversely affect trade in agriculture and food or have negative impacts on the food security, nutrition and health of their populations.

Recovery strategy

At home, the Government announced a 'three-pillar trade recovery strategy' in June which includes: supporting exporters, reinvigorating international trade architecture, and refreshing key trade relationships.[6] Export New Zealand has advocated for a sophisticated and "high-tech" border, timely access to importing skilled talent, business travel and foreign students.[7]

Continuing intense international engagement and implementation of the recovery strategy will be critical as we head into 2021. As a small trade reliant and geographically distant country, we rely on a rules-based system. One job in four in our economy are dependent on exports. Many of these jobs were in the tourism and international education sectors (our first and fourth biggest export industries respectively), both of which depend on an open border.

Diversification and innovation will be required for New Zealand to prosper post-Covid. Our most important asset will be knowledge, and building this requires new strategies, and a significant change in direction and focus for the New Zealand economy.[8]

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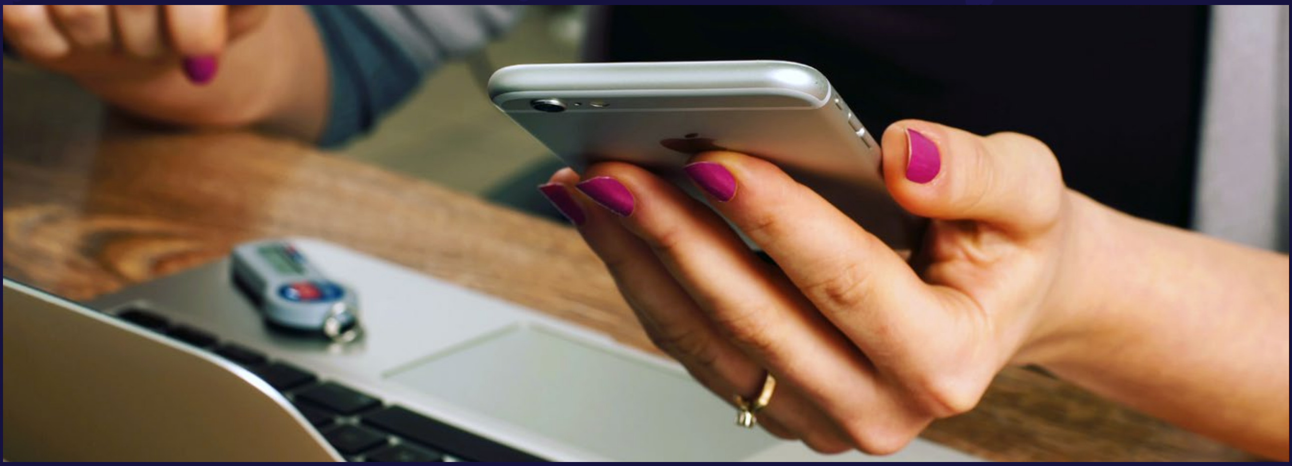
6 David Parker 'Trade Strategy for the recovery from the impacts of COVID-19' (8 June 2020) https://www.beehive.govt.nz/speech/trade-strategy-recovery-impacts-covid-19

7 Export New Zealand 'ExportNZ Election Manifesto – 2020' https://www.exportnz.org.nz/__data/assets/pdf_file/0017/202391/201001-Election-Manifesto-Export-NZ-2020.pdf

8 Ryan Greenaway-McGrevy, Arthur Grimes, Tim Maloney, Anne Bardsley and Peter Gluckman, "New Zealand's Economic Future: COVID-19 as a Catalyst for Innovation", November 2020, p. 5.

Digital trade

Digital trade is one of New Zealand's fastest growing and most significant export earners and has been given a big boost by the Covid lockdowns and social distancing rules. The sector extends well beyond e-commerce to the data flows that enable global value chains, services that enable smart manufacturing, and a myriad of other platforms and applications.



Recent developments

There is a real opportunity in the wake of the pandemic for countries to supplement the ongoing WTO-led plurilateral negotiations on e-commerce, with innovative bilateral or regional rules to facilitate digital trade and the growth of the digital economy.

In June 2020, New Zealand, Chile and Singapore signed the Digital Economy Partnership Agreement (DEPA). It will enter into force on 7 January 2021. DEPA establishes new international rules and best practice to support and promote digital commerce.

DEPA's coverage includes business and trade facilitation, data issues, and business and consumer trust, in some cases building on provisions already included in the CPTPP – for example, on e-commerce. In other sections, such as cybersecurity and innovation, the emphasis is on deepening mutual understanding and collaboration towards eventual rules.

Contentious issues

Fundamental tensions exist over the extent to which states can and should exercise *regulatory influence over the internet*. Internet openness is closely aligned with the idea of liberalisation of trade flows, with barriers to internet openness presenting barriers to e-commerce and innovation in the digital space.

On one side of the ideological divide are countries seeking strong government control over the internet and citizens' access to it. On the other are those advocating for the rights of internet users to have free access and less censorship. Juxtaposed with this is the need to balance openness with measures to ensure privacy and security.

This division plays out in discussions on digital trade agreements over issues such as whether to include provisions prohibiting governments from requiring companies to disclose proprietary source code, or to locate servers in their territory.

Another contentious question is that concerning a digital services tax. In June, the US launched an investigation under section 301 of the Trade Act 1974 into plans by several jurisdictions, including France, the UK, Italy, Brazil, and the EU, to tax revenues that technology companies such as Google, Facebook, and Amazon earn from providing digital services to users in those countries.

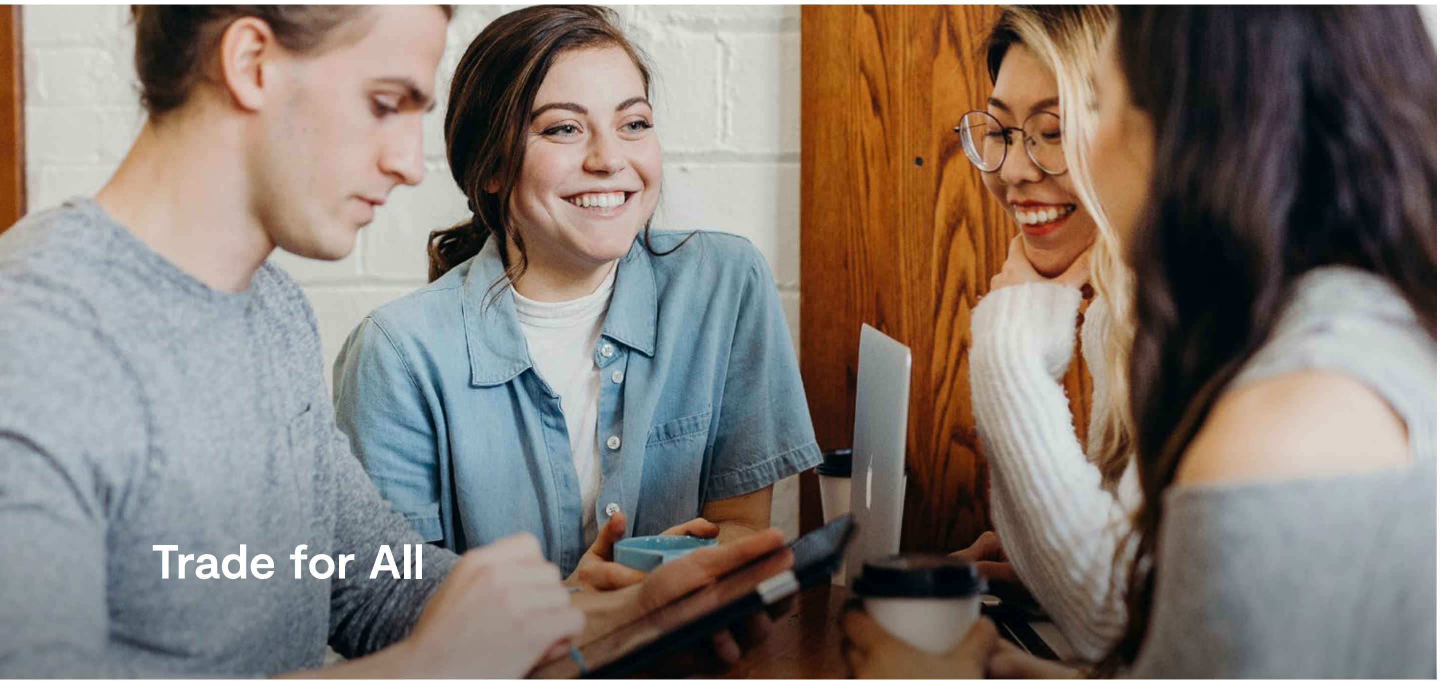
The concerns are that the tax unfairly targets large, US-based technology companies and that it may diverge from norms reflected in the US tax system and the international tax system in several respects. These include extraterritoriality, taxing revenue not income, and having a purpose of penalising particular technology companies for their commercial success.[1]

Meanwhile, discussions continue at the Organisation for Economic Co-operation and Development (OECD) on a multilateral solution to tax challenges arising from the digitalisation of the economy. Members have agreed to work towards an agreement by mid-2021.

The New Zealand Government's view is that an OECD-led solution would be preferable, but that it will "seriously consider" a domestic digital services tax if the OECD cannot reach agreement.[2]

1 USTR, at: https://ustr.gov/sites/default/files/enforcement/301Investigations/DST_Initiation_Notice_June_2020.pdf

2 David Parker "New Approaches to Economic Challenges: Confronting Planetary Emergencies: OECD 9 October 2020" (10 October 2020) https://www.beehive.govt.nz/speech/new-approaches-economic-challenges-confronting-planetary-emergencies-oecd-9-october-2020



Trade for All

In November 2019, a report published by New Zealand Trade for All Advisory Board (TFAAB) highlighted the importance of inclusiveness in New Zealand's trade policy.

The TFAAB found that women are under-represented in the tradable sector relative to the rest of the economy. While close to 40% of the world's SMEs are woman-owned, only 15% of exporting firms are led by women, according to one estimate.

In relation to Māori, the TFAAB also highlighted the importance of strengthening the Māori-Crown Partnership and the Government's capability to reflect Te Ao Māori offshore.

Trade and gender

In August, members of the Inclusive Trade Action Group – New Zealand, Canada and Chile – signed the Global Trade and Gender Arrangement (the *Arrangement*). Central aspects of the Arrangement are:

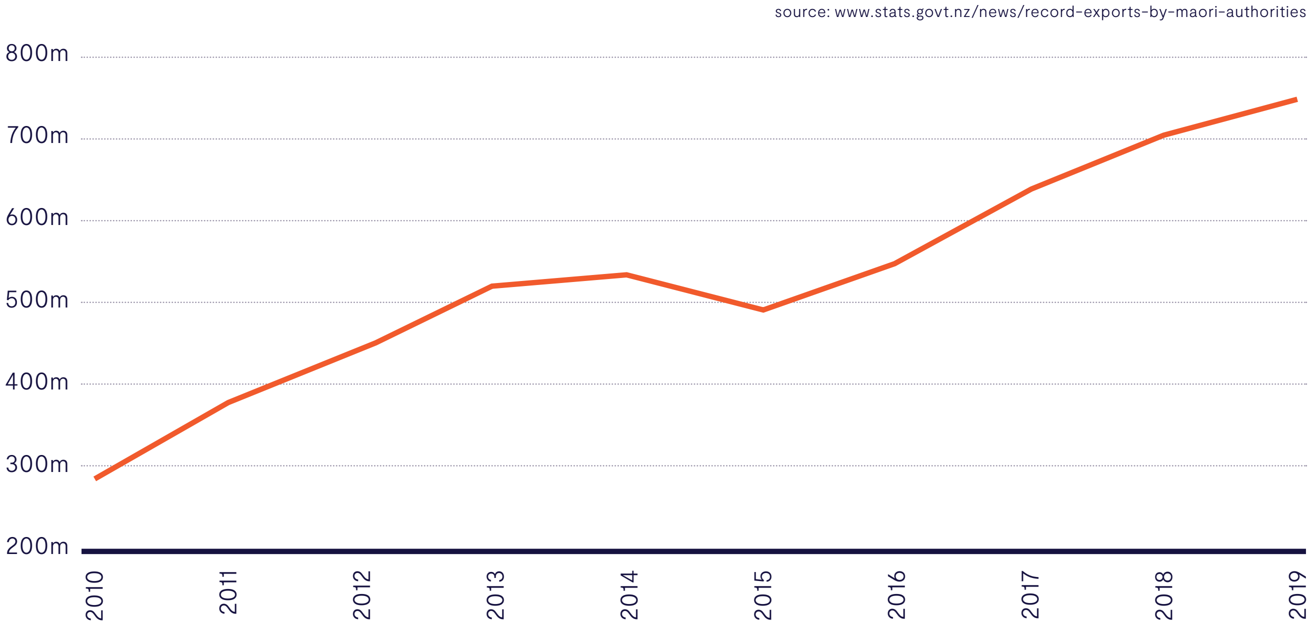
- cooperation and sharing of best practices to eliminate gender discrimination in employment
- cooperation activities to promote the internationalisation of SMEs led by women, leadership and education in fields which are traditionally male-dominated, financial inclusion, business development services and the enhancement of economic opportunities for rural women and Māori, and
- continued commitment to Goal 5 of the Sustainable Development Goals, which addresses gender equality and the empowerment of all women and girls.

Many of the obstacles the TFAAB identified to women's participation in trade are reflected in the Arrangement, including:

- greater difficulty accessing finance
- difficulty accessing information, networks and business support necessary for success
- under-representation in business leadership and governance roles
- difficulty in navigating government services in relations to export requirements
- being located in rural communities or running home-based businesses, and
- lack of access to the digital economy, which is potentially a key enabler of women in trade.

The Arrangement is open for any interested economies to join. In three years, the participants will decide whether to elevate it to "treaty status", which is New Zealand's preference.

Total goods exports of Māori authorities, 2010-19



Indigenous trade

The Māori economy is a significant and growing part of New Zealand's economy, particularly the primary sector. Iwi own 50% of fishing quota, 40% of forestry, 30% of lamb production, 30% of sheep and beef production, 10% of dairy production and 10% of kiwifruit production.[1] Māori also have a strong presence in the tourism industry.

Last year Cabinet signed up to a whole-of-government strategy to address claims relating to mātauranga Māori (traditional knowledge), artistic and cultural expression, indigenous flora and fauna, and New Zealand's natural environment.

This specifically brings consultation with Māori as a Treaty partner into the Trade for All Agenda. The appointment of Nanaia Mahuta as Minister of Foreign Affairs is likely to reinforce the central importance of Māori interests in New Zealand's trade negotiations and in the implementation of international treaties.

Initiatives already undertaken include the creation in 2019 of Te Taumata – a partnership between Māori and the Ministry of Foreign Affairs and Trade (with Te Tiriti o Waitangi as a foundation document) that aims to help the government better promote and protect indigenous peoples' interests, particularly in trade agreements. Te Taumata acts as the government's first port of call for trade discussions with Māori communities, businesses and exporters.

Other recent indigenous measures are the Australia and New Zealand collaboration arrangement (signed on 3 March 2020, and believed to be the first standalone bilateral agreement of its kind), which brings the two countries' indigenous peoples and policy makers closer together to promote economic, social and cultural advancement.

1 Te Taumata "The Māori economy" https://www.tetaumata.com/maori-economy/

APEC 2021

Asia-Pacific Economic Cooperation

On 20 November, the leaders of the 21 APEC economies issued the Kuala Lumpur Declaration and launched the new APEC Putrajaya Vision 2040. The Declaration reiterates the importance of working together to ensure trade and investment can continue to flow despite the pandemic.

Looking to the future, the Putrajaya Vision is for an “open, dynamic, resilient and peaceful Asia-Pacific community by 2040”. The vision includes three pillars:

- Trade and Investment: to ensure that the Asia-Pacific region remains the world’s most dynamic and interconnected regional economy, including through support for the WTO and work on the Free Trade Area of the Asia-Pacific (FTAAP),
- Innovation and Digitalisation: to foster an enable environment and empower people and businesses to participate and grow in an interconnected economy, and
- Strong, Balanced, Secure, Sustainable and Inclusive Growth: to foster quality growth that brings benefits and greater health and wellbeing to all, including MSMEs, women and others with untapped economic potential.

New Zealand will host APEC 2021, using a fully virtual meeting approach, which will undoubtedly present a challenge to meaningful and practical engagement. But our hosting role will also give us an opportunity to influence the economic direction of the Asia Pacific region as it faces the challenges of managing the pandemic and rebuilding economies.

What is on the agenda for 2021?

Unsurprisingly, Covid and responding to the trade and economic impact caused by the pandemic will be fundamental to the agenda for 2021. It will also fall to New Zealand to lead the conversation on beginning the practical implementation of the Putrajaya Vision.

APEC Business Advisory Council

The APEC Business Advisory Council (ABAC) was created in 1995 to provide advice on business sector priorities and a business perspective on specific areas of cooperation. It is the “voice of business” for APEC. Each economy has three Members who, along with their counterparts from other APEC economies, speak directly to APEC’s Economic Leaders.

New Zealand’s ABAC members are:

Rachel Taulelei
incoming Chair of ABAC 2021, and CEO of Kono

Toni Moyes
Head of International, Sharesies

Malcolm Johns
CEO of Christchurch International Airport

Looking ahead to 2021, New Zealand’s ABAC members are focused on:

- hearing what business needs to be successful in the Asia Pacific
- getting ‘air time’ for Māori business, and
- advancing ABAC in a distinctively Kiwi way.

Brexit

The transition period during which the pre-Brexit trade status quo prevails ends in December. At the time of going to press, there was no agreement between the UK and the EU in sight. This was not what the British public were led to expect when they voted to leave the EU in 2016.

On the contrary, they were told by Trade Minister Liam Fox in 2017 that the deal should be "one of the easiest in human history" to reach.[1] Now British Prime Minister Boris Johnson is telling the EU to "only come to us if there is some fundamental change of approach".[2]

During the transition period, the UK stays in the EU and the single market. Trade between the UK and the EU has continued and the UK has been covered by EU-third country trade agreements, which give the UK market access to around 40 non-EU countries.

After the transition period ends, EU trade agreements will no longer apply to the UK. The UK is in the process of 'rolling over' the EU's third country agreements, but this may not be complete by the December deadline. Where agreements are not 'rolled over', trade with the country in question will move to WTO terms. In many cases, this will mean higher tariffs – which would be a real blow to UK businesses that relied on preferential rates.

If trade talks between the EU and the UK collapse, the UK would have no trade deal with its largest trading partner. The consequences of this would be extremely serious:

- the UK Government's modelling suggests that a hit to GDP of almost 8%, against 5% for a thin "Canadian style" arrangement,[3] and
- a London School of Economics report[4] has the long-term economic effect of a go-it-alone Brexit two to three times larger than the COVID-19 impact (and the UK's experience with Covid has been severe).

It would hit particular industries more than others. Food manufacturing and British farmers may be disproportionally affected. The EU's average most favoured nation tariff rate for meat is around 48%, but is as high as 76% for some products.[5]

A 'no deal' outcome would also resurrect the threat of a border in Ireland between North and South. At present, the Withdrawal Protocol keeps Northern Ireland inside the European single market and customs union, with Great Britain outside. This arrangement would require controls on goods moving between the two Irelands, something that could be manageable with a trade deal. Without a deal, and if the UK does not implement the special arrangements for Northern Ireland agreed in the Withdrawal Agreement, Ireland faces the unhappy prospect of a hard land border being re-established.

Separately, New Zealand and the UK formally launched free trade negotiations in June this year. The UK is New Zealand's sixth largest trading partner, with two-way trade totalling almost NZ$6b last year. Meanwhile, an issue of ongoing concern for New Zealand is the UK and EU's proposal to evenly split country specific tariff rate quotas between them, including those for sheep meat and butter. This issue remains under discussion, with New Zealand arguing that the suggested approach would reduce exporters' access into the UK and EU markets.

1 Financial Times 'Liam Fox: EU-UK trade deal should be one of 'easiest in human history'' (20 July 2017) https://www.ft.com/content/f6904138-e90d-30f4-b3b7-23f3755d8b86

2 Financial Times 'Boris Johnson throws down 'no deal' gauntlet to EU' 17 October 2020 https://www.ft.com/content/865a86a1-dcee-4554-908c-40a7046069c4

3 https://ukandeu.ac.uk/the-uk-economy-brexit-vs-covid-19/

4 https://blogs.lse.ac.uk/brexit/2020/08/26/a-no-deal-brexit-may-still-be-more-costly-than-covid-19/

5 AHDB 'EU and UK import tariff rates for selected sheep meat products' https://ahdb.org.uk/eu-and-uk-import-tariff-rates-for-selected-sheep-meat-products.

Sanctions / export controls

Sanctions

The US continued to ramp up its sanctions regime this year, including on Venezuela and Iran – causing the rial to drop more than two thirds of its value and prompting Iran to become the first country to adopt bitcoin at a state level for value exchange to fund imports.

Also this year, the US sanctioned senior officials in the International Criminal Court (ICC), including chief prosecutor Fatou Bensouda. The move, which is unprecedented, seems to have been in response to the ICC's investigations into alleged war crimes committed by the US and others in Afghanistan. It allows the US to block the US assets of ICC employees and prevent the named officials from entering the US.

In July, on the other side of the Atlantic, the UK adopted its first autonomous human rights sanctions regime, which largely mirrors that of the US. Regulations give the UK Government the power to designate persons – whether state or non-state actors – who are or have been involved in serious violations of human rights.

Export controls

Two developments this year are of particular relevance to New Zealand companies.

- The extension in October of the scope of items subject to export controls under New Zealand's *Customs and Excise Act 2018*. These changes will increase compliance requirements on businesses which export products or equipment that can be used to materially enable or support operations or functions of a military or internal security nature.
- The adoption by China of its first ever comprehensive and consolidated export control law (due to come into effect on 1 December 2020). Previously, export controls were imposed through a series of separate administrative regulations controlling dual-use, military items, nuclear, missile, chemical and biological items, and related technologies, etc.

The law provides that legal liability will be applied to any organisation or individual outside China's territory that "endangers the national security and interests" of China or "obstructs the fulfilment of non-proliferation or other international obligations".

This suggests that China will have extraterritorial jurisdiction over offshore conduct, but according to available commentary, the literal language is not further defined in the legislation.

Both New Zealand's and China's changes reflect heightened global tensions. China's moves will impose restrictions on a number of cutting edge technologies that have become sensitive due to geopolitical or foreign government scrutiny. The New Zealand Government, for its part, is seeking to ensure that trade can be monitored in respect of hardware or technology that might contribute to a conflict or a human rights violation, or be used to support repressive regimes that challenge New Zealand's security interests.

Looking towards 2021: international trade at a crossroads

International trade is undeniably at a crossroads, with decades of relative stability and growth behind us. Countries have a fundamental choice to make: will they take the path of introspection and protectionism as many did when confronted with the Great Depression in the 1930s, or will they cooperate to keep their economies open and take steps to reform international rules and institutions?

Some will inevitably be tempted by the first path. This prospect is deeply concerning. As we said in last year's edition of this publication, "in the face of slowing global economic growth and rising nationalism, the multilateral system is more important than ever". It could not be more critical as we head into 2021.

There has been a lack of international cooperation to tackle the Covid pandemic which has added to already rising geopolitical tensions and distrust between states. Industrial policy is gaining ground as a preferred tool for developing national economies and safeguarding systemically important industries against foreign take-over, reinforcing an already existent protectionist trend. Covid will only give support to leaders who want to promote domestic manufacturing (however inefficient and expensive) rather than cross-border trade.

New Zealand has benefitted greatly from the multilateral rules-based system and we have refreshed our commitment through RCEP, which will create Asia's largest free trade zone. But that is not enough. The challenge of recovering from Covid will be complicated by the fact that the multilateral system is sorely in need of reform.

In a crisis there are opportunities to cooperate, reform, and 'build back better'. In the international trade context, this means recognising and addressing the weaknesses in the multilateral system. The pandemic should be seen as an opportunity for likeminded countries to find strength in numbers and cooperate to reform the system for a new era.

New Zealand is well positioned to play a key role in shaping that reform, which must include being more inclusive and responsive to the critical issues facing the world, including climate change.[1]

We cannot afford to look back with nostalgia or look forward with fear. The world is changing, and it is time to take proactive steps to shape the direction of change.

1 Nikkei, 'RCEP nations to sign Asian trade megadeal, with clause for India' (12 November 2020) https://asia.nikkei.com/Economy/Trade/RCEP-nations-to-sign-Asian-trade-megadeal-with-clause-for-India

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