Master of International Trade (MIntTr)
ITRA501: Multidisciplinary Approaches to International Trade

STUDENT NOTE

Sustaining Openness: Embedding Equity and Sustainability in New Zealand's Trade Policy

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December 2025

Abstract

Since the mid-1980s, New Zealand has implemented one of the most comprehensive programmes of unilateral trade liberalisation among advanced economies, generating efficiency gains and export diversification. However, liberalisation has also produced persistent inequities for vulnerable communities and growing environmental pressures, particularly in the dairy sector. This note argues that New Zealand should preserve unilateral openness while correcting the equity and environmental gaps it created through a compact, WTO-compliant programme. Three policy pathways are advanced: targeted worker and community adjustment measures to address distributive impacts; sector-specific environmental regulations for dairy to internalise emissions costs; and a tiered system for biotechnology approvals that balances innovation with public safety. These reforms demonstrate how a small, trade-dependent economy can sustain openness while addressing the distributional and ecological costs of liberalisation.

Keywords: trade liberalisation, New Zealand, sustainability, equity, environmental regulation, biotechnology, WTO compliance

I Introduction

Since the mid-1980s, New Zealand has implemented one of the most comprehensive and sustained programmes of unilateral trade liberalisation among advanced economies. However, this liberalisation has also produced persistent inequities for vulnerable communities, low-skilled workers and growing environmental pressures in the dairy sector.[1]

This note argues that New Zealand should preserve unilateral openness while correcting the equity and environmental gaps it created, through a compact, WTO-compliant programme. The case for reforms rests on two observed facts.[2] First, post-1984 liberalisation generated enduring benefits, including efficiency gains, diversification of export markets and normative influence in international trade governance.[3] Second, the pace and absoluteness of reform magnified social dislocation and ecological strain.[4]

In light of these outcomes, this note proposes a sustainability-oriented framework that integrates social, environmental and competitiveness objectives. This includes targeted, place-based support for workers and communities in import-competing sectors, strengthened environmental regulation in the dairy industry to internalise emissions costs and a calibrated approach to liberalising biotechnology to capture welfare gains while safeguarding public safety. Collectively, these measures illustrate

1 Bryce Wilkinson "The Mixed Success of New Zealand's Economic Liberalisation" (2019) 43 Economic Affairs 128 at 128; Sue Cassells and Anton Meister "Cost and Trade Impacts of Environmental Regulations: Effluent Control and the New Zealand Dairy Sector" (2002) 46 Australian Journal of Agricultural and Resource Economics 1 at 258.

2 Steven Stillman, Malathi Velamuri and Andrew Aitken "The Long-Run Impact of New Zealand's Structural Reform on Local Communities" (2010) 38 Journal of Comparative Economics 432 at 432; Jon Barnett and Jonathan Pauling "The Environmental Effects of New Zealand's Free-Market Reforms" (2005) 7 Environment, Development and Sustainability 271 at 272.

3 Tim Groser "The CER Negotiations: The Real Backstory" (2020) 16 Policy Quarterly 8 at 9.

4 Iris Claus "New Zealand's Economic Reforms and Changes in Production Structure" (2009) 12 Journal of Economic Policy Reform 133 at 133.

how a small, trade-dependent economy can sustain openness while addressing the distributional and ecological costs of liberalisation, offering a model of resilience without resorting to protectionism.

II Analysis

A Background: New Zealand's Protectionist Past

New Zealand's far-reaching turn to unilateral trade liberalisation in 1984 was driven by decades of entrenched protectionism, stagnant productivity, and a deep balance of payments deficit.[5] Decades of high tariffs and strict import licensing had insulated domestic producers from international competition.[6] This happened at the cost of efficiency and investment.[7] These structural weaknesses were compounded by an over-reliance on the United Kingdom as a primary export market, leaving the country vulnerable to external shocks.[8] When the United Kingdom joined the European Economic Community (EEC) in 1973, it exposed the fragility of this dependency and catalysed a shift in policymakers' thinking towards pursuing export diversification and regional engagement.[9]

Building on this emerging reform momentum, the 1983 Australia–New Zealand Closer Economic Relations (CER) agreement marked a decisive step toward liberalisation. By dismantling bilateral trade barriers, it promoted a more efficient allocation of resources and positioned New Zealand to engage more fully in Asia-

5 Richard Osborne "Toward Prosperity? Some Aspects of Recent Economic Deregulation in New Zealand" (1990) 8 UCLA Pacific Basin Law Journal 158 at 158.

6 Lewis Evans and Martin Richardson "Trade Reform in New Zealand: Unilateralism at Work" Working Paper Series 19033, Victoria University of Wellington, The New Zealand Institute for the Study of Competition and Regulation <www.ideas.repec.org> at 7; Groser, above n 3, at 8.

7 At 9

8 At 8.

9 At 8.

Pacific economic development.[10] However, declining per capita incomes and weak foreign investment underscored the unsustainability of the protectionist model.[11] The domestic economy could no longer absorb these inefficiencies without jeopardising long-term growth. As former Reserve Bank Governor Don Brash observed, liberalisation was not externally imposed but stemmed from deliberate policy choices to restore competitiveness and resilience.[12]

Following the 1984 reforms, the Fourth Labour Government implemented measures that progressively dismantled import licensing and export incentives. These reforms led to rapid efficiency gains, diversified export markets and a significant increase in New Zealand's global economic freedom ranking among OECD countries from 27th in 1985 to 3rd in 1995.[13] The economic literature widely recognises that unilateral liberalisation was necessary to address the structural rigidities of the pre-1984 economy and to integrate New Zealand more fully into global trade networks.

Yet, the reforms were executed with exceptional speed and breadth, leaving enduring social and environmental legacies.[14] The manufacturing sectors experienced significant job losses and rural communities dependent on traditional agriculture faced structural dislocation. Environmental pressures, particularly in the dairy sector, intensified as production expanded without sufficient regulatory oversight. While the initial policy focus emphasised competitiveness and efficiency, persistent inequities now necessitate a recalibration of trade policy. This recalibration must preserve the gains of liberalisation while addressing distributional and ecological costs in a

10 At 9.
11 At 8.
12 Don Brash "New Zealand's Remarkable Reforms" Reserve Bank of New Zealand <www.rbnz.govt.nz>.
13 Wilkinson, above n 1, at 130.
14 At 167.

manner consistent with New Zealand's WTO obligations.

B Pathways to Sustainable Trade Reform

1 Targeted Worker and Community Adjustment Programmes

Liberalisation in New Zealand has produced clear aggregate gains, but its costs have fallen disproportionately on workers in import-competing sectors. Between 1988 and 1993, over 40,000 manufacturing jobs were lost, reflecting the transition towards services and higher-value industries.[15]

Today, one in four New Zealand jobs remains directly or indirectly tied to trade, leaving the economy highly vulnerable to external shocks.[16] Yet existing active labour-market policies (ALMPs) are both underfunded compared to OECD peers and poorly tailored to trade-related dislocation.[17]

The OECD's 2017 report, *Back to Work: New Zealand*, notes that, unlike Australia and many OECD peers, New Zealand lacks targeted programmes to support workers displaced by trade liberalisation.[18] While the current system under Work and Income provides redundancy payments, these are voluntary and do not systematically facilitate reintegration or retraining for displaced workers.[At 20]

New Zealand would benefit from an active and targeted redundancy insurance system for import-competing sector jobs. For instance, the Trade Adjustment Assistance programme (TAA) in the United States assists both displaced workers

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15 Jane Kelsey "Market and Trade Liberalisation" in *The New Zealand Experiment: A World Model for Structural Adjustment?* (Bridget Williams Books, Wellington, 1997) 104 at 104.

16 "Promoting Global Trade and Investment" Ministry of Business, Innovation and Employment <www.mbie.govt.nz>.

17 New Zealand Productivity Commission "Employment, Labour Markets and Income: Technological Change and the Future of Work" The Treasury <www.treasury.govt.nz> at 76.

18 "Back to Work: New Zealand – Improving the Re-employment Prospects of Displaced Workers" Organisation for Economic Co-operation and Development <www.oecd.org> at 84.

and affected companies that can prove injury from increased imports.[19] By carefully targeting specific industries such as manufacturing, New Zealand could adopt a more effective approach than the TAA experiences in the United States and Australia, avoiding past policy shortcomings.

A New Zealand TAA-style programme would need to be carefully structured to comply with the WTO's Agreement on Subsidies and Countervailing Measures (SCM). Article 5 of the SCM Agreement prohibits Members from providing subsidies that cause adverse effects to the interests of other Members, which include (a) injury to the domestic industry of another Member, (b) nullification or impairment of benefits under GATT 1994 and (c) serious prejudice to another Member's interests. Material injury under Article 5(a), read with Article 15, requires a demonstrable and significant impact on the domestic industry of the importing Member.[20]

This provision is directly relevant because it limits how New Zealand can provide financial support to workers or firms without triggering trade disputes. The TAA-style programme should focus solely on worker retraining, wage support and community adjustment, avoiding direct subsidies to firms to minimise the risk of causing "material injury" to industries in other WTO Members.

Critics of TAA note that while it protects workers, it can temporarily subsidise firms, potentially reducing incentives to reallocate labour to more productive sectors.[21] Opponents argue that such subsidies may distort labour markets and encourage dependence, undermining the efficiency gains of liberalisation. Yet, by focusing

19 Nan Zhang "A Critical Evaluation of Policies and Programmes that Mitigate the Effects of Free Trade on Unemployment" (MBus Dissertation, Auckland University of Technology, 2008) at 21.
20 *European Communities and Certain Member States – Large Civil Aircraft (Article 21.5 – US)*, WT/DS316/RW2, 22 September 2016 (Report of the Panel).
21 Michael Aho and Thomas Bayard "Costs and Benefits of Trade Adjustment Assistance" in Robert Baldwin and Anne Krueger (eds) *The Structure and Evolution of Recent US Trade Policy* (University of Chicago Press, Chicago, 1984) 153 at 166.

narrowly on worker retraining, wage support and community adjustment, a New Zealand TAA-style programme minimises these risks. Modest, targeted support is likely far less costly than the long-term social and economic burden of dislocation, inequity and potential trade disputes. Unlike anti-dumping or protectionist interventions, this approach preserves the efficiency-enhancing effects of trade and reinforces New Zealand's commitment to a rules-based trading order.

2 Dairy Environmental Regulations with Market Access

Sustaining New Zealand's dairy exports requires targeted regulations that internalise environmental costs without undermining market access. Agriculture, forestry and fishing accounted for 61 per cent of regional industry emissions in 2024,[22] with dairy contributing roughly half of livestock-related GHG emissions, primarily through enteric methane.[23]

While liberalisation has expanded the sector and boosted exports, it has also intensified nutrient run-off and waterway pollution, creating a clear tension between economic growth and environmental sustainability.[24] Current policies have slowed emission growth but remain insufficient to meet the medium-term 2030 emissions target, underscoring the urgent need for sector-specific interventions that align production with environmental outcomes.[25]

New Zealand's environmental oversight in agriculture has historically relied on devolved regulation through the Resource Management Act 1991 and broad climate obligations under the Climate Change Response Act 2002. Yet with agriculture

22 Stats NZ "Greenhouse Gas Emissions by Region (Industry and Household): Year Ended 2024" <www.stats.govt.nz>.
23 Hanyang Ge "An Overview of New Zealand's Economic and Environmental Sustainability in Agriculture: 40 Years Without Subsidies" (2025) 1 Journal of Sustainability 1 at 11.
24 Barnett and others, above n 2, at 271.
25 Ge, above n 23, at 11.

excluded from the ETS and dairy accounting for roughly half of livestock-related emissions, this approach has left a critical gap.[At 11.]

Unlike the European Union's Common Agricultural Policy, which devotes 23 per cent of payments to eco-schemes with measurable results,[26] New Zealand has traditionally eschewed subsidies in favour of market-based instruments such as taxes. With agriculture excluded from the 2025 New Zealand Emissions Trading Scheme,[27] a dairy-specific eco-conditional payment scheme offers a more pragmatic alternative. For example, payments could be tied to verified reductions in nutrient run-off or methane emissions, linking support directly to measurable environmental outcomes.

Like the TAA-style programme, the eco-conditional payment scheme would have to comply with the WTO SCM Agreement. Under Article 2.1(a), a subsidy is actionable only if it is "specific," meaning it is expressly limited to certain enterprises, as confirmed by the Panel in *EC – Large Civil Aircraft*.[28] For New Zealand's proposed dairy eco-conditional payments, the key lies in programme design. If support is legally restricted to dairy, it would constitute de jure specificity and risk countervailing action. However, by structuring eligibility around measurable environmental outcomes, such as verified reductions in nutrient run-off or methane emissions, the scheme avoids targeting a specific sector. In this way, it can be framed as a horizontal environmental measure. In doing so, New Zealand can internalise dairy emissions while ensuring the payments fall within WTO-consistent "green box" subsidies.

Critics might argue that a dairy-specific eco-conditional payment scheme would be

26 European Union "Agriculture and Rural Development – The 28 CAP Strategic Plans Underway: Summary of Implementation in 2023–2024 – Facts and Figures" <www.webgate.ec.europa.eu> at 10.
27 "DairyNZ welcomes NZ ETS agriculture exemption" DairyNZ <www.dairynz.co.nz>.
28 *European Communities and Certain Member States – Large Civil Aircraft*, WT/DS316/AB/R, 15 May 2018 (Report of the Appellate Body).

expensive and may fail to achieve meaningful environmental outcomes. Evidence from the EU's Common Agricultural Policy shows that large subsidies are often inefficiently allocated, with the greatest funds going to high-income farms or regions with high emissions, limiting the policy's ability to reverse environmental degradation and reduce GHGs.[29]

There is a risk that, without precise targeting and monitoring, New Zealand's scheme could replicate these inefficiencies, offering payments without guaranteeing measurable reductions in nutrient run-off or methane emissions. However, the scheme's design can explicitly tie payments to verifiable environmental outcomes, ensuring that support rewards genuine emission reductions rather than farm size or sector.

3 Unlocking Biotechnology: Safe Innovation for Consumers and Culture

Over the past several decades, New Zealand has maintained a highly precautionary and tightly regulated approach to biotechnology outside the laboratory. This position contrasts with its reputation as one of the most liberalised economies globally. The introduction of the Gene Technology Bill 2024 marks a significant departure from this longstanding regulatory conservatism, establishing a new framework for gene technology and genetically modified organisms (GMOs).[30]

Although still at an early stage, the Bill must carefully balance the need for innovation with New Zealand's international reputation for environmental stewardship, while giving effect to the Treaty principles explicitly recognised in its drafting.[31]

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29 Guy Pe'er and Sebastian Lakner "The EU's Common Agricultural Policy Could Be Spent Much More Efficiently to Address Challenges for Farmers, Climate, and Biodiversity" (2020) 3 One Earth 173 at 173.

30 "Gene Technology Bill passes first reading" New Zealand Government <www.beehive.govt.nz>.

31 "Gene Technology Bill introduced to Parliament – expert reaction" Science Media Centre <www.sciencemediacentre.co.nz>.

Before the Bill, the Hazardous Substances and New Organisms Act 1996 (HSNO) imposed highly restrictive controls that many commentators criticised as unduly burdensome.[32] The Gene Technology Bill 2024, by contrast, signals a shift towards a more enabling regulatory environment. Crucially, this Bill cannot be absolute; a carefully conditioned opening is necessary to ensure that innovation delivers tangible consumer benefits while continuing to safeguard public safety.

A practical policy measure would be a tiered approval system, fast-tracking low-risk gene technologies while subjecting higher-risk applications to careful scrutiny. To make this approach culturally and environmentally robust, each application should be assessed through Māori cultural values (tikanga) and Treaty of Waitangi obligations, with qualified Māori experts having a genuine decision-making role rather than merely an advisory one. This combination of science and tikanga ensures that biotechnological innovations reach consumers safely, gain public trust and respect New Zealand's cultural and environmental values.

In line with its WTO commitments, the Gene Technology Bill 2024 must comply with the obligations set out in the Sanitary and Phytosanitary (SPS) Agreement. Under Article 2.2, the Panel in *EC – Approval and Marketing of Biotech Products* found that the provision should (i) be applied only to the extent necessary to protect human, animal or plant life or health, (ii) be based on scientific principles; and (iii) not be maintained without sufficient scientific evidence.[33]

The Gene Technology Bill 2024 must carefully align with WTO SPS Article 2.2, ensuring that any restrictions on biotechnology are scientifically justified, necessary to protect human, animal or plant health and proportionate to the risk involved.

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32 Above n 32.

33 *European Communities – Approval and Marketing of Biotech Products*, WT/DS291/R, 29 September 2006 (Report of the Panel).

Embedding Māori tikanga alongside evidence-based evaluation allows New Zealand to uphold Treaty obligations and public trust without compromising WTO compliance.

A possible counterargument could be that embedding Māori tikanga and a tiered approval system could slow down innovation, add administrative complexity and make New Zealand appear less agile in biotechnology. However, the Bill's risk-proportionate, tiered approach allows low-risk innovations to proceed quickly while ensuring higher-risk applications are carefully evaluated.

Experts like Dr Andrew Allan and Dr Hilary Sheppard emphasise that modernising regulations to focus on measurable risks reduces unnecessary red tape, enabling faster research in medicine, agriculture and conservation.[34] Additionally, incorporating tikanga alongside scientific assessment builds public trust, strengthens cultural legitimacy and positions New Zealand as a global leader in responsible, ethical biotech innovation.

III Conclusion

New Zealand's experiment with unilateral trade liberalisation has delivered enduring competitiveness gains but also entrenched inequities and environmental strain. This note has argued that the challenge today is not whether to remain open, but how to preserve openness in a way that is socially and environmentally sustainable, while consistent with WTO rules.

Three policy pathways have been advanced. First, targeted worker and community adjustment measures can address the distributive impacts of liberalisation, ensuring that trade's burdens are shared more fairly. Second, sector-specific environmental

[34] Gene Technology Bill introduced to Parliament – expert reaction, above n 31.

rules for dairy would internalise emissions costs without closing markets, aligning New Zealand with international sustainability expectations. Third, a tiered system for biotechnology approvals would enable consumer and economic benefits while respecting public safety and WTO disciplines.

Taken together, these reforms demonstrate how unilateral openness can evolve into a model of sustainability-centred trade policy. They show that small states can internalise the social and ecological costs of liberalisation without resorting to protectionism. For New Zealand, the path forward is arguably not retrenchment, but disciplined innovation, embedding equity, environmental stewardship, and scientific rigour into its trade regime. In doing so, New Zealand can sustain its openness, maintain credibility in the WTO and shape a distinctive voice in global trade governance.