

STUDENT NOTE

Beyond Efficiency: Integrating Sustainability into New Zealand's Trade Liberalisation Model

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Abstract

New Zealand's 1980s trade liberalisation reforms achieved economic efficiency but generated unresolved social and structural challenges. This paper argues that sustainable prosperity requires integrating environmental, economic and social dimensions into New Zealand's trade architecture. Environmentally, agriculture's productivity gains have intensified greenhouse gas emissions, threatening market access as trading partners impose stricter climate standards. The EU-NZ FTA demonstrates how sustainability clauses align trade with climate objectives. Economically, New Zealand's concentrated export base creates vulnerability to external shocks, as evidenced during COVID-19. Export diversification and low-emission production are essential, particularly as the EU's Carbon Border Adjustment Mechanism links competitiveness to sustainability. Socially, reforms displaced manufacturing communities and eroded public trust; just transition frameworks offer pathways to ensure equitable distribution of benefits. Embedding sustainability across these pillars enables New Zealand to maintain market access whilst honouring ecological responsibilities and strengthening social legitimacy for trade policy.

Keywords: trade liberalisation, sustainability, New Zealand, environmental policy, social inclusion, economic diversification

I Introduction

In the 1980s, New Zealand underwent a fundamental change. A plethora of liberalised market reforms shaped New Zealand into a worldwide example of unilateral trade liberalisation. The period is characterised by many as one of necessary and positive change for economic growth and prosperity. However, some argue that the reforms created detrimental social issues, the prices of which are still being paid by those affected. The ‘losers’ of globalisation, as some might say. Forty years on, New Zealand is facing major pressures that are new but also pressures that have been built upon from the past. Environmental degradation, social inequality and vulnerability to external shocks are issues today that must be addressed for New Zealand to have a sustainable future.

This paper explores these issues and hypothesises that New Zealand must move beyond just economic efficiency and transition its practices towards sustainability. Sustainability at the top of the agenda, this paper argues, is crucial in forming a resilient and prosperous future.

Evaluation of this hypothesis stems from an analysis of three key pillars of sustainability: Environmental, Economic, and Social Inclusion. Each section of analysis will outline the issues facing the pillars, assess the extent to which these issues are being addressed, and provide explanations as to how these issues can be tackled better in the future. These assessments will be precluded by a brief exposé on the contextual background of New Zealand’s unilateral liberalisations and concluded with an evaluation of the analysis conducted.

II Analysis

This analysis examines New Zealand’s trade liberalisation model through three interconnected pillars of sustainability: environmental, economic and social. Each pillar reveals distinct challenges and opportunities for integrating sustainability into

New Zealand's trade architecture, whilst also highlighting the interdependencies between environmental protection, economic resilience and social equity.

A Contextual Background: New Zealand's Trade Liberalisation Reforms

The mid-80s in New Zealand marked a radical change from its post-war protectionism. Motivation for the change stemmed from numerous factors pre-1984. New Zealand's export market was becoming heavily restricted with Britain's accession to the European Community in 1973, as well as struggles to export agriculture into markets with strict subsidisation laws and agricultural protection.¹ In addition, the 'Think Big' state-funded government investment programme aimed to protect New Zealand from world oil prices, after oil price shocks in 1974 and 1979, which led to negative macroeconomic indicators, characterising an era of large fiscal deficits, high inflation, and lack of international competitiveness.²

After a change of government in 1984, reforms moved quickly with the deregulation of interest rates, removal of international capital restrictions, floating of the currency in foreign exchange markets and the phasing out of most agricultural subsidies.³ A new regulatory mechanism was in place through The Commerce Act of 1986, replacing sector-specific regulation with institutionalised competition.

The effects of such radical liberalisation have been significant. Inflation was reduced from 15 per cent to 2 per cent between 1986-1996, complemented with annual economic growth rates of 4 per cent. The introduction of competition policy and the removal of subsidies forced industries such as agriculture to become more efficient

¹ Alan Bollard "New Zealand" in John Williamson (ed) *The Political Economy of Policy Reform* (Peterson Institute, 1994) 73-110 at 74.

² At 74.

³ Paul Dalziel "New Zealand's Economic Reforms: An Assessment" (2002) 14 *Rev Polit Econ* 31-46 at 33.

if it was going to stay competitive on the global market. Agriculture did just that, with the sector now being globally competitive as a highly advanced and innovative industry, stimulating demand for agricultural exports.

However, the reforms also created strong social and structural pressures. Removal of protections in industries such as manufacturing was accompanied by unemployment and regional economic decline. The Employment Contracts Act of 1991 marginalised labour unions, weakening worker protections and ultimately leading to increased job cuts. Social injustice was felt in communities affected by such policies, as the so-called losers of globalisation were forgotten amidst the roaring increase in economic efficiency. The context is key. This paper accepts the benefits of New Zealand's radical policy changes, but also the consequences. When assessing the future pathway for a resilient New Zealand future, this paper aims to complement the need for an open and efficient economy alongside the importance of social inclusion as the backbone of future prosperity.

B Environmental Sustainability and Trade Architecture

Agriculture was heavily impacted by New Zealand's liberalisation. The 1980s removal of subsidies and price supports forced the farming sector to become more innovative, improving efficiency and competitiveness on the international market. Between 1978 and 2023, New Zealand's agriculture sector's multifactor productivity has grown by 189 per cent, alongside labour productivity and capital productivity growing by 254 per cent and 128 per cent respectively.⁴ The reforms turned agriculture into a highly competitive and export-oriented industry, with meat and dairy being the two highest exports in 2024.⁵ However, the success in productivity

⁴ Paul Clark "Productivity of New Zealand Agriculture" Economic Bulletin <www.westpac.co.nz> at 3.

⁵ "Regional Economic Profile – New Zealand's Exports" Infometrics <www.infometrics.co.nz>.

for the agriculture sector is coupled with significant environmental costs. Increased productivity has accelerated methane and nitrous oxide emissions, with agriculture accounting for roughly 53.1 per cent⁶ of New Zealand's greenhouse gases. Globally, there is a growing incentive to reduce emissions and eventually shift to net zero. This is matched with an increased rise in emission restrictions, which are increasingly being incorporated into free-trade agreements and being favoured by consumers. In a highly competitive world market, New Zealand's emissions may threaten its position if agricultural production cannot be marketed as *clean and green*.

To address these challenges, New Zealand must embed sustainability into its production and its trade architecture. Initiatives such as He Waka Eka Noa, a partnership between government, industry and Māori agribusiness, offer an insight into how these issues can be addressed in the future. Its aim is the implementation of a farm-level pricing system for greenhouse gas emissions in agricultural production by 2025. The initiative ensures that the detrimental environmental costs of agricultural production are internalised, ultimately seeking to manage and reduce greenhouse gas emissions. Properties of its framework are the reinvestment of revenue collected into low-emission technology, and its capping effect incentivises production to mitigate its emissions. Although now formally disbanded, this partnership offers an insight into how New Zealand, in the future, could establish a framework that aims to continue its productivity growth while reducing environmental harm. Further, New Zealand must continue to incorporate environmental sustainability at the international level. The EU-NZ FTA embeds such ideals, with the shared commitment to implement the Multilateral Environmental Agreements (MEAs) that both sides have ratified, such as the Paris Agreement on Climate Change.⁷ Its Trade and Sustainable

⁶ “New Zealand's Greenhouse Gas Inventory (1990–2023): Snapshot” Ministry for the Environment <www.environment.govt.nz> at 6.

⁷ “The EU-New Zealand Agreement Explained” European Commission

Development chapter also establishes commitments on conservation objectives, such as combating illegal, unreported and unregulated fishing.⁸ The agreement strikes a balance between economic cooperation and sustainability goals, with its underlying emphasis on commons values and benefits beyond purely monetary gains.⁹

Drawing out both domestic and international level commitments towards environmental sustainability highlights key objectives. By embedding environmental protections into its trade frameworks, New Zealand presents itself to the world as a clean, green economy, consolidating a global reputation. The external consequences of such framing are becoming increasingly necessary. In the case of the European Union, New Zealand's commitments to MEAs grant greater market access due to the EU's ever-growing strict emissions standards. In the future, there will be great export value in meeting such standards, and as a nation that relies on its exporting industries, New Zealand must continue to domestically address its high-emission practices. The need for environmental reforms seeks not to hamper New Zealand in the global market but to ensure its agricultural industry's future is sustainable.

C Economic Resilience and Export Diversification

New Zealand's liberalisation achieved greater efficiency; however, it also exposed New Zealand to external volatility. Due to its size, geographic isolation and very concentrated export base, the economy is very sensitive to global shocks and disruption. These vulnerabilities were most recently exposed by the COVID-19 pandemic. Supply chains became constrained, creating logistical bottlenecks. The heavy re-

<www.policy.trade.ec.europa.eu> (see "What about the agreement's impact on the environment?").

⁸ "NZ-EU FTA – Highlights" New Zealand Ministry of Foreign Affairs and Trade <www.mfat.govt.nz> at 5.

⁹ Serena Kelly and Mathew Doidge "Beyond Trade: The European Union–New Zealand Free Trade Agreement" (2023) 51 *Aust NZ J Eur Stud* 23 at 28.

liance on exports meant that once global markets slowed down and borders became less permeable, exports suffered dearly, affecting a large proportion of New Zealand's industry.

Diversification is a factor New Zealand must prioritise to avoid such scenarios. With multiple different markets being accessible, there is less dependency on the economic and political stability of individual countries. Beyond Covid-19, even present-day global trade tensions emphasise the benefits of a diverse export range. China represents roughly 25 per cent of New Zealand exports and accounts for roughly 40 per cent of its total dairy exports. Shifts in demand from China for dairy products would have drastic impacts on the industry. The Ministerial Strategic Advisory Group on Trade noted that only 26 per cent of export firms viewed diversification as an immediate priority.¹⁰ This showcases the need for export diversification to be taken more seriously and placed at the top of the agenda in the field of economic sustainability. Firstly, the continued pursuit of FTAs and economic partnerships will aid this issue. The more markets to which New Zealand can guarantee low barriers to entry, the greater the incentive for firms to alter their export patterns. Firms, however, fear the costs of diversifying their markets. Government assistance may be a way of cushioning the costs, incentivising firms to diversify their markets.

Furthermore, economic resilience can be tied to sustainability. The EU's Carbon Border Adjustment Mechanism (CBAM) is a policy that places a price on certain carbon-intensive goods with the aim of preventing carbon leakage. CBAM is another indication of the growing linkage between competitiveness and sustainability. Providing expertise in how firms can transition from high to lower carbon-intensive

¹⁰ Ministerial Strategic Advisory Group on Trade "Improving NZ's Resilience to Trade Shocks: Analysing Business Risks in the Face of Market Disruption" Sense Partners <www.mfat.govt.nz> at VII.

products is vital for maintaining market access in the EU. Lowering trade barriers opens opportunities for New Zealand exporters; however, CBAM creates another line of thinking. The EU's strict export laws mean that if New Zealand industry fails to make this production switch, the low barriers lose their validity and appeal if the market becomes inaccessible.

Economic sustainability is not a question of limiting production to ensure sustainable targets are met, but rather a concept of providing the necessary assistance to producers that enables transition to low-emissions production whilst maintaining efficiency. Future economic resilience for New Zealand should not be solely built upon various trade agreements creating low trade barriers. It should be built upon investing in low-emission production that ensures market access is continued, and that production falls within the remits of environmental and sustainable boundaries.

D Social Inclusion and Just Transitions

The backbone of economic and environmental sustainability is social stability. While economic success can be attributed to the reforms of the 80s, New Zealand's liberalisation left deep social displacement. Removal of industry protection led to factory closures, deeply affecting towns that relied on manufacturing for employment, with unemployment increasing substantially after 1988.¹¹ The future effects of such decisions erode public trust, weakening the social contract underpinning liberalisation. For New Zealand to experience continued sustainable growth through its economic resilience and agricultural liberalisation, social inclusion must be strengthened behind it.

The Trade for All Advisory Board, established in 2018, presented a framework

¹¹ Dalziel, above n 3, at 44.

through which New Zealand could better highlight and prioritise social issues underrepresented within its trade regime. The 2019 report detailed its goals in multiple different channels, such as the defence of core principles of international law, rights and norms, and the need for UN agencies to deliver better results for the Pacific.¹² More recent trade deals have reflected the fundamental goals of this report, such as the NZ-UK FTA. With dedicated chapters on Māori economic development and small-business participation, this demonstrates how social sustainability can be entrenched into New Zealand trade architecture.

The consequences of New Zealand's reforms in the mid-80s and its current transition towards greener practices can be seen outside of the economic and environmental realm. Structural changes in the form of regional industry closures or job cuts from increased capital have profound effects on communities. For New Zealand to advance in new sustainable practices, safety nets and welfare measures must complement these structural changes. The Just Transitions partnership offers a template for a proactive approach to social sustainability. The concept of just transitions originated from concerns surrounding job losses from environmental policies affecting polluting industries.¹³ The definition has expanded and its characteristics, in a New Zealand context, are restoring and rejuvenating mauri life force to bring social, economic and environmental systems and supports into balance, addressing injustices and inclusivity based on shared principles, values and visions.¹⁴ Tied into the other pillars, the transitions to green production may have consequential social issues for communities that have relied on employment and income from high-emission

¹² "Annual Report 2018–19" New Zealand Ministry of Foreign Affairs and Trade <www.mfat.govt.nz> at 13.

¹³ Just Transitions Aotearoa Group "A Guide to Just Transitions: He Puka Arataki Whakawhitinga Tika" Motu Economic and Public Policy Research <www.mbie.govt.nz> at 10.

¹⁴ At 12.

sectors. Just transition is a framework that accepts the broader need to move towards more sustainable practices but ensures that communities are not abandoned. Thereby, providing the necessary expertise, support and safety net to ensure the social impact of new production practices can maintain the economic stimulus that communities need to thrive. The Taranaki 20250 Roadmap and Action Plan outlines these two components. The region shares a vision for a high-value, low-emissions economy built on sustainability.¹⁵ This vision is complemented by ensuring that people, businesses and communities who are affected by this transition are placed at the heart of the project and support for new opportunities is provided in the future.¹⁶

Politicians and economists who praise New Zealand's radical liberalisation may view the social injustices that occurred as part of the collateral damage in pursuit of greater prosperity for New Zealand. However, the injustices of the past should not be equated with economic efficiency and prosperity. The two must be incorporated side by side in future legislation and partnerships. Social inclusion restores political legitimacy to trade policy, and social trust in New Zealand's trade policy is the backbone that will foster sustainable economic growth. A sustainable future New Zealand economy is inseparable from social sustainability.

III Conclusion

The unilateral liberalisation undertaken by New Zealand in the 1980s may be seen as necessary. It was a response to the economic crisis, stabilising the economy and restoring growth. However, its success needs careful re-examination. Its modern pressures must be examined beyond efficiency and through the lens of sustainability. This paper has argued and demonstrated that by adopting a sustainability framework,

¹⁵ At 56.

¹⁶ Above n 15.

New Zealand can better adapt its liberalisation model for the twenty-first century. Economically, the diversification of its exports and pursuit of green innovation ensure New Zealand maintains open market access and ensures economic resilience. Environmentally, by aligning agricultural liberalism with cleaner and greener production, it ensures New Zealand matches the ever-growing global climate norms that have been embedded in free trade agreements, whilst honouring its domestic ecological responsibilities. Socially, inclusion and just transition are the pathways that ensure the benefits of open trade are passed through equitably across all types of communities and future generations. This paper does not suggest that sustainability should replace economic liberalism. It instead proposes that by integrating economic, environmental and social dimensions into its trade architecture, New Zealand can flourish as an open and sustainable economy.