

The New Zealand – Hong Kong, China

CLOSER ECONOMIC PARTNERSHIP

AGREEMENT

General Review

1 January 2011 – 31 December 2012

Executive Summary

New Zealand and Hong Kong, China have enjoyed long-standing, warm and friendly relations including trade and economic cooperation. The New Zealand-Hong Kong, China Closer Economic Partnership Agreement (the Agreement) was signed in Hong Kong by New Zealand's Minister of Trade Tim Groser and the Secretary for Commerce and Economic Development of Hong Kong, China Rita Lau on 29 March 2010 and entered into force on 1 January 2011.

A general review (Review) of the Agreement at ministerial level was mandated to be undertaken by the Parties within two years of its entry into force and at least every three years thereafter, unless the Parties agree otherwise. This Review reports on the implementation, operation and impact of the Agreement from its entry into force on 1 January 2011 to 31 December 2012. It considers the extent to which implementation and mechanisms are serving the objectives of the Agreement and the extent to which it has facilitated the expansion of trade and investment. It also considers the need for further implementation or cooperation measures, and/or changes to the Agreement to enhance the achievement of objectives.

The Review finds that the operation and implementation of the Agreement to date has been consistent with, and promoted achievement of, the objectives of the Agreement. Progress has been made on delivery of commitments under the Agreement on the creation of institutional frameworks and mechanisms for management of the Agreement and through productive dialogue and cooperation across the range of matters covered by the Agreement.

While noting this progress, the Review also identifies work required to further enhance the operation and implementation of the Agreement and ensure the benefits of the Agreement are fully realised. Practical areas identified include a review of commitments in respect of the movement of business persons, as well as the review of trade in services commitments, work to formalise existing trans-agency cooperation on technical barriers to trade with respect to consumer product safety, and extension of Most Favoured Nation (MFN) commitments in respect of legal services and energy services.

The Review takes note of the benefits accruing to the commercial sector resulting from commitments under the Agreement in relation to tariff elimination, creating favourable conditions for the stimulation of trade and investment flows, including through the development of a framework of transparent rules and increased communication and cooperation between government agencies of the Parties.

The Review notes that the Agreement is an important achievement for both economies, and establishes a clear, certain and effective framework within which businesses can operate. For New Zealand, the Agreement complements New Zealand's Free Trade Agreement (FTA) with China and enhances the potential for Hong Kong, China to be used as a platform for trade into the Mainland of China. For Hong Kong, China, the Agreement marks the first trade agreement with a foreign economy and conveys a strategic message that Hong Kong, China is ready and willing to conclude high quality agreements with its trade partners. The Agreement demonstrates the Parties' long-standing advocacy of and commitment to free trade and investment.

The Review concludes that the Agreement provides a comprehensive and effective platform from which to promote and develop bilateral trade and investment, and to address related trade and

economic matters arising in the bilateral trading relationship. The Agreement will continue to evolve and develop as the bilateral trade relationship grows and deepens.

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CHAPTER ONE: INTRODUCTION

1.1 Background

New Zealand and Hong Kong, China (hereafter referred to jointly as the “Parties”) have a long-standing, comprehensive and positive bilateral relationship.

New Zealand has had resident representation in Hong Kong, China since 1960. The Hong Kong Economic and Trade Office in Sydney was established in 1995 and represents Hong Kong, China’s trade interests in New Zealand.

The bilateral relationship has been underpinned by regular and constructive high-level engagement. Two-way trade has consistently been an important part of the relationship. In recent years, Hong Kong, China has grown as an important source of investment into New Zealand.

Both New Zealand and Hong Kong, China are strong proponents for open markets and supporters of the multilateral trading system, including in the contexts of the General Agreement on Tariffs and Trade (GATT)/World Trade Organization (WTO) and the Asia-Pacific Economic Cooperation (APEC) where they cooperate constantly to common benefit as much as to the benefit of world and regional trade.

Against this background, both Parties agreed that a bilateral trade agreement would strengthen their economic partnership, bring economic and social benefits, and improve the living standards of their people.

The Parties also recognised that, given Hong Kong’s proximity to and special relationship with the Mainland of China, such an agreement would complement the New Zealand – China Free Trade Agreement, which entered into force in October 2008, as well as establish another important building block in the framework for wider regional economic integration.

This step toward greater regional economic integration is seen as particularly important given the shift in relative economic power from the traditional developed centres of Europe and North America to the emerging economies in Asia, as well as the shift toward new business and production models which has led to truly global value chains.

1.2 Negotiations for a Closer Economic Partnership Agreement

Negotiations on a New Zealand-Hong Kong, China Closer Economic Partnership Agreement (the Agreement) were initiated in 2001 and completed in November 2009. The conclusion of negotiations was announced by Prime Minister of New Zealand Rt Hon John Key and Chief Executive of Hong Kong, China Hon Donald Tsang at the APEC Economic Leaders’ Meeting in Singapore in November 2009. The Agreement was signed on 29 March 2010 and entered into force on 1 January 2011.

In parallel with the Agreement, New Zealand and Hong Kong, China concluded arrangements on Labour and Environment Cooperation.

Since entry into force of the Agreement on 1 January 2011, both Parties have continued to work to implement and promote the Agreement. Both sides are committed to continuing to raise its profile and generate further benefits from it for business on both sides.

1.3 Review of the Agreement and Terms of reference

Article 4 of Chapter 17 (Administrative and Institutional Provisions) of the Agreement states that the “Parties shall undertake a general review at ministerial level of this Agreement, including of matters relating to liberalisation, cooperation and trade facilitation, within two years of its entry into force and at least every three years thereafter, unless the Parties agree otherwise”.

The terms of reference and modalities for completing the Review were discussed and agreed at the first meeting of the Joint Commission held in Wellington on 29 March 2012. At that time, both Parties agreed to complete the Review on the basis of two full years of trade data (1 January 2011 – 31 December 2012) and agreed on the Terms of Reference as follows:

“The aim of the General Review is to evaluate the implementation and operation of the Hong Kong, China-New Zealand Closer Economic Partnership Agreement (“Agreement”) over the two year period from 1 January 2011 to 31 December 2012 as mandated under Chapter 17, Article 4 of the Agreement. The General Review will cover:

- a. whether the Agreement is bringing benefits to Hong Kong, China and New Zealand having regard to such factors as trade and investment flows, trade facilitation, movement of business persons, policies and practices affecting trade and investment, and bilateral cooperation;*
- b. the extent to which the objectives of the Agreement have been met in accordance with Chapter 1, Article 2 and other provisions in the Agreement including its Annexes;*
- c. the need for modifications to the operation or implementation of this Agreement to ensure the objectives of the Agreement are met;*
- d. the need for additional measures in furtherance of the objectives of this Agreement; and*
- e. any other matter relating to this Agreement.*

The final outcome of the General Review will be in the form of a Joint Report with recommendations to be submitted to the relevant Ministers of the two Parties at an opportunity to be mutually agreed between the Parties.”

The purpose of the Review is, therefore, to report on the implementation, operation and impact of the Agreement over the period of 1 January 2011 to 31 December 2012 and to recommend areas of work and cooperation as a basis for future discussion. It is not intended to legally bind the Parties.

1.2 Preparation and Contents of the Report

This Report on the Review of the Agreement is based on extensive trade data analysis as well as consultation with interested parties including business, government and other stakeholders.

The Report is prepared jointly by Hong Kong, China and New Zealand, led on the Hong Kong, China side by the Trade and Industry Department (TID) and on the New Zealand side by the Ministry of Foreign Affairs and Trade (MFAT).

While this Review covers the period from 1 January 2011 to 31 December 2012, where relevant, previous and latest developments are also included to provide a complete picture.

The Report is comprised of five Chapters:

- Chapter 1: Introduction
- Chapter 2: Implementation of Commitments and Areas of Cooperation
- Chapter 3: Trends in Bilateral Trade, Investment and Movement of Natural Persons
- Chapter 4: Objectives, Negotiations and Reviews
- Chapter 5: Conclusions and Need for Modifications

CHAPTER TWO: IMPLEMENTATION OF COMMITMENTS AND AREAS OF COOPERATION

Chapter Two of the Review examines the implementation of commitments and cooperation between New Zealand and Hong Kong, China in the areas under the individual Chapters of the Agreement.

Section 1: Preamble, Initial Provisions and General Definitions and Interpretations (Preamble and Chapters 1 and 2)

New Zealand and Hong Kong, China are satisfied that the Preamble and Chapter 1 of the Agreement continue to serve their intended purpose in the Agreement and do not require any amendment. The General Definitions and Interpretations in Chapter 2 of the Agreement remain valid and no modification is required.

Section 2: Trade in Goods (Chapter 3)

Chapter 3 of the Agreement outlines commitments made by the Parties to eliminate customs duties as per their respective Tariff Schedules as detailed in Annex I. It also details commitments with respect to Fees and Charges Connected with Importation and Exportation, Non-Tariff Measures and Consumer Protection.

New Zealand and Hong Kong, China have exchanged points of contact to facilitate communications between them on matters relating to trade in goods. These have been updated, most recently at the Second Meeting of the Joint Commission held in Hong Kong, China on 14 June 2013.

Article 7 establishes a "Committee on Trade in Goods" to meet at the request of either Party. Neither New Zealand nor Hong Kong, China has requested that the Committee be inaugurated but the two Parties have instead addressed such issues that have arisen in areas under the purview of the Committee through the Joint Commission and designated points of contact.

2.1 Elimination of Customs Duties

Hong Kong, China bound its current applied zero rates of customs duties on all tariff lines upon entry into force of the Agreement. New Zealand's commitments to eliminate customs duties progressively in accordance with the Tariff Schedules at Annex I to Chapter 3 have resulted in two rounds of tariff cuts as at December 2012 (the end of the review period); the first upon entry into force of the Agreement on 1 January 2011 and the second on 1 January 2012.

2.2 Transposition of Tariff Nomenclature

The Tariff Schedules in Annex I to Chapter 3 of the Agreement were based on Harmonized Commodity Description and Coding System (HS) 2007 nomenclature. New Zealand and Hong Kong, China have exchanged and reached common understandings on the transposition of Tariff Schedules into HS2012 nomenclature. New Zealand shared its previous experience with

Hong Kong, China on transposition of Tariff Schedules and Product Specific Rules of Origin (PSR) as part of the five yearly update of the HS Code.

The Parties agreed on the importance of reaching common understandings on the transposition of the Tariff Schedules and PSR under the Agreement in order to facilitate trade and the collection of statistical data, as well as to promote transparency for businesses on both sides. The Parties also agreed to explore a mechanism to formalise procedures for the transposition of the Tariff Schedules and PSR in the future.

Section 3: Rules of Origin (Chapter 4)

Chapter 4 of the Agreement covers Rules of Origin (ROO) and operating procedures for documentation and granting of tariff preferences under the Agreement. PSR are covered in Annex I to Chapter 4.

3.1 Operational Certification Procedures

Operational Certification Procedures relating to the application for and issuing of certificates of origin under the Agreement have been agreed in accordance with Paragraph 4 of Article 17 of Chapter 4 by annexure to an exchange of letters in 2010 between the Chief Executive and Comptroller of Customs of New Zealand and the Director-General of Trade and Industry of Hong Kong, China.

Hong Kong, China has since provided New Zealand with the names, addresses, specimen signatures and specimens of the impressions of official seals for each of the Issuing Authorities, including the Trade and Industry Department and the Government Approved Certification Organisations of Hong Kong, China – all in accordance with Rules 1 and 2 of the Operational Certification Procedures. These have been most recently updated in conjunction with the Second Meeting of the Joint Commission.

Both sides confirm that the Operational Certification Procedures do not require amendment at this point.

3.2 Transposition of Nomenclature

New Zealand and Hong Kong, China note that the transposition of PSR in Annex I to Chapter 4 to reflect the transposition to HS2012 nomenclature has been completed.

The Parties also acknowledge the constructive engagement by respective agencies to reach agreement on technical revisions which lead to a harmonised text for PSR. The common understandings reached have resulted in benefits to business in terms of enhanced transparency and ease of doing business.

3.3 Goods Falling within Chapter 61 or Chapter 62 of the Harmonized System

Paragraph 2 of Article 16 of Chapter 4 requires an importer into New Zealand of goods within HS Chapter 61 or Chapter 62 to obtain a certificate of origin from Hong Kong, China where preferential tariff treatment is sought under the Agreement.

At the First Meeting of the Joint Commission, Hong Kong, China requested, and New Zealand agreed, to explore whether this requirement was necessary. Hong Kong, China and New Zealand have

subsequently provided trade and other relevant data, and the New Zealand Customs Service and the Trade and Industry Department of Hong Kong, China remain in dialogue.

Both sides note that any change to the requirements under Article 16 (and consequentially under Paragraph 2 of Article 19 (Records) of Chapter 4) would require amendments to the Agreement. The Parties agree to continue to explore this possibility.

Section 4: Customs Procedures and Cooperation (Chapter 5)

4.1 General

The New Zealand Customs Service officer based in Beijing, China has responsibility for the relationship with Hong Kong, China. Both sides agree that the presence of a New Zealand Customs officer in the region has helped facilitate regular dialogue on, and resolution of Customs issues including in relation to the implementation and operation of the Agreement regarding Customs matters, trade facilitation, and the prevention of the illicit trade in psycho-active substances to New Zealand.

Both sides have regularly exchanged points of contact for implementation of the Agreement, most recently at the Second Meeting of the Joint Commission. This includes advice reflecting the additional responsibility New Zealand Customs now has for matters of policy relating to ROO.

4.2 Customs Cooperation (Article 12)

There has been regular, productive and positive cooperation and consultation between the respective Customs administrations on the implementation of the Agreement and other matters of mutual interest in line with the objectives of the Agreement. Specific cooperation activities include the following:

- i. Respective Customs administrations actively cooperate and endeavour to meet when possible in the context of the World Customs Organization (WCO) meetings, including the WCO Asia Pacific Regional grouping.
- ii. Two officials from the Customs and Excise Department of Hong Kong, China visited New Zealand Customs in March 2013 to study the risk management regime. Also, an officer of the Customs and Excise Department of Hong Kong, China participated in a 10-day investigator exchange programme organised by New Zealand Customs in March 2013. The exchange programme provided officers with an opportunity to work with counterparts thereby deepening understanding of respective Customs procedures and practices.
- iii. Cooperation on trade security.

Neither New Zealand nor Hong Kong, China has received any requests to make operational enquiries relating to the Agreement.

4.3 Publication and Enquiry Points

The New Zealand Customs Service and the Customs and Excise Department of Hong Kong, China publish their relevant legal provisions and administrative procedures online with designated enquiry points to address enquiries from interested persons concerning Customs matters.

4.4 Comment

The Customs administrations of New Zealand and Hong Kong, China share a strong relationship across all areas of Customs activities. The Agreement and the Co-operative Arrangement between Hong Kong Customs and New Zealand Customs provide a strong framework for implementing and managing Customs issues and requests for mutual administrative assistance. The Agreement has also created new opportunities for engagement.

New Zealand and Hong Kong, China note that improved customs facilitation and transparency under the Agreement delivers important benefits to business and continued cooperation is warranted.

Section 5: Trade Remedies (Chapter 6)

5.1 General

Chapter 6 of the Agreement outlines commitments by the Parties with respect to trade remedies. It builds upon the WTO Agreement on Article VI of the GATT 1994, the WTO Agreement on Subsidies and Countervailing Measures, Article XIX of GATT 1994 and the WTO Agreement on Safeguards, and provides supporting mechanisms for these commitments in practice.

Contact points on trade remedies were exchanged along with other contact points for the Agreement upon its entry into force and subsequently, most recently at the Second Meeting of the Joint Commission.

5.2 Comment

WTO jurisprudence on trade remedies practice continues to develop. New Zealand and Hong Kong, China are open to considering cooperation activities in the trade remedies area in the medium to longer term with a view to furthering the objectives of this Chapter.

No bilateral safeguard measures nor anti-dumping measures have been introduced under Article 3 and Article 4 provisions respectively by either New Zealand or Hong Kong, China since entry into force of the Agreement.

Section 6: Sanitary and Phyto-Sanitary Measures (Chapter 7)

6.1 General

Chapter 7 of the Agreement outlines the objectives and mechanisms for strengthening cooperation and consultation on Sanitary and Phyto-Sanitary Measures (SPS) matters between the Parties. It provides a framework to resolve trade access issues with a view to facilitating trade in all products, while protecting human, animal or plant life or health.

New Zealand has confirmed that the legislative and bilateral agreements administered by the new Ministry for Primary Industries (MPI) remain the same as those previously administered by the Ministry of Agriculture and Forestry, the Ministry of Fisheries, and the New Zealand Food Safety Authority; all of which have been merged into MPI.

New Zealand and Hong Kong, China have concluded Implementing Arrangement 1 to Chapter 7 detailing the respective points of contact and Competent Authorities for each administration.

The Implementing Arrangement entered into effect on 1 January 2011 and was subsequently revised to take account of changes in respective points of contact and public service restructuring in New Zealand resulting in a new "Competent Authority". The revised Implementing Arrangement 1 was adopted at the Second Meeting of the Joint Commission and took immediate effect upon adoption.

6.2 Comment

New Zealand and Hong Kong, China agreed that Chapter 7 of the Agreement and associated institutional mechanisms were being implemented, and were operating in a manner consistent with the stated objectives of the Chapter and that there had been a sound basis of cooperation between the two administrations since entry into force.

MPI has recently begun work with the Centre for Food Safety of Hong Kong, China on implementing electronic-certification for meat and poultry products, exported from New Zealand to Hong Kong, China.

Section 7: Technical Barriers to Trade (Chapter 8)

7.1 General

Chapter 8 of the Agreement establishes mechanisms to reduce the impact of technical barriers to trade in goods, and provides for increased cooperation between regulatory authorities to improve understanding and greater alignment of each others' regulatory regimes.

7.2 Committee on Technical Barriers to Trade (TBT)

A TBT Committee was inaugurated on 28 March 2012 in Wellington, New Zealand as provided for under Article 10 (Implementation).

The Parties agreed to work intersessionally towards agreement on a mechanism to formalise cooperation between the Ministry of Business, Innovation and Employment (MBIE) of New Zealand and the Customs and Excise Department of Hong Kong, China on consumer product safety and to formalise existing cooperation between the former Ministry of Consumer Affairs (now MBIE) of New Zealand and the Customs and Excise Department of Hong Kong, China.

The Parties note that TBT and other points of contact on matters relating to Chapter 8 have been updated and that the Rules of Procedure have been reviewed. The Parties agreed that no amendment or revision is required.

7.3 Cooperation

The Parties welcome cooperation on TBT matters, including:

- (i) New Zealand and Hong Kong, China continue to work collaboratively in broader regional forums, including under the auspices of APEC. Respective accreditation bodies also cooperate in wider regional groupings including the Asia Pacific Laboratory Accreditation Cooperation and the Pacific Accreditation Cooperation.
- (ii) In February 2011, New Zealand (MBIE) attended the annual meeting of the International Consumer Product Health & Safety Organisation (ICPHSO) held in conjunction with the Hong Kong Toy Fair.
- (iii) In May 2011, the Ministry of Consumer Affairs (now MBIE) provided information to the Customs and Excise Department of Hong Kong, China relating to a "nomograph" model developed in New Zealand for statistically based risk assessment of consumer products.
- (iv) Two week secondment to Trading Standards in Wellington, New Zealand for a senior official from the Customs and Excise Department of Hong Kong, China in March 2014.

New Zealand and Hong Kong, China acknowledge that continued work towards mutual recognition of regulatory regimes will bring mutual benefits and agree to explore opportunities for further cooperation under Chapter 8 of the Agreement.

Section 8: Competition (Chapter 9)

8.1 General

Chapter 9 of the Agreement provides a framework for the promotion of fair competition, the curtailment of anti-competitive practices and the promotion of the APEC principles of non-discrimination, comprehensiveness, transparency and accountability. It outlines undertakings on the application of each Party's competition laws to commercial activities and provides for cooperation and consultation on competition issues.

Information on matters relating to New Zealand's competition policy can be found on the following websites:

- i. Ministry for Business, Innovation and Employment www.mbie.govt.nz
- ii. New Zealand Commerce Commission www.comcom.govt.nz
- iii. APEC: www.apec.org

Information on matters relating to Hong Kong, China's competition policy can be found on the following websites

- i. Commerce, Industry and Tourism Branch, Commerce and Economic Development Bureau: <http://www.cedb.gov.hk/citb/index.html>
- ii. Competition Commission: <http://compcomm.hk/en/index2.html>
- iii. The Competition Policy Advisory Group: www.compag.gov.hk

8.2 Comment

The Parties acknowledge the cooperation between respective agencies and agree that there is scope for ongoing and mutually beneficial cooperation in this area.

New Zealand and Hong Kong, China reaffirm the importance they place on continued dialogue on matters relating to competition and the Parties' commitment to the principles in this Chapter.

Section 9: Electronic Commerce (Chapter 10)

9.1 General

Chapter 10 of the Agreement puts in place a framework for minimising the regulatory burden on electronic commerce, providing on-line consumer protection, accepting trade administration documents in electronic format and encouraging cooperation on electronic commerce issues.

The agencies of respective administrations with responsibility for electronic commerce matters have exchanged information on points of contact.

9.2 Comment

Work on promoting the use of electronic documents for the administration of trade is being carried out under other Chapters, including Chapter 5 (Customs Procedures and Cooperation), as well as in other forums such as APEC.

New Zealand and Hong Kong, China reaffirm the importance they place on continued dialogue on matters relating to electronic commerce.

Section 10: Intellectual Property (Chapter 11)

10.1 General

Chapter 11 of the Agreement reaffirms both Parties' WTO commitments on intellectual property and includes commitments relating to enforcement of intellectual property rights as well as cooperation and exchange of information on issues of mutual interest.

New Zealand and Hong Kong, China have exchanged designated points of contact within respective departments responsible for policy development, enforcement and cooperation on matters relating to intellectual property rights; most recently at the Second Meeting of the Joint Commission.

Information on current and planned New Zealand legislation on intellectual property including the Copyright (New Technologies) Amendment Act 2008, the Patents Bills 2008 and the Copyright (Infringing File Sharing) Amendment Act 2011 is available at www.mbie.govt.nz.

Similarly, information on current legislation on intellectual property of Hong Kong, China is available on the official website of the Intellectual Property Department (www.ipd.gov.hk). This website also provides information on patent, trademark and designs registration services in Hong Kong, China, and contains links to websites covering a wide variety of intellectual property capacity building matters, for example, a permanent web banner promoting *Intellectual Property Explorer* (intellectualpropertyexplorer.com), which is a project of the Intellectual Property Rights Experts Group (IPEG) within APEC.

10.2 Comment

The Parties agree that enhanced law enforcement in relation to intellectual property with respect to the services and technology sectors could further promote trade and investment between the two Parties. The Intellectual Property Department of Hong Kong, China indicated that it has studied aspects of New Zealand Intellectual Property Law, in the development of its Copyright (Amendment) Bill 2014, which is currently tabled in Hong Kong, China's Legislative Council.

New Zealand and Hong Kong, China acknowledge the importance of commitments made under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and Chapter 11 of the Agreement with respect to protection of intellectual property, and agree to explore opportunities to work together to mutual benefit in this area.

Section 11: Government Procurement (Chapter 12)

11.1 General

Chapter 12 of the Agreement outlines mechanisms for the promotion of transparency, value for money, open and effective competition, fair dealing, accountability and due process, and non-discrimination in relation to government procurement. It also outlines at Annexes I and II respectively the commitments

made by both Parties in terms of the list of entities, covered goods and services, and threshold values for government procurement.

Both Parties reaffirm their commitment to work progressively to reduce and eliminate barriers to the supply of goods and services between the Parties arising from government procurement laws, regulations, policies, practices and procedures, and to increase transparency in government procurement.

Both Parties have confirmed the accuracy of their respective “single electronic point of access” details listed in Annex III to Chapter 12 at the Second Meeting of the Joint Commission.

New Zealand notes that, during the period of review, it was involved in negotiations to accede to the Agreement on Government Procurement under the auspices of the WTO¹.

11.2 Processes for Modifications and Rectifications to Annexes

The process for modifying the Government Procurement Annexes in the Agreement is set out in Article 21 of Chapter 12 (Government Procurement), in conjunction with Article 2 of Chapter 17 (Administrative and Institutional Provisions), and Articles 1 and 2 of Chapter 20 (Final Provisions). The current annexes of Chapter 12 are as follows:

- i. Annex I: List of Entities and Covered Goods and Services
- ii. Annex II: Thresholds
- iii. Annex III: Single Electronic Point of Access
- iv. Annex IV: Contact Point

At the Second meeting of the Joint Commission, New Zealand proposed procedures for making “modifications and rectifications” to Chapter 12 annexes. The Parties would consult on the proposed procedures with a view to adopting them intersessionally by the Joint Commission.

11.3 Points of Contact

New Zealand and Hong Kong, China updated their respective points of contact for matters relating to Government Procurement ahead of the Second Meeting of the Joint Commission.

Technical rectifications to reflect changes in the contact points were approved by the Joint Commission. They will be formally incorporated in accordance with the relevant procedures stipulated in Chapters 12 and 17.

New Zealand and Hong Kong, China agree to amend Annex I to Chapter 12 of the Agreement (List of Entities and Covered Goods and Services) incorporating technical rectifications to reflect respective changes in structure and responsibility of relevant entities.

¹ New Zealand subsequently acceded to the Agreement on Government Procurement on 12 August 2015.

Section 12: Trade in Services (Chapter 13)

12.1 General

Chapter 13 of the Agreement outlines commitments and measures to facilitate mutually advantageous expansion of trade in services, works towards greater services liberalisation and improves the efficiency, transparency and export competitiveness of their respective services sectors. It also provides for the scheduling (under a two-Annex approach) of specific sectors, sub-sectors, activities or measures to which the market access, national treatment, local presence and Most-Favoured-Nation (MFN) obligations do not apply. Chapter 13 also establishes disciplines on domestic regulation and provides for measures to enhance the education relationship between the two Parties.

The Committee on Trade in Services was inaugurated and met in Wellington, New Zealand on 28 March 2012 as required under Article 16. The Committee met again on 13 June 2013 in Hong Kong, China.

Both Parties have designated contact points to facilitate communication on matters relating to trade in services. These have been updated including most recently, at the Second Meeting of the Joint Commission.

12.2 Multilateral Negotiations on Air Services

Both sides noted that multilateral negotiations pursuant to the Annex on Air Transport Services of the General Agreement on Trade in Services have yet to be concluded. They reaffirmed their commitment to conducting a review under the Agreement, once those negotiations are completed, for discussing what amendments to the Agreement may be appropriate to take into account the outcomes of those multilateral negotiations.

12.3 Further Provisions on Services

Article 8 of Chapter 13 requires the Parties to consult within two years of entry into force of the Agreement and at least every three years thereafter, or as otherwise agreed, to review the implementation of Chapter 13 and consider other trade in services issues of mutual interest, with a view to progressive liberalisation of the trade in services between them on a mutually advantageous basis. In a separate ministerial exchange of letters dated 29 March 2010, Hong Kong, China has confirmed the understanding, among others, that notwithstanding the non-application of Article 12 (Most Favoured Nation Treatment) of Chapter 13 (Trade in Services) to any measure that Hong Kong, China adopts or maintains in respect of legal services and energy services subsectors ("Services Subsectors") as inscribed in II-HKC-2 and II-HKC-7 of Hong Kong, China's Schedule to Annex II of Chapter 13 (Trade in Services) of the Agreement, Hong Kong, China will, promptly, positively consider according to services and service suppliers of New Zealand, in respect of the supply of a service through Modes 1 to 3 of the Services Subsectors, treatment no less favourable than that it accords, in like circumstances, to services and service suppliers of a non-Party, including pursuant to any free trade agreement signed by Hong Kong, China after the date of entry into force of the Agreement. The consideration will take due account of its laws and policies.

The Parties reaffirm their commitment to completing the mandated review of Chapter 13. They agreed on the broad structure for the review as well as timeframes and actions for moving forward to that end.

12.4 Professional Registration of Auditors

At the First Meeting of the Committee on Trade in Services, New Zealand noted that, despite the reciprocal membership arrangement signed between respective professional accounting bodies in 2008, there were still additional steps New Zealand accountants needed to take to gain the practising certificate required for Certified Public Accountants to provide auditing services in Hong Kong, China.

Both sides agreed to facilitate further dialogue between respective professional bodies with a view to obviating or streamlining procedures for obtaining a practising certificate. There was a need to consider whether any consequential legislative amendments would be necessary once the professional bodies have completed their discussions on a proposed solution.

12.5 Arrangements on Education Cooperation

Annex IV to Chapter 13 recognises the importance of education as a factor of social and economic development as well as a means for facilitating a closer economic partnership. It also affirms the desire of both Parties to strengthen their relationship through enhanced education cooperation and outlines specific measures to further that objective.

The Ministry of Education of New Zealand and the Education Bureau of Hong Kong, China (EDB) concluded an Arrangement on Education Cooperation in October 2011 in order to establish a framework to achieve goals as outlined in Article 4 (b) of Annex IV to Chapter 13 of the Agreement.

New Zealand and Hong Kong, China noted the efforts on both sides to develop education cooperation initiatives which would give practical effect to the Arrangement on Cooperation including:

- i. In 2011, and again in 2013, the Chief Executive of the New Zealand Ministry of Education visited EDB to discuss education cooperation. During the visit, both sides recognised the mutual benefit of deeper cooperation in the areas of quality assurance and qualifications recognition and other areas of common interest, such as vocational education and training, and early childhood education.
- ii. The agreement across the New Zealand universities to recognise the Hong Kong Diploma of Secondary Education as a minimum entrance requirement for admission to the New Zealand Universities.
- iii. There are currently 15 active exchange arrangements (increased from 12 in 2011/12) and 23 active research collaborations (increased from 14 in 2011/12) between institutions from Hong Kong, China and New Zealand.

12.6 Academic and Vocational Accreditation Authorities

Article 4(a) of Annex IV to Chapter 13 of the Agreement requires the Parties to encourage their respective academic and vocational accreditation authorities to enter into discussions and dialogue with the purpose of developing greater understanding of and confidence in quality assurance and qualifications recognition processes of each other.

The New Zealand Qualifications Authority (NZQA), EDB and the Hong Kong Council for Accreditation of Academic and Vocational Qualifications (HKCAAVQ) are working together on a project to reference

the New Zealand Qualifications Framework (NZQF) and the Hong Kong Qualifications Framework (HKQF). This project will build mutual understanding of each country/region's systems for quality assurance of education and quality assurance processes.

Section 13: Movement of Business Persons (Chapter 14)

13.1 General

Chapter 14 of the Agreement outlines measures for facilitating the movement of, and establishing streamlined and transparent immigration procedures for business persons engaged in the conduct of trade and investment between the Parties.

13.2 Review of independent service suppliers and installers or servicers

In a ministerial exchange of letters dated 29 March 2010, New Zealand and Hong Kong, China undertook to review their commitments in respect of "independent service suppliers" and "installers or servicers" made in accordance with Article 4 (Grant of Temporary Entry) of Chapter 14. The aim of the review was to positively consider whether additional commitments could be made in order to further facilitate trade in services between the Parties, taking due account of their respective laws, policies and domestic circumstances.

The review of these commitments was discussed by the Parties at the First Meeting of the Committee on Trade in Services in March 2012. They subsequently exchanged information and discussion papers with further discussions held at the Second Meeting of the Committee on Trade in Services in June 2013.

At that meeting, both Parties reaffirmed their commitment to completing the review of commitments in respect of "independent service suppliers" and "installers or servicers" and agreed on timeframes and actions for moving forward to that end.

Section 14: Transparency (Chapter 15)

14.1 General

Chapter 15 of the Agreement sets out measures ensuring transparent and open communication in relation to the laws, regulations, procedures, and administrative rulings of general application with respect to matters covered by the Agreement.

As provided for under Article 2 of Chapter 15, both Parties ensure that the laws, regulations, procedures and administrative rulings of general application with respect to these matters are promptly published or otherwise made available in such a manner as to allow interested persons to become acquainted with them.

14.2 Promotion

New Zealand has a section on the website of the Ministry of Foreign Affairs and Trade relating to the Agreement to promote better understanding of the Agreement and facilitate closer engagement with business and other interested stakeholders.

Hong Kong, China has a section on the website of the Trade and Industry Department, designed to disseminate information about the Agreement, promote better understanding of the Agreement and facilitate closer engagement with business and other interested stakeholders.

14.3 Comment

New Zealand and Hong Kong, China note that there has been a substantive program of engagement between relevant agencies, including through designated Contact Points and within the institutional frameworks established under the Agreement. They welcome the constructive and cooperative nature of such engagement.

New Zealand and Hong Kong, China agree to continue to promote transparency and greater understanding of each other's legal and regulatory systems as they relate to matters covered by the Agreement.

Section 15: Dispute Settlement (Chapter 16)

The consultation and dispute settlement procedures established under Chapter 16 and Annex I to Chapter 16 of the Agreement have not been invoked by either Party since the entry into force of the Agreement.

Section 16: Administrative and Institutional Provisions (Chapter 17)

In accordance with Article 1 of Chapter 17 of the Agreement, a Joint Commission has been established to oversee the proper implementation of the Agreement and to review periodically the economic relationship and partnership between the Parties.

16.1 Mandate of the Joint Commission

The mandate of the Joint Commission as outlined in Article 2 of Chapter 17 provides a sound and appropriate framework for the activities of the Joint Commission.

16.2 Meetings of the Joint Commission

The Joint Commission met at officials' level for the first time in Wellington, New Zealand on 29 March 2012 and subsequently in Hong Kong, China on 14 June 2013.

There has been broad participation in and input to successive meetings of the Joint Commission by key agencies from both Parties with responsibility for implementation and operation of the Agreement including:

- (i) for New Zealand: the Ministry of Foreign Affairs and Trade, the Ministry of Agriculture and Forestry (now part of MPI), the New Zealand Customs Service, the Department of Labour (now part of MBIE), Education New Zealand, and New Zealand Trade and Enterprise; and
- (ii) for Hong Kong, China: the Trade and Industry Department, Agriculture, Fisheries and Conservation Department, Customs and Excise Department, Food and Environmental Hygiene Department, Education Bureau and the Hong Kong Economic and Trade Office in Sydney, which also oversees bilateral commercial relations with New Zealand.

This wide representation has promoted constructive engagement and progress across a wide range of issues under consideration by the Joint Commission.

New Zealand and Hong Kong, China both recognise the value of regular engagement by officials and experts across the breadth of the trade and economic relationship and reaffirm their desire for regular dialogue.

New Zealand and Hong Kong, China also acknowledge the resource constraints upon respective government agencies arising from the need to support institutional frameworks established under the growing number of trade agreements. They see a need to explore ways to enhance dialogue within these constraints, including potentially by strengthening mechanisms for carrying out work intersessionally and by using video conferencing and other technology.

16.3 Contact Points

There have been regular exchanges of information relating to designated contact points for facilitating communications between the Parties on matters relating to the operation and implementation of the Agreement, most recently at the Second Meeting of the Joint Commission.

16.4 General Reviews

Article 4 of Chapter 17 of the Agreement states that the “Parties shall undertake a general review at ministerial level of this Agreement, including of matters relating to liberalisation, cooperation and trade facilitation, within two years of its entry into force and at least every three years thereafter, unless the Parties agree otherwise”.

Section 17: General Provisions (Chapter 18)

New Zealand and Hong Kong, China agree that the operation of Chapter 18 of the Agreement has been effective. The provisions in Chapter 18 continue to serve the intended purpose in the Agreement and do not require any amendment.

Section 18: Exceptions (Chapter 19)

The Agreement includes a range of exceptions and both Parties are comfortable that this chapter is operating as intended.

Section 19: Final Provisions (Chapter 20)

The Agreement entered into force on 1 January 2011. The Agreement was formally notified to the WTO on 3 January 2011 and the Factual Presentation (Goods) considered by the WTO Committee on Regional Trade Agreements on 20 March 2012. At the Second Meeting of the Joint Commission, New Zealand and Hong Kong, China agreed to rectifications to Annex IV (Contact Point) to Chapter 12 to update the new points of contact for New Zealand and Hong Kong, China for matters relating to Government Procurement.

Section 20: Other Matters

Outside the Agreement, New Zealand and Hong Kong, China have undertaken a wide range of cooperation activities to strengthen the bilateral relations. Some examples are given in the following paragraphs.

Other Cooperation

Double taxation agreement

The Comprehensive Avoidance of Double Taxation Agreement between Hong Kong and New Zealand was signed on 1 December 2010 and became effective on 1 April 2012.

Ministerial visits

To strengthen the economic and trade relations between New Zealand and Hong Kong, China, senior government officials of both Parties have paid visits to New Zealand and Hong Kong, China. In this regard, six high-level visits have taken place to New Zealand and 17 to Hong Kong, China since the Agreement entered into force in 2011, including visits by the then Chief Executive Mr Donald Tsang in 2012 and Prime Minister Rt Hon John Key in 2014.

Parliamentary Friendship Group

- (a) Encouraged by the Hong Kong Economic and Trade Office in Sydney, the New Zealand Hong Kong Parliamentary Friendship Group was launched on 28 March 2012, comprising 26 Members of the Parliament.
- (b) Starting in June 2012, the Hong Kong Economic and Trade Office in Sydney issues "The Director's Report" on a six-weekly basis to Members of the New Zealand Hong Kong Parliamentary Friendship Group to update them on developments in Hong Kong and the Office's activities in New Zealand.

Efforts to promote business-to-business links

Visits by Hong Kong Economic and Trade Office in Sydney to New Zealand

- (a) The Director of the Hong Kong Economic and Trade Office in Sydney conducts annual briefings on latest political and economic situation, government's key initiatives and expenditure plans after the release of the Budget of the Government of the Hong Kong Special Administrative Region.

- (b) The Hong Kong Economic and Trade Office in Sydney continued to promote trade and investment opportunities among business and community groups across New Zealand through regular visits to major cities as well as major wine growing regions.
- (c) In early May 2012, a Hong Kong Business Roadshow targeting Māori businesses was organised by Te Puni Kōkiri (Ministry of Māori Development) in collaboration with the Hong Kong Economic and Trade Office in Sydney, Invest Hong Kong, Hong Kong Trade Development Council and the New Zealand Trade & Enterprise. The Roadshow toured major New Zealand cities and a number of companies expressed an interest in exploring business opportunities in the Hong Kong market.
- (d) The Hong Kong New Zealand Business Association has been organising the annual Hong Kong Festival since 2009. The Festival is a significant event in promoting ties between Hong Kong and New Zealand.

Efforts by the New Zealand Trade and Enterprise (NZTE) offices in Hong Kong and New Zealand to promote trade and build business relationships

- (a) During February and March 2011, NZTE partnered with ParknShop to launch 164 NZ products as part of a retail promotion held across ParknShop's top tier international stores.
- (b) In April 2011, NZTE organised a natural products workshop to showcase NZ brands and promote health knowledge to consumers.
- (c) During June and July 2011, NZTE partnered with the New Zealand Dairy Farm Company Ltd New Zealand to promote 51 new NZ grocery products in their 18 specialty stores.
- (d) In August 2011 and 2012, NZTE organised a NZ delegation exhibiting at Natural Products Expo Asia, a regional trade show for the natural health products sector. A networking event with distributors and retailers was also organised for the delegates.
- (e) NZTE sponsored a networking function hosted by Horticulture NZ at the New Zealand Pavillion of Asia Fruit Logistica. Over 150 buyers and NZ exhibitors attended the function.
- (f) In November 2011, NZTE organised a NZ booth showcasing NZ skincare brands at Cosmoprof Asia, the largest trade show for the beauty industry in the region.
- (g) In November 2011, NZTE organised a wine master class supported by Five Nations and event sponsors. It was the first ever wine class led by New Zealand Wine Master Bob Campbell in Hong Kong and attracted a full house of 40 local trade representatives and 20 wine media outlets. NZTE built on the success of the debut, replicating the event in 2012.
- (h) In June 2012, NZTE again partnered with the New Zealand Dairy Farm Company Ltd to promote 25 new items across their 20 specialty stores. Over 60 percent of these new products were retained in their regular product list after the promotion.

- (i) In June 2012, NZTE organised New Zealand Food Connection, a mini NZ food and beverage show, at the Ritz Carlton. There were 14 New Zealand companies exhibiting at the show with their local distributors and local trade contacts and media were invited to visit the show.
- (j) In November 2012, NZTE organised a NZ skincare and wine fair, which allowed NZ brands to promote and sell their products to consumers.

Upon entry into force of the Agreement a series of NZ INC roadshows and seminars were held across New Zealand aimed at helping businesses understand and realise the benefits of the Agreement. The seminars discussed the strategic advantages and provisions of the agreement, the areas of opportunity and benefits of in-market presence, experiences of a real life business case study, and some tips on how such opportunities could be unlocked. The Auckland and Wellington seminars were opened by the Minister of Trade, Hon Tim Groser. Booklets and fact sheets were also published by the Ministry of Foreign Affairs and Trade as a guide to the Agreement, which provides an overview as well as a practical business guide.

Investment Promotion Activities Conducted in New Zealand

Invest Hong Kong conducts investment promotion visits and meetings as well as organises promotion events to attract companies from New Zealand to establish a presence or expand their business operations in Hong Kong, China, with the support of its Investment Promotion Unit (IPU) based in the Hong Kong Economic and Trade Office in Sydney. In 2011 and 2012, Invest Hong Kong conducted the following investment promotion activities:

- (a) Invest Hong Kong's Head Office staff conducted an investment promotion visit to New Zealand in August 2011, with an emphasis to attract companies in the tourism and hospitality sector, in particular the wine-related business.
- (b) The IPU in Sydney organised the "Doing Business in Hong Kong" seminar in New Zealand in August 2011, as part of the Hong Kong Week organised by the Hong Kong New Zealand Business Association.
- (c) The IPU in Sydney ran a series of road shows in Auckland, Rotorua, Napier, Wellington and Christchurch from 3 to 9 May 2012.

Investment Promotion Activities conducted in Hong Kong, China

New Zealand Trade and Enterprise (NZTE) conducts investment promotion visits and meetings as well as organises promotion events to attract companies from Hong Kong, China to set up businesses in New Zealand or invest in New Zealand businesses. The NZTE Greater China Capital team is based in Beijing with an Investment Manager located in the New Zealand Consulate-General in Hong Kong. In 2011 and 2012, NZTE conducted or supported the following investment promotion activities in Hong Kong, China:

Foreign Direct Investment Promotion:

- (a) In May 2011, the Deputy Prime Minister and Finance Minister, the Hon Bill English, hosted a New Zealand Capital Markets Promotion luncheon targeted at limited partner

investors active in endowment funds, sovereign wealth funds, pension funds and high net worth individuals.

- (b) In May 2011 and August 2012, the Hon Bill English hosted an ANZ Investor Roundtable outlining investment opportunities in New Zealand and promoting the Government's bond market to potential Hong Kong investors.

CHAPTER THREE: TRENDS IN BILATERAL TRADE, INVESTMENT AND MOVEMENT OF NATURAL PERSONS

Section 1: Overview

Chapter 3 of the Review examines trends in bilateral trade in goods and services and bilateral investment from entry into force of the Agreement on 1 January 2011 to 31 December 2012. The review is based on analysis of bilateral trade data, feedback from business surveys and interviews, and analysis of the operation of the Agreement by the relevant government departments of both Parties. Trade and investment data was sourced from:

- The International Monetary Fund (IMF)
- The World Bank
- The WTO
- Global Trade Information Services (GTIS)
- Statistics New Zealand
- New Zealand Customs
- The New Zealand Ministry of Education
- Customs and Excise Department of Hong Kong, China
- Census and Statistics Department of Hong Kong, China

1.1 Caveats on the analysis of trends in bilateral trade and investment

The Parties acknowledge that the trade liberalisation resulting from entry into force of the Agreement is only one of a number of factors that shaped bilateral trade and investment over the period. Other factors include, for example, the global economic climate; variations in global commodity prices and exchange rates, changes in technology, and the structural development of the two economies. The Parties agree that these factors have to be taken into account for a complete analysis on bilateral trade and investment.

The figures analysed in this Report reflect the initial gains arising from reciprocal trade liberalisation, and may not yet fully reflect the dynamic productivity gains that have resulted, and will continue to result, from improvements in the regulatory environment in both economies.

The primary trade analysis is conducted using data from Statistics New Zealand and the Census and Statistics Department of Hong Kong, China. The Parties acknowledge that there may be some differences in data between the GTIS data and sources within each Party but agree these do not materially alter the analysis. All figures are for years ending 31 December unless otherwise specified.

While this Review covers the period from 1 January 2011 to 31 December 2012, recent economic trends are also noted to provide a complete picture of the current trading environment:

- Despite increasing in 2012, total two-way merchandise trade between New Zealand and Hong Kong, China fell by 11% (or NZ\$110 million) in 2013 to NZ\$912 million.

- Goods exports to Hong Kong, China declined by 11% to NZ\$770 million driven by a fall in fish and crustacean exports – which fell 58% year-on-year to NZ\$41 million. This was overwhelmingly due to a fall in lobster exports which declined by 92% to just NZ\$5 million in 2013 compared to a year prior. This trend is a result of increased exports from New Zealand to the Mainland of China.
- Goods imports to New Zealand also fell in 2013 (albeit to a lesser extent), declining by 7% to NZ\$142 million led by a fall in machinery imports.

1.2 Common Aspirations towards Trade Liberalisation

Hong Kong, China and New Zealand share a number of similarities and common aspirations: both are mid-size, externally-oriented economies with comparable GDP per capita (see **Table 1** below); both maintain relatively low market entry barriers and are advocates of free market and liberal investment; both are members of the WTO and APEC and share the same values in the promotion of regional and international economic co-operation.

Table 1: Economic Indicators

	New Zealand*			Hong Kong#		
	2010	2011	2012	2010	2011	2012
Population (million)	4.4	4.4	4.4	7.1	7.1	7.2
Current GDP (US\$ billion)	142	163	170	229	249	263
Current GDP per capita (US\$)	32,518	36,879	38,385	32,551	35,143	36,710
Real GDP growth (% change)	2.1	1.9	2.6	6.8	4.8	1.5
CPI (% change)	2.3	4.0	1.1	2.4	5.3	4.1
Unemployment (%)	6.5	6.5	6.9	4.3	3.4	3.3

* Source: *International Monetary Fund (IMF) – World Economic Outlook Database, April 2014 Edition.*

Source: *Census and Statistics Department, Hong Kong, China*

1.3 Regional Trade Architecture

Hong Kong, China and New Zealand are pursuing regional economic integration with their respective trading partners. Prior to the Agreement, Hong Kong, China signed the Closer Economic Partnership Arrangement (CEPA) with the Mainland of China in 2003 and during the period of review, an FTA with the Member States of the European Free Trade Association in 2011 and another one with Chile in 2012².

² Hong Kong, China subsequently commenced negotiation of an FTA with the Association of Southeast Asian Nations (ASEAN) in 2014.

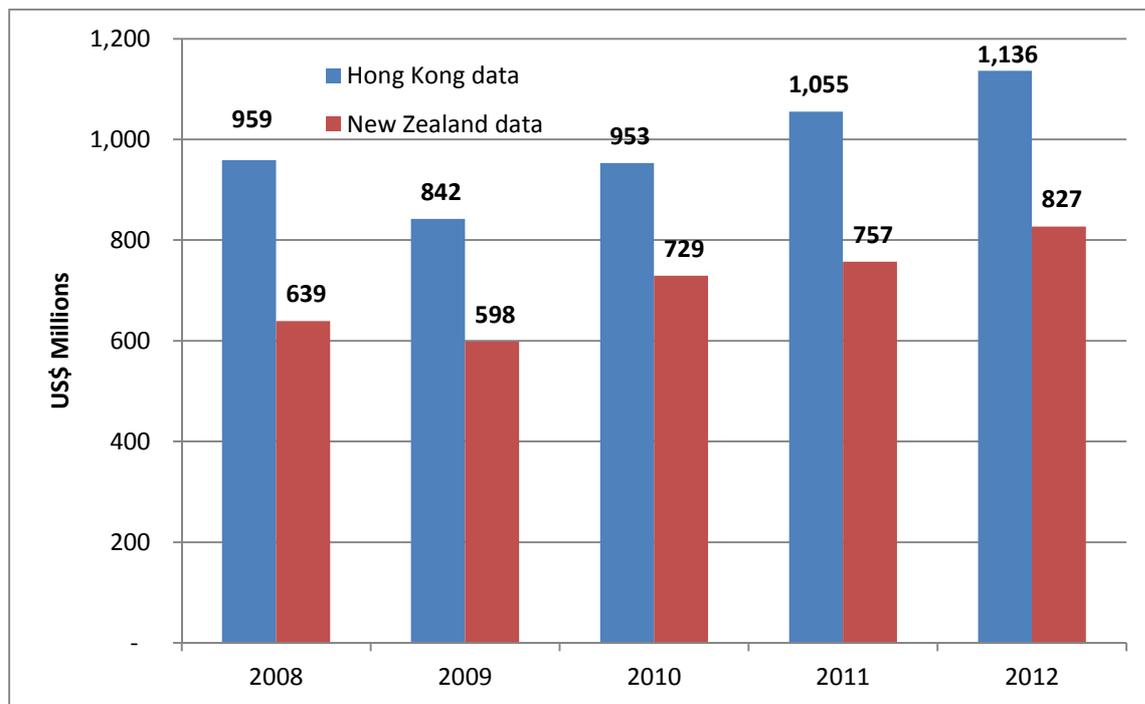
Likewise, prior to the agreement, New Zealand signed bilateral FTAs with Australia in 1983, Singapore in 2001, Thailand in 2005, China in 2008 and Malaysia in 2009 and became a Party to the Trans-Pacific Strategic Economic Partnership, and during the period of review, a regional FTA with ASEAN and Australia in 2010³.

Section 2: Trade in Goods

2.1 Bilateral Trade

Total bilateral merchandise trade between New Zealand and Hong Kong, China grew from NZ\$903 million (US\$639 million) in 2008 to NZ\$1.0 billion (US\$827 million) in 2012 – a compound annual growth rate (CAGR) of 3.1% (see **Figure 1** below).

Figure 1: Total Goods Trade between Hong Kong, China and New Zealand from 2008 to 2012.⁴



In 2012, New Zealand was Hong Kong, China's 39th largest trading partner, 40th largest market for Hong Kong, China's domestic exports⁵, 42nd largest market for its re-exports⁶, and its 33rd largest

³ New Zealand has subsequently signed an economic cooperation agreement with Chinese Taipei in 2013 and an FTA with Korea in 2015. New Zealand is also a participant in ongoing Regional Comprehensive Economic Partnership (RCEP) and Trans Pacific Partnership (TPP) negotiations.

⁴ Note that trade reported by one market does not necessarily coincide with trade reported by its trading partner, due to differences arising from valuation, inclusions/exclusions of particular commodities, timing etc.

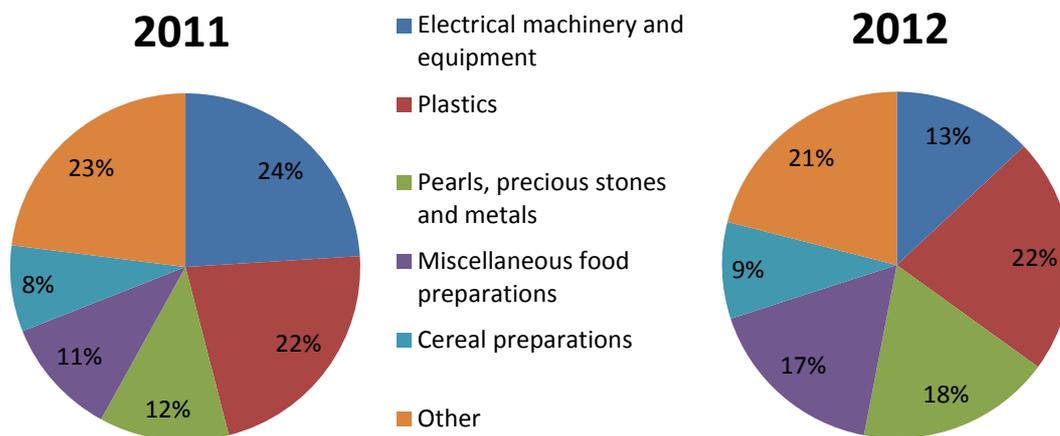
source of imports⁷. Reciprocally, Hong Kong, China was New Zealand’s 20th largest trading partner, 8th largest export market and 39th largest source of imports in 2012.

2.2 Hong Kong, China’s Domestic Exports to New Zealand

In 2011 and 2012, Hong Kong, China’s domestic exports amounted to US\$8.1 million and US\$6.5 million respectively.

In 2012, Hong Kong, China’s major domestic export items to New Zealand were plastics and articles thereof (22%); natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coin (18%); and miscellaneous edible preparations (17%) (see **Figure 2** below).

Figure 2: Hong Kong, China’s Domestic Exports to New Zealand in 2011 and 2012



Hong Kong, China’s domestic exports to New Zealand continued to drop in recent years. This reflects the continuing transformation of Hong Kong, China into a service economy and is broadly in line with the overall trend of Hong Kong, China’s domestic exports to the rest of the world. Domestic exports to New Zealand dropped by 59% in 2011 and further by 20% in 2012. Domestic exports of electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and

⁵ Domestic exports of goods refer to the natural produce of Hong Kong, China or the products of a manufacturing process in Hong Kong, China which has changed permanently the shape, nature, form or utility of the basic materials used in manufacture.

⁶ Re-exports of goods refer to products which have previously been imported into Hong Kong, China and which are re-exported without having undergone in Hong Kong, China a manufacturing process which has permanently changed the shape, nature, form or utility of the product.

⁷ Source: Direction of Trade Statistics Yearbook 2012 published by the International Monetary Fund.

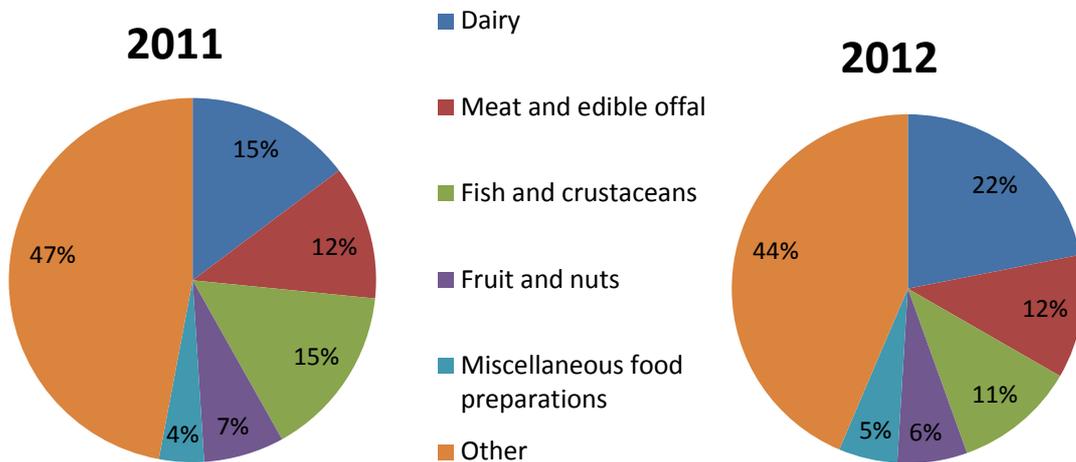
sound recorders and reproducers, and parts and accessories of such articles, which accounted for 71% of domestic exports to New Zealand in 2010, saw a sharp decline at an average annual rate of 76% over 2010 to 2012. On the other hand, some items of Hong Kong, China's domestic exports to New Zealand recorded consecutive growth in 2011 and 2012. These included miscellaneous edible preparations (by 3% and 25% respectively); and natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewellery; coin (by 37% and 25% respectively). These items taken together accounted for about 35% of Hong Kong, China's domestic exports to New Zealand in 2012.

2.3 New Zealand's Exports to Hong Kong, China

New Zealand's exports to Hong Kong, China have showed sound growth after the entry into force of the Agreement. In 2011 and 2012, New Zealand's exports to Hong Kong, China amounted to NZ\$798 million (US\$633 million) and NZ\$869 million (US\$704 million), an increase of 8.9% over the period.

The most significant products exported by New Zealand to Hong Kong, China remain primary products. However, since the Agreement entered into force, the proportion of unprocessed primary products in the composition of New Zealand's exports of goods to Hong Kong, China has decreased from 56% in 2010 to 42% in 2012 (See **Figure 3** below).

Figure 3: New Zealand's Exports to Hong Kong, China in 2011 and 2012



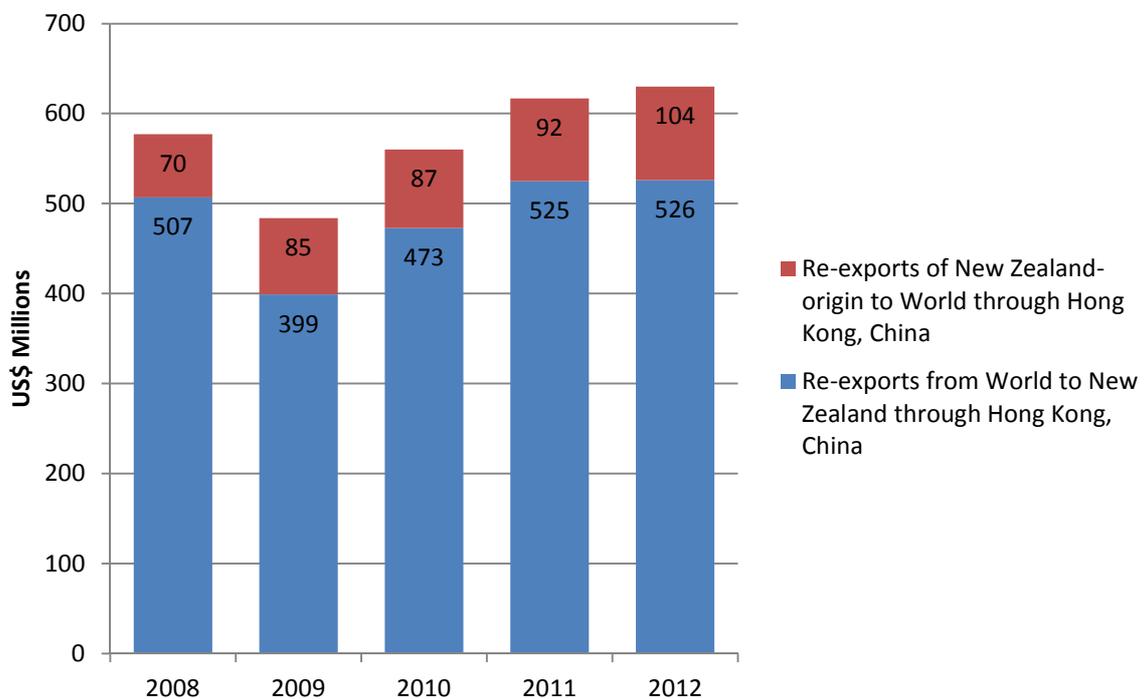
The broad category of food and beverages is the key component of New Zealand's goods exports to Hong Kong, China. In 2012, Hong Kong, China was New Zealand's ninth largest export market for

food and beverage products. At the HS2 level, New Zealand's major food and beverages export products to Hong Kong, China in 2012 were: dairy produce (NZ\$190 million or US\$155 million), meat (NZ\$100 million or US\$81 million), and fish and crustaceans (NZ\$97 million or US\$78 million).

2.4 Re-exports through Hong Kong, China

In 2012, US\$435 billion worth of goods were re-exported through Hong Kong, China to other parts of the world. Of which, US\$630 million worth of merchandise trade between New Zealand and other trading partners were conducted through Hong Kong, China (see **Figure 4** below).

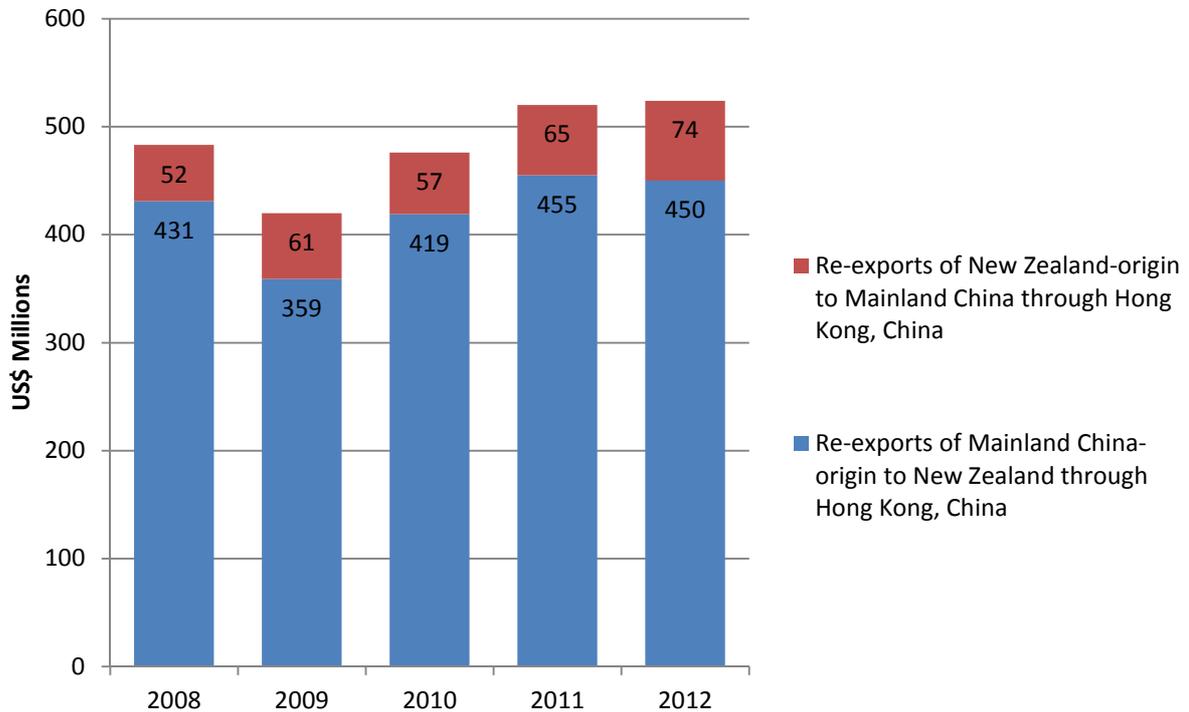
Figure 4: Merchandise trade between New Zealand and the World through Hong Kong, China in 2008 - 2012



In 2012, the Mainland of China was New Zealand's second largest export market. Hong Kong, China, benefitting from the close trade relations with both economies and its strategic position, is a major trade hub for the trade between the Mainland of China and New Zealand.

In 2012, about US\$524 million or 5.4% of the total bilateral trade between the Mainland of China and New Zealand was routed through Hong Kong, China (see **Figure 5** below).

Figure 5: Merchandise trade between New Zealand and Mainland China through Hong Kong, China in 2008 – 2012

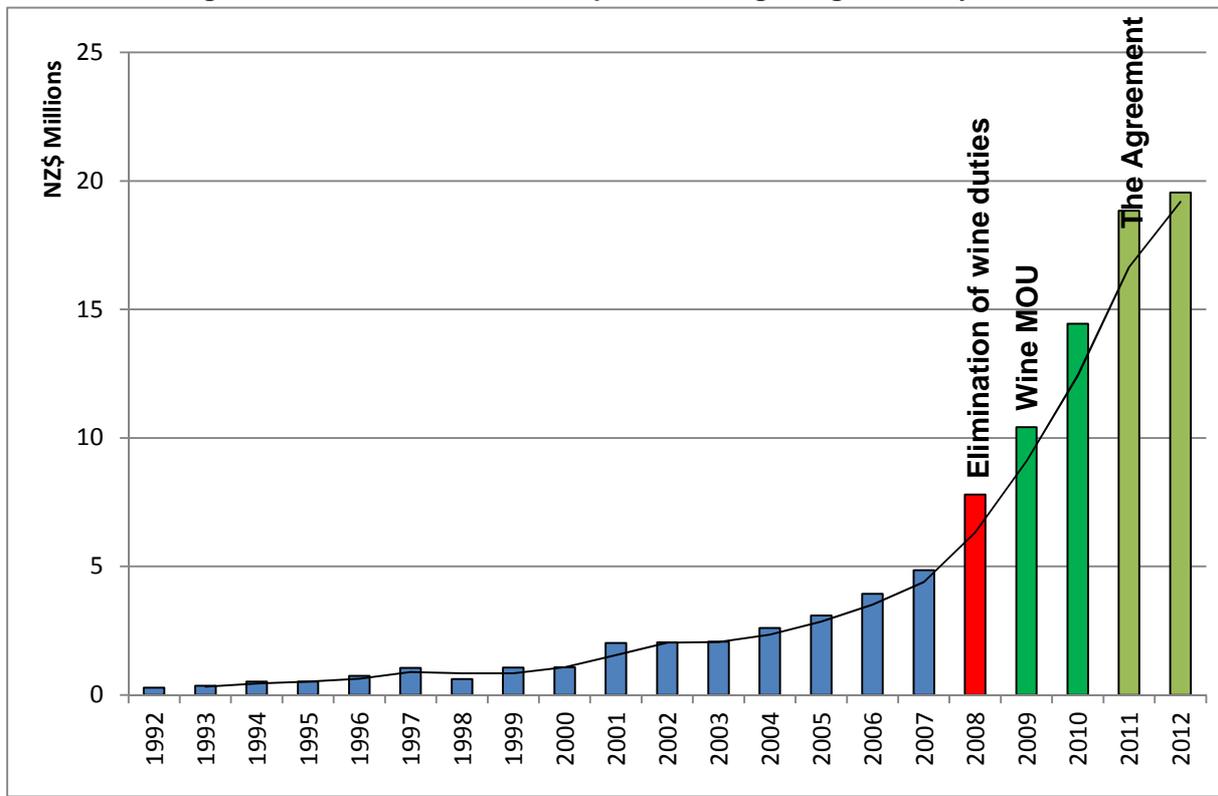


2.5 Wine

A significant feature of the New Zealand - Hong Kong, China trading relationship has been the dramatic increase in exports of New Zealand wine from NZ\$282,000 (US\$ 152,000) in 1992 to NZ\$20 million (US\$16 million) in 2012 (an average annual growth rate of 24%) (see **Figure 6** below). Over the same period, exports of New Zealand wine to the rest of the world increased by 18%, on average, each year. The key factor explaining this dramatic increase was the Hong Kong, China's elimination of duties on wine in 2008 as part of its strategy to become a regional wine hub. Subsequently, in 2009, the Hong Kong- New Zealand Arrangement on Cooperation on Wine-related Business was signed. The Arrangement seeks to enhance mutual co-operation in areas including wine trading, tourism, investment, education and combat against counterfeits.

In the first year of the Agreement's entry into force, exports of wine to Hong Kong, China rose 30% (to reach NZ\$19 million or US\$15 million). In 2012, Hong Kong, China was New Zealand's seventh largest export destination for wine. For Hong Kong, China, New Zealand was its 10th largest source of wine imports in 2012. In 2012, wine exports to Hong Kong, China were valued at NZ\$20 million (US\$16 million) – an increase of 4% from the year prior. However, as New Zealand's share (2%) of the Hong Kong, China wine market has not changed significantly since Hong Kong, China's elimination of duties on wine, there is considerable scope for New Zealand to expand its market share.

Figure 6: New Zealand's Wine exports to Hong Kong, China by Value



New Zealand Wine in Hong Kong, China

Hong Kong, China is among the most mature wine markets in Asia and New Zealand vintages are firmly on the menu.

In 2008, Hong Kong, China made the strategic decision to develop itself into a wine trading and distribution centre for the Asia-Pacific region by removing all duties on imported wine. Ever since then, Hong Kong, China has gradually grown into a major wine trading hub with the highest per capita consumption in Asia, enjoying 5 litres per year according to the International Wine and Spirits Research.

New Zealand is especially famous in Hong Kong, China for its quality white wines with notable varieties including Sauvignon Blanc, Chardonnay and Pinot Gris. New Zealand white wine consumption is growing among next generation Hong Kong, China wine consumers as its light flavour complement local Cantonese cuisine; often featuring seafood. Among the red wines Pinot Noir and Merlot are also widely enjoyed.

Mainland Chinese tourists visiting Hong Kong, China are significant consumers of the high-end New Zealand wine. Travellers to Hong Kong, China become familiar with New Zealand wine through the tourism and hospitality industry, and take that brand awareness back to their home market.

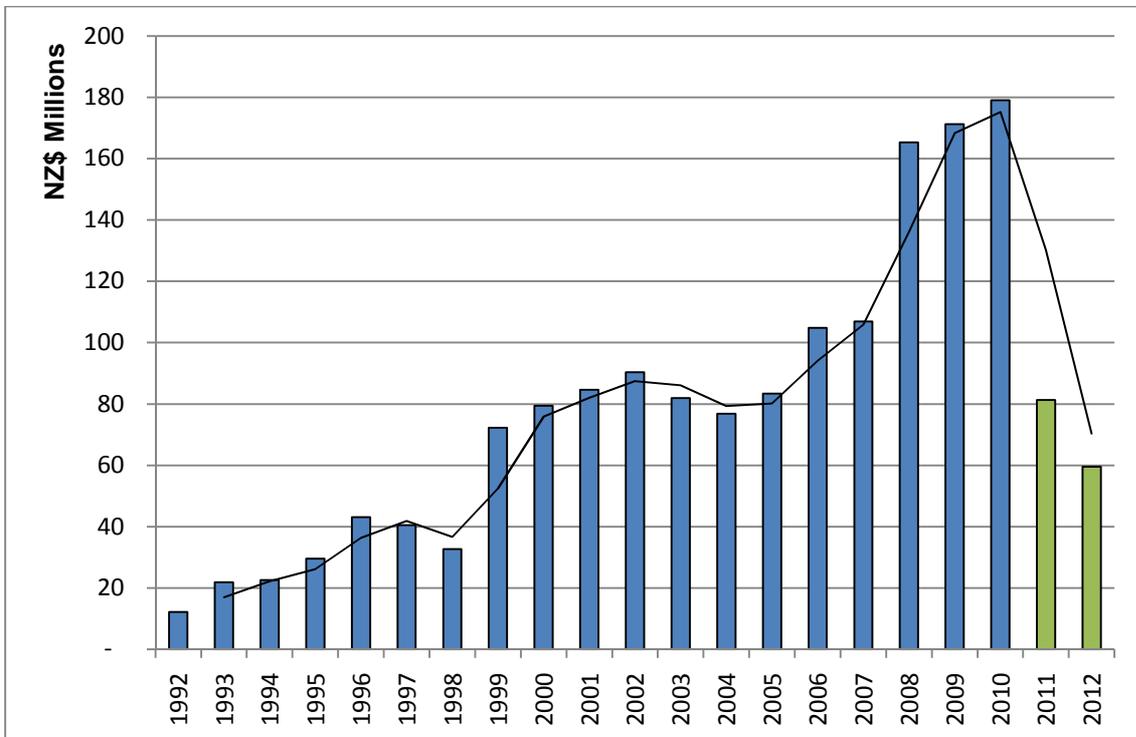
Distribution networks are vital for all wine producers wanting to be successful in the competitive Hong Kong, China market. A strong distributor will have well developed connections with venues, as well as logistics, storage companies, and even government entities and data processing and analysing companies

Whatever the method, New Zealand wine has a sparkling future in Hong Kong, China.

2.6. Lobster

A further significant recent change in the composition of New Zealand's exports of goods to Hong Kong, China is the decreasing importance of exports of lobster. From 1996 to 2010, Hong Kong, China was New Zealand's largest export market for lobster. New Zealand exports of lobster to Hong Kong, China reached a record high in 2010 with a value of NZ\$179 million (US\$129 million). In 2011, Hong Kong, China was overtaken by China as New Zealand's most important destination for lobster exports. Exports of lobster to Hong Kong, China in 2011 were worth NZ\$81 million (US\$66 million) – a decline of 55% from the year before. In 2012, New Zealand exports of lobster to Hong Kong, China decreased 27% (from 2011), to reach NZ\$60 million (US\$48 million) (see **Figure 7** below).

Figure 7: New Zealand's Lobster exports to Hong Kong, China by Value



Section 3: Trade in services

3.1 Bilateral Trade

The Agreement covers a comprehensive scope of service sectors, which are scheduled on a negative list basis. These include business and professional services, communication services, financial services and transport services, construction and related engineering services, distribution services, educational services, environmental services, health and social services, tourism and travel related services, as well as recreational, cultural and sporting services. It secures better business opportunity and greater certainty for service providers of Hong Kong, China and New Zealand and the services they provide in the above sectors in each other's market.

In 2012, New Zealand was Hong Kong, China's 29th largest trading partner in services trade, 30th largest export market (0.2% of total exports of services), and 24th largest source of imports (0.3% of total imports of services). Conversely, Hong Kong, China was New Zealand's 10th largest trading partner in services trade, 10th largest export market (1.9% of total exports of services) and 9th largest source of imports (1.6% of total imports of services) in 2012⁸.

3.2 Hong Kong, China's Services Trade with New Zealand

Total bilateral trade in services between Hong Kong, China and New Zealand reached US\$453 million in 2012, slightly lower than that in 2010 but higher than those in other pre-Agreement years (2008-2009) at a level ranging from US\$384 million to US\$443 million. While Hong Kong, China's imports of services from New Zealand in 2012 (at US\$266 million) was higher than those in the pre-Agreement years, exports of services in 2012 (at US\$187 million) was lower than that in 2010 but generally higher than those in other pre-Agreement years (except 2008) (see **Table 2** below).

Table 2: Hong Kong, China's Trade in Services with New Zealand

	Hong Kong, China-New Zealand Total Trade in Services	Exports of Services to New Zealand	Imports of Services from New Zealand
	US\$ Millions		
2008	443	209	235
2009	384	169	214
2010	475	232	243
2011	497	223	274
2012	453	187	266

From 2008 to 2012, Hong Kong, China's CAGR of services exports to New Zealand declined by 2.7%. In 2012, the top three components of services exports were transport services, travel services, and other business services. For the same period of time, the CAGR of services imports from New

⁸ Source: Statistics New Zealand (year ended December 2012).

Zealand was up by 3.1%. In 2012, the top three components of services imports were travel services, transport services and other business services.

3.3 New Zealand's Services Trade with Hong Kong, China⁹

Detailed data on New Zealand's bilateral trade in services with Hong Kong, China is available for 2011 and 2012 (see **Table 3** below). In 2011, New Zealand's top three components of services exports to Hong Kong, China were education, tourism and transportation services. In 2012, the value of New Zealand's services exports to Hong Kong, China was NZ\$304 million (US\$246 million) – representing 2% of New Zealand's total exports of services. In the same period, New Zealand's imports of services from Hong Kong, China were valued at NZ\$245 million (US\$199 million) – representing some 2% of New Zealand's total imports of services.

Table 3: New Zealand's Trade in Services with Hong Kong, China

	Total trade in services	Exports of services	Imports of services
	NZ\$ Millions		
2011	586	306	280
Tourism related travel	127	80	47
Education related travel	130	129	1
Transportation services	237	74	163
Commercial services	86	19	67
Government and insurance services	6	4	2
2012	549	304	245
Tourism related travel	119	71	48
Education related travel	118	117	1
Transportation services	227	82	145
Commercial services	78	29	49
Government and insurance services	7	5	2

3.4 Movement of Business Persons

Business visitors from New Zealand have visa-free access to visit Hong Kong, China for a stay up to 90 days. Hong Kong, China does not maintain separate statistics on business visitors from New Zealand within the total number of visitors from New Zealand enjoying visa-free entry. Facilitation has been accorded to eligible applicants in intra-corporate transfer applications. The numbers of applications received in 2011 and 2012 were 49 and 46 respectively. All the applications were finalised within 10 working days. Facilitation has also been accorded to eligible applications from installers or servicers from New Zealand.

⁹ Average US dollar conversion rate in 2012 sourced from the Reserve Bank of New Zealand.

Total visitor arrivals in New Zealand from Hong Kong, China totalled 26,272 in 2012. Visitor arrivals from Hong Kong, China increased 5% in 2011 and a further 3% in 2012. In 2012, 2,208 visitors came to New Zealand for business.

The numbers of applications for working holiday visa received from New Zealand nationals were 66 and 57 in 2011 and 2012 respectively. The numbers of applications approved in these two years were 63 and 56 respectively.

The number of applications for working holiday visas received from Hong Kong, China has seen the quota of 400 fully subscribed in 2011 and 2012.

Gallagher

Founded in the early 1930s by Bill Gallagher Senior with the invention of the electric fence, Gallagher has developed into a multinational enterprise exporting technology products and services worldwide. Gallagher's security division - one of three companies under the group - designs, manufactures, and programmes integrated security management solutions for customers across a range of industries including education, healthcare, entertainment, oil and gas, ports and airports, corrections, and more.

As a company providing customised solutions, "You have to be in the market to really understand it," says Peter Francis, Asia Regional Manager – Security, "it is crucial to be accessible for clients." Francis says setting up a regional office was a major commitment, yet it has helped establish the Gallagher brand. Making that commitment has enabled the Gallagher team to develop closer relationships with distribution partners in the market.

After comparing several major cities in the region, Gallagher chose Hong Kong, China as the location for its Asia headquarters. Francis cites that Hong Kong, China's geographic location as a hub in the middle of the region makes it easier for the company's representatives to travel to clients. Hong Kong, China is also a gateway to China and is comparatively close to India, which are two of the world's most promising developing markets. A world renowned free-trade port, Hong Kong, China is relatively cheap to operate an office from and has a strong international presence. Francis also notes Hong Kong, China's strong ties with New Zealand through the Agreement, and the fact that a relatively large community of New Zealand expatriates and business people live here. It was the combination of these factors that brought Peter Francis and Gallagher to town.

One of the first key tasks was to find and hire a Cantonese-speaking business manager and technology manager. It was not easy but Gallagher was able to successfully recruit people from the Hong Kong, China market who reflect the company's culture and values. Hiring local staff was a significant step towards establishing Gallagher in the Asian region.

Since Gallagher opened its office in Hong Kong, China, business opportunities have continued to grow, with the North Asia region (Hong Kong, China/Macao) experiencing increased revenue of well over NZD\$1 million. Francis is targeting triple sales within the next 3 years and says the company is excited about the opportunities on the horizon.

Section 4: Investment¹⁰

4.1 Bilateral Investment

¹¹

Hong Kong and New Zealand signed the Investment Promotion and Protection Agreement (IPPA) on 6 July 1995. The Agreement came into force on 5 August 1995.

To New Zealand, Hong Kong, China represents the 10th largest source of foreign direct investment (FDI) as well as the 5th largest destination of New Zealand overseas direct investment (ODI). Total Hong Kong, China investment (comprised of FDI, portfolio investment, and other investment) in New Zealand stood at NZ\$3.4 billion (US\$2.8 billion) in 2012, while total New Zealand investment in Hong Kong, China stood at NZ\$1.6 billion (US\$1.3 billion) in the same year (see **Table 4** below).¹²

Table 4: Investment between New Zealand and Hong Kong, China (stocks as at 31 March)

Hong Kong, China Investment in New Zealand				
	Direct Investment	Portfolio Investment	Other Investment	Total Hong Kong, China Investment in New Zealand
	NZ\$ Million			
2011	1,035	126	2,513	3,754
2012	1,081	376	1,892	3,433
Change from 2011	46	250	-621	-321
New Zealand Investment in Hong Kong, China				
	Direct Investment	Portfolio Investment	Other Investment	Total New Zealand Investment in Hong Kong, China
	NZ\$ Million			
2011	583	419	166	1,254
2012	653	343	423	1,568
Change from 2011	70	-76	257	314

¹⁰ Values in this section refer to the stock of investment as at 31 March.

¹¹ Average US dollar conversion rate in 2012 sourced from the Reserve Bank of New Zealand.

¹² Total investment may not equal the sum of direct, portfolio and other investment as total investment also includes stocks of financial derivatives and reserve assets.

CHAPTER FOUR: OBJECTIVES, NEGOTIATIONS AND REVIEWS

4.1 Objectives of the Agreement

The objectives of the Parties in concluding an Agreement to establish a free trade area as laid out in Article 2 of Chapter 1 of the Agreement were to:

- “(a) strengthen the Parties’ bilateral relationship through the establishment of a mutually beneficial closer economic partnership;*
- (b) liberalise, facilitate and expand bilateral trade in goods and services, including through the removal of trade barriers and the disciplined use of trade remedy measures;*
- (c) ensure a liberal, open bilateral environment to expand investment;*
- (d) promote conditions for an open and competitive market in the free trade area for the purposes of enhancing trade and investment;*
- (e) ensure measures affecting trade and investment between the two economies are transparent, fair and equitable;*
- (f) promote effective protection and enforcement of intellectual property rights in each Party’s area;*
- (g) provide an effective mechanism to prevent and resolve trade disputes;*
- (h) support the wider liberalisation process in APEC and in particular the efforts of all APEC economies to meet the APEC goal of free and open trade and investment; and*
- (i) support the WTO in its efforts to create a predictable, freer and more open global trading environment.”*

The objectives specified in Article 2 remain valid, provide a sound basis for strengthening the trade and economic relationship and promote free and open trade and investment in the bilateral and wider contexts.

Open, transparent and competitive markets are key drivers of economic efficiency, innovation, wealth creation and consumer welfare. This requires a predictable, transparent and consistent business environment which enables businesses to conduct transactions freely, to use resources efficiently and to take investment and planning decisions with certainty.

Against that background, it is assessed that good progress has been made towards meeting the Agreement’s objectives.

Chapters 2 and 3 of this Review manifest the smooth and faithful implementation of the Agreement by both Parties and reflect the work that has been undertaken towards implementing the Agreement and thereby enhancing legal certainty to bilateral trade and investment, strengthening the bilateral trade and economic relationship, liberalising trade and investment, and creating favourable conditions for the stimulation of trade and investment flows, including through the development of a framework of transparent rules.

The positive impact that this has had on bilateral trade and investment flows and people movement is reflected in Chapter 3 of this Review.

Initial evidence indicates the presence under the Agreement of conditions for fair competition, mutually beneficial business collaboration and innovation. At the same time, there is recognition that further

realisation of the objectives of the Agreement will require ongoing engagement and cooperation. Ways in which this effort can be focused are set out in the following Chapter of the Review.

The Agreement is well placed to address common aspirations of the Parties regarding advocacy of free market and liberal investment, building upon the Parties' commitments at the WTO and APEC to create a more free, open and predictable global trading environment, and to promote wider regional and international economic co-operation.

4.2 Liberalisation of Trade in Services and the Movement of Business Persons

In a ministerial exchange of letters dated 29 March 2010, New Zealand and Hong Kong, China undertook to review their commitments in respect of "independent service suppliers" and "installers or servicers" made in accordance with Article 4 (Grant of Temporary Entry) of Chapter 14 (Movement of Business Persons). The aim of the review was to positively consider whether additional commitments could be made in order to further facilitate trade in services between the Parties, taking due account of their respective laws, policies and domestic circumstances.

In a separate ministerial exchange of letters dated 29 March 2010, Hong Kong, China has agreed to promptly and positively consider according to services and service suppliers of New Zealand, in respect of the supply of a service through Modes 1 to 3 of the legal services and energy services subsectors, treatment no less favourable than that it accords, in like circumstances, to the services and service suppliers of a non-Party to the Agreement. The consideration will take due account of its laws and policies.

Article 8 of Chapter 13 obliges the Parties to consult within two years of entry into force of the Agreement and at least every three years thereafter, or as otherwise agreed, to review the implementation of Chapter 13 and consider other trade in services issues of mutual interest, with a view to progressive liberalisation of the trade in services between them on a mutually advantageous basis.

In the case of all three of the above provisions, the Parties discussed these issues at the first meeting of the Committee on Trade in Services in March 2012. They subsequently exchanged information and discussion papers and held further discussions at the second meeting of the Committee on Trade in Services in 2013. The discussions are ongoing.

4.3 Investment

New Zealand and Hong Kong, China recognise the importance of two-way investment flows to the competitiveness and internationalisation of firms in both economies, and as a means of encouraging bilateral trade and economic development.

Negotiations towards an Investment Protocol are intended to strengthen this relationship by, among other things, improving the existing "*Agreement between the Government of New Zealand and the Government of Hong Kong for the Promotion and Protection of Investments*" signed in 1995.

Five rounds of negotiations on the Investment Protocol have taken place since the Agreement entered into force. Significant progress has been made in most areas of the draft text. There are, however, a small number of major outstanding issues that require further negotiations.

New Zealand and Hong Kong, China reaffirm their commitment to completing negotiations on the Investment Protocol.

4.4 General Review of the Agreement at Ministerial level

As noted in the introduction, Article 4 of Chapter 17 (Administrative and Institutional Provisions) of the Agreement states that the “Parties shall undertake a general review at ministerial level of this Agreement, including of matters relating to liberalisation, cooperation and trade facilitation, within two years of its entry into force and at least every three years thereafter, unless the Parties agree otherwise”.

The terms of reference and modalities for completing the Review were discussed and agreed at the first meeting of the Joint Commission in 2012. At that time, both Parties agreed to complete the Review on the basis of two full years of trade data (1 January 2011 – 31 December 2012) and agreed on terms of reference.

This Review was considered at the second meeting of the Joint Commission and subsequently agreed by officials intersessionally prior to consideration by respective Ministers responsible for trade.

CHAPTER FIVE: CONCLUSIONS AND NEED FOR MODIFICATIONS

As part of this Review, the Parties have agreed to consider the need for modifications to the operation or implementation of the Agreement to ensure its objectives are met and to consider the need for additional measures in furtherance of the objectives of the Agreement.

5.1 The implementation, operation and impact of the Agreement to date

The Parties agree that the operation and implementation of the Agreement to date has been consistent with, and promoted achievement of the objectives of the Agreement, as supported by the presence of robust processes on both sides to ensure further progress, as detailed in Chapter 2 of this Report.

While acknowledging that the trade liberalisation impact resulting from the entry into force of the Agreement is one of a number of factors shaping the bilateral trade and investment over the period, the Review finds that tariff liberalisation has resulted in improved market access opportunities for business and reduced business costs. The Agreement has also successfully promoted communication and cooperation among government agencies on both sides, generating greater understanding of each other's trade and investment regimes and laying a solid foundation for cooperation across a wide spectrum of issues to facilitate bilateral trade and investment. The Parties welcome the positive impact that the Agreement has had on bilateral trade and investment flows as detailed in Chapter 3.

5.2 The need for modification to the operation or implementation of the Agreement

While welcoming the benefits of the Agreement to date, the Parties also recognise further opportunities to build on the bilateral trade and economic relationship.

To deliver maximum benefits, trade agreements should be able to function as living arrangements capable of further development to respond to new opportunities and challenges in the trade and economic relationship. With this in mind, it will be important for both sides to continue work to develop the Agreement, not only for mutual benefit in the bilateral context, but also to enhance the competitiveness and performance of both economies domestically and in the regional and global context at a time when regional economic integration initiatives are gathering pace.

Promoting productive bilateral dialogue and cooperation across all areas of the Agreement will be an important part of that process as will the development of robust regulatory frameworks which secure wider dynamic productivity gains throughout national economies and enable business sectors to compete most effectively on the regional and world stage.

Accordingly, the Annex of areas of work and cooperation, which picks up on the specific implementation or operational issues identified in the course of the Review, and explores practical ways to further facilitate trade and promote regional economic integration within existing frameworks, is acknowledged.

5.3 The need for additional measures in furtherance of the Agreement's objectives

No further formal implementation measures or changes to the Agreement have been recommended as a result of this Review.

ANNEX: AREAS OF WORK AND COOPERATION

General

1. Promote better understanding of the provisions of and opportunities offered by the Agreement and of each other's legal and regulatory systems as they relate to matters covered by the Agreement (Ch. 2, Sections 7 and 14)¹³.
2. Explore ways in which to enhance inter-sessional work and dialogue including through the leveraging of advances in communications technology (Ch. 2, Section 16).

In respect of goods trade: trade facilitation

3. Explore ways to promote greater convergence of PSR in the regional context with a view to bringing mutual benefits to the Parties concerned (Ch. 2, Section 3).
4. Explore the necessity of the on-going requirement for an importer of goods falling under HS Chapters 61 and 62 into New Zealand to obtain a certificate of origin from Hong Kong, China where preference under the Agreement is sought (Ch. 2, Section 3).
5. Continue work to formalise existing cooperation between the New Zealand Ministry of Business Innovation and Employment and the Customs and Excise Department of Hong Kong, China with respect to consumer product safety (Ch. 2, Section 7).
6. Cooperate in strengthening protection of intellectual property rights (Ch. 2, Section 10).
7. Cooperate in the trade remedies area with a view to furthering the objectives of Chapter 6 of the Agreement (Ch. 2, Section 5).

In respect of services trade and the movement of business persons

8. Complete the review of commitments in respect of "independent service suppliers" and "installers or servicers" made in accordance with Article 4 (Grant of Temporary Entry) of Chapter 14 (Movement of Business Persons) (Ch. 2, Section 13).
9. Complete the review of Chapter 13 (Trade in services) with a view to progressive liberalisation of the trade in services between them on a mutually advantageous basis (Ch. 2, Section 12).
10. Consider extending Chapter 13 MFN commitments in respect of legal services and energy services that Hong Kong, China accords in like circumstances to the services and service suppliers of a non-party (Ch. 2, Section 12).
11. Facilitate further dialogue between Professional Registration Bodies on Registration for Auditing Services with a view to obviating or streamlining procedures for obtaining practising certificates (Ch. 2, Section 12).

¹³ All references relate to corresponding sections of this Report; not the Agreement.

In respect of investment

12. Conclude negotiations on an Investment Protocol (Ch. 4).

In respect of government procurement

13. Formalise procedures for making modifications and rectifications to the annexes to Chapter 12 (Government Procurement) (Ch. 2, Section 11).