

Infinity and beyond

A call to action in difficult trade policy times

NZIER report

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We are unique in that we reinvest our returns into public good research for the betterment of Aotearoa New Zealand.

Our expert team is based in Auckland and Wellington and operates across all sectors of the New Zealand economy. They combine their sector knowledge with the application of robust economic logic, models and data and understanding of the linkages between government and business to help our clients and tackle complex issues.

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Key points

Australia and New Zealand are trading nations

Trade is a given for New Zealand and Australia. Unless we are prepared for a vastly lower standard of living, ensuring that trade is efficient and effective is critical for both countries. If trade is a given, then the question is how we can operationalise trade and, particularly, trade policy in a way that moves both countries along a durable trading and trade policy track. This is despite what many trade policy commentators have noted (Boer and Rieth, (2024); Eugster et al. (2022), Tax Foundation (2024)) that we are now in new times, less conducive to making headway on trade policy issues.

Let's learn from past successes

In this paper, we suggest courses of action that could be taken. We should hasten to add that we have not advocated a new way of doing trade policy; in fact, it is quite the opposite: we need to stick to our trade policy knitting. By taking what has been outrageously successful in the past and applying it to our future trade policy initiatives, we are likely to make trade policy headway. However, failure to 'make play' will create real risks for both countries.

Mutual recognition and paperless trade are obvious choices

Focusing on variations of proven initiatives and capitalising on new (and old) technologies will have multiple benefits:

- Mutual recognition of standards for professions and product categories. By projecting this part of the Closer Economic Relations (CER) free trade agreement between Australia and New Zealand and creating 'coalitions of the willing', we can further enhance trade integration and deliver benefits for participating parties.
- Further promotion and pressure to introduce paperless trade between participating parties. Most of the technology for implementing paperless trade exists. The main challenges to progress are:
 - The upfront costs of moving business and government away from existing systems
 - Deepening the political and institutional¹ will within countries that have the means to implement a paperless trade system, potentially through a framework like the DEPA.² In this way, trust can be built, and the ability to iron out the practical problems of implementation can be developed along with the tools and techniques required.

Both initiatives are designed to create a demonstration effect that shows that all parties can benefit. The approach is aimed at creating a dynamic response that drives further integration between participating parties and interest from those not involved in the

¹ Deepening the political and institutional will require political and institutional leadership.

² The Digital Economic Partnership Agreement (DEPA) is an agreement between Chile, Singapore and New Zealand. The aim is to help exporters take advantage of digital trade and reduce barriers to exporting (particularly for SMEs).



process (such as the situation that has occurred with the CP TPP and DEPA) so that we can expand the initiatives.

The value is significant

Below, we summarise the possible impacts of the two initiatives. We make these forecasts with full knowledge, given past experience, that the likely benefits are vastly underestimated. They show that standards are critical for further international trade. Harmonisation of those standards is cemented in place by mutual recognition agreements. Paperless trade will also assist in helping us reach the doubling of export goals since it makes trade easier and improves the productivity of all participants along the supply chain.

Both initiatives need attention from the government; agreements do erode (note the concerted effort on both sides of the Tasman) to reconnect standards between New Zealand and Australia under the Trans-Tasman Mutual Recognition Agreement (TTMRA) and the slow progress in moving on paperless trade initiatives.

Table 1 Estimated gains from further mutual recognition and paperless trade

Likely to be conservative estimates

Target	Agreements	Comment
Mutual recognition agreements		
Assist in doubling exports	13% of US\$47 billion equals US\$6.1 billion	Illustrates the importance of standards in international trade as well as the domestic economy
Paperless trade		
Assists in doubling exports	US\$124 million and US\$434 million per annum (for New Zealand trade only)	Kickstarting paperless trade with Australia, South Korea, Singapore and the United Kingdom

Source: NZIER

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1 Being proactive on trade policy is a priority for New Zealand, not a 'nice to have'

Developing new approaches and variations on successful past trade policy episodes is a necessity for New Zealand. Without a new supply of ideas and practical approaches, New Zealand's trade prospects would diminish. There are reasons for this:

- The scale of production in New Zealand is limited, and there are significant distances to markets.
- New Zealand is dependent on a narrow range of competitive temperate zone agricultural product exports. Ensuring that those products are not restricted in international markets is crucial for New Zealand's economic success.
- Tensions in world trade are increasing, and middle to smaller traders are likely to be impacted proportionately more than larger countries.

The purpose of this report is to explain why New Zealand needs to continue to play a role in trade policy. We first briefly examine the choices New Zealand has, look at what we have done in trade policy, and then discuss what opportunities there might be, particularly acting in unison with Australia.

We have drawn on international and domestic studies in peer-reviewed journals, case studies, comments made in an ERIA (Economic Research Institute for ASEAN and East Asia) seminar, past assessments, and other sources.

The analysis is intended to give policymakers an indication of what is possible when 'coalitions of the willing' are formed in what are difficult times for world trade. We are attempting to 'fly trade policy kites', and the depth of the analysis reflects the initial scoping nature of the assessment, which is in line with good policy practice.



2 Why does New Zealand need to make trade policy play

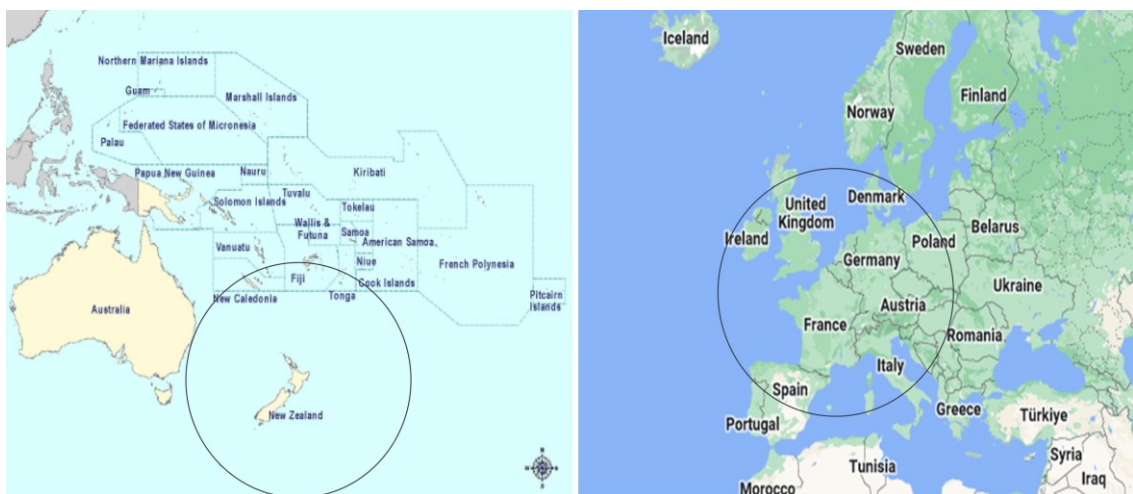
2.1 It is about scale and distance

Figure 1 sets out New Zealand's perennial problem. Here, we have illustrated this with a 2000 km radius around New Zealand and Europe. The radius around New Zealand takes in some Pacific Islands and New Zealand (approximately 5 million people). The same radius around Europe takes in nearly 360 million people. We have used Europe as an example; it could be Asia or North America.

Without a large domestic market, it is difficult to generate the scale to compete internationally. It also makes it difficult to generate competition domestically, and high prices (relatively to bigger countries) are a problem that regulators are constantly grappling with and attempting to ameliorate.

Only in a narrow range of temperate zone agricultural products does New Zealand have scale. Industries such as dairy, red meat, and some horticultural industries have sufficient scale to drive cost advantages over competitors. Other products rely on windows of opportunity to command premiums and niche product development. In other sectors, New Zealand relies on exploiting niche products. Prior to the pandemic, tourism was the single biggest earner for the economy.

Figure 1 Scale and distance are key challenges for New Zealand



Source: NZIER

The other issue is distance from markets. Figure 2 illustrates New Zealand's position in relation to potential markets. Traditionally, New Zealand's main markets have been in the United Kingdom. China, ASEAN, East Asia and the United States now dominate New Zealand's export profile. Distance to main markets has declined as Asia/Pacific markets dominate New Zealand's top ten export markets. Geography (who we trade with now) has overtaken history (who we used to trade with).



Figure 2 Distance from trading partners



Source: Easton (2016)

2.2 Fading to black: the international situation has changed in the last decade

The situation in world trade policy has changed dramatically, with the United States retreating from its position as an advocate for trade liberalisation and taking on a more mercantilist approach to world trade.³

A number of events signal the end of the 'golden weather' in trade policy.

- The United States backing out of the Trans Pacific Partnership (TPP) in 2017 at the very beginning of the Trump administration marked the end of a proactive United States stance on trade (Solis 2017).
- The United States refused to appoint judges and blocked appointments to the Appellate Body of the WTO, effectively ending judgements on trade disputes. The implications of grinding the disputes settlement system to a halt make it more difficult for the WTO to enforce multilateral trade rules (CSIS, n.d.)
- Imposing tariffs on Chinese imports was among the protectionist moves made by the United States (Tax Foundation 2024).

These provocative acts led to retaliation, particularly by the Chinese. New Zealand also has tariffs on exports of steel and aluminium into the United States. The United States has used a clause that claims that New Zealand is an unfriendly country to enforce the tariffs.⁴ This is despite attempts by the United States to encourage New Zealand to join AUKUS II, a security arrangement designed to contain China.

Australian producers of wine, barley, and coal have also experienced tariffs that have been arbitrarily imposed on them. After repeated political clashes with the Australian

³ Mercantilism is economic nationalism for the purpose of building a wealthy and powerful state. Adam Smith coined the term "mercantile system" to describe the system of political economy that sought to enrich the country by restraining imports and encouraging exports (LaHaye 2002).

⁴ Section 232 of the US Trade Expansion Act of 1962. This is a rarely used provision that "an article is being imported into the United States in such quantities or under such circumstances as to threaten or impair the national security." (Hughes and Pearson 2023)

government, China imposed tariffs supposedly on anticompetitive grounds. After the change in government in Australia, these tariffs were removed.

War in Europe and the Middle East have also disrupted supply chains. This has increased the wait times and reduced services. War has impacted oil and grain prices, which in turn has increased imported inflation. All this as countries are still recovering from the COVID pandemic, where they loosened monetary policy. Now that monetary policy settings are firmer, it is more difficult to borrow money around the world.

Elections have been a major feature of 2024. They tended to increase uncertainty and heightened economic anxiety.⁵

2.3 The choices New Zealand faces

This is a difficult time for those involved in trade policy. Looking through the back window wistfully at times when trade policy conditions were markedly better and wishing for a return of the good times is not really an option.

New Zealand has choices to make. We could try to convince the major traders of the errors in their ways. Attempt to apply logic pointing to 50 years of growth and show them the benefits of past decisions. Again, this is not really an option, particularly since the United States is deeply divided and moving towards further isolationism rather than less.

Further, now that the United States has moved into a more protectionist mode, other countries are following suit as vested interests capitalise on opportunities to protect their own position both politically and economically.

Attempts to persuade the major powers have failed, and this pathway has been blocked.

New Zealand could accept that this is the way of the world and allow the major traders' views to prevail. As the Greek philosopher Thucydides said: "*the strong do what they can and the weak must suffer what they must*". (in Ratcliffe 2018)

The third option is to play a more proactive part in formulating a way through difficult circumstances. This approach requires the participants to have optimism and front-foot trade initiatives, which means having agency. This is the approach that New Zealand has successfully developed, and it means recognising that New Zealand is not alone in its aims and objectives and that 'coalitions of the willing' can be powerful building blocks to achieving trade policy objectives. The challenge is to be proactive and create an environment where the strong cannot do what they want, and smaller economies can progress towards their economic goals.

If we look back at New Zealand's trade policy history (Nixon and Yeabsley 2002), we see situations where New Zealand has been effective in safeguarding its national interest despite being a small player.

While it might be seductive to suggest that 'might is right', once you look more closely at trade policy situations, there are many occasions where small players can turn situations to their advantage.

⁵ 2024 is a year of elections: the Indonesian presidential elections, Indian elections, European parliamentary elections triggering French elections, elections in the United Kingdom, and United States elections.

This is the approach that New Zealand has adopted to further its trade policy objectives. While the trade policy questions change and the tactical approaches differ, the overall strategy is frequently similar from trade policy episode to episode.

2.4 New Zealand has agency

Having agency requires New Zealand to make play in international fora. To operationalise this approach means developing the tactical awareness that underpins being useful to the trade policy process at hand. To do this means that trade policy staff are part policy entrepreneurs and part negotiators. They need room to make errors, make calls quickly and provide innovative solutions for difficult trade policy issues. It also means targeting the universal concerns of the countries that it is dealing with.

Trade policy is as much about domestic issues as an international negotiation. An internal consensus can be an advantage since it allows negotiators flexibility in a negotiation. This is much easier for a small country to achieve than a large country. Flexibility is important since the shifting sands of any negotiations require locking in an agreed position. Timing is everything, and negotiators need to be free to make decisions before positions change.

Gaining internal consensus is not easy and requires time, work and resources to achieve the results. Sometimes, achieving internal consensus is more difficult than the international agreement negotiation process.

Any agreement must be economically coherent. Smaller countries have neither the power nor resources to develop short-term fixes that make little economic sense. Agreement durability is a key criterion, and this is closely related to economic coherency.

These attributes do not automatically mean that success is guaranteed. It does maximise the chances that benefits will be delivered from any particular agreement.

2.4.1 How has this worked for New Zealand

Table 2 sets out selected agreements that New Zealand has been primarily responsible for or supported. Only two bilateral agreements are included, given their significance (CER/SEM and the China FTA).

In a number of these agreements, New Zealand has participated but has not been the critical partner that either made the first step or provided the impetus to deliver the agreement. Two examples are useful in detailing this point.

The CER agreement could never have been initiated by New Zealand. New Zealand was not politically in a position to push for a new, economically coherent agreement. Crucially, it was the Australians who said enough is enough; we need something new (Nixon and Yeabsley 2002). As the negotiations got underway, New Zealand managed to persuade the Australians to accept a free trade agreement rather than a customs union.

While New Zealand was an important source of ideas for what emerged as the CPTPP, it was the Japanese that finally pushed the agreement over the line. This was critical after the United States pulled away from the TPP (Takashi 2018).

New Zealand has pivoted towards the idea of concerted open plurilateralism. The lessons from the CPTPP are that there is an appetite for further integration not just in the Asia Pacific but further afield.

New Zealand has developed an array of agreements that are aimed at tempting like-minded countries to join. The aim is to develop coalitions of the willing before looking for larger countries to join. These include a range of agreements such as:

- Digital Economy Partnership Agreement (DEPA) aimed at kickstarting paperless trade as a way of improving the efficiency of trade. South Korea has now joined, and others are waiting in the wings.
- Agreement on Climate Change, Trade and Sustainability (ACCTS) brings together Iceland, Costa Rica and Switzerland. The United States is also an observer. It has a number of actions, including liberalisation of trade in environmental goods, expanding understanding of environmental services, development of guidelines for voluntary eco-labelling, and a framework for removing fuel subsidies.
- The Indigenous Peoples Economic and Trade Cooperation Arrangement (IPECTA). The aim is to strengthen the economic inclusion of Indigenous peoples through trade and investment, address Indigenous trade issues, and raise awareness of Indigenous economies across the globe whilst increasing economic cooperation between Indigenous peoples. IPECTA includes Australia, Canada, Chinese Taipei and New Zealand.
- Inclusive Trade Action Group (ITAG). In ITAG, Australia, Canada, Chile, Costa Rica, Ecuador, Mexico, and New Zealand have reaffirmed their commitment to sustainable and inclusive trade and reiterated their commitment to working together on sustainable and inclusive trade issues.
- The Global Trade and Gender Arrangement (GTAGA) is focused on developing mutually supportive trade and gender policies and addressing gender inequality. Its current objective is to encourage more women entrepreneurs into trade. It comprises Canada, Chile, New Zealand, Mexico, Colombia, and Peru.



Table 2 Selected trade agreements

Region/country	Agreements	Comment
Europe	Great Britain's accession to the EEC (1973) and the recent NZ-EU FTA (2023)	Important negotiations for New Zealand in 1973. Access was critical. NZ-EU FTA is less critical but still provides valuable increased access
Australia	CER/SEM	Aligned New Zealand's domestic policy with trade policy. A major step forward in setting the pattern for trade policy approaches
Multilateral agreements	Uruguay Round of GATT and the Cairns Group	Without the Cairns Group, agriculture would not have been built into the final agreement
China	China FTA and renewal	Significant impact on the New Zealand economy
ASEAN	ASEAN agreements with Australia and New Zealand	The first trade policy steps that will pave the way for further integration
Plurilateral agreements		
	RCEP	Ambitious agreement that brings together the region
	P4, TPP and CPTPP	Provides concrete rules in a WTO+ agreement
	DEPA, ACCTS, IPECTA, ITAG, GTAGA	Agreements that provide ways for countries to connect socially and economically. New Zealand is trialling concerted open plurilateralism.

Source: MFAT and NZIER

3 We do need to keep the pressure on: what is the plan?

While New Zealand has been relatively successful in the development of new agreements and breathing new life into older agreements, there is always a need to press on and develop new approaches to trade policy. We cannot stand still.

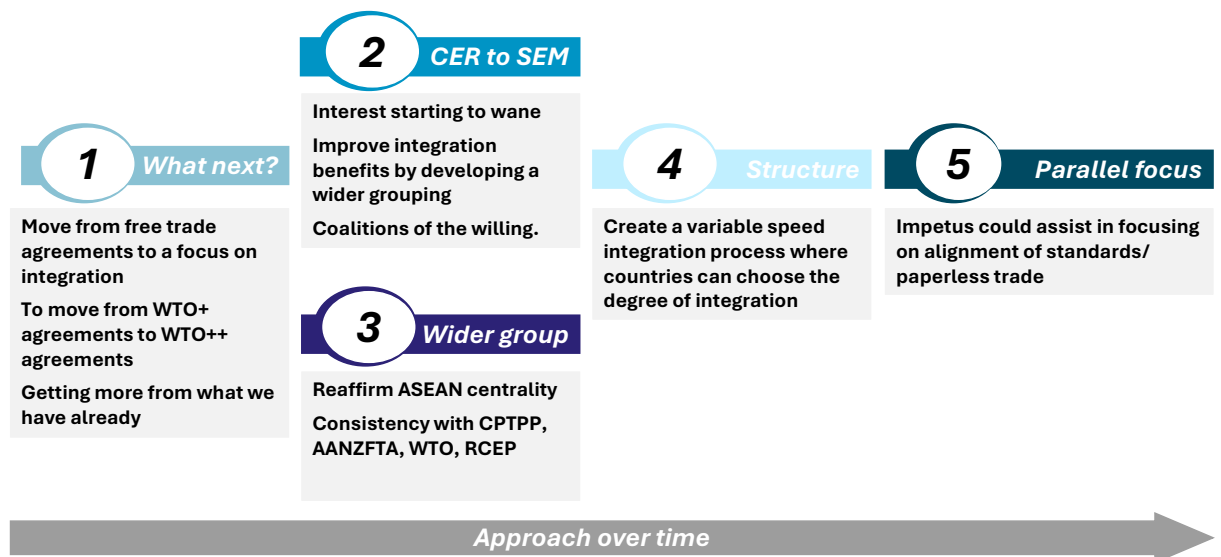
In the current climate, the likelihood of new FTA agreements has diminished. Therefore, improving the efficiency of agreements New Zealand already is necessary. Ways in which this could be done include:

- Developing or improving the mutual recognition agreements New Zealand has with selected ASEAN nations and beyond. This could include product standards and or recognising professional qualifications.
- Paperless trade is a major challenge for the private sector and government in many nations. Banding together and driving through ‘top-down’ changes as a group while at the same time applying ‘bottom-up’ pressure on firms and government agencies is required. This is likely to be more effective than individual governments taking unilateral steps. In this way, common approaches with local characteristics can be used to drive further benefits.

New Zealand and Australia have a long history with ASEAN but results to date do not reflect the economic vibrancy of the region. We need to do better.

Figure 3 sets out how New Zealand and Australia might project CER/SEM into ASEAN and beyond. The focus is on CER/SEM since they have been relatively successful in achieving many of their objectives.

Figure 3 A plan for variable speed integration



Source: NZIER



The aim is to move beyond the FTA approach taken by the CER/SEM⁶ and drive towards increased integration. This means going further than the CPTPP as a WTO+ agreement and focusing on elements that could set the stage for further integration, perhaps even a WTO++ agreement.

One of the reasons for this is that interest in the SEM goals is starting to wane. This is because CER has been so successful that the benefits that the SEM could deliver are much smaller.

What could be useful for this proposal is the recently announced Trans-Tasman Mutual Recognition Agreement review announced by the New Zealand and Australian Prime Ministers (more on this in later sections).

To interest a wider group, including ASEAN, the approach must be consistent with agreements we already have in the region (CPTPP, AANZFTA, WTO, and RCEP). It also must consider ASEAN centrality.⁷

Another advantage is that countries can pursue these agreements at the speed that they want to. Countries can choose the level of integration they are prepared to undertake. In this, a demonstration effect might be a powerful incentive for deeper integration particularly if the benefits are clear. It addresses and is driven by the 'internal consensus' issue.

⁶ CER is a free trade agreement between Australia and New Zealand agreed in 1983. It has had the impact of transforming not only trade between Australia and New Zealand but also had a positive impact on both economies and trade with third countries. SEM (2009) is a free trade agreement between New Zealand and Australia designed to create a seamless trans-Tasman business environment addressing issues that were not on the table with the original CER agreement.

⁷ ASEAN centrality refers to a key element in regional security and Asia's multilateral cooperation, can be deployed to ensure that Asia's future is not dictated predominantly by great power interests. (East Asia Forum Editors 2024)



4 How should New Zealand think about trade policy?

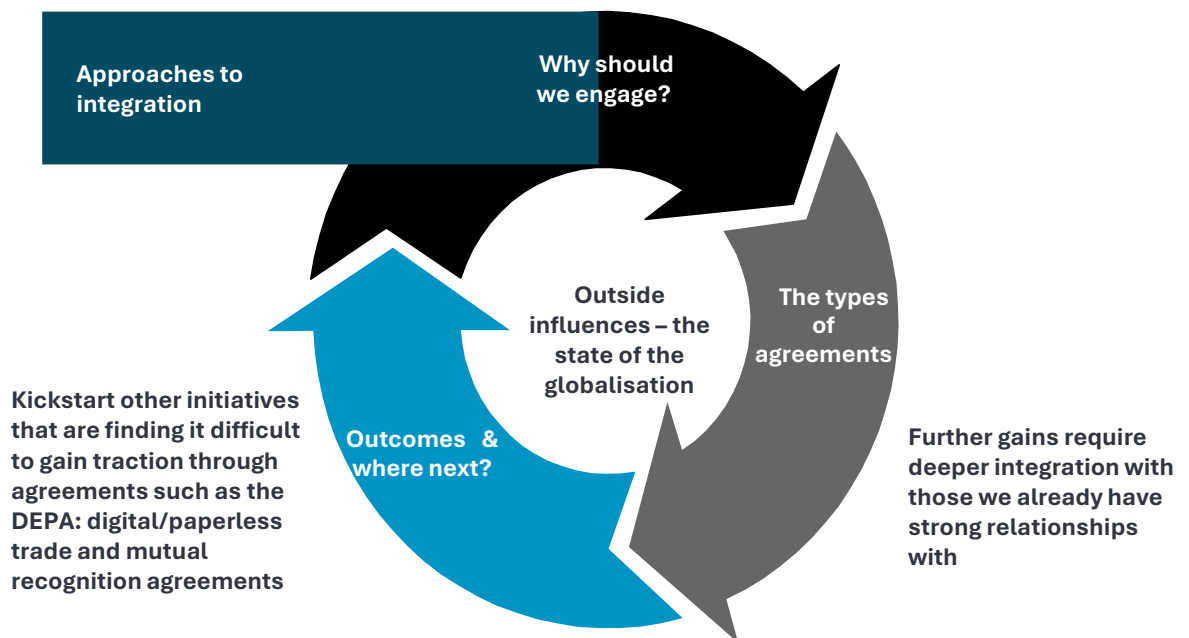
Trade policy is one element of the way that governments function to improve their economic performance. As a way of thinking about the trade policy of a small nation, Figure 4 illustrates what underpins the approach and why a small country contemplates being proactive about trade policy, i.e. why can a small country assert it has agency to act?

What has become clear is that the scope for further trade agreements is limited. Therefore, the aim is to extract as much as possible out of existing agreements for all parties involved. This does require finding trade policy mechanisms that deepen our trading relationships.

One way is kickstarting a virtuous circle (Figure 4) that leads to further integration. We have developed this simple approach to illustrate the advantages of this type of dynamic strategy. We have tried to pick out the main issues since, in any real-world example, there are a myriad number of variables with a large set of complex interactions and feedback loops. Drawing out the main points of interest is the main thrust of this approach.

The revealed preference and ultimate aim of this strategy are to ensure that the markets New Zealand trades with are as diversified as possible and to ensure that if one market falters, the damage to New Zealand trade is mitigated. New Zealand never wants to be in a situation again where it was highly dependent on the British market prior to Britain joining the European Economic Community in the early 1970s.

Figure 4 Why trade policy is important



Source: NZIER



4.1 Start with a success story: “If it’s good enough for one country, it’s good enough for the other”⁸

A logical place to operationalise the framework is with New Zealand’s and Australia’s most successful trade agreement: Australia and New Zealand Closer Economic Relations Trade Agreement (referred to as CER) and further agreements, the Trans-Tasman Mutual Recognition Agreement (TTMRA) and the Single Economic Market (SEM).

CER and SEM are free trade agreements, while the TTMRA is a non-treaty arrangement that drives integration between Australia and New Zealand by recognising qualifications so that citizens of both nations can practice occupations in each other’s jurisdictions and goods sold in one country can be sold in the other.

The SEM is a follow-on from the highly successful CER. It is an attempt to tidy up the loose ends around CER. The stated aim is: *“identifying innovative, low-cost actions to reduce discrimination and costs arising from different, conflicting or duplicate regulations or institutions in either country built.”* (see, for example (DFAT, n.d.)

The main advantages of adopting the FTA rather than a Customs Union are:

- They are implemented on the basis of government-to-government bilateral treaties, protocols and other arrangements without handing over national sovereignty to a supranational body, without centralised legislation and specific dispute settlement rules.
- The SEM agenda does not introduce specific regulatory or institutional arrangements to govern trans-Tasman integration. Rather, under the SEM, the Australian and New Zealand governments are seeking innovative and practical ways to reduce further barriers to trans-Tasman business.

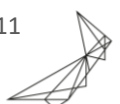
In other words, both parties are edging towards integration at least cost.

In theory, this is the best approach. In practice, progress has been slow, and interest in completing the integration puzzle is waning. One of the main reasons for this is that the benefits of concluding the SEM are not large enough for politicians to expend scarce political capital in solving outstanding problems.

A further issue is the TTMRA. At the heart of the TTMRA is that goods sold in Australia can be sold in New Zealand and vice versa. The problem has been that there is regulatory creep on both sides of the Tasman, weakening the agreement. This has driven a: *“drift in voluntary and regulatory standards that are creating inefficiencies for businesses that trade, or wish to trade, between the two countries”* (The Australian Industry Group 2024). Work is ongoing between New Zealand and Australia to refresh the TTMRA. See Appendix A for more on this.

A new approach is required which can deliver sizeable benefits to all parties and galvanise interest. One way of creating further benefits is to increase the number of participants in any particular agreement. That is, develop coalitions that are willing to extend current trading agreements and or focus on specific areas of trade that could improve the efficiency and effectiveness of current trading arrangements.

⁸ McGrath (2024) setting out the underlying intent of CER, TTMRA, and SEM.



4.2 Forming coalitions of the willing

Developing a coherent strategy that improves the ease of goods and services moving between sovereign nations can take time. It took nearly 20 years for the CP TPP to form, and significant challenges were overcome along the way.

We also need to think about the make-up of the coalition of the willing and how arrangements are structured. While we would expect that ASEAN nations would be likely candidates, the CP TPP has shown us that for any prospective agreement, those involved should keep an open mind to those willing to join. Who would have thought that the United Kingdom would join the CP TPP?

However, we expect that parts of ASEAN will be interested players in any prospective agreement or agreements. In this respect:

- Any agreement would need to enhance or at least be compatible with other trading initiatives and agreements
- ASEAN centrality must be respected and drawn upon.

The key driver of any agreement is deepening integration between nations at the least cost. This does require a government-to-government agreement rather than a top-down European-style arrangement.

There may be some things we can learn from the European Union, such as the observer status that countries such as Norway and Switzerland are accorded. Specifically, the European Economic Area (EEA) was set up in 1994 to extend the EU's provisions on its internal market to the European Free Trade Area (EFTA) countries.

The EEA's parties are Norway, Iceland and Liechtenstein. Switzerland is a member of EFTA but not of the EEA. The EU and Nordic EEA EFTA partners (Norway and Iceland) are also linked in other ways to focus on regional issues such as the Arctic.

What could be efficient is to apply the mix-and-match approaches used by the EU to any proposed agreements, that is, an "*à la carte*" approach to trade policy.

What, then, could be on the trade policy menu?

A more ambitious focus on Mutual Recognition arrangements is a good place to start. New Zealand and Australia already have Mutual Recognition agreements across a wide range of industries (although they need to be worked at; see Appendix A).

For example:

- Mutual recognition agreements exist with engineers and architects across Australia, New Zealand and the United Kingdom. Can these be strengthened further? Are there other countries that should be considered?
- Nurses are in short supply across the Asia Pacific region. Are there ways to strengthen mutual recognition agreements further (e.g. with the Philippines)?
- Can we strengthen product standards further? New Zealand has an interest in strengthening product standards for agricultural products, but there may be other product areas that other countries want to pursue.

This approach aims to create a demonstration effect illustrating how benefits can be delivered to all countries that participate in these types of agreements. Doing this may encourage other nations to participate, further growing the benefits. It may even



encourage New Zealand and Australia to complete parts of the SEM with other parties participating.

Another area where the potential benefits are high but progress towards implementation has been slow is paperless trade. The main reason to ‘get on the front foot’ on paperless trade is that it is very likely that others will implement it in ways that suit them (e.g. logistics companies). For example, nine of the world’s biggest shippers have got together and committed to a timeline transitioning from paper bills to electronic bills of lading, known as eBL. Both Australia and New Zealand lag behind Singapore and the United Kingdom in implementing paperless trade.

This is despite New Zealand, Singapore, and Chile signing the DEPA, which provides an overarching approach to enable paperless trade. What we have currently are ‘digital islands’ with no comprehensive international digital plan.

By developing a ‘top down’ proactive approach and committing to a paperless trade between a coalition of the willing, a more systematic effort could drive domestic actors (businesses and government agencies) to move within specified timeframes.

Without an agreed strategic intent, it is unlikely that systems will be put in place that reap the undoubted benefits, increase participation of small and medium-sized enterprises (SMEs) in export trade and fully exploit the trade agreements already signed.

4.3 What could be the size of the prize?

What are the likely gains that could be made from developing this type of trade policy strategy? We do need to be cautious about any calculations since:

- We know from the CER experience that projections were off the mark. New Zealand, in particular, looked through the ‘back window’ and forecast marginal gains. The impact was also disguised by wholesale deregulation, which occurred a year after CER was signed.
- The real gains were transformative. This is because they impacted on all facets of efficiency:
 - Dynamic efficiency gains (innovation)
 - Allocative efficiency gains (matching) as resources move from less efficient parts of the economy to more efficient sectors.
 - Productive efficiency (scale) since firms on both sides of the Tasman could increase their reach.

This had a transformative impact on the smaller New Zealand economy and benefited the larger Australian economy. For example, the flood of Australian wine imports that came with CER meant that New Zealand producers had to focus on what they were best at: the grape variety sauvignon blanc.⁹

Despite the difficulties with forecasting the success of trade agreements, some understanding of the size of the prize is required.

⁹ Prior to 1980 the wine industry had identified most of the micro-climates, disease challenges, and grape varieties that would be the building blocks for success. However, they were focused almost exclusively on providing sweet to medium wine for the New Zealand market. CER ushered in a period of creative destruction where companies had to adapt. World-wide wine exports from New Zealand were \$90 million in 1990. By 2020 exports of wine had risen to \$2,000 million.



4.3.1 Mutual recognition

The literature on standards alignment, potentially through mutual recognition agreements, is very clear. Measurements that underpin standards provide an objective basis for all aspects of modern life. They provide opportunities to innovate and fundamentally improve the quality of life (NZIER 2023).

We have known this for a long time. Kindleberger (1983) summarises some of the early literature and points to the benefits of standards. Leland (1979) shows that the use of standards can overcome quality deterioration in markets characterised by asymmetric information.

Standards are likely to improve product quality (Ronnen 1991) and enhance network effects (Farrell and Saloner (1985); Katz and Shapiro (1985)). NZIER (2023) shows the fundamental importance of standards for the New Zealand economy since firms can guarantee and improve product quality, provide more certainty to customers buying those products, and increase interoperability that drives further innovation.

In trade, Schmidt and Steingress (2022) estimate that standards contribute up to 13% of new growth in global trade. Standards underpin freer trade and further integration, whether they are standards for professions or products.

As a driver of new trade, it makes sense to target the promotion of standards since it is likely to promote further trade and drive product innovation. As an illustration, New Zealand has a stretch target for export growth. The aim is to nearly double the growth by 2033. This requires moving exports from approximately US\$60 billion to US\$107 billion. If this were to be achieved, then the contribution of standards would be approximately US\$6.1 billion.

Table 3 Possible gains through standards

NZ economy only

Target	Agreements	Comment
Double exports	13% of US\$47 billion equals US\$6.1 billion	Illustrates the importance of standards in international trade as well as the domestic economy

Source: Adapted from Schmidt and Steingress (2022)

4.3.2 Paperless trade

Paperless trade eliminates the need for paper documents and physical signatures: so-called ‘wet’ documents and signatures. Electronic commerce improves connectivity, provides productivity gains, and improves transparency, predictability, and the ability of smaller firms to trade.

The benefits of paperless trade are well known (UNCTAD 2020a; ESCAP, n.d.; ICC 2023a). The benefits of paperless trade have been estimated at being between 15 percent and 45 percent of the logistics costs and have the potential to drive productivity gains, particularly but not exclusively in perishable products (UNCTAD 2020a; ESCAP, n.d.; ICC 2023a). These benefits are akin to a high-quality free trade agreement.

There are implementation challenges for firms and government. These are around the upfront costs of implementation, changes in the way systems work, and the introduction of a new legal framework. Critically, there needs to be:

- A concerted effort politically, institutionally and by the private sector to push paperless trade forward
- A binding connection made with a partner country to demonstrate how paperless trade can work. Once the model is up and running then others can be brought into the process.

Using the DEPA may be one way to kickstart the process. A group of committed countries developing a high-level political consensus that drives the legal and capability enhancement at the implementation stage and adopts the technology and technical standards required.

A lot of the technology required to develop a safe and secure paperless trade system already exists. What is required is the political and institutional will to drive the practical application of paperless trade.

Moreover, logistics companies are starting to drive the pace of paperless trade since it has shown real benefits. It would be far better if countries met the challenge of paperless trade before it was forced upon them by key members of the supply chain.

Table 4 Possible gains from implementing paperless trade

Target	Agreements	Comment
Estimated logistics savings (imports and exports) to the four identified countries (a possible coalition of the willing)	US\$140 million and US\$434 million per annum (for New Zealand trade only)	Kickstarting paperless trade with Australia, South Korea, Singapore and the United Kingdom

Note: Appendix B sets out the workings for estimates of paperless trade.

Source: UNCTAD 2020a; ESCAP n.d., NZIER estimates



5 Concluding remarks

We live in interesting times, but we shouldn't allow the actions of the United States and China to govern or shape our views of international trade. The gains from trade are clear, and many small and medium-sized countries depend on trade to maintain and increase their standard of living.

We must assemble the coalitions of the willing since the benefits of doing so far outweigh the costs of alternative actions.

The principal parts of following the course of action described in this paper suggest:

- Increased efficiency of existing trade relationships since any mutual recognition agreements or actions on paperless trade will improve technical (scale), allocative (matching) and dynamic (innovation) efficiency.
- It is possible to create trade policy events that encourage others, including the majors, to consider their positions, e.g. China's interest in the DEPA.
- Be ahead of the trade policy game. All countries need to make the most of their trade policy agreements. Mutual recognition of specific standards allows for this and further expansion. In the case of paperless trade, it also means that the coalition of the willing can influence the way in which paperless trade operates rather than allowing others to impose their systems upon countries.



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Appendix A Refreshing the TTMRA

If New Zealand and Australia are to move towards further integration with ASEAN and beyond, it will need to be done on solid foundations and will require a refresh of the TTMRA. This work is underway.

The refresh is required because:

- On both sides of the Tasman, the visibility of the TTMRA has faded. It has been in force for 20 years, but both businesses and government need to be reminded of its existence and intent. This to:
 - Make it easier for businesses to trade in each other's country since meeting standards under the TTMRA provides certainty
 - Halt regulatory creep where regulators are focused on one jurisdiction only.
- Standards have become de-jointed as different approaches have been taken to standard setting. In particular, New Zealand has not participated fully in the standard-setting process because individual businesses are short on resources and cannot afford to have skilled employees away from the business for any length of time.

A brief survey of trans-Tasman businesses suggested that while it was a world-leading agreement, over time, regulatory and other barriers have started to creep in, weakening the agreement. The Ai Group and BusinessNZ have identified a number of examples where various barriers have developed:

- the gas sector
- plumbing sector (toilet pans for the disabled)
- electrical sector (conductor configuration)
- building sector (Code Mark).

According to BusinessNZ, most standard-setting processes around the world receive government funding. In New Zealand Standards New Zealand has run a voluntary standards-setting system. The feedback from businesses to Standards New Zealand has been that the volume of standards does not warrant firms investing in the short run.

Over the past 7 years, to be involved in a standard, New Zealand firms have had to pay their own way. Whoever is hosting the Standards Committee is able to charge a participation fee. Most of the hosting is done by Standards Australia. The costs vary between NZ\$5,000 and NZ\$20,000, and there are quick turnarounds of around six weeks. Most New Zealand firms are unwilling to participate, given both the expense and turnaround times. As a result, the standards are promulgated in Australia only.

The estimated cost of participating in Australian standard settings processes would be approximately \$4 million per annum.

Some New Zealand government agencies, such as EECA and WorkSafe, participate in standards setting, but they have narrow regulatory interests. BusinessNZ comments that agencies are unlikely to reflect business views.

On both sides of the Tasman, there is a view that international standards should be used where possible since locally developed standards can be barriers to trade. This helps with



interoperability and cost. But this does not mean that all standards should be internationally set since both countries have quirks that need to be sorted through, e.g. New Zealand is sensitive to the needs around earthquakes. In contrast, Australian standards are sensitive to fire.

Therefore, the current refresh of the TTMRA is timely. Given the importance of standards in international trade, further thinking about the funding model and increased government involvement in ensuring that standards remain current in a dynamic setting is required.



Appendix B Estimates of paperless trade benefits

The following table sets out the calculations for the savings associated with paperless trade. We have estimated the logistics costs (less insurance) given the volume of trade between four prospective nations (both export and imports).

We have used the estimates from the literature (UNCTAD 2020a; ESCAP, n.d.; ICC 2023a) to suggest a range of savings (between 15% and 45%) for those participating in New Zealand trades.

Table 5 Estimates of paperless trade benefits

March year 2024, NZ\$ New Zealand benefits only

Target		
Increasing the efficiency of New Zealand exports		
Trade with	Exports	Imports
Australia	8,747,802,567	8,371,527,511
Singapore	1,816,292,382	3,800,183,239
United Kingdom	1,507,795,888	2,109,093,617
South Korea	2,222,877,424	6,617,098,493
Total trade with New Zealand	14,294,768,261	19,897,902,860
Estimated logistics costs saved		
Total estimated logistic costs	\$1,377,518,691	Imports and exports to the four countries
Estimated benefit per annum (15%)	\$NZ 200,000,000 (US\$124 million)	Numbers rounded
Estimated benefit per annum (45%)	\$NZ 700,000,000 (US\$434 million)	Numbers rounded

Source: UNCTAD 2020a; ESCAP, n.d.; ICC 2023a; Statistics New Zealand; NZIER estimates

