



NZIER
PUBLIC GOOD
PROGRAMME

THINKING ABOUT AOTEAROA NEW ZEALAND'S FUTURE



Supercharging CER?

Produced as part of NZIER's Public Good programme

October 2024

About NZIER

NZIER is a specialist consulting firm that uses applied economic research and analysis to provide a wide range of strategic advice.

We undertake and make freely available economic research aimed at promoting a better understanding of New Zealand's important economic challenges.

Our long-established Quarterly Survey of Business Opinion and Quarterly Predictions are available to members of NZIER.

We pride ourselves on our reputation for independence and delivering quality analysis in the right form and at the right time. We ensure quality through teamwork on individual projects, critical review at internal seminars, and peer review.

NZIER was established in 1958.

Authorship

This paper was prepared at NZIER by Chris Nixon.

It was quality approved by John Yeabsley.

The assistance of Sarah Spring is gratefully acknowledged.

How to cite this document:

NZIER. 2023. Supercharging CER? A public good report for the NZIER.

Registered office: Level 13, Public Trust Tower, 22–28 Willeston St | PO Box 3479, Wellington 6140

Auckland office: Ground Floor, 70 Shortland St, Auckland

Tel 0800 220 090 or +64 4 472 1880 | econ@nzier.org.nz | www.nzier.org.nz

© NZ Institute of Economic Research (Inc). Cover image © Dreamstime.com

NZIER's standard terms of engagement for contract research can be found at www.nzier.org.nz.

While NZIER will use all reasonable endeavours in undertaking contract research and producing reports to ensure the information is as accurate as practicable, the Institute, its contributors, employees, and Board shall not be liable (whether in contract, tort (including negligence), equity or on any other basis) for any loss or damage sustained by any person relying on such work whatever the cause of such loss or damage.



Key points

CER: gateway to Asia?

This paper considers what it might take to supercharge the CER (Closer Economic Relations)¹ agreement and develop new trade policy frontiers.

New Zealand has a long and deep history with Australia, starting during the early 1800s. In the beginning, the relationship was close, and the linkages were strong and seemed durable. However, technology in the form of refrigeration stunted the economic side of the trans-Tasman relationship. It was not until the signing of the well-structured and far-reaching CER agreement 40 years ago that a mature trading relationship developed.

But where do we go from here?

- **Push on:** we need to go as far as possible with the single market initiatives. Furthering the single market should be a priority.
- **Look wider:** Consider how we could link CER to ASEAN or parts of ASEAN (in the first instance) to cement deeper integration and involvement with some of the more dynamic economies in the world.

Our trade policy has been incredibly active over the past 5 to 10 years, and this is a necessity for a small open trader like New Zealand. Successes such as DEPA (The Digital Economy Partnership Agreement) and CPTPP (The Comprehensive and Progressive Agreement for Trans-Pacific Partnership) need to be built on, and CER can play an active part.

Dealing with like-minded ASEAN nations should be of interest since it will be one of the few practical policy alternatives to drive reform. It also goes to the heart of why trade policy action is critical for New Zealand: deeper integration will benefit all of New Zealand society by opening up a broader range of economic opportunities.

The approach will assist in reducing non-tariff barriers and the double export goals of the New Zealand government.

To reach further integration goals requires constant attention

While the pace of the single economic (SEM) market has slowed, we need to keep at it. It takes time to overcome the fears and entrenched views of vested interests. The naturally slow progress of trade policy means ensuring that we develop the right structures. The case for using CER as a vehicle for deeper integration involves the same resilience and diversification logic that drives our trade policy activities. CER is the cornerstone of our trade policy approach. How Australia and New Zealand interact sets the tone for all our other trade policy interactions.

This is the right approach. The objective is to maximise our chances of further integration to create an environment with as many low-cost opportunities as possible. So far, this has

¹ We focus on CER and the SEM in this paper. A crucial part of the trans-Tasman relationship is the Trans-Tasman Mutual Recognition Agreement (TTMRA). This is under review at the moment.



been successful, but further building the New Zealand economy requires further integration.

Making the most of the work, CER has already done by opportunistically widening and deepening our Trans-Tasman linkages should be the strategy.

And simultaneously linking CER or apt parts of CER with ASEAN assists in this objective as does pursuing other high-quality trade agreements. Such a 'rolling out of CER strategy' does not compete with our success in developing other linkages.

We do this to use our existing achievements as the base for exciting new developments that will improve our economic prospects

What is clear from the initial CER agreement is that we are more likely to have a real economic impact in New Zealand with an even better, high-quality agreement covering more areas and closer to a single market.

We cannot return to the vague drifting environment of the New Zealand-Australia Free Trade Agreement, where vested interests were able to stop reform for their own benefit.

By deepening our relationship with Australia and broadening the number of nations involved in a supersized CER, the integration gains will come, albeit incrementally.



Contents

- 1 Two economies struggling with distance and scale1
 - 1.1 What have we been doing – a lot of trade deals3
 - 1.2 This adds up to...3
 - 1.3 But the world environment is changing to be less supportive of agreements.....5
- 2 How we think about the Australia-New Zealand relationship7
 - 2.1 How should we think about the future?.....7
 - 2.2 How we constructed the model7
- 3 Our trade history.....9
 - 3.1 The NAFTA – the agreement we had without having an agreement9
 - 3.2 CER world’s best practice circa 198310
 - 3.3 Post-agreement outcome – the economic transformation.....10
 - 3.4 The politics come first in shaping policy11
- 4 Where could we go?14
 - 4.1 Let’s start with the (unfinished) Single Economic Market (SEM)14
 - 4.2 Can we go for broke – infinity and beyond?.....15
 - 4.3 Finally, CER has been an outrageous success15
- 5 References.....16

Figures

- Figure 1 Number of trade agreements signed6
- Figure 2 Understanding the Australia-New Zealand relationship8

Tables

- Table 1 Economic comparisons between New Zealand and Australia1
- Table 2 Trade with Australia.....2
- Table 3 Comparing and contrasting trade agreements4

1 Two economies struggling with distance and scale

“Countries don’t have friends they have Interests”

Adapted from a quote by Lord Palmerston 1784-1865 (‘Lord Palmerston - Oxford Reference’ 2016)

“It is often said that in trans Tasman negotiations New Zealand comes to the table looking to improve its trading interests while Australia wants support from New Zealand on Australian-led international initiatives” (Anonymous trade policy actor)

New Zealand and Australia have many common threads running through their respective societies. They have a shared colonial history and, most importantly, inherited British institutions. New Zealand’s relative geographical closeness to Australia and aspects of shared history are the ties that bind the two nations and, at least later, assisted in forging closer economic ties. However, when interests diverge, the links can fray rapidly, e.g. various biosecurity spats since the 1920s, the expulsion of New Zealand-born offenders from Australia, etc.

The economies have fundamentally different economic drivers, and the Australian population is five times the size of New Zealand’s. Further, the population size and reliance on differing sets of commodities mean the outlook and ambitions of Australia and New Zealand in the trade sphere can vary substantially.

The modern trans-Tasman relationship has as its foundation the Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA or CER). The following table illustrates the similarities and differences of the two economies. Of significance is the much larger size of the Australian economy. However, New Zealand and Australia have relatively small economies/populations relative to other OECD nations.

Table 1 Economic comparisons between New Zealand and Australia

New Zealand \$; numbers rounded

| Economic indicators | Australia | New Zealand | Total |
|---------------------------------------|-----------|-------------|-------|
| Population (millions) | 25.978 | 5.124 | 31.1 |
| Density (persons per square km) | 3 | 19 | |
| Population growth (%) | 1.1 | 0.2 | |
| Labour force (millions) | 14.11 | 2.93 | 17.04 |
| Unemployment (%) | 3.7% | 3.6% | |
| GDP (NZ\$ thousand million) | 2,404 | 387 | 2,795 |
| Exports (total NZ\$ million) | 739 | 94 | 2,795 |
| Exports as % of GDP | 31% | 24% | |
| Overseas debt (NZ\$ thousand million) | 1,263 | 328 | |
| CPI (March 2023) | 6% | 6% | |

Source: NZIER

The relatively small and medium size of the two economies means that both heavily depend on exports. Both have been relatively successful at increasing their exports/GDP over the past twenty years.²

The import and export pattern reflects the historical state of Australian and New Zealand trade policy settings. Early in New Zealand’s colonial history (1860–1900), trade was relatively buoyant with few impediments. It focused on timber, gold and other depletable commodities between the colony of New Zealand and the Australian colonies. The British trade was mainly wool sold in markets in London and Bradford. Some of which were re-exported to Europe.

As trade with Britain grew, driven by refrigeration (1900–1970), trade with Australia slowed dramatically. Refrigeration has enabled New Zealand to diversify its market offering, especially in terms of meat. While Australia benefited from refrigeration, it had a broader product range, so its impact on Australia was less than that of New Zealand. Both countries followed strategies of independently engaging and trading with Britain. In this environment, one trade policy commentator suggested that *“the trans-Tasman neighbours saw each other through a giant mirror situated in the United Kingdom”* (Nixon and Yeabsley 2002).

In this period, both nations built up their industrial protection at the expense of trans-Tasman trade. Products were also kept out of each other’s markets using restrictive regulatory measures. Policies were orientated towards maintaining full employment (particularly after the 1930s depression).

Further, the competition amongst Commonwealth nations to deal directly with the British meant that their lack of focus and scant knowledge of each other’s markets was the order of the day.

Table 2 Trade with Australia

| Year | Exports to Australia | Imports from Australia |
|------|----------------------|------------------------|
| 1860 | 27 percent | 42 percent |
| 1870 | 46 percent | 36 percent |
| 1880 | 21 percent | 31 percent |
| 1890 | 15 percent | 17 percent |
| 1900 | 14 percent | 17 percent |
| 1910 | 9 percent | 14 percent |
| 1920 | 5 percent | 17 percent |
| 1930 | 3 percent | 8 percent |
| 1940 | 3 percent | 16 percent |
| 1950 | 3 percent | 12 percent |
| 1960 | 4 percent | 18 percent |
| 1970 | 8 percent | 21 percent |
| 1980 | 13 percent | 19 percent |

² Australia has increased its share of exports to GDP from 11% to 31% and New Zealand has increased its exports to GDP share from 18% to 24%.

| Year | Exports to Australia | Imports from Australia |
|------|----------------------|------------------------|
| 1990 | 20 percent | 21 percent |
| 2000 | 20 percent | 22 percent |
| 2010 | 23 percent | 18 percent |
| 2019 | 15 percent | 12 percent |

Source: Stats NZ

1.1 What have we been doing – a lot of trade deals

Table 3 compares and contrasts the various trade agreements New Zealand and Australia have concluded. Several things are striking:

- Agreements have focused on the Asia Pacific region. While these countries are closer to trans-Tasman neighbours, many of them are the fastest-growing economies in the world.
- Agreements that include both countries are common. Apart from the New Zealand-Australia agreement, various regional trade agreements include both nations. Of particular interest is the CPTPP, which is a high-quality FTA (free trade agreement) involving many of the economies in the Asia Pacific region.

Of specific interest to New Zealand is Australia's agreement with India since New Zealand is seeking, but unlikely to conclude an agreement with India in the short to medium term. Other potentially important agreements, such as the US-Australia FTA, may not have delivered the hoped-for gains. Armstrong (2015) suggests that that agreement has led to trade diversion losses.

By contrast, where New Zealand has departed from the Australia FTA, the script has been around developing high-quality agreements with coalitions of the willing with a view to expansion. The P4,³ for example, led to the TPP and then the CPTPP. The DEPA, with its focus on digital trade, will similarly – it is hoped – attract further countries to join.

New Zealand has also signed a trade agreement with the European Union. This agreement is constrained by the EU member countries' inability to move towards freer trading in many areas.

1.2 This adds up to...

The web of trade agreements developed by both nations demonstrates the outward-looking nature of both Australia and New Zealand. This is a long way from where both countries were in the 1960s – inward-looking.

The outward-looking nature of CER should be emphasised. Even in 1983, when trade with Asia was less developed, the potential of the region was recognised. In the CER preamble, the following quote is prescient:

“... believing that a closer economic relationship will lead to a more effective use of resources and an increased capacity to contribute to the development of the region through closer economic and trading links with other countries, particularly

³ Also known as the Trans-Pacific Strategic Economic Partnership, is between Brunei Darussalam, Chile, Singapore and New Zealand.

those of the South Pacific and South East Asia..." (Australia Government and New Zealand Government 1983)

Table 3 Comparing and contrasting trade agreements

| Year Australia (New Zealand) | Australia | New Zealand |
|------------------------------|--|--|
| 1983 | Australia-New Zealand (ANZCERTA) – between Australia and New Zealand | |
| 1995 | Uruguay Round Agreement (WTO). Includes Australia and New Zealand | |
| 2005 | Australia-United States (AUSFTA) | New Zealand has never had a bilateral trade deal with the United States |
| 2003 (2000,2020 upgraded) | Singapore-Australia (SAFTA) | Singapore-New Zealand (CEP) |
| 2005 (2005) | Thailand-Australia (TAFTA) | New Zealand – Thailand Closer Economic Partnership |
| 2009 (2006) | Australia – Chile (ACI-FTA) | Superseded by Trans-Pacific Strategic Economic Partnership (P4) |
| 2021 | Australia may join the DEPA but is not yet in a position to do so | Chile-New Zealand-Singapore Digital Economy Partnership Agreement (DEPA) |
| 2010/12, 2023 upgrade | ASEAN-Australia – New Zealand (AANZFTA) Includes Australia and New Zealand | |
| 2013 (2010) | Malaysia-Australia (MAFTA) | Malaysia-New Zealand (MNZFTA) |
| 2014 (2015) | Korea-Australia (KAFTA) | Korea-New Zealand Free Trade Agreement (KNZFTA) |
| 2015 | Japan-Australia (JAEPA) | Superseded by CPTPP |
| 2015 (2008, upgraded 2022) | China-Australia (ChAFTA) | China-New Zealand FTA (CNZFTA) |
| 2018 | Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) Includes Australia and New Zealand | |
| 2020 (2010) | Australia-Hong Kong (A-HKFTA) | New Zealand Hong Kong, China Economic Partnership (CEP) |
| 2020 | Peru-Australia (PAFTA) | Superseded by CPTPP |
| 2020 | Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) | |
| 2001,2007 | Pacific Agreement on Closer Economic Relations (PACER Plus) Includes Australia and New Zealand | |
| 2022 | Regional Comprehensive Economic Partnership (RCEP). Includes Australia and New Zealand | |
| 2022 | Australia-India Economic Cooperation and Trade Agreement (ECTA) | New Zealand does not have a trade agreement |
| 2023 | Australia – United Kingdom Free Trade Agreement (A-UKFTA) | New Zealand – United Kingdom (NZ-UK FTA) |
| 2023 | Australia is likely to sign a trade agreement with Europe in the near future | European Union – New Zealand Free Trade Agreement (EU-NZ FTA) |

Source: Ministry of Foreign Affairs and Trade (n.d.); Department of Foreign Affairs and Trade (n.d.)

The following diagram (Figure 1 – next page) looks at the total number of trade agreements signed by both Australia and New Zealand since 1983. They include bilateral, plurilateral, and multilateral agreements, as well as upgrades of those agreements.

What strikes us most is the number of agreements. Apart from ASEAN, it would be difficult to find other pairings of nations that have negotiated more agreements. The numbers of FTAs do not follow any particular pattern; they are truly sui generis. We have both been opportunistic.

1.3 But the world environment is changing to be less supportive of agreements

While the number of FTAs appears to have peaked, and protectionism is booming (World Bank 2023), it is still unclear whether the number of agreements will decline dramatically.⁴ We may also want to capitalise on existing relationships by boosting the ‘product life cycle’ of existing agreements by increasing their effectiveness and efficiency through technology (like adopting paperless trade). The quality of a trade agreement is extremely important, and sheer numbers do not always reflect their efficiency or effectiveness.

Having already established that FTAs have a number of positive and negative implications. The advantages are:

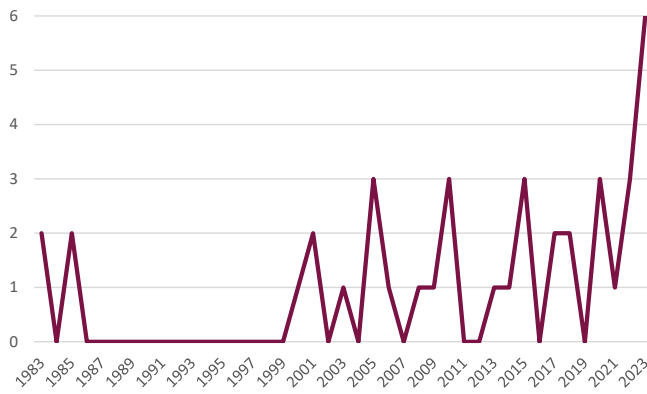
- The relationships are already in place, making it easier for the parties looking to extend or enlarge to pick up where they left off in previous agreements.
- The mechanism for review might already be available to activate.
- Changes in attitudes and technology might drive new areas of interest for the parties to widen and deepen – recall, most international agreements need a variety of topics to be in play to allow trade-offs.

The disadvantages may mean:

- There is less chance or capacity for horse trading since areas that remain unincorporated may have more entrenched private or political interests.
- Lower political salience – so less pressure to do a deal.

⁴ As long as FTAs support open plurilateralism then we should be in favour. However, the specific danger is that they may undermine the WTO.

Figure 1 Number of trade agreements signed



Source: Department of Foreign Affairs and Trade (n.d.) and Ministry of Foreign Affairs and Trade (n.d.)

2 How we think about the Australia-New Zealand relationship

New Zealand engages in trade policy to further New Zealand's interests. It is one of the elements that countries use to improve their economies. For small, open economies such as New Zealand, we also understand that we cannot influence how the rest of the world treats us – in most respects, we are a policy taker.

The real question here is: what is the best way to conduct our trade policy with our near and bigger neighbours? Do we just throw in the towel and say it's all too hard, blaming others for our social, political and economic challenges?

We say no. Clear-sighted approaches and a robust and well-researched set of objectives can allow us to use existing relationships in new ways.

2.1 How should we think about the future?

As a way of thinking about how we might make New Zealand's trade policy as effective and efficient as possible, we have developed a model to demonstrate the various trade policy stages and the connections between those stages. We have applied the model to the Australia–New Zealand relationship.

We apply a model to the relationship to further understand how the inputs relate to the outcomes. What works well and what doesn't? We are looking for common themes that run through trade policy episodes; in particular, we want to understand what successful parts are portable. Can we practically apply the lessons of yesterday to the challenges we face today?

Keeping the design simple is critical. We have tried to abstract from the full details of Australia-New Zealand trade policy. The aim is to capture sufficient complexity and reality to illustrate the advantages and disadvantages of the strategies adopted in each trade policy episode.

We have used a model to portray a system of relationships which, although abstract, seeks to capture the salient elements of the real world. Any real-world situation will have many variables with a large set of complex relationships between them. We wish to draw out the main points of interest without the complications of all the issues.

In this way, we hope to gain insight into the problem at hand and advance the solutions to it. Potential costs of this approach are that the abstraction process has eliminated characteristics vital to the full understanding of the questions under discussion.

2.2 How we constructed the model

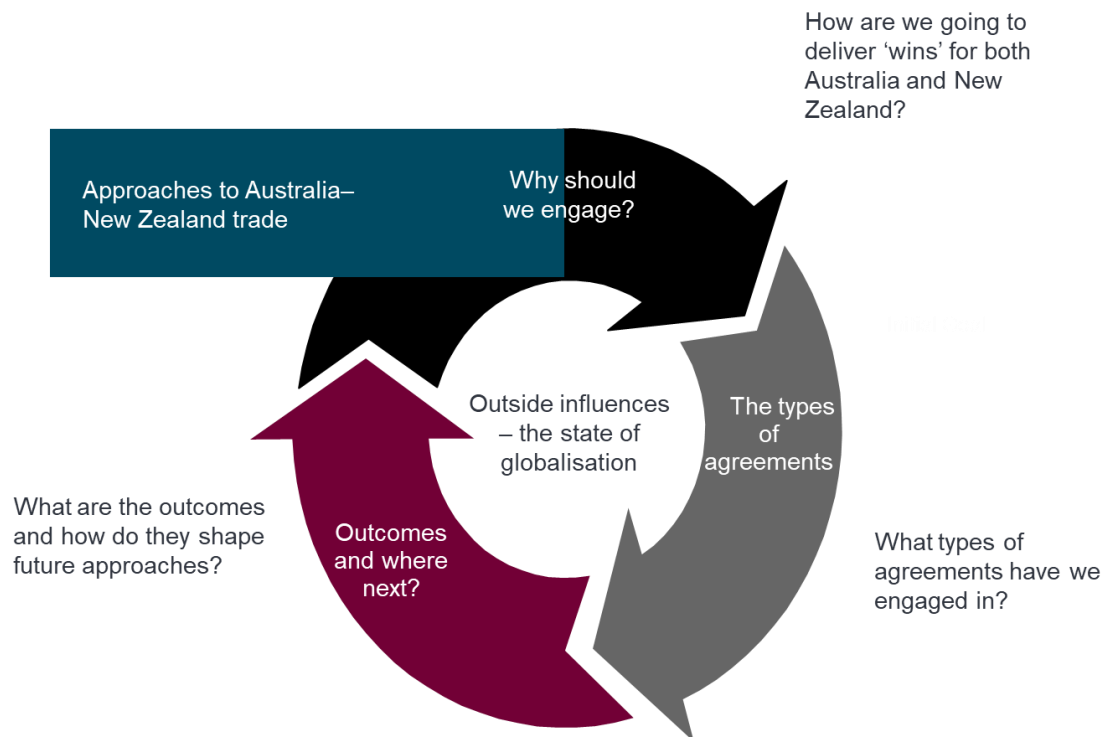
Figure 2 below shows the model used. It concentrates on the interaction between the various elements. The model is circular and dynamic. This is a signal that the relationship is a repeated game – the results of the last trade policy engagement cause actions that have impacts on the next engagement. Also, the impact and degree of global interconnection are central to how Australia and New Zealand interact and the opportunities that can be created.

The various stages start with the rationale for engagement. What are the aspirational benefits that we want to deliver to both sides? Why we want to engage also frames the

types of agreements we want to participate in. The practical implementation of those agreements drives the willingness to engage further.

Why is a repeat game (or continuous circle) important? We think that by using this approach, New Zealand and Australia moved from a model (the previous agreement – see below) where both sides had a veto (so it was easy for politicians and vested interest to stop trade happening) to a one-off horse-trading model (where the two sides argued about what sectors were included in the agreement). Once included, they were subject to freer trade. This approach – although not perfect – produced far better outcomes.

Figure 2 Understanding the Australia-New Zealand relationship



Source: NZIER

3 Our trade history

Trade flourished between Australia and New Zealand in the 19th century. Up until 1880, Australia took the largest share of New Zealand's exports. Technology put paid to this early promise. Refrigeration meant that New Zealand could exploit a United Kingdom market, which dominated trade patterns for the next 80 years.

3.1 The NAFTA – the agreement we had without having an agreement

CER is seen as the world's best practice, but it did not come out of thin air. The development of the structure of CER was put together by observing possibly the world's worst trade agreement between countries with serious intent: The New Zealand Australia Free Trade Agreement (NAFTA).

In this context, in 1965, New Zealand and Australia signed a trade agreement in an attempt to assist each economy because of the impending moves by Britain to join the European Economic Community (the EEC, forerunner to the European Community). It was supposed to usher in a degree of 'fair' trade across the Tasman.⁵ The trouble was that 'fair' meant different things to different sector groups.

Also, the NAFTA was clearly not GATT compliant. New Zealand diplomats had significant trouble persuading trade reviews that import licensing and exchange controls were intended to deal with balance of payments pressures and were not protective in intent. While they managed to do this, it was clear that:

- NAFTA was a trade agreement in name only. Where things were politically difficult, they were parked. Moving products from a banned list to a freer trading list was a very difficult process.
- Two highly protected economies were attempting to connect in an ill-defined manner. We liked the idea of a trade agreement but weren't prepared to trade (in the sense of opening up our market to imports).
- NAFTA fine print allowed for wide interpretation with plenty of scope for intervention by government and/or interested entities.

The outcomes were predictable. The realisation that closer economic ties would benefit both nations was not reflected in NAFTA. The agreement tried to square the circle: increase trade without exposing the manufacturing and other sensitive sectors to (import) competition.

Twice-yearly meetings were held, where Ministers and officials were mired in detail, such as how many pairs of pantyhose would be swapped for each Holden car. These meetings were tedious, and little in the way of significant tangible results were achieved.

Despite this, it took the end of the Tokyo Round of GATT in the late 1970s for the Australians to say enough was enough. Australian officials wanted a new trans-Tasman arrangement that made the most of both countries' attributes. They were unsure what they wanted, but NAFTA wasn't it.

⁵ The NAFTA came into force on 1 January 1966.

3.2 CER world's best practice circa 1983

The surprising thing about the negotiations was that everything was on the table. This was surprising because it would – if successful – bring down a carefully constructed wall of protection which had been in place for decades in New Zealand. It cannot be emphasised enough that the politics dictated what the officials could design in the way of an agreement. In effect, the officials were given a blank sheet.

Australia was also concerned that the policies pursued in the 1970s in New Zealand were not sustainable, and it did not want a politically unstable New Zealand on its back door with the possibility of mass migration across the Tasman.

While a customs union was toyed with, in the end, the strategic approach used was that of open regionalism. This meant for New Zealand:

- Allowing domestic economic changes to occur at the same pace as in the world economy. The subtext to this was that individuals, entities and companies could react more quickly and effectively to changes in the world economy relative to governments.
- Making domestic policy seamless with trade policies.
- Improving the efficiency of trade policy, i.e. no more six-monthly meetings.

It is also easy to forget that the negotiations were not painless for New Zealand. Indeed, the Prime Minister, Robert Muldoon, would sometimes make speeches that railed against such an agreement. However, in the end, he felt that the CER agreement was the best deal available.

Before the deal was signed, it was clear that New Zealand had little idea of the fundamental impact it would have on New Zealand. Some of its impact was 'drowned out' by the election a year after the signing of CER of the Labour government. It introduced fundamental reforms that are the basis of the New Zealand economy today.

The CER agreement allowed for:

- Nearly all tariffs to be removed by January 1988
- Those goods with tariffs under 5 percent had them removed immediately.
- Automatic phase-out of other tariffs over five years
- No increase in protection (including both tariffs and quantitative restrictions⁶)
- Phasing out of all quantitative restrictions by 1995
- Removal of subsidies and incentives on goods trade by 1987.

While this list is relatively short, it was all-embracing and comprehensive. It paved the way for a more balanced and consistent regulatory approach and a more diversified economy.

3.3 Post-agreement outcome – the economic transformation

The CER agreement transformed trade policy in New Zealand from a narrow and reactive approach focused on specific commodities to an outward proactive approach that unleashed dynamic economic gains from which New Zealand still benefits.

⁶ This was New Zealand's fairly comprehensive system of import licensing that covered virtually everything made in New Zealand.



Domestically, what it led to was creative destruction. Firms that could not survive without protection shrank over the medium term. Once it became clear that the automatic tariff cuts and dismantling import licensing were non-negotiable, the opposition to the CER agreement collapsed. As a result, free trade across the Tasman came in ahead of schedule in 1990.

A good example of the benefit of CER is the wine industry. While some of New Zealand's manufacturing industries lost their competitive edge, the wine industry went from strength to strength over time. All the ingredients for the wine industry were almost in place in the 1960s and 1970s. New Zealand had the microclimates, the terrain, management techniques, and most of the varieties.

Prior to CER, it was focused on producing a range of medium to sweet wines of variable quality for the domestic market with limited competition. Post CER, it had to compete with the powerful Australian industry and European wines in the New Zealand market.

To survive, wineries had to reconfigure what they grew and focus on the New Zealand market and exports. All the ingredients were already there: the varieties, the microclimates, the soils and the terrain; however, there was no real pressure to use them in a way that produced world-class wine.

With the help of a wine-pull scheme (i.e. specific temporary help in selected districts to replace vines) and the adoption of the Sauvignon Blanc variety, the New Zealand wine industry exported \$90 million in 1990. Wine exports are now \$2 billion per annum.

While these changes were dramatic over time, they were difficult to forecast before the CER agreement was signed since it is always unclear what economic activity will thrive and what will wither in the new environment. Who knew that Sauvignon Blanc would be a worldwide sensation? Governments certainly cannot predict these types of innovations.

The most important conclusion that can be drawn is that governments can set up pre-conditions (open regionalism) for thriving economic activity. It also suggests that the focus on exports can be unhealthy, and imports have a role (over the long run) in developing a competitive economy.

3.4 The politics come first in shaping policy

So, what was next? The CER was a resounding success, with it being implemented five years earlier than expected. A critical feature of CER was that everything was on the table, and nothing was solved until all things were solved. No early harvest or side deals were contemplated in sensitive sectors. This meant that trade-offs could be made since the benefits could be sold politically, even though there were costs.

3.4.1 The Trans-Tasman Mutual Recognition Arrangement (TTMRA) had a broad focus

The TTMRA was designed to deepen integration and preserve independence in Australia and New Zealand. Its coverage was broad. It included regulations affecting the sale of goods and the registration of occupations (i.e. services trade).

The aims were to increase trade and workforce mobility, contribute to an integrated labour market, enhance competitiveness, reduce costs and increase scale of operations.

The TTMRA came into effect in 1998, building on an existing Trans-Tasman Mutual Recognition Act 1997. Under the TTMRA, goods produced or imported into Australia can be



sold in New Zealand and vice versa. A person registered in New Zealand to practise an occupation can practise an equivalent occupation in Australia and vice versa.

There was little political opposition to the TTMRA, which must have been partly due to its broad nature and lack of opposition to its enforcement.

3.4.2 Food Standards Australia New Zealand (FSANZ) has an inward focus but also an outward reputational impact

Food production, consumption, exports, and imports are critical not just for the domestic populations of New Zealand and Australia but also because of their export potential. Therefore, the stakes are high domestically to ensure food standards are transparent, safety is ensured, and transgressions are dealt with in a way that signals the seriousness of the situation.

It is in this situation that FSANZ was developed. The aim of FSANZ was to provide clear regulatory direction, certainty and consistency at a lower cost than if both countries regulated food standards independently.

Importantly, it had the support of producers in both countries since high-quality food is a critical strategic advantage. And while third-country exports are not included in the regime, poor food standards in Australia and New Zealand would have 'spillovers' in the form of reputational standing in those markets. It also makes no sense for producers to have different standards for domestic and export products.

FSANZ has both supply-side and demand-side advantages. On the supply side, it improves the quality of the regulatory system. New Zealand can access Australian expertise and facilities (a skills and scale impact). It also does this at least cost.

On the demand side, consumers can be confident that the food system produces consistently high-quality food.

The perceived disadvantages are:

- It cuts across New Zealanders' accountability to set up their own standards.
- It dilutes New Zealand's voice since it has only one seat in the council, which is dominated by Australian states.

All trade agreements trade away some sovereignty and, particularly in this case, national regulatory autonomy. The clearest signal that these perceived disadvantages are less important was the move to streamline the FSANZ Act in 2007. It also showed that all parties were 'comfortable' with its workings.

In terms of politics, FSANZ delivered wins for New Zealand and Australia:

- It provided New Zealand with a highly effective and efficient approach to food standards development. This is critical, given New Zealand depends on food production for its livelihood.
- It also helped Australia increase the scale of its standards-setting authority. It could also show others on the international stage that they could manage a cross-border agency (enhanced international prestige, since it could deliver a cross-border food agency at least cost).



3.4.3 The proposed joint Australia New Zealand Therapeutic Products Authority (ANZTPA) was a different story

An agreement was signed between Australia and New Zealand on the ANZPTA to jointly regulate therapeutic products in 2003. The aim was to set up a world-class regulator to improve public safety and health, reduce barriers to entry, and encourage trade at the least cost.

The advantages were:

- The nature of the standards-setting job was highly specialised, and the skills were in short supply. New Zealand finds it hard to fill these jobs.
- The risks of therapeutics to the general public are increasing. The unregulated information provided on social media and other parts of the internet means that the public may overestimate their ability to use the products safely.

The critical issues determining the fate of the ANZTPA were political. These included:

- Therapeutic production was mainly for domestic consumption. There was no pressure to have the world's best standards (compared to FSANZ).
- Therapeutics is a narrow area. Any agreement could be threatened by lobbying and vested interests. That is, politicians would be under pressure where significant costs would be imposed on vested interests without any benefits for producers (only consumers – who have no lobbying voice).
- New Zealand therapeutics production was dominated by small players who would have to 'up their game' to meet higher standards to stay in business.

The agreement floundered under political lobbying. As the political ground shifted in New Zealand, the ability to get an agreement with few benefits for the producers proved difficult.



4 Where could we go?

4.1 Let's start with the (unfinished) Single Economic Market (SEM)

The most obvious step, and one that is focused on by New Zealand and Australian officials, is to finish off the remaining areas that need reform under the Single Economic Market (SEM).

The SEM agenda builds on CER by looking for low-cost (political and regulatory) approaches for further reform. The criteria include identifying:

"..low-cost actions to reduce discrimination and costs arising from different, conflicting or duplicate regulations or institutions in either country" (Department of Foreign Affairs and Trade n.d.)

The SEM agenda has the potential to bring about further trade reform. For example, progress has been made on:

- The Australia New Zealand Science, Research and Innovation Cooperation Agreement (ANZRICA 2017). This includes further cooperation on science and innovation.
- The Trans-Tasman Electronic Invoicing Arrangement (signed October 2018), a digital e-invoicing approach, is hugely important in the future paperless trade environment.
- Mutual recognition between the Australian Trusted Trader programme and the New Zealand Secure Exports Scheme (July 2016) to provide reciprocal trade facilitation benefits to member businesses.

(Department of Foreign Affairs and Trade n.d.)

One focus area could be seamless travel between Australia and New Zealand. Turning Australia and New Zealand travel into more closely representing the European Schengen agreement is a logical step forward. This will boost integration and provide further economic and social benefits for both countries over time.

At one time, New Zealanders could travel to Australia without a passport. That ran into the fear of the possibility of 'back door' invasion of 'White Australia'. Further, the entitlement of Cook Islanders and some other Pasifika to New Zealand passports raised questions about the adequacy of a passport inspection. Now, entitlement to superannuation and health benefits are the core issues. It is unclear how we might move forward on these issues.

4.1.1 Progress is possible but likely to be opportunistic and depend on nimble officials

The critical factor in how far the SEM can go depends on reform costs. Successful trade reform depends on having a broad reform agenda so the benefits to others outweigh the costs of reform (to less efficient actors). Obtaining agreements in specific 'narrower' areas, such as therapeutics focused on domestic markets, is more difficult.

The aim here is that as the situations change, New Zealand and Australia may:

- Inch towards or creep to a better solution
- Create the conditions for incremental opportunism
- Keep the door open – ready for use.



4.2 Can we go for broke – infinity and beyond?

Possibly, an attractive way of turbocharging CER is to think of it as a gateway agreement that allows further reform with ASEAN or selected ASEAN nations. By developing an approach that drives deeper integration between ASEAN or selected ASEAN countries and CER, we can build on the existing AANZFTA and RCEP:

- By taking the AANZFTA and RCEP as a basis to further build confidence with – for example – Singapore and Malaysia (for instance) on mutual recognition. This would take time and increased investment by New Zealand, but it will be worth it in the long run.
- In parallel, New Zealand should look to be more attentive to ASEAN’s needs and aspirations. How can New Zealand look to play a more constructive role in ASEAN development further? Being closer to ASEAN would be beneficial for all parties.
- Consider how New Zealand could bring Pacific nations into a wider grouping of trading nations in a way that is beneficial for all.

As always, the aim is not to stop with the initial coalition of the willing but to drive further into integration with others who are prepared to join a larger circle of countries looking for deeper engagement. This is important since we fully understand that the more countries that join such a high-quality agreement, the larger the pool of benefits (relative to the costs).

Developing such an alignment would lift the stakes in the trade policy game by:

- Channelling regional players to join a high-quality agreement where they can participate in the benefits. It puts the coalition of the willing on the front foot.
- Focusing on areas that need further reform changes the thinking about the game in the challenging area of the people’s movement. Countries will have to consider how they might approach the issues around skill shortages and associated services trades in general.
- Positioning the coalition of the willing in a positive reform situation where they can take advantage of any movement away from global protectionism and nationalism trends.

4.3 Finally, CER has been an outrageous success

Support for the agreement is as strong as ever, and the benefits are clear.⁷ Prime Minister Muldoon’s reasoning for joining such an agreement still holds: the New Zealand public saw it as the right thing to do. Now, it is time to move forward and push CER to its logical conclusion with ASEAN or parts of ASEAN and beyond.

⁷ This is despite serious opposition at its inception and only scant understanding of the possible benefits.



5 References

- Armstrong, Shiro. 2015. 'The Costs of Australia's "Free Trade" Agreement with America'. *Inside Story*, 2015. <https://insidestory.org.au/the-costs-of-australias-free-trade-agreement-with-america/>.
- Australia Government, and New Zealand Government. 1983. *Australia New Zealand Closer Economic Relations Trade Agreement*. <http://www.austlii.edu.au/au/other/dfat/treaties/1983/2.html>.
- Department of Foreign Affairs and Trade. n.d. 'Australia-New Zealand Closer Economic Relations Trade Agreement'. Accessed 20 October 2023. <https://www.dfat.gov.au/trade/agreements/in-force/anzcerta/Pages/australia-new-zealand-closer-economic-relations-trade-agreement>.
- 'Lord Palmerston - Oxford Reference'. 2016. Oxford Reference. 2016. <https://www.oxfordreference.com/display/10.1093/acref/9780191826719.001.0001/q-oro-ed4-00008130>.
- Ministry of Foreign Affairs and Trade. n.d. 'Free Trade Agreements in Force'. Accessed 26 October 2023. <https://www.mfat.govt.nz/en/trade/free-trade-agreements/free-trade-agreements-in-force/>.
- Nixon, Chris, and John Yeabsley. 2002. *New Zealand's Trade Policy Odyssey*. Research Monograph 68 <https://www.nzier.org.nz/publications/new-zealands-trade-policy-odyssey-ottawa-via-marrakech-and-on>.
- World Bank. 2023. 'Protectionism Is Failing to Achieve Its Goals and Threatens the Future of Critical Industries'. <https://www.worldbank.org/en/news/feature/2023/08/29/protectionism-is-failing-to-achieve-its-goals-and-threatens-the-future-of-critical-industries>.

