

# CER Overview

Approaches to deepening integration for goods trade

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# NZ-Australia economic integration

- A success story – but has taken three decades
- A living economic integration model: still work to be done to develop a true “Single Economic Market”, even for goods
- CER’s evolution to SEM has reflected the changing economic and business environment – but getting into behind-the-border issues (like standards) has still been challenging
- Has required a concerted effort: Government, officials, business, lawyers, academics, economic commentators

# A gradual integration pathway

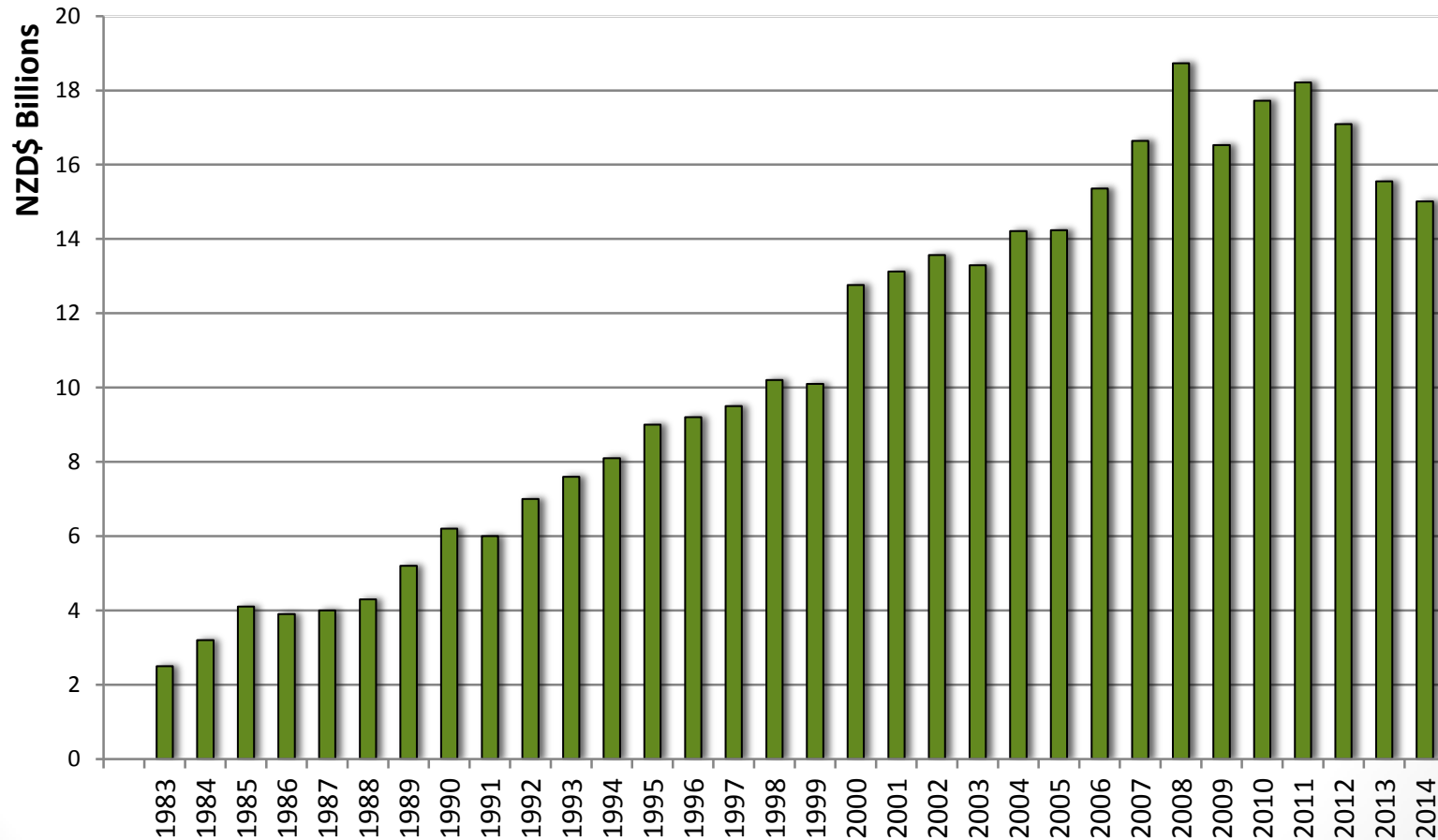
- For the first decade, focus on manufactured goods, agriculture
  - Removal of tariffs, phase out of quantitative restrictions
  - Elimination of anti-dumping
  - JAS-ANZ, conformity assessment, quality assurance
  - Customs and quarantine cooperation
  - Government procurement
- For the next 20 years, it has been about deeper integration
  - “Single Economic Market” mostly about services, business law harmonisation, regulatory reform, investment etc.
  - But also further deepening on goods:
    - Mutual recognition of goods standards (TTMRA)
    - Single food safety regime (joint regulation)
    - New ROO (2009)
    - Extensive cooperation on biosecurity, Customs

# Stakeholder reactions

- Original (1983) liberalisation of goods trade driven by Leaders and Ministers;
  - strong opposition by vested interests e.g. manufacturers, farmers
- Business gradually became more enthusiastic, but it was a slow process
  - As deeper integration has been undertaken, some hesitation at the political level
- Now business strongly supports closer economic integration
  - A lot of “trans-Tasman” businesses in operation, trans-Tasman value chains, trans-Tasman labour mobility and exchange of innovative ideas

# Merchandise trade growth

Total Australia-NZ merchandise trade since CER began



# Trade impact of CER

## ***As at Year Ending June 2015:***

- Australia has been NZ's number 1 trading partner since 1989 (slipped to 2<sup>nd</sup> in 2014, now back to 1<sup>st</sup>)
- In YE June 2015:
  - Australia was our largest export market for goods and services taking 19% of New Zealand exports
    - NZD\$13b in total; goods NZD\$8.5 billion)
  - Australia was our second-largest source of imports providing around 17% of all imports of goods and services
    - NZD\$11.3b)
  - Australia was our most important source of FDI

# The 'value' of New Zealand

- New Zealand is Australia's fifth largest export market
- But #1 destination for Australian exporters
  - 17,000 Australian firms export to NZ compared to 9,000 exporting to the US and 5,000 to China
- Flexible trade and labour markets supported both countries throughout the GFC
- And our higher exchange rate means particular opportunities for Australia's future (high value, labour-intensive) industries

# Context:

## domestic and international

### Domestic

- Coincided with and gave impetus to domestic economic reform (e.g. subsidy removal, unilateral tariff reductions)
- Some trade diversion (intra-CER), but mostly overall trade expansion
- As CER has evolved to SEM, in parallel the Australian and New Zealand economies have become more open and focused on competitiveness

### International

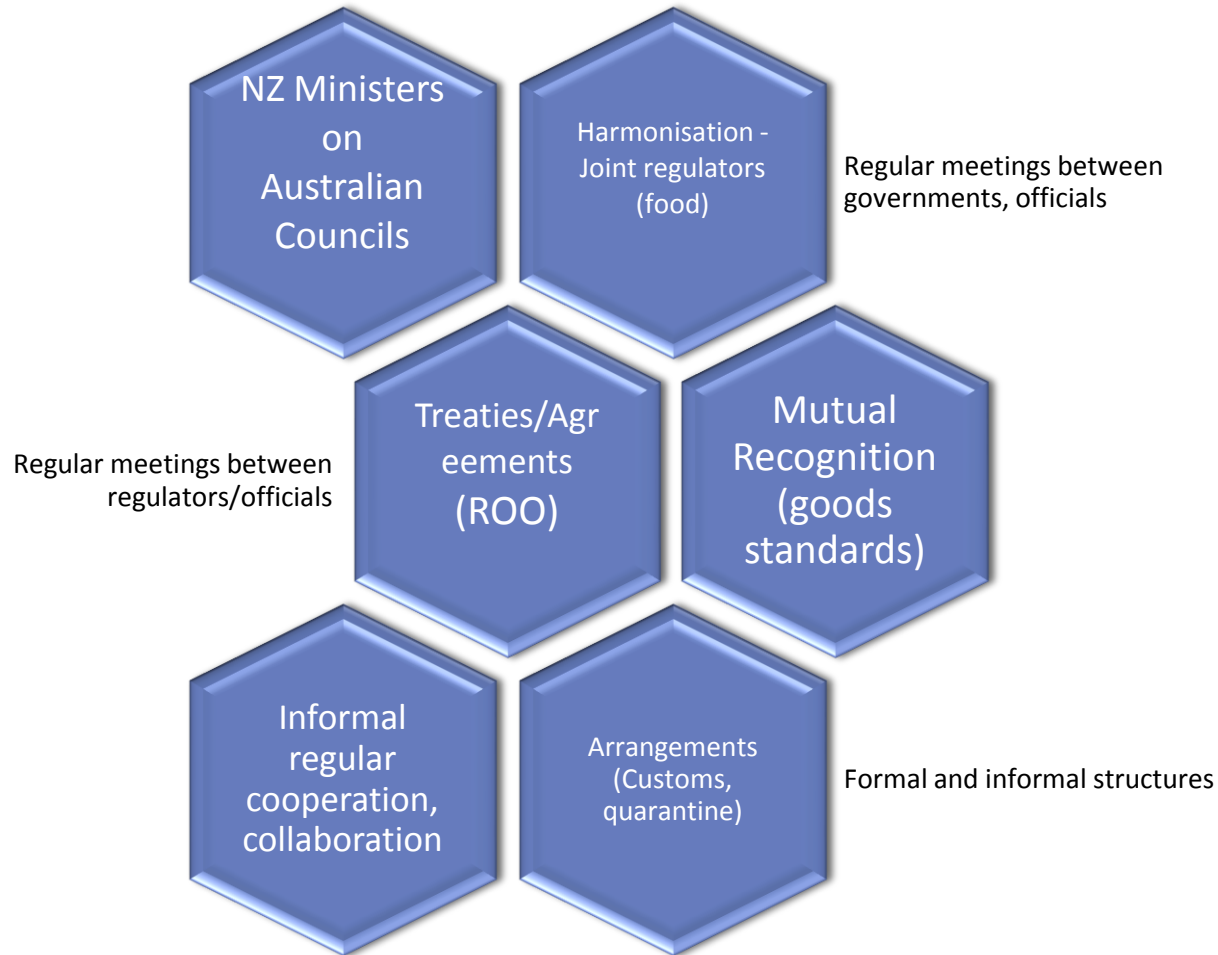
- The integrated CER base (scale, scope, better competitiveness) equips Australian and New Zealand businesses to compete internationally and participate in global value chains
- Allowed A/NZ to negotiate as a bloc with ASEAN
- Has helped A/NZ to take robust, tested policy positions into international settings (ROO, SPS, TBT and regulatory reform)



# The CER “integration model”

- The goal is not identical laws, but shared outcomes
- Not a “one size fits all” approach
- A gradual and organic process
- CER shows that economic integration can be achieved through a combination of:
  - Unilateral reform in one country to align with another
  - informal collaboration/cooperation
  - mutual recognition
  - harmonisation
  - joint institutions

# SEM Institutional Arrangements: goods



# Future directions?

- SEM Goal: “to make it as easy to do business in Sydney as in Auckland and vice versa”
  - Goods, services, capital, people
  - Seeking deeper integration “behind the border”
- 2012 Productivity Commission study
  - A last few areas of goods trade that could be addressed in future to help create a true SEM:
    - A very few remaining tariffs
    - CER ROO, especially for re-export of low MFN tariff items
    - Deeper cooperation on biosecurity

# What has worked?

- Set ambitious goals and keep working towards them – recognising that there will be faster and slower phases, and more or less difficult politics
- Goals and frameworks need to be endorsed at the highest political level – helps keep momentum up even when vested interests are resistant
- Identify the needs first, and then design the mechanism (don't just rush to create new institutions or systems)
- Minimise need to surrender sovereignty or national identity
- No formal dispute settlement mechanism – even contentious issues have been resolved eventually

# Relationships matter

- Relationships are really important – confidence breeds confidence
  - Between Ministers; between officials; between business people,
    - with commentary from legal/academic/economic commentators and journalists, to keep the process “honest”
- CER has required tough political leadership from Leaders, Ministers, officials, business, academics
- Has also required a pragmatic attitude
- Maintaining momentum through ups and downs has been facilitated by:
  - Close working relationships at official level across many government functions
  - Periodic setting of broad objectives, pursued through clear processes

# Business matters

- ANZ Leadership Forum began meeting 2004 – importantly, this is a *joint* forum
  - Pressure or support for change needs to come from business in both countries to be effective
- The attitudes and role of business varied markedly through the CER process
  - Initially the CER initiative was largely “political”, with some business support
  - Now it is strongly supported by business champions, sometimes out ahead of the political level
  - The level of business support or frustration has had important implications for the rate of progress