

ASEAN/ CER Integration Partnership Forum; Auckland; 31 May 2017

My remarks will focus on the first three of the five themes for this IPF-THE THIRD I HAVE BEEN PRIVILEGED TO ATTEND. I want to recall some of the challenges that faced the initiators of ANZCERTA and AFTA between 1978 and 2003, and from that draw some linkages to the circumstances that led to AANZFTA in the decade 1999-2009. I also have some reflections on lessons to be taken from this the back-story and evolutionary history of which I was, at times, a close observer or an active participant.

I hope to leave you –as you approach the last stages of the first general review of AANZFTA- with a sense of what earlier negotiators of CER and AFTA had to deal with. As today, there were, back then, challenging economic circumstances and adverse political factors, which might have given reason to pause or even sideline the processes. In general they managed to see beyond such moments, and sustain some forward momentum. You can do the same.

In the early 1970s the world was being turned on its head. There were political tectonics-the US and China normalisation blew winds of change across East Asia. **Momentous economic shifts were occurring such as OPEC's quadrupling of oil prices and the collapse of the Bretton-Woods fixed exchange rate regime** had underpinned the international trade and payments system for 30 years.

A sense of risk and unease was in the air everywhere. **Australia and NZ were both coming to terms deep shifts in the global economic power balance as Britain retreated into Fortress Europe and Japan, pulling Korea and Taiwan behind it, was challenging in trade and investment, the global manufacturing and industrial supremacy of the Atlantic economies.**

In Australia the response of government was to look hard at its macroeconomic policy settings, especially its declining productivity rates and persistent inflation. But New Zealand, effectively a British colony in economic terms, until the 1920s was slower to recognise the limits of its post-war economic nationalism, and more inclined to apply microeconomic patches for the very same structural problems.

By the mid 70s in NZ drastic balance –of-payments effects flowing from the oil price crisis, had brought austerity and exposed far deeper economic fragilities. **There was a rumbling existential angst about the need for more fundamental change in macro-economic policy and posture. Australia as part of a wider policy correction had recently cut its global tariffs. NZ's preferential position under the then trade treaty (NAFTA) had worsened. On a visit to Canberra in 1978, NZ's Foreign Minister took up this concern, but that sparked a wider conversation with Australia's PM about the future of the whole bilateral relationship, including economic integration.**

In Wellington, a customs union had been contemplated. But Australia already had its strategic eyes to its north-on Asia, and the emergence there of new challenges- geopolitical and geo-economic. Maintaining advantaged position in the Australian market was critical for NZ, but much less so for Australia. Canberra's concern about the failing NZ economy was far more fundamental.

The proposal put forward by Australia's Overseas Trade and Resources Minister was to leave behind the old trade pact and reach for "a broader base and closer union of economic cooperation

to achieve greater strength in dealing with the rest of the world –in areas such as China and South East Asia<sup>1</sup>. After much hesitation, NZ accepted it but NZ Cabinet remained divided about this level of ambition and, concerned about the burden, social and economic, of adjustment ; the Prime Minister insisted it be negotiated cautiously.

Thus the first iteration of ANZCERTA, when it emerged in November 1982, was to achieve liberalisation of all goods in TT trade; it was to be “progressive” but “gradual” particularly in respect of removal of the plethora of quantitative restrictions which frustrated different sectors on both sides, and particularly Australia in respect of NZ’s import licensing arrangements which were not subject to elimination so much as to phase-down. It was not any tearing down of the walls of domestic protection or margins of preference. Part of Australia’s willingness to accept so constrained a change arose from securing review commitments to test this deliberately gradual trajectory at relatively short intervals.

There was a glimmer of outward-lookingness and of a wider regional economic consciousness. Article 24 of the Treaty -the outward-looking approach—CER was to be open to other states to join.

The first of the built-in reviews was to take place in 1988. By then, in Wellington, as a result of a change of government in 1983, the policy ground had shifted profoundly; a very broad and rapid-acting agenda of structural reforms had been initiated. In government and the private sector there was recognition that a narrowly based (undiversified) trade footprint and high protection against competitive imports would not enable NZ to escape its economic fragility. The previous fear of adjustment to Australian imports had given way to a conviction that ANZCERTA was one step towards a more open and competitive economy. In Australia, the mood was not quite as radical, but the reform focus was being maintained; it was shifting to domestic market- state level protectionism, and increasing national competition-as the means to increased economic efficiency.

So the 1988 Review had a sudden tail wind, and negotiators used it. The review eliminated all tariffs 5 years sooner than scheduled; dismantled many QRs and other nontariff barriers. It expanded the scope from goods to include traded services by means of sector liberalisation and enabling instruments such as a mutual recognition protocol. The built-in agenda addressed itself to a range of other central and state government policies that were known to affect trade adversely including government purchasing rules; export bounties; agricultural support programmes, and industrial standards. Policy harmonisation was proposed for business law and regulations; customs procedures; food standards; investment rules; intellectual property and competition law. The built-in agenda was progressively implemented over the next two reviews. By the year 2000 it could be said that NZCERTA had created a single market -but not a European clone economic or monetary union.

This 1988 agenda-the accelerated removal of border measures; the broadening to services and the deepening to cover trade and investment –inhibiting laws and practices behind the border- was a reflection of the level of ambition that progressives were urging for world trade in the GATT Uruguay Round, then in its final stages. CER became the toast of the town in Geneva- “the world’s

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<sup>1</sup> Doug Anthony, DPM of Australia, at dinner with NZ Ministers; Wellington 1979

most comprehensive, open and multilaterally compatible FTA “. It had taken 12 years to get to this point, and would take two more reviews to finalise, but the direction was set.

**In this same timespace, in Asia, regional initiatives of a similar kind, if not intent, were also unfolding. By early 1989 ASEAN had begun negotiations that by 1993 would create AFTA with a 15 year timeframe (2008) and ASEAN Economic Ministers had agreed to join into the first Ministerial exploration for APEC, provided there was recognition of ASEAN’s central role in regional cooperation. ASEAN was then on the edge of the political diplomacy that, between 1994 and 1998, would see CMLV join the Association.**

But it was, looking back, a time of contradictory impulses .**Globalising forces of technology were overcoming geography; accelerating economic transformation and creating new centres of wealth and power. Compared with other parts of the world this had been happening bigger and faster in Asia.** Established patterns of trade, commerce and investment, and the established institutional governance were not flexible enough to organise the adjustments required in international trade and regulatory arrangements. **The Uruguay Round closing stages had been unsatisfactory for all the parties.**

**In the US there was both positive and negative political energy. The tide was running against multilateralism. (It is salutary today to recall that it was only due to the Republican side of Congress that the Clinton Administration eventually secured fast-track for the Uruguay market access negotiations, and for the passage of NAFTA in 1993.) The middle economies and, especially the East Asian NICs, were not sure that even in the new WTO it would be any easier to tilt the playing field or mitigate US and EU agenda setting and issue control.**

**The positive energy found its outlet in regional and sub-regional approaches, and plurilateral trans-regional initiatives. By 1994, in Bogor, APEC had declared its ambition to form a free trade and investment area with 2010/2020 goals. But there were misgivings and hesitations about the comprehensive approach and a two track approach with sector-by-sector liberalisation for early birds had been proposed.**

Between 1987 and 1997 ASEAN aggregate economic growth averaged 7.9%-the second decade of the Asian economic miracle. Australia and NZ, both APEC fast-trackers, had strongly supported ASEAN in political, security and economic aspirations since its founding in 1967. **The 1988 ANZCERTA review had openly and consciously contemplated extending CER both to the South Pacific island states, and to South-East Asia where there were needs for market access for emerging industries as much as for traditional development assistance. Now the time seemed right. Feelers were put out at the annual dialogues.**

**In 1992 Thailand (DPM Supachai) agreed to sound out colleagues about a possible link between CER and AFTA- a trade and economic partnership. In principle, it was deemed worth pursuing. By 1995 the first formal linkage was created – an agreement for ANZ technical cooperation with ASEAN to better facilitate the existing two-way trade and investment flows.**

**Then, in 1997, the Thai baht collapsed almost overnight under waves of speculative selling. The currencies of Malaysia, Indonesia and the Philippines began sliding. Severe disruption hit markets and banks in North-East Asia, especially ROK. The Asian Financial Crisis, a shock that caused**

**governments to fall, created widespread wealth loss and community misery.** IMF stand-by arrangements were triggered; both Australia and NZ responded. Japan was the cornerstone contributor.

But there was deep dissatisfaction with the preconditions and prerequisites of the IFI lending. **In April 1999 the ASEAN Finance Ministers met their ‘Plus Three’ colleagues and decided the right response was stronger coordination of national policies to strengthen financial regulation and improve systemic resilience at a wider, cross- regional level,** leading eventually to the Chiang Mai initiative.

**In that same year-1999- the multilateral system hit the wall - in Seattle, amidst scenes of chaos, the attempted launch of a new Round-the Millennium Round-failed.** The political consensus in the US had sprung more leaks, and among the BRICs, concerns had deepened that the Round would be dominated by the US and EU seeking to impose new forms of restraint –e.g. labour and environment standards – on rising export economies. **South/South trade seemed easier than North /South- especially with China’s emergence as a new locomotive economy-outside the WTO. There were attractions in more exclusive or closed intra-regional or plurilateral alternatives where you could pick and chose what extent of WTO compatibility to aim for. As the hopes for the relaunch of a re-branded (Doha) multilateral Round kept receding, the noodle bowl era emerged; trade negotiations amongst like-mindeds intensified, with Asia-Pacific states among the most active.**

Decisions taken at the 1999 ASEAN Informal Summit to accelerate the AFTA tariff reduction schedule seemed to open up new possibilities. **In October 1999 the AFTA/CER Ministers had met and agreed to set up a task force to explore establishing an FTA BY 2010. This seemed an impulse towards more open regionalism –very welcome to Australia and NZ. However, a year later, the task force report, which recommended a two phase (2005/2010) tariff elimination programme was rejected, and replaced by a CEP programme emphasising ODA, tech-transfer and E-commerce. There were of course good reasons to go slowly-ASEAN did need to put its effort first into intra-regional consolidation- but there was a gap between the two in vision and ambition.**

**Inside ASEAN, the post-AFC, post-Seattle, where-do –we- go –from- here question continued to be exhaustively de bated. The two faces of globalisation - both destructive and creative- could now be more clearly seen.** Managing and channelling the trade and investment impacts of this phenomenon, with the new supply and value chains running into and out of a wider region, uniquely combined risk /reward and threat/opportunity for East Asia. **Not least because of the rapid transformations of the Chinese and Indian economies, there was a sense of urgency.**

**When ASEAN’s consensus emerged, it was to accelerate AFTA processes for faster liberalisation; a wider scope and deeper integration. The need for ASEAN to reach out to the wider region was also reaffirmed. The wheels began to turn much faster and more ground was covered. With the ASEAN Free Trade Area established, the 10 plus one phase could begin –negotiations with China(2004);ROK (2006); Japan 2008; and India. Simultaneously other steps were in progress which came to fruition between November 2007 and October 2008. The AEC project -to transform ASEAN by 2015 into a region not just in terms of free movement of goods, but services, investment and capital flows too. And the Charter- with its goals for a liberal political and economic order.**

AEC, in terms of vision and ambition, looked very like CER after that 1988 review. It seemed a moment of convergence, and perhaps opportunity.

For the 30<sup>th</sup> anniversary of ASEAN in 2004 the format of the annual meeting was to change. Instead the series of 10 plus one post-summit Ministerial exchanges, the dialogues were to be at leader level and there would follow a new roundtable of the 13 East Asian leaders. Invitations were extended to India, Australia and NZ to attend. Not since 1977 had ASEAN invited a NZ Prime Minister to attend the annual showcase.

NZPM Helen Clark recognising this breakthrough moment in ASEAN's evolutionary journey, and potentially a new page in the book of pan-Asian regionalism, chose to speak at the NZ dialogue about where we hoped to advance and deepen NZ's linkages. She expressed support for ASEAN's determination to hold its place at the centre of East Asia's politico-security and economic institutional architecture. She said we would accede to the ASEAN Treaty .And referring to new bilateral agreements with several ASEAN members ,she offered to give priority to a new trade and economic pact-the long-awaited 'docking" of AFTA with CER . Australia made the same offer. The response was positive. By late 2009 the negotiations were complete, and AANZFTA was born. Compared with ASEAN's four other like FTAs this newest one was the most comprehensive in form and substance. This journey had taken 15 years.

#### SOME LESSONS

What has happened since to the single Trans-Tasman market, and to ASEAN integration is contemporary history of which you are more a part than I and other speakers will address. So I will try now to draw out some lessons from this early history.

I can track a consensus about economic openness across NZ's political establishment this 25 year period, much of my career. ANZCERTA became common bipartisan ground. Obviously with Trump and Brexit we are all wondering whether that consensus is now unravelling in OECD and elsewhere. Governments in Australia and NZ must now be far more prepared to engage with the trade –sceptic element of anti-globalisation civil society groups. There are some signs of recrudescence of economic nationalism in our politics but not to the same extent so far as in the Northern Hemisphere.

For ANZCERTA especially after 1988, the underlying principle became the internationalisation of the two economies following international best policy as defined by WTO and OECD. This requires a willingness to make domestic reforms and bear certain adjustment costs. It was clearly seen that the freeing up of economic resources-capital and skills- by allowing import competition –could be an agent of transformation and modernisation. A business could not only move from import substitution into export but could shift up from the lower to the higher end of a value chain. CER certainly had exactly this effect on the NZ wine industry and on parts of the NZ manufacturing sector.

I can also trace a strategic sense of geopolitical purpose; the steady emergence into our political and economic policy discourse of the idea that NZ needed to bend its mind towards re-defining its identity by achieving a geopolitical and geo economic place in the Asia Pacific region. This was influenced, I believe, by Australia's stronger, earlier, sense of its direction.

**Sense of purpose matters. ANZCERTA, as you can see, and others will explain, has developed organically. Progress has tended to be stop/start. Sometimes it has been pushed by a sense of threat from bigger external forces; sometimes it has been more pulled by a sense of opportunity. It has gathered momentum when political level engagement has seen these forces in similar terms.**

**Even for what the rest of the world may see as two very like countries, there are important differences-NZ is a unitary political state; Australia is a federation with States rights and regulatory powers over economic matters which can affect trade. The issues of sovereignty become sharper the more the objective is single market or economic integration through common laws or harmonised regulations. Clearly with plurilateral agreements these differences can create even greater complexities and sharper sensitivities-especially if the states have very big differences in level or stage of economic development-as, during the 1990s with CMLV within ASEAN. To work within and around these fundamental realities takes strategic patience at the leadership levels of government and business. FTA or CEP negotiators also need a roadmap to a clear destination.**

**Because you have to accept that the pace will change. Gradualism is not necessarily an enemy-it can keep the vehicle on the road. But it can become an excuse. Good gradualism builds in achievable milestones and these milestones need regular review**

Sometimes gradualism and patience are not enough. There are some objectives which cannot be reached without the application of some force. Think of low-hanging fruit-easy to pluck with simple means, and high-hanging fruit that really has to be dislodged by shaking the tree hard. And sometimes you even have to accept the time isn't right; you have to leave it there high up the tree and wait for the right winds.

I like to think of **Australia and NZ** as countries of the new World-places of opportunity to change; settled by migrants, anxious to escape from old fixed orders and attitudes, giving us a **heritage of pragmatism and utilitarianism. CER negotiations demonstrated these virtues. . It helped greatly that the ANZ bilateral intergovernmental institutions were genuinely functional-at Minister and senior official levels problems got addressed and solutions found.**

**Across policy areas it is not necessary to pursue a rigid prescriptive approach- "one-size-fits-all". Policy designers can draw from a spectrum of instruments and vehicles of greater or lesser formality and structure in order to bring national legal and institutional arrangements closer to each other in terms of the real effects they produce for real economy actors. We used to say "the opportunity to compete and the ease of doing business in each other`s countries" is the end goal.**

**It is also true that in both countries there were established social welfare systems, and industry policies that enabled the sharpest adjustment costs of liberalisation to be mitigated, both for displaced individuals and business sectors. Transitional temporary industry assistance and workforce training support was available subject to certain conditions, including a consumer benefit test.**

**CER also changed the narrative about trade in cost /benefit terms. Success gradually stopped being seen, and portrayed, in static, mercantilist, terms of annual bilateral trade balance-surplus or deficit, and in merchandise values. Increasingly CER made us assess in terms of two-way trade and of factor flows and growth contributed to GDP in relation to average rates of growth with the rest of**

the world. With the extension to free trade in services, **more interesting dynamic economic impacts could be seen.** Success in the Australasian single market was a platform for wider international exposure.

**Even in its earliest stages CER had outward-looking intent. It could not just be about a bilateral relationship and it could not get in the way of either country meeting obligations or securing benefits from economic engagement with third parties.** MFN matters.

**This brings me to AANZFTA and by extension to RCEP.** For small countries like NZ regionalism matters; we need the comfort-and the leverage-that working with partner states can supply. It enables our voice to carry further on the international stage. I think Australia has the same position but its need is less. **In all the time I was involved, AFTA/CER was never just about economic prosperity. The greater strategic goal was pan –regional economic integration to better serve development (the continuing reduction of poverty) and security (the prevention of conflict and the resolution of disputes by peaceful means).**

**ASEAN, of course, was then and still is the embodiment of these very goals, and it stood for the interdependency of political stability with economic progress. It seems to me that as the pressures of big power politics grow in the wider region and tensions increase, ASEAN has to find ways to re-project its vision and re- assert its central role. One way in which this could be done is by pushing ahead with more ambition for RCEP than is presently evident**

**Between the provisions of TPP, to which not all ASEAN members can commit -and the current provisions of RCEP, I see a dangerous vacuum. With no WTO round and no certainty about TPP, there is a risk of getting stuck indefinitely in the noodle bowl of low quality bilateral or plurilateral trade and economic deals, with a mess of conflicting rules and high compliance-costs for business. AANZFTA if accelerated with serious intent, as to its coverage; its comprehensiveness; and its timeframes could be a means of preventing that happening and the platform for a better RCEP. It could send an economic signal to the big powers about what the middle economies want to see happen. It would send a politico-security message about preserving a rules –based, outward-looking approach in East Asia. And it would be a reminder to ASEAN’s critics not to underestimate what it can accomplish.**