(Nixon, C., 2000)

CER: the Cornerstone of New Zealand's Trade Policy

Chris Nixon

NZ Trade Consortium Working Paper No. 10

July 2000

THE NZ TRADE CONSORTIUM IN ASSOCIATION WITH

THE NZ INSTITUTE OF ECONOMIC RESEARCH (INC.)

8 Halswell St. Thorndon

P O BOX 3479 WELLINGTON

Tel: (04) 472 1880

Fax: (04) 472 1211

1. INTRODUCTION

In a small open economy heavily dependent on trade, such as New Zealand, small changes in New Zealand s international trading environment have major impacts on economic well-being. The simple fact is that small countries are far more vulnerable to economic change than large countries. To progress, make the best use of its resources and overcome their natural disadvantages, smaller nations need to foster an efficient economic environment. An efficient trade policy is an important part of any small country s economic policy and is a vital component for improving the standard of living.

So the simple answer to why economists are interested in trade policy, particularly in a small open economy, is that we want the most efficient structure possible. That leads neatly on to why CER is important to New Zealand. It is not just because Australia is the closest most important market, but:

- The Agreement has an efficient structure.
- It is economically logical.
- It is consistent and seamless with other trade policies that New Zealand wishes to follow.

This paper, funded by the Foundation of Research Science and Technology, is part of a wider suite of papers looking at trade. Its focus is trade policy and represents work in progress.

2. AUSTRALIA AND NEW ZEALAND

It would be difficult to find two sets of peoples more culturally alike than Australians and New Zealanders. While the two economies have different GDP drivers that fund their respective living standards, New Zealanders and Australians have many common elements in their heritage. Most importantly is New Zealand s and Australia s shared colonial past with Britain and the influence that the British way of life has had on each country (more so in New Zealand). Australia s proximity to New Zealand and common aspects of our joint heritage form part of the cultural glue that has allowed the two nations to forge close economic ties.

The modern Trans Tasman relationship is based on both economic and security considerations. At the heart of the economic relationship is the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA or CER). Table 1 gives an outline of the two economies. It is immediately apparent that the combined size of the two economies is not large. To generate wealth in order to sustain current standards of living both countries are dependent on exports. The New Zealand economy being much smaller is even more dependent on exports than Australia. The need to export has been a source of acrimony (1880-1960) and harmony (pre 1880 and post 1960).

Table 2 shows the importance of the trading relationship between Australia and New Zealand. In the 1860s Australia was New Zealand s most important market. With the advent of refrigeration exports and imports were skewed in the direction of Britain. It is only with the decline in importance of the British market and the withdrawal of protection on New Zealand manufacturing that the Australian market has become significant again in the 1990s.

Table 1: The New Zealand and Australian economies

June estimates 1999.

Economic indicators	Australia	New Zealand	Total
Population (million)	18.9	3.8	22.7
Persons per square km	2.5	14	
Population growth	0.4	0.5	
Labour force (million)	8.7	1.8	10.5
Unemployment rates	7.4	7.0	
GDP ($NZ thousand million)	705.3	100.1	805.4
Exports (total NZ$ million)	8143	1850	9993
Exports as a % of GDP	11	18	
Overseas debt (total NZ$ million)	108359	101940	210299
CPI change since March 1999 quarter	0.9	0.2	

Source: OECD Statistics Main Economic Indicators October 1999, Statistics NZ Key Statistics December 1999, Reserve Bank of NZ Financial Statistics August 1999, International Monetary Fund International Financial Statistics November 1999, Australian Bureau of Statistics Key National Indicators October 1999.

3. EARLY TRADE[1]

The links between New Zealand and Australia start with European settlement. For a brief period, up until 1841, New Zealand was administered from New South Wales. In this period (pre 1880) trade between New Zealand and Australia was significant, with Australia taking the largest share of New Zealand exports up until 1880 (see Table 2).

In the twenty years between 1880 and 1900, however, technology in the guise of refrigeration created a new market in the south-east corner of Britain that distorted trading patterns, in a form of Dutch disease, lasting at least eighty years.

wrong spelling

For even longer New Zealand and Australian economic relations were dominated by politics in Britain. One senior diplomat described the relationship with Australia in the following terms:

> *New Zealand and Australia did not interact with each other directly across the Tasman, but only indirectly through a giant mirror placed in Britain* . (Grosser, 1999).

Tim

P

An attempt was made in 1906 to construct a preferential arrangement between the two countries. This failed when the New Zealand Parliament did not ratify the tariff preference scheme.

1906 in 23 Aug 1922

Table 2: Trade with Australia: Imports and exports
Percent share

	Exports to Australia	Imports from Australia
1860	27	42
1870	46	36
1880	21	31
1890	15	17
1900	14	17
1910	9	14
1920	5	17
1930	3	8
1940	3	16
1950	3	12
1960	4	18
1970	8	21
1980	13	19
1990	20	21
1999	21	22

Source: Statistics New Zealand

P

In 1922 New Zealand and Australia signed there first trade agreement. Prior to this, Australian goods had been imported into New Zealand at the same rate as British goods, however, New Zealand goods that were imported into Australia entered under

[1] For a more detailed account see Holmes (1966).

the general tariff (a tariff for goods other than British). The Tariff Agreement Ratification Act (1922) modified this, covering tariffs on 129 items to a level that was mutually acceptable to both countries. The Agreement increased some tariffs (under infant industry arguments) and reduced others. All other items not mentioned specifically were admitted to New Zealand and Australia at the preferred British rate.

Trade policy relations, at this time, were characterised by bitter disputes with each nation attempting to stifle each others trade with higher tariffs and quarantine restrictions.

P

In 1933 all tariffs were reduced in line with British rates as a result of the Ottawa Agreement of 1932. These changes, according to Bollard and McCormack (1985) p17, had little impact on Trans Tasman trade.

23 Aug 1922.

Similarly in 1944 New Zealand and Australia signed the Australian and New Zealand Agreement (the Canberra Pact). This was more to do with wartime solidarity than trade. However, it did set up regular meetings between the two nations.

As Europe and Japan were rebuilt two important issues emerged:

- After World War II world trade developed rapidly, particularly between OECD nations.[2] With an eye on the protectionist policies of the inter-war period governments from industrialised nations initiated successive Rounds of multilateral talks (GATT) to reduced tariffs on mainly manufacturing items, facilitating the trade process.

P

- Both New Zealand and Australia were aware that Britain was likely to join the European Economic Community (EEC) at some stage Britain had earlier joined the EFTA, the European alternative to the EEC. Therefore the diversification of New Zealand and Australian markets was a priority. Freer trade across the Tasman Sea would help in developing new markets for each country s products.

It was against this background that the Australia/New Zealand Joint Consultative Committee on Trade was formed in 1960. One of its main aims was to explore ways of increasing bilateral trade.

2 Exports between OECD nations grew at twice the rate of national income, Bollard and McCormack (1985).

4. THE NAFTA

4.1 The structure of the Agreement

The first attempt at a freer trade area between Australia and New Zealand began in the 1960s.[3] The British attempts to join the EEC added urgency, particularly for New Zealand, to diversify markets for products that they produced.[4] In this respect the combined Trans Tasman market was a natural extension of each country s trading frontier.

P The New Zealand Australia Free Trade Agreement of 1965 was the outcome of the attempt to combine the Trans Tasman market. It was expressed in the Treaty in the following way: [to] promote a sustained and mutually beneficial expansion of trade and ensure as far as possible that trade within the Area [covered by the Agreement] takes place under conditions of fair competition [in Pomfret (1995) p178].

The realisation that closer economic ties would be beneficial to both nations was only partly reflected in the NAFTA. Both nations were unable to deliver a comprehensive trade agreement because of domestic concerns. The major feature of the NAFTA was its restrictive coverage. Freer trade in goods and services was limited to those goods on Schedule A , which was appended to the treaty. The goods and services on the Schedule A products, to a large extent, determined what was freely traded across the Tasman.

The structure of the Agreement and the associated implementation details was important to the NAFTA s eventual failure. For instance:

- Those goods on Schedule A that faced import duties before the Agreement was signed had eight years to reduce these duties to zero. Article 4, however allowed this transition period to be extended for an unlimited time.
- Article 5 dealt with quantitative restrictions. Those goods under quantitative restrictions were to be abolished at the earliest practicable date . Furthermore, to allay New Zealand fears over any rapid dismantling of the import licensing system the elimination of quantitative restrictions would be engaged: to the extent permitted by the balance of payments .
- The establishment of new industries was an area that was almost exempt from the Agreement. In both countries manufacturing was seen as a way of diversifying the economy. One way of developing these infant industries, it was thought, was to erect significant barriers, therefore, substantial waivers were written into the Agreement to allow for new industry development (article 8).
- Prevention of serious injury to each other s industries or future injury allowed for the temporary suspension of imports (article 9).

---

[3] Both countries were acutely aware of the impact of Britain joining the EEC. The EEC was attempting to do to Commonwealth countries what Commonwealth countries had done to Latin American countries in the Ottawa Agreement (1932), i.e., restricted access to the British market.

[4] The EEC market was not so important for Australia. Firstly, Australia had started full scale development of its mineral deposits, fuelled by demand from the fast developing Japanese market (Australia had signed a trade treaty with Japan in 1957 that partially liberalised trade between the two nations). Secondly, the range of agricultural products, produced by Australia, was not as reliant on the British market (relative to New Zealand).

- Dumping or subsidised imports were prohibited (article 10) as well as the imposition of further quantitative restrictions (article 11).

These treaty details allowed for wide interpretation with plenty of scope for intervention by government and vested business interests. Fair trade meant different things to do different participants. The NAFTA was designed to facilitate trade but in effect its articles could be used to prevent competition occurring. Therefore more efficient use of resources in each economy, which was the whole point of having an agreement, was stifled.

4.2 The impact of the Agreement

The NAFTA Agreement tried to increase trade across the Tasman without damaging either country s manufacturing industries. The Agreement was designed to run for ten years and would be reviewed after that time. Since freer trade sharpens the specialisation of both countries it would be expected that some industries would gain and others would lose (in both countries). Therefore, the idea of having a free trade area and also protecting various industries at the same time increased the likelihood of conflicting objectives.

These conflicts are clearly illustrated by the inability to move more items on to the freely traded list - Schedule A. To get around this problem Schedule s B , C and D were created in 1973 in the hope that the items on these list would eventually move on to Schedule A. It was also symptomatic of the difficulty of moving items into the free trade category. Goods and services could not be moved onto Schedule A because vested interests in each country would be hurt by freer competition across the Tasman. In actual fact the end result was that there was very little movement of items onto Schedule A and the good intentions of the treaty designers were not translated into an adjustment process.

The mechanics of maintaining the Agreement was cumbersome. Twice yearly meetings between ministers and officials of both nations were set up. Ministers and top officials got bogged down in details that were taken to absurd levels. One of the most famous of these was the discussion that decided how many pantyhose would be swapped for Holden cars. In describing what seemed, with the benefit of hindsight, as near farcical negotiations one senior New Zealand official apparently did a very good rendition of a [A] Bean for you and a pea for you set to the tune of Tea for two and two for tea (Scott, 1999). These meetings produced little reward, but were extremely time consuming.[5]

P

The structure of NAFTA was deeply flawed with ample opportunity for vested interests to sabotage changes to the trading regime. The ability of interest groups to stop change was extremely easy. Any changes could be halted almost with a visit to the Minister s office. Politicians were subject to intense lobbying and were not protected by the structure of the Agreement, since the Agreement specifically allowed for exceptions (note the articles mentioned above). The trouble was that the most sensitive goods were exempt. Unfortunately, around these items a whole rent preserving industry sprang up to protect specific import licenses.[6]

---

[5] These negotiations suited the New Zealand politicians of the day. It meant that they could see how marginal changes to the trading regime impacted on the middle voter . If certain industries in certain key electorates were going to be affected in a negative way then progress on reform could be stopped. The incremental approach was perfected by Muldoon.

[6] At this stage (1965-1979) Australian tariffs were about twice the OECD average, while New Zealand tariffs were well above that.

In hindsight the idea and rationale for NAFTA was naïve and reflected the wishful thinking of ministers and officials of the day. It was the classic agreement between nations whose politicians and vested interests did not want to have an agreement. Both countries had highly protected manufacturing industries and trade had the potential to wreck the protectionist piecemeal façade built up since the depression. One trade official described it as a initial mating dance between two strangers (Grosser, 1999).

One of the difficulties of the Agreement was that it was an inward looking Agreement between Australia and New Zealand. It attempted to set up a restricted form of a customs union. The lack of an outward focus (towards third countries) cut across the fundamental principle of the General Agreement of Trade and Tariffs (GATT). That is the Most Favoured Nations (MFN) status, where the concessions made on tariffs and other trade barriers are passed on to all other members of the GATT. This was a fundamental design fault that meant that vested interests on both sides of the Tasman were able to tightly control trade and by implication: crop the rents from a protected Trans Tasman market.

The actual impact of the Agreement was difficult to assess given the rising levels of trade between OECD nations over this period, i.e., trade growth would have happened without the Agreement. According to Bollard and McCormack (1985) Australian exports peaked in the early 1970s while New Zealand exports rose steadily during the period. Quoting Thomas (1983), Bollard and McCormack (1985) p18 suggest that: the relatively strong New Zealand penetration of the Australian market was due to successive New Zealand devaluations, export incentive schemes and tariff reductions in Australia, not the NAFTA.

Some of the more specific shortfalls of the NAFTA were spelt out by Bevan (1982) p5:

- The tardy addition of items to Schedule A 800 items, mostly minor, added to the original one thousand strong list mainly due to administrative haggling/industry objection.
- The ability to remove sensitive items from Schedule A if necessary.
- Many items on Schedule A were traded freely only in one direction.
- The maintenance of non-tariff barriers (for example, subsidies and tax incentives).
- The detrimental effect of high transport costs.
- The complete absence of item additions to Schedules C and D.

In the late 1970s international realties imposed themselves on New Zealand. The Tokyo Round of GATT was bought to a shuddering conclusion by the chief US negotiator Strauss, who had been given the mandate by President Carter to finish the talks before the US election in 1980. Both New Zealand and Australia were sold short in the rush by the US to close the deal agriculture was left off the agenda. In terms of the Trans Tasman relationship the Australians were getting restless. The Australian Deputy Prime Minister, Doug Anthony, bluntly told the New Zealand Government that NAFTA was finished and they wanted a re-think of the whole Trans Tasman trading relationship. New Zealand had little choice but to acquiesce to the Australian request.

5. CLOSER ECONOMIC RELATIONS

New Zealand is a junior partner in the Trans Tasman relationship. As a small economy New Zealand could not set a trade agenda New Zealand is in effect a policy taker (Grosser, 1999). In this case, the economic importance of trade to the New Zealand economy and the importance of the Australian market to maintain the level of economic well being meant that New Zealand s options were extremely limited.

Despite New Zealand being a policy taker , being a small country does have some situational advantages in negotiations. It means that:

- Focus is of prime importance. Habeeb s (1988) suggests that focus can be a strength in negotiations. Significant resources can be bought to bear on getting the best result for New Zealand. A trade agreement with Australia meant far more to New Zealand than it did for Australia, therefore the resources employed by both countries to negotiate the deal will reflect the importance of the deal for both countries.[7]
- Resources are not wasted on trying to negotiate an alternative position. There are no alternatives in the first instance. An agreement with Australia (in the late seventies, early eighties) was the only alternative available to New Zealand.

5.1 Aims

The initial moves to develop a new agreement on the conduct of Trans Tasman trade came from the Australia. Once the general outline was caste by the Australians it was clear that everything was up for negotiation, including import licensing.[8] The open ended nature of the opening statement was important since those seeking to scuttle or modify the Agreement could not rule out any sector from liberalisation. Sectors could be put aside and dealt with later, but they could not be ruled out entirely.

The struggle to sign CER was not just a negotiation between Australia and New Zealand but a battle between protectionists and free traders within each country on both sides of the Tasman. For New Zealand, the country with higher protection and consequently formidable intrenched vested interests keen on keeping the status quo, the outcome was unclear. So, in effect, New Zealand officials went into the process with no clear mandate, apart from the March joint ministerial statement.

For the Australians, apart from the protectionists in transport, manufacturing and some sectors of agriculture, their aims and objectives were much clearer. Despite requiring a consensus amongst a broader church of groups to get agreement to start talks with New Zealand, a much more realistic view of the world had emerged. Their future was in Asia, the growth in Japan had generated a minerals boom since the 1960s and other Asian nations were starting to follow the Japanese growth spurt. New Zealand was at Australia s back door and Australian priorities reflected this position.

What were Australia s main concerns?

- The Australians wanted a different agreement from the NAFTA, because it did not suit their interests. Too much time and resources were being spent on deciding

[7] After all Australia main trade policy thrust was into Asia, New Zealand, to some extent, was (and still is) only a distraction.

[8] This was set out in the joint declaration between Muldoon and Fraser in March 1980.

what the tariffs on things such as sea water were going to be. It was a waste of their negotiators time.

- At that time the Australians were frustrated that the structure of world trade was in a shambles.[9] The Tokyo Round Agreement suited northern industrial producers and nobody else. The Australians were determined, despite some opposition internally, to get a sensible agreement with New Zealand.
- There were also concerns about the economic policy in New Zealand. Australian security officials were becoming worried about the possibility of economic and social instability in New Zealand. The Australian s were particularly concerned that New Zealand had ignored the changing international trading regime of the 1970s and were waiting for world markets to pay more for its (agricultural) exports.[10]

5.2 Preparations

One of the advantages of having such a structurally flawed agreement such as the NAFTA is that there are a large number of mistakes to learn from.[11] The NAFTA provided a rich library of case studies that trade policy officials could study and most cases try to avoid.

The NAFTA, for instances:

- Represented a rather schizophrenic approach to trade policy. On the one hand New Zealand had the highest tariffs in the OECD (on manufactured products) and on the other hand, New Zealand officials were pushing for liberalisation in world agricultural trade. New Zealand s importing regime and its domestic policies bore no relation to its advocacy of freer world trade. Policy discussions in New Zealand were conducted in a compartmentalised inconsistent fashion.
- Vested interests could easily negate the spirit of the Agreement through lobbying.

CER was the first step in a process to construct a more coherent seamless policy platform. The most crucial issue was the high level structure of the agreement. To a large extent every other issue was secondary. The tone was set from the outset in the joint Prime Ministerial Communiqué between the two Prime Ministers: Muldoon and Fraser (20th-21st March 1980). The principles were:

- The freest possible movement of goods between the two countries.
- An outward looking approach to trade.
- The most favourable treatment possible for each other s citizens.
- The freest possible movement of their peoples between the two countries, subject at any time, to their respective laws and policies.

---

[9] The failure of the industrialised nations to agree upon a sensible trade policy at the Tokyo Round and the failure to get a new Round off in 1982 directly lead to the all out subsidies war between the EU and the US in the 1980s.

[10] See NZ Trade Consortium Working Paper No. 6 for reason why New Zealand agricultural prices are not expected to rise over the long term.

[11] The reason for the NAFTA being such a structurally flawed document is not because of the lack of skill of the officials and politicians putting the document together it reflected the balance of economic forces of the day.

- The fullest consideration for each other s interests in all aspects of the economic relationship: in particular, prior consultation on international trade and economic discussions.
- Frequent discussion and consultation on matters of common concern.

The subtext of the communiqué was that every thing was on the table for negotiation. This was important because whenever there was a dispute the negotiators referred to this statement to settle disagreements (Grosser, 1999). While there were concerted efforts to modify the Agreement on both sides of the Tasman the opening statement went a long way to forestall and nullify opposition.

5.3 Resources

According to Habeeb (1988) focus can be a major strength. As discussed the Australian s were firmly focused on Asia. This is where Australia s major markets were and most of their foreign policy resources were focused in this area. So those policy makers in the Australian trade bureaucracy spent only a cursory amount of time, relative to their New Zealand counterparts, on negotiating the CER treaty.

It was a completely different story for New Zealand. Australian relations were the main game and the vital interests of New Zealand were at stake. Not only did New Zealand have its best people negotiating but a lot of preliminary work was also done so that the New Zealand Government was well prepared. Part of that process was to talk to all manufacturers who were going to be affected by CER and a concerted effort was also made to inform the public in meetings and through the newspapers. The consequences of CER negotiations failing were very real and the trade alternatives were, in effect, non-existent.

While New Zealand did not initiate the CER negotiations, its negotiators were well prepared and focused. On the other hand, Australian negotiators were not as focused CER relative to their New Zealand counterparts, they had less at stake and the consequences were not as dire.

5.4 Negotiation process

Despite the ability to focus on CER by the New Zealand negotiators the actual process of negotiation was very difficult. There were still fundamental disagreements between different parts of the New Zealand bureaucracy and between ministers of the crown. In some of the negotiating meetings and receptions held there was almost open acrimony between departments.

The business community was also deeply divided reflecting the various interests of different sectors. Those industries looking to expand their business into Australia strongly supported CER. Others who had been given protection in the 1950s and 1960s under infant industry arguments were less enthusiastic about an agreement that would allow the freer flow of goods.

CER, however, had one key difference to past trade negotiations. The Prime Minister of New Zealand, Sir Robert Muldoon, watched the negotiations closely, so responsibility for chairing the CER interdepartmental committee was given to the Prime Ministers Department: a group who were firmly in the free trading block. This broke the deadlock, which existed in New Zealand between the traditional protectionist and the free traders in the New Zealand bureaucracy (Scott, 1999).

The bureaucracy was divided about CER both between departments and inside departments. Even in those departments that you would have expected resistance to CER, such as, the Department of Trade and Industry, key trade positions were held by officials more disposed to a free trading agreement with Australia (Scott, Wevers, Yeabsley, 1999).

One of the great conundrums of the CER negotiations was the role of the New Zealand Prime Minister Sir Robert Muldoon during the negotiations. Sir Robert, the arch incrementalist, was being asked to sign up to an agreement that would ultimately destroy the carefully built structure of the NAFTA and his famed ability to control the economy enough to satisfy the middle voter other wise known as Rob s Mob . CER would allow trade that would bring a degree of unpredictability to the New Zealand economy that government could not control.[12] On occasions, during the negotiations, Muldoon would give speeches along with his Trade and Industry Minister Lance Adams-Scheider that threatened to derail the negotiations. Yet Muldoon, when it was all over, said CER was his finest achievement[13] (Scott, 1999).

One possible answer for Muldoon s prevarication over CER was his mixed feelings over the association with Australia. On the one hand there was the shared colonial past (referred to in the Introduction), the pressing need to diversify trade further and general public support for CER. On the other hand there was the intrenched business and bureaucratic interests which supported Muldoon s political and social goals. The final clinching feature, for Muldoon, may have been the general public consensus that CER was the best deal possible for New Zealand.

New Zealand negotiators also pushed for two other key structural components:

- An outward looking free trade area rather than an inward looking customs union. A free trade area allows participants to extend its preferential tariff arrangements to third countries, whereas a customs union sets up common protection in both markets to third countries. The strength of this argument was enhanced because of the behaviour of the European Union: a customs union and even today a major impediment to world trade reform.[14] New Zealand negotiators strongly and successfully argued the case for a free trade area (Scott, 1999).
- Once set-in-place the agreed tariff reductions, whatever the level, would be automatic. This would protect politicians and officials from vested interests on both sides of the Tasman and push firms into thinking proactively about how to change in order to adjust to a new environment, instead of investing in lobbying activities (Grosser, 1999).

While New Zealand did well out of the negotiations, the role that Australian negotiators played in the negotiations should not be overlooked. After all it was they who tore up the NAFTA and forced trade policy reform on New Zealand. It was the Australians who used their power when the New Zealand Government proposed piecemeal solutions. Since the undeniable political reality was that under the Administration of the day New Zealand could not reform its trade policy by itself.

---

[12] It would mean that some sectors would grow and others would decline without reference to government.

[13] At the time, officials seemingly walked a tight rope with Sir Robert Muldoon never really knowing his true views on CER.

[14] Having an outward looking trade policy means there will be problems with rules of origin, i.e., what is classified as an Australian or New Zealand good, since partially made up goods can be imported from third countries.

5.5 Outcomes

The CER Agreement was signed in December 1982. The Agreement went beyond the usual rhetoric associated with free trade agreements. The opening preamble to the Agreement talks of: the strengthening and fostering of links and co-operation in such fields as investment, marketing, movement of people, tourism and transport. Furthermore, the Agreement mentions a commitment to an: outward looking approach to trade , which would lead to the extension of the Agreement to neighbouring nations, in particular South Pacific and South East Asia nations.

CER provided for:

- The elimination of practically all tariffs on goods traded across the Tasman by 1 January 1988.
- The immediate elimination of tariffs on all goods with tariffs of 5% or under.
- The progressive and automatic phasing out of tariffs by an agreed automatic formula over five years from inception.
- No increases in tariff quotas or quantitative restrictions.
- The gradual phasing out of quantitative barriers to be completed by 1995.
- The elimination of subsidies and incentives on goods traded in the area by July 1987.

It was agreed that all products and services should come under CER at some stage . The exceptions to these general principles were those goods that were subject to industry plans under the Industries Assistance Commission (IAC) in Australia and the Industries Development Commission (IDC) in New Zealand. Products under these plans included clothing, motor vehicles, tobacco, furniture, iron and steel, rubber goods, electronics and ceramic sanitary ware. Other arrangements were made for approximately 20 other product groupings that were subject to debate.[15]

There were also a series of exemptions. These include radio and television broadcasting, postal services, coastal shipping and stevedoring, telecommunications, health and third-party insurance, and airport management and air traffic control. These exemptions were in a sense bounded no new exemptions could be added to this list.

As a reflection of the higher quantitative restrictions that applied in New Zealand, the timetable for full implementation was extended to 1995. Five yearly reviews would also be set up the first of which was in 1988.

5.6 Post Agreement Outcome

The CER transformed New Zealand trade policy from a narrow, reactive, almost introverted view of the world to more proactive and outward looking, focused trade policy. Since its signing in 1982 it has become the cornerstone of our trade policy and arguably the most successful free trade agreement signed.

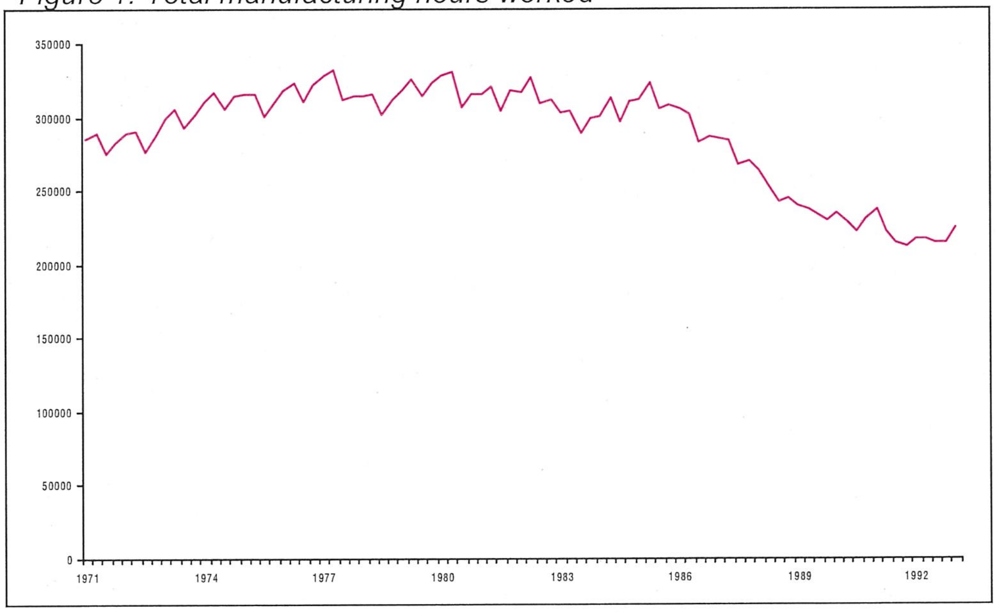
Its outward looking nature meant that firms either adapted to the new environment or did not survive over the medium term. Opposition to the Agreement collapsed when those with vested interests realised that the automatic reductions in tariffs and quantitative restrictions were truly automatic. This meant that instead of funnelling

[15] These product groupings were as specific as ball point pens and as generic as dairy products .

resources into lobbying ministers on both sides of the Tasman, businesses either became more competitive or went out of business in response to market signals. The result was that opposition to CER dissolved quickly and the Agreement was implemented ahead of the time tabled schedule.[16] By 1999 New Zealand had gone further down the deregulation track freeing up telecommunications, coastal shipping, postal services, clothing and a large number of other areas that had been protected.

The down side was that 45 years of import licensing and high tariffs (well above Australian tariffs that were twice OECD averages) had insulated sections of the New Zealand economy. This made the transition a lot more difficult for some sectors than for others that were internationally competitive. Jobs in manufacturing during the 1980s contracted sharply before some rebounding in the 1990s (see Figure 1).

Figure 1: Total manufacturing hours worked



Source: HLFS Consistent Labour Market Data. NZ Institute of Economic Research WP 94/16.

Trans Tasman trade has increased since the CER Agreement was signed. Australia is now New Zealand s most important export destination. Looking at trade since 1966, Table 3 shows the increased diversification of New Zealand trade and the growing importance of Australia as an export destination. The growth of export share into Australia has increased dramatically since the NAFTA was signed in 1966.

[16] Free trade in goods, but not all services, was achieved by 1990.

Table 3: NAFTA to CER: Major destinations of New Zealand exports

Year ending June

	1966	1976	1986	1996
	%	%	%	%
UK	44.6	20.1	9.0	6.1
USA	14.1	12.1	16.0	9.0
Japan	7.5	13.9	14.0	16.1
France	5.3	3.0	1.8	2.5
Australia	4.3	12.1	17.0	20.4

Source: Statistics New Zealand

A number of the trends have emerged:

- Commodity trade across the Tasman has expanded. As a percent share of trade the impact has been larger for New Zealand s exports to Australia.
- Before the Agreement goods exported to New Zealand from Australia exceeded New Zealand exports to Australia by 40%. After the Agreement was signed trade tended to equalise, although it has recently turned back in Australia s favour.
- Australian exports to New Zealand are growing at the same rate as exports to other countries.
- The share of New Zealand exports going to Australia (21%) is greater than the share of Australian exports going to New Zealand (6%).

As well as implementing the Agreement ahead of schedule the 1988 review CER was extended to include services and the harmonisation of business regulation. Other issues were left to one side.

6. CONCLUSIONS

The first 100 years (1780s 1880s) of trade contact between Australia and New Zealand was generally harmonious as both colonies struggled to expanded economic trading activities. Both nations were important trading destinations for each other. Flax, native timber, gold and whaling were important exports from New Zealand.

From the turn of the century up to the Second World War bitter and fractious trade disputes between the two fledgling economies occurred. Both nations seemed to compete with each other for trade policy attention from Britain, eyeing each other, in a trade policy sense, through a giant mirror anchored in Britain. It was to Britain that both nations looked for their economic prosperity. The beggar thy neighbour trade policies that existed in the world at the time also extended to relations between New Zealand and Australia.

The NAFTA was the first real attempt to integrate the two economies. Signed in 1965, the NAFTA was recognition by both nations for the need to diversify and expand trading links. Britain, both countries major market, was about to join the EEC and the NAFTA was an important step in the process of deepening trade links outside Britain.

P Unfortunately, the NAFTA was a deeply flawed agreement. It was the agreement a country has when you are not really fully committed to having an agreement. For at least 10 years this suited both countries, particularly New Zealand. It meant that New Zealand politicians and vested business interests could manipulate the various schedules and protect uncompetitive sectors from competition and stunting the growth of other sectors. In New Zealand lobbying by business and political foot-dragging effectively stopped any hope of reform.

By the end of the 1970s the Australian Government had had enough. Australian economic orientation was in Asia and New Zealand was of secondary concern. The P relationship was bogged down in the detail of NAFTA and was not progressing as intended, i.e., into a free trade area. Not for the first time (or last time) in our trade policy history heavy pressure from abroad shaped the general structure of our trade policy (the concept that New Zealand is a policy taker). Australia wanted to review the whole structure of the Trans Tasman economic relationship and New Zealand had few viable alternatives but to participate in that review. CER was the outcome of that process.

Although international pressure pushed New Zealand into the fundamental rethink of trade policy (that became CER) the focusing of resources and the preparations made, gave New Zealand an advantage in the negotiations. This was consistent with Habeeb s (1988) view that while small countries may have few or no alternatives, which is a possible disadvantage, weakness can be turned into an advantage through focus and concentration on the process of the negotiation.

In terms of political support for CER, the perception that CER was the best deal going for New Zealand and the general public support for CER may have persuaded a sometimes reluctant Prime Minister to sign the Agreement. Given Muldoon s renowned ability to be in touch with middle New Zealand it is difficult to see Muldoon signing an agreement that he thought that the public was not behind. The consensus of public opinion was a crucial positive element in the CER process.

While there was division in the ranks among the New Zealand bureaucracy, business and politicians, pressure from the Australian negotiators and key parts of the New

Zealand negotiating team wanted a long lasting outward looking agreement that would be consistent with other parts of New Zealand s trade policy. Putting the structure in place was an important part of the strategy to fulfil this criteria.

Important features of the structure include:

- The opening statement: the joint communiqué between Muldoon and Fraser made it clear that everything was on the table to be negotiated including import licensing.
- Once agreed the tariff reductions were set on an automatic path so that politicians were protected from lobbying as the agreement was being implemented.
- Long lead times are associated with the tariff reductions to give businesses time to adjust.
- The Agreement was an outward looking agreement so that the tariff reductions could be extended to other third countries rather than a customs union with a common tariff boarder.

The CER Agreement is the most significant piece of trade legislation in New Zealand s modern trade policy history. It is has set the style and tone for all other trade negotiations that New Zealand has been involved in since its signing in 1982. The CER Agreement is as close to open regionalism as any trade agreement signed.

7. BIBLIOGRAPHY

Australian Bureau of Statistics, Key National Indicators October 1999

Bevan S (1982), The Possible effects of the proposed CER arrangements on the Wellington Regional Economy. *Report 82.356 Wellington Regional Council.*

Bollard A, McCormack D assisted by Scanlan M (1985), Closer Economic Relations: A view from both sides of the Tasman. *A joint publication by CEDA, Monograph M79, and NZ Institute of Economic Research, Research Paper 30.* Melbourne and Wellington.

Chapple S, (1994) HLFS Consistent Labour Market Data. *NZ Institute of Economic Research WP 94/16.*

Habeeb WM (1988), *Power and tactics in international negotiations.* Baltimore: John Hopkins University Press.

Holmes FW (1966), Freer Trade with Australia? *Discussion Paper No. 10. New Zealand Institute of Economic Research,* Wellington.

Holmes FW, Harvey M, Mason G and Garcia M (1986), Closer Economic Relations with Australia: Agenda for Progress, *Institute of Policy Studies.*

IMF International Financial Statistics, Various years

Ministry of Foreign Affairs (1982) New Zealand and Australia Closer Economic Relations, Information Bulletin No.1. February. Wellington.

Pomfret R ed (1995), *Australia s Trade Policies.* Oxford University Press.

OECD Statistics Main Economic Indicators, Various years.

Reserve Bank of New Zealand Financial Statistics Vol 2 No 3 August 1999

Statistics New Zealand, New Zealand Official Year Book. Various years.

Statistics New Zealand, Key Statistics December 1999

Interviews

Tim Grosser

Ted Woodfield

Graham Scott

John Martin

Maartin Wevers

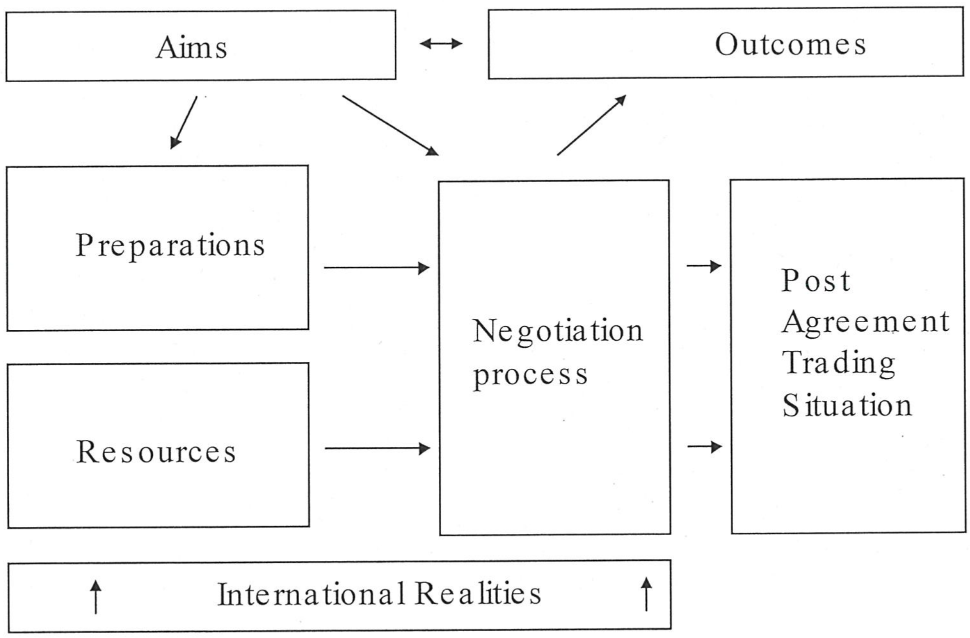
Yvonne Lucas

Chris Carson

Gerard Thompson

APPENDIX A: MODEL

Figure 2: Framework for the trade policy analysis



Source: NZIER