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Friends with benefits

Stephen Jacobi comments on the vital economic relationship between Australia and New Zealand.

For some years now I have played a role, on behalf of Business-NZ, in helping co-ordinate the annual Australia New Zealand Leadership Forum, which brings together senior government, business and community representatives to foster and advance the relationship. The forum has been meeting for twelve years now and will do so again later this year. It has been described as a symbol of trans-Tasman 'togetherness'.

That 'togetherness' is not just a sentimental thing — although sentiment is certainly part of the Anzac relationship. It is also about business, about the economic value both countries derive from their integration with one another, and increasingly about the way in which both countries, together, can integrate with the rest of the world. That is why the relationship might also be described as 'friends with benefits'. In this article I will address some of these benefits by focusing on the pillars of that economic togetherness — CER, the Single Economic Market (SEM) and the Trans-Pacific Partnership.

CER or, to give its proper title, the Australia New Zealand Closer Economic Relations and Trade Agreement (ANZCERTA) is more than an acronym. Signed in 1983, it is quite simply the world's most comprehensive trade agreement. It is hard to remember what the world looked like then, but the trans-Tasman environment was certainly not the space for by and large free movement of goods, services, investment and people it has become today.

CER had a profound impact on New Zealand because it was the first step towards the liberalisation of what had become a fortress economy marked by absurd import licensing, high tariffs and even agricultural subsidies. Of course, not everything was achieved on day one, but the pace quickened notably over the years so that the deadline for the removal of quantitative restrictions and tariffs was achieved five years earlier than scheduled.

And for those who are — quite rightly — concerned that the TPP will not achieve complete free trade by the end of the implementation period, CER at the outset was no different with



Since 1989 Australia has usually been New Zealand's largest trading partner, but New Zealand is only Australia's fifth largest partner

dairy products excluded at the beginning. What we have seen quite clearly is that the CER agenda has evolved over time. The first decade was taken up with a focus on manufactured goods and agriculture. This included:

- removal of tariffs and import licensing
- elimination of anti-dumping
- establishment of processes and institutions for conformity assessment and quality assurance
- development of customs and quarantine co-operation
- provisions on government procurement.

Deeper integration

The second and third decade moved to a period of deeper integration leading to the development of a concept we now know as the Single Economic Market. This included:

- focus on services, business law harmonisation, regulatory reform, investment (CER Investment Protocol)
- further market opening for goods
- mutual recognition of goods standards (Trans-Tasman Mutual Recognition Arrangement)
- single food safety regime
- new rules of origin (introduced in 2009)
- enhanced co-operation on bio-security and customs.

This period has given rise to a flourishing of the trade and economic relationship and the emergence of a truly trans-Tasman economy and of trans-Tasman enterprises better able to participate in the global supply and value chains and networks that today mark the way business is being done around the world.

The traffic has not all been one way. Australia has been New Zealand's top trading partner since 1989 (apart from a brief peri-

Stephen Jacobi is a consultant working in the areas of international trade, government relations and economic development. A former policy analyst, diplomat and industry association CEO, he leads the New Zealand International Business Forum and is an alternate member of the APEC Business Advisory Council. This article is the edited text of an address he gave to a University of Sydney breakfast in Auckland on 13 May.

Since 1983 New Zealand and Australia have pursued the goal of deeper economic integration. This 'trans-Tasman togetherness' has been driven by the CER agenda, which was revolutionary and achieved its immediate goals five years before schedule. CER developed into the Single Economic Market, which has also been pursued vigorously by both governments, although progress is becoming more difficult now the low hanging fruit has been picked. Business leadership will be vital in finding ways of moving forward. Australia and New Zealand are now partners in the TPP, many of whose key ideas have been trialled in CER, wholesaled in APEC and now retailed in the TPP.



John Key with Julia Gillard



John Key meets with the Australian Cabinet

od in 2014), but New Zealand is Australia's fifth largest trading partner. Australian companies are our largest foreign investors with a stock of around A\$100 billion. New Zealand is the largest source of in-bound visitors to Australia. All this did not happen by accident.

CER has been the result of close collaboration between governments and business and supporting networks. As it has evolved, it is important to note that CER's model for integration is not based on 'one size fits all' — rather than adopting identical and standards on both sides, the objective has been to achieve equality of outcomes so that ultimately it becomes as easy to do business in Auckland as it is in Sydney and vice versa.

It is also true that as CER has evolved and adapted to changing economic circumstances, making progress has become more difficult, not so much because the vision is no longer there, but because as economies become more integrated attention turns to policies and regulations that have a lot to do with national sovereignty — the focus turns from at the border to behind the border. That is essentially the challenge of the SEM agenda.

John Key enjoys a lighthearted moment with Kevin Rudd



Natural consequence

SEM is the natural consequence of CER: the goal is to create a seamless environment for business across the Tasman. Closely connected to the SEM goal is the concept, first elaborated by prime ministers Kevin Rudd and John Key, of 'net trans-Tasman benefit'. This requires a move beyond a narrow calculation of national economic benefit on any single issue to a balanced benefits approach across the range of areas under consideration.

Some notable applications of this principle applied to the SEM include:

- signature of the Closer Economic Relations Investment Protocol (February 2011) — an important advance in the bilateral economic relationship aligning CER with other modern high quality free trade agreements and facilitating investment by reducing compliance costs for investors
- steps aimed at making travel across the Tasman a more 'domestic-like' experience, including: smartGate for arrivals and departures at Auckland, Wellington and Christchurch international airports; bio-security direct exit lanes at New Zealand international airports; the transfer of x-ray images of checked in baggage from Australian airports to MAF in New Zealand; joint studies looking at further streamlining of trans-Tasman travel.

One important issue which is raised regularly in the Leadership Forum but which thus far, shall we say, has 'failed to capture the imagination of Australian officialdom' is the mutual recognition of imputation and franking credits. This could provide a further boost to trans-Tasman investment well beyond the short-term fiscal costs of implementation. This one issue would do more to move the dial in the trans-Tasman economy than any other currently before us.

Joint commitment

Both governments remain committed to maintaining the momentum in the SEM and the broader integration project. A report by the Joint Productivity Commissions in 2012 made some useful suggestions. At their joint meeting earlier this year prime ministers Malcolm Turnbull and Key urged business leaders to come up with some practical ideas. Turnbull said they were looking for ideas to 'help scrape the barnacles from the bottom of the boat'.

The Australia New Zealand Leadership Forum has collaboration underway in a number of sectoral areas — tourism, infrastructure, health technology, innovation and agri-business. The aim is to come up with a series of recommendations which can be presented to the Leadership Forum later this year.



Malcolm Turnbull and John Key spoke to Australian business leaders earlier this year encouraging the development of new ideas for the SEM

Certainly the future of CER and the SEM is likely to be as much around practically focused business collaboration in areas like innovation, infrastructure and investment as in a continuing series of improvements to policy and regulation. It is also increasingly apparent that the opportunity lies as much in third markets as it does between the two economies. That is where the TPP comes in.

Realising opportunities

New Zealand and Australia have been for a generation close partners in APEC established at the initiative of Prime Minister Hawke in 1989. New Zealand and Australia are partners with ten other economies in the TPP, which was signed in Auckland in February and is now undergoing ratification. New Zealand played an instrumental role in getting the TPP concept off the ground through the earlier P4 agreement concluded with Singapore, Brunei and Chile.

Australia and New Zealand had earlier explored a P5 concept with the United States, Singapore and Chile, which was overshadowed by the conclusion of the GATT Uruguay Round in 1993. Australia and New Zealand are also working together with Asian economies in the Regional Comprehensive Economic Partnership (RCEP). Whether through APEC, the TPP, P4, P5 or the RCEP, both countries are seeking to develop learnings from the CER experience that can be applied more widely.

It is not an exaggeration to suggest that the goal of economic integration has been trialled in CER, wholesaled in APEC and retailed in the TPP. The TPP contains many CER innovations, including the concept of regulatory coherence, but develops them further and applies them in a wider setting. Like CER over 30 years ago the TPP is trying to address the needs of a new economy and of businesses operating in a new environment. The goal is for a seamless economic space across the twelve, designed to lead to a broader vision of a Free Trade Area of the Asia Pacific (FTAAP) linking all 21 members of APEC.


The TPP goes beyond trade in goods to trade in services, investment, innovation, the digital economy, SME concerns and even into labour and the environment. It is a future-facing agreement, which sets a new framework for trade and investment — that is, if it can be successfully ratified by the twelve members. The TPP can come into force only if it is ratified by economies representing 85 per cent of the GDP of the members.

High stakes

For New Zealand the stakes are incredibly high — just as they were when we signed the CER agreement. The TPP represents 36 per cent of global GDP and over 40 per cent of our exports. It will deliver free trade arrangements with the United States, Japan, Canada, Mexico and Peru, with whom we do not have free trade agreements, and extend our relationships with existing partners Malaysia and Vietnam. The TPP has little direct impact on our existing relationships with Australia, Chile, Singapore or Brunei but adds some new commitments in specific areas.

All New Zealand export sectors stand to benefit from the TPP — the impact on the beef, wine, horticulture, dairy, seafood and wood sectors is perhaps the greatest. To implement the TPP New Zealand has to make very few policy changes. Only in the area of copyright are we required to make a major change — from 50 years after death of the author to 75 years — but this change brings us into line with Australia. As in most other free trade agreements, New Zealand will provide commitments to foreign investors, including investor state dispute settlement, but these will not apply to Australia where the CER Investment Protocol will be the instrument governing investment between us.

In signing and hopefully ratifying the TPP all members are faced with a fundamental choice. The choice is for regional economic integration, a seamless economic space and greater togetherness — which is good for business, good for security and good for development. In CER New Zealanders and Australians have been able to see the benefits of that togetherness for over 30 years now.

CER was revolutionary at the outset but has been more evolutionary in successive stages, particularly as we move to the SEM. The TPP is also revolutionary but will doubtless also in time adopt a more evolutionary path. In that sense each new trade agreement builds on the last and makes way for the next as the economy expands and evolves under the changing nature of business. There is something very positive about our CER togetherness. Friends with benefits — who could want anything more? 

An Australian passport together with New Zealand currency

