

NEW ZEALAND

Brent Layton

New Zealand Institute of Economic Research

New Zealand's experience

The main success New Zealand has had is integrating our economy with Australia's. A series of agreements between New Zealand and Australia entered into since the early 1980s have established what is known as a Closer Economic Relationship (CER). CER provides tariff free trade between the two countries, free trade in services (with a few exceptions), mutual recognition of standards and occupations, and free movement of people between the two labour markets.

New Zealand has been a big winner through CER. In absolute terms, Australia may have won more because of its much bigger size but in relative terms New Zealanders are confident they did well. Australians are also happy with the arrangement. While it may seem to outsiders that New Zealand and Australia are natural partners for a comprehensive free trade agreement, the facts are that large parts of the two economies directly compete in both the combined domestic markets of the two countries and in third markets.

Integrating our capital markets continues to represent a stumbling block that inhibits the integration of our two economies. The lack of a fully integrated capital market between New Zealand and Australia imposes unnecessary and burdensome costs on businesses trying to operate in both countries. What is needed is a new common institutional framework for the regulation of our capital markets and full recognition of tax paid in the other country for meeting local tax obligations by each government.

Of course, common institutional frameworks do not always provide benefits. Whether or not they are beneficial depends to a large extent on whether or not institutions and regulation are created on the basis of simple but useful principles such as transparency, predictability, flexibility, open and free competition, and most importantly, simplicity.

Although CER has been under way for around 25 years, the political and public interest in pushing the integration of the two countries further is still high. At the political level, there is strong commitment to a single economic market and political and

officials meetings to progress this occur on a regular basis.

The alignment of institutional arrangements

The alignment of institutional arrangements must be an end goal of economic integration. The often quoted spaghetti-bowl effect of FTAs can tie up economic resources and has been shown to confound traders when it comes to taking advantage of the potential benefits of a free trade agreements and economic integration.

Aligning institutional arrangements does not have to mean harmonization of institutional or regulatory practices. It can simply mean harmonization of objectives such as simplicity, flexibility, transparency, and open competition, and couple this with side deals providing appropriate mutual recognition (such as double tax agreements).

However, to reach such an alignment of objectives, we have to be realistic about the fact that complexity, intransigence, opaqueness, and vested interest are everywhere and everywhere destructive. We must recognize this and be ambitious in our solutions and be ready to find solutions for all people.

We need to start aligning our institutional objectives across a range of areas: standards and conformance; occupational recognition; migration standards; competition; and border procedures. If we leave these issues to one side, we can create all the free trade agreements we want but will not get any closer to integrating the economies in East Asia. Not only would a proliferation of merchandise trade agreements just enforce the spaghetti bowl of compliance issues that traders face in the world today but it also gives rise to destructive preferential arrangements, trade diversion, and a race to the bottom in terms of investment subsidies.

Creating institutional frameworks in collaboration with others can also offer important opportunities for capacity building amongst all participants. It can also offer opportunities to create high quality institutions that may be outside the reach of the less wealthy among us.

Vision for an East Asian Community

The role of ERIA in all this is to create realistic and ambitious intellectual inputs into the process of economic integration. That is a vital role because policymakers need quality information to help them make decisions and to help pull others along with them in the process.

In terms of realism, ERIA needs to be at the forefront of understanding the issues confronting East Asian integration. That means scorecards that summaries the extent of distortions and welfare reducing policies that confront us. Realism also means

learning lessons from attempts to liberalise or integrate economies in the past and to provide ideas for future action or ideas that are to be avoided. However, the key to realism in research outputs is to focus on what can practically be done, not on what cannot be done.

In terms of ambition, ERIA needs to lead from the front, in intellectual terms. That means investigating the costs and benefits of measures or policy settings that may, on the face of it, seem politically infeasible. It also means seeking to find what the right ideas are to make us all better off and leaving the politics to the politicians.