

To CER with Love

Steve Hoadley, New Zealand and Australia: Negotiating Closer Economic Relations, New Zealand Institute of International Affairs, Wellington, 1995

Reviewed by Ramesh Thakur

THIS study is the latest instalment in a fruitful triangular collaboration between Steve Hoadley of the University of Auckland, the New Zealand Institute of International Affairs and the Ministry of Foreign Affairs and Trade. The result is a slim (134 pages), unpretentious yet very useful handbook for students of New Zealand foreign policy, Australia-New Zealand relations, and bilateral trade negotiations between asymmetric state actors.

New Zealand and Australia signed a Closer Economic Relations (CER) Agreement in 1983, aiming at the progressive establishment of a free-trade regime across the Tasman by 1995. In attempting to identify and analyse the political dynamics that gave rise to this reform, Hoadley concentrates on the genesis of the CER idea, the motives actuating its proponents, and the means by which the institutional-political-sectoral hurdles to comprehensive trade liberalisation were overcome.

The formal review in 1988 accelerated, broadened and deepened the scope of CER. Various memoranda of understanding were signed and letters exchanged between officials and ministers to implement the letter of the CER treaty and the spirit of free trade: by the standards associations of the two countries; for the cessation of quantitative export restrictions on 1 July 1990; on the harmonisation of customs policies and procedures, and of business law; on technical barriers to trade; and on the termination of the dairy products memorandum. One of the most interesting aspects of the CER process has been the tackling of issues at the frontiers of international trade. Australia and New Zealand signed a protocol on 18 August 1988 extending free trade to services from 1 January 1989. Its long-term goal is the eventual removal of all inscribed services. Migration flows across the Tasman are of a magnitude to suggest that labour market integration has been in existence since before the signing of CER. In some respects, however, the goal of full free trade in services has yet to be realised. Trans-Tasman merchandise trade, on the other hand, became fully free on 1 July 1990.

A second review in 1992 attempted to tackle 'second generation' issues and reached agreement on rules of origin, industry assistance, technical barriers to trade and air services (which was later cancelled, unilaterally, by the Australian government). Differences remained on aspects of auto market integration, migration and residence procedures and rights (for example, social welfare benefits), inspections and standards regimes, investment tax and competition law and shipping.

Hoadley concludes sensibly that while propinquity and cultural-political similarities facilitated economic convergence, they did not determine such an outcome. For this, visionary and committed political leadership was critical. Moreover, both partners have benefited from the deal; New Zealand may have benefited propor-

tionately more than, but not at the expense of, Australia. Nor is it clear that CER has been relatively more beneficial than Zealand's more wide-ranging reforms.

Hoadley rightly notes that CER has taken on a wider meaning and a broader context. In the trade and economic relationship, a host of ancillary agreements and practices have grown alongside CER, if not directly out of it. In the military sector, New Zealand consciously tried to draw upon the consensus support of CER in dubbing the growing nexus as 'closer defence relations' (CDR). Hoadley could perhaps have dwelt a little more on the differences between the two. In origins, while CER was an outgrowth of frustrations with the previous trade framework, CDR aims to build on existing good military relations. In goals, the framers of CER knew what they wanted; the eventual shape of CDR has always been blurry. Most important, CDR does not and cannot emulate the central objective of CER of achieving efficiency gains through market rationalisation and specialisation along comparative advantages. Yet Hoadley is surely right to conclude that neither the two countries' defence forces nor their politics will completely merge: 'Australian advocates argued that New Zealand's debt and defence burdens would be lightened by federation, but sceptics countered that New Zealand would have to take on Australia's debts, taxes, regulation, union militancy, race tensions and crime' (p.113).

Hoadley does not pretend to have made fundamental breakthroughs in the economics or politics of trade theory. The study is not an exhaustive account of the negotiation, implementation and results of CER. It is also one-sided: the story is told from the New Zealand point of view, using almost exclusively New Zealand sources. Nevertheless, the story is told well, clearly and to good effect. Hoadley draws upon academic frameworks of analysis, notably negotiation theory; explains and follows his structure within each chapter as well as over the booklet as a whole; summarises his findings in easily understood language; and concludes with a characteristic few pages of lessons learned. One may quibble over these lessons, but one cannot deny the value of such summaries to students struggling through masses of information. Equally helpful are tables which summarise the negotiating goals sought, those achieved, and those that had to be compromised or abandoned.

Hoadley may well be right in his judgment that CER may reach a plateau well short of a theoretical summit of complete economic integration, let alone complete defence integration and political union. Australia has signalled reluctance to consider mutual recognition of imputation credits. Australia's 1995 budget, by increasing the corporate tax from 33 to 36 cents for Australian companies, clouded the prospects for harmonisation of the two countries' tax laws. Most spectacular was the last-minute cancellation in October 1994 of the air services agreement of 1992. Yet there may be hope for resurrecting the single aviation market following the change of government in Australia. While the Coalition has taken a harder line on alleged New Zealand prevarications on defence, its election foreign policy document signalled a desire to revisit the aviation market issue.

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