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Nixon, Chris

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The trans-Tasman economic relationship: Like ham and eggs? "The chicken has an interest but the pig is committed"

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The trans-Tasman economic relationship

Like ham and eggs?

"the chicken has an interest but the pig is committed"

Chris Nixon

NZ Trade Consortium working paper no 24

2003

The New Zealand Trade Consortium

in association with the

New Zealand Institute of Economic Research (Inc)

8 Halswell Street
Thorndon
P O Box 3479 WELLINGTON
Tel: +64 4 472 1880
Fax: +64 4 472 1211

www.nzier.org.nz

Auckland office:
Suite 6, Level 6, Albert Plaza
87-89 Albert St, AUCKLAND
Tel: +64 9 358 0252
Fax: +64 9 358 1345

econ@nzier.org.nz

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1. INTRODUCTION

This paper sets out to examine the factors that need to be considered before New Zealand enters into negotiations over further integration in the trans-Tasman market. While it is timely to look forward to the shape of possible future integration, it is also important to understand the lessons of New Zealand's past economic relationship with Australia.

In particular, an examination of landmark Australia New Zealand Closer Economic Relationship Agreement (known as CER) signed in 1983 forms the basis of this paper. CER is at the cornerstone not only of New Zealand's relationship with Australia but is also a key part of New Zealand's trade policy. Therefore a stock take of the trans-Tasman relationship is timely because:

- sufficient time has past since the CER agreement was signed;
- major trade initiatives (APEC) and agreements (Uruguay Round Agreement, Singapore CEP) have been signed; and
- there has been an intensification of the processes of globalisation and localisation.

Specifically, the aim of the paper is to examine the trans-Tasman relationship through the lens of institutional economics to tease out the important economic issues associated with integration. To accomplish this, careful case-by-case investigation of each area of trans-Tasman contact is necessary.

1.1 Classifications

To demonstrate the depth and breadth and examine the success or otherwise of the current state of the trans-Tasman relationship we have classified trans-Tasman economic contact in the following way:

- *the development over time of the goods and services trade*. The goods and services trade is the basis for the trans-Tasman relationship since it underpins shared social and cultural experiences that have deepened the relationship. Some of the questions include:
  - how has CER impacted on the trans-Tasman market?
  - what are the trends in that trade?
  - what trade policy initiatives have happened since CER?
  - what do we know about the trends in trans-Tasman trade?
- the development of standards and rules that can support the social and economic relationship. Standards and rules often determine the amount of trade that takes place:
  - are standards and rules important in the trans-Tasman relationship?
  - what are the standards and rules that impact on trade?
  - what further issues need to be addressed?
- *the development of management and the institutions that support trade on both sides of the Tasman*. The development of formal and informal links also underpin the trading, cultural, and social relationships that develop:
  - what role does management and the institutions that support trade (both private and public) play?
- trends in people movement across the Tasman. This includes:
  - what has been the historical movement of people between the two nations?
  - what are the factors that currently dominate policy on people movement?

- *culture and ideas*. How has trade, globalisation, and localisation impacted:
  - on cultural integration between Australia and New Zealand.
  - on attitudes to aspects of New Zealand and Australian culture.

This is a broad topic and it is the intention of this paper to give a brief overview of the relationship in order to set the scene for further work.

2. INTEGRATION STRATEGY

2.1 What type of integration?

Countries develop their distinct economic characteristics based on their local endowments, technologies, and preferences. However, further integration and closer co-ordination can allow further efficiencies to be gained, for example, through economies of scale, reduced uncertainty, fewer externalities, and reduced transactions costs. Generally, these efficiencies are maximised by the multilateral process (organised by the World Trade Organisation), however the use of a bilateral or regional agreement can be strategically useful because it increases the trade policy options for a small country and can be complementary to the multilateral process (see Nixon and Yeabsley 2002).

When considering the trans-Tasman relationship two factors need to be understood from New Zealand's perspective:

- economically, the benefits of economic integration are widely understood and are seen as positive amongst most economists (see Hawke (2001) p65).[1] The strong support for integration stems from the unconstrained access to resources and the way those resources are used.
- there is an unequal relationship between Australia and New Zealand. Australia is a middle ranking power while New Zealand is a small country (see Horn (2001) p59 and Nixon and Yeabsley (2002) pp 122-145).[2]

These two statements can conflict, constraining the ability of New Zealand policy makers to achieve their economic objectives. The path Australia takes may not always be economically rationale or may not be consistent with New Zealand's wider economic aims. As a small nation seeking further economic gains out of integration, New Zealand needs to ensure that any type of further integration entered into is carefully thought through so that those wider objectives (whatever they may be) are met.

In essence, the questions being asked or being used to judge the current state of trans-Tasman economic relations are:

- what is different about New Zealand's relationship with Australia relative to the rest of the world? and
- under what circumstances should New Zealand integrate further with Australia and under what circumstances should it opt out of closer ties?

2.2 Integration and independent action

The optimal and most stable outcome for New Zealand is to integrate as closely with Australia as possible and reserve the right to act independently. To achieve this, any movement towards further integration must be conditional on preserving the ability of New Zealand authorities to act independently. This will allow them to maintain:

- flexibility on the international stage and not be tied to Australian actions. Deeper integration is probably more economically sensible, however this is only a necessary condition for New

[1] Although Bhagwati (2002), for example, criticises integration between two regions that excludes others, pointing out that trade diversion can occur which is economically harmful to third countries and reduces the potential for world growth.

[2] Horn puts it more bluntly: "*If we merged with Australia, someone said to me, what would we call it? The answer would be Australia*." (Horn, 2001, p59).

Zealand, since in part, it depends on the quality of the decision making in Canberra and the vested interest groups that may affect that decision. The objective is to avoid getting into situations where dependence on Australia means New Zealand acquiesces to solutions that benefit Australia only.

- consistency of trade policy across the spectrum of New Zealand trade policy dealings. The multilateral process through the World Trade Organisation (WTO) has always been the main game for New Zealand, therefore and dealings with Australia must be consistent with the aims being pursed at the WTO.
- the ability to build an internal consensus in New Zealand before embarking on trade policy initiatives. Building an internal consensus is becoming increasingly important since support for liberalisation can not be taken for granted. If New Zealand policy is made more dependent on Australian decision making, consensus building in New Zealand can be made more difficult.

The skill set required by New Zealand revolves around the need to pick and choose the type of integration process it has with Australia – a sort of "integration a la cart" approach.[3]

Horn suggests that the most important skill is to:

"*maintain our [New Zealand's] choice and increase the disciplines on making better choices*" Horn (2001) p63.

As an aid to helping policy makers understand the trade-offs in developing closer relationships across the Tasman we have explored the following questions under the classifications explained above:

- does the current policy or global trends lead to less or more or less integration? and
- does the current policy or global trend make New Zealand more or less dependent on Australian policy making?

Furthermore, we have compared and contrasted the EU and CER to illustrate the types trading relationships already in operation (see Table 1). The taxonomy is by no means exhaustive but it points to the differences between the two cases.

Table 1: A taxonomy of trade policy choice sets

European Union	Closer Economic Relations
360+ million consumers.	Less than 20 million consumers.
Customs Union.	Free trade area.
Trade policies centralised.	Trade policies set by individual governments.
Large bureaucratic input.	Minimal bureaucracy.
Subsidy programmes relatively uniform across European.	Subsidy programmes decided independently.
Inward looking – prices set internally in protected sectors.	Outward looking – prices set on world markets.
Harmonisation.	Mutual recognition.

Source: NZIER

[3] Borrowed from the GATT negotiations where countries were allowed pick and choose the type agreements they had with new contracting parties – hence the term GATT a la cart.

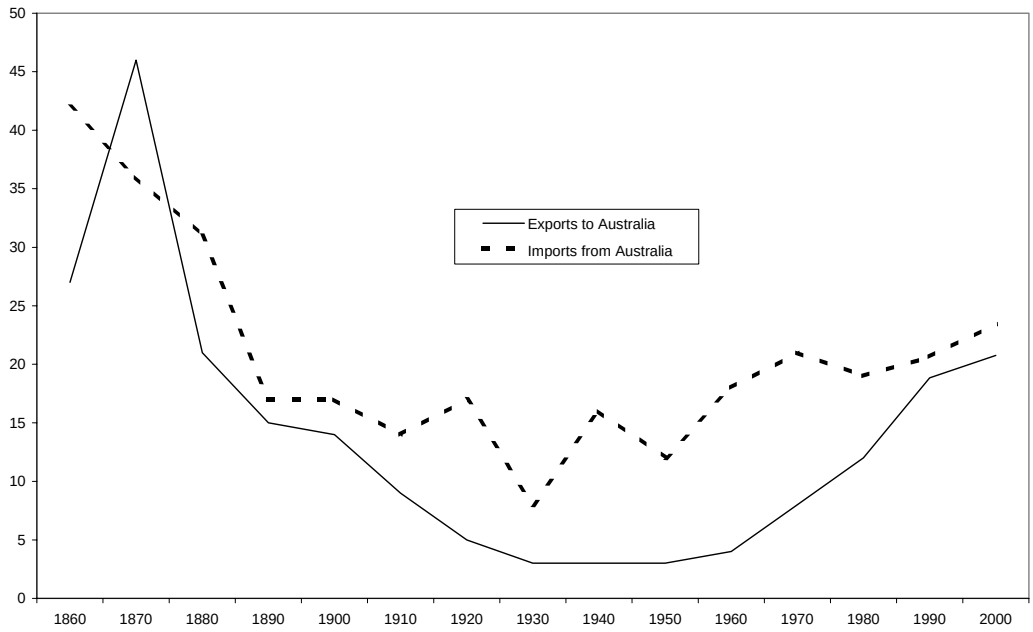
3. GOODS AND SERVICES

3.1 Early trade

New Zealand's economic links with Australia began with their European settlement as colonies of Britain. New Zealand was actually administered from New South Wales for a brief period prior to the signing of the Treaty of Waitangi in 1841. The pre 1880 period was characterised by significant goods trade with Australia that took a large share of New Zealand product. Figure 1 shows that prior to 1880, Australia took the largest share of New Zealand exports.

Figure 1: Trade with Australia: Imports and exports

Percent share of total trade



Source: Statistics New Zealand

The dramatic slump in trade post 1880 was due to the introduction of new technology. The connection between the new technology of refrigeration and the world's biggest sheepmeat and butter market in the south-east England greatly influenced New Zealand trading patterns for the next 80 years.

The changing trade patterns had a major impact on the New Zealand – Australia relationship. According to comments made to Nixon and Yeabsley (2002) p124 the relationship could be characterised by the colonies' separate relationships with Britain.

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

The type of agreements the two neighbours engaged in showed this. After a number of false starts New Zealand and Australia signed their first trade agreement in 1922. Despite this, trade and trade policy relations were characterised by bitter disputes, with each nation attempting to stifle the other's trade with higher tariffs and quarantine restrictions. None of these agreements through the inter war period had much impact on trade (see Bollard and McCormack 1987 p17).

Also, a wartime solidarity pact was signed in 1944, and like previous arrangements had little impact on trans-Tasman trade.

After World War II the world trading situation changed dramatically. Nixon and Yeabsley (2002) p129 point to two important features of the new trading world which were:

"*With an eye on the protectionist policies of the inter-war period, governments from industrialised nations initiated successive rounds of multilateral talks (through the newly created mechanism of GATT) to reduce tariffs mainly on manufacturing items, facilitating the trade process as far as industrial products went."*

and

"both New Zealand and Australia were aware that Britain was likely to join the European Economic Community (EEC) 'at some stage'—Britain had earlier been involved in various European bodies (the iron and steel community) and actually joined the EFTA— so diversification of markets was a priority. Freer trade across the Tasman Sea would help in developing new markets for each country's products."

Coupled with the growing demand for minerals in Asia, which had a major impact on the Australian economy, the changing nature of world trade meant that Australia and New Zealand needed to find new ways of thinking about trans-Tasman trade and trade policy.

3.2 NAFTA

The first halting steps towards freeing up trade across the Tasman were taken in 1965 with the signing of the New Zealand-Australia Free Trade Agreement (NAFTA). However as Nixon and Yeabsley (2002) p122 points out:

"The realisation that closer economic ties would be beneficial to both nations was only partly reflected in NAFTA. Both nations were unable (politically) to deliver a comprehensive trade agreement and the major feature of the text was its restrictive coverage."

This manifested itself in the NAFTA with free trade limited to those goods on Schedule A. The goods and services on the Schedule A product list determined, to a large extent, what was freely traded between the partners. These and other treaty details meant that the NAFTA was subject to a broad interpretation with plenty of scope for intervention by government and/or interested industries, which could very easily influence government.

'Fair' trade, which was mentioned in the treaty, in practice, meant different things to different participants. NAFTA was designed to facilitate trade but in effect, its articles were often used to prevent trade-based competition occurring. This satisfied the protected industries on both sides of the Tasman.

More efficient use of resources, which was the whole point of having an agreement, was stifled. Freer trade would allow resources to flow into more efficient industries (by sharpening specialisation), it would be expected that some industries would gain and others would lose (in both countries). The very idea of having a free trade area, and also protecting various industries at the same time, set up a potential series of conflicting objectives and made the agreement unstable.

The NAFTA changed little in the trans-Tasman relationship. Both countries remained independent and no attempt was made at closer integration. In the end, the Australians pulled the plug on the agreement, declaring that they wanted to rethink the whole relationship.

3.3 Closer Economic Relations

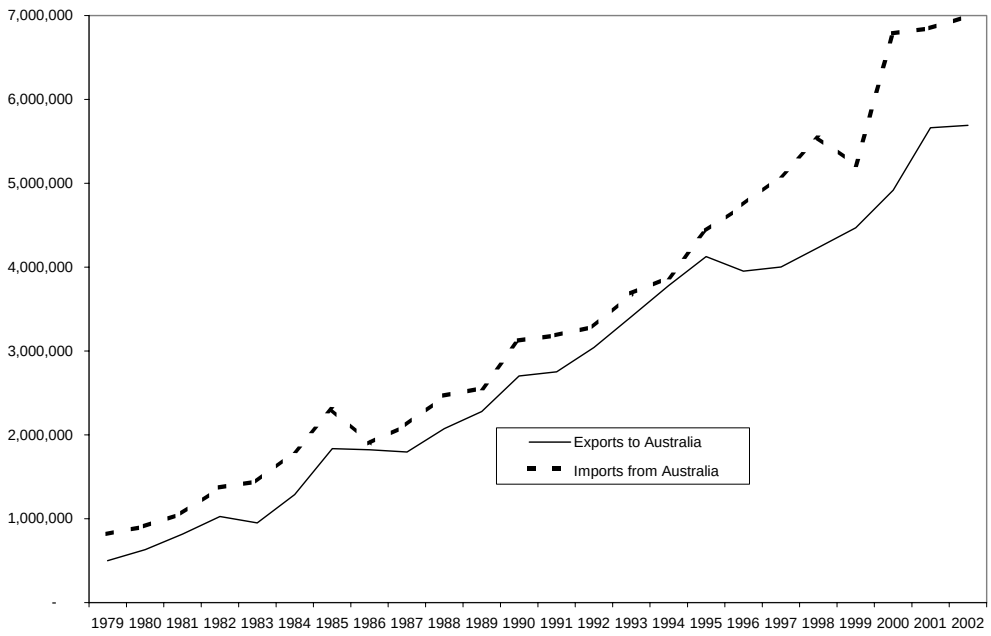
Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA or, CER) was the result of that rethink of the trans-Tasman relationship demanded by the Australians.[4] Of crucial importance was the design of the CER agreement, which to a large degree was shaped by New Zealand. Its main contribution was its commitment to open regionalism. This meant that both countries could ensure that each country could develop its own trade policy separately. For New Zealand this meant correcting the imbalance between domestic and trade policy that had existed since the mid 1930s. The result was to make trade policy (advocating the withdrawal of other countries trade barriers) and domestic policy (ensuring New Zealand's barriers were dismantled) consistent in New Zealand.

As a regional trade agreement CER is widely seen as world's best practice. The Treaty's seamless design, lack of bureaucracy, its well-designed implementation process, and completeness makes it extremely efficient. So much so that the implementation process was bought forward five years. Since the agreement has been signed:

- there have been no quantitative restrictions in place between the trans-Tasman neighbours since 1990.
- bilateral trade has grown dramatically between 1983 and 2002 (see Figure 2). There has been a greater increase in New Zealand's exports to Australia.
- New Zealand exports have risen from roughly 12% of New Zealand's total trade in 1983 to 23% in 2002. Imports, as a share of total imports from Australia has stayed roughly similar at 20% (see Figure 1).
- consumers have benefited from a wider range of cheaper goods.

Figure 2: Trade with Australia: Imports and exports 1979-2002

FOB, Value



Source: Statistics New Zealand

The far-sightedness of the agreement is due to CER's design and the way it was implemented. On New Zealand's insistence the agreement had an open structure so that it could maintain

[4] For an in-depth examination of the CER Agreement see Nixon and Yeabsley 2002.

control and consistency of its trade policy. This meant that New Zealand could achieve greater integration with Australia and maintain its policy independence.

However, the Australian negotiators favoured a customs union, similar to the European Union. Under a customs union structure, who would have decided the tariff rates? Horn (2001) p59 (also see footnote 1) leaves us in no doubt that it would be Australian domestic concerns that would decide on tariff priorities irrespective of New Zealand concerns. In effect, this would have straightjacketed New Zealand's domestic reform policy process, arbitrarily protecting some sectors and not others. Imbalances in the New Zealand economy would have reflected concerns of Australian industries while only accidentally reflecting New Zealand trade policy preferences, that is, New Zealand would have been dependent on Australian policy making (see Nixon & Yeabsley 2002).

Lack of control over setting a tariff regime would also have hampered New Zealand's attempts to gain an internal consensus about further liberalisation. With an incoherent tariff policy (distorted by Australian domestic interests), it would have been more difficult for reform of the New Zealand economy. Balanced liberalisation across all sectors would have been nearly impossible for New Zealand. Also, political unpredictability would have been a feature of the trade policy process as New Zealand trade policy would reflect Australian wishes.

3.3.1 Rules of origin

In a free trade agreement, such as CER, one point of tension can be the rules of origin. This is because there is an incentive for a firm from a third country to set up in one of the CER partners, provide minimal inputs from that country, and export to the other partner. This allows the third country to bypass tariff walls or other restrictions that may have been set up in the target market if the third country had exported directly to that market.

To get around this issue the CER agreement stipulates that goods, to qualify as locally made, must include 50%local content. This is an issue for industry in New Zealand because most of the components used for assembly are imported. Therefore manufactures struggle to reach the 50% local content requirement.

3.4 Trade policy initiatives post CER

Further liberalisation of trans-Tasman trade has been stymied by its own success. CER has been so successful and stable politically that further liberalisation has not been able to generate enough "political heat" on either side of the Tasman to push the agreement further. Attempts at further liberalisation have been characterised by slow incremental government-to-government negotiations, dominated by domestic concerns of the day.

To make a decision on whether or not to pursue closer trans-Tasman ties requires a more formal cost-benefit analysis. While no cost-benefit analysis has been done on whether to put scarce trade policy, resources into furthering CER initiatives, relative to some other alternative, the elements of a cost-benefit are examined in Table 2.

Going through the cost benefit process is useful even if most of the costs and benefits are unquantifiable. By setting out a framework and listing out the issues that need to be factored into any decision to commit resources policy makers can develop a consistent approach to resource allocation.

3.4.1 Costs

Unless government can obtain extra funding from the private sector, there will have to be a reallocation of scarce trade policy resources away from other initiatives. This would require a careful evaluation of priorities and an estimate of the opportunities forgone.

The potential gains from closer integration will always be less from bilateral negotiations relative to plurilateral (e.g. APEC) or multilateral (e.g. WTO) negotiations. Any cost benefit analysis would attempt to measure the impact of the resources diverted away from these trade policy processes. While this is an exceedingly difficult task, some indication may be gained from the New Zealand's past trade policy experiences.

A possibility also exists that New Zealand may miss other trade policy opportunities by concentrating on trans-Tasman trade policy issues. Therefore this needs to be factored into the costs associated with an increased focus on Australia.

3.4.2 Benefits

Deeper integration, *ceteris paribus*, will increase trade with Australia. As Figure 2 shows, since 1983 and the signing of the CER agreement there has been a dramatic upswing in trade with Australia. Without CER this situation would not have occurred. Will further integration add further significant impetus to the trading relationship?

By entering into an agreement with Australia, New Zealand has been able to gain in welfare terms more easily and rapidly, relative to any alternative. Putting together an agreement with one country with a similar view and outlook to New Zealand was a lot easier than putting together meaningful agreements with a group of other regions.

While multilateral and plurilateral trade negotiations have greater potential for economic efficiency gains there is also a much higher risk that they will produce agreements that have little economic impact or take a very long time to bring about an agreement. Furthermore, trade between close neighbours or those with similar cultural backgrounds always tends to be higher welfare gains. Therefore concluding agreements with these types of regions always tends to generate economic welfare over and above what would normally be expected when two countries negotiate a trade agreement. Similar cultural understandings reduce transaction costs and close proximity reduces transport costs.

A trading agreement between such close neighbours (both culturally and geographically) as New Zealand and Australia can produce protocols that are as close to ideal as possible. Therefore tactics and strategies (if applicable) used in developing an agreement can be broadly applied to achieving other agreements. Also, it can be used as a benchmark to measure the effectiveness of other trade agreements.

Table 2: Issues to be considered in a cost benefit analysis

Costs	Benefits
Diverting resources away from the multilateral process and other trade policy initiatives.	Dynamic efficiency gains from deeper integration.
Potential gains are less than the multilateral process and potentially other trade deals that involve more regions because of the smaller size of the market.	Gains more certain and could be achieved in a shorter time frame with less risk of failure.
Miss new opportunities.	Sets a world best practice standard that can be applied or measured against other agreements.

Source: NZIER

4. STANDARDS AND RULES

Since the signing of the CER agreement there have only been halting steps towards deeper integration. There has been no clear political direction in favour of further integration on either side of the Tasman. The further development of standards and rules that would underpin deeper integration has come about in an ad hoc way. In this section we examine some of the agreements in the post CER environment.

4.1 Trans-Tasman business law

Part of the CER review in 1988 was a memorandum of trans-Tasman Business Law Harmonisation. This was updated in 1999. The revised memorandum is significant because it moves away from harmonisation and concentrates more on reducing transaction costs. The main focus of the revised understanding include:

- managing cross-border insolvency.
- increased disclosure related to financial products.
- ensuring that each jurisdiction had stock market rules that were comparable.
- exploring closer co-ordination when granting intellectual property rights.
- seeking greater consistency in legislation that affects electronic transactions.
- seeking avenues for greater consistency in trans-Tasman competition laws.

Moving away from a focus on harmonisation is significant because it recognises that each jurisdiction is different and imposing another set of business laws from outside may not lead to improved economic welfare. This allows for both greater independence (by recognising each region's laws) and deeper integration (by reducing transaction costs of trade).

4.2 Agreed Minute on Industry Assistance

Also in 1988 a Minute on Industry Assistance was also jointly adopted. The agreement was designed to limit the effects of industry assistance on each partners trade. It allowed for voluntary compliance, and therefore independence of action, in sensitive industries.

The Agreed Minute on Industrial Assistance established guidelines to limit the negative impact that industry support schemes had in each country. From 1990:

- neither country paid export incentives or the equivalent subsidies aimed at stimulating exports to the other country at the expensive of industry in the importing country.
- no production bounties or like measures on goods that are exported to the other country were paid.

4.3 Food standards

Australia and New Zealand Agreement on Joint Food Standards (ANZFA) was set up to administer an independent food safety standards regime. In Australia, the states have control of food standards. The states and the Federal government have established a common structure that all states participate in. ANZFA links into this structure, which means New Zealand has a representation similar to the Australian states. The rationale for New Zealand not setting up its own structure was that the costs were very high and the expertise to operate such a programme was limited in New Zealand.

Deeper integration has come at a cost of independence. The lack of independence is a major weakness and will be a continuing source of political irritation in New Zealand and therefore

unstable. New Zealand has effectively joined the state system in Australia on food standards and is now one of eight voices around the food standards table. Australian food standard issues dominate and New Zealand has little control over what type of food standards are imposed.

It should also be noted that there are many ways of reducing transaction costs. Joining the Australian food standards structure is only one way of reducing the food standards administration costs. For example, New Zealand could use the Australian standards as a benchmark while reserving the right to investigate sensitive food issues more closely. In this way, New Zealand could get benefit of the expertise from Australia and preserve New Zealand's policy independence.

4.4 Proposed currency union

Holmes and Grimes (2000) have presented a case for a common currency for Australasia. Currency union would mean transferring New Zealand monetary control to Australia.

The possible advantages of currency union include:

- a bigger market may reduce volatility of the currency. This is debatable given the fall in the Australian dollar (similar to that of New Zealand's) over the past two years.
- possible increase in the amount of investment and economic activity in New Zealand.

Disadvantages include:

- increasing dependence on domestic Australian economic conditions that rely of different economic cycles. Brash (2000) suggests that loss of independence would lead to an inability to moderate New Zealand's demand shocks and influence the inflation rate. Brash also points to Argentina, as an example of a country that has had a prolonged recession (relative to other South American economies) because of its tight monetary policy that was linked to the US dollar.
- increasing dependence on the Australian political framework (Australian based lobbying) that determines monetary policy.
- providing a platform for continued political/economic criticisms of monetary policy moves made in Australia which have an impact on New Zealand.

While the proposal promotes further integration it also increases dependence on Australia monetary policy.

5. CHANGING NATURE OF BUSINESS

How has private sector management adapted to the increased internationalisation of business brought on by trade agreements and advancing technology? This section looks at the how CER has impacted on business, the types of strategies businesses have employed to meet the export challenge, and the importance of innovation in business growth.

5.1 Impact of CER

The advent of CER has had a major impact on private management and the institutions that support trade in New Zealand. The impact of CER signalled a major reversal of policy that had existed in New Zealand since the mid 1930s.

CER's outward-looking nature meant that management had to either adapt to the new environment or not survive over the medium term. The downside was that 45 years of import licensing and high tariffs (well above Australian tariffs, which were twice OECD averages) had insulated significant sections of the New Zealand economy from international competition. This made the transition to world levels of costs and productivity a lot more difficult for protected sectors than those sectors that were shaped by international competition.

Furthermore, New Zealand's small market and geographical isolation mean that generating a competitive edge in sectors that New Zealand has no natural comparative advantage in is a major hurdle for New Zealand firms wanting to export products.

While there are other factors at work (including the general tariff reduction programme and the macroeconomic setting which caused high levels of the real exchange rate) CER contributed to significant rationalisation in local industry. Jobs in manufacturing, for example, contracted sharply during the 1980s (see Figure 3).

5.2 Strategies adopted by exporters

Campbell-Hunt & Corbett (2001) note that New Zealand management and institutions have followed a number of strategies in reaction to this significant policy change. Most of these strategies relied on the ability to export (initially to Australia but mainly to Asia) rather than attempt to dominate the domestic New Zealand market.

BERL (1995) found that New Zealand firms were highly exposed to exporting with 72% reporting that they exported to some degree. Even smaller firms with under 10 employees had some exposure to exporting (42%). However for most firms exporting was only a small part of the business.

Infometrics (1995) identified a number of stepping stones to becoming involved in exporting (see Table 3). The evidence (BERL 1995) suggests that the first export destination for most firms has been Australia.

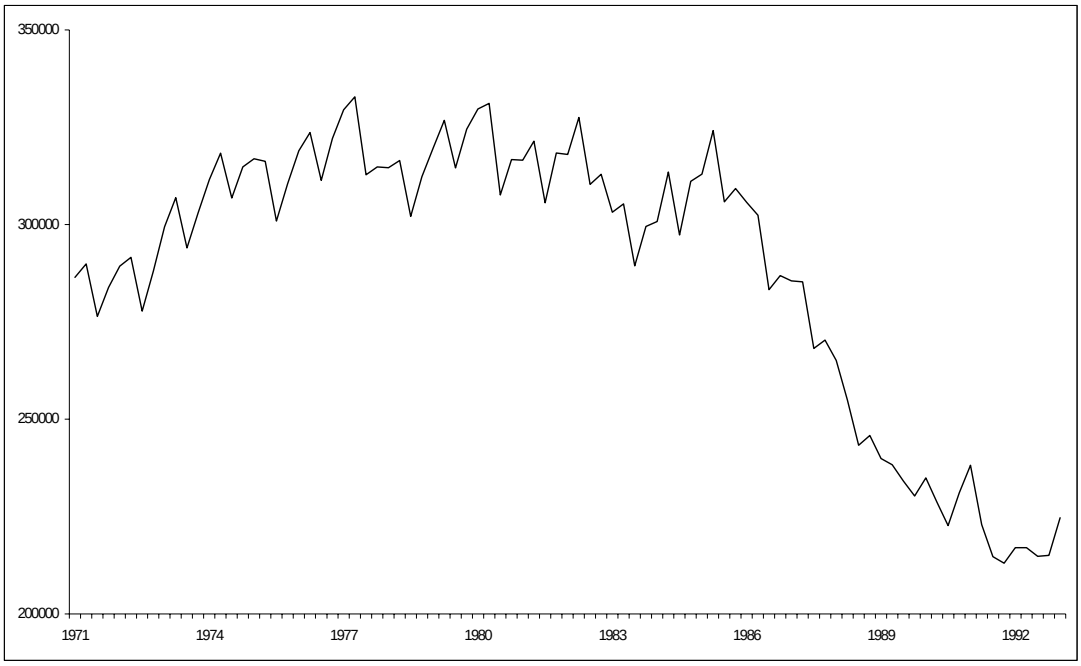
Three components of the Infometrics (1995) are important:

- the involvement of local partners in the business until scale and learning barriers are overcome and the firm establishes itself directly in local markets.
- marketing and distribution moves early (step 2); then manufacturing (5,6), and
- finally, if ever, product design (5,7).

Apart from the direction of trade most firms had to adjust the type of products sold. The scope of the products sold has been reduced and the number of regions sold to has increased.

Figure 3: Total manufacturing hours worked

Hours worked



Source: *HLFS consistent labour market data,* NZIER WP 94/16

The "Leading the Way" report (AMC 1994) suggests that New Zealand had achieved parity with Australia in 32 different areas – however on both sides of the Tasman few firms had reached international benchmarks for excellence.

It has been noticeable, however, that foreign firms have been relatively successful in the New Zealand market. Australian firms, for example, have invested heavily in trade infrastructure in New Zealand. This may create some anomalies in the New Zealand marketplace which hinder the development of new business. For example, economists have long argued that capital is easily acquired in the international market therefore businesses with good ideas can always access capital (see Simmons 2002). However, Morel (2002) points out that in service-related businesses, such as venture capital funders deem it essential that they are physically located close to the businesses they are lending money to. Foreign owned financial service companies in New Zealand do not operate the "full service operation" as they do in their home market. This may handicap the development of new business development in New Zealand because of the lack expertise in the New Zealand branches of foreign owned financial services companies.

Table 3: Infometrics "stepping stones" to internationalisation

1. Toe in the export water.
2. Controlling offshore distribution.
3. Diversifying markets.
4. Rationalising product range
5. Establishing international alliances for technology transfer.
6. Manufacturing offshore.
7. Identification and exploitation of the competitive advantage resident in New Zealand.

Source:In Yeabsley J (ed) (2001)

The development of management and the institutions that support business have differing impacts within New Zealand depending on the type of business, ownership, and ability of management. New Zealand businesses that have succeeded in Australia and world markets have preserved both independence and integration with world markets. However, Australian companies (or those that operate out of Australia with branch offices in New Zealand) in relationship services businesses (such as financial and pharmaceutical research) with highly streamlined New Zealand operations, do not operate with the same "full" service in New Zealand. These New Zealand branch offices are highly integrated and highly dependent on Australian head office decisions.

5.3 Innovation

The extent of innovation closely mirrors the evolving management culture and the institutions that support management activities. Innovation from successful exporters in niche markets from New Zealand is highly regarded, despite the resources available for product or technology based innovation being very limited – particularly in small exporting businesses.

According to Campbell-Hunt & Corbett (2001) many managers in the private sector believe that attention paid to this area has been neglected. Despite this, many SMEs have managed to gain a substantial competitive advantage though innovation. Where they are lacking expertise is on the marketing side of the business.

Campbell-Hunt & Corbett (2001) claim that investment in R&D was not sufficient amongst those firms who are exporting to maintain brand leadership over the long term. Therefore there is a question about the long-term viability of some of the smaller export businesses.

Also, in service based industries, whose New Zealand based operations are controlled from Australia, the ability of management in New Zealand to provide innovative services is heavily constricted.

6. MOVEMENT OF PEOPLE

6.1 Brief history

Given the current movement of people from New Zealand to Australia over the past 30 years it is easy to forget that this has not always been the case. Wood (2001) p81 reminds us that: "*historically the balance of trans-Tasman migration has shifted backwards and forwards*".

Arnold (1991) characterises the movement of people as a: "*deep-seated continuous two-way trans-Tasman population movement*" and from time to time it exhibits: "*strong one-way floods created by the particular circumstances of the time*".

Times of significant people flow have included:

- the Otago gold rushes of the 1860s created a strong inflow from Australia.
- the 1880s the depression saw a flow of migrants from New Zealand back across the Tasman.
- 1900 to 1910 saw a sustained period of migration from Australia to New Zealand.
- drought in the immediate post World War II period combined with robust economic growth saw strong Australian migration to New Zealand.
- since the mid 1970s New Zealand migration to Australia has been significant.

The driving factor in trans-Tasman migration is the different economic circumstances being experienced in each country. Expansions and contractions of each economy have sent strong "pull" and "push" signals to the trans-Tasman labour market.

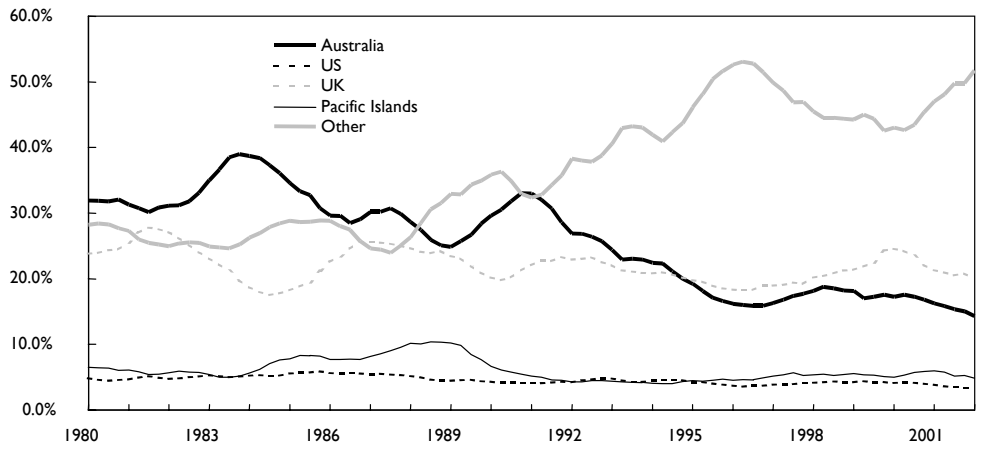
6.2 Current migration patterns

6.2.1 Inflows

The restrictive nature of government policy has meant that the level of inward migration has not altered markedly over the past 20 years. What has altered has been the source of those migrants. Australia, along with Britain, has long been a major source of inward migration. Figure 4 shows a significant rise in the number of arrivals from destinations other than Australia.

Figure 4: Permanent and long term arrivals by country of last permanent residence

Annual, per cent of total PLT arrivals



Source: Statistics New Zealand

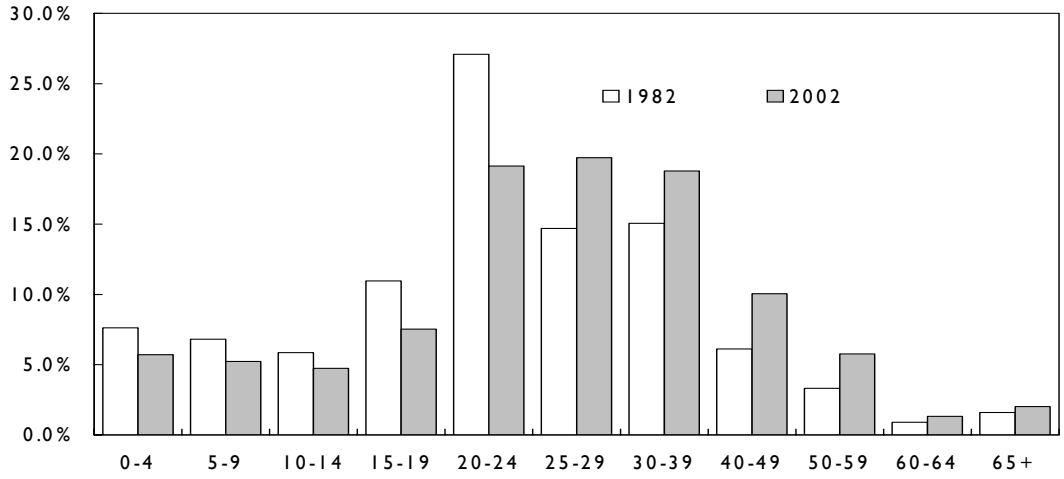
6.2.2 Outflows

Those leaving are mainly young people (see Figure 5). Young people have always comprised the bulk of departures. 'Overseas experience' has long been a part of New Zealand culture – a rite of passage – with young New Zealanders undertaking overseas travel (including working abroad) after finishing school or university, and before settling into permanent work.

However the age profile of departing people has flattened out over the last few decades, with older working age people comprising a larger proportion of departures. This may reflect dissatisfaction with the scale and nature of employment opportunities within New Zealand. Factors commonly regarded as contributing to this include: little room for advancement in chosen career, the limited range of industries and occupations, and restrictive salaries. These are partly a feature of the small size of the economy, and the focus on primary-based industries.

Figure 5 Permanent and long-term departures by age

Per cent of total PLT departures



Source: Statistics New Zealand

The destination of long term departures from New Zealand has changed over the last twenty years.[5] While there has been some diversification with respect to destination countries, Australia and the UK still account for the bulk of departures. As the composition of New Zealand's resident population continues to diversify, expansion in the popularity of 'other' destination countries is likely.

6.3 New Zealanders going overseas

Dual citizenship with the UK, due to British parents or grandparents, entitles many of New Zealand's young people to live and work in the UK without a work permit. And since the 1920s, all New Zealanders have been entitled to live and work in Australia without visas or permits.[6]

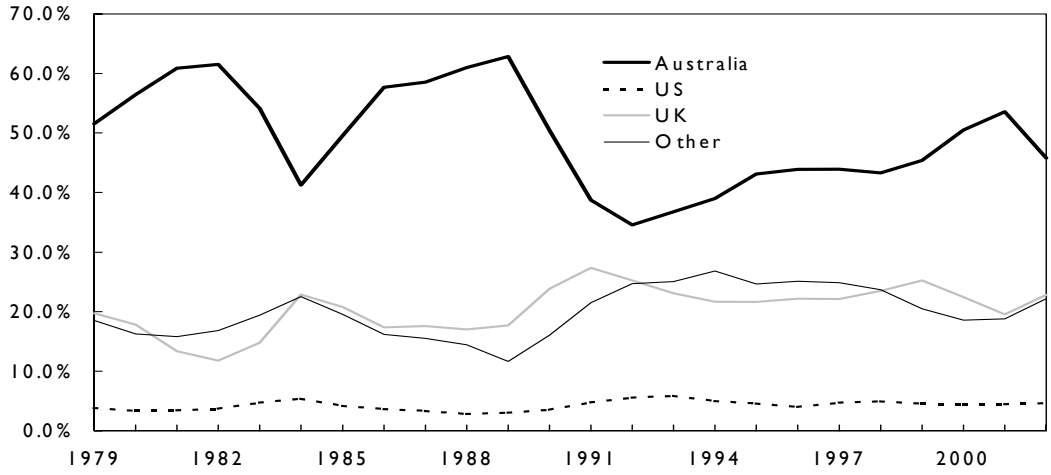
In 2001 Australia made legislative changes making it more difficult for New Zealanders to claim social welfare benefits. Whilst New Zealanders continue to be able to live and work in Australia indefinitely, social security payments would be restricted to New Zealanders who became permanent Australian residents. The impact of this policy change is visible in Figure 6; the number of departures leapt in late 2000-early 2001 as people moved in advance of the policy taking effect in February 2001.

[5] Of those heading for Australia, the numbers has dropped from approximately 62%in 1982 to 46% in 2002.

[6] Some visa and passport restrictions have since been imposed, but these have their motivation primarily in the policing of trade in illegal drugs.

Figure 6 Permanent and long-term departures by country of next permanent residence

Annual, per cent of total PLT departures



Source: Statistics New Zealand

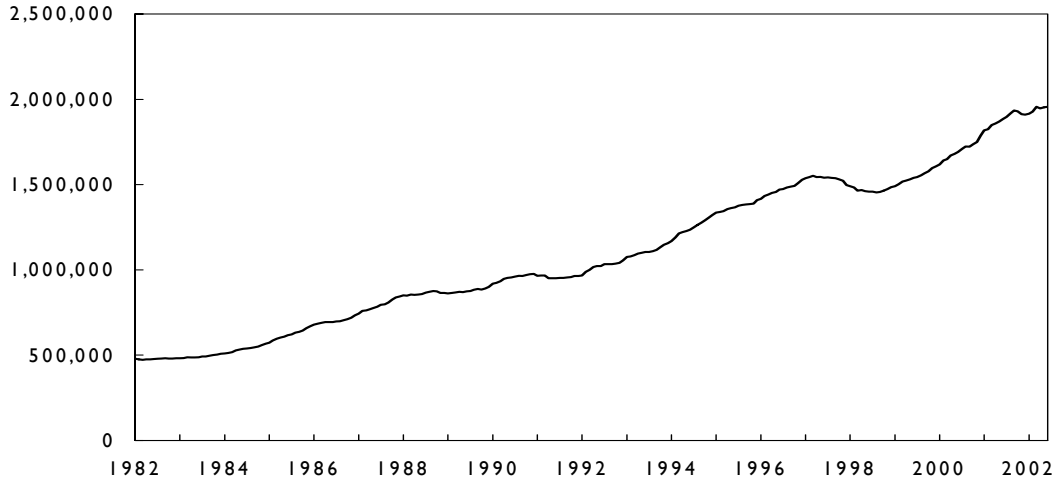
6.4 Tourism

6.4.1 Inflows

With New Zealand being located far from major visitor markets, air travel has been a critical factor in the development of its tourism industry. In 1950, two-thirds of all passengers travelled to or from New Zealand by sea. But jet services were introduced in the 1960s, making air travel faster and easier. By 2000, air travel accounted for over 99% of arrivals (Statistics New Zealand, 2000).

Figure 7 Visitor arrivals

Annual



Source: Statistics New Zealand

Tourism plays a key role in the growth of the New Zealand economy through employment, foreign exchange earnings, investment and regional development. Tourism's direct contribution to the New Zealand economy in the year to March 2000 totalled $4.8 billion, or 4.9% of GDP.

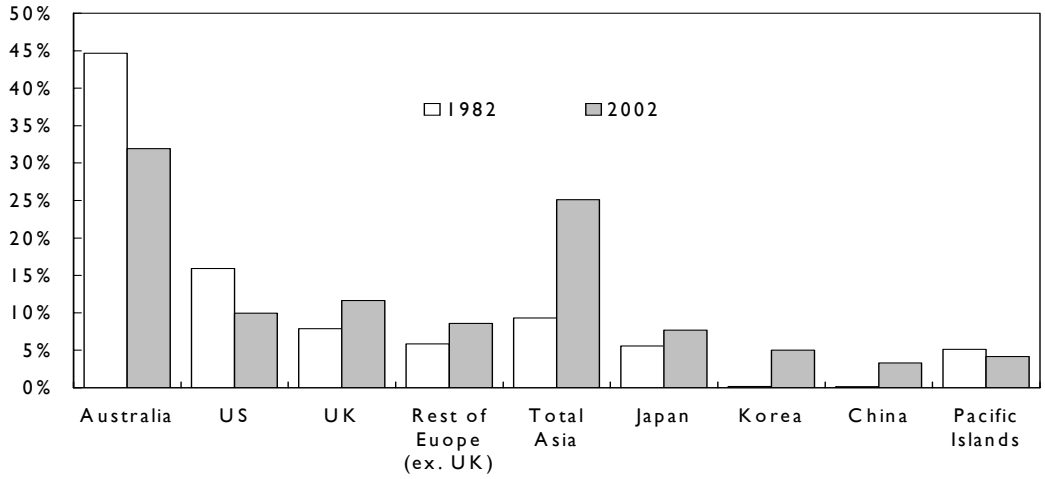
Tourist arrivals to New Zealand have grown strongly over the last 20 years, with growth averaging 7.3% per annum. Total arrivals (since 1982) reached 1.96 million in the year to June 2002; New Zealand's total population at this time was 3.94 million.

New Zealand's source countries (or markets, in this case) have been expanding and diversifying. Over the last twenty years, the significance of Australia has waned. Although it remains New Zealand's single most important tourist market, its share of visitor arrivals has been declining.

Clearly New Zealanders have seen a dramatic increase in the number of tourists visiting their country, with a growing proportion of these tourists coming from Asia.

Figure 8 Market shares of visitor arrivals

Per cent of total annual visitor arrivals, as at June



Source: Statistics New Zealand

6.4.2 Outflows

The number of short-term trips by New Zealanders overseas has also increased considerably over the last 20 years. Growth has averaged 5.8% per annum since 1982. In comparison New Zealand's population growth averaged 0.9% per annum over the same period. New Zealanders have been having markedly more contact with people overseas, as well as with visitors to their own land.

6.5 Summary

Free flow of people across the Tasman has occurred since the colonisation period. In the early years (pre 1970s) migration from Australia to New Zealand was the dominant factor. However, as Australian economic growth has out-performed New Zealand's, substantial numbers of New Zealanders have crossed the Tasman.

Australia has reacted by gradually tightening the privileges that New Zealanders have enjoyed, requiring passports and latterly restricting the ability of New Zealanders receiving social welfare payments. New Zealand is in a very weak position to influence these Australian policy developments, since it is the weakness of the New Zealand economy and the attraction of higher paying jobs in Australia that makes New Zealand dependent on Australia, while Australia is tending towards a less integrated job market with New Zealand.

7. CULTURE

Culture sets the tone of trans-Tasman economic interaction. The strong feedback loops between culture and economic interaction means that this is not a static relationship.

Migration patterns illustrate the strong cultural ties that exist. Freedom of travel between the trans-Tasman neighbours has meant that approximately 435,000 New Zealanders live in Australia and 60,000 Australians live in New Zealand. There is now a complex web of family and social relationships that spread across both nations. Despite this, there are sharp exchanges and misunderstandings between the two nations that serve to underline our differences.

Historically, New Zealand and Australia have similar cultural roots. Both were colonised by the British and have had strong British traditions. However, both regions have developed significant cultural differences as well as retaining similarities. This brief section looks at the trans-Tasman book and film markets as an example of that interaction.

7.1 Books

In an early era Wevers (2001) p73 shows that these differences and similarities start with the landscape. Using literature as an example, Wevers suggests that both nations produce "*stereotypical ways of thinking about the land*". Further, both placed British culture at the heart of the nation. All things British were seized upon as being culturally important, while other nations' cultures, such as that of the United States, were ignored.[7]

In modern times Wevers (2001) comments that New Zealand literature is not generally read in Australia and Australian literature is not generally read in New Zealand, unless authors have made it on the globalised international circuit as best sellers. This reinforced by other writers' emphasis on "*our considerable ignorance of each other*" (Hensley, 2001 p96).

A number of reasons for this "considerable ignorance" have been put forward. These include:

- the cultural cringe that still exists in both countries. The attitude seems to be if it comes from either country it must not be that good, unless it passes the test of international success. It also shows how global and local trends are impacting on culture. If it is deemed "international quality" then it is picked up and swept around the world in a blaze of international acclaim and publicity. If it remains local, or is not deemed portable into the international market it is not valued as highly in each nation.
- the Tasman is still a costly sea to transport a bulky product such as books. This means that traffic in books and writers is expensive. This limits the deeper integration between the two cultural markets.
- the axiom that "nobody knows nothing" which has been used to describe film making in Hollywood can equally be applied to the unpredictable nature of the book market. Critics and publishers cannot, *a priori*, forecast what will sell and what will not. Therefore they are risk averse when it comes to production and shipping books across the Tasman for sale.

7.2 Films

Australian legislation requires the Australian Broadcasting Authority (ABA) to maintain the local content quota (55% of commercial transmission time). This includes New Zealand

[7] This was also reflected in the trade statistics to the extent that even trade was classified into "British and Empire" trade and "foreign" trade.

productions under CER rules. As is the case for books, very few New Zealand films are shown in Australia.

The ABA maintains that New Zealand productions viewed in Australia are solely determined by the market. To date, sales of New Zealand films to Australia have been much lower than to the rest of the world.

Australia retains its rights to implement a local content quota under both CER and GATS[8] – it retains a high level of production subsidies (three times the NZ level). This type of subsidy is thought to allow for quality programming.

While there is a freer market under CER rules, other impediments in the film market serve to restrict interaction. This is of particular interest to New Zealand because Australia negotiated a different multilateral arrangement than New Zealand – Australia reserves the right to subsidise their film industry.

It suggests that the Australian government, among others, believe that there are some economic differences about the:

- way specialised service businesses operate,
- role of government, and
- the role of networks.[9]

7.3 Summary

While New Zealand and Australia have had similar broad historical experiences, the differences that make us interesting to each other have not been explored. The shared historical roots, other market specific factors and globalisation, ironically, have led to a self imposed independence and less integration than one might have thought given the geographical proximity and cultural similarities.

[8] General Agreement on Trade in Services (part of the Uruguay Round agreements).

[9] See NZIER (2002) for an investigation into the pharmaceutical research industry as an example of how specialised service-based industries operate.

8. CONCLUSIONS

Horn (2001) has suggested that the skill set required to develop a stable trans-Tasman relationship is the ability of policy makers to make better decisions. This paper sets out a simple framework to help policy makers think about whether to push for further integration or not in any particular trans-Tasman area.

The trans-Tasman a la carte approach to integration is crucially based on whether integration makes New Zealand more or less dependent on Australian decision making. The more dependent New Zealand is on Australian decision making the less stable the agreements are for New Zealand. This is because Australian political and economic interests will not always coincide with New Zealand's.

In Table 4 this process is illustrated by classifying the various trans-Tasman relationships, either in existence or mooted, into a two by two matrix. The most stable relationship is one where the trans-Tasman relationship is fully integrated and independent of Australian policy making actions (right-hand bottom quadrant). The best example of a stable agreement that allows for independent action and deeper integration is the CER Agreement. By opting for a free trade area, rather than a customs union New Zealand has been able to obtain deeper economic integration and trade policy independence. Business law, industry assistance law, successful New Zealand owned export businesses and the tourism trade all allow for and foster deeper integration with Australia and independent action by New Zealand.

Table 4: Integration and independence

	Australian/New Zealand actions	
	Dependent	Independent
Less integration	People movement	NAFTA, Books, and Films
Deeper integration	Food Standards, Currency union, Foreign owned service companies.	CER, Business law, Industry Assistance law, New Zealand owned exporting companies, and Tourism

NZIER

The most unstable relationship occurs where New Zealand is integrated and dependent on Australia policy making actions (left-hand bottom quadrant). Those relationships include the food standards agreement, mooted currency union, and foreign owned specialised service companies (e.g. banking and pharmaceutical research). Dependence on the Australian policy making process and or Australian head office decisions may not be in the best interests of New Zealand. This means that there will be continued political irritation in New Zealand with decisions made in Australia that suit Australian policy positions.

The migration of New Zealanders to Australia has been a source of concern to the Australian Government. In response the Australian Government has limited social welfare benefits to New Zealanders living in Australia. The Australian Government has favoured less integration with New Zealand, while New Zealand is highly dependent on Australian policy in this area.

Examples of independence and less integration include the NAFTA and the book and film markets in New Zealand and Australia. The NAFTA, while promoting freer trade, did not actually deliver it in practice. The book and film markets for various institutional reasons are not well integrated unless the book or film made it on to the international circuit.

While we have set out the areas of trans-Tasman co-operation and noted superficially the issues associated with applying scarce trade policy resources to the trans-Tasman relationship relative to some other alternative, we have not attempted to put a dollar figure on cost benefit analysis.

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