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BY:.....

IMPACT OF CER ON AUSTRALIA'S GDP

While it is not possible to estimate the contribution of CER to Australia's GDP without undertaking lengthy and expensive econometric modelling, we can assume that the trade creation effects of CER had a positive impact on both countries' GDP. In 1989 the Bureau of Industry Economics estimated that CER would contribute \$A650 million annually to Australia's GDP, and \$A1.1 billion annually to New Zealand's GDP. The greater gains to New Zealand derive from the greater scale of market opportunities provided by the larger Australian economy. However, we are not familiar with any recent research assessing the contribution of CER to the GDP of either country.

Nonetheless, CER has undoubtedly had an enormously beneficial impact on trans-Tasman trade. Two-way trade has increased over 550 per cent since CER was signed in 1983. Growth in trade has averaged 9 per cent in the last decade. Since the CER Protocol on Trade in Services was signed in 1988 two-way investment has increased by about 170 per cent. Australia's exports to New Zealand have grown more rapidly than our exports to other destinations, even though the New Zealand economy has grown relatively slowly since 1990.

The composition of Australia's GDP indicates the significance of this expansion in trade. In 2003 exports of goods and services comprised 18 per cent of GDP, and imports 21.2 per cent. CER has allowed Australia's trade with New Zealand to make a growing contribution to this figure. In 2003 New Zealand was Australia's fourth-largest merchandise export market, taking 7.6 per cent of our merchandise exports. This shows an increase of 2.6 per cent since 1992. New Zealand was also Australia's sixth-largest source of merchandise imports, supplying 2.7 per cent of the total. In addition, in 2003 7.3 per cent of Australia's services exports went to New Zealand, while 5.5 per cent of Australia's imports of services came from New Zealand.

However, many factors have contributed to the strong growth in trans-Tasman trade, including unilateral tariff reductions made independently of CER, cultural similarities, people flows, geographic proximity and regulatory liberalisation measures introduced separately to CER. The influence of these factors diminishes the capacity of economic modelling to isolate CER's contribution to GDP.