



Submission No 15

Australia's trade and investment relations under the Australia-New Zealand Closer Economic Relations Trade Agreement

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This submission is made by the above signatories on behalf of the New Zealand Australia Connections Research Centre at the University of Canterbury. The Centre is dedicated to the study of the nature and density of ties between the two Tasman countries and their surrounding region. It is underpinned by a Royal Society of New Zealand Marsden Fund grant, is linked to the Social Science Research Centre in the College of Arts, and currently has two senior researchers and two postgraduate students working on aspects of the interconnected history of New Zealand-Australian relations during the twentieth century. The Centre produced three commissioned briefing papers for the Australia New Zealand Leadership Forum in April 2005, and the Centre's Professor Hempenstall has participated in the three Leadership Forums that have taken place since 2004.

We note the terms of reference for this enquiry:

- The nature of Australia's existing trade and investment relationships
- Likely future trends in these relationships
- The role of Government in identifying and assisting Australian companies to maximise opportunities under CER, and
- Complementary policy approaches by the two governments.

This submission will address each of these in turn.

SUMMARY

CER has been a conspicuous success and both countries are reaching for a new level of aspiration, termed by some as CER+, by others a Single Economic Market. Integral to the successful growth under CER is the density of interaction among a series of 'communities of interest'. These need to be kept in focus and encouraged, especially those business and trade communities seeking reforms that will make a common business citizenship a reality. Issues of immediate relevance include the integration of labour markets, the implementation of a common border, and meeting the challenge of the accelerating North and South Asia economies. The demographic changes and growing population profiles of both countries point to the need to facilitate 'skilled people' mobility. Both countries need to work together more intimately to meet the challenge of the growing China and India economies and their impact on the global economy. Government and political leadership have an important role in all these initiatives – they cannot be left to the market to decide if the needs and aspirations of both communities are to be met. The Australian

government should look to strengthening aspects of the relationship between Australia and New Zealand that are already strong. COAG, joint agencies, expanded Leadership Forums and new high level annual meetings of officials will all provide forums for advancing CER beyond its present stage. The education mission is also important and several recommendations are accordingly made.

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Australia and New Zealand Closer Economic Relations (CER): Advancing the Agenda

SUMMARY

CER has been a conspicuous success and both countries are reaching for a new level of aspiration, termed by some as CER+, by others a Single Economic Market. Integral to the successful growth under CER is the density of interaction among a series of ‘communities of interest’. These need to be kept in focus and encouraged, especially those business and trade communities seeking reforms that will make a common business citizenship a reality. Issues of immediate relevance include the integration of labour markets, the implementation of a common border, and meeting the challenge of the accelerating North and South Asia economies. The demographic changes and growing population profiles of both countries point to the need to facilitate ‘skilled people’ mobility. Both countries need to work together more intimately to meet the challenge of the growing China and India economies and their impact on the global economy. Government and political leadership have an important role in all these initiatives – they cannot be left to the market to decide if the needs and aspirations of both communities are to be met. The Australian government should look to strengthening aspects of the relationship between Australia and New Zealand that are already strong. COAG, joint agencies, expanded Leadership Forums and new high level annual meetings of officials will all provide forums for advancing CER beyond its present stage. The education mission is also important and several recommendations are accordingly made.

Recommendations:

1. Institutionalising of the working parties that have emerged out of the annual Leadership Forums between Australia and New Zealand.
2. Parliament should encourage the joint meeting of officials, regulators and the business community in order that the components of a single economic market can be identified, problems isolated and deadlines set for their solution (these to include a single regulatory framework).

3. Reforms to superannuation portability and taxation regimes between the governments to increase 'skilled people' mobility.
4. Encourage public debate on the drawing in of regional labour from the Pacific Islands under training arrangements or special 'guest worker' provisions, both to satisfy the growing demand for labour to service the economy, and to address the pressures that the Pacific Islands will continue to place on the regional security environment.
5. Focus on training skilled specialists to lead Australia's government and private sector activities in North and South Asia. Both countries need to invest more resources in such education and training as a matter of urgency, and in the spirit of CER, a joint policy approach would be most efficacious.
6. Parliament to ensure that policy settings are optimised to ensure the Tasman-area economy is competitive globally. This to include harmonising business and trade regulation between the state governments and the Commonwealth of Australia.
7. A heightened commitment to Australia and New Zealand working together as partners in bodies such as COAG, and in accelerating progress on common border issues between Australia and New Zealand.
8. An annual summit of senior government officials, departmental heads etc., to parallel an annual meeting of the Prime Ministers, and the Leadership Forums of business, policy and academic communities.
9. Widening the membership of the Forum to include representatives of the diverse ethnic and cultural communities of both Australia and New Zealand.
10. Reinstatement of the Australia-New Zealand Foundation as a means to fund and promote trans-Tasman partnerships in education and research.
11. The creation of a 'travelling fellowship' hosted by an appropriate tertiary institution to work at a key problem of trans-Tasman integration identified each year by the Leadership Forum or by the two governments.
12. Removal of policy obstacles to attendance at Australasian conferences which require trans-Tasman as opposed to inter-state travel (e.g. EPSM conference 2008).
13. Innovations to target the younger generation (e.g. through Anzac studentships or prizes) to continue the process of education about each other.
14. Both governments to encourage improved media coverage of each other through facilitating landing of newspapers cheaply on each side of the Tasman and more expansive coverage by television.

INTRODUCTION

This submission is made by the above signatories on behalf of the New Zealand Australia Connections Research Centre at the University of Canterbury, Christchurch, New Zealand. The Centre is dedicated to the study of the nature and density of ties between the two Tasman countries and their surrounding region. It is underpinned by a Royal Society of New Zealand Marsden Fund grant, is linked to the Social Science Research Centre in the College of Arts, and currently has two senior researchers and two postgraduate students working on aspects of the interconnected history of New Zealand-Australia relations during the twentieth century. The Centre produced three commissioned briefing papers for the Australia New Zealand Leadership Forum in April 2005, and the Centre's Professor Hempenstall has participated in the three Leadership Forums that have taken place since 2004.

We note the terms of reference for this enquiry:

- The nature of Australia's existing trade and investment relationships
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- Complementary policy approaches by the two governments.

This submission will address each of these in turn.

The nature of Australia's existing trade and investment relationships

The statistics on the growth of Australia's trade and investment with New Zealand since the beginning of CER in 1983 are well known: twenty years later, New Zealand was Australia's fifth largest export market and the sixth largest source of imports. Australia was New Zealand's principal trading partner, taking around 19% of New Zealand exports and sourcing 22% of New Zealand imports. Growth rates in trade have been around 9 per cent a year. All quantitative restrictions and tariffs on trans-Tasman goods that meet local content requirements have been eliminated. Australia is the largest foreign investor in New Zealand and the second largest destination for New Zealand investment. This two-way investment has increased at almost twice the rate of Tasman investment with the rest of the world. CER represents *the* model for other free trade agreements. Even though it is agreed among experts that New Zealand has been a net beneficiary of the Agreement compared to Australia, CER has strengthened the trans-Tasman relationship, facilitated trade and investment, and stands ready as a platform for a regional, combined integration into larger regional economies and global networks.

During the period of CER's growth there has also been increasing density of interaction between various 'communities of interest' that span the Tasman. These should not be ignored in the committee's attention to its terms of reference for they are part of the matrix which underpins the growing economic integration of the two countries. The obvious communities of relevance to the committee are those of business and finance. These communities are currently promoting a number of further reforms which will make a 'common business citizenship' a reality, so that doing business in one country is the same

as doing business in the other. This is also the case for the labour markets of both countries, which have enormous implications for the future economic health and growth of Australia and New Zealand as their workforces age, and the demographic profiles of particular communities shape the future labour force. It is arguable that both countries will deal increasingly with a single population, with half a million Kiwis now resident and working in Australia, and 60,000 Australians going in the opposite direction. This will accelerate thinking about a common border, changes to immigration regulations, the bio-security environment etc., all of which will have repercussions on the future framework of CER. Other communities of interest with spin-off effects for the economies of both countries include tourism, the sporting industries (especially horse breeding and racing), the education and industrial research and training communities, and the growing links between state economies and New Zealand sectors.

Such communities of interest are legion in number and growing. There is evidence that the trans-Tasman relationship prospers across various sectors wherever such communities exist. Moreover they point to the practical functioning of a 'Tasman world' whose increasingly integrated economic structures will need to engage with the radically accelerating economies of North and South Asia.

Likely future trends in these relationships

The business communities on both sides of the Tasman, with some vocal exceptions, wish to advance the practical realities of a single economic market. The Australia New Zealand Leadership Forums, meeting annually since 2004, have lobbied consistently and worked in joint working parties with officials in Canberra and Wellington to make gains in combining competition regulation, accounting standards, investment requirements and to harmonise taxation and banking rules. Parliament should encourage this momentum to grow, especially the joint meeting of officials, regulators and the business community in order that the components of a single economic market are identified, problems isolated and deadlines set for their solution.

Of particular concern for the future of CER, and its wider impact on the region, will be the demographic changes to populations in both countries. The growth of Maori and Pacific Islander populations in New Zealand with consequent pressure on education, training and workforce composition, along with aging populations and problematic future participation rates in both countries, means there will be shared workforce challenges which will affect trade, investment and the general economic environment of CER. There is an imperative to increase 'skilled people' mobility, which, for flexible movement between Australia and New Zealand, means reforms to superannuation portability and taxation regimes between the governments. Thought needs also to be given to drawing in regional labour from the Pacific under training arrangements or special 'guest worker' provisions, both to satisfy the growing demand for labour to service the economy, and to address the pressures that the Pacific Islands will continue to place on the regional security environment. Such a change would be a radical departure and fraught with social and political questions not easily answered, but now would be a good time to begin a public discussion of such an idea.

The growth of China and India bears heavily on the trade and investment strategies of both Australia and New Zealand. A recent presentation from a New Zealand China

expert at the Australia New Zealand Leadership Forum 2006 pointed out that eight leading provinces of China will each have economies the size of the larger components of the EU – France, Germany – by 2040. Energy consumption, while already using 10% of the world's supply, is at present only 10% of that which the USA consumes, and bound to grow. There is a fast emerging middle class eager for a higher quality of consumption, urbanization is occurring at an accelerating rate, and an information explosion is underway which has made Chinese the second most used language on the internet.

All of this, not to mention the analogous changes happening to the Indian economy, which will compound these changes, is changing the trade and investment environment in which both Australia and New Zealand operate. Each is currently chasing a free trade agreement with China, and other Asian countries. Together Australia and New Zealand will have to adapt, not only to these massive new markets, but also to the cultural imperatives of doing business in appropriately sensitive ways so as to gain traction. Add to all these developments the geopolitical situation of the relationship between China and Taiwan, China and Japan, and China and the USA, and both Australia and New Zealand have a unique opportunity as well respected regional partners, to use our combined knowledge and strengths to the advantage of security and economic stability in the region.

This suggests that as part of future trade and investment strategies, attention needs to be paid to the proper education of both communities in the new world environment where our future lies, and in training skilled specialists to lead Australia's government and private sector activities in North and South Asia. Both countries need to invest more resources in such education and training as a matter of urgency, and in the spirit of CER, a joint policy approach would be most efficacious.

The role of Government in identifying and assisting Australian companies to maximise opportunities under CER

CER has built up momentum since the 1980s due to the opportunities grasped by the trade and business communities on both sides of the Tasman and the work done to improve the trans-Tasman trading relationship by government officials. That momentum is also dependent on the political atmosphere within each country and between politicians on both sides of the Tasman. The future movement of CER to a new stage of expansion depends on two levels of engagement by both governments in their relationship with business. First is the need to further smooth out obstacles in the business environment between Australia and New Zealand. Facilitating the activity of the trans-Tasman working parties attached to the Leadership Forum in between each meeting is a clear step in that direction. Business leaders at Leadership Forum 2006 made it clear that getting the regulators and business together within these working parties, and aiming to create a common trans-Tasman set of regulatory principles, would be a step forward in developing CER's potential to smooth out that trading environment. So also would attention to harmonising business and trade regulation between the state governments and the Commonwealth of Australia, since trade occurs along the axes between the states and New Zealand.

The second level of engagement is by both national governments with the wider regional and global economy. Given the facts of development in North and South Asia already described, both governments need to cooperate to ensure their policy settings are optimised to ensure the Tasman-area economy is competitive globally. This reinforces

comments above about trans-Tasman cooperation with working parties that are already active, and suggests a heightened commitment to working together as national partners in other bodies such as COAG, and in accelerating progress on common border issues between Australia and New Zealand. A single economic market will enhance both countries' ability to trade into the region as stronger partners, as well as competitors.

Senior politicians in Australia, especially the Prime Minister Mr Howard and Foreign Minister Alexander Downer, have been key personnel in advancing the economic and cultural relationship with New Zealand. Australia's High Commissioner in Wellington between 2003 and 2005, Dr Allan Hawke, has pointed out on a number of occasions the importance of such relationships in the future of CER. There is no guarantee that a younger generation of politicians on both sides of the Tasman, less schooled in and persuaded by the lessons of the past embodied in the ANZAC relationship between the two countries, will continue to hold that relationship as dear as the present generation. This matter gives cause for Parliament to reflect. It reinforces the message about continuing education by each country about the history and culture of the other, a commitment to continuing and building upon the annual Leadership Forums, and an institutionalising of the working parties that have emerged out of that dialogue in order to make concrete gains in the development of CER.

Complementary policy approaches by the two governments

It is an easier task to add value to the relationship where it is already strong than to strengthen the relationship where it is weak. The most profitable policy approach by both governments in relation to CER is to encourage more intense movement towards a single economic market in goods and service, capital, knowledge and people. Work is already underway in smoothing the business environment, cooperating in industry regulation, and moving towards a common border. Obstacles remain, some of them perhaps intractable and certainly vulnerable to the changing political environment in both countries. The big issues include converging taxation regimes, a common currency, common approaches on third party free trade agreements, common immigration policies, and labour market integration. These may be where the real gains lie for an advanced CER, or a real single economic market with major gains for business, but they are also fraught with potential social costs and decisions about national sovereignty and identity that will not easily be resolved in the next few decades.

Market forces cannot be relied on to take both countries where their combined populations aspire and need to be to maintain their standards of living and culture. Economic and political leadership remain crucial. The concrete possibilities can be realised by continuing the work already begun through the raft of trans-Tasman official and business contacts in COAG, joint agencies and Leadership Forum working parties. Both governments are crucial to continuing support for these endeavours, as well as parliamentarians and officials well informed about the accelerating changes to our regional and global economies and cultures.

We support several ideas that were raised at Leadership Forum 2006 as a means to enhance the kind of trans-Tasman environment that will enable CER to grow beyond its present limits: first, an annual summit of senior government officials, departmental heads etc., to parallel an annual meeting of the Prime Ministers, and the Leadership Forums of business, policy and academic communities. Second, we recommend widening the

membership of the Forum to include representatives of the diverse ethnic and cultural communities of both Australia and New Zealand. Though the Forums are not designed as parliamentary assemblies, the growth in integration of the Tasman communities, which is an accompaniment to the growth of CER, will be enhanced by the presence and voices of communities that extend beyond our business and policy elites.

Beyond such measures, greater effort needs to be expended by governments on both sides to promote the cultural mission of getting to know one another better, as a complement to CER+. We have written about some of these in a briefing paper to the 2005 Australia New Zealand Leadership Forum, held in Melbourne (*Changing community attitudes to the New Zealand/Australia relationship*). Suggestions include reinstatement of the Australia-New Zealand Foundation, formed in 1978 following discussions between the Prime Minister of Australia and the Deputy Prime Minister of New Zealand; it was disbanded twenty years later. A new start is required to fund and promote trans-Tasman partnerships in education and research. The 2006 Leadership Forum working party on education, R&D and culture recommends the creation of a 'travelling fellowship' hosted by an appropriate tertiary institution to work at a key problem of trans-Tasman integration identified each year by the Leadership Forum. Work is already being done in joint health research and other areas but education and policy leaders on both sides of the Tasman need to investigate ways to integrate research and information sharing more readily as a matter of policy.

Policy obstacles have come to our attention, for example, that impede the attendance of some groups of professionals at Australasian conferences which require trans-Tasman as opposed to inter-state travel. A case is that of biomedical engineers in the NSW public health system, whose experience would be greatly appreciated by young New Zealand engineers attending the Conference of Engineers and Physical Scientists in Medicine (EPSM) organised by their Australasian College (ACPSEM) for which Christchurch is the venue in 2008. As New Zealand is deemed to be 'overseas' by NSW health bureaucrats, funding for engineers to travel to the conference is proving difficult to access. Education and encouragement to remove such impediments are important in improving research capacity and knowledge transfer between Australia and New Zealand that are fundamental to the wider meaning of CER.

Innovations to target the younger generation (e.g., through Anzac studentships or prizes) would also help to continue the process of education about each other in more serious ways than popular stereotyping currently achieves. A singular element in improving community knowledge about CER and the countries that underpin it would be for both governments to encourage improved media coverage of each other. At present media coverage of trans-Tasman issues is poor in both countries, but especially in Australia. Newspapers and radio are parochial and self-indulgent in reporting the relationship between the two countries; there is no attempt to land newspapers cheaply on the other's shores. Television allows some better coverage but there is no reason why New Zealanders should not be able to receive the ABC and SBS which can broadcast to the further reaches of Western Australia.

CER has implications for the future of Australia and New Zealand that go beyond the mechanics of trade and investment. Closer economic relations are part of wider cultural relations that are 200 years old and growing. The small but potently symbolic move of creating common passport lanes for Australian and New Zealand citizens at immigration entry points in both countries is emblematic of a common present that may grow a common future.