

Connecting growth with trade policy

A small country approach

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Where are we headed?

- What we face
- We do need to think innovatively
- And we can – CPTPP being the latest in a long line of trade policy episodes
- What would be a plan?
- How are we thinking about the process?
- Let's build on our success: ANZCERTA
- Put together a coalition of the willing
- Mutual recognition might be a good place to start?
- Underpin the process with paperless trade
- Final thoughts

Where do we sit in the world?

We are looking for growth.



Produce a narrow range of temperate zone agricultural (competitively)



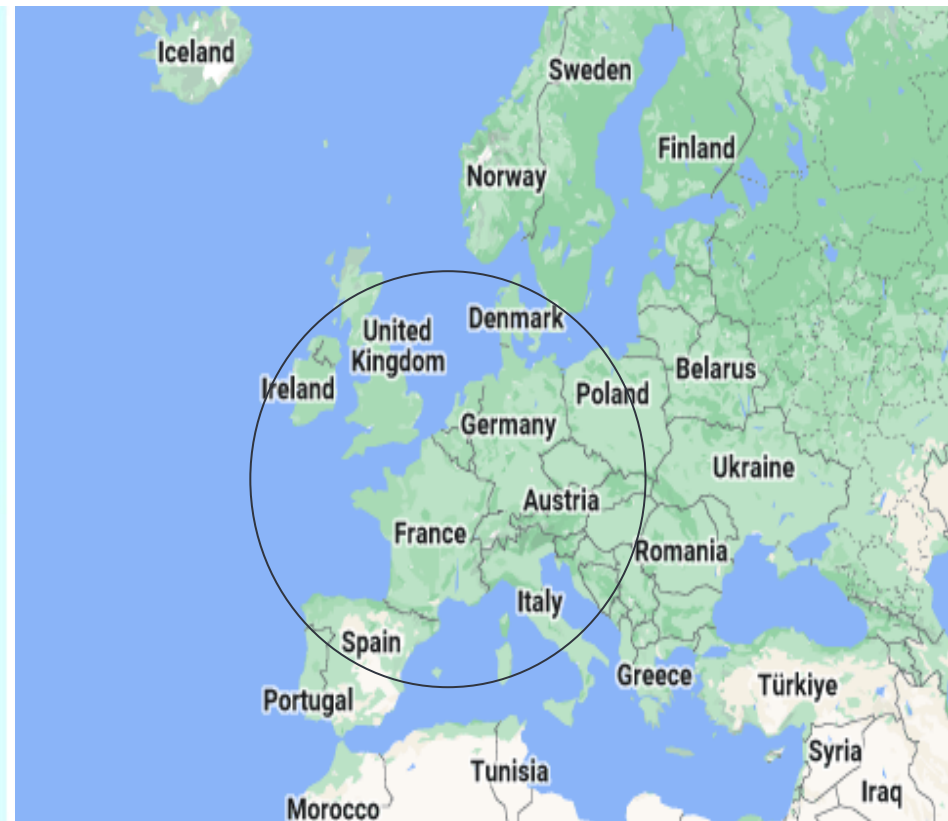
Small nation with only a few large businesses



A long way from markets (about as far as you can get)

How to we turn this to a competitive advantage?

This is the challenge!



What we face

It is tough going out there

The golden trade policy weather is over

- Geopolitics is bearing down upon us as China and United States embark on a tense trade war
 - New Zealand has tariffs on steel and aluminum going into the United States (we are an unfriendly nation)
 - Australian wine, barley, and coal producers know it as well (as China arbitrarily imposed tariffs)
 - We are in a post-consistency era

We have war in Europe and the Middle East

- As a consequence, our supply chains are stretched:
 - Increased time taken
 - Increase costs

A crop of elections

- Indonesian presidency, Indian elections, European parliamentary elections that triggered French elections, United Kingdom elections, and later in the year the United States elections will be watched closely

World is recovering from a pandemic

We need to think laterally

We have choices

“Tilting at windmills”

Attempt to persuade the great powers that they are heading down a dangerous path

- Caused the end of the golden weather
- Protectionist “jungle” is growing back
- Good luck with that New Zealand

We need to harden up and accept the inevitable

This is just the way it is – we are the grass when elephants fight. “The strong do what they can and the weak suffer what they must” Yhucydides 500 AD

- China and United States do what they can, and New Zealand does what it must

We have “agency”

New Zealand trade policy is replete with examples of success in the face of difficult circumstances

- We are not alone – most medium to small sized countries are in the same boat
- The challenge is to be proactive to bring about change
- To create an environment where the strong can not do what they can, smaller states prosper

What do we mean by agency?

A state of mind and a confidence built on a track record of success

- We learnt from many of our trade policy mistakes
- Develop an internal consensus on the course of actions required
- Ensure economic coherency and structure of any approach (agreement durability for small states is based on economic coherency)
- Being a policy taker can be turned to small state's advantage:
 - It means we can say things others can not (since they don't have a domestic consensus)
 - Maintain flexibility – this increases nimbleness in the shifting sands of any negotiation
 - Come up with the ideas and how we implement – (flying trade policy kites)
 - Allow negotiators to make mistakes
 - Target universal concerns not just our own national interests
- Build the necessary coalitions of the willing (working in teams)

How is this working New Zealand?

It is not all doom and gloom

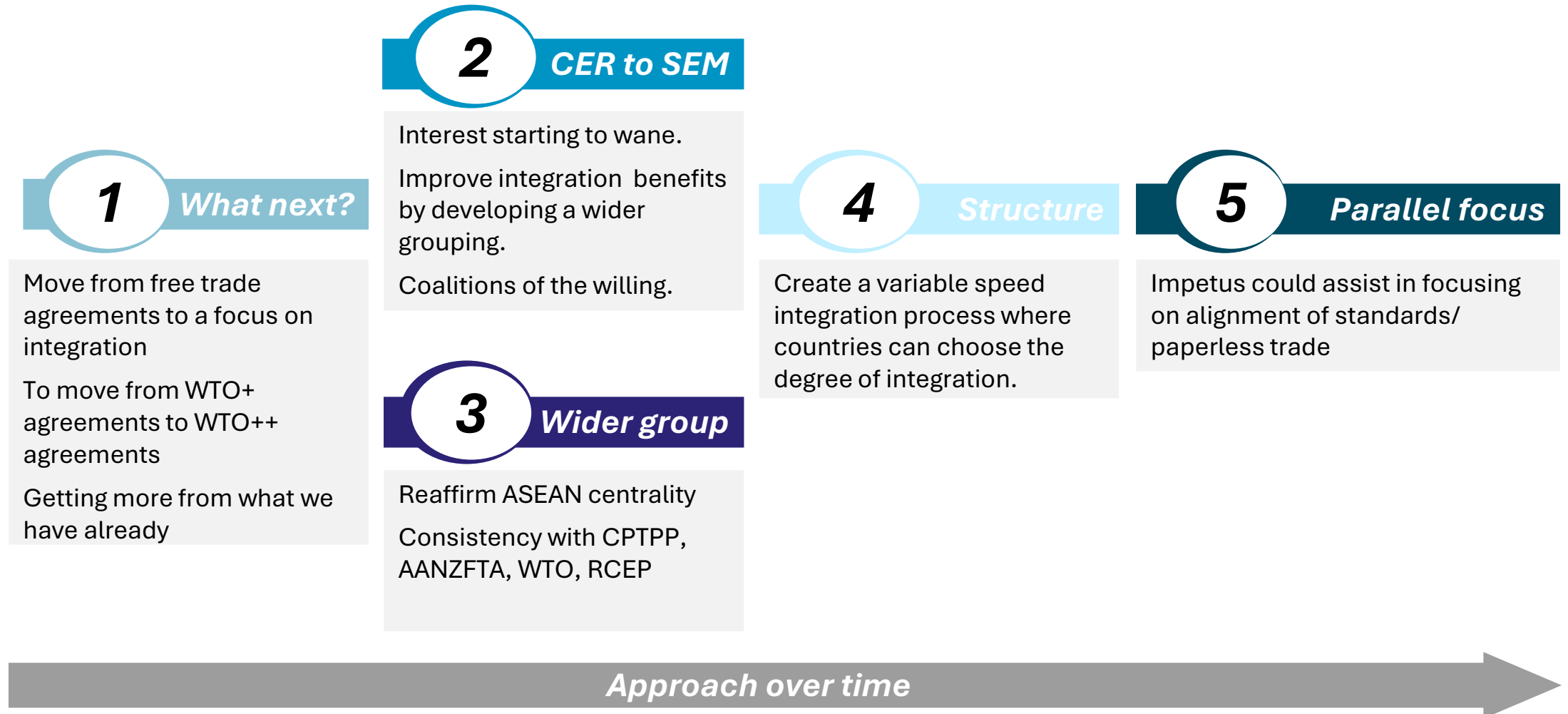
We have made a number of notable successes. We have learnt from our mistakes (mostly)

- Development of an agricultural trading relationship with fortress Europe. Starting in the 1970s with most recent edition the EU/NZ FTA
- CER morphing into the SEM
- The Uruguay Round and the role of the Cairns Group
- China FTAs and renewal
- ASEAN agreement with Australia and New Zealand
- RCEP
- The Singapore/NZ FTA, P4, TPP, and CPTPP (A WTO plus agreement)
- DEPA, ACCTS, IPECTA, ITAG, GTAGA
- New Zealand is trialing “concerted open plurilateralism”. We do a deal such as DEPA and we bring larger economies into the agreement (e.g. The Republic of Korea). Other examples ACCTS and IPECTA (which the United States has joined as an observer) and add more members

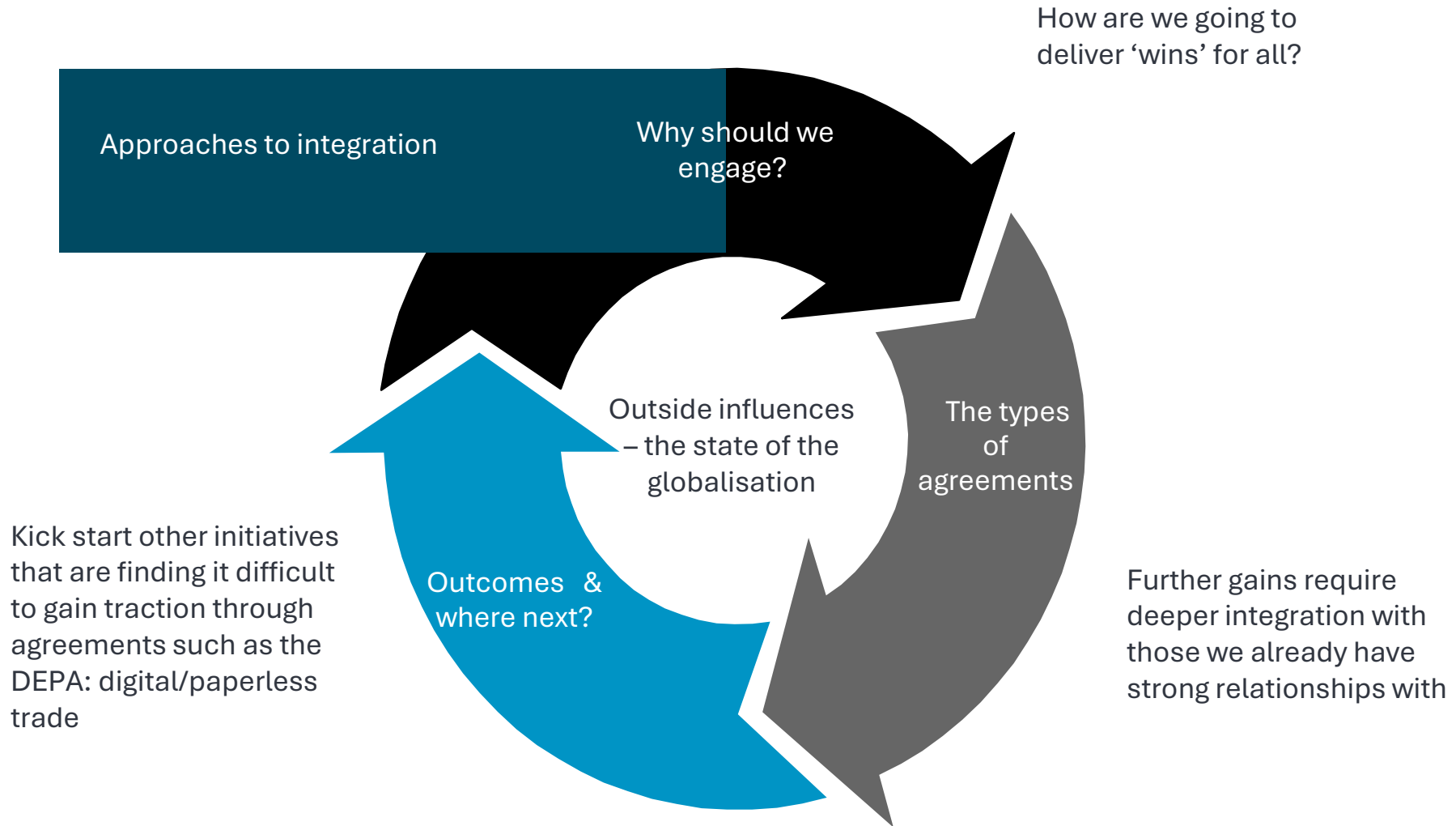
Success means we can continue to play the China plus strategy

- The aim is to develop strategic depth (23% of trade goes to China, 30% of trade goes to CPTPP nations, and 70% of our trade is covered by trade rules – as the Canadians are finding out)
- What next?

What next: variable speed integration



Frame of reference



ANZCERTA morphing into a Single Economic Market (SEM)

The starting point: New Zealand and Australia have a long-standing interest in integration

- CER is recognized as a high quality, comprehensive, effective, and multilateral compatible Regional Trade Agreement
- Already on the way towards a SEM – it has been outrageously successful.
- However, the success of CER uncovered the differences between the two economies. Differences that were difficult to overcome.
- We tried another tactic: We created Single Economic Market agreement. With hope of “identifying innovative, low-cost actions to reduce discrimination and costs arising from different, conflicting or duplicate regulations or institutions in either country built.”
- The advantage of both CER and the SEM are:
 - Implemented on the basis of government-to-government bilateral treaties, protocols and other arrangements and without handing over national sovereignty to a supranational body, without centralized legislation and without specific dispute settlement rules
 - The SEM agenda does not introduce specific regulatory or institutional arrangements to govern trans-Tasman integration. Rather, under the SEM the Australian and New Zealand Governments are seeking innovative and practical ways to reduce further barriers to trans-Tasman business
- Fine words but:
 - Progress has been slow
 - Australian interest seems to be waning
- We need a new approach which can interest Australia and deliver more from existing agreements captive.

Forming the coalition of the willing

One step at a time: CPTPP took nearly 20 years to come into being.

In going assumptions:

- It must be compatible with other trade initiatives and agreements
- ASEAN centrality must be respected and drawn upon.
- We could also include countries outside ASEAN

Ensure we have objective alignment with prospective members. That is:

- We are focused on deepening integration at least cost.
- This requires government to government agreements rather than a top-down European Union style arrangement
- It could mean variable speed membership. How would this work?
 - Looking closely at the Swiss and Norwegian approach as observers to the European Union
 - A more ambitious focus on Mutual recognition arrangements - of selected standards and/or selected qualifications. You could for instance start with
 - Mutual recognition of engineers and architects across sing- ANZ (and UK);
 - Have a similar standard on a range of ag products;
 - Sign a mutual recognition with say the Philippines for nurses
 - Other approaches that may deliver “comfort” to those who want to join but not be involved in selected parts of the arrangement e.g. people movement
 - Preferences need to be protected against erosion over time
- Creation of a demonstration effect – as the majors turn away from trade, **we want to turn the willing on to trade.**
- We should not underestimate the power of this approach

What might the value proposition be for standards?

Standard alignment through a cluster of mutual recognition agreements needs investigation

- Kindleberger (1983), (Leland, 1979), (Ronnen, 1991), (Katz and Shapiro, 1985, Farrell and Saloner, 1985), (Verhoogen, 2008) all point to the benefits of standards.
- We know that standards contribute up to 13% of the growth in global trade (Schmidt and Steingress, 2022).
- At a product or services level standards can improve product area trade flows by 0.59% per annum
- New mutual recognition agreements that are underpinned by standards are one of the main factors driving dynamic efficiency (innovation) in trade
- New Zealand has set a stretch target to double its exports in 10 years
- In September year 2023 total New Zealand exports \$US 60 billion (when the objective was set)
- In September year 2033 total New Zealand exports are aimed to be \$US107 billion
- \$6.1 billion will need to come from aligned standards (supported by mutual recognition)

In parallel is there an opportunity to “kick start” other activities that can create value through the DEPA?

Criteria

- It would need to benefit all
 - If possible, something that each country joining would be able to “sell easily” the general public
 - Makes economic sense – with an eye to the future
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- Paperless trade fits this criteria.
 - We know what the benefits are – we know they are large
 - We also know the challenges that face internally and externally
 - To overcome these challenges will require making the benefits look really attractive
 - For example, using the DEPA we could drive further connectivity over and above the benefits of deeper integration

Final thoughts

- No use dwelling on what the majors may or may not do
- We have agency and we need to make play
- New Zealand needs to play to our strength: CER has transformed the New Zealand economy along with other reforms in the 1980s:
 - It has created new industries (the wine industry)
 - Positively change our social and economic relationship with Australia
 - Produced an outward looking economy that is able to capitalize on opportunities that have arisen: We truly do have a China plus trade strategy the approach suggested here is consistent with that approach
- Mimicking the success of the CPTPP using CER as a vehicle to drive integration further we can mitigate the worst aspects of the trade behavior of the majors.
- To meet our ambitious goals lots of things will need to right. Two areas where substantial gains will need to be made are:
 - Mutual recognition agreements leading to standards alignment
 - Paperless trade