Expanding CER and ASEAN

Initial policy scan: economic rationale and creating wins for all

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Summary

The NZIER has been involved in a number of projects examining how New Zealand can deepen its relationship with ASEAN and East Asia

As part of this process, the NZIER has examined:

- Why these agreements are important: static gains vs dynamic gains
- How should we go about such a process given the "trade head winds" the whole world is experiencing? Is this a good time?
- What could be the potential candidate areas for deepening?
- What would the value be to ASEAN and New Zealand?
- What would the implications be? It needs to be "win – win"

Strategic context

- The protectionist jungle is growing back
    - The majors are not listening (two generations on – they have forgotten)
    - The WTO has largely been played out of the game (but always a good place to talk)
    - Small to medium sized countries are likely to be impacted seriously
    - Wider chilling impacts are already dampening down world demand (in terms of GDP growth)

- ASEAN and New Zealand is exposed because of its reliance on exports and has limited new FTA prospects

- Aim is to make more from existing agreements through deeper integration so all can benefit

- How should we think about deepening integration?

- Closer Economic Relations (CER) with Australia may be referenced as a starting point from which ASEAN nations, Australia and New Zealand develop coalitions of the willing. Topics for discussion could be, but not limited to:
    - Skilled labour movement
    - Technical barriers to trade and Sanitary and Phytosanitary measures
    - Regulatory cooperation and conformance
    - Non technical barriers to trade.

Why ASEAN? Why Now?

1 What next?

Move from free trade agreements to a focus on integration

To move from WTO+ agreements to WTO++ agreements

Getting more from what we have already

2 CER to SEM

Improve the benefits by developing a wider grouping.

Coalitions of the willing.

3 Wider group

Reaffirm ASEAN centrality

Consistency with CPTPP, AANZFTA, WTO, RCEP

4 Structure

Create a variable speed integration process where countries can choose the degree of integration.

5 Focus

Kick start the process with agreed focus areas

Approach over time

- ASEAN's proximity, growth, and trade involvement signal its importance to New Zealand
- Importance of Singapore as an anchor/launch point/hub
- Risk of exclusion if New Zealand does not proactively engage in integration frameworks

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Building on CER Success – a blueprint

- CER has evolved into SEM (Single Economic Market)
  - Signed in 1983, generally seen as a high-quality comprehensive agreement. It has been very successful.
- Emphasis on behind-the-border reforms: mutual recognition, regulatory cooperation
  - Australia and New Zealand have worked hard at attempting to bring together the two economies
- Relevance of CER dynamics as a model
- The politics is focused on the static gains from trade in a mercantilist model. These provide the concrete trade "wins". Almost in every case these gains completely underestimate the actual impact in terms of what actually occurs and the magnitude of the benefits to both sides – imports and exports.
- The real gains are dynamic. Hard to estimate (and even describe). This is because economic actors grab the opportunities that present themselves in ways that were closed off unseen prior to the agreement.

Focus areas that could be used as demonstration effects

Aim was to quantify the impacts to New Zealand – is this worth pursuing with those who want to participate? We have not as yet quantified the impacts on ASEAN nations since:

- It takes two regions or more and we don't know who the prospective partners might be
- The more regions involved the higher the benefits and the easier it is to sell domestically
- It is the fine details of what might interest partners that drives the analysis

We not have calculated the impact on the coalition of the willing (ASEAN regions or Australia), but we do know from other work and the impact of CER on Australia and New Zealand that gains from trade will occur for all parties.

Four key levers:

- Skilled labour mobility
- Reducing Technical Barriers to Trade (TBTs) and SPS measures
- Regulatory cooperation and conformance
- Reducing Non-Technical Barriers to Trade

Link each lever to measurable outcomes (GDP, investment, trade flows)

Labour mobility benefits

- Advantages
    - Filling skill shortages
    - Provide new skills that enhance productivity in the receiving country
    - Enhance cooperation – building competence/capacity in the donor nation
- Disadvantages
    - Brain drain – it does have a labour market training impact
    - Infrastructure burden – particularly housing
    - Politics can intervene – social tolerance
- Empirical literature
    - Big gains in Europe – not really applicable to the New Zealand situation
    - Edo (2019) in a meta study suggested neutral to small impacts from skilled migration

Tackling Technical barriers and Sanitary and Phytosanitary measures

Technical Barriers to Trade (TBT) rules, governed by the WTO TBT Agreement, are measures that regulate products through technical regulations, standards, and conformity assessment procedures.

- There are legitimate reasons for using TBTs and SPS measures
    - TBTs can be used for product safety, environmental protection, or national security reasons.
    - SPS constraints to trade can be legitimately used to protect human, animal, and plant life and health.
- The problem occurs where these measures are applied too stringently
- There are a spectrum of agreements that can be considered. They run from simply sharing information through to adopting the same regulatory measures.
    - A practical strategy is to adopt international standards. For food, many countries align their standards with those developed by the Codex Alimentarius Commission, which sets global benchmarks for food safety and quality.
- There are clear benefits from reducing redundant SPS and TBT barriers. Reducing TBT/SPS issues by 10% will increase trade by more than 1%.

Regulatory Cooperation and Investment

- Regulatory cooperation is a critical tool for fostering economic integration and stability.
    - By aligning national regulations, reducing friction in cross-border transactions, and building mutual trust, regulatory cooperation and conformance can reduce barriers to trade and investment while enhancing financial resilience.
    - As nations confront common challenges – ranging from climate-related financial risks to digital finance and cross-border capital movements – the need for cooperative regulatory frameworks has grown more urgent.
    - Well-designed regulatory cooperation helps create a more predictable, transparent, and efficient environment for cross-border economic activity.
- Empirical evidence supports regulatory cooperation agreements:
- Literature suggests that regulatory convergence does not merely facilitate market access – it actively drives deeper capital market integration, allowing investors to allocate capital more freely across borders and enhancing market efficiency on a global scale Silvers (2021).

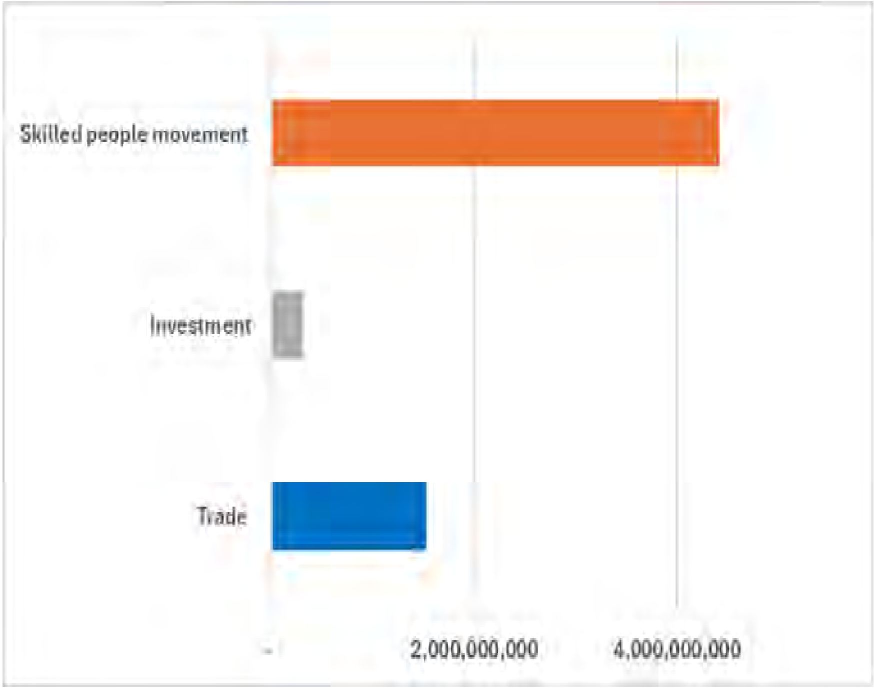
Addressing non-technical barriers

Non-technical barriers to trade are trade restrictions that are not tariffs. They include various regulations, policies, and practices that can make it difficult or costly for goods and services to be imported or exported.

- Non Technical barriers encompass rules, regulations, or procedures that – while not involving tariffs or technical product standards – nevertheless restrict trade.
    - These measures are typically administrative or procedural. Can lead to increasing the cost or complexity of trading.
    - Their effect often favours domestic producers in the importing country by limiting foreign competition through regulatory or institutional mechanisms.
- In practice, they can take the form of burdensome customs documentation, non-transparent licensing systems, discriminatory procurement rules, or finance and investment-related constraints.
- There are clear benefits from reducing redundant non-technical barriers.

Static estimates of possible benefits

Total contribution to GDP for New Zealand was approximately $NZ 6.2 billion (US $ 3.66 billion) over and above what we have now. Over twenty years with a present value 6%.



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Implications

To achieve these gains will requires behaviour change

- We have provided the New Zealand government with an initial scoping report that sets out the likely gains from trade from small improvements in behind the border cooperation for both ASEAN and New Zealand
- These come from:
    - Incremental improvements in skilled labour movement
    - Agreements on cross border regulatory cooperation
    - Improvements in trade
- From this initial report. We have become aware of benefits for importing ASEAN nations.
- These include:
    - Benefits to importers who use New Zealand products as a raw material into exports
    - Benefits to consumers from better quality at cheaper prices
    - Increased regional flows with third countries
- Initial agreements are the start. Dynamics will be the main economic prize for all nations that participate.
- Is it the right time?