

**Submission to the Joint Study by the Australian Productivity
Commission and the New Zealand Productivity Commission on
Strengthening Economic Relations between Australia and New
Zealand**

Peter Lloyd

**Submission to the Joint Study by the Australian Productivity
Commission and the New Zealand Productivity Commission on
Strengthening Economic Relations between Australia and New
Zealand**

Scope of this submission

This submission is principally concerned with general issues, especially the question of how far economic integration should go and, most importantly, the principles on which any further harmonisation and coordination of the economic policies of the two countries should be based. There are many policies in the markets for goods, services, factors and assets which need to be addressed by the joint study but each has aspects and concerns specific to it. As a retired academic I do not have the resources to pursue these in detail, though comments will be made on some.

As a preliminary point, I shall take “closer economic relations” and “economic integration” to encompass all inter-government agreements between the two countries. A number of bilateral Australia-New Zealand Agreements have been made outside the framework of the Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) treaty; for example, the Trans-Tasman Travel Arrangements, the agreements relating to social security payments for Australians residing in New Zealand and New Zealanders residing in Australia, the agreements on medical treatment, aviation services, competition law, double taxation and fees for students who cross the Tasman for study. In fact, there is a large body of policy agreements and cooperation outside ANZCERTA. Economic integration must consider all bilateral agreements, whatever the legislative source or administrative arrangement under which they are made.

The occasion of the thirtieth anniversary of the Closer Economic Relations (CER) Agreement next year presents an opportunity to extend the policies covered by CER. This opportunity should be seized. Political goodwill between the two countries is as high as it has ever been. Moreover, there has been a tendency recently for New Zealand discussions of policies bearing on CER to pay more attention to existing

Australian policies and to seek to harmonise New Zealand policies with those in Australia; examples include recent debates in the New Zealand press relating to the regulation of FDI, boat people and assistance to tertiary students,

Past extensions of policies covered by CER since its inception in 1983 have been ad hoc, except to some degree the announcement of the Single Economic Market (SEM) initiative in 2004. Consequently it is essential that new reforms be carefully thought through as a package and designed to lead to clear goals.

General principles for trans-Tasman economic integration

Future bilateral reforms should be based on a vision of the economic integration of the two national economies. There are a number of possibilities.

The ultimate form of economic integration would be for New Zealand to accede to the Australian Federation, as provided in the Australian Constitution. This would fully integrate the two economies into one Single Economy, with uniform laws and regulations in all areas covered by Commonwealth law. Of course, this would involve much more than economic integration. However, this extreme is outside the Terms of Reference of the joint study which refers to “economic integration”, following the language of the Single Economic Market which carefully circumscribed the extent of possible cooperation between the countries.

There is one feature of the two economies which is relevant to this and some other options. This is the size asymmetry of the two nations. In terms of population Australia is five times the size of New Zealand. In terms of real GDP, Australia is roughly eight times the size of New Zealand.¹ And these size differences are increasing as Australia has a higher trend rate of growth of both population and real GDP per capita. Moreover, CER is more important to New Zealand than to Australia in almost all markets. In many areas of policy harmonisation and coordination, it would be the small nation which would have to accommodate to the policies of the larger nation.

The implication is that A Single Economy would severely handicap policymaking in New Zealand in particular. It would forgo two major instruments of independent national policymaking, namely an independent monetary policy and a wages policy relating to minimum and award wages.

This feature is relevant to another possible area of economic integration under CER, namely, the possibility of the two countries adopting a monetary union. This would mean the adoption of a single common central bank and a single common monetary policy. This possibility has been mooted in New Zealand by its central bank, the Reserve Bank of New Zealand, and other groups but it has never been mooted or commented upon by the Australian Reserve Bank. I have set out my analysis of this option at some length in Lloyd and Song (2006). We concluded that a case for monetary union has not been established and that is still my view. Differences in the output mix and consequential difference in the import-export mix of the two economies will remain for the foreseeable future because of differences in national land and resource endowments, even if more economic policies converge. This view was endorsed by Scollay, Findlay and Kaufmann (2011, pp. 68-70).

Next, we must consider the possibilities of a Single (Economic) Market. The first difficulty is that the meaning of this concept is far from clear. The term was taken from the precedent of the Single market of the EU, created by the Single European Act of 1987.² Unfortunately, the EU has not defined the term either. The central idea of a Single Market is that there should be *no discrimination* according to source in the regional markets for goods, services or factors, thus creating a market that should be a single market with no geographic segmentation.

To give precision to the concept of a single market, economists have defined a single market for one commodity as one in which the Law of One Price must hold for all sales of all commodities, including factors and assets, in the market; see, for example, Lloyd (1991) and Flam (1992). For a Single Market, there should be a single price in the region-wide market for every tradable commodity and factor, expressing all prices in a common currency and adjusting for the real costs of moving goods or factors between locations.

To achieve the Law of One Price in the market for some commodity requires several conditions: the removal of all restrictions on border trade, plus full national treatment for a commodity or service or factor subject to domestic taxes, charges and regulations, harmonization of business practices and laws that may discriminate against foreign suppliers, plus a competition policy to ensure there are no business practices restrictions on trade or sales. (For further discussion of a single market, see Lloyd, 2005).

With this definition, economic integration is the process of achieving a single market. The economic justification for this objective is that the elimination of price differences in a geographic area leads to allocative efficiency gains, as described in general equilibrium welfare economics. This applies to a region within the world economy.³

This interpretation of the goal of a single market indicates several areas of policy coordination which should yield positive gains. In relation to remaining border restrictions on trade in goods, services and factors, these include

- improving rules of origin for trade in goods
- removing the remaining listed exceptions to free trade in services
- free trade in investment
- harmonising immigration restrictions

Other changes may be warranted to business laws, competition policies and other beyond-the-border laws and regulations that discriminate against imports of goods and services from the trans-Tasman partner, but these need to be investigated individually. Some comments will be made on each of the four above policies.

Improving rules of origin

Rules of origin are the most important impediment remaining to the movement of goods across the Tasman. Rules of origin are inherently trade-restricting but some rules are necessary in a free trade area to prevent trade deflection. They are also trade-distorting as they give an incentive to producers to use inputs sourced from the partner country in order to satisfy the rules. Rules of origin are recognised as a

problem in all free trade areas. Rules of origin for goods shipped across the Tasman have been amended several times. In 2006, the change in tariff classification method was introduced as the principal method of determining origin, with importers retaining the option of using the old regional value content method. In 2009 the use of the regional value content method was further reduced and in 2012 the factor cost method of working out the regional value content was ended. The rules still impose substantial compliance costs on importers.

There are two changes to the rules of origin which could eliminate or reduce substantially the trade-restricting and trade-distorting effect of these rules. They are

- (i) introduction of a common external tariff
- (ii) a waiver rule.

The introduction of a common external tariff would change the basic nature of the agreement relating to trade in goods from a free trade area to a customs union. Hitherto, this has not been considered. It has been taken as axiomatic that each country wishes to retain its own schedule of tariff rates on individual tariff items. However, lowering of tariff rates in both countries over the last two decades means that the differences in tariff rates on individual items between the two countries are much less than they were. Australia had an average import-weighted tariff rate of 3.9 per cent and New Zealand of 2.2 per cent, according to the WTO Tariff Online database, in the latest year available with comparable statistics, 2009. The tariff structures are broadly similar, making the movement to a common external tariff a possibility.

One major obstacle is the difference on tariffs applied to motor vehicles. The MFN tariff on imported fully assembled motor vehicles in Australia is currently 15 per cent and imports of used or second hand motor vehicles are subject to a tariff of 15 per cent too. By contrast, in New Zealand the rate of duty on imports of both new and used assembled motor vehicles is zero. The Australian Government will probably not contemplate a reduction in the MFN rates applying to the industry at the present time. The current Gillard Labor government and the preceding Rudd Government have both made clear their determination to retain a motor vehicle industry in Australia and they have increased levels of assistance to the industry. Consequently, if a common

external tariff were adopted New Zealand would have to raise its tariff rates on the products of the industry. It would be loath to impose these deadweight losses on buyers. But the advantages of dispensing with rules of origin might outweigh these costs and it may be possible to compensate motor vehicle buyers by an offsetting reduction in registration fees or other taxes.

The second possible change to rules of origin is a waiver of the type advocated in the Productivity Commission (2004). In this report the Productivity Commission recommended that

“A ‘waiver’ should be introduced to provide automatic duty free entry to any goods:

- manufactured within Australia or New Zealand(i.e as defined in recommendation 2) and
- for which the difference between the Australia and New Zealand MFN tariff rate is 5 percentage points or less.

A waiver once granted, should not be removed.”

This proposal is based on the same logic as the removal of rules of origin when a common external tariff applies, i.e. when the MFN rates are equal for all tariff items. If the rates are equal on an item, or by extension within a small range of each other, there is no prospect of trade deflection. A similar proposal was made at about the same time in the US by Hufbauer and Vega-Canova (2003).

This change would greatly reduce the extent of the application of rules of origin on trans-Tasman trade. The Productivity Commission calculated that 40 per cent of the tariff items had a MFN tariff rate of zero in both countries and 44 per cent had MFN tariff rates that differ by 5 percentage points or less in both countries. These figures would be higher now. This is the most effective way of reducing the costs of compliance without incurring any greater risk of trade deflection.

There is, however, one potential drawback to this scheme which was not anticipated by the Productivity Commission. It assumes that all imports from non-Tasman countries enter Tasman countries at MFN rates. A problem arises under this rule when

the trans-Tasman source country has another bilateral agreement or agreements with a third or fourth, etc country. For one tariff item, the preference rate applied to an import into the source country under the third party agreement may be less than MFN rate and possibly even zero. In this event, a supplier from the third country could ship the product to the Tasman supplier country and then to the second Tasman country, thereby avoiding the duty which would be payable on a direct export to the importing Tasman country.

Both Australia and New Zealand now have a number of bilaterals, that is, they are hub countries. However, most of the non-CER bilaterals are common to both countries: those with Singapore, ASEAN, Thailand, Chile and most recently Malaysia. In the case of China, New Zealand has an agreement and Australia is negotiating with these countries. The most significant exception to this pattern is the US as Australia has an agreement with the US but New Zealand does not, though it is a party in the Trans-Pacific Partnership Agreement negotiations.

As an alternative, the waiver rule could be applied with an exclusion to tariff items where trade deflection is likely.

Removing the remaining listed exceptions to free trade in services

Under the negative listing that has applied to trade in services across the Tasman since the inception of the CER Services Protocol in 1989, free trade in services has applied to all services except a small number listed by each country. The list has contracted. The remaining exclusions are, for Australia, in the area of air services, broadcasting, third-party insurance, postal services and coastal shipping and, for New Zealand, air services and coastal shipping.

These exclusions should be eliminated. The efficiency gains from free trade in services for the remaining service industries are precisely the same as those for other service (and goods) industries. For example, the (Australian) Productivity Commission (2005) found that the Australian coastal shipping regulations, particularly cabotage restrictions, add to international transfer costs (as noted in Issues Paper for the Joint Study). If delisting is perceived as causing any problems in either

country or both countries, these should be addressed by policies that do not discriminate between service providers of the two countries.

Free trade in investment

CER is unique among all the regional trading agreements in the world in that it (or associated agreements) provides for free movement of labour and people between the two countries but not for free movement of capital.

In February 2011 Australia and New Zealand signed an Investment Protocol to ANZCERTA. The Investment Protocol provides for preferential treatment of investors across the Tasman in the form of lower thresholds for investment screening, and for reciprocal MFN for trans-Tasman investors. Thus it will introduce trans-Tasman investment preferences in parallel with the existing preferences that apply to trade in goods, services and labour. But it does not commit the nations to free investment flows.

A Single Market implies the removal of remaining restrictions on trans-Tasman movement of capital and National Treatment for investors. This applies to both foreign direct movements and portfolio capital movements.

The efficiency gains in the case of investment flows derive from the movement of capital to the location where the marginal productivity of capital is greatest. These efficiency gains from freeing the movement of capital are standard and do not need elaboration.⁴ Commitment to a Single Market for capital would also signal to investors from outside the region that Australia and New Zealand are a larger single market.

Complete liberalisation of flows across the Tasman would not be a big change as investment flows between Australia and New Zealand are mostly free at the present time because the FDI restrictions have been relaxed in both countries. Trans-Tasman investment flows have been mostly from Australia to New Zealand. In particular, there is a strong presence by Australian service companies in retailing, real estate and financial services.

There is one obstacle to the complete liberalisation of capital flows between Australia and New Zealand, namely the 2005 Australia-US Free Trade Agreement. Two provisions of this Agreement are relevant to the debate about liberalising Australia-New Zealand investment flows. First, the MFN Treatment provision of Article 11.4 commits Australia to grant to US investors the treatment it offers to investors from another country under another trade agreement. If Australia and New Zealand therefore make a commitment to free flow of capital between them, Australia would have to extend this to US investors. Second, US investors receive preferences over other foreign investors in Australian markets under the bilateral treaty in the form of lower threshold levels for review of foreign investment proposals. This introduced preferences into Australian FDI inflows for the first time.

In my view, there is a much stronger case for investment preferences applied by Australian to New Zealand investors than there is for investment preferences to US investors. The Australian and New Zealand economies are much more highly integrated than the US and Australian economies, and the Australian and New Zealand economies are pursuing a Single Market strategy that may lead to complete economic integration (which I support and wish to advance). The method of regulation of FDI inflows is much the same in the two countries. Both rely on a national interest criteria and restrict inflows by means of screening projects of large capital value.⁵

The problem lies in the movement to free trans-Tasman investment together with the operation of the MFN provision of the Protocol. If both were adopted, this would obligate Australia to removing all investment restrictions with the US. I do not support this outcome. The MFN Treatment provision of the AUSFTA may have the unforeseen and undesirable consequence of preventing complete investment liberalisation between Australia and New Zealand.

There is another issue if the two countries grant each other investment preferences. With separate independent regulations vis-à-vis third countries, an exchange of preferences poses the following problem: a third country investor which had invested in one CER country might then be able to invest in the second CER country when the regulations of the second country would restrict the same investment originating in the third country. The Investment Protocol does not address this issue.

This possibility could be overcome by introducing rules of origin in the area of investment that would restrict preferential investment access to investors considered to be Australian or New Zealand. A precedent in this area of regional trade agreements was set by the ASEAN Investment AREA which introduced rules of origin to separate genuine ASEAN investors” from “non-ASEAN investors”. Another way of overcoming this possibility would be to introduce common investment policies and procedures vis-à-vis third countries, by analogy with common external tariffs in the area of policies relating to trade in goods. A slightly weaker and more readily acceptable form of harmonisation would establish common policies and procedures with lower thresholds for the smaller New Zealand economy.

Harmonising immigration restrictions

Citizens of Australia and New Zealand are free to move across the Tasman for labour or other purposes. This provision is currently covered by the 1973 Trans-Tasman Travel Arrangements (as noted in the Issues paper, Box 1) but there were earlier arrangements that date back to the 1920s (see Burnett, 1980). The Trans-Tasman Mutual Recognition Arrangements are designed to ensure that, once movement for the purposes of labour has taken place, there are no impediments to the recognition of labour market qualifications.

There is one remaining issue. As with trade policy, both countries have retained independent screening of potential immigrants from outside the Tasman area. Differences in immigration criteria and assessment methods mean that there is a possibility of “people deflection” analogous to trade deflection. This occurs if potential immigrants wanting to emigrate to one Tasman country are prevented to do so by that country’s assessments but are able to enter the other Tasman country and after acquiring residence and citizenship to then move to their country of first choice. Because of its higher per capita incomes and larger established immigrant population, this means in practice emigrants going first to New Zealand then to Australia. Australian and New Zealand immigration statistics reveal that an increasing proportion of New Zealand citizens migrating to Australia are of third country origin. In 2009-10, there were about 6,400 such third country persons moving from outside

the Tasman area to Australia via New Zealand (Australian Bureau of Statistics, 2010, p. 4). Some of these may not have been planned as three-point movements.

The obvious method of avoiding deliberate three-point movements is for the two countries to adopt common immigration policies; criteria for settlement and procedures. This would have the added advantage of allowing the two countries to dispense with border immigration controls for all people movements between Australia and New Zealand. There is an international precedent for this in the Schengen Agreements of the European Union. The subset of EU countries that have signed these agreements form the “Schengen Area”. Movement across national borders within this area is not subject to any border controls or checking.

The national systems of immigrant screening are already very similar. For non-refugee movements, both operate a points system. For refugee movements, both countries admit refugees for permanent residence in significant numbers. In early May 2012, in response to the desire of one boatload of Falun Gong boatpeople from China to go to New Zealand, the New Zealand Prime Minister announced changes to the regulations governing asylum seekers arriving illegally, which brought the New Zealand regulations closer to those of Australia.

In my view movement to a set of common border immigration policies is feasible and desirable.

Some Comments on Specific Questions

Q. 12. When considering the benefits and costs for each country, how should outcomes for citizens of one country who are resident in the other be taken in to account?

The magnitude of trans-Tasman migration in recent years makes this a significant feature of calculations. The number of New Zealand-born people living (resident) in Australia is calculated by the Australian Bureau of Statistics to be 529,500 in 2009. In the 20 years from 1989 to 2009, this number has increased by 89 per cent. The number of NZ-born people living in Australia has increased as a percentage of the

Australian population (from 1.7 per cent in 1989 to 2.4 in 2009) and slightly more sharply as a percentage of the New Zealand population (from 8.5 per cent in 1989 to 12.3 per cent in 2009). The rate of migration from New Zealand to Australia is expected to increase. One reason is the higher average real incomes in Australia. Wage rates are generally 30 per cent plus higher in Australia for comparable jobs, and the statistics of GDP per capita in PPP terms show that the average real income in Australia is some 45 per cent higher than that in New Zealand. Moreover, average real incomes are continuing to diverge.

If the present rate of more than 50,000 New Zealand emigrants were to continue for another ten years, roughly one fourth of all people living and born in New Zealand will be resident in Australia.

This scale of movement makes it difficult to maintain the usual presumption that nations are concerned with the welfare of the current resident population. In the case of New Zealand, there is growing awareness of the number of NZ-born people now living in Australia and a suggestion that their welfare should be considered by New Zealand in the CER debate. NZ-born people living in Australia are still citizens of New Zealand and entitled to vote in New Zealand elections. Many, perhaps most, New Zealand residents have one or more relatives in residing in Australia.

Yet, there are few issues in which the choice of current New Zealand population or the current population plus NZ-born people living in Australia will make a difference to the policy choice. Policy reforms in the direction of liberalising trade in goods, services or factors will increase real incomes in both countries.

Q.21. Should trans-Tasman integration policy be accompanied by specific adjustment assistance measures? If so, what form should they take?

No, the magnitude of the adjustments to the policies mooted above is not sufficiently great. The combined adjustments would be much less than those caused by the liberalisation of goods trade in the five years following the introduction of CER in 1983.

Q.14 What is the appropriate 'end-point' to trans-Tasman integration?

The end-point should be a Single Market (== no discrimination).

Q. 18. Should trans-Tasman integration policy be designed to complement broader initiatives? Would there be net benefits in multilateralising some elements?

I would rather rephrase the first question as – are there elements of policy where the governments need to consider the effects of possible agreement in one bilateral trade agreement on other agreements. The answer to this is definitely yes.

One clear example is rules of origin where Australia is facing pressures for different systems in different negotiations.

A second example is the use of MFN clauses in the investment provision of one agreement. I have noted above the restraint which the MFN investment provision of the Australia-US FTA imposes on the future of CER investment liberalisation.

Q.32. In which areas (if any) would the adoption of a single trans-Tasman regulator yield net benefits through more efficient delivery of the regulatory functions and/or lower costs of regulated business)?

One possible candidate is competition policy.

In the course of the evolution of CER, a number of steps have been taken to increase the cooperation between the competition authorities of the two countries but we have maintained two independent authorities which make decisions on the basis of the effects on the respective national economy. In the case of the proposed merger of QANTAS and Air New Zealand, the actions of the ACCC and the NZCC and the respective appellate bodies are sometimes cited as an example of the application of trans-Tasman competition policy (for example, Scollay, Findlay and Kaufmann, 2010, p. 49). Yet in this case the competition authorities and the appellate bodies reached opposite conclusions.

A Single Market requires a single competition law in cases which significantly affect both national economies. Australia and New Zealand took a step in the direction of uniform laws in the 1990 Trans- Tasman provisions. However, these are quite limited as they only apply to cases involving the abuse of market power (or a dominant market position in New Zealand) and they do not apply to markets exclusively for services. Competition issues in a Single Market which affect both economies should be decided on the basis of uniform law and procedures and in the interests of the combined area.

This logic does not lead necessarily to a single regulator. We need to distinguish between competition cases which affect both economies significantly and those which affect significantly only one national economy. Only the former should be subject to common competition law and procedures. The precedent here is the European Union. Under the principle of subsidiarity, cases which have pan-European implications are handled by the EU competition authority, Directorate-General IV, and cases which have national implications are decided by the national competition authorities under separate and distinct national laws. This need might be met in CER by the legislative provision for the two national competition authorities and appellate bodies to meet and decide jointly cases of CER interest.

Q.36. What are the most important considerations regarding the sequencing and timing of integration policy reforms?

I cannot see any likely policy reforms which raise major issues of sequencing or timing as the magnitude of adjustments is small.

Final Remark

The examination of four issues concerning liberalisation of laws and regulations relating to the movements of goods, services, and factors and the answers to some specific questions posed in the Joint Study Issues Paper both show in my view the need for an overall vision of where CER is heading and the need to look at the policies as a package. The vision I have advanced of a Single Market in the sense of no discrimination leads naturally to consideration of common policies such as

common tariffs, common laws and regulations relating to foreign investment and people inflows from third countries and competition laws as well as the reduction in border barriers to these flows. This is the same logic that drove the European Union first to a common market and then to a single market. The policies, institutions and culture are much closer between the trans-Tasman countries than they are among the European union countries.

P. J. Lloyd

REFERENCES

- Australian Bureau of Statistics (2010), *Australian Social Trends September 2010, New Zealanders in Australia*. Catalogue No. 4102.0. Canberra: Australian Bureau of Statistics.
- Burnett, Robin (1980), *The Australia and New Zealand Nexus Annotated Documents*. Australian Institute of International Affairs and the New Zealand Institute of International Affairs.
- Cheong, David, (2010), “Methods of Ex Post Evaluation of Free Trade Agreements”, Asian Development Bank Working Paper Series on Regional Integration No. 59, October.
- Commission of the European Communities (1985), *Completing the Internal Market: White Paper for the Commission to the European Council*. Luxembourg: Office for Official Publications of the European Communities.
- Holmes, Sir Frank (1991), Commentary” in P. J. Lloyd, *The Future of CER; A Single Market for Australia and New Zealand*. Wellington, New Zealand: Institute of Policy Studies.
- Hufbauer, G. and G. Vega-Canovas (2003), “Whither NAFTA: A Common Frontier?” in P. Andreas and T. J. Bierstecker (eds.), *Integration and Exclusion in a New Security Context*. Routledge.
- Lloyd, P. J. (1991), *The Future of CER; A Single Market for Australia and New Zealand*. Wellington, New Zealand: Institute of Policy Studies.
- Lloyd, P. J. (2005), “What is a Single Market? An Application to the Case of ASEAN”, *ASEAN Economic Bulletin* 22, no. 3, 251-65.

Lloyd, P. J. and Lei Lei Song (2006), “A Currency Union between Australia and New Zealand”, *Economie Internationale*, 107, 149-72.

(Australian) Productivity Commission (2004), *Rules of Origin Under the Australia-New Zealand Closer Economic Relations Trade Agreement*. Canberra: Productivity Commission.

(Australian) Productivity Commission (2005), *Review of National Competition Reforms*, Report No. 33. Canberra: Productivity Commission.

Scollay, Robert, Christopher Findlay and Uwe Kaufmann (2011), *Australia New Zealand Closer Economic Relations Trade Agreement (ANZCERTA) and Regional Integration*. Singapore: Institute of Southeast Asian Studies.

¹ In comparing real GDP, it is preferable to use the estimates of GDP calculated at PPP exchange rates rather than the more common estimates of GDP measured at market exchange rates. The former show that the real Australian GDP is 7.8 times that of the New Zealand real GDP. The data are taken from the IMF World Economic Database for the year 2011.

² This writer was the first person, to his knowledge, to suggest that CER become a single market (Lloyd, 1991). The suggestion was made when both countries were considering a major review of the ANZCERTA. It met with opposition initially in New Zealand (see Sir Frank Holmes, 1991 and others cited in Foreword to Lloyd, 1991) and indifference in Australia. At that time, the first Secretary of the New Zealand High Commission in Canberra wrote that “...your proposal for progression to an all-embracing single market post 1992 goes beyond what either Government is contemplating..” (private communication). However, the objective of a single market was adopted 13 years later.

³ The one potential objection to positive efficiency gains from regional economic integration is trade diversion. This was raised by Viner (1950). Although it is still widely cited, the Vinerian concept is outdated. The general equilibrium theory of customs unions shows that, when it occurs, Vinerian trade diversion need not be harmful to the country whose trade is diverted because it is accompanied by other positive expenditure and production efficiency gains. In any case, the likelihood of trade diversion has been reduced greatly by the unilateral reductions of MFN rates in both countries and by their both signing multiple regional trade-liberalising agreements. For further discussion of measuring welfare gains, see Lloyd and MacLaren (2004) and Cheong (2010). In practice, empirical studies using computable general equilibrium models find positive gains from regional integration, almost without exception.

⁴ Strictly speaking, the positivity of the grins from free trade in capital also requires equalisation of taxes and beyond-the-border business regulations that cause rates of return to diverge. These are being harmonised though some differences remain; for example, the non-recognition of dividend imputation credits about which businesses complain.

⁵ In both cases screening is done by offices which are quite separate from those which review policies relating to trade in goods and services. In Australia screening is done by the Foreign Investment

Review Board, a branch of the Commonwealth Treasury and in New Zealand by the Overseas Investment Office. part of Land Information New Zealand.

There is a strong case, in my view, for a review of foreign investment policymaking in both countries but this is outside the terms of reference of the Joint Study.