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A SINGLE ECONOMIC MARKET FOR AUSTRALIA AND NEW ZEALAND?

At the recent Australia New Zealand Leadership Forum in Melbourne, there was considerable discussion about the possibility of a single economic market for Australia and New Zealand, and what shape such a market might take.

As one of the speakers on this topic, I suggested that the objectives of the forum should be to explore ways to promote free trade between the two nations in goods and services, capital, knowledge, and people. These objectives should ideally apply both externally, to both the Australia/New Zealand relationship and with respect to our relationships with the rest of the world, and internally in the sense that the greater are the flexibilities in our domestic markets, the greater are the chances of us achieving improved productivity growth.

The work in progress within the forum, and matched by work which a range of officials' groups have underway, included ways in which the two countries could work together more productively on industry regulation (such as aviation, banking, and therapeutic products); border issues (such as rules of origin, mutual recognition arrangements and border processes); business sector issues (such as accounting standards, competition policy, consumer protection, securities offerings, corporate governance, and stock exchange matters); and taxation, including the reciprocal recognition of imputation credits.

Given the size, remoteness, and primary/resource-based nature of the two economies, the essential hypothesis underlying a possible single economic market would be the need to have compensating comparative advantages to enable both countries to be relatively more competitive vis-à-vis the rest of the world. These comparative advantages could include superior macro-economic policies (i.e., monetary and fiscal policies), lower taxes, less and more effective regulation, lower transactions and compliance costs, and a lower cost of capital. Achievement of these would help drive productivity growth and hence competitiveness.

The challenge for the forum seemed to me to be that while progress in an incremental fashion is being made on a range of issues, many of the so called big issues are much more difficult to address. These include the possibility of a common currency, common third party free-trade agreements, visa-free reciprocal entry, a common immigration policy, more effective labour market regulatory integration, taxation reform between us, and, of course, the major issue of security and defence integration which carries substantial commercial connotations as well.

The dilemma is that the big issues look hard to progress but this is where the real gains potentially reside. These are what would amount to a real single economic market. Progress on the big issues would yield the major gains for business, especially trans-Tasman firms.

Yet, on some issues, we seem to be going in opposite directions. For example, on banking regulation, Australia clearly wants greater integration whereas New Zealand is pursuing stand-alone capability for the major banks within New Zealand, even at a very substantial cost. On labour markets, Australia is proposing further deregulation whereas, over the last few years, New Zealand has

extensively re-regulated. On industry regulation, New Zealand has over recent years introduced a disconcertingly widespread array of new industry regulations.

My view on a single economic market is that it is not just about "harmonisation", but also about less and more efficient regulation; it is not about "common external tariffs" but also, and, more importantly, about lower tariffs; it is not simply a "single set of rules", it is also about fewer and better rules; it is not simply "border issues" or "trans-Tasman issues", but it is also about improved internal micro-economic policies on both sides of the Tasman.

It is not just about officials and regulators getting together, it is, more importantly, about business doing better, that is, having more competitive advantages.

The essence of the matter is that government policy effectiveness facilitates an efficient business environment. This applies to both internal and external policies. At the end of the day, business generates most of the economic growth. Whereas, macro-economic policies in both countries would typically get good grades from businessmen today, micro-economic policies are much more variable and much more questionable in their effectiveness.

This means that both countries could do a lot more to assess the real costs and benefits of regulatory interventions. Compliance and transactions costs are, in many cases, growing rather than easing, especially in New Zealand.

In summary, the most substantial issues which would comprise the underpinnings of a single economic market look politically hard to achieve. But, this does not mean we should not keep them on the agenda. Numerous other issues which are being worked on are helpful, but many of them are not truly substantive. Less and better regulation rather than simply harmonisation is the key. For this to happen, we need an enhanced process between Ministers and officials and business who have much more in common than is frequently realised.

The opportunities that could be provided by a single economic market between the two countries look substantial. Many businessmen think we should grasp them more firmly, but we need plenty of political courage to do this. It is not clear that this is forthcoming.

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