

"DRY SIDE" - CER > 4110 NO. 18 Closer Economic Relations

Before the publicity given the signing of the agreement, few Australians knew that the letters CER represented Closer Economic Relations with New Zealand, but New Zealanders knew. Not every Kiwi is in favour of CER but he does know about it, and does believe (I think rightly) that it is now inevitable come hell, high water or change of government at either end.

At least some New Zealand firms are adjusting to meet Australian competition in both markets. For instance Watties the food processors and canners - who for the most part opposed CER - have already pulled fruit trees. This attitude though not general is widespread. It can be favourably contrasted recent successful squeals to the Australian government for protection against New Zealand soft woods and tiles. In New Zealand this Australian action was described to me many times as under-arm bowling.

It is to be expected that CER should be a bigger issue in New Zealand than in Australia. After all, at least within the limited terms of CER, 3 million New Zealanders are throwing in their lot with 15 million Australians. Inevitably the 3 million will find that they make greater changes for good and ill than the 15 million.

New Zealand needs to open her economy. Not many Western nations have worse rates of economic growth than Australia, but New Zealand has. Not many nations have protected industry from the cold and cleansing winds of competition more than Australia, but New Zealand has.

Many Kiwis believe that Australia's marginally better performance reflects an abundance of mineral resources.

A more convincing argument is that New Zealand, being smaller, is even more dependent on exports and imports and has paid an even higher price for the barriers its own government has placed in the way of trade. After all, fertile soil in reliable and abundant rainfall, cheap hydro power and exceptional tourist attractions are natural resources more readily exploited than uranium deposits seem to be at the moment. Just as the Australian government sank the resources boom under the weight of trade barriers, tight regulation and loose money management leading to higher inflation, so the New Zealand government sank their potential grass and tourist boom.

The New Zealanders did the job more thoroughly and although one can never in another country be confident that a cross-section of the community has passed one's way I think New Zealanders are now better aware than we as to what actually happened. Hence, their interest in CER.

The whole CER debate in both countries is taking place almost entirely in terms of producers' interests. Consumers' are rarely mentioned. It is remarkable that even the strongest proponents of CER seldom make the obvious point that to the extent that CER is effective it increases living standards and slows down prices.

Trade is not a zero sum game; it happens only when both parties benefit. To prevent trade is to penalise both buyers and sellers.

When we imposed countervailing duties to offset the subsidy paid on New Zealand softwoods and tile exports,

we no doubt did the New Zealand taxpayer a favour but penalised both the New Zealand exporter and the Australian consumer. The underarm bowling analogy is a poor one; in cricket both teams don't lose.

With few exceptions Australian industries should have no great problem meeting competition from a small high cost economy. New Zealand's difficulty in adjusting to CER will be somewhat greater; but the truth is that New Zealand is hitching her wagon to a rather dull star. The real challenge to both nations is to meet competition from the rest of the world. It is Australasian trade barriers which must be lowered if we are jointly to prosper. 18 million people remain a small market, the combined yearly gross domestic product, a mere A\$150 billion remains a fairly small economy which must, to be efficient, concentrate on those things it does well.

CER would become a tragedy for Australia if it were seen as our gesture to freer trade, excusing us from further action in that direction. It would be a tragedy if either country were prevented from trading with the rest of the world in order to protect uncompetitive industries in the other. As Australia has on the whole the more competitive industry there is some risk to us that the tail might wag the dog. The risk is offset at least to some extent by the growing realisation among New Zealand businessmen that New Zealand must either trade or stagnate.

JOHN HYDE MP
FEDERAL MEMBER FOR MOORE