



126-2026

Looking forward, looking backwards

CER explained: What comes next for New Zealand's most important trade relationship?

CER's success and its limits

The Australia-New Zealand Closer Economic Relations (CER) Trade Agreement, signed in 1983, is a comprehensive free trade agreement that eliminated tariffs and quotas on goods traded between New Zealand and Australia and enabled deep economic integration across the Tasman.

CER is widely regarded as one of the most successful trade agreements between sovereign countries. The struggles at its creation are long forgotten – the powerful local producers' group, dependent on the continuation of high levels of protection, did not allow change without a fight.

But political will based on sound economics prevailed. The deal was done. It removed draconian barriers to entry in New Zealand (import licensing) and facilitated supply chain integration. It enabled firms to operate across the Tasman in an integrated way with relatively few obstacles. Over time, further initiatives such as the Trans-Tasman Mutual Recognition Arrangement (TTMRA) and the Single Economic Market (SEM) extended dual cooperation into regulatory and institutional domains.

CER did more than liberalise trade. It showed a practical way forward for, and then reinforced New Zealand's economic reforms, supported the creation of a more competitive export sector, and anchored both economies in an outward-looking model.

Key points

- **We are joined at the hip.** Through CER, we stripped away major border barriers, tightly integrated supply chains, and enabled firms to operate across the Tasman with minimal friction.
- **CER is now a victim of its own success.** What remains are the effects of behind-the-border frictions, regulatory differences, misaligned standards, and economically significant administrative costs that are harder to shift. Progress has become slower, more complex, and more politically constrained.
- **Incentives for deeper bilateral integration have weakened.** Australia is focused on larger strategic priorities, while New Zealand has shifted toward broader trade initiatives.
- **Treating CER as a platform,** not an endpoint, will allow New Zealand to project its strengths, especially in regulatory cooperation, into third markets such as ASEAN.
- **A practical path forward is incremental and coalition-based,** targeting areas such as standards alignment, reducing Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) barriers, and services. It aligns with New Zealand's broader trade strategy of pursuing pragmatic, economically coherent initiatives.
- **Over time, success in external initiatives can draw Australia** back in by linking trans-Tasman cooperation to wider regional opportunities.
- **The implication is clear.** Australia remains essential, but bilateralism alone is not enough. CER's future lies in sustaining a strong bilateral relationship while using it as a platform for outward-facing cooperation in a more fragmented global economy.

But CER's success has created a new challenge. The obvious gains have already been realised. What remains are technical, regulatory, and administrative barriers that are economically important but politically difficult. These do not lend themselves to headline-grabbing agreements or quick wins. They require sustained trans-Tasman coordination between institutions and often involve trade-offs around domestic regulation and sovereignty. The question is no longer whether CER has worked. It clearly has. The question is what comes next, now that what today seems like the low-hanging fruit has been picked.

Fundamentally, we need clarity on where bilateral frictions are best eliminated, whilst maintaining room for national differences to remain.

Perhaps, unlike tariff elimination, it would be erroneous to assume that New Zealand and Australia's 'behind-the-border' trade frictions can be entirely removed. These technical areas are often steeped in domestic policy considerations with differing political and historical contexts in each country.

Table 1 Contrasting first-generation integration (CER and the TTMRA) with second-generation frictions (what remains)

Area of integration	What CER solved	What remains harder
Border barriers (goods)	Goods protection (tariffs, quotas, import licensing)	Regulatory differences and SPS maintenance.
Market access	Basic market access issues	Regulatory restrictions affecting services and investment.
Standards and conformity	Mutual recognition (TTMRA)	Decoupling of standards.
Professional mobility	Recognition	Some specific professional qualifications or certifications still face hurdles.
Administrative burden	Reduced border friction	Paperless trade.
Business operating environment	Ability to operate across states/regions	Efforts continue to coordinate business law and banking supervision to allow companies to function more easily across the Tasman as if they were in their home market.
Consumer alignment	Lower prices, more choice, higher quality	Some missed gains from unresolved regulatory frictions.

Source: NZIER

The paradox of deep integration

The trans-Tasman relationship illustrates a broader pattern in trade policy.

Early-stage integration meant removing tariffs, import licensing, and quotas. It delivered large, visible gains that transformed the New Zealand economy (and helped Australia). These benefits (cheaper goods and greater choice) were relatively easy to

communicate, and consumers soon saw them in their day-to-day lives, so the costs (such as plant closures) could be justified politically. And the job was done, to the point that CER came into force 5 years earlier than scheduled.

Later-stage integration is different. It focuses on 'behind-the-border' barriers:

- regulatory differences

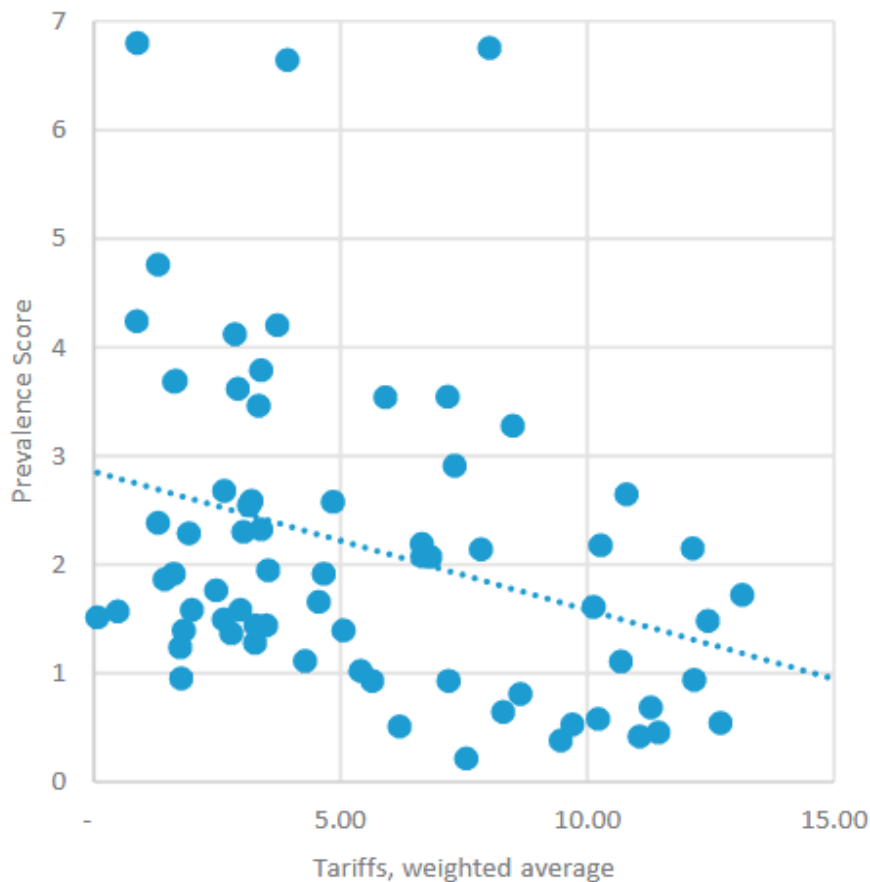
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- standards and conformity assessment
- licensing and professional recognition
- administrative and compliance costs.

These barriers matter. But the gains from addressing them are incremental, diffuse, and often difficult to gauge. The prevalence score

(a volume-based index of non-tariff measures, proven to correlate with trade frictions) in Figure 1 below shows that removing tariff barriers can be inversely related to non-tariff measures (NTMs). While NTMs can facilitate trade, addressing those that aren't becomes just as important (if not more so) as negotiating tariff elimination.

Figure 1 Global NTM usage and tariffs



Source: UNCTAD and the World Bank (2018)¹

At the same time, when dealing with behind-the-border barriers, the political costs are immediate and concentrated. Moreover, many of these issues are not within the purview of the Australian national government – they were assigned to the states under the Australian Constitution. This complicates matters.

Taken together, these concerns create an ironic structural problem: the closer two economies become, the harder it is to publicly justify going further.

CER now sits firmly in this second phase. Progress has slowed not because integration

¹ https://unctad.org/system/files/official-document/ditctab2018d2_en.pdf

no longer matters, but because it has become politically and institutionally harder.

Why has bilateral progress become increasingly difficult?

Several factors shape the current dynamic.

The relationship is asymmetric. Australia matters more to New Zealand than New Zealand does to Australia.² This affects incentives.

The political payoff for Australia in pursuing deeper trans-Tasman integration is limited, particularly when the remaining gains are technical rather than transformational.

Australia is also focused elsewhere. Its policy attention is dominated by larger strategic concerns: China, the United States, supply chains, and defence. Even within the economic sphere, there are bigger priorities. Incremental improvements in trans-Tasman regulation struggle to compete for attention in that environment.

New Zealand's focus has also shifted. Significant effort has been devoted to negotiating further major trade agreements and responding to pressures on the international rules-based system. At the same time, the ongoing work required to maintain and update the trans-Tasman framework has not always been given the same priority.

This points to a deeper issue. The challenge is not simply one of 'stalling', nor is the objective to eliminate all differences between the two countries. Many areas of divergence reflect legitimate domestic preferences and institutional/cultural differences. The aim instead is to ensure that, where interests align, the system remains as facilitative and frictionless as possible.

Achieving this is inherently demanding. As integration deepens, the nature of the task changes from removing obvious barriers to creatively maintaining alignment over time as

regulatory systems evolve. This requires sustained effort, coordination, and active management. Without that, even small divergences can accumulate into meaningful frictions.

Alignment and agreement maintenance are often assumed in the trans-Tasman context. Australia tends to assume that New Zealand will align over time and agreement maintenance will occur, reducing the perceived need for active engagement. But alignment or agreement maintenance is not automatic. It must be continually reinforced, particularly in areas such as standards and regulatory systems, where some decoupling has occurred. For New Zealand, this also raises questions about how far alignment should go and where maintaining distinct approaches remains important.

Taken together, these factors suggest that the constraint is not simply a lack of progress, but a combination of asymmetry, competing priorities, and undervaluation on both sides of the effort required to sustain a high-functioning, integrated system.

This also highlights a distinction that is often blurred. One objective is to maintain and incrementally improve CER's operations. Another is to extend the benefits of that model more broadly. While related, these are not the same tasks, and they may require different approaches.

The question, then, is not only how to advance bilateral integration, but what mix of strategies is most likely to generate momentum in this next phase.

If bilateral incentives are weak, where will momentum come from?

The answer is that it is unlikely to come from the bilateral relationship at all.

Further integration will emerge when third-country opportunities create incentives for both countries to act cooperatively. In other

² An old joke says: "What do you call Australia and New Zealand taken together? Answer: Australia."

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words, progress will be driven externally rather than internally.

This is consistent with New Zealand's broader trade experience. Many of its most successful initiatives – CER itself, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the Digital Economy Partnership Agreement (DEPA) — have been built through broader coalitions of the willing rather than purely bilateral efforts. This plays to our strengths as a 'non-threatening' small country. We do not dominate any relationship with significant economies. Others can take us as we present, if it makes sense, since we lose as much as they do (or more in proportion) if the proposal goes awry.

The implication is clear: the next stage of CER is not about going bilaterally deeper for its own sake. It is about using CER, in conjunction with our natural strengths, as a platform to engage outward.

Reframing CER: from endpoint to platform

CER is thus no longer a work in progress (though it has plenty of upside) but should

now be seen as a mature system that can be leveraged externally.

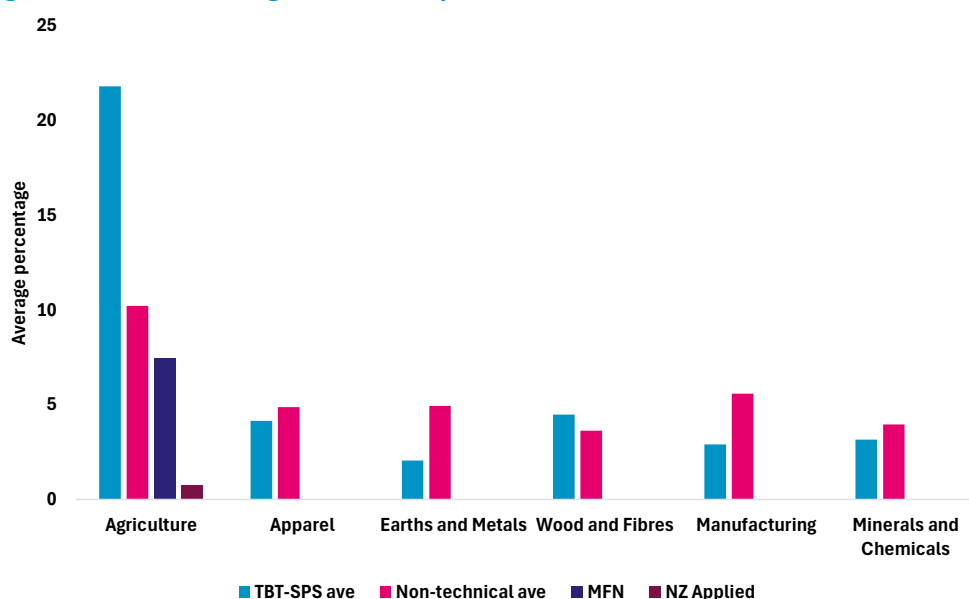
The depth of integration already achieved between Australia and New Zealand – particularly in regulatory cooperation, standards, and labour mobility – provides a foundation that few other country pairs possess. That foundation can be used to engage more effectively with third countries, particularly in areas where traditional trade agreements are limited.

This shifts the role of CER from an endpoint of integration to a starting point platform for regional cooperation. The focus moves from removing remaining bilateral barriers to projecting elements of the CER framework outward.

The opportunity: ASEAN and East Asia

The most promising opportunities lie in Southeast Asia. ASEAN economies are expected to remain among the world's fastest-growing in the future. At the same time, many of the barriers to trade in the region are no longer tariffs, but regulatory and institutional frictions, precisely the areas where CER has experience (see Figure 2).

Figure 2 ASEAN average tariff or equivalent



Source: World Integrated Trade Solution (WITS) data, NZIER calculations

These include:

- technical barriers to trade
- regulatory misalignment
- administrative complexity
- constraints on trade in services and movement of skilled labour.

Even reducing a small share of these barriers could yield significant gains. But doing so requires cooperation between governments and regulators, not just traditional trade negotiations.

This is where CER's experience becomes valuable.

A practical strategy: start with coalitions

A realistic pathway forward is incremental and coalition-based. The objective is not to construct large, all-encompassing agreements, but to build practical cooperation in areas where progress is both feasible and valuable. This reflects a broader shift in how economic integration is likely to proceed – through targeted, issue-specific initiatives rather than single, comprehensive frameworks.

This, in turn, raises the question of partner selection. The most suitable partners are those with a high degree of institutional compatibility, a strong focus on trade and economic outcomes, and an established capacity for regulatory innovation. They are also likely to play a wider regional role, allowing successful approaches to diffuse more broadly over time.

Singapore is an obvious example of such a partner. Its regulatory systems are well developed and internationally oriented, it has consistently prioritised trade and economic openness, and it plays a central role within ASEAN. Importantly, it also has experience in pioneering new forms of economic

cooperation, particularly in digital trade and regulatory alignment.

The rationale for focusing on this type of partner and on specific areas of cooperation is grounded in political economy as much as economics. Progress is most likely when changes are feasible within existing institutional frameworks, when the benefits are sufficiently clear to be communicated and justified, and when there are precedents that reduce uncertainty and perceived risk.

In practice, this means prioritising areas where cooperation can be implemented without complex new architectures, where outcomes are visible, and where policymakers can point to credible examples of success.

Initial efforts would therefore focus on standards and regulatory alignment, conformity assessment, SPS/TBT, and selected service sectors. These are domains where barriers are increasingly significant, but where practical cooperation is possible and, in many cases, already underway to some degree.

The objective is not to resolve all barriers at once, nor to attempt a comprehensive redesign of regional economic arrangements. It is to demonstrate that meaningful progress can be made in well-chosen targeted areas. Over time, these initiatives can build confidence, establish templates for cooperation, and create a foundation for broader engagement.³

Bringing Australia in – indirectly and gradually

This approach also addresses the central political challenge: how to engage Australia.

Direct attempts to deepen bilateral integration are unlikely to gain traction – history suggests this is true.

³ Note that, under this approach (because of the task's multilateral nature) the sensible strategy is the reverse of the way CER was done. In that situation, it was vital to have something comprehensive to prevent lobbying pulling selected sectors out of the deal – the effective problem with CER's precursor NAFTA. To allow flexibility

in implementation, it was the timetable that was allowed to 'drift' But it was a firm rule – everything is in once the running-in period is over. Here, the proposed flexibility is through the choice of sectors and institutions for inclusion – within a set time frame.

But demonstrating practical success in dealings with third countries changes the conversation.

Note, it may take more than one 'round' to spark lasting interest across the Tasman. But given that the projects are sensibly chosen, they should be worth doing.

This reframes the issue. It links trans-Tasman cooperation to broader strategic interests such as regional influence, economic relevance, and engagement with Asia.

Australia is far more likely to respond to that framing than to bilateral requests for further incremental reform, which is always likely to be marginal in Australian eyes.

Expanding outward

Over time, successful initiatives could be carefully extended to additional partners within ASEAN and beyond. This would create a flexible network of cooperation that grows organically, rather than through a single, comprehensive agreement.⁴

This is not a new model. It is how many of New Zealand's most effective trade initiatives have developed—through practical, opportunistic cooperation among like-minded countries.

It also reflects the realities of the current global trading environment, where large multilateral agreements are increasingly difficult to achieve.

Australia is essential, but the engagement must broaden

CER solved the first generation of trans-Tasman economic challenges. It dismantled protection, enabled integration, and created one of the most effective bilateral economic relationships in the world.

That success has exposed a second generation of challenges – those associated with regulatory alignment, institutional

coordination, and ongoing system maintenance. These are not problems that can be solved through one-off agreements.

They are harder, more technical, require stronger regulatory relationships, and are more politically constrained.

This requires a shift in strategy.

First, engagement with Australia remains critical. Where opportunities arise to deepen cooperation, particularly in areas of clear mutual benefit, they should be actively pursued. Progress will continue to depend on sustained effort, institutional relationships, and a willingness to move where alignment is feasible. This is not an agenda that can be abandoned; it must be maintained and advanced wherever possible.

But second, bilateralism alone is unlikely to be sufficient to drive the next phase of integration.

The incentives for the next step of deeper trans-Tasman integration are no longer strong enough, on their own, to generate consistent momentum. That momentum is more likely to emerge when external opportunities reshape the calculus.

This points to a complementary strategy: engaging with third and fourth willing partners, particularly in Southeast Asia and East Asia, to build practical forms of cooperation in areas where CER has already demonstrated capability. By working with coalitions of the willing, New Zealand can help establish new norms and approaches to regulatory and economic integration, demonstrating what is possible.

Over time, this creates a different dynamic.

Instead of asking how to deepen integration with Australia in isolation, the question becomes how Australia engages with a wider set of initiatives in which New Zealand is already active. In this way, external

⁴ If there are multiple initiatives from this list afoot at the same time, a changing cast of counterparties will be sampling the benefits of wider cooperation. Making the

opportunity even more attractive to Australia – there is even the chance of 'pick and mix'.

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engagement does not replace the trans-Tasman relationship—it strengthens it, by making participation more relevant and more attractive.

The implication is not that Australia matters less. It is that Australia alone is no longer enough to drive the next stage of economic integration.

The future of CER, therefore, lies in a dual approach:

- maintaining and advancing bilateral cooperation wherever it is possible, while

- simultaneously building outward-facing coalitions that expand the scope and relevance of that cooperation.

CER is no longer just an agreement to be completed. It is a platform to be used.

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