

East Asian economic integration: a shot in the arm for the New Zealand economy

NZIER economic modelling shows that the New Zealand economy would benefit significantly from being included in a free trade agreement with East Asian countries. An ambitious agreement that covers trade in goods, services, investment and encourages trade facilitation and competition could increase New Zealand's economic welfare by around 2% of GDP. Being excluded from East Asian regional integration, on the other hand, would damage our economic prospects. This suggests that the government should continue to invest in deepening linkages with East Asian countries.¹

Bilateral and regional trade agreements are multiplying...

There has been an explosion of bilateral and regional trade agreements in the East Asia region in recent years. These agreements are a way of reducing trade barriers and boosting trade at a time when global trade talks at the World Trade Organisation have stalled. While countries like New Zealand, Australia and Singapore have long been engaged in these trade agreements, major economies such as China, India, Korea and Japan are also starting to engage more actively in regional trade negotiations.

...creating a complex 'noodle bowl' of overlapping trade rules

As more and more East Asian countries sign trade agreements with each other, the trading environment is starting to get quite messy. Bilateral agreements such as the New Zealand-Malaysia Free Trade Agreement overlap with regional agreements such as the Australia-ASEAN-New Zealand Free Trade Agreement. Each agreement has different tariff preferences, so exporting firms can be faced with a bewildering array of forms to fill out in order to qualify for preferential treatment. This is confusing and time-consuming for firms in the region, and creates considerable administrative burden.

¹ This article is a summary of a recently released NZIER Discussion Paper titled "Building the pillars of a regional economic partnership agreement". The paper can be found online at http://www.nzier.org.nz/Site/Publications/NZ_trade.aspx. The report was funded by MFAT and was one of New Zealand's contributions to the Track II Study Group on CEPEA.

A Comprehensive Economic Partnership of East Asia would make life easier...

One option for overcoming these overlapping rules is for all 16 East Asian countries (the ASEAN countries plus Japan, China, Korea, India, Australia and New Zealand) to enter into an ambitious, modern regional trade agreement together. This Comprehensive Economic Partnership of East Asia (CEPEA) was examined by a study group consisting of private sector participants from the 16 countries. A staff member of NZIER was a member of this study group. At the most recent East Asia Summit meeting, leaders of the 16 countries accepted a recommendation from the study group that its research had shown enough potential net benefits from CEPEA and that official-level discussions on the idea should begin.

...and would deliver significant economic benefits to New Zealand

NZIER has examined the potential impacts of a CEPEA on the New Zealand economy, using its GTAP model of the world economy. GTAP is a computable general equilibrium (CGE) model that is well suited for the analysis of trade policy.

We find that removing the tariffs on all trade within East Asia would make New Zealand around \$430 million better off. However, this is very much a lower bound estimate of the potential gains from a CEPEA. If such an agreement liberalises services and investment flows, delivers more streamlined customs procedures and encourages intra-regional competition that boosts firm productivity, the economic benefits to New Zealand could easily run into billions of dollars.

The importance of being 'inside the tent'

We also looked at the impact of New Zealand being excluded from a regional trade agreement. An alternative trade agreement including the ASEAN countries, plus Japan, Korea and China has been promoted by some countries. If this occurred and New Zealand was left out in the cold, we would suffer a welfare loss of around \$380 million as our exporters would become less competitive in the region. Fortunately for New Zealand the modelling also showed that East Asian countries were also better off in a grouping of 16 than they would be in a smaller grouping excluding India, Australia and New Zealand.

NZIER's economic modelling clearly indicates that New Zealand cannot afford to be a spectator in East Asian regional integration: we need to be at the negotiating table and push for a modern, comprehensive and high quality trade agreement. Recent government efforts to deepen our trade and diplomatic relationships with East Asian economies are therefore likely to be a sound long term investment.