NEW ZEALAND'S EXTERNAL ECONOMIC POLICIES

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Since leaving the OECD he has been an independent author and consultant, and has acted as a Visiting Fellow or Professor at the OECD Development Centre (Paris), the Centre for European Policy Studies (Brussels), Monash University (Melbourne), the Fondation Nationale des Sciences Politiques (Paris) and the University of Melbourne. He has also been a visitor to the New Zealand Business Roundtable where he authored a 1996 study: *Economic Reform: New Zealand in an International Perspective*. He is an Honorary Fellow of Lincoln College, Oxford, and in 1992 he was made Commander of the Order of St Michael and St George (CMG).

CHAPTER ONE

INTRODUCTION[1]

Towards the end of 1996, the trade and foreign investment policies of New Zealand were the subject of a comprehensive assessment within what is now the World Trade Organisation (the WTO). These assessments are in three parts: the government under examination submits a policy statement; the WTO Secretariat prepares a detailed report; and, on the basis of these two documents, in a meeting held at WTO headquarters in Geneva, officials from the Organisation's other member countries make comments of their own, and put questions to the Ambassador of the country concerned. The meeting concludes with a statement by its chair, summarising the main points of the discussion.

On this occasion, the chairman's statement ended with the following notable tribute to New Zealand's present trade and foreign investment regime:

Overall, Members commented in very favourable terms on the extent of liberalisation and openness in the New Zealand economy . . . . A few questions remained in specific areas . . . . Overall, however, the depth and radicalism of the reform process was positively assessed and was seen as offering useful lessons for the economies of other WTO members.[2]

These observations were made on 22 October, 1996. Since then a coalition government has taken office in New Zealand, with the natural result that policies in general, including those affecting external relations, have been in course of re-examination: the first result of this process was the Policy Agreement between the two parties concerned, which was published in December 1996.[3] There is no reason to suppose that radical changes in "the extent of liberalisation and openness in the New Zealand economy" are now in prospect, as a result of the change of government. For one thing, the Policy Agreement takes as a starting point (p. 5) that "the policies and processes in place on the 12th of October 1996 shall be supported unless amended by the policy agreements set out in Schedule A, or subsequently amended in accordance with the terms of this agreement"; and, for another instance, it states (p. 3) that one of the "fundamental principles for coalition" is "To maintain an open, internationally competitive economy". These general statements, however, are subject to interpretation. New Zealand's external economic policies could easily be given now, through various means, a more interventionist character; and, as will be seen, there are hints of this to be found in Schedule A of the Policy Agreement. Alternatively, there is scope for a more consistently liberal approach than at present. Here, as in other countries, the balance between liberalism and interventionism in this area remains a live issue, on which a range of decisions lies ahead.

This paper considers the future course of New Zealand's external economic policies. These are defined in broad terms, so as to cover the three main dimensions of (i) trade in goods and services, (ii) international capital flows including direct foreign investment, and (iii) cross-border movement of people (which falls largely, though not wholly, outside the interests and responsibilities of the WTO). Further, the issues of current concern are set in a historical and comparative perspective. In particular, comparison will be made with the corresponding evolution of policies in Australia.[4] The two countries make a natural pairing, because they have so much in common - including, over more than a century, a broadly similar approach to economic policies both domestic and external. Within the world economy, therefore, they can for some purposes be viewed as a distinctive entity - all the more so today, since their economies have become increasingly more integrated as a result of the Closer Economic Relations Agreement of 1983 and subsequent developments within it. Both governments face common questions of external policy which are in some ways distinct from those of other countries; in relation to these questions, they often work closely together;[5] and both have recently published official statements relating to their external policies, in which there are substantial common elements to be found as well as a recognition of shared interests.[6]

Because of these marked features of similarity between the two countries, any divergence in their respective official policies becomes all the more noteworthy. One current difference is that the Australian commitment to external liberalisation, which in any case could be seen as in some respects less strong than that of New Zealand, has recently shown clear though possibly temporary signs of weakening. Should this new orientation be maintained, a risk is that convergence might be restored by a similar move on the part of the New Zealand government, giving expression to the interventionist hints that are to be found in the Policy Agreement. Another possibility, however, is that the two external policy regimes could for some time at least take divergent paths, in ways that will be outlined below.

The issues here for New Zealand - and for Australia too - are not just secondary and technical. Up to a point, they can be presented in the same rather restricted terms as the WTO discussion referred to above, so that what is for consideration is how New Zealand governments will deal with what the WTO chairman described as the "few questions" which remain "in specific areas". From this perspective, all that is involved is a kind of mopping-up operation, by which the government of New Zealand can, if it chooses, round off a comprehensive process of external liberalisation which is already substantially complete. But the questions at issue go deeper than this. For one thing, full liberalisation would imply, in New Zealand and elsewhere, significant changes in the perception of national interests and of international economic relations. Further, external economic policies, particularly if as here they are defined in broad terms, raise issues which go well beyond the terms of reference of the WTO country reviews of trade policies, and are as much political as economic. Both these wider aspects are considered below.

Contrary to what is often argued at present, the ways in which these various questions of policy are currently treated and decided rests firmly with national governments, as it always has: the notion that in recent years a novel and dramatic process of 'globalisation' has rendered these governments increasingly powerless, and has undermined the international system of states, is mistaken. In their external economic policies, as in economic policies as a whole, governments remain largely free to choose. It is true that their autonomy is constrained by outside influences and pressures; but this is not new, nor are the constraints closely linked to a spectacular recent increase in the extent of international economic interdependence. This theme, of independence and national sovereignty in a more open world economy, will be taken up in Chapter three. For the present, it is enough to note that, like its predecessors, the present government of New Zealand has the power to decide the blend of liberal and interventionist elements in the measures that it now takes in relation to external economic policies. The choices here are real.

In what follows, Chapter two sets out a historical perspective: it traces the evolution of policies in New Zealand and in Australia, viewed over the decades against the background of developments in the international economy and in the policy regimes of other countries. Chapter three looks at the choices under consideration in both countries, and some current differences between them in the climate of opinion with respect to further liberalisation. It considers the specific changes that would be implied for New Zealand if the commitment were now made to a fully liberal regime, and the implications of these changes for the country's status, independence and identity. Chapter four sums up the argument.

CHAPTER TWO

THE EVOLUTION OF POLICIES: NEW ZEALAND AND AUSTRALIA IN A WORLD CONTEXT

Changes within the world economy

Over the past half-century, there has been a clear trend in the world as a whole towards closer international economic integration. Evidence of this is to be seen in the fact that world trade has increased considerably faster than world output: by 1995, as compared with

1950, total output had probably risen by a factor of between five and one-half and six, while the volume of world exports had increased twelvefold.[7] However, this tendency for world trade to grow faster than world production, so far from being recent and novel, goes back to the early part of the nineteenth century. This can be seen from Table 1, which shows comparative annual average growth rates for the two series (output and exports) in each of five main periods spanning the years 1820-1993, together with the corresponding figures for one further period, 1993-95, in which world trade growth has markedly (and unexpectedly) risen. In the table, there is only one time-phase, from 1913 to 1950, in which export growth fell short of output growth; and here exceptional factors were at work, in the form of the two world wars and a major world-wide depression. Of the five main periods, the ratio of export to output growth appears as much the highest in the half-century to 1870, while export growth was considerably higher in the period 1950-73 than in the ensuing 20 years. It would therefore be misleading to suggest, at any rate where merchandise trade is concerned, that recent decades have brought a new and unheralded era of globalisation.

Table 1: Growth Rates of World Output and Exports, 1820-1995

(annual average compound rates of growth)

	1820-70	*1870-1913*	*1913-50*	*1950-73*	*1973-93*	*1993-95*
Output	1.0	2.1	1.9	4.9	2.9	3.6
Exports	4.2	3.4	1.3	7.0	4.0	8.8

Sources: For 1820-1992, Maddison, *op. cit*. For 1992-95, International Monetary Fund, *World Economic Outlook*.

In broad terms, the factors affecting the relationship between output growth and trade growth can be viewed as technical and political: the two are to some extent interdependent. Under the first heading, the main influence is transport and communications costs: one can think of world economic history as a process by which successive developments, deriving from a continuing series of discoveries and innovations, have progressively reduced what the Australian historian Geoffrey Blainey has termed "the tyranny of distance". But while technical factors may largely determine the scope for cross-border integration, how far this scope can be taken up has always depended, and still depends, on what national governments decide and permit. The history of international economic integration is in part one of technical progress and its application by businesses; but it is also, and predominantly, a story of the evolution of official external economic policies.

This can be clearly seen from cross-country comparisons over the past half-century. If national governments had been largely passive, or at the mercy of outside forces in the world economy, the world-wide tendency towards closer integration during these years, which is so clear from Table 1, would have affected most if not all countries, with a consistent pattern emerging: pretty well every national economy would in this respect have become more open, with no striking differences between them. In fact, however, actual historical outcomes varied greatly, since they mirrored the widely different courses taken by individual governments.

Table 2: Exports and Export Ratios: Australia and the Netherlands, 1913-95

	1913	*1950*	*1973*	*1995*
Exports ($bn, 1990 values)				
Australia	3.4	5.4	18.9	57.7
Netherlands	4.3	7.4	71.5	169.9
Exports/gdp (percentages)				
Australia	12.8	9.1	11.2	18.0
Netherlands	17.8	12.5	41.7	62.9

Sources: Maddison, *op. cit.*, extended from 1992 to 1995 from OECD, *Economic Outlook*.

This can be illustrated by comparing the cases of Australia and the Netherlands, two countries which, despite their obvious differences, have historically been close to each other in terms of population, gross domestic product (GDP), and GDP per head. Table 2 shows for both countries estimates of the growth of exports at 1990 values, together with the corresponding ratios of exports to GDP that form one measure of the openness of their economies: the years covered are 1913, 1950, 1973 and 1995.

It can be seen that, as one would expect, the export ratios for the Netherlands in 1913 and 1950 were above those for Australia (the tyranny of distance is in evidence here), and that for both countries, as for the world as a whole, these ratios were lower in mid-century than in 1913. There are no surprises in these earlier figures, nor in the developments for Australia over the period 1950-95, in which the export ratio approximately doubled, while the volume of exports grew by a factor of around 11 which is close to the increase for the world as a whole. Looking across the two countries, however, a remarkable contrast appears in relation to the period 1950-73. During these years the Australian export ratio rose only modestly, with exports increasing in volume terms by a factor of three and one-half; but, in the Netherlands, exports grew by a factor of nearly 10, while the export ratio rose from one-eighth in 1950 to over 40 per cent in 1973. By 1995 the ratio had risen further, to more than 60 per cent; but the most notable change had taken place in the earlier period, when the Dutch economy, in this respect, was transformed.

Table 3: Export Ratios for Seven Countries or Regions, 1913-92

(percentages of GDP)

	1913	*1950*	*1973*	*1992*
Netherlands	17.8	12.5	41.7	62.9
Norway	15.2	14.2	28.9	52.1
Canada	12.1	13.0	19.9	27.2
Australia	12.8	9.1	11.2	16.9
New Zealand[1]	18.7	17.8	15.4	24.3
India	5.7	2.6	2.0	1.4
Latin America[2]	9.6	6.2	4.6	6.2

1 For New Zealand, three-year averages were taken, centred on the years shown, so as to reduce the impact of year-to-year fluctuations.

2 Seven countries are included here: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.

Sources: for all except New Zealand, Maddison, *op. cit.* For New Zealand, data kindly supplied by Statistics New Zealand.

In Table 3 the comparison of these export ratios is extended, so as to include New Zealand and a number of other countries. Norway is brought in, as a European country which is broadly comparable to New Zealand in terms of population and GDP; Canada, which in a number of respects can be compared with Australia; and India and a group of Latin American countries, so as to extend the range of economic systems considered. Again, estimates for four separate years are shown, but in this case with 1992 as the final year.

The countries shown here fall into three broad categories. Both the continental European economies became much more open after 1950, with the main change coming earlier in the case of the Netherlands because of the creation in 1957 of the European Economic Community (EEC) which Norway did not join. The case of Canada is closer to those of Australia and New Zealand. Here, however, there was a greater degree of opening in the period 1950-73, and this may be linked in part to a fuller Canadian participation in the various agreements to reduce trade barriers which were arrived at within the General Agreement on Tariffs and Trade (the GATT). For New Zealand, the export ratio is consistently higher than for Australia, but this may reflect the smaller size of the economy rather than a more open policy regime; and the ratio actually fell between mid-century, when it was the highest of those shown in the table, and the early 1970s. In both New Zealand and Australia, it is only in the final period that the rate of growth of exports becomes appreciably higher than that of output. Finally, and in contrast to the rest, India and the Latin American countries as a group did not by this analysis become more open between 1950 and 1992, and, for both, the export ratio for the latter year is well below the corresponding figure for 1913. These are economies which, at any rate for a considerable period after the Second World War, were becoming less integrated with the rest of the world, although in recent years the direction of policies has changed in almost all of them.

The impact and aims of national policies

In relation to these marked cross-country differences, there are three main points to be noted.

First, in all the above countries, and this is true generally across the world, the widely differing outcomes chiefly reflected the wishes and intentions of the national governments concerned. Of course, and as always, other influences were at work. But these external influences do not account for the stark contrast between India and a country such as the Netherlands, nor even the less dramatic but still remarkable divergence between Western Europe and the two Australasian economies. In the decades following the Second World War, the European economies became much more open, more especially in relation to one another, while in both Australia and New Zealand trade regimes changed relatively little, because that was what the respective sets of governments and peoples chose. It is true that circumstances were different. For both Australia and New Zealand the motives for closer integration with other neighbouring countries were less strong, and the opportunities for it more restricted, than they were in Western Europe, for obvious reasons of geography and history. All the same, both these governments, had they so wished, could have made their respective trade regimes much more open during these decades; and, indeed, Australia and New Zealand could have linked their own economies more closely. Decisive steps towards closer integration with other economies, or with each other, were not taken in either country until well into the 1980s, when they likewise reflected the wishes and intentions of the two governments. In these cases as in others, throughout the past half-century, the main explanation of changes in the degree of openness to trade of national economies, and of differences between them in this respect, is to be found in what individual governments decided.

This argument can be generalised, so as to cover not only merchandise trade but also other cross-border transactions. Trade in services has been subject to much the same influences as trade in goods. As to international capital flows, there has been a clear trend over the past half-century, though naturally with deviations, interruptions and exceptions, and with a marked acceleration from the late 1970s, towards closer integration of national economies. Various non-political influences, technical and economic, have been at work in this, and have contributed to shaping and constraining political choices. But under this heading, as for trade flows, it is the actions and policies of the governments of sovereign states that have chiefly decided how far and in what respects national economies should become more open. Closer international economic integration is sometimes presented as a newly-arisen tidal wave, which is sweeping peoples and governments before it. To the contrary, the trend is not at all new, while national governments have not been, nor have they become, mere prisoners of events: they were and remain a leading influence on them.

Those who mistakenly argue that national boundaries have ceased to count should consider also the third dimension of cross-frontier flows. International migration today is everywhere subject to close control by national authorities; the scope for free movement is far more restricted than it was before the First World War; and there are only two areas of the world - first, what is now the European Union, and secondly, Australia and New Zealand - in which the constituent national economies are highly integrated with respect to the cross-border movement of people for purposes of settlement as well as temporary visits.

A *second* point to be noted on the varying patterns of trade and growth over recent decades concerns the underlying reasons for liberalising cross-border transactions. The strategic choices that were freely made by governments, with the support or acquiescence of their voters, did not relate just to dry technical and economic issues concerning foreign exchange controls, or the height and extent of tariffs and other barriers to international trade. In both Western Europe and Australasia, as also in India and in other countries where over these decades the trade regime was made less open rather than more, official policies were influenced by broader notions as to the place of their countries within the international system, and even by considerations of changing national identity.

This can be clearly seen in the case of the Netherlands, as also of the other five founding members of the EEC. The decision to establish the EEC, and to proceed with the very substantial external liberalisation that this implied, was not taken solely or even mainly on the grounds that freer trade would make for greater prosperity. The governments and peoples of the six countries were resolved to create an economic, political and constitutional entity within which the individual states would increasingly act together, so that the sphere of autonomy of each national government would be correspondingly restricted and a growing range of policies and decisions would become Community-wide. The guiding vision here, the inspiration, was more political than economic, though both elements were present: the very conception of national identity had changed. Liberalisation within the Community flowed from, and formed part of, a wider political commitment which was, and was seen as being, a historic new departure for all the countries concerned. Much the same ideas and beliefs have underlain later measures to promote closer economic integration within what is now the European Union, notably the decision to create a Single Market and to establish a common currency.

In Australia and New Zealand, by contrast, no corresponding break with the past seemed called for, nor was such a thing seriously considered by governments. In relation to both countries' trade regimes, as also in the treatment of capital flows, continuity rather than change characterised the period of almost four decades that followed the Second World War.

This continuity of trade policies, and of the terms in which it was rationalised and defended, can be traced back to the early years of this century. Even before the First World War, both New Zealand and Australia had established protectionist trade regimes. In both, the scope and height of trade barriers had increased during the period leading up to the Second World War; and, while these chiefly affected manufactures, agricultural products were also subject to protection. As a consequence of the war, both import licensing and exchange controls became firmly established (in New Zealand, these go back to the foreign exchange crisis of 1938), and were afterwards continued (though in Australia, import licences were largely replaced by tariffs in 1960). Until the late 1980s, neither country joined effectively in the multilaterally-agreed tariff reductions that were negotiated in the various GATT rounds, in part for the understandable reason that agricultural trade was excluded from the scope of these negotiations; and aside from the half-hearted and ineffectual New Zealand-Australia Free Trade Agreement of 1965, neither participated during this period in regional integration arrangements of any significance.

In New Zealand, post-war 'insulationism' was not confined to restrictions on foreign trade and payments: only in 1961 did it become a member country of the International Monetary Fund and the World Bank. By the early 1980s, Australia and New Zealand could be grouped with Turkey as the only member countries of the Organisation for Economic Cooperation and Development (the OECD) - at this stage there were 24 members in all - in which trade regimes had not been significantly liberalised over the previous four decades. Both New Zealand and Australia were therefore increasingly seen as unreconstructed protectionist outliers within the OECD economies, survivors from a vanished age.

In some ways, this is too black and white a picture. None of these other OECD countries embraced the idea of free trade: rather, their trade regimes reflected - as they still largely reflect - a set of doctrines and beliefs which can be summarised as heavily qualified liberalism, with the qualifications changing over time and differing somewhat as between countries. Almost all of them maintained agricultural policies which were more protectionist than those of New Zealand and Australia. Most of them, from the 1960s onwards, resorted to highly selective instruments of protection through (so-called) voluntary export restraint agreements, while neither New Zealand nor Australia went down this path. As to capital flows, the restrictions maintained by New Zealand and Australia had their full counterparts in a wide group of other OECD member countries, including in particular the countries of Southern Europe and Scandinavia.

Even so, both New Zealand and Australia were remarkable over these decades in the extent to which traditional notions as to the place of their economies within the international system retained their hold. Even into the 1980s, attitudes on both sides of the Tasman retained much of the flavour caught by Keith Hancock in his perceptive book on Australia, published in 1930, in which he wrote that, in relation to the "necessities" imposed by "the mechanism of international prices":

The Australians have never felt disposed to submit to these necessities. They have insisted that their government must struggle to soften them or elude them or master them.[8]

What *did* change during this period in both countries, more so in Australia than in New Zealand, was immigration policies. For Australia, two decisions can be viewed as fundamental, and as reflecting a changing conception of national identity. One was to increase the rate of entry, and the programme of assisted immigration, and in doing so to extend the scope of the programme to migrants from European countries other than the United Kingdom and Ireland: this dates from the immediate post-war period, though the policy of actively encouraging immigration was maintained only up to the 1970s. The second initiative, which dates formally from 1966 and effectively from 1973, was the permanent ending of the 'White Australia' policy, and the establishment of non-discrimination as a guiding principle in the selection of immigrants. In this area of policy, Australian governments moved in what can be viewed as a liberal direction, both in raising permitted entry numbers and in widening the range of acceptable countries of origin; and these changes went with a reformulation of objectives and working assumptions. The corresponding changes in New Zealand immigration policies were more modest, in part because there was no formal counterpart to the 'White Australia' principle.

Finally, a *third* aspect of developments in the world economy, and in the evolution of external economic policies, has been the fact, and the recognition of the fact, that (to quote Angus Maddison) "the opening of economies has been strongly associated with economic growth".[9] Many influences bear on the economic performance of countries; and, since each national economy and each time-phase has its own characteristics, and in every case the various causal factors interact with one another in ways that are hard to trace out, accounting for long-run economic change is an inherently complex task where there is wide scope for different interpretations. However, the historical evidence clearly suggests that economies which are more open are for that reason more dynamic. In the decades following the Second World War, this can be seen in the contrast between, on the one hand, the economies of continental Europe and East Asia and, on the other, not only the communist countries, but also the relatively closed systems which became typical of developing countries in Latin America, South Asia, the Middle East and Africa: while the extent of openness was (and is) far from being the whole story, it emerged as a systematic influence.

This outcome is not surprising, since it accords both with earlier experience and with a long-established and widely-held set of ideas within economics. Standard economic analysis points to the gains that can be realised within an economy where people and firms can use the opportunities which openness provides - for specialisation in more productive lines, for more pervasive competition with the stimulus to good performance that this brings, and for access not only to wider markets but also to new ideas, information, methods, products and techniques. Over the past half-century, events and experience, and the further development of economic ideas which partly resulted from them, have given greater weight to this line of thinking, both within the economics profession itself and in public opinion more generally.

Increasingly, though gradually, notions of this kind gained ground in both New Zealand and Australia, as elsewhere. As time went on, there developed a growing awareness that in both countries real income per head was falling in relation to the levels of other OECD economies - and later, of the dynamic East Asian economies also - together with a disposition to attribute slow economic growth in part to the continuance of protectionism. Hence the case for greater openness became more widely accepted, though it was not until after the elections of 1983 in Australia and 1984 in New Zealand that newly-elected governments, partly in response to the pressure of events, brought in measures which changed the traditional orientation of external economic policies on both sides of the Tasman.

External liberalisation in New Zealand and Australia

Over the years since the early-to-mid 1980s, the trade and investment regimes of both New Zealand and Australia have been radically reformed. Tariffs have been not only reduced, but set on a progressively declining path; import licensing has been abolished; free trade between the two economies, not only in goods but increasingly in services also, has been established under the Closer Economic Relations Agreement of 1983 (the CER); both governments have agreed to tariff bindings within the Uruguay Round agreements, in relation to which their diplomatic activities had helped to bring about a positive outcome; both have argued for a liberal approach within the Asia-Pacific Economic Community (APEC), and have subscribed to the Bogor Declaration by which APEC members agree to establish 'free and open trade' by specified dates (for New Zealand and Australia, 2010); and both, in addition to bringing down trade barriers, have reduced the extent of official support to industry and agriculture. As to capital transactions, exchange controls have been abolished, and with them restrictions on outward direct investment, while inward direct investment has been substantially liberalised.[10] These changes were notable not only in their range and depth, but also because they were to a large extent unilateral: the main actions with respect to tariffs, import controls, industry assistance and capital flows were taken outside the context of international negotiations, and without regard to, or insistence on, counterpart actions by other countries. In this respect, the two governments followed a course which few other OECD countries have been prepared to take during the past half-century or more - though over the past 15 years or so, a growing number of non-OECD countries have done so.

It has to be added that, so far at least, the process of external liberalisation has been confined in both countries to these two dimensions: the opening of the two economies with respect to trade and capital flows has not extended consistently to the third dimension, of immigration. Here the Australian economy at any rate has become less open in recent years, in that from the early 1980s the ceiling numbers for entry, which are determined annually, have been kept down, with varying degrees of restrictiveness, because of concerns relating to unemployment. In New Zealand, there has since 1995 been a substantial reduction in the target number of approvals for entry. In both countries, however, this aspect is overshadowed by the decisive moves towards a liberal system of trade and payments.

The significance of this liberalisation resides not just in flows and transactions, but also in attitudes, perceptions, and even values. The moves towards an open system have both reflected and helped to shape a radically different view as to the place of New Zealand and Australia within the world economy, and the effects of closer integration with it. In commenting on these developments some time ago in relation to Australia, I wrote: "The Australian economy as a whole, and not just the traditional primary exporting industries, is now widely and increasingly seen as an integral part of the international system, rather than as something to be judiciously insulated and shielded from that system by a range of government actions".[11] This judgment applies broadly to New Zealand where, if anything, the setting aside of long-established 'insulationism' has meant an even more decisive break with the past.

In a widely read history of New Zealand, the author, Keith Sinclair, asserts at one point that "The greatest problem of all [for New Zealand] has not changed: the country's dependence on economic trends abroad".[12] This perception of the outside world as a source of disturbance and threats, against which it is a basic task of government to create and maintain protective screens and buffers, was for long generally accepted in New Zealand; and this helps to explain why support for protectionism and currency restrictions always extended well beyond the interests that directly benefited from them. Not surprisingly, such attitudes are still to be found;[13] but they are now no longer representative. A more positive view of international exchange, in which the outside world is seen rather as a source of opportunity and a means of securing wider and freer choices, has increasingly characterised public opinion and entered into official policy.

CHAPTER THREE

CURRENT ISSUES AND FUTURE POSSIBILITIES

Despite the extensive liberalisation of trade and capital flows which Australian and New Zealand governments have carried out, and the change in attitudes and perceptions which has gone with it, the next stages in the evolution of external economic policies are not predetermined. In both countries, as elsewhere, both the extent and the pace of future liberalisation are uncertain, while in some areas of policy even the direction of change is open to doubt. On present indications, the immediate prospects for further reform appear better in New Zealand.

New Zealand and Australia: emerging differences?

Both in the earlier post-war history and in the sequence of liberalising measures over the past 10 to 15 years, it is the resemblances between the respective external economic policies of Australia and New Zealand, rather than the contrasts, which are more striking in an international perspective. Even so, there have at times been differences between the stances of the two governments; and in recent months these have become in some ways more noticeable, while a related divergence has become apparent in the views of the respective business communities. In a word, Australian policies and attitudes now appear, for the time being at least, as more interventionist and less liberal than those of New Zealand.

One current difference between the two countries concerns the treatment of the most heavily protected sectors, which in both cases are motor vehicles and textiles, clothing and footwear. In Australia, the issue of tariff revisions for both sectors is now under formal review, and there is strong, vocal and widespread opposition - from business organisations, trade unions, the State governments chiefly involved, and a wider public opinion - to further reductions at this stage. In comparison, the voices in favour of keeping these tariff rates on an uninterrupted downward path are less numerous and more muted. In New Zealand, by contrast, the idea of continuing reductions in protection for these sensitive areas is more taken for granted, in part perhaps because of the difference in the climate of business opinion to be noted below.

A second recent development in Australia has been a revival of the principle of *reciprocity* as the basis for further trade liberalisation. This draws on some traditional mercantilist ideas. One of these, which despite its dubious intellectual status continues to find support across the world and to inform the conduct of governments, is that for each country exports should be counted as a gain and imports as a cost. This carries with it the notion that a country can benefit from reducing its trade barriers only if such actions are linked to similar measures on the part of others: liberalisation is perceived as making sense only in so far as it forms part of reciprocal bargains. If this view had been taken by recent New Zealand and Australian governments, it would have precluded the important unilateral initiatives referred to above; and, in fact, reciprocity was explicitly rejected as a guiding principle by Bob Hawke when he was prime minister of Australia: in a speech made in 1985, he argued that "we have to break loose from the notion, inherent in the negotiation framework, that one's own trade liberalisation is a concession granted to others".[14] Quite recently, however, the reciprocity principle has acquired a range of Australian supporters. Business organisations, as also the State governments of Victoria and South Australia, have argued for it in the context of possible reductions in the tariffs on textiles and clothing. Favourable passing references to it have been made by federal ministers, while a recent press report noted that "When John Elliott spoke to the Liberal Party's 500 Club in Sydney last week, he got his biggest applause line from arguing that Australia should not reduce import protection further until other trading partners did so".[15] On the other side of the political fence, reciprocity has now been explicitly endorsed by the federal Labor opposition party.

To be sure, there are echoes of this in New Zealand. In particular, in the Coalition's Policy Agreement, under the heading of "exports and international trade", it is laid down that, in the context of the coming 1998 tariff review, "any future progress in this regard will be consistent with the policies and progress of New Zealand's trading partners". However, this line of argument has not been taken up by organisations representing the business community; and, in what is still the main official document setting out New Zealand's trade policies, which was issued by the Ministry of Foreign Affairs and Trade Manatü Aorere in 1993,[16] the notion of reciprocity as a basis for policy is rejected in much the same terms as those used by Hawke in the above quotation. Here, in the context of unilateral liberalisation, the Ministry argues (p. iii) that:

The nature and pace of reform have been determined by our own internal political processes, not by the slow speed of international negotiations. We should not wait for international reform to make decisions that seem to be in our own best interests.

This statement of principle is reflected in the official report made by the then government of New Zealand in September 1996 to the WTO, in the context of the trade policy review already referred to. This report clearly states the government's intention "to move towards a zero end point for tariffs under a unilateral tariff reduction programme".

More broadly, and despite the large extent of common ground between the two, New Zealand statements of official policy appear in a number of ways as less interventionist than their Australian counterparts: these latter bear clear signs of what I have termed elsewhere the 'diplomatic-managerialist' approach to external economic policies. Four related aspects of this difference are worth noting, the more so since they raise some leading questions of how national interest is to be viewed and given expression.

(i) On the Australian side, external economic policies are defined in administrative or bureaucratic terms, rather than those which standard economic analysis would suggest. In effect, they are treated as the set of issues which the Department of Foreign Affairs and Trade is responsible for handling - the subject-matter of trade diplomacy. Hence such issues as immigration, anti-dumping actions, industry assistance other than for export promotion, and the unilateral determination of Australian tariff rates, are excluded. By contrast, the New Zealand documents, from the counterpart Ministry of Foreign Affairs and Trade Manatü Aorere, clearly identify 'four tracks' of trade policy; and the first of these comprises actions that can be taken unilaterally by the government of New Zealand with a view to establishing freer trade, including reductions in tariffs and industry assistance. This is a more balanced approach.

(ii) To a greater extent than in New Zealand, the Australian documents are preoccupied with official action to promote exports. In the recent *Trade Objectives and Operations Statement,* referred to above, it is stated (p. 1) that the "central task" of Australian trade policy is "to secure the best possible conditions and opportunities, especially market access, for Australian firms and industries trading and investing overseas". Despite favourable references to trade liberalisation on the part of Australia, the main emphasis of the document is on ways of opening and securing export markets by direct official actions. Up to a point, this makes sense. In Australia, as elsewhere, there is a continuing positive role for trade diplomacy, the more so in a world which remains subject to a host of officially-inspired distortions to trade and capital flows. But it is easy to define this role so that exports as such are made into an overriding objective, and there are clear signs of this frame of mind in the *Statement*. In particular, the theme of liberalisation is linked to a misleading - indeed primitive - notion, which only has meaning if exports are viewed as an end in themselves. The notion is that while it is in Australia's interest to work within "a framework of multilateral rules", this is only, or mainly, because "as a middle-sized trader . . . [it] generally does not have the economic clout to prise open markets on its own" (p. 51). It is surprising that such an argument should be found today in a serious and considered official statement of policy. In the New Zealand counterpart documents, there is a more informed conception of national interests, with less emphasis on exporting as an objective of policy in its own right.

(iii) More than in New Zealand, though the difference is one of degree, Australian official statements fall prey to the mistaken though widely prevalent idea that when transactions take place across national boundaries the state as such is necessarily involved. In this view of the world, there is an entity called 'Australia', which not only has a flag and a national anthem and a foreign policy, but is also 'a middle-sized trader' or 'player', exporting coal, iron ore, tourist services and so on to other 'players', or 'trading partners', which are likewise national states. This is misleading, since the vast majority of cross-border transactions, like those within national states, are conducted between businesses without the knowledge or participation of governments - increasingly so, as liberalisation of trade and capital flows has gone ahead.

(iv) The three features just listed - the restricted view of external economic policy as trade diplomacy, the conception of exports as the main objective to be pursued, and the notion of governments as principal 'players' - go together with a tendency, clearly evident in Australian official and ministerial statements, to overrate the extent to which export performance is determined by direct supporting actions on the part of governments. Here, as elsewhere, this view of the world sets the scene for various forms of activism in the twin causes of export promotion and attracting inward direct investment. Such interventions have a strong appeal to constructively-inclined ministers and officials, who see the prosperity of their countries as depending in large part on their capacity to read situations, identify opportunities, and bring off successful high-profile deals: exports and inward direct investment are seen as depending on the resourcefulness and bargaining skills of macho ministers and commercially-oriented diplomats. (These attitudes are of course to be found in Australia at State as well as federal level.) The *Trade Objectives and Operations Statement* takes early credit (p. 1) for what it describes as the government's "activist and assertive approach to advancing Australia's commercial interests overseas". Admittedly, activism and assertion can be employed by governments in the advancement of liberal causes, and in countering anti-liberal elements in the actions and policies of others; but in many if not most countries, they result in forms of trade interventionism which are based on mercantilist rather than liberal ideas as to how a country's 'commercial interests' are to be defined. On present evidence, the hold of such ideas is stronger in Canberra than in Wellington.[17]

While New Zealand officialdom thus appears closer to liberal ways of thinking than its Australian counterpart, a sharper contrast of the same kind has now emerged with respect to the two business communities. As noted, New Zealand business leaders and organisations have not taken up the cause of reciprocity, nor has there been much support for the idea of postponing future tariff reductions. As to industry assistance, a recent development is especially striking. In the Policy Agreement, the New Zealand Coalition government made a number of proposals for higher public spending on such assistance, including increased support for exports. Leading business organisations - the New Zealand Chambers of Commerce, the Employers Federation, Federated Farmers, the Manufacturers Federation, and the New Zealand Business Roundtable - opposed these proposals, on the grounds that they represented a questionable use of public money and that government expenditure ought to be reduced rather than increased. The president of the Manufacturers Federation, in a letter to its membership commenting on this reaction, made the following noteworthy statements:

. . . our business organisations believe that now is not the right time for more Government spending . . . we do not want to return to the days of going cap in hand to Wellington to earn favours from our politicians, who tax us all to pay for them. We would much prefer to see across the board cuts to the costs of doing business in New Zealand, including . . . tax cuts.

This suggests a markedly different climate of business opinion from that of Australia, where probably only the National Farmers Federation and the Western Australia Chamber of Commerce might have evinced a similar reaction. In statements relating to actual recent cuts in industry assistance and possible next-stage tariff reductions, the main Australian business groups have taken a traditional defensive and interventionist line.

More broadly, though this goes beyond business groups, there is a serious and continuing debate in Australia about the possible advantages to be gained from a more activist national 'industrial strategy'. The federal Labor Party has now embraced this idea: a recent article by its industry spokesman, Simon Crean, argues that:

. . . industry policy means much more than micro-economic reform. Assistance to industry must be strategic and geared to achieving net export growth and new jobs in our key manufacturing and service sectors . . . . Australia must better support its manufacturing sector . . . . Interventionist policies . . . can improve our growth prospects.[18]

Much the same sentiments have been expressed by business groups. Thus the Australian Chamber of Manufactures is "actively lobbying the Government to introduce a national Action Plan for Manufacturing Development to 2010".[19] In this it appears to be echoing the Business Council of Australia, which issued in 1993 a major report entitled *Australia 2010*.[20] This report goes beyond Australian officialdom (though perhaps not now beyond the federal Labor Party) in its zeal for a nation-wide mercantilist strategy, arguing naively (p. 154) that:

All policy areas must be directed toward one central goal: ensuring that all activities in the economy must support those organisations which compete with imports or which export.

The report is commended in the Business Council's recent submission to the official Review of Business Programs in Australia, in which, despite some disclaimers, the general tone is interventionist.[21] By contrast, the New Zealand public debate seems little concerned with 'industrial strategy', nor does the phrase enter into the Policy Agreement.

These differences may not last. Australia as well as New Zealand is committed to the liberalisation implied by the Bogor Declaration, so that, despite the evidence of continuing and widespread support for interventionism, further unilateral moves towards freer trade and investment may not be long postponed.[22] On the other hand, the way in which the Declaration is actually interpreted by APEC member governments, and the extent to which its liberal provisions, on the face of it far-reaching, are actually carried into effect, remains to be seen: in the event, there may well be scope for hedging and qualifying the goal of free and open trade and capital flows, and for conducting long-drawn-out protectionist rearguard actions. On present evidence, the possibility that Australian governments will think in such defensive terms cannot be ruled out.

Thus the prospects for further external liberalisation appear at present to be more favourable in New Zealand than Australia. It is even possible to imagine that in this next stage New Zealand governments, with sufficiently broad support from public opinion, might break away altogether from mercantilist conceptions of national interest and international relationships, and move to the establishment of a fully liberal regime for trade and capital flows. This would be a notable event on the international scene, as well as in the history of New Zealand, and it is worth considering what would actually follow in terms of concrete actions if such an evolution were now to occur.

New Zealand first? A liberal blueprint

Up to a point, a commitment to external liberalism would mean no more than reaffirming what can already be found in official statements of policy which the present government has accepted or endorsed. In the Post-Election Briefing from the Ministry of Foreign Affairs and Trade Manatü Aorere, the idea is restated (p. 21) of pursuing "the objective of free and open trade . . . on four interrelated policy tracks", in which the first track is that of unilateral measures of reform and the fourth that of "support for a strong multilateral trading system". This is fully consistent with a liberal approach; and though a keen adherent of the approach would want to comb through the draft of the Ministry's next policy document, with a view to purging the traces that might still remain of the diplomatic-managerialist view of the world, the general orientation of New Zealand trade and investment policies, as the recent WTO review confirms, is clearly liberal. Hence a more formal commitment to liberalism would not bring fundamental changes in the present trade and investment regime. For both trade and inward investment, however, such a commitment would lead to a number of further steps being taken along the 'first track' in particular, some of which would mean disregarding, or departing from, what is to be found in the Policy Agreement.

With respect to trade, the main headings of further liberalisation would be the following.

(i) As to *tariffs*, a statement would be made, either now or in the context of the review that is due to take place in 1998, confirming the intention to reduce all of these to zero, and naming a specified date for the realisation of this goal which would be well before the year 2010 that is laid down in the Bogor Declaration. In the statement, it would be made clear that this programme of further and final tariff reductions was not in any way dependent on similar actions, or pledges of action, by other governments: the principle of reciprocity would be explicitly rejected, and the programme would be justified with reference to the gains that it would bring to New Zealanders.

(ii) The government would eschew all future resort to *anti-dumping actions*, which in all the trade regimes that incorporate them are used, largely if not entirely, as a means of selective protection. The New Zealand legislation which provides for these, the Dumping and Countervailing Duties Act 1988 as since amended, would be either repealed or redrafted so as to leave open the possibility of applying countervailing duties only in strictly defined circumstances. This move would also be unilateral, and not related to actions that might be taken by other governments. It would mean a departure from current official policies.[23]

(iii) *Export assistance* would be reduced to zero, or whatever level could be justified by evidence of 'market failure' - if, indeed, such evidence is to be found. The future status and funding of TRADENZ and the Tourism Board would thus be in question.

(iv) Notions of government-supported 'industrial strategy', including tailor-made special incentive packages for particular inward direct investment projects, would continue to be eschewed and disclaimed.

(v) The remaining *monopoly selling rights* in export markets of producer marketing boards, and other restrictions imposed on the freedom of producers to sell their products for export, would be brought to an end. (This forms part of external as well as domestic economic policies, since besides enlarging the freedom of individual producers within New Zealand it would open up possibilities for direct foreign investment which are at present excluded.)[24]

(vi) Further *privatisations*, as has in general been the case so far, would provide for unrestricted bidding and acquisition of shares by overseas investors (and the fact that privatisation of state enterprises would enlarge the scope for foreign investment would be seen as one of the arguments in its favour).

With respect to direct foreign investment, the Policy Agreement does not propose to change the present situation, in which (to quote the WTO Secretariat's report, p. 11) "New Zealand encourages foreign investment and maintains a liberal . . . regime, with national treatment the general rule".[25] However, it leans in the direction of greater restrictiveness. In a "Statement of General Direction" it asserts as a "general principle" that "It is desirable that the control and ownership of important New Zealand assets and resources be held by New Zealanders". Among 'Key Initiatives of Policy' it proposes some tightening of conditions applying to the sale of farm land, including a strengthening of the clauses relating to 'national interest', and it confirms that a specified list of government-owned 'strategic assets', including the Electricity Corporation of New Zealand and New Zealand Post, will not be sold. How much difference these various provisions will make in practice remains to be seen: only in relation to land is an actual change involved. From a liberal viewpoint, however, both the general statement and the specific proposals are misconceived. In so far as policy is concerned with the prosperity of New Zealanders, the guiding liberal principle is that of enabling assets to be held and operated by those who can put them to the most productive use, without regard to nationality, at any rate so long as prospective overseas investors are individuals and privately-owned enterprises whose interests are personal or commercial (official holdings or acquisitions are another matter). Hence policies should be moving in the opposite direction from that suggested in the Policy Agreement. Among other things, this would imply (i) acceptance of foreign ownership of so-called 'strategic assets', as and when the decision to keep these in state ownership is reversed, (ii) removing the restrictions imposed as part of the 'Kiwi Share' obligations on Telecom, and (iii) dispensing with, or at least drastically revising, the present unhelpful (though plausible-sounding) criteria for assessing 'national interest' in relation to foreign direct investment.

As to the other 'tracks' relating to trade and investment policies - bilateral, regional and multilateral - the present orientation of New Zealand official policies is already liberal: this can be seen in the positions that successive governments have taken with respect to the CER, the evolution of APEC, and the strengthening of the multilateral trading and investment system and of the WTO. In particular, the guiding principle laid down in *New Zealand Trade Policy* (p. v), that New Zealand's interests would be best served by "complete multilateral free trade", so that "other options need to be examined from this perspective", already expresses a basic liberal principle. Aside from the continuing emphasis on export markets, which is mild by current international (including Australian) standards and not now accompanied by much in the way of interventionist practices, there would be little to change in the present stance of New Zealand policy with respect to these other three 'tracks' if national interests were more consistently defined in liberal terms. New Zealand would remain committed (i) to further integration within the CER, in particular with respect to removing the restrictions that still apply to direct investment flows, (ii) to non-discriminatory as opposed to preferential liberalisation within APEC, and (iii) to further multilateral liberalisation within the WTO. It would likewise use its influence, as now, to strengthen the system of multilateral rules and disciplines that limit the freedom of national governments to adopt discriminatory measures with respect to trade and investment flows.

In relation to the fourth or multilateral track, three specific points are worth making.

First, as part of the Uruguay Round agreements the New Zealand government has agreed to a set of tariff bindings; and, in general, the rates thus accepted as maxima for the future are in fact above those now prevailing, and will be all the more so in so far as tariff reduction proceeds here. As part of a liberal approach, bound rates could be brought down to, and later reduced in parallel with, the actual rates.[26]

Secondly, perhaps the chief risk at present to the open multilateral trading system is that of new internationally agreed restrictive impositions or regulations, relating in particular to labour standards and environmental norms: these may be embodied in multilateral agreements applying in principle to all countries, or imposed by powerful trading entities, such as the United States or the European Union, in the context of bilateral or regional arrangements. Such regulated norms are liable to restrict and distort trade and investment flows, by imposing uniformity in ways that prevent a wide range of mutually beneficial arrangements and contracts from being made. The danger is that national governments will enter into such agreements without sufficiently considering their economic consequences, in part because the responsibility here is left to specialised agencies, ministries or departments - dealing for example with labour and social affairs, or with environmental matters - in which economic analysis is disregarded or not adequately provided for: recent history provides clear instances of this. In New Zealand as elsewhere, governments need to ensure that they do not sign up too readily, and without close scrutiny by the main economic departments and the private sector, to international agreements or conventions which are anti-liberal in their thinking and effects. A corollary is that the central economic departments need to inform themselves about these issues, and maintain the competence to deal with them - something which, even now, is not to be taken for granted in most countries.

Thirdly, the cause of a liberal world trade and investment regime will be the more effectively served in so far as member governments make effective use of the two international agencies which they have specifically charged with responsibility for promoting cross-border liberalisation, namely, the OECD and the WTO.[27]

The case for a fully liberal approach, including the specific measures sketched out above, has both a negative and a positive side. It rejects the twin mercantilist notions that national interest is to be defined with reference to export growth or balance of payments surpluses, and pursued through the instruments of trade diplomacy and interventionist industrial policies; and it accepts the argument that economic freedom, including freedom of cross-border trade and capital flows, is a means to greater prosperity. However, as already noted above, prosperity may not be the only concern of governments and peoples: decisions concerning these flows may also be influenced by political considerations, which can extend to fundamental issues of national identity and independence. This is even more the case when it comes to the third dimension of external economic relations, namely international migration. Hence, in considering how far liberalisation should be taken in New Zealand today, account has to be taken of its possible wider effects, whether these are viewed as favourable or unfavourable.

The wider aspects of cross-border liberalisation

This raises many questions. Here I consider the two central and interrelated issues of (i) national independence and sovereignty and (ii) foreign presence and national identity. Again, the choices for New Zealand are viewed in a historical and comparative perspective, with Australia particularly in mind. For the moment, I focus chiefly on trade and capital flows, leaving the third dimension, of cross-border migration, to a later stage.

Suppose that the New Zealand economy were to become fully open with respect to trade and capital flows. What would be the consequences of this greater degree of integration for New Zealand's situation in the world, its status as an independent sovereign state, and the capacity of its government and people to control their own affairs and decide their future?

This is not just an abstract question: actual historical experience, some of it going back well over a century but including also more recent developments, throws a good deal of light on it.

The outstanding historical case of full integration is that of the United Kingdom in relation to the international economy over the period from 1850 to 1914. By mid-century the United Kingdom had established virtually full freedom, not only of trade and capital flows but also of migration, and this regime was effectively maintained up to the outbreak of the First World War. During this same period, in the world economy more generally, capital flows were almost wholly free (and exchange controls unknown), immigration controls were light or non-existent (though tending to increase), tariffs and trade preferences were mostly moderate (though also on an upward trend, from the late 1870s), and non-tariff barriers to trade were negligible. Hence the period provides a leading instance of unilateral full integration of a single country, within a generally liberal international economic order such as may now be in course of being realised once again.

The experience of these decades serves to demonstrate that close and increasing international economic integration does not undermine the sovereignty and independence of national states, nor does it deprive the peoples and governments of these states of the power to control their internal affairs and to decide leading issues relating to national identity.

As to independence and the maintenance of sovereignty, national states in the period 1850-1914, including the United Kingdom, retained control over their domestic and external policies: closer integration did not constrain their choices, which included the choice of whether and how far to move in this direction. In particular, these states not only retained but also actually exercised the power to go to war with one another: there could be no clearer demonstration of continuing freedom of action. It is true that a stronger commitment on the part of governments to free trade and liberal ideas would have weakened somewhat their incentive to go to such lengths, but it would not in the least have impaired their right or capacity to do so. Again, the national identity of the British people was not compromised or distorted by long experience of virtually total freedom with respect to external flows: attitudes, values, culture and institutions, though no doubt affected in many ways by the various contacts and influences which this freedom brought with it, remained both distinctively British and subject to choices made within Britain. Among other aspects of this, the political system, and changes and adjustments within it, were decided on the basis of internal interests, arguments and pressures.

Admittedly, not all countries and governments were equally free to choose. This was also an age of imperialist expansion, while weaker countries, even if nominally independent, were often put under pressure to undertake specific actions - as indeed is the case today and has been throughout history. In some cases, moreover, the changes that were imposed on countries related wholly or mainly to external liberalisation: the forcible opening up of the Japanese economy, in the 1850s and 1860s, is a leading case in point. Actions of this kind, however, were linked not to economic liberalism as such, but rather to the then prevailing assumption that general norms of conduct were to be laid down and enforced by the great powers. In any case, such drastic forms of coercion are no longer practised. Although unilateral pressures may still be brought to bear by the large trading entities, as can be seen for example in the conduct of US trade policies towards Japan, the freedom of sovereign governments to decide their own external economic policies is now universally acknowledged: such present-day cases as Cuba, Myanmar, Libya and Iran show that this autonomy is real.

As to more recent evidence that liberalisation does not undermine national sovereignty, the case of New Zealand itself will serve as an example which can be taken as representative. Since 1984, in ways already outlined, New Zealand has taken major steps towards closer economic integration with the rest of the world; and even before then, it was in many ways an open economy. So far as both trade and capital flows are concerned, as can be seen from the list of possible further measures set out above, there is now not far to go to establishing full freedom. Only with respect to the control over immigration would New Zealand's present-day external economic policies have to be substantially changed if full integration, or something very close to it, became an accepted national goal. With this important exception, the main bridges have already been crossed.

Contrary to what is sometimes asserted or assumed, these recent moves towards a much more open economy have not compromised the sovereignty or independence of New Zealand, whether in the economic or the political domain. As to economic policies, it is true that its governments have forsworn the use of a number of policy instruments, and tied their hands in various respects through international agreements. But these were unconstrained choices, which were made because they were thought to be in the country's interests. In principle, they could be reversed, either wholly or in part. If the present government and its successors decide to go forward with further external liberalisation, they can choose what limits to set to this process, and they are free to stop short of full integration. If they decided to go the whole distance but then became concerned about unforeseen consequences that appeared, they could retreat.

It is often maintained today that full freedom of cross-border capital flows, with the breakdown or abolition of exchange controls and the greater cross-border mobility of direct investment by multinational firms, now places new and much stricter limits on the freedom of action of governments, including that of New Zealand. This argument is overdone.[28] As a New Zealand Business Roundtable spokesman noted sardonically in a recent address, "New Zealand is just as free today to borrow extravagantly, debauch our currency or prop up uncompetitive industries as we were prior to 1984".[29] In any case, it has to be remembered that even heavily controlled economies are subject to external problems and 'crises', as was the case for New Zealand in mid-1984 and a number of earlier episodes. Indeed, in so far as controls and regulations reduce the capacity of an economic system to respond to unforeseen changes, they may make the economy on balance more vulnerable to outside pressures rather than less.

Of course, external liberalisation can take forms in which national states deliberately choose to give up some elements of sovereignty, in the interests of joining with others to establish common policies. This happens, for example, when customs unions are formed, except in the case where the countries concerned are agreed on moving to complete free trade. It could therefore take place within the CER, if it were decided to turn the Agreement into a customs union (which is not now in question). It is also possible that at some stage, given the freedom of movement provided under the Trans-Tasman Travel Agreement, New Zealand and Australia will decide that a common set of immigration policies is necessary. In such situations questions of autonomy and even identity may well arise, as has been and is now the case within the European Union: particular countries, such as the United Kingdom today, may have to make hard choices. In the instance of New Zealand, however, there are no signs at present that future liberalisation will take forms which require the surrender or pooling of sovereignty: agreement within the WTO does not involve this, nor, so far at least, does the process of 'concerted unilateralism' within APEC.

In the political domain, it is evident that the freedom of New Zealand governments and their voters to run their own internal affairs, as also to decide other aspects of external policies such as defence arrangements, has been unaffected by external liberalisation. Moving to fuller integration would not change this state of affairs. The point here is a general one. Even if national states go to the limit with respect to external liberalisation of trade and capital flows, this need not affect their freedom of action in such matters as defence, foreign policy, cultural affairs, voting arrangements, legal systems, forms of government, and the status of the national language (or languages). Unless they choose to enter into some kind of closer *political* union, their autonomy in these and other areas is not put in question; and if they make such a choice, it is because the perceived advantages outweigh the loss of autonomy.

National identity and 'engagement with Asia'

In New Zealand and still more Australia, it is sometimes argued that profound changes in national identity are already under way as a result of increasing economic integration with East Asian countries, or with the Asia-Pacific region more generally, and that this closer 'engagement with Asia' is in both countries the outcome of a conscious recently-adopted political strategy for defining and asserting a new role for each of them on the world stage. Though not wholly without basis, these ideas contain a large element of exaggeration, for the following reasons.

Liberalisation of trade and payments by the two governments has brought closer integration not only with Asian (or Asia-Pacific) countries, but with the whole of the rest of the world, the more so since up to now at least there has been no preferential element within APEC.

The rising share of exports to and imports from East Asian countries within the foreign trade of both New Zealand and Australia is not the result of political initiatives, skills or discernment in Wellington or Canberra. Very largely, it is explained by the fact that these economies have been growing faster than the rest of the world.

A country's political stance, and the nature of its political ties with others, is not and should not be determined by the geographical composition of its external trade and capital flows.

The elements that go to make up national identity - values, interests, tastes, attitudes, institutions and culture - may well be affected when an economy becomes more open, especially if it was previously closed (as Australia and New Zealand were not), or if greater openness goes together with political integration (which has not been the case with New Zealand or Australia). But other and more profound influences are at work here; and, again, the geographic composition of trade and investment flows is unlikely to be more than a minor influence.[30]

Immigration, foreign presence and national identity

All this, however, is not the whole story, since it leaves out the third dimension of international flows, the free movement of people. More broadly, there is the question of *foreign presence* within a country, and the possible bearing of this on a range of issues including especially national identity. Full economic integration, in all dimensions, implies not only that there are no restrictions on private inward direct investment, but also that rights of residence, and arguably of citizenship also, are freely available to foreigners, subject only to conditions which all healthy and law-abiding persons can meet. Aside from exceptional cases where economic and political relationships are very close, no national states today are ready to consider opening their economies to this extent, nor is this advocated by economic liberals, few of whom favour uncontrolled immigration. In New Zealand (and Australia) as elsewhere, it has to be considered whether greater openness might raise justified concerns over foreign presence.

Here the main questions relate to immigration, where sovereignty and independence are not involved. Rather, the issues that arise relate to the likely effects of different rates of inflow, and different mixes of immigrants, on national prosperity and - still more - on values, culture and identity. For New Zealand today, such issues are only touched on in the Policy Agreement. Under the heading of immigration, there is a very broad general statement, while the main specific 'initiative of policy' is that current inflows will be maintained at the level of the final quarter of 1996. This would seem to imply an annual rate of some 32,000 approvals, as compared with the target that had earlier been set for 1996-97, which was 35,000: hence virtually no change in current policies is involved. The new figure is to be maintained as an interim total, pending the outcome of the Population Conference that is to be convened by the government. Presumably it is hoped that the conference will throw light on the issue of what New Zealand's future population should be, and that this result in turn will provide a firmer basis than now for immigration policies. Neither of these hopes is likely to be realised, nor is the question of immigration flows best approached in terms of what the 'optimum' population for New Zealand might be, since there are more directly useful considerations which bear on it. Under this heading, the main arguments from a liberal point of view are three.[31]

First, there is no good reason to believe that a higher rather than a lower inflow of migrants will necessarily, or even probably, cause the average unemployment rate of a country to be higher than it otherwise would be: perhaps the best evidence of this in recent decades is that the United States, with a much faster rate of growth of its labour force, largely as a result of higher immigration, has experienced and maintained significantly lower rates of unemployment than the countries of continental Europe. Hence there are no convincing grounds for restricting inflows because of a threat to the employment prospects of residents in general within the receiving country; nor, except in so far as there may be well-based specific concerns about the personal qualities of particular individuals or groups, is there reason to exclude immigrants on the grounds that they will themselves remain unemployed after their entry.

Secondly, and, as with foreign direct investment, immigration can act as a means of drawing in skills, information, ideas, initiative and forms of enterprise. Historically, immigrant groups and communities have often made a positive and distinctive contribution to the economic life of the countries they have moved to; and, generally speaking, the scope for this is increased when the immigrants come from backgrounds and cultures which are different from those of the communities that are dominant within the receiving country. In this respect, immigration can be seen as a positive factor from the standpoint of national prosperity, and indeed from that of national identity also, in so far as greater diversity makes for broader cultural influences and reduces the risk of insularity. Here again, however, much depends on just who the immigrants are.

Thirdly, it is possible to make use of a principle for selecting the main category of immigrants which is calculated to ensure, so far as this can be done, not only that they will make a positive contribution to economic life and to the prosperity of the indigenous population, but also that problems of shared values, and successful absorption into the community, will be minimised. The key here is to charge wherever practicable fees for permanent residence approvals, and to use such charges both as the principal basis for selection and as a rationing device when the number of applications, other than for special categories, exceeds the designated quota. The willingness to make substantial payments for entry provides evidence (i) that those who make them will be able to function effectively within their new environment, and (ii) that they place a high value on the opportunity to live in that environment, and hence on its values and institutions. At the same time, such payments, as a contribution to general revenue, would enable existing citizens and taxpayers to share in the benefits that the newcomers derive from admission: the interests of those who are already nationals would be directly and immediately served.

Willingness to pay could well be developed into the principal basis for permanent residence approvals in New Zealand, though this would not preclude the continuing use of administrative criteria. Increasing reliance on fees is fully compatible with reserving quota places for refugees and 'humanitarian' cases, as now, and with maintaining the separate arrangements for Western Samoa which would not be affected. All these are in any case small programmes. The two main channels of admission are what is now the General Skills Category and the Family Category, in that order. For the latter, while there may well be a case for charging higher fees for approvals, direct assessment of personal circumstances will no doubt remain a leading if not decisive factor. The main role of higher fee payments would thus be in relation to the large General Skills Category and (should it continue) the much smaller Business Investor Category of applications. Here it would replace the present points and 'pass mark' system of administrative selection.[32]

From a liberal standpoint, therefore, there is a good case for thinking in terms of a continuing high level of permitted immigration into New Zealand for permanent residence, provided that such an increase is linked to demonstrated willingness to pay substantial fees. Subject to this condition, the permitted level of entry could move back to well above the present interim target of 32,000 approvals, which itself marks a considerable reduction from the actual inflows of the last two full years for which figures are available. (In round terms, approvals came to 56,000 in 1995 and 43,000 in 1996.) Such an increase would be concentrated on the General Skills Category, and would be phased over time rather than immediate. Hence there would be a progressive rise in the annual rate of approvals within the General Skills Category (and, if this were retained, in the Business Investor Category also), with fees rather than 'pass marks' being used as a means of keeping the numbers within the rising annual ceiling.

The question of an eventual maximum ceiling for approvals need not be decided in advance: it could be considered in the light of experience with such an expanded programme, including the demonstrated extent of willingness to pay and the degree to which the programme gained public acceptance and support: in such a potentially sensitive area of policy, change should be incremental and subject to continuing review. All the same, some illustrative figures can be given. The current target level for the General Skills Category, which is around 16,000 per annum, can be directly compared with the figure of 40,000 for approvals in 1995 under the earlier counterpart programme, the then General Category. While at the time this latter figure was criticised as too high, it does not appear unreasonable as a rough indicative medium-term target.

CHAPTER FOUR

CONCLUSIONS

The main threads of the argument can be gathered together as follows.

1 While closer international economic integration has been a feature of recent years, it is wrong to think of this as a new and dramatic phenomenon. The trend has been generally in evidence over the past half-century, and is just as clearly to be seen in the century leading up to the First World War.

2 Cross-border integration has resulted from a combination of influences, partly technical and economic and partly political. The political element has been dominant throughout, and it remains so. Hence the pace and extent of future liberalisation depends chiefly on what the governments of national states decide: there is no uniform pattern imposed by outside events. 'Globalisation' has not deprived national governments of their freedom to act in these matters, which was almost equally constrained when their economies were less open and more controlled. The idea that the power of decision has been passing from the hands of national states, whether to businesses or to regional and international organisations, is without foundation.

3 In deciding their external economic policies, and the balance between liberalism and interventionism within them, governments are concerned not only with prospective economic consequences - chiefly, national prosperity - but also with political aspects. These latter may include considerations of national identity.

4 For almost four decades following the end of the Second World War, the external economic policies of both New Zealand and Australia remained strongly influenced by long-established protectionist and 'insulationist' ideas: the two governments took little part in the regional and multilateral agreements through which other OECD countries became more closely integrated with each other and with the rest of the world. In the past 10 to 15 years, both countries have moved a long way towards more liberal trade and investment regimes, acting for the most part unilaterally. This has gone together with a different vision of their place within the world economy, and a growing readiness to think of international transactions as a source of opportunities rather than risks.

5 Currently, there are signs of a protectionist reaction in Australia, linked in particular to notions of trade reciprocity and to interventionist 'industrial strategies'. Such tendencies appear weaker in New Zealand; and, in particular, there is a striking contrast in this respect between the two business communities. In the same vein, official statements of trade policies in New Zealand are less influenced than their Australian counterparts by traditional mercantilist ideas, in which exports are viewed as the goal and direct government actions as the key to increasing them. While there are various interventionist hints in the Policy Agreement between the two parties which have formed the present New Zealand Coalition government, these do not appear as serious qualifications to, or departures from, the present generally liberal stance of external economic policies.

6 If a New Zealand government were now to make a firm commitment to establishing a fully liberal set of policies with respect to trade

and capital flows, the main initiatives to be taken would be the following.

(i) All remaining tariffs to be finally reduced to zero by a specified and fairly early date, without regard to whether other countries are taking similar action.

(ii) Removal of the possibility for New Zealand businesses to bring anti-dumping actions.

(iii) Official assistance for exports to be greatly reduced, and notions of government-supported 'industrial strategy' to be rejected.

(iv) Remaining monopoly selling rights of producer marketing boards to be brought to an end.

(v) Greater scope for private foreign direct investment in the New Zealand economy, including acquisition of interests in 'strategic assets'.

(vi) Maintaining the present stance of policy, directed towards further liberalisation by agreement and to strengthening the multilateral system and the principle of non-discrimination, within the CER, in APEC and other regional fora, and in the WTO.

7 Both earlier history and recent experience suggest that these changes would not weaken the independence or sovereignty of New Zealand, which have not been significantly affected by the substantial liberalisation since 1984.

8 Liberalisation of trade and capital flows in New Zealand and Australia is bringing closer economic integration with the rest of the world as a whole, not just the East Asian or Asia-Pacific economies.

9 The rising share of East Asian economies in the trade flows of New Zealand and Australia is largely due to the fact that these economies have been growing faster than others: it is not the result of political choices in Wellington or Canberra.

10 Neither the political affiliations nor the national identities of New Zealand and Australia are a function of the changing geographical mix of trade and investment flows: more profound influences, not necessarily or even mainly economic, are involved.

11 The issue of control over immigration flows raises further and more sensitive issues. However, there is good reason to think that, provided that the choice of migrants is soundly made, higher inflows would not lead to any increase in economy-wide unemployment rates, would make for somewhat greater national prosperity, and would have wider social effects that were positive rather than negative. The most promising way to influence the quality of migrants, and thus to ensure that the balance of advantage from immigration is positive, would be to charge substantial fees within what is now (in New Zealand) the General Skills Category, and to use these charges as a rationing device for granting approvals within it. Other categories of approvals would not be affected by this change.

12 On this basis, one could envisage a progressive increase in annual approvals granted within this category, from the present low figure of some 16,000. Such an increase would, however, be subject to continuing review.

ENDNOTES

1 This paper has greatly benefited from comments and suggestions from Gary Hawke, Roger Kerr, Richard Snape and Bryce Wilkinson.

2 World Trade Organisation, *Trade Policy Review of New Zealand*, Geneva, WTO, 1996.

3 Policy Agreement between the New Zealand First Party and the New Zealand National Party, Wellington, December 1996.

4 At various points, chiefly in the historical survey, the argument draws on my Hibberd Lecture, delivered at the Melbourne Business School in February 1997, entitled 'The Changing World Economy and the Place of Australia and New Zealand within It'.

5 In a recent New Zealand official publication, the *Post-Election Briefing* published in October 1996 by the Ministry of Foreign Affairs and Trade Manatü Aorere, it is noted (p. 5) that "Australia and New Zealand work closely together on a wide range of foreign policy issues. This is particularly so in the South Pacific and East Asia. There is ongoing consultation and coordination of policy both between capitals and diplomatic posts overseas".

6 For New Zealand, the most recent such statement is the *Post-Election Briefing* noted above. In Australia, the Coalition government

elected in May 1996 has recently published a *Trade Objectives and Operations Statement* (Canberra, 1997), and is now in course of preparing a White Paper on Foreign and Trade Policy which it has described as "Australia's first-ever comprehensive vision statement on foreign affairs and trade".

7 These are figures based on the output and export series in Angus Maddison, *Monitoring the World Economy, 1820-1992*, Paris, OECD, 1995, that I have extended on the basis of more recent data taken from the International Monetary Fund, *World Economic Outlook*.

8 W K Hancock, *Australia*, London, Ernest Benn, 1930, p. 86.

9 Maddison, *op. cit.*, p. 38.

10 With respect to inward investment, the main reforms came in Australia where, unlike New Zealand, stricter regulations had been brought in during the late 1960s and the 1970s. Even after the changes, the Australian regime remained, as it still is, more restrictive than that of New Zealand.

11 David Henderson, 'The Revival of Economic Liberalism: Australia in an International Perspective', *The Australian Economic Review*, 2nd Quarter 1995.

12 Keith Sinclair, *A History of New Zealand*, Auckland, Penguin Books, 4th revised edition, 1991, p. 238.

13 One area of New Zealand's trade policy in which defensive attitudes remain influential, more so than in Australia, is the continuing statutory regulation of agricultural exports.

14 The speech was given at the Centre for European Policy Studies in Brussels. I owe the reference to Richard Snape.

15 *Australian Financial Review*, 12 March 1997.

16 Ministry of Foreign Affairs and Trade, *New Zealand Trade Policy: Implementation and Directions: A Multi-Track Approach*, Wellington, 1993. This document, though now inevitably somewhat dated, is a notably thoughtful and well written presentation of the official line.

17 The idea that exports are an end in themselves is still to be found in the context of the New Zealand Trade Development Board (TRADENZ). In its submission to the TRADENZ Review Committee (1994) the New Zealand Business Roundtable made the point that "the goal of increasing foreign exchange earnings is inappropriate and needs to be respecified".

18 Simon Crean, 'Australia's future is in industry', *Australian Financial Review*, 18 March 1997.

19 *Australian Financial Review*, 17 March 1997.

20 Business Council of Australia, *Australia 2010: Creating the Future Australia*, Melbourne, 1993.

21 Business Council of Australia, Submission to the Review of Business Programs, February 1997. The level of economic sophistication in this document is not high.

22 In one area of policy, that of defence procurement, there are indications that such a move may soon be under way in Australia. The chairman of the recent Defence Efficiency Review has been quoted as advocating "an essentially free market solution", with full international competition for defence purchases and the rejection of any "grand industrial design" which would list for preservation "essential industrial capabilities" (*Australian Financial Review*, 14 April 1997).

23 In *New Zealand Trade Policy* the anti-liberal position is taken (p. 7) that "in principle, the application of anti-dumping duties is acceptable - it is one way of ensuring 'fair trade'. . .".

24 It is not suprising that, in the recent examination of New Zealand in the WTO, the Swiss delegate made the point that "the Dairy Board's exclusive export control . . . effectively restricts the possibility of overseas firms to process milk in New Zealand for export". There may be a case for licensing exports to a small number of markets (mainly the European Union for butter and sheepmeat) to capture market premiums while restrictive quotas apply.

25 There is a further element of trans-Tasman contrast here: a recent New Zealand commentator has made the point that "Australia's foreign investment policy in areas like real estate, banking, civil aviation, shipping, media and telecommunications is . . . much more restrictive than New Zealand's". (Bob Matthew, 'Retreat from Reform: Are Australia and New Zealand Becoming Laggards Again?', address given in Sydney on 29 April 1997 to the Committee for Economic Development of Australia, New Zealand Business Roundtable.)

26 There seems to be an Australian parallel here, with tariffs in this case also bound at levels which exceed those that are existing or in prospect. In this connection, Richard Snape has made the point that "Greater credibility to the reform process has to some extent been forsaken to preserve negotiating coin" (personal communication).

27 Some suggestions for action on these lines are to be found in David Henderson, 'International Agencies in an Interdependent World: Reshaping the OECD and the WTO', Australian Institute of International Affairs, 1997.

28 The issues here are well reviewed in a survey article on 'The World Economy', written by Pam Woodall and published in *The Economist*, 7 October 1995.

29 Douglas Myers, 'Why Not Simply the Best?', New Zealand Business Roundtable,
Wellington, 1996.

30 Paul Kelly, writing about Australia, has referred to "the social and identity changes which internationalisation of the economy would inevitably bring - multiculturalism, racial diversity and republicanism" (*The End of Certainty: The Story of the 1980s*, Sydney, Allen and Unwin, 1992, p. 433). In fact, there is no obvious connection between any of these things and the measures which Australian governments have taken since the end of 1983 to liberalise trade and capital flows.

31 The issues here have been examined in relation to New Zealand in a study by Wolfgang Kasper entitled *Populate or Languish? Rethinking New Zealand's Immigration Policy*, New Zealand Business Roundtable, 1994.

32 The standard health and character requirements, which apply to all applicants for New Zealand residence permits, would of course remain.