

Free Trade in the Asia Pacific: A View From New Zealand

Written by Nick Laery

This PDF is auto-generated for reference only. As such, it may contain some conversion errors and/or missing information. For all formal use please refer to the official version on the website, as linked below.

Free Trade in the Asia Pacific: A View From New Zealand

<https://www.e-ir.info/2013/08/07/free-trade-in-the-asia-pacific-a-view-from-new-zealand/>

NICK LAERY, AUG 7 2013

Political and Economic Considerations of Free Trade Agreements: New Zealand and AANZFTA: What Exactly Are Free Trade Agreements (FTAs) and What Are Their Political and Economic Attractions and Liabilities From the New Zealand Government's Point of View?

Free trade agreements (FTAs) are agreements negotiated between countries or groups of countries to improve market access for exporters and investors; reduce barriers obstructing trade; maintain current access to overseas markets; and to create rules resulting in a more secure trading partnership. The New Zealand (NZ) Government's view of FTAs is consistent with the international literature on political and economic attractions and liabilities associated with such agreements. Aside from increased GDP, the NZ Government acknowledges that FTAs are *economically attractive* because they: provide new opportunities for NZ exporters through enlarged markets; increase welfare for NZ consumers through trade creation; increase efficiency and competitiveness for NZ producers; defend market share in key export markets; and increase investment protection for NZ companies and individuals. FTAs are *politically attractive* to the NZ Government because they: ease political pressure from NZ exporters; build capacity; promote regional integration; kick-start stalled multilateral trade liberalisation; and raise NZ's international status. FTAs produce *economic liabilities* such as reduced tariff revenue and adjustment costs, while they produce *political liabilities* such as domestic political opposition.

What Are Free Trade Agreements (FTAs)?

According to the NZ Government, an FTA is an agreement negotiated between countries, or groups of countries, to: improve overseas market access for exporters and investors; reduce barriers obstructing trade; maintain current access to overseas markets; and to create rules resulting in a more secure trading partnership.[1] Member countries agree to remove tariffs and non-tariff barriers on trade in goods within the FTA over a specific time period.[2] Each member maintains its own trade policies and 'unique' trade barriers to non-members outside the FTA region.[3] Increasingly, FTAs include additional elements to those above. For example, the NZ Government aims for 'high quality, comprehensive' FTAs covering: trade in goods, services and investment; agreements on rules of origin (ROO); trade remedies; rules that aim to avoid the use of non-tariff barriers (such as technical barriers to trade [TBT], labelling requirements, sanitary and phytosanitary measures [SPS] and customs measures); labour and environmental standards; provisions for ongoing member country cooperation; and dispute settlement mechanisms.[4]

The ASEAN-Australia-New Zealand Free Trade Area (AANZFTA)

The agreement establishing the AANZFTA (hereafter AANZFTA) is a valuable case study to provide evidence of the NZ Government's view on FTAs.[5] The agreement entered into force on 1st January 2010 and is described as highly encouraging.[6] AANZFTA was estimated to bring an additional US\$48.1 billion GDP to the region in the 2000-2020 period.[7] Of this, US\$25.6 billion would go to ASEAN, US\$19.1 to Australia, and US\$3.4 billion to New Zealand. Beyond increased GDP, AANZFTA will be used to illustrate below the NZ Government's view of FTAs.

Free Trade in the Asia Pacific: A View From New Zealand

Written by Nick Laery

Table 1: NZ exports to ASEAN and NZ imports from ASEAN.

Dec 2008-Dec 2009
Dec 2007-Dec 2008
value of NZ exports to ASEAN
NZ\$3,187,032,000
NZ\$3,625,985,000
value of NZ imports from ASEAN
NZ\$3,382,928,000
NZ\$5,065,696,000

Source: Statistics New Zealand[8]

Economic Attractions of FTAS From The NZ Government's Point of View

'Offensive Commercial': New Opportunities For NZ Exporters Due to Enlarged Market

The desire for new and/or expanded market access is a 'powerful' attraction for wanting to negotiate an FTA.[9] A primary economic attraction of AANZFTA is the significantly enlarged market for the 12 member countries involved.[10] The ASEAN countries represent a market of at least 566 million people worth US\$1.4 trillion in global trade and are an increasingly important destination for NZ service providers and outward investment.[11] If current growth rates continue, the potential growth of the ASEAN market is 'enormous' over time.[12] Market enlargement also means that NZ exporters can move beyond the constraints of the domestic market, enjoying, for example, economies of scale.[13] In services, the AANZFTA creates obligations of 'market access' and 'national treatment' in sectors that are included in each country's services schedule, meaning that NZ service providers can operate in ASEAN markets to the same extent as domestic providers.[14] The NZ Government acknowledges that AANZFTA can provide commitments that would meet NZ's 'offensive commercial' needs in a 'growing and important market'.[15]

Trade Creation Leading To Increased Welfare For NZ Consumers

AANZFTA encourages trade in goods and services by removing barriers, providing greater certainty and transparency, and reducing transaction costs for NZ companies wanting to do business in ASEAN countries.[16] By 2020, 99 percent of existing NZ trade in goods with Indonesia, Malaysia, the Philippines, and Vietnam, will be duty free.[17] Upon full implementation in 2025, NZ will save approximately \$50 million per annum on tariff duties.[18] Removing barriers to trade allows members' products easier access to one another's markets.[19] This results in 'trade creation', which occurs when an FTA member substitutes domestic production of a good with imports of a similar good from another FTA member. This is because the formation of the FTA has made it cheaper to import rather than produce domestically.[20] Trade creation increases the welfare of consumers who pay lower prices for an increased volume of both imported goods and similar domestic goods, while having a greater range to choose from.[21]

Table 2: Tariff removal on selected NZ dairy goods in key ASEAN markets.

Dairy item Enjoying Removal of Tariff

Free Trade in the Asia Pacific: A View From New Zealand

Written by Nick Laery

Indonesia*

(year of removal)

Malaysia

(year of removal)

The Philippines*

(year of removal)

Viet Nam*

(year of removal)

Whole Milk Powder

2010

2009

2010

-

Butter

2010

2010

-

-

Ice Cream

2010

2010

-

-

Cheese

2010

2010

2010

Free Trade in the Asia Pacific: A View From New Zealand

Written by Nick Laery

-
Casein
-
2009
2010
-
Butter milk
-
-
2010
-
Fresh cream
-
2009
-
-
Whey
-
2009
-
-

*tariffs on other dairy exports to Indonesia, the Philippines and Viet Nam will be eliminated at various stages between 2010 and 2020 (at the latest)

Source: Ministry of Foreign Affairs and Trade.[22]

Table 3: Tariff removal on selected NZ horticultural goods in key ASEAN markets.

Horticultural Item Enjoying Removal of Tariff

Indonesia

Free Trade in the Asia Pacific: A View From New Zealand

Written by Nick Laery

(year of removal)

Malaysia

(year of removal)

The Philippines

(year of removal)

Viet Nam

(year of removal)

Apples

2010

2010

2011

2011

Kiwifruit

-

2012

2011

2011

Onions

2010

-

2018*

-

* tariff reduced rather than removed

Source: Ministry of Foreign Affairs and Trade.[23]

Increased Efficiency and Competitiveness For NZ Producers

Beyond trade creation, the removal of trade barriers creates greater competition, as companies are pressured into searching and adopting new research and technology, cost-cutting methods, and new practices that improve productivity.[24] A more efficient pattern of production emerges, which reflects the comparative and competitive

Free Trade in the Asia Pacific: A View From New Zealand

Written by Nick Laery

advantages of each FTA member state, which in turn reflect the factor endowments (land, labour, capital, and enterprise/entrepreneurship) of each member.[25] This process is known as 'industry relocation'. The NZ Government states that an important attraction of AANZFTA was that it would fulfil a desire to improve business competitiveness.[26]

'Defensive Commercial': Defence of Market Share In Key NZ Export Markets

'Trade diversion' may occur when efficient producers are shut-out of free trade blocs due to non-membership; thus losing market share to inefficient producers who enjoy preferential market access as members.[27] Even if NZ's products are higher quality and lower cost, these may become uncompetitive due to price distortions brought about by trade barriers.[28] The fear of trade diversion can produce 'strong incentives' for governments to negotiate their own FTAs.[29] FTAs can be a defensive reaction to the 'first-mover advantage' enjoyed by producers of goods within a preferential trading bloc.[30]

The NZ Government views FTAs as a means to ensure continued competitiveness of NZ exporters in important markets.[31] As international competitors of NZ companies achieve preferential market access through FTAs with countries where NZ has major export markets, NZ must do likewise, or its exporters will become uncompetitive, and will lose market share. The Government uses FTAs to maintain a 'level playing field' for NZ exporters.[32] Considering that ASEAN has already concluded negotiations with a number of NZ's competitors (including Korea, Japan and China), AANZFTA will allow NZ companies to remain competitive in the important ASEAN market.[33] Indeed, a key motivation for beginning negotiations was due to the view that establishing AANZFTA was 'not only feasible but also advisable if both ASEAN and CER are at least to keep pace with the rapidly changing world of today'.[34]

Increased Investment Protection For NZ Companies and Individuals

AANZFTA provides improved security for NZ investors and their investments in the markets of all 10 ASEAN countries.[35] NZ investments in ASEAN countries will enjoy enhanced transparency; will be afforded the same treatment by ASEAN governments as investments by their own nationals due to 'protection disciplines' such as national treatment.[36] AANZFTA protects against arbitrary expropriation; compensates for losses due to armed conflict, civil strife, or state of emergency; lowers transaction costs; and give investments fair and equitable treatment, and full protection in accordance with international law.[37]

Considering investment in the Asia-Pacific has been both high risk, and constrained by protectionist regulations, recent institutional improvements contained in FTAs have promoted an expansion of foreign investment in the region, by 'improving the environment for it'.[38] Investment inflows into ASEAN were projected to increase by US\$30 billion in 2000-2010, while CER could expect an additional US\$7.7 billion.[39] Increased investment inflows are attractive to NZ because they improve access to new technology, input sources, financial knowledge, production and management techniques, and global marketing networks.[40]

Political Attractions of FTAs From The NZ Government's Point of View

Ease Political Pressure From NZ Exporters

FTAs are attractive to governments so as to ease domestic political pressure by domestic exporters. As international flows of trade and investment increase with important trading partners, the private sector will lobby government to create supranational institutions that will: 1) provide rules to reduce uncertainty; 2) reduce transaction costs; and 3) enable the enjoyment of the benefits of larger markets.[41] Although reluctant to give up their sovereignty, FTAs allow governments to manage issues created by expanding economic transactions.[42] The NZ Government says an attraction of AANZFTA was to establish 'sound frameworks' that would increase certainty, transparency, and reduce transaction costs for NZ companies looking to do business in ASEAN.[43]

Capacity Building

Free Trade in the Asia Pacific: A View From New Zealand

Written by Nick Laery

An important attraction of FTAs for governments is the desire to develop both negotiation techniques, and highly skilled bureaucrats so as to avoid disadvantageous commitments in future FTA negotiations, especially with larger economic partners.[44] The NZ Government, like others around the world, negotiate with highly skilled preferential traders to acquire 'on-the-negotiation' training to build their FTA 'know-how'.[45] NZ Government officials and political leaders gain valuable information and experience negotiating FTAs.[46]

Promotion of Regional Integration

The NZ Government gives two 'strategic' political attractions of FTAs. Firstly, the Government says that AANZFTA is important to NZ's longer term interests of engagement with East Asia, to encourage 'open and outward looking' regional integration.[47] By strengthening economic ties with ASEAN economies, AANZFTA will contribute to enhanced East Asian integration, which is 'central to New Zealand's future economic prosperity and security'.[48]

FTAs as Pieces In a Larger Trade Jigsaw: Kick-Starting Wider Trade Liberalisation Internationally

Secondly, Hoadley illustrates that FTAs can be 'an element in a larger trade strategy: to encourage trade liberalisation globally.[49] While the NZ Government's overall strategy is to liberalise trade multilaterally, through negotiation at the World Trade Organisation (WTO), it recognises that this would be 'protracted'.[50] Because of this, NZ officials find bilateral and regional liberalisation attractive in the shorter term.[51] Given the stalled multilateral trade liberalisation project, 'NZ is not content to sit and wait for events to unfold and hope that all goes well... we need an insurance policy'.[52] For example, the benefits of the NZ-Singapore FTA would be 'strategic'.[53] According to Tim Groser, then Principal Advisor Economic at the Ministry of Foreign Affairs and Trade (MFAT), prior to negotiations over the NZ-Singapore CEP (Closer Economic Partnership):

New Zealand would like Singapore to consider the possibility of a free trade agreement (FTA) between our two economies. The case for such a FTA does not lie in traditional trade policy: there are likely to be few discernible trade benefits....the case for such a FTA is almost wholly strategic.[54]

The NZ Government believes that bilateral and regional FTAs provide alternatives to multilateral trade liberalisation: they are 'building blocks' for more extensive agreements.[55]

Diplomatic Attractions

FTAs are attractive to the NZ Government because they raise NZ's international status. Officials and political leaders sometimes join a 'perceived progressive international trend' towards trade liberalisation in order to increase their states diplomatic status: many states take part in FTA negotiations simply to 'be noticed' internationally.[56] Once implemented, NZ and others involved in AANZFTA would display a 'strong commitment to policy reform', such as in trade liberalisation and economic stability, thus enhancing their credibility as a trading partner.[57] NZ's quality FTAs bring 'international credit' to the NZ Government and its negotiation partners.[58]

Economic Liabilities of FTAs From The NZ Government's Point of View:

Decline in Tariff Revenues

Reduced tariff barriers to imports from partner countries, following the implementation of an FTA, may result in lower government revenue for member countries.[59] In NZ's case however, tariffs are already zero, or close to zero, and so the loss of tariff revenue because of AANZFTA will be largely 'inconsequential'.[60] In 2005, the revenue collected by NZ on imports from ASEAN countries was 26.3 million.[61] Even with a small decline in tariff revenue following an FTA, there is not a 'real economic loss', because NZ consumers now pay a lower price for imported goods.[62]

Adjustment Costs

Short-term adjustment costs, such as unemployment, as inefficient companies reallocate resources or fail, result

Free Trade in the Asia Pacific: A View From New Zealand

Written by Nick Laery

from the liberalised economic environment following the implementation of FTAs.[63] Although short-term adjustment costs are small relative to the long-term benefits of trade liberalisation, adjustment costs must be addressed so as to 'ease the burden on the affected sectors', and also to ensure the realisation of the long-term benefits.[64] People 'displaced' during 'market opening' will require government adjustment assistance, such as finding employment in growth areas of the economy, or skills training.[65] The NZ Government notes that the removal of tariffs on imported products can result in negative adjustment effects for import-competing sectors, especially.[66] The Government says that MFAT will work closely with companies to ensure that adequate time is given for adjustment if tariff removal occurs in an area of sensitivity.[67] Under AANZFTA, the NZ Government has mitigated adjustment costs to NZ producers by delaying tariff elimination on 'acutely sensitive' imports, and implementing conditional protection measures such as surge safeguards.[68]

Political Liabilities of FTAs From The NZ Government's Point of View:

Domestic Political Opposition:

The NZ Government has encountered resistance to FTAs in the past.[69] In order to overcome resistance from the Green Party, unions, and import-competing sectors, the Government has had to exercise strong leadership domestically to legitimise and ratify new FTA treaties.[70] By releasing briefing papers, National Interest Analysis, cost/benefits assessment to the public; consulting with key stakeholders; submitting the text in question to Parliament; and even renaming the agreement to sound less threatening, the NZ Government has shown that it can reduce opposition and legitimise FTAs domestically.[71]

To summarise, FTAs are agreements negotiated between countries or groups of countries to improve market access for exporters and investors; reduce barriers obstructing trade; maintain current access to overseas markets; and to create rules resulting in a more secure trading partnership. The agreement establishing the AANZFTA was used as a valuable case study to shed light on the NZ Government's view of FTAs. This essay has illustrated that the NZ Government acknowledges FTAs as economically attractive because they provide new opportunities for NZ exporters through enlarged markets; increase welfare for NZ consumers through trade creation; increase efficiency and competitiveness for NZ producers; defend market share in key export markets; and they increase investment protection for NZ companies and individuals. FTAs are politically attractive to the NZ Government because they ease political pressure from NZ exporters; build negotiation and diplomatic capacity; promote regional integration; kick-start stalled multilateral trade liberalisation; and raise NZ's international status. The NZ Government acknowledges that FTAs produce economic liabilities such as reduced tariff revenue and adjustment costs, while they produce political liabilities such as domestic political opposition. However, these liabilities can be overcome or mitigated. In the case of reduced tariff revenue, NZ's tariffs are already zero or close to zero so revenue is already low. Moreover, any reduction in revenue is offset by consumers paying a lower price for imported goods. In the case of adjustment costs such as unemployment, these are short-term vis-à-vis the long term benefits; domestic social policy can be used to assist those unemployed; and provisions of FTAs themselves can help those companies threatened by adjustment costs through delayed tariff removal in sensitive areas for example. Finally, domestic political opposition can be overcome through transparency and through consultation with key stakeholders. Such efforts allow for legitimisation and ratification of the FTA in question.

Bibliography:

'About ASEAN.' *Association of Southeast Asian Nations*. Available from: <http://www.aseansec.org/74.htm> [accessed 30/09/10].

Aggarwal, Vinod K. 'Bilateral Trade Agreement in Asia-Pacific.' In *Bilateral Trade Agreements in Asia-Pacific: Origins, evolution, and implications*, edited by Vinod K. Aggarwal and Shujiro Urata, 3-26. New York and Oxford: Routledge, 2006.

Cooper, William H. 'Free Trade Agreements: Impact on U.S. Trade and Implications for U.S. Trade Policy.' *Congressional Research Service (CRS): Report for Congress*. February 23rd, 2010.

Free Trade in the Asia Pacific: A View From New Zealand

Written by Nick Laery

Harvie, Charles. 'Prospects for an AFTA-CER Free Trade Agreement.' In *Regional Trade Agreement in Asia*, edited by Tran Van Hoa and Charles Harvie, 121-145. Cheltenham, Gloucestershire, UK and Northampton, Massachusetts, USA: Edward Elgar Publishing, 2008.

Hoadley, Stephen. 'Strategic Goals, Diplomatic Processes and Political Obstacles in Negotiating Free Trade Agreements: Lessons from the New Zealand-Singapore Experience.' In *Whither Free Trade Agreements?* edited by Jiro Okamoto, 352-382. Tokyo: Institute of Developing Economies, 2003.

Hoadley, Stephen. 'Trade Regimes and Free Trade Agreements' (Powerpoint Presentation). August, 2010, uploaded to CECIL for Political Studies 768.

Hoadley, Stephen. Political Studies 768 lecture: 'Free Trade Agreements as Economic Diplomacy.' University of Auckland, 17 September 2010.

Ministry of Foreign Affairs and Trade. 'A Basic Guide to Free Trade Agreements: Ten Questions and Answers about Free Trade Agreements.' Available from: www.mfat.govt.nz/downloads/trade/FTAart.pdf [accessed 28/09/10].

Ministry of Foreign Affairs and Trade. 'Agreement Establishing the ASEAN-Australia-New Zealand-Free Trade Area: National Interest Analysis'. Available from: <http://www.asean.fta.govt.nz/assets/Downloads/asean-national-interest-analysis-2.pdf> [accessed 30/09/10].

Ministry of Foreign Affairs and Trade. 'FTA Milestones: Why ASEAN?' *ASEAN-Australia-New Zealand Free Trade Agreement*. Available from: <http://www.asean.fta.govt.nz/fta-milestones/> [accessed 30/09/10].

Ministry of Foreign Affairs and Trade. 'Key Outcomes: Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area'. Available from: <http://www.asean.fta.govt.nz/assets/Downloads/asean-key-outcomes.pdf> [accessed 18/09/10].

Ministry of Foreign Affairs and Trade. 'Key Outcomes: Liberalising Trade in Goods.' *ASEAN-Australia-New Zealand Free Trade Agreement*. Available from: <http://www.asean.fta.govt.nz/liberalising-trade-in-goods/> [accessed 30/09/10].

Ministry of Foreign Affairs and Trade. 'Key Outcomes: The Path to the ASEAN Free Trade Agreement.' *ASEAN-Australia-New Zealand Free Trade Agreement*. Available from: <http://www.asean.fta.govt.nz/the-path-to-the-asean-fta/> [accessed 30/09/10].

Ministry of Foreign Affairs and Trade. 'Key Outcomes: What is the AANZFTA?' *ASEAN-Australia-New Zealand Free Trade Agreement*. Available from: <http://www.asean.fta.govt.nz/what-is-the-asean-fta/> [accessed 30/09/10].

Solis, M. and Katada, S.N. 'Permeated Regionalism in East Asia: Cross-Regional Trade Agreements in Theory and Practice.' In *Cross Regional Trade Agreements*, edited by S.N. Katada and M. Solis, 1-26. Berlin and Heidelberg: Springer-Verlag, 2008.

Statistics New Zealand. 'ASEAN – Association of South East Asian Nations: Bilateral Trade with New Zealand.' *Global New Zealand – International Trade, Investment and Travel Profile: Year ended December 2009*. May, 2010. Available from: http://www.stats.govt.nz/browse_for_stats/industry_sectors/imports_and_exports/global-nz-dec-09.aspx [accessed 28/09/10].

World Trade Organisation. 'The General Agreement of Trade in Services (GATS): Objectives, Coverage and Disciplines.' Available from: http://www.wto.org/english/tratop_e/serv_e/gatsqa_e.htm#8 [accessed 28/09/10].

[1] Ministry of Foreign Affairs and Trade, 'A Basic Guide to Free Trade Agreements: Ten Questions and Answers about Free Trade Agreements.' Available from: www.mfat.govt.nz/downloads/trade/FTAart.pdf [accessed 28/09/10].

Free Trade in the Asia Pacific: A View From New Zealand

Written by Nick Laery

[2]William H. Cooper. 'Free Trade Agreements: Impact on U.S. Trade and Implications for U.S. Trade Policy,' *Congressional Research Service (CRS): Report for Congress*, February 23rd, 2010, 2.

[3]Powerpoint Presentation (PPT) by Stephen Hoadley, 'Trade Regimes and Free Trade Agreements', August 2010, uploaded to CECIL for Political Studies 768.

[4]Ministry of Foreign Affairs and Trade, 'A Basic Guide to Free Trade Agreements: Ten Questions and Answers about Free Trade Agreements', 10-11.

[5]ASEAN stands for the Association of South East Asian Nations. Established in 1967, this regional organization currently includes: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam; 'About ASEAN,' *Association of Southeast Asian Nations*. Available from: <http://www.aseansec.org/74.htm> [accessed 30/09/10].

[6]After sixteen rounds of negotiations beginning in early 2005, and ending in late August 2008, the agreement establishing the AANZFTA was signed in February 2009; Ministry of Foreign Affairs and Trade, 'Key Outcomes: The Path to the ASEAN Free Trade Agreement,' *ASEAN-Australia-New Zealand Free Trade Agreement*. Available from: <http://www.asean.fta.govt.nz/the-path-to-the-asean-fta/> [accessed 30/09/10]; see also: Ministry of Foreign Affairs and Trade, 'Key Outcomes: What is the AANZFTA?' *ASEAN-Australia-New Zealand Free Trade Agreement*. Available from: <http://www.asean.fta.govt.nz/what-is-the-asean-fta/> [accessed 30/09/10].

Centre for International Economies (CIE), 'Economic Benefits from an AFTA-CER Free Trade Area - Year 2000 study,' (Canberra and Sydney, Australia: CIE, 2000); cited: Charles Harvie. 'Prospects for an AFTA-CER Free Trade Agreement,' in *Regional Trade Agreement in Asia*, edited by Tran Van Hoa and Charles Harvie (Cheltenham, Gloucestershire, UK and Northampton, Massachusetts, USA: Edward Elgar Publishing, 2008), 121-145.

[7] The AFTA-CER High Level Task Force was established in 1999 to assess the benefits of the AANZFTA (then referred to as the ASEAN-CER FTA). The Task Force commissioned a report by the Centre for International Economies (CIE) in 2000 to fulfil this task; see: Harvie, 133.

[8]Statistics New Zealand, 'ASEAN - Association of South East Asian Nations: Bilateral Trade with New Zealand,' *Global New Zealand - International Trade, Investment and Travel Profile: Year ended December 2009*, May, 2010, 22. Available from: http://www.stats.govt.nz/browse_for_stats/industry_sectors/imports_and_exports/global-nz-dec-09.aspx [accessed 28/09/10].

[9] M. Solis, and S.N. Katada, 'Permeated Regionalism in East Asia: Cross-Regional Trade Agreements in Theory and Practice,' in *Cross Regional Trade Agreements*, edited by S.N. Katada and M. Solis (Berlin and Heidelberg: Springer-Verlag, 2008) 18.

[10]Harvie, 136.

[11] Ministry of Foreign Affairs and Trade, 'FTA Milestones: Why ASEAN?' *ASEAN-Australia-New Zealand Free Trade Agreement*. Available from: <http://www.asean.fta.govt.nz/fta-milestones/> [accessed 30/09/10].

[12]Harvie estimates the total 'effective demand' in the ASEAN bloc to be about 22.5 million, given that this portion of the population has per capita incomes equivalent to those in Australia and NZ. According to his calculations, a combined AFTA-CER market effectively doubles the market size of the bloc to a combined total GDP of approximately \$US1.7 trillion; Harvie, 136.

[13] An enlarged market produces increased production runs and decreased unit costs (economies of scale); *ibid.*, 137.

[14]Ministry of Foreign Affairs and Trade. 'Key Outcomes: Agreement Establishing the ASEAN-Australia-New

Free Trade in the Asia Pacific: A View From New Zealand

Written by Nick Laery

Zealand Free Trade Area', 4. Available from: <http://www.asean.fta.govt.nz/assets/Downloads/asean-key-outcomes.pdf> [accessed 18/09/10].

[15]Ministry of Foreign Affairs and Trade, 'FTA Milestones: Why ASEAN?' *ASEAN-Australia-New Zealand Free Trade Agreement*. Available from:<http://www.asean.fta.govt.nz/fta-milestones/> [accessed 30/09/10].

[16]Ministry of Foreign Affairs and Trade, 'Key Outcomes: Liberalising Trade in Goods,'*ASEAN-Australia-New Zealand Free Trade Agreement*. Available from: <http://www.asean.fta.govt.nz/liberalising-trade-in-goods/>[accessed 30/09/10].

[17]Ministry of Foreign Affairs and Trade, 'Key Outcomes: Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area', 1-2.

[18] This figure is based on current trade statistics; *ibid.*, 2.

[19]Cooper, 2.

[20]Both Hoadley and Cooper note that 'trade creation' promotes efficiency as scarce resources are used to produce goods by the most efficient producers. Theoretically, production cost savings are then passed on to the consumer; Stephen Hoadley, Political Studies 768 lecture: 'Free Trade Agreements as Economic Diplomacy,' University of Auckland, 17 September 2010; Cooper, 9.

[21]Harvie, 136-137.

[22]Ministry of Foreign Affairs and Trade, 'Key Outcomes: Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area', 2.

[23]Ministry of Foreign Affairs and Trade, 'Key Outcomes: Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area', 2.

[24]Cooper, 9; also: Harvie, 137.

[25]Harvie, 137.

[26]Ministry of Foreign Affairs and Trade, 'FTA Milestones: Why ASEAN?' *ASEAN-Australia-New Zealand Free Trade Agreement*.

[27]Hoadley also notes that due to inefficiencies arising from trade diversion, this phenomenon has detrimental effects on overall economic welfare(at least in theory). He is sceptical as to whether FTAs cause trade diversion in practice however. [Never the less, the fear of trade diversion from themselves, if they are not included, motivates governments to negotiate FTAs – N.R.L.]; Stephen Hoadley, Political Studies 768 lecture: 'Free Trade Agreements as Economic Diplomacy,' University of Auckland, 17 September 2010.

[28]Harvie, 139.

[29]Vinod K. Aggarwal. 'Bilateral Trade Agreement in Asia-Pacific,' in *Bilateral Trade Agreements in Asia-Pacific: Origins, evolution, and implications*, ed. Vinod K. Aggarwal and ShujiroUrata (New York and Oxford: Routledge, 2006), 8.

[30]Richard E. Baldwin, 'The Causes of Regionalism,' *The World Economy* 20, No. 7 (1997): 865-888; cited: Solis and Katada, 1-26.

[31] Ministry of Foreign Affairs and Trade, 'A Basic Guide to Free Trade Agreements: Ten Questions and Answers

Free Trade in the Asia Pacific: A View From New Zealand

Written by Nick Laery

about Free Trade Agreements', 5.

[32]ibid.

[33]Ministry of Foreign Affairs and Trade, 'FTA Milestones: Why ASEAN?' *ASEAN-Australia-New Zealand Free Trade Agreement*.

[34]The Angkor Agenda (2000), 'Report of the High Level Task Force on the AFTA-CER Trade Area'; cited: Harvie, 134.

[35]Ministry of Foreign Affairs and Trade. 'Key Outcomes: Agreement Establishing the ASEAN-Australia-New Zealand Free Trade Area', 8.

[36]ibid.

[37] By international law, I mean the General Agreement on Trade in Services (GATS). For more information see the following: World Trade Organisation, 'The General Agreement of Trade in Services (GATS): objectives, coverage and disciplines.' Available from: http://www.wto.org/english/tratop_e/serv_e/gatsqa_e.htm#8 [accessed 28/09/10].

[38]Aggarwal, 8; also: Harvie, 137-138.

[39]Centre for International Economies (CIE), 'Economic Benefits from an AFTA-CER Free Trade Area – Year 2000 study,' (Canberra and Sydney, Australia: CIE, 2000); cited: Harvie, 138.

[40]Harvie, 137-138.

[41]E. Haas, *Beyond the Nation-State* (Stanford: Stanford University Press, 1964); cited Solis and Katada, 18.

[42]Solis and Katada, 18.

[43]Ministry of Foreign Affairs and Trade, 'Agreement Establishing the ASEAN-Australia-New Zealand-Free Trade Area: National Interest Analysis', 2.

[44]Solis and Katada, 22.

[45]ibid.

[46]Stephen Hoadley, 'Strategic Goals, Diplomatic Processes and Political Obstacles in Negotiating Free Trade Agreements: Lessons from the New Zealand-Singapore Experience,' in

Whither Free Trade Agreements? edited by Jiro Okamoto (Tokyo: Institute of Developing Economies, 2003), 28.

[47]Ministry of Foreign Affairs and Trade, 'FTA Milestones: Why ASEAN?' *ASEAN-Australia-New Zealand Free Trade Agreement*.

[48]Ministry of Foreign Affairs and Trade, 'Agreement Establishing the ASEAN-Australia-New Zealand-Free Trade Area: National Interest Analysis', 3, 6.

[49]Hoadley, 'Strategic Goals, Diplomatic Processes and Political Obstacles in Negotiating Free Trade Agreements: Lessons from the New Zealand-Singapore Experience,' 1.

[50]ibid., 3.

Free Trade in the Asia Pacific: A View From New Zealand

Written by Nick Laery

[51]ibid.

[52]ibid., 9.

[53]The New Zealand-Singapore FTA is known officially as Closer Economic Partnership(CEP); ibid.

[54]Hoadley, 'Strategic Goals, Diplomatic Processes and Political Obstacles in Negotiating Free Trade Agreements: Lessons from the New Zealand-Singapore Experience,' 9.

[55]ibid., 23.

[56]World Bank, *Trade Blocs*. (New York: Oxford University Press, 2000); cited: Solis and Katada, 20-21.

[57]Harvie, 134.

[58]Hoadley, 'Strategic Goals, Diplomatic Processes and Political Obstacles in Negotiating Free Trade Agreements: Lessons from the New Zealand-Singapore Experience,' , 24.

[59]Harvie, 139.

[60]ibid.

[61]Ministry of Foreign Affairs and Trade, 'Agreement Establishing the ASEAN-Australia-New Zealand-Free Trade Area: National Interest Analysis', 7.

[62]Harvie, 139.

[63]Centre for International Economies (CIE), 'Economic Benefits from an AFTA-CER Free Trade Area – Year 2000 study,' (Canberra and Sydney, Australia: CIE, 2000); cited: Harvie, 140.

[64]ibid.

[65]ibid.

[66]Ministry of Foreign Affairs and Trade, 'Agreement Establishing the ASEAN-Australia-New Zealand-Free Trade Area: National Interest Analysis', 4.

[67]Ministry of Foreign Affairs and Trade, 'A Basic Guide to Free Trade Agreements: Ten Questions and Answers about Free Trade Agreements', 13.

[68]ibid.

[69]Hoadley, 'Strategic Goals, Diplomatic Processes and Political Obstacles in Negotiating Free Trade Agreements: Lessons from the New Zealand-Singapore Experience,' 1.

[70]ibid.

[71] In the case of the NZ-Singapore FTA, the agreement was renamed a 'Closer Economic Partnership' (CEP) in order to 'reduce opposition from skeptics of globalisation;ibid., 9.

Written by: Nick Laery
Written at: University of Auckland

Free Trade in the Asia Pacific: A View From New Zealand

Written by Nick Laery

Written for: Associate Professor Stephen Hoadley

Date written: October 2010