

A large, abstract graphic of wavy lines in shades of green and blue, flowing across the middle of the page.

# 40 YEARS OF CLOSER ECONOMIC RELATIONS LOOKING TO THE FUTURE, FORWARD TOGETHER

JULY 2023

# Foreword

In this milestone 40th anniversary year of the Australia-New Zealand Closer Economic Relationship Trade Agreement (CER), it is imperative that we redefine the special bilateral relationship in the context of a new era. As we reflect on the achievements of the past four decades, it becomes increasingly clear that progress can and should be made in several areas.

This report serves as a testament to the voices of the business community, as expressed in the ANZLF business survey conducted in the lead up to the Forum. We extend our heartfelt gratitude to all the respondents for their valuable contributions. The survey results underscore a pressing need for Australia and New Zealand to embrace this opportune moment and modernize CER. By doing so, we can facilitate the seamless movement of capital, people, goods, and services in the digital age, and fully unlock the potential of the Single Economic Market.

The ANZLF urges both governments to deliver an open and simplified trans-Tasman border, ensuring the smooth flow of goods and people between our two nations. In addition, we advocate for the inclusion of climate change considerations within the CER framework, aligning our shared objectives of achieving net-zero emissions. Furthermore, we recommend the integration of the digital economy into CER to help future-proof a more seamless trans-Tasman regulatory environment and equip the bilateral trade and economic relationship to navigate the complexities of twenty-first-century business models.

Recognising the strong interest of business leaders in collaboration between Australia and New Zealand to take on the world together, we look forward to exploring how to do this more effectively in partnership with the Pacific region, to address local and regional challenges including economic development, climate change mitigation and digital transformation.

The ANZLF has long advocated for collaboration to build a vibrant, inclusive, and prosperous trans-Tasman community that leverages the power of digital technology, research, and innovation to drive economic growth and prosperity. We look forward to the further evolution of the bilateral Science, Research and Innovation Cooperation Agreement as part of the CER 40-year anniversary programme to support the trans-Tasman innovation ecosystem.

We eagerly anticipate an expanded work program through the Australia Aotearoa NZ Indigenous Collaboration Arrangement, recognizing the importance of indigenous collaboration in shaping our future economic endeavours. The infrastructure sector presents a prime opportunity for joint action, as we address common challenges such as skilled labour shortages, inflationary pressures, and the imperative to decarbonize our infrastructure.

We trust that you will find this report enlightening as it sets the stage for the discussions at ANZLF 2023. We look forward to your participation in the Forum, where we can collectively shape the path forward for our intertwined economies.



**Pip Marlow**  
Australian  
Co-Chair



**Greg Lowe**  
New Zealand  
Co-Chair

# Executive Summary

2023 marks 40 years since the adoption of the Australia-New Zealand Closer Economic Relations Trade Agreement (CER). CER has heralded a new era of economic participation between Australia and New Zealand, growing cross-border trade flows and strengthening the economies of both nations. The World Trade Organisation has called CER the world's most comprehensive, effective, and mutually compatible free trade agreement. We can celebrate much together in the first 40 years of CER.

40 years of CER is also an appropriate time to look forwards and ask how a refreshed vision for CER can drive the next 40 years of partnership between Australia and New Zealand. As in any relationship, there is work to be done. Drawing on research conducted on behalf of the ANZLF and responses by Trans-Tasman business leaders to an ANZLF survey, this report identifies several areas of "remaining opportunity" where CER can be strengthened: managing trade dependency, increasing economic complexity and FDI attractiveness, lifting productivity growth, and addressing skilled labour shortages. These challenges are complex but fundamental to entrenching our partnership as one that is reciprocal, adaptive and strengths-based.

These opportunities characterise the global transition to a "New Era", where emerging technologies, new geostrategic alliances, a changing climate, and contestable economic leadership create a new operating environment for both nations. To win in this "New Era", Australia and New Zealand could look outward, strengthening the CER to realise these remaining opportunities. Business leaders surveyed by ANZLF identified three areas where CER could be strengthened as part of a refreshed vision for the next 40 years of CER.

## (1) Continue consolidating bilateral gains for regional benefit

While the next wave of CER represents exciting new terrain, matters that are immediate and important to the region must be prioritised. A strong Trans-Tasman partnership is a prerequisite to leveraging economic togetherness internationally. Opportunities include common visas for international visitors, streamlining trade through adopting digital/paperless trade, aligning professional and trade accreditation standards, and further integrating standards and tax changes.

## (2) Look beyond the traditional concept of trade

As a trade treaty, the CER has succeeded in growing goods, services, people, and data flows across the Tasman. However, broader topics like climate change action, cybersecurity, indigenous business advancement and digitalisation have become central to today's economic narrative. Expanding the remit of CER to address joint action on climate change, the digital economy, and indigenous business positions the CER to deliver prosperity and resilience to both nations into the future.

## (3) Collaborate to take on the world together

Survey respondents identified the temptation to "poach resources from each other" as a stumbling block to our joint long-term growth prospects. A globally-minded, long-term view is needed. Developing joint international competitiveness, innovation, and supply chain strategies can help both nations improve their global competitive position. Both nations could also increase their joint engagement and support for a rules-based multilateral trading system and international climate action.

□ □ □

The first 40 years of CER were a success. 2023 marks an inflexion point as the world enters a complex New Era – a refreshed vision for the CER can help both nations take on the world together while responding to emerging challenges.

**41%**  
of business  
leaders surveyed  
regard CER as  
having a high  
impact on  
their sector

## Introduction

In addition to sharing a special bond, Australia and New Zealand are two of the most deeply connected economies in the world. Enabled by 40 years of Closer Economic Relations (CER), cross-border flows between our nations have flourished. While deeply connected, further opportunity remains for both nations to collaborate and take on the world. Capturing this next wave of benefits and achievements will require collective commitment and action to support a refreshed vision for CER.

This paper explores three themes in advance of discussion at the 2023 Australia New Zealand Leadership Forum:

1. **'Closest of companions'**: highlights the strong bilateral and global trade presence that both nations have established over the last 40 years
2. **'Remaining opportunities'**: explores how we do not realise the full value of our strong bilateral relationship globally
3. **'A refreshed vision for CER'**: presents critical areas of collaboration (as proposed by respondents to a May 2023 ANZLF Survey) to generate a refreshed vision for CER to enable ongoing prosperity for both economies

## Closest of companions

Australia and New Zealand are the closest of trading partners and among the most connected country pairs in the world. This interconnectedness is not a function of mere coincidence or proximity, nor should it be taken for granted. The connectedness ranking represents a reciprocal and enduring commitment to economic togetherness. This relationship has been propelled by over 40 years of barrier-free trade under the CER, the bilateral trade agreement driving free and flexible economic relations between the two nations since 1983. 40 years of economic closeness, cemented by the CER, can now enact a springboard for the Australia-New Zealand partnership to stand strong within an increasingly complex global economy.

Business leaders from both nations describe the bilateral relationship as "excellent, strong and trusted" and "one of the closest economic and social relationships between any two countries in the world". Overall, business leaders see the relationship as close and "cannot imagine it in any other way", observing we are "the closest trading partner and friend" each other has.

**Most common words surveyed business leaders used to describe the Australia-New Zealand relationship:**

sibling potential collaborator  
mutual important brother  
integrated close cooperative  
strong partnership family

Guided by CER, the two nations have demonstrated the gold standard of trade liberalisation for decades, having eased trade restrictions and established mutual recognition agreements like the TTMRA. Today, cross-border goods and services trade is valued at \$29bn.<sup>1</sup> Australia receives 17.1% of New Zealand’s goods exports and 31% of services exports, largely attributable to tariff-free flows under CER. Data flows between the country pair have grown exponentially, quadrupling between 2016 and 2020. In addition to increasing flows of goods, services and data under the CER, the flow of people across the Tasman is sizable, with over 1.5 million Australians visiting New Zealand in the pre-pandemic era and 1.3 million Kiwis visiting Australia.<sup>2</sup> Additionally, close to 15% of New Zealand citizens reside in Australia.<sup>3</sup>

Pragmatic and progressive, the CER has been instrumental in increasing flows of goods, services, people and data between the two nations over the past four decades. The next 40 years of the CER represent a dual opportunity: consolidating previous decades’ gains and entrenching Australia and New Zealand connectedness/strategic partnership on the world stage. The partnership has areas to acknowledge and improve upon within the region, including shifting patterns of FDI and interdependency (discussed below). Still, the fact remains that Australia and New Zealand’s economic connectedness is of enviable and irreplicable standing.

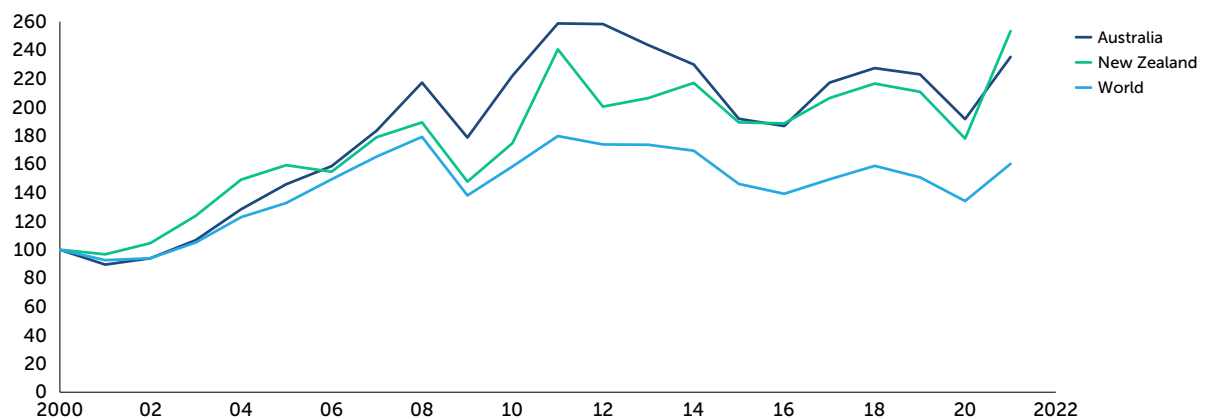
EXHIBIT 1

**Australia and New Zealand trade has grown faster than global trade**

Trade since COVID has rebounded by 2021 for goods

**Goods & Services Trade Australia, New Zealand & Global by year**

Total Trade<sup>1</sup> – Index 2000 = 100



1. Exports plus imports.  
Source: UNComtrade and OECD EBOPS

<sup>1</sup> Stats NZ  
<sup>2</sup> Stats NZ and Austrade  
<sup>3</sup> [www.dfat.gov.au](http://www.dfat.gov.au)

## Remaining opportunities

Although CER has established a strong foundation for our bilateral relationship, we cannot rest on our laurels. Some challenges in the Trans-Tasman relationship have long been known; others are only beginning to emerge. In some areas, we may have gone backwards. As in any relationship, there is work to be done. Opportunities for improvement are all at the intersection of challenges faced by both nations. We cover below five major challenges of (1) Trading dependency, (2) Economic complexity, (3) FDI flows, (4) Productivity and (5) Skill gaps.

Before discussing each of these challenges, it is important to address one common myth of the Trans-Tasman relationship – that New Zealand benefits more as the “little sibling” in the Trans-Tasman relationship. Research conducted on behalf of the ANZLF shows that Australia benefits more from trade with New Zealand on one key measure: ‘backward linkages’, this signifies the upstream value created in the economies. That is, on average what impact a \$1 increase in production in New Zealand has in Australia and vice-versa.. Australia generates 5.5x more domestic GDP for each trade dollar with New Zealand than New Zealand generates for each trade dollar with Australia. This effect is due to the profile of traded goods and services between Australia and New Zealand. As Australia sends final goods that have gone through more processing, the impact on the whole economy from that final traded good is greater than the equivalent value of traded goods from New Zealand.

Although New Zealand benefits from the trading relationship with Australia in various ways, including through access to a large market, economies of scale and market proximity, Australia also gains several benefits in terms of the ‘backward linkages’ described above and in other ways such as providing a test-bed for innovation for Australian companies either before applying a change in Australia or as a stepping-stone to expand globally. In this way, the trading relationship facilitated by CER is a true joint effort, providing mutual benefit to both nations.

A refreshed CER must tackle these joint challenges to support the new economic era Australia and New Zealand are entering. Top five opportunities to modernise or refresh CER for the next 40 years identified by business leaders surveyed are:

**31%**

Goods and services market access

**26%**

Climate change action and sustainability

**24%**

Skills and capabilities of the future workforce

**24%**

Labour and/or skill shortages

**20%**

Digital economy

Intra-trade intensity declined 2.3% pa from 2000-2010 and 4.0% pa from 2010-2020.

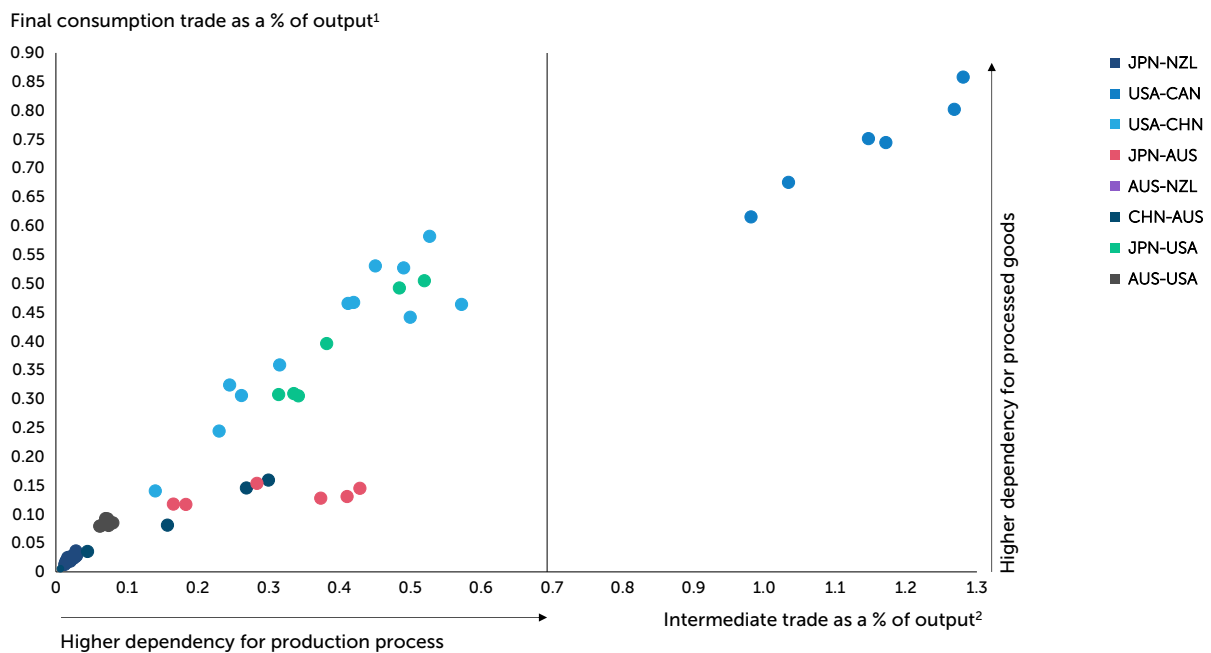
### High dependency on one trading partner may reduce economic resilience

From 1995 to 2018, the two nations' trading interdependence, a measure of bilateral trade as a proportion of total trade flows, declined by nearly 40% as both nations shifted to new markets and integrated with new global value chains.<sup>4</sup> Much of this decline is attributable to increased commodity exports to China.

China remains the primary trading partner for both economies, accounting for 34% of Australia's total exports and 31% of New Zealand's in 2021.<sup>5</sup> Similarly, 28% and 24% of Australia's and New Zealand's imports respectively are sourced from China.<sup>6</sup> High trading dependency creates 'spillover' risk where domestic impacts in China can spill over to the New Zealand and Australian economies. A recent study found that a 5% drop in China's GDP could result in a 2.5% reduction in Australia's GDP. Reliance on a sole trading partner reduces Australia's and New Zealand's economic resilience and may inhibit growth opportunities.

#### EXHIBIT 2

### The interdependence of AUS-NZ has been on steady decline since late 2000's



1. This metric defines the value of final demand (Private, government, investment consumption) as a % of total revenues in the country pair.  
 2. This metric defines the value of intermediate trade between the country pair as a % of total revenues  
 3. Data based on Inter-Country IO tables, 2018  
 Source: OECD stats, MGI Economics Analytics Team

<sup>4</sup> OECD, MGI Economics Analytics Team

<sup>5</sup> MGI Analysis

<sup>6</sup> MGI Analysis

### Economic complexity remains an issue for both economies

Australia and New Zealand have developed a bilateral trading profile that stands apart from each nation’s global profile. Our bilateral trade is diverse, complex and multi-sectoral – representing the range of flows enabled by CER. Conversely, resource and agriculture exports dominate our trade with the world.<sup>7</sup> This effect has grown stronger as our respective economies became increasingly specialised commodity exporters.

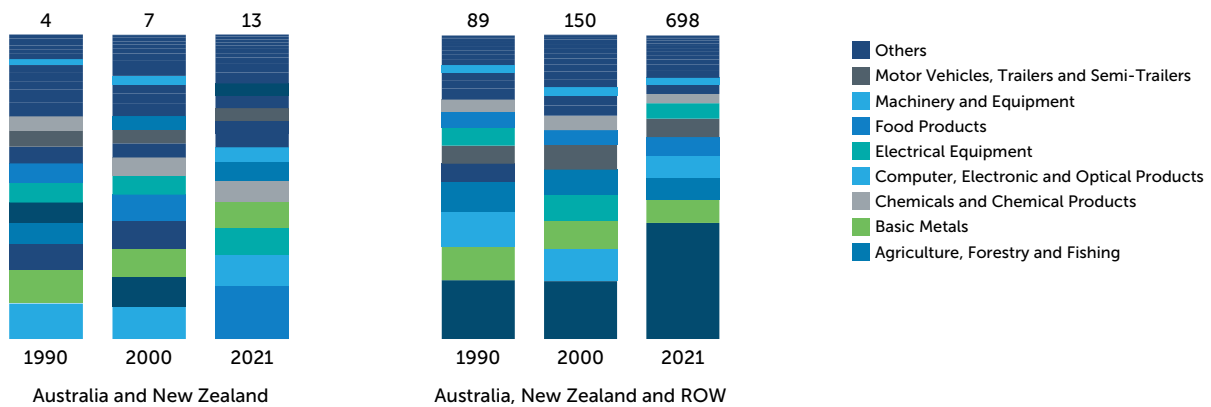
The Harvard Economic Complexity Index (ECI) ranks countries based on the diversity and complexity of their exports. Highly complex countries host sophisticated, specialised capabilities and produce diversified products.<sup>8</sup> Australia and New Zealand have experienced declining economic complexity: in 2021, New Zealand ranked 53rd, whilst Australia was 91st, similar to developing countries (e.g., Vietnam and Kyrgyzstan ranked 50th and 52nd respectively). Both nations’ poor performance in the ECI is attributable to our major exports in low-complexity categories, such as minerals and agriculture.<sup>9</sup>

#### EXHIBIT 3

### Intraregional trade is less commodity weighted than trade with the rest of the world

#### Composition of Goods Trade<sup>1</sup> Between Australia, New Zealand and the rest of the World

% of total, Billion USD



1. Exports plus imports.  
Source: UNComtrade

Given the diversity and relative complexity of our bilateral trade, we have an opportunity to work together and increase our economic complexity. One bright spot exists in the growth of the digital services sector, which is amongst the fastest-growing industries of both nations, contributing 6.1% to Australia’s and 3% to New Zealand’s 2020-21 GDPs. Working together, we can better provide our digital services companies access to the funding, talent and innovation needed for global growth.

<sup>7</sup> MGI Analysis

<sup>8</sup> [Country & Product Complexity Rankings](#), Harvard, 2020

<sup>9</sup> [These are the most complex economies around the globe](#), World Economic Forum, December 2019



Likewise, Australia and New Zealand have considerable renewable power resources. Creating aligned regulatory structures and shared investment vehicles can support both nations to become clean energy superpowers, producing clean energy and the foundational technologies that make it possible.

### FDI positions are increasing, but New Zealand continues to receive limited exposure

Financial investment between the two countries has increased significantly since the passage of CER, with Australia being New Zealand's most significant foreign direct investment source, responsible for 50.3% of inward positions to New Zealand in 2021. Bilateral FDI positions have also increased by 3.3% p.a. from 2010-20. However, globally New Zealand's inward FDI has increased notably slower than Australia's, indicating limited exposure.

To fully realise the opportunities offered by CER, capital is essential. Without capital flows, businesses cannot invest in increasing productivity and developing specialisations that can be showcased to the world. Australia and New Zealand have made some progress in improving bilateral FDI attractiveness with the passage of the CER Investment Protocol. However, the limited exposure received by New Zealand suggests the Investment Protocol primarily facilitates Trans-Tasman investment rather than enabling global capital to flow into and through the single market. Enhancing CER could allow Australia and New Zealand to improve their joint investment attractiveness by operating as a single inward investment market.

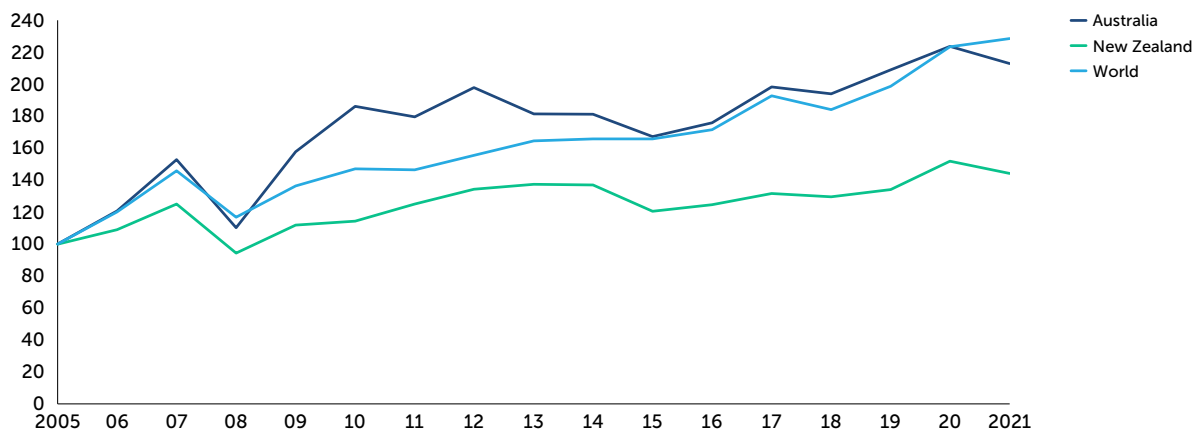
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#### EXHIBIT 4

### New Zealand's level of foreign investment has increased at a slightly lower rate than Australia's and global FDI

**FDI Bilateral Positions Australia, New Zealand & Global by year**

Index 2005 = 100



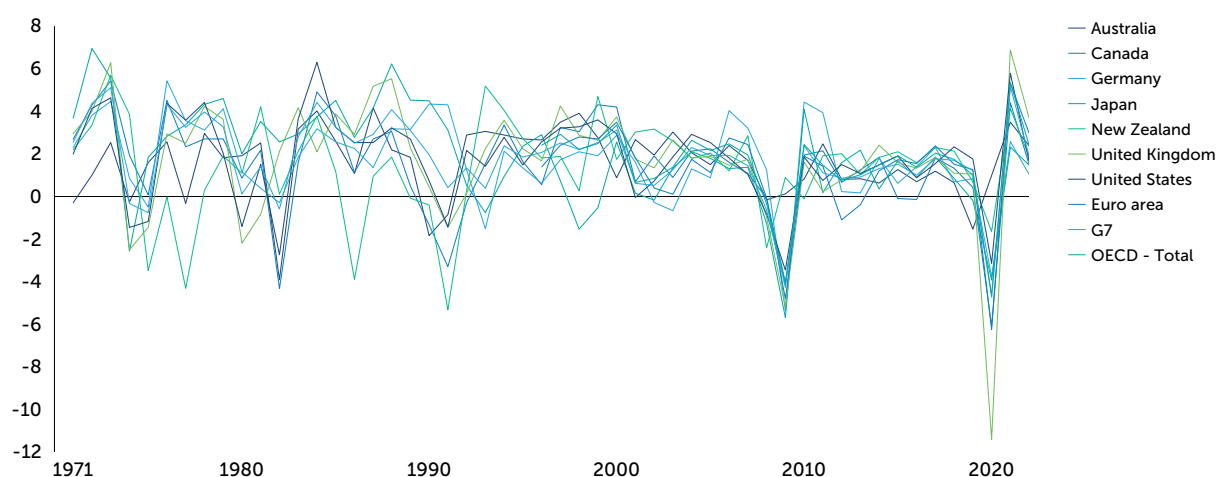
Source: OECD FDI Statistics

### Productivity growth has been slower than peer nations for decades

Multifactor and labour productivity growth in Australia and New Zealand have experienced a steady negative divergence from comparable OECD nations since the 1980s.

Slow innovation and technology adoption rates are considered the key drivers of productivity slowdown. In New Zealand, cross-country diffusion of technologies was found to be poor amongst frontier firms and may result from the nation's low participation in global value chains.<sup>10</sup> Likewise, slow technology adoption in Australia, driven by reduced business dynamism, has reduced resources available to productive firms. Both countries need to increase the speed of technology diffusion to encourage innovation. Increasing global connectedness also creates channels for technologies to rapidly diffuse into home economies creating productivity growth.

EXHIBIT 5  
Growth in GDP per capita, productivity and ULC



Source: OECD

<sup>10</sup> [Benchmarking New Zealand's frontier firms](#), New Zealand Productivity Commission, January 2021

### Skilled labour is limited, leading to capacity constraints

Both nations face a significant skills shortage, with Australia needing almost 450,000 workers in Q4 2022<sup>11</sup> and New Zealand experiencing near-record low unemployment of 3.4% during the same period.<sup>12</sup> While increased migration efforts may ease temporary staffing pressures, persistent domestic labour shortages require an integrated strategy across education, immigration and economic development functions.

At the same time, both countries are “going at it alone”, creating Trans-Tasman competition for skilled workers in the healthcare, digital and construction sectors. Working together, both nations can increase the efficiency of their labour markets, match skills to demand and leverage scale to access global talent.

### Top three risks or challenges identified by surveyed business leaders<sup>1</sup>:

**56%**

**Workforce/talent recruitment:** respondents reported significant challenges in finding staff to meet their business needs and were concerned that staff lack the necessary skills

**38%**

**Recessionary and macroeconomic risks:** respondents were concerned with local recessionary indicators and the risk that global macroeconomic instability may prolong and deepen a recession

**23%**

**Climate change:** respondents noted that climate change is a long-term risk to their organisations and the global economy, and are concerned at the uncertainties regarding the climate action pathway

<sup>1</sup> 18% of respondents also identified regulatory and political risks as a major risk to their business – reflecting growing concern at the stability and predictability of public action

<sup>11</sup> [www.abs.gov.au](http://www.abs.gov.au)

<sup>12</sup> [www.stats.govt.nz](http://www.stats.govt.nz)

# 70%

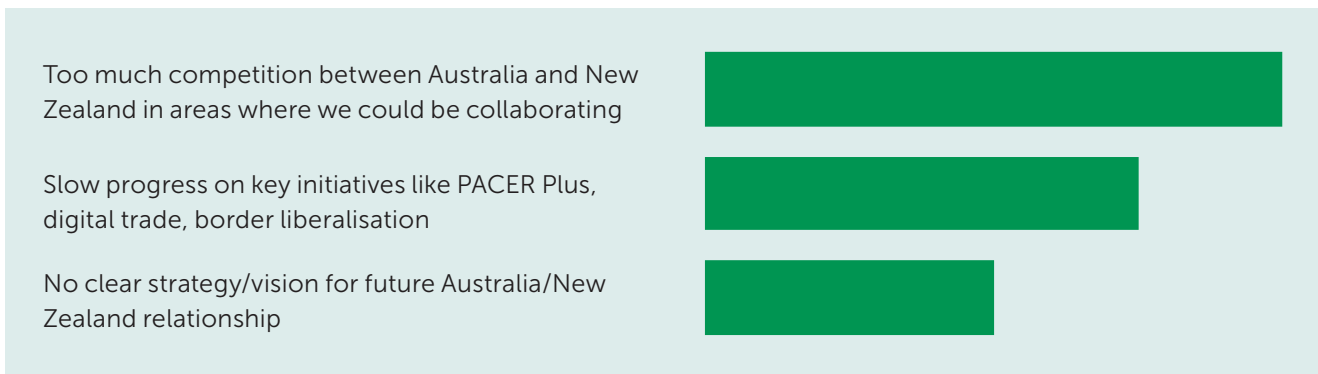
of surveyed business leaders believe the future focus of the Australia-New Zealand partnership should be more outward focussed

## A refreshed vision for CER

The challenges in the Australia-New Zealand relationship are not unique. Rather, they are characteristic of a transition to a “New Era”. Research by the McKinsey Global Institute has identified that we are entering a New Era, marked by an increasingly fractured geo-political environment, climate-induced shocks, increased regionalism and new digital risks. Failing to respond to these emerging risks through a strengthened bilateral relationship may place Australia and New Zealand outside of the opportunities presented by the New Era.

70% of surveyed business leaders believe the future focus of the Australia-New Zealand partnership should be more outward focussed, collaborating further to take on the world together. Most leaders (55%) want the agreement to be both outward and bilaterally focused. A further 17% of leaders want the relationship to remain solely bilaterally focussed on continuing to break down cross-border barriers.

Whilst agreements around these critical focus areas are still emerging, the ANZLF supports the ongoing efforts and strongly encourages further action to support the refreshed vision of CER. Survey respondents flagged three main policy areas of concern:



Both governments have recognised that the CER must evolve to remain fit for purpose and future-focused in the next 40 years. Whilst the CER has focused on nurturing the strong bilateral relationship, the future may be more outward-looking. The refreshed vision of CER should look to strengthening collaboration for expanding participation in global value chains. Indeed, a survey distributed to business leaders of Australia and New Zealand revealed a similar sentiment, with the future role of the relationship described as one of “closer collaboration” where a “combined approach could allow us to leverage synergies” and use “CER as an umbrella vehicle” to align further and integrate our two economies.

To win in this new world, the CER must address three opportunities. First, while the CER must tackle uncharted territory over the next 40 years, we should remain aware of the need to consolidate the regional gains we have already made. Second, it must expand horizons beyond the economic realm and pure trade policy to go to the heart of broader concerns that are now part of the Trans-Tasman economic story. Finally, the CER must focus on areas where both nations can collaborate to take on the world together.

## (1) Continue consolidating bilateral gains for regional benefit

While the next wave of the CER represents exciting new terrain, matters that are immediate and important to the region must be prioritised. A strong Trans-Tasman partnership is a prerequisite to leverage economic togetherness internationally. Specific opportunities in this space could include:

**Common visas for international visitors:** a streamlined visa process could simplify travel for visitors from third nations, encouraging more tourism, business travel and investment flow

**Going digital:** the adoption of digital and paperless trade and smoother operational processes at our ports

**Aligning professional and trade accreditation standards:** to enable more integrated labour markets with greater talent sharing and less talent competition

**Further standards integration:** across a range of standards to lower the cost of operating in both nations

**Tax and legal changes:** changes to franking credits and allowing nonresidents to be directors in each other's countries

## (2) Looking beyond the traditional conception of trade

As a trade treaty, the CER has succeeded in growing goods, services, people and data flows across the Tasman. However, broader topics like climate change action, cybersecurity, indigenous business advancement and digitalisation have become central to today's economic narrative. Business leaders have identified several opportunities to expand the remit of CER into these new areas that impact the trade and economic climate:

**Joint action on climate change:** sharing strategies and learnings from business and government, facilitating cross-border green energy investment harmonising carbon pricing mechanisms and developing a common green industrial policy, developing consistent standards and regulations for emerging green industries and exploring climate adaptation

**Leverage the digital economy:** by advancing design of a common regulatory framework for the digital economy, including digital assets

**Support indigenous businesses to flourish:** through mutual recognition and opportunities for indigenous trade and indigenous business collaboration and leading an international coalition to set a global indigenous trade agenda. ANZLF recognises the importance of indigenous businesses and encourages both nations to commit to building out an indigenous trade agenda that goes beyond our two nations..

### (3) Collaborate to take on the world together

The CER has a dual function: to win together at home and to play competitively on the global stage. Survey respondents identified the temptation to “poach resources from each other to solve our short-term crises” as a stumbling block to our joint long-term growth trajectory. A globally-minded, long-term view is needed. Indeed 70% of survey respondents call for both nations to be more outward-focused and globally-minded, illustrating business leaders’ desire for greater collaboration to take on the world together. Therefore, both nations must invest resources into identifying high-impact cooperation opportunities to strengthen Australia’s and New Zealand’s competitive positioning. Specific opportunities in this space could include:

**Create a shared international competitiveness strategy:** that explains how Australia and New Zealand will work together to compete in a global marketplace characterised by large-scale industrial policies in the US and European Union.

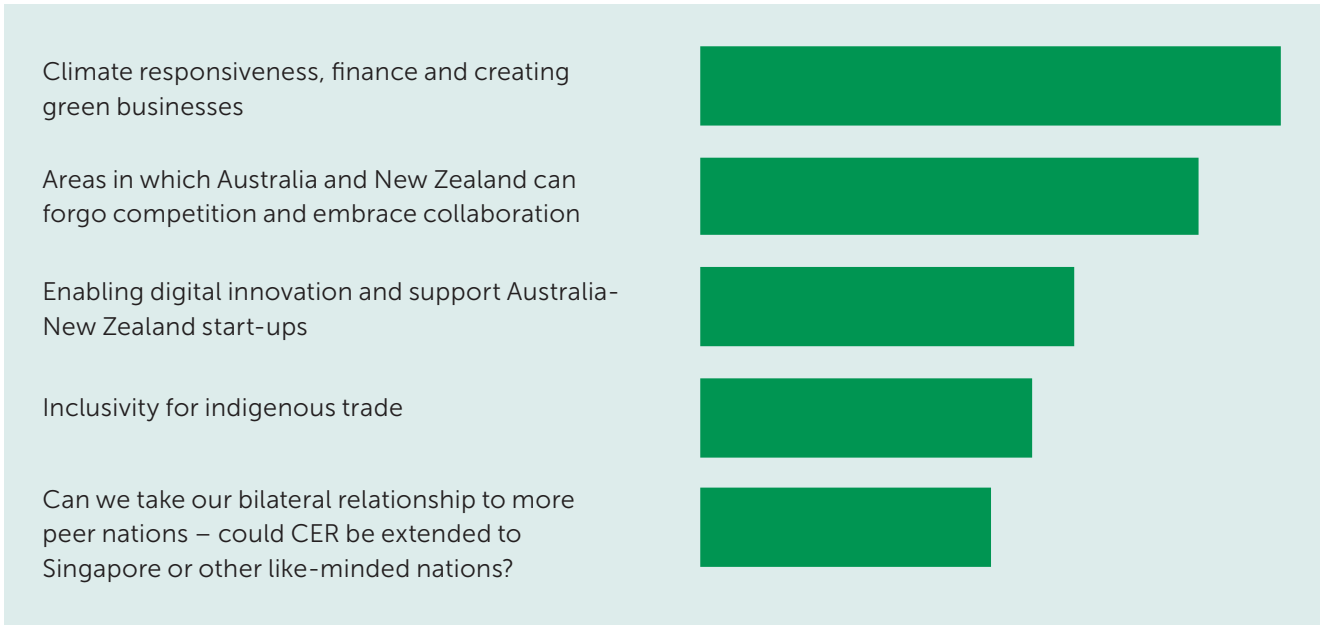
**Enhance innovation collaboration:** leveraging joint funding mechanisms, research programmes and exchange opportunities, addressing differences in IP rights, harmonising IP/R&D regulations (especially in the BioTech, MedTech and AgTech sectors) and creating more commercialisation pathways for research innovations

**Support a rules-based multilateral trading system:** by affirming our commitment to the WTO and regional integration projects like APEC, ASEAN and the TPPA. Australia and New Zealand could also lead on trade issues such as NTBs and sustainability-related market access issues

**Develop a joint supply chain strategy:** to enable tighter integration with global supply chains and improve port efficiency

**Advocate internationally on climate action:** helping to be global leaders and build markets for our green tech goods and services

Finally, the survey also revealed the following topics to explore and debate at the forum:



## Conclusion

The first 40 years of CER were a success. The next period is far less certain, and it is this new horizon that CER must shepherd the countries towards. Not only is there a risk of taking the relationship for granted, but also the current geopolitical and economic situation demands a new era of collaboration. A reinvigoration based on a refreshed vision of CER is needed – formed around specific opportunity areas (like the ones exemplified in this paper) where our nations can take on the world together while responding to emerging challenges.

The 2023 ANZLF meeting will explore key topics, learnings and reforms to discuss a refreshed vision for the CER. We look forward to you bringing your ideas to the 2023 Forum, where we hope to help chart a path to our next, and better 40 years together.

The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry should be supported by a valid receipt or invoice. This not only helps in tracking expenses but also ensures compliance with tax regulations.

In the second section, the author provides a detailed breakdown of the company's revenue streams. This includes sales from various product lines and services. The data shows a steady increase in revenue over the past year, which is attributed to strategic marketing efforts and product diversification.

The third section focuses on the company's operational costs. It details the expenses related to production, distribution, and administrative functions. The analysis highlights areas where costs can be optimized without compromising the quality of the products or services.

Finally, the document concludes with a summary of the overall financial performance. It notes that while there have been challenges, the company has managed to maintain a healthy profit margin and a strong position in the market. The author expresses confidence in the company's future growth and success.