

**AUSTRALIA-NEW ZEALAND RELATIONS:
THE CLOSER ECONOMIC RELATIONS AGREEMENT
IN CONTEXT**

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AUSTRALIA-NEW ZEALAND RELATIONS: THE CER IN CONTEXT

1. The purpose of this paper is to review the Australia-New Zealand relationship now that the Closer Economic Relations Agreement (CER) has come into force. [1] There is already speculation, perhaps an expectation, that CER will gradually evolve into a customs union. [2] A subsidiary purpose of the paper is to review the present situation of the most notable customs union of our times, the European Economic Community (EEC), as a means of examining whether the problems it has encountered in recent years have relevance for Australia and New Zealand. Questions are also raised as to how far New Zealand can reasonably expect to proceed in developing an even closer economic relationship, which could involve the formation of a customs union or even an economic union, with the Australian Federation.

2. The advent of the Hawke Government may bring changes to the Australia-New Zealand relationship. The understandings reached between Sir John McEwen and Sir John Marshall and, later, by Mr Anthony and Mr Talboys, and the style they established for the conduct of business between the two governments may, in the light of recent events, be replaced by much less accommodating methods. Times are changing. There are tendencies in New Zealand politics, and they may also develop in Australian politics, which could work to the disadvantage of the smaller country.

3. A recent conference organised by the Australia - New Zealand Businessmen's Council and Mr Muldoon's visit to Canberra in June indicated that there is a widespread expectation that CER should develop fairly quickly considerably beyond the point reached by the negotiators in 1982. [3] Mr Muldoon's visit did, however, throw up in very explicit terms, some of the practical problems involved in harmonising policies between countries. It is never easy as the long evolution of the New Zealand Australia Free Trade Agreement of 1965 (NAFTA) [4] into CER illustrates. It could become very difficult should the political outlook and style of the two governments begin to differ significantly.

4. Obviously it should not be taken for granted that there can be smooth progress towards a customs union or an economic union. Nor may it necessarily be in Australia's or New Zealand's interests that it should do so. CER is a free trade agreement. The Government's intention seems to be that it should provide a basis for appropriate harmonisation rather than an eventual merging of the two economies. The Agreement was given a special and unusual title to distinguish it from NAFTA and to signal that it is something more than just a free trade agreement.

5. Before going on to discuss the important elements of the relationship between Australia and New Zealand now that CER has come into force, it may be helpful to mention the essential differences between a free trade area, a customs union and an economic union. They share a common characteristic: member countries must agree not to apply to each other's trade any customs duties, charges having equivalent effect, or quantitative restrictions. In a *free trade area*, however, each member retains its own external tariff. In a *customs union* member countries agree to apply a common external customs tariff to countries not within the union and to implement common customs legislation. An *economic union* involves a merging of two or more economies. Under a treaty of economic union member states would surrender their financial and

monetary powers, in addition to customs powers, to a supra-national body. It, and not the governments of the member states, would have full responsibility for the internal and external economic activities of the union.

6. CER can progress to become a customs union as Articles 13.3.(b) and 21 foreshadow but it needs to be appreciated that there is much more involved in practice in making a customs union work effectively than the simple definition used above might imply. Furthermore, in the case of Australia and New Zealand, the larger country is a federation of which a customs union is an integral part. This poses some special problems because experience has shown that any group of countries wishing to form a customs union which would afford freedom of movement to goods, services and factors of production must maintain stable exchange rates or have a single currency. Moreover they must ensure a high degree of consistency in the management and development of their economies. [5]

The Australia New Zealand Community

7. For the purposes of this paper the Australia - New Zealand relationship is described as ANZc. The word community with a lower case "c" is used deliberately to distinguish ANZc from a Community such as the EEC which was established by the Treaty of Rome. The EEC is something more than a customs union but stops well short of being an economic union. That, as has been mentioned, would involve the surrender of the financial and monetary powers exercised by national governments, in addition to customs matters, to a supra-national body.

8. It is important to see ANZc as a whole and, specifically, to see CER as part of that whole. There is much more to ANZc than is generally appreciated, especially in Australia. Now that the total relationship has been significantly enhanced by the completion of CER, it comprises essentially

- CER, which attracts most public attention,
- a defence alliance, which is generally well understood, and importantly
- an association, written into law, which enables citizens of both countries to move and work freely in either country; to enjoy the benefits of each other's social security systems, arrangements dealing with double taxation, pursuit of recalcitrant parents of unwanted progeny; enforcement of judgments and the unpublicised return of fugitive offenders.

9. These arrangements bind the two countries together in a way which increasingly causes other countries to see them as a community in the sense that word is used in the term "European Community".

10. *Movement of People*

Historically, neither Australia nor New Zealand have regarded each other as foreign, especially as far as movement of people on a reciprocal basis is concerned. It is this freedom which contributes so much to enabling the two economies and societies to interact effectively with one another and which justifies the use of the word community to describe the nexus between Australia and New Zealand. If restrictions were

imposed on the movement of people, the free trade area would continue but the two countries would begin to treat each other as foreign. This would cut across practice dating back to colonial days and significantly impair the ANZAC tradition.

11. While it has only recently become a matter for public discussion, the free movement of labour has been the linchpin of the relationship. Sometimes there have been complaints from New Zealand, sometimes from Australia, depending on relative wage rates and the "state of the economies". More recently, of course, complaints from sections of the Australian trade union movement have been strong and persistent. For example, in June this year the New South Wales conference of the Australian Labor Party resolved to ask the Federal Government to make New Zealand workers in Australia subject to work permit conditions. An organiser for the Australian Workers Union, which represents the shearers, said at the Conference, that Australia was becoming a dumping ground for scabs from New Zealand and elsewhere. [6] The Australian Government is having to take into account pressures of this sort as well as a reasoned case from representatives of ethnic communities that, in essence, asks that all immigrants, including New Zealanders be placed on the same basis. The continuation of the present reciprocal arrangements enabling people to move freely between Australia and New Zealand should not be taken for granted.

Defence

12. The defence relationship between Australia and New Zealand has been examined in great detail over the years since the ANZUS Agreement was negotiated. [7] ANZUS remains the cornerstone of the foreign policies of both countries. [8] It needs only to be remarked here that, from an Australian viewpoint, New Zealand is very much the junior partner. Its contribution is small because it is a function of New Zealand's slender resources in comparison with those of Australia. It is also accepted wisdom in Australia that New Zealand cannot make a sensible contribution to the ANZUS alliance except to the extent that its armed forces are capable of close and effective integration with those of Australia. [9] There is no argument about this. Mr Muldoon encapsulated the point in his characteristic way last month when he said:

"Our defence relationship is summed up in a simple proposition. Australia and New Zealand are a single strategic entity. It would be absolute nonsense for either country to imagine that a direct threat to one was not also a threat to the other". [10]

The Trading Relationship

NAFTA

13. The completion of CER signalled the end of a phase in Australia - New Zealand relations which began with the inter-governmental study of 1963-64. [11] That exercise produced the essential elements of the New Zealand Australia Free Trade Agreement of 1965 (NAFTA). It has been criticised by some economists on the grounds of lack of evidence that its free trade aspects made any marked contribution to the growth of trade. [12] That is something which Colin James has sought to correct.

[13] NAFTA, it must be emphasised, was an interim agreement which consolidated the preferential arrangements between Australia and New Zealand. A free trade schedule was an important part of it and signalled the direction in which the two governments intended to move. It is important to see NAFTA as a central part of a whole set of measures which the governments, and especially the New Zealand government took to establish an environment which would encourage the growth of trade. Perhaps the most important measure was the decision to devalue the New Zealand dollar in the late 1960s. The negotiation of NAFTA had focussed attention on trade and commercial relations with Australia and had brought home to New Zealand's policy-makers the importance of keeping the New Zealand dollar in an appropriate relationship with the Australian dollar.

14. NAFTA was the first signal that the New Zealand Government was going to abandon the inward-looking protectionist policies for which Dr W.B. Sutch and Mr W. Rosenberg were the public advocates. [14] The Agreement, as was intended, provided a basis for important sectors of the business community in New Zealand, to make substantial investment in the forest conversion, foodstuffs, whiteware, metal working and other industries. It encouraged firms, which had hitherto had no incentive to look beyond the domestic market to get involved in the important drive to expand New Zealand's export base.

15. From Australia's point of view, its position and preferential status in the New Zealand market was consolidated. It is not sufficiently appreciated that, had the balance of advantage in Australia - New Zealand trade not been redressed to the New Zealand Government's satisfaction in the mid-1960s, the New Zealand Government would seriously have had to consider the termination of Australia's preferential tariff position in the New Zealand market. Without NAFTA it is most unlikely that Australia's preferences would have for long survived. Had this occurred and Australian exporters left to compete on equal terms with the United States, Japan and the EEC, Australia's share of the New Zealand market would probably have fallen sharply.

16. The trading environment which NAFTA established certainly encouraged the growth of trade and payments. Even if allowance is made for the erosion of money values through inflation, growth rates have been satisfactory. Unfortunately our statistical services do not provide us with trade and payments data expressed in real terms, that is, adjusted to remove the effects of inflation. If a rough approximation is made on the assumption that the 1982 New Zealand dollar was worth 50% of its 1977 value and 25% of its 1967 value, we get the following comparison of actual and adjusted values for the principle categories of the Australia - New Zealand balance of payments data:

NEW ZEALAND'S BALANCE OF PAYMENTS
TRANSACTIONS WITH AUSTRALIA
(\$NZ millions)

	Payments						
	1967 ² Actual	1977 ² Actual 50% of 1967		Actual	1982 ³ 25% of 1967	50% of 1977	
Imports	128	673	336	1133	283	567	
Invisibles	61	262	131	910	227	455	
Total Current							
Payments Sub-total	189	935	467	1709	427	855	
Capital ¹	7	30	15	108	27	54	
TOTAL Payments	196	985	492	1991	498	996	
		Receipts					
Exports	36	409	205	982	245	491	
Invisible Receipts	27	238	119	513	128	256	
Total Current R/cpts	61	647	324	1494	374	747	
Capital ¹	9	86	43	233	58	116	
TOTAL Receipts	94	733	367	1727	432	863	

¹ Excludes official Capital

² June years

³ Calendar year

17. As the tables and the data from which they have been derived show, [15] the growth of trade, after allowing for the decline in value of the New Zealand dollar, has been encouraging. In summary, since NAFTA was negotiated and policies devised specifically to encourage the growth of trans-Tasman trade:

- The balance of trade and payments, which was substantially in Australia's favour in the 1960s, has been redressed.
- New Zealand has established an important market for manufactured goods and forest products which has assisted in developing exports to other markets.
- Australia has been able to consolidate and expand its markets for goods and to increase its sales of services to New Zealand.
- In recent years there has been an increase in the provision of private capital from Australia to New Zealand and vice versa. This points to a growing confidence on the part of Australian enterprises in New Zealand's medium to long term economic prospects and in the capacity of New Zealand business to invest abroad.

18. Overall the data shows a steady and important increase in business transactions between Australia and New Zealand to the point where there is a significant and, it is to be hoped, increasing reciprocity between the two economies which CER is designed further to encourage.

CER

19. CER established the free trade area of Australia and New Zealand and timetables which will bring it into full effect by 1987 (removal of tariffs) and 1995 (removal of quantitative restrictions). In this it has dramatically changed assumptions on which those businesses in both countries enjoying tariff and licensing protection had based their planning until 1982.

20. CER also deals with what are described as "*first generation*" issues such as

- export subsidies and incentives,
- agricultural stabilisation and support,
- government purchasing,
- intermediate goods,
- anti-dumping and countervailing action.

It also mentions in Articles 13 (rationalisation of industry), 21 (customs harmonisation) and 22 (consultation and review) "*second generation*" issues which, it was thought until recently would have to await the general review of CER which is to take place in 1988 (Article 22.3). They are

- the adoption of a common external tariff,
- adoption of common by-law or concessionary tariff action,
- exemption from the operation of anti-dumping action,
- joint anti-dumping action against third countries,
- foreign investment,
- movement of people,
- tourism,
- transport,
- standards,
- government (including state government) purchasing policies,
- government economic policies and practices in such fields as taxation and company law.

21. This is an extensive list. If formal agreement were reached on most of the items, it would take ANZc a considerable distance down the path towards economic union.

22. Before turning to deal with the question whether it is sensible for Australia and New Zealand to hasten the progress of CER into a customs union (or allow that gradually to come about) it seems worth looking at the experience of the EEC, in order to assist in considering what the progression from free trade area to customs union might really involve.

Problems of Economic Integration: The EEC and ANZc

23. The Treaty of Rome which establishes the European Economic Community is one of the most important international treaties of the post-war period. [16] Its essential purpose was to establish a basis for economic integration among the nations

of Western Europe which would ensure the end of armed conflict. [17] At first sight it may seem absurd to draw any comparison between the EEC and ANZc. The first is based on a Treaty of world importance. It goes significantly further than a customs union and has supranational institutions in the form of a Commission (a European civil service) the European Court of Justice and what has become the European Parliament. [18]

24. ANZc, although it is based on a number of international bilateral agreements and related understandings expressed in government to government correspondence, has evolved in a typically British way. Each building block has been put in place in a gradual process which has taken over sixty years.

25. Nevertheless, despite its imposing structures, and the commitment to economic integration which adherence to the Treaty of Rome involves, the EEC is still not, after twenty-five years, functioning as an effective customs union. The events of recent years have shown that the member states are reluctant to take the integrative steps necessary to give full effect to the customs union. [19]

26. The titles of the Treaty of Rome deal with:

1. Free movement of goods — the customs union
2. Agriculture
3. Free movement of labour, services and capital
4. Common rules covering
 - competition
 - undertakings
 - dumping
 - aids granted by states
 - taxation
 - approximation of laws
5. Economic Policy which involves
 - conjunctural policy (coordination)
 - balance of payments
 - commercial policy
6. Social Policy
7. Establishment of an investment bank
8. Association of overseas countries and territories
9. Institutions
10. Financial provisions.

27. If these titles are used as a check-list it is interesting to note that ANZc now has a significant number of the essential elements, leaving aside the institutions and financial arrangements which are not needed in the Australia - New Zealand context.

- Free movement of goods will come about by 1995.
- There is free movement of labour and, importantly, reciprocal acceptance of qualifications (which is coming about only slowly in the EEC).
- In areas of social policy member states of the EEC acknowledge the need for close cooperation particularly in relation to employment, labour law, vocational training, social security, occupational safety and health, rights of association

and collective bargaining. Integration of social policies is a slow process because of the differing systems of the member states. Australia and New Zealand, because of the British tradition and shared colonial experience, have a high degree of commonality of social policies.

28. Of the other elements it was essential for the EEC to devise a complex policy to deal with the agriculture of member states where the transition from peasant farming was in progress. Such measures are unnecessary in the agricultural environments of Australia and New Zealand. The Treaty of Rome is said to provide four basic freedoms: free movement of goods, workers and capital and freedom of establishment. [20] The last two are, of course, absent from CER and it would obviously not be easy to attain them.

29. A further point which should be made about the EEC is that, although there is a title in the Treaty of Rome dealing with economic policy, very little progress has been achieved under the chapters entitled "conjunctural policy" and "balance of payments". [21] The intention of the Treaty is to encourage economic integration through the close coordination of economic policies. This was difficult enough to achieve among the six original member states. It seems to be an almost insuperable problem for the present ten.

30. The following list of important areas where the powers of the member states remain unchanged helps to illustrate the nature of the huge problems involved in the process of economic integration which a customs union triggers:

- Public finances
- Direct taxes on personal incomes
- Corporation tax
- Social security contributions
- Property tax and estate duty
- Loans to the rest of the world
- Borrowings from home markets
- Borrowings from third countries
- Regulation of capital transactions
- Exchange controls vis-a-vis third countries
- Systems of property ownership.

In addition, there has been limited modification of the powers of member states in relation to such other important matters as public investments, subsidies and loans to undertakings, capital subsidies, indirect taxes, regulation of bank lending, technical regulations and standards. [22]

31. Moreover, the member states have not yet reached complete agreement on the facilitation of road transport vehicles across national boundaries. [23] The establishment of an EEC customs service is a long way off. Customs formalities are dealt with by officers of national administrations although, for the most part, they operate under Community law.

32. As the recession has deepened, member states have increased financial aids to industry, such as low interest loans and development grants in terms of their estimates of needs to restructure industry and to remedy social problems, especially

growing unemployment. Such measures, as the Commission has pointed out, have had much the same effect as tariffs before the establishment of the EEC. [24]

33. If the experience of the EEC is taken into account it is apparent that countries contemplating forming a customs union should think very carefully about the long term implications of such a step. There are, as has been pointed out, two basic requirements, in addition to common customs legislation, and harmonisation of commercial law and practice, if a customs union is fully to succeed. They are:

- a common currency or, at the minimum, fixed exchange rates, and
- a high degree of commonality in fiscal and monetary policy.

The importance of keeping exchange rates stable within a customs union should not be underestimated. Moreover it may be an unattainable objective if member states jealously guard their sovereignty in respect of economic and financial policies. The EEC experience has shown that differing policies, differing inflation rates and consequent movements in the exchange rates between member states can work to defeat the objectives of economic integration.

34. The EEC has attempted to manage movements in exchange rates through the establishment of the European Monetary System. [25] Its chances of success were prejudiced at the outset because Britain chose to stay outside it. The member states (other than Britain and Greece) have attempted, through the European Monetary System, to observe the intention of Articles 104-109 of the Treaty of Rome. Frequent adjustments of exchange rates have, however, been necessary and there is evidence that countries, notably France and Italy, have sought adjustments with the partial motive of protecting domestic industries from the consequences of the world recession and specifically highly competitive West German products.

35. There is disturbing evidence that the EEC is retrogressing as a customs union. The question has to be asked whether ten countries, most of them with strongly nationalist traditions, are really prepared to integrate sufficiently to bring fully about the primary objectives of the Treaty of Rome. The EEC is becoming less like a customs union and more like a vast preferential area characterised by all manner of special deals and compromises. If Spain and Portugal are admitted to membership of the EEC it will regrettably, probably make the task of achieving economic integration in Western Europe, as intended in the Treaty of Rome, impossible to achieve.

36. The European experience of the past decade indicates that partial attempts at economic integration are fraught with problems, especially when inflation rates differ and there is a need for constant adjustment of exchange rates. The EEC of the original six member states was exhibiting these difficulties in the late 1960s with both France and Italy showing signs of economic instability. Difficulties have become more evident in the 1970s and 1980s. Solutions are harder to find as the Council of Ministers of the Community, with its chairmanship rotating every six months, tries to reconcile the interests of ten member states. Perhaps the original Six could have gradually perfected collective economic and financial management using the institutions of the EEC. It is obviously going to be an extraordinarily slow progress for the Ten or, if Spain and Portugal are admitted, for the Twelve. The chances of long term success seem, after twenty five years, rather poor.

37. It is significant that all the operative customs unions of the past two hundred

years have been component parts of political federations: the United States, Canada and of course, Australia, are notable examples. CER has quite clearly been designed with a structure and a title which recognises the realities: the uneven size, resources, populations and therefore economic strength of the member states; the fact that Australia is a federation; and that political union is not contemplated, even as a distant objective.

38. The negotiations which brought CER into being were long and painstaking. The Agreement is flexible, forward looking and brilliantly designed to deal with the differing political structures and relative strengths of the member states. The negotiators have certainly had regard to the reality that Australia's constitutional structure, (and the political system which is a function of it), is an obstacle to closer *formal* relations between Australia and New Zealand. CER could develop to the point where business can operate within ANZc with minimum restrictions, where important areas of law are more closely harmonised than they are at present, where freedom of movement of labour and even capital becomes a right expressed by amendment of CER.

39. There is a basic problem, however, often overlooked by New Zealanders. That is the sensitivity of the Australian states, and of federal politicians who are naturally very much aware of the political balances involved in federal/state relations, to a situation where New Zealand can be seen to be enjoying most of the benefits of federation while not having to accept the discipline of the Australian constitution and federal financial and economic control. A significant move beyond CER will open up the question in Australia whether it should admit a member to its customs union which is outside the political federation. It needs to be kept in mind in New Zealand that, if CER moves forward to the point where it is seen as a customs union rather than a free trade area in Australia, policy issues arising from that transition could impinge directly on federal-state politics in Australia. That would be best avoided as federal governments could not be expected to show any partiality towards New Zealand in the face of strong opposition from some or all of the states.

CER: Second Generation Policy

40. The initiative for the negotiation of NAFTA came almost entirely from New Zealand. CER is a balanced accommodation of the interests of both countries built on the rather encouraging experience of NAFTA. It seems that from now on it will be very much up to New Zealand governments to decide, in New Zealand's interests, what further arrangements need explicitly to be expressed by amendment of CER. If the gamble of the free trade area pays off, if New Zealand attracts more investment, if existing and new sectors of its economy become internationally competitive and if the longer term danger of migration industry to Victoria, New South Wales and Queensland, does not eventuate then there could be strong argument in favour of a future New Zealand Government attempting to negotiate the virtually impossible: - the full benefits of the existing Australian customs union while, at the same time, retaining present freedom of economic and political management.

41. The second generation items listed in paragraph 20 are taken from CER. The Agreement does not explicitly mention exchange rates nor harmonisation of financial and monetary policies. It seems to follow that the negotiators were well aware

of the difficulties which a full customs union would pose for the governments, although they could foresee that harmonisation of most chapters of the external tariffs could come about. One of the realities is that New Zealand's economy is much more fragile than Australia's, with its larger resource base. It is moreover likely that the present and future New Zealand governments could not contemplate reaching agreement with Australia on a fixed relationship between the two currencies. New Zealand is even more highly dependent on world trade than Australia. Freedom to move its exchange rate is an important factor in the continual process of adjustment to conditions in world markets and trends in the domestic economy.

42. The other important second generation issues come under the headings of freedom of movement of capital and freedom of establishment. The administration of foreign investment regulations and licensing of banks were flagged by Mr Muldoon recently as necessitating early attention. But there seems to be no question of the New Zealand Government wanting reciprocal exemption of investment from scrutiny by the Foreign Investment Review Board in Australia and the Overseas Investment Commission in New Zealand. New Zealand would want to retain power to protect New Zealand firms from takeover by Australian firms. Similarly, there is no intention of allowing existing banks to operate freely under harmonised banking law and policy. All that was sought was a limited licence for the one bank in New Zealand that does not have a presence in Australia.

43. It seems that the realities are that the New Zealand economy is too fragile for the government to contemplate the extension of CER to cover freedom of movement of capital and freedom of establishment for Australia and New Zealand owned businesses. The New Zealand Government doubtless foresees the possibility of a major crisis if controls on all trans-Tasman transactions were lifted. There could well be a massive migration of capital and a period of economic destabilisation.

44. The second generation issues are more likely to be dealt with one by one and without excessive formality. CER could be amended so as to make formal the present arrangements for the free movement of people but, at this stage, it seems that amendment of the Agreement to cover free movement of capital and freedom of establishment, let alone exchange rates and coordination of financial and monetary policy, is outside the realm of the possible.

Political Relations

45. Whether the relationship between Australia and New Zealand will be harmonious and relatively untroubled, given changes of governments and the personalities of political leaders is a matter for speculation. Much will depend on how New Zealand governments define their objectives vis-a-vis Australia and, importantly, how they choose to go about pursuing those objectives.

46. At one time there was a convention between Australia and New Zealand, that Prime Ministers and Ministers would treat each other with considerable courtesy and generally refrain from commenting about politics and politicians in the other country. New Zealand Prime Ministers were cautious about any direct involvement with Premiers of the Australian states even if they were more or less of the same political persuasion. When both attended the same international meetings, Prime Ministers of

Australia and New Zealand were circumspect in their dealings with one another. There was usually little personal affinity but there was a strict observance of the proprieties. These conventions have been discarded by the Prime Minister of New Zealand in recent years.

47. This is a source of potential difficulty for ANZc. Relations between Australia and New Zealand could deteriorate and the objectives of CER prejudiced if New Zealand governments should continually choose to make major public issues out of bilateral trade and commercial problems, such as foreign investment procedures, banking licenses and instances of dumping and subsidisation. The situation could be made worse if governments should frequently take positions on important questions of foreign policy without consulting one another and giving each other adequate time to formulate a position. Again in recent years, the New Zealand Government has from time to time made decisions on foreign policy which have been regarded as embarrassing and unneighbourly in Canberra. There is, of course, considerable scope for the two governments to differ, but should they frequently formulate views without adequate prior consultation, then it is New Zealand that is more likely to lose from not having taken Australia's attitude fully into account because of Australia's much greater negotiating clout when bilateral matters of importance to New Zealand are under consideration. New Zealand has considerable goodwill in Australia but almost no political leverage. The goodwill can easily be expended.

48. It is, perhaps, insufficiently appreciated that by 1981 Mr Fraser is understood to have lost what small enthusiasm he had for CER because of continual unneighbourliness (as he saw it) on questions of foreign policy. He was dissuaded from letting the CER negotiations run into the ground by Mr Anthony and others who convinced him that the Australian government should put aside its irritations in the interests of getting a sound long-term basis for the conduct of trans-Tasman trade and commercial relations.

49. The truism has to be repeated. Australia has come to have considerable importance for New Zealand's economic future but the reverse is not the case. The establishment of a free trade area of itself does not guarantee success. If CER is to fulfil its promise for New Zealand, it will need to be carefully and purposefully worked. It will enable New Zealand to retain its present political and financial independence, but also enable it to gain about as much of the economic benefit it can expect in its trade and commercial relations with Australia, without impinging upon the politics of the Australian federation.

50. Tough, blunt, highly personal tactics sometimes work in international relations. More often they do not, especially when one party has little negotiating leverage. Australian Ministers have discovered this in their dealings with Commissioners of the EEC and European Ministers of Agriculture. In the Australia - New Zealand context, as Sir John Marshall and Sir John McEwen, and Mr Talboys and Mr Marshall demonstrated, what does help is political rapport especially between Prime Ministers, Ministers of Finance, Foreign Affairs and Trade. Close working relations and trust among the practical people from the bureaucracies, to whom Mr Muldoon referred recently in Canberra, [26] can also be of enormous help. There is little that they can do, however, if governments come to distrust one another. The future of CER will therefore depend very much on the way in which New Zealand's political leaders decide they should deal with their counterparts in Australia. If New

Zealand develops a tradition, in Australian eyes, of frequently and purposefully creating political difficulties for Australian federal political leaders, and there is consequent absence of rapport at the highest levels, then an Australian Government could easily create a situation where the New Zealand Government is treated for the most part with a pretty long spoon. If relations were to deteriorate substantially it is certainly within the power of the Australian Government to make it much more difficult for New Zealand successfully to pursue its trading and commercial objectives in Australia.

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