Negotiating Without Bargaining Power: A Review of ‘New Zealand’s Trade Policy Odyssey’

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Abstract
This review focuses on a recent publication from the New Zealand Institute of Economic Research: Chris Nixon and John Yeabsley (2002) New Zealand’s Trade Policy Odyssey: Ottawa, via Marrakech, and On, Research Monograph 68, Wellington: NZIER. It attempts to add value to this useful monograph through additional reflections on lessons from past experience on addressing the central issue of “how best does a small open economy on the edge of the world conduct its trade, and particularly its trade policy, in an efficient and effective manner?” It illustrates the dangers of paralysis of decision-making through excessive political concern about achieving consensus. The growing importance of services, multinational organisations and environmental issues in international trade negotiations increases the complexity of the issues facing negotiators. So too does the increasing significance of bilateral and regional arrangements in the policies of important trading partners, many of them still wedded to high protection for agriculture. The review discusses the implications of these changes. It discusses the contributions non-governmental organisations have made, and can make, to extending the effectiveness of official negotiators, for example, in research and in the processes of negotiation, and how they can be most effectively harnessed. It also raises issues arising from the changing nature of the debate about effective government assistance to domestic producers engaged in trade, and whether the public sector needs to reconsider the structure and methods of coordination of the official agencies involved in trade negotiation.

Introduction
How best does “a small open economy on the edge of the world conduct its trade, and particularly its trade policy, in an efficient and effective manner”? This is the key issue addressed by Chris Nixon and John Yeabsley in their research monograph, published by the New Zealand Institute of Economic Research in 2002.

The Institute has done a lot of useful work on trade policy in recent years. The authors of this monograph were concerned that there had been only limited thoughtful discussion of the way the process of international trade policy actually works. They therefore set out to remedy that deficiency in part by developing a simple model of the process and using it as a basis to examine several important episodes in our trade policy history. They draw heavily on written records and interviews with people involved in the negotiation process.

The model they use to organise their discussion concentrates on the interaction between the various elements of the trade policy process. Aims, preparations and resources are decided on domestically to produce what is planned to be a favourable outcome after the negotiation. Other countries react to these initial positions, producing outcomes over the short and long term. International realities condition the process, for example, through changes in technology, differing regional growth rates and the changing composition of world demand.

There is a good discussion of the particular characteristics of a small state in the negotiation process. The authors emphasise that, while a small state like New Zealand has little aggregate power in negotiation, and has to be a policy taker, it may have some structural power to position itself relative to others in the context of a specific issue of mutual interest. Three ingredients – commitment, available alternatives and control (meaning the ability of the
state to be able to achieve an outcome outside the negotiating framework) – may enable a small state to enhance its negotiating position in any particular situation.

To be useful in this way requires the ability to be opportunistic and entrepreneurial; the capacity to come up with innovative ideas for progress; and capacity to propose novel solutions to the inevitable sticking points in any negotiation. This in turn demands a system with focus and commitment, quality staff resources, very good intelligence about the situation of other players and real flexibility. Flexibility and flair in negotiation must be based on reasonable domestic consensus, focus on a limited number of objectives, the right relationship between the authorities and the negotiators, long-term commitment to the process and understanding of specific circumstances in the negotiation.

The negotiators must have access to and understand the analytical capacity to know what will lose or gain advantage in the negotiation, and be equipped with the right tools and language to interact with those around the negotiating table and sound judgment based on on-the-job experience. Whether the outcome of the negotiation will be sustainable in the long run depends on whether the agreement is economically logical and coherent.

This analytical framework is applied to five illustrative episodes of New Zealand’s trade policy history. The first covers the post-World War I situation leading to the development of Commonwealth preferences at Ottawa. The second is the post-World War II period culminating in the access of the United Kingdom to the European Economic Community in 1973. The third is the negotiation of what we have come to know as CER, the trade agreement with Australia in 1983. The fourth and most interesting discussion is of the Uruguay round of multilateral negotiations and the development and role of the Cairns group in them. A final, relatively brief section looks at APEC. In all cases, attention is paid to the process of negotiation, the role that New Zealand negotiators played in the process and the extent to which they were able to influence the outcomes.

**Assistance to Domestic Industry**

The discussion pays much more attention to the processes of negotiation designed to protect or improve market access for New Zealand exports than to the processes directed at rationalising New Zealand’s approach to protecting and supporting domestic industries in the changing external environment.

At times, the authors imply that we were always a small open economy. There is a table on page 65 that shows that New Zealand (and Australia) were slower than average internationally in increasing their ratio of export goods and services to GDP between 1965 and 1990. We were a very protected and regulated economy in the period from the Second World War to 1983. We retained a comprehensive system of import licensing much longer than most other comparable countries. Negotiation of CER in 1983 and the radical policy changes of the late 1980s led to a rapid reduction of protection, which seems now to be widely accepted.

This has transformed the nature of the trade policy debate. The key issue now is not whether New Zealand should return to the old negative methods of protection by import licensing or high tariffs. Rather, it is to what extent and how should the government assist New Zealand industries to be more internationally competitive.

**The Issue of Consensus**

The authors place considerable weight on the importance of consensus, defined as a favourable climate of opinion sufficiently widespread and broadly based to suppress the prospect of meaningful political dissent. They assert that between 1880 and 1994 there was largely unquestioned acceptance by New Zealanders of the overall worth of achieving liberalisation of international agricultural trade to allow New Zealand produce to enter lucrative markets despite the likely price we might have to pay to achieve it. The consensus on trade strategy was therefore ‘straightforward’.

To the extent that this was true, it depended greatly on New Zealand being able, as a small country, to get away with maintaining a system of protection and subsidy of interests other than farming without retaliation in more important markets. In other words, if we wished to keep our protective system, we were not asked to pay a high ‘price’ to do so. From the late 1950s onwards, an increasing number of informed people concluded that our system of protection and support was becoming increasingly irrational and damaging to the efficiency of the economy and the growth of more competitive activities.
The monograph recognises that when trade policy issues moved away from agricultural liberalisation, as they did in negotiation with Australia, the New Zealand public was not prepared to accept the case without more information and debate on the real worth of liberalisation. When the authors say that there is now more questioning of the costs of liberalisation, they are in danger of obscuring the very considerable questioning that occurred in New Zealand for over 50 years. The period of reduced debate about the merits of lower protection has been relatively short. And how much community consensus did the Lange-Douglas government have at the time for the rapid deprotection they engineered between 1984 and 1990?

Page 5 of the monograph suggests that until recently there was “little need to engage those outside government to develop an ongoing domestic trade policy consensus”. There was in fact considerable internal debate about the methods and extent of protection from the 1950s right through the 1980s. It is surprising that the monograph does not cover more fully the debates that took place among officials of the Industries and Commerce Department and other departments involved in external trade policy during this period. Interaction of officials on the issues involved with advisory agencies, manufacturers, other sections of business, trade unions and so on played a very important part in the process of change. Protection and support was a central preoccupation of the National Development Conference of the late 1960s and the planning processes that succeeded it. This interactive process, combined with the increasingly critical economic situation of the country, was what eventually persuaded politicians that the old system of protection must be changed.

**Interaction with Non-government Participants**

There is a good discussion of the characteristics of small states in negotiation and the means by which they can exert some influence, as intermediaries or through collective action with allies with mutual interest such as the Cairns group. However, again there is surprisingly little discussion of the very constructive interaction that officials have had with other groups working in directions favourable to New Zealand.

For example, the creation of APEC built on considerable efforts over a long period of time by academics in the Pacific Trade and Development Conferences (PAFTAD) and by business people in PBEC. In these organisations people, including competent New Zealanders, came together to consider the mutual interests of the countries of the Pacific. From 1980, the Pacific Economic Cooperation Conferences (PECC) brought representatives of these organisations together with officials ‘acting in their private capacity’. This was a useful device, in that it enabled difficult issues to be more readily debated than if the officials had been representing their governments. It also enabled some members to participate, for example, the three Chinas, which would not at the time have been unanimously accepted in an intergovernmental organisation.

This process enabled the New Zealanders to get a hearing from their peers from countries of increasing importance in New Zealand’s trade. Officials frequently found it useful to have academics and business people ‘flying kites’ on politically difficult issues that eventually had positive spin-offs for official negotiations. A case in point is the useful work done by New Zealand and Australian academic representatives in leading discussion in PECC on ‘strengthening markets’, which later spilled over into APEC’s work programme.

New Zealand has been especially fortunate in the quality of its successive ministers of trade in recent years and of the trade negotiation officials who have advised and assisted them. The success of the campaign to safeguard New Zealand’s exports against possible disaster as a result of the British decision to join the EEC is rightly attributed to the competence of Trade Minister Marshall and his officials. Through their frequent visits to both the United Kingdom and the Six over a ten-year period, they built a constituency in support of the need for safeguards for New Zealand.

The authors say that “the most influential publication” (in Marshall’s campaign) “was a booklet entitled *New Zealand and an Enlarged EEC*. It had reliable facts and figures about the New Zealand economy and farming and was translated into all the languages of the Six”. They leave the impression that this was a government document. It was in fact a document produced by the Monetary and Economic Council, an organisation...
established as something of a watchdog over government economic policy. Given the organisation’s reputation for independent commentary, it was considered that this would carry more weight in Britain and Europe than a purely official document.

Official agencies were very helpful to the Council in putting together material for the report and discussing the key issues with the authors. But the final report was the responsibility of the Council. It was used as a basis for the more popular and shorter material produced by Gerry Symmans and his helpers in an effective publicity campaign.

The NZIER monograph puts considerable emphasis on the importance of the trade negotiators being adequately backed by long-term analytical capacity in-house to enable them to have credibility internationally. They express some concern that the Ministry of Foreign Affairs and Trade is not as relatively attractive as a career option as it once used to be. It can never hope to be as well-resourced as its counterparts in other large developed economies. This accentuates the importance of ensuring that those recruited continue to be of high quality and are given adequate opportunities to build up long-term network relationships.

Such relationships are important, not only with their international peers, but also with research and business groups in New Zealand that can usefully supplement their skills in building up international connections in the national interest. Trade policy officials must also be given time to think strategically about critical issues of trade policy. In the 1980s and 1990s, several of the best thinkers in MFAT were given the opportunity of taking time out from their normal duties to work at the Institute of Policy Studies, either individually, or in collaboration with other researchers, on key issues of New Zealand’s external relationships. A number of publications resulted from their secondments that were valuable not only for the work of the Ministry but also for others interested in the community.

**Relationships of MFAT with Other Official Agencies**

It is surprising that little attention is paid in the historical sections to the role played in trade policy by other official agencies and advisory councils. For example, the Market Development Board (later the Trade Development Board), on the basis of a report by the Hugo Group Limited, played a more significant role than the Ministry in promoting discussion and action on selling educational services overseas. This has now become a major source of overseas exchange earnings.

When the government changed in 1990, consideration was given to transferring the functions of the Board to the Ministry. The suggestion provoked a vigorous campaign from the business community against such a proposal, which persuaded the review committee set up by the Minister to recommend that a somewhat modified Board should be continued. Since then the Ministry has paid much more attention to building up its relationships with the business community.

The government has now decided that the TDB should be amalgamated with Industry New Zealand to provide a more integrated approach to decisions on the most suitable forms of support for New Zealand business. Especially now that the level and methods of protection are no longer so important as policy issues, it remains very important that the Ministry sustains a constructive relationship with the new organisation.

Similar considerations apply to other government departments involved in international relations. In the economic area, the Ministry of Economic Development now has a large support role. It is interesting that MED, not MFAT, now plays the organising role in the Advanced Courses on Negotiations run by Professor Aaron which begin under MFAT auspices.

The monograph recognises the significance of domestic linkages in considering the importance of focus and coordination in effective trade negotiation. The authors suggest that consideration be given to whether, in the new environment, New Zealand might need to have a Ministry of Trade or a Department of Trade and Industry again. The case for this is to establish the strong domestic connections from which an ongoing consensus might be forged on trade policy. They recognise that MFAT provides a basis for integration of trade policy with the skills and experience associated with political international relations. In the section on the UK and the EEC, they acknowledge that political and defence issues and historical ties played a very significant role in the successful outcome. However, they do not discuss adequately the extent to
which issues of security and political relationships are likely to be critical factors in future trade negotiations, particularly in bilateral and regional trade relationships in the Americas and in East Asia.

Challenging the idea of returning to a separate DTI, at the launch of the monograph, Simon Murdoch, now Secretary of MFAT, argued strongly that “the conduct of a country’s trade negotiations never takes place in isolation from its wider foreign policy”.

New Issues in Negotiation
Looking at what lies ahead, the authors see services becoming more prominent in international trade negotiations and more pressure from the governments of major economies on New Zealand for ‘concessions’ that will improve the capacity of their producers to compete in the New Zealand market. They rightly consider that there has been inadequate research into the importance of services for the New Zealand economy. They do not go into detail on this. Nevertheless, it would be very useful, on the basis of evaluation of past experiments and experience, to have more analysis directed to assessing the most desirable role of the state, overseas investment and competition from overseas in the provision of infrastructure, such as transport, communications and energy. Given constraints on the capacity of governments to increase taxation, similar considerations apply in deciding on the best means of providing health, education and welfare services.

Such research would equip negotiators better to deal with issues arising, not only in services, but also from trends towards more commercial integration and the development of multinational enterprises. Issues such as these have become increasingly significant for New Zealand as the diversity of our markets, and of the products and services in which we trade, has increased. The authors contend that financial constraints in the public sector tend to bear quite heavily on foreign affairs and on the provision of funds for the long-term research projects they consider necessary for effective trade policy.

As our own experience in the post-war world illustrates, powerful vested interests build up behind walls of high protection and support. If such protection and support is sustained for a prolonged period, a search for consensus, if it is carried to extremes, as it was for a time in New Zealand, can lead to paralysis of decision-making. Liberalisation has greatly reduced that problem in New Zealand now, even under MMP. And there was surprising consensus among all parties, other than the Greens, in the Select Committee on Foreign Affairs and Trade last year on the desirability of continued integration with Australia, although some issues, such as a common currency, bearing significantly on sovereignty, were seen as needing more research and debate. Debate is now more likely to be focused on such issues, on protection of services and, both domestically and even more so globally, on the implications of freer trade and integration for biosecurity, the environment, labour conditions and the distribution of income. A good base of research is required to evaluate different means of approaching these issues.

Agricultural Protection and Issues in Multilateral, Regional and Bilateral Negotiations
Unfortunately, entrenched vested interests, built up behind walls of long-term agricultural protection and support, are prevalent throughout the world, especially in the more important developed countries. Some of these are normally aligned with us in pressing for agricultural trade liberalisation, but find it politically very difficult to include imports of dairy products among their ‘concessions’.

At the beginning of the chapter on APEC, the monograph uses a quotation from Gary Hawke likening APEC to Alcoholics Anonymous. The members have agreed on a goal of unilaterally removing barriers to trade by 2010 for the more developed and 2020 for the others. As Hawke sees it, they come together from time to time to provide mutual reassurance, and by exchanging knowledge of their own goals, to provide themselves reinforcement for their self-discipline. The assumption behind this is that the reduction and eventual elimination of barriers is in the unilateral national interest of each member.

Unfortunately, while WTO principles see virtue in reducing barriers to trade, the processes of the organisation are still based on the idea of trading ‘concessions’. This implies that the country reducing barriers is paying a price to do so. The processes have
been relatively successful in reducing barriers to trade in the industrial sector, but much less so in the agricultural. And several members of APEC seen to consider that the problems of agriculture cannot be resolved regionally, but must be part of a global package negotiated through WTO.

Progress was made in the Uruguay round with some acceptance of the concept of ‘target formulas’, whereby members would agree to reduce tariffs or export subsidies or other support by specified percentages over an agreed period. However, there is obvious reluctance by many members to apply the concept comprehensively, especially to ‘sensitive’ areas like agriculture and textiles. In those areas, the concept of ‘trade concessions’ is by no means dead.

New Zealand’s influence is considered in the monograph to be in some danger as a result of the increasing numbers of members of the WTO and the increased role that non-governmental organisations (NGOs) are likely to play in trade negotiations. An issue of even greater importance is the tendency for some bigger players to look in trade negotiations for an ‘early harvest’ on politically easy issues, leaving the more controversial until later. The more controversial issues frequently include agriculture.

One danger that needs to be addressed is that some of the bigger players may see the WTO, as some see the United Nations, as an increasingly unsatisfactory means of achieving their objectives in international trade. They may prefer to utilise their bargaining power in selected bilateral or regional agreements. Given the large number of bigger economies that are protectionist in agricultural products of interest to New Zealand, such a development could be very damaging for this country.

In the circumstances, while a successful multilateral round would be New Zealand’s first preference, its trade policy strategy cannot be wholly concentrated on this objective. It remains vital to develop strategies and policies, consistent with that objective, that as far as possible will avoid New Zealand being excluded from bilateral or regional arrangements where exclusion would do significant damage to our trading interests.

The Uruguay round succeeded to some extent in setting multilateral negotiations on a path of reducing barriers to agricultural trade. We need to do all we can, individually and in association with others, to persuade the governments and influential organisations in important trading partners that it is in their own interests to continue on that path.

The monograph appropriately recognises the contribution made by Prime Minister Muldoon, with the assistance of Richard Carey, then a Treasury official, in persuading the OECD to do a special study on agricultural protectionism in the Multilateral Trade Mandate Project. This illuminated the inequity and inefficiency of existing systems of protection. It was followed up by the secondment of Professor Bruce Ross of Lincoln University to ‘sell’ the result of the study to members. These initiatives, the authors say, made a major contribution to securing a place for agriculture in the Uruguay round.

As the government and its ministries make their plans to deal with serious issues ahead, they need to evaluate the success of initiatives such as this, including the contribution of roving ambassadors such as Brian Chamberlain, Malcolm Bailey and Mike Moore recruited to supplement the work of government officials. More generally they need to consider the possibilities of better combining the skills of New Zealanders in business and the research community with those of ministers and officials.

**Building Bridges with Tertiary and Research Institutions**

In the past, building bridges between MFAT, academic institutions and the private sector has not been easy. One reason has been the effects of financial constraints on the Ministry and academic institutions on their capacity to release staff for joint work on strategy. The Ministry’s efforts to obtain secondments from the private sector have not been particularly successful. More generally, as Richard Nottage, a former Secretary of Foreign Affairs, observed in an address on the occasion of his retirement in October 1999, New Zealand has a relatively small pool of expertise in international affairs. It is also perhaps the most under-resourced country in the OECD in independent ‘think tanks’. As a consequence, there has been “a dearth of independent, contestable policy ideas and advice on political/security and economic/trade matters”.

Nottage emphasised that there were examples of institutions working closely and collaboratively with government departments and officials and generally
through them with ministers, thus definitely influencing and adding value to official policy formulation and advice. But his general thesis is probably still correct. If that is so, as he said, an obvious question is whether New Zealand is utilising to maximum effect the limited resources available in government and academic institutions (and he would have no doubt add, in a different context, the private sector).

In New Zealand, there is no strong tradition of private sector funding of philanthropic foundations and think tanks, although this is improving. The Ministry has been an important source of funding and other support for a number of institutions. It is the primary source for the Institute of International Affairs and the Asia 2000 Foundation. In addition to the secondments mentioned earlier, Nottage noted that the Ministry has contributed to the work of academic research institutions in a number of other ways. These include joint ventures in arranging programmes and speaking engagements for distinguished visitors from overseas and some grants to enable students and scholars to undertake research into some aspects of international relations using the Ministry’s archives.

Nottage said that he had been only partly successful in his efforts to reach out to the universities for liaison on activities that he had expected to be of mutual interest. The relationships had not been developed in a systematic way, according to a well thought-out strategy. He outlined some factors that he thought might be inhibiting more meaningful and collaborative relationships. From the Ministry’s viewpoint, one issue was whether academic departments or research institutions were seen as local or as national centres of activity. The Ministry prefers to deal with national centres or with local institutions which reach out to other academic institutions in joint ventures. In some cases, the Ministry found it difficult to establish where it should ‘plug in’ to a university or institute on particular issues, subjects or projects in which it had an interest.

Discussing the possibility of maximising the small pool of expertise available, which should include the sharing of knowledge and practical experience, he raised the question of the use of the Ministry’s pool of knowledge and experience in institutions’ teaching programmes. He felt that this could be a sensitive area among some faculties and teachers. Some new recruits to the Ministry had suggested that several university programmes on international affairs were for the most part tangential to New Zealand’s foreign and trade policy. They felt that there could be scope for including more New Zealand material, including the Ministry’s experience and practical examples, in some of these courses.

He wondered whether part of the problem was a perception by some university staff that their academic independence might be compromised by closer involvement with the core business of government departments. He accepted that the prime functions of university staff were education of students and academic research. But he did not believe that ethical reservations and risks needed to constrain closer collaboration between academics and policy analysts in the Ministry and/or other core government departments.

Nottage also recorded that his discussions around the Ministry had raised what was seen as “a proliferation problem” – there were too many small under-resourced ‘institutes’. He recalled an observation by Andrew Knight, then Editor of The Economist, who came to New Zealand under one of the Ministry’s visitor programmes, and observed that “New Zealanders have a big capacity to think small”. Nottage had noted that institutes in Wellington had been working more closely and collaboratively together. He believed that this helped to make the best use of limited resources and develop a higher quality product, whether in research, a seminar, a conference or a visitor programme. It also made the Ministry’s life easier and encouraged ministers to feel that limited resources were being used to good effect.

Another good reason he saw for enhancing relations between the Ministry and academic institutions was the very close links between domestic and foreign policy and the ever-increasing number of issues that had an external, transnational dimension. He cited the environment, labour relations, investment, human rights, governance in both the public and private sector, and dispute resolution, to name a few. The universities and Institutes were uniquely placed to foster interdisciplinary research, analysis and discussion required to deal with such issues where there was no one repository of knowledge and expertise.

Things have of course moved on since 1999. Some developments now in train in the education sector should help overcome some of the problems Nottage mentioned.
Collaboration among institutions is being more actively encouraged, with a view to creating more specialised centres of excellence and greater focus on issues of national economic, social and environmental interest.

The new School of Government just established at Victoria University of Wellington should help to remedy past deficiencies of communication and interaction between the universities and the public sector. The government representatives have made it clear that they want the research efforts and allocation of educational responsibilities by the School to involve capable academics in universities and research institutes elsewhere in New Zealand as well as those at VUW. The School is to be part of an Australia New Zealand School of Government, involving collaboration with universities and governments across the Tasman.

Initiatives of this kind should provide a useful basis to develop strategies to generate the more effective collaborative action on trade policy issues that this important study by the NZIER recommends.

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