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**A COMPUTABLE GENERAL EQUILIBRIUM ANALYSIS OF THE
EXPANSION OF THE CLOSER ECONOMIC RELATIONS
PREFERENTIAL TRADING AGREEMENT: ECONOMIC
IMPLICATIONS FOR NEW ZEALAND**

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ABSTRACT

In recent years, many nations have shifted their trade policy focus away from multilateral efforts to reduce trade barriers, and have instead moved towards regional preferential trading arrangements. New Zealand is one such nation. As well as pursuing trade liberalisation on a global basis via the World Trade Organisation and its predecessor the General Agreement on Tariffs and Trade, New Zealand entered a bilateral arrangement with Australia – the Closer Economic Relations (CER) trade agreement – and has recently looked to expand this agreement. Singapore, Chile and the United States have all been suggested as potential members of an expanded CER. This study provides a quantitative economic analysis of the expansion of the CER, focusing on the implications for New Zealand.

The GTAP computable general equilibrium model, using the GTAP version 4 database, is employed. After aggregating the database to seventeen sectors and fourteen regions, policy shocks representing the removal of tariffs between the potential members of the expanded CER preferential trading agreement are carried out. Four possible scenarios of potential members of the preferential trading arrangement are examined. Two liberalisation strategies are considered. First, tariffs are completely removed on all sectors except for six agricultural sectors. Second, tariffs are removed in all sectors, and export subsidies in the agricultural sectors are also eliminated.

The results show that an expanded CER agreement would increase global welfare by up to US\$432 million. These welfare gains accrue mainly to the United States and Singapore. New Zealand, Australia, and Chile all suffer non-trivial welfare losses. New Zealand's loss is attributable largely to a deterioration in its terms of trade, caused by falling export prices, particularly in the agricultural sectors. New Zealand also suffers decreased economic growth and a worsening trade balance. This clearly indicates that New Zealand should be careful when considering its future trade policy direction, and that it may need to re-evaluate its attitude towards regional trade agreements.

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LIST OF ABBREVIATIONS

GATT	General Agreement on Tariffs and Trade
WTO	World Trade Organisation
CER	Australia-New Zealand Closer Economic Relations Trade Agreement
PTA	Preferential Trading Arrangement
CEP	Closer Economic Partnership
P5	Pacific Five trade arrangement
CGE	Computable General Equilibrium model
GTAP	Global Trade Analysis Project
NAFTA	North American Free Trade Agreement
NZIER	New Zealand Institute of Economic Research
OECD	Organisation for Economic Co-operation and Development
NZAFTA	New Zealand-Australia Free Trade Agreement
EAL	Exclusive Australian Licence
TTTA	Trans-Tasman Travel Arrangement
APEC	Asia Pacific Economic Co-operation
NAPES	National Asia Pacific Economic and Scientific database
CUSFTA	Canada-United States Free Trade Agreement
EU	European Union
FTAA	Free Trade Area of the Americas
GDP	Gross Domestic Product
IMF	International Monetary Fund
ECA	Economic Complementation Agreement
MNC	Multi-national Corporations
ASEAN	Association of Southeast Asian Nations
AFTA	ASEAN Free Trade Area
SREZ	Sub-Regional Economic Zone
NIC	Newly Industrialising Country
FTA	Free Trade Agreement
CU	Customs Union
CET	Common External Tariff

PAFTA	Pacific Free Trade Area
MFN	Most-Favoured Nation
CRTA	Committee on Regional Trade Agreements
RTA	Regional Trade Agreement
NTP	Natural Trading Partner
EV	Equivalent Variation
ROW	Rest of the World
GET	General Equilibrium Trade
CEEC	Central and Eastern European Countries
CAP	Common Agricultural Policy
NTB	Non Tariff Barriers
GE	General Equilibrium
<i>f.o.b</i>	Free on Board
<i>c.i.f</i>	Cost, Insurance and Freight
HS	Harmonised System
UNCTAD	United Nations Conference on Trade and Development
TWT	Trade-Weighted Tariff
TRQ	Tariff Rate Quota
FAOSTAT	Food and Agriculture Organization of the United Nations database
NZTDB	New Zealand Trade Development Board