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INTERNATIONAL TRADE AND NEW ZEALAND'S
PLACE IN IT

ROGER KERR
EXECUTIVE DIRECTOR
NEW ZEALAND BUSINESS ROUNDTABLE

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The openness of an economy – particularly a small economy – to international trade in goods and services is a prime requirement for economic success. The dismantling of ‘fortress New Zealand’ over the past 25 years has been a key element in the reform programme that produced today’s more efficient, flexible and resilient economy. Tariffs and other barriers to trade are now low, and New Zealand is likely to reach full free trade – zero tariffs – within a decade. There is widespread support for such a move within the business community. And New Zealand’s liberalisation has been in line with worldwide trends. In a group of 104 countries studied by the Fraser Institute of Canada, the average tariff rate fell from 26.1 percent in 1980 to 10.4 percent in 2002.

Theory and evidence strongly support the case for free trade in goods and services. There is more agreement among economists that openness to trade is conducive to economic growth and increases in living standards than there is on almost any other economic issue. It is noteworthy that Adam Smith, Karl Marx and John Maynard Keynes were all free traders. Nevertheless, myths and misconceptions about trade persist, and need to be tackled anew in public debate by each generation. With this in mind I have structured what I have to say around 10 myths that have affected thinking in New Zealand about international economic relations.

Recent New Zealand governments have rejected the most fundamental of the myths I want to discuss – the idea that the economic effects of international trade are basically different from those of domestic trade, and the related idea that barriers to imports help our citizens at the expense of foreigners. I shall begin by dealing with this myth and then go on to consider others that continue to constrain the participation of New Zealanders in transactions that cross national borders.

Myth 1: The economic effects of international trade are basically different from those of domestic trade.

Like domestic trade, international trade involves voluntary exchanges – mutually beneficial exchanges that occur because both buyer and seller want them to occur. The fact that buyers reside in one country and sellers reside in another has no necessary implications for the size of the benefits that either party derives from such exchanges.

All trade offers the potential for gains from specialisation. Whenever people spend some of their time working in the market economy rather than consuming only what they can produce in their home or back yard, they are obtaining some of the gains from specialisation.

International trade offers greater gains from specialisation than are available through domestic trade alone. The gains that people can obtain, including scale economies, depend on the number of people they can freely trade with, whether directly or via intermediaries, and the incomes of those people. In the famous words of Adam Smith, the founder of modern economics, “the division of labour is limited by the extent of the market”.

International trade, like domestic trade, involves a multitude of transactions between individuals and firms. Despite the fact that governments like to talk about other nations as ‘our trading partners’, governments are not parties to the vast bulk of international trade in market economies.

The reasons why international and domestic trade can appear to be fundamentally different are largely to do with transactions costs that arise when international borders are crossed. International trade often involves additional transactions costs associated with such things as:

- differences in languages and cultural practices;
- a lower degree of trust between the parties and additional costs in settling legal disputes;
- currency conversion and fluctuations in exchange rates;

- different tax regimes;
- government restrictions on international travel and investment;
- differences in government regulation relating to matters such as standards and trade practices; and
- trade barriers imposed by governments to protect particular industries.

As you will have noticed, many of the additional transactions costs associated with international trade are the result of government actions.

Myth 2: Import barriers help our citizens at the expense of foreigners.

It is easy to see where this idea comes from. People realise that increased imports – and a reduction in production and employment in industries that were previously highly protected – have accompanied the reduction of New Zealand's trade barriers.

However, this is not the end of the story. As is now widely recognised, the benefits that New Zealanders have obtained from lower prices of goods previously subject to high import barriers – clothing and cars for example – far exceed the costs involved in reducing trade barriers.

Import barriers have their main effect on the allocation of labour and other resources among industries rather than on total employment. They bias productive efforts in favour of high cost ways of supplying the goods and services that consumers want at the expense of low cost ways of supplying them. They give firms incentives to play to their disadvantages by continuing to produce goods that are relatively costly to produce in New Zealand and provide a disincentive to internationally competitive activities.

One of the favourite ploys used 20 years ago by people who opposed reductions in import barriers was to ask: 'Where will the new jobs come from?' The implication of the question was that if it is not possible to identify the industries in which new employment opportunities will emerge, then governments should be doing everything they can to preserve the jobs

that exist at present. A job in the hand was regarded as worth two in the bush, so to speak.

Fortunately, the idea of doing everything possible to preserve existing jobs was rejected. Policy makers had sufficient understanding of the process of job creation in a market economy to be confident that new investment and employment opportunities would emerge, even though they could not identify the industries in which this would happen. For example, few people could have anticipated in the 1980s that an internationally competitive film industry would emerge in New Zealand.

The important point is that despite our inability to predict where the jobs might come from, they did come. Total employment has increased by 52 percent over the last 20 years and full-time employment has increased by 42 percent.

Myth 3: Unilateral reductions in import barriers increase trade deficits, which are analogous to business losses.

In an article in the *Dominion Post* last year Rod Donald, Green Party co-leader, promoted the myth that New Zealand's international trade deficit has resulted from the effect of tariff reductions on import levels.¹

Rod Donald is correct to suggest that tariff reductions tend to increase imports. Where he goes astray is in failing to recognise that tariffs are also a tax on exports. Tariffs reduce the profitability of exporting by raising the general level of domestic prices relative to the prices received by exporters on international markets.

As is well known, over the last 20 years both exports and imports have increased substantially as New Zealand has reduced its trade barriers. The net effect on the balance of payments has actually been a decline in the size of the current account deficit – from an average of about 5 percent of GDP in the five years ending 1984 to about 4 percent of GDP in the five most recent years.

¹ Rod Donald, 'It's the bottom line that counts in trade', *Dominion Post*, 8 December, 2003.

In the same article, Rod Donald also manages to promote the myth that trade deficits are equivalent to business losses. He writes:

When I did book-keeping at school we were taught that it's the bottom line that counts, that is, the difference between what you sell (exports) and what you buy (imports). A company, or for that matter a country, would get itself into trouble if it continually bought more than it sold, unless it had massive reserves.

The problem with this reasoning is that a country is not a company and a trade deficit is not a loss. As a matter of simple accounting, current account deficits are equal to net capital inflows and the change in overseas reserves. It is not possible to tell whether net capital inflows are a symptom of a healthy or sick economy without looking at the reasons why they exist.

The current account deficits that existed in New Zealand 20 years ago were, arguably, a symptom of a sick economy because they were associated with high levels of government borrowing to fund current spending and low quality investment. This led to a sequence of downgrades in credit ratings on New Zealand's external borrowings.

By contrast, the current account deficits of recent years are a symptom of a relatively healthy economy. Capital inflows are largely the result of attractive investment returns and favourable economic prospects more generally. New Zealand's corporate sector remains resilient despite a global trend toward credit rating downgrades in recent years. Household debt has risen to fund increased investment in housing, but few households seem to have had difficulty in servicing loans at current interest rates.

As always, it is possible that debt servicing could emerge as a problem for more firms and households in the years ahead if future economic prospects were to turn out to be less favourable than currently expected. But this would not by itself make debt levels a national problem again in New Zealand. Nations do not have debt problems unless governments incur debts or accept responsibility in some way for the problems of private debtors or creditors whose decisions turn out to have been imprudent.

Myth 4: The benefits of trade liberalisation come from reciprocal concessions with other countries.

Even though few people are now prepared to argue that trade barriers are beneficial to people in the country imposing them, many governments still promote the myth that in offering to reduce trade barriers in the context of international negotiations they are giving away something that is beneficial to the domestic economy.

The situation is a bit like a group of smokers each complaining about the amount of smoke that others in a room are adding to the atmosphere, while being unwilling to reduce the amount of smoke they are generating themselves – and breathing directly into their own lungs – unless others make reciprocal concessions.

It is easy to see how this situation has arisen. The traditional focus of international trade negotiations has been on imposing an external discipline on the parties to the negotiations. Each country approaches the negotiations with a clear idea of what they want other countries to do to improve access to their markets, while giving little attention to the potential domestic gains from reducing their own import barriers.

Trade ministers tend to come home from these negotiations claiming to have struck a good deal if they have obtained increased access to other markets while retaining barriers that protect the least efficient domestic industries.

It is arguable that the myth that the benefits of trade liberalisation come from an exchange of concessions served the industrialised world quite well while the main focus of international trade negotiations was on tariff reductions. It was convenient for trade ministers to tell local firms that tariff reductions were a concession that had to be made to obtain reductions in tariffs in overseas markets. While the outcome was international trade liberalisation, objections to the rationale could easily be dismissed as an academic quibble.

However, the myth that trade liberalisation involves an exchange of concessions is now clearly a liability because the main barriers to international trade now take the form of non-tariff barriers that are less amenable to international negotiation and the use of external disciplines to ensure compliance. There has been a tendency for industry assistance to shift to non-border forms that are argued to be solely a matter of domestic policy and hence beyond the reach of international agreements and rules.

There is nothing wrong with governments seeking external support, through their membership of international organisations such as the World Trade Organisation (WTO), for the pursuit of economic reforms that are in the interests of their own citizens. For it to provide that support, however, the WTO system would need to be re-focused to put more emphasis on the benefits of trade liberalisation to countries that reduce their own trade barriers.²

Myth 5: If New Zealand retains its remaining trade barriers they will be a valuable bargaining chip in future trade negotiations.

The argument for retaining trade barriers because they may be a valuable bargaining chip is dubious under any circumstances.

It is like arguing that we should not remove the dead limb on the tree in our back yard, even though it is a nuisance to us, because it is overhanging our neighbour's property and we might be able to get something in exchange for removing it when our neighbour seeks negotiations with us about it. As a general rule it does not seem a very good idea to sacrifice your own interests for the purposes of encouraging your neighbour to negotiate with you.

The argument that New Zealand, with its small domestic market, could use its trade barriers as a bargaining chip is fanciful. However, the minister for trade negotiations, Jim Sutton, has subscribed to it – without notable

² The Australian government currently has before it a proposal by a former chairman of Australia's Industries Assistance Commission, Bill Carmichael, for an initiative to enable WTO support for greater transparency within the domestic industry assistance policy processes of member countries. See: Bill Carmichael, 'Free trade starts at home', *Australian Financial Review*, July 6, 2004, p 62.

success – in the context of New Zealand’s attempts to secure a free trade agreement with the United States. If we wait for our neighbours to offer us something in return for removing the ‘dead limbs’ on the tree in our back yard, we may wait forever. Far larger issues will determine US attitudes towards an FTA with New Zealand.

Even though New Zealand’s tariffs are now relatively low, they still impose significant transactions costs on firms. These costs seem likely to rise with the spread of preferential trade agreements with differing rules of origin. This is likely to raise the complexity of the regulatory system and thereby increase the compliance and administration costs involved in determining duties payable on imports.³

Myth 6: The success of bilateral trade agreements can be assessed by examining their effects on trade ‘imbalances’ between participating countries.

Over recent years there has been a tendency for the focus of international trade negotiations to shift from a multilateral approach to negotiation of preferential or free trade agreements with particular countries or groups of countries. New Zealand has been involved in negotiating several such arrangements in recent years in addition to its longstanding free trade agreement with Australia (the Australia New Zealand Closer Economic Relations Trade Agreement or CER).

No one in favour of free trade could argue that bilateral or regional free trade agreements are preferable to multilateral free trade. As Mike Moore, former director-general of the WTO and former prime minister of New Zealand, pointed out recently, these deals “create trade diversions, distortions and privileges for some”. He added: “I have yet to see a non-WTO deal that has an independent, credible disputes system or one that handles agriculture effectively”.⁴

³ Productivity Commission, *Rules of Origin under the Australia New Zealand Closer Economic Relations Trade Agreement*, Research Report, Canberra, 2004, p 119.

⁴ Mike Moore, ‘WTO’s future in jeopardy’, *Australian Financial Review*, July 27, 2004, p 58.

Mike Moore acknowledges, however, that in the current international trading environment there are good reasons why New Zealand should be actively seeking to negotiate appropriate regional and bilateral deals.

There is some validity in the defensive argument that, in the face of an expanding web of such agreements, New Zealand needs to be an active player in order to safeguard its trading interests. If New Zealand were to stand aside from this game, its exporters could be disadvantaged in markets where other exporters face lower tariffs or better access to government contracts.

More important, in my view, is the potential for closer economic relations agreements with the United States and some other countries to put New Zealand on the map as a possible location for economic activity to serve a broader market. It would be good for New Zealand to be seen by US investors as a country with which the US government has been willing and able to negotiate closer economic relations.

This would invite more attention to be given to how well the policies of the New Zealand government compare with those adopted in the United States. The CER agreement with Australia helped provide an impetus for reforms in New Zealand during the 1980s. I think there is the potential for an agreement with the United States to provide a similar impetus to reforms in the years ahead, with more attention being given to the burden imposed on the New Zealand economy by high levels of government spending and taxation.

Rod Donald has a different view about how bilateral trade agreements should be assessed. He casts doubt on the value to New Zealand of its trade agreement with Singapore on the grounds that "Singapore's trade surplus with New Zealand has gone from \$24 million in 2000, the year before the deal was signed, to \$323 million in 2003". He also suggests that Australia is buying a lemon with its free trade deal with the United States on

the grounds that it is expected to worsen Australia's trade deficit with that country.⁵

It would be unfair to Rod Donald to suggest that he is the only prominent New Zealand politician who believes there is virtue in achieving balance in bilateral trade. Even the prime minister, Helen Clark, has been guilty of this. Last year she suggested that New Zealand's trade deficit with Germany is "a challenge for New Zealand's exporters" and means that "we New Zealanders have work to do in the German market".⁶

Bilateral trade balances tell us nothing about the benefits from trade. In fact, we would be worse off if trade were to be controlled to prevent bilateral deficits and surpluses. There is no reason why the countries that are able to supply a given proportion of the imports New Zealanders require at lowest cost should necessarily be able to offer the highest prices for the same proportion of New Zealand's exports. Those who argue for bilateral trade to be kept in balance are implying that we should be sending more of our exports to markets in which the prices on offer are relatively low and buying more of our imports from higher cost sources of supply.⁷

Consider this issue in a domestic context. There is obviously either a surplus or a deficit in trade between the north and south islands of New Zealand. Nobody knows what it is and nobody cares. If a surplus by the north island one year turns into a deficit the next, no one thinks the north island has become worse off. The same goes for international transactions.

Myth 7: Globalisation is harmful to the interests of poor countries.

The number of anti-globalisation protestors turning up at international economic gatherings seems to have declined over the last few years. However, some protestors still attempt to put the view that globalisation is harmful to the interests of people in poor countries.

⁵ NZ Greens, 'Just Trade Campaign': <http://www.green.org.nz/campaigns/trade/>

⁶ Helen Clark, address to the NZ-German Business Association, 3 October 2003.

⁷ Alan King has explained this more fully in a recent article. See: Alan King, 'Bilateral Trade: Defending the Unbalanced', *EcoNZ@Otago*, Issue 13, July 2004.

These days the governments of poor countries tend to view anti-globalisation protestors as a nuisance. Jagdish Bhagwati, an eminent trade economist, has noted that anti-globalisation sentiment has switched from poor to rich countries over the past half century. In the 1950s and '60s the rich countries were in favour of trade liberalisation and the poor countries were protectionist. Today the position is partly reversed.⁸

The governments of many poor countries are very much aware that globalisation – “the integration of economic activities across borders, through markets” – offers the best hope for poor countries to catch up with rich ones. In a recently published book, Martin Wolf, the chief economics commentator of the *Financial Times* who gave the Business Roundtable's 2004 Sir Ronald Trotter Lecture in Auckland last week, makes the point that poor countries that join the so-called rich man's club of nations that largely invest in and trade with each other tend to do astonishingly well.⁹ Wolf cites China as a prime example of the economic growth that is possible when a poor country seeks integration with the world economy. China is now a very open economy; it is fast becoming a vast Hong Kong.

The anti-globalisation protestors argue that western consumers and third world workers have become slaves to the tyranny of brands, logos and callous production methods of Western corporations. In fact, the trade fostered by these corporations benefits all parties and Western corporations tend to pay higher wages than locally owned firms.

Myth 8: Free trade is not desirable because it is harmful to people who can't compete.

Rod Donald has also provided us with an example of this myth. He argues:

Third World peasant farmers who have been forced off their land because they can't compete against imported food that has been subsidised by wealthy countries don't feel that they are better off as a result of import controls being lifted in the cause of free trade.

Countries must retain the right to apply rules to trade to protect the vulnerable
...

⁸ Jagdish Bhagwati, *In Defence of Globalization*, Oxford University Press, 2004.

⁹ Martin Wolf, *Why Globalization Works*, Yale University Press, 2004.

The point about imported food being subsidised by wealthy countries is just a red herring. The farmers of New Zealand don't like the subsidised food exports of wealthy countries any more than the farmers of the Third World. In both cases, this is just a fact of life that farmers have to live with. The gain to the economy from taking advantage of low import prices does not depend on the reasons why import prices are low.

No one likes having a competitor – whether domestic or international – undercut their prices and take business away from them. But that is the way markets promote efficiency. Low cost sources of supply displace high cost sources of supply. This results in a more efficient use of resources.

I agree with Rod Donald that governments must retain the right to protect the vulnerable. I have yet to see a situation, however, where restrictions on trade are a good way for governments to do so. It seems to me that the poor people of Third World countries have just as strong an interest in enjoying low food prices as did the poor people of Britain who supported the campaign for abolition of the Corn Laws in the nineteenth century.

Myth 9: Countries are disadvantaged when firms decide to outsource activities requiring skilled labour to firms in other countries.

Firms have always had an incentive to outsource activities if they can reduce costs by doing so. For various reasons, including changes in technology, outsourcing has increased over the last 30 years or so. The outsourcing of services is one reason why the manufacturing share of the economy is declining in nearly all countries, while the services sector is rising.

There has also been an increase in outsourcing of activities to firms in other countries. This is sometimes referred to as offshoring. In high income countries the activities that have been sent offshore have often involved employment of unskilled labour. People who oppose free trade have been just as unhappy about this as they have been about other import competition. Nevertheless, it has been obvious to just about everyone that

offshoring involving unskilled labour is simply an example of international trade based on comparative advantage.

However, over the last year or so increasing concern has been expressed by some participants in trade debates in the United States about the offshoring of skilled occupations, like software development, to India and other low wage countries. This is a major issue in the US presidential election. Should the government have a different policy toward offshoring of skilled jobs from its policy for unskilled jobs?

The answer is no. The idea that countries are disadvantaged by offshoring of skilled jobs is just another myth. Brink Lindsey, director of the Cato Institute's Centre for Trade Policy Studies, makes the point as follows:

Although offshoring does eliminate jobs, it also yields important benefits. To the extent that companies can reduce costs by shifting certain operations overseas, they are increasing productivity. The process of competition ultimately passes the resulting cost savings on to consumers, which then spurs demand for other goods and services.¹⁰

In other words, the effects on productivity and on economic growth are the same for offshoring of both skilled and unskilled labour. And, like other forms of trade, offshoring is a two-way street. *The Economist* recently pointed out that:

... at the national level, more jobs are outsourced to America than the other way around. American workers, in other words, are net beneficiaries of outsourcing (it goes without saying that consumers always were). And in the cross-border trade of white-collar services, a chief concern, American's surplus with the rest of the world, is not shrinking; it is growing.¹¹

Lindsey goes on to suggest that offshoring of software may have the potential to have as significant an effect on software prices as the 10 to 30 percent drop in hardware prices that research has indicated is attributable to offshoring of IT hardware. It could thus provide an important impetus to diffusion of computer technology and lead to significant productivity increases in other sectors.

¹⁰ Brink Lindsey, 'Job Losses and Trade, a Reality Check', Trade Briefing Paper, Centre for Trade Policy Studies, Cato Institute, March 2004.

¹¹ 'When good news spells trouble', *The Economist*, April 10 2004, p 30.

The US debate over offshoring of high skilled jobs is of more than academic interest to New Zealand. This country stands to benefit from some of the outsourcing of skilled jobs in the United States and other countries. It stands to benefit from lower software prices made possible by offshoring of software development by US firms. And it also stands to benefit as more New Zealand firms become more involved in offshoring activities that can be undertaken at lower cost elsewhere. Weta Workshop, for example, has established a production base in China.

Myth 10: The end of the world is nigh.

This is a convenient way to summarise two contradictory myths about globalisation:

- first, that globalisation is resulting in a loss of national sovereignty – an end to the world of nation states; and
- second, that globalisation is about to end.

The first view will be familiar to most people. It is the argument that, as a result of international economic forces, governments have no choice but to accept the integration of economic activities across their borders, through markets. This has always been nonsense.

The New Zealand government could have decided in the 1980s to reject trade liberalisation and other economic reforms. Some members of the government actually favoured that strategy. In her maiden speech in parliament, Helen Clark railed against CER. Staying with fortress New Zealand would have had terrible economic consequences for New Zealanders, but the government did have a choice.

David Henderson made the point more generally in a report for the Business Roundtable a few years ago. He wrote:

... one can think of world economic history as a process by which successive developments, deriving from a continuing series of discoveries and innovations, have progressively reduced what the Australian historian Geoffrey Blainey has termed "the tyranny of distance". But while technical factors may largely determine the scope for cross-border integration, how far this scope can be taken up has always depended, and still depends, on what national

governments decide to permit. The history of international integration is in part one of technical progress and its application to business; but it is also, and predominantly, a story of the evolution of official external economic policies.¹²

Henderson went on to provide evidence that changes in the extent of participation in international trade of different countries over the past half-century lack the uniformity that might have been expected if national governments had been at the mercy of outside forces.

The second view, that globalisation is about to end, has been propounded by John Ralston Saul, a Canadian essayist and novelist. One local commentator, Barbara Sumner Burstyn, spread this rumour enthusiastically. In an article in the *New Zealand Herald* she described Saul's view as "perhaps the most hopeful thing I've read in years".

Saul is an embarrassment to most economically literate Canadians. His examples of countries that have backed away from liberal economic reforms in recent years, such as Venezuela and Zimbabwe, are highly selective. This account ignores the big picture, which is that economic freedom around the world continues to increase, and ignores the benefits that countries such as China and India are continuing to reap from globalisation.¹³

Saul even cites New Zealand's change of government in 1999 in support of his argument, saying that this involved electors "endorsing a strong interventionist government". Saul is obviously in need of a history lesson on New Zealand to discover what a "strong interventionist government" actually looks like. His comments would have applied to governments that presided over the old, pre-reform New Zealand economy, but by and large the current government has merely tinkered with the economic framework it inherited, and New Zealand retains a high ranking for economic freedom. This is not to say that we should be happy or complacent about the trends, which are in the direction of making the economy less free.

I don't deny the possibility that a slowdown in the impetus for economic reform could occur in some parts of the world in the years ahead. Wolfgang

¹² David Henderson, *New Zealand's External Economic Policies*, New Zealand Business Roundtable, 1997, pp 5-6.

¹³ See: <http://afr.com/articles/2004/02/19/1077072774981.html>

Kasper has argued that the success of reforms in promoting growth could make the impetus toward economic liberalism difficult to sustain. He suggested: “In such conditions, legislators begin to take fast growth for granted and therefore switch from the tedious business of nurturing growth to electorally rewarding social issues and redistribution”.¹⁴

As Kasper pointed out, however, “there is nothing mechanical or inevitable” about this tendency for backtracking to occur:

We now have sufficient understanding of the big pattern of interaction between institutional evolution and economic growth to know that interventionism and lesser economic freedom impede growth, and vice versa. It would be genuine social and political progress if that understanding could induce timely reform to avoid rigidities cumulating into a decade-long crisis of capitalism until reforms are implemented.¹⁵

Conclusion

Let me conclude by restating briefly 10 facts that contradict the myths I have discussed.

1. The economic effects of international trade are basically the same as for domestic trade. International trade just increases the extent of the market.
2. Import barriers have their main effects on the allocation of labour and other resources among industries rather than on total employment.
3. Import barriers have effects similar to a tax on exports. Following trade liberalisation, New Zealand’s exports have increased in line with increases in imports.
4. When countries engage in international trade negotiations they have the potential to gain from a reduction in their own trade barriers as well as from reductions in the trade barriers of other countries.

¹⁴ Wolfgang Kasper, *Building Prosperity*, Centre for Independent Studies, 2000, p 65.

¹⁵ Kasper, *op cit*, p 78.

5. It is fanciful to think that New Zealand's tariffs could ever be a valuable bargaining chip in trade negotiations.
6. In the current international trading environment there are good reasons for New Zealand to seek closer economic relations agreements with additional countries, but these reasons have little to do with bilateral trade balances.
7. Globalisation has been highly beneficial to poor countries that have pursued policies of economic liberalisation.
8. Competition is beneficial because it enables low cost sources of supply to displace high cost sources of supply. Vulnerable people may sometimes be hurt in this process, but there are better ways to help them than by restricting competition.
9. Decisions by firms to reduce costs by outsourcing activities overseas can be just as beneficial to an economy when these activities involve skilled labour as when they involve unskilled labour.
10. Ongoing technological improvements will continue to reduce the tyranny of distance and make it possible for the process of globalisation to go much further. The extent to which the potential benefits of integration of economic activities across national borders are realised, however, will continue to depend on the decisions of national governments.

I believe that the main constraints on the participation of New Zealanders in international transactions arise from the myths that continue to influence government policies in this country and elsewhere in the world. The future prosperity of New Zealanders will depend on the extent to which governments allow them the freedom to engage in mutually beneficial interactions with other people, irrespective of national borders.