

# Bilateral Arbitration Treaty

The costs and benefits to small and medium sized New Zealand businesses

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# Highlights

- If our aim is economic integration...
- ... then small states require a number strategies and tactics
- BAT may be one way of starting this process given the large number of SMEs in New Zealand
- Fits with New Zealand's strategy to double exports by 2025
- Tentative evidence suggests a benefit
- More work needed to further understand the motivations of SMEs

# What is BAT?

- BAT is an international arbitration tribunal used as a default mechanism to solve commercial disputes
- By improving the certainty of the business operating environment:
  - Will help exporting businesses
  - Competitive local businesses will see more certainty as a key competitive weapon
- Standardisation improves certainty and leads to increased participation
- Raise minimum standards

# One tiny step on a long road...

- Our criteria is further integration with Australia and Asia
- This means turning trade policy into policy
- Hugely ambitious and a long way off – one tiny step
- The purpose of this report is to illustrate the possible impact with the information we have
- Thicker markets mean more accurate risk assessments
- Turning uncertainty into risk calculation

# Current situation

- New Zealand has predominately small and medium sized businesses
- Encouraging more into exporting will be important if we are to reach the double export target by 2025
- Currently commercial disputes rely on domestic judicial systems which can be perceived as favouring local parties (perceptions do drive behaviour)
- We know that nearly 6,000 SMEs export (av. \$2.4m income) and another 7,000 are interested

# Current situation II

- BAT could encourage those who are exporting to increase exports
- Data scarce since we only have one survey in 2011 (MBIE business survey)
  - For those already exporting: the exchange rate level and its volatility
  - For those not exporting: the lack of experience

# Assessing the economic benefit?

- Setting up a base line or counterfactual (from which we measure benefits)
- Firms will continue to act the way they are already doing
  - Those involved in trade will not expand faster than they would have otherwise have done
  - Those that are not exporting would remain non-exporters

# Costs

- Costs of setting up BAT
  - Negotiating costs (probably marginal cost since it would be negotiated within other issues such as an FTA)
  - Running costs (relatively trivial)
  - Promoting costs (as part of NZ&TE export information)

# Benefits

- Given the scant information we have developed some illustrative benefits
- Based around assuming:
  - The expansion of the current SME export base into new markets
  - New exporters
- Under a 1% growth rate scenario the benefit would be \$96m p.a.
- The lower the institutional rating the more potential for exporting

# So what?

- Potentially the lower the governance rating for a country the bigger the potential impact if BAT is introduced
- Dynamic benefits matter; so the static benefits may underestimate gains
- However, we would like to do more work to further understand the motivations of SMEs [and quantify]
- Overseas studies suggest we are on the right track but we are cautious about using overseas data because of the scale and distance issues that New Zealand firms face