



August 2008

NZ MEMBERS

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**APEC Business Advisory Council (ABAC)  
Third Meeting 2008, Hangzhou, China 3-6 August 2008  
Report to New Zealand Business**

**Introduction**

1. ABAC's penultimate meeting each year is heavily focussed on finalising its annual Report to APEC Leaders. This was the priority item at Hangzhou in Plenary and working group sessions. And as normal at this defining meeting for the year there was a full turnout of ABAC members from around the region.
2. In a change from past practice which ABAC New Zealand fully supported, it was agreed to submit three documents to Leaders in 2008. One is to be a short list of areas of acute current concern to regional business, led by disappointment over suspension of the WTO Doha trade negotiations; the second will be an accompanying but still brief account of topics that had been at the top of ABAC's agenda during the year; and finally, a fuller report will be provided on those topics with ABAC's recommendations for tackling specific issues.
3. At the start of 2008 there was some uncertainty how robust ABAC Peru would be in seeking a meaningful result from its year in the ABAC chair. In the event, what has emerged is a substantial outcome. It will provide a sound basis for the dialogue ABAC will have with Leaders at their APEC Summit in Lima, Peru, in November 2008.
4. The remaining time available at Hangzhou was given over to 'work in progress' on clarifying a range of subjects that working groups will have on their agendas in 2009 when ABAC Singapore will be in the chair.

**The Regional Business Environment**

5. ABAC members in Hangzhou were keenly aware that their advice to Leaders in 2008 was being compiled against the background of a regional economy much less buoyant than it had been the previous year. Their three submissions have highlighted that businesses in the region are struggling to cope with the dampening effects of market instability, rising inflationary pressures, declining consumer demand, and constraints on liquidity.
6. The stark reality is that regardless of sector, size or location very few regional private enterprise operations have escaped the impacts of those debilitating trends. The strong and sobering message to Leaders in ABAC's 2008 reports is that things could get worse in the short-term. Some economies are already experiencing negative growth. ABAC has appealed to Leaders to address the threat of a region-wide recession with urgent and resolute action, if the impressive economic gains made across the region in recent years are not to be at risk.

## **Areas of Most Immediate Concern to Regional Business**

### **(a) Multilateral Trade Negotiations**

7. At ABAC's previous meeting in Moscow in May 2008 there remained a slim prospect that the protracted WTO multilateral negotiations might, under collective pressure from trade ministers, achieve a breakthrough. That did not happen. To add to the frustration of ABAC members, the critical differences of view between India and the USA which led to the closure of the Geneva talks had come over what appeared a purely technical issue. It was to do with a safeguard mechanism to protect farmers in developing economies against a surge in agricultural imports. The breakdown left the prospect for the global trade arena of a final WTO agreement being delayed until late 2009, at best. In the APEC region it would surely accelerate support for sub-regional trade accords.
8. There were several options open to ABAC members in Hangzhou in deciding how to respond to the Geneva impasse. One was to simply berate the failure of political will at the final hurdle. More positively, another was to call on Leaders to press their negotiators to renew last ditch efforts. For some ABAC members a prime goal was to find ways to lock-in the offers on the table and what had already been agreed.
9. ABAC New Zealand pointed out that agreement had been reached to eliminate agricultural export incentives, cut and cap domestic agricultural subsidies, reduce tariff rates on industrial goods, and reduce tariffs on trade in services. These promised substantial gains; we recognised that they could not be realised until a final agreement is concluded but argued they should be secured against erosion. ABAC colleagues accepted this and the point will be made to Leaders

### **(b) Regional Economic Integration**

10. It was acknowledged too that suspension of the WTO process would give APEC economies a strong incentive to speed-up work on limited membership and less than comprehensive trade agreements. This prompted ABAC to call for more urgent work by ministers and officials on the concept of an over-arching Free Trade Area for the Asia-Pacific (FTAAP). With Singapore colleagues, ABAC New Zealand made further presentations on the attractions of the four-member "P4" strategic partnership as a model building block for integration, we were able to point to near 30 per cent growth in New Zealand's trade with P4 partners since 2005. There was encouraging interest but members from two large economies (Japan, Korea) were not prepared to see P4 elevated to being *the* model building block.

### **(c) Global Credit Contraction /Inflation**

11. Unsurprisingly, ABAC could identify no single 'silver bullet' solution to the complex flow-on effects of the sub-prime mortgage crisis and international bank write-downs. But ABAC does see a need to improve confidence in credit and capital markets, for consistent and prudent fiscal and monetary policies, timely liquidity mechanisms, a shift in emphasis from entity-based to activity-based regulation, improved transparency in credit derivatives and highly leveraged markets, and better coordination between central banks and regulators. There is a cautionary note added that providing adequate liquidity for growth must be balanced against the risk of inflation now emerging in many economies.

### **(d) Strengthening SME Development**

12. In Hangzhou, many ABAC participants were able to document the downside effects of the current financial and inflationary pressures on small and medium-size enterprises (SME), the “economic backbone of the region”. The concern was sufficiently serious and widespread to produce a standalone statement to APEC Leaders urging a dedicated SME support programme. As recommended, this would be three-fold., concentrating on technological infrastructure, financial capacity, and personnel training. SME issues have always featured on ABAC’s agenda. Extra momentum was added on this occasion by a SME “Summit” held on the eve of the ABAC meeting, under the energetic leadership of Jack Mar (an ABAC China member and chair of the Alibaba group) and attended by close to 5000.

### **The Medium to Longer-Term Business Agenda**

#### **(a) Food Supply and Food Price Issues**

13. On an APEC-wide basis there has been little incentive in recent years for ABAC to give particular attention to issues to do with rural development, agri-based technology transfer, and trade and investment liberalisation in food products. Programmes in those three areas are envisaged in the APEC Food System (AFS) endorsed by Leaders in 1999, but there has been no enthusiasm for pursuing them. The shortages and subsequent price rises that became apparent during 2008 have revived interest in the AFS; ABAC has asked that Leaders renew the 1999 commitment and develop specific programmes. A taskforce, to which ABAC New Zealand has been appointed, will carry out, prior to the Lima meeting, an early assessment from a business perspective of the relevance of the AFS framework as originally approved, to the current global food situation. Meantime, there is an ABAC request to Leaders that economies not resort to short-term food embargoes or other export restrictions.

#### **(b) Facilitating Trade Flows**

14. A primary focus for ABAC New Zealand activity this year, has been to do with finding ways to improve the domestic regulatory infrastructures in APEC economies that affect the ease with which business can be transacted and goods and services can flow; obtaining registration, accessing credit, hiring staff, and so on. The World Bank has identified a list of key ‘benchmarks’ that allows comparison of how economies are performing. An APEC workshop programme is addressing shortcomings in those key areas, with the full support of regional business. ABAC has also endorsed the ‘single window’ approach to import/export data handling ABAC New Zealand advocated. ABAC has made a strong plea that outcomes sought from the approved APEC Trade Facilitation Plan 11 should relate to actual business models and to sectors where cuts in transactions costs lend themselves to credible measurement.

#### **(c) Energy Security and Climate Change**

15. Recognising the global nature of the challenges of global warming and the long time- frames involved, ABAC has restricted itself to a modest level of ambition in its 2008 Report. This has focussed on conditions that should be met in implementing the post-Kyoto framework, formulation of individual economy goals and peer review, sectoral approaches ,more private-public sponsored R&D, and better dissemination of proven energy saving technologies. From the ABAC New Zealand standpoint it is pleasing that our advocacy of more robust support for liberalisation of trade in environmental goods and services has been accepted.
16. On the initiative of ABAC USA it was agreed at Hangzhou that work should commence on developing a five-year strategic framework for energy security in the APEC region. The focus is to be on efficiency, technology, and energy portfolio diversification. As a first step ABAC

approved funding for a research exercise to identify a network of recognised regional energy experts. This will, at ABAC New Zealand's request, include the APEC Energy Business Network chaired by New Zealander Dr David Natusch.

**(d) Labour Mobility**

17. A joint ABAC/PECC study released at Hangzhou confirmed that accelerating labour flows have become a permanent structural feature of regional economies. It also highlighted the diverse range of adjustment, welfare and skills-related issues faced by economies of origin and destination, and the scope for experience-sharing. ABAC will push for an appropriate work plan to be on APEC's 2009 agenda.

**(e) Corporate Social Responsibility (CSR)**

18. ABAC's advice to Leaders is that there are different perspectives on CSR but three common factors can be identified: CSR is strictly a business activity, CSR is not a way to have business fund activities governments should rightly fund, and CSR can include a range of voluntary works that vary among industries.

**(f) Strengthening Capital Markets and Financial Services**

19. Notwithstanding the time required to discuss the flow-on effects of the turbulence created by the sub-prime crisis, ABAC was able in Hangzhou to complete its recommendations to Leaders for capacity building measures in local bond markets, investment facilitation in financial services, commercialising microfinance, and fiscal reforms to encourage capital market development. A number of specific initiatives are targeted at the dramatic growth in sovereign wealth funds.

**(g) Innovation and Information Technology**

20. ABAC has reinforced to Leaders the recommendations it presented in mid-2008 to Ministers responsible for Trade (see ABAC New Zealand Report on Moscow meeting, May 2008). These focussed on the issuance of patents and patent format harmonisation, protection of digital content, and action against piracy and counterfeiting. ABAC has endorsed the APEC 'digital prosperity checklist' as a means of enabling economies to assess their success in implementing ICT- growth policies.

**Reminder**

21. For information on the APEC CEO Summit in Lima, 17-23 November 2008 go to [www.apecceosummit2008.org](http://www.apecceosummit2008.org)

**Tribute to Philip Lewin**

The untimely death of Phil Lewin on 12 August 2008 has meant the loss to ABAC New Zealand and to the New Zealand business community, of a valued friend and colleague. The news of his passing attracted an exceptional outpouring of sympathy from ABAC members around the region.

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