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ABAC New Zealand Report to New Zealand Business

APEC Business Advisory Council (ABAC) Final Meeting for 2008 and Dialogue with APEC Leaders Lima, Peru, 17-22 November 2008

Summary

- **In Lima, Political and Business Leaders confronted the worst economic conditions affecting the region in the twenty years since APEC was created.**
- **The impact now being felt by the “real” economy meant the global recession could drag out for at least eighteen months**
- **Through ABAC, regional business advised against regulatory over-reaction and protectionist tendencies**
- **ABAC recommended significant new “forward looking and stimulative” spending**
- **There was renewed emphasis on the urgent need to complete a successful Doha Round**
- **The annual APEC/ABAC Dialogue was acknowledged to be frank and free-flowing**
- **The business summit and Leaders meeting provided valuable exposure for new Prime Minister John Key to display his grasp of the pressing issues of the day**
- **ABAC settled its agenda for its 2009 meetings, the first of which will be in Wellington**
- **ABAC New Zealand will chair the key Trade Liberalisation Working Group in 2009**

Introduction

1. The fourth and final ABAC meeting for 2008 in Lima, Peru, was held immediately prior to the annual gathering of APEC Leaders. The dominant theme of the ABAC meeting, as it was for the Leaders in their deliberations, was the current financial crisis besieging all APEC economies and beyond the region. No surprise, the spreading impact of the global credit squeeze was the top priority for ABAC members in their annual Dialogue with Leaders on 22 November 2008. It was also a preoccupation of speakers and participants at the “CEO business summit” which Peru had organized on the eve of the Leaders meeting.

2. Anthony Nowell and John Blackham as Members and Brian Lynch (Alternate Member) represented ABAC New Zealand at these meetings. They and nine other New Zealand business leaders attended the business summit. There was an opportunity for the full business group to meet informally with the Prime Minister, Trade Minister Hon Tim Groser, and the Foreign Affairs Minister Hon Murray McCully.

The Global Economic Crisis

3. It is unusual at ABAC meetings for a single issue to prevail to the extent of pre-empting consideration of almost all others. That was achieved by the cancerous-like spread of the global financial turmoil. Interesting in retrospect, when the early tremors from the sub-prime meltdown became apparent towards the close of 2007, there was an initial if largely unspoken reaction in ABAC that this was primarily a US ailment. And hadn't they really brought it upon themselves by allowing their economy to grossly overheat? Notably, as the contagion spread this year the covert finger-pointing ceased and it became a shared problem.

4. In a stand-alone statement and in the Dialogue on 22 November, the ABAC advice to APEC Leaders at Lima was to the point. It endorsed much of the response that had emerged from the G20 meeting in Washington the previous weekend, where nine APEC economies had been represented. Looming before the region was a deep and possibly protracted recession. The financial crisis was now beginning to affect the real economy but the temptation to resort to reactionary measures had to be resisted. Strong leadership was called for to avert the risk of systemic strain on the international financial system and the threat of an even steeper economic decline.

5. In support of the conclusions of the G20, ABAC urged Leaders to offer tax incentives and invigorate demand while refraining from subsidization of non-performing sectors. Looking further ahead, ABAC contemplated reform of the global financial architecture to improve operation of capital markets. There was acceptance that the G20 would be the appropriate forum for this exercise, given the group's membership was broadly representative of major developed and developing economies.

6. For their part, Leaders declared at the end of their summit that they believed the crisis could be overcome within eighteen months. Many in ABAC would say this was a courageous claim. But no fault could be found with the Leaders' commitment to coordinated action, to making the international institutions more representative and better resourced, agreement to a twelve months moratorium on any new barriers to investment or to trade in goods and services or to the imposition of export restrictions. ABAC has agreed to monitor the roll-out of the Leaders' action programme, and the on-going involvement of the G20. This will remain the prime item of focus for regional business in 2009.

The Multilateral Trade Negotiations

7. The G20 had called for the fundamental shape of the Doha Round outcome (the "modalities") to be agreed in Geneva and in place by the end of 2008. An ambitious and balanced result remained the key goal. It was made more urgent by the financial crisis and a deteriorating global economy. ABAC supported that advice and repeated it to APEC Leaders. They in turn instructed Trade Ministers to redouble efforts to conclude a comprehensive Round. The year end goal is worthy but appears elusive.

Regional Economic Integration

8. While the proliferation of bilateral and sub-regional free trade arrangements continues apace, the concept of a region-wide WTO-consistent and binding agreement has gained prominence. The concept is best known as FTAAP: the Free Trade Area of the Asia-Pacific. Credible analysis has shown that it would generate economic gains for the region and foster global trade. It would also help address the complexities created not least for regional business in areas such as rules of origin, by the network of lesser agreements. However, it is not yet accepted without reservation within ABAC or among all APEC economies as a done deal. Rather as a long-term prospect. There has been support since 2006 from the US but in more muted form from the big North Asia players and until the Rudd government from Australia.

9. At the Lima meetings APEC Leaders and their Trade Ministers approved the work of officials examining a range of practical and incremental steps towards a possible FTAAP, and the further studies they proposed. A preliminary look at an inventory of issues that would need to be addressed had usefully identified some important implications the FTAAP would have. For example, that a comprehensive regional trade accord with accompanying obligations on signatories would be a major departure from APEC's traditional non-binding *modus operandi*. There was also helpful counsel from officials on the prospects of merging or 'converging' current agreements as a means of accelerating progress towards a region-wide accord. The Lima deliberations did not give a major boost to the FTAAP work schedule, but its presence on the APEC agenda is now uncontested.

10. For ABAC New Zealand, the more immediate focus in the field of economic integration was on the widening interest in the Trans-Pacific Strategic Economic Partnership; "Trans-Pac", formerly known simply as "P4" (Brunei, Chile, New Zealand, Singapore). Confirmation came in Lima that the US would enter into accession talks with P4, initially on financial services and investment, but with full-scale negotiations expected to follow. Australia and Peru also took that step. Negotiations are likely to commence in March 2009. In Lima ABAC New Zealand was involved in discussions with the American Chamber of Commerce and the US National Centre for APEC on ways of building a constituency among US corporates in support of Trans-Pac membership. An independent study to identify the benefits for US business is planned.

11. For New Zealand the attraction of US membership of Trans-Pac would be the opportunity to gain access to the advantages of a free trade agreement with that dominant economy, which will certainly in time shake off its current constraints. More broadly in the ABAC context, Trans-Pac has the appeal of being a high quality "building block" towards the goal of a FTAAP. Expressions of membership interest in Trans-Pac are unlikely to stop with Australia and Peru.

APEC CEO Summit

12. The traditional two day "Summit" that bridged the ABAC meeting and that of the APEC Leaders involved more than one thousand business participants. Four hundred came from outside Peru. There were twelve keynote addresses by Leaders and panel exchanges on a range of subjects: climate change, economic integration, environment, innovation, the place of small and medium enterprises (SMEs), sustainable development, trade and investment. No topic was free of reference to the gathering storm represented by the financial crisis.

13. New Zealand participants at the business summit were able to hear addresses by leaders such as George Bush, Alan Garcia, Stephen Harper, Hu Jintao and Kevin Rudd. However the undoubted highlight was to be there for Prime Minister Key's inaugural public address in that new role to an international audience, and very topically on the outlook for the global economy and on New Zealand's own response. The Prime Minister gave a strong affirmation of the new government's support for the APEC process and a positive WTO/Doha result. He delivered some pointed comment on the effectiveness of monetary policy to deal with asset cycles, and on the adequacy of regulation of the existing financial institutions. Unlike all other Leaders he did not vacate the platform shortly after completing his address but remained to take part in a forty minute panel discussion. It was a performance that drew high praise.

The ABAC Agenda in Lima

14. The preoccupation for ABAC members was the preparation for their annual meeting with Leaders. This meant settling the short list of key subjects to be raised and particular points of concern to business to be stressed. The financial crisis was of course the stand-out issue, with the focus for ABAC being the likelihood of achieving genuine cooperation among economies to meet the challenge. Second order of magnitude topics were mostly those that now have an entrenched place on the ABAC "song-sheet": progress towards the APEC Bogor Goals of open trade and investment, the outlook for the Doha Round, issues related to "ease of doing business behind borders", FTAAP, and the special circumstances of SMEs. Food security is also a question of unfinished business for ABAC. The ABAC consensus after the Dialogue was that Leaders had been attentive to business concerns and discussions had been relevant and robust.

Trade Liberalisation

15. ABAC had constructive discussion in Lima with the chair of the APEC officials Committee on Trade and Investment (CTI). Increasingly the CTI focus has moved away from the traditional APEC centerpiece of trade liberalization to the more overarching but complex concept of regional economic integration. ABAC is comfortable with this shift in emphasis. It also welcomed in Lima the presentation by the Marshall Business School (UCLA) of a comprehensive report on non-tariff barriers to trade in agriculture products and a study of accounting standards. ABAC Australia submitted a useful outline of new and emerging issues that the FTAAP concept will need to address. In a significant move for ABAC New Zealand, Tony Nowell was appointed to

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chair the influential Trade Liberalisation Working Group in 2009, when issues surrounding regional economic integration and the role of Trans-Pac as a model for 'block-building' towards the FTAAP will be prominent.

Trade Facilitation

16. In like manner to Liberalisation, the focus on traditional facilitation measures to improve trade flows is giving way in APEC to a stress on behind the border impediments for business, particularly those posed by government regulations. ABAC New Zealand (Tony Nowell) gave a presentation on the subject in Lima. A workshop on "trading across borders" and related capacity-building will precede the first 2009 ABAC meeting (see paragraph 20 below) The Lima facilitation agenda also covered illicit trade in the region, labour mobility, investment facilitation, and supply chain logistics (the last being the result of an initiative by Lindsay Fox, ABAC Australia member and founder of the trucking company LINFOX.). All will appear again on the ABAC 2009 work programme.

Finance and Economics

17. The financial crisis completely absorbed the allotted time of the relevant ABAC working group. For obvious reasons this was a crucial area of ABAC activity in Lima. It required members to assess with some precision how regional businesses were being affected, how effective immediate remedial measures already in place were proving to be, what fiscal stimulus steps to propose to boost aggregate demand and avoid a deep recession, and what direction long-term structural changes to the existing financial architecture might take. It was also important for ABAC to decide the extent to which it would recommend acceptance of the approach taken by the G20. Rarely has such a sense of clear and present danger to the regional economy so pervaded ABAC's discussions.

Technology and Information Technology

18. ABAC USA submitted an outline of a "strategic framework for energy security in APEC". It envisaged setting measurable objectives for improvements in energy technology, security and efficiency. A more specific approach will be brought to the Wellington meeting. On behalf of ABAC New Zealand, John Blackham gave a presentation on "enabling IP-led growth, strengthening the innovation system". Again, a more detailed proposal will be tabled in Wellington. ABAC Canada and ABAC Japan jointly provided an assessment of the impact of ICT investment on productivity in their economies.

Corporate Social Responsibility

19. ABAC New Zealand and ABAC USA together submitted a compilation of CSR examples in the region and a compendium of CSR codes and practices. There was no enthusiasm for taking consideration of the topic beyond that point, and certainly none for encouraging governments to contemplate regulation in this field.

Ease of Doing Business Workshop

20. The fifth in a series of **APEC/ABAC** sponsored workshops will be held in **Wellington** on the morning of **Monday 9 February 2009**. The particular focus will be on removing or mitigating obstacles to trading across borders. There will be presentations from the World Bank, a number of APEC economies, APEC Customs officials, and ABAC representatives. **Further advice and registration details can be obtained from Brian Lynch (tel.04 463 6545; brian.lynch@vuw.ac.nz).**

21 Further information on the Lima meetings can also be obtained from Brian Lynch.

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