



ABAC NEW ZEALAND REPORT TO NEW ZEALAND BUSINESS

SECOND ABAC MEETING FOR 2010

TAIPEI, 17 – 21 MAY 2010

Summary

At its meeting in Taipei ABAC continued to develop recommendations that will contribute to sustained economic recovery and new growth in the region. ABAC:

- noted that the global economy has recovered faster than expected although lingering uncertainties and significant risks present challenges to achieving stable and sustained growth.
- Agreed that economies must maintain an ongoing commitment to resist protectionism and conclude the WTO Doha Development Agenda in the near term.
- Received an independent assessment from the New Zealand Institute of Economic Research on the progress towards the Bogor Goals of free and open trade and investment in the Asia Pacific region, which concluded that while many member economies have become considerably more open since the Bogor Goals were established in 1994, the changing nature of global business requires that more be done to promote deeper market integration if these goals are to be realized.
- Recommended the formulation of a new vision for economic integration in APEC encompassing trade in goods, services, investment, ideas and the movement of people.
- Recommended that a set of regional integration metrics be developed and published by the APEC Secretariat to monitor annually each economy's progress toward greater economic integration.
- Reiterated its belief that the Free Trade Area of the Asia Pacific (FTAAP) is the most viable concept for achieving further economic and market integration in APEC, and agreed to seek from Ministers Responsible for Trade more detail on the modalities and processes towards an FTAAP to enable active involvement by the business community.

- Agreed to keep under review possible pathways towards FTAAP such as the Trans Pacific Partnership negotiations and the Comprehensive Economic Partnership in East Asia.
- Agreed to move ahead with a practical agenda of business-oriented ideas to progress ABAC's food security strategic framework in the lead up to the APEC Ministerial Meeting on Food security to be held in Japan in October.

Introduction

1. The second ABAC meeting for 2010 was held in Taipei 17 – 21 May. There were two main priorities for the meeting: to receive and finalise the draft report from the New Zealand Institute of Economic Research (NZIER) assessing whether the 2010 Bogor Goal had been achieved for developed economies; and to finalise the text of a letter to APEC Ministers Responsible for Trade (MRT) reporting on ABAC's 2010 agenda (which included the first six dot points noted on page one of this report).
2. The Taipei meeting was attended by New Zealand Members Tony Nowell and Gary Judd QC and by Fiona Cooper Clarke as the New Zealand Staffer.¹. The team's objectives for the meeting were to continue to focus on advancing ABAC's trade liberalization agenda particularly completing the review of APEC's Bogor goals for free and open trade in the region and advancing the concept of a Free Trade Area of the Asia Pacific (FTAAP). The meeting also encompassed emerging work of economic and commercial importance to New Zealand including in relation to food security and exchange rate movements and capital flows,

A recovering but variable global economy

3. Since last year the global economy has recovered faster than expected. According to a recent IMF forecast, real GDP growth across the world will grow by 4.2% in 2010 compared to -0.9% in 2009, and is expected to grow by 4.3% in 2011. This breaks down to predicted real GDP growth across advanced economies of 2.3% in 2010 and 2.4% in 2011, compared to -3.2% in 2009. The IMF expects emerging economies to do considerably better, with real GDP growth of 6.3% in 2010 and 6.5% in 2011 compared to a more modest growth rate of 2.4% in 2009.
4. Despite some regional variation, the economic recovery has progressed faster than expected. Accordingly, the various risks borne by the global economy seem to be gradually reducing. Nonetheless some downside risks remain. The fiscal situation in advanced economies remains fragile and there are signs of capital inflow and asset bubbles in some emerging economies. There are new concerns about Greece and

¹ The Government has yet to announce a third ABAC representative to replace John Blackham whose tenure concluded in 2009. Alternate Member Stephen Jacobi was unavailable for this meeting.

other economies as well. There has been a sluggish recovery in employment markets across the world, and the incidence of overdue mortgage loans remains higher than before the global financial crisis. There is also more limited financial supply available for SMEs and households.

5. ABAC noted that whilst it supported a global regulatory framework aimed at strengthening the intermediary functions and risk taking capabilities of financial institutions it should not hinder sound growth and it should not undermine international financial intermediary functions. Cooperation is duly needed, particularly with international forums such as APEC, to make sure that capital flows to the emerging economies are maintained and that sound economic growth is assured.

Towards freer and fairer trade

6. ABAC's **Liberalisation Working Group (LWG)**, chaired by Tony Nowell, reviewed the state of play in the **Doha Development Agenda (DDA)**. It now seems unlikely the Round would be concluded this year. The major players continue to differ on the level of ambition needed to conclude the deal. All ABAC can do is to remain supportive and offer ongoing encouragement, recognising that the impetus won't come until key members are politically ready to find the necessary accommodations to conclude the negotiations.
7. A report on the **impact of protectionism** was introduced by New Zealand's Fiona Cooper Clarke who noted that significant problems remain with tariff increases, state aid, export subsidies and offsets all presenting continuing problems for a range of sectors. Overall, the situation remains stable but there are still some trade restrictive measures to be withdrawn and some new ones continue to crop up. ABAC will continue to keep this under review at least for the balance of this year.
8. The meeting discussed how to advance the **FTAAP** agenda despite signals from APEC Leaders last year that they were not ready to define a timetable towards FTAAP. It was agreed that ABAC should continue to encourage a decision on these issues. The meeting discussed some promising related developments such as the **Trans Pacific Partnership (TPP)** negotiations and **Comprehensive Economic Partnership in East Asia (CEPEA)** negotiations.
 - On TPP, it was noted that the first round of negotiations took place in March, and that the second round would take place in mid-June. In between Ministers responsible for TPP would meet in the margins of an APEC meeting in Sapporo. Further negotiating rounds will take place in October and December. TPP negotiators have acknowledged that TPP is a potential pathfinder for FTAAP, and that the standards and comprehensiveness of the existing P4 agreement need to be maintained and improved upon. ABAC USA reported a high degree of interest in the TPP amongst the US business community. A TPP Business

Coalition has been set up to facilitate dialogue with US trade negotiators. The LWG will continue to keep TPP developments under review.

- On CEPEA, it was noted this initiative is being pursued by the ASEAN Plus Six group and also shows promise in the FTAAP context. If concluded CEPEA would cover half the world's population. There are some challenges as to how East Asia might go about consolidating the multiple overlapping FTAs in the region such as ASEAN Plus three as well as CEPEA.
9. LWG endorsed a US paper on how the needs of the **digital economy** could be addressed in future FTAs.

Bogor Goals Review

10. LWG's biggest challenge was to consider and agree on the report assessing the extent of APEC's achievement of the Bogor Goals of free and open trade in the region amongst developed economies by 2010. The draft final report was presented by John Ballingall, Deputy CEO of the NZ Institute of Economic Research (NZIER). It was debated at length and many views expressed by Members were incorporated into the draft report during the week. There was a strong feeling amongst some delegations that the report was overly negative about the extent to which the Bogor Goals had been achieved. In response the overall tone was made more balanced while retaining the essential message that more remains to be done before it can be said the Bogor Goals have been achieved, taking account of the fact that the Bogor Goals were groundbreaking and ambitious at the time of their creation in a very different global circumstance.
11. The report was finalized after the closing plenary, taking into account views expressed at that session before being peer reviewed in Singapore. It was then shared with Senior Officials and Ministers Responsible for Trade to inform their official assessment of the Bogor Goals due later this year. The key messages arising from the report were as follows:
- The Bogor Goals have delivered some positive outcomes for APEC businesses. The industrialized economies subject to the 2010 timeframe have made significant steps towards becoming more free and open. Developing economies have also become more open in that time. The Bogor Goals were groundbreaking and ambitious at the time of their creation.
 - Delivering stronger business growth requires a renewed focus on removing barriers to deeper integration. The global economy has evolved considerably since 1994, demanding elevated efforts to promote deeper regional economic integration in line with the Bogor Goals timeline.
 - ABAC recommended that Leaders recommit to achieving free and open trade within the APEC region. Taking into account significant economic and social

changes over the last 16 years, ABAC recommended a new vision for APEC to liberalise flows of goods, services, investment, technology, ecommerce and people, building on the Bogor Goals to reflect the changing nature of modern Asia Pacific regional supply chains and value chains.

- ABAC recommended that Leaders agree that FTAAP is an aspirational but achievable vehicle for delivering free and open trade and investment in the region. Following on from last year's recommendations to Leaders, ABAC sought greater detail from Ministers on the modalities and processes towards an FTAAP to enable active involvement by the business community.
- ABAC recommended that Leaders recognize the importance of existing and progressing regional trade arrangements (e.g. TPP, ASEAN Plus 1, Plus 3, Plus 6/CEPEA) as potential pathways to delivering an FTAAP. As these arrangements evolved, they should draw on previously developed APEC model FTA chapters covering goods, services and investment and other new business requirements to guide their progress. ABAC further requested that Leaders of economies engaged in evolving regional arrangements direct their officials to share knowledge and substance about their respective negotiations in a timely and transparent fashion, while respecting the negotiating sensitivity of some issues.
- ABAC recommended that as a new vision for APEC was developed, the business community be closely engaged so that policy makers draw on business leaders' expertise in identifying practical initiatives and proposing workable solutions. ABAC recommended that the links between Senior Officials (SOM) and ABAC processes be better defined and integrated.
- ABAC recommended that as part of achieving the Bogor Goals or a new vision, Leaders should direct the APEC Secretariat to develop an annual set of 'Regional Integration Metrics' to monitor each economy's progress towards greater regional economic integration and inclusive growth. Such indicators are essential for benchmarking performance and creating accountability from Leaders. ABAC recommended the creation of a one page "Regional Integration Dashboard" for each economy showing the level and change in various indicators of liberalisation, including but not limited to, the flows of goods, services, investment, technology and people.

12. While ABAC New Zealand would have preferred a stronger more critical assessment of the degree of progress made towards the Bogor Goals, and we were successful in strengthening the language in some areas, the final report reflected the overall level of consensus among Members.

Facilitating trade and investment

13. The **Facilitation Working Group (FWG)** meeting focused on topics under three broad headings:

- *The movement of goods and services:*
 - Prior to the meeting the business community across the region was surveyed to identify specific actions that need to be taken in order to address 8 **supply chain choke points** identified in APEC's supply chain connectivity framework. According to the survey, the highest ranked chokepoints were those that dealt with traditional standards harmonization. The survey identified a number of other themes including the need for transparency on customs and regulatory issues, digitization, modernization, and simplification of customs procedures. The survey also highlighted the importance of capacity building, enhanced developed-developing economy cooperation, and infrastructure development. The chokepoints will be presented to APEC's Committee on Trade and Investment (CTI) and will continue to be monitored through the year to assess progress.
 - ABAC Australia provided an update on the **road safety harmonization initiative**. Ten countries, including New Zealand, want to take part in a dialogue on this issue, so there may be a follow up meeting in Thailand in the margins of ABAC3. In the meantime ABAC members will consider how to resource this initiative, e.g. by providing people or suggesting organisations able to contact transportation ministries, collect road safety data and other tasks.
 - ABAC USA presented a report on a private sector dialogue with the Intellectual Property Rights Experts' Group (IPEG) in which two main issues were discussed; **IPR enforcement at the border and patent cooperation**. ABAC USA noted that demand management is a particular problem with 3.5 million unprocessed patents around the world and that with global R&D investment around the world topping \$1.1 trillion annually (representing 3% of global economic output) it was necessary for patent offices in the region to deepen cooperation. Based on the outcomes of the private sector dialogue, ABAC agreed that language endorsing an APEC Cooperation Initiative on Patent Acquisition Procedures would be included in ABAC's Report to Leaders this year.
- *The Movement of Investments:*
 - The meeting agreed that ABAC would undertake an initial review of the **APEC non-binding investment principles** at the next meeting and identify areas that needed to be updated or enhanced, and expressed its support for a plan to establish APEC-wide consultation and complaint mechanisms as proposed by the **Roadmap for Investment** put forward by Japan to Senior Officials.

- Following up on a **competition policy** dialogue earlier this year, ABAC discussed the need for a common set of principles on procedural fairness APEC. The private sector would like more transparency and consistency in the implementation of competition policy laws and regulations. ABAC Members were asked to seek feedback from their respective competition policy experts about a letter from the Chairman of the International Chamber of Commerce recommending that ABAC endorse procedural fairness best practices developed by that organization. The letter will be considered at ABAC3.
- *The Movement of People*
 - The discussion on talent management focused on the need to identify a suitable name for the issue ("**people management**") and find a way to have APEC take up this issue on its agenda. One problem is that Senior Officials see it as an immigration issue making them hesitant to open up the issue for discussion. ABAC will seek to get the issue on the human resources ministerial agenda and ensure that it is on the agenda for the ABAC Dialogue with Leaders this year.

Ensuring the region's financial health

14. The **Finance and Economics Working Group (FEWG)** discussed how to strengthen and deepen the region's capital markets. Five main aspects of financial regulation were identified: capital and liquidity rules, derivatives, compensation, cross border resolution and systematically important institutions and taxation/levies. It was agreed that ABAC should make recommendations to finance ministers that flexibility be considered.
15. ABAC noted the text of a letter to the Basel Committee on Banking Supervision (BCBS) urging BCBS not to adopt a one size fits all approach to **regulatory changes in response to the global financial crisis**. The letter proposed that, at a minimum, any new regulations should be cognizant of differences between economies. Moreover the impact of new regulations on costs of doing business should be reviewed and evaluated. Close consultation and dialogue with the private sector should be continued to determine any threshold of important ratios, including but not limited to, capital and leverage. ABAC proposed that the private sector be fully consulted to determine the feasibility of implementing forward looking provisioning. Regulatory reforms should aim at strengthening the intermediary functions and risk taking capabilities of financial institutions. Thus, activities beyond such capabilities should be duly regulated. In addition, financial institutions' risk monitoring capabilities and financial standing should be strengthened. It is important to avoid a piecemeal approach to strengthening regulatory capital and liquidity of financial institutions without reference to a comprehensive strategy that could hinder rather than promote the attainment of what regulators originally intended. ABAC proposed that a comprehensive impact study of proposed regulations be undertaken to prevent such a situation from arising.

16. New Zealand Representative Gary Judd, who is a new Co-Chair of the ABAC Advisory Group on APEC Financial System Capacity Building, made a well received presentation on **exchange rates and capital flows**. He stressed that exchange rate volatility is an enemy for an open multilateral trading system and the free flow of goods, services and capital. He proposed some measures that could be considered for a more stable global financial and currency architecture; in particular that ABAC should seek to reach a firm view on whether or not a global reserve currency is something to be promoted by ABAC, if so, what form it might take and how the proposal might be advanced. It was agreed that stability of foreign exchange rates was highly important to the business community and the issue should remain on FEWG's agenda and be discussed further at ABAC3 in Bangkok.

Promoting sustainable development

17. The **Sustainable Development Working Group (SDWG)** focused on **food security** and energy security. ABAC's proposal for a high level Food Dialogue has been considered but not taken up by APEC Senior Officials. Instead Senior Officials have suggested an informal process through the "Friends of the Chair" (FoTC). Tony Nowell expressed ABAC New Zealand's disappointment with the response of Senior Officials but agreed with Australia that we should move forward with the FoTC process. Australia proposed the development of a work programme that addresses outcomes on food security from a business perspective. The work programme will focus on practical initiatives, for example, on production and delivery/logistics issues e.g. reduction of food waste in the supply chain via cold chain management. Social policy measures on access to healthy food and other dietary issues would dovetail into existing work in APEC on food safety.
18. SDWG will arrange a meeting on food security on the margins of ABAC3 (Bangkok, August 2010) that would include stakeholders from industry, World Bank, think tanks and other useful organizations. The meeting would be the means to flesh out the work programme that ABAC could present to Ministers at the planned APEC Ministerial Meeting on food security in October. ABAC New Zealand will consider possible candidates to attend this meeting.
19. ABAC USA has sourced additional funds to produce further copies of the Strategic Framework for Food Security in APEC, which has already been distributed around several New Zealand food companies. (NOTE: copies are available from ABAC New Zealand on request).
20. **Energy security** is a key linkage across the APEC and ABAC process with Japan, USA and Russia as major energy producers and consumers in the chair for the next three years. SDWG finalized a letter to be sent to APEC Energy Ministers (EMM) before their meeting in Japan on 18-19 June, emphasizing the importance ABAC attaches to strengthening energy security in the region as one of the foundations for sound economic growth, and in particular ensuring that Governments take private sector

perspectives into account as they develop policies. Any business representatives wishing to attend the EMM on an informal basis need to register by 24th June.

21. In light of recent developments such as Copenhagen ABAC USA proposed that a review of the ABAC strategic framework paper on energy be undertaken particularly in relation to the demand for energy. ABAC agreed to contribute \$15,000 towards this study which will be delivered in May 2011.
22. There was an update on the **Environmental Goods and Services (EGS) study** being undertaken by the Marshall School. Students from the school are about to commence interviews and members were asked to assist in identifying appropriate senior executives and organizations to be interviewed. (Note: New Zealand contacts have been identified and forwarded to EGS researcher Cathy Kim who visits New Zealand in mid-June).

Capacity Building in the Asia Pacific

23. The **Capacity Building and Action Plan Working Group (CBAPWG)** addressed a range of issues, including how to advance the interests of SMEs in the APEC region. There is also a work programme underway on knowledge based growth (KBG) initiatives with two items of particular interest to New Zealand. The first was a US proposal for an APEC medical devices sectoral project, which is essentially about instituting an ethics platform to facilitate cross border trade in the medical devices sector. This was endorsed. The other item of interest was a discussion about ABAC's Voices of the Future (VOF) Program. New Zealand Representative Tony Nowell noted some challenges in securing access for the VOF at the CEO Summit in Yokohama. It was agreed that Senior Officials needed to be alerted to the issue to help get it resolved.

Conclusion

24. ABAC's discussions in Taipei were intensive but ultimately successful with the adoption of the final report on the review of Bogor Goals and agreement on the text of the letter to Ministers responsible for Trade with trade issues as the top priority. ABAC's next meeting will be in Bangkok in August.

For further information

25. Please contact Fiona Cooper Clarke on cell phone 021934466 or email fionacc@clear.net.nz. Further information including ABAC's final report and press statements from the meeting are available at www.nzibf.co.nz and www.abaconline.org