



## **ABAC NEW ZEALAND REPORT TO NEW ZEALAND BUSINESS**

### **FIRST ABAC MEETING FOR 2012 HONG KONG, 21-24 FEBRUARY 2012**

#### **Summary**

1. APEC's theme for 2012 under Russia's chairmanship "From Aspiration to Reality", was demonstrated in the annual work plan agreed this week by the APEC Business Advisory Council (ABAC) in Hong Kong. This year ABAC will give priority to accelerating regional economic integration, developing stronger infrastructure and supply chains, strengthening food and energy security and fostering innovative growth.
2. ABAC members called for the broadest possible participation in regional trade liberalisation initiatives, with a view to improving the prospects for a Free Trade Area of the Asia Pacific. The Trans Pacific Partnership negotiations attracted significant interest, with some ABAC members voicing concern that it could become an exclusive club where the quality bar was set so high that others would be unable to join. However it was clear that many business leaders in non-TPP economies are giving increasing thought to the implications of joining, or not joining, TPP.

#### **Introduction**

3. The first ABAC meeting for 2012, held in Hong Kong from 21-24 February, was attended by New Zealand members Tony Nowell and Maxine Simmons (Gary Judd's term as an ABAC member having recently concluded) and Fiona Cooper Clarke as Lead Staffer. The team's objectives for the meeting related to advancing the regional economic integration agenda including a focus on pathways to FTAAP, initiating a new services agenda in the region, promoting greater supply chain connectivity, contributing to the effective implementation of the new APEC Policy Partnership on Food Security, setting some standards for ABAC business surveys and finding appropriate mechanisms to achieve innovative growth.
4. During the meeting the annual dialogue with APEC Senior Officials (SOMs) from around the region was held, including with Acting New Zealand SOM Chris Langley. The Dialogue is part of ABAC's continuing effort to strengthen collaboration in the development of the APEC work agenda with a focus on issues of interest to business. The key themes discussed included regional economic integration/trade and investment liberalisation, strengthening food security, establishing reliable supply chains and fostering innovative growth.

## Downbeat economic outlook

5. Current global economic growth forecasts are continuing a trend of downward revision, as the Euro-zone crisis spreads from the periphery to core countries like France and Italy. On 24<sup>th</sup> January the IMF downgraded further its 2012 global economic forecast from 4% to 3.3% and its 2013 forecast from 4.5% to 3.0%, noting that downside risks had risen. The outlook for advanced economies is weak, predicted to grow by only 1.2% in 2012 and 1.9% in 2013. Growth in emerging and developing economies will moderate to 5.4% in 2012 and 5.9% in 2013. The WTO expects trade growth for 2011 to finish at around 5.6%, with the risk of protectionism still high. The IMF predicts a gloomy 3.8% (well below trend) growth in global trade for 2012 over 2011 (as opposed to 6.9% in 2011 over 2010).
6. There has been some slightly better news in key APEC economies. US economic growth is gaining momentum with inflation appearing to be under control, providing the government with some room to move. The IMF forecasts the US to grow by 1.8% in 2012 following a similar growth rate last year. In Japan supply constraints have eased since the March 2011 earthquake and tsunami disaster. The IMF forecasts Japanese economic growth of 1.7% in 2012. Challenges facing the Japanese economy include the strong yen, a large fiscal deficit and high government net debt. Economic growth in China is moderating but remains solid. After 9.2% growth in 2011, IMF forecasts Chinese growth to slow to 8.2% in 2012 and 8.8% in 2013. The developing economies of Asia are expected to lead global growth in 2012-13 with growth rates of 7.3% in 2012 and 7.8% in 2013. By 2030 Asia is set to become the world's largest economic region, accounting for over 40% of global GDP.

## Regional Economic Integration

7. The **Regional Economic Integration Working Group (REIWG)**, chaired by Tony Nowell, approved an action plan for 2012 which includes three key priorities: trade and investment liberalization/facilitation; initiating a new services agenda, and enhancing supply chain connectivity with a particular focus on the deployment of global data standards and information technology including cloud computing. The meeting received updates on the 8<sup>th</sup> WTO Ministerial Conference held in December 2011, the TPP negotiations and the newly formed Regional Comprehensive Economic Partnership formed in November 2011, which has replaced the East Asia Free Trade Area (ASEAN +3) and the Closer Economic Partnership of East Asia (ASEAN + 6). There was much debate about TPP particularly among non-TPP members, some of whom were concerned that important developing economies such as China and Indonesia could be left out of TPP if the level of ambition was set too high. Members agreed that it was desirable for TPP (and other potential pathways to FTAAP) to have the broadest possible participation and highest possible quality.
8. REIWG will work with the USC Marshall Business School to research services trade flows and barriers in the region. REIWG agreed to develop a new digital trade agenda for APEC, and approved recommendations to address barriers encountered by some FDI companies in the area of technology transfer. ABAC will collaborate with APEC in the areas of skills mapping (to help address imbalances in the supply and demand for skilled workers in the region) and also in relation to the proposed APEC Travel Facilitation Initiative. Copies of

ABAC's new booklet on regulatory coherence (which includes a dairy sector case study contributed by Fonterra) are available from the NZ ABAC Secretariat.

### **Enabling SMME innovation**

9. The **Small, Medium and Micro Enterprise and Entrepreneurship Working Group (SMMEEWG)** reaffirmed its commitment to the development of SMEs with a particular focus on market access, capacity building and access to financing. ABAC New Zealand (Maxine Simmons) received wide support for a proposed set of internal guidelines to improve the quality and reduce the number of ABAC business surveys, thereby improving ABAC efficiency. The meeting also agreed to undertake research to understand how to foster innovative growth for SMMEs internationally. The meeting noted a presentation about how Peru has used technology to lower transaction costs for SMEs by helping them to access markets at home and abroad. Arrangements for the next Young Entrepreneurs Summit to be held on 5-6 June 2012 in Beijing were also discussed. There will also be an APEC SME Summit in Lima, Peru on 23 August 2012 which will focus on the internationalization of SMEs.

### **Improving Regional Infrastructure**

10. In keeping with the objectives set by Russia as 2012 chair of ABAC, the new Working Group on Infrastructure Development held its inaugural meeting to address issues related to transportation, logistics systems and physical supply chains. The IDWG work plan for 2012 is based on an infrastructure lifecycle: Design, Execution and Reinvestment. Under Design the IDWG will focus on the development of policy and regulatory environments that promote the implementation of infrastructure development plans. This will include recommendations regarding foreign direct investment policy and financing mechanisms such as public-private partnerships (PPPs). The work on the PPPs will focus on the supply chain and transport sector. Under Execution the IDWG will provide recommendations on the effective application of infrastructure resources in the areas of Eco-Cities and Water Security. Under Reinvestment the IDWG will develop recommendations on policies that ensure economies effectively reinvest in infrastructure, with a focus on developed economies as well as policies for effective response and recovery from natural disasters.

### **Promoting sustainability**

11. ABAC's **Sustainable Development Working Group (SDWG)** discussed preparations for the first meeting of the Policy Partnership on Food Security (PPFS) between the private sector and APEC, which will take place in Kazan, Russia in May. APEC governments are in the process of selecting their representatives for PPFS (one per economy). ABAC delegations must finalize their nominations by 15 March for up to three senior private sector representatives from each economy. ABAC NZ has nominated two representatives from the food supply side and is seeking a representative from the demand side. Following much debate some new internal guidance was issued for the selection of the PPFS Vice-Chair/Principal Advisor position, thus overturning decisions taken at the previous ABAC

meeting. Other key areas of food security under active consideration include the role that technology can play in increasing food output and promoting stability of supply; the need for infrastructure improvements and investment to reduce food wastage, and the need to tackle food non-tariff barriers.

12. SDWG's other priorities in 2012 are energy security and technology investment. The meeting agreed a work plan on energy security which will focus on renewable energy resources (construction of transmission and distribution infrastructure) and environmental goods and services. Three projects relating to technology transfer and investment were approved.

### **Addressing the economic crisis**

13. The **Finance and Economics Working Group (FEWG)** will this year focus on ways to strengthen the stability and integration of financial markets to support trade; promote practical solutions to improve financial access for SMMEs and address the implications for the APEC region of current financial system reform in the G20. The meeting decided that ABAC would write to APEC Telecommunications Ministers about the need to improve cross-border data flows to strengthen APEC's regional financial architecture, in an effort to overcome NTBs such as regulatory restrictions, lack of regulatory coherence, and poor transparency in the development of new regulations. The meeting also agreed to arrange a roundtable meeting with APEC officials about IFRS accounting standards later this year. FEWG also considered issues around the internationalization of emerging economies' currencies and their increasing role in cross-border financial transactions; and the unintended consequences of the implementation of new financial regulations on financial markets including the Volcker Rule and Basel III.
14. Among the many practical initiatives being pursued by ABAC's **Advisory Group on APEC Financial System Capacity Building**, is a new three year project about APEC financial system architecture known as the Asia Pacific Financial Markets Integration Project. There will be a forum in Melbourne on 13 March 2012 to discuss solutions to the lack of connectivity of the region's financial markets and to develop a series of priorities for regional financial integration on issues ranging from financial stability to clearing and settlement systems. Other key themes being pursued by the Advisory Group include financial inclusion, infrastructure finance and venture capital finance.

### **For further information**

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