



ABAC NEW ZEALAND REPORT TO NEW ZEALAND BUSINESS

FIRST ABAC MEETING FOR 2011

GUANGZHOU, CHINA, 13 – 17 FEBRUARY 2011

Introduction

- 1) The theme for APEC in 2011 under the USA's chairmanship is "21 economies for 21st century prosperity." Aligned with that theme, ABAC's focus is on helping APEC to "get stuff done" in three priority areas: Regional Economic Integration, Small Medium and Micro Enterprises & Entrepreneurship, and Sustainable Growth; with enabling efforts in the areas of Finance and Economics, and Action Planning & Advocacy.
- 2) The first ABAC meeting for 2011 was held from 13 – 17 February in Guangzhou, China. Under the chairmanship of ABAC USA member Deb Henretta, the objectives of the meeting were to finalise the 2011 work plans for each of ABAC's five working groups, identify the key outcomes for each working group to be delivered by November 2011 and to develop advocacy strategies for key issues.
- 3) The Guangzhou meeting was attended by ABAC NZ Members Gary Judd QC, Tony Nowell CNZM and Maxine Simmons, and by Fiona Cooper Clarke as Lead Staffer. The team's objectives were to ensure the successful launch of the Regional Economic Integration Working Group – chaired by New Zealand; to assist the launch of the Small Medium & Micro Enterprises and Entrepreneurship Working Group – co-chaired by New Zealand; to stimulate discussion about regional exchange rate movements, and to obtain input from a series of break out meetings with APEC Senior Officials.

WORLD ECONOMIC OUTLOOK REPORT

- 4) Economic growth was stronger than expected in 2010 at 5%. This was expected to slow to 4.5% during 2011-12. The global trend towards greater divergence in growth between advanced economies (slower growth) and developing & emerging economies (faster growth) is becoming apparent across APEC. The chief medium term risk to growth in most advanced economies will be unsustainable levels of public debt. Public finances are in better shape in most developing & emerging economies, where the main medium term risk is inflation, partly caused by rising commodity prices. Measures to curb inflation will see growth slow from the very high rates of

2010. 2010 growth rates averaged over 9% in Asia (excluding Japan) and around 6% in Latin America. Exchange rate tensions are expected to continue within the APEC region given the persistent divergent growth rates between advanced and developing economies as well as the existence of some large external imbalances and inflationary pressures.

- 5) Looking at “the big three” APEC economies:
- a) USA is finally showing signs of a self sustaining recovery. Consumer spending and borrowing is picking up albeit cautiously whilst plant and equipment investment are almost back to pre crisis levels. In contrast to Europe the US embarked upon a small round of fiscal stimulus but needs to address budget deficits and public debt.
 - b) Japan economic activity has rebounded yet remains some 3% below its pre crisis level (6% below in nominal terms accounting for deflation). There have been moderate gains in consumer spending and business investment but still below pre-global financial crisis levels. A willingness to consider participation in the TPP negotiations potentially implies the prospect of economic reform and productivity gains. Japan still faces the issue of public debt, now about 120% of GDP. Unlike Europe this debt is owed domestically.
 - c) China’s economy continues to expand strongly. Growth in household expenditure will continue to be supported by gains in income due to labour shortages and government mandated increases in minimal wages. Inflationary pressures are likely to increase further as a result in rising food prices. The challenge will be to contain inflation and avoid speculative asset bubbles (interest rates are still very low relative to China’s high growth rates).

APEC SOM Dialogue

- 6) A Dialogue meeting was held with APEC Senior Officials, including the recently appointed New Zealand Senior Official, Clare Fearnley, on 15th February. The meeting addressed four of ABAC’s priority areas: regional economic integration; small medium and micro enterprises and entrepreneurship; sustainable growth, and finance and economics. Feedback from the Senior Officials was taken into account as the 2011 ABAC Work Plans were finalized.

Towards Regional Economic Integration

- 7) ABAC’s new Regional Economic Integration Working Group (REIWG), chaired by ABAC NZ Member Tony Nowell, adopted a conceptual framework, approved a 2011 Action Plan containing five key priorities and several initiatives in progress, and agreed on key deliverables.
- 8) The conceptual framework is based on a supply chain and value chain approach to trade in goods and services, which will help to identify blockages to trade and investment liberalization and, ultimately, a Free Trade Area of the Asia Pacific (FTAAP). The 2011 REIWG Action Plan brings together the conceptual framework with a range of specific policy issues that need to be

addressed from a business perspective in order for regional economic integration to be progressed. The key priorities and related deliverables for the REIWG in 2011 are as follows:

- a) **Supply chain/value chain conceptual framework:** Further refining and gaining APEC's acceptance of this as a defining framework for regional economic integration initiatives will be a key deliverable this year.
 - b) **Trade and investment liberalization:** Both FTAAP and the WTO Doha Round remain key priorities for ABAC. At their November 2010 Summit, APEC Leaders agreed that concrete steps should be taken towards the realization of an FTAAP. In 2011 APEC Senior Officials will look into defining and addressing "next generation" trade and investment issues that FTAAP should contain. REIWG will support this effort by considering how to update traditional Free Trade Agreements (FTAs) from a business perspective, taking into account "new generation" issues and modern business language and concepts (e.g. supply chains and value chains) as building blocks to create FTAs appropriate for the 21st century.
 - c) **Supply chain connectivity:** With the assistance of a research project by the Marshall School of Business at the University of Southern California, the REIWG will identify and value the main chokepoints in regional goods supply chains. REIWG will also encourage APEC to progress the implementation of Authorized Economic Operators (AEO scheme) and the Single Window customs system.
 - d) **Services trade:** REIWG will seek to further define and refine the services supply chain, where there are considerable complexities, and identify key chokepoints. This work could potentially feed into the APEC Services Action Plan in due course.
 - e) **Regulatory coherence:** REIWG will promote regulatory coherence by identifying, valuing and proposing solutions for key regulatory chokepoints in selected industry sectors across the region. Note that NZ business can suggest industry sectors for possible inclusion in the REIWG's case study on how regulatory coherence impacts their industry by contacting Fiona Cooper Clarke by email, fionacc@clear.net.nz by the end of March 2011.
- 9) The REIWG Action Plan also includes a range of **Initiatives in Progress** where work will be ongoing, including the Single Window; paperless trading; AEO scheme, labour mobility/skills mapping, investment liberalization and facilitation, transparency and anti-corruption, intellectual property standards, transportation safety standards and the ABAC Business Travel Card (many business people around the region have experienced problems with applying for or updating their ABTC, these problems are being discussed with APEC).

Encouraging Small Medium and Micro Enterprises and Entrepreneurship

- 10) The SMMEEWG is a new working group, with New Zealand's Maxine Simmons as one of the co-chairs. It will have three key focus areas this year:
- a) Creating an environment that facilitates the creation, growth and sustainability of SMMEs, for example by identifying the top barriers and solutions to SMME cross-border trade.
 - b) Facilitating economic inclusion with a particular focus on women (e.g. the ABAC Women's Forum to support women's entry/success in business) and youth via the APEC Young Entrepreneurs Summit to be held in Malaysia in September/October 2011.
 - c) Building the capacity for SMME success by capitalizing on SMME Summits in Lima, China and Honolulu in 2011, promoting ABAC's Innovative Growth Initiative (by undertaking research into the key areas of innovative idea generation and commercialization) and promoting business ethics across the region.

Encouraging the region's financial and economic health

- 11) The Finance and Economic Working Group (FEWG) agreed on four key priorities, and also agreed to develop an integrated action plan in concert with ABAC's Advisory Group on APEC Financial System Capacity Building.
- a) Promote financial policy cooperation and convergence within the APEC region by two key means. The first is to promote the adoption of IFRS Accounting Standards. Since the Guangzhou meeting ABAC has written to the International Accounting Standards Board and the Financial Accounting Standards Board to express concerns about IFRS implementation. In ABAC's view IFRS should be undertaken in ways that minimize impacts on real economic activities and in particular avoids impacting on financing for SME activities. The second is to monitor G20 developments in the context of regional economic integration.
 - Aligned with the goal of improving regional financial cooperation and convergence, ABAC New Zealand proposed that ABAC should further consider the case for promoting the creation of an APEC reserve/trading currency ("APECCU") based on a basket of the 21 APEC currencies. APECCU would not replace domestic currencies. Part of the rationale for such a concept is the growing serious impact of exchange rate volatility on trade, and the growing tensions within the region on currency issues. The FEWG agreed to put this idea on hold but review it again as necessary depending on G20 policy developments on macro currency issues.
 - b) Enhance capacity building within financial markets – FEWG will develop recommendations on implementing Public Private Partnership financing principles across APEC. At the meeting ABAC approved a note to the Chair of the APEC Senior Finance Officials meeting

regarding the 2011 APEC Financial Inclusion Forum. ABAC's particular focus will be to ensure a focus on consumer and micro/small enterprise lending; grassroots savings mobilization, and remittances and cross border microfinance.

- c) Enhance efficiency and effectiveness of APEC financial systems by identifying regulatory and structural reforms, and promoting greater policy convergence and integration (e.g. capital markets, Basel III).
- d) Promote practical solutions to inclusive and sustainable growth, such as identifying policy reforms to foster green growth, supporting adoption of financial inclusion practices, capacity building and sharing of best practices in relation to SMME and Islamic Finance. FEWG will also examine start up and venture capital frameworks to develop a position on how APEC economies can effectively utilize non-traditional funding sources to encourage growth in emerging, knowledge-based sectors.

Towards Sustainable Growth

- 12) The Sustainable Growth Working Group will have four key focus areas this year: food security, water security, energy security and environmental goods & services.
 - a) The overall goal on **Food Security** will be to set guidelines for the balanced and efficient use of food sources for consumption (human, animal and energy sectors) and to identify ways to increase the food supply. This work will be complemented by the Regional Economic Integration Working Group's focus on identifying and removing chokepoints in the food supply chain.
 - This year ABAC will put renewed emphasis on achieving a **High Level Food Security Dialogue** with APEC. To date APEC has agreed to a Friends of the Chair process in relation to food security but, under ABAC USA's chairmanship, there is renewed determination to press for a greater degree of consultation between government and business on food security. ABAC New Zealand will strongly support this effort. There will be a major high level meeting on food security, to be held in conjunction with the second round of APEC Senior Official meetings in Montana USA in May 2011, which will likely be the platform for convening a formal Dialogue. Interested New Zealand businesses or industry bodies could consider attending this meeting.
 - b) SGWG aims to produce a new framework document on **energy security**, which will include policies to encourage greater investment in renewable energy and the deployment of low carbon energy sources in the region, as well as recommending collaboration on standard setting for energy efficiency.
 - c) **Water security** is a new area of interest for ABAC. The focus will be on promoting best practices in good governance and provision of sustainable water solutions in changing urban

environments; undertaking capacity building of human resources for water management and technologies, and developing a water security action plan for urban water management industrial water usage and low cost solutions for targeted areas.

- d) Following on from the 2010 Marshall School report on **environmental goods and services** (EGS), SGWG will seek to identify ways to remove barriers to labeling, financing and promoting the use of EGS technologies.

Action Planning and Advocacy Working Group (APAWG)

- 13) This is a new working group set up to focus on identifying and enhancing linkages with APEC, and to develop a 2011 Action & Advocacy Plan to track the progress of ABAC's recommendations and monitor their effectiveness. The APAWG's Action and Advocacy Plan will support the other working groups in achieving their key priorities. APAWG's Lead Staffer will attend the APEC SOM I meetings in Washington DC in March 2011 to ensure ABAC views are registered in those policy areas relevant to ABAC's key priorities and to learn more clearly how ABAC influence can be brought to bear as APEC officials develop policy.

Conclusion

- 14) The ABAC I meeting in Guangzhou got ABAC off to a good start with key priorities and deliverables identified for the year. The next ABAC meeting will be held in Seoul in late April 2011. In addition to progressing the work plans and key deliverables of each Working Group, a key focus of that meeting will be to approve the text of letters to APEC Ministers Responsible for Trade and Ministers Responsible for SMEs.

For further information

- 15) Please contact Fiona Cooper Clarke on DDI (09)4730877, cell phone 021934466 or email fionacc@clear.net.nz. Further information including ABAC's final report and press statements from the Guangzhou meeting will be available at www.nzibf.co.nz and www.abaconline.org