



ABAC NEW ZEALAND REPORT TO NEW ZEALAND BUSINESS

FOURTH ABAC MEETING FOR 2011 and ANNUAL DIALOGUE WITH APEC ECONOMIC LEADERS HONOLULU, USA, 8-13 NOVEMBER 2011

Summary

1. The APEC Business Advisory Council (ABAC) meeting in Honolulu was an opportunity to advance the cause of regional economic integration with a milestone announcement on the Trans Pacific Partnership (TPP) negotiations. It was also an opportunity to call for fresh approaches to move the multilateral trade negotiating agenda forward. Against the backdrop of the euro-zone crisis, and following an inconclusive G20 meeting, the focus was on how to promote and enhance Asia Pacific economic growth and employment. ABAC also called for measures to assist small and medium enterprises (SMEs) and sustainable growth supported by food security, water security, energy security and the easing of trade restrictions on environmental goods and services.

Introduction

2. The fourth and final ABAC meeting for 2011 was held in Honolulu during the annual APEC Leaders' Week at which the Leaders of APEC's 21 member economies, including Deputy Prime Minister Bill English, gathered for their annual Summit. This meeting was also the occasion for ABAC's annual Dialogue with Leaders. During the APEC Leaders' Week Japan announced its desire to re-launch consultations on joining the TPP¹ talks. This was followed by similar announcements from Mexico and Canada.

ABAC Meeting

3. The Honolulu ABAC meeting was attended by New Zealand members Tony Nowell, Gary Judd, Stephen Jacobi (Alternate Member) 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 promoting TPP, encouraging better supply chain connectivity,

¹ The TPP is a free trade agreement linking Brunei, Chile, Singapore and New Zealand which entered into force on 1 January 2006. In September 2008 the USA announced it wished to join TPP. In November 2008 Australia and Peru announced they would join and soon after Viet Nam sought observer status for the early rounds of negotiations. In late 2009 the USA confirmed it would join the negotiations. In late 2010 Malaysia was confirmed as the ninth member and Viet Nam announced it would become a full member, taking total membership to 9 countries.

enhancing regional security through a new public sector / private sector APEC Policy Partnership on Food Security, supporting a new initiative on regional financial architecture and advancing the trade interests of SMMEs, including in relation to trade finance.

APEC Summit Week

4. Eight New Zealand business leaders joined the ABAC team at other events during the APEC Leaders' Week including the APEC CEO Summit, the theme of which was "The Future. Redefined". The APEC CEO Summit offers valuable opportunities for networking and debate on a range of key global and regional issues. Key themes this year included globalization; seeking stability in an uncertain world; global value chains; the 21st century workforce; investment opportunities; cities of the future; commodity security for economic growth; redefining health as an economic asset and competitive advantage; building an innovation eco-system; the internet as a force for social change and other game changing technologies. There were also conversations with numerous APEC Leaders including the Presidents of the USA, Russia, Chile, Mexico, Malaysia, Indonesia, the Philippines and China as well as the Prime Ministers of Australia, Singapore and the Deputy Prime Minister of New Zealand.
5. Other elements of the NZ CEO programme in Honolulu included a TPP business seminar supported by the NZ US Council, a TPP seminar with Trade Ministers, a food security seminar addressed by NZ Trade Minister Tim Groser and Fonterra Director Malcolm Bailey, and meetings with Deputy Prime Minister Bill English, Minister Tim Groser and senior New Zealand officials. The NZ CEO Summit participants also met with four New Zealand students and young leaders who took part in the APEC Voices of the Future programme, which is an annual part the CEO Summit process (for more information visit www.voicesofthefuture.org.nz).

Challenging financial market outlook

6. The Honolulu meetings took place amidst concerns about the euro zone debt crisis and volatility in global financial markets. ABAC noted that policy measures taken to date had not restored investor confidence that Greece and Italy would avoid default, or restored confidence in the long term viability of the single European currency. The inability to resolve the EU's debt crisis had encouraged renewed flows of capital into perceived safe havens, in particular US, German and Japanese Government securities and the Japanese yen. Uncertainty about global financial risk had put renewed pressure on bank funding costs and elevated the perceived risk of Europe falling into another recession. This represented a significant risk to APEC growth prospects given the importance of the EU market.
7. Ongoing concerns about the outlook for global growth had resulted in further declines in commodity prices. Industrial commodity prices were now at their lowest levels since mid 2009 although the decline in food commodity prices had been less marked. The Japanese economy continued to recover from the earthquake and tsunami but had not returned to pre-earthquake levels. Deflation continued and would be intensified by the strength of the yen which would make Japanese exports less competitive. Initial estimates suggested the US

economy grew at an annualized rate of 2.5% in the third quarter of 2011, the fastest in a year. In China, fears of a hard landing appeared to have been exaggerated although it was slowing from an unsustainably rapid pace in 2010. Over the year up to the third quarter China's real GDP grew by 9.2%, down from a peak of 11.2% in the first quarter of 2010.

Promoting TPP as a pathway to FTAAP

8. TPP dominated much of the discussion in Honolulu, indicating the significant business interest in the negotiation and the positive momentum now developing. President Obama was particularly strong on the more positive environment for trade in the United States and the role TPP could play in creating new and better jobs. During the week there was a focus on identifying and discussing business perspectives through the TPP seminar organized by the US APEC Business Coalition and addressed by Stephen Jacobi, and a press release by seven out of nine business organizations from TPP economies including the NZ US Council.
9. The broad outlines of TPP announced on 12 November 2011 largely reflected these perspectives and went further than expected in terms of the stated commitment to comprehensiveness and ambition, making it clear for example that the parties are working towards elimination of tariffs on agriculture in a single market access schedule with no product exemptions. The broad outlines provide a clear indication of the hurdle that new aspirants Japan, Mexico and Canada will need to cross. While the Japanese decision had looked possible, if uncertain, for much of the week, the announcements by Mexico and Canada were unexpected. It remains unclear how quickly these three can be brought into the negotiations, the next round of which will be resume in December 2011.

ABAC Dialogue with Leaders

10. One of the key deliverables for the Honolulu ABAC meeting was the annual Dialogue with Leaders. During this year's Dialogue, four concurrent groups comprising 5-6 Leaders and around 15 ABAC members spent an hour together discussing issues of importance to ABAC. Tony Nowell's group met with the Presidents of China, Chile, the Philippines and Viet Nam and the Deputy Prime Minister of Thailand. Gary Judd's group met with NZ Deputy Prime Minister Bill English and the leaders of Brunei Darussalam, Mexico, Russia and Chinese Taipei. Stephen Jacobi's group with the Leaders of Australia, Korea, Malaysia, Papua New Guinea and Peru. US President Obama spent 15 minutes with each group.
11. Issues raised with Leaders during the discussions included regional economic integration, particularly TPP as a pathway to a Free Trade Area of the Asia Pacific (FTAAP); issues related to small, medium and micro-enterprises (SMMEs), and sustainability issues such as food security, energy security and environmental goods and services. In response to a question about services trade, New Zealand's Deputy Prime Minister expressed support for the work that APEC is doing on services. He noted that even in high quality FTAs, services were sometimes not dealt with. He highlighted the importance of opening services to competition. He shared the experience that New Zealand had with Australia in promoting an open and integrated services market. He also drew attention to the successful arrangement between New Zealand and the Pacific Island countries on regulated labor mobility. ABAC's

further recommendations to Leaders are outlined in its 2011 annual report *“Employing People and Ideas for Sustained Growth in Asia Pacific”*.²

Regional Economic Integration

12. The **Regional Economic Integration Working Group (REIWG)**, chaired by Tony Nowell, addresses ABAC’s trade and investment liberalization and facilitation agenda. The REIWG meeting received a report on services trade entitled “Understanding Services at the Heart of a Competitive Economy”, which will be a key priority for further work in 2012, and reviewed the outcomes of a research project carried out by the Marshall Business School of the University of Southern California, on the identification and valuation of key chokepoints in regional supply chains. The lack of progress in the WTO Doha Round and the need for fresh thinking in Geneva, and the outlook for the various pathway negotiations towards FTAAP were also discussed. Other key priorities in 2012 will include trade and investment liberalisation (WTO, FTAAP and regulatory coherence) and enhancing supply chain connectivity, picking up themes from the Marshall School project.

Promoting sustainability

13. ABAC’s **Sustainable Development Working Group (SDWG)** prepared for the first meeting of the Policy Partnership on Food Security (PPFS), between the private sector and APEC, which will take place in Moscow in February 2012. ABAC agreed to nominate Ning Gaoning of ABAC China and Chairman of COFCO, to be the Vice Chair of the PPFS and to put forward the names of other suitable private sector representatives to sit on the PPFS. The meeting also noted the key points from the Transport and Energy Ministerial meetings in September 2011 and received a report on ABAC’s updated Energy Security Framework. The theme of water security, including a draft Water Security Roadmap, will be picked up by the new Infrastructure Development Working Group in 2012.

Addressing the economic crisis

14. The **Finance and Economics Working Group (FEWG)** received updates on the G20 meeting in Cannes in early November and the related Business 20 (B20) meeting, where many of the discussions were also relevant for ABAC, such as the euro-zone crisis, exchange rate flexibility and Basel III. Gary Judd of ABAC New Zealand provided an update on the outcome of Basel III and in particular the impact on Trade Finance for SMME’s, on which it was agreed ABAC should continue to provide advocacy. The FEWG agreed to collaborate with APEC’s Economic Committee to organize a roundtable discussion in early 2012 regarding financial reporting issues. The meeting also prepared key messages for discussion later in the week with APEC Finance Ministers.
15. Key priorities for FEWG in 2012 will include stability of financial systems (regulatory coherence); regional development and SMME financing capabilities. FEWG will also work

² See <https://www.abaconline.org/v4/download.php?ContentID=22610109>

with the Advisory Group on Financial System Capacity Building on an initiative around APEC financial architecture. The goal is to enhance and develop APEC economies' financial systems through capacity building of institutions, financial products, policy and regulations to meet the needs of consumers and government policy makers. It is hoped that through capacity building, sharing of information and regulatory coherence APEC economies can collectively achieve more coordinated and harmonized financial systems.

Infrastructure Finance

16. During the week the Advisory Group and the World Bank, in cooperation with US Treasury, jointly convened a meeting on Promoting Private Financing for Infrastructure in APEC. This was attended by officials, including from NZ Treasury, and business representatives including NZ delegate Errol Clark. Gary Judd attended as Advisory Group co-chair. The meeting discussed "APEC's Work in Promoting Infrastructure Finance: Review of 2011 Outcomes and Prospects for 2012", as well as "Defining the Private Sector's Role in Infrastructure Finance, What can APEC Do to Help?" Discussion was particularly focused on PPPs and the Asia Pacific Infrastructure Partnership (APIP) which comprises a pool of persons from the private sector who are actively involved with infrastructure projects as investors, advisers, contractors, etc. In dialogues, convened and facilitated by the Advisory Group, members of the pool join with high level officials from a member economy to explore and seek to devise solutions for the specific needs and priorities of that economy. The first of these dialogues took place with Peru and Mexico on the fringes of ABAC's August meeting in Lima. The second dialogue took place in Manila on 5 October. The meeting agreed this initiative was valuable and should be pursued.

Enabling SMME innovation

17. The **Small, Medium and Micro Enterprise and Entrepreneurship Working Group (SMMEEWG)** agreed with a proposal by ABAC New Zealand to develop guidelines for future ABAC surveys. The meeting also considered obstacles to the commercialization of ideas for SMMEs, exposing a need to identify key conditions and policies to foster innovative growth such as capacity building, funding and promotion activities. The meeting agreed on a research programme in 2012 to generate recommendations on how large enterprises and SMEs can work together. A discussion with invited SME representatives about key trade issues facing SMEs identified access to markets, challenges around securing IPR protection, capability to internationalize, fostering young entrepreneurship and challenges around utilizing free trade agreements.

ABAC's forward agenda

18. The Russian Federation takes the Chair of ABAC for 2012 with the theme of "Aspirations to Reality". Russia has proposed some minor amendments to the existing ABAC Working Group structure and the addition of a new Working Group on Infrastructure Development to address issues related to transportation, logistics systems and supply chains. Tony Nowell retains the role of Chair of the Regional Economic Integration Working Group. Maxine Simmons will continue to serve as a Co-Chair of the Small Medium and Micro Enterprises

and Entrepreneurship Working Group. Gary Judd continues as Co-Chair of the APEC Advisory Group on Financial System Capacity Building. ABAC will also look to continue its expanded outreach activities towards APEC, with participation in Senior Officials Meetings (SOMs) and Ministerial Meetings where possible in 2012.

Conclusion

19. The Honolulu meetings were notable for the positive announcements on TPP and provided an opportunity for numerous meetings and discussions relevant to New Zealand's broader strategy in the Asia Pacific region. New Zealand business was well represented in Honolulu demonstrating our close interest in these developments. ABAC New Zealand wrapped up its key deliverables for 2011 and set in train preparations for ABAC's first meeting for 2012, which will be held in Hong Kong in February.

For further information

20. Please contact Fiona Cooper Clarke on 021 93 4466 or 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. Copies of all reports and studies mentioned in this report are available on request.

ABAC New Zealand
December 2011