



ABAC NEW ZEALAND REPORT TO NEW ZEALAND BUSINESS

THIRD MEETING FOR 2011

LIMA, PERU, 21-24 AUGUST 2011

Summary

The Lima ABAC meeting:

- **Finalized the annual Report to APEC Economic Leaders (AEL) detailing ABAC's views and recommendations on regional economic integration, sustainable growth, SMEs and financial and economic issues. Good progress was made on preparing the letter to AEL which will accompany the Report.**
- **Agreed to work on proposals for improving regional financial architecture/regional financial systems with the aim of promoting regional integration of financial markets as part of wider regional economic integration and regional growth.**
- **Approved a letter to regional Energy and Transportation Ministers in advance of their meeting in San Francisco in September.**
- **Developed key themes for discussion with APEC Economic Leaders at the Dialogue Meeting in Honolulu on 13 November.**
- **Made considerable progress in determining the key messages for ABAC's engagement with APEC at the SOM3 meeting in San Francisco in September.**
- **Further developed ABAC's thinking on key issues of interest to New Zealand including next generation trade and investment issues for inclusion in future FTAs, supply chain issues, regulatory coherence, food security, regional financial architecture and barriers to SME trade and investment.**

Introduction

1. **The third ABAC meeting for 2011, held in Lima, was opened by Peruvian President H. E. Ollanta Humala, who also hosted a reception. The meeting was attended by all New Zealand ABAC members - Gary Judd, Tony Nowell and Maxine Simmons as well as by Senior Policy Advisor Fiona Cooper Clarke. The team's objectives for the meeting included bringing to fruition the key elements of the 2011 work programme of the**

Regional Economic Integration Working Group (REIWG) chaired by New Zealand; ensuring strong references in the letter to Leaders to the proposed Free Trade Area of the Asia Pacific (FTAAP), and making preparations for meetings with APEC senior officials and Ministers in San Francisco in September.

2. One of the main items of business was to finalize ABAC's annual letter and report to AEL. The letter reflects ABAC's key messages in four key priority areas of interest.
 - a. Strong business support for the goal of regional economic integration, the best expression of which will be a Free Trade Area of the Asia Pacific. All future FTAs in the region should address a range of next generation issues to keep pace with the increasing complexity of regional and global business models. APEC is already working on three such issues: SMEs, supply chains and innovation. ABAC advocates more work on competition policy, investment, services, government procurement and shortages of skilled personnel. Moreover ABAC advocates the adoption of an integrated supply chain and value chain framework for goods, services and investment to help build understanding of the complex and integrated nature of global and regional supply chains and to help pinpoint the costly chokepoints that can arise.
 - b. SMEs are important engines of economic growth and prosperity in the region, and one of the most pressing problems they face is the lack of access to financing.
 - c. ABAC places a high priority on sustainable growth and has identified impediments to trade and investment in environmental goods and services as a particular barrier to green growth. ABAC also welcomed the formation of the APEC Policy Partnership for Food Security which will bring together governments and the private sector to collaborate on food security policy.
 - d. Regional integration of financial markets and the efficiencies it brings is seen by ABAC as integral for enhanced financial support of economic growth across the APEC region. ABAC will work on a proposal for improving the regional financial system.
3. ABAC Japan noted that the APEC region accounts for 70 per cent of the world's natural disasters. ABAC Japan stressed the importance of all APEC economies improving their levels of emergency preparedness and business continuity planning, so that they can keep supply chains and business critical infrastructure open when disasters occur. This issue will be reflected in the letter to APEC Economic Leaders.

Assessing the economic outlook for APEC economies

4. The weeks leading up to the ABAC meeting saw some of the most volatile trading conditions since the Lehman Brothers collapse in September 2008. The immediate causes of this latest bout of financial market instability appeared to be renewed concerns

about the ability of Italy and Spain to service their debts and the downgrading by Standard & Poors of the US Government's sovereign credit rating. The underlying cause was heightened concern that the USA and Europe may be slipping back into recession. However another global financial crisis is not in prospect and there is a relatively low probability of another global recession given the strong momentum among emerging and developing economies. Lower global growth expectations have led to some reduction in commodity prices, which could be helpful to reducing inflationary pressures in some areas.

Freeing up trade and investment

5. The **Regional Economic Integration Working Group (REIWG)** made several important decisions and continued its discussion of key trade liberalisation themes. The meeting discussed the dismal outlook for the Doha negotiations and urged WTO Members of APEC to provide leadership at the 8th WTO Ministerial Conference in December 2011 in developing a credible way ahead for the Doha Round.
6. The meeting also reviewed progress in the identified pathways to the proposed Free Trade Area of the Asia Pacific (FTAAP) including the Trans Pacific Partnership (TPP), Comprehensive Economic Partnership in East Asia (CEPEA) and East Asia Free Trade Area (EAFTA). Recent developments in these negotiations were noted, including the 7th **TPP** negotiating round in Vietnam in June. (In the margins of the meeting, New Zealand hosted a meeting of staffers from TPP and interested non-TPP economies to discuss a possible joint press statement at the 8th TPP negotiating round in Chicago and a possible joint event during the Hawaii Summit week). Also of interest was the decision of Japan and China, at the ASEAN Economic Ministers meeting in August, to combine their proposals on speeding up the establishment of an **EAFTA and CEPEA**. The joint proposal suggests the establishment of three new Working Groups on Trade in Goods, Trade in Services and Investment.
7. The main outcomes of the REIWG meeting were as follows:
 - a. Finalized and endorsed a conceptual framework for an integrated supply chain and value chain approach to regional economic integration
 - b. Endorsed an APEC Single Window Cloud Pathfinder Initiative, to further strengthen supply chain connectivity in the region
 - c. Endorsed a consistent and business friendly approach to regulatory coherence, informed by two interesting case studies from the New Zealand dairy industry (thanks to the Dairy Companies Association of New Zealand) and the Japan electronics sector
 - d. Finalized a letter to APEC's Investment Experts Group conveying ABAC's agreed position in relation to amendments to the non binding investment principles

- e. Endorsed the development of a Unified Voluntary Risks Code Initiative in the APEC Port sector
- f. Approved recommendations on a range of `next generation` issues for inclusion in the Letter and Report to Leaders:
 - Competition policy
 - Investment policy, as well as tax and social security policies.
 - Labour skills mapping to address shortages of skilled personnel
 - Innovation policy
 - Services trade and investment
 - Government procurement.

Promoting sustainable growth

8. The ABAC's **Sustainable Growth Working Group (SGWG)** meeting confirmed recommendations to go into the Report to Leaders on food security, energy security, water security and environmental goods and services. The meeting also agreed on the proposed Terms of Reference for the APEC Policy Partnership on Food Security; endorsed an updated Energy Security Framework, and approved a letter to APEC Energy and Transport Ministers. ABAC Russia provided updates on an eco-cities project and a proposed Technology Transfer Fund, with more work to be done to develop the latter proposal for discussion in Honolulu.
9. There will be a strong focus on energy and transport at the San Francisco SOM3 including a first ever joint Energy-Transport Ministerial meeting and a separate Transport Ministerial. There will also be major meetings on energy emissions, port services, fossil fuel subsidies and multilateral Air Cargo liberalisation.

Promoting SME capability

10. ABAC's **Small, Medium-Sized and Micro Enterprises and Entrepreneurship working group (SMMEEWG)** confirmed its input to the Report to Leaders. In addition the meeting considered the obstacles to the commercialization of SMME ideas, based on a recent ABAC survey, which pointed to a need to identify the key conditions and policies to foster innovative growth. The meeting also agreed it would be useful to undertake research to look at collaboration between large enterprises and SMMEs, with a particular focus on SMMEs as contributors to supply chains for larger enterprises. Other points of interest were that an expert working group is getting underway to develop a code of conduct for the construction industry, and planning is underway for an APEC Young Entrepreneurs' Summit in Malaysia from 18-20 October.
11. Maxine Simmons from ABAC New Zealand pointed out there had been a recent proliferation of ABAC surveys and suggested it would be useful to have a mechanism or work plan around surveys to ensure all surveys meet their objectives and add value. We will follow this up prior to ABAC IV in Hawaii.

Ensuring the health of the region's economy

12. The difficult global economic climate created a challenging backdrop to the discussions at ABAC's **Finance and Economics Working Group (FEWG)**. Considerable attention was paid to the volatile and uncertain economic outlook, characterized by strains on financial markets caused by the lack of progress in global rebalancing, high levels of debt and low growth. This situation had created disincentives to private sector investment and risked renewing protectionist pressures. There was much debate as to how to characterize these difficulties and while final agreement was not possible during the meeting, these issues will be reflected in both the Letter to APEC Economic Leaders and the Letter to Finance Ministers. The letter to Finance Ministers, which will be sent with an accompanying report in advance of the Finance Ministerial in Hawaii in November, will offer recommendations geared towards achieving economic growth that is balanced, inclusive, sustainable, innovative and secure, and strengthening APEC's economic and financial frameworks to mitigate the impact of unforeseen shocks.
13. The meeting discussed recent volatile patterns of cross-border capital flows; the possible desirability of establishing an Asia-focused credit rating system, and SMME financing solutions. It was agreed that these themes should form part of the work on regional financial architecture to be undertaken by the ABAC Advisory Group on APEC Financial System Capacity Building. FEWG also discussed the implications of an International Accounting Standards Board proposal for a new accounting standard for insurance contracts and agreed to write to the IASB to express ABAC's concerns.

Talking up infrastructure investment

14. The issue of public private partnerships was also explored in detail at the ABAC meeting. In 2010 ABAC's Advisory Group on APEC Financial System Capacity-Building, of which Gary Judd is a co-chair, started developing the Asia-Pacific Infrastructure Partnership (APIP). APIP comprises a pool of persons from the private sector who are actively involved with infrastructure projects as investors, advisers, contractors etc. Fletcher Building's CEO Jonathan Ling has agreed to join the pool. In dialogues, convened and facilitated by the Advisory Group, some 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.
15. The first of these dialogues took place with Peru and Mexico during the Lima ABAC meeting. Both Peru and Mexico are already making significant use of PPPs (far more than New Zealand) and they wish to extend utilization into other less usual sectors such as education and health. In view of rising demands for infrastructure investment and the additional demands for capital arising from the Christchurch earthquakes, New Zealand may derive benefit from taking part in an APIP dialogue.

Advocating ABAC priorities

16. ABAC's **Action Plan and Advocacy Working Group (APAWG)** reviewed the progress made on ABAC priorities at the second SOM meeting at Big Sky in May and commenced planning for promoting ABAC messages at SOM3 in San Francisco in September. This will be attended by some ABAC Members including Maxine Simmons, who has been invited to attend the Women in the Economy Summit and the Innovation Trade and Technology Conference. Also of interest was APEC's work on a new process for monitoring and measuring progress towards the Bogor Goals 2020. This is a positive development that follows on from ABAC's recommendation last year that APEC should adopt a set of metrics to measure progress towards regional economic integration.

Conclusion

17. The Lima meeting was a critical opportunity to bring together the strands of ABAC's 2011 work programme and tie them into a package for APEC Economic Leaders to consider. The next ABAC meeting will be held in Honolulu, Hawaii, 7-10 November just prior to the APEC CEO Summit and ABAC Dialogue with APEC Economic Leaders.

For further information

18. Please contact Fiona Cooper Clarke on 021 93 44 66 or fionacc@clear.net.nz . Copies of ABAC letters and reports will be posted in due course along with other information at www.nzibf.co.nz.