

**ADDRESS TO APEC VOICES OF THE FUTURE CONFERENCE
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“CRISIS AND OPPORTUNITY – APEC’S RELEVANCE TO NEW ZEALAND”

In a time of economic crisis and uncertainty APEC remains of fundamental importance to New Zealand, but it remains caught between competing visions for integration in the region and has successfully put to one side all the major decisions facing it in the last ten years. In an address to New Zealand’s business leaders of the future, Stephen Jacobi argues that, to realise its full potential, APEC needs to walk the talk in resisting protectionism, play its part in encouraging the completion of the WTO’s Doha negotiations, accelerate its work in facilitating trade and investment in the region and send an unequivocal signal that it is serious about creating and securing a single economic space in the form of Free Trade Area of the Asia Pacific (FTAAP).

It’s great to be with you this evening and I want to extend my congratulations to David Ward and the VTM Trust for bringing you together and for arranging such a stimulating programme.

I know you’ve spent most of the week talking about APEC and you now know more than you ever wanted to know about APEC’s mission and structure and the themes of this year’s Summit which some of you will be fortunate to attend.

Tonight I want to talk about what all this means for us living today in a small but proud country at the bottom of the South Pacific which like most of the rest of the world is enduring some harsh economic times right now.

I want to talk about crisis but also about opportunity and how APEC has an important part to play in securing this country’s economic future.

Before I begin I want to share a story about Einstein.

Einstein died and went to heaven and was met at the entrance at the Pearly Gates by Saint Peter.

“Bad news, Einstein, we are overbooked and you will have to share a cloud.

The good news is you can choose who to share with and we have plenty of interested candidates”.

So the first guy comes up and says: “Einstein, I’d like to share your cloud. I have a PhD in Physics and I want to discuss your theories of relativity”.

“Oh no, said Einstein to himself, I thought I might be able to get away from this up here”.

The next guy says “I have a PhD in philosophy and I want to discuss the meaning of life”

“Help !” said Einstein.

The third guy says “I have no PhD and know nothing about your life and work but I need a cloud to share”

“Great, says Einstein, now you can tell me what is going to happen with the economy ?!”

Now I realise that this is not a very funny joke but it illustrates two things.

The state of the global economy is no laughing matter.

And anyone’s ideas about what might happen next are as good as the experts.

The crisis and its fall out

It’s hard to get away from the sense of economic doom and gloom that pervades the world today.

Whether in New York, Tokyo, Auckland, Singapore or Shanghai, there are many reminders of just how low the markets have sunk especially in the last six months.

There are signs of so-called “green shoots” appearing – this week’s growth figures from Singapore or the quarterly profit announcement by Goldman Sachs are cases in point.

I suppose it is something to be welcomed that American investment bankers are paying themselves big bonuses again !

It is clear that the United States and Europe have been harder hit than Asia but even in Asia the drop in export volumes and economic output have been significant.

China and India are still growing at rates of over 6 percent but that is well below what they have recorded in recent years.

The World Trade Organisation forecasts world trade to decline 10 percent this year – 7 percent for developing countries and 14 percent for developed countries.

Here in New Zealand we have not been immune to the fall out even if our banking sector was not immediately affected by shonky lending.

At first as our high exchange rate began to decline we looked like holding up quite well but reality began to bite as our markets contracted and our exchange rate rose again.

What this crisis has shown us, if we needed any reminding, is that this country's fortunes are made and lost in overseas markets.

No amount of investment in infrastructure development or cycle tracks – however welcome and sensible these measures might be – can alter the simple economic equation that trade is New Zealand's lifeblood.

It is the revenue from exports and offshore investment that comes back here and pulses through the veins of our domestic economy.

Those who have rarefied notions of domestic self sufficiency as a remedy for our economic problems should think again: we cannot eat all the food we produce and we cannot make all the manufactured products we use.

This economic crisis has underscored the fundamental integration of the global economy so that what happens in Wall Street affects not just Main Street but also Queen Street and Lambton Quay as well.

The downside of a global economy that is not working well can be seen in the numbers of New Zealanders who are now unemployed – three times as many as this time last year – and in the social consequences across this country and, I venture to say, only too evident not too far from this great school.

As we now know the economic crisis was the product of a toxic mix of poor lending decisions, lack of proper prudential oversight, political machinations and corporate greed.

At its heart however is a crisis of confidence and a lack of faith in the financial system and associated commercial dealings.

That same lack of confidence extends to many of the institutions that we once looked to for promoting growth and development.

Public confidence was already waning in the United Nations, the World Bank, the International Monetary Fund and the World Trade Organisation long before some Wall Street geek dreamed up sub prime mortgages.

The problem was that when global crisis struck the world was ill-prepared to respond.

Let me give you a concrete example.

For the last eight years we have been trying to complete the World Trade Organisation's Doha round.

Doha was supposed to grow world trade by improving trade rules and reducing barriers and in the process addressing the development needs of the world's poorest countries.

Doha was conceived in the aftermath of 911 – I was at the meeting in Doha, Qatar which launched the negotiations and I can tell you it was a sobering experience to be in a country perilously close to Afghanistan at that time still ruled by the Taleban.

I was in Cancun, Mexico, three years later when, in an improving economic environment, the negotiations all but failed as new divisions opened up between developed and developing countries.

The result today – Doha is unfinished, trade is declining at a rate unseen since World War II, protectionism is on the rise and many of the advances made in addressing health and welfare in developing countries risk being set back.

For New Zealand the consequence of not finishing Doha is that the EU and the United States have resumed export subsidies for dairy products.

Doha would have put new limits on export subsidies and made these practices illegal by 2013.

These measures have the effect of causing great harm to our economy by reducing global dairy prices and wrecking markets we have worked hard to establish: given that dairy products account for 30 percent of New Zealand's exports, export subsidies risk setting back our economic recovery.

Only a successful outcome to Doha can deal comprehensively with the problem of subsidies.

If the situation is to be recovered, and trade is once again to be the engine of growth not just for New Zealand but for the whole world, we must finish Doha and soon.

Finishing Doha would not just provide a much needed stimulus to the global economy, it would address also the threat of rising protectionism.

During the Great Depression of the 1930s it is a fact of history that things were made a lot worse by countries raising new barriers to trade in the form of tariffs and other measures which favoured local suppliers over imported competition.

This much we know but it is astonishing that for a while it looked like history would repeat itself.

I am relieved to say that while certain countries have adopted restrictive and measures we have by and large prevented a wholesale descent into protectionism.

The WTO, World Bank and other international organisations have played a useful role in reminding political leaders of their responsibilities and commitments.

As a result various statements by world leaders in the G20 and APEC have led to an undertaking not to implement new trade barriers – at least not barriers that are considered illegal by the WTO.

Even so there has been some worrying slippage – tariff increases, export subsidies, domestic stimulus, Buy America – all of which are construed as legal under WTO rules but which nonetheless serve to restrict trade and impede the global recovery.

What we need is for world leaders to commit to the spirit as well as the letter of their commitment to hold to a standstill on protectionism.

If they can do that we might just see trade and investment and the global economy recover more quickly than expected.

Implications for APEC

What does all this mean for APEC ?

And what role can APEC play as a body devoted to economic policy co-ordination between the 21 economies of the Asia Pacific region?

I need hardly re-state APEC's fundamental importance to New Zealand - fourteen of our top 20 export markets are APEC members, including the three largest economies in the world - the United States, Japan and China.

I believe that APEC holds the promise of great opportunity for New Zealand but it is fair to say that today it too is beset by a crisis of confidence.

The problem, as American economist Fred Bergsten describes it¹, is that APEC is caught in a debate between “Asia Pacific” and “Pacific Asia”.

Is APEC primarily an organisation of the Asia Pacific that serves as architecture linking the economies of Asia and the economies of the western hemisphere, ie the United States, Canada, Mexico and the APEC’s Latin members Peru and Chile ?

Or is APEC fundamentally an organisation that leaves to Pacific Asia, that is to say the Asian members themselves, the task of building an economic community without directly including the other side of the Pacific.

Now these are deeply theological questions but they are highly relevant to the future effectiveness of APEC.

The trouble is that for the last ten years or so APEC has put to one side all the really hard decisions leaving APEC as a more of a talk shop – an important talk shop to be sure, but a talk shop nonetheless.

Here’s an example.

In 1994 APEC adopted as you know the Bogor Goals by which there would be free trade in the region by 2010 for developed countries and 2020 for developing countries.

At that time the goals were ambitious but achievable.

In case anyone hasn’t noticed it is 2010 next year and free trade hasn’t yet broke out between Australia, Canada, Japan, Korea, New Zealand, Singapore and the United States even if some have free trade agreements with each other.

Meantime the Bogor clock continues to tick !

In 2006 the United States proposed the establishment of the Free Trade Area of the Asia Pacific.

Again, an ambitious goal but there has been much talk there has been little concrete action taken to this end.

¹ See Bergsten’s address to the APEC Studies Consortium Conference, Singapore, 13 July 2009: http://www.iseas.edu.sg/apec/D1S0S3_Speech_Bergsten.pdf

Today APEC runs a real risk of being further marginalized as other organizations take up the challenge.

The G20 which by the way includes nine APEC members is emerging as the primary forum for global economic management.

Rather than an overarching FTAAP there are competing proposals for a pan Asian FTA in the form of an expanded ASEAN sometimes including New Zealand (very good idea !), sometimes not (very bad idea !).

For APEC to resume its importance it needs to seize the upper ground in this moment of economic crisis.

It must put to bed the old debate about Asia Pacific or Pacific Asia and look to its strengths as a body which:

- ∑ crosses the Pacific and links two great continents
- ∑ includes the world's economic giants in the United States, Japan, China and Russia
- ∑ has already adopted a high level political commitment to establishing free and open trade in the region
- ∑ has a 20 year history of economic co-operation behind it.

For APEC to meet this challenge a few things have to happen.

First APEC needs to walk the talk in resisting protectionism and pressuring others including the major non APEC economies especially the European Union, India and Brazil.

ABAC has some work underway to assist this effort by pointing out the business impact of protectionism.

Second, APEC needs to put its shoulder to the wheel in finishing Doha – partly that's about individual members like the United States and China showing flexibility in the negotiation.

Third, APEC needs to accelerate its work in promoting trade and investment in the region by reducing costs of doing business, making it easier to work across and behind borders in an APEC economic space and promoting innovation and economic development across its member economies.

And fourth, and whether Doha is finished or not, APEC needs to send an unequivocal signal that it is serious about creating and securing that single economic space in the form of FTAAP.

That's actually quite a big agenda and sometimes it is hard to know where to begin.

That is particularly the case with FTAAP – a concept whose time has definitely come but presents a challenge in that APEC has been built thus far on the principle – some say rather misguided – of voluntary and non-binding co-operative action.

We have actually a potential pathfinder to FTAAP in the Trans Pacific Partnership, a free trade agreement linking Brunei, Chile, Singapore and New Zealand and which Australia, Peru, the United States and Viet Nam are interested to join.

We are waiting for the Obama Administration to confirm this interest so the expanded negotiations can begin.

A US decision to join TPP would confirm the United States' interest to be part of the Asia Pacific and assist in putting to bed that old argument with Pacific Asia.

TPP is not FTAAP but it is a good place to start.

For New Zealand of course it would deliver the goal of an FTA with the United States which would put us on a level playing field with our competitors like Australia and Chile who already have FTAs.

That loss of confidence I talked about earlier sometimes extends to FTAs which are often equated with a loss of economic sovereignty.

In fact the opposite is the case: New Zealand needs an FTA with the United States, like we need FTAAP with the broader Asian region, to enhance our sovereignty and to expand our economic choices and remove the threat that protectionist measures might be applied to our exports.

Conclusion

Let me come back to where I started – up in the clouds with Einstein.

APEC can seem a rather ethereal concept but the reality is that it has a lot to do with how New Zealand can make its way in the world.

The 21 member economies of APEC are the space in which New Zealand plays – not the whole space to be sure, but an important part if not the most important part.

New Zealand lives by trade and by the value we derive from our key overseas markets.

We are living in troubled times.

They will not last and will not be the last we see.

If APEC can live up to its promise, can overcome some old debates and claim a leading role in setting the pace for economic integration and development, notably by moving forward with FTAAP, it can provide the means for its member economies, including New Zealand, to safeguard the future.

That is why I think APEC even in the current crisis remains relevant for New Zealand and represents a considerable economic and social opportunity.

That's why gatherings like this one, for New Zealand's leaders of the future are so important and why I look forward to seeing some of you again this coming November at the APEC CEO Summit in Singapore.