The Implications of the APEC Agenda

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As we will hear during this conference, the implications of the APEC agenda are not only its explicit agenda of trade and investment. However, it is the implications of the trade and, most particularly, the investment agenda that I want to focus on in this contribution.

We hear a lot about APEC's trade side. Think of the closed car assembly plants, and government plans to reduce tariffs on footwear, clothing and textiles, which will cost several thousand jobs.

But APEC is just as much about foreign investment. APEC has a set of "non-binding investment principles" which read like a prototype of the rejected Multilateral Agreement on Investment (the MAI), and if put into effect would have many similar consequences. They would prevent controls on speculative capital movements, stop us putting conditions on foreign investors or favouring our own social agencies, and give foreign investors the right to demand compensation if their profits or asset values were threatened by government action to improve the environment or threaten monopoly behaviour.

These are the mainstays of the APEC agenda: in its veiled jargon, APEC's purpose is "trade and investment liberalisation and facilitation". That is, the core of the APEC agenda is free trade and free movement of capital across the region and the world. When I talk now about the APEC agenda, I mean these policies in the widest sense – not simply as they are described by APEC, but also as they have long been recommended and enforced by sister bodies such as the WTO, the IMF, the World Bank, and the international banks and corporations that drive and benefit from them.

If you want to see the long term effects of free trade and free movement of capital, then a useful analogy is to look at the regions of our country. There is of course free trade and free movement of capital between, for example, the West Coast of the South Island, Auckland, and the rest of New Zealand. Has this led to uniform enrichment of all regions? No – Auckland has prospered, with a steadily increasing proportion of the country's population. Much of the country's services, industries – and employment – are concentrated here. At the other extreme, the West Coast has to contend with a constant loss of population – particularly the young and the skilled. It has to fight constantly to maintain its essential public services such as hospitals, rail, and ports. Though rich in natural resources, very little processing of those resources is done locally: most are "exported", either to the rest of the country or overseas. Most of the wealth created by those exports goes to owners outside the Coast; most of the social and environmental costs remain[1].

New Zealand is not unique in this. All countries have their prosperous and their depressed regions: their Londons and their Liverpools, their Californias and their Alabamas. What saves the depressed regions from absolute poverty is central government intervention to transfer resources – usually by use of taxation – from wealthy to poor.

So we see that unfettered free trade leads to growing inequalities between regions. If we go back to the international setting, and apply what we have learned from the national setting, we see that it is likely to lead to increasing inequalities between nations. In the countries that are falling behind, that will show up in increasing unemployment, falling incomes, the destruction of industry, and loss of population.

But hang on, will say the free-trade economists, you've forgotten some very important barriers to this happening.

First of all, countries have currencies, and regions don't. If the exchange rate is flexible, it will fall if the country isn't exporting enough, or is importing too much. Then

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[1] For example, Buller's mayor, Pat O'Dea, says that over 45% of his district's adult population are on benefits, and the district has one of the lowest per capita incomes in the country. Tranzrail, which earns over $30 million per year transporting Buller

exports will become competitive and imports uncompetitive, and things will right themselves.

Come on. You know that in practice, currencies don't work like that, except perhaps in the long run. The main short term effects on the currency are speculation and the huge, volatile, capital movements of investors. Capital movements overwhelm the effects of trade on currency values. Just two days of New Zealand's *daily* foreign exchange turnover is worth about our *annual* exports of goods and services[2].

Didn't a recent Treasury Working Paper on abandoning our own currency, state:

> "there is a growing consensus among economists that exchange rates are excessively volatile, and that there is little short term relationship between exchange rates and economic fundamentals even if exchange rates eventually reflect fundamental factors in the longer term."?[3]

Indeed, Treasury and a number of business groups are now investigating abandoning our currency.

In fact the APEC agenda deliberately encourages undermining of the currency by forcing the abandonment on any controls on capital movements. Increasingly, in recognition of this, some South American nations, under pressure from their creditors in the U.S. and the IMF, are also considering abandoning the currency in favour of the U.S. dollar. The APEC agenda has huge problems in this area. Many of the Asian nations worst affected in the financial crisis had fixed exchange rates. These were recommended by the IMF to attract foreign investors: it reduced the investors' risks. That having failed, the IMF is now instructing the countries to have floating exchange rates

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coal, employs only 12 full time staff there, and pays rates of only $12,600. "Buller seeks share of Lyttelton port profits", *Press*, 24 March 1999, p.4.

2 New Zealand's daily foreign exchange turnover averaged around $13.5 billion in a sample taken by the Reserve Bank in April 1998. Reserve Bank of New Zealand News Release, 30 September 1998, US$ converted to NZ$ at US$0.5531=NZ$1 (the mid-rate for April 1998).

3 Treasury Working Paper 99/6, "Economic Integration and Monetary Union", by Andrew Coleman, p. 24.

– but they will find the same problems as the Treasury paper described. Hence the move towards abandoning currencies all together: the ultimate fixed exchange rate. New Zealand had that until the 1930s – parity with the British pound – and abandoned it, because it contributed to recurring depressions.

Well anyway, will say the economists, even if some industries go bankrupt as a result, that's what being internationally competitive is all about. New industries will start up to replace the failed ones.

But why will that happen when the APEC agenda allows investors to withdraw at will? When an industry fails – or if the country looks shaky – capital will flow out, leaving thousands unemployed. Free trade theories don't work when capital moves freely and currencies don't do their jobs.

At best the employment left will be in unskilled, low paying jobs. A recent study by Professor Ralph Lattimore from Lincoln University showed that New Zealand's export industries are relatively intensive employers of lowly qualified rather than highly qualified people[4].

No, say the economists – people can emigrate. That will cause a shortage of labour and push up wages here.

Is that *really* New Zealand's future? As an exporter of skilled labour?

And what happens to people who don't have the right skills or savings to find a better job elsewhere? Or those – the great majority internationally – who can't emigrate? There might be an increasingly free flow of trade and investment, but no-one is proposing to allow a free flow of people – except for tourists and business people. Those who cannot emigrate will force down wages fighting for the jobs that remain. We have seen these effects in the loss of people to Australia and elsewhere, and well documented increased income inequality.

Since the New Zealand economy was opened to free trade and investment and became an ardent missionary for the APEC agenda, New Zealand has steadily fallen behind the rest of the OECD. We were the only OECD country to go into recession last year following the Asian crisis, bar those directly involved, even though we were less exposed to the Asian economies than Australia.

Our international competitiveness – the prime focus of the last 15 years of reforms – is demonstrated by the trade deficit and our crisis-level current account deficit.

The current account deficit is largely due to the escalating dividends and interest paid to the owners of foreign investment in New Zealand. New Zealand governments have faithfully adopted the APEC agenda on foreign investment. New Zealand is now by far the most dependent on foreign investment of any in the OECD[5]. That has killed employment opportunities. Though overseas companies own half to two-thirds of the commercial economy, they provide less than one job in five, and the number of jobs they have offered have grown much more slowly than the expansion of those companies[6].

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4 "Trade and Factor-Market Effects of New Zealand's Reforms", by Alan Deardorff and Ralph Lattimore, June 1999 (accepted for *New Zealand Economic Papers*).

5 The ratio of the stock of inward foreign direct investment to GDP is a common measure of this. In 1995 (when it was 46.7% in New Zealand), the highest ratios for developed countries were Australia (30.8%), Belgium and Luxembourg (23.0%) Canada (21.7%), Ireland (20.2%), the Netherlands (28.4%), the U.K. (28.5%). Most were less than 20% and many less than 10%. The position is even worse when it is considered that many of these countries had high outward investment to compensate. (World Investment Report 1997, United Nations, Annex Table B.6, p.339ff.)

6 While foreign direct investment stock more than doubled between March 1992 and March 1997 from $22,743 million to $50,775 million (an increase of 123%), employment in overseas companies increased by less than half – only 43% – from 183,021 to 262,110 full-time equivalent jobs. (The data for the stock of foreign direct investment comes from New Zealand's International Investment position; the employment data is from Business Activity Statistics and labour force data for the two years.)

The investment has been overwhelmingly takeover – over 40% is privatisation alone[7]. Again, that is the APEC agenda. To quote the APEC leader's 1996 declaration in Manila: "APEC members are committed to increased participation of the private sector in the construction, management and ownership of infrastructure facilities." APEC has developed so-called "best practice" examples of how sectors can be taken over by private investors, including roads, road bridges, rail, electricity generation and other forms of energy[8].

We have seen previous little of the promised technical and managerial skills foreign investment is promised to provide. Labour productivity actually grew faster when foreign controlled companies were less dominant.

And to add danger to deceit, there is perilously little reinvestment of profits and huge exports of dividends: on average only 30% of overseas owned profits were reinvested in New Zealand between 1989 and 1998[9]. Telecom retained only 8% of its dividends in 1998[10].

We are now borrowing to service our indebtedness. Our foreign debt – at over $100 billion, or more than three and a half times our annual export income – is considerably higher than the levels that led to crisis in Thailand, Malaysia and Indonesia. That is an unsustainable state, and one that is getting worse – yet a state which already shows the highest continuing levels of poverty, unemployment and inequality we have seen in this country since before the Second World War.

It will lead inevitably to the disappearance of New Zealand as an independent nation, becoming one of the poorer states of Australia.

It is time to start rebuilding.

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7 "Inbound Investment: Facts and Figures", Foreign Direct Investment Advisory Group, August 1997, p.6.

8 For example, see the 1996 Manila Action Plan for APEC (MAPA), "Building an Open and Efficient Infrastructure Sector".

9 Statistics New Zealand - Direct Investment Income.

10 Telecom Annual Report 1998.

One of the primary tasks of any progressive, people-first government, in order to support their programmes at home, is to take an activist international role to find other nations willing to co-operate in creating people-first international agreements. There is a role for such agreements to defend their member nations.

- They must help their members defend themselves from capital markets with controls on capital and currency movements.
- They must recognise that countries may need to reserve sectors of their economies for domestic production, in order to achieve social and development goals.
- They must allow selection of the foreign investment that countries wish to tolerate, and conditions they wish to impose.
- They must provide a sort of Interpol for transnationals to prevent them running away from irresponsible actions.
- They must start considering forms of international taxation that redistribute wealth.

I am simply describing some aspects of a society built for its people's needs. In historical terms, they are hardly radical ideas.

It is clear that the APEC agenda is incompatible with such a society.