

## FOREIGN INVESTMENT AND APEC

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APEC is not just about trade, though for political reasons that is what we are told most about. APEC is best described as an enormous, government financed and supported business lobby.

Do you love the electricity reforms? Well, APEC can give you more of it.

Are you hoping for privatisation and restructuring of other government services?  
Then you should be backing APEC.

Are you thrilled with increasing overseas ownership of New Zealand's assets?  
Then APEC will thrill you too.

Did you cheer for the discredited Multilateral Agreement on Investment (MAI)?  
Then cheer for APEC.

Because, in its often impenetrable jargon, APEC's purpose is "trade *and investment* liberalisation and facilitation".

We hear a lot about its 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. Think about the initiatives in forestry and fishing which have been put in APEC's "too hard" basket and handed to the WTO.

But APEC is just as much about foreign investment. After all, as its missionaries say: "APEC means business". That was the official APEC slogan in 1996. The U.S. Undersecretary of State of Economic, Business and Cultural Affairs, J. Spero, told a U.S. Congress Committee in July 1995 that "APEC is not for Governments. It is for business. Through APEC, we aim to get governments out of the way, opening the way for business to do business". Don McKinnon, on 3 February 1999, in his opening address to the "Capturing the Asia Pacific Conference" in Wellington, said "APEC is very much a partnership with the business community".

One of its most influential bodies is the APEC Business Advisory Council (ABAC). There are no parallel bodies for representatives of workers, consumers, subsistence farmers or indigenous people, who make up the great majority of its peoples, so the emphasis and the intent is quite clear. Even if they were now set up at this late stage – and that is highly unlikely – there can be no hope that they would be remotely influential enough to turn APEC round from its present well rutted path.

APEC has a set of "non-binding investment principles" which, though ambiguous like much of APEC, read like a prototype of the rejected MAI, and if put into effect would have many similar consequences.

Foreign investors would have to be given as least as favourable treatment as New Zealanders, so (as with the MAI) Plunket would find itself competing with huge health service transnationals and could not be given preference. Requirements that foreign-owned companies use local resources or components made in New Zealand, that they they maintain or expand employment opportunities, or that they export a certain percentage of their products, would be frowned upon.

APEC's transnational arm, ABAC, has even developed what is best described as a "mini-MAI"<sup>1</sup>. It is a draft contract or agreement that governments would be pressured into signing to protect transnational investments in privatisation and other investment projects. Its clauses are in places almost identical to the MAI itself.

It is significant that APEC's main investment push is in infrastructure. That includes most of the services essential to society and to a modern economy. They have traditionally been provided by government: electricity, roads, hospitals, water, waste disposal and treatment, and so on. The reason is clear:

hundreds of billions of dollars of assets are up for sale if privatisation is accepted, and the transnationals involved in APEC want them.

APEC's approach is to restructure and privatise. 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 devoted considerable time to this area. It has so-called "best practice" examples of how sectors can be taken over by private investors, including roads, road bridges, rail and power generation. Electricity is an explicit focus, along with transport, and other forms of energy such as oil and gas<sup>2</sup>.

"The APEC Energy Working Group is implementing a program of work aimed at facilitating increased private sector investment in power infrastructure," said the leaders at Manila.

They noted with approval the example of the introduction of "private power development programs by the private sector" in Indonesia.

It should have been a matter of considerable embarrassment. The first such project in Indonesia was led by a subsidiary of Edison International of the U.S., now 40% shareholder in Contact Energy. It (and its initial partner General Electric, also of the U.S.) got its Indonesian contract, according to the Wall Street Journal<sup>3</sup>, by sweetheart deals with members of the Suharto family, resulting in a scheme which the Journal described as "one of the most expensive power deals of the decade – anywhere". Edison waived a requirement that its Indonesian partners sign a "no corruption" clause in the contract. The power prices were personally approved by President Suharto, and the deal was supported by intensive lobbying by U.S. leaders at the 1994 APEC leaders meeting in Djakarta. The deal was signed in the presence of a beaming President Clinton. Its power is now too expensive for the state-owned Indonesian power distribution company to afford.

As we have come to expect, New Zealand "leads the way", throwing away its bargaining chips while others watch unbelievably – and look after themselves. "Leading by example," it is called. Well, it worked with our lamb exports to the U.S., didn't it?

The 1999 New Zealand "Individual Action Plan" (IAP) – the government's offer to APEC on our behalf – includes for example:

- "New Zealand will continue to assess, and where necessary improve, the regulatory regime for infrastructure and utility businesses including those owned and operated by local government."
- "New Zealand will continue to consider the scope for further privatisation of State-owned businesses and assets where there are no public policy reasons for continued taxpayer ownership."

It boasts about the electricity reforms, along with other examples of current and planned deregulation and privatisation, such as the Producer Boards.

It makes clear that its attitude is "if in doubt deregulate".

All of this is very much in the interests of the transnationals represented by ABAC. To quote the IAP: "The New Zealand Government welcomes foreign direct investment as a vital contributor to New Zealand's economic development. As well as providing much needed development capital, the broader linkages of FDI such as technology, management skills, expertise and market access are particularly important in securing New Zealand's place in the global economy."

Perhaps, in a country now by far the most dependent on foreign investment of any in the OECD<sup>4</sup> (about 50% higher than Australia, the next highest), the Government needs to start justifying these oft-repeated mantras with hard facts. The record does not support it. Indeed, greatly increased foreign investment has developed alongside worsening unemployment, inequality and poverty.

- **Jobs.** Only 18% of jobs are in overseas companies, despite the fact that they own half to two-thirds of the commercial economy. Recent foreign "investment" in New Zealand has been overwhelmingly takeover – over 40% was privatisation alone<sup>5</sup> – rather than creating new employment opportuni-

ties. Many of these takeovers led to large-scale layoffs of employees rather than increased employment, Telecom and TranzRail being just two examples. 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<sup>6</sup>. So the facts show that foreign direct investment has been a net *destroyer* of jobs rather than being a job creator

- **Investment.** Our domestic savings record is comparable with the rest of the OECD – the problem is that too much goes into property, including housing<sup>7</sup>. In addition, there is a major leakage of savings from companies – always a large part of savings – to overseas owners. On average, more than 70% of income from foreign direct investment was remitted abroad and not reinvested in New Zealand between 1989 and 1998<sup>8</sup>. In other words, much of our capital requirement is due to the cost of servicing existing foreign investment.
- **Technology.** Though some foreign investment brings new technology to New Zealand, much does not. Some of this technology could be acquired simply by importing it, and by training or hiring suitable employees. We have run very innovative electricity systems, airlines, computer companies (the list goes on) for ourselves for years.

Telecom is frequently cited as an example of how foreign investment brings innovative technology to the country. Yet most of Telecom's new technology was installed before its privatisation. Since then it has slowed its rate of investment in favour of higher rates of dividend payments and share buy-backs, and has been widely criticised for being slow to introduce technologies commonly available overseas – let alone genuinely innovative ones<sup>9</sup>.

New Zealand has also been an exporter of innovative technological developments originating in the country, losing the long term commercial benefits to foreign investors who have purchased companies or technologies. In some of these examples, the takeover led to important aspects of an innovative operation being moved overseas, arguably leading to loss of skills, and certainly intellectual property, from New Zealand. Examples include **Allflex**, the world leader and innovator in developing plastic and electronic animal ear tags, whose manufacturing operation in New Zealand was closed down in favour of plants elsewhere in the world when it became overseas owned (first to Goodman Fielder Wattie, Australia, then Société Française D'Innovations Pour L'Élevage, France, then resold to Goldman Sachs U.S.A.); **Dynamic Controls Ltd**, a leader in motorised wheelchair controls with 35% of the world market for the controllers in 1992, was taken over in 1993 by its main competitor, Invercare Corporation of Ohio, U.S.A.; **Network Dynamics** (now **Teltrend NZ**), a spin-off company from the former Department of Scientific and Industrial Research, marketing and further developing computer network routers it had developed, was taken over by Securicor 3net of the U.K. which moved its manufacturing operations and co-founder to Australia. Production engineering decisions are made in the U.K., but research and development remains in Christchurch. The founders said the company was of insufficient size to survive on its own.

- **Higher productivity and efficiency.** If overseas companies bring increased efficiency and productivity, why has the rate of growth of labour productivity fallen since 1989, at a time when foreign investment has massively increased?
- **Market access and increased international competitiveness.** New Zealand's exports have grown more slowly than the OECD average since 1984: we have fallen behind rather than surpassed the rest of the world despite huge increases in foreign investment.
- **Management skills.** Even supporters of foreign investment like Dr Don Brash, relate concerns that "our management skills have not been up to the demands of operating in a global environment", again despite the increases in foreign investment. Indeed, the crash of U.S.-owned Maine Investments (which brought down Levenes and several other companies), and high customer ratings of New Zealand owned banks show foreign investment is not the guarantee of management skills that the government suggests.

The government may try to allay concerns by pointing out that APEC is "non-binding" – though it pretended that the removal of tariffs on cars and clothing, textiles and footwear under its APEC "action plan", was a "requirement", in order to force it through. If it is really non-binding, then APEC, as the *Sunday Star-Times* put it, is "a scandalous waste of money"<sup>10</sup>. In fact such "non-commitments" put considerable moral pressure on current future governments.

The government may also say that it is only offering actions that the government has already said it would do anyway. But doesn't that undermine the very heart of democracy? If we don't like what the current government is doing – such as in electricity – we should have the right to change governments. But if international commitments have been made which are in practice irrevocable, future governments cannot carry out changes they have been elected to make.

When ACT and National attack social welfare and those benefitting from it as “creating dependency”, remember the far worse dependency they are creating. New Zealand is being rapidly converted into a completely dependent economy – a branch economy. It is becoming dependent on overseas companies for its essential services. Even in business, the height of success is to be bought out from overseas.

It is time to start rebuilding, based on a faith in our own abilities.

Here are some very initial ideas of what a progressive international trade and investment agreement might include. These ideas must relate to the needs of the people of New Zealand and similar countries.

I must emphasise that here I am speaking as an individual, and don't represent CAFCA in what I say next. I must also emphasise that these ideas are indeed very initial and address only part of the whole issue: they address only investment, and then mainly how it relates to the international agreements.

Before saying anything further however, we must recognise the dire strait the peoples of the world are in – not just economically (and the recent financial crises are at least as devastating to the ordinary people affected as was the depression of the 1930s) but in terms of our loss of *options*. The economic and (to a lesser extent) political power of transnationals, international financial markets, and the institutions that support them like the WTO, IMF and World Bank, is enormous. Without wanting to sound hackneyed, it is quite possible that we have reached the stage, things have progressed so far, that revolutionary change is the only real option. Certainly that will be an increasing view in countries like Indonesia. It is a real and current fear of the leaders of those international institutions, business lobbies and transnationals in lobbies like the World Economic Forum and APEC itself. They now realise that their greed (they call it globalisation) has left people far behind. They hope that sweet talk and a few social benefits will calm people. In some countries, that may work. In some it can not and will not. Having said that, I don't think for a moment that New Zealand will be in the revolutionary vanguard, if revolutionary change occurs. Nevertheless, we may find ourselves in a world of increasingly radical change – sometimes radical in the best progressive sense, and sometimes reactionary, racist and neo-facist developments such as we see in Yugoslavia – and may find ourselves stagnating because we do not change.

Whether revolution becomes a reality or not, to make any social progress, we must both defend ourselves from the bandits that currently roam the world, at the same time as recognising that we need to trade and even accept some foreign investment because people in New Zealand will not tolerate living without the things that trade and investment bring. Some things cannot be got without trade and investment, even if we have to trade with bandits! So one of the primary tasks of any progressive, people-first government is to take an activist international role to find other nations willing to cooperate in creating people-first international agreements. There is a role for such agreements to defend their participants.

Firstly, we must defend ourselves from capital markets with controls on capital and currency movements. That would be made considerably easier if we were not the only country doing it. We therefore need agreements between likeminded nations on capital and currency controls so that one country cannot be played off against another. The fragility of our situation is indicated by the fact that of the March 1998 overseas debt, 41% was due in the next 12 months, yet it would take 18 months of exports to repay – if we ceased all imports for that period. Just yesterday the Reserve Bank reported that overseas investors reduced their holdings of New Zealand Government securities by more than \$3 billion, or over 20%, in March alone<sup>11</sup>.

Secondly, we need to protect part of our economy for domestic industries, while ensuring that we can continue to trade. International trade agreements must recognise that countries may reserve sectors of their economies for domestic production, in order to achieve social and development goals. They must reassert the rights of countries to protect themselves in times of balance of payments problems. They must also recognise the rights of producers to form their own international marketing organisations, such as the Dairy Board. Given those protections, some of the concepts of trade facilitation, and preferences for developing countries, may start to make some sense.

Thirdly, we must restore control of investment – perhaps the most fundamental development need of any country. International agreements – and our own laws – must allow selection of the foreign investment that we decide to tolerate. Criteria could include substantial contributions to employment creation, technology unobtainable through trade or training, recognition of the rights implied in the Treaty of Waitangi, and the retention of control of our resources – such as land and water – in our hands.

Fourthly, we must end banditry. International agreements must provide a sort of interpol for transnationals. If a mining company runs away from a huge mess in Coromandel then we should be able to reclaim the cost of restoring it wherever it is still operating. If a company breaks the law in the U.S., that should threaten the continuation of its operations in New Zealand. We need an internationally recognised right to, and enforcement of, “bad boy” laws that allow us to refuse to deal with companies with bad records, and to disestablish a company or its management if necessary (as can be done in the U.S.A.).

We must also ensure that we have sufficient internally generated investment funds so that we never again become so burdened with debt and so dependent on foreign capital. There is much that can be said in this area, but three points can be made. The first is that we must reclaim the basis on which most New Zealand infrastructure was developed: government investment. That includes both local and central government. That is a major contribution to the ability of a small economy to make best use of its savings. At the same time we must ensure that such services are well run. Secondly, we must regain the right to use Reserve Bank credit for investment purposes. Thirdly we must encourage people to put more of their savings into community funds – such as superannuation – which can then be used for productive investment. That will mean coaxing people away from – already increasingly unaffordable – home ownership. That can only be done by making quality, low cost housing available for rent, by both radically revising tenancy laws and revitalising state rental housing.

You will notice that I have not in any of this defined who “we” are. That is the issue of who rules New Zealand – and on whose behalf. I will leave that for someone else to address! But there is one absolute essential, which is not just rhetoric, but without it all this will fail because of the immense power of the private economic interests we are up against. That essential is to allow real democracy. What is essential is to trust the people, use democracy to its fullest, inform people of what is happening, tell people about the anti-democratic reaction from business organisation and financial markets that will most surely occur, allow them to organise to counteract it. In the end, that will be the only defence.

I have tried to describe some aspects of a society built for our needs. In historical terms, they are hardly radical ideas. All I will say to finish is that APEC is incompatible with such a society.

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<sup>1</sup> “Model Contract Provisions for Projects Under the APEC Voluntary Investment Project (AVIP) Scheme and the Infrastructure Investment Initiative (III)”, ABAC Annual Report 1997, Appendix 2.

<sup>2</sup> For example, see the 1996 Manila Action Plan for APEC (MAPA), “Building an Open and Efficient Infrastructure Sector”.

<sup>3</sup> *The Wall Street Journal*, 23 December 1998, “Wasted Energy: How U.S. Companies And Suharto’s Circle Electrified Indonesia; Power Deals That Cut In First Family and Friends Are Now Under Attack; Mission-GE Sets the Tone”, by Peter Waldman and Jay Solomon.

<sup>4</sup> 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.)

<sup>5</sup> “Inbound Investment: Facts and Figures”, Foreign Direct Investment Advisory Group, August 1997, p.6.

<sup>6</sup> 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.

<sup>7</sup> Regular surveys by Westpac and FPG Research.

<sup>8</sup> Statistics New Zealand - Direct Investment Income.

<sup>9</sup> See for example “Tough Calls”, by Gordon Campbell, *Listener*, 17 May 1997.

<sup>10</sup> *Sunday Star Times*, editorial, 25 October 1998.

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<sup>11</sup> *Press*, “Foreigners cut holdings”, 23 April 1999, p.32.