

SECOND APEC FINANCE MINISTERS MEETING

**Bali, Indonesia
April 15-16, 1995**

Joint Ministerial Statement

APEC Finance Ministers have now met for a second time to discuss the economic challenges facing the Asia Pacific region and the opportunities for action that could assist individual economies in meeting these challenges. This meeting provided an opportunity for a frank exchange of views, the sharing of experiences, and a greater understanding of each other's concerns and interests. Our discussions here today of the challenges facing the region were conducted on the basis of cooperation, consensus, and collegiality, and were meaningful and productive.

This past November in Bogor, the Economic Leaders of APEC issued a call to usher in an era of free and open trade and investment in the region by not later than the year 2020 and to intensify development cooperation among our economies. We are all committed to these goals and view the maintenance of macroeconomic stability, including financial market stability, as a key requirement for their achievement.

Economic Developments

The Asia Pacific remained the fastest growing region in the world in the past year despite significant fluctuations in global financial markets. These fluctuations had significant implications for the economies of the region through, among other events, shifting capital flows and rapidly moving exchange rates. These are matters of particular importance to us as Finance Ministers.

In order to promote better understanding of each other's concerns, views were exchanged on the impact of recent economic developments in each of our economies. In reviewing recent economic developments and the policies adopted to address them, we noted the increasing importance of regional economies in the global economy, as well as the growing interdependence of member economies. We also noted that attaining our goals of free and open trade and investment increases the exposure of our economies to market forces from the global financial marketplace. While this carries with it a number of significant benefits, it also increases the importance of sound, consistent, and sustainable macroeconomic policy in maintaining the dynamism of the region. We feel strongly that cooperation through meetings such as this enhances our ability to attain macroeconomic stability.

Capital Flows

Global capital flows have grown substantially over the past five years. Capital flows into APEC member economies can be growth-enhancing when they contribute to productive investment. Efforts to encourage such flows play an important role in supplementing policies aimed at raising domestic savings to finance needed investment in APEC member economies. With the growth of capital flows, and the increased reliance of all economies on them, has come increasing vulnerability to rapid shifts in the volume and directions of such flows. It is often difficult for authorities to determine in advance whether capital inflows are driven by short-term speculative motives or by longer-term intentions. However, policies governing the macroeconomic environment play an important role in encouraging longer-term investor commitment.

In this regard we wish to express our appreciation to the IMF for its study entitled "Portfolio Capital Flows (Policy Issues and Developments)" which greatly facilitated our discussions.

Based on the experiences of our economies and on the experiences discussed in the IMF study, we concluded that the risks of capital inflows being quickly reversed can be minimized if governments demonstrate a commitment to prudent fiscal and monetary policies leading to macroeconomic stability. We would also encourage the IMF to consider ways to improve current mechanisms to respond effectively to problems in this area. Improved economic surveillance would be an important initial step in this regard.

It is also important to take the necessary steps to improve the quality of capital flows; that is, to promote flows that generate real economic returns and hence are less susceptible to sudden reversal. Direct investment and diversified portfolio inflows are especially welcome for this reason.

We observed that one reason for rapidly shifting capital flows is the difficulty that financial markets face in knowing what is happening in an economy on a timely basis. Unlike public corporations, many governments have few obligations to publish detailed information on their financial operations. For this reason, we believe that increasing the availability of economic and financial information about our economies can play an important role in enhancing the confidence of financial markets in the strength of regional fundamentals which can, in turn, help sustain high and stable capital inflows. The strong track record of many of the APEC economies makes this a region that has much to gain from informing investors on a timely basis of key economic and financial developments. We therefore have reached agreement to develop recommendations regarding voluntary and timely public disclosure on a regular basis of economic and financial information of interest to financial markets.

We also observed that capital market development in the region is important to smooth capital flows and to mobilize sufficient domestic capital to reduce over-dependence on capital inflows in some economies. It is important for each economy to develop the infrastructure for broad, deep capital markets. This includes human resource development for financial market supporting institutions. In this area we have much to learn from each other. Moreover, with the internationalization of capital markets, it is increasingly important that the regulatory authorities of member economies build ways of cooperating with each other.

Exchange Rate Movements

We discussed the effects of exchange rate movements on trade and investment on member economies, recognizing that the impact of exchange rate movements varies substantially among the economies of the region. We agreed that there is no one optimal exchange rate policy for all regional economies. But one policy goal emerged as fundamental – pursuing macroeconomic stability and balance. This means control over inflation and sustainable deficits, both fiscal and external. As we concluded last year, sound macroeconomic policies are the essential prerequisite for sustained, low-inflation growth. Exchange rate policy alone cannot compensate for unsound macroeconomic policies. Instead, exchange rate policies must form an integral part of an overall macroeconomic policy framework for each of our economies.

Those of us who deal day-to-day with the challenges created by the current world exchange rate system understand that rapid exchange rate movements create problems both for our own economies and for economies with which we have close ties. Thus, we recognize that adopting policies that promote domestic macroeconomic stability will have beneficial impacts beyond our borders and thus such policies should be encouraged in all of the regional economies. Moreover, we believe that economies that adopt such policies will find that global financial markets respond favorably.

Even with prudent macroeconomic policies in place, individual economies can still be substantially affected by excessive volatility in the value of currencies. We express our concerns over the recent developments in the foreign exchange market where they do not reflect economic

fundamentals. We agreed that there should be a determined effort to attain stability in the foreign exchange market, as such stability would benefit all member economies.

Furthermore, given the importance of exchange rate movements to our economies, we believe that substantially more research is needed on the forces that move exchange rates and, particularly, on the impacts of exchange rate movements on trade and investment flows. To that end we ask the IMF to prepare a study of the impacts of exchange rate movements on trade and investment in the APEC region. Such a study would assist further work by our Deputies on this subject at their next meeting. In particular, we ask our Deputies to review the IMF study and identify key conclusions and issues as a basis for our further discussion next year.

Funding for Infrastructure Development

We also had a constructive discussion on the importance of infrastructure development in the region to sustain non-inflationary growth toward the 21st century. This discussion benefited from the valuable paper prepared by the Asian Development Bank. We stressed the need to address the medium- and long-term challenges of mobilizing capital flows for infrastructure development. We noted the increasing role of both domestic and external private resources to meet the need to invest in physical infrastructure as a supplement to government financing and the resources of international financial institutions and the need to create a conducive environment to support this. With the increased role of domestic and external private financing in infrastructure development, we see a clear need for coordination of public and private resources in financing infrastructure development. From our discussions, it is clear that various member economies have experience in this area that should be shared more broadly. We would likewise encourage multilateral institutions (e.g., World Bank and Asian Development Bank) to assume a more proactive role in acting as catalysts toward helping mobilize private sector funds for infrastructure as well as to take a lead role in studying the issue of appropriate guarantee mechanisms.

Other Issues

It is important, in the context of strengthening capital markets, that we support international anti-money laundering efforts in the region and encourage adherence to the international standards and recommendations which have been developed in this area. We refer this issue to the next Deputies meeting for further discussion.

We are also resolved to contribute to the overall APEC effort to pursue trade and investment liberalization, cooperation, and facilitation. In particular, as many of us have responsibility for customs operations, we welcome the achievements of our customs authorities so far and encourage them to continue their trade facilitation efforts.

Future Meetings and Activities

While much was accomplished at our meeting, it is clear that much remains to be done. Thus, we have decided to continue to review macroeconomic development and market situations in the region, as well as to explore further the fundamental economic challenges facing the region. We look forward to having the opportunity to meet again next year in Japan for this purpose and ask our Deputies to undertake the necessary preparations for that meeting.

To assist us in our collective efforts, we have asked our Deputies to form a Working Group to advance our work this year in three areas: financial and capital markets, mobilizing private capital for infrastructure development, and effect of exchange rate movement on trade and investment. We have asked our Deputies to report on their efforts to the 1996 Finance Ministers Meeting.

At our meeting in Hawaii, we requested that several organizations and groups take action in support of our efforts. We wish to express our appreciation for the work of the IMF, the ADB, our central bank deputies who participated in our discussion of capital flows, and our own Deputies who met several times to prepare for this meeting. In addition, the APEC financiers have also met very recently and we encourage them to continue their efforts.

Finally, we agreed to report to the APEC Leaders Meeting, scheduled to be held in November in Osaka, on the activities of the APEC Finance Ministers Meeting.