

FOURTH APEC FINANCE MINISTERS MEETING

**Cebu, Republic of the Philippines
5-6 April 1997**

Joint Ministerial Statement

1. We, the Finance Ministers of the Asia-Pacific Economic Cooperation (APEC) forum met in Cebu, the Philippines to discuss the economic opportunities and challenges facing an increasingly integrated world and how these could be appropriately addressed by APEC member economies at the individual and regional levels. As with the three previous meetings, our discussions were conducted in the spirit of cooperation, consensus-building and collegiality.
2. The President of the Republic of the Philippines, His Excellency Fidel V. Ramos opened the meeting by welcoming us and emphasizing the importance of the Finance Ministers' agenda in fulfilling the vision of the APEC Economic Leaders as expressed in the Subic Declaration of November 1996. He stressed that the continued rapid development of the region required freer movement of capital, the development of domestic capital markets and the increased private provision of infrastructure. He further pointed out that infrastructure development when carried out on a broad front helps reduce poverty and promotes equitable development.
3. We exchanged views on three key and closely intertwined challenges facing the APEC economies: supporting freer and stable flows of capital; facilitating private sector participation in infrastructure development; and promoting the development of financial and capital markets. The Managing Director of the International Monetary Fund (IMF) joined our discussion on macroeconomic issues and policies for supporting the freer flow of capital while the President of the Asian Development Bank (ADB) joined our discussion on private sector financing of infrastructure and capital markets development. We also had a constructive exchange of views with the APEC Financiers Group and key representatives of the APEC Business Advisory Council (ABAC) and the Pacific Economic Cooperation Council (PECC).

Current Macroeconomic Issues and Policies for Supporting the Freer Flow of Capital

4. The APEC region continued to expand more rapidly than the rest of the world in 1996, notwithstanding the slowing of growth in some member economies. In assessing the economic outlook of the region, we agreed that the slowdown in these economies does not hamper the positive outlook for sustained growth, given that overheating pressures in these economies have abated. This growth is also supported by increased private capital flows to many member economies, which in some cases reached new records in 1996. The increase reflects the strong growth prospects and continued prudent policies in APEC economies, the general trend towards deeper financial integration and increased portfolio diversification in international capital markets, and lower interest rates in industrial economies.
5. Indeed the significant increase in private capital flows over the past decade has widened employment and investment opportunities, increased the ability of governments to meet social needs and contributed significantly to overall regional economic growth. We must continue our efforts to ensure that the region's economic growth is sustained and more importantly, translated into increasingly improved standards of living for our peoples. At the same time, private capital flows have also posed challenges to macroeconomic management. In this context, we renewed our common recognition of the importance of macroeconomic stability and sustainable growth-oriented policies in sustaining capital flows to the region and making our economies more resilient to external shocks. Timely policy adjustment is also important since delay can cause market corrections to become more costly. While the primary burden

of such adjustment falls on our respective economies' domestic policies, increasing economic interdependence makes it important for us to take advantage of opportunities for enhanced policy cooperation, where appropriate. In some cases, such cooperation is useful in addressing potentially adverse spillover effects on others.

6. We welcome the adoption of the Special Data Dissemination Standard (SDDS) by the IMF. This standard can enhance market confidence by facilitating the prompt dissemination of macroeconomic and financial data through a standard bulletin board on the Internet. Since pledging support for this last year, 13 APEC member economies have already subscribed to the SDDS. We shall work towards a wider application of this standard within APEC.
7. We also welcome the approval of the New Arrangements to Borrow (NAB) by the Executive Board of the IMF which enhances the IMF's ability to safeguard the international monetary system. We reiterate the importance of the eleventh review of IMF quotas, including adjustments which take into account the relative position of member economies, to ensure that the IMF has sufficient ordinary resources for future operations.
8. We also discussed the need to strengthen domestic financial institutions and markets in order to mobilize savings more effectively and expand the array of investment options available to domestic and foreign investors. Our discussions concluded that market development and integration must proceed hand in hand with steps to strengthen prudential regulation and supervision of financial markets.
9. In discussing developments in exchange and financial markets, we noted that the major misalignments in the exchange markets that existed in the spring of 1995 have been corrected. We discussed the effects of this development on the economic performance of member economies, especially those whose currencies are closely linked. We emphasized that the most important foundation for exchange market stability is the consistent application of sound macroeconomic policies aimed at achieving non-inflationary growth and sustainable balance of payment positions.
10. Lastly, we discussed international efforts to promote financial stability. We noted the ongoing work of the Basle Committee, the International Organization of Securities Commissions (IOSCO) and the International Association of Insurance Supervisors (IAIS) to strengthen supervision and regulation of internationally-active financial institutions and to increase cooperation among regulators in order to reduce systemic risks in global financial markets. We also noted the efforts of the Working Party on Financial Stability in Emerging Economies, in which a number of APEC economies are participating. We look forward to receiving their conclusions and recommendations with a view to considering how we might apply them.

Facilitating Private Sector Participation in Infrastructure Development and Promoting Financial and Capital Market Development: Voluntary Principles and Collaborative Initiatives

11. In response to the APEC Economic Leaders' call to us in Subic to develop concrete and practical measures to accelerate the development of financial and capital markets in the region and to stimulate private sector participation in infrastructure development, we agreed on a set of voluntary principles and collaborative initiatives to further these objectives. These principles were developed based on extensive studies by the ADB and build on our findings in Kyoto. We agreed to adopt them on a voluntary basis with due respect for our diversity and different levels of development. They would guide us in pursuing our individual and collaborative efforts in both areas. These principles are set forth in Annexes 1 and 2.

12. The collaborative initiatives can provide effective mechanisms for joint training and funding, the exchange of expertise, experiences, information and best practices among us. They can also promote harmonization of approaches and standards, consistent with the voluntary principles. We believe that these initiatives are valuable undertakings that will help our economies and region to respond to the challenges of globalization and technological innovation. Individual economies may choose to participate in these collaborative initiatives based on their needs and interests. We agreed to give due regard to ongoing efforts in other APEC, regional, and international fora in promoting these initiatives.

Implementation of Initiatives Agreed in Kyoto

13. **Computerized Information Network.** We welcome the launching of the Computerized Information Network among APEC Finance Ministries that we endorsed in Kyoto. This network will facilitate information sharing among the economic and financial authorities of APEC member economies about overall economic developments in the region. It will also facilitate the dissemination of macroeconomic and financial information to the public via bulletin boards on the Internet. We greatly appreciate the efforts of the core group chaired by Japan and the offer of Singapore to maintain the APEC Finance Ministries homepage.
14. **Joint APEC/OECD Symposium on International Business Taxation.** We discussed the Australian report on the Joint APEC/OECD (Organization of Economic Cooperation and Development) Symposium on International Business Taxation held in Sydney in November 1996, which reviewed emerging tax issues in a globalized economy. We acknowledged that developments in emerging electronic payments systems which permit transactions in cyberspace, as well as rapid financial innovation, could have fiscal implications which need to be addressed. We call on our tax authorities, in coordination with appropriate international and regional multilateral organizations such as the OECD and the ADB, to continue working on these issues. In this regard, we look forward to the holding of another Joint APEC/OECD Symposium next year and to receiving a report for discussion at our next meeting.

Initiatives Agreed in Cebu

15. To facilitate increased private sector participation in infrastructure, promote the development of our financial and capital markets, and support the freer flow of capital, we agreed to the collaborative initiatives outlined below.
16. **Enhanced Cooperation Among Export Financing Institutions.** Export financing institutions can play a catalytic role in attracting private funds and in helping shape the region's economic climate to reduce risks while providing an adequate return on investment. We agreed that interested member economies may conduct dialogues, seminars, and institution-building programs, maintaining consistency with international arrangements. In this context, economies in the region may seek technical expertise and cooperation from more experienced economies and relevant international bodies.
17. **Strengthening Financial Market Supervision.** We recognize that our regulatory and supervisory capabilities have to keep up with the rapid changes in international financial markets. Regional and international expert bodies as well as national regulatory and supervisory authorities already provide a significant range of technical assistance and expertise. We ask for the cooperation of such expert bodies to consult with interested APEC economies to identify important gaps in available training resources. We call on our Deputies to formulate a strategy for addressing these gaps.
18. **Strengthening Clearing and Settlement Infrastructure.** Well-developed clearing and settlement systems are indispensable to the development of capital markets. Member

economies with relevant experience in strengthening clearing and settlement infrastructure will share these with interested economies and provide technical support with the assistance of the appropriate international and regional multilateral institutions.

19. **Supporting Development of Rating Agencies and Strengthening Information Disclosure Standards.** Independent rating agencies play an important role in developing the region's capital markets and attracting cross-border capital flows. We will examine current experiences with credit rating agencies within the region relative to international best practices. We will encourage the adoption of best practices as well as full information disclosure by issuers.
20. **Regional Forum on Pension Fund Reform.** We welcome the consideration of issues related to pension reform in APEC member economies, including those issues related to sustainability, the relative roles of the private and public sectors in pension fund management, implications for domestic savings and capital market development and the prudential regulation of pension fund investments. We will examine the benefits and costs associated with alternative approaches, and their implications for national budgets and income distribution. A symposium on this issue will be held in 1997, to report to our next meeting.
21. **Regional Forum on Securitization.** We recognize that securitization can be a viable form of financing economic growth. However, some member economies may be faced with structural, regulatory, fiscal, and other constraints that inhibit its development. Interested economies will participate in a forum to be hosted by Malaysia in 1997 to assess the level of securitization activities within each participating economy, identify impediments to their growth and development, and identify measures to remove such impediments. The findings of the forum may be embodied in a voluntary action plan.
22. **Voluntary Action Plan for Supporting the Freer and Stable Flow of Capital.** We recognize the importance of a freer and stable flow of capital to economic development in the region. Accordingly, we ask our Deputies to prepare a voluntary action plan, for reducing barriers to capital flows in the region.

Other Issues

23. **Customs.** We welcome the substantial achievements of the Sub-committee on Customs Procedures towards trade facilitation, including technical assistance programs in harmonization and simplification of customs procedures. In this regard, we invite the Sub-committee to begin exploring new areas of cooperation such as risk management, common data elements for cargo clearance, and express consignments. As many of us have responsibility for customs matters, we recognize the scope for enhancing mutual cooperation in the region not only in the area of trade facilitation and technical cooperation, but also in combating commercial fraud and the illicit trade of drugs and firearms. Trade facilitation and enforcement must be coordinated to establish and maintain a truly liberalized environment. We therefore encourage customs authorities in the region to explore ways of further strengthening cooperation in this field.

24. **World Trade Organization Financial Services Negotiations.** Recognizing that lower barriers among financial markets will contribute to the freer flow of capital and accelerate capital market development, we express support for the resumption this month of financial services negotiations in the World Trade Organization (WTO). We urge all WTO members to look forward to full most favoured nation (MFN) agreements based on improved market access commitments and national treatment. Accordingly, they will aim to achieve significantly improved market access commitments with a broader level of participation in the agreed time-frame.
25. **Anti-money-laundering.** Money-laundering remains a priority concern because of the threat it can pose to the integrity of legitimate financial institutions. We welcome the establishment of the Asia-Pacific Group on Money-laundering of which several APEC economies are members. We point out however that money-laundering is a global phenomenon and, we encourage all other economies to join in a determined global effort to effectively address it. We ask the assistance of the relevant international organizations to integrate support for anti-money-laundering activities in their operations to strengthen the integrity of financial systems.

Future Meetings and Other Matters

26. We believe our agreement on the voluntary principles and collaborative initiatives in Cebu has further advanced our objectives. We look forward to meeting again next year in Canada to discuss progress in these areas as we continue to pursue concrete and practical measures. We call on our Deputies to work actively with the designated economies to further refine work in their respective collaborative initiatives and to report back to us in our next meeting.
27. We appreciate the significant contributions the ADB and the IMF made to this meeting. We would like them to continue their efforts as we prepare for next year's meeting. In this context, we welcome the role played by the ADB in documenting best practices for private financing of infrastructure projects, disseminating information among member economies, and acting as a catalyst in mobilizing private sector funds for infrastructure. Moreover, in light of increased private sector participation in infrastructure, the role of public sector entities is increasingly being transformed from direct provider of infrastructure services to that of regulators. ADB should seriously consider providing technical and other appropriate assistance to public sector entities to effectively discharge this role. We believe that Multilateral Financial Institutions (MFIs) can play a vital role in helping member economies implement the various collaborative initiatives to be undertaken.
28. We affirm the important role of the APEC Financiers Group in the APEC Finance Ministers process not only as advisors but also as active partners in achieving our common objectives. We welcome the participation for the first time of key representatives of the APEC Business Advisory Council (ABAC) and the Pacific Economic Cooperation Council (PECC) in our consultation process. We noted their recommendations which included developing a regional database on infrastructure projects, harmonizing disclosure of investment information, and the formulation and adoption of voluntary investment principles. We look forward to continuing close cooperation with them in our future meetings.
29. We express our appreciation to H.E. President Fidel V. Ramos and the Filipino people for their warm hospitality and excellent arrangements during the meeting. We also thank the Chairman of the APEC Finance Ministers Meeting, Secretary Roberto F. de Ocampo, for his valuable contribution to the success of this meeting.
30. Finally, we will report to the APEC Economic Leaders again, on the activities of the APEC Finance Ministers' Meeting, on the occasion of their next meeting this year in Canada.

Annex 1

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**VOLUNTARY PRINCIPLES FOR FACILITATING PRIVATE SECTOR PARTICIPATION IN
INFRASTRUCTURE**

Voluntary Principles to Attain Core Conditions. To facilitate private sector participation in infrastructure, we agreed that the most important contribution that member economies can make towards this end is to establish four core conditions, namely: (a) a sound macroeconomic environment; (b) stable and transparent legal framework and regulatory systems providing a high level of investor protection; (c) sectoral policies that promote competition; and (d) availability of long term capital. To help achieve the core conditions, we agreed to adopt the following voluntary principles:

Sound Macroeconomic Environment

1. Steady and sustained growth based on sound macroeconomic fundamentals is key to attracting private sector investments in infrastructure. Member economies will continue to pursue and maintain prudent monetary, fiscal and exchange rate policies.

Stable and Transparent Legal Framework and Regulatory Systems

2. A stable and transparent legal framework is a prerequisite for attracting private investors and safeguarding their interests. Member economies will therefore introduce necessary steps, where appropriate, to put in place a framework to provide a high level of investor protection, including the establishment of mechanisms for fair, credible and effective dispute settlement and enforcement of commercial contracts.
3. Where applicable, member economies shall seek to put in place the appropriate regulatory framework and to enhance the capability of regulatory agencies.

Sectoral Policies that Promote Competition

4. In undertaking planning of infrastructure requirements, economies will provide a conducive environment for effective allocation of scarce public resources among competing needs. Economies may, where appropriate, identify priority projects for private sector participation and disseminate the relevant information with respect to these projects extensively.
5. Where applicable, member economies shall unbundle existing monopolies in infrastructure to promote increased private sector participation, competition, and consumer welfare.
6. Pricing of infrastructure services should encourage efficiency from both users and providers while allowing the private sector to realize reasonable returns. Member economies will allow prices to reflect the economic cost of delivering the services. Where subsidies are needed to attain socio-economic objectives, these must be properly targeted and transparent.
7. Where applicable, member economies are encouraged to streamline procedures for the approval and processing of private sector infrastructure projects. To promote transparency and fair market entry, member economies are encouraged to use international competitive tendering or where applicable, internationally recognized procurement guidelines for goods and services.

Availability of Long-term Capital

8. Well-developed domestic financial and capital markets play a crucial role in mobilizing savings and making available longer-term capital for infrastructure investments. In this regard, member economies will accelerate efforts to broaden and deepen these markets.

Catalytic Role of MFIs in Attaining Core Conditions. We also recognized the catalytic role of MFIs in assisting APEC member economies in achieving the core conditions. We call on MFIs, and in particular the ADB, to assist concerned economies in the following areas.

1. Facilitating information-sharing among economies with regard to best practices in the provision of private infrastructure and strengthening public-private partnerships for infrastructure development.
2. Promoting policy dialogue and technical assistance aimed at creating an enabling environment for private sector participation in infrastructure while continuing to provide direct financial support for infrastructure development.
3. Where applicable, assisting member economies in reducing transaction costs associated with competitive tendering by providing technical and financial assistance in the preparation of sectoral frameworks and templates, both of which promote transparency and fair market entry while lowering price and improving the quality of service.
4. Developing innovative financing mechanisms to address the long-term financing requirements of infrastructure projects.

Voluntary Principles on Risk-sharing Mechanisms. We also recognized that while steps are being taken to achieve the core conditions, or where these might not be sufficient in the short-run, economies may need to consider adopting transition mechanisms for managing risks. In doing so, we agreed to adopt the following set of voluntary principles.

1. Where government guarantees are to be provided, a system for charging the appropriate guarantee fee shall be put in place.
2. Risks should be borne by the party best able to manage them. Any warranted government support shall be confined to specific needs to enhance sector/project viability. Such support shall also be time-bound and disclosed transparently in government accounts.
3. Where applicable and consistent with international arrangements, MFIs and Export Credit Agencies (ECAs) may provide guarantees and other credit enhancements.

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VOLUNTARY PRINCIPLES IN PROMOTING FINANCIAL AND CAPITAL MARKET DEVELOPMENT

Voluntary Principles to Attain Core Conditions. We recognized that the task of achieving efficient savings and investment intermediation is not easy. It calls for major efforts by economies, in close collaboration with market participants in the private sector, to strive towards achieving certain core conditions as follows: (i) a sound macroeconomic environment; (ii) stable and transparent legal and regulatory systems; (iii) well-developed market infrastructure; (iv) efficient financial and capital markets institutions; and (v) an array of available financial instruments to meet the region's diverse financing and investment needs.

Recognizing the importance of promoting financial and capital market development in sustaining the growth momentum of the APEC region and in mobilizing longer-term capital for infrastructure investment, we agreed to the following voluntary principles designed to help the APEC member economies in achieving the core conditions.

Sound Macroeconomic Environment

1. The pursuit of sound macroeconomic policies is an essential element in maintaining strong banking systems and a prerequisite to the development of capital markets, including long-term debt markets. Member economies shall aim to create and maintain a sound macroeconomic environment through prudent monetary, fiscal and exchange rate policies.

Stable and Transparent Legal and Regulatory Systems

2. The legal and regulatory systems of economies may involve features that inadvertently inhibit capital market development. It is desirable that member economies consider efforts to make their legal and regulatory systems consistent with capital market development.
3. Sound financial regulation and supervision is critical to capital market development. Where applicable, member economies shall develop a professional cadre of regulators and supervisors with the appropriate competence and training.
4. Financial regulators and capital market supervisors shall strengthen and expand existing linkages with each other to promote the soundness of the financial system and the protection of investors, so as to reap the benefits and address the challenges of expanding cross-border capital flows.

Well-developed Market Infrastructure

5. High quality, transparent and comparable reporting and disclosure on the financial positions of businesses promote investor interest in capital markets. Member economies shall encourage the adoption of high standards in information disclosure and accounting, and ensure that the information is available in a timely manner.
6. A well-organized, up-to-date and easily accessible database for macroeconomic information can assist investors to make well-informed business decisions. Member economies shall make available such information to all investors.
7. Effective, credible and independent credit rating agencies are important in developing domestic bond markets, particularly because of the assurance they offer investors that certain credit risks can be properly assessed. Member economies will encourage the development of effective, credible and independent rating agencies and, as appropriate, promote the greater use of ratings.
8. Well-developed and efficient clearing and settlement systems are indispensable to the development of capital markets. In this context, member economies shall take the appropriate steps to facilitate the development of modern clearing and settlement systems to minimize transaction costs and settlement risks.

Financial and Capital Market Instruments

9. Market-based benchmark rates for medium- to long-term securities facilitate more accurate pricing and encourage the development and deepening of the bond market, including that for municipal bonds. Member economies will consider the costs and benefits of issuing government bonds or of encouraging the issuance of other securities to establish such reference rates.