

Eighth APEC Finance Ministers Meeting

Joint Ministerial Statement

**Suzhou, People's Republic of China
September 8-9, 2001**

I. Introduction

1. We, the Finance Ministers of APEC met for the eighth time in Suzhou, People's Republic of China. Representatives of the International Monetary Fund (IMF), the World Bank and the Asian Development Bank took part in our discussions.
2. We convened under the policy theme of ***Growth with restructuring, stability and equity***. We took stock of the latest global and regional macroeconomic developments and the policy challenges faced by APEC economies, and discussed the policy responses to promote sustainable growth necessary for increased prosperity in the region.
3. We agree that wide-ranging structural reform lays an essential foundation for macroeconomic stability and sustainable improvement in living standards. The work programs underway in the APEC Finance Ministers Process (as outlined in the Annex A) reflect our reform priorities in the medium-term.
4. In the year ahead, we ask our officials to focus their efforts on further strengthening collective understanding and capacity in policy areas that directly contribute to financial stability and sustainable economic growth in the region. We also ask our officials to look at ways to encourage greater economic cooperation, integration and openness among APEC economies.

II. Macroeconomic Challenges and Policy Responses

5. We note that the global economic environment is less favorable than when we met in Brunei Darussalam a year ago. The major world economies are experiencing a slowdown and forecasts for global growth have been revised downward. Reflecting this, most economies in the APEC region have experienced an economic downturn, with a slowdown in the IT sector, weaker financial market performance and, for many developing economies reduced capital inflow and foreign direct investment.
6. In the United States, the economy has slowed since the middle of last year. However, growth is expected to pick up towards the year-end, and long-term prospects remain favorable. Monetary and fiscal policies have been adjusted to stimulate the economy, including seven consecutive interest rate cuts and a significant tax reduction. These measures are expected to support growth while maintaining price stability. Monetary authorities have expressed a willingness to ease further if necessary. In Japan, economic activity has weakened and prices continue to decline. In response, monetary policy has been eased significantly under the new policy framework introduced in March. Further efforts are needed to implement financial and corporate sector reforms to facilitate the growth potential. The adverse short-term impact of reforms on growth should be minimized where possible. We welcome the recently announced structural reforms with these goals in mind. The Chinese economy, though affected by the global slowdown, has maintained its growth momentum, underpinned by domestic demand, supportive macroeconomic policies and restructuring. Reforms will be deepened to meet the challenges presented by China's expected entry into the WTO. We note the uneven nature of economic performance elsewhere in the region, especially in the crisis-affected Asian economies. Those economies that rely substantially on external markets have been affected more seriously by the global downturn. Despite the unfavorable external market conditions, we welcome that Korea has repaid its IMF loans which were drawn during the 1997 financial crisis, ahead of schedule.
7. Against this backdrop, we stress the importance for all members of the international community to take timely and appropriate policy actions to facilitate an early pick-up in global economic activity. We reaffirm our commitment to enhanced macroeconomic policy dialogue and

cooperation to tackle the current economic difficulties, and to build a strong foundation for sustained and broad-based growth in the APEC region and the rest of the world.

8. We also emphasize the importance of continuing domestic structural reform to enhance economies' ability to respond flexibly to shocks. We take note of the progress that has been made in several member economies in corporate and financial restructuring. However, we stress the need to fully resolve financial and corporate sector difficulties. These include the need for further strengthening of banking regulation and supervision, corporate governance, and financial disclosure, and measures to strengthen market disciplines on financial institutions and other corporate entities over the longer term. We acknowledge the need for creating a conducive environment for entrepreneurship, and promoting and broadening private sector development within the APEC community.
9. We welcome the progress of the work of the APEC Finance Ministers' process, especially in the area of strengthening financial systems, improving economic and corporate governance, promoting e-finance, and developing adequate social safety nets. We resolve to continue developing the skills of banking, securities, and insurance regulators through policy initiatives under the Finance Ministers' process. We have asked our officials to continue their collaborative efforts on policy initiatives and technical assistance in this area that add value to other international efforts and take advantage of APEC's strengths (see Annex A).
10. Globalization is crucial to improving living standards. We stress the need for the public debate about globalization to be based on rigorous and comprehensive analysis of its impact. However, we recognize that too many people are still not participating in its benefits. We also resolve to address the challenges presented by globalization and to make sure that, by putting in place the right framework and policies, it works well for all of its participants, while continuing the policies that have led to greater prosperity, stability and equity for our region.
11. We pledge to strengthen our cooperation in narrowing the development gap within and among member economies to achieve sustained and equitable growth in the APEC region. We are committed to pursuing structural reform and well-managed liberalization policies, while seeking to ensure that the benefits of increases in productivity and growth reach all people. We place particular emphasis on well-targeted assistance to the poor and vulnerable through human resources development, particularly education, and capacity building. We stress the importance of development assistance to support sound domestic policies and poverty alleviation efforts. Such efforts will empower our people to harness the benefits of globalization and allow them to better cope with on-going changes.
12. Trade and investment liberalization and facilitation will increase investor confidence, attract capital to the region, stimulate growth, and reduce poverty. In this regard, we emphasize the importance of making progress towards the Bogor Goals of free and open trade and investment. In this context, we welcome and encourage further cooperation of customs authorities to promote trade facilitation without compromising enforcement.
13. We reaffirm our strong support for an open, equitable, sound and rules-based multilateral trading system. We welcome the continued efforts by the WTO to build consensus for further multilateral trade liberalization and strengthening of trade rules. We believe that these mechanisms will bring broad-based benefits to the global economy, including benefits to the disadvantaged. In this context, we express our strong support for the launch of a new round of global trade negotiations at the Fourth WTO Ministerial Conference to be held in November in Qatar. We reiterate the Trade Ministers' Statement on the need to facilitate the equitable and effective participation of all members and to work out in advance a balanced and sufficiently broad-based agenda as early as possible.

III. Strengthening the International Financial System

14. We welcome the important steps that have been taken in reforming the international financial architecture, and urge continued implementation of reforms. We stress the importance of broad participation to foster consensus on key aspects of the reform and to ensure ownership in the

reform process among all economies, including in the development and implementation of international financial standards and codes. We welcome the efforts of the G-20 and the Financial Stability Forum in this area.

15. We underscore the importance of promoting financial stability and crisis prevention. We encourage further efforts at the national level to strengthen domestic financial systems and ensure greater consistency in domestic macroeconomic policies, and efforts at the international and national levels to strengthen global financial sector surveillance. We welcome the progress made and encourage further participation, on a voluntary basis, in the IMF/World Bank Financial Sector Assessment Program (FSAP) and Reports on Observance of Standards and Codes (ROSC) to strengthen financial systems by assessing economies' implementation of key financial and economic policy standards. Voluntary disclosure of ROSC modules can serve to promote policy transparency. We emphasize that work to implement and assess compliance with standards and codes needs to take full account of each country's unique circumstances, reform priorities, and institutional capacity. In this regard, we encourage prioritized and well-sequenced implementation of key standards by APEC economies, and urge focused and targeted technical and financial assistance where necessary. We also note the work underway to fight against the abuses of the international financial system and protect its integrity. We welcome the review by the Financial Stability Forum of the effectiveness and the progress in implementing the recommendations from the Working Group on Highly-Leveraged Institutions and the Working Group on Offshore Financial Centers.
16. We welcome the completion of a major review of IMF lending facilities and the efforts to make the Contingent Credit Line operational. We underscore the importance of continuing efforts by the IMF to further enhance the clarity and operational flexibility of its private sector involvement framework.
17. We urge continued efforts to enhance the effectiveness of the International Financial Institutions (IFIs). We support the work underway for the IMF to sharpen the focus on surveillance and crisis prevention and the Multilateral Development Banks (MDBs) on poverty reduction, and to strengthen coordination, transparency and accountability of their internal governance. We emphasize the importance of ensuring that representation on the IMF Board and IMF quota/share allocation appropriately reflects the current world economy. We encourage the IMF and the MDBs to continue efforts to further streamline and prioritize conditionality, improve national ownership, while ensuring that programs are of high quality and achieve meaningful results.
18. While recognizing the pivotal role of the IMF and other IFIs in promoting global financial stability, we agree that regional cooperation also has an important role to play. Cooperative regional financing arrangements designed to complement the resources provided by the IFIs in support of IMF programs can be effective in crisis prevention and resolution. In this regard, we welcome the recent developments in regional cooperation, in particular the substantial progress that has been made in implementing the Chiang Mai Initiative among the ASEAN+3 countries.

IV . Strategic Goals of the APEC Finance Ministers Process

19. We took stock of the APEC Finance Ministers' process and assessed how the work of the process can more effectively complement the work of APEC as a whole and the efforts of other international organizations and fora. To this end, we have agreed to a set of strategic goals and modus operandi that build on the strengths of our process (See the Annex B). We believe our new framework will help guide and focus our work in a way that complements APEC's overall vision.

V. Other Matters and Next Meeting

20. We welcomed the opportunity to have a dialogue with the APEC Financiers' Group (AFG), the APEC Business Advisory Council (ABAC), the Pacific Economic Cooperation Council (PECC) and the APEC Economic Committee (EC), and value their contribution to our work. We note their recommendations with regard to economic growth, financial development, and corporate

governance. We ask our Deputies to continue to work with private sector organizations to ensure that their perspectives are effectively reflected in our work programs.

21. We welcome the achievement made by our Deputies on strengthening closer links with the APEC Senior Officials Meeting (SOM) process and other APEC fora over the past year, and urge them to continue their efforts to ensure our work programs complement each other and avoid unnecessary duplication.
22. We would like to thank the people and Government of People's Republic of China for the hospitality extended to all delegations and the excellent arrangements they have made to make the eighth APEC Finance Ministers Meeting a success.
23. APEC Finance Ministers will next meet in Los Cabos, Baja California Sur, Mexico, in September 2002.

VI. Annex:

- A. Progress Report on the Policy Initiatives under the APEC Finance Ministers Process
- B. Strategic Review of the APEC Finance Ministers Process

Progress Report of Policy Initiatives

I. *Voluntary Action Plan for Supporting Freer and More Stable Capital Flows:*

At the 7th APEC Finance Ministers Meeting (AFMM) in Brunei, Ministers endorsed the VAP report on issues relating to capital account liberalization and strengthening financial markets and approved a programme of regular policy dialogues under Part 2 of the VAP. The policy dialogues are designed to promote an exchange of view on a range of policy issues relating to the promotion of financial stability and the creation of robust, open economies. In particular, they are intended to encourage and assist economies to implement international standards and codes. The first of these policy dialogues was held in Mexico in June this year, chaired by New Zealand and Mexico, focusing on issues relating to banking supervision. Of the 21 economies in APEC, 18 participated in the policy dialogue, together with a number of international financial institutions. A policy lessons paper, summarizing the main issues to emerge from the policy dialogue, was accepted by Finance Ministers in Suzhou. Consideration is now being given to a second policy dialogue under the VAP Part 2 programme for 2002.

II. *Bank Failure Management:*

Pursuant to the guidance from the APEC Economic Leaders in 1999, a collaborative initiative on Bank Failure Management was developed during 2000-2001 co-chaired by Mexico, New Zealand and Korea Ministers acknowledged the policy lessons on bank failure management that were drawn from case studies prepared by participating APEC economies and from the policy dialogue on Bank Failure Management that took place in Acapulco, Mexico this past June. Based on the policy lessons, Ministers reiterated their commitment to promote financial stability through prudential regulation and supervision of the financial institutions. Ministers welcomed the future publication of the policy lessons as well as the construction of a web page for contact references on bank failure management that would facilitate the sharing of technical advice and assistance on these issues among APEC economies. Ministers recognized these efforts as an appropriate way for APEC to help reduce potential vulnerabilities in the banking sector.

III. *Financial Regulators Training Initiative:*

APEC Finance Ministers endorsed the Financial Regulators Training Initiative in May 1998 aimed at strengthen capacities of training programs of financial regulators in the region. Supported by the ADB, which established a secretariat in November 1998, the initiative has been steered by two advisory groups respectively for banking and securities regulators. Over 2-years period beginning in 1998, the Initiative developed guidelines and processes for training and a number of training programs for trainers as well as 4 regional programs were delivered. These programs have provided training to training managers from 19 economies covering 137 participants.

At the 7th AFMM, Ministers extended the initiative for two more years. The Phase II Action Plan was endorsed by both regulators advisory groups in November 2000. Under Phase II, for bank regulators, training programs focused on bank analysis and examination and market risk. Special modules were organized in these on integrated supervisory structures and methodologies, money laundering and regulators risk based on site supervision models. Materials on these courses are now available on CD-ROMs and videos.

For securities regulators, courses and study materials have been prepared for structure and operations of capital markets, financial products, and enforcement or securities regulation and investigation. In 2001, in addition to regional training programs, national dedicated programs were organized for Indonesia, China, and the Philippines. The advisory groups banking and securities regulators are to meet in September 2001 to evaluate progress in Phase II of the Training Initiative and its strategic direction for the remaining period until the Initiative's expiry in October 2002.

IV. *Managing Regulatory Change in Life Insurance and Pensions:*

The life insurance industry has become an important component of financial systems in many APEC economies, and there is great potential for further growth. In addition, the private pension industry is poised to become an important part of savings in the region. This initiative, led by Australia, focuses on prudential supervision of the life insurance and pension industries, its goal being to encourage well-functioning industries in the region.

With solid support received from regional regulatory authorities, the private sector, and the ADB, this initiative runs for three years and includes 3 symposiums and 6 training courses for middle to senior level regulators. The first symposium was held in Manila on 23-24 November 2000. The first two training programs were held in Melbourne, on 5-17 March and 16-27 July 2001. The second annual symposium will be held in Beijing on 8-9 November 2001. It will bring together senior life insurance and pension regulators from the participating economies.

V. Strengthening Corporate Governance in the APEC region:

APEC Finance Ministers, at the 7th AFMM, noted that "sound economic and corporate governance will encourage the return of capital to the region" and tasked Deputies to undertake a policy dialogue on strengthening corporate governance in the APEC region in 2001. Co-chaired by New Zealand, Singapore and Mexico, a policy dialogue was held in Singapore on 7 April 2001. It examined implementation issues relating to corporate governance, in particular the policy responses and government action needed to create incentives for good corporate governance.

Ministers welcomed the report "Strengthening Corporate Governance in the APEC Region – Key Themes from the APEC Corporate Governance Policy Dialogue" which provides a summary of the outcomes of the policy dialogue, a brief description of the state of corporate governance in APEC economies, and poses options for future action in this area of work. Ministers also agreed to continue the work on this initiative, which will be carried forward by Mexico, the Republic of Korea and the Philippines in 2002.

VI. Insolvency Law:

This initiative, launched as part of broader context of corporate governance, aims to raise awareness of the importance of establishing and implementing strong insolvency regimes in the region. Under this initiative, a symposium named "Insolvency systems in Asia: an efficiency perspective" was held in Sydney on 29-30 November 1999. Indonesia hosted the second seminar of the Forum for Asian Insolvency Reform in Bali on 7-8 February 2001 which focused on five main issues: the establishment of a well-functioning insolvency system, the role of judges, the independence of judges, the establishment of specialized courts, and the role of out-of-court settlement.

VII. Company Accounting and Financial Reporting Task Force:

In their September 1999 Report to APEC Leaders, Finance Ministers endorsed actions "to promote sound financial systems by strengthening the quality of existing auditing and accounting standards, and moving towards the adoption of practices that meet or exceed international standards". In line with its terms of reference, which were approved by Finance Ministers at the 7th AFMM, the Task Force, led by Australia, has considered issues related to promoting high quality internationally acceptable standards of accounting and disclosure and auditing practices by business enterprises, taking into account the needs and diversity of developing member economies. In April 2001, the Task Force further held a policy dialogue in Chinese Taipei to promote enhanced disclosure of non-financial information of related party transactions.

The ADB supported the development of background research used to assist the Task Force in the preparation of a final report to Finance Ministers. Ministers accepted the final report in Suzhou and encouraged member economies to raise awareness of the importance of robust financial reporting, accounting, auditing and enforcement practices supported by a sound legal, professional and regulatory infrastructure.

VIII. Supporting the Development of Credit Rating Agencies (CRAs) And Strengthening Disclosure Standards:

This Philippine-led initiative was launched at the 5th APEC Finance Ministers Meeting in Cebu. During the 6th AFMM, Ministers agreed that further work on the initiative was necessary and that it should contribute to the broader context of international financial architecture discussions, particularly in strengthening of transparency and disclosure standards for all market participants. Towards this end and to respond to APEC Economic Leaders' request for a review of the practices of international rating agencies, Ministers tasked their Deputies to survey the codes of conduct and practices currently in use by various CRAs. The survey, supported by the ADB provides a basis for a better understanding of issues such as (a) transparency and accountability of the ratings process; (b) conflicts of interest; (c) credibility and reliability of ratings; and (d) unsolicited ratings. Ministers accepted the survey report, which includes the key findings and recommendations to promote an environment conducive to reliable ratings. The Philippines was tasked to convey this report to the CRAs.

IX. APEC Privatisation Forum:

This initiative, adopted at the 6th AFMM and led by Thailand, covered many issues stemming from privatization, including competition policy, regulatory reform, capital market improvements, employee relations, and corporate governance. Since then, the Forum has hosted three successful annual events. The 3rd Forum was held in Chinese Taipei on 25-28 June, 2001. The theme of the Forum this year was "Managing Privatization Transactions". Case studies were also presented by Indonesia, Chinese Taipei, Thailand, Germany, Italy, Chile, and Australia.

On the occasion of the 3rd Forum meeting, the Forum Secretariat considered the future directions of the forum. The delegates endorsed the continuation of the annual forum meeting and requested the secretariat to further analyze and develop the related issues such as sponsorship of the PF activities, closer coordination with OECD and the holding of additional small, regional roundtables. Further work will focus on the issue of post privatization monitoring.

X. Social Safety Nets:

In October 1999, the United States proposed an initiative to develop operational guidelines for social safety nets. Mexico later joined it as co-chair. A final report was prepared through a collaborative effort involving the IMF, the World Bank, the Asian Development Bank, and the Inter-American Development Bank, and was distributed to APEC economies at the November 2000 Leaders Meeting in Brunei and the May 2001 Finance Deputies Meeting in Washington D.C.

The report, entitled "Social Safety Nets in Response to Crisis: Lessons and Guidelines from Asia and Latin America," has been posted to the APEC Secretariat's web site.

The role of the APEC Finance Ministers process in this initiative is now complete. It is hoped that economies will find the guidelines useful as they put in place cost effective social safety nets.

Finance Ministers look forward to seeing the results of this work being used by the Ad hoc Task Force on Strengthening APEC Social Safety Nets under the SOM process.

XI. APEC Initiative on Fighting Financial Crimes:

At the 7th AFMM, Finance Ministers agreed that APEC should play a significant role in fighting against financial system abuse. Co-chaired by the United States and Thailand, a working group was established with the goal of strengthening anti-money laundering regimes in the region by identifying areas in which international bodies and agencies can provide the necessary training and technical assistance to enable jurisdictions to comply with international standards.

The Working Group identified three main areas for training and technical assistance (TTA) for APEC to promote based on responses to an APG self-assessment survey and recently completed mutual evaluations. The three main areas identified were Financial/Regulatory TTA, Legal Infrastructure TTA and Financial Investigations TTA. The group developed illustrative guidance to assist in identifying specific areas of assistance in which international bodies and agencies can work with government officials in APEC economies and to help governmental bodies and agencies determine the appropriate TTA needed. As the strengthening of bank regulation and supervision is a

priority concern, the group recommended that APEC efforts concentrate on the financial/regulatory area, particularly in those jurisdictions that are now beginning to introduce anti-money laundering measures.

XII. Electronic Financial Transactions Systems:

At the 7th AFMM, Ministers endorsed the establishment of an APEC Working Group on Electronic Financial Transactions Systems, consisting of financial experts from member economies. The Working Group, which has been co-chaired by Japan and Hong Kong, China, had so far held three meetings, including outreach consultation with private sector representatives. It has drawn on work done by other relevant international fora as appropriate, and reviewed a wide range of issues on the development of electronic marketing and delivery of financial services and electronic payment and settlement of financial transactions. The Working Group has also conducted two surveys, one with member governments and the other with private sector entities in order to obtain a better understanding of the state of development of e-finance in APEC economies.

The Working Group did not see it appropriate for it to draw up mandatory standards or best practices, given the diversity of stages of development among APEC economies and possible duplication of work with other international fora. The Working Group would consider the preparation of guidelines and case studies on the development of e-finance, and encourage sharing of experience and technical cooperation. An interim report was submitted to the 8th AFMM in September 2001. The Finance Ministers acknowledged the progress of the initiative undertaken by the Working Group. The Working Group will examine the issues in further detail and present possible recommendations for promoting e-finance in the member economies and submit its final report to the AFMM in 2002.

XIII. APEC Future Economic Leaders Think Tank:

This initiative, launched by Australia at the 11th APEC Finance Ministers Technical Working Group Meeting in Beijing last December, aims at developing effective networks and promoting the exchange of ideas among the next generation of economic policy leaders. The Think Tank does not have a formal policy advisory role, but will report to Finance Ministers on the outcomes of its regular seminars focusing on economic issues of importance to the region.

The inaugural session was held in Sydney on 1-4 August 2001. The participants were middle-ranking to senior APEC officials from government financial institutions such as Departments or Ministries of Treasury, Finance, Central Banks and Regulatory Agencies who have been identified as people that are likely to play a significant future leadership role in their respective economies and institutions. One of the main themes of the Think Tank was the advent of the new economy and the issues and challenges it raises for APEC members, including corporate and economic governance. Ministers noted the submission of a strategic framework for financial and economic crisis prevention in the Asia-Pacific region stemming from the Think Tank discussions.

XIV. APEC Finance and Development Program:

In light of the rapid pace of globalization, capacity building is becoming a major theme of the APEC agenda. As the Asian Financial Crisis exposed the vulnerability and fragility of the financial sector of many APEC economies, there is a growing need for APEC to enhance human capacity especially in the financial areas. Echoing the growing need from many emerging economies, and responding to the call from the panel of independent experts last year in Brunei, Ministers agreed in Suzhou to launch a new program on Finance and Development. This initiative aims to strengthen capacity building in the APEC region, especially in the fields of finance and economic development.

This program will be led by the People's Republic of China, with participation by interested parties from the public and private sectors of all the APEC member economies.

Strategic Review of the APEC Finance Ministers Process

Introduction

At our meeting in Brunei Darussalam in September 2000, we agreed to review the strategic goals and modus operandi of the APEC Finance Ministers' process in order to provide a stronger focus for the future work programme and to anchor it in APEC's overall vision. We requested Deputies to conduct the review and report the results for our consideration when we met in Suzhou in September 2001.

Strategic goals

As part of the strategic review, we have agreed to a set of strategic goals for the APEC Finance Ministers' process that complement the overall goals for APEC, as prescribed by APEC Leaders. These goals reflect the strengths and unique characteristics of our process. Our goals for the work of the Finance Ministers' process are to promote sound and credible policies for:

- sustainable and broad-based growth with equity in the APEC region;
- good corporate governance and public sector management;
- stable and efficient financial markets;
- greater economic cooperation, integration and openness among APEC economies; and
- facilitation of economic and technical cooperation within the region in pursuit of the above goals.

Modus operandi

The ways in which we achieve our goals should reflect APEC's unique characteristics, comparative advantages and limitations, such as the diversity of APEC's membership, the voluntary nature of economies' involvement and the limitations on resources to develop policy initiatives. In this context, we agree that the following ways are the most appropriate for the APEC Finance Ministers' process to effectively and efficiently achieve its goals:

- encouraging understanding and implementation of policy reforms and international standards through the preparation of reports, seminars, workshops, training initiatives and policy dialogues;
- discussing and providing feedback to standard setting bodies on the development of international standards and codes;
- undertaking analysis in policy areas relevant to the strategic goals, where this is not being done elsewhere;
- maximising the opportunities APEC provides for high level political support for reform policies; and
- ensuring that private sector perspectives are integrated into the Finance Ministers' process through effective collaboration and input from private sector groups.