

12th APEC Finance Ministers' Meeting Joint Ministerial Statement

8-9 September 2005, Jeju, Republic of Korea

I. Introduction

We, the Finance Ministers of the APEC economies, convened our twelfth annual meeting in Jeju, Republic of Korea, on 8-9 September 2005, under the chairmanship of Dr. Han, Duck-Soo, Korea's Deputy Prime Minister and Minister of Finance and Economy. The meeting was also attended by the Managing Director of the International Monetary Fund, the Managing Director of the World Bank, the President of the Asian Development Bank, and the Executive Director of the APEC Secretariat as well as by distinguished representatives from the private sector.

We met under the policy themes of "Free and Stable Movement of Capital" and "Meet the Challenge of Ageing Economies." In discussing these themes, we were pleased to note that APEC economies are moving toward freer and more stable capital flows and acknowledged that we must all play our part by putting in place the appropriate policies and strategies to address the importance and urgency of the challenges that come with ageing economies in the APEC region. With the 4th anniversary of the September 11 terrorist attack approaching and the continued threats of terror worldwide, we reiterate the importance of actions to combat terrorist financing, money laundering, and other abuses of our financial systems, and in this regard, we urge FATF to make progress, as appropriate, in the enlargement of its membership.

We expressed our sympathy for the tragic human losses from natural disasters experienced since we last met, and stressed our commitment to work together in dealing with their consequences.

II. Global and Regional Economic Developments

We note that global economic growth has moderated over 2005, but is still likely to remain robust, despite high oil prices. Though growth in APEC regions is expected to ease in 2005, we observe that member economies are experiencing faster growth than the global economy. On the exchange rate front, we welcome the recent moves by China and Malaysia towards a more flexible exchange rate regime. We also reaffirmed that continued liberalization in trade and investment has been an essential driver for the economic prosperity in the member economies. In order to stimulate growth, and enhance the standard of living in the region, we agreed to promote continued progress towards the Bogor Goals of free and open trade and investment in

the APEC economies. We reiterate our support for the successful conclusion of the WTO Doha Development Agenda negotiations within the context of a comprehensive agreement and, to that end, call for making significant progress at the upcoming Hong Kong Ministerial Conference. We also noted the upcoming UN Summit on MDG and look forward to cooperation on achieving the goals for development.

We reiterate that all economies have a shared responsibility to take advantage of the relatively strong global economic performance to address key risks and vulnerabilities in their respective economies. To ensure orderly adjustment of global imbalances and to help achieve more sustainable external positions and stronger medium-term growth, we emphasize the importance of appropriate policies and the need for concrete actions by all in a timely and effective manner. In the APEC region, these include fiscal consolidation to increase national savings in the United States; greater exchange rate flexibility for some economies as appropriate, supported by continued financial sector reform, in emerging Asia; and further structural reforms, including fiscal consolidation, in Japan.

We discussed the risks of sustained high energy prices to economic growth and on-going development in the APEC economies. In this context, we noted the importance of adequate investment in oil production and refining capacity, as well as technology transfer for energy conservation and developing renewable energy sources. In addition, we welcomed recent actions to reduce demand-distorting subsidies and urged continuation of these efforts. Noting the discussions at the G-8 and ASEM meetings, we call for the dialogue between the oil producing and consuming countries to be strengthened through forums such as the International Energy Forum and the G-20.

III. 12th APEC FM Process Policy Themes

On the two policy themes under discussion, we noted the greatly increased importance of capital flows among member economies, and resolved to take measures to address the challenge of ageing population. In particular, bearing in mind the special characteristics of remittances as an alternative source of finance for development, we recognized the need to help improve the efficient flow of remittances in some member economies. We also adopted the “Jeju Declaration on Enhancing Regional Cooperation against the Challenges of Population Ageing” to renew our commitment to address the challenges and seize the opportunities of population ageing.

1. Free and Stable Movement of Capital

We noted the increasing importance of capital flows in the APEC member economies as evidenced by the size of global capital flows into and out of the APEC economies increasing almost 8 times to 1.4 trillion US dollars in the past 20 years, compared to the 3.7 fold increase in the size of APEC's GDP during the same period.

We acknowledged the increasing level of FDI as well as portfolio investment flows into and out of the region. We observed that increased capital flows within the APEC region are, in general, economically beneficial, and these flows reflect the breadth and depth of increased economic activity among APEC economies and between APEC and the rest of the world. As detailed in Annex C, we also noted that worker remittances are an increasingly important component of international financial flows, and encouraged continued efforts to improve formal remittance services.

Recognizing the contribution of free and stable capital flows in supporting economic growth, we emphasized the importance of open, well-supervised, and systemically sound financial services sectors. In that context, we urge all member economies to pursue a meaningful outcome of the financial services negotiations in the Doha Development Round. We resolved to continue our efforts to promote capital account liberalization, in a manner consistent with maintaining financial stability, and to build deep, resilient and efficient capital markets including by developing institutional investor base. We also recognized that the pace and manner of liberalization needs to be well sequenced and tailored to the specific circumstances of each economy.

2. Meet the Challenge of Ageing Economies

We note that some APEC economies are undergoing an unprecedented demographic transition characterized by slowing population growth, a growing proportion of people over 65, and a declining proportion in the population of working age. While the dynamics of the transition vary among member economies, we concurred that all member economies would eventually face the challenge of population ageing.

Studies suggest that population ageing will likely bring significant fiscal pressures. On the one hand, ageing population will bring increased demands for health care, social security and public pension expenditures; on the other hand, tax revenue growth will slow as more taxpayers enter

their retirement years. Research also suggests that population ageing may have important impacts on economic growth and on the growth of aggregate savings and investment.

In this context, we acknowledged the urgency and the importance of domestic economic, fiscal and financial market reforms including areas such as sustainable pension systems, wider array of savings products and enhanced financial literacy. We reaffirmed that international cooperation as set out in the “Jeju Declaration” is essential to meet these objectives.

IV. Other Matters and Venue of the Next Meeting

Considering the importance of private sector input, we welcomed the active informal dialogue with the APEC Business Advisory Council (ABAC). Also we appreciate the contribution of the Pacific Economic Cooperation Council (PECC) Finance Forum on ways to promote APEC economies’ cooperation and enhance the financial system. They provided both valuable insights from the private and academic perspective and support for the work under the themes of the 12th APEC Finance Ministers’ Process.

We thanked the Korean people for their warm hospitality, and the Korean Government and the Ministry of Finance and Economy for the well-organized arrangement of the 12th APEC Finance Ministers’ Meeting.

We agreed to meet again in Hanoi, Vietnam for the 13th APEC Finance Ministers’ Meeting on 7-8 September, 2006.

Annex A: Jeju Declaration on Enhancing Regional Cooperation against the Challenges of Population Ageing

We, the Finance Ministers of the Asia-Pacific Economic Cooperation (APEC), gathered in Jeju Island for the Twelfth APEC Finance Ministers' Meeting and held a discussion under the theme of "Meet the Challenge of Ageing Economies,"

Acknowledging that population ageing is a serious socio-economic challenge already experienced by some member economies and soon to be encountered by more economies in the near future;

Recognizing that it could have significant implications for labor force growth, productivity, savings and investment, financial markets, and fiscal burdens for social spending, including healthcare;

Aware that challenges brought about by population ageing could be transformed into new opportunities for enhancing productivity and achieving sustainable growth, with timely preparation and joint efforts, by such means as responding to the changes in the demand for financial services, deepening financial markets and implementing necessary policies;

Affirming the commitment of the APEC members to work together and cooperate with the purpose of addressing the common concerns related to population ageing;

HEREBY DECLARE:

1. We recognize the importance of undertaking reforms of domestic markets and regulatory systems in order to achieve resilient, flexible and open economies able to deal with the challenges posed by ageing and demographic change;
2. We underscore the need to reinforce our joint efforts to maintain medium- and long-term fiscal sustainability and to promote sound pension and health care system;
3. We reiterate that member economies need to improve the efficiency of the financial markets and develop the necessary financial infrastructure such as the asset management industry and wider range of financial instruments which above all will enhance the productivity of the APEC region;
4. We encourage the efforts to promote international cooperation among APEC member economies through sharing of knowledge and technical assistances with a view to achieving the aforementioned objectives;
5. We agree to the formation of an Expert Group within the APEC Finance Ministers' Process, consisting of around twenty experts from APEC member economies, to explore ways to cope with the challenges of population ageing and possible policy recommendations, in cooperation with the APEC Business Advisory Council (ABAC) and the international financial institutions, and to report their findings at the next Finance Ministers' Meeting in 2006.

Annex B: Policy Initiatives Review

1) Voluntary Action Plan for Supporting Freer and More Stable Capital Flows (New Zealand and Chile)

As part of this ongoing initiative, New Zealand and Chile have proposed a policy dialogue on savings and the role of the state. The objective of this multi-year dialogue is to provide an opportunity to exchange views on the role of the state in enabling and providing for structured savings, and the attendant policy and design issues that governments interested in promoting savings need to consider.

Chile and New Zealand will be further developing the initiative over the next few months. In particular, the intended scope of the initiative in terms of policy areas to be covered will be refined in consultation with interested member economies. Chile and New Zealand welcome the interest in the initiative expressed by Vietnam, and look forward to working closely with Vietnam on the initiative during 2006.

2) APEC Finance and Development Program (AFDP) (China and the World Bank)

China reported to the meeting the progress made under the initiative since the last FM TWG meeting, as well as plans for the remainder of 2005. The Chinese government has announced the establishment of an Asia-Pacific Finance and Development Center (AFDC) at the APEC Leaders' Informal Meeting in 2004 in Chile, to further contribute to capacity-building in the region. The three main types of activities carried out under the AFDC are training workshops, a biennial forum, and the funding of research projects. The first biennial forum will be held in 2006. The themes are currently being decided on. AFDP has funded 13 research projects from 2003 to 2004, and 12 research teams have submitted their reports before November 2004. Among these reports, 11 were evaluated as qualified by the AFDP Academic Committee and compiled for dissemination. CDs were available at the meeting for those interested.

The AFDC will continue to fund research projects and is currently deciding on research themes.

3) Deepening Financial Regulatory Capacity (Australia)

Australia received endorsement for this initiative to run a life insurance and pensions' capacity building training course at the Finance Ministers' TWG meeting in Gyeongju (Korea) in December 2004. The training course is intended to take the form of a six day intensive format and is based on the model of the highly successful Managing Regulatory Change Finance Ministers' initiative which concluded in November 2003.

The core objectives of the training program are to develop an understanding and awareness of the International Association of Insurance Supervisors' core principles and their implications for 'best practice' international regulatory approaches; and to expand an understanding of the risks of life insurance and pensions and recognition of the roles and importance of the various stakeholders. The economies targeted for the training program include: Brunei Darussalam; Chile; China; Indonesia; Malaysia; Mexico; Papua New Guinea; Peru; Philippines; Russia; Thailand; and Viet Nam.

Funding options (including an APEC TILF application) are still being pursued to run the training course in 2006, and the training course is being revised to include casualty insurance. The Finance Ministers' TWG agreed to extend the endorsement of this initiative to 2006 at the Gwangju meeting in June 2005.

4) APEC Future Economic Leaders' Think Tank (Australia)

The annual Think Tank initiative, which was proposed by Australia and formally launched at the Beijing TWG meeting in December 2000 without a sunset limit, aims to identify participants who will probably play a significant future leadership role in their home economies and institutions and to provide an experiential program that facilitates networking, problem-solving, and the development of creative solutions for priority regional economic and financial challenges.

The 2005 Think Tank was held in Sydney on 22-24 June, addressing the theme *Meeting the Challenge of Ageing Economies*. Thirty-two participants from a record 19 APEC economies considered the key policy challenges of ageing populations; suggested policy responses; and proposed a road map for reform.

The key policy challenges recognised by the participants include a slowing effect of population ageing on economic growth by reducing the proportion of populations within traditional working ages. The participants suggested that ageing may also slow the growth in public revenue at a time when many governments will face additional fiscal pressures associated with funding pensions, aged benefits, aged care and health care.

The participants also suggested that policy responses will need to focus on supporting strong economic growth; ensuring the sustainability of retirement incomes; and meeting aged care and health care costs. As a roadmap for reform, the delegates called for Finance Ministers to encourage dialogue between technical experts from APEC economies and international financial institutions; to publish regular long-term economic and fiscal projections of the impacts of ageing; and to prepare a policy framework to address these challenges, drawing on the experiences of other APEC economies and long-term projections.

5) APEC Financial Regulators Training Initiative (ADB and the United States)

The FRTI advisory groups are chaired by Malaysia (Central Bank of Malaysia, Securities Commission). At their meeting in Manila on 19 July, 2004, the Advisory Groups discussed regional training priorities, regional cooperation and delivery mechanisms for the financial regulators training. It was decided that:

- the chairmanship of the Advisory Group be extended from one to two years, with Malaysia holding the first chair;
- ADB to provide secretariat and financial support for the FRTI; and
- programmes to be organized to cover specialized areas like Pillar 2 of Basel II, Islamic Banking, consolidated supervision and IT-related areas. Under Securities Regulations, the need for more advanced, in-depth programmes on core topics were noted eg. credit risk analysis, market risk analysis and operational risk to help junior and mid-level supervisors implement new supervisory approaches.

Member economies were invited to lodge their training syllabus and training materials in the FRTI website.

Work plan/training programmes for 2005 are as follows:

a) Under the Banking Supervision component:-

- Anti-Money Laundering Examination course was held in Sydney from 14 -18 March, 2005;
- Market Risk Analysis Seminar was hosted by the Central Bank of Malaysia from 18 - 22 July in Kuala Lumpur with speakers from the Federal Reserve. 34 participants attended the seminar, including 11 from the Central Bank of Malaysia.

b) Securities Regulation component:-

- Investigation and Enforcement, co-hosted by the Securities Commission and ADB from 16 –19 May in Kuala Lumpur, and
- Market Supervision (tbc)

The 10th Meeting of the Advisory Group (AG) on Bank Supervision was held in Kuala Lumpur on 15 July 2005. It was attended by Australia (via teleconferencing); Hong Kong, China; Indonesia; Chinese Taipei; Singapore; and Malaysia. Representatives from the SEACEN Centre, the Asian Development Bank and the Federal Reserve were also present. Decisions taken at the AG's Meeting, chaired by Central Bank of Malaysia, were as follows:

- the focus on training programmes for 2006 to be on operational risk/internal controls, risk focused supervision, interest rate risk, IT and e-banking;
- Hong Kong, China; Indonesia; Singapore; and Chinese Taipei offered to host the training programs in 2006;
- the initiative's website to be enhanced by the ADB by providing updated information, as well as facilitating interaction and communication amongst the AG members;
- the training programmes to include 'train the trainers' initiative, designed to assist AG members to develop pools of internal expert trainers; and
- the next AG meeting will be held in mid-2006.

Other planned regional seminars for 2005 include:-

- Fundamentals of interest rate risk management from 3-7 October, hosted by BNM; and
- Risk focused supervision from 14-18 November, hosted by HKMA.

The Advisory Group (AG) on Securities Regulations also met in Kuala Lumpur on 15 July, and among others, discussed and assessed the 2005 training needs. The meeting noted a strong need for Anti-Money Laundering training courses as well as training programmes on Enforcement / Investigation among APEC securities regulators. Training continues to remain a priority among most members. The Securities Commission will, as in the past, continue its work with the ADB Secretariat to develop/host training programmes for the initiative. The Securities Commission also offered its SIDC AMLA E-Learning course to all APEC securities regulators.

Since the inception of the FRTI in 1998, about 1400 junior/mid-level supervisors and regulators have benefited from about 40 regional and national courses relating to banking supervision and securities regulations.

6) Initiative on APEC Financial Institutions Dealing with SME (Thailand, China)

The Second Annual Meeting of APEC Financial Institutions Dealing with SMEs was held on 21 July 2005, in Beijing, China, under the chairmanship of China Development Bank. The Second Annual Meeting was made up of two parts: (1) a review of cooperative activities during the past year and discussion of future initiatives, (2) a conference with the theme of “Better Environment for Financing, Stronger Development of SMEs.” Delegates from all 12 signatory member institutions attended the meeting. Invited guests from other government and non-government institutions also took part. Members agreed to establish a secretariat to administer the website of the MOU and take charge of daily maintenance and updating of information. China Development Bank would like to host the secretariat and play a leading role in its daily maintenance work.

7) Insolvency Reform Initiative (Australia)

This initiative was endorsed at the December 2004 TWG meeting in Gyeongju, Korea. The aim of the initiative is to raise awareness and exchange views on key frameworks for insolvency reform.

The initiative will discuss the United Nations Commission on International Trade Law (UNCITRAL) and World Bank guidance on insolvency systems, effective institutional frameworks for insolvency systems, and frameworks for cross-border insolvency.

A policy dialogue will be held as part of the next Forum on Asian Insolvency (14-15 December 2005) which is organised by the OECD and sponsored by Japan, the World Bank and the Asian Development Bank.

Discussions with the OECD and other key stakeholders regarding the forum agenda are underway.

8) Initiative on Financial Reform in the APEC Region (Australia and Indonesia)

This initiative received endorsement at the APEC Finance Ministers’ TWG meeting in Gwangju on 17 June 2005.

The aim of the initiative is to discuss how APEC member economies have developed and implemented reforms to improve their financial sector. Key issues include how economies are coping with the challenge of carrying out financial reform; prioritisation of the implementation of remaining reforms and assessing whether there are gaps in expertise and existing capacity building efforts.

A policy dialogue will be held in mid 2006 to exchange views on the progress of financial sector reforms in the member economies. The dialogue would cover the broad range of regulatory measures relevant to financial stability including capital standards and credit assessment, standards and practices in prudential supervision, and underlying legal frameworks (including insolvency regimes). The dialogue would involve the World Bank and the Asian Development Bank carrying out reviews of the progress of reform in the financial sector across the region. Member economies would discuss how their reforms fit together, their policy development processes and their forward plans. Reform gaps and capacity building needs could then be identified and expertise sought from other forum members.

9) Fiscal Management Initiative (Vietnam, Indonesia and Australia)

This collaborative initiative received endorsement at the APEC Finance Ministers' TWG meeting in Gwangju on 17 June 2005. The aim of the initiative is to build on the broad-ranging fiscal policy report to Finance Ministers in 2004 by undertaking a dialogue on a practical issue – the management of significant off-balance sheet risks, such as the contingent liabilities associated with financing of infrastructure projects or with explicit guarantees to public or private institutions. The extent to which these risks are reflected in government reporting and the potential impact on an economy's overall fiscal position are issues that are important to the sustainability and transparency of fiscal policy.

The initiative will discuss the measurement, monitoring and management of these fiscal risks and the consequences of contingent liabilities for the operation of fiscal rules. A policy dialogue is proposed to be held in early 2006 to discuss international experience and best practice, and share experiences in the Asia-Pacific region. The dialogue will be an important input to the development of principles to provide guidance to member economies and the identification of capacity building priorities.

Annex C: APEC Finance Minister's Statement on Remittances

We, the APEC Finance Ministers, welcome the final report of the APEC Finance Ministers' Working Group on Remittance Systems and urge economies to develop strategies to improve remittance services, as appropriate.¹ We note that global remittances contribute significantly to economic growth. However, these flows can be restricted by regulatory or technological barriers that raise the cost of or reduce access to remittance services. This initiative was launched in September 2002 to identify these economic and structural impediments contributing to the circumvention of formal remittance channels.

Led by Japan, Mexico, Singapore, Thailand, and the United States, the Working Group completed its initiative with recommendations on how APEC economies can facilitate improvements in remittance services to encourage the use of formal channels, boost savings for households, increase financing for local businesses, and make financial systems more resistant to money laundering and terrorist financing activities. Ministers also recognize the value of and urge further collaboration with multilateral development banks and the private sector to enhance competition in the remittance market, where appropriate.

In particular, we take note of the four priority areas that were identified to guide governments' actions to improve the efficacy of remittance systems. The following areas were identified as a result of the Remittance Symposium in Tokyo in June 2004 and the Remittance Policy Dialogue in Bangkok in May 2005², organized by the Working Group in conjunction with the World Bank and the Asian Development Bank.

1. Improve **knowledge** on remittance corridors and the availability of data on remittance flows.³
2. Strengthen domestic **financial infrastructure** to support cross border remittance flows.
3. Ensure **appropriate oversight** of remittance service providers and access to payment systems;⁴ and
4. Initiate or expand **financial literacy** programs by both the government and private sector, to broaden familiarity and use of remittance services.

In this context, we recognize the efforts and work programs being undertaken by some member economies and multilateral institutions. In particular, we note the report released by the Russian Federation at the Finance Ministers' Meeting.

¹ This third report of the Working Group summarizes the May 2005 Remittance conference and highlights the key findings of this initiative, drawing from the APEC bilateral case studies on remittance corridors and the first APEC conference in June 2004 as well.

² See www.remittance-initiative.org for details.

³ In response to a request by G-7 finance ministers, the World Bank, the IMF, the ADB and other members of an international working group are producing a report with recommendations for improving remittance statistics.

⁴ The Committee on Payment and Settlement Systems and the World Bank are working with national authorities on developing international principles for oversight for remittance service providers to be completed by early 2006.