

# Third Asia-Europe Finance Ministers' Meeting

## Chairman's Statement

13-14 January 2001 - Kobe, Japan

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### Introduction

1. The Third Asia-Europe Finance Ministers' Meeting was held in Kobe, Japan on 13-14 January 2001. It was attended by Finance Ministers from ten Asian nations, the fifteen EU Member-states and the European Commission. The Finance Minister of Sweden attended also as President of the Council of the European Union. The Managing Director of the International Monetary Fund, the President of the Asian Development Bank and the Vice President of the European Central Bank attended as guests. This Meeting was chaired by the Finance Minister of Japan. The list of participants is attached.

### Economic developments in Asia, Europe and the rest of the world

2. Ministers discussed the recent developments in the world economy. They welcomed all the efforts undertaken to strengthen global economic growth. Long-term growth prospects in Asia and Europe have improved over the past two years, vulnerability has been reduced, and inflation remains generally under control. However, developments in the recent weeks confirm that downside risks to the outlook have increased, particularly those associated with the continuing economic and financial imbalances in the global economy, and slowing down of the US economy. Therefore, Ministers remained committed to taking continuing action to make their economies more robust and to further reduce existing vulnerabilities to external shocks.
3. Ministers discussed volatility in oil prices and their recent decline. They shared the view that ensuring a stable energy market was vital to the maintenance of long-term economic growth for all ASEM partners and the world at large.
4. Ministers echoed the call of ASEM Leaders, as expressed at ASEM III held in Seoul in October 2000, for the launch of a new round of multilateral trade negotiations at the earliest opportunity, noting that this would make a major contribution to global economic growth. Ministers recognised that full participation in the WTO by ASEM partners will strengthen the world trade system and reaffirmed their support for the acceleration of current accession negotiations of ASEM non-WTO members.

### Asia: recovery from the crisis

5. Ministers were pleased to note that the recovery in the Asian economies has continued to gather momentum. For the crisis-affected countries, in particular, the stronger growth has been achieved through a continued expansion in exports, a revival in consumer spending and a turnaround in investment. Government expenditures have shown signs of tapering off in some countries while private-led demand has played a greater role in supporting the economic recovery.
6. Ministers acknowledged that the multilateral support through the international financial institutions (IFIs) and the bilateral initiatives by ASEM partners, including the New Miyazawa Initiative by Japan, had contributed significantly to the ongoing economic recovery in Asia. In order to strengthen the region's institutional resilience against potential crises, they stressed the

importance of further efforts in the following areas especially in crisis-affected countries including promoting prudential and other structural reforms in the financial sector; implementing internationally agreed standards and codes; accelerating corporate restructuring; improving public debt management; enhancing social safety nets; and developing regional capital markets. A more balanced fiscal position is also of importance over the medium term, as well as appropriate exchange rate policies. They also welcomed moves towards greater regional cooperation in the areas of monetary stability and economic dialogue and closer economic partnership with Europe and other regions.

7. Ministers welcomed the key role that ASEM has played in bringing Asia and Europe to work together to address the crisis. They expressed their confidence that the renewed economic dynamism of Asia and the growing economic strength of Europe would combine to promote prosperity and stability in both regions, thereby benefiting the international community as a whole in this increasingly interdependent world. Ministers also acknowledged the important role which the ASEM trade pledge made in ensuring that European markets remained open to Asian exports, particularly in the immediate aftermath of the crisis.
8. The Ministers noted that the Japanese economy has modestly improved, led by recovery in corporate profits and business investment. However, Ministers acknowledged the importance that the Japanese economy gets on a self-sustaining recovery track, and that structural reforms in the financial and corporate sector need to be continued to this end. Ministers also stressed the importance of the Japanese economy for sustainable growth in Asia.
9. Ministers welcomed China's efforts in sustaining economic growth through proactive fiscal policy, welcomed economic restructuring, and looked forward to further progress in this respect. They acknowledged the importance of China's WTO entry to the world trade system, and welcomed the recent substantial progress in the China's WTO negotiations.

Europe: two-year experience since the introduction of the euro

10. After the temporary weakening in the first half of 1999, the EU economy, in particularly the euro area, has shown a strong recovery with core inflation under control. Robust growth has been aided by resurgent export growth due chiefly to the strengthening global recovery. Buoyant economic activity has been accompanied by a substantial decline in unemployment. They agreed that EU enlargement would foster long-term economic growth in existing and prospective EU member states.
11. Ministers noted that such strong growth had been achieved together with positive structural changes in the region. Those include fiscal discipline and tax reforms, more flexible labour markets, and deeper and more efficient financial markets. Ministers welcomed the Agenda for Structural Reform agreed in the Lisbon Summit conclusions. They acknowledged that the single currency has been an important catalyst in stimulating the structural reform process, and that such improvement in economic fundamentals should contribute to the sustainable long-term economic growth in the region.
12. The introduction of the euro on 1<sup>st</sup> January 1999 was an important step in the European integration process. The single currency has immediately gained its place among the main world currencies. The introduction of the euro has created a more stable environment for euro area member states and for the EU in general and provides international investors an opportunity to

diversify their portfolios. In particular, the euro has become the reference currency on international bond markets alongside with the dollar. Ministers noted that the creation of Eurogroup has improved coordination of economic policies in the euro area, thereby providing a sound basis for sustainable growth in the euro area. The euro area is progressing smoothly towards the introduction of euro coins and banknotes, which will take place from the 1<sup>st</sup> January 2002.

#### **Economic and financial cooperation in the regions**

13. Ministers recognized the role of regional economic and monetary cooperation in promoting international stability, as exemplified by the EMU process.

#### European experiences in the regional cooperation and lessons learned

14. Ministers discussed European experiences in closer regional cooperation and the lessons to be drawn. They focused on cooperation towards market integration, including financial sector, and on economic dialogue and coordination of economic policies. While completion of the internal market on the one hand and closer co-operation in monetary and exchange rate policies within the EMS and convergence of economic and fiscal policies on the other hand foster the European integration process, Ministers stressed the fact that subsidiarity is a key feature of this process and that it is incremental, enabling progress at a different pace in different areas of integration.

#### Status and prospects for regional cooperation in Asia

15. Ministers reviewed the status of the regional financial cooperation in Asia, and discussed the prospects for the monetary cooperation and economic dialogue in the region.
16. Ministers welcomed the progress in the regional financial cooperation achieved at the ASEAN+3 (China, Japan and the Republic of Korea) Finance Ministers' Process and reported to the ASEAN+3 Summit held in Singapore in November 2000. The swap arrangements under the Chiang Mai Initiative, which symbolizes the significant development of regional financial cooperation, shall supplement existing international financing facilities including those provided by the IMF. They supported early establishment of the network of the bilateral swap arrangements. As part of the regional self-help arrangement, ASEAN+3 cooperation is also focusing on strengthening the regional policy dialogues and cooperation activities in the areas of surveillance and monitoring, including capital flows. Ministers also noted that the ASEAN countries have concluded the agreement on the new expanded ASEAN Swap Arrangement (ASA).

#### **Exchange Rate Regimes**

17. The choice of an appropriate exchange rate regime is important for emerging market economies to achieve sustainable economic development. Ministers acknowledged that there is a spectrum of possible exchange rate arrangements, depending on various aspects such as the size of the economy, trade and investment structure, the sequencing of capital account liberalization and the level of economic development. No single arrangement is necessarily right for all countries all the time. The experience of recent years suggests that countries now face a much higher risk of financial crisis if they choose an exchange rate regime that is not backed by coherent and appropriate macroeconomic and structural policies, as well as strong institutional arrangements.

18. Ministers discussed appropriate exchange rate regimes for the emerging market countries. They shared the view that an exchange rate regime can best prevent prolonged misalignments while avoiding excessive volatility if it is backed by stable and sustainable domestic policies. Ministers observed that the potential strains of free floating were most easily accommodated by countries with deep domestic financial markets and the full convertibility of the currency. Countries seeking both to maintain a flexibility and to avoid excessive volatility in exchange rates might consider intermediate regimes such as band arrangements. Ministers noted that the greater the rigidity of the exchange rate arrangement the more demanding the policy requirements necessary to sustain it, especially when a country is strongly engaged with international capital markets. Intermediate and fixed exchange-rate regimes should be consistent with the pattern of trade and financial flows, as well as with macroeconomic and structural policies.
19. Ministers acknowledged that, since the Asian crisis, Asian countries have moved generally towards more flexible exchange rate regimes. Each of those countries is currently making efforts to stabilize its currency at more sustainable level, compared to the pre-crisis period, by ensuring that the exchange rate regime and macroeconomic and structural policies are consistent.
20. The IMF is expected to play a key role in advising and supporting countries in this area, based on the valuable experiences accumulated over time, taking the specific factors of individual countries into account.

#### **Strengthening the international financial system and prevention of the recurrence of a crisis**

21. Ministers welcomed the progress made in strengthening international financial architecture, including the agreement reached at the IMFC Spring meeting on a framework of principles and tools for private sector involvement in the prevention and resolution of financial crises, and progress made at the IMFC annual meeting on the operational framework by which private sector involvement can be promoted. They agreed to continuously work together with other members of the international community to further strengthen the international financial system in order to ensure long-term stability. They stressed the importance of adapting further the role and functioning of the IMF and other IFIs and welcomed the recent progress achieved to enhance the transparency and legitimacy of the IMF. They also called on the IMF to enhance its accountability. To that end, they acknowledged that it was important to ensure that quota allocation appropriately reflects developments in the world economy and for the IMFC to play a key role in providing strategic guidance to the Fund. They took note of the discussion by the IMF's Executive Board of the work of the quota formulae group, and look forward to the Board's continued work on this issue.
22. Ministers reaffirmed the importance of effective financial sector regulation and supervision, corporate governance, the disclosure of economic and financial data, and transparency of macroeconomic policies in strengthening financial systems. Noting that each member assessed recent progress in the implementation of the Basel Core Principles for effective banking supervision, Ministers welcomed the progress made in the implementation of sound financial regulation in line with the agreement at the second Finance Ministers' meeting held in Frankfurt/Main in January 1999. They asked their Deputies to keep the issue under review. Ministers supported the 12 key standards identified by the Financial Stability Forum and encouraged the continuing implementation of these standards by each ASEM country in accordance with its circumstances and priorities. They acknowledged the importance of IMF surveillance, including IMF-led assessment programs of the observance of standards and codes to foster their implementation and encouraged all ASEM countries to participate in the programs, noting that some ASEM countries had already undertaken or achieved such assessments. They recognized the importance of appropriate technical assistance to help countries in the self-

assessments and implementation of international standards in a focused manner and noted that ASEM Trust Fund II (ATF II) could play a useful role in this regard.

23. Ministers reaffirmed that they remained committed to addressing potential problems associated with international volatile capital movements. They welcomed the Financial Stability Forum's work on Highly Leveraged Institutions (HLIs), Capital Flows, and Offshore Financial Centers (OFCs) and stressed the importance of the implementation of all the recommendations set out in its reports. The FSF considered, but did not recommend at that stage, direct regulation of currently unregulated HLIs. However, Ministers stressed that direct regulation of HLIs would be considered if, upon review, the implementation of indirect regulation, including transparency obligations, would not be adequately addressing the concerns identified. In addition, they reiterated the need to enhance regulation in OFCs, and urged the IMF, together with other relevant international bodies, to expedite its work to conduct assessment of these jurisdictions' observance of relevant international standards.
24. Ministers recalled the crucial role of economic reform in creating the conditions for sustainable long-term growth, and are committed to improving the integration of all countries into the globalized financial world. Emerging market economies should notably be supported by the international financial community in opening their capital accounts in a well-sequenced manner to benefit from international capital flows while minimizing potential risks. To this purpose, they agreed to make every effort to put the principle of orderly financial liberalization into practice.
25. They welcomed a report by a Working Group chaired by Finland on Opening Financial Services to Competition that provides important and useful lessons for ASEM countries. It indicates that while market opening in the financial sector brings about enormous benefits over the long term, it could pose challenges regarding, for example, structural adjustments and systemic stability in the short term. Ministers agreed that, in order to address these challenges successfully, market opening requires credible political commitment and should be supported by sound macroeconomic policies, decisive structural reform, and strengthened financial supervision and prudential regulation. Taking into account observations and recommendations contained in the report, Ministers affirmed their commitment to take further necessary and appropriate measures to open their financial services markets.
26. Ministers underlined the importance of the fight against money laundering and other financial abuse in strengthening market integrity and therefore financial stability as a whole. In this perspective, they strongly supported the international efforts against money laundering and in particular those of the Financial Action Task Force (FATF), and the inclusion of its Forty Recommendations among the priority international standards. They also welcomed the work of other international and regional groups in combating financial abuse. Ministers expressed their commitment to strengthen cooperation among ASEM partners in the fight against money laundering and welcomed the launch of the ASEM Anti-Money Laundering Initiative. They will review the progress at their next meeting in 2002.

#### **Strengthening Asia-Europe cooperation in the economic and financial field**

27. Enhancing cooperation to strengthen financial systems, inter alia on technical assistance, the exchange of expertise and monitoring of trends, is critical to prevent potential future economic and financial crisis. Ministers welcomed the achievements of ASEM initiatives such as the ASEM Trust Fund and the European Financial Expertise Network in addressing problems in the financial

and social sectors. Following the decision made by ASEM Leaders in Seoul in October 2000 to launch an ATF II, Ministers endorsed the outline of the modalities for such an instrument.

28. The ATF II will be built on the successes of ATF I, following the same basic objectives and implementation arrangements in providing technical assistance and training to assist recipient countries in sustaining their efforts in the reform of financial and corporate sector policies and institutions and in the reform of social policies and institutions. As a subordinate objective, ATF II should also encourage dialogue among those involved in policy formulation in these areas in Asia and in Europe. ATF II will be implemented by the World Bank, in accordance with an agreement to be entered into with those ASEM partners who will contribute to the Fund. Ministers stressed the importance of enhanced coordination and consultation, including all concerned beneficiaries and donors, and noted that account should be taken of existing instruments in this field, and of the priorities and activities identified by partners. Ministers also encouraged all ASEM partners who might wish to contribute to ATF II to consider this positively.
29. Ministers encouraged cooperative activities in the economic and financial field, such as sharing experience and lessons in fostering regional economic and monetary cooperation in Asia and Europe. In this connection, they welcomed "Kobe Research Project," proposed by Japan, that is designed to facilitate inter-regional cooperative research and study activities on topics of mutual interest, such as the regional monetary cooperation, the exchange rate regimes and the public debt management under Asia-Europe cooperation.
30. Ministers welcomed the ASEM Public Debt Management Forum proposed by Thailand, and supported the development of means for ASEM partners to share experiences and explore common issues.

#### **ASEM customs cooperation**

31. Ministers took note of the results of the Third ASEM Customs DG-Commissioners Meeting held on 23 June 1999, particularly the sound progress in the fight against illicit drug trafficking and other customs offenses.
32. Ministers also welcomed the holding of the first ASEM Customs Seminar which strengthen the dialogue between Customs and business, and the establishment of the ASEM Customs Database which contributed to enhance transparency of Customs procedures. Ministers took note of the results of the meetings of the Working Group on Customs Enforcement and of the Working Group on Customs procedures that took place respectively in February and April 2000. They urged further work on trade facilitation, including harmonization on Customs data elements, taking into account the outcomes of the G-7 Experts' work, and the further enhancement of the dialogue through the second Seminar to be held, back to back with the Fifth ASEM Procedures Working Group Meeting, in Bangkok in April 2001, in line with the Deliverables and Goals for 2000-2002 of the Trade Facilitation Action Plan.
33. Reaffirming that trade facilitation and enforcement must be well coordinated, Ministers encouraged Customs authorities to continue strengthening their cooperation. They noted that this cooperation would be enhanced by supporting instruments such as customs cooperation agreements.

**Date and venue of the next ASEM Finance Ministers' Meeting**

34. Ministers agreed that the Fourth ASEM Finance Minister's Meeting will be held in Denmark in 2002 before ASEM 4 meeting in Copenhagen.