

13th APEC Finance Ministers' Meeting Joint Ministerial Statement

7-8 September 2006, Ha Noi, Viet Nam

I. Introduction

We, the Finance Ministers of the APEC economies, convened our 13th annual meeting in Ha Noi, Viet Nam on 7-8 September 2006 under the chairmanship of Mr. Vu Van Ninh, Minister of Finance of Vietnam. The meeting was also attended by the First Deputy Managing Director of the International Monetary Fund, the Managing Director of the World Bank, the President of the Asian Development Bank, the Executive Director of the APEC Secretariat, and private-sector representatives from the APEC Business Advisory Council.

We met under the policy themes of *"Promoting Public Finance Efficiency and Sustainability: Towards Stable and Efficient Revenue Sources"* and *"Financial Sector Reform to Attract Capital Flows"*. In discussing the themes, we noted that many APEC member economies are pursuing tax reform aimed at securing stable and efficient revenue sources. Our discussion also emphasized the importance of open, adequately supervised, and robust sound financial services sectors.

We moreover welcomed the overall reform of APEC underway and stressed our commitment to further strengthen the prominence and relevance of the Finance Ministers' Process in order to more effectively complement the work of the APEC Leaders' Process and successfully achieve the Bogor Goals.

II. Global and Regional Economic Developments

We welcomed the continued strong performance of the world economy despite higher oil prices. We noted that although growth in the APEC region has moderated somewhat in 2005, the region is still experiencing strong growth that is expected to surpass 4.1% this year. Increased trade and investment have been key drivers of expanding economic prosperity in member economies. Therefore, we remained firmly committed to restarting the multilateral trade negotiations and achieving the breakthrough in market access and support to bring the negotiations to a successful conclusion which is so important for growth and development. We resolved to work with our own trade authorities to make tangible contributions to restart the Doha round. We also stressed that the conclusion of regional trade agreements and free trade agreements can make an important contribution to trade liberalization and can help invigorate the DDA negotiations.

We recognized the importance of joint action towards an orderly readjustment of global imbalances in a way that sustains strong regional and global economic growth, and the shared responsibility that APEC economies have in bringing this about. Reducing global imbalances while maintaining growth requires fiscal sustainability, price and exchange rate flexibility, and reforms to promote investment, strengthen financial markets, generate more balanced domestic demand, and improve corporate governance and legal infrastructure across the Asia-Pacific region. This entails greater national saving in the United States, further structural reforms including fiscal consolidation in Japan, stronger domestic demand growth in other APEC member economies and Europe, and greater exchange rate flexibility for some economies as appropriate in emerging Asia. Progress has been made but further efforts are necessary.

III. The 13th APEC Finance Ministers' Process Policy Themes

1. Promoting Public Finance Efficiency and Sustainability: Towards Stable and Efficient Revenue Sources

We recognized that stable and efficient revenue systems are crucial for the fiscal health of APEC member economies and for ensuring an appropriate level of public expenditure in social and economic development. We also recognized that tax incentives can be tools for growth and development but they can affect the efficiency and sustainability of revenue systems. We noted the importance of developing transparent revenue systems that have minimal distortionary impact on the operation of open markets.

Having acknowledged the potential risks of the erosion of tax bases to the development of sound fiscal policies, we agreed that careful consideration should be given to tax incentives that affect revenue bases as part of the budget process. We encouraged member economies to identify and review all tax incentives that may erode revenue bases regularly, and ensure full accounting of the costs and benefits of tax incentives relative to other policy instruments. The impact of selectively targeted tax incentives on regional and global commitments to the fair and free flow of capital, labor, and technology should also be considered.

We noted that many APEC member economies are pursuing tax reform to modernize tax systems, improve their sustainability and equity, and reduce economic distortions. We also noted that there may be trade-offs in achieving these objectives; thus it is important to prioritize and reconcile competing objectives. We encouraged member economies to share tax reform experience to assist in the development of efficient and sustainable revenue through academic, business, and governmental meetings and through direct economy-to-economy assistance programs. We reaffirmed our commitment to work together and cooperate on common interests for efficient and sustainable revenue systems.

2. Financial Sector Reform to Attract Capital Flows

We noted that capital flows can be a powerful force for development and growth in member economies. Capital flows can provide additional resources for productive investments; enhance access to technology, management skills, and international markets; and improve competitiveness and efficiency. Capital flows, in particular portfolio flows, may also provide an efficient source of finance to economies facing capital shortages, fill the saving-investment gap, permit portfolio diversification and indirectly enable production diversification. The capacity of the domestic financial sector can also be complemented by foreign direct investment in financial services which can lead to deeper, more competitive, resilient, and efficient financial markets, as well as a better financial infrastructure by lowering financing costs, and raising standards of business and corporate governance. We noted the importance of further liberalization in this area and the need to continue efforts on this in multilateral trade negotiations.

However, the potential volatility of international capital flows could carry risks to developing economies with less resilient financial markets and could undermine macroeconomic stability. Thus, the strengthening of the domestic financial sector, including its capacity to absorb the risks associated with large and potentially volatile cross-border capital flows, and ensuring a sound fiscal discipline are essential for economies to benefit from capital flows. It is also important to further explore more effective means of monitoring volatile cross-border capital flows.

Recognizing the contribution of capital flows, as well as the risks associated with them, we emphasized the importance of open, well-supervised, and systemically sound financial services sectors. We resolved to continue our efforts to strengthen financial oversight in order to build deep, resilient, and efficient financial markets, including developing the institutional investor base.

In this context, we re-affirmed our commitment in 2005 to international standards set forth by the Financial Action Task Force (FATF) to combat terrorist financing, money laundering, and other abuses of our financial systems. We urged FATF to make efforts as appropriate in enlarging the membership of the Task Force.

We also agreed that structural reform aimed at strengthening the domestic financial sector should be well sequenced, appropriately paced, and tailored to the specific circumstances of each economy as the financial sector is opened up internationally. Ideally, the process needs to be implemented as a coordinated package of initiatives moving in parallel with, but also with due consideration to, progress in reform of other parts of the economy. Financial sector reform is a necessary but not sufficient condition for attracting capital. In that context, financial sector reform should be supported by a sound macroeconomic framework, a sound and effective legal framework, well functioning product and factor markets as well as greater regional, and global cooperation. Participation in the IMF and World Bank's Financial Sector Assessment Program (FSAP) can inform that process, including prioritizing reforms. We encourage all members to participate in FSAPs taking into account the level of development and the specific conditions of each member economies in support of domestic financial market development.

IV. Review of the APEC Finance Ministers' Process

We took stock of the APEC Finance Ministers' Process and assessed how to further strengthen its prominence, policy-relevance, and complementarity to the work of the APEC Leaders' Process, particularly given the rapid evolution of the global and regional economic and business environment and APEC's activities overall.

To this end, we agreed to a set of updated strategic goals and a framework for conducting medium-term reviews of all aspects of the APEC Finance Ministers' Process (Annex A). We believe that there is value in conducting periodic reviews of the process.

In pursuit of the strategic goals, we also adopted the Hanoi Medium-Term Agenda which suggests priority policy areas and a planning framework for the process over the next three to five years (Annex A).

V. Other Matters and Venue of the Next Meeting

We welcomed the IMF Executive Board's decision to submit to Governors a two-stage package of significant reforms to improve the Fund's governance structure so that countries' voice and quota shares better reflect the world economy, including the fast growth in many emerging economies. We underscored the importance of reaching an expeditious conclusion to this long overdue reform.

We welcomed our dialogues with the APEC Business Advisory Council (ABAC). ABAC has provided valuable inputs from the private sector, as well as support for the work under the themes of the 13th APEC Finance Ministers' Meeting. We welcomed ABAC's recommendations and look forward to working more closely with ABAC.

We noted the APEC Deputies Chair report on the progress of policy initiatives, as appears in Annex B.

We reiterated our commitment to address the challenges and seize the opportunities of population aging and commended the Experts' Group on Aging issues for their progress report (Annex C).

We thanked the Vietnamese people for their warm hospitality, and the Vietnamese Government and the Ministry of Finance for their excellent arrangement of the 13th APEC Finance Ministers' Meeting.

We will meet again for the 14th APEC Finance Ministers' Meeting in Australia, on 2-3 August 2007.

Annex A

Updated Strategic Goals of the APEC Finance Ministers' Process and Hanoi Medium-Term Agenda

Updated Strategic Goals of the APEC Finance Ministers' Process

With a view to enhancing the Finance Ministers' Process (FMP) to complement the APEC Leaders' Process, we, the Finance Ministers of the APEC economies, reviewed the FMP's strategic goals, taking into consideration the evolution of APEC's activities, and the dynamic changes in the international and regional economic and business environment.

Recognizing the APEC principles of voluntarism, consensus-based decision-making, flexibility, differentiated timetables for developed and developing economies and pathfinder initiatives, as well as the strengths and unique characteristics of the FMP, we agreed to promote sound and credible policies to achieve the following set of updated strategic goals:

- Sustainable, equitable, and broadly-based growth and development in the APEC region;
- Macroeconomic stability in the APEC region;
- Prudent public finance management;
- Good corporate governance;
- 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.

We also agreed that there is value in conducting medium-term reviews of all aspects of FMP activities, ranging from strategic goals (if necessary) to policy initiatives, every three to five years. In this regard, we also endorsed a framework, including procedures, components, and criteria for the medium-term review.

Hanoi Medium-Term Agenda for the APEC Finance Ministers' Process

In pursuit of the strategic goals of the FMP, we, the Finance Ministers of the APEC economies, recognized that individual and common interests should be respected. We also acknowledged that a medium-term agenda covering possible priority policy areas is essential for developing policy themes and other activities for the FMP to provide member economies and other stakeholders with a consistent, focused and longer-term planning framework and outlook. With a view to enhancing the FMP's effectiveness and efficiency, we agreed on the Hanoi Medium-Term Agenda which provides the following possible priority policy areas:

- Public finance management: promoting efficiency and sustainability in public finance; good fiscal management, including fiscal reform, fiscal decentralization, and fiscal risk management.
- Corporate governance and development: encouraging the adoption of best practice in corporate governance; and strengthening the legal frameworks for corporations including insolvency regulations.
- Financial sector and capital market development: financial sector reform; financial services liberalization; securities (including bonds) markets development; SME financing; financial crises prevention and resolution; remittance systems (formal and informal); money laundering and terrorist financing.
- Macroeconomic development, including fiscal and monetary policy.
- Emerging challenges such as the economic consequences of aging, health pandemics, and developments in energy and raw materials markets.

Based on the medium-term agenda, we encouraged:

- Policy themes to be selected from a set of policy areas provided by the medium-term agenda.
- Multi-year horizons to enhance more focused discussion and continuity across years.
- New initiatives that would be based on policy areas set out in the medium-term agenda.
- The FMP policy agenda be developed taking account of the work programs of other fora and other parts of APEC, including the Economic Committee and the Committee on Trade and Investment, and recognizing the advisory role of ABAC, to ensure complementarity of themes and avoid unnecessary duplication with other fora and across APEC.

In order to make the medium-term agenda practical and effective, host economies may, in consultation with other members, propose policy themes complementing the medium-term agenda to address the newly arising issues/emerging challenges in the region or meeting common interests in domestic policy reform.

Annex B

Policy Initiatives Review

a) Voluntary Action Plan for Supporting Freer and More Stable Capital Flows: The Policy Dialogue on Savings and Capital Market Development (New Zealand, Chile, Vietnam)

The first workshop under the *Policy Dialogue on Savings and Capital Market Development* was held on 1 September 2006 in Hanoi. The *Policy Dialogue* is a multi-year initiative that contributes to the *Voluntary Action Plan on Freer and more Stable Capital Flows* (proposed in 1997 and endorsed by Ministers in 2000). The first workshop examined the relationship between savings and the development of strong and liquid capital markets.

Expert speakers at the workshop put forward a set of policy recommendations to initiate a virtuous cycle of savings and capital market development which may contribute to increased economic growth. Regulation, tax incentives, fiscal policy, and market information were presented as potential policies to help initiate this cycle.

Participants at the workshop suggested a set of topics for the forward agenda. Items of high interest included pension fund regulation/management, fiscal policy, taxation, and savings scheme design. Co-chairs will consult member economies inter-sessionally to further develop a work programme for consideration by TWG 1 in December 2006.

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

With support from APEC member economies and international financial institutions, Asia-Pacific Finance and Development Center (AFDC) has continued its efforts on capacity building in the fields of finance and development. Focusing on issues of regional concern, AFDC has organized four training workshops by the end of August, with a total of 195 delegates from 15 APEC economies participating. There will be two more training workshops, named “Bank Risk Management” and “Corporate Bond Market”, in November, 2006 in Shanghai, China. Besides face to face training activities, AFDC has successfully delivered its 4 training workshops to Mongolia, Vietnam, and several cities in China through the Global Distance Learning Network (GDLN) of World Bank. More than 200 local participants joined the workshops.

The first AFDC Biennial Forum will be held on 21-22 September, and its preparation work is now progressing smoothly. The Forum, under the theme “Innovation for Development”, will be a high-level platform for in-depth communication among government authorities, academia and business. AFDC warmly welcomes all APEC member economies to participate in the upcoming forum.

The information about AFDC, including workshop materials, can be found on the website www.afdc.org.cn.

c) Deepening Prudential Regulatory Capacity in Non-Life Insurance (Australia and the US)

This initiative to run a capacity building training course for non-life insurance regulators was endorsed by the 21st TWG meeting in Quang Ninh, Vietnam, in December 2005. The

proposal will be undertaken in close collaboration with public and private sectors. The training course will take the form of a six day intensive format in Melbourne, Australia, in the first half of 2007.

The initiative will be supported by the Melbourne APEC Finance Centre, which has recently been created in the Australian APEC Study Centre, funded by the State Government of Victoria, Australia. At the 13th FMM, Finance Ministers welcomed the establishment of the Centre.

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

The annual Future Economic Leaders' Think Tank, now in its 6th successive year, was formally launched at the Beijing APEC Finance Ministers' Technical Working Group meeting in December 2000. The 6th annual Think Tank was held on June 28-30, 2006 in Sydney, Australia. More than 27 representatives from 19 APEC economies attended the 6th Think Tank. The topic of the event was "Securing International Capital Flows". This topic was chosen to complement one of the 13th FMM themes, namely "Financial Sector Reform to Attract Capital Flows".

e) APEC Financial Regulators Training Initiative (FRTI) (US and the ADB)

The Financial Regulators Training Initiative has made significant progress in achieving its objectives of strengthening content and management of the national training programs and developing regional programs for junior and mid-level banking supervisors and securities regulators. Since the inception of Phase II in 2001, the Initiative has trained more than 1,600 participants from APEC economies in 32 regional and 13 national courses. Thus far in 2006, three regional seminars on bank supervision have been held: a Bank Analysis and Examination School in April, in Manila, Philippines; a Risk-Focused Supervision and Risk Assessment program in July, in Perth, Australia, and an Operational Risk Management session in August, in Kuala Lumpur, Malaysia. A fourth program, The Fundamentals of Interest Rate Risk Management session will be held in Hong Kong, China in November. Two seminars were conducted under the securities regulation component of this training initiative: Regulation of New Products in May, in Kuala Lumpur, Malaysia and Investigation and Enforcement held in July, in Manila, Philippines. The seminar on Risk Management and Internal Controls will take place in Chinese Taipei in October.

The Advisory Group (AG) provides support and guidance for the training needs and activities under the Initiative. At the 11th AG meeting held at the ADB Headquarters in Manila, Philippines on 14 July 2006, the AG members confirmed their continued support for the Initiative in 2007. For the last two years, Bank Negara Malaysia chaired the AG for banking supervision while the Securities Commission of Malaysia chaired the AG for securities regulation. For 2006 – 2008, the Hong Kong Monetary Authority and Securities and Exchange Commission, Philippines will chair the advisory groups for banking supervision and securities regulation, respectively. For 2007, the training program for banking supervision will comprise regional courses on Risk Focused Supervision, Fundamentals of Interest Rate Risk Management, Operational Risk, and Consolidated Supervision of Market Risk. Next year's program for securities regulation calls for regional seminars on Investigation and Enforcement, Market Supervision, and Collective Investment Schemes / Hedge Funds.

f) APEC Financial Institutions Dealing with SMEs (Incombank, Viet Nam)

The Industrial and Commercial Bank of Vietnam (Incombank), the host of the 3rd Annual Meeting served as a secretariat for cooperation activities among MOU signatory members for the period of July 2005 to July 2006. The 3rd Annual Meeting took place in Hanoi on 26 July, 2006, providing opportunity for signatory members to review recent cooperation activities, and discuss the possibility of strengthening the cooperation among MOU members on a multilateral basis.

After the Annual Meeting, Incombank hosted a conference on July 27 on “Strengthening support and cooperation for the development of APEC SMEs” with the participation of approximately 200 delegates from MOU members, institutions and individuals related to and interested in SME financing. The conference focused on two major themes including “Improving financial access for SMEs” and “Fostering business development services for SMEs”.

Delegates and conference participants expressed their appreciation that the implementation of the third Annual Meeting and the Conference was a significant step towards greater cooperation among APEC financial institutions dealing with SMEs, that would bring about better environment for micro, small and medium enterprises of participating economies. Participants urged other financial institutions from APEC economies to join in such cooperation.

g) Insolvency Reform Initiative (Australia)

This Insolvency Reform initiative received endorsement at the APEC Finance Ministers’ TWG meeting in Gyeongju on December 2004. Phase One of the Insolvency Reform initiative was implemented through the Forum on Asian Insolvency Reform (FAIR), held on 27-28 April, 2006 in Beijing, China. Forum participants to the forum included 150 representatives from 24 economies (both APEC members and non-members) and 6 international organisations. The forum encompassed a general assessment of Asian reforms in the last decade, and specific topic discussions on reorganisation, informal workouts, courts and regulatory institutions, priority claims, creditor participation, corporate groups, and cross-border insolvency.

Phase Two of the initiative was endorsed by the 22nd TWG Meeting in Nha Trang, Vietnam. Its objective is to establish a regional network to monitor, and ultimately provide a source of information on and advice about, improvements to insolvency systems in Asia on an on-going basis.

h) Reform of Financial Sector Initiative (Australia, Indonesia, China, Japan and Vietnam)

The initiative on Reform of the Financial Sector received endorsement at the APEC Finance Ministers’ TWG meeting in Gwangju on June 17, 2005. The overall aim of this initiative is to discuss how member economies have developed and implemented reforms and strategies to strengthen their financial sectors.

A policy dialogue in the form of a 2-day workshop was held in Shanghai, China on 3-4 July, 2006 to exchange views on how APEC economies have developed and implemented reforms to improve financial frameworks. A second workshop, which will be held in Lombok,

Indonesia, on 29-30 November 2006, may focus on capacity constraints to further development and other issues that have been identified, including possible capacity building activities. The final report on the initiative will be submitted to the APEC Finance Ministers' Meeting in August 2007.

i) Fiscal Management Initiative (Australia, Vietnam, Indonesia)

This collaborative Fiscal Management initiative received endorsement at the APEC Finance Ministers' TWG meeting in Gwangju on June 17, 2005. The first workshop of the initiative was held in Hanoi, Vietnam on 27-28 February 2006, and included participation by 74 officials from 17 economies (including Laos and Cambodia) and representatives from International Financial Institutions and the private sector.

The first workshop discussed a broad range of fiscal risk management topics including fiscal risks from public-private partnerships, fiscal risks from state-owned enterprises, and the importance of transparency for managing risk. A range of topics that may be covered at the second workshop were identified: fiscal risks from future public pension obligations; fiscal risks arising from sub-national governments; and the management of contingency funds created to address future budget pressures or the realization of contingent liabilities. The second workshop will be held in Lombok, Indonesia, on November 27-28, 2006 back to back with the second workshop on financial sector reform. The final report on the initiative will be submitted to the APEC Finance Ministers' Meeting in August 2007.

j) APEC Policy Response to Aging issue (Korean proposal)

This initiative was endorsed by 13th APEC Finance Ministers in September, 2006, in Hanoi, Vietnam. Recognizing the importance of aging issues in various areas including economic development, fiscal policy, and financial market development, Korea proposed this multi-year initiative with the objectives of (i) finding a commonality amongst the domestic reforms conducted by each APEC economy and derive an effective policy guideline on a voluntary basis; and (ii) calling for a comprehensive group, including experts from member economies as well as from IFIs, aimed towards policy formulation and recommendation that reports to the APEC Finance Ministers.

Korea will prepare a further developed proposal at the 23rd TWG meeting in December of this year.

Annex C

Progress in Jeju Declaration

1. APEC Finance Ministers acknowledged the importance of aging issues within the APEC region in September of 2005 in Jeju, Korea, and the necessity to address this issue by sharing experiences and derive policy recommendations. As a direction of the Jeju Declaration, the Experts Group on Aging issues was launched by end of 2005, and two workshops have successfully been held in Seoul and Hanoi. Experts from twelve member economies and ABAC selected three main topics on aging issues and under these topics, fifteen specific issues were discussed.

2. The following summarizes the major findings of the activities of the experts.

- i) **Aging population leads to slower economic growth.** As the size of the labor force contracts, the growth rate of the economy will slow and the detrimental effects of population aging on economic growth will become clear. The relevant question therefore for policymakers is what happens to the *per capita* economy growth.
- ii) **Population aging threatens fiscal soundness and sustainability.** Higher expenditures for health care and other elderly care, social security payments and pension payments combined with a smaller tax base create a strain on the government budget.
- iii) **Population aging affects financial markets and financial industries.** Robust financial markets create savings opportunities for individuals to prepare for retirement. Returns to capital are likely to decline as the societies age and the capital labor ratio increases. Aging is occurring so facilitating economic adjustment and strengthening financial markets are important for financial and economic stability.

3. The comprehensive final report has been submitted to the Finance Ministers' Meeting on September 7-8, and the Ministers appreciate the efforts of the Expert Group. This provides a background of general policy guidelines on the aging issues in APEC. In order to fulfill the general objective of the Expert Group, the Ministers confirm the need for further in-depth activities in this area in order to derive specific policy guidelines.

4. With the support of member economies, we hope that the efforts of the Expert Group develop into a new policy-initiative as a multi-year process. In addition, the initiative needs support through a more comprehensive group, including experts from IMF/WB/ADB and other related IFIs and ABAC, aimed towards policy guidelines on aging issues. We recommend Korea and interested economies to prepare a detailed proposal.