



Asia-Pacific
Economic Cooperation

2007 14TH APEC FINANCE MINISTERS' MEETING

JOINT MINISTERIAL STATEMENT

2-3 AUGUST 2007

COOLUM, QUEENSLAND, AUSTRALIA

I. INTRODUCTION

We, the finance ministers of the APEC economies, convened our 14th annual meeting in Coolum, Queensland, Australia on 2-3 August 2007 under the chairmanship of the Honourable Mr Peter Costello, MP, Treasurer of Australia. The meeting was also attended by the First Deputy Managing Director of the International Monetary Fund, the President of the World Bank, the President of the Asian Development Bank and the Chair of the APEC Business Advisory Council (ABAC).

Under Australia's APEC 2007 theme of *strengthening our community, building a sustainable future*, we discussed the key economic and financial issues that are shaping our region's future prosperity.

In discussing the regional economic outlook, we considered two key medium-term challenges. The first is to ensure that sufficient well-targeted investment occurs to underpin sustainable economic growth. We highlighted the need for appropriate macroeconomic policies and continued structural reform in our economies to further enhance investment in the region, sustain domestic growth and help resolve global imbalances and reap the benefits of globalisation. The second challenge is to ensure that energy markets operate efficiently and transparently to deliver long-term energy security and meet the dual key objectives of sustaining economic growth while addressing climate change. We recognise that these are fundamentally economic issues that are best addressed through market-based solutions.

Consistent with the policy priorities outlined in the Hanoi Medium-Term Agenda, we considered two policy themes in our meeting - the importance of managing fiscal risks, including contingent liabilities and longer term fiscal pressures, and the need to deepen private capital markets to create new economic opportunities. Identifying and managing off-balance sheet risks in a transparent manner contributes to fiscal sustainability. We noted the important role private capital markets play in providing diverse sources of funding and channelling savings to fuel economic growth, including for infrastructure.

We discussed the evolving regional economic architecture and stressed the importance of APEC in drawing Asia-Pacific economies together. Recognising the need to take strong and early actions to address the challenge of climate change while maintaining economic growth, we considered the global architecture for addressing climate change and shared the view that it is important to establish an effective framework beyond the Kyoto Protocol under the UN climate process.

Our ongoing objective is to realise the APEC region's economic potential by drawing together the interests of member economies and exploring opportunities for cooperation and capacity building.

These issues are integral to continuing the strong economic performance of the APEC region and we support further discussion of them by APEC Economic Leaders.

II. GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS

We noted the continued strong contribution the APEC region is making to global economic growth. Despite the persistent threat of high oil prices, the APEC region grew by a robust 4 per cent in 2006 and inflation across the region has generally been moderate. This strong economic performance has raised living standards and reduced poverty throughout the region, and we remain committed to sound economic policies that will help to sustain this performance.

Growth and development in our region are based on an open and rules-based global trading system. We regard a rise in protectionist trade and investment sentiment around the globe as a serious threat to growth and living standards in our region. We will work with our own trade authorities towards a successful outcome in the Doha Development Round that is comprehensive and well-balanced, resulting in new trade and investment flows. We agree to work towards this goal in financial services negotiations.

The orderly reduction of global imbalances remains a priority. In the APEC region, this requires efforts to increase national savings in the United States, strengthen consumption in China, continue structural reform

efforts including fiscal consolidation in Japan, and encourage domestic investment in much of emerging Asia. Flexibility of exchange rates and prices will facilitate these necessary adjustments and reduce the costs. Such changes are in the interests of each individual economy, are desirable from a multilateral perspective and would help dampen protectionist sentiment.

As the process of integration intensifies, new ways of conducting business and new barriers to trade and investment are emerging. We noted the increased focus on behind-the-border impediments to trade and investment and the need for ongoing domestic structural reform to tackle them. We are firmly committed to reforms that support the efficient operation and integration of domestic markets. We expressed our strong support for the work of the APEC Economic Committee in advancing the APEC Leaders' Agenda to Implement Structural Reform.

Strengthening investment in the region

We noted the important role that domestic and foreign investment has in driving economic growth and development and enhancing regional economic integration.

While the investment outlook for the region looks promising, we considered why investment levels in some APEC economies remain relatively low despite favourable financing conditions. It was noted that most APEC economies had improved their monetary and fiscal policy frameworks and strengthened their financial systems, particularly through balance-sheet restructuring and improved lending practices.

Investment outcomes are affected by institutional and regulatory factors, including barriers to market entry, the operation of financial markets, and the degree of policy certainty. Sound monetary and fiscal policies, well-established legal and regulatory frameworks, and high-quality public- and private-sector governance all contribute to reducing risk and encouraging investment. Deep and liquid financial markets also offer an expanded source of funding for investment and assist with risk management and diversification.

We noted that the quality of investment, both public and private, is important and that investment should be attracted to areas where the greatest social and economic returns can be achieved. In this context, we identified infrastructure and the services sector as priority areas for future investment within the region. Stronger and more efficient investment, both domestic and foreign, is expected to strengthen domestic growth and stability and help resolve global imbalances.

Energy security and climate change

We recognise the ongoing economic risks around high and volatile energy prices and the need to maintain vigilance in macroeconomic policy to sustain growth and manage inflation. We noted that medium-term macroeconomic frameworks are proving very useful in managing the challenges of energy shocks and that greater flexibility in price mechanisms, including exchange rates, can enable economies to better manage the macroeconomic impact of changes in energy markets. We discussed a range of policy instruments that could be adopted to protect the poor from the effects of higher and more volatile energy prices while ensuring that price signals work and other government spending that matters for economic and social progress is not crowded out.

Looking to the medium-term, rising energy demand and import dependence in the Asia Pacific can be met by expanded trade and investment to boost supply and greater efficiency in use. For markets to be able to provide energy security, they need to be strong, open and transparent, with depth in spot and derivatives markets, long-term contracting, and investment. Markets need to be underpinned by effective regulatory regimes, transparency and governance, and efficient firms in both the private and state-owned sectors.

The region needs strong financial markets both to fund the investment required to expand supply and to provide the range of financial instruments – including derivatives – that are necessary for firms and governments to manage the risks around high and volatile energy prices.

Climate change is one of the major international challenges with implications for both the environment and global economy. New clean technology initiatives and greater efficiency and diversity in energy supply provide greater energy security and underpin a sustainable response to the challenges of climate change. Energy efficiency, based on advances in education, science and technology, is one of the most cost-effective means for achieving these objectives. As finance ministers, we play a key role in developing and linking market-based economic policy responses to these challenges.

It is important that new domestic policies are comprehensively assessed to ensure they meet the desired objectives of ongoing economic growth, energy efficiency, and clean development consistently over time and do not give rise to unanticipated adverse consequences. Practical cooperation between Asia Pacific economies is necessary to meet these objectives, especially in the development and transfer of cleaner and more efficient technology and the strengthening of domestic carbon accounting and reporting frameworks.

To respond effectively to the challenge of ensuring economic growth, addressing energy security and minimising the environmental impact of increased energy use, it is important to understand the economic and market impact of policy and business responses to deal with climate change. We welcome further work on this by APEC economies. In particular, we see value in bringing together and sharing APEC economies' experience with the suite of policy instruments for promoting energy efficiency and greenhouse gas reduction, including market-based mechanisms (such as emissions trading and taxes), incentives for new technologies and alternative energy sources, and regulation.

III. 14TH APEC FINANCE MINISTERS' PROCESS POLICY THEMES

1. Making private capital markets work better

Deep and integrated private capital markets can assist governments in achieving their economic and social objectives by providing secure and diverse funding sources for development. We noted the importance of private domestic capital markets in funding infrastructure and investment and helping manage key risks, including with respect to volatile energy prices and an ageing population.

We reaffirmed commitments to strengthen the legal, regulatory and commercial infrastructure needed to support financial deepening. We agreed that broadening and diversifying the investor base is critical for strengthening capital markets. Greater participation of specialist institutions such as pension funds, insurance companies, fund managers and securitisation originators is needed to provide depth and innovation in markets. We noted the potential complementary roles that savings policy, structural and regulatory policies and taxation policy can have in fostering capital market deepening, and the positive spill-over effects that investment in education and information technology can have on private capital markets. Macroeconomic stability is essential for financial markets to grow.

Similarly, we recognised the importance of developing and allowing greater access to a wider range of financial products such as corporate bonds, equities and derivatives for domestic and foreign participants. It is also essential to have effective trading, settlement and custodial arrangements, maintain credible corporate governance, ensure reliable disclosure and ratings, and strengthen regulatory supervision.

In considering priorities and sequencing of reform within our own economies, we agreed that it is important to approach reform holistically and strategically – ensuring that reforms are mutually reinforcing and consistent with economies' development priorities – and also pragmatically.

Implementing to the extent possible, we embrace international best practice and standards to support the achievement of important objectives such as investor protection; fair, transparent and efficient markets; and management of systemic risks. Continued progress in strengthening financial institutions and regulatory frameworks is central to secure the benefits of increasing regional and international market integration. We recognise that there are many domestic, regional and global mechanisms available to help economies progress financial market reform, including domestic reviews and the IMF/World Bank Financial Sector Assessment Program (FSAP) and associated reports on standards and codes. We encourage participation in FSAPs, taking into account the level and pace of development and the specific conditions of each member economy, to help economies prioritise financial sector reforms and evaluate risks to the financial system.

Recognising the contribution of capital flows, we emphasised the importance of open investment regimes to develop and strengthen domestic financial institutions and markets, improve productivity and boost growth.

We endeavour to support each other in strengthening and deepening the region's capital markets. Many of the initiatives underway in the finance ministers' process target capacity building and the sharing of experience with regard to the financial sector. We agreed to develop a web-based information system – the APEC Catalogue of Policy Experience and Choice – for finance ministries, central banks and regulatory agencies in the APEC region to collect and share knowledge on financial reform based on the practical experience of member economies and international agencies. We welcomed ABAC's report and recognise its contribution to strengthening financial systems in the region.

2. Transparency and sustainability of the public balance sheet

We agree that fiscal sustainability is essential for economic development and stability. Fiscal risks that are not well managed can result in obligations that damage the budget position, increase government indebtedness, and amplify the effect of negative economic and financial shocks.

We discussed our experience in managing a range of off-balance sheet risks, including public-private partnerships, state-owned enterprises, layers of government, pensions and health care, and guarantees. In the areas of infrastructure investment, we noted that public-private partnership projects, when supported by sound management and appropriate risk sharing, tend to have lower ongoing operating costs and significant public benefit. We also noted that guarantees work more effectively when their likely costs are identified, quantified where possible, and assessed against competing calls on government resources. We recognised that risks

related to state-owned enterprises and layers of government are lower when they are adequately resourced to meet their responsibilities and where central agencies are well informed about their financial positions and effective accountability arrangements are in place.

We discussed these issues within the framework of addressing risks at their source, sharing risks with the private sector where appropriate, and ensuring that residual risks are effectively monitored and managed. We acknowledge the extensive assistance available to economies seeking to improve fiscal transparency in these areas.

We welcomed the steps being taken by APEC economies to improve fiscal risk management, agreeing that small changes made now can generate large improvements in the long-term fiscal position. We identified a need for further guidance to support continued fiscal sustainability and highlighted the importance of a set of principles to guide further progress, recognising that our economies are at various stages of economic development and that the form of implementation is a matter for each economy. The APEC fiscal sustainability principles include:

- fostering well-functioning markets to reduce fiscal pressures on governments;
- establishing a clear framework of accountability and responsibility for addressing fiscal risks;
- collecting and reporting information about on and off-balance sheet risks across the whole of government;
- assessing the potential consequences of current and emerging fiscal risks or long-term pressures to determine the best ways to manage these risks;
- including risk in government measures of fiscal performance to help governments understand the true nature of their fiscal position;
- improving transparency and accountability to the public through appropriate means; and
- creating fiscal space or provisioning – even notionally – for expected future payments, especially for liabilities with a high probability of realisation in the near to medium-term.

In this context, the IMF and World Bank may provide further practical insights into best practices in managing fiscal risks.

We welcomed the revisions to the IMF Fiscal Transparency Manual and Code of Good Practices and acknowledged the benefits of undertaking a fiscal transparency Report on the Observance of Standards and Codes (ROSC). We encouraged economies to take advantage of this initiative and for those that have already undertaken this ROSC, to assess their current practices against the revised code. We welcomed the work by the Pacific Economic Cooperation Council on public-private partnerships.

IV. OTHER MATTERS AND THE VENUE FOR THE NEXT MEETING

We supported further work on quota and voice reform in the IMF and underscored the need for early agreement on comprehensive second-stage reform to enhance the Fund's legitimacy and representativeness. APEC economies believe comprehensive reform of IMF quotas and voice should recognise the strong growth of many emerging markets with significant increases in voting share, while protecting the voice of low-income members. We call for support to conclude negotiations as soon as the 2007 IMF annual meeting.

We support continuing efforts of the IMF and World Bank to respond to global challenges and early progress on reform of World Bank governance. We also welcomed commencement of the ADB's review of its Long-Term Strategic Framework as an important opportunity to reinforce the ADB's strategic and operational priorities consistent with the current and future needs of its developing members and its poverty reduction mandate.

We are committed to fighting money laundering, terrorist financing, and other illicit financing involving similar risks to the stability and integrity of financial markets, and will continue to work to comply with international standards. To this end, we tasked our officials to continue to collaborate closely with the APEC Anti-Corruption Taskforce, APEC Counter-Terrorism Taskforce and other jurisdictions. We call on the IMF and the World Bank to cooperate more closely with the Financial Action Task Force (FATF). We see merit in further efforts by the FATF in examining the risks involved in financing the proliferation of weapons of mass destruction.

We thanked Australia for hosting the APEC Finance Ministers' Process this year. We will meet again for our 15th meeting in Trujillo, Peru in October 2008.

**14th APEC Finance Ministers' Meeting
Joint Ministerial Statement**

**2-3 August 2007
Coolumb, Australia**

**Annex
Review of Policy Initiatives**

1. The Voluntary Action Plan (VAP) on Freer and More Stable Capital Flows: *The APEC Pensions and Annuities Markets Seminar* (Chile, New Zealand, Russia and Singapore in 2007)

The first workshop under the *Policy Dialogue on Savings and Capital Market Development* was held in Hanoi on 1 September 2006. This multi-year dialogue sponsored by Chile, New Zealand and Vietnam was held under the VAP, which was initiated in 1997. The workshop discussed how well-designed policy can use the links that exist between savings policy and capital market development to deliver economy-wide benefits.

In 2007, a second follow-up seminar will consider practical policies that may stimulate the development of pensions and annuities markets within the region. The seminar will be held in Singapore on 8-9 November. This workshop will focus on governance, risk management, and market development.

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

With support from APEC member economies and international financial institutions, the Asia-Pacific Finance and Development Center (AFDC) has continued its efforts on capacity building in the fields of finance and development. Five training workshops and one forum were held by the end of June 2007. More than 500 people from the Asia-Pacific region, including government officials, business practitioners and academia, participated in these activities.

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

This initiative is a training course for non-life insurance regulators in close collaboration with public and private sectors. It will be a six-day intensive course in Melbourne, Australia, in September 2007. Australia's APEC Study Centre will organise the training course and will coordinate with the US private non-life insurance sector. The core objectives of the training programme are to develop an awareness of the International Association of Insurance Supervisors Core Principles and their implications. It will cover the risks of non-life insurance, reinsurance, especially catastrophic risks, the need for strong corporate governance regimes, and the capacity of regulatory bodies.

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

The annual Future Economic Leaders' Think Tank is now in its 7th successive year. The 2007 Think Tank was held on 11-13 April in Sydney and was attended by 29 delegates from 17 APEC member economies. The programme was hosted by Axis Australia and project managed by the Lowy Institute for International Policy. The theme for the 2007 Think Tank was *Transparency and Sustainability in the Public Balance Sheet*, one of the two key themes to be considered by finance ministers. A report was submitted to finance ministers.

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

Since the inception of Phase II in 2001, the FRTI has made significant progress in achieving its objectives of strengthening content and management of the national training programmes and developing regional programmes for junior and mid-level banking supervisors and securities regulators. In 2006, there were seven seminars for this initiative. The 2007 training programme comprises four regional courses for bank supervision and three regional courses for securities regulation.

The initiative has trained more than 1,800 participants from APEC economies in 40 regional and 13 national courses. The Advisory Group, which provides support and guidance for the training needs and activities under the initiative, agreed to continue support for 2008.

6. APEC Financial Institutions Dealing with SMEs (Hong Kong China in 2007)

Bank of China (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank (Hong Kong) Limited jointly hosted the 4th Annual Meeting of APEC Financial Institutions Dealing with SMEs and the Conference on "Powering SMEs" in Hong Kong, China on 11 and 12 July 2007. The meeting discussed cooperation on measures to promote business linkages between SMEs in the APEC region,

and ways to strengthen APEC financial institutions responsible for SME development. The conference following the meeting featured two forums, one on 'Financing SMEs' and the other on 'Public and Private Sector Collaboration'. MOU members and participants shared their views and experience on how to support and facilitate the growth of SMEs.

7. Insolvency Reform: *Regional Network* (Australia)

Phase One on the insolvency reform workshop was implemented through the Forum on Asian Insolvency Reform (FAIR), held on 27-28 April 2006 in Beijing, China.

Phase Two of the initiative involves establishing a Regional Network on Asian Insolvency Reform to share information about reforms, capacity building and technical assistance initiatives for insolvency systems and related matters. The network will produce regular electronic updates on current developments and reform proposals. The network's core will be APEC officials, although it will also be open to officials from non-member economies.

8. Reform of Financial Sector: *Catalogue of Policy Experience and Choices* (Australia, Indonesia, China, Japan and Vietnam – Australia, Indonesia, China and ADB for Catalogue)

The initiative comprised three policy dialogue workshops held in the People's Republic of China, Indonesia and Australia. A key outcome of the initiative is the development of a web-based information resource on financial sector reform, the 'Catalogue of Policy Experience and Choices'. The catalogue will be a secure, web-based information resource on financial sector reform experience for finance ministries, central banks and financial sector regulatory agencies in APEC. It will allow policy makers and regulators to draw upon the benefit of experience in developing and implementing financial sector reform in accordance with their individual circumstances.

9. Fiscal Management (Australia, Vietnam and Indonesia)

The aim of this collaborative initiative is to undertake policy dialogue on the management of significant off-balance sheet risks. Following the outcomes of previous two workshops, a new activity is proposed, which would examine one issue for a selected economy in detail in a way that allows APEC economies to participate and apply any lessons learned to their own circumstances. This workshop is proposed for the end of 2007, with a focus on managing public-private partnerships using Indonesia as a case study.

10. APEC Policy Response to Ageing issue (Korea, People's Republic of China and the US)

In 2007 the initiative has been implemented under the theme of "Financial Market and Ageing." A core group consisting of Korea, China, New Zealand, Chinese Taipei, Thailand, the United States, ABAC and the IMF was established in early 2007. Economy-specific case studies and APEC-wide studies were presented at the two core group workshops in March and June. Another core group meeting and a seminar are scheduled in October 2007 and early 2008, respectively. Research outcomes including policy recommendations will be reported at the 15th APEC FMM in 2008.

11. APEC Public-Private Dialogue on Bond Market Development (ABAC)

This initiative identifies policy and regulatory aspects and capacity building initiatives to enhance the environment particularly for corporate bond issuance. The first forum was held in May 2007 and focused on bond market developments in three economies - Indonesia, Vietnam and the Philippines. The dialogue outlined major regional cooperation and capacity building initiatives. This series of dialogue will continue with other emerging economies in the period ahead.

12. Fiscal Space: *Reviewing, Assessing and Prioritising Government Expenditure* (Australia, Indonesia and Russia)

This initiative will focus on improving the efficiency of government expenditure by considering the frameworks, tools and processes that are used to review, assess and prioritise government expenditure. The initiative will also examine the social and economic payoffs from different forms of government spending. The initiative will comprise a seminar in late 2007 and a workshop in March 2008.

13. Strengthening Capital Markets in the APEC Region (US)

This initiative will provide economy-specific technical assistance for the development of capital markets. The initiative will be a joint undertaking between the US and participating economies. They will also consult closely with the international financial institutions and APEC Secretariat.