Second Asia-Europe Finance Ministers’ Meeting

Chairman's Statement

15/16 January 1999, Frankfurt/Main, Germany

Introduction

1. The Second Asia-Europe Finance Ministers’ Meeting was held in Frankfurt/Main on 15/16 January 1999. It was attended by the Finance Ministers from ten Asian and fifteen European nations and the European Commission, under the Chairmanship of the Finance Minister of Germany acting also as President of the Council of the European Union. The President of the European Central Bank, the Managing Director of the International Monetary Fund and the General Manager of the Bank for International Settlements attended as guests. The list of participants is attached.

World Economy

2. Ministers discussed the latest developments in the world economy and the prospects for the future. They noted that global economic conditions had become more difficult with financial market turbulences in Asia, Russia and Latin America and the need to scale down growth expectations world-wide.

3. Nonetheless, there have been several encouraging developments in the economies of the ASEM partners in recent months, such as the progress made in many Asian countries toward establishing the foundation for recovery and the reduction of short-term interest rates in European economies as well as in some Asian economies.

4. While these positive developments are welcome, challenges still remain. Ministers emphasised that efforts should be taken by the international community to maintain and achieve economic growth and to keep markets open to goods, services and capital. In this connection, the industrialised countries need to sustain and create conditions for strong domestic demand-led growth. Countries affected by the crisis should continue their domestic reforms and restructuring. Ministers also reiterated that the WTO members fully implement all existing WTO commitments and pursue further trade liberalisation. They also stressed the need to strengthen the functioning of the international monetary system, in particular the role of the IMF and to improve the procedures for crisis prevention and resolution and to involve the private sector in
the resolution of financial crises. The roles of the various institutional components of the system also need a thorough review, including the possibility for strengthening and/or for transforming the Interim Committee.

**Economic and financial situation in Asia: latest developments**

5. The Asian countries affected by the crisis have made substantial efforts to stabilise their economies and have initiated a number of reform measures. In the meantime the situation has stabilised in the countries affected by the crises - with the help of the international community. The results of these efforts have emerged, in particular a stabilisation of the exchange rates and a decline in interest rates. In the view of the Ministers some signs of recovery are expected in the current year, and in the medium term the efforts undertaken by the Asian countries will lay the foundations for regaining steady growth.

6. In this context, Ministers expressed concern at the sharp fall in net capital flows to emerging countries impeding the return to an adequate growth path. They agreed that reforms had to continue to be resolutely implemented in order to regain the confidence of international financial markets and to return to growth. In this respect, sustainable solutions regarding the restructuring of the banking sector and external debt as well as the development of mechanisms to catalyse private capital flows are of particular importance.

7. Financial crises in Asia and other regions have highlighted the potential for abrupt and destabilising short-term capital movements, especially in emerging markets. In addition, Ministers had an extensive discussion on the economic conditions surrounding the choice of exchange rate regimes. They agreed to deepen the exchange of views among ASEM partners concerning the international financial architecture. They noted the need to examine the questions of appropriate transparency and disclosure standards for private sector financial institutions involved in international capital flows, such as investment banks, hedge funds and other institutional investors, and to examine the implications of operations of highly leveraged and off-shore institutions. They also noted the IMF’s ongoing review of the experience with the use of controls on capital movements and the circumstances under which such measures may be appropriate.

8. Ministers remained concerned by the social consequences of the financial crisis, the effect of which was felt most acutely by poor and vulnerable groups of society. Ministers welcomed both the support provided to this end by the World Bank, the Asian Development Bank and the bilateral donors and the fact that greater weight is being given to social spending in the
programmes agreed with the IMF. They agreed that the social aspects of international support and programmes should be given due attention. In this context the World Bank should develop general principles of good practices in social policy, in consultation with other relevant institutions.

9. Close and growing economic ties between all ASEM partners are an important element for recovery and lasting growth. Ministers reiterated the critical importance, in limiting the economic and social impact of the crisis, of the common resolve expressed by all at the London ASEM Summit to resist protectionist pressures, maintain current levels of market access and pursue further multilateral liberalisation. Ministers noted that export credit agencies are continuing to support trade finance for Asian countries.

10. Ministers discussed and welcomed the substantial measures adopted by the Japanese government to strengthen the financial system and to reinforce growth led by domestic demand. They expressed the hope that the implementation of these measures will bring back sustainable growth. Ministers also welcomed Japan’s proposed financial support, in particular the New Initiative to Overcome the Asian Currency Crises, which includes a financial support package of US $ 30 billion to support economic recovery efforts in Asia and the multilateral initiative to revitalise private sector growth announced by Japan and the USA in conjunction with the Asian Development Bank and the World Bank. Ministers believe these initiatives would significantly aid their joint efforts to promote recovery and growth in the Asian region and they look forward to their early implementation.

11. Ministers took note of China’s efforts to further stimulate economic growth through interest rate reduction and the introduction of an expansionary fiscal package. They welcomed China’s policy to maintain RMB exchange rate which has helped enhance financial stability in the region.

**European Economic and Monetary Union: latest developments**

12. Ministers welcomed the smooth introduction of the euro in 11 EU member countries on 1 January 1999. They stressed that the remarkable convergence achieved among European economies in recent years provided a solid basis for the success of monetary union. Ministers were of the opinion that the new currency would assume a key role in invoicing and financing international trade, and would be a major investment and reserve currency as well. In this context the introduction of the euro was also seen as an opportunity to intensify the efforts to achieve more exchange rate stability in the international monetary system.
13. Ministers discussed economic policy issues in connection with the entry into stage three of Economic and Monetary Union. Reducing the high level of unemployment was seen as the greatest challenge facing Europe. Ministers stressed the importance of price stability, fiscal consolidation and economic reform to provide the basis for sustainable growth and more jobs. They agreed that strengthening co-ordination of economic policies, including structural policies and taking into account wage developments, was needed and that co-ordination should aim at an appropriate balance of the policy mix and thus contribute to achieve sustained growth and employment.

14. In view of the fact that world growth prospects have deteriorated, Ministers stressed the importance of maintaining economic momentum in Europe. By doing so it also enables Europe to continue to support the economic recovery of emerging countries by improving trade opportunities.

**Financial sector restructuring and supervision**

15. Events in Asia, Russia and Latin America demonstrate how interlinked financial markets have become with the spread of globalisation. Modern-day, open financial markets need an environment taking account of the new challenges. The risks in a world with ever-closer links between financial markets must be detected in time, confined and effectively monitored.

16. Ministers affirmed the central role of effective financial market supervision in enhancing the stability of financial systems. They agreed to take the necessary steps towards implementation of the Basle Committee on Banking Supervision’s core principles for effective banking supervision before the next Asia-Europe Finance Ministers’ Meeting. Ministers agreed that adequate supervision of financial organisations can only be ensured if there are no barriers to the exchange of information between supervisory authorities at the national and international level. Ministers welcomed the ten key principles on information exchange among supervisory agencies.

17. Ministers acknowledged the need for both the private and the public sectors to adopt further measures to strengthen financial systems, especially in the areas of transparency, accountability and insolvency procedures, to promote soundly-based capital flows and to maintain sustainable exchange rate regimes. They agreed that countries and the international institutions should work closely together and enhance the dialogue, particularly involving emerging market countries, in appropriate international fora in order to enhance the co-operation and to co-ordinate the activities for the formulation, dissemination and surveillance of adequate supervisory and regulatory standards, covering the full range of financial sector activities.
Surveys undertaken by the European Commission and the Basle Committee indicate extensive need for technical assistance in bringing legal systems into line with internationally agreed supervisory standards and in conducting supervision. Ministers recognised the necessity of drawing up a list of priorities for each ASEM country requiring assistance in strengthening financial systems and of organising assistance in accordance with these lists. At their next meeting, Ministers expect to see a report on measures undertaken in accordance with the lists of priorities.

**Technical assistance including the ASEM Trust Fund and European Financial Expertise Network (EFEX)**

The financial crisis calls for the provision of technical assistance to Asia. In this context the Ministers welcomed the speedy establishment of the ASEM Trust Fund at the World Bank as an important measure giving technical assistance and advice both on restructuring the financial sector and on finding effective ways to redress poverty. Ministers noted that the ASEM Trust Fund activities are being fully co-ordinated with other funds and activities, such as allocations from the Japan Policy and Human Resources Development Programme. They emphasised the participation of beneficiary countries in selecting a project and the contents of the project.

They reaffirmed the need to make use of all available resources to strengthen financial systems in ASEM partners: these include bilateral aid programmes as well as the facilities offered by the Basle Committee, the IMF, the World Bank, the Asian Development Bank, the BIS Institute for Financial Stability and the European Financial Expertise Network (EFEX).

Ministers welcomed the establishment of EFEX at the European Commission. The role of EFEX is to provide financial expertise to technical assistance projects in East Asia to help restore financial stability. A positive feature of EFEX is that besides European participants the network is also able to include Asian experts.

Ministers emphasised the need to co-ordinate the activities and make efficient use of scarce resources. The international organisations such as the World Bank, the IMF or BIS can play a special role in this respect. It would be welcomed if the European Financial Expertise Network were to take account of this as well in its activities. An example of an internationally co-ordinated consultancy mission is that managed by the World Bank which helps identify experts to assist the Thai authorities in various missions.

**ASEM anti-money-laundering initiative**
23. Ministers stressed the significance of joint action by the ASEM partners in the fight against money laundering. They resolved to accelerate their work in removing obstacles that have previously impeded the initiation of concrete projects.

**ASEM customs cooperation**

24. Ministers took note of the interim report on customs cooperation. They welcomed the inquiry on enforcement competencies of the European Community and the customs administrations of the 25 ASEM partners and the planned seminar on simplification and harmonisation of customs procedures with representatives of the business community and customs administrations. Ministers stressed that progress is expected from the work on the customs aspects of the Trade Facilitation Action Plan (TFAP).

25. Reaffirming that trade facilitation and enforcement must be well coordinated, Ministers encouraged further development of the cooperation between customs authorities in Asia and Europe in both areas. They therefore eagerly look forward to the results of the third meeting of directors-general and commissioners.

**Computerised Communications Network among ASEM Finance Ministries**

26. Ministers welcomed the development of a framework for establishing a computerised communications network between the ASEM Finance Ministries and the establishment of the ASEM Finance Ministers' homepage.

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

27. Ministers agreed that the Third ASEM Finance Ministers' Meeting will be held in Asia in 2001.