

# Fourth Asia-Europe Finance Ministers' Meeting

## Chairman's Statement

5/6 July 2002, Copenhagen, Denmark

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### Introduction

1. The Fourth Asia-Europe Finance Ministers' Meeting was held in Copenhagen on 5/6 July 2002. It was attended by the Finance Ministers from ten Asian nations, the fifteen European Union member states and the Commissioner for Economic and Monetary Affairs, under the Chairmanship of the Danish Presidency of the European Union. The President of the Asian Development Bank (ADB), the Vice-President of the European Central Bank, and the IMF attended as guests.

### Global Economic Developments

2. Ministers exchanged views on the latest global and regional economic outlook:
  - Economic activity experienced a gradual recovery in the first half of 2002 and economic growth is expected to accelerate gradually in the second half of this year. The slowdown in the US has affected both Europe and Asia to a large extent and more rapidly than expected. Although some of the shocks have, by nature, been global (correction on IT related assets, oil price shock), traditional trade linkages probably also understate the economies' interdependencies in today's global economy.
  - While structural and fiscal challenges remain in several countries, the Asian emerging market economies as a whole are expected to grow again above the world average in 2002 and 2003. Ministers welcomed the progress made by many Asian countries. Ministers also welcomed their commitment to continued deep-rooted structural reforms which are necessary for sustained growth in the region.
  - Ministers welcomed the wide-ranging program of reform on which the Japanese Government has embarked and urged the Japanese authorities to press forward with the implementation of this program, in particular with reforms in the financial sector and in the fiscal and structural fields.

- In the EU, economic growth is expected to accelerate in the second half of 2002, and should be consolidated in 2003, supported by sound economic fundamentals, i.e. decreasing inflation, healthy public finances and the absence of major external imbalances. Structural reforms in product, labour and capital markets are being pursued further in order to enhance Europe's growth potential.
- Ministers took note of the recommendations of the Asia Europe Business Forum (AEBF), which were presented in Singapore in October 2001. Thereby, the AEBF supported concerted efforts by governments and monetary authorities to restore and maintain economic stability and growth, inter alia by key reforms in the financial and banking sectors.
- Ministers stressed that Europe and Asia should increasingly cooperate and coordinate in the economic and financial sphere, including on macroeconomic issues, to address the challenges both regions face. In particular, sound policy reform in the financial and corporate sector, including on corporate governance as well as in the labour markets, should be pursued.
- In light of recent developments Ministers stressed that particular attention should be given globally to improve and reinforce corporate governance and financial transparency.
- Ministers emphasized the importance of promoting a more open multilateral trade system to reinforce global economic recovery, and reaffirmed their pledge to reject the use of protectionism and their commitment to abide by multilateral rules and call on other countries not to resort to protectionist measures.

#### **Combating the financing of terrorism, money laundering and abuses of the global financial system**

3. Ministers noted that enhanced globalization requires better coordination to fight the abuses of the global financial system. Indeed, following the tragic events of 11 September, increased measures were taken in Europe and Asia to prevent the **financing** of terrorist organizations. Ministers welcomed the agreement reached at the International Monetary and Financial Committee (IMFC) in November and recognized the efforts to develop a global standard for anti money laundering and combating terrorist financing covering the Financial Action Task Force (FATF) Recommendations. They encourage all countries to adopt and implement fully the FATF recommendations and the United Nations instruments to counter terrorism financing; to freeze terrorist assets; to establish financial intelligence units or equivalent bodies; and to ensure the sharing of information. While reiterating the responsibility of national authorities for combating money laundering and the financing of terrorism, Ministers also stressed that success will

critically depend on continued vigilance and timely action at the global level.

4. Ministers reaffirmed the commitment of ASEM partners to work together to combat money-laundering and abuses of the global financial system, for example through the ASEM anti money-laundering initiative. Ministers welcomed the progress report on the ASEM Anti-Money Laundering Initiative presented by the UK and Thailand, and encouraged all participants to continue in their cooperation. Ministers agreed to review progress at their next meeting in 2003. In this context Ministers welcomed the German initiative to co-host with Malaysia a symposium in 2003 on combating underground banking and the need of supervising alternate remittance services in European and Asian countries. Ministers also encourage ASEM Members to implement the eight special recommendations on combating terrorist financing, agreed by the FATF in Washington last October.

#### **Strengthening the international financial system**

5. Ministers underlined the need for a further strengthening of the international financial system and agreed that continued efforts are needed with respect to crisis prevention and crisis resolution. Past experience shows that in many cases, financial crises arise from vulnerabilities due to inconsistent macroeconomic and structural policies that have not been detected and corrected in time. In this respect, the IMF's surveillance is critical and Ministers welcome the IMF's recent initiative to enhance its quality through organizational arrangements. The IMF should continue to encourage the publication of Article IV and other IMF reports, such as Reports on the Observance of Standards and Codes (ROSCs) and Financial Sector Assessment Programme (FSAP) assessments on a voluntary basis.

Ministers welcomed the substantial work being conducted to develop and promote the implementation of internationally recognized standards and codes and to strengthen surveillance, in particular in the monitoring of financial systems. Ministers encourage all countries to adopt and implement these standards and codes, while recognizing that the pace of adoption and implementation should reflect individual circumstances. The transparency of unregulated entities and the integrity of the financial system are also critical for financial stability. Ministers noted that developments had lessened the risks that hedge funds could pose for the international financial system. However, they warned against complacency and urged continued improvements in public disclosures by hedge funds to strengthen market discipline and reduce systemic risk. Ministers welcomed the continued cooperation between the Financial Stability Forum (FSF) and the IMF and strongly recommend both the FSF and the IMF, according to their respective roles, to help reinforce the compliance of poorly regulated offshore financial centers with internationally agreed standards and to improve their cooperation practices. They also welcome the

work program launched by the FSF following recent corporate failures and look forward to its report by September 2002.

Ministers noted that the twelfth General Review of IMF Quotas had commenced. Quotas should reflect developments in the international economy.

6. In addition, private sector involvement (PSI) should be a standard element of crisis resolution. This involves, *inter alia*, strengthening the tools for securing PSI and examining the possibilities for a more orderly and transparent framework for addressing the cases where unsustainable external positions require the restructuring of debts. Ministers took note of the proposal by the IMF management for a new Sovereign Debt Restructuring Mechanism (SDRM) and welcomed the agreement in the IMFC last April to encourage the Fund to continue to examine the legal, institutional, and procedural issues related to the implementation of the SDRM. The SDRM should be considered as part of a coherent and wide-ranging strategy for dealing with financial crises, and should therefore be developed not as an alternative, but as a complement to the operational improvement and further implementation of the PSI approach established at the 2000 IMF and World Bank Annual Meetings in Prague. Ministers also noted the initiatives currently underway for a contractual approach to debt restructuring, including the use of Collective Action Clauses (CACs) in relevant debt contracts.
7. Ministers welcomed the successful physical introduction of Euro coins and notes as the completion of EMU. They noted that a single currency for the world's largest trading area has positive implications for the world economy and Asian countries, as it is expected to foster greater stability and growth. Likewise, by simplifying cross-border trade and financial transactions, it should support closer links between Asia and Europe. They took note of the most significant developments in the use of the Euro in Asia thus far, especially as a financing currency for private sector borrowers and an investment currency, both for official and private sector agents. The Euro's circulation will speed up the integration of Euro area economies, and contribute to creating new investment opportunities, increase growth and strengthen job creation. The advance towards fuller integration and interdependence also demands the reinforcement and continued implementation of the EU's economic policy strategy. Prospects for enlargement of the European Union will undoubtedly further reinforce these trends.
8. Ministers welcomed the progress in the regional financial cooperation under the ASEAN+3 (China, Japan and the Republic of Korea) Finance Ministers' Process, which was reported to the ASEAN+3 Finance Ministers' Meeting held in Shanghai on 10 May 2002, including significant progress in the Chiang Mai Initiative, efforts to enhance policy dialogue in the region, monitoring of capital

flows and early warning system. Ministers noted that finance and central bank deputies of the ASEAN+3 countries would meet regularly to report their economic situations and exchange view on policy issues and that the first such meeting was held successfully in Myanmar in 2002. The also welcomed that the ASEAN+3 Finance Ministers conducted an active policy dialogue at the meeting in Shanghai.

#### **International development agenda**

9. Ministers emphasised the moral imperative of combating the extreme poverty suffered by one fifth of humanity and reiterated their full endorsement of the historic undertakings written into the Millennium Development Declaration. Ministers stressed that in order to attain these objectives it is essential to mobilize international private resources for sustainable development, and to improve the effectiveness and to increase the volume of official development aid. In this context, Ministers reaffirm that the Monterrey consensus and the financial commitments made in connection with the International Conference on Financing for Development in Monterrey, which provide the broad framework for generating public and private resources for development at the international level, is an important input to the World Summit on Sustainable Development (WSSD) in Johannesburg. The outcome of the WSSD should be in line with the financial commitments agreed in Monterrey.
  
10. Ministers of creditor countries reaffirm their commitment to participate fully in the Heavily Indebted Poor Countries Initiative (HIPC), recognizing the role that debt relief can play in tackling poverty, and agreed to encourage other countries and regional institutions to do likewise.

#### **Trade and economic integration**

11. Ministers welcomed the launch of the WTO Doha Development Agenda (DDA) and noted the important role that ASEM played in achieving this outcome. The successful conclusion of the DDA will be crucial in fostering development in this region and the world.
  
12. Ministers congratulated China on its accession to the WTO, which represents a great success for international trade policy. The opening of the Chinese market will ultimately lead to improved growth prospects for all partners by enhancing international competition and the division of labour.

13. Ministers reiterated their support for the acceleration of the current accession negotiations of Vietnam, based on mutually acceptable market access commitments and adherence to WTO rules, taking into account specific conditions and needs of Vietnam. Ministers called for specific supporting and capacity building measures by ASEM partners to be provided to assist the accession negotiation process of Vietnam.
14. Ministers welcomed the progress in the regional financial cooperation under the ASEAN+3 (China, Japan and the Republic of Korea) Finance Ministers' Process and that the ASEAN +3 Finance Ministers conducted an active policy dialogue at their meeting in Shanghai, as mentioned in paragraph 8.
15. Ministers welcomed the progress in the European Union's integration agenda, the Lisbon strategy, achieved in the run-up to the Barcelona Council, and took note of the perspective of gradual integration of the candidate countries in this process.

#### **Customs Cooperation**

16. Ministers welcomed the efforts made under ASEM-Customs for enhancing trade facilitation and enforcement. Ministers welcomed the results of the Fourth ASEM Customs Directors General and Commissioner Meeting held in Stockholm in July 2001, and encouraged Customs authorities to continue strengthening their cooperation, which would be enhanced by instruments such as customs cooperation agreements. Ministers agreed to increase the efforts against trademark counterfeiting and encouraged further work on considering it as a customs offense.

#### **Follow-up of the ASEM Trust Fund, the Kobe Research Project and the Public Debt Management Forum**

17. Ministers welcomed the launch of ASEM Trust Fund 2. They asked the stakeholders to take full account of the assessment of the results of Trust Fund I in order to optimize the functioning of this new Fund.
18. Ministers welcomed the results of the Kobe Research Project, which was launched at the 3rd ASEM Finance Ministers' Meeting in January 2001. The project was designed to facilitate interregional research cooperation and study the issues of mutual interest to ASEM Member Countries, including trade and direct investment, and financial cooperation. Many Asian and European Member Countries and some international institutions participated in the project. Ministers took note of a report drawing on the studies done for the project, which includes

several suggestions concerning financial cooperation and possible currency regimes in East Asia.

19. Ministers noted that the exchange of views and information within the Public Debt Management Forum was highly useful and beneficial to ASEM partners, and expressed the need for a regular, annual discussion of topics of mutual interest in this field. Ministers welcomed that the next meeting of the Public Debt Management Forum will take place in Copenhagen on 10-13 September 2002.

20. Ministers found that the Kobe Research Project and the Public Debt Management Forum are good examples of collaboration between Asia and Europe under the ASEM Finance process, and stressed that further collaboration was desirable to promote regional cooperation.

#### **Future Meetings and Other Matters**

21. This ASEM Finance Ministers' statement will constitute the Finance Ministers' input to the ASEM 4 Summit. Ministers agreed that a Fifth Meeting of the ASEM Finance Ministers would be held in Indonesia in 2003.