

The 9th ASEM Finance Ministers' Meeting
Chairwoman's Summary
Madrid, Spain
17-18 April 2010

Introduction

1. The ninth ASEM Finance Ministers' Meeting (hereafter, ASEM FinMin) was held in Madrid, Spain, on 17-18 April, 2010. It was attended by ASEM Asian member countries and member states of the European Union, and the European Commissioner for Economic and Monetary Affairs. The meeting was also attended by the President of the Asian Development Bank, the President of the European Central Bank, and the International Monetary Fund as invited guests. Elena Salgado, Spanish Second Vice President and Minister of Economy and Finance, chaired the meeting.

2. Minister Salgado welcomed all ASEM participants and future ASEM members, Russia and Australia, and urged the proactive role of ASEM partners in dealing with macroeconomic challenges facing the global economy. She emphasized the role of ASEM in further strengthening the cooperation between Asia and Europe, especially in the economic field and in the development of an exit strategy from the global crisis. She called upon participants to continue to reinforce cooperation and enhance mutual understanding for prosperity in both regions.

Global Downturn: Impact in Europe and Asia

3. Participants discussed comprehensively how Europe and Asia have been affected by the global downturn. The situation in the world economy has been improving over the last months, but the strength of the recovery is uneven and overall slow and recent events prove that it remains fragile. The relative

strength exhibited by emerging economies, especially in Asia, contrasts with weaker conditions in developed economies.

4. Participants noted the global economy is facing a challenging period. While remaining confident about its long-term outlook, they recognized that in order to avoid the global economy experiencing a soft patch once fiscal and monetary stimuli are phased out, all major countries and economic areas have to play their part in addressing distortions and policy weaknesses, so that private demand picks up. Therefore, our main challenge is to generate confidence among private agents to contribute towards this goal. The overall market sentiment has substantially improved although the situation in financial markets remains fragile. Downside risks cannot be ruled out in the short and medium term.

5. Participants underscored that a number of structural reforms and sound macroeconomic policies were implemented over

the last decade both in Asia and in Europe, resulting in improved resilience to sharp external shocks compared to a decade ago. However, there is still much to do in this field as became obvious in the recent economic crisis. In order to mitigate the impact of global economic risks in the future, a more ambitious structural reform agenda is yet ahead of us.

6. Participants acknowledged that recoveries in Europe and Asia would likely differ in shape and pace, and that Asia would contribute most of world growth in the coming years. Participants called for increased exchange and cooperation between the EU and Asia to sustain the recovery in the short term.

Global Downturn: Responses in Europe and Asia

7. Participants welcomed timely measures taken by Asian and European countries to deal with the global downturn. Participants acknowledged that sound and balanced monetary and fiscal policies are needed to preserve price stability and contribute to sustainable economic activity, and they reaffirmed the commitment to take strong and coordinated actions both at the domestic and regional level, taking due account of spillovers to other countries.

8. Participants noted the need for internationally coordinated policy responses, in particular to prevent abrupt swings in capital flows, cushion the impact on the poor and on the more vulnerable sectors of the economy. They noted that there is a risk that global macroeconomic imbalances widen again as the recovery gathers momentum and that this remains a challenge for global macro-economic and financial stability. They reiterated their commitment to keep markets open and avoid all forms of protectionism and reaffirmed their

responsibility to the successful conclusion of the Doha Round.

Participants urged their trading partners to do the same.

9. Participants acknowledged that the state of the world economy calls for continued close cooperation between the EU and Asia, both key players in the world economy, to ensure a strong recovery. It is fundamental to provide leadership, including at regional level, for a strong recovery to materialise and to further strengthen financial regulation and supervision and reform international financial institutions. This is being discussed also in the G20 framework and the main challenge now is to deliver.

10. Participants agreed that the responses to the global downturn would need to concentrate on delivering strong, sustainable and balanced growth (through appropriate exit strategies in the short term, implementation of the new Framework for Growth, reducing global imbalances, concluding the Doha

Round). Responses to the crisis include as well further strengthening our financial systems "in peacetime" (i.e. not to return to business as usual). International financial institutions should be modernised in their mandate and governance structure (including quota and non-quota governance reforms), to increase effectiveness and legitimacy of the international financial architecture, by enforcing the agreements reached at global level as scheduled.

11. As part of the toolkit to prevent other crises from occurring or cushioning their impact, participants from Europe and Asia exchanged views and ideas on financing, and on preventing liquidity shortfalls. They discussed existing mechanisms for preventing crises or mechanisms that are currently being developed in the two regions, and potential for cooperation between Asia and Europe in these matters.

12. Participants agreed on the importance of Asia's successful efforts to strengthen monetary and financial cooperation. Greater regional financial stability will contribute to making Asian economies more resilient. Participants discussed the lessons of monetary integration in Europe, together with the prospect of financial integration in Asia. They acknowledged that financial integration could bring more stability to both areas and would reduce uncertainty at the global level.

Exit Strategies: Design and Timing

13. Participants considered that there is a need to agree on the elaboration of guiding principles for exit policies encompassing fiscal, financial and product and labour markets, and exchanged views on indicators to identify the conditions for implementing such exit, while allowing for country-specific circumstances regarding the timing of exit.

14. Participants noted that advanced industrialized countries need to deliver the stimulus which was announced and to look ahead to exit strategies and move to a more sustainable fiscal track, consistent with continued recovery. They also considered that the time is ripe to communicate a comprehensive and coordinated exit strategy, not only to safeguard fiscal sustainability, but also to enhance the effectiveness of the current support measures and to anchor expectations on price stability. Participants noted that their diverging cyclical developments may allow some of them to implement earlier exit, as conditions were deemed sufficiently favourable.

15. European participants went into detail on the guiding principles for fiscal exit, namely: (i) fiscal consolidation should be ambitious in terms of size and pace with a view to stabilize debt to GDP ratios; and it should start in 2011 at the

latest in most European countries, and earlier in some; (ii) flanking policies should be encouraged, such as strengthened national budgetary frameworks or reform of age-related entitlements; (iii) structural reform efforts should be deployed to raise potential growth, which will, in turn, contribute to fiscal consolidation.

16. Regarding governments' financial sector support, participants from both Asia and Europe considered that while it is premature to exit actively from the current schemes, it is appropriate, to start designing the strategy and regularly assess the situation so that the exit is not unduly delayed. Participants noted that the timing and the sequencing of exit are crucial. Timing should take due account of broader macroeconomic stability considerations. Sequencing should also consider that some measures have a temporary character, such as business support measures and government guarantees. The retrieval will be quasi-automatic and hence

timely. In contrast, other forms of support (recapitalization, impaired asset reliefs) have an inherent longer-term character.

17. A credible exit strategy in the fiscal arena will facilitate monetary exit, the timing and speed of which is to be decided by central banks.

Medium to Long-term Challenges

18. Participants underlined the importance of designing an ambitious structural reform agenda. Both Europe and Asia will need to step up structural reform, as part of their contribution to the rebalancing of global growth.

19. Participants discussed growth models and concluded that the current economic and financial crisis poses major challenges to the economies of both Asia and Europe and to

their economic integration processes. The current crisis provides the opportunity to move ahead and give new momentum to cooperation and coordination initiatives.

20. Participants recognized the need for the EU and for Asia to increase their role in the global economy. This leadership role could be enhanced within both regions by deepening economic integration and by strengthening economic policy coordination and governance mechanisms.

21. Participants agreed that achieving strong, sustainable and balanced growth would face two main challenges: foster at regional level the conditions that guarantee (i) a self-sustainable recovery, inter alia through the strengthening of private domestic demand, (ii) moving away from the patterns that created fragilities in the pre-crisis period (financial sector practices and global imbalances).

22. Participants also agreed that more has to be done in those countries where there are needs to broaden social safety nets, modernize the financial sector, thereby reducing precautionary savings and efficiently channeling financial resources to domestic needs. Favouring growth in the services sector, reducing the vulnerability to external shocks, and reducing the negative spillovers on the environment, are also areas where the participants saw real value added in moving together and adopting measures, including with regard to exchange rates, which, by avoiding intra-regional competitiveness-related concerns and free-riding fears, would generate positive spill-over effects within the region. Participants emphasized that countries' efforts to ensure medium and long-term fiscal sustainability and to effectively reduce fiscal deficits will contribute to strong, sustained and balanced growth.

23. Participants regarded developments in regional cooperation in Asia as noteworthy. In particular, the progress made under the Chiang Mai Initiative Multilateralization, and the Asian Bond Markets Initiative. Participants mentioned that gradually implementing a regional surveillance system and peer review mechanisms, can greatly enhance the potential for economic policy cooperation among ASEAN plus 3 countries.
24. Participants were informed of and welcomed the extensive discussions on global financial safety nets in the G20 process. Participants recognized that global financial safety nets, in the context of the new financial architecture, may contribute to dealing with adverse consequences due to global imbalances.
25. Participants welcomed the efforts towards revitalizing the European growth strategy, by focusing on the drivers of growth, based on a comprehensive set of structural reforms.

The recession demonstrated that European economies are highly interdependent and are facing challenges which have now become more pressing: the impact of globalisation, pressure on energy and resources, and ageing populations, the latter having implications in terms of labour input and of fiscal sustainability. Deeper regional integration – by reinforcing Europe's strengths – will bring about needed change and can provide shelter against external shocks. The strategy should reinforce sustainable growth and jobs, given the challenging outlook for the next coming years; fiscal consolidation and a stronger focus on growth have to go hand in hand; exploiting the growth opportunities of the green agenda requires putting more emphasis on innovation and the development of a so-called knowledge-based economy.

26. Participants also welcomed a proactive role of the EU and Asia as regional groupings for three reasons: (1) economic and political integration has shown that when there is a

common agreed position it is easier to find cooperative solutions that are not based on a lowest common denominator; (2) while protecting respective legitimate interests, it is easier to find cooperative solutions at international level if regions are already economically integrated, like the EU and Asia - these regions can cooperate and work together, as it already happens in the ASEM framework, to address the key challenges that both regions have to face in the years to come; (3) in an inclusive multipolar economic system, an increased role for well-integrated economic regional groupings allows for greater ownership of policies coordinated internationally, also by countries which are not formally part of them.

Partnership between Asia and Europe: Potential

27. Participants recognized the need to continue cooperating in international fora, while advocating deeper regional integration.

28. Participants welcomed the forthcoming ASEM conferences, including the 2nd ASEM Development Conference in May; the ASEM Public Conference on EU-Asia Strategic Relations in July; the Employment Ministerial Conference in December.

29. Participants confirmed with satisfaction that ASEM FinMin process which consists of a biennial ministerial meeting and annual deputies' meetings enabled an efficient and effective approach to the agenda through a predetermined timetable. Recognizing that this year's meeting enabled an in-depth discussion on a wide range of issues pertinent for Europe and Asia, and their projection at a global level, participants

welcomed this occasion to shape constructive and concrete results.

30. Participants welcomed the results of the 8th ASEM Customs Director Generals (DGs)/Commissioner meeting, in particular the Heraklion Declaration, confirming the priorities until 2012: trade facilitation and supply chain security, combating infringement on intellectual property rights, and protecting the society and the environment and involving business. They stress the need to step up customs operations amongst ASEM members in the four areas as mentioned above.

Other Matters

31. The statement from the ninth ASEM Finance Ministers' meetings will constitute an input to the eighth ASEM Summit in Brussels later this year.

32. Participants showed their gratitude to the Government of Spain through the Ministry of Finance for the excellent arrangement for the ninth ASEM FinMin and the Spanish people for their hospitality.