

Priority Policy Challenges to the APEC Finance Ministers

Report to the 10th APEC Finance Ministers' Meeting On the Work of the PECC Finance Forum 2003

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This report was presented by Dr. Soogil Young to the 10th APEC Finance Ministers' Meeting that was held in Phuket, Thailand, on September 4-5, 2003. The portions within [...] in the text were not read, although they were in the written version that was distributed. A few sentences were added in verbal presentation and have been incorporated in the present text.

Your Excellencies, Distinguished Delegates:

It is my great honor to be invited to attend this 10th APEC Finance Ministers' Meeting on behalf of PECC in my capacity as Coordinator of PECC's Finance Forum.

I am pleased to note the presence of Dr. Jeffrey Koo who not only represents ABAC at this meeting but is also a distinguished member of the PECC Standing Committee, as well as of Prof. Ghon Rhee of the United States, one of my Finance Forum colleagues.

[PECC created its Finance Forum two years ago for the purpose of assisting the APEC governments in the promotion of financial stability and development in the Asia-Pacific region. For this reason, contributing to the work and deliberation of the APEC Finance Ministers Meeting has been a primary objective of the Forum's work from the beginning. Accordingly, we, of the Forum, have sought to participate in the Finance Ministers' work process, and we find being represented in the Finance Ministers' Meeting today for the second time highly significant. And] I would like to thank the Ministers, and especially, H.E. Minister Suchart Jaovisidha, the Chairman, for this privilege.

The Finance Forum held its 2nd Annual Conference in Hua Hin, Thailand, the Chair country of the present meeting, on July 8-9, this year. Repeating the pattern of its first Conference, the Forum drew to this Conference more than 60 leading financial issues experts from around the APEC region, consisting of experts from the regional economies as well as experts from several major international financial institutions and organizations [such as IMF, World Bank, ADB, BIS Asia-Pacific, OECD, ABAC, and Asian Bankers' Association]. This encourages me to state that, just in two years' time, the PECC Finance Forum has grown into a leading pan-APEC forum for informal discussion of financial policy issues facing the APEC economies. I take this development as reflecting a widely-felt need for such a forum in the region.

For this year, in particular, [the Finance Forum Conference was held in the same city as the 16th Meeting of the APEC Finance Ministers' Technical Working Group or TWG just ahead of this meeting. This enabled the Conference to draw a number of participants from TWG. It also enabled the core working group of the

Forum to participate in the TWG Meeting. As a result,] it was possible for the Forum to participate in the substantive discussion of TWG with some depth on the subjects of current interest to the Finance Ministers, including the following three: *regional bond market development in East Asia*, *financing SMEs*, and *financial services liberalization under regional trade arrangements*. The Forum's work on the last topic had been undertaken specifically at the request of [Mr. Wisudhi Srisuphan, Chair of the 16th] TWG [Meeting. Summary reports on those three topics have been submitted to TWG subsequently.] We appreciated this opportunity to undertake a study for the Finance Ministers.

[I have just come from Brunei where the 15th General Meeting of PECC was held on September 1-3. At this meeting, participated by a much broader spectrum of opinion-makers and experts than the Finance Forum, and on the basis of the work done by the Forum, PECC discussed the present conditions for financial stability and development in the Asia-Pacific region.] I now would like to take a few minutes in order to report to the Finance Ministers those points which, among what have emerged from the work of the Forum [as well as the discussions in Brunei], I believe, are worthy of the Finance Ministers' attention. There are seven such points.

First, the sustainability of U.S.-led recovery and growth of the world economy, and especially of the Asian economies, is an issue because it would worsen the already rather serious current-account imbalance of U.S. Promotion of intra-regional integration of trade and markets in East Asia, as well re-invigoration of real investment in the region oriented toward this objective, promise to help alleviate the problem in a fundamental way by letting the East Asian economies as a whole emerge as a new growth center for the world economy.

Second, for this reason, APEC should support the efforts of the East Asian governments to promote regional financial and monetary cooperation for exchange-rate stability, as well as integration and deepening of regional capital markets in the region. In particular, both the Chiang Mai Initiative for financial cooperation and the Asian bond market initiative are important and timely in this regard.

Third, neither regional financial arrangements to cope with financial and exchange-rate instabilities nor the cooperative effort to develop Asian bond markets will be successful without curing the domestic systems of their weaknesses in the individual

economies. Financial stability and development in region should be founded on the strength and efficiency of domestic financial institutions and markets. Accordingly, there should be renewed emphasis on domestic financial reforms in East Asia as anywhere else. [There is no magic formula, in this regard.] By the same token, it should be recognized that sound and strong domestic bond markets in major individual economies are the essential foundation for viable regional bond markets.

Fourth, in terms of the domestic financial systems, there has been much improvement throughout East Asia since the financial crisis of 1997-98. But the progress still remains incomplete on the whole. Non-performing loans, insolvency procedure, and weak corporate governance are among the problems requiring immediate action. The development of sound and efficient domestic bond markets has been and will be hindered by poor financial infrastructure including inefficient financial regulations, weak legal protection of minority shareholders, non-transparent corporate governance.

Fifth, there is the danger that recovery from the crisis may be creating complacency over the need to continue reform. It is important that the momentum that has been created be maintained and carried forward. The political commitment to reforms should be renewed.

Sixth, the effort to create regional bond markets is expected to generate competition for domestic financial reforms by inducing competition among regional economies to become a regional financial center. Such competitive reform should be encouraged. At the same time, it should not be allowed to induce a race to the bottom in regulatory changes. Harmonization of financial regulations and standards is necessary. It is also very important that their consistency with global standards is ensured. Policy dialogue and surveillance seems to constitute the next step in the promotion of regional financial cooperation in East Asia.

Seventh, the emerging market economies need to build the capacities to implement and sustain financial reforms. The Finance Ministers are advised to assess the existing capacity-building programs and make up for the weaknesses in those programs. The risk-management capabilities of the banking systems seem to be one such area. This has just been pointed out by Dr. Jeffrey Koo of ABAC with whom I will be launching an International Advisory Group on Financial System Capacity-

Building here in Phuket tomorrow.

Your Excellencies:

The PECC Finance Forum is now preparing its work program for the next work cycle. We will be pleased to assist the Finance Ministers in pursuing policy objectives including those listed above. We, of the Forum, will be pleased to be called upon to make contribution to those policy efforts. You may be interested to know that the Forum's work program now under consideration includes preparation of scorecards on achievement of domestic financial reforms in individual economies in the region, including on improvement of bank governance.

In closing, I would like to thank you, Ministers, and especially, Chairman, for having invited me to this meeting and for your very warm hospitality.

Thank you very much for your kind attention.