

A Summary Report on the Work of PECC on Financial Issues in 2005

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By

**Soogil Young*, Ph.D.
Coordinator, PECC Finance Forum**

Chairman, Ministers and Other Distinguished Participants:

I am greatly honored to be invited to participate in this 12th APEC Finance Ministers Meeting on behalf of the Pacific Economic Cooperation Council (PECC) in my capacity as the Coordinator of the PECC Finance Forum. I would like to thank the Ministers, and especially Deputy Prime Minister Han, the Chairman, for this honor.

There are two issues PECC Finance Forum has focused its work on since it was founded in 2001. One is the issue of how to develop local and regional bond markets in the region. The other one is how to develop corporate governance in East Asia. These two have been issues of priority concern because PECC shares the Ministers' view that two of the most critical weaknesses are the absence of deep and liquid bond markets, both and locally, and the poor state of corporate governance in the region.

PECC's work on these issues have continued this year. I have submitted two sets of PECC reports which summarize the findings from these projects, including policy recommendations, to the Technical Working Group for consideration by the APEC finance officials. I would now like to highlight for the Ministers some of the key findings and recommendations of the PECC Finance Forum on these issues.

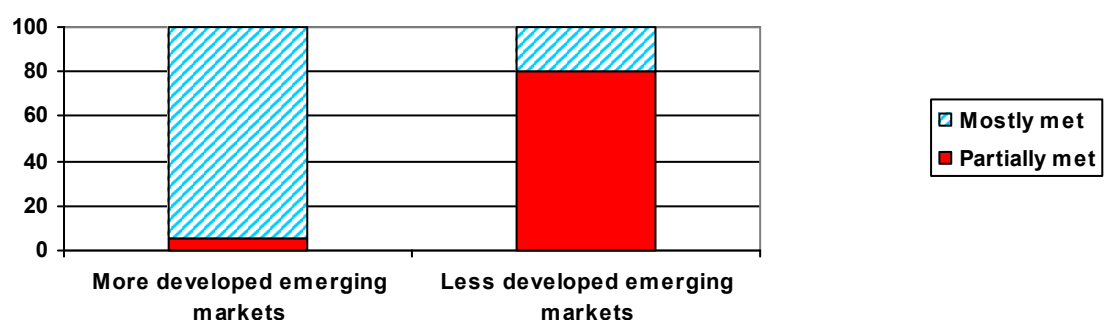
*President, National Strategy Forum, Seoul. <sgy@nsi.or.kr, soogil.young@kopec.or.kr>

After this report, I would then like to spend a couple of minutes to report to the Ministers on the discussion that PECC had on the issue of the so-called trans-Pacific imbalance at its 16th General Meeting held in Seoul during last two days.

Developing Bond Markets in East Asia

At the meeting in Phuket in 2003, the Ministers called for greater private-sector inputs to assist the public sector's efforts to develop local currency and regional bond markets. In response to this call, and in partnership with ABAC, PECC has held a conference in 2004 and another one this year in order to discuss the role of, and conditions for, public-private sector partnership in the development of bond markets. PECC and ABAC collaborated with the Asian Bankers' Association for the former, and with the ADB Institute for the latter. And in early 2005, the PECC Finance Forum in cooperation with ABAC conducted a survey on the current situation of local currency bond markets in the region as viewed by the private sector. The objective of the survey was to measure the extent to which key objectives of an enabling policy environment for private sector participation in bond market development are met in APEC emerging markets.

Chart 1. Level of Attainment of Key Objectives for Promoting Private Sector Participation in Bond Market Development in the Region



The results reveal wide disparities within the region. A number of emerging markets have made significant advances in developing relatively robust policy and regulatory frame works, market infrastructure, and key components of deep and liquid

bond markets. However, the majority of the region's emerging markets still belong to a second category where many of these requirements are far from adequately met.

In the first group, only 5% of all the key objectives for promoting private sector participation in bond market development in the region remain largely unmet. In the second group, 80% remain substantially unattained. This indicates that a considerable amount of work remains to be done in a number of emerging markets.

Reviewing the work it has done on developing local and regional bond markets during last three years in collaboration with various other regional organizations, the PECC Finance Forum has identified a list of strategic objectives as well as a comprehensive agenda for the development of those markets under each objective. Chart 2 lists the strategic objectives.

Chart 2. Strategic Objectives in Promoting the Development of Domestic and Regional Bond Markets

- A. Expanding the region's institutional investor base*
- B. Developing a strong regional credit rating industry*
- C. Promoting effective domestic and region-wide insolvency and creditor rights systems*
- D. Promoting region-wide convergence toward robust global accounting standards*
- E. Addressing impediments to cross-border investment in the region's bond markets*
- F. Promoting securitization and credit guarantee markets*
- G. Developing a regional clearing and settlement system*

The recommendation to the Ministers in this regard is that APEC consider launching a 'peer review process' involving the regulators and officials as well as the private sector in 2006. This is in line with the recommendation we submitted last year that the Ministers consider introducing peer review processes on progress in domestic reform by way of APEC cooperation for strengthening domestic financial systems in APEC. For this exercise, APEC is advised to draw on the OECD's successful experience with such process in Europe, and focus on the strategic objectives and the

addendum mentioned above.

Also, there is the need to ensure and promote consistency among the various bond market development initiatives which are being pursued in APEC, ASEAN Plus Three, and EMEAP. PECC and ABAC propose the formulation of ‘general principles for bond market development’ toward this purpose, for consideration and adoption by the APEC Finance Ministers in 2006.

Also, the PECC Finance Forum emphasizes the urgency of the development of a regional credit guarantee mechanism.

At the 16th General Meeting, PECC has discussed how to promote private-public partnership in the development of infrastructure in the region. We have agreed that these endeavors would offer good opportunities to develop financial markets in the region, including long-term local currency bond markets, in particular.

Improving Corporate Governance

At the Shanghai APEC meetings in 2001, the Ministers adopted the PECC-proposed Guidelines for Proper Corporate Governance Practices, which APEC Leaders subsequently endorsed. These Guidelines were consistent with the OECD principles.

These APEC Guidelines have been used by various Institutes of Directors and other organizations promoting proper corporate governance practices as a basic reference for Orientation Seminars and other training initiatives mandated or strongly encouraged by regulatory and other public authorities in the region.

This year, PECC has undertaken a survey aimed at arriving a “corporate governance scorecard”, grading several East Asian economies by the quality of corporate governance rules and regulations relative to the OECD guidelines, on the one hand, and also asking multinational investors operating in the region to do the same by the quality of the actual corporate governance practices as had been experienced by them, on the other hand.

The survey was done mainly by members of the Institutes of Directors in East

Asian network (IDEA.net). Figure 1 and Figure 2 show the results. Please, compare the two figures.

Figure 1. Corporate Governance Scorecard: Rules and Regulations

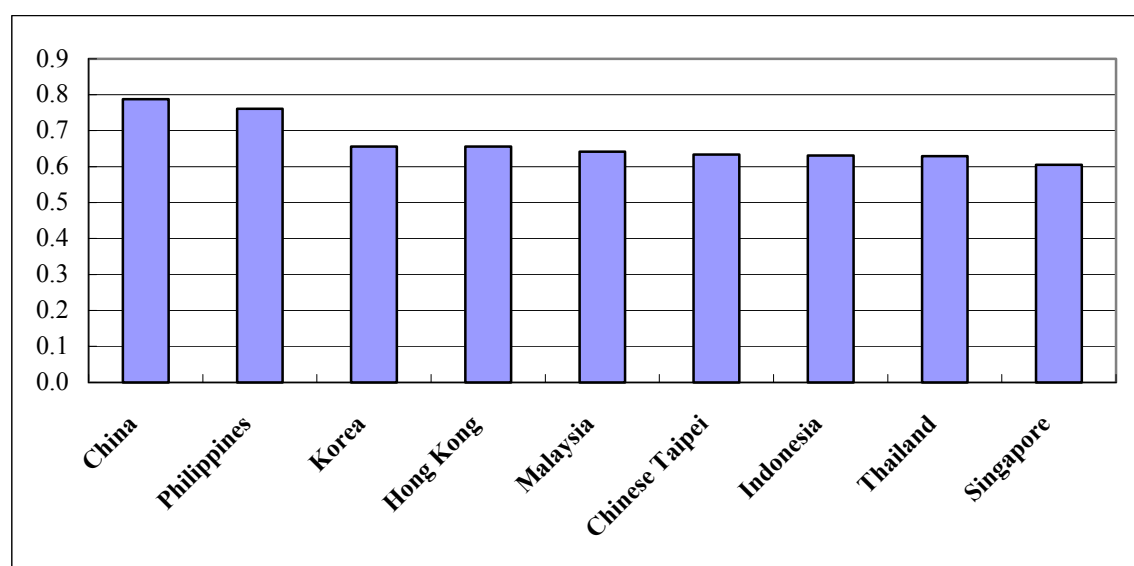
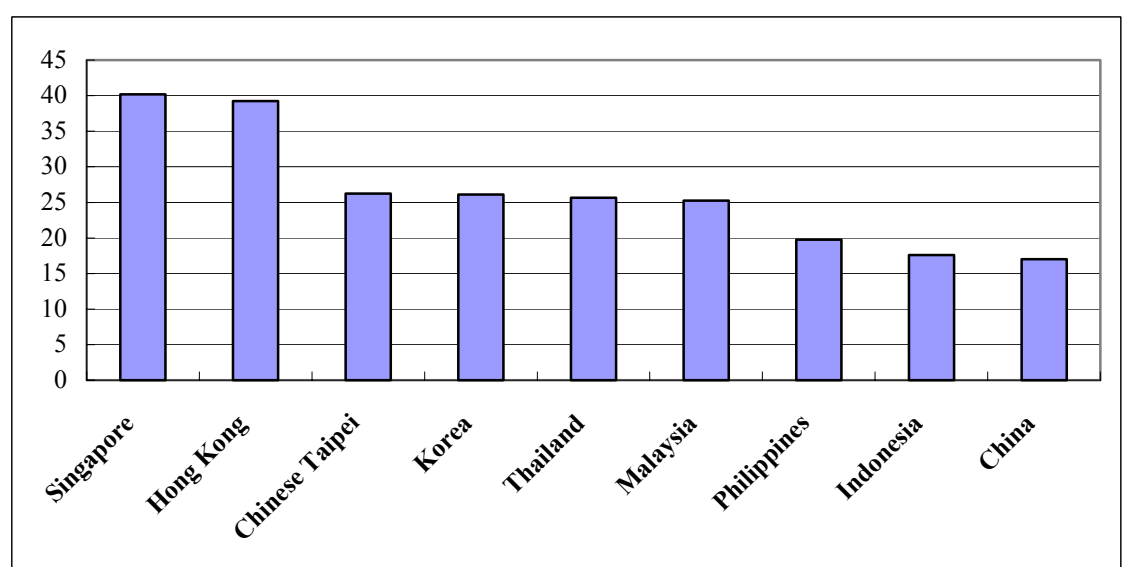


Figure 2. Corporate Governance Scorecard: Actual Practices



The two surveys yielded contrasting results. This shows that there is a deviation

between the regulatory environment and market perception of corporate governance practices in the economies surveyed. Economies equipped with “best” rules and regulations are perceived to be more or less the “worst” in terms of actual practices by investors. While the results may be challenged on the scientific ground, they illustrate the point that, despite the various efforts to bring the actual practices to the level of the APEC Guidelines, these efforts have been successful to varying degrees between economies.

This points to the need for the authorities to strengthen their efforts to seek more effective implementation of the good corporate governance guidelines beyond seminars and other training initiatives. The main parties to be undertaking the necessary measures are the private players like banks, or their Board Committees charged with risk management oversight in banks, stock exchange, and pension funds. Accordingly, PECC recommends that the authorities promote private-public partnership in order to engage these players in the necessary measures in appropriate ways.

The Trans-Pacific Imbalance

Dr. Fred Bergsten of IIE in Washington submitted a report to the 16th General Meeting of PECC in which he argued that the current account imbalance of the United States with East Asia, that is, the “trans-Pacific imbalance”, especially with China, is unsustainably so large that it is bound to cause a free fall of the U.S. dollar sooner or later. He further argued that, in any case, the U.S. Congress is getting ready to force the Administration to take a retaliatory trade measure in case China would not undertake a large revaluation of its currency. This stirred up a heated discussion on the trans-Pacific imbalance.

The thrust of the discussion may be summarized as follows:

This is a global imbalance rather than a trans-Pacific imbalance in so far as

Problems exist not only in East Asia including Japan but also in Europe as well

Problems include the fiscal deficit in the United States, too low investment in

China as well as other East Asian economies have gone on the path toward

Any quick budgetary adjustment on the part of the U.S. or a large exchange-

A trade policy action by the U.S. also is likely to affect the growth of all East

The market takes a long view and it is important and sufficient to convince the

These points are well summarized in the Seoul Declaration that PECC issued at the end of the General Meeting*. The Declaration has been distributed. In this statement, PECC expresses the concern that financial imbalances may spill over into trade policy problems. PECC thus recommends that APEC Finance Ministers should work more closely with Trade Ministers by integrating their respective separate meetings.

Concluding Words

PECC celebrated its 25th anniversary by publishing a history volume, “The Evolution of PECC: the First 25 Years”. I have presented each Minister with a complimentary copy. PECC has undertaken a reform in order to be of better service for the cause of Pacific economic cooperation.

Thank you very much for your kind attention.

* A note for the benefit of those who have not seen the Seoul Declaration released by PECC at

the end of its 16th General Meeting held in Seoul on September 5-7, 2005: the document includes the following paragraphs under the Call for Action heading:

- Financial imbalances are spilling over into trade policy problems. APEC Finance ministers and central bank governors should work together to reduce international imbalances. APEC Trade and Finance ministers should work more closely by integrating their respective separate meetings;
- APEC ministers should demonstrate to markets their recognition of the complex origins of imbalances in trans-Pacific trade and capital flows. They should take responsibility for crafting a cooperative solution. The current context of economic growth provides a unique opportunity to initiate these corrective actions. To be credible to market participants, the United States should move to restore fiscal balance. Asian member economies should expand domestic demand, rely less on export led growth, and allow greater exchange rate flexibility. This overall policy package will dispel growing uncertainty and reduce the risks of instability in global financial markets, and rising protectionism.