
APEC Finance Ministers' forum – role and work programme

By Geof Mortlock, Economics Department

Over much of 1999/00, New Zealand co-chaired the Asia Pacific Economic Cooperation (APEC) Finance Ministers' forum, as part of its overall chairing of APEC during 1999. This article describes the objectives and role of the APEC Finance Ministers' process and explains its interaction with other international forums. The article also summarises the main outputs produced by APEC Finance Ministers, placing these in the broader context of other international initiatives currently under way.

Introduction

New Zealand chaired the Asia Pacific Economic Cooperation (APEC) forum during 1999. As part of that process, New Zealand also assumed the chair of the APEC Finance Ministers' process – that part of APEC that deals with macroeconomic and financial issues and is overseen by Finance Ministers. In an arrangement designed to align the timing and chairing of the Finance Ministers' forum with that for APEC as a whole, New Zealand co-chaired the Finance Ministers' process with Brunei Darussalam from the middle of 1999 through to September 2000 when this year's annual Finance Ministers' meeting was held.

Although the international trade aspects of APEC have a relatively high public profile, the Finance Ministers' process is less well understood. This article discusses the origins and objectives of the Finance Ministers' process and summarises the main initiatives currently on the agenda, placing these in the wider context of the global financial reforms currently under way. Before doing this, however, the article outlines the origins of APEC itself and its structure and objectives.¹

Background – origins, objectives and structure of APEC

APEC was formed in 1989, principally as a forum within which Asian and Pacific Rim economies could advance their collective economic welfare and promote greater cooperation in the region.

Currently there are 21 member economies within APEC.²

The membership of APEC is diverse, comprising economies in various stages of economic development, with a wide range of political and cultural characteristics and varied economic and financial structures. At times the diversity in the membership of APEC can pose challenges in reaching consensus on policy issues. However, it also provides the opportunity for sharing a rich and broad range of perspectives and experiences, with the potential to enhance the quality of international debate and deepen the understanding of policy-makers.

APEC began life as a forum for Trade and Foreign Ministers and their officials, focusing principally on regional economic and international trade issues, with a particular emphasis on trade facilitation. However, in 1993 APEC was broadened by holding the first of the annual meetings of the Leaders of APEC economies. In their first meeting, Leaders articulated a shared vision for APEC of achieving stability, security and prosperity for the peoples of the region. In that context, they pledged to find cooperative solutions to the challenges of a rapidly evolving regional and global economy and to continue to reduce impediments to trade in goods, services and investments among the APEC economies.

In support of this goal, APEC Leaders adopted what became known as the "Bogor Declaration" in 1994, under which they agreed that member economies would eliminate all

¹ For more information on APEC, including details of its work programme, the official APEC web site can be accessed at <http://www.apecsec.org.sg>

² The current member economies of APEC are: Australia, Brunei Darussalam, Canada, Chile, the People's Republic of China, Hong Kong China, Indonesia, The Republic of Korea, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Republic of the Philippines, Russian Federation, Singapore, Chinese Taipei, Thailand, United States of America and Vietnam.

remaining international trade and investment barriers by 2010 in the case of developed member economies and 2020 in the case of developing economies. This has become the principal strategic goal of APEC and underpins many of the initiatives within it, particularly on the trade side of the forum. The Bogor Declaration is supported by the Osaka Action Agenda. It sets out the three pillars of APEC's trade agenda: trade and investment facilitation; trade and investment liberalisation; and technical cooperation. The Osaka Action Agenda sets out agreed principles for action by APEC economies in 15 policy areas, including tariffs, non-tariff trade barriers, customs procedures, and regulatory standards.

The Finance Ministers' forum was established in 1994 at the initiative of APEC Leaders. The initial purpose of the Finance Ministers' process was to provide a forum for discussing the economic issues then facing the region, including encouraging sustainable non-inflationary growth in the region, financing investment and infrastructure development, and promoting capital market development. As discussed later in this article, the Finance Ministers' agenda has evolved since 1994 in response to the needs of the region and global economic developments, particularly the Asian Crisis of 1997/98 and the subsequent international financial reform initiatives.

APEC operates under the overall direction of APEC Leaders. The chairing economy hosts the annual Leaders' meeting, and the chair passes from economy to economy on an annual basis. In addition to the annual Trade and Foreign Ministers' and Finance Ministers' meetings, sectoral meetings are periodically held by ministers responsible for education, energy, the environment, human resources, small and medium enterprises, telecommunications, transport, and science and technology. APEC ministerial meetings are supported by officials from each of the participating economies. The APEC Secretariat, based in Singapore, provides a permanent support structure to the trade side of APEC.

In addition to the ministerial and officials' processes within APEC, there is also a significant degree of private sector input into policy issues. APEC Leaders formed the APEC Business Advisory Council (ABAC) to provide them with a direct channel of private sector advice to supplement the advice obtained from ministers and officials. ABAC meets annually

with the Leaders, where it has an opportunity to put its views on a wide range of economic and trade policy issues. It has also more recently begun to have involvement in the Finance Ministers' process through the ABAC Financial Architecture Task Force. The Task Force provides Leaders and Finance Ministers with a private sector perspective on international financial reform issues, with a particular focus recently on mechanisms for encouraging APEC economies to implement international standards relating to financial and economic policy.

Another vehicle for private sector involvement in APEC is provided by the APEC Financiers Group (AFG). The AFG comprises representatives of banks and other financial institutions drawn from within the APEC economies and meets annually with Finance Ministers to present financial sector perspectives on the policy issues being considered by Ministers.

Overview of the Trade Ministers' work programme

The details of the Finance Ministers' work programme are discussed in some detail later in this article. However, to put the Finance Ministers' initiatives into context, it is useful first to outline the main elements of the APEC Trade Ministers' agenda.

The work programme in the Trade Ministers' process ranges over a wide policy territory, although most of the work is still principally anchored to trade facilitation and liberalisation, and strengthening markets. The main elements of the work undertaken include the following:

Trade facilitation and liberalisation

From an early stage of APEC, considerable emphasis was placed on trade facilitation and the removal of duties and trade barriers. Trade facilitation includes measures designed to harmonise and simplify customs procedures, travel formalities and other trade-related processes so as to reduce the costs associated with international trade. Trade liberalisation involves the reduction of tariff and non-tariff barriers to trade. The Osaka Action Agenda provides the

umbrella under which most of the trade liberalisation and facilitation work is being undertaken.

An important component of the trade liberalisation process is the Individual Action Plan (IAP) framework, under which each economy identifies the steps it will take to meet the Bogor goals of free trade and investment within the APEC region. Each economy completes an IAP annually, identifying the policy measures being taken to liberalise their trading and investment regimes over 15 key policy areas as set out in the Osaka Action Agenda. Collective Action Plans (CAPs) to liberalise and facilitate trade are also agreed and pursued by all APEC economies. Progress in moving towards the Bogor goals are then tracked via these IAPs and CAPs. The IAPs are subject to peer review by fellow APEC economies on an approximately two yearly cycle.

In addition to APEC's own goals on trade and investment, APEC economies recognise the need for progress towards freer trade to be achieved in the broader context of the World Trade Organisation (WTO) and associated multilateral trade negotiations. To that end, APEC assisted in encouraging the conclusion of the Uruguay Round of world trade negotiations in 1994 and continues to speak out for the development of an environment supportive of freer world trade through the WTO arrangements.

Overseas investment

Measures are being taken to encourage APEC economies to liberalise the rules governing inwards foreign investment. Initiatives to date include the development of an APEC Investment Guidebook to promote greater understanding of investment rules within the region and the development of options for investment liberalisation.

Electronic commerce

A work programme is under way to promote a legal and regulatory environment that will enable APEC economies to reap the benefits of electronic commerce. To date, much of the work has been focused on raising awareness of the potential opportunities in electronic commerce, and the regulatory and legal implications arising from it.

Promoting competitiveness

As part of its efforts to strengthen markets within the APEC region, APEC has, in liaison with ABAC, developed a set of principles on competition and regulatory policy. These principles are intended to assist APEC economies to create greater competitiveness in product and financial markets by providing some prompts and guidelines on regulatory issues. In turn, this could be expected to assist in building the foundations for freer trade and investment, and improved resource allocation, within the region.

Small and Medium Enterprises (SMEs)

In recognition that SMEs are major contributors to growth and employment in APEC economies, work is in train to facilitate the development of SMEs. The work has included projects on human resource management, strategic alliances between large firms and SMEs, training of small business counsellors and electronic commerce.

Economic and technical cooperation

An important role of APEC is to assist developing and emerging economies in the region to improve their technical capacity in a range of policy areas. APEC provides a useful vehicle for doing this, given the mix of developed and developing economies in its membership and the capacity to share technical capacity and information in a collegial and relatively informal environment. This is done through various initiatives, including by encouraging and facilitating technical assistance, seminars, research and policy dialogue processes within APEC. As noted later in this article, the sharing of knowledge and building of technical capacity is also an important element in the Finance Ministers' forum.

Co-ordination of Trade Ministers' and Finance Ministers' processes

Until recently, the Trade Ministers' and Finance Ministers' processes tended to operate quite separately, with relatively little linkage between their respective work programmes. However, while in the chair, New Zealand made a particular effort to better integrate the two processes, in recognition

that there are significant areas of overlap in the policy issues being considered. As the region becomes more closely integrated through trade, capital and regulatory processes, it is likely that there will be an increasing degree of cross-over between the two parts of APEC. This could be expected to assist APEC governments, as well as the private sectors in APEC economies, to develop a more holistic approach to economic integration in the region.

Finance Ministers' forum – objectives and work programme

Against the above background, the remainder of this article discusses the objectives of the APEC Finance Ministers' forum and the key elements in its work programme.

The Finance Ministers' process seeks to meet a number of purposes, including:

- providing a forum for Finance Ministers to exchange views on economic developments and issues relevant to the APEC region, particularly issues affecting economic growth, financial stability and international trade and investment;
- encouraging the implementation of policies to promote sustainable, non-inflationary growth, financial stability and freer and more stable capital flows; and
- providing a vehicle within which the APEC economies can communicate their views to the other international agencies and forums, including the International Monetary Fund (IMF), World Bank, Asian Development Bank (ADB), Financial Stability Forum (FSF) and the G7 economies.

In order to facilitate effective dialogue with other international agencies, and to enable the Finance Ministers' process to develop a work programme that complements other global initiatives, the IMF, World Bank and ADB participate in APEC ministerial and officials' meetings.

The objectives and the nature of the Finance Ministers' work programme have evolved since 1994 in response to regional and global developments. In particular, the Asian Crisis of 1997/98 significantly influenced the work programme, with

a number of projects being initiated to address factors that had contributed to the crisis. Since then, the work programme has been influenced by the various global initiatives under way to reform the international financial system, particularly the work of the Financial Stability Forum on capital flows and international standards, and the reform initiatives being led by the IMF, World Bank and various international standard-setting bodies. The Finance Ministers' process has also provided a useful forum for discussing international reforms and distilling a regional perspective where appropriate.

The main initiatives currently under way in the Finance Ministers' process are focused on the following issues:

- economic and financial reforms to promote financial stability and economic growth, and to provide a basis for encouraging freer capital flows;
- measures to strengthen corporate governance;
- policies to improve the quality and timeliness of financial disclosure by private sector entities;
- building capacity in the areas of banking supervision and securities market regulation;
- assessing the options for responding effectively to bank failures in ways that restore and strengthen financial stability; and
- developing a greater understanding of credit rating methodologies and assessing the mechanisms for improving the efficiency and effectiveness of ratings.

The main projects currently under way are discussed below.

Voluntary Action Plan for promoting freer and more stable capital flows

The Voluntary Action Plan (VAP) for promoting the freer and more stable flow of capital in the APEC region is an important project on the Finance Ministers' work programme. The project was initiated in recognition of the fact that opening an economy to international capital markets can bring major benefits for the economy in question and also for capital exporting economies. Equally, however, cross-border capital flows pose additional risks for an economy and these risks

must be carefully managed through well designed policy measures. In this context, the objectives of the VAP are to:

- enhance APEC economies' understanding of the benefits and risks associated with cross-border capital flows;
- develop a sound understanding of the policies needed to maximise the benefits and minimise the risks associated with cross-border capital flows; and
- encourage the implementation of policies to promote robust and open economies in the APEC region.

Given the recent episodes of volatile cross-border capital flows and associated financial crises in Asia and elsewhere, this project has provided a timely opportunity for APEC economies to exchange views and experiences on capital account liberalisation and a range of associated policy issues. It has also provided an opportunity for APEC economies to engage in the international discussions on economic and financial policy issues being advanced in other international agencies, particularly the work of the IMF and Financial Stability Forum.

The VAP is structured in two parts. Part 1 comprises a report, prepared by APEC economies, analysing the benefits and risks associated with cross-border capital flows and the policies that can assist economies to derive maximum benefit from accessing international capital markets while minimising the risks. The report was endorsed by Finance Ministers when they met in September this year and has since been released publicly. Its key conclusions are summarised below.

Summary of report under Part 1 of the VAP

The VAP report noted that economies within the APEC region and around the world have significantly benefited by opening their economies to international capital markets. Accessing international capital markets to augment the pool of available domestic savings can bring significant benefits and play a major role in promoting economic development and growth. The report cited a number of specific benefits associated with capital inflows, including:

- increasing the availability and reducing the cost of capital;
- facilitating the efficient allocation of capital and resources;

- assisting in the development of financial markets;
- allowing more effective management of risks;
- enhancing competition;
- providing an infusion of technical skills and expertise;
- helping to maintain consumption and investment spending during periods when domestic resources are insufficient; and
- strengthening the incentives for the adoption of sound economic and financial policies.

But, as seen so graphically in parts of Asia and Latin America in recent years, there are risks associated with cross-border capital flows. Most of these risks stem from weaknesses in domestic financial markets, inadequacies in economic policy and insufficient financial and policy transparency.

The report observed that a change in investor sentiment can lead to sudden and large capital outflows, particularly where countries have relied heavily on short-term flows that carry a higher degree of capital roll-over risk. Sudden withdrawals of foreign capital, or unwillingness to roll over existing loans, can trigger or exacerbate financial and economic instability. The risk of capital outflows is not limited to countries that rely heavily on foreign capital. Instability can also arise when residents seek to transfer large amounts of domestic capital abroad.

The report also noted that a rapid process of financial and capital account liberalisation, unsupported by measures to manage risks, can result in poor quality lending decisions and resource misallocation and excessive volatility in asset prices. In turn, this can lay the basis for a subsequent deterioration in asset quality in the financial system, potentially resulting in financial instability.

In addition, sudden changes in the direction of capital flows can result in exchange rate and asset price volatility or loss of monetary control. Recent experience has reinforced an old lesson that in countries with fixed exchange rate regimes, a substantial reversal of capital flows can force the abandonment of the exchange rate peg, with potential implications for currency losses by unhedged borrowers, higher interest rates and a possible loss in economic output.

The VAP report noted that the risks identified above are generally greater where there are:

- inconsistent or non-credible macroeconomic policies, including an exchange rate policy or policy setting that is inconsistent with a country's economic fundamentals;
- policies in place that bias domestic borrowing toward short-term or unhedged foreign currency denominated debt;
- poor quality debt, risk and liquidity management practices by the public and private sectors;
- weaknesses in financial sector regulation and banking supervision;
- inadequate corporate governance and financial disclosure arrangements;
- poorly developed market disciplines in the financial and corporate sectors;
- inadequate transparency of economic policy and insufficient information to enable investors to make well-informed investment decisions; and
- uncompetitive and inefficient markets.

The report argued that many of the policies required to maximise the benefits and minimise the risks associated with cross-border capital flows are also the policies that assist in building robust domestic economies, regardless of the extent to which the capital account has been liberalised. However, the more open an economy's capital account is, the more vulnerable it is likely to be to volatile capital flows, with instability even more likely in the presence of inadequate or unsound policies. Therefore, there is a greater need for sound, sustainable and credible economic and financial policies and transparency arrangements in an economy with an open capital account.

The nature of the required policies will vary depending on an economy's stage of development, policy objectives and financial and economic structure. A "one size fits all" approach is neither feasible nor desirable. However, some broad policy principles have been identified in the report, which, to varying degrees, have relevance to all APEC economies. These include the following key points:

- Liberalisation of an economy's financial sector and capital account should be preceded or accompanied by the implementation of sound, consistent and credible macroeconomic policies and measures to strengthen the financial system and promote effective risk management within the economy.
- Monetary, fiscal and exchange rate policies should be mutually compatible and based on clear, consistent, transparent and achievable objectives.
- Policy-making and implementation should be subject to robust transparency and accountability arrangements to strengthen the incentives for the design and implementation of high quality policy.
- Sound and efficient financial markets are essential for any economy, and especially so for an economy with an open capital account. A balance of policies is needed, including effective banking supervision, robust corporate governance and disclosure arrangements, measures to strengthen market disciplines in the financial sector, a sound payments system, and policies to enable authorities to respond effectively and quickly to financial distress.
- The development of diversified and efficient capital markets, including markets for bonds and equities, is an important aspect of reducing dependency on the banking sector and therefore reducing the vulnerability of the real economy to banking sector disturbances.
- Microeconomic policy can also play an important role in encouraging efficient investment of capital flows and resource allocation. Desirable measures include policies to minimise distortions to relative prices, to promote efficient mobility of resources and to encourage contestable and competitive markets.
- Temporary controls on capital inflows to reinforce domestic prudential requirements may be appropriate in some circumstances, particularly pending the implementation of measures to promote macroeconomic stability and effective risk management within the economy. However, controls on inflows reduce the potential benefits arising from capital flows and impose costs and distortions on the economy. Under specific circumstances, the imposition of controls on capital

outflows in a period of volatility may assist in reducing outflows and stabilising the economy, but ultimately only if accompanied by sound macroeconomic policies and financial reforms. Moreover, controls on capital outflows are likely to weaken investor confidence and may delay the return of investors. Therefore, capital controls are not a substitute for economic reform.

The VAP report noted that the development of international standards in a wide range of policy areas provides a framework for economies to assess the adequacy of their policies and to implement improvements to policies where appropriate. Accordingly, APEC Finance Ministers have endorsed the core standards identified by the Financial Stability Forum and agreed that member governments should have careful regard to these standards in implementing policy reforms.

Part 2 of the VAP

Part 2 of the VAP is intended to actively encourage the implementation of policies to promote robust and open economies within the APEC region through a process of policy dialogue. Policy dialogue will involve policy experts from each participating economy exchanging views and experience on the implementation of international standards and associated policy issues. It will also enable economies to report on their progress in implementing international standards in areas relevant to strengthening financial markets. The policy issues addressed in the dialogue process will be drawn from the set of core international standards identified by the Financial Stability Forum³. It is envisaged that this process will assist economies to implement international standards and to explore different approaches to the promotion of sound and efficient financial markets.

³ For a summary of the international standards identified by the Financial Stability Forum, the reader is referred to the article published in the September 2000 issue of the *Reserve Bank Bulletin*, Vol 63, No 3, pp45-58 entitled *Reforms to global financial architecture*.

Strengthening corporate governance in the APEC region

It is now widely acknowledged that deficiencies in corporate governance contributed to the financial instability experienced in the APEC region over 1997/98. Weaknesses included inadequate oversight of management by boards of directors; insufficient rights for shareholders; inadequate risk management systems and internal audit arrangements; and tight insider control of companies by majority shareholders.

Weaknesses in corporate governance are attributable to many factors and these vary from country to country. Some of the underlying factors can include: insufficiently developed or enforced corporate governance law; insufficient competitiveness in markets; weak market disciplines on companies; poorly developed equity and bond markets; and excessive regulatory impediments to company takeovers.

APEC Finance Ministers in 1998 initiated a project designed to strengthen corporate governance in the APEC region. This project has resulted in a report on corporate governance in selected APEC economies, highlighting deficiencies and identifying the measures that can be taken to address them. The report stressed the need for:

- effective and well enforced company law, setting out the duties of directors, the rights of shareholders, and basic requirements in relation to the management of conflicts of interest, among other matters;
- effective and well enforced disclosure and auditing requirements;
- creation of a corporate governance culture, including leadership from central government in terms of its own approach to internal governance, transparency and accountability; and
- measures to strengthen the market incentives for sound corporate governance, including policies to strengthen market disciplines, to promote greater competitiveness, and to reduce moral hazard risks.

A policy dialogue will be held in April 2001 to promote understanding of corporate governance issues in the region and to encourage further momentum in implementing desired reforms within the APEC region.

Insolvency law

Inadequacies in the design and enforcement of insolvency law exacerbated financial losses in the banking and corporate sectors in some Asian economies in 1997/98 by impeding the implementation of efficient strategies to address debt defaults. Not only did this increase losses for banks and other lenders, but it also reduced the ability to restructure corporations in difficulty, thereby impeding the process of economic recovery.

APEC Finance Ministers aim to raise awareness of the importance of implementing effective insolvency regimes in the region. As part of this effort, a symposium was held in 1999 on insolvency systems in Asia. A follow-up symposium will be held in early 2001, as part of APEC's continuing efforts to encourage improvements in the design and enforcement of insolvency law.

Financial disclosure

In the years leading up to the 1997/98 financial crisis, inadequate financial and accounting disclosures, auditing practices and regulatory enforcement played an important role in contributing to weak market disciplines in the corporate and financial sectors of many APEC economies. In turn, this reduced the incentives for banks and other companies to manage their risks effectively and weakened the ability of investors and creditors to protect their interests.

In recognition of the importance of high quality, timely and frequent financial disclosure and auditing arrangements, APEC Finance Ministers have established a Company Accounting and Financial Reporting Task Force. The Task Force will consider issues related to promoting high quality internationally acceptable standards of accounting and auditing practices by business within the APEC region. It will involve a process of policy dialogue among participating APEC economies on their approaches to financial disclosure. And it will draw on the wide range of international work already completed or under way on financial disclosure, including international accounting and auditing standards.

Development of domestic bond markets

Some of the Asian economies most adversely affected by the financial crisis had under-developed bond and equity markets. This meant that corporate and other borrowers had a relatively undiversified source of funding, making them reliant on the banking sector for most of their funding needs. When the banking sectors in some Asian economies experienced serious difficulties, forcing banks to cut back on their lending, corporations reliant on bank funding had few alternative sources of funding to turn to. This exacerbated liquidity difficulties for the corporate sector and in some cases exacerbated the extent of corporate failure. The lack of well developed bond markets also placed constraints on the development of risk hedging facilities in some economies, reducing the ability of banks and corporates to hedge against exchange rate and interest rate risks.

In recognition of the importance of having well developed capital markets, Finance Ministers launched an initiative in 1998 to promote the development of domestic debt markets to encourage more efficient financial intermediation within APEC economies. An initial survey of economies' bond markets identified various impediments to their development. A workshop held in 1998 recommended preparation of a compendium of sound practices and the establishment of a website to facilitate the exchange of information. The compendium was published in September 1999. Together with the work being undertaken by the World Bank, the compendium provides useful guidance to APEC economies on the measures needed in order to foster the conditions for the development of bond and equity markets.

Financial regulators training initiative

In recognition of the importance of having effective financial sector regulation and supervision, APEC Finance Ministers in 1998 initiated a project to foster the training of banking supervisors and securities market regulators in the region, supported by the ADB. The major emphasis of this initiative has been to develop a sustainable and cost effective training process and standardized courses for application to APEC economies.

Finance Ministers have recently extended this initiative for a further two years. Phase two of the project is expected to broaden the scope of the training initiative. In the banking sector, model courses and self-study materials will be developed for banking regulation and supervision, credit and market analysis, bank examination, and treasury management and operations. Similarly, materials will be developed for primary and secondary securities markets, securities regulation and enforcement. Attention will also be given to the delivery of training in APEC economies.

Bank failure management

Recent international financial crises have highlighted the importance of sound domestic financial systems and the need for effective and reliable supervisory frameworks. Much of the work being undertaken internationally and within individual economies has focused on ways to reduce the risk of bank failure and financial system distress. While these initiatives are undoubtedly important, it is equally important for governments to develop the capacity to respond efficiently to episodes of financial system distress when they do arise.

Accordingly, Finance Ministers have approved an initiative to promote an improved understanding within APEC of the options available for responding to bank failures. Emphasis will be placed on exploring bank failure response strategies that offer the best prospects for minimizing dislocation to the financial system that could arise from a bank failure, and for managing the failure in ways that strengthen, rather than weaken, disciplines on the banking system. A report on bank failure management will be prepared, based on how different APEC economies have responded to bank failures.

The project will involve policy dialogue between participating APEC economies and will draw on expertise in bank failure management from the IMF, World Bank and other international institutions. A report is expected to be presented to Finance Ministers in 2001.

Managing regulatory change in life insurance and pension funds

In recent years, the life insurance industry has become an important component of financial systems in Asia, and there is potential for further growth. The industry can play a significant role in deepening domestic capital markets, better marshalling domestic savings to meet national objectives, and better developing self-financing private safety nets.

Reflecting the growing importance of the life insurance and pension fund industries, and the need for effective regulation of them, Finance Ministers have initiated a project to encourage a well-functioning life insurance and pension fund industry in the region. A series of targeted symposiums and training programs will be held over the coming three years to promote improved regulation and actuarial standards and to assess international best practices in risk management, disclosure and accountability.

Credit rating agencies

During the Asian financial crisis, some APEC economies (and other international commentators) were critical of aspects of the credit ratings process. The concerns mainly related to:

- a perception that credit rating agencies have not been sufficiently transparent in disclosing their rating methodologies and have not adequately consulted clients before announcing rating decisions;
- perceived inadequacies in the quality of credit ratings, and particularly the failure of rating agencies to anticipate financial crises and debt defaults; and
- the tendency of some rating agencies to undertake unsolicited ratings.

In light of these and other concerns, APEC Finance Ministers launched an initiative at their 1997 meeting to improve understanding of credit rating methodologies and to provide a vehicle for discussing the above concerns with credit rating agencies. A survey was undertaken recently of the codes of conduct and practices currently in use by various rating agencies and on issues such as the transparency and accountability of the rating process; conflicts of interest; and the credibility and reliability of ratings.

The findings of the survey were reported to APEC Leaders when they met in Brunei Darussalam in November this year. The report noted that credit rating agencies have taken steps to improve the transparency of their rating methodologies. The report also noted that there are many things that governments can do to assist rating agencies perform their role efficiently and reliably, and to increase the likelihood of a satisfactory rating outcome. These initiatives include developing high quality public disclosure requirements for the public and private sectors, strengthening external audit requirements, improving corporate governance, promoting greater transparency of economic policy, and building constructive relationships between clients (including governments) and credit rating agencies.

Workshop on public sector management

As part of APEC's efforts to improve private and public sector governance, a workshop on public sector management was held this year. Given the importance of the public sector in all APEC economies, improving the management of the public sector is central to improving the broader economic performance of member economies. The workshop provided the opportunity to share reform experiences and discuss effective practices, particularly in relation to public sector financial management and productivity. The workshop included discussion on public sector accounting issues, management practices, and transparency and accountability structures.

Privatisation forum

In 1999, in recognition of the important part that privatisation can play in promoting efficient resource allocation and in improving public sector finances, Finance Ministers agreed to the formation of a forum within APEC for the discussion of privatisation issues. The purpose of the forum is to provide a vehicle for APEC governments to exchange views and experiences of various aspects of privatisation. These include such issues as the pre-conditions for privatisation, resolving market concentration problems and the techniques available for privatising state owned enterprises. The inaugural meeting of the privatisation forum was held in late 1999, with a second meeting being held this year. It is expected that the forum might meet on an annual basis.

APEC initiative on fighting financial crimes

In September this year, Finance Ministers agreed that APEC can play a significant role in promoting measures to combat money laundering and financial crimes. In this regard a collaborative initiative was launched which will conduct a survey of the adequacy of legal and regulatory frameworks in fighting financial crimes, building on work already completed by APEC members of the Asia-Pacific Group on Money Laundering (APG). Results of the survey will be reported to Ministers in 2001. It was further agreed to incorporate elements tied to detection and the combating of money laundering into the model curriculum being developed through the APEC bank supervisors training initiative, and to develop course content to address abuses of the financial system. The working group will promote a policy dialogue, as part of the VAP Part 2 initiative, on the FATF 40 Recommendations based on the APG mutual evaluation results.

Conclusion

APEC has been in existence now for eleven years. In that time it has expanded its membership to include 21 economies, developed extensive linkages with the business sectors throughout the APEC region and broadened its focus. The formation of the Finance Ministers' process in 1994 was an important part of this broadening, and reflects the reality that APEC economies are becoming more closely integrated over a range of policy areas. APEC is well placed to play a constructive role in facilitating further economic integration within the region and in promoting the foundations for economic growth and financial stability.