

DOCUMENTATION

ASEM2 Statement on The Financial and Economic Situation in Asia

London, 3 April 1998

A Shared Interest in Restoring Stability

1. Leaders discussed the recent financial and economic situation in Asia, emphasizing its impact on the global economy and stressing their concern about the human cost to the people of Asia. They reaffirmed the need to respond decisively to the crisis and welcomed the reforms being undertaken by the Asian countries concerned to promote financial and economic stability. They expressed confidence that with full implementation of the necessary policy reforms and strong mutual support, financial stability would be restored. Strong economic fundamentals would enable Asia's impressive growth performance to continue over the medium term. Leaders noted Europe's deep interest in the resolution of Asia's financial difficulties and full participation in multilateral and bilateral efforts to overcome the current problems. They also took note of the significant financial and economic support provided by Asian partners.

Reform in Asia Matched by Support from the International Community

2. Leaders agreed that it was important to reinforce the role of the International Monetary Fund at the centre of the global response to what is a global concern. They expressed their strong support for full implementation of the programmes of reform agreed with the IMF, the World Bank and the Asian Development Bank, which would be vital in restoring confidence in Asian economies and financial markets. They appreciated and encouraged the adjustment efforts in the Asian countries concerned. They emphasized that policies should be implemented in an open, transparent and non-discriminatory manner.

3. Leaders welcomed the timely response to date to the crisis from the international community. They recognized the considerable financial assistance provided through the international financial institutions as well as various supplementary bilateral arrangements to help the Asian countries concerned. In particular, they supported the provision of high levels of IMF resources in support of strong programmes of adjustment, and welcomed the creation of the new IMF Supplemental Reserve Facility.

Reforming and Strengthening the International Financial System for Stability

4. Leaders discussed ways, including those contained in the Manila Framework, in which the international monetary and financial system could be reformed and strengthened, focusing on crisis prevention and reducing the vulnerability of domestic financial systems to potential shocks, including speculation-induced instability. They called for:

- A strengthened capacity of the IMF to respond to financial difficulties in a timely and decisive manner, and access to expanded levels of IMF resources through a quota increase and early ratification of the New Arrangements to Borrow (NAB).
- Enhanced and more transparent global IMF surveillance, complemented in Asia by the establishment of a new regional surveillance mechanism.
- Strengthened co-operation, regulation and supervision in financial sectors, and an examination by the IMF and international regulators' bodies of ways to improve transparency in financial and capital markets, including the possibility of monitoring short-term capital flows.

Private Sector Involvement

5. Leaders stressed the importance of devising strategies to secure private sector involvement in providing financial assistance as necessary and appropriate, in co-operation with and supporting the approach of the public sector. They noted in particular the importance of private sector involvement in the successful conclusion of debtor/creditor fora and provision of trade credit in various countries. They appreciated the constructive role played by European, Asian and other commercial banks in this regard. They also agreed on the importance of providing the right climate for private investors to make full and adequate assessments in relation to their lending and financing decisions. Leaders also recognized that the increased contact and exchange of information between the public and private sector could contribute to preventing potential financial difficulties.

Export Finance

6. Leaders recognized the importance of continued access to trade finance for economic recovery within the framework set by the IMF. They welcomed the proposals made by major export credit agencies (ECAs) during the course of the G7 Finance Ministers and Central Bank Governors meeting, 20 February 1998, and subsequently by other countries, to provide trade finance facilities in Asia. They encouraged further ECAs to provide special credit facilities in order to ease the shortage of liquidity of the export sectors of the Asian countries concerned.

Technical Co-operation

7. Leaders agreed that co-operation through ASEM on technical assistance could play a major role in support of the programmes of reform agreed with the international financial institutions. They welcomed the creation of an ASEM trust fund at the World Bank to help finance technical assistance and advice both on restructuring the financial sector and on finding effective ways to redress poverty, drawing on European and Asian expertise. They also welcomed the recent enhancement of financial allocations by an Asian ASEM partner in the existing trust funds at the World Bank and Asian Development Bank for technical assistance in these areas.

8. In addition to existing bilateral arrangements, Leaders welcomed the proposal to create a European network, associating Asian expertise, for increasing the quality and quantity of technical advice in reforming the financial sector. They encouraged their financial supervisors to increase co-operation.

Strengthening National Economic Systems

9. Leaders noted the particular importance of strengthening and reforming domestic financial systems and economic structures including corporate sectors, in order to realize Asia's underlying potential and achieve sustained economic development. They also noted that Asian efforts to undertake the necessary reforms in the financial sector could play a decisive role in restoring investors' confidence by ensuring transparency, predictability and proper surveillance. Co-operation among ASEM partners in human resources development, promotion of SMEs, technical assistance and improvement of the investment environment should play a major role in strengthening the economic base. Leaders asked the relevant authorities to liaise closely with the Asia-Europe Business Forum (AEBF) in considering and, where appropriate, developing proposals for promoting SMEs.

Reducing the Social Impact

10. Leaders recognized the need to consider the social impact of the financial difficulties in Asia. They noted that implementing comprehensive reform programmes offered the opportunity to build a strong platform for sustainable future growth. But in doing so, it would be important to protect social expenditure wherever possible, and develop well-designed and affordable social safety nets to safeguard the poor.

11. Aware of the importance of complementarity between economic and social policies, they agreed to adopt a balanced approach in addressing the socioeconomic impact. They supported the efforts of the World Bank and Asian Development Bank in this respect, and welcomed the poverty focus of the new and existing trust funds at these institutions.

Impact on the World Economy

12. Leaders also considered the impact of Asia's current difficulties on the world economy. They noted that with continued implementation of sound economic and financial policies, the overall impact on the world economy was likely to be material but manageable. There were already signs of substantial improvements in the external accounts of some Asian countries, but the difficulties were not yet over and the need for vigilance remained.

13. While expressing confidence about the prospects for recovery in Asia, all ASEM partners recognized the need to take appropriate measures to strengthen consumer and business confidence in order to overcome the crisis. It was also important more than ever for global economic stability for the European countries to keep their own economies in good order.

Importance of Maintaining an Open Trading System

14. Leaders acknowledged that the crisis could trigger protectionist reactions as a result of shifts in trade and investment flows or of requirements for adjustment. They expressed their common resolve to resist any protectionist pressures and at least to maintain the current level of market access while pursuing further multilateral liberalization, which was recognized as the most effective means of overcoming protectionist pressures and helping to alleviate the crisis. They undertook not to take any restrictive measures in the legitimate exercise of their WTO rights that would go beyond that which is necessary to remedy specific situations, as provided for in WTO rules. Acknowledging that the trade and investment pledge applied to all ASEM partners, leaders also invited trading partners outside ASEM to join in this pledge.

15. Leaders also acknowledged the vital contribution of economic reform programmes, including reforms in the financial sector in Asia, to global efforts to resist protectionism, stimulate investment and strengthen the international trading system.

16. They noted that developments in Asian markets could lead to a drop in investments in both directions and pledged to do their best to facilitate the maintenance and expansion of FDI. They urged full and rapid implementation by all ASEM partners of the Trade Facilitation Action Plan and the Investment Promotion Action Plan in order further to open up trade and expand investment between Asia and Europe.

Future Co-operation

17. Leaders agreed that these issues should be followed up vigorously and asked their Finance Ministers and their Economic Ministers to consider concrete measures to deal with them.

SOURCE: ASEAN Secretariat World Wide Web site <<http://www.asean.or.id/world/asean2fin.htm>>.