

# Special ASEAN Finance Ministers Meeting

Kuala Lumpur, 1 December 1997

## JOINT MINISTERIAL STATEMENT

1. The ASEAN Finance Ministers met in Kuala Lumpur on 1 December 1997 to discuss current developments in the region, in particular the crisis affecting the region's financial markets. The Meeting was preceded by an informal ASEAN Senior Finance and Central Bank Deputies Meeting (ASROM) held on 30 November 1997.
2. The ASEAN Finance Ministers Meeting was chaired by H.E. Mr Tarrin Nimmanahaeminda, Minister of Finance, Thailand, the current chairman of the ASEAN Finance Ministers Meeting (AFMM). The Meeting was attended by H.E. Pehin Dato' Ahmad Wally Skinner, Deputy Minister of Finance, Brunei Darussalam; H.E. Mr Mar'ie Muhammad, Minister of Finance, Indonesia; H.E. Mr Bounlith Khennavong, Vice Minister of Finance, Lao People's Democratic Republic; H.E. Dato' Seri Anwar Ibrahim, Deputy Prime Minister and Minister of Finance, Malaysia; H.E. Brigadier General Win Tin, Minister for Finance and Revenue, Myanmar; H.E. Roberto F. de Ocampo, Secretary of Finance, Philippines; H.E. Dr Richard Hu Tsu Tau, Minister of Finance of Singapore; H.E. Mdm Le Thi Bang Tam, Deputy Minister of Finance, Vietnam; H.E. Dato' Ajit Singh, Secretary-General of ASEAN; and their respective delegations.
3. The Ministers signed the Protocols for the Accession of the Lao People's Democratic Republic and Union of Myanmar to the Ministerial Understanding on ASEAN Cooperation in Finance. The Ministers extended a warm welcome to the Finance Ministers of Lao' PDR and Myanmar on their official admission into ASEAN and their participation at the AFMM for the first time as full-fledged members.

### **The Southeast Asian Financial Crisis**

4. The Ministers discussed several financial issues confronting ASEAN and exchanged views on the financial and economic situation in the respective member countries. The Ministers also discussed the causes of the current crisis and the policy responses adopted by the affected economies in their efforts to restore economic and financial stability. They noted that a comprehensive package of policies was necessary in dealing with the problems of globalization. Such a package would comprise sound macroeconomic policies as well as policies to enhance the stability and strength of the financial system, promote flexible exchange rates, provide market-based incentives to improve the allocation of capital, and improve information dissemination and corporate governance.

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5. The Ministers also noted the need to maintain consistently sound economic and financial policies as markets judge an economy's growth prospects on present policies and react immediately. In this regard, Ministers agreed to possible cooperative efforts in redefining the criteria for sound policies. In addition, Ministers noted the increasingly important role of the private sector given the liberalization process and stressed the need for good corporate governance. Ministers also agreed on regional efforts at enhancing the some [*sic*]. In this regard, Ministers confirmed the initiatives of the Manila Framework and agreed on the early implementation by ASEAN:

- (i) to enhance regional surveillance;
- (ii) to enhance economic and technical co-operation;
- (iii) to support measures to strengthen the IMF's capacity to respond to financial crises; and
- (iv) to support the proposed cooperative financing arrangements that would supplement the IMF's resources.

### **Promoting Transparency in Financial Markets**

6. The Ministers discussed several key issues with respect to the recent financial crisis, namely, the importance of enhancing economic and technical cooperation in order to promote the transparency of currency markets through greater disclosure and the need to strengthen prudential standards in financial markets.

7. While the Ministers recognized the benefits of globalization and the integration of financial markets, they also noted that the excessive volatility of short-term capital flows will create destabilizing implications on economies. However, the Ministers reiterated that this should not reduce ASEAN's commitment toward financial liberalization. On the contrary, the Ministers underscored the importance of sound economic and financial policies and reforms to strengthen ASEAN's ability to cope effectively with the challenges associated with liberalization. In this regard, Ministers recognized the importance of sound, consistent and transparent policies and governance. Concomitantly, the Ministers noted the importance of greater transparency of capital markets to ensure greater efficiency in the functioning of economies and financial markets. The Ministers agreed that efforts towards this end need to be implemented on a global basis. In this connection, Ministers welcomed the on-going study by the International Monetary Fund (IMF) to examine the structure of global financial markets and short-term capital flows including the operations of hedge funds and their impact on financial market activities as well as the impact and implications of technology on capital flows. The Ministers also urged the IMF to conduct in-depth analysis of the structure of global financial markets and short-term capital flows. The Ministers also requested the IMF and other international financial institutions to develop a global framework to collect, analyse and disseminate information on these areas, and thereby improve the transparency, efficiency, and stability of the international financial and currency markets.

### **Financing Arrangements**

8. The Ministers recalled that they had endorsed a proposal for an ASEAN financing arrangement in Phuket, in March 1997. The Ministers also noted that the Finance and Central Bank Deputies' Meeting in November 1997 in Manila also agreed to develop a cooperative financing arrangement for the region that would supplement the resources of the IMF and other international financial institutions. It was agreed there that participants could provide, in consultation with the IMF and on a case-by-case basis, supplemental financial resources for IMF supported programmes. In addition, the Ministers agreed that ASEAN countries in a position to provide financial assistance would give special considerations to support any Member Country requiring such assistance.

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9. The Ministers also underscored the importance of a quick response mechanism to assist Member Countries facing financial crises. The Ministers therefore agreed that the existing ASEAN swap arrangement, due to lapse in August next year, be renewed.

### **Enhancing Regional Surveillance**

10. The Ministers felt that in moving forward, the emphasis would be on preventive efforts to avoid the emergence of risks that would precipitate a crisis. The Ministers therefore reiterated their commitment to sound economic fundamentals and to strengthen the financial sector. They noted that the present circumstances and the contagion and systemic risks facing the region made it necessary to move forward to develop a regional surveillance mechanism within ASEAN which would form an integral part in strengthening cooperation among Member Countries.

11. The Ministers took cognizance of the growing interdependence and increasing integration of ASEAN economies, and agreed on the importance of sharing timely and comprehensive information and the need for regular, frank and candid exchanges of views on issues and challenges facing ASEAN.

12. A concrete step in this direction was taken on 5 November this year with the formal establishment of the ASEAN Central Bank Forum aimed at evaluating potential economic and financial risks of Member Countries, highlighting policy options and implications, and encouraging early action to minimize such risks. This form of peer surveillance would be based on the G7 format with a distinct ASEAN character. The criteria for surveillance will be developed by the Central Bank Forum in consultation with the relevant international financial institutions. Regular informal meetings of central bank and finance officials at the Ministerial and Deputies level will be held as the informal approach would be more conducive to the achievement of these objectives. The ASEAN Select Committee comprising members of the ASEAN Central Bank Forum and Financial Officials will form the core of the mutual surveillance process.

13. To facilitate this initiative, the Ministers agreed that the ASEAN Finance Ministers' process will be supported by its own permanent Secretariat. Ministers welcomed the proposal by the Philippines to seek the assistance of the Asian Development Bank to develop an initial framework for the establishment of the Secretariat and its terms of reference.

### **Liberalization of Financial Services**

14. The Ministers reaffirmed that ASEAN remains committed to the process of liberalization and would table offers before the deadline for the conclusion of the negotiations on the General Agreement on Trade in Services at the World Trade Organization. This liberalization is expected to enhance the soundness of the financial system.

### **ASEAN: Macroeconomic Performance and Prospects**

15. The Ministers also discussed the impact of the crisis on the near-term prospects for growth of individual economies and on the region as a whole. They agreed that in several member countries, growth would slow down rather significantly, while in other member countries, growth would [be] moderate. The Ministers remained confident that with appropriate policies in place, and the willingness of the affected economies to undertake strong adjustment measures, the economic situation of those member countries will recover and that confidence in the region's financial markets will be restored. In addition adjustment measures undertaken in Thailand and Indonesia, in conjunction with the financing arrangements under the IMF, will contribute considerably to regional stability.

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16. The Ministers launched the [1997–1998] ASEAN Macroeconomic Outlook (AMO) and noted that the projections have been updated to reflect the current economic conditions. Ministers expressed their confidence that the ASEAN economies would recover given that the basic fundamentals are strong. The Ministers are confident that ASEAN will continue to make a significant contribution to regional and global prosperity and growth in the next millennium.

### **Conclusion**

17. Despite the present financial situation, the Ministers are confident that the measures being undertaken to strengthen the economies in the region and the disciplined and consistent implementation of policies will bring about the early recovery of the economies. This will provide the basis for more sustainable growth in the future.

18. The ASEAN Finance Ministers agreed that the Minister of Finance Malaysia will report the results of their meeting to the ASEAN Heads of State/Government at their Second Informal Summit, which will be held in Kuala Lumpur on 14–15 December 1997.

19. The Ministers thanked the Government and people of Malaysia for their generous hospitality and the excellent organization of the Meeting. The Ministers also agreed to meet again in Indonesia.

SOURCE: ASEAN Secretariat World Wide Web site <<http://www.asean.or.id/economic/prfin97.htm>>.