

**SUMMARY REPORT OF APEC FINANCE MINISTERS' MEETING
HYATT REGENCY, COOLUM, QUEENSLAND
30TH JULY-3RD AUGUST 2007**

1. Introduction

The APEC Finance Ministers' meeting was convened at Hyatt Regency Resort Hotel in Coolum, Queensland, Australia and hosted by Australia's Treasury Minister Hon. Mr. Peter Costello MP. Under Australia's APEC 2007 theme, "*strengthening our community, building a sustainable future*", the work program (see copy of Program attached herewith) consisted of a Drafting Session, Deputies Meeting and the Finance Ministers' Meeting all focusing on the following topics:

- Making capital markets work better in APEC economies
- Global economic outlook, (a) energy security and climate change and (b) global capital flows and strengthening investment in the Asia –Pacific Region
- Transparency and sustainability of the public balance sheet
- Finance Ministers' Initiatives
- ABAC Report and presentations
- Arrangements for Finance Ministers' Process 2008
- Next Venue for APEC Finance Ministers' Meeting 2008

Altogether there were approximately 300 delegates from all of the 21 member economies. All the economies had large delegations except PNG where I was the only representative covering the three sessions. International Finance Institutions (IFIs) including International Monetary Fund (IMF), World Bank (WB), and Asian Development Bank (ADB) were represented by their senior management including the newly appointed President of World Bank, Mr. Bob Zellick. APEC Business Council

(ABAC) representatives chaired by Mr. Michael Johnson, Chair for ABAC 2007, were also present at the meeting. The Theme of the Finance Ministers' Meeting was

There were three sessions including the following:

- Drafting Session – Monday 30th July 2007
- Deputies Meeting – Tuesday 31st July -1st August 2007
- Ministers of Finance Meeting – Thursday 2nd August-Friday 3rd August 2007

2. Meetings and Issues Discussed.

a) Drafting Session

The Drafting Session convened on the first day of the weeklong meeting focused on finalizing the Joint Ministerial Statement (JMS) (see Attached copy) for the Ministers to release to the media and public at the end of the Finance Ministers' Meeting. The session took all day and was chaired by Dr. Gordon de Brouwer, General Manager, G-20 and APEC Secretariat, Macro-Economic Group, Department of Treasury, Australian Commonwealth Government. Editorial and substantive issues were discussed and a consensus reached for the Draft to be presented to the Deputies on the next days' meeting. Substantive issues of difference involved Japan's persistence for reference to be made by Ministers to setting a carbon emissions target post Kyoto Protocol. China led the discussion against such a target for Ministers to publicly support. In the end the matter was left to the Deputies and Ministers to consider. Other observations in the statement included the debate on the basis to measure growth rate of APEC as a Region. 2005 saw a growth rate of 3.8%, 2006 4.5% and 2007 4.0%. It was agreed that for consistency, the JMS should use the foreign exchange rate based figures for the years 2005-2007 rather than the PPP based figure which had the growth rate at 5.6% for 2007.

For the purposes of future reference and consistency, I intervened on three occasions in this session.

The first related to an issue of form and substance on line 73 of the Draft JMS mentioning "social returns". For form, I suggested there has to be a distinction to reflect better what our Ministers of Finance can do in their capacity and what private sector can do in investments that provide externalities and social returns. For substance, there is a move and rightly so towards public-private partnerships but I raised the caveat that the risk burdens need to be assessed carefully so that public balance sheet is not left highly exposed if investment projects do not succeed. I also referred back to IMF's intervention on line 17 which sought to change "enhance investment" to "improve climate of investment". The latter clearly reflects public or government role.

The second intervention involved line 133, which originally had "to the extent possible". I questioned why the conditional "to the extent possible" when

“international best practice and standards” are absolute. Because of PNG’s intervention, the wording was changed to add, “Implementing,” to the extent possible... to take care of sensitivities of some APEC economies.

My last intervention which led to changes in the wording was on line 184. The original wording was for Ministers of Finance to “request the IMF and World Bank to provide..... “. I suggested that Ministers of Finance, if my recollection is correct, are shareholders of IMF and World Bank, and the Ministers either direct the IFIs to provide such assistance or an informal letter from the Chairman of the Drafting Committee requesting...”

I also raised another caveat that the IFIs do not take this request as a mandate but an invitation in their dealings with some small economies. Malaysia was also supportive that Ministers do not request the IFIs but some other form of wordings be used.

The Draft was concluded at 6.30pm (which was apparently an improvement on the previous APEC Drafting Committee meeting in Hanoi last year which took to midnight for the JMS to be finalized) and consensus reached while leaving open the opportunity for Japanese delegation to revisit their issue of emissions target Post Kyoto Protocol at Deputies or Ministerial meetings.

b) On Tuesday 31st July 2007, the Deputies’ Meeting was convened.

The Chairperson was Mr. David Parker, Deputy Secretary, Department of Treasury, Australian Commonwealth Government. Issues on the Agenda included the following and reflected the same items for Ministers’ meeting on Thursday and Friday:

- Making Capital markets work better in our Region
- Global economic outlook:
 - (a) energy security and climate change
 - (b) global capital flows and strengthening investment in the Asia- Pacific Region
- Transparency and sustainability of the public balance sheet

In his opening remarks, the Chairman outlined what Deputies need to do in our meeting. He saw the following as important:

- a. APEC is crucial for Asia-Pacific architecture.
- b. The Deputies meeting to set the foundation for the Ministers’ for Finance meeting on Thursday and Friday
- c. Secure stability for Asia-Pacific Regional prosperity
- d. and Move to closely align Finance Ministers discussions with the Leaders meetings and agenda.

Each economy was provided the opportunity to comment on each of the issues and share with other APEC economies their experiences and how economies are moving each of the issues forward either, unilaterally, bilaterally or multilaterally.

➤ ***Making Capital markets work Better in our Region:***

ABAC is driving the issue of deepening and expanding the private capital markets in APEC economies.

Australia's Intervention:

- Catalogue of experiences and policies and the new USA initiative to assist other APEC economies in developing private capital markets.
- There is value in sharing experiences and a web based information flows amongst APEC economies is evolving.
- Chris Legg of Treasury Department of Australia informed the Deputies that that the web site will be funded by Australia but administered by a steering committee of APEC Member economies and will open by early next year.

USA's Intervention:

- The USA initiative to provide T/A for private capital markets development is aimed first
 - at identifying what needs to be done and
 - then under the initiative, consultants will be provided to assist in advising other APEC economies how to set up their capital markets.

World Bank Intervention:

- Sees key constraints to developing capital markets:
 - The limited liquidity base.
 - Other relevant issues in setting up private capital markets include better information flows, better auditing standards and practices, better market pricing mechanisms and a developed institutional investor base.

ABAC intervention:

- Deepening and strengthening capital markets important for APEC economies.
- There has been some progress in Asian Bond Markets over recent past.

ADB Intervention:

- ADB can help in setting up Bond Markets and securitizing arrangements.

PRK Intervention:

- Human Capital is just as crucial while developing private capital markets.

Chair's summary of the discussion in the session.

- Best practices and standards are crucial in setting up private capital markets
- Priorities need to be determined locally.
- Information for capacity building and information sharing will integrate APEC economies internationally

➤ ***Global Economic Outlook issues:***

(a) Energy Security and climate change

Chairman introduced the topic and sees energy security and climate change as issues for Ministers to focus on but from an economic perspective which means energy efficiency can be achieved if pricing signals are allowed to function in a market setting without regulation and government subsidies of energy taxes.

Lead Discussants for this topic were Canada, China and Russia.

Canada:

Saw its role as both a major world supplier of energy, consumer and distributor. Canada pipes its oil, gas and hydro energy to US and ships its LNG to other parts of the world. Therefore energy markets are critical and emissions trading market needs to be developed more quickly.

China:

China sees tax and other incentives as critical for energy development
Climate change challenges are both development and environment issues.
Energy security is also critical.

Russia:

Role of financial markets determines energy security. It is also an environment issue.
Markets for energy are demand driven.

Interventions:

Japan continued to push for a commitment to a Post Kyoto target for emission.

PNG:

I intervened on the issue of vulnerability in terms of the two twin issues of energy demand and its environmental consequences for small economies such as PNG amongst the APEC economies. PNG has large forest resources and subscribes to the view for development of carbon emissions trading market. I also raised the issue of vulnerability of small economies such as PNG when it comes to investors in energy from large APEC economies and the manner in which they hold onto licences for proven oil and gas fields

without moving to develop these resources. I referred to PNG's experience with PNG-Australia Gas Pipeline Project where other new investors would wish to develop the fields but are constrained by existing licence holders from relinquishing the licences.

(b) Global capital flows and strengthening investment in APEC economies

There are two technical groups set up to assist in this area:

The first is the policy consultancy task force and the other is the Ministerial Committee on restructuring (see papers in CD).

It was seen as important for relevant Ministry officials in APEC economies to attend reform and restructuring APEC meetings such as Finance and Treasury, Trade and Industry, Agriculture Agencies. Secondly it was seen as crucial that economies themselves should be involved with the work program.

Discussants for this topic include: The Philippines, PRK and USA.

The Philippines:

Financial Restructuring is crucial commensurate with improvements in environment for corporate sector. APEC economies should keep an eye out on impact of China opening up its economy. Management of investment risks as complacent behaviour by investors to risks has led to difficulties such as the Asian Financial Crisis of the 1980's. Described experience of Philippines to Foreign Investment as it liberalized its investment market to foreign investment which is now growing.

PRK:

Analysis why investment was lower after Asian Financial Crisis.

- (a) Funds managers have become more conservative
- (b) Show risks more effectively rather than avoid risks
- (c) Investment in services sector –focus of policy incentives
- (d) Geopolitical risk in North West Asia a constraint and political risk

USA:

- (a) Investment protectionism a concern
- (b) Important for US to keep its Investment market open
- (c) Growth of Sovereign Wealth Fund and in order for SWF to be viable:
 - Set of practices for transparency and accountability
 - Clear statement of Investment objectives
 - How it is to be operated
 - Clear statement of what assets to acquire.

Interventions:

China Intervention:

On Sovereign Wealth Funds:

- a) China argues that it is not the SWF causing market instability but the Hedge Funds are the cause of instability as they escape much of regulatory oversight.
- b) SWF are an expression of countries' wealth
- c) China's Foreign exchange policy is driven by domestic stabilization imperatives rather than international pressure and some of which include:
 - Forex policy to smooth income fluctuations
 - Forex policy used to smooth out fluctuations in wealth
- d) The rise in China's imbalances with its Trading partners particularly with USA is the result of China's labour market advantages.

➤ ***Transparency and Sustainability of the Public Balance Sheet***

Chairman's remarks:

- Critical to manage risks
- Requires substantial tax changes and cuts in expenditure

Discussants: Indonesia and Chile

Both economies have undergone dramatic changes in the restructuring programs and spoke of their successes in Budgetary and fiscal reforms giving rise to impressive and sustainable economic growth over the recent past particularly in Chile.

Questions raised include what policy challenges face economies on reform programs and policy tools available to deal with pressures including political pressures faced by Ministers of Finance in periods of elections. Most of the interventions were similar. Experiences were shared: Specific issues include managing risks to the Public Balance Sheet such as contingency liabilities in public superannuation funds, debts of provincial governments and SOEs.

PNG's intervention:

I discussed PNG's experience in reforms over the last 7years wherein independence of institutions such as Nasfund, and POSF and Central Banks and Commercial Statutory Authorities and the setting up of Public Investments Commission have all contributed to reducing risks to the Public Balance Sheet. The PBS itself has been managed responsibly over the last three years with focus on reducing public debt, and instituting a moratorium on international borrowing. Domestic borrowing has also been altered away from Treasury Bills to Inscribed Stock to extend maturity periods of the stock giving relief to Public Balance Sheet with longer repayment periods.

(b) Wednesday 1st August 2007

Deputies Meeting continues:

The Chairman's introductory remarks: The Initiatives are a broad program of work on capacity building and T/As prepared at SOM level. The Initiatives are also incubators of new ideas for future consideration and action. The Chairman also announced a Seminar in September this year to discuss Consultants and Advisors on T/A programs with recipient economies.

Consideration of Other Business:

a) The Initiatives (see ANNEX "Review of Policy Initiatives") include:

- ***The Voluntary Action Plan (VAP) on Freer and More Stable Capital Flows: The APEC Pensions and Annuities markets Seminar.(Chile, New Zealand, Russia and Singapore)***
- ***APEC Finance and Development Program (AFDP) (China and the World Bank)***
- ***Deepening Prudential Capacity in Non-Life Insurance (Australia and the USA)***
- ***APEC Future Economic Leaders' Think Tank (Australia)***
- ***APEC Financial Regulators Training Initiative (FRTI) (USA and the ADB)***
- ***APEC Financial Institutions Dealing with SMEs (Hong Kong, China in 2007)***
- ***Insolvency Reform: Regional Network (Australia)***
- ***Reform of Financial Sector: Catalogue of Policy Experiences and Choices (Australia, Indonesia, China, Japan)***
- ***Fiscal Management (Australia, Vietnam and Indonesia)***
- ***APEC Policy Response to Ageing Issue (Korea, Peoples Republic of China and the USA)***
- ***APEC Public-Private Dialogue on Bond Market Development (ABAC)***
- ***Fiscal Space: Reviewing, Assessing and Prioritizing Government Expenditure (Australia, Indonesia and Russia)***
- ***Strengthening Capital Markets in APEC Region (USA)***

Thursday 2nd August 2007

The Taipei China, Minister of Finance asked for a bilateral meeting with me. We met over breakfast and they sought to know whether we could further enhance our relationship with their economy though improvement in the T/A program we now have with them in agriculture and fisheries. I told them I will refer this interest to appropriate authorities in PNG.

Finance Ministers' Retreat:

The Treasurer of Australia, Hon Peter Costello, Chaired the meeting. He raised the following issues that may form the agenda under the general theme "***Global and Regional Responses to the economic challenges we face***" of the meeting:

- 1) Instability in the Global Equity Markets
- 2) High oil prices and energy markets
- 3) Imbalances
- 4) International Financial Architecture involving the IFIs, IMF , World Bank and Asian Development Bank.
- 5) Regional Associations
- 6) APEC's role in liberalizing trade
- 7) Proliferation of Trade Agreements
- 8) WTO and Doha Round- whether APEC had anything to contribute to DOHA impasse, (see my previous Report on Melbourne Symposium on this issue
- 9) APEC does not have a big Secretariat- whether a Permanent Executive Director may assist its work (see also my Report on Melbourne Symposium)
- 10) How APEC members can assist each other sharing experiences in the Asian financial crisis, APEC does allow for this.
- 11) How APEC members and Ministers for Finance in particular can make IFIs work better.

Indonesia's intervention:

- Announced to Ministers that Indonesia is hosting a meeting on Climate Change and its impact on climate change of fiscal policies, in Bali in early December 2007

Japan's Intervention:

Regional efforts in meeting Global challenges in

- Environmental protection and Greenhouse Gases.
- Kyoto Protocol and Post-Kyoto Protocol
- Declaration on Climate Change including halving of Global emissions by 2050
- Nuclear proliferation
- Regional cooperation in financial and capital markets

Thailand's Intervention:

- Finance Ministers should be concerned with Financial and Currency markets instability and volatility.

PRK intervention:

- Global Imbalances need multilateral effort at coordination of policies and reduction of high current account surpluses.

Canada's Intervention:

- Globalized markets make Ministers of Finance's work more difficult.

- Sees Global challenges with “EEE” or 3Es paradigm wherein Environment, Energy and Economy are basic to consideration of today’s global challenges.
- Economy: Relevance and clearer understanding of International Fora and coordination of policies critical. Here APEC Ministers of Finance are uniquely placed to discuss EEE.
- IMF is also uniquely placed to deal with financial instability with surveillance and monitoring of financial and capital markets.

Vietnam’s Intervention:

- Vietnam seeks timely assistance by IFIs to developing low income economies in responding to global and regional financial instability.

USA Intervention:

Architecture of Global coordination needs to reflect more of role of Asian and APEC economies. How APEC’s role can be supported and defined?

- Issues discussed at APEC Ministers of Finance level need to be reflected at Leaders’ level.
- Leaders need to focus more on economic and financial issues rather than political issues
- The Financial Sector Assessment program by IMF and World Bank is useful and needs to be used more by APEC economies
- The Trico of Ministers of Finance (immediate past Chair, current Chair and next year’s Chair) need to get together with other regional Ministers of Finance and vice versa to exchange experiences and seek to deepen cooperation.

PNG Intervention:

I shared with Ministers,

- *PNG’s experience in capital markets is limited and*
- *Warned of care in the rush to deepen capital markets in APEC economies*
- *With capital markets PNG was successful in equity markets in mining and petroleum sectors but had abysmal experience with bond markets.*
- *I warned of the push to move to develop and deepen capital markets particularly private equity markets that commensurate regulatory and other protections should be introduced to protect investors.*
- *I expressed PNG’s appreciation for USA’s offer of T/A and advisory services in Capital markets but also asked that they should include some advice on regulations and protections for investors in the T/A program.*
- *Proposed a Facility supported/subscribed to by Donors, IFIs and PNG Government on physical infrastructure development but managed by a Board sourced from private sector, civil society donors and minimum government representation, to move delivery more quickly in construction with built in technical capacity in project design and implementation.*

Malaysia's Intervention:

- Malaysia was concerned at the private-public sector imbalances and
- Impact of Hedge Funds on instability of capital markets.

New Zealand's Intervention:

- New Zealand called for greater economic integration for issues such as energy and climate change.
- APEC should have a fixed term for a professional Executive Director. (see my Report on Melbourne symposium and Australia as Host's agenda for APEC 2007).

Chile's intervention:

- Chile sees current crisis of high liquidity and high commodity prices as benefiting most economies but time will come when this situation will come to an end. This will impact public balance sheet.
- There seems always to be the case that when that time comes, it creates instability in the domestic capital markets.
- Role of IMF then becomes crucial

Russia's intervention:

- Russia expressed the view that there should be procedures established for continuation and consistency in providing documentation from previous meetings and also for APEC Ministers of Finance to take up APEC issues at the IMF and World Bank levels.

Chairman's concluding remarks for the session:

- Serious consideration should be given to hiring a fulltime EO for APEC Secretariat
- APEC Finance Ministers should be involved with an outreach program with counterparts in other regional organizations and IFIs
- There should be continuity and consistency of past work into current work of APEC Ministers of Finance
- Reform of IMF and World Bank
- The "EEE" paradigm of global issues
- Link work and findings of work of Ministers of Finance to APEC Leaders meetings.

Session 2

IFIs

The newly appointed World Bank President, Bob Zellick asked to attend the APEC Finance Ministers' meeting to meet the APEC Finance Ministers and make a presentation to them on how he sees World Bank role and agenda proceed under his stewardship.

- WB cannot avoid security issues egg, 70% of poor live in Middle Income Countries
- WB can help with risk management
- Global issues (needs) are related to financial capabilities
- WB needs to support improvements in economic opportunities to Muslim countries
- WB will work to improve collaborative efforts with IMF

ABAC Presentation:

- Trade liberalization- help in Doha Round
- Trade facilitation- Problem more "behind the border", than "at the border."

USA Intervention and concluding remarks:

- Confirmed USA's offer of T/A and Advisory consultancy to develop capital markets but also made specific mention of " Charles Lepani's concern for the package to include a raft of similar protections and regulation to protect investors".

Date and Venue of next (15th) Finance Minister's Meeting- Trujillo, Peru 2008 and date to be confirmed, but probably after World Bank and IMF governors' meeting in October 2008.

Peru at this stage sees the Agenda for the 2008 Finance Ministers' Meeting to consist of :

- Results based budgeting
- Public-Private partnership

The Chairman brought the Meeting to a close.

Charles W Lepani
High Commissioner (but for a week in Coolum
Qld, Senior Official, Deputy to Minister of Finance, and Minister of Finance
representing PNG)

12th August 2007

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