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**SessionI : The Outlook for Financial and Monetary Stability in the Asia-Pacific Region: Risks and Challenges**

# Implications of the Security Agenda for Financial Flows and Integration in the Asia-Pacific Region

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Mr Chairman, Ladies and Gentlemen, speaking also on behalf of my co-author, Bill Witherell of the OECD, it is my pleasure to address the Finance Forum of the Pacific Economic Cooperation Council at its second annual conference on “Issues and Challenges for Regional Financial Cooperation in the Asia-Pacific”. Our remarks will be on the impact of the security agenda on financial flows and integration in the region. A similar topic, the economic implications of the security agenda, had been discussed at the December 2002 meeting of the PECC Pacific Economic Outlook (PEO). In that respect, our paper is a bit narrower, focusing on the security agenda’s impact on *international financial transactions*. However, let me already at the outset stress one point of our conclusions: September 11 and the following enhancement of the security agenda are having – and will have – less of an impact on capital flows than factors like the general stock market downturn, investors’ growing reluctance to take risks and others which I will explain in more detail soon. So in that sense, our remarks will be broader, covering also more general issues related to capital flows.

## The security agenda: combating international money laundering and the financing of terrorism …

Let me first give you some background which parts of the security agenda are important in our context, and where its pivotal points are for influencing financial flows. After the September 11 terrorist attacks in the United States (and the bombing in Bali the year after, and major attacks at other places), many countries have raised their security levels, enhanced border checking procedures, strengthened surveillance – in particular on goods and financial transactions – and imposed (additional) restrictions on transactions. As most of these attacks are attributed to worldwide operating networks like Al-Qaida, international co-operation is required to combat such terrorism. A number of governments called for a rapid and co-ordinated effort to detect and prevent the misuse of the world financial system by terrorists, and it was suggested (for example by the European Union Finance and Economics Ministers and the G-7 Finance Ministers) that such an initiative be pursued in an already existing framework.

Thus, at an extraordinary plenary meeting on the financing of terrorism in October 2001 (only 7 weeks after the attacks on the World Trade Center), the Financial Action Task Force on Money Laundering (FATF; an independent international body established in 1989 whose Secretariat is housed at the OECD) expanded its mission beyond money laundering and issued *Special Recommendations on Terrorist Financing*. Combined with the FATF *Forty Recommendations* on money laundering (which were first published in 1990), they set out the basic framework to detect, prevent and suppress the financing of terrorism and terrorist acts.

The FATF agreed to the following set of *Special Recommendations on Terrorist Financing* which commit members to:

- take immediate steps to ratify and implement the relevant United Nations instruments;
- criminalise the financing of terrorism, terrorist acts and terrorist organisations;
- freeze and confiscate terrorist assets;
- report suspicious transactions linked to terrorism;
- provide the widest possible range of assistance to other countries' law enforcement and regulatory authorities for terrorist financing investigations;
- impose anti-money laundering requirements on alternative remittance systems;
- strengthen customer identification measures in international and domestic wire transfers;
- ensure that entities, in particular non-profit organisations, cannot be misused to finance terrorism.

A revised version of the *Forty Recommendations* was recently issued at the conclusion of the FATF plenary meeting in Berlin on 18-20 June 2003.[1] The revision makes significant changes, which when combined with the *Eight Special Recommendations*, create a comprehensive, consistent and substantially strengthened international framework for combating money laundering and terrorist financing.

The major changes that have been adopted include:

- specifying a list of crimes that must underpin the money laundering offence;
- the expansion of the customer due diligence process for financial institutions;
- enhanced measures for higher risk customers and transactions, including correspondent banking and politically exposed persons;
- the extension of anti-money laundering measures to designated non-financial businesses and professions (casinos; real estate agents; dealers of precious metals/stones; accountants; lawyers, notaries and independent legal professions; trust and company service providers);
- the inclusion of key institutional measures, notably regarding international co-operation;
- the improvement of transparency requirements through adequate and timely information on the beneficial ownership of legal persons such as companies, or arrangements such as trusts;
- the extension of many anti-money laundering requirements to cover terrorist financing; and

[1] See at www.oecd.org/fatf

- the prohibition of shell banks.

The revised Recommendations set a new standard, which FATF members will immediately start working to implement. The Task Force also calls on other countries, beyond its 29 member countries, to adopt and implement these recommendations.

The *Asia / Pacific Group on Money Laundering* (APG), of which the FATF as well as APEC are observers and which embraces 26 regional members (and 13 observer jurisdictions), is expected to be a driving force to further pursue implementation and enforcement of the FATF recommendations. This includes assisting countries and territories of the region in enacting laws to deal with the proceeds of crime, mutual legal assistance, confiscation, forfeiture and extradition. The APG, which was created in 1997, also provides guidance in setting up systems for reporting and investigating suspicious transactions and helping in the establishment of financial intelligence units, taking into account regional factors in the implementation of anti-money laundering and anti-terrorist financing measures. As is the case of the FATF, the APG expanded its scope to include the countering of terrorist financing following the events of September 11.

The support for such initiatives was emphasised by the APEC leaders. In the APEC Leaders statement on counter-terrorism released on October 21, 2001, Leaders committed to enhance the countering of terrorist financing through appropriate financial measures to prevent the flow of funds to terrorists. The measures include the acceleration of work on combating financial crimes through the APEC Finance Ministers' *Working Group on Fighting Financial Crime* and increased involvement in related international standard-setting bodies.

At the Mexico APEC Leaders Meeting in October 2002, only a few weeks after the terrorist bombing in Bali, Indonesia,[2] the Leaders agreed to additional joint actions to fully implement the broad commitment made in 2001 in Shanghai. Four elements of the joint actions are enhancing secure trade in the APEC region, halting terrorist financing, promoting cyber security, and implementation and capacity building.

On countering terrorist financing, APEC Leaders emphasised the need to work jointly to deny terrorists access to the world financial system and use the money trail to locate and apprehend terrorists through measures to:

- fully implement U.N. and other international instruments;
- promote better monitoring of alternative remittance systems and non-profit organisations;
- enhance law enforcement and regulatory capabilities.

[2] APEC Leaders' *Statement on Fighting Terrorism and Promoting Growth*, Los Cabos, Mexico, 26 October 2002. The Bali bombing happened on 12 October 2002.

In line with these international initiatives, measures to prevent and combat money laundering and anti-terrorists financing were taken at the national level (see appendix). In the United States, the President signed into law the USA PATRIOT ACT (a forceful acronym for *Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act*) in October 2001. The act makes amendments to anti-money laundering provisions, providing additional tools to prevent, detect, and prosecute international money laundering and the financing of terrorism.

Other countries in the Asia-Pacific region also took measures to prevent financing of terrorism. The appendix lists the actions of nineteen member economies of APEC reported as related to APEC Leader's statement on counter-terrorism. Seven out of nineteen economies (Australia, Canada, Chile, Hong Kong, Japan, Malaysia, United States) showed an advanced level of achievement in terms of ratifying and implementing anti-terrorist instruments, and preventing the flow of funds to terrorists. Six economies (Brunei, Korea, Mexico, Russia, Singapore, Chinese Taipei) showed a moderate level of actions, and six remaining economies (China, Indonesia, Malaysia, PNG, Philippines, Viet Nam) showed poor performance relative to other economies.

Despite a general agreement on the need for forceful action, some of the measures taken against money laundering and terrorist financing have been criticised by financial sector participants as imposing too heavy a burden on the industry. For example, certain interest groups, like the Electronic Money Association, did raise specific concerns about the costs of implementation and maintenance for their industry with regard to wire transfers (FATF Special Recommendation VII). There, the requirement is that meaningful originator information should remain with the transfer or related message through the payment chain. With respect to the Patriot Act, some of the recommended measures were felt to be too strict even by the regulators, for example the recommendation to extend reporting requirements of the US Bank Secrecy Act to all investment companies and personal holding companies.[3] However, financial institutions are now more aware of the requirements to implement measures to detect, freeze and confiscate terrorist assets (FATF Special Recommendation III) and to report suspected incidents of terrorist finance (FATF Special Recommendation IV).

[3] See *A Report to Congress in Accordance With § 356(C) of the Uniting And Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT ACT),* submitted by the Secretary of the Treasury, the Board of Governors of the Federal Reserve System, the Securities and Exchange Commission, December 31, 2002.

## … has economic implications and an impact on financial flows, …

In terms of economic impacts of such measures, a first assessment can be based on the costs that the security agenda is likely to impose on the financial industry in general and on international transactions in particular. After many years of attempts to liberalise international transactions, this may be seen as a drawback. (Especially at the OECD we are aware of the benefits of liberalising exchange, making it more efficient and lest costly, and have underlined this in many of our surveys and recommendations.) Of course, these costs should eventually be outweighed by the benefits of reducing money laundering and terrorist activities, which themselves impose a heavy burden on the affected economies. The threat of terrorism reduces consumer spending, investment and economic growth, as various analyses, also undertaken by the OECD, have pointed out.[4] One study looks at the *Trade Impacts of Increased Border Security Concerns.* [5] The regulatory measures and procedural requirements imposed on transport companies, port and border authorities, and increased insurance premia and other security surcharges triggered by the September 11 events have increased trading costs. Assuming a one per cent *ad valorem* increase in frictional trading costs, the study estimates a decline in world welfare by about US$ 75 billion per year (which is equivalent to one per cent of world goods and commercial services exports in 2001), with open economies being relatively more affected. Assuming that regions are affected differently according to their means of international transport, with air and sea cargo carrying a relatively heavier burden, those welfare losses are, in relative terms, higher in South Asia, North Africa and the Middle East than, for example, in North America or North Asia.

There are fewer studies that estimate the effects of terrorism on capital flows. One of them, for example, shows that between 1975 and 1991, heightened terrorism reduced average annual net FDI inflows to Spain by 13.5 per cent and to Greece by 11.9 per cent. [6] In general, we can assume that just for the sheer fact that, in value terms, international capital flows are (about

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[4] See, for example, Patrick Lenain, Marcos Bonturi, and Vincent Koen (2002), *The Economic Consequences of Terrorism*, Economics Department Working Paper No. 334, Organisation for Economic Co-operation and Development, Paris, 17 July; and Organisation for Economic Co-operation and Development (2002), *The Impact of the Terrorist Attacks of 11 September 2001 on International Trading and Transport Activities*, TD/TC/WP(2002)9/FINAL, Working Party of the Trade Committee, OECD, Paris, 7 March.

[5] Peter Walkenhorst and Nora Dihel (2003), *Trade Impacts of Increased Border Security Concerns*, mimeo, April 2003; see also Peter Walkenhorst, and Nora Dihel, (2002), *Trade Impacts of the Terrorist Attacks of 11 September 2001: A Quantitative Assessment*, Paper for Workshop, The Economic Consequences of Global Terrorism, DIW/German Institute for Economic Research, Berlin, June.

[6] W. Enders and T. Sandler, (1996), 'Terrorism and Foreign Direct Investment in Spain and Greece', *Kyklos*, vol. 49, p. 331-352.

40 times[7]) larger than trade flows, we can already assume that an increase of transactions costs would, *ceteris paribus*, slow down capital flows by an amount much larger than trade flows suggest – with the concomitant negative welfare effects. Similar as in the case of trade, such increased costs would come from enhanced reporting and other procedural requirements imposed by the security agenda. Furthermore, increased exchange rate volatility triggered by security concerns is also likely to have a larger impact on non-trade related capital flows than on trade flows themselves. However, exchange rate volatility itself may react only insignificantly to such security concerns, and may be driven more importantly by other factors. (See Figure 1, which gives only a weak indication that exchange rate volatility increased after the September 11 and Bali attacks, and in the run-up to and during the war in Iraq.) It is also clear that countries that are relatively more open to trade and financial flows – as is especially the case for the smaller, developing APEC economies – would likely be relatively more affected by security agenda measures than others. One could then also look at plenty of studies that have analysed the effects of capital controls or other restrictions on international capital flows, which typically show welfare costs of such measures below one per cent of GDP.[8]

But let us re-emphasise the potentially positive implications of the security agenda on capital flows, even though additional transaction costs may be directly or indirectly imposed by security measures. As indicated before, costs of implementing anti-money laundering and counter-terrorism measures should be viewed as an investment with positive effects coming from reducing such criminal activities. Reducing the threat of terrorism will reduce risk premiums and the bias against longer term, productivity raising activities that uncertainty and risk create. So this new ‘sand in the wheels’ is very likely to have overall positive effects.

We would also like to draw your attention to a related issue, the increased awareness of investors for risk, an awareness that was based on the experiences of the post-2000 downturn: the bursting of the tech bubble, corporate scandals such as Enron and WorldCom, and the following more general decline of the stock market. In the aftermath of this downturn – and we are not even sure whether it has levelled off – investors are much more selective about in which

[7] As a gauge for the relative sizes, note that world goods and commercial services exports in 2001 were US$ 7,520 billion, and that the April 2001 average daily turnover in traditional foreign exchange markets was US$ 1,200 billion, roughly US$ 313.2 trillion per year (given 261 trading days in 2001). The crude ratio of trade to exchange market turnover is then 41.65. For the figures, see World Trade Organization (2002), *International trade statistics 2002*, WTO, Geneva; and Bank for International Settlements (2002), *Triennial Central Bank Survey: Foreign exchange and derivatives market activity in 2001*, March. BIS, Basle.

[8] See, for example, Carmen M. Reinhart and R. Todd Smith (2002), ‘Temporary controls on capital inflows’, *Journal of International Economics* 57, 327–351.

countries and in which companies they invest. This has put corporate governance issues into focus (and as you know, fostering corporate governance and setting up commonly accepted corporate governance rules is a priority item on the agenda of the OECD). It is interesting to see that there is more and more empirical evidence that enhanced corporate governance does pay off in terms of returns, more stable investor relations, attracting foreign capital and economic growth.[9] Following these arguments, I would dare to predict that for countries in which the financial sector has the (let me call it) 'security agenda quality stamp' it will pay off in terms of (sustained) capital inflows and (long-term) stability. Having enforced good corporate governance practices in combination with anti-money laundering and anti-terrorist financing measures will be seen as a positive signal, and will have positive effects for countries that comply with those internationally accepted standards.

## … but other factors may be more important.

Apart from such beneficial effects of the security agenda, there is a more general point to raise with regard to the costs of security agenda measures: given the many other factors that influence international financial flows, do these costs really matter? Aren't the effects of the security agenda insignificant if we consider other factors that drive financial flows in a globalised world? (I could here also mention the recent effects of SARS on the region's capital flows, but that is not the topic here). Focusing on emerging markets – the ones that are the most likely to be affected by security restrictions on capital flows – it is empirically well established that capital flows are mainly driven by expected returns and exchange rate expectations, economic cycles and liquidity conditions, and some softer economic factors such as investors' preferences and perceptions.[10] Again, this would support my view that the effects of the security agenda are positive, rather than negative, if countries complying with the standards can attract relatively more capital than can those that do not.

As an aside, there is also the well-known issue of investors' home bias, which may qualify somewhat what I said: Most of the savings are invested domestically anyway. However, even though there may be a shift of country preferences and a temporary increase in home bias due to security concerns, industrialised countries will continue to invest in the APEC region, if not simply

[9] For the effects on capital flows, see Eswar Prasad, Kenneth Rogoff, Shang-Jin Wei and M. Ayhan Kose (2003), *Effects of Financial Globalization on Developing Countries: Some Empirical Evidence*, International Monetary Fund, March 17, 2003.

[10] See, for example, Serge Jeanneau and Marian Micu (2002), Determinants of international bank lending to emerging market countries, BIS Working Paper No.112; and G. Bekaert, C.R. Harvey, and R.L. Lumsdaine (2002), The dynamics of emerging market equity flows, Journal of International Money and Finance 21 (2002), p. 295-350.

for the fact that ageing and the concomitant move to private pension systems will increase institutional investors funds in search for places to invest. As reflected by the relatively low spreads of Asian bonds over US securities, Asia as a region is considered to be a more stable place to invest than some of the other emerging markets (Figure 2). Moreover, international capital transactions with parts of the region have become less unidirectional. After the Asia crisis, the East Asian region has turned into a net exporter of capital (Figure 3), and has also engaged in an international exchange of risk, which strengthens national and corporate balance sheets in the region and renders its economies more resilient.[11] Looking at the US as the largest international investor and largest APEC member, and as a hub for international capital flows, one can see a reflection of these developments (Figure 4). By the way, it is also interesting to note that it seems that September 11 and Bali did not have long-lasting effects on these (longer-term) capital flows.

Looking ahead, capital flows will also depend on structural imbalances in the world economy. Throughout the last years of strong domestic demand, the United States has built up large current account deficits, which are close to 5 percent of GDP in 2002 and are expected to widen further over the next years (Figure 5). The current account surpluses in Japan, the euro area, and, as mentioned, emerging Asia are the mirror images of these developments. As the current account imbalances must eventually adjust to more sustainable levels, the US may be absorbing less capital. While this would potentially release international liquidity to flow to other countries, economic conditions may not favour such shifts – let alone increases – of international capital flows. Lower US growth during the adjustment process may not be counterbalanced by much higher growth neither in the euro area nor in Japan in the near future. The Asian region may then remain as one of the more dynamic attractors of international capital.

Foreshadowing such developments, foreign direct investment (FDI) inflows into the OECD area declined in 2001 and 2002 – more than 20 per cent in 2002 (Table 1) –, and outflows dropped, too, even though more modestly.[12] The United States and the United Kingdom, traditionally the largest recipients of FDI, accounted for the entire decline in FDI inflows, and preliminary data point to a further drop in 2003. By contrast, Australia, the Czech and Slovak Republic, Japan, and some non-Member economies experienced steep increases of FDI inflows

[11] Robert N. McCauley (2003), Capital flows in East Asia since the 1997 crisis, BIS Quarterly Review, June 2003, p. 41-55.

[12] See www.oecd.org/daf, Trends and Recent Developments in Foreign Direct Investment. Forthcoming in: Organisation for Economic Co-operation and Development (2003), *International Investment Perspectives*, OECD, Paris (September).

in 2002. The most remarkable of the latter group is China, which, for the first time ever, became the world's largest recipient of FDI in 2002 (with total inflows of US$ 53 billion).

## Co-operation on the security agenda may help to integrate faster

Some final words shall be on integration, the second issue of our remarks and related to the first one, capital flows. When APEC was proposed by the Australian Prime Minister, Bob Hawke, early in 1989, the idea was that the then six ASEAN countries should be at the core of that region-wide initiative, and that the relationship among the two organisations should be based on shared purposes and on their mutual reinforcement.[13] In 1992, ASEAN agreed to create an ASEAN Free Trade Area, so that today almost all tariffs within the now ten ASEAN members are abolished, supporting APEC's commitment to a free and open trade and investment regime within the region and in the world. Sure, further work has to be done, more so as ASEAN is also committed to the dismantling of non-tariff barriers and the liberalisation of trade in services. Based on the principle of open regionalism, to which both ASEAN and APEC adhere, ASEAN has been forging stronger bonds with its major economic partners in APEC, and also tries to have the new ASEAN members (Cambodia, Laos, Myanmar) join APEC and eventually the World Trade Organisation.

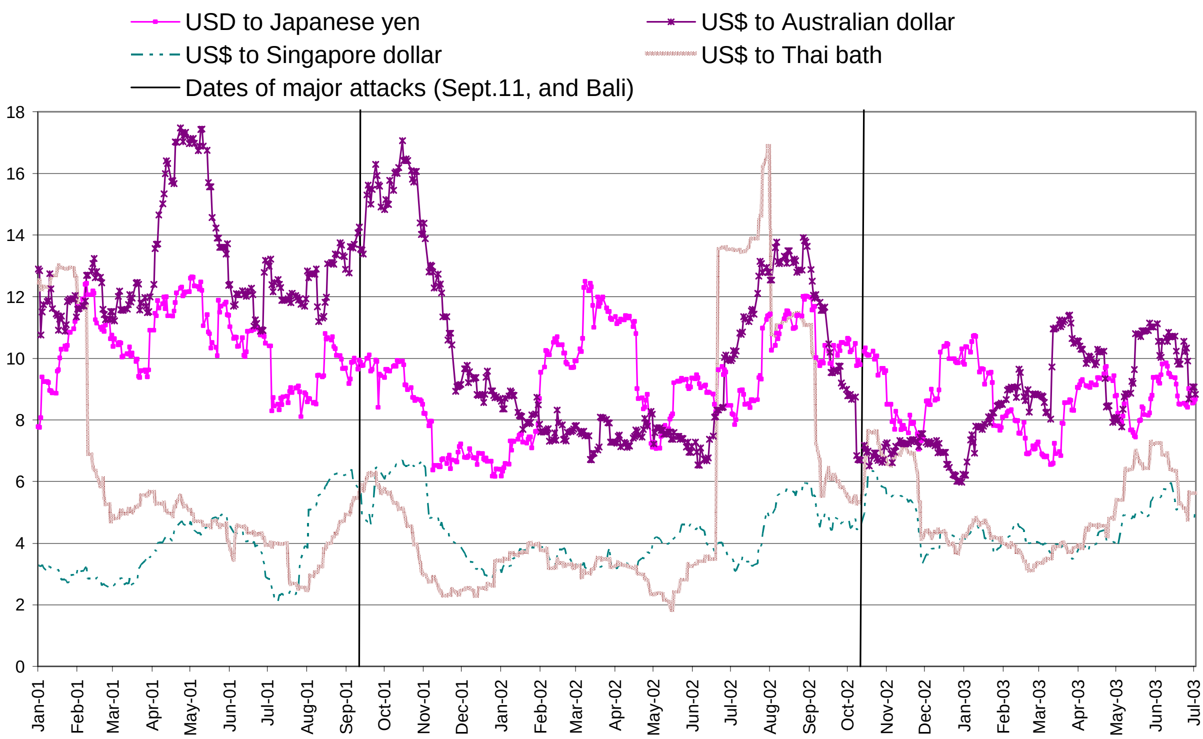
So there is still a long way to go towards tighter integration of the region. Economically, we know that integration 'makes sense' as it tends to generate positive welfare effects for the member countries. But we also know that integration needs political backing, as each step towards further integration may involve some set-up costs in terms of temporary welfare losses and a redistribution of welfare between various interest groups within a member country. And this can even be crucial to start the integration process at all. In Europe, the shaping of the European Union as it is today took years, and the process of European integration is still unfinished. And as we have seen recently, security issues, geopolitical uncertainties and war in Iraq put some strains on the relations among EU Member States – and even on their relations with countries in accession. This is to say that political issues, trust and a common political goal are important and at times become more important than economic considerations. The APEC region, of course, is a much looser form of integration than the EU, thus political differences may be less pronounced. This being said, I would venture – and I am not the first one to do so – that the increased co-operation in relation to the security agenda, that is joining forces for a common cause, may even

[13] See also Rodolfo C. Severino (2002), *ASEAN and APEC in a Globalizing World*, Statement at the APEC Ministerial Meeting, Los Cabos, Baja California Sur, Mexico, 24 October.

boost the integration process and help develop co-operation on issues other than security-related ones.

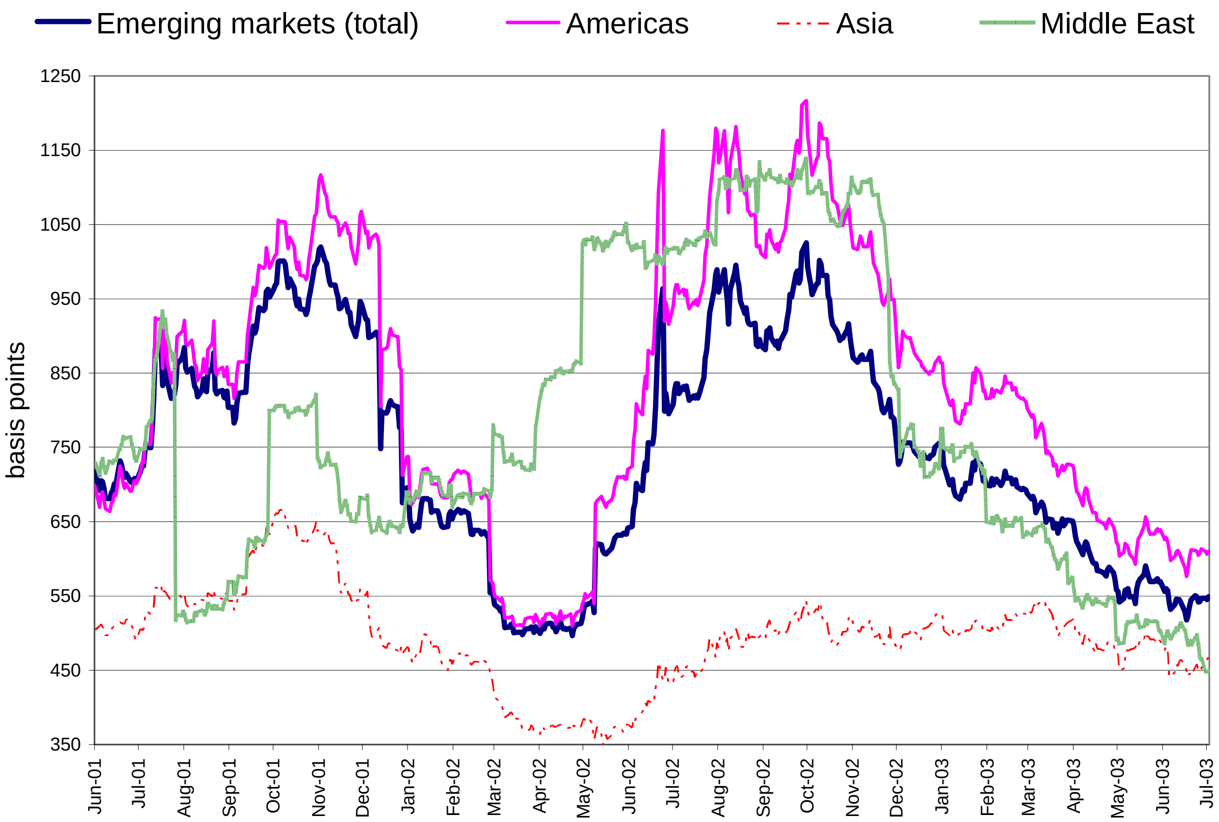
## Tables and Figures

### Figure 1. Selected exchange rates: 30-day volatility




Daily data until 2 July 2003.
Source: Thomson Financial Datastream.

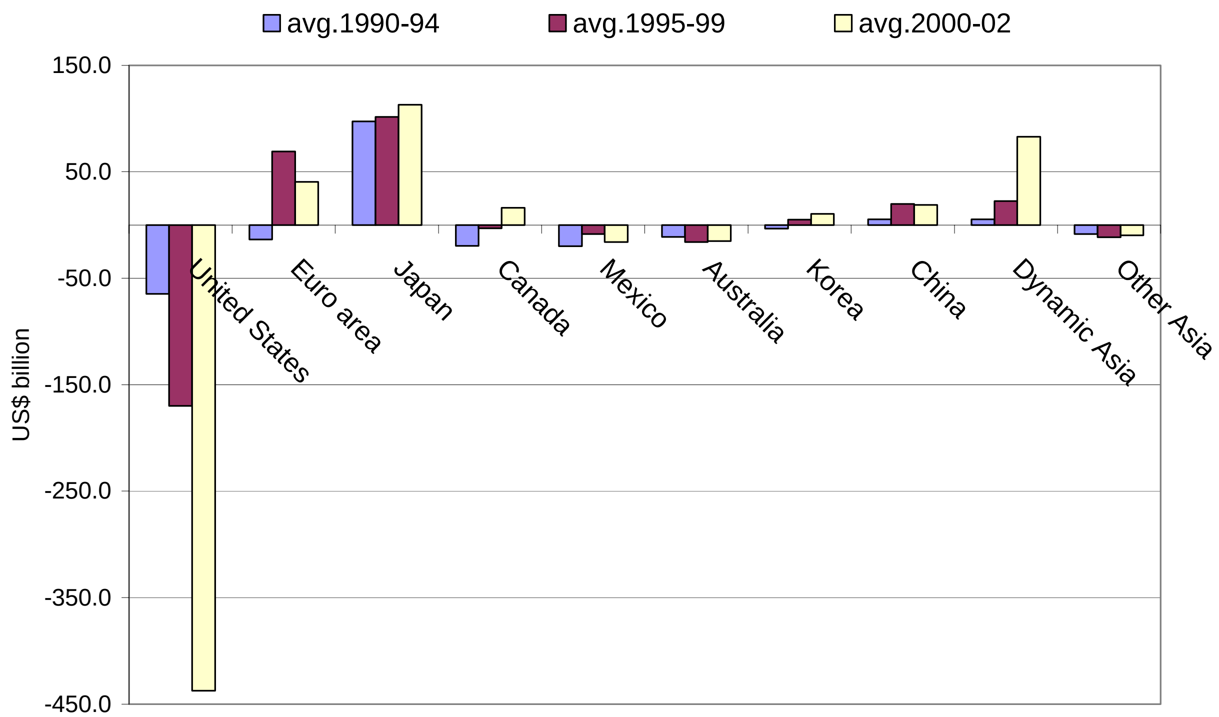
**Figure 2. Emerging market spreads**




Note: Lehman indices, redemption yields minus 5-year US government bond index yield. Daily data until 2 July 2003.
Source: Thomson Financial Datastream.

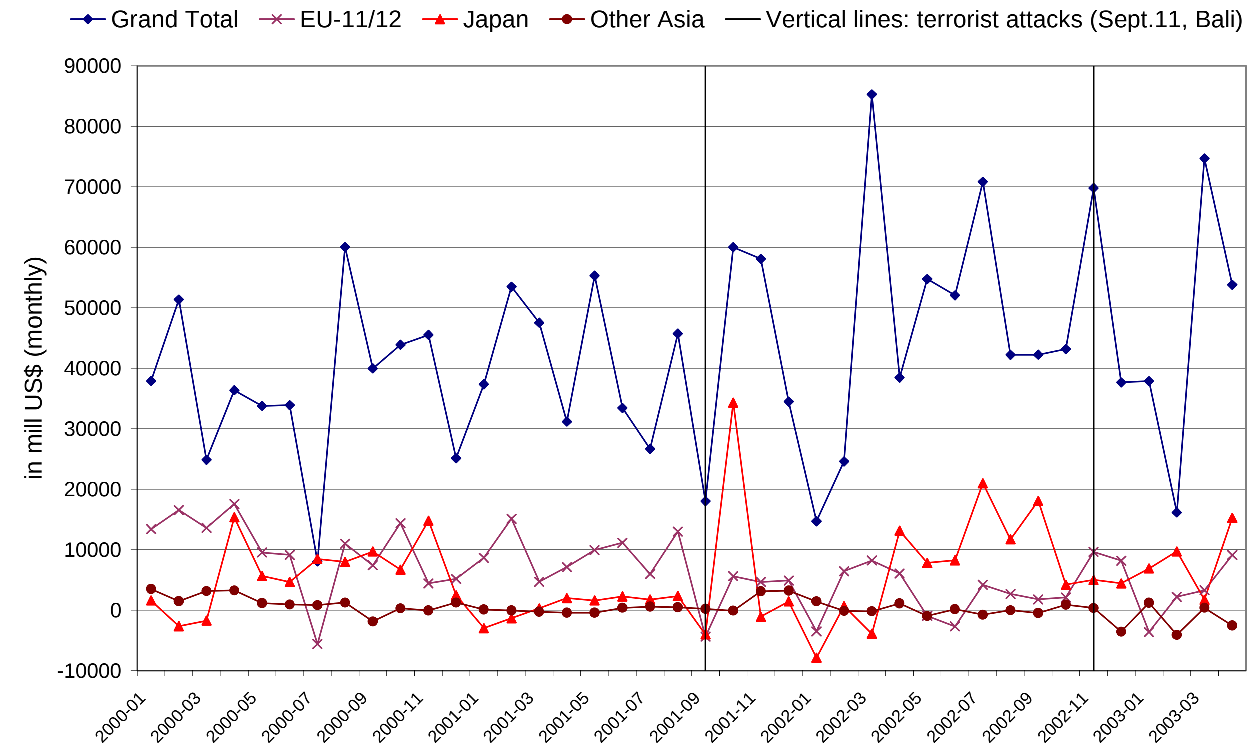
**Figure 3. Selected current account balances**

In billions of US dollars




Dynamic Asia: Chinese Taipei, Hong Kong, China, Indonesia, Malaysia, the Philippines, Singapore and Thailand.
Other Asia: Non-OECD Asia and Oceania, excluding China, Dynamic Asia, and the Middle East.
Source: OECD Economic Outlook database.

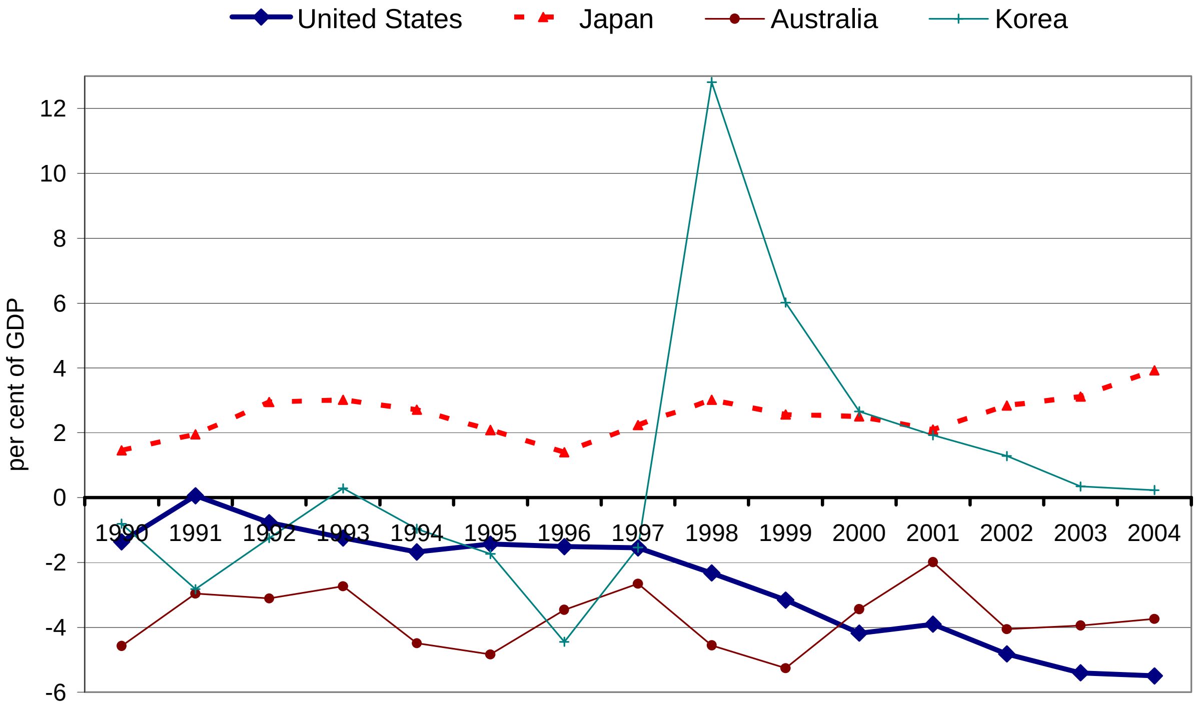
**Figure 4. US net portfolio inflows in long-term securities**




Source: US Treasury, Treasury International Capital (TIC) Reporting System.

**Figure 5. Selected current account balances, including projections**

In per cent of GDP




Source: OECD Economic Outlook database.

## Table 1. Direct investment inflows into selected economies

In billions of US dollars

| | 1999 | 2000 | 2001p | 2002e | |
|---|---|---|---|---|---|
| *Major Counrtries:* | | | | | |
| UnitedStates | 289.5 | 307.7 | 130.8 | 30.1 | |
| Japan | 12.7 | 8.3 | 6.2 | 9.3 | |
| Germany | 55.8 | 203.1 | 33.9 | 38.1 | |
| France | 46.5 | 43.3 | 52.6 | 48.2 | |
| Italy | 6.9 | 13.4 | 14.9 | 14.6 | |
| UnitedKingdom | 89.3 | 119.7 | 62 | 25 | |
| **Total G-7 economies** | **500.7** | **695.5** | **300.4** | **165.3** | |
| *Other selected OECD countries:* | | | | | |
| Australia | 2.9 | 13 | 4 | 14 | |
| Canada | 24.4 | 66.6 | 27.5 | 21.4 | |
| CzechRepublic | 6.3 | 5 | 5.6 | 8.4 | |
| Korea | 9.3 | 9.3 | 3.5 | 2 | |
| Mexico | 12.9 | 15.5 | 25.3 | 13.6 | |
| Netherlands | 41.2 | 60.3 | 51.2 | 29.2 | |
| NewZealand | 0.9 | 1.3 | 4 | 0.3 | |
| Poland | 7.3 | 9.3 | 5.7 | 4.1 | |
| Portugal | 1.2 | 6.8 | 5.9 | 4.3 | |
| SlovakRepublic | 0.4 | 2.2 | 1.3 | 4 | |
| Spain | 15.8 | 37.5 | 28 | 21.2 | |
| Sweden | 60.9 | 23.2 | 11.8 | 11.1 | |
| Switzerland | 11.7 | 19.3 | 8.9 | 9.3 | |
| **Total OECD** | **893** | **1272.6** | **614.5** | **490.6** | |
| *Selected non-Member economies:* | | | | | |
| Argentina | 24 | 11.7 | 3.2 | 0.4 | (1) |
| Brazil | 28.6 | 32.8 | 22.6 | 19.2 | (2) |
| Chile | 8.8 | 3.6 | 4.5 | 1.6 | |
| China | 38.8 | 38.4 | 44.2 | 52.7 | (3) |
| Hong Kong, China | 24.6 | 61.9 | 22.8 | 13.7 | (4) |
| Indonesia | -2.7 | -4.6 | -3.3 | -2.3 | |
| Malaysia | 3.9 | 3.8 | 0.6 .. | | |
| Singapore | 11.8 | 5.4 | 8.6 .. | | |
| Russia | 3.3 | 2.7 | 2.5 | 2.4 | |

Notes: data are converted to US dollars using average exchange rates. p: preliminary; e: estimate.
(1) Secretariat estimate based on the first three quarters of the year.
(2) Secretariat estimate based on the first half of the year.
(3) Source: Chinese Ministry of Commerce.
(4) Source: Hong Kong Census and Statistics Department.
Source: OECD International Direct Investment Database; and IMF Balance of Payments Statistics, unless otherwise stated.

**Appendix. APEC Member Economy Action Reported as Related to Leaders' Statement on Counter-Terrorism**

| Responsible APEC Member Economy | ***Action*** | ***Description of Activity*** |
|---|---|---|
| Australia | Signing, Ratification and Implementation of Anti-terrorist Instruments | Australia has ratified nine of the twelve UN instruments relating to counter-terrorism. It has not yet ratified the Convention for the Suppression of the Financing of Terrorism, the Convention for the Suppression of Terrorist Bombings or the Convention on the Marking of Plastic Explosives for the Purpose of Detection. Australia has, however, signed the Convention for the Suppression of the Financing of Terrorism and legislation is now before the Australian Parliament to enable Australia to accede to the Convention for the Suppression of Terrorist Bombings. |
| | Preventing the Flow of Funds to Terrorists | Action has been taken by the Reserve Bank of Australia and the Australian Minister for Foreign Affairs to block transactions, accounts and assets relating to persons or organisations identified as terrorists or the sponsors of terrorism, including persons/organisations listed under US Executive Order 13224. The Australian Parliament has passed new counter-terrorism legislation to enable the implementation of terrorist financing obligations in UNSC Resolution 1373. The Australian Transaction Records and Analysis Centre (Austrac) is cooperating with its US counterpart (FinCEN) on financial intelligence. |
| Brunei Darussalam | Signing, Ratification and Implementation of Anti-terrorist Instruments | Brunei Darussalam has submitted its report on counter-terrorism to the Counter-Terrorism Committee established in accordance with the UNSC Resolution 1373. Brunei Darussalam has acceded to 7 and signed 2 international anti-terrorism conventions/protocols. This includes Brunei Darussalam's recent decision to accede to the International Convention for the Suppression of Terrorist Bombings. Brunei Darussalam will introduce draft legislation on anti-terrorism financial measures in order to comply with UNSC Resolution 1373. |
| Canada | Signing, Ratification and Implementation of Anti-terrorist Instruments | Canada has ratified all twelve UN conventions relating to counter-terrorism and has or is in the process of implementing them. Most recently, Canada ratified *The Convention on the Suppression of the Financing of Terrorism* in February 2002 and *The Convention for the Suppression of Terrorist Bombings* in April 2002. |
| | Prevention of Terrorist Financing | The United Nations Afghanistan Regulations require that any person in Canada and Canadians outside of Canada be prohibited from dealing in property owned by the Taliban or by Usama Bin Laden or his associates. Under the United Nations Suppression of Terrorism Regulations, all funds held by those on the schedule are frozen. In addition, Canada is in the process of passing legislation that will create new offence relating to terrorist financing. The Proceeds of Crime Act carries criminal penalties for money laundering and requires the reporting of any suspicious transactions. The Government of Canada is examining the possibility of enhancing this act to better cover terrorist financing. |
| Chile | Signing, | Chile has strongly supported and adhered to all relevant UN actions addressed at preventing and |

| | | |
|---|---|---|
| | Ratification and Implementation of Anti-terrorist Instruments | suppressing all forms of terrorist acts in the future, and has pledged to implement UNSC Resolution 1368, 1373 and 1390 faithfully and with immediacy.<br>Regarding the anti-terrorist conventions, following the deposit on 10 November 2001 of the instrument of accession to the International Convention for the Suppression of Terrorist Bombing of 1997, and the deposit, on the same date, of the instrument of ratification of the International Convention for the Suppression of the Financing of Terrorism of 1999, Chile became party to all 12 multilateral instruments on this subject. |
| | Prevention of Terrorist Financing | The Government of Chile set up an inter-ministerial group, coordinated by the Ministry of Foreign Affairs, to analyze any new legislation that might be necessary to introduce to Congress, in order to guarantee the full implementation of the UNSC Resolution 1373. In this regard, the Chilean Congress is now discussing legislation that would provide for a Financial Analysis and Intelligence Unit aimed at preventing and halting the use of the financial system for terrorism and related activities. |
| China | Signing, Ratification and Implementation of Anti-terrorist Instruments | China has submitted its report in accordance with UNSC Resolution 1373, summarizing China's counter-terrorism measures in the fields of: freezing the capital of terrorist organisations and individuals; reinforcing domestic counter-terrorism mechanisms; strengthening cooperation and the exchange of information; participating and signing of international legal instruments; and tightening immigration controls. |
| | Prevention of Terrorist Financing | • The Central Bank of China has requested all domestic commercial and foreign banks to facilitate checking and freezing of capital related to terrorist or terrorist organisations.<br>• China is in the process of establishing a monitoring centre for financial transactions, to implement its anti-money laundering legislation as well as encourage commercial banks to establish self-discipline mechanisms.<br>• China is widening contacts and cooperation between the Central Bank of China and other international organisations in fighting money laundering. |
| Hong Kong, China | Signing, Ratification and Implementation of Anti-terrorist Instruments | Hong Kong, China is committed to implementing fully all UN resolutions on the prevention and suppression of all forms of terrorist acts, particularly UNSC Resolution 1373, and the provisions of the anti-terrorist conventions that are applicable to Hong Kong, China. The United Nations (Anti-terrorism Measures) Ordinance was enacted by the Legislative Council on 12 July 2002 to give effect to the mandatory requirements of UNSC Resolution 1373 and certain Special Recommendations of the Financial Action Task Force on Money Laundering. The UN Sanctions (Afghanistan)(Amendment) Regulations were also enacted to implement UNSC Resolutions 1388 and 1390 to extend part of the sanctions imposed by the UNSC Resolutions 1267 and 1333 against Osama bin Laden, the Taliban and their associates. |
| | Prevention of | Hong Kong, China has in place measures to regulate alternative remittance and wire transfer services. |

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| | Terrorist Financing | Under the existing laws, all persons including financial institutions are required to report to the authorities any transactions suspected of being used or intended to be used in terrorist type criminal offences. Financial regulators are circulating known lists of suspected terrorists and terrorist organisations to financial institutions, requiring them to report any relationships and transactions, which they may have with them to the relevant authority. They have also circulated the FATF's Guidance for Financial Institutions in Detecting Terrorist Financing.<br>The Hong Kong Monetary Authority, Office of the Commissioner for Insurance (OCI) and Securities and Futures Commission maintain close communication and cooperation with other overseas authorities in combating terrorism financing. They have also actively participated in the work of the international standard-setting bodies in their respective industries towards the development of international standards on anti-money laundering and combat of terrorist financing. |
| Indonesia | Signing, Ratification and Implementation of Anti-terrorist Instruments | Indonesia has signed and ratified four International Conventions related to acts of terrorism, as follows:<br>• Convention for the Suppression of the Unlawful Seizure of Aircraft, 1963;<br>• The Convention for the Suppression of the Unlawful Acts against the Safety of Civil Aviation, 1970;<br>• Convention on the Offenders and Certain Other Acts on Board Aircraft, 1963; and<br>• Convention on the Physical Protection of Nuclear Material, 1980.<br>In addition, Indonesia is in the process of ratifying the International Convention for the Suppression of the Financing of Terrorism, 1999; and is moving towards accession to the International Convention for the Suppression of Terrorist Bombing, 1997. |
| | Prevention of Terrorist Financing | In line with UN Resolutions, Indonesia has promulgated Law No. 15 /2001 dated 17 April 2002 on Anti-Money Laundering. |
| Japan | Ratification and Implementation of Anti-terrorism related Conventions | Japan has become a party to all the 12 UN conventions on counter-terrorism, including the International Convention for the Suppression of the Financing of Terrorism. Necessary or relevant bills for implementing the Convention and UNSC Resolution 1373 have been passed by the Diet of Japan. Japan will strengthen surveillance and control of money flows related to terrorist acts in compliance with the related laws. |
| | Prevention of Terrorist Financing | Based on the Foreign Exchange and Foreign Trade Law, and as of 13 July 2002, assets of 290 individuals and entities, including the Taliban and those associated with the Taliban have been frozen in accordance with UNSC Resolutions 1267, 1333 and 1390. In addition, assets of 8 individuals and 17 entities have been frozen in accordance with UNSC Resolution 1373(as of 13 July 2002).<br>With a view to fully complying with the FATF special recommendations on terrorist financing, Japan enacted new laws and amended relevant laws. The aims of the new legislation are to complete |

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| | | criminalisation of financing of terrorism and to enhance measures to prevent financing of terrorism such as reporting of suspicious transactions and customer identification. |
| Korea | Signing, Ratification and Implementation of Anti-terrorist Instruments | Korea has ratified eight of the twelve UN instruments relating to counter-terrorism:<br>1. Convention on Offences and Certain Other Acts Committed on Board Aircraft;<br>2. Convention for the Suppression of Unlawful Seizure of Aircraft;<br>3. Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation;<br>4. Supplement to the Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation, done at Montreal on 23 September 1971 (Montreal Protocol);<br>5. International Convention against the Taking of Hostages;<br>6. Convention on the Prevention and Punishment of Crimes against Internationally Protected Persons, including Diplomatic Agents;<br>7. Convention on the Physical Protection of Nuclear Material; and<br>8. Convention on the Marking of Plastic Explosives for the Purpose of Detection (MEX Convention, ratification date: 2 January 2002).<br>Korea has signed the International Convention for the Suppression of Terrorist Bombing (Terrorist Bombing Convention, 3 December 1999), International Convention for the Suppression of the Financing of Terrorism (Terrorist Financing Convention, 9 October 2001).<br>The Korean government is currently in the process of enacting legislation for full implementation of those treaties with a view to ratification at early dates. |
| | Preventing the Flow of Funds to Terrorists | Korea signed the International Convention for the Suppression of the Financing of Terrorism (Terrorist Financing Convention) on 9 October 2001. With the entry into force of the Proceeds of Crime Act on 28 November 2001, it has become possible to take such measures as confiscation, additional collection and other preservation measures with regard to funds and other financial assets provided for or in return for terrorists' acts. Anyone who finances terrorist acts or provides physical or material support to entities or persons involved in terrorist acts can be penalised as an accomplice to terrorism under the provisions of the relevant special laws.<br>All financial assets and properties directly or indirectly owned by those persons and entities in the lists provided by the Counter-Terrorism Committee, established by UNSC Resolution 1267 on Afghanistan of 15 October 1999 have been frozen in accordance with the relevant guidelines issued by the Korean government on 9 October 2001.<br>The passage of the Anti-Terrorism Bill, which is currently under deliberation at the National Assembly, will enable more effective regulation and control of all funds and financial assets related in any way to terrorist activities. |

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| Malaysia | Signing, Ratification and Implementation of Anti-terrorist Instruments | Malaysia has signed and ratified 4 out of 12 UN Conventions and Protocols to combat manifestation of terrorism:<br>• 1963 Tokyo Convention on Offences and Certain Other Acts Committed on Board Aircraft<br>• 1970 Montreal Convention for the Suppression of Unlawful Seizure of Aircraft<br>• 1971 Montreal Convention for the Suppression of Unlawful Acts Against the Safety of Civil Aviation<br>• Protocol for the Suppression of Unlawful Acts of Violence at Aircraft Serving International Civil Aviation, Supplementary to the Convention for the Suppression of Unlawful Acts Against the Safety of Civil Aviation (1998)<br>Malaysia is moving towards signing the UN Convention for the Suppression of the Financing of Terrorism. |
| | Preventing the Flow of Funds to Terrorists | In line with the UN Resolutions, the Central Bank of Malaysia on 1st October 2001 issued a directive under the Exchange Control Act for all licensed financial institutions and licensed offshore financial institutions to freeze funds and financial resources, including funds derived or generated from property owned or controlled directly or indirectly, of Specified Person, Specified Organisations, individuals and entities associated with the Specified Person or Specified Organisation, or by any undertaking owned or controlled by them.<br>Malaysia has implemented the Anti Money Laundering Act 2001 that was enforced on 15 January 2002. |
| Mexico | Signing, Ratification and Implementation of Anti-terrorist Instruments | On December 21st 2001, Mexico provided the Counter Terrorism Committee (CTC) with its national report on the fulfilment of UNSC Resolution 1373.<br>Mexico is a party to 10 of the 12 international instruments concerning the fight against terrorism and is taking the measures required by its domestic legislation to become part of the International Convention for the Suppression of Terrorist Attempt and the International Convention for the Suppression of Financing of Terrorism of 2000. |
| | Preventing the Flow of Funds to Terrorists | Financial institutions have been exhorted to take extreme precautions, and to adopt the necessary measures, with all the available legal resources at their reach, in order to prevent domestic financial systems from being used by any person or organisation linked to terrorist activities.<br>An effective legal procedure to allow the immediate freezing of accounts related to terrorist groups or individuals has been established. |
| New Zealand | Signing, Ratification and Implementation of Anti-terrorist | New Zealand has promulgated the United Nations Sanctions (Terrorism Suppression and Afghanistan Measures) Regulations 2001 to give effect to the key financing-related provisions of UNSC Resolution 1373 and has also introduced amendments to legislation that was already before Parliament to give effect to the International Convention against Terrorist Bombing and the International Convention for |

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| | Instruments | the Suppression of Terrorist Financing. Theses amendments implement in statute those same key financing-related provisions, as well as those relating to the recruitment of terrorists. Preparations are in train for the drafting of further legislative amendments to give effect to other elements of Resolution 1373, with the aim of these being introduced to Parliament within the next six months. |
| | Prevention of Terrorist Financing | New Zealand is currently assessing the need for an amendment to the Financial Transaction Reporting Act to enable Customs to detain suspicious cross-border movements of cash for further investigation. |
| Papua New Guinea | Signing, Ratification and Implementation of Anti-terrorist Instruments | Papua New Guinea has signed and ratified three UN Conventions:<br>• Convention on Offences and certain other Acts Committed on Board Aircraft (Tokyo Convention, 1963-Safety Aviation)<br>• Convention for the Suppression of Unlawful Seizure of Aircraft (The Hague Convention, 1970-Aircraft Hijacking)<br>• Convention for the Suppression of Unlawful Acts against the Safety of Civil Aviation (Montreal Convention, 1971-Applies to acts of aviation sabotage such as bombing aboard aircraft in-flight)<br>Most recently, the National Security Advisory Committee (NSAC) established a high level inter-agency Task Force of the NSAC to define the policy and legal parameters for the implementation of the UNSC Resolution 1373 and all UN Conventions in relation to international terrorism. |
| The Philippines | Prevention of Terrorist Financing | The 2001 Philippine Anti-Money Laundering Act (AMLA) is the key legislation aimed at preventing the flow of funds to terrorists and other criminal activities. Its major features are:<br>• Criminalisation of money laundering;<br>• Establishment of a system for reporting suspicious financial transactions;<br>• Mandatory records keeping and customer identification; and<br>• Creation of the Anti-Money Laundering Council as the central monitoring and implementing agency.<br>Other banking rules and regulations cover the following concerns:<br>• Inclusion of all Off-Shore Banking Units in the coverage of existing money-laundering regulations through mandatory submission of compliance reports. |
| Russia | Signing, Ratification and Implementation of Anti-terrorist Instruments | Russia is a party to 10 of the 12 global anti-terrorist conventions. An advanced stage has been reached in preparations for ratification of the International Convention for the Suppression of the Financing of Terrorism (1999) and the Convention on the Marking of Plastic Explosives for the Purpose of Detection (1990), which have been signed by the Russian Federation.<br>In order to promote enforcement of UNSC Resolutions 1267 and 1333 Russia signed Decrees on measures to implement those resolutions, providing *inter alia* for the immediate freezing of the funds and other financial assets of terrorist groups and physical persons connected with the activities of the Taliban movement and the Al-Qaeda organisation. |

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| | Prevention of Terrorist Financing | In pursuance of Federal Act No. 115 of 7 August 2001 “On the prevention of the legislation of funds obtained by criminal means (money-laundering)”, on 1 November 2001 Russia signed Decree No. 1263 “On the body empowered to prevent the legislation of funds obtained by criminal means (money-laundering)”, which provides for the creation of the Committee of the Russian Federation for Financial Monitoring. Work is being done to devise an effective mechanism for identifying and freezing sources of terrorism financing.<br>Russia set up an interdepartmental working group on measures to prevent terrorism financing in the Russian Finance Ministry composing representatives of the Federal Security Service, the Ministry of Internal Affairs, the Foreign Ministry, the Federal Service of Tax Police, the Foreign Intelligence Service, the Bank of Russia and the Office of Public Prosecutor of the Russian Federation. Also Russia established the Committee of the Russian Federation on Financial Monitoring. |
| Singapore | Signing, Ratification and Implementation of Anti-terrorist Instruments | Singapore has taken a broad series of legislative and administrative measures to comply with the requirements of UNSC Resolution 1373 (2001) and subsequent Resolution 1390 (2002).<br>Of the 12 international conventions on terrorism, Singapore has ratified four: (I) 1963 Tokyo Convention on Offences and Certain other Acts Committed on Board Aircraft; (ii) 1970 Hague Convention for the Suppression of Seizure of Aircraft; (iii) 1971 Montreal Protocol for the Suppression of Unlawful Acts against the Safety of Civil Aviation; and (iv) 1998 Montreal Protocol for the Suppression of Unlawful Acts of Violence at Airports Serving International Civil Aviation.<br>Singapore has also signed the UN Convention for the Suppression of the Financing of Terrorism and is in the process of ratifying it. Singapore is also in the process of putting in place the necessary legislation to meet our obligations under two other conventions, namely, the Convention on the Marking of Plastic Explosives for the Purpose of Detection, and the 1988 Rome Convention for the Suppression of Unlawful Acts Against Safely of Maritime Navigation. Singapore is also reviewing the other relevant international conventions and protocols. |
| | Prevention of Terrorist Financing | Prior to 11 September 2001, Singapore already had in place a rigorous system of checks- benchmarked against international best practices – designed to detect and counter the use of the financial system by criminals. Since 11 September 2001, Singapore’s agencies have stepped up their supervision and review methods to prevent misuse of the banking and financial systems by terrorists. |
| Chinese Taipei | Signing, Ratification and Implementation of Anti-terrorist Instruments | Although Chinese Taipei is not a United Nations member, it has, in accordance with the UNSC Resolution 1368 and 1373, made various efforts to combat international terrorism, and has been working together with the international community to fully implement a series of measures against terrorism.<br>In additions to cooperation with other economies in exchanging intelligence and information, security inspection, anti-money laundering efforts, and energy security mechanisms, Chinese Taipei seeks to incorporate various international anti-terrorist conventions and resolutions passed by the UN into its domestic legal system. |

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| | Prevention of Terrorist Financing | • Based upon the list of terrorists or terrorist groups and related information provided by the American Institute in Taiwan (AIT), Chinese Taipei has thoroughly checked the bank accounts and foreign exchange records of specific companies and Chinese Taipei's and foreign nationals.<br>• In accordance with UNSC Resolution 1373, Chinese Taipei has initiated the process for the amendment of the Money Laundering Control Law in order to freeze the accounts of people suspected of terrorist activities, as well as to provide the legal basis for providing transnational reciprocal assistance. |
| USA | Signing, Ratification and Implementation of Anti-terrorist Instruments | The U.S. and other concerned nations continue to work closely with the respective UNSC sanctions committees to effectively coordinate enforcement of UNSC Resolutions 1267, 1333, 1373 and 1390, which call on all States to freeze the funds and financial assets not only of the Taliban and Osama bin Laden, the Al-Qaeda organisation, and their associates, but of terrorists and their supporters all over the world.<br>The U.S. has ratified the UN's International Convention on the Suppression of the Financing of Terrorism, and ratification is expected soon. Implementing legislation has been submitted to the Congress. |
| | Prevention of Terrorist Financing | The U.S. is taking concrete actions to combat the financing of terrorist entities.<br>Freezing of Terrorist Assets in the U.S.: On 23 September 2001, President George W. Bush signed E.O. 13224. This E.O. blocks all property of foreign individuals, groups, and entities designated by the President, the Secretary of State or the Secretary of the Treasury as committing or posing a significant risk of committing acts of terrorism threatening the security of U.S. nationals or the U.S. national security, foreign policy or economy, if that property is either within the United States or within the control of U.S. persons. The E.O. also blocks the property of persons found to provide support to, or to be otherwise associated with, any of these designated foreign persons. The Order directs the U.S. Government to cooperate and coordinate with foreign government in an effort to suppress and prevent terrorism, including sharing intelligence about terrorist financing. It also finds that there is a need for consultation and cooperation between U.S. and foreign financial institutions to assist in combating the financing of terrorism. While earlier programmes already targeted certain terrorist assets, E.O. 13224 provides broader powers to block assets held by, or for the support of, terrorist-for example, by permitting the blocking of assets not only of terrorists themselves and those providing them material support, but those determined to be otherwise associated with terrorists. *List of Known Terrorist Organisations and Individuals*: E.O. 13224 lists organisations and individuals whose assets are blocked because of their ties to terrorism. Subsequently, 12 more lists of organisations and individuals whose assets are blocked by the E.O. have been designated and released publicly. A complete listing of the 210 entities whose assets are blocked by the E.O. to date is available at the listed website. The U.S. |

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| | | will continue to update this list and release it publicly on a periodic basis as further evidence is developed on additional terrorist organisations and their support networks.<br>*Number and Amount of Assets Blocked Worldwide Since September 11*: The U.S. has blocked over 80 accounts. For a total of over USD 34 million blocked since 11 September 2001. A portion of that amount linked to the Taliban has been unblocked for use by the new Afghan Interim Authority. The U.S. publicly releases such information on a periodic basis. Recent testimony or other public releases on this issue are available on the Treasury Web site. The U.S.'s internal accounting indicates that other countries have blocked over USD 81 million since 11 September 2001.<br>*Improved Coordination at Home*: The U.S. is improving coordination and information sharing among U.S. government agencies. An interagency process, headed by the Department of the Treasury, has been established and refined to select terrorist organisations for targeting, recommend appropriate regulatory, law enforcement or diplomatic actions and encourage worldwide cooperation with the U.S. efforts. The interagency Foreign Terrorist Assets Tracking Group will continue to identify the financial infrastructure of terrorist organisations worldwide and support efforts to curtail their ability to move money through the international financial system.<br>*Improving Domestic Tools for Stopping Terrorism Financing*: On 26 October 2001, President Bush signed into law the USA PATRIOT Act. This Act provides for broad new investigative tools for, and information-sharing between, relevant law enforcement and intelligence agencies. As well as information sharing with domestic financial institutions and regulators, with respect to terrorist financing. It expands the scope of U.S. counter-money laundering measures. Among other things, it requires broker-dealers in the securities industry to file suspicious activity reports. The law also gives new powers to take action against money laundering havens. The Act also provides the President new power to confiscate and vest property under the International Emergency Economic Powers Act (IEEPA) when the United States is engaged in armed hostilities or has been attacked. IEEPA is one of the primary tools used to stop terrorism. |