Asian Corporate Governance Association (ACGA)

# "Asian Growth and Governance: Setting the Scene"

Presentation by
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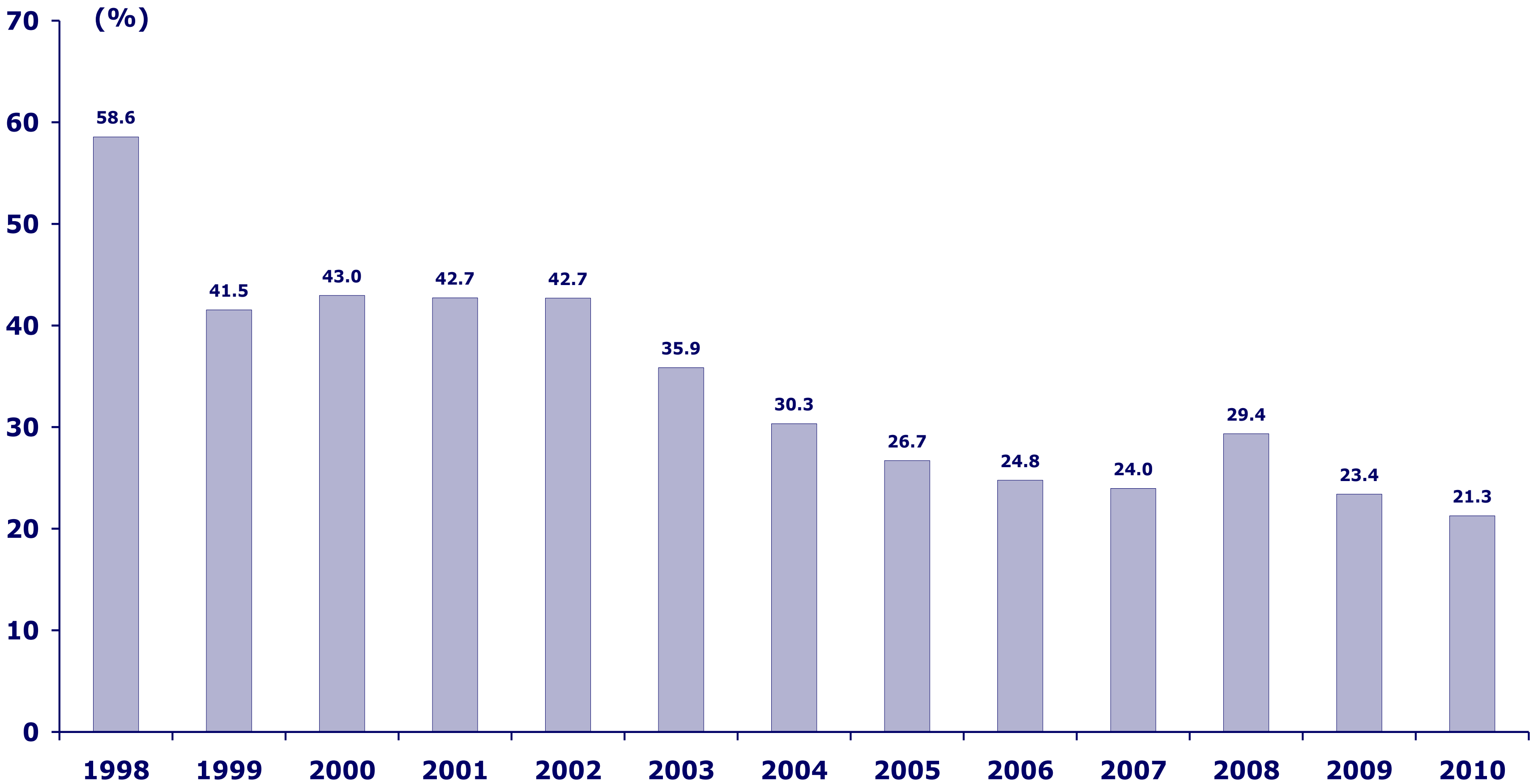
# Growth and governance in Asia 1

- First decade: 1998-2007
  - Asian Financial Crisis of 1997/98 was the catalyst for the region's initial round of CG reform
  - Contributed to renewed economic growth and capital market confidence through bank reform, corporate debt restructuring, a more level playing field for investors, improved public governance, a focus on auditor independence, and the internal governance of listed companies
  - The political will existed to make far-reaching reforms—most of Asia had no choice
  - A broad acceptance that convergence with "global standards" was the answer (with variations)

# One clear sign of improvement: Asia ex-Japan net gearing

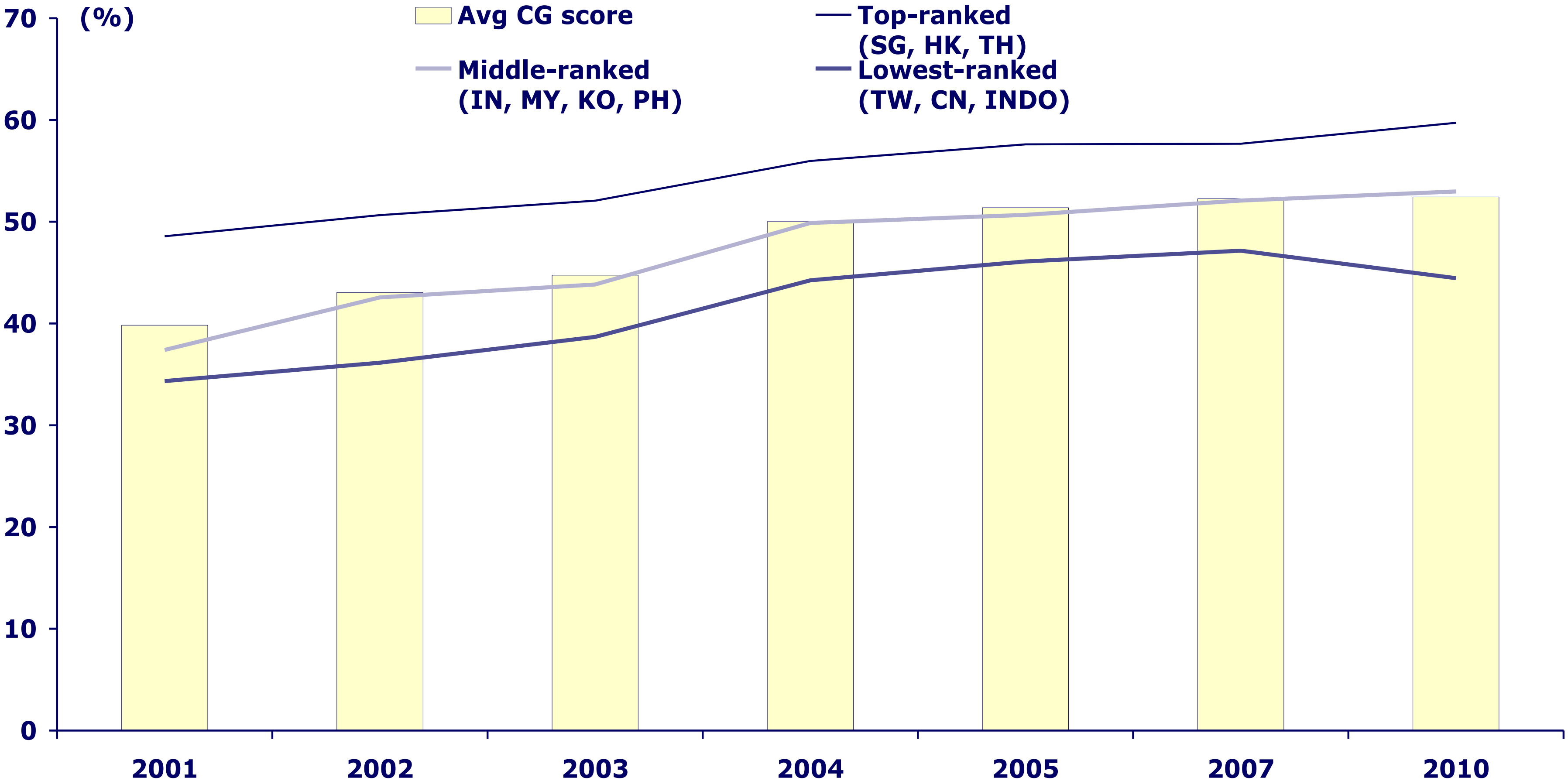



Source: CLSA Asia-Pacific Markets

# Growth and governance in Asia 2

- Second decade: 2008-2017
  - Global Financial Crisis was supposed to give renewed push to the CG reform process (now flagging following several boom years)
  - Instead, the massive fiscal stimulus brought quick market recoveries and reduced the political pressure for reform (except in some areas of consumer banking)
  - Growth and clear CG reform no longer necessarily connected—the booming economies of India and Korea being the most obvious examples
  - Predictable backlash against "global standards"—most pronounced in China and Japan (but beware noise from narrow sectoral interests)

# Momentum slows: "CG Watch" average company scores




Source: CLSA Asia-Pacific Markets

# Country performance mixed: "CG Watch" market scores, 2010 vs 2007

| (%) | 2007 | 2010 | Change (ppt) | | Trend of CG reform |
|---|---|---|---|---|---|
| **1. Singapore** | 65 | 67 | (+2) | | Improving slowly, negatives cancel positives |
| **2. Hong Kong** | 67 | 65 | (-2) | | Some regression, static overall |
| **3. Japan** | 52 | 57 | (+5) | | Improving, but will reform be sustained? |
| **= 4. Taiwan** | 54 | 55 | (+1) | | Static overall, loss of focus |
| **= 4. Thailand** | 47 | 55 | (+8) | | Improving, but political uncertainties remain |
| **6. Malaysia** | 49 | 52 | (+3) | | Improving, but held back by "CG culture" |
| **= 7. India** | 56 | 49 | (-7) | | Over-rated last time, but slow improvements |
| **= 7. China** | 45 | 49 | (+4) | | Improving, but held back by "CG culture" |
| **9. Korea** | 49 | 45 | (-4) | | Regressing, turning inward |
| **10. Indonesia** | 37 | 40 | (+3) | | Improving, but weak political system |
| **11. Philippines** | 41 | 37 | (-4) | | Regressing, but new government may help |

Source: Asian Corporate Governance Association

# Gap Analysis:
# Asia vs nominal world-class CG benchmark (80%)

| **(%)** | **2010 Score** | **World-Class Benchmark 80%** |
|---|---|---|
| **1. Singapore** | 67 | (-13) |
| **2. Hong Kong** | 65 | (-15) |
| **3. Japan** | 57 | (-23) |
| **= 4. Taiwan** | 55 | (-25) |
| **= 4. Thailand** | 55 | (-25) |
| **6. Malaysia** | 52 | (-28) |
| **= 7. India** | 49 | (-31) |
| **= 7. China** | 49 | (-31) |
| **9. Korea** | 45 | (-35) |
| **10. Indonesia** | 40 | (-40) |
| **11. Philippines** | 37 | (-43) |

Source: Asian Corporate Governance Association



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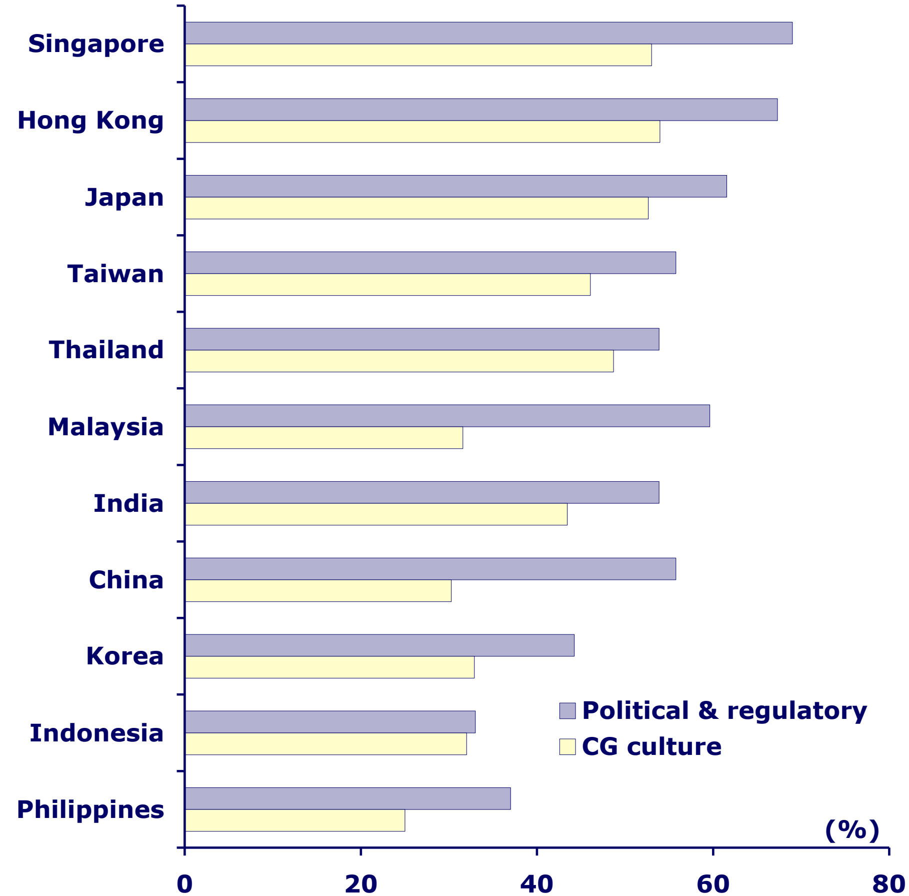
# Government vs CG Culture

- Significant gaps in most markets between scores for Political / Regulatory Environment and CG culture in "CG Watch".

- Conclusion: CG reform still largely state-led, top-down in Asia. Culture hasn't yet caught up, for the most part.

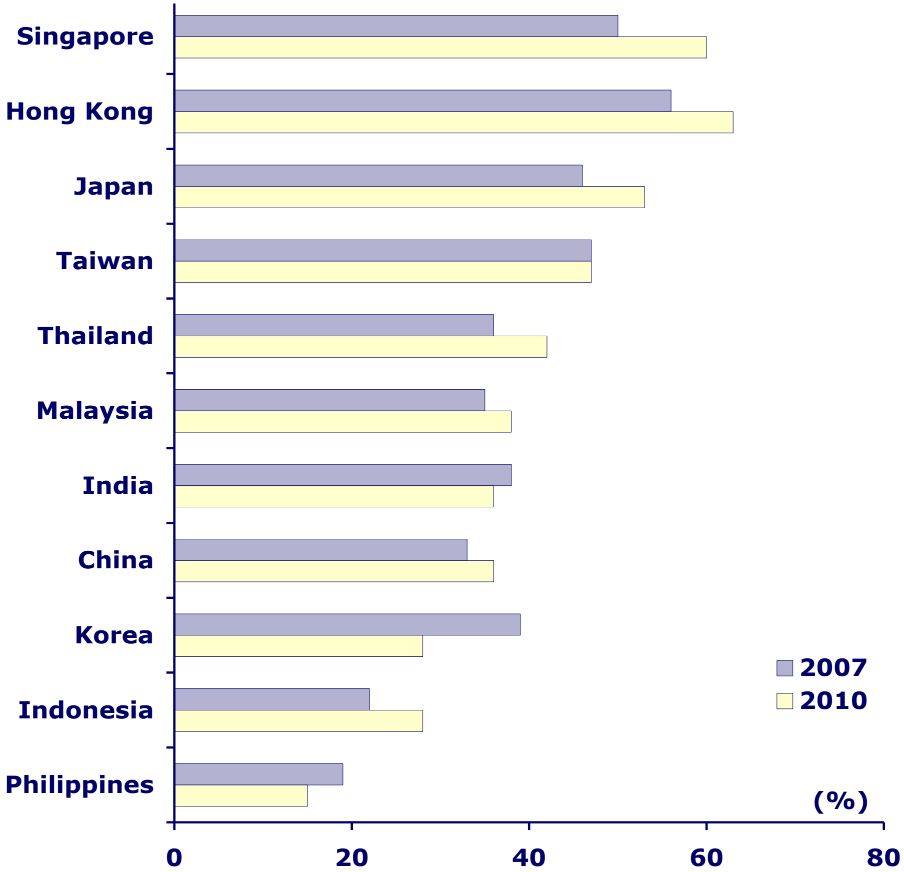
- Although in each market there are leaders—companies, investors, associations, and institutes.




Source: Asian Corporate Governance Association

# Some good news: Enforcement on the rise

- Most markets show improved scores on enforcement (albeit from low bases).
- A product of better regulatory enforcement and stronger "private enforcement" (eg, investor voting of shares and company engagement).
- This combination is one reason why there are grounds for optimism.




Source: Asian Corporate Governance Association

# Challenges

- **Culture**
  - Inculcating the idea that corporate governance does add value to companies and markets. And that CG principles are in alignment with social values in most countries.
- **Political will**
  - Governments need to give regulators more support.
- **Strategic thinking**
  - Governments need clearer, more consistent policies on CG. More courage to stand up to vested interests.
- **Dialogue**
  - Encouraging genuine discussion between companies and their shareholders. Remove the fear factor and the "us" vs "them" mentality. Shareholders need to offer good ideas that companies can use.

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