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Asian Corporate Governance Association (ACGA)

"Asian Growth and Governance: Setting the Scene"

Presentation by
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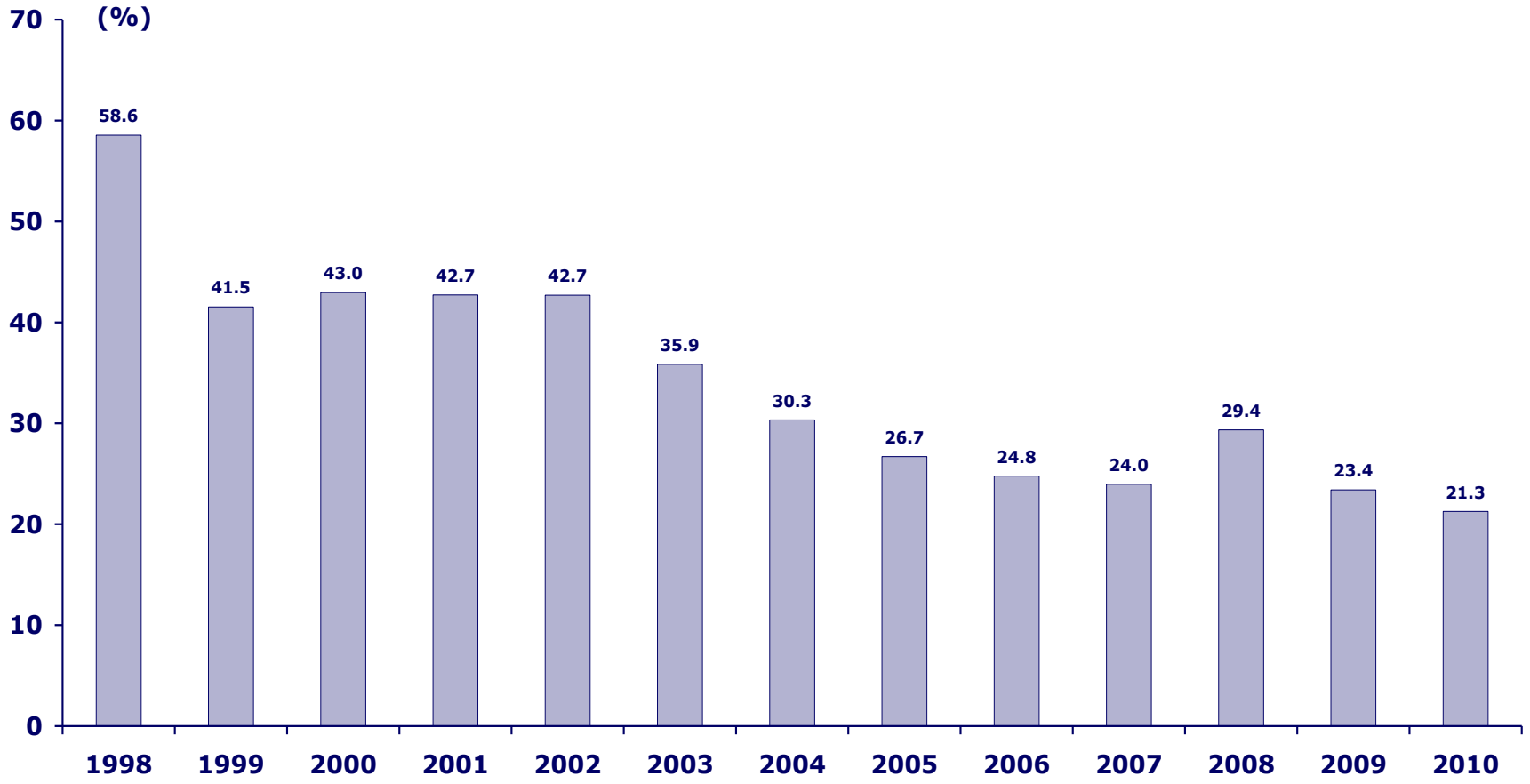
Growth and governance in Asia 1

- 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

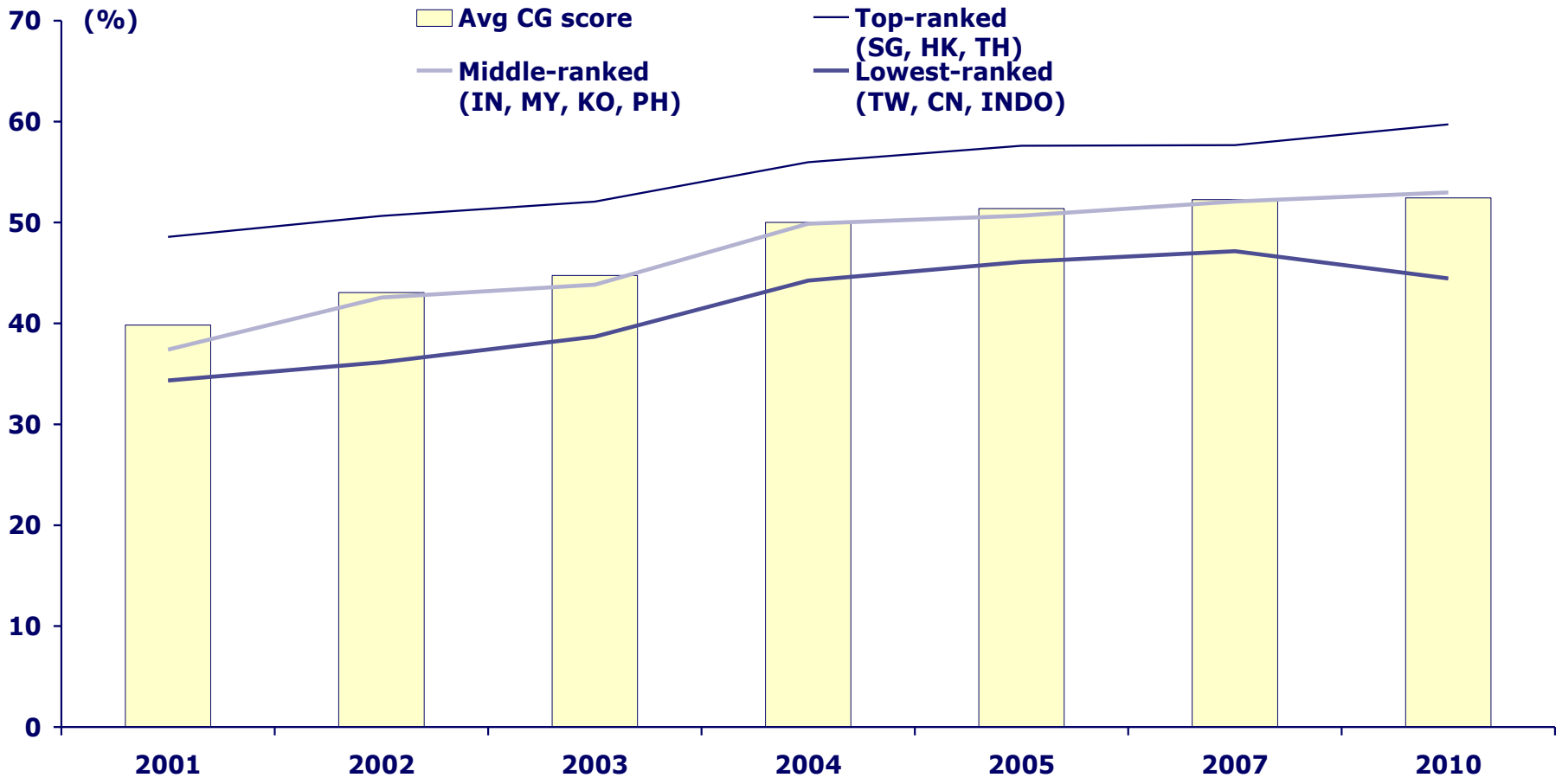


Source: CLSA Asia-Pacific Markets

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

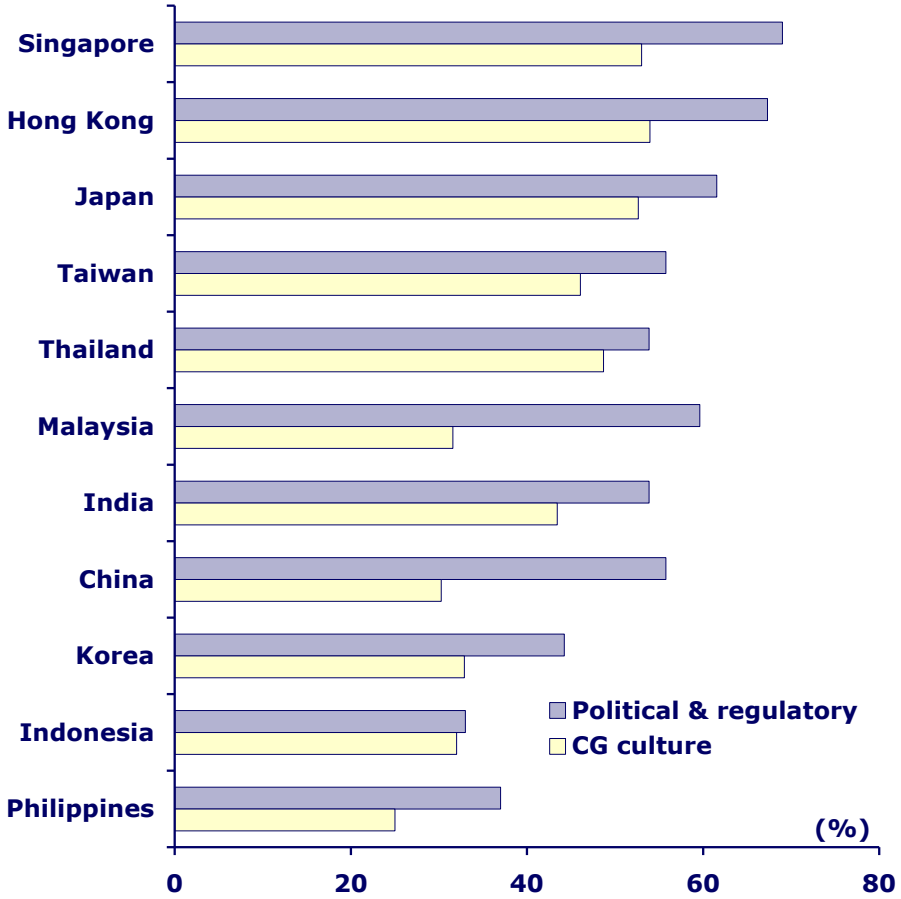
Gap Analysis:
Asia vs nominal world-class CG benchmark (80%)

(%)	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

Government vs CG Culture

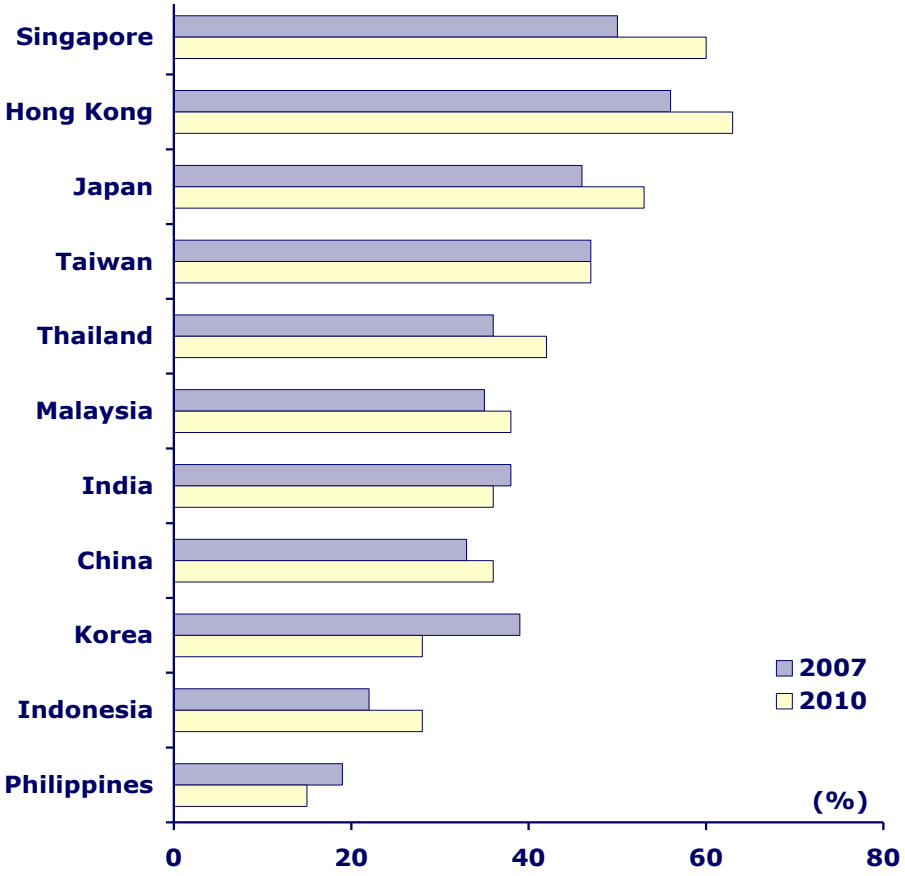
- Significant gaps in most markets between scores for Political / Regulatory Environment and CG culture in "CG Watch".
- Conclusion: CG reform still largely state-led, top-down in Asia. Culture hasn't yet caught up, for the most part.
- Although in each market there are leaders—companies, investors, 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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