

CONTENTS**VOLUME 1**

ACKNOWLEDGEMENTS	iii
ECONOMIC ANALYTICAL UNIT	ix
EXECUTIVE SUMMARY	xxv
Market Forces Strengthening	xxvi
Regulations in Place	xxvi
Aid Assistance	xxvii
Japan Lifting Standards	xxviii
China in Transition	xxix
Republic of Korea Pushes Reform Forward	xxix
Taiwan Continues Reform	xxx
Hong Kong Sets the Standard	xxxi
Indonesia Faces Many Challenges	xxxi
Thailand at the Crossroads	xxxii
Good Practice in Malaysia	xxxii
The Philippines Slowly Pursues Better Governance	xxxiii
Vietnam Starts the Transition	xxxiv
Singapore Aims to be the Benchmark	xxxv
Competition Drives Australian Companies	xxxvi
Implications	xxxvi
CHAPTER 1 CRISIS DRIVES CORPORATE CHANGE?	1
Relationships Drive Asian Business	3
East Asian Business Model under Pressure	4
Rules Based Business Better for Growth	6
Crisis Forces Change	7
The New Rules of Doing Business	7
Market Forces and Regulations Work Together	8
Enforcement Must Improve	9
East Asian Economies Moving at Different Speeds	9
Implications for Australia	10
A Different Culture	10
Regulations to Reduce Risk to Investors	10
Investing in Compliance	10
Corporate and Government Asset Sales	11
Looking Forward	11
References	12

CHAPTER 2	MARKETS GOVERNING CORPORATIONS	13
	Capital Markets Drive Change	14
	Financing Competition Limited Pre-Crisis	16
	State Owned Banks Problematic	17
	Share Markets Often Weak	18
	Bank Relationships Now Threatened	19
	Direct Financing More Important	19
	Initial Public Offers Increasing	19
	Growing Importance of Institutional Investors	21
	Family Firms Attract New Owners	22
	Major Families Still Control Corporates	23
	Corporate Ownership Likely to Diversify	24
	Product Markets' Competition Increasing	25
	Impact on Corporate Governance	25
	Product Markets Lacked Competition Pre Crisis	26
	Trade Liberalising	27
	Deregulation and Competition Policies	29
	Other Barriers to Entry	30
	Foreign Investment Liberalising	30
	Mergers and Acquisitions Rising	31
	Bankruptcies Increasing	31
	Implications	33
	References	34
CHAPTER 3	REGULATING CORPORATE BEHAVIOUR	35
	Requirements for Good Governance	36
	Improving Transparency	37
	Disclosure and Financial Reporting	37
	Accounting Standards	40
	Auditing	42
	Protecting Minority Shareholders	44
	Listing Requirements	45
	Representation	46
	Board of Director Composition	47
	Directors' Obligations	48
	Legal Action against Directors	49
	Protecting Creditors	50
	Bankruptcy Laws	50
	Prudential Supervision	52
	Legal systems and Enforcement	52
	Implications	53
	References	54

CHAPTER 4	IMPLICATIONS FOR DEVELOPMENT ASSISTANCE	57
	Aiding Corporate Governance	58
	Improving Regulations	58
	Improving Market Forces	58
	Lessons from Corporate Governance Assistance	59
	Does One Size Fit All?	59
	Recipient Government Support	59
	Recipient Government Ownership	59
	Avoiding Duplication	60
	Training and Capacity Building	60
	Multi-faceted Approach	60
	Choice of Consultants	60
	Institutional Provider Capacity	61
	Encouraging Self Assessment	61
	Private Sector Involvement	61
	Conditionality	62
	Selectivity	62
	Time Horizons	62
	Bilateral versus Multilateral Assistance	63
	Coordination	63
	Possible Areas for Australian Assistance	63
	Improving Regulations	64
	Drafting and Reviewing Legislation	64
	Building Implementation Capacity	64
	Educational and Training Programs	65
	Review of Standards and Codes Program	66
	Anti-corruption Initiatives	66
	Strengthening Markets	66
	Banking Sector Reform	66
	Developing Alternatives to Bank Financing	67
	Market Access Measures	68
	Antitrust Laws	68
	Streamlining Foreign Investment	68
	Ratings/Benchmarking	68
	Developing Civil Society	68
	Developing an Active Media	69
	Private NGO Activity	69
	Consumer and Shareholder Activism	69
	Implications	69
	References	70
	Appendix	72
	The Current Aid Agenda	72
	Multilateral Programs	72
	Bilateral Programs	74

CHAPTER 5	IMPLICATIONS	77
	Implications for Business	78
	Implications for Government	79
	Implications for Development Assistance	80
	Future Prospects	81
INFORMATION FOR BUSINESS		83
ALSO BY THE ECONOMIC ANALYTICAL UNIT		85

VOLUME 2

ACKNOWLEDGEMENTS	iii
ECONOMIC ANALYTICAL UNIT	ix
EXECUTIVE SUMMARY	xxv
Market Forces Strengthening	xxvi
Regulations in Place	xxvi
Aid Assistance	xxvii
Japan Lifting Standards	xxviii
China in Transition	xxix
Republic of Korea Pushes Reform Forward	xxix
Taiwan Continues Reform	xxx
Hong Kong Sets the Standard	xxxi
Indonesia Faces Many Challenges	xxxi
Thailand at the Crossroads	xxxii
Good Practice in Malaysia	xxxii
The Philippines Slowly Pursues Better Governance	xxxiii
Vietnam Starts the Transition	xxxiv
Singapore Aims to be the Benchmark	xxxv
Competition Drives Australian Companies	xxxvi
Implications	xxxvi
CHAPTER 6 JAPAN	1
Corporate Structure	2
<i>Keiretsu</i> Dominance Deters Competition	2
Share Markets Provide Less Discipline	3
Market Forces Strengthening Slowly	4
Finance Markets	4
Increasing Bank Independence	4
Direct Financing Increasing	6
Institutional investors	7
Foreign Investors More Prominent	7
<i>Keiretsu</i> Links Weaken	8
<i>Keiretsu</i> Forced to Compete	9
Deregulation	9
Foreign Investment Reforms	9
Trade Reforms	11
Anti-trust Reforms	12
Bankruptcies	12
Regulatory Reforms	13
Transparency	13
Corporate Reporting	14
Accounting Standards	14

	Auditing	15
	Shareholder Protection	15
	Listing Rules	16
	Shareholder Representation	16
	Board Structure and Duties	16
	Creditor Rights	17
	Bankruptcy Laws	17
	Prudential Supervision	18
	Enforcement	18
	Press	18
	Legal System	19
	Implications	19
	References	20
CHAPTER 7	CHINA	21
	The Corporate sector	22
	Governance Impacts	23
	Some Markets Lack Competition	23
	Market Forces Gathering	24
	SOE Reforms	24
	Listing SOEs	24
	State Bank Reforms	25
	Achievements to Date	25
	Finance Markets Growing Rapidly	27
	China Securities Regulatory Commission	28
	Institutional Investors and Managed Funds	28
	Bond Markets	29
	WTO Accession	30
	Foreign Investors Retain Interest	30
	Stronger Regulations	31
	Transparency	32
	Corporate Reporting	32
	Accounting Standards	32
	Auditing Standards	33
	Minority Shareholders' Rights	33
	Listing Rules	33
	Board Structure and Duties	34
	Creditors' Rights	35
	Bankruptcy Regime	35
	Bank Supervision	36
	Compliance	36
	The Legal and Arbitration System	37
	Press	37
	Implications	37
	References	39
	Appendix	41

CHAPTER 8	REPUBLIC OF KOREA	43
	Corporate Sector Structure	44
	<i>Chaebol</i> Dominate	44
	Debt Rather than Equity	46
	Direct Financing Markets Weak	46
	Government an Important Player	46
	<i>Chaebol</i> Reduce Product Market Competition	46
	Markets Becoming More Competitive	47
	<i>Chaebol</i> Look Elsewhere for Funds	47
	Bank Reform	47
	Foreign Bank Entry	48
	Share Markets More Important	48
	Rise of Institutional Investors	51
	<i>Chaebol</i> under Pressure	52
	‘Big Deal’	53
	<i>Chaebol</i> to Face Greater Competition	53
	Privatisation and Deregulation	53
	Trade Reforms	54
	Foreign Investment Reforms	54
	Pro-competition Action Stronger	56
	Corporate Regulations Improve Playing Field	56
	Transparency	56
	Financial Reporting	56
	Accounting Standards	57
	Auditing	57
	Minority Shareholders’ Rights	58
	Listing Rules	58
	Shareholder Representation	58
	Board Structure and Duties	58
	Creditors’ Rights	59
	Bankruptcy Laws	59
	Bank Supervision	60
	Compliance	60
	Legal System	60
	Media	60
	Implications	60
	References	61
CHAPTER 9	TAIWAN	63
	Corporate Sector Structure	64
	Families Predominantly Own Firms	64
	Deep Capital Markets	64
	Mixed Financing	66
	Market Pressures Increasing	66
	Finance Markets	67
	Capital Markets	67

Institutional Investors Should Expand	67
Bank Restructuring	69
Product Markets	70
Trade Reforms	70
Foreign Direct Investment	70
Government Ownership and Deregulation	71
Regulations Strengthening	71
Transparency	71
Financial Reporting	71
Accounting Standards	72
Auditing	72
Minority Shareholders' Rights	72
Listing Rules	72
Representation	73
Board Structure and Duties	73
Creditors' Rights	74
Bankruptcy Laws	74
Bank Supervision	74
Implications	75
References	76
CHAPTER 10 HONG KONG	77
Corporate Sector Structure	78
Family Ownership High	78
Large Diverse Conglomerates	78
Market Forces Generally Strong	79
Banking System	79
Direct Finance Markets Deepen	80
Institutional Investor Activity	82
Effective Product Market Competition	82
Reforms Boost Market Pressures	83
Institutional Investment Boosted	83
Family Ownership to Decline	83
Regulations Excellent	84
Transparency	84
Corporate Reporting	84
New Securities Laws	85
Accounting Standards	85
Auditing Standards	86
Minority Shareholder Rights	86
Listing Rules	86
Representation	87
Board Structure and Duties	87
Creditors' Rights	88
Bankruptcy Proceedings	88
Bank Supervision	89

Compliance	89	
Press	90	
Implications	90	
References	91	
CHAPTER 11	INDONESIA	93
Corporate Sector Structure		94
Family Ownership Dominant	94	
Diverse Conglomerates the Norm	94	
Bank Debt Dominates Financing	94	
Capital Markets Immature	95	
Government Enterprises a Priority	96	
Markets Pressuring relationships		96
Banking Reform	97	
Finance Markets Developing Slowly	97	
Corporate Restructuring	98	
Product Markets More Competitive	98	
Trade Reforms	99	
Investment Reforms	99	
Government Role to Decline	99	
Competition Policy Reform	100	
New Rules For Business		100
Transparency	100	
Corporate Reporting	100	
Accounting Standards	102	
Auditing	102	
Minority Shareholders' Rights	103	
Listing Rules	103	
Representation	104	
Board Structure and Duties	105	
Creditors' Rights	105	
Bankruptcy Laws	106	
Bank Supervision	106	
Compliance	106	
Implications	107	
References	108	
CHAPTER 12	THAILAND	109
Corporate Sector		110
Family Owners Dominate	110	
Large Diverse Conglomerates	111	
Debt Financing Dominates	111	
Direct Financing Weak	111	
Competition Patchy	113	
Market Pressures Breaking Down Relationships		113
Finance Markets	113	

Finance Sector Restructuring	114
Opportunity to Reduce Family Ownership	114
Direct Finance Markets Developing	116
Institutional Investors	118
Product Market Competition	118
Privatisation and Deregulation	119
Trade Reforms	119
Foreign Direct Investment	120
New Anti-trust Regulations	121
Exit of Inefficient Firms	121
New Rules For Doing Business	122
Transparency	122
Financial Reporting	123
Accounting Standards	123
Auditing	124
Minority Shareholders Rights	124
Listing Rules	124
Representation	125
Board Structure and Duties	126
Creditors' Rights	126
Bankruptcy	127
Bank Supervision	128
Compliance	128
Enforcement	128
Press	129
Implications	129
References	130
CHAPTER 13 MALAYSIA	133
Corporate Sector Structure	134
Deep Capital Markets	134
Banks Independent of Corporations	135
Family Ownership Significant	135
Conglomerates Important	135
Government Role Important	135
Markets Continue to Strengthen	136
Finance Markets	136
Capital Markets Strengthening	137
Institutional Investors Increasingly Active	138
Conglomerates Under Pressure	140
Product Markets More Competitive	142
Privatisation and Deregulation	142
Trade Reforms	142
Investment Reforms	143
Competition Policy	143
Regulations Good and Improving	143
Transparency	144

Corporate Reporting	144
Accounting Standards	144
Auditing	145
Minority Shareholders' Rights	145
Listing Rules	145
Representation	145
Board Structure and Duties	146
Legal Action Against Directors	146
Creditors' Rights	146
Bankruptcy	146
Issuing Debentures	147
Bank Supervision	147
Compliance	147
Media's Role	148
Implications	148
References	149
CHAPTER 14 PHILIPPINES	151
Corporate Sector Structure	152
Family Ownership Dominant	152
Conglomerates Diverse	152
State Ownership Still Prominent	154
Bank Financing	154
Direct Financing Markets Immature	154
Cartels Common	155
Market Forces Stirring	155
Finance Markets Slowly Improving	155
Bank Restructuring	155
Increasing Direct Financing Difficult	156
Institutional Investors May Yet Develop	158
Product Markets	158
Deregulation	158
Trade Reforms	159
Foreign Direct Investment Reforms	159
Antitrust Laws	160
Regulations Strengthening	160
Transparency	160
Financial Reporting	160
Accounting Standards	161
Auditing	161
Minority Shareholders' Rights	161
Listing Rules	161
Representation	162
Board Structure	162
Creditors' Rights	163
Bankruptcy	163
Bank Supervision	163

Compliance	164
Press	164
Implications	164
References	165
CHAPTER 15 VIETNAM	167
Corporate Sector Structure	168
SOEs Dominate	168
Most SOEs Run at a Loss	168
Financial Sector Underdeveloped	169
Equity Markets Weak	169
Market Discipline Emerging	171
SOE Reforms	171
Finance Markets Developing	172
Banking Sector Reforms	172
Potential for Stock Market Development	173
Institutional Investors Developing	174
Product Market Competition Increasing	174
Private Sector Developing	174
FDI Reforms Significant	175
International Agreements Propel Trade Reform	177
Competition Reforms	177
Regulations beginning	178
Company Law	178
Transparency	180
Corporate Reporting	180
Accounting Rules	180
Auditing Standards	181
Minority Shareholders' Rights	182
Listing Rules	182
Board Structure and Duties	183
Creditors' Rights	183
Bankruptcy Laws	183
Bank Supervision	184
Enforcement	184
Media	185
Implications	185
References	186
CHAPTER 16 SINGAPORE	189
Corporate Structure	190
Government Ownership Important	190
Families Important Also	190
Markets Working Well	191
Direct Financing Prominent	191
Institutional Investors Active	194

Product Markets Highly Competitive	194
Government Reviews its Role	196
Privatising Singapore Inc	196
Government Role as an Institutional Investor	197
Banking Sector Reforms	197
Regulatory Framework Strong	198
Transparency	199
Corporate Reporting	199
Accounting Standards	200
Auditing Standards	200
Minority Shareholder Rights	200
Listing Rules	201
Representation	201
Board Structure and Duties	201
Creditors' Rights	202
Bankruptcy Laws	202
Bank Supervision	202
Enforcement	203
Press	203
Implications	203
References	204
CHAPTER 17 AUSTRALIA	205
Corporate Structure	206
Markets Discipline Corporates	206
Financial Markets	206
Independent and Competitive Banking System	207
Corporate Finance Balanced, Deep	207
Institutional Investors	209
Mergers and Acquisitions	210
Product Markets Competitive	211
Trade Liberalisation	211
Foreign Investment Liberalisation	211
Deregulation and Competition	212
Privatisation Well Advanced	212
Competition Policy	212
Anti-monopoly Legislation	213
Corporates Well Regulated	213
Corporate Law Reform	215
Transparency	215
Financial Reporting	215
Accounting Standards	216
Auditing Standards	216
Minority Shareholder Protection	217
Listing Requirements	217
Composition of Boards of Directors	217
Directors' Obligations	218

Legal Action against Directors	218
Creditor Protection	218
Bankruptcy	219
Prudential Supervision	220
Compliance	221
Enforcement	221
Professional Education	221
Media	222
Implications	222
References	223
INFORMATION FOR BUSINESS	225
ALSO BY THE ECONOMIC ANALYTICAL UNIT	227