

**STATEMENT TO THE APEC FINANCE MINISTERS
MEETING IN BRUNEI**
September 2000

Mr. Chairman
Your Excellencies

In behalf of the Peer Assistance and Review Network (PARNET) of the Pacific Economic Cooperation Council (PECC), and in particular of Chairman William Fung, the International Chairman of PECC, I thank you for this privilege of addressing your excellencies. I consider this a triple privilege for me, since this is the third time (first in Kananaskis, then in Langkawi) I have been invited to be in this session with you.

From Langkawi to Brunei Darussalam, the setting has changed. But a few fundamental problems have not gone away. There has been recovery from the financial crisis in East Asia, and that recovery has been dramatic in some instances. But some of the fundamental reforms, highlighted by that crisis, remain as a formidable challenge that has yet to be fully met.

With your indulgence, your Excellencies, I wish to share with you some of the work we at PECC are doing in the light of the East Asian financial crisis. In behalf of my colleagues at PECC's Peer Assistance and Review Network, PARNET, I propose to share with you what we are trying to accomplish and how we are presently going about it. We hope that you can indicate to us whether in the process we are helpful in addressing some of your concerns and in realizing some of your hopes. We seek your advice on, and possibly your support for, some of the initiatives we are taking.

We at PECC have been focusing on corporate governance and related reforms in the East Asian region. We recognize that the road of reforms is long, the effort needs to be sustained, and cooperation in the region has to be close.

We have always taken the view that, tall as the challenge presented by the 1997-1999 financial crisis, the opportunity for East Asia from that crisis can

be equally great, if we seize it with an open spirit, in keeping with APEC's principle of open regionalism.

We have been forced to expand the focus of our attention to include not only macro-economic fundamentals, but also micro-economic ones as well. Our view has since become much more fully systemic. And we have come around to the firm conviction that strengthening the micro-economic base is tantamount to laying a strong foundation for the macro-economy. Experience is a wise teacher. And we have learned some very useful and practical lessons from our experience of the past few years.

That experience has taught us that corporate governance reforms are fundamental to the sustained, long-term growth and development of any economy that has committed itself to free and open trade and investments, that abides by the discipline of markets, and that subscribes to competition principles. In short, any APEC economy has --- sooner rather than later --- to eventually face up to the challenge of aligning its corporate governance practices with those preferred and increasingly demanded by open and competitive markets.

These paradigms have been driving the work we have been doing in the Peer Assistance and Review Network, PARNET, of PECC.

But what specifically is it that we are aiming at? We are focusing on forging close cooperation and providing mutual support among Institutes of Directors in the 10 East Asian APEC economies! And we aim to have this network of Institutes of Directors at collaborative work with each other by the fall of 2001.

Why an Institute of Directors? The answer is straightforward: because corporate governance and related reforms need to be pursued in a systemic manner. In our view, the road of reforms in this fundamental field has two parallel tracks, which reinforce each other. The first track requires legal and regulatory changes. The second track calls for voluntary initiatives, which give added weight to market forces, particularly those in financial markets.

An Institute of Directors, which aims to bring government regulators, research scholars, and market players to work together to effect necessary legal and regulatory changes in the corporate governance regime and

practices in any economy, has to play a policy advocacy role. Its character therefore has to be tripartite, indeed as genuinely tripartite as the character of PECC itself. Its orientation is open and inclusive, seeking the participation of government agencies, research institutions, and professional business organizations as well as financial market players that can contribute positively to the broad corporate governance reform agenda.

In its policy advocacy role, an Institute of Directors seeks to enrich the mindset and to influence the business culture so as to adapt these to the dynamics of change in the market place and in an open economy. This calls for orientation and training, particularly of directors who sit in corporate boards. They need to know their rights and duties, their prerogatives and responsibilities, and increasingly also their accountability and possible liability before a court of law. They also should have greater awareness of the demands for the independence from management of boards of directors, in which the presence of outside, independent directors is increasingly required. The standards for disclosure and the convergence of accounting and auditing practices have put enormous pressures on corporate directors to participate in continuing education programs so they can keep up with the demands of their position. An Institute of Directors should therefore do more than policy research and advocacy. It should also orient, train, and provide continuing education for corporate directors.

But there is still another dimension to the role of an Institute of Directors. This dimension has been brought about by the need to prod and encourage as many corporations and institutions as possible to align their corporate governance practices with those preferred and increasingly demanded by open and competitive markets. This is a broad field for voluntary initiatives. It is the field for the second, parallel track that reinforces reforms in legal and regulatory regimes. Codes of Best Practices for Directors need to be formulated, and so must a Code of Corporate Governance and a Code of Ethics. Fortunately, there is a proliferation of these codes from all parts of the world. Many of them have been written. Most of them converge. So, there is no need to reinvent the wheel. What an Institute of Directors can do is to pick and choose, adapt most of the common elements to the local legal, regulatory and business circumstances, and present a set of Framework Codes. It is this set, which local corporations and institutions could adapt to their own particular situations and preferences.

This brings us back to East Asia as a region. Our view in PECC is that markets have brought us closer together. In particular, the financial crisis of 1997-1999 has brought us even much closer because of the common challenges we have been made to face, and therefore of the common opportunities we can seize together, in mutual support of each other. In the pursuit of corporate governance and related reforms, highlighted by the 1997-1999 financial crisis, we have been seeking to establish a peer assistance and review network. More specifically, our network is bringing Institutes of Directors in our respective economies to cooperate in developing a comparable scorecard system for corporate governance in East Asia. The system enables corporations and institutions to track their own progress. It also enables financial markets to highlight those whose progress has been fastest, and eventually to reward those whose practices come closest to generally accepted standards. Cooperation need not be limited to this. Indeed, there should be wider and greater opportunities for these Institutes of Directors to share their training expertise and resources, and where possible to help each other through an open exchange of experiences in the field of policy advocacy as well.

Your Excellencies, we may have adopted an ambitious agenda to be pursued within a short time frame. We make no apologies for the ambition and the sense of urgency, for the window of opportunity is open, and the reform imperative for corporate governance and its closely related fields has not become any less clear or necessary with the onset of recovery in East Asia. To give your Excellencies a sense of the specific activities we are undertaking, allow me to highlight a few:

1. Not every economy in East Asia has an Institute of Directors. Indeed, many of the Institutes of Directors in the region are new or have just been recently re-activated and given new impetus. We have therefore reached out to each other. We have started to help each other, in fact to write papers for policy conferences and training programs that we mutually support. In particular, those Institutes of Directors that have already moved forward are in the process of banding together so as to help new initiatives in putting up an Institute of Directors in the few East Asian economies that still have to formalize putting up one.
2. As a network, we are also actively seeking the support of Institutes of Directors in other APEC economies outside East Asia. While

the focus of our network is on the East Asian region, we have been tipping our hat and rendering genuine obeisance to APEC's principle of open regionalism. Thus, our network has been active in inter-acting with, and seeking the participation and support of, Institutes of Directors from Canada and the United States, to Australia and New Zealand. I am pleased to report to your Excellencies that the principle of open regionalism works in practice, for the benefit of a specific region within the broader APEC area. A few of the Institutes in our network have already benefited from assistance given by the Australian Institute of Directors. Our network is being invited next month to attend the annual conference of the National Association of Corporate Directors in the United States, an invitation we have decided to accept.

3. Our network is seeking to develop a corporate governance scorecard system for corporations and institutions in East Asia. We are proposing to do this with the active participation of banks and other publicly listed companies in our region as well as of fund managers and investment analysts with focus on East Asia. This November in Cebu, with the collaboration of the World Bank and IFC, our network is providing an opportunity for financial market players to meet with us and to meet with each other so we can highlight common elements to be included in a market-oriented corporate governance scorecard.
4. We are also holding sometime in January and April next year a training the trainers program for those Institutes of Directors in our network that conduct Directors' Orientation and Continuing Education programs. We shall use these 2 occasions to share training expertise and research-based training materials. We are also inviting academic and research institutes as well as business schools in East Asia to join our network's academic and research program. This aims to develop a framework curriculum for corporate governance, business ethics, and corporate citizenship that can be adapted to MBA and related courses, run by participating institutions throughout the region.
5. Finally, during the general meeting of PECC in Hong Kong sometime in the fall of 2001, our network aims to highlight the progress already made along the two parallel tracks towards systemic corporate governance reforms in several APEC

economies in East Asia. While changes in legal and regulatory regimes shall be stressed, at least equal, if not greater, importance is going to be given to initiatives that give greater weight to market forces in bringing about corporate governance and related reforms. It is at this meeting, in the fall of 2001 in Hong Kong, that we expect our PECC PARNET to be replaced by a more institutionalized network of Institutes of Directors in East Asia.

Your Excellencies, the listing of PARNET initiatives I have just made may be too concrete and specific for Finance Ministers. They may be too focused and time-bound. They may be too narrowly oriented towards corporate governance reforms.

May I, therefore, take this opportunity to underscore the broader scope of PARNET's interest? Indeed, we are trying to be helpful in dealing with the broader dimensions and the closer inter-connections that the East Asian financial crisis has made patent and clear. We have given great importance to corporate governance reforms, strategic as these are for the long-term, sustained recovery of the region. But we also recognize the great importance of banking reforms, financial sector strengthening, and macro-economic risk management.

We have therefore encouraged research and the writing of papers, for broad dissemination, on the dynamics of capital flows and recovery in East Asia. Some of the research has focused on measures to mitigate the frequency and intensity of boom and bust cycles both at national and regional levels. We are also producing research papers on appropriate exchange rate regimes for small and open economies in East Asia, and on investment implications of pension reforms.

In our research and in writing papers for broad dissemination, we have been asking ourselves the following three questions:

- a) What must be done at home, by each economy, to protect itself from the adverse consequences of sudden boom and bust cycles in external finance? By securing one's domestic economic base, through reforms ranging from micro-economics (corporate governance) to macro-economics (risk management systems), what further steps should be taken to

minimize the seeming contradiction between embracing globalization and taking steps to counter potential adverse effects from liberalization?

- b) What are the specific and realistic elements that can enhance regional financial and monetary cooperation in East Asia? Markets are bringing East Asian economies closer together. But the mechanisms for cooperation on financial and monetary in the region have been weak or non-existent. Shouldn't these mechanisms be tested and tried in East Asia, as they have been tested and tried over these past decades in other regions and in the global economy?
- c) Shouldn't East Asia throw its weight behind positive steps and initiatives that improve global financial arrangements? The regionalism on monetary and financial matters that is driving several East Asian economies can be healthy. It should be made to run its full course, but it must remain open and consistent with other initiatives, including those from the rest of APEC and from other regions as well, to strengthen the global financial architecture.

Your Excellencies, may I be permitted to end with an observation, a question, and a suggestion?

- i) The observation comes from our work in PECC. Our structure and character is tripartite. We are inclusive, and we go out of our way to bring in perspectives and contributions from government officials, from academics, and from the business sector. We have found this to be a particular source of strength. But I must admit that the balance between the three sectors is constantly changing. It also varies from one economy to another. This is inevitable. Nonetheless, it is in our common interest to ensure that effort is constantly exerted to bring the balance in each economy to a point where the three sectors, government, academe, and business, contribute in inter-active and positive ways to all the major initiatives. In our work at PARNET, we have found the active inter-action and participation of all three sectors, in more or less equal balance, to be most productive.

- ii) This leads me to a question, that as we focus on corporate governance and related reforms, should we not encourage many more initiatives from the ground up, even as we insist on reforms at the top, where legal and regulatory regimes need to be changed? I refer in particular to the need for a paradigm shift among the owners, directors, and managers of corporations and institutions, which have to adapt to the dynamics of open and competitive markets. This is an enormous undertaking. Because of its enormity, a broad framework for free initiatives must be provided. But in addition, clear directions have to be set, avenues for cooperation have to be opened, and support mechanisms have to be set up and made to work. Who is going to do all this? Can this be left to individual economies and national governments alone? Is this not a field for a regional, East Asian, initiative, or even for an APEC initiative?
- iii) Finally, a suggestion. In APEC, we have for some time now been talking about economic and technical cooperation, particularly in human resource development, which can support and strengthen trade and investment liberalization. In the light of the East Asian crisis, and the continuing demand for corporate governance and related reforms in East Asia, economic and technical cooperation between APEC economies should be facilitated. Moreover, it should focus on human resource development, on formulation of codes, on the spread of best practices in all the micro-economic and macro-economic aspects of monetary and financial reforms. It should also feed with technical and analytical papers the policy dialogue on monetary and financial issues that must continue between East Asian economies and between all APEC economies. I commend the suggestion of an APEC Finance Institute to your Excellencies. A Panel of Independent Experts, working with PARNET, has put forward such a suggestion. I endorse it as an APEC institute that can provide continuing sustenance and support to the network of Institutes of Directors that PARNET is striving to foster and in time institutionalize.

Your Excellencies, thank you for your forbearance, time and attention. I must thank the Chair again for the privilege accorded to me to address this meeting.

Manila, August 25, 2000