



The 2005 Asian Roundtable on Corporate Governance

*Task Force on Corporate Governance of Banks in Asia:
Finalisation Draft Policy Brief
Stock take of Corporate Governance Developments in Asia
Task Force on Corporate Governance of State Owned Enterprises
in Asia: Interim Report*

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WELCOMING REMARKS

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2005 Meeting of the Asian Roundtable on Corporate Governance, Bali, Indonesia
Opening Remarks by Stijn Claessens, Senior Adviser, Operations and Policy Department, Financial
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I am very glad to be here to see so many old friends and meet new ones. I am also pleased to see we are already at the 7th OECD / World Bank Asian Roundtable on Corporate Governance. I still remember very well the first one that took place in Seoul in still the difficult days of the East Asian financial crisis. I think we have progressed much since then in many ways. Let me mention some of the achievements, but also highlight some challenges going forward as I see them.

One achievement is the Roundtables themselves. I have been involved in Roundtable meetings in various regions of the world for several years now and I am pleased to see the Roundtable process go from strength to strength. This is especially true for the Asian Roundtable and I would highlight at least three ways in which the Roundtable has moved us forward:

- First, the participation in the Roundtable continues to broaden, with comprehensive involvement from numerous countries across the region. It has evolved into a close network of people who have been able to share experience and draw on each other knowledge. This alone is a lasting contribution.
- Second, and more importantly, much has been achieved in the countries in terms of the framework for corporate governance and actual corporate governance practice over the past few years. This is in part due to the Roundtables. As the policy debate in the countries in the region moves onto more detailed and specific issues, the Roundtable meeting has increasingly focused on the most pertinent issues. At this meeting, we will be paying special attention to two issues of great importance: the governance of banks; and the governance of state-owned enterprises (SOEs). I expect that thanks to you all insights the coming two days we will move the agenda further again on these and other issues.
- Third, the Roundtable is much more than an annual meeting, with numerous other events taking place both throughout the year and during this week. Of course, yesterday, we had in-depth discussions of governance issues in Indonesia, but there are also two other meetings taking place this week: the Network of Corporate Governance Academics in Asia; and the Network of Institutes of Directors in East Asia (IDEA.Net). I am pleased to see the active involvement of the Indonesian groups in both these networks – namely the Indonesian universities and the Indonesian Institute of Corporate Directors.

In terms of challenges on corporate governance facing the region going forward, some are being addressed at this meeting. You will be paying special attention to two issues of great importance: the governance of banks; and the governance of state-owned enterprises (SOEs). I think these should be high on the list of corporate

governance reforms given the importance of banks for financial intermediation in the region, and the specific corporate governance challenges of banks, even more so give the ownership structures in the region. In addition, the role of banks in fostering better corporate governance of the firms they lend to is essential. And while state-owned enterprises are not prevalent in all East Asian countries, in some East Asian countries they are quite important and improving their corporate governance is necessary, if just alone from preserving public taxpayers' money as these are the ultimate owners.

I see some other challenges as well, many of which are also highlighted in the stock take of progress in policy reforms since the publication of the Asian White Paper in 2003. Important among these challenges is enforcement. It is increasingly recognized as a crucial ingredient of an effective corporate governance framework. Yet, we know little on what works best in terms of enforcement: is the government as a regulator, or are private parties best able to enforce? What is the role of the media in bringing corporate governance scandals to the attention of markets and regulators? And what legal and regulatory setups make for the most effective enforcement? We can learn more here from country experiences.

Another challenge remains the role of groups. The affiliation of many firms to larger conglomerates creates many specific corporate governance weaknesses, as East Asian countries know all too well. Some answers are known, but others remain elusive. One area that deserves more attention according to me is competition: many of these groups derive some of their existence to still imperfectly operating real factor markets. How can we encourage through competition more effective corporate governance?

On all of these issues, there have been very useful interfaces between the policy makers, practitioners and researchers. I think there are few fields in economics and finance today where research has been making more contribution than in corporate governance. Research work on corporate governance has not only expanded enormously in recent years, but it has also been addressing issues of immediate policy interest. I hope that this useful interface can be maintained, among others by having academics and policy makers mingle in events like these so that ideas on current topics will continue to be shared.

Lastly, but importantly, on behalf of the World Bank, I would like to thank the Indonesian Capital Market Supervisory Agency (BAPEPAM) for their excellent local organization of the Roundtable meeting, as well as the co-hosts: the Jakarta Stock Exchange; the Surabaya Stock Exchange; KPEI; the Indonesian Central Securities Depository (KSEI); and the National Committee of Governance Policy. It is great to see such a broad array of organizations in Indonesia supporting the governance reforms in this country.

On the international side, the World Bank has been honored to sponsor the Roundtable meeting and I would especially like to recognize our partners: the Global Corporate Governance Forum and the Government of Japan. Finally, I would recognize the tremendous work of our friends at OECD, who work around the year to organize the corporate governance policy dialogue across the globe.

Thank you

Stijn Claessens