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THE 14TH GENERAL MEETING OF THE PACIFIC ECONOMIC COOPERATION COUNCIL

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Remarks by
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Ladies and Gentlemen,

Introduction

1. I am pleased and honoured to come back to PECC for this 14th General Meeting. As Deputy Secretary-General of the OECD, one of my responsibilities is to promote OECD partnerships with other relevant groups and organisations, and PECC is a key organisation for the OECD. Because co-operation with the private sector and civil society in such a dynamic region as the Asia Pacific is essential to achieving the OECD's objectives to promote economic development in the global economy, and more particularly, to maximise the benefits of globalisation while minimising its downside. It was therefore a great pleasure that my first overseas mission in my present capacity was to participate in the General Meeting held in Manila two years ago.

2. In the last decade, we have witnessed the proliferation of the market economy, the unprecedented growth and size of private capital, a power shift from states to markets, and the rise in power of civil society. Corporations, as well as governments, have to adapt to this new global environment. This is an environment in which there is no single, dominant force, but rather, four main actors – states, markets, international organisations, and civil society. Each actor needs to play its role in order to ensure the smooth and fair functioning of democracy and the market economy. Here, the key concept for all of the actors is governance. Each actor -- be it government or a private company -- must establish its own governance, and help others to do their own, through close scrutiny and co-operation. It is in each actor's interest to co-operate, because all are dependent on each other: if one fails, we all fail.

3. I cannot think of a better example of the value and effectiveness of partnerships between these different groups than in the field of corporate governance. Because all actors have a role to play in achieving good corporate governance, with business of course being the key to actually achieving it in practice. I therefore was delighted to learn that PECC has adopted its own "Guidelines for Good Corporate Governance Practice", geared toward Asian corporate directors, and that these were endorsed by Ministers at the October APEC Ministerial Meeting in Shanghai. I would like to congratulate the PECC Peer Assistance and Review Network for their sustained work in achieving this. I note that the introduction to the PECC guidelines highlights the need for

Asian convergence towards global best practices, consistent with the OECD Principles of Corporate Governance. Certainly the role of directors is crucial in actually achieving good corporate governance at the level of individual firms. Thus, the PECC guidelines provide an extremely valuable contribution to the corporate governance reform movement in Asia, especially in rallying the private sector behind best practice.

Key elements of the OECD principles of corporate governance

4. Given that the PECC guidelines build upon the OECD's Principles of Corporate Governance, I would like to say a few words about why the OECD got involved in this issue, and what its role has been and continues to be in promoting good corporate governance practices.

5. Following the Asian Crisis in 1997, the OECD played a pioneering role in developing the first inter-governmental initiative on corporate governance. It was recognised then that good corporate governance practices can play an important role in attracting investment, and ensuring that it stays. Money finds its way to investments that bring the highest return. In a market economy, transparency and accountability help to ensure this smooth flow of capital. These reasons for improving corporate governance hold just as strongly in times of economic slow-down if not more so, when competition for investment intensifies.

6. The OECD's work to develop Principles of Corporate Governance was carried out by a special Task Force comprised of all OECD countries as well as representatives from multilateral organisations, labour, business and civil society. Following a process of wide consultations, which included major Asian partners such as Indonesia, Thailand, Malaysia, Singapore and the Philippines, the OECD completed and adopted the Principles in May 1999.

7. The Principles cover five main areas:

1) The rights of shareholders and their protection;

2) The equitable treatment of all categories of shareholders, including minority owners and foreign shareholders;

3) The role of employees and other stakeholders;

4) Timely disclosure and transparency of financial and non-financial information; and

5) The responsibilities of the board of directors.

OECD's efforts in promoting/enhancing corporate governance

8. The OECD approach -- relying upon "soft law" or recommendations, along with dialogue and "peer pressure" to promote implementation, is particularly suited to this type of issue, to maintain flexibility while aspiring to as high a standard as possible. We have since followed these up in co-operation with the World Bank and regional organisations to develop Roundtable meetings in Russia, Latin America, Asia, Eurasia and South East Europe to consider ways to improve corporate governance on a regional basis.

9. These regional Roundtables are essential in cultivating a longer-term outlook and sustained effort in support of corporate governance reform. Using the OECD Principles as a reference, they bring representatives of government, companies and investors around the table to discuss different aspects of corporate governance in depth, over time, to compare notes on reforms and their implementation. Most importantly, they provide a means to develop together a White Paper with an agenda for action: action to improve corporate governance at the policy level, action at the regulatory and enforcement level and, last but not least, action at the private sector level.

Role of government in strengthening corporate governance

10. Businesses have their own incentives to practice good corporate governance: for example, to help them to mobilise capital, to allocate this capital efficiently, and to monitor the use of it in individual companies. Therefore, it is sometimes argued that self-regulation, along with market forces, should be sufficient to establish good corporate governance.

11. But this is not enough, especially where markets and their core institutions are still emerging and relatively weak. National governments have a key role in establishing legal and regulatory frameworks, which are crucial to protect against abuses and the expropriation of investors. Investors need to have faith in the legal and regulatory system. They need to feel sure that their legal and contractual rights will be protected. And they need to believe in the integrity and fairness of the market place. These are core responsibilities of the state. The private sector will not be able to enter into a virtuous cycle of good corporate governance if governments do not carefully lay down its foundations.

Conclusion

12. Thus, I wish to conclude by noting that ongoing partnership and dialogue, whether in the OECD and World Bank Roundtable process or through the PECC networks and meetings such as this, will continue to be critically important in achieving corporate governance improvements over the longer term, thereby contributing to the effective and smooth functioning of the market economy the world over. I look forward to hearing from the rest of the panel and the audience on how we can go forward in these efforts.