

2010 APEC Economic Policy Report

Summary



Asia-Pacific
Economic Cooperation

The 2010 APEC Economic Policy Report focuses on **corporate governance**.

The first chapter provides insights into the relationship between corporate governance and sustainable economic growth. It outlines the formal analysis supporting that relationship and highlights salient issues and related key recommendations.

Strong and reliable institutional frameworks are necessary to support corporate governance and bolster the performance of companies so that it effectively contributes to growth. The second chapter therefore explores the different legal structures of corporate governance in selected APEC economies and presents the common features, as well as the variations in these systems.

Finally the third chapter, and the annexes to it, provide detailed information on the corporate governance processes, policies and practices currently in place within APEC, with the intention of identifying and sharing best practices.

Chapter 1: Corporate Governance and Sustainable Economic Growth

The overall positive effect of good corporate governance on different corporations and shareholders is ultimately a strengthened economy. In the wake of the recent economic crisis, this becomes an even more important agenda as good corporate governance helps rebuild investors' confidence and restores the health of an economy's financial systems, capital markets and enterprises.



Corporate governance is the set of rules, processes and policies affecting the way a corporation is directed, administered or controlled. It also involves a set of relationships between a company's management and other stakeholders. It provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.

Companies and Corporate Governance Today

While it is important to underscore the broad benefits of good corporate governance, it is also important to recognise that it does not guarantee against a company underperforming or failing; rather, it acts as a mechanism to ensure that company performance actually contributes to economic growth.

Thus, in the context of performance, governance and growth, corporate governance should be regarded as a necessary - but not sufficient - condition for the economic performance of individual companies.

The contribution of any company to the growth of an economy ultimately depends on its ability to create something of economic value to buyers in local or export markets. Corporate governance essentially undergirds this competitive process, as it ensures accountability and tackles the "agency" problem (e.g. when an agent fails to act in accordance with its principal's best interest).

Preconditions for Effective Corporate Governance

1. The rule of law
2. General peace, order and macroeconomic stability
3. A market-based economy, including competition
4. A growing number of educated savers interested in more options for their savings
5. A government in favour of a business-enabling environment
6. An enhanced capacity for financial accounting and reporting, and maintenance of public records, such as shareholder registries
7. Financial institutions and intermediaries competing to serve investors and corporations
8. A secondary market for trading securities

APEC economies are strengthening corporate governance by (i) protecting shareholders' rights; (ii) making boards of directors more effective; and (iii) improving the enforcement of corporate governance rules.

These activities seek to strengthen corporate governance in ways that respond to shareholders' concerns while enhancing the ability of companies to contribute to sustainable economic growth.

Advancing Free Trade for Asia-Pacific Prosperity

APEC Member Economies: Australia; Brunei Darussalam; Canada; Chile; China; Hong Kong, China; Indonesia; Japan; Korea; Malaysia; Mexico; New Zealand; Papua New Guinea; Peru; Philippines; Russia; Singapore; Chinese Taipei; Thailand; United States of America; and Viet Nam.

Recent International Reforms

The OECD Principles of Corporate Governance serves as a set of guidelines for improving corporate governance within APEC. Many economies have used these six principles to draw up and adopt reforms in governance law, regulations and practices. They are:

1. Ensuring the basis for an effective corporate governance framework
2. Protecting and facilitating the exercise of shareholders' rights
3. Ensuring the equitable treatment of all shareholders, including minority and foreign shareholders
4. Recognising shareholders' rights established by law or mutual agreement
5. Ensuring timely and accurate disclosure of all corporate matters
6. Ensuring the board's accountability to the company and its shareholders.

These six principles are intended primarily for publicly traded companies, and full compliance can be challenging for companies lacking institutional resources and access to capital markets. However, they can still benefit a range of company types and sizes, including medium-sized companies that are not publicly traded, large nonprofits, and state-owned enterprises.

The rest of the chapter elaborates on the specific details of these six principles through numerous subprinciples and examples from the OECD.

Chapter 2: Legal and Institutional Foundations of Corporate Governance in APEC Economies

This chapter describes the breadth and range of APEC's diverse efforts to deal with corporate governance challenges, from legal systems to enforcement institutions and future reform efforts. The purpose is to increase understanding among APEC economies of how corporate governance works in the region, as well as what avenues are available for future reform.

It is important to note, however, that the responsibilities various actors in corporate governance adopt vary widely among companies within APEC. Their development takes different turns and is path-dependent.

Striving towards best practice in corporate governance is therefore not about prescribing a fixed number of directors or auditors in a given company; but rather, about the extent to which individuals in companies are motivated to work for the benefit of the defined stakeholders and, through that, society as a whole.

Informed with a strong business perspective, this chapter begins with a discussion of how certain regulations in selected APEC economies act to resolve basic problems in corporate governance and, in the process, facilitate competition and improve corporate governance through market pressure.

This chapter also provides an overview of the common elements for strong corporate governance in APEC economies. This includes outlining the attributes of well-functioning corporate governance systems and highlighting the issues of restructuring, disclosure and transparency.

Leaders' Agenda to Implement Structural Reform (LAISR)



Structural reform is the process of making improvements to institutional frameworks, regulations and government policies with a view to removing behind-the-border barriers to trade and investment. These improvements create an environment which: supports the efficient functioning of markets; contributes to macroeconomic stability, productivity and economic growth; and enhances living standards in a sustainable way.

Through examining the experiences of selected APEC economies, the chapter concludes with a discussion on the enforcement institutions and processes currently in place within APEC, as well as the areas of future reform in corporate governance law and regulation.

APEC Economic Committee (EC)

The EC has a mandate to progress structural reform within APEC by undertaking policy analysis and action-oriented work, in coordination with other APEC fora such as the Finance Ministers' Process. The EC advances this mandate in accordance with the Leaders' Agenda to Implement Structural Reform (LAISR), which includes elements of policy dialogue, capacity building and awareness-raising for each LAISR theme. APEC is in the process of developing an APEC New Strategy for Structural Reform (ANSSR) which aims to expand the behind-the-border initiatives within APEC.