APEC High Level Conference on Structural Reform

8-9 September 2004
Tokyo, Japan

APEC構造改革ハイレベル会合

APEC

Asia-Pacific
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Asia-Pacific
Economic Cooperation

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May 2006

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PROGRAM Day1 8 September 2004

9:00- **Remarks:** Ms. Yoriko Kawaguchi, Minister for Foreign Affairs, Japan

Remarks: Mr. Nobuhiko Kawamoto, ABAC member, Japan; Executive Advisor, Honda Motor Co., Ltd.

9:15-10:00 Session 1: Structural Reform in the APEC Region

To address how member economies' structural reform efforts have contributed to promoting trade and investment in the APEC region. Selected APEC member economies will present their experiences to be shared and will reveal the positive and negative aspects of structural reform.

Session Moderator
Mr. Satoru Satoh Japan's Senior Official for APEC, Deputy Director General, Economic Affairs Bureau, Ministry of Foreign Affairs, Japan

Speakers
Overview of Structural Reform in the APEC region
Prof. Robert Scollay Director, APEC Study Center, University of Auckland, New Zealand
Economy report: Thailand
Dr. Narongchai Akrasanee Former Minister of Commerce of Thailand; Chairman, MFC Asset Management Plc.
Economy report: Mexico
Dr. Elisa Mariscal Deputy Head of International Affairs, Federal Competition Commission, Mexico

10:00-12:30 Session 2: Promoting Regulatory Reform in APEC Economies

Leading Economy: Japan

To exchange experiences and lessons learned from regulatory reform. Japan will present its recent program "Special zones for Structural Reform." Other economies will also present their experiences and views.

Keynote Speaker
Mr. Kazuyoshi Kaneko Minister of State for Regulatory Reform and Special Zone for Structural Reform, Japan

Session Moderator
Mr. Shunichiro Ushijima Adviser, Economic and Social Research Institute, Cabinet Office, Japan

Speakers
Dr. Naohiro Yashiro President, Japan Center for Economic Research
Mr. George Shaw Principal Officer, Economic Planning Division, Department of the Taoiseach, Ireland

Panelists
Dr. Narongchai Akrasanee Former Minister of Commerce of Thailand; Chairman, MFC Asset Management Plc.
Prof. Fan Gang Director, National Economic Research Institute, China Reform Foundation
Mr. Tetsuo Inoue Mayor, Yokkaichi City, Japan
Mr. Steve French General Manager, Competition and Consumer Policy Division, Australian Department of the Treasury

(10:55~11:10 Coffee Break)

12:30-14:30 Lunch Break

14:30-18:00 Session 3: Corporate and Banking Sector Reform

Leading Economy: United States of America

Session Moderator
Dr. Choong Yong Ahn Chair of the APEC EC (Economic Committee); President of the Korea Institute for International Economic Policy

14:30-15:40 Panel 1: Successful Corporate Restructuring and Its Benefits - Case Studies

Speaker
Dr. Yong-Kyoon Shin Former Executive Vice President, Korea Asset Management Corporation

Panelists
Mr. Kazuhiko Toyama Executive Managing Director & Chief Operating Officer, Industrial Revitalization Corporation of Japan
Mr. Tomoo Tasaku Partner, PricewaterhouseCoopers Financial Advisory Services, Japan

15:40-16:50 Panel 2: Identifying Critical Functions in Effective Corporate Governance

Speaker
Mr. Gordon Thiessen Chairman, Canadian Public Accountability Board and Former Governor of the Bank of Canada

Panelists
Dr. Nik Ramlah Mahmood Director for Market Policy and Development at the Securities Commission of Malaysia
Prof. Joseph Fan Professor, the Chinese University of Hong Kong; World Bank/Asian Development Bank Consultant

(Coffee Break)

16:50-18:00 Panel 3: Banking Reform Lessons and Key Principles

Speaker
Dr. Kristin Forbes Member, U.S. President's Council of Economic Advisors

Panelists
Mr. Thierry Porte Vice Chairman of Shinsei Bank, Limited, Japan
Mr. Kejin Wang Director, Policy and Legal Department, China Banking Regulatory Commission

PROGRAM Day2 9 September 2004

9:00-12:45 Session 4: Promoting Structural Adjustment in APEC Economies

Leading Economy: Australia

To demonstrate how rewards can be obtained from undertaking sometimes difficult reforms, with case studies in the agricultural and industrial sectors.

9:00-9:15 Introduction: Why is Structural Adjustment Important?

Session Moderator
Mr. Steve French General Manager, Competition and Consumer Policy Division, Australian Department of the Treasury

9:15-10:45 Panel 1: Creating an Environment to Facilitate Structural Adjustment

Speakers
The Role of Competition Policy in Structural Adjustment
Mr. Joe Dimasi Executive General Manager (Head), Regulatory Affairs Australian Competition and Consumer Commission
Building a Domestic Constituency for Structural Adjustment
Mr. Robert Kerr Head of Office, Australian Productivity Commission
Deregulation and Structural Adjustment in the Context of Wider Macroeconomic Reform Processes
Mr. Murray Sherwin Director General, New Zealand Ministry of Agriculture and Forestry

(Coffee Break)

11:00-12:30 Panel 2: Structural Adjustment in Practice - Case Studies

Speakers
A Government Perspective to Structural Adjustment in the Australian Automotive Industry
Mr. Robert Kerr Head of Office, Australian Productivity Commission
Structural Adjustment in the Dairy Industry - Lessons from New Zealand
Prof. Lewis Evans Research Principal of the New Zealand Institute for the Study of Competition and Regulation
Experiences with Structural Adjustment of the Australian Steel Industry
Dr. Robert Every Managing Director and Chief Executive Officer, OneSteel Limited, Australia

12:30-12:45 Summary of Key Points and Concluding Comments

12:45-14:30 Reception

hosted by **Mr. Masatoshi Abe,** Senior Vice-Minister for Foreign Affairs, Japan (Green Hall, 1st Floor)

14:30-16:00 Session 5: Strengthening Investors' Confidence (Promoting Fair and Transparent Legal Environment)

Leading Economy: Japan

The session will consist of presentations by both the business and public sectors. The session aims to promote discussions on fostering legal conditions favorable to business throughout the region.

Session Moderator
Mr. Eiichi Hasegawa Japan's Senior Official for APEC, Deputy Director General for International Trade Policy, Trade Policy Bureau, Ministry of Economy, Trade and Industry, Japan

Speakers
Fair and Transparent Legal Environment for Businesses
Mr. Masayuki Oku Deputy President, Sumitomo Mitsui Banking Corporation, Japan
Structural Reform for Creating an FDI Friendly Environment
Dr. Wan-Soon Kim Ombudsman, the Office of the Investment Ombudsman, Korea

Report on the Latest Law Reform
Administrative License Law and other Commercial Law Reforms
Mr. Baozhong Du Deputy Director of Administrative Law Division, Treaty & Law Department, Ministry of Commerce, China

(Coffee Break)

16:30-18:00 Concluding Session (Roundtable Discussion): How to promote Structural Reform in the APEC Region (Queen Hall, 3rd Floor)

Closed Session: Speakers, Panelists and APEC Officials are invited to this session

Necessary measures for promoting structural reform in the APEC region will be presented. To this end, impediments and the policy agenda for structural reform will be identified so that the role of APEC in promoting structural reform becomes clear. A recommendation to the Leaders will be considered.

Session Moderator
Mr. Satoru Satoh Japan's Senior Official for APEC, Deputy Director General, Economic Affairs Bureau, Ministry of Foreign Affairs, Japan

Speakers
Mr. Richard Hecklinger Deputy Secretary-General, OECD
Mr. Alan Bowman Chair of the APEC CTI (Committee on Trade & Investment); Director, Asia-Pacific Policy Division, Department of Foreign Affairs and International Trade, Canada

Opening Remarks by Her Excellency Yoriko Kawaguchi,
Minister for Foreign Affairs of Japan
at the APEC High Level Conference on Structural Reform

8 September 2004

Good morning,
Excellencies,
Distinguished guests,
Ladies and Gentlemen,

It is my great pleasure to welcome all distinguished speakers and participants, and to host the APEC High Level Conference on Structural Reform here in Tokyo. On behalf of the Government of Japan, I would like to extend my warmest welcome to you all for participating in this conference.

Prime Minister Junichiro Koizumi, since assuming office, has demonstrated his determination to promote structural reform, advocating the following three principles: first, “without reform there will be no growth”; second, “leave to the private sector what it can do”; third, “leave to the localities what they can do.” As his bold and efficient reforms in the areas of finance, tax system, regulations and expenditure have born fruit, the Japanese economy has been recovering, while further advancing domestic reform.

Structural reform enables us to revitalize our domestic economy as well as to fully enjoy benefits from the globalized economy. A certain degree of pain always accompanies the reform process. But since the Japanese economy is continuing to show strong signs of recovery, now is the time to grow the sapling of the reform into a healthy and strong tree.

Building on the lessons learned from our bittersweet experiences, Japan proposed that APEC accelerate structural reform collectively. As we successfully overcame the 1997 Asian Financial Crisis and the SARS Crisis of last year through substantial reform of the domestic economy and close regional cooperation, I am convinced that structural reform is central to successfully addressing the challenges caused by economic shocks, and to achieving sustainable economic growth in the Asia-Pacific region.

At the APEC Leaders' Meeting in Bangkok last October, pursuant to the proposal put forward by Prime Minister Koizumi, APEC Leaders made a political commitment to accelerate structural reform in each economy as well as in APEC as a whole. Such a wide and strong support by the APEC Leaders convinced us that our firm belief on the promotion of structural reform is now commonly shared by the APEC Economies. Today, we have witnessed the world economy's steady recovery and the favorable trends in Asian business. Promoting structural reform in each economy in this circumstance will be opportune to create a virtuous cycle of sustained growth and continued structural reform.

Almost fifteen years have passed since the inception of APEC in 1989. My dedication to APEC has been something special. Just after its foundation, I had the opportunity to work as an APEC Senior Official for Japan. Since then, APEC has aimed to achieve free and open trade and investment in Asia-Pacific, but its efforts have been concentrated mainly on "at the border" measures, such as reducing tariffs or facilitating export and import procedures. Pursuing structural reform, however, will bring added-value to APEC in the following two perspectives:

Firstly, structural reform initiatives in APEC bring our focus not only to the "at the border" measures, but also to the "behind the border" measures. Structural reform will assist in realizing the benefits of trade and investment liberalization and facilitation not only in its own economy, but also in APEC as a whole. Equally, addressing APEC's wide-ranging coverage of economic issues under the context of "structural reform" will contribute to crosscutting and creating synergy among APEC's traditional sector-wise issues such as regulatory reform or competition policy.

Secondly, the FTAs which many member economies are pursuing today cannot be expedited without domestic structural reform. With the expectation of future development of a mega-market in our region, structural reform will be the major step towards possible trade and investment liberalization. As the APEC Chair economy, Chile, is taking the lead to facilitate FTAs as a leverage to promote trade and investment liberalization in the Asia- Pacific region. I strongly believe that this approach is appropriate in the sense that the conclusion of FTAs, just like reaching agreements within the WTO, cannot be accomplished without enhancing the competitiveness of domestic industries in each economy through structural reforms.

I am sure that the APEC High Level Conference on Structural Reform of today and tomorrow will bring the momentum to accelerate structural reform in APEC. The conference fortunately has attracted more than thirty eminent speakers, from government, business and academia from and beyond the APEC region. I expect a constructive discussion on the extensive issues that encompass structural reform as covered in our agenda: experiences on regulatory reform including Japan’s Special Zones for Structural Reform; successful corporate and banking sector reform; economic and social adjustment necessary to implement reforms; and fostering fair and transparent economic and legal infrastructure.

APEC’s work on structural reform enables us to establish resilient and open markets. In the current regional economic integration, the successful APEC initiatives will make the Asia-Pacific region the driving force for continued growth in the world economy.

As a result of extensive discussion, I look forward to tangible and constructive proposals towards the APEC Leaders’ Meeting in November in Santiago.

Thank you very much for your attention.

[END]

Welcome Remarks by Mr. Nobuhiko Kawamoto, ABAC Member
at the APEC High Level Conference on Structural Reform

8 September 2004

Good morning, Excellencies, Distinguished Guests, Ladies and Gentlemen.

On behalf of the Japanese APEC Business Advisory Council, I would like to say a few words of welcome to the APEC High Level Conference on Structural Reform.

First of all, let me express my heartfelt gratitude for your participation in the conference.

During this conference, you will share the experience and intelligence obtained through your involvements in the task of structural reform, corporate restructuring, agricultural reform and even building investor’s confidence. I have learned with pleasure that the outcome of such discussion on the structural reform would be submitted as a proposal to the APEC Leader’s Summit which will be held in San Chiago, Chile this November. Believing such follow-up action will further progress the reform, we, business sectors, are concerned to see what the outcome will be.

The APEC Business Travel Card is a tangible asset of such outcome. It is a card which enables qualified businessperson to travel around most of the APEC economies without obtaining entry visas. By the support of our Prime Minister Junichiro Koizumi, Japan joined the scheme in 2003 in order for the APEC businessperson to enjoy the benefits every time they make business trips around the APEC economies. Although it will be a minor case of the structural reform, it had a tangible effect, and that is what we are longing for.

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However, there are the areas where such tangible effect is needed.

Firstly, stimulated by the 1997 Asian Financial Crisis, we, APEC Business Advisory Council, advocated in the very early stage that the APEC leaders should work on the structural reform of the Asian financial markets. We were well aware that, without a sound financial infrastructure, trade and investment can hardly be promoted in the APEC region.

Secondly, when we think about the Doha Development Agenda, we are afraid that the delay in the reform of agricultural sector has been preventing the WTO negotiation from clinching.

Thirdly, I would like to mention that, since the ‘September Eleven’, achievement of the ‘Dual Goals’ of trade facilitation and trade security has been one of our serious concerns. By forcing cargo inspections at pre-loading stage, the newly-introduced trade rules overturned the traditional concept of international trading. While improving trade security, such rules, I assume, could hinder the trade facilitation efforts by business sector. It is thus not optimum that, under such new environment, the relevant trade systems including customs procedures remain unchanged.

Lastly, investment is another area where we urgently need transparent and fair economic legal infrastructure. Particularly our strong concern is on strengthening the legal system by certain reforms in the areas of commercial, insolvency and competition laws.

These particular concerns may be an indication that such areas require the structural reform. And without it, we presume that even our efforts to achieve the APEC’s Bogor Goal may not produce a tangible result.

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Our business environments, symbolized by such phrases as globalization of economy, progress of information technology and diversification of consumer needs, have never been precedent and they will not be the same in the future. It is our common belief that failing to respond to such continuous changes means that the company will be hardly able to satisfy the needs of her customers.

But whatever efforts the company makes to respond, her survival will still be so far unless at least relevant legal and economic infrastructures are reformed accordingly. It is therefore public sectors that are hoped to grasp the changes of environments and react properly. I would also like to add that, under such situation, collaboration of public and private sectors are indispensable and that capacity building should not be forgotten when required.

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As I have stated, there is a good example of the structural reform such as the APEC Business Travel Card, however there are the areas that need attention of public sectors. Financial system, agriculture, trade security and overseas investment are the good examples.

Finally, bearing these thoughts in mind, I hope that this conference will stimulate wide-ranging discussions on the structural reform, and that the outcome could bear a tangible result. We, APEC Business Advisory Council, are expecting that such discussions and their outcome will be of use for the future structural reform of APEC itself.

Let me wish the two days from this morning will become constructive days for all of you.

Thank you very much.

[End]

Overview of Structural Reform in the APEC Region

Robert Scollay

APEC High Level Conference on Structural Reform

Tokyo, 8-9 September 2004

Outline

1. The Importance of Structural Reform in APEC
2. Structural Reform Concerns of APEC Economies
3. Structural Reform Activities in APEC
4. Ways Forward: Some Issues

Importance of Structural Reform in APEC (1)

- "Behind the border" reform to complement TILF measures to remove impediments at the border
  - Regulatory and legal frameworks
  - Policy frameworks
  - Institutional arrangements
- Key is to improve functioning of markets ("strengthening markets")
- Essential complement for successful TILF outcomes
- Priority Issue for APEC: Structural Reform Action Plan

Importance of Structural Reform in APEC (2) Relation to the Bogor Goals

Structural reform needed to:

- **Improve efficiency and productivity**
  - **Essential response to globalisation**
  - **Facilitates delivery of benefits of TILF**
- **Facilitate structural adjustment and avert avoidable costs**
  - **Liberalisation without structural reform can have severe costs**
  - **Crucial importance of sequencing**
- **Develop economic resilience to absorb future external shocks**
  - **Reduce potential vulnerabilities from implementing TILF**
- **Contribute to reduction of business costs**
  - **Reinforce Shanghai Accord**

Structural Reform Concerns of APEC Economies (1)

- 16 APEC economies included “structural reform” (or equivalent) sections in Economy Reports for 2003 Economic Outlook

  (remaining 5 members also engaged in structural reforms)
- Key impressions
  - Diversity in both range and selection of policy issues and priorities covered
  - Differences in approach to some policy areas

Structural Reform Concerns of APEC Economies (2)

- Diversity reflects
  - Reporting coverage (e.g. education)
  - Immediate policy priorities (eg aftermath of crisis)
  - Initial starting point – differences in
    - Level of development
    - Capacity
    - Economic structure
    - Progress already made

- Different approaches eg to
  - Public expenditure reform
  - Tax reform
  - Aspects of financial reform
  - State owned enterprises (SOEs)
  - Labour market issues
  - Safety nets and welfare systems

Structural Reform Concerns of APEC Economies (3)

Areas of Concern most Widely Emphasised

- Strengthening financial sectors
  - Addressing aftermath of crises (e.g. NPLs, balance sheet and shareholder restructuring, recapitalisation)
  - Modernisation of financial systems
    - Improving supervisory and regulatory frameworks
    - Improved governance, transparency
    - Increasing competition, market discipline
- Strengthening corporate sectors
  - Addressing problems of distressed firms
  - Corporate governance
  - SME issues

Structural Reform Concerns of APEC Economies (4)

Areas of Concern most Widely Emphasised (*cont)*

- **Improving investment environment**
  - Cutting red tape, simplifying procedures
  - Reduce “crowding out” of private investment
- **Competition Policy**
  - Implementing APEC principles
  - Guidelines for good regulatory practice
  - Focus on key sectors (e.g. communications, transport, energy)
- **Legal Framework**
  - Insolvency and debt collection
  - Securities law
  - Commercial law

Structural Reform Concerns of APEC Economies (5)

Areas of Concern most Widely Emphasised *(cont)*

- **Public Sector Reform**
  - Administrative reforms
  - Improved public expenditure management
  - Increased accountability for outcomes

- **Reform of Fiscal Systems and Promotion of Macroeconomic Stability**
  - Crucial for increasing resilience to shocks
  - Improved budgetary procedures
  - Sound (non-inflationary) fiscal policy
  - Tax reform
  - Inflation targeting

Structural Reform Concerns of APEC Economies (6)

Areas of Concern most Widely Emphasised *(cont)*

- **Sector Specific Policies**
  - Some economies target key sectors for competition policy and governance reforms
- **Labour Market and HRD Policies**
  - Labour market reform
  - Education, skills development, retraining
  - Crucial for structural adjustment
- **Social Safety Nets**
  - Capacity building
  - Design of efficient social safety nets

Structural Reform Concerns of APEC Economies (7)

Other areas of concern

- SOEs (very important in some economies)
- Anti-corruption
- Agriculture
- Forestry Management
- Health
- Trade Agreements
- Government Procurement
- Upgrading infrastructure

Structural Reform Activities in APEC (1)

- CTI subfora
  - Strengthening Economic Legal Infrastructure (SELI)
    - Competition policy
    - Corporate law
    - Insolvency and debt-collecting
    - Capacity building
  - Competition Policy and Degulation
    - Competition policy training programmes
    - Focus on key sectors (transport, electricity, communication)
  - Group on Services (GOS) and Standards and Conformance Subcommittee (SCSC)
    - Guidelines for good regulatory practice
  - APEC/OECD Project on Regulatory Reform

Structural Reform Activities in APEC (2)

- Economic Committee (EC)
  - Corporate Debt Restructuring
  - Corporate Governance
- Finance Ministers' Process
  - Corporate governance in financial sector
  - Insolvency systems
  - Voluntary Action Plan (VAP) for Freer and More Stable Capital Flows
  - SME Financing Issues
- Social Safety Network Capacity Building Network (SSN CBN)
  - Social safety net planning
  - Accountability in social safety net measures
  - Workforce retraining issues

Ways Forward: Some Issues (1)

- Coverage
  - APEC coverage of structural reform issues is relatively narrow compared to range of issues highlighted by member economies
  - Is this relatively narrow coverage optimal? (e.g. are other issues satisfactorily covered elsewhere?)
  - Should further issues be added?
  - Are there potential contributions from other APEC fora or subfora (e.g. IEG, GP, HRD)?
  - Should "structural reform" be defined more clearly? In general? For APEC purposes?

Ways Forward: Some Issues (2)

- **Coordination and Focus**
  - Low visibility of structural reform action plan
  - Overlap and duplication among fora and subfora (e.g. SELI/CPDG, EC/Finance Ministers' Process)
  - Links to programmes of other institutions (e.g. OECD, IFIs)
  - Overall responsibility and lines of accountability

Ways Forward: Some Issues (3)

- **Modalities**

  e.g. may be useful to differentiate between

  - **Areas where consensus possible on common programme with clearly-defined targets**

    (voluntary commitments reinforced by peer pressure)

  - **Areas where divergent approaches and priorities mitigate against consensus on targets and means to attain them**

    (need sharing of experiences, capacity building)

Both modalites ideally suited to APEC strengths

Structural Reform in Thailand to Promote Trade and Investment

Narongchai Akrasanee, Ph.D.

Presentation at APEC High Level Conference on Structural Reform

8-9 September 2004

Tokyo, Japan

Outline

- Defining structural reform
- Areas covered under reform
- Structural reform in Thailand

Defining Structural Reform

Changing "behind border" commercial rules and regulations

Areas Covered under Reform

- When foreign trade is freer, imports are subject to "competition" rules and regulations, and intellectual property rights system.

Areas Covered (cont.)

- When trade in services is freer, foreign participation in services depend on:
  - Financial services
    - Barriers to entry
    - Prudential rules & regulations
    - Investors protection system
  - Transportation & telecommunications
    - Barriers to entry
  - Professional services
    - Barriers to entry

Structural Reform in Thailand

1. **Competition Regime**
2. **Intellectual Property Rights Protection**
3. **Financial Sector Reform**
4. **Investment Regime**
5. **Professional Services Reform**

Competition Regime

- 1947 --- The Anti - Profiteering Act
  - Aimed at consumer protection from excessive product prices
- 1979 --- The Price Fixing and Anti-Monopoly Act
  - Replaced the 1947 Act
  - Added the element of anti – monopoly
  - No specific measures to deal with competitive playing field for business activities

Competition Regime (cont.)

- 1997 --- The turning point of competition regime in Thailand
  - Stated in the 1997 Constitution that the government must support an economic system under free market mechanism
- 1999 --- Approval of the Competition Act and the Price of Goods and Services Act to replace the Price Fixing and Anti-Monopoly Act of 1979

Competition Regime (cont.)

- **The Competition Act**
  - To encourage & promote free and fair business practices by preventing the abuse of market domination, merger control and anti- competitive conduct
  - Set up the Trade Competition Commission in Nov- 99 to take charge of the Act
  - Set up the Appellate Committee to check and balance role of the Commission

Competition Regime (cont.)

- The Price of Goods and Services Act
  - To monitor price of goods and services
  - The Central Competition Commission (CCP) on Price of Goods and Service has been established since July 1999
  - The CCP declares and monitors price of goods and services in the control list

Intellectual Property Rights Protection

- **Party and Membership**
  - **WIPO**
    - **Party to the WIPO Convention (Convention establishing the World Intellectual Property Organization) since 1989**
    - **Party to the Berne Convention for the Protection of Literary & Artistic Works since 1995**
  - **WTO : TRIPS Agreement since 1995**
  - **APEC since 1989**
  - **ASEAN since 1967**

Intellectual Property Rights Protection (Cont.)

- Commitment under WTO's TRIPS has been set as the major policy framework for Thai IPRs
- Progress under TRIPS --- major related Acts have been implemented;
  - The Copyright Act --- 1995
  - The Patent Act --- Sep 1999
  - The Protection of Plant Varieties Act --- Dec 1999
  - The Trademark Act --- June 2000
  - The Protection of Integrated Circuits Act --- Aug 2000
  - The Trade Secret Act --- 2002
  - The Protection of Geographical Indications --- 2003

Financial Sector Reform

- **Commitments**
  - **GATS**
    - **An Interim Agreement to the WTO in 1995**
    - **No further commitments submitted under the Doha Round**
  - **AFAS**
    - **Dec-95 --- Framework Agreement to achieve the free flow of services among ASEAN member countries within 2020. 4 Roadmaps;**
      1) **Capital account liberalization**
      2) **Financial services liberalization**
      3) **ASEAN currency co-operation**
      4) **Capital market development**

Financial Sector Reform (cont.)

- Both commitments under GATS & AFAS do not involve commitments much beyond Thailand's current regulations.

→ Minimum bound on policies in Thai financial sector

- Domestic regulations and the Financial Master Plan are major framework and guidelines for direction and reform.

Financial Sector Reform (cont.)

- Domestic regulations
  - Banking --- Supervised and regulated by BOT and MOF through the Commercial Banking Act 1962, the Undertaking Finance Business, Securities Business, and Credit Foncier Business ACT 1979
  - Securities --- Supervised by SEC through the Enactment of Securities and Exchange Act 1992
  - Insurance --- Supervised by MOC through the Life Insurance Act 1967 and Non-Life Insurance Act 1967
  - Non-bank services --- Fall under the regulation of different agencies depending on the nature of the financial activities

Financial Sector Reform (cont.)

- Major changes in domestic regulations
  - 1990 --- Signed Article 8 of IMF, Freer flows of capital
  - 1992 --- Set up the SEC, Opened up the stocks market for foreign participation
  - 1993 --- BIBFs, Opened up “Offshore” banking and allowed more foreign participation
  - 1997 --- Relaxed foreign participation in insurance services
  - 1998 --- More liberalized after crisis
  - 2004 --- Financial Master Plan

Financial Sector Reform (cont.)

- **Financial Master Plan**
  - **Lay down foundation and set direction for Thailand financial sector**
  - **3 objectives**
    1) **Increase comprehensiveness of financial services to all potential users with no significant difference in the level and quality of services**
    2) **Increase the efficiency and competitiveness**
    3) **Increase fairness and protection for consumers**

Financial Sector Reform (cont.)

- Financial sector outlook
  - Consolidated financial businesses
    - Commercial bank
    - Retail bank
  - Increased international competition
    - Subsidiaries of foreign bank
    - Full branch of foreign bank
  - A wider range of financial services
  - Conglomerate supervision
  - Limitation on the number of foreign directors and senior management still remain

Investment Regime

- 1972 --- the Alien Business Law
  - Entities with at least 50% foreign holding are aliens and subject to this law
  - Limit foreign participation in Thai businesses
- 1977 --- Investment Promotion Act
  - Encourage FDI
  - Set out the types of rights and benefits offered to foreign investment
  - Office of the Board of Investment has been established to promote FDI to Thailand

Investment Regime (cont.)

- **1999 --- the Foreign Business Act replaced the Alien Business Law of 1972**
  - **Relaxed and broaden foreign participation in Thai business**
  - **Controlled business are divided into 3 lists;**
    1) Businesses that foreigners are not permitted due to special reason
    2) Businesses related to national safety, security or affecting arts & culture, tradition, folk handicraft or natural resources & environment
    3) Businesses in which Thai nationals are not ready to compete
  - **List 2 and 3, certain approvals are required.**

Investment Regime (cont.)

- **2002 --- Encourage Investor protection**
  - **Set up the National Good Corporate Governance Committee to promote good corporate governance in the Thai capital market**
  - **Working on the 3 areas;**

    1) **regulatory discipline**
    2) **market discipline**
    3) **self-discipline**

Investment Regime (cont.)

- In addition, SEC has participated in the assessment project under "Corporate Governance - Report on the Observance of Standards and Codes" (CG-ROSCs), conducted by the IMF and the World Bank.
- This will enable foreign investors to obtain more clear and accurate information on Thailand's good corporate governance.

Professional Services Reform

- Alien Occupation Act of 1979
  - Requires all aliens working in Thailand to obtain a Work Permit prior to starting work in the Kingdom
  - 39 occupations and professions are prohibited to aliens.
- Under the Investment Promotion Act, promoted companies are allowed to bring in foreign skilled technicians and experts
- No concrete reform has been made

Structural Reform in Mexico

Elisa Mariscal
(on behalf of Ernesto Estrada)

September 8, 2004

Tokyo, Japan.

- **This presentation focuses on two key areas of Structural Reform:**
  - Competition Policy
  - Regulatory Reform
- **To assess progress and identify challenges, we consider the results of a recent <u>OECD Peer Review</u> exercise in both areas.**

Competition and regulatory policies have contributed in:

- Increasing flexibility and strengthening the economy
- Improving the environment for trade and investment
- Enhancing efficiency and productivity

Competition Policy

Peer review exercise

- The OECD's Peer Review exercise is a powerful instrument to assess Competition Law and Policy.

- Mexico has benefited greatly from two reviews: 1998 and 2004.

Strengths (I)

- The 2004 report confirms strengths identified in the 1998 report:

  - The analytical quality of the Law and its regulations;

  - The establishment of an institutional setup to enforce the law that has gained in standing and credibility over time; and

  - The Federal Competition Commission's (FCC) recognized authority and its active role in participating in formulating competition enhancing public policies.

- The report notes that "the perception of an institutional reluctance by the FCC to engage powerful opponents has largely dissipated."

Strengths (II)

- It identifies additional strengths :
  - The FCC has become a credible and respected organization, both domestically and internationally;
  - The FCC follows the best principles of management and the highest standards of public service; and
  - The FCC has effectively focused its limited resources to the most relevant matters in promoting competition policy in Mexico.
- The report concludes: “The FCC’s accomplishments are remarkable given the difficult environment in which it operates”

Some strengths have evolved in areas that were the focus of the 1998 recommendations

1998 recommendations		2004 findings
• "Maintain emphasis on regulatory issues and regulated and privatising sectors …"	⇨	• The FCC has "maintained a focus on regulated and privatised sectors,
• "Broaden the base of support..."	⇨	• sought to broaden its base of support by publicising its actions to a wider audience and conducting outreach activities
• "Enter international co-operation agreements to improve enforcement efficiently in transnational matters."	⇨	• established important international antitrust co-op agreements …"
• "Make the FCC part of the Economic Deregulation Council …"	⇨	• "… the Chairman of the FCC is a permanent member of the present Regulatory Improvement Council."

However, there are key pending issues

1998 recommendations		2004 findings
"Broaden the base of support..."	⇨	" ... the degree of general support for competition policy is still an open question and remains a potential vulnerability. "
"Provide for effective power to ensure that regulations to remedy market power actually achieve that aim ..."	⇨	"… the FCC has a mixed record of participation in proceedings to establish price regulation for inadequately competitive market sectors. "
"Broaden the available enforcement resources by expanding the right of private action."	⇨	"... further maturation of Mexico's antitrust environment, especially in the courts, is necessary before private actions can become a significant feature of competition policy enforcement."

The 2004 report identifies additional weaknesses

- "… certain statutes and judicial processes that constrain the FCC's ability to remedy anti-competitive conduct and market conditions ..."
- "… decline in the Commission's budget and staffing levels."; and
- "...some deficiencies in the Commission's own case litigation procedures, and in its interface with other government entities, that reduce the FCC's efficacy as a law enforcement agency and competition advocate."

The findings go to heart of key FCC's institutional challenges

1. Absence of an integral competition policy
2. Lack of competition culture
3. Excessive litigation
4. Ineffectiveness of fines
5. Legal limitations
6. Limited resources

Proposed reforms

- The office of the President of Mexico is developing a package of legislative reforms that pursue the following objectives :
    - To consolidate FCC's autonomy;
    - To promote a comprehensive and consistent competition policy across all sectors;
    - To reinforce the authority of the FCC to prevent anticompetitive practices; and
    - To implement more effective administrative and judicial procedures.
- These reforms would address most of the recommendations presented in the 2004 report

Regulatory Reform

Regulatory Reform in Mexico

- In 1998 the OECD reviewed Regulatory Reform in Mexico, following 15 years of rapid expansion of reforms to transform the country from an inward-looking to an open and market-based economy.

- In 2004, the OECD reviewed Mexico's progress in implementing Regulatory Reform.

Progress: Quality criteria

"Regulations are now subject to quality criteria: tools and processes used in designing regulations are themselves subject to critical assessment."

- **Regulatory policies**
- **Regulatory institutions**
  - **The Federal Regulatory Improvement Commission (COFEMER)**
  - **Regulatory Improvement Council**
- **Regulatory tools and procedures**
  - **Regulatory Impact Assessment (RIA)**
  - **Administrative simplification**
    - **Ministry of Public Administration**
  - **Keeping rules up-to-date**
    - **Federal Registry of Formalities and Services (RFTS)**
  - **Transparency**

Progress: Transparency

"More transparent mechanisms have been introduced to attain high quality regulation. Market openness and competition are better integrated into regulatory reform."

- "Transparency mechanisms have also been strengthened through the creation of the Federal Institute of Access to Public Information...."
- The Institute "...guarantees the effectiveness of both the right to access public information and the right to privacy through data protection and promotes transparency and public sector accountability."

Progress: Infrastructure sectors

- **Financial services**: The regulator has been given a mandate primarily in terms of ensuring stability and prudential oversight of banking activities mainly, which has been quite successful to date.
- **Water**: "Mexico now has a record of all water concessions and discharge permits" in the regulator's Public Register of Water Rights.
- **Telecommunications**: Regarding interconnection and service quality, the Mexican agency has comparable powers to agencies in other OECD countries.
- **Electricity**: The regulator has established a policy of consistent and timely announcements of its activity through the media.

Challenges: Close the income gap

"The most important challenge confronting the Mexican authorities is to close the very large income gap between Mexico & more advanced OECD countries…To raise productivity growth and narrow the gap in living standards, more reforms are needed."

Challenges: Reduce heterogeneity, increase scope

"The scope and breadth of reforms remains uneven, particularly with regard to some infrastructure sectors."

- "Regulation is applied through a wide range of <u>heterogeneous legal instruments or administrative acts</u> that are not clearly ordered in hierarchical fashion."
- "Mexico's <u>Congress</u> has made increasing use of its legislative faculties and generated a greater volume of legislation in recent years that <u>is not subject to the regulatory quality requirements</u> established in the executive branch."
- "<u>Weak enforcement and compliance mechanisms</u> are hindering positive results that could benefit all sectors of society."

Challenges: further reform in infrastructure areas

"Regulatory policy needs to adopt a "whole of government" perspective to fully reach its goals.

This involves undertaking reforms to the current regulatory framework of key infrastructure areas, in order to increase opportunities for private investment and improve economic competitiveness."

1. Financial Services
2. Water
3. Telecommunications
4. Electricity

Pending issues in key sectors

- **Financial services**: "The low level of financial penetration is one of the most unfavourable consequences of the lack of competition in the sector"

- **Water:** "The current pathway for the use of water resources was clearly identified as unsustainable…"; "The transition from a very large integrated agency to an efficient and streamlined regulator, with clearly identified objectives is a long-term goal, and will not be easy to attain."

- **Telecommunications**: "The COFETEL has faced a number of institutional difficulties, including the need for increasing transparency in decision-making... Mexico still faces an important challenge to reach lower income areas."

- **Electricity**: "The best long term scenario lies in the development of a competitive market, in order to attract private investment and generate sustained pressures for efficiency."

Reinforce competition policy

"Competition policy should be further reinforced as a core factor contributing to regulatory and trade policies, so real market access is granted to all participants."

Conclusions

Mexico has embarked on regulatory reform but still faces important challenges

- **A "whole of government" perspective will help Mexico reach the goals of regulatory policy**
- **This involves undertaking reforms to the current regulatory framework of key infrastructure areas, to increase opportunities for private investment and improve economic competitiveness**
- **Competition policy can become a pivotal policy tool that will spur Mexico's economic development.**

Special Zones for Structural Reform

Kazuyoshi Kaneko

**Minister of State for
Special Zones for Structural Reform**

2004.9.8

Regulatory reform is a priority component of Koizumi structural reform

1. Basic Concepts of Koizumi Cabinet

● Leave to the private sector that which can be done by the private sector
● Leave to local governments that which can be done by local governments

2. Main components of regulatory reform at present

The opening of government-driven markets to the private sector

- The opening of services provided by the public sector itself or markets with strong public involvement to the private sector will result in the improvement of services as well as the creation of new business opportunities
- Examination for introducing "market testing" as a method to promote the opening of public services to the private sector (selection of "model projects" during 2004)

Special Zones for Structural Reform

- Altered the concept that "regulations should be enforced uniformly throughout Japan" and introduced the Special Zones concept - geographically limited areas where certain regulations can be eased or lifted
- By showing successful examples of the Special Zones, regulatory exemptions will be expanded nationwide, and we can stimulate the Japanese economy as a whole

Achievements of Special Zones for Structural Reform

386 Special Zones have been approved throughout Japan (every prefecture) (2003.4〜2004.9)

Regulatory exemptions for Special Zones have been achieved in such fields as education, agriculture, and medical treatment, where conventional reform approaches have faced difficulties.

(example)

- **Establishment of diverse curriculum not based on the Course of Study**
- **Entry of other business corporations into the agricultural sector than Agricultural Production Corporations**
- **Entry of business corporations into the medical services sector on the premise that such services will be restricted to medical treatments not covered by public medical insurance**

Special Zone for Education

Special Zone of Ota for education in English	Ota City (Gunma Prefecture)

Allowing flexible curriculum not based on the uniform criteria set by Ministry of Education

The city of Ota and the private sector together will establish a school integrating three all levels, elementary through high school. Classes are conducted entirely in English with the exception of national language class.

Fostering internationally minded people with broader perspectives

:according to the plan

Special Zone for Agriculture

Special Zone of Shodoshima Uchinomi for Olive Production

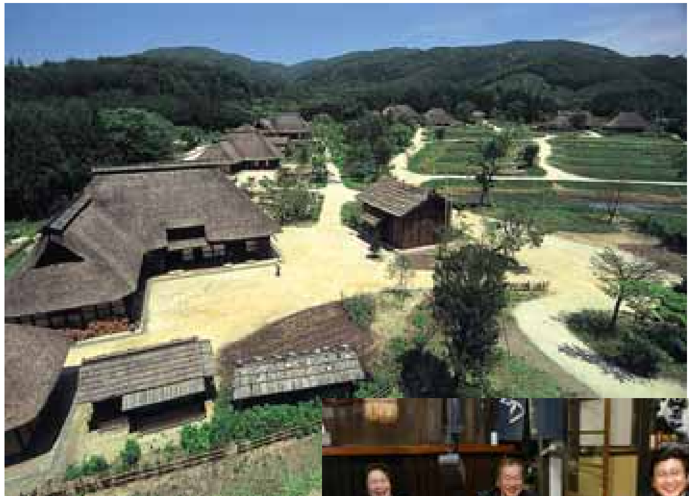
Uchinomi town (Kagawa Prefecture)

Allowing farm management by a stock company

A business corporation cultivates and processes olives integrally which would create a new business and step up an effective use of idle farmland

- **Use about 6 hectare idle farmland by 2008**
- **Cultivation, processing, and tourism represent 400 million yen**

Special Zone for Agriculture



Special Zone for Japanese Hometown Revitalization

Tono City (Iwate Prefecture)

-Flexible application of the Fire Service Law to guesthouses run by farmers

-Deregulaton of requirements to manufacture unrefined sake,“*doburoku*”

Encourage community-based new businesses and promote regional revitalization

- **Tourists to Tono city increased by 50% year-on-year (actual result)**
- **Set up 20 farm guesthouses (by 2007 fiscal year)**

Special Zone for Industrial Renovation

Special Zones for Industrial Renovation Utilizing Technology Concentration

Mie Prefecture, Yokkaitchi city,
Yokkaichi Harbor Administration Union

Deregulation related to safety requirements in plants

By reinvesting in the existing petrochemical complexes under the regulatory exception, high value-added industries responding to the new era are clustered around the area.

- **Amount of capital investment in 5 years: about 70 billion yen**
- **A 40-billion yen increase in output (by 2007)**
- **Job creation: about 300 (by 2007)**

Special Zone for International Logistics

Special Zone of Kitakyushu for International Logistics

Kitakyushu City
(Fukuoka Prefecture)

-Implementation of the round-the-clock customs clearance operation

-Reduction in the extraordinary agency -opening fees

"Hibikinada" opens 24hrs/day so that it would connect North America/Europe and North East Asia as a Hub port.

- **The number of enterprises entering this area (cumulative sum) ：28 (2007) →35 (2012)**
- **Economic effect per year：about 240 billion yen (2007) →410 billion yen (2012)**
- **Job creation：about 5,600 (2007) →10,800 (2012)**

Priority issues

- **Further P.R. of the Special Zones system among the private sector in particular**
- **Identify obstacles to Special Zones, and solve them**
- **Expand regulatory exemptions for Special Zones nationwide based on evaluations**

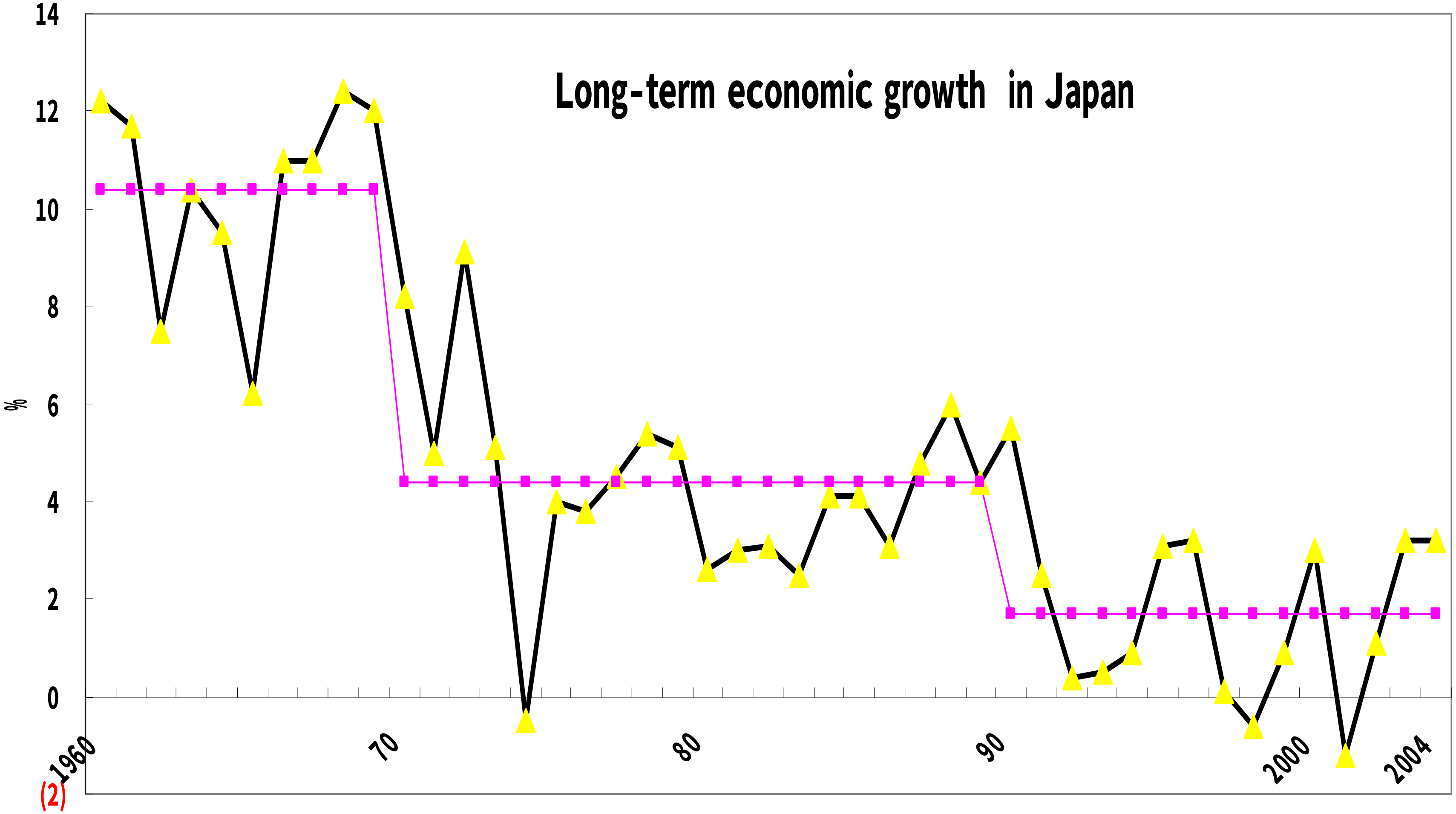
Japan's New Special Zones for Regulatory Reform

September 8, 2004

Naohiro YASHIRO

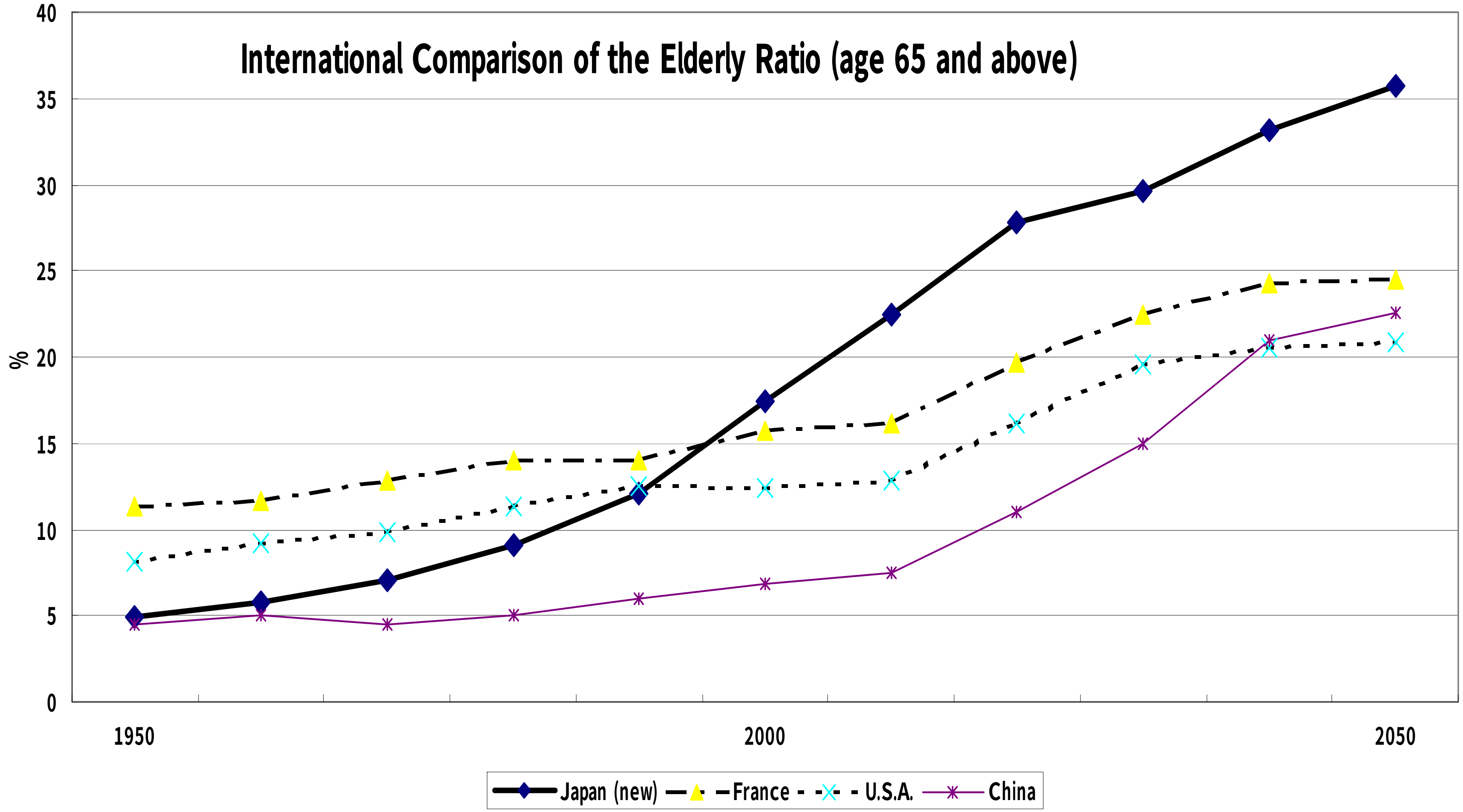
Japan Center for Economic Research

So-called the “Lost Decade” of Japan



Projections in 2003-2004 are based on JCER

Rapid pace of the population aging puts strong pressure on the age-based society



Need for structural adjustments

- Dual structure of high-productive manufacture and low-productive service sectors;
- Contrary to competitive manufacturing, the service sectors are widely regulated;
- Opening up the protected agriculture, health, and education sectors should stimulate new demand and increase productivity;
- Regulatory reform and de-centralization are keys for structural adjustments.

Increase in consumers surplus due to the regulatory reform in the 1990s

Sector	Fiscal year	Consumers surplus in 2002
Telecomunications	Cellar phones	17,205
	Domestic airlines	2,739
	Railways	2,390
Trabsportations	Taxis	52
	Trucks	38,763
	Auto inspections	8,298
	Electricity	24,811
Enargy	Gas	1,674
	Petro products	22,714
Financial services	Commissions on stockes	3,850
	Non-life insurance	2,742
Foods & drinks	Rice sales	11,709
	Alcoholic bevarages	5,465
Retail prices	Cosmetics	926
Total consumers' surplus		143,338
		(11.3% of N I)

Prime Ministers Cabinet, Report Series on Policy Effects 2003

Special Zones as a regulatory reform

- Established in 2003 as an endeavor to enhance nation-wide regulatory reforms
- Certain regulations are eased in geographically limited areas as a testing ground, and are to be implemented to at the national level;
- Because of the large degree of independence of ministries, an area-based approach of regulatory reform and decentralization can lead to original initiatives which might take longer;
- SZ is intended as a tool for speeding up of the nation-wide regulatory reform.

Major features of Special Zones

- National project based on local government initiatives for stimulating the competition between local governments for inducing private investment;
- No automatic fiscal incentives related to the establishment of the Special Zones are provided;
- Contrasted to the free trade zones in Ireland or China as a strong measure for inviting FDI, non-differences to domestic firms;

Process of establishing Special Zones; (1) Providing the menu

- The Office for Special Zones under Prime Minster’s Cabinet collects the proposals from municipalities and the private sector, and negotiates with the ministries in charge of respective regulations.
- Based on the agreement, the law for listing various deregulation measures in the Special Zones is submitted to the Diet twice a year.
- Many proposals are accepted as the nation-wide regulatory reform, not through the special zones.

Major results in the first round

	2002.8	2003.1	2003.7	2003.1	Total
Number of proposals	426	651	280	338	1695
Number of proposers	249	412	188	223	1072
of which					
Local authorities	231	248	112	121	712
Private firms & individuals	18	164	76	102	360
A. Realized in special zones	93	47	19	17	176
B. Realized in nation-wide	111	77	29	33	250
C. Not relaized & others	222	527	232	288	1269
(A+B)/(A+B+C)	47.9	19.0	17.0	14.8	25.1

Process of Establishing Special Zones; (2) Ordering the menu

- After the establishment of Special Zones, any municipality (not necessarily those who first proposed the idea) is eligible to establish the Special Zone by itself;
- No limits in the number of Special Zones to be established, as they are not considered to be a privilege of the special region;
- Increase of Special Zones are encouraged as de facto nation-wide regulatory reform.

Increasing number of Special Zones

Major fields of Special Zones	2002.8	2003.1	2003.7	2003.11	Total
International activities	15	0	2	1	18
Industry-university cooperation	25	8	2	2	37
IT & Industry	17	0	4	4	25
Agriculture	28	9	17	30	84
Education	17	16	8	32	73
People's life	20	11	24	12	67
Others	0	3	15	7	25
Total	122	47	72	88	329

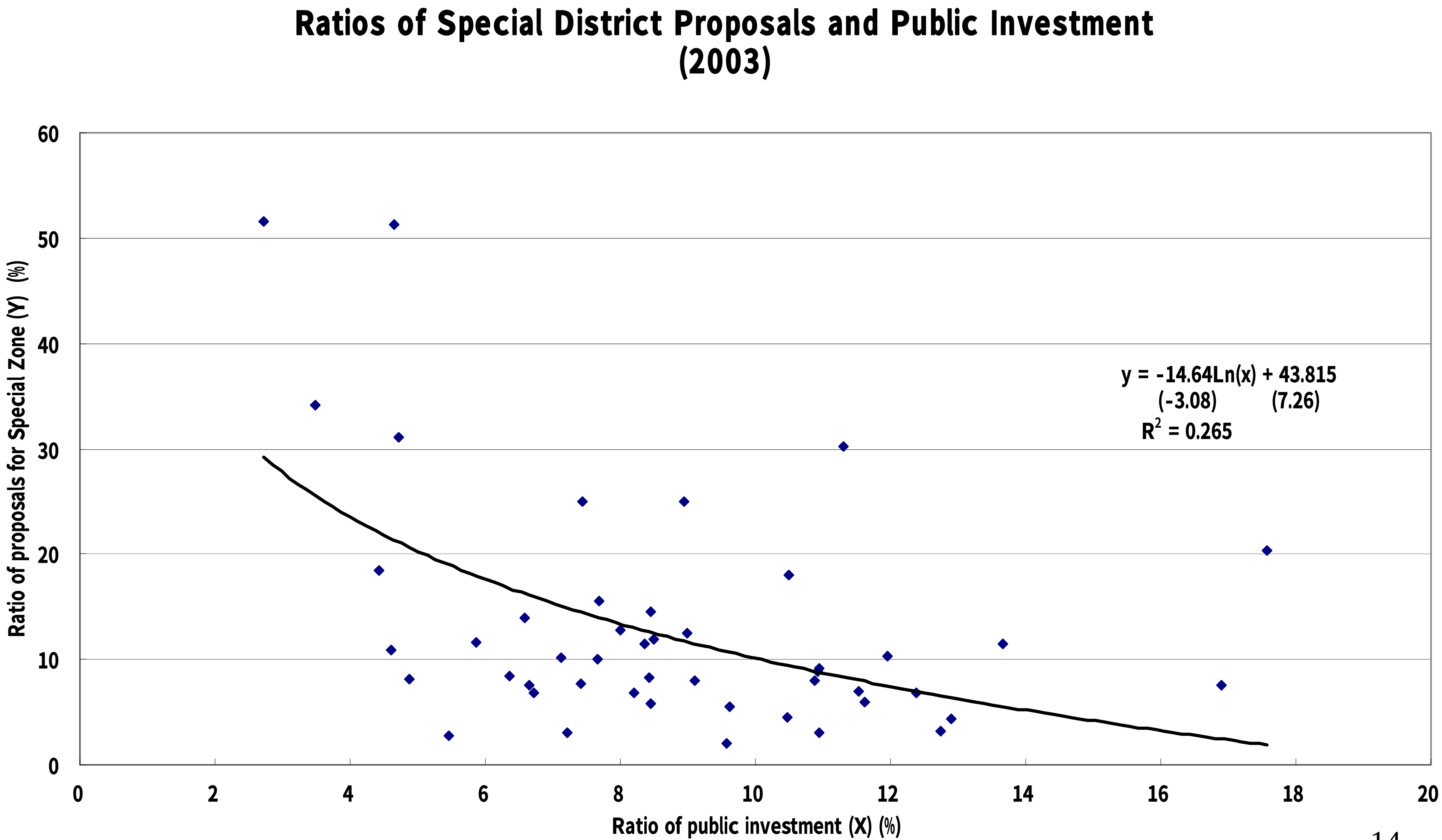
Process of Establishing Special Zones; (3) Assessment

- Careful assessment of the Special Zones is required for the nation-wide implementation;
- The criteria is whether there is an evidence for demerits with SZ, rather than the merits;
- If no evidences for both merits and demerits with SZ, the regulatory reform is to be implemented nation-wide, i.e. the burden of proof is on the regulating ministries;
- 26 SZ already assessed are to be implemented to nation-wide regulatory reform in September.

Implications to regulatory competition between municipalities

- SZ enhances the incentive of municipality to reform the regulations which are uniformly applied nation-wide regardless of the local differences;
- Shifting from the dependence on political efforts to induce public investment or subsidies to their own initiatives for attracting FDI or domestic firms in the SZ.

The more the region depends on public investment, the less likely it proposes SZ



Implications of Special Zones

- Social experiments of regulatory reforms to be implemented nation-wide with the ex post assessment;
- Shifting the authority of regulation from national ministries to local municipalities for regulatory competition;
- New tools for stimulating local initiative under centralized but fragmented regulatory authorities in Japan.

Department of the Taoiseach
Roinn an Taoisigh

SPECIAL AREA ZONES – THE IRISH EXPERIENCE

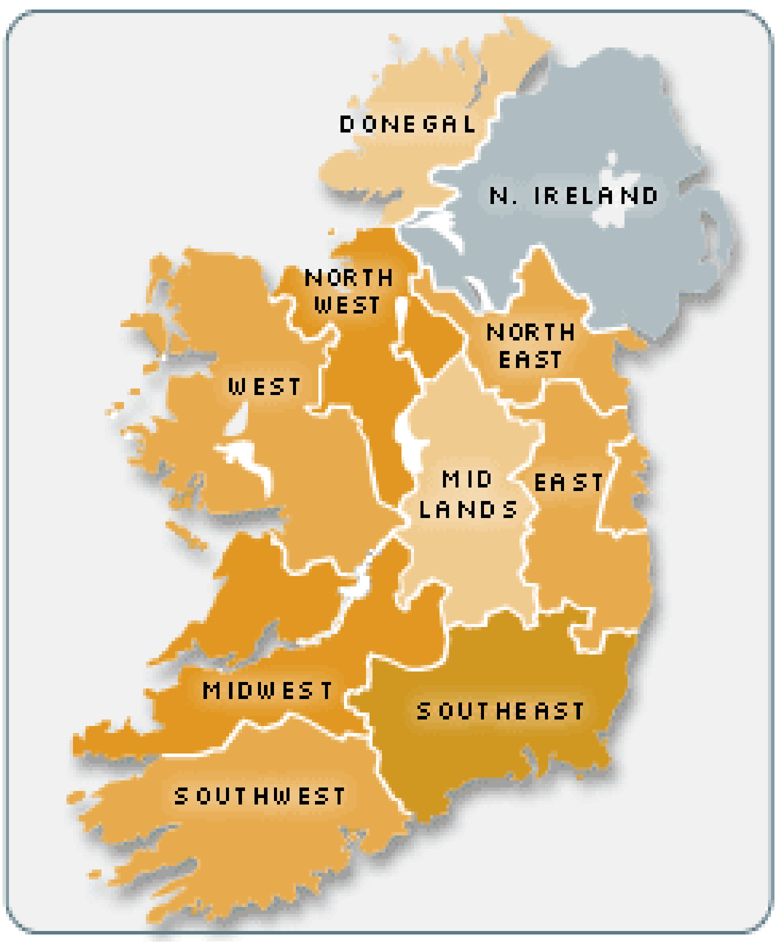
APEC HIGH LEVEL CONFERENCE, TOKYO,
8th SEPTEMBER 2004

George J. Shaw

Department of the Taoiseach (Prime Minister), Ireland

Facts about Ireland

- Independent Sovereign State, Member of EU
- Population: 3.9million
  (Dublin: 1million)
- Area: 70,282 km^2
- Temperate climate:
  Winter 4^{o}C; Summer 16^{o}C
- Unemployment 4.4%
- Inflation 2.3%
- Current Account Balance €1.7bn
  (2003 figure €1.2bn)



Shannon Free Zone

- Industrial development assisted by tax concessions and other initiatives
- Incentives eroded over time
- A leading business park in Ireland

Ireland an Objective One Region of the E.U.

- Development of economically lagging regions.
- Focus of Community assistance on Objective One regions
  - less than 75% of average EU per capita GDP
- Ireland treated as a single Objective One region before 2000.
- Ireland has secured above average transfers of structural funding while demonstrating a comprehensive package of government policies.

Irish Economy in 1980's

- Unemployment 17.5%
- Inflation 12%
- Emigration highest since 1950's
- Current budget deficit £1.5bn

The Rationale

The rationale behind the idea was that:

- World financial markets had become highly inter-dependent and operated on a round-the-clock basis;
- The technology to set up and run international data and fund management centres was creating an electronic market place; and
- global deregulation of financial services meant that an increasing range of these services was provided from beyond national boundaries.

Key Steps

- The full engagement from the outset of the Central Bank of Ireland, the prime regulator of the activities to be carried out in the Centre.
- The extension to the International Financial Services centre of the low corporate tax (10% on profits) then available, under Irish law only to manufacturing and some service activities.
- The setting up of a marketing team in the Investment Development Agency (IDA)

Contd…..

Key Steps …….Contd

- Certain special tax incentives were put in place to assist with the development of the Docklands area of Dublin
- The main Irish banks were engaged from the outset in the development.
- A few leading international companies and institutions were persuaded at an early stage of the benefits of the centre and what it had to offer.

White Paper on Regulation

"Regulating Better"

Six Principles Set Out:

- **Necessity** - is the regulation necessary? Can we make it easier and simpler?
- **Effectiveness** - is the regulation properly targeted? Is it still effective?
- **Proportionality** - is there a more effective way of achieving the objective? Do the advantages outweigh the disadvantages?
- **Transparency** - have we consulted with stakeholders prior to regulating?
- **Accountability** - is it clear who is responsible to whom and for what? Is there an effective appeals process?
- **Consistency** - is it consistent with other regulations in place?

Single Regulator

Irish Financial Services Regulatory Authority

- **Its role** is to oversee the operation of the financial services industry in Ireland. It has a statutory base and is appropriately funded and staffed to carry out its role.
- **The reputation** of the Irish Financial Services Industry has been based on strong and appropriate regulations which has made Ireland both competitive and attractive as a location for financial services.

Mission Statement

- To help consumers make informed financial decisions in a safe and fair market and to foster sound dynamic financial institutions in Ireland, thereby contributing to financial stability.

Social Partnership

- In 1987, **The National Economic and Social Council (NESC) Strategy Document**;

  "A Strategy for Development 1986 – 1990" the blue print.
- A series of social partnership agreements, commencing with the Programme for National Recovery (PNR)
- Successive agreements provided for moderate wage increases supplemented by cuts in personal taxation and consenus on spending priorities in economic and social programmes.
- Social Partnership grew from a shared recognition that the challenges facing Ireland could not be satisfactorily addressed by any one group acting alone.

The LINK

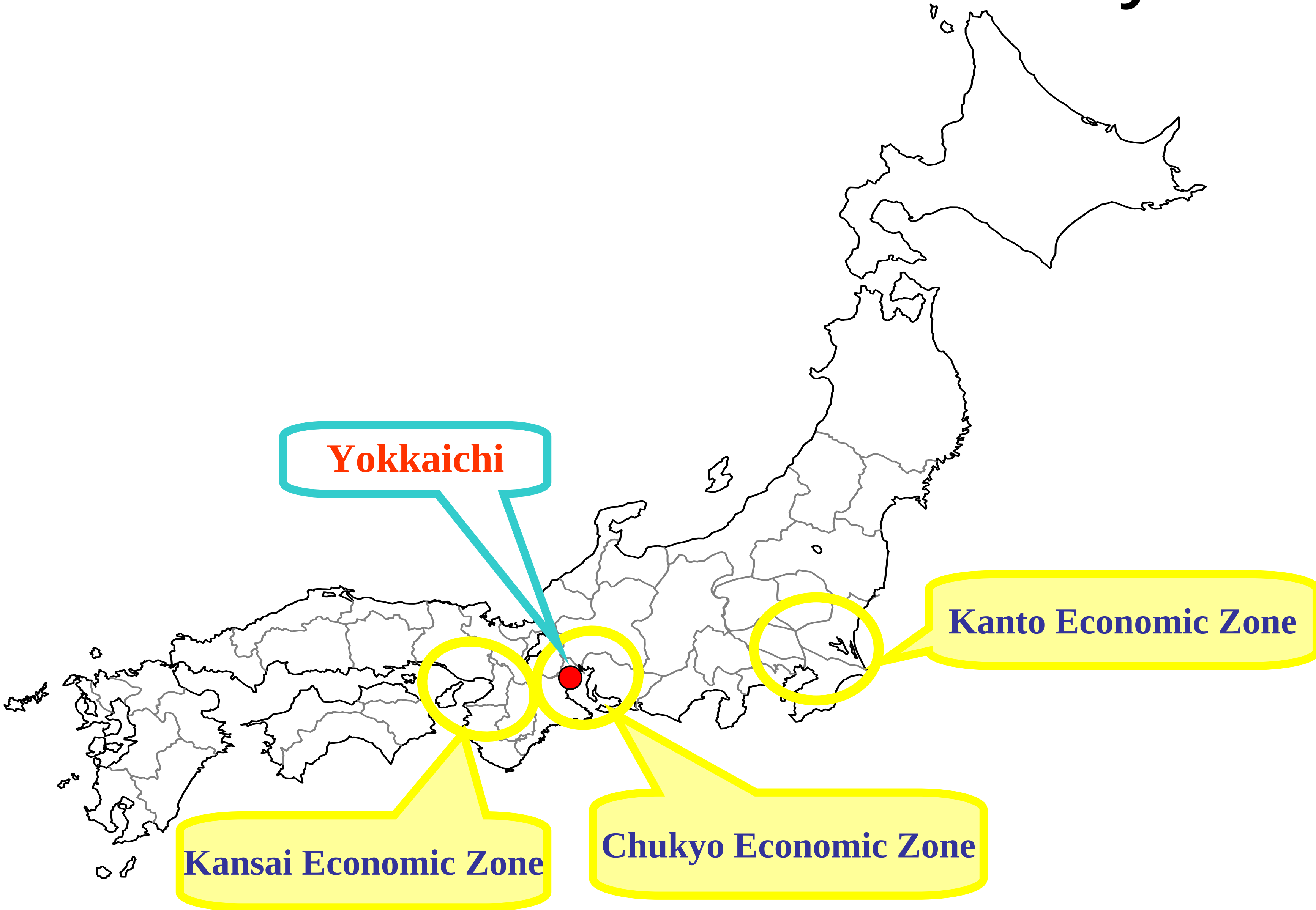
- IFSC, (the zone) IFSRA (the regulator), Regulatory Reform, Social Partnership

- Driven by Prime Ministers Office

Industrial revitalization of waterfront industrial complexes and other industrial facilities taking advantage of designation as a special district for structural reform

Yokkaichi City

Location of Yokkaichi City



Yokkaichi City (around the waterfront)

Trends of petrochemical industry in Japan (1)

Trends of ethylene production

Decrease in domestic demand

- **Increase in imports of inexpensive general-purpose products from overseas**
- **Overseas transfer of domestic production bases for auto industry, electric industry, etc.**

Decrease in foreign demand

- **Expanded production capacity in Asian countries**

Movement toward selection of industrial complexes

One of the ethylene plants in the city has been suspended since 2001.

Trends of petrochemical industry in Japan (2)

Reduction of ethylene production

Land of high utility value

Electricity

Industrial water

Physical distribution

Proximity to major cities

Transformation of the industrial structure

Industry that continues to create value-added chemical materials
- High-tech parts for automobiles
- Electronic materials

⋮

Cooperation with growing industries such as auto industry and electric machinery industry

Reviewing the high cost structure

Administration's roles

Provision of preferential measures for site location

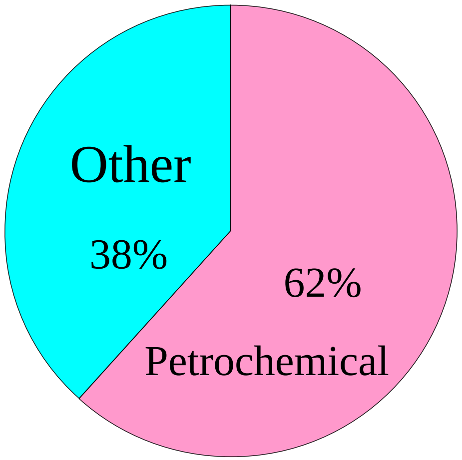
Rationalization of regulations

Cooperation between companies and bridging between companies and universities

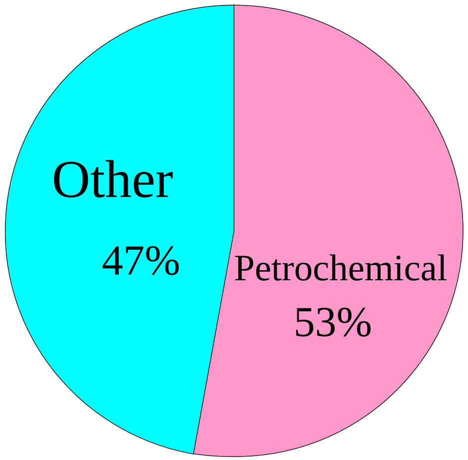
Status of the petrochemical industrial complex in the city

Pillar of local industrial accumulation

[Industrial shipments]



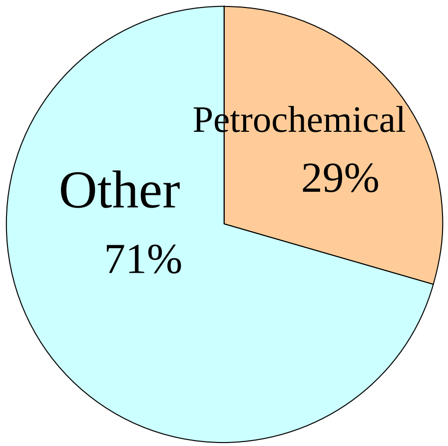
1989
\1,742.1 billion*
(including \1,074 billion from petrochemical industry)



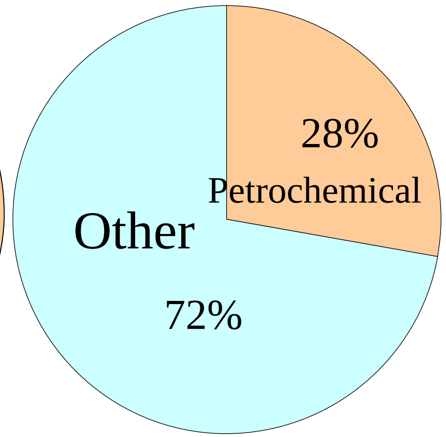
2001
\1,714.5 billion*
(including \904.3 billion from petrochemical industry)

Pillar of local employment

[Number of employees]



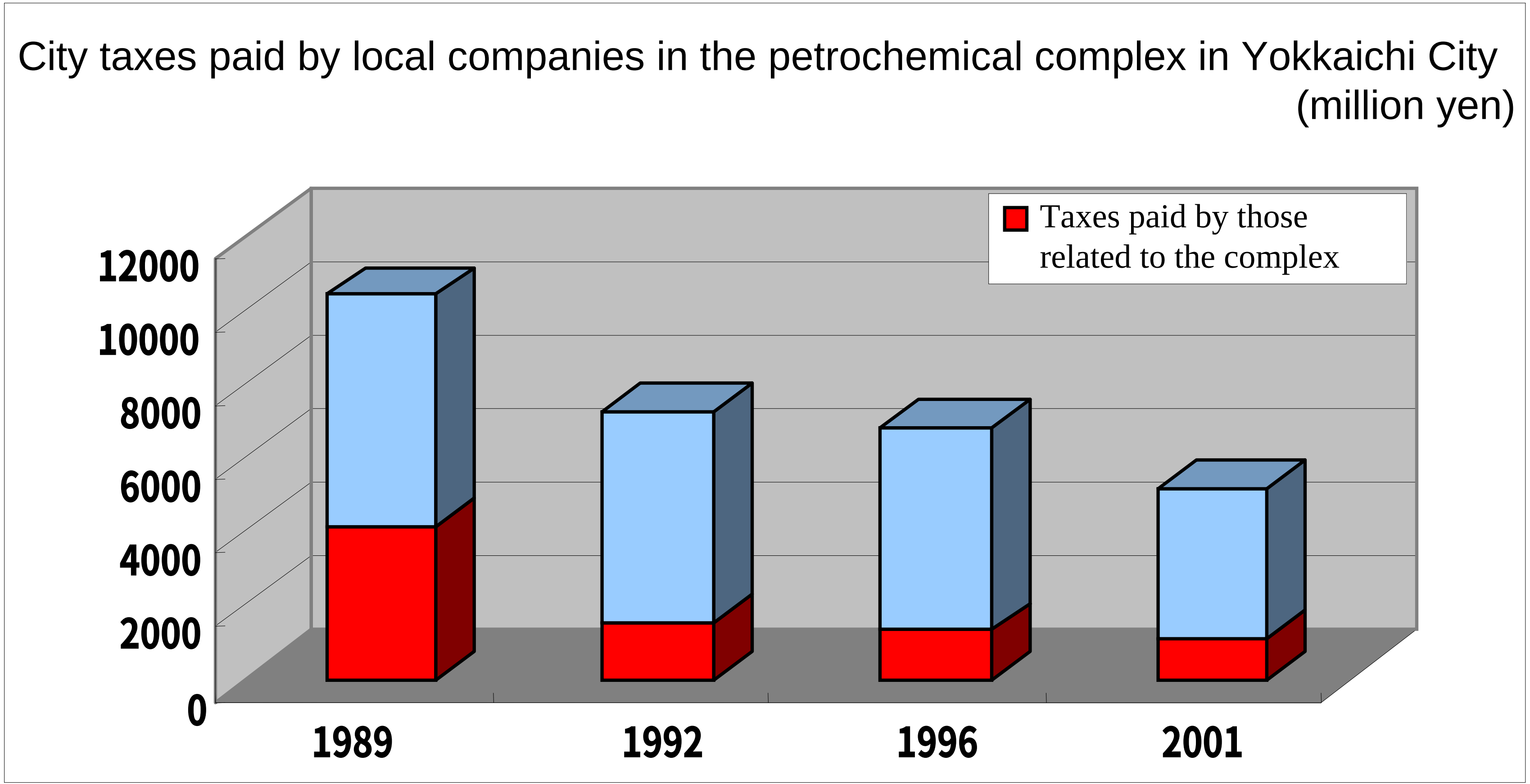
1989
40,878 employees
(including 12,033 employees in petrochemical industry)



2001
32,589 employees
(including 9,027 employees in petrochemical industry)

*Excluding shipments from companies having fewer than four employees

Revenues from city taxes paid by the corporations in the industrial complex



\4.1 billion \10.4 billion in total	\1.6 billion \7.3 billion in total	\1.3 billion \6.8 billion in total	\1.1 billion \5.2 billion in total

Progress toward the formulation of the special district plan

Step 1 Administration's recognition of a sense of crisis

Establishment of the enterprise location promotion ordinance
Prevention of hollowing-out / Support for existing companies

Yokkaichi City

Step 2
Sharing of the sense of crisis / Sharing of information

Yokkaichi waterfront industrial area

Commitment of the nation and the prefecture

Step 3

Inauguration of Waterfront Revitalization Program Review Commission

Clarification of the problems to be solved

Roads | Port and harbor | Laws and regulations | Cooperation between companies | Industrial water

The national government introducing the structural reform district system

Solving its own problems

Step 4
Formulation of the special district plan
"Special district for industrial revitalization using integrated technology"

Actual investment according to the enterprise location promotion ordinance of Yokkaichi City
(In effect in April 2000)

Number of businesses and amount of fixed assets invested on a fiscal year basis

Fiscal year	Number of businesses	Fixed assets invested (million yen)
FY 2000	14 businesses by 8 firms	13,719
FY 2001	9 businesses by 9 firms	8,569
FY 2002	14 businesses by 8 firms	23,595
FY 2003	7 businesses by 6 firms	28,344
Total	44 businesses by 23 firms	74,572

Outline of Yokkaichi City Waterfront Industrial Area Revitalization Program Review Commission

[Purpose]
- To prevent Yokkaichi City Waterfront Industrial Area from hollowing out
- To make effective use of personnel and technology accumulated in the area
- To strongly revive the area as a model of industrial society in the 21st century

→ Programming measures and projects that can be implemented through cooperation between companies and governmental organizations within 5 years and strengthening the competitiveness

[Participants]

President: Professor Urayama, Faculty of Engineering, Mie University

Companies: AJINOMOTO CO.,INC.; ISHIHARA SANGYO KAISHA,LTD.; JSR Corporation; Showa. Yokkaichi Sekiyu.Co.,Ltd.; TOSOH Corporation; NIPPON AEROSIL CO.,LTD.; MATSUSHITA ELECTORIC WORKS,LTD.; Mitsubishi Chemical Corporation; MITSUBISHI GAS CHEMICAL COMPANY,INC.; Mitsubishi Materials Polycrystal Silicon Corporation; Nippon Sheet Glass Co.,Ltd*; Cosmo oil Co.,Ltd.*; Kyowa Yuka Co.,Ltd.*; DAINIPPON INK AND CHEMICALS,INCORPORATED*

(* The marked four companies joined on November 29, 2002.)

Governmental Organizations: Yokkaichi City; Mie Prefecture; Chubu Bureau of Economy, Trade and Industry; Chubu Regional Bureau; Yokkaichi Port Authority

Organization: Yokkaichi Chamber of Commerce and Industry

Observer: Development Bank of Japan

Progress toward the formulation of the special district plan

Step 1 Administration's recognition of a sense of crisis

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Yokkaichi City

Yokkaichi waterfront industrial area

Commitment of the nation and the prefecture

Step 3

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Clarification of the problems to be solved

Roads

Port and harbor

Laws and regulations

Cooperation between companies

Industrial water

The national government introducing the structural reform district system

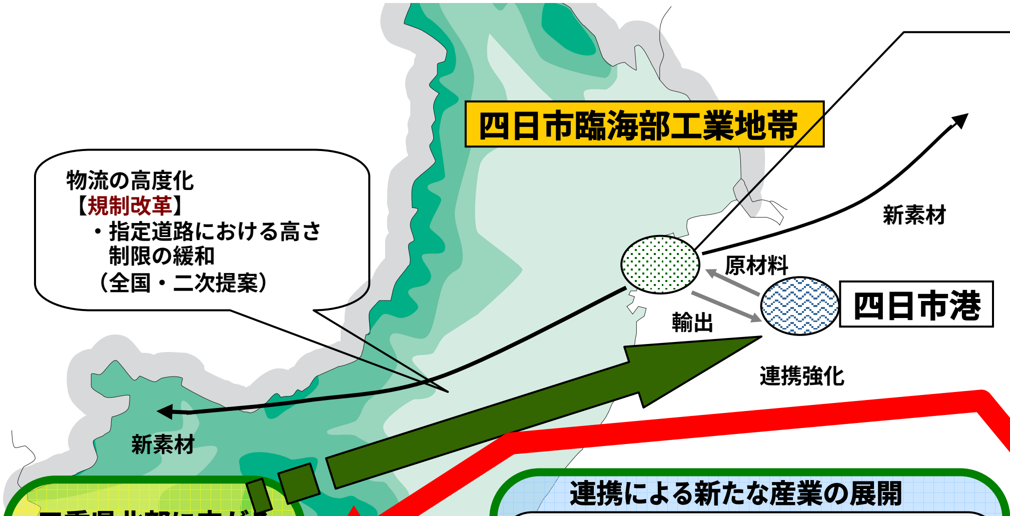
Solving its own problems

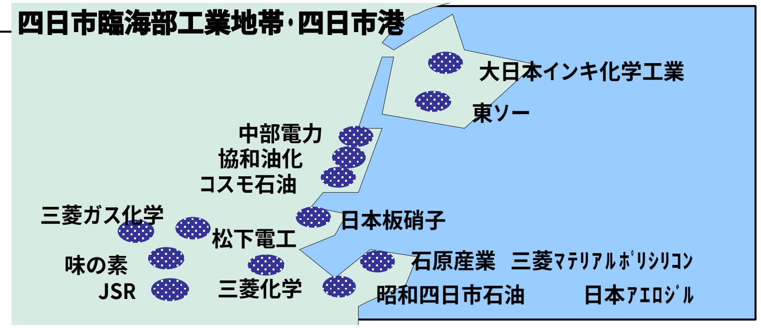
Step 4

Formulation of the special district plan

"Special district for industrial revitalization using integrated technology"

－三重県技術集積活用型産業再生特区－





三重県北部に広がる次世代産業の集積

- 電気・電子（半導体）関連産業　10社
- 液晶関連産業　9社
- 自動車関連産業　78社
- メディカル関連産業　53社

研究シーズ提供
新素材提供
共同開発研究
再資源化要請
技術・土地等資源の提供
研究ニーズ
研究シーズ

連携による新たな産業の展開

燃料電池の研究開発拠点化
［県・市独自の取組］→県：本格予算で措置予定
市：措置済
・研究開発拠点整備への重点支援
・家庭用燃料電池の実証試験に対する重点支援
［規制改革］
○電気事業法等の規制緩和（特区）

次世代ディスプレイ（次世代液晶・有機ＥＬ等）関連産業の展開
［県・市独自の取組］→県：本格予算で措置予定
市：措置済
・研究開発拠点整備への資源の重点支援

環境産業の展開
［県独自の取組］
・資源循環型社会構築に向けた技術開発支援
→措置中
・研究開発拠点整備への重点支援→本格予算で措置予定
・リサイクル施設の整備促進→15年度下半期から
［規制改革］
・リサイクルの推進に向けた再生利用認定制度等の拡充（特区）

バイオ・医薬品の研究開発拠点化
［県独自の取組］
・産学官共同研究（バイオ分野、医薬品・医療分野など）への重点支援 → 措置中
・研究開発拠点整備への重点支援→本格予算で措置予定

従来型の基礎素材産業から高付加価値素材産業への脱皮
《ファインケミカル・医薬品・バイオ等への展開》

［県独自の取組］
・工場立地法地域準則（県条例）の制定→14年12月
・環境アセスメントの実施支援→15年3月～
・水資源の有効活用 →検討中

［市独自の取組］
・企業立地促進条例による固定資産税・都市計画税の1/2相当額現年還付 →実施中
・工場立地法の工業集合地特例対象緑地の拡大 →措置済

［港管理組合の取組］
・四日市港の機能強化(定期航路充実等）→実施中

［地元金融機関の取組］
・設備リニューアル等に対する金融支援 →15年4月

［県・市・港管理組合・産業界の取組］
・臨港道路の整備（工場用地の活用）→詳細検討中

［産業界の ｺﾐｯﾄﾒﾝﾄ］
・ユーティリティの共同化
・自己託送制度の利用
→ 詳細検討中

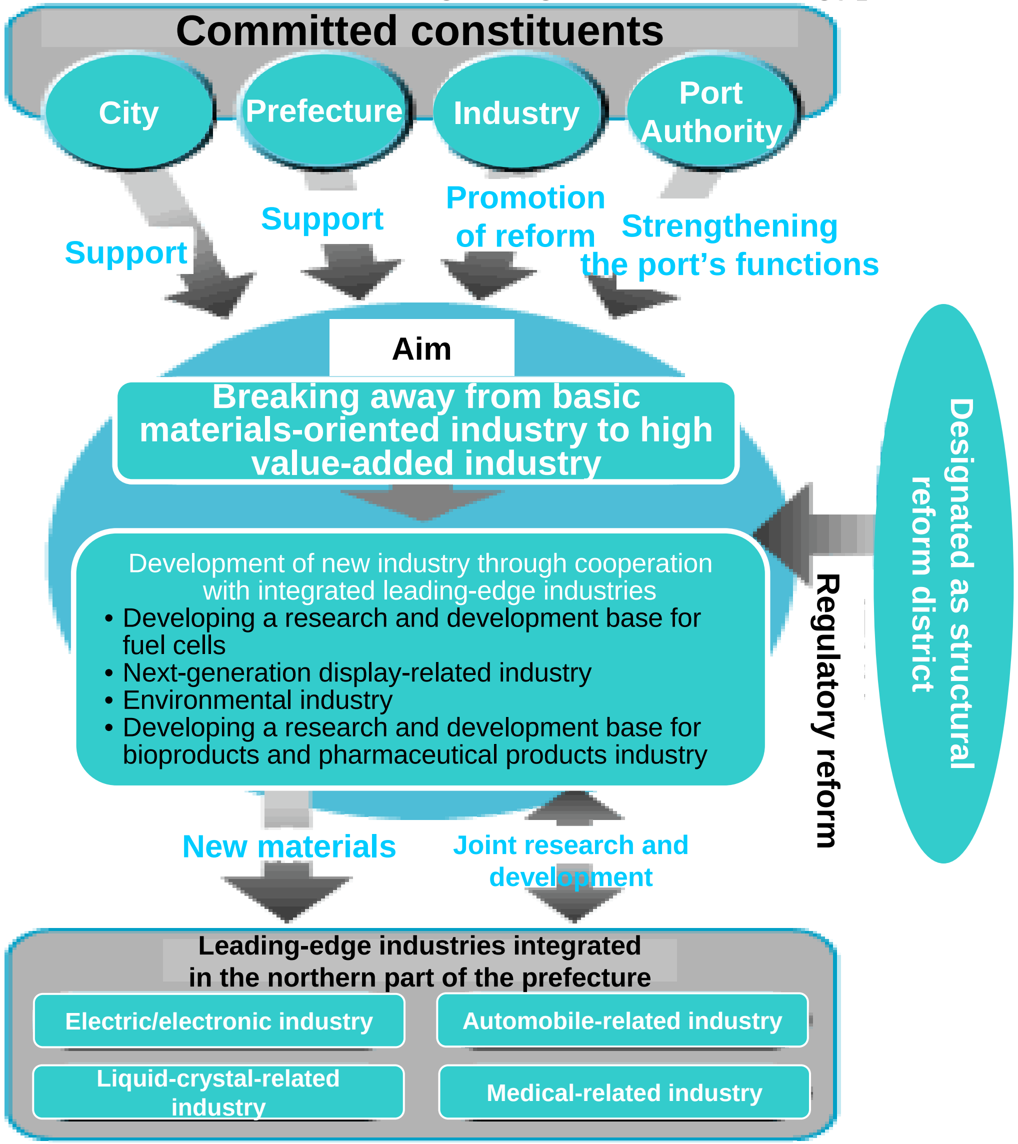
［個別事業者の取組］
・ヒアリング対象15社で、現時点で既に700億円の投資を表明

［規制改革］
○石油コンビナート法レイアウト規制の適正化
セットバック・特定通路・高さ規制（特区）
施設の混在規制500㎡（全国）
・製造現場における派遣労働者の容認（全国）
・公有水面埋立法の用途変更手続の簡素化（特区）
・水先料金の軽減（全国）
○税関の臨時開庁手数料の軽減（特区）
○税関の時間外における通関体制整備（特区）

※ ○は第1次認定申請を行う規制の特例措置

Special district for industrial revitalization using integrated technology

[Flow of the scheme for the special district for industrial revitalization using integrated technology]



- Breaking away from basic materials-oriented industry to high value-added industry
- Development of new industry through cooperation with integrated leading-edge industries
- Collaboration between the prefecture, the city, the port authority and industry

(1) Requesting preferential measures for the layout regulations under the Law on the Prevention of Disasters in Petroleum Industrial Complexes and other Petroleum Facilities

○ Facility layout project and other projects based on various security measures for business places in the designated disaster prevention district, including petroleum industrial complex

Approved alternative measures

(1) Reserving vacant lot for fire-fighting

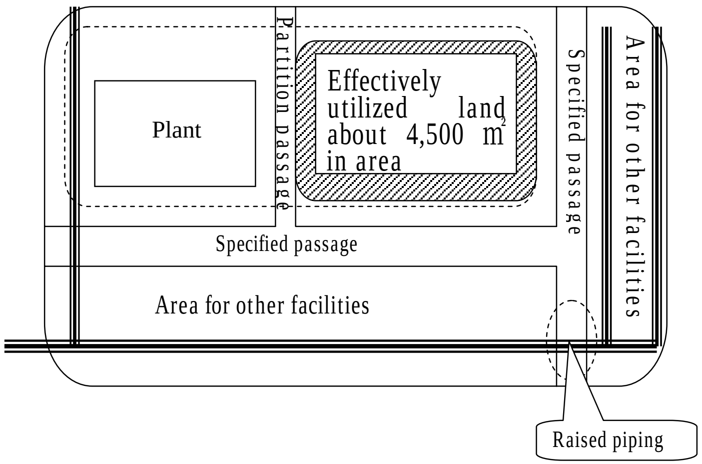
(2) Providing water curtain and other fire prevention equipment

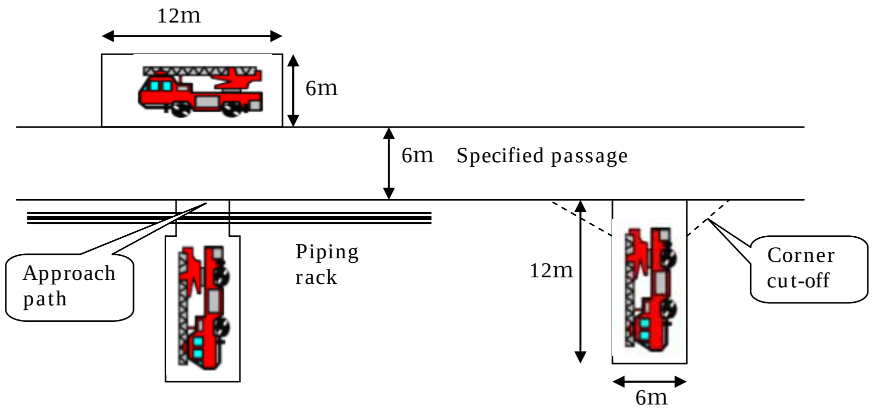
(3) Providing alternative routes for fire-fighting

★Vacant lot and alternative routes for fire-fighting

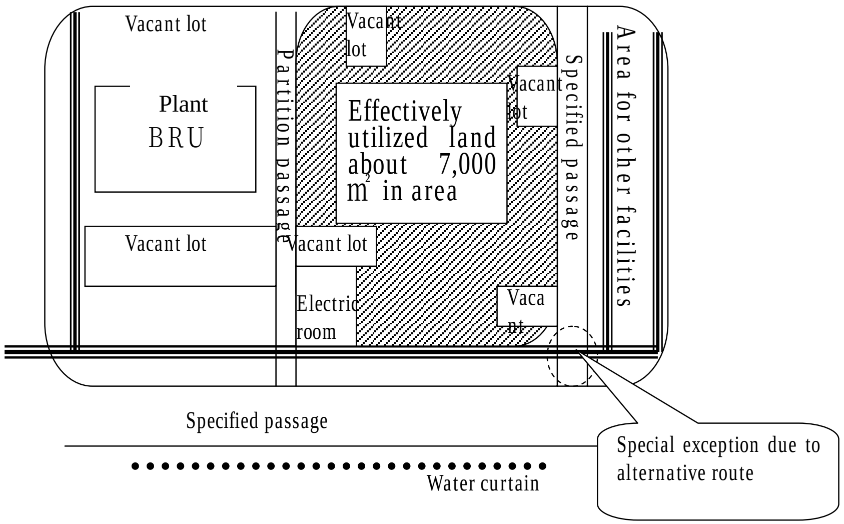
Vacant lot for fire-fighting

○ Existing regulation Effectively utilized land about 4,500 ㎡ in area

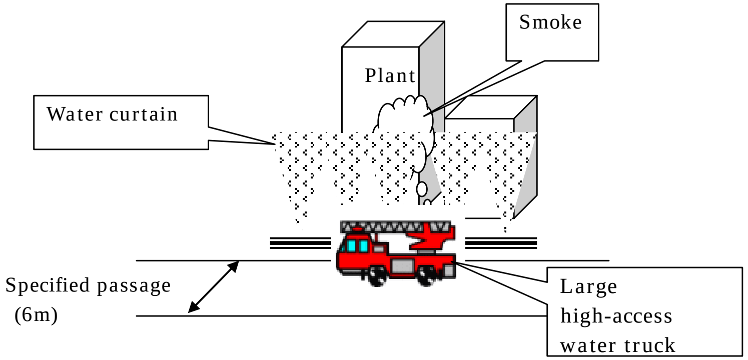




※ Special exception to the regulation → Effectively utilized land about 7,000 ㎡ in area



★Water curtain facility



Economic effect of the special district

Investment in plant and equipment, investment in R&D, etc.

	Total investment amount (billion yen)	Economic ripple effect (billion yen)	Effect on employment creation (number of employees)
Planned investment in plant and equipment, investment in R&D, etc.	**70**	**30**	**1,800**
[Reference] Renewed investment amount (per year)	**15**	**20**	**1,200**

Increase in annual shipment value

	Total shipment value (billion yen)	Economic ripple effect (billion yen)	Effect on employment creation (number of employees)
Increase in annual shipment value	**40**	**10**	**300**

Yokkaichi City's private research institute location incentive scheme

■ **Target projects**
- ◆ **Research on fuel cells**
- ◆ **Research on next-generation displays**
- ◆ **Research on bio-products and pharmaceutical products**
- ◆ **Research aiming to transform from existing products to high value-added products**

■ **Target requirements**
- ◆ **A research organization should be newly established and its research facilities should be developed.**
- ◆ **Acquisition cost for depreciation assets such as research facilities should be over \30,000,000.**
- ◆ **There should be no delayed payment in city taxes.**

etc.

■ **Content of incentive measures**

A subsidy of 5 to 10% of the acquisition cost for research facilities (house and depreciation assets) is to be offered up to \100 million.

Investment planned for the special district

Targets of investment	Amount of investment (thousand yen)
Research on fuel cells	50,000
Research on next-generation displays	750,000
Research on bio-products/pharmaceuticals	48,600
Research on high value-added products	1,420,000
Total	2,268,600

Successful Corporate Restructuring & Its Benefits: Korean Case Studies

8, September 2004

Yong-kyoon SHIN

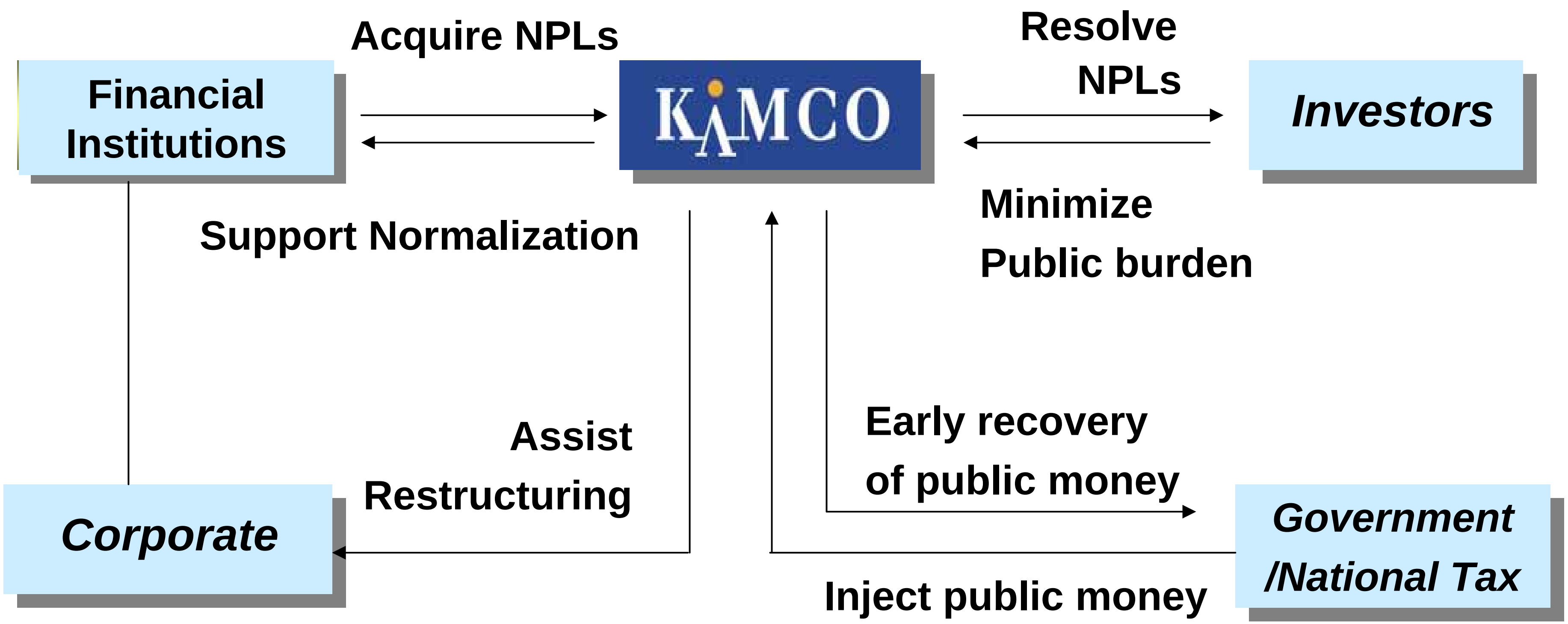
(Former Executive Vice President of KAMCO)

Table of Contents

NPL Acquisition & Resolution

KAMCO’s Role

- Provide liquidity and restore stability ➡ Revitalize Korean economy



Classification of NPLs

Ordinary Loans	*Loans currently in default for 3 months or longer whether they are secured or unsecured*
Corporate Loans under In-court Restructuring	*Loans to companies under court receivership or composition proceedings whether they are secured or unsecured*
Corporate Loans under Private Restructuring	*Loans to companies under private workout programs, which have been agreed by creditors for restructuring distressed assets*

Resolution Strategies

Principles & Policies

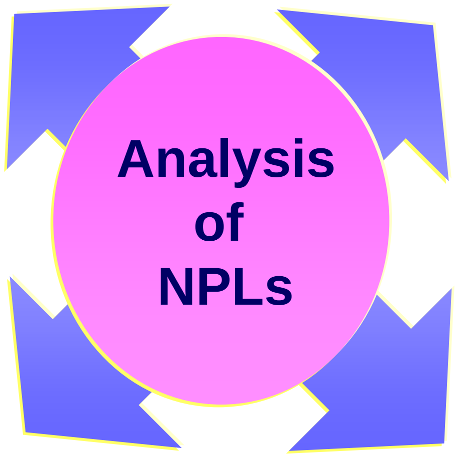
Speedy and efficient resolution
Transparent and fair procedure

Loan Sale to Investor

- International Bidding
- Foreclosure
- Individual Loan Sales
- M&A

Loan Sale to Vehicle

- Securitization (ABS)
- Corporate Restructuring Company
- Equity Partnership
- Corporate Restructuring Vehicle



Debt Rescheduling

- Suspend foreclosure
- Write off the principal
- Reduce Interest Rate
- Extend Payment Maturity

Corporate Restructuring

- Financial Restructuring
- Business Restructuring
- Organizational Restructuring
- Governance Restructuring

KAMCO's Loan Sale Methods

❖ **Individual Sale**

- Sale to 3rd Party Investor (Independent CRC etc.)

❖ **Portfolio Sale**

- Bulk Sale to 3rd Party Investor by portfolio

- Sale to SPV for Securitization

- Sale to Joint Venture (AMC, CRC, CRV)

Accounting: KAMCO achieves legal sale of NPL

Economics: KAMCO participates in potential upside of portfolio held by Joint Venture

Corporate Restructuring

Financial Restructuring

- ❖ Extension of loan maturity with grace period
- ❖ Reduction of interest rate
- ❖ Write off principal
- ❖ Release the Cross-Guarantee between affiliates
- ❖ Debt to Equity SWAP or Debt to Convertible Bond SWAP

❖ Korean Government supported Debt to Equity SWAP by special Law (Corporate Restructuring Promotion Act)

- Debt to Equity SWAP is free from Banks' stock purchase limits

Business Restructuring

Sale of Assets, Business Units

Spin-off Business division (most Dawoo major companies)
-> Commercial Code amended (Dec. 1998) to introduced sale of business division
-> Special Tax Treatment Control Act amended to provide incentives for spin-off and split-off

M&A sale of controlling stakes

New financial intermediaries (CRC, CRV)were introduced to induce External Equity Participation

How to 'Workout'

Standstill: Debt Rescheduling and Self Rescue to be agreed within 3 months from standstill

Due Diligence by independent accountants (avg. 2.4 times per debtor) to decide whether Workout is 'Feasible'

Administered by main Bank (or Largest Creditor Bank)
The Corporate Restructuring Coordination Committee acted until July 2000 as mediator, having close tie with the Financial Supervisory Commission. The Committee handled 40 decisions

Main Creditor dispatched a professional team for managerial and financial supervision of debtor

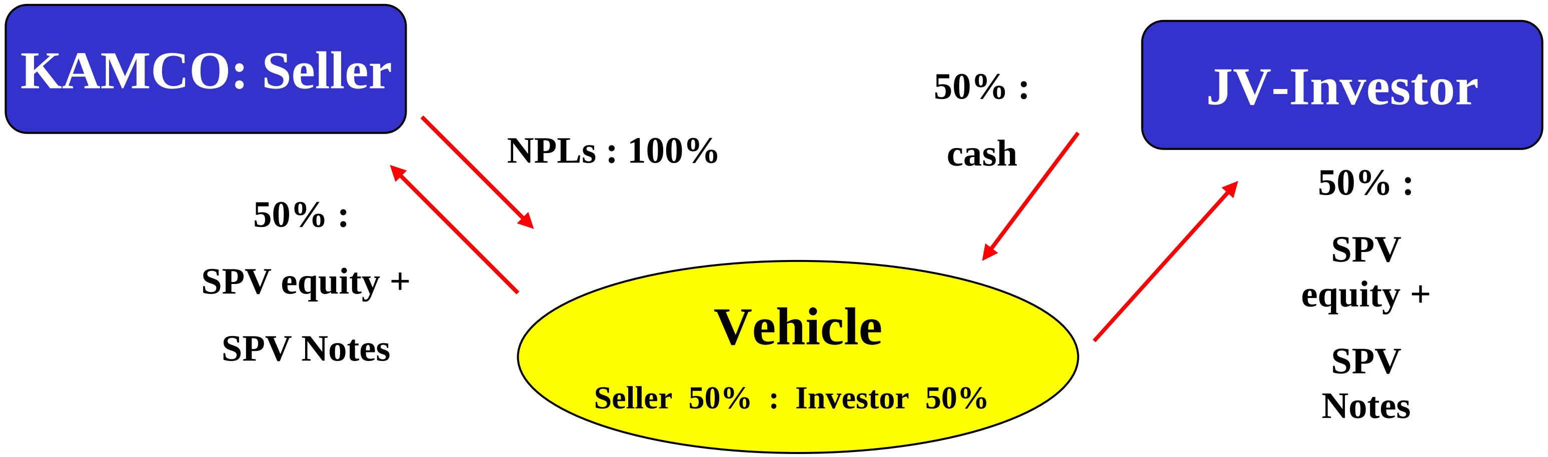
Creditors' Resolution to be agreed by 75% of total debt owed to creditors

New money can be lent a second time to senior secured status (by agreement)

KAMCO's NPL Vehicles

JV-SPC(AMC) & JV-CRC Process

• KAMCO pre-qualified bidder group and then among them selected a JV-Partner on a particular NPL portfolio by the highest bid price
NPLs are kept under Vehicle's title and ownership



• Seller and Investor form a JV to warehouse NPL for future restructuring
• Investor pays cash and receive Vehicle Notes , rather than NPLs direct
• KAMCO delivers NPL and received Notes issued by The Vehicle
• KAMCO utilized USD 500 mil. loan from ADB for JV-CRC project

JV SPC(AMC)

(USD 1 = KRW 1,200)

The 1st AMC: Deutsche Bank + Samsung Life

Bid Date	12/21/99	Size	KRW 484 Billion (USD 403.3 Million: Secured 56%, Restructured Corporate 44%)

The 2nd & 3rd AMC: Morgan Stanley

Bid Date	05/9/00	Size	KRW 978 Billion (USD 815 Million: Secured 57%, Restructured Corporate 43%)

The 4th AMC: Colony Capital

Bid Date	06/20/01	Size	KRW 531 Billion (USD 442.5 Million: Secured 35%, Restructured Corporate 65%)

JV CRC

(USD 1 = KRW 1,200)

The 1st CRC: Lehman Brothers			
Bid Date	05/23/00	Size	KRW 610 Billion (USD 508.6 Million: Secured 27%, Restructured Corporate 73%)

The 2nd CRC: Colony Capital			
Bid Date	09/27/00	Size	KRW 657 Billion (USD 547.8 Million: Secured 21%, Restructured Corporate 79%)

The 3rd CRC: Morgan Stanley			
Bid Date	09/27/00	Size	KRW 155 Billion (USD 129.1 Million: Secured 30%, Restructured Corporate 70%)

The 4th CRC: Colony Capital			
Bid Date	08/12/03	Size	KRW 334 Billion (USD 278.2 Million: Restructured Corporate & Workout 100%)

CRV

One Company per one CRV:

to avoid complicated multi-debtor, multi- creditors status in CRC

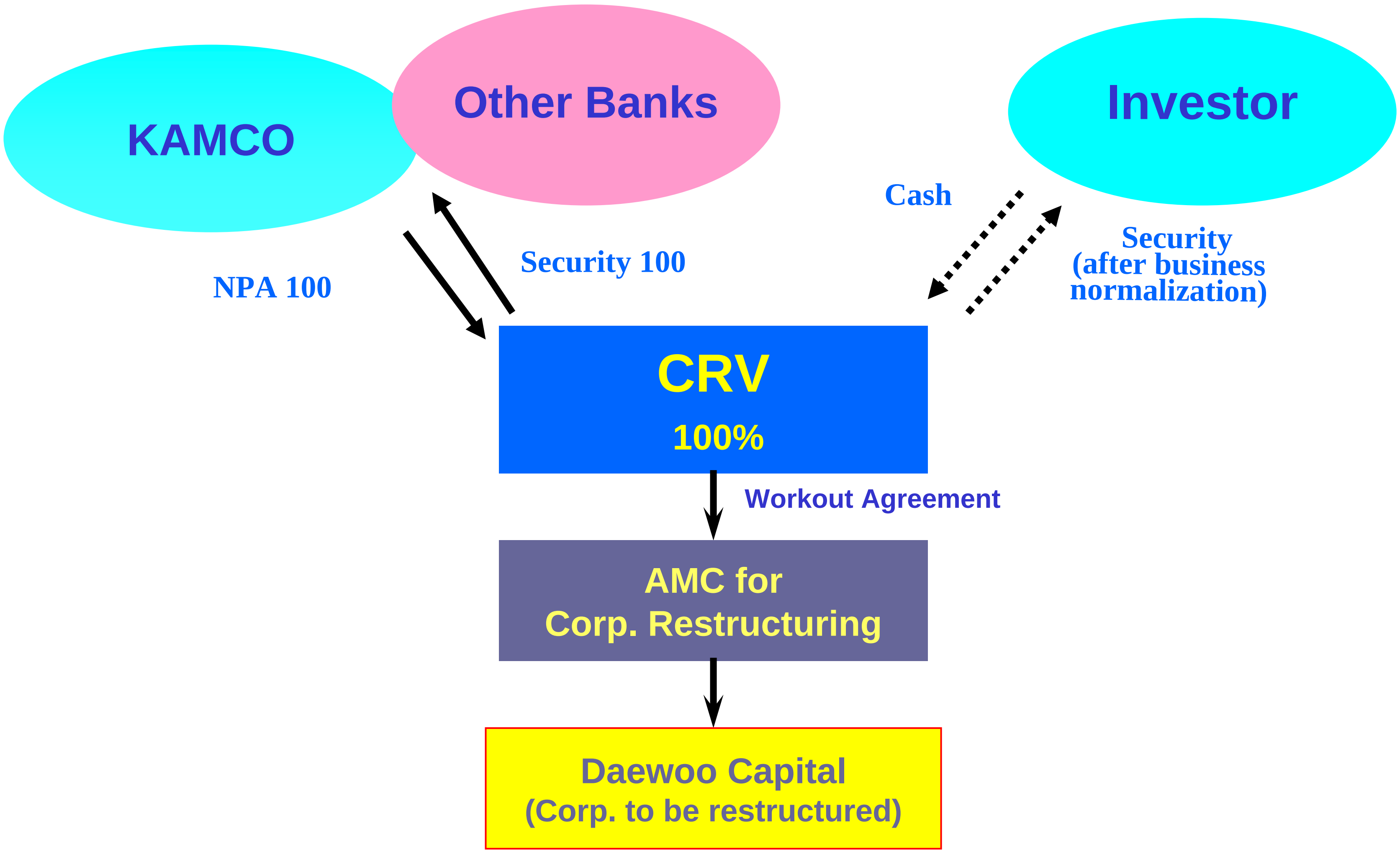
CRV, as a limited life paper co, is an investment vehicle enjoying tax/ leverage benefit

Joint Venture between Creditors and 3rd Party investor

CRV Asset management company should be equipped with expertise and experience in M&A and Workouts

KAMCO and Banks sell loans/ shares (acquired by swap), and in return receive cash or CRV shares

CRV : Case of Daewoo Capital (Cooperative type)



Comparison of 3 Vehicles

	SPC (AMC)	CRC	CRV
Relevant Act	Asset Securitization Law, Oct. 1999	Industry Development Law, Feb. 1999	Corporate Restructuring Investment Company Law, Oct. 2000
Character of Entity	Paper Company managed by AMC capitalized at KRW 1bil. or more	Substantial	Paper Company (with Limited Life) managed by AMC capitalized at KRW 2bil. or more
Minimum Capital	KRW 10million	KRW 7billion	KRW 500million
Target Assets	Wide Portfolio: Any assets pursuant to Securitization Law	Wide Portfolio: Any assets but including corporate shares to be restructured	Single Corporate: Debt and swapped shares to be restructured

Regulatory Support for NPL Vehicles

	SPC (AMC)	CRC	CRV
Corporate Tax	Dividends, if more than 90% of taxable income, are deductible	To be taxed	Same as SPC
Tax on mortgage Transfer	Exempt until 2003 Halved from 2004 until 2006	Same as SPC (CRCs usually use securitization process)	Exempt until 2006
Limitation of Stock holding by Creditor Bank	Limited by Bank Regulation	Limited by Bank Regulation	Not limited by CRPA Act
New financing to Debtors	Impossible	Possible	Possible

Law Changes

Oct. 1998 Securitization Law was enacted; the law could not introduce Corporate Tax Benefits

Feb. 1999 CRC Act

Dec. 1999 Tax Law amended
- **SPC Corporate Tax Benefit (90% dividend tax free) provided**
- **Foreign investors' preference of Offshore SPC waned**
- **CRC was provided Capital Gain exemption**

Dec. 2000 Tax Law amended
CRV (Oct. 2000 Act) was provided same tax benefit as SPC

Jul. 2001 CPRA Act passed

Jan. 2001 CRC Law amended: minimum restructuring asset requirement raised from 10% to 20%

Workout Performance(1)

Bankruptcies Filed in Court in Korea

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003[1)]
Reorganization (A)	64	87	45	42	77	52	132	148	37	32	31	28	24
Composition (B)	0	0	0	0	13	9	322	728	140	78	51	29	15
Workout (C)								55	22	6			
C/(A+B) (%)								6	1..2	5.4			

Note: 1) from January to June
Source: Supreme Court of Korea, Financial Supervisory Service

Workout Performance(2)

About 2/3 of workout debtors were normalized

	1998	1999	2000	2001	2002
Entry	55	22	6	0	0
Exit		1	34	18	21
Clean Exit		1(M&A)	34	11	9
Self Mgt			**-**	**7**	**12**
Failure		1	11	3	1

Workout performance was quicker than Corporate Reorganization under Bankruptcy Court supervision

Additional indirect benefits

Quick action : Law Changes, Tax and Regulatory Exemption

Market open to Foreign Capital: capital market
real estate market

Introduction of CRC:
Domestic investors learned foreigners' investment patterns
Korean Venture Capitals turned to Vulture Funds

Disciplines:
CEOs were changed in 56 out of 83 workouts (as of Dec. 2002)
In Corporate Reorganization, Bankruptcy Court nominates CEO

Success of Financial Restructuring: Banks could absorb more provision and debt to equity swap

Thank You !

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IRCJ

Industrial Revitalization Corporation of Japan

APEC High Level Conference on Structural Reform

September 8th, 2004

Executive Managing Director
Kazuhiko Toyama

Contents

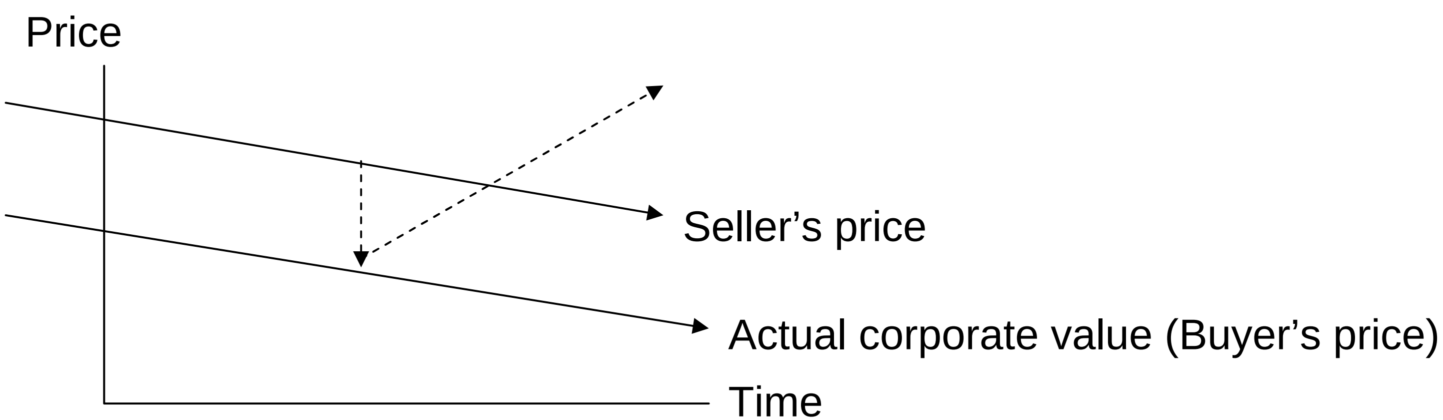
Page

1. Misconceptions of Current NPL Problem—Market Failure

IRCJ

- **NPL can be categorized into <u>Asset distressed</u> and <u>Business distressed</u>**
  - Although inter-related, the cause and approach to dealing with each problem is different
  - Japan has seen dramatic increase in Business Distressed Companies
- **Existing NPL market functions for Asset-Distressed ONLY**

<u>No Market Mechanism for Business Distressed</u>
<u>(Structural Problem; "Market Failure")</u>



2. Reasons for Market Failure

- **Japan's Unique Lending Practices— Over-Emphasis on Indirect Financing**
  - Reliance on "Main bank System"
  - Loans from multiple commercial banks (Kanebo's liabilities consisted of loans from more than 100 banks)
- **Wide Difference in Banks' Financial Health**
  - Enormous damage if private rehabilitation processes is applied to all financial institutions
- **Problem of Governmental Financial Institutions**
  - Very little leeway in discretionary negotiations
- **Problems associated with personal guarantees**
- **Taxation**
- **Information Asymmetry**
- **Inconvenience of legal process**
- **Others**

3. Fundamental Problems of Japanese Corporations

IRCJ

After ten lost years, Japanese industries face:

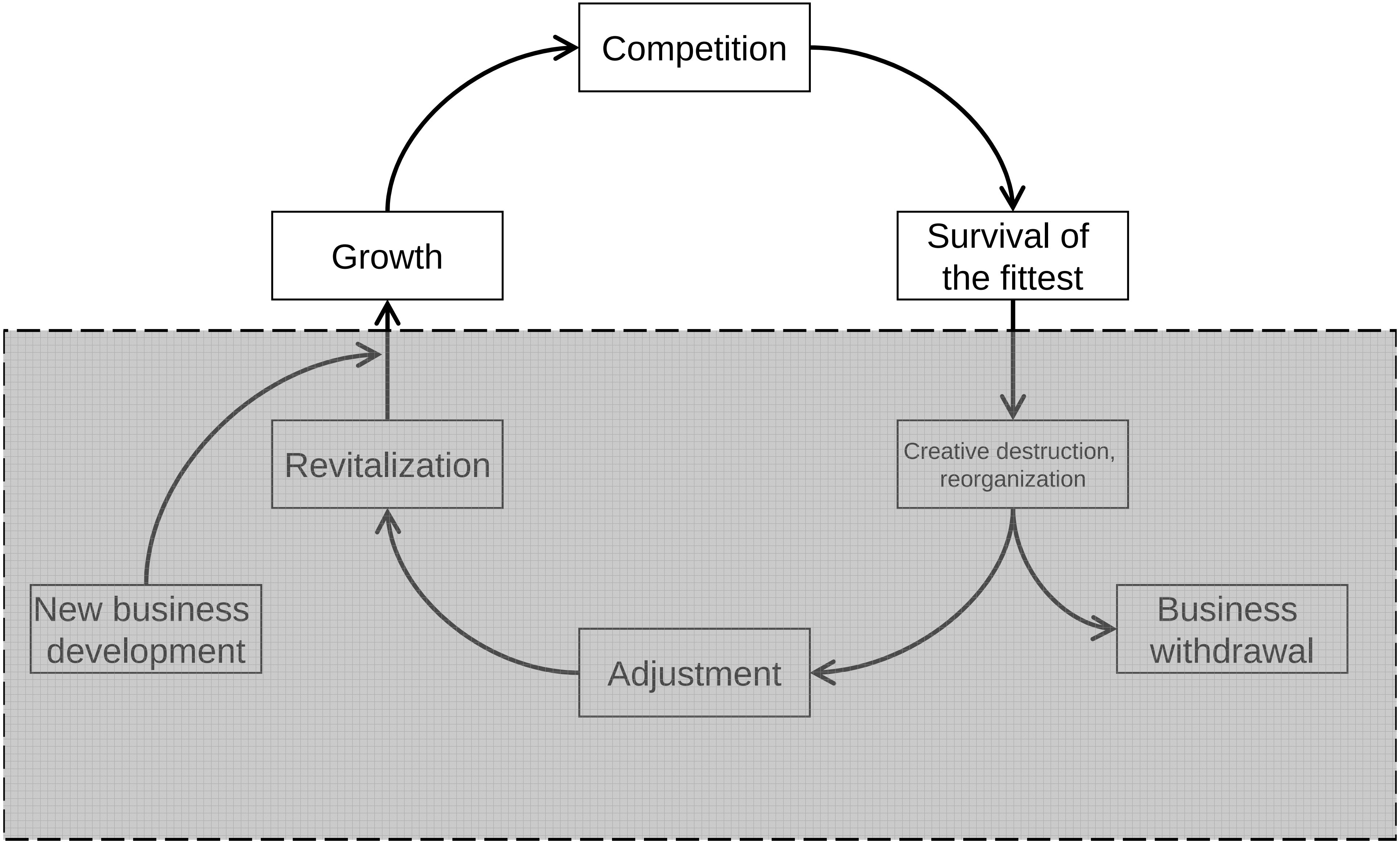
- **Financial problems**
  - Excessive debt
  - Hangover from the Bubble Economy
  - Business factors
- **Business and strategic problems**
  - Structural oversupply and under-investment
  - Lack of strategy amidst intensifying competition
  - Loss of workforce quality (at both operational and management levels)
  - Deeply-rooted “Just wait for the Spring to arrive” passive philosophy

In today’s world of corporate distressed NPLs, balance sheet adjustments are no longer sufficient to achieve industrial revitalization

4. IRCJ's Philosophy (1) Restore Competition Model to Revitalize Industry

- **Create environment for dynamic Competition Model unique to Japan**
  - –Competition leads to Innovation
  - –Competition and Selection lead to re-allocation of human and capital resources
- **Design and implement effective Competition Model**
  - –Create new business, corporate, and management models
  - –Create and develop new industrial model to incorporate these models
- **Establish market discipline**
- **Establish a safety net mechanism to support Competitive Model**
- **Redefine roles of public and private sectors**
  - –Legislation/rule design
  - –Role of judiciary

5. Japan’s Undeveloped Business Cycle



6. IRCJ's Philosophy (2) Enhance Human Resource Utilization to Revitalize Industry

IRCJ

- **Reality: Japan lacks natural resources. Strength lies in <u>human resources</u>**
- **Consensus-based, Kaisha Society (i.e. emphasis on educational background and seniority system preserved by Corporate Japan)**
  - Invisible class society
  - Skewed Organization (increased number of seniors, stagnant promotion, etc)
  - Lack of capable executive management
  - Widespread desperation of employees and discontinued business know-how

- **Need for New Type of Management Pool with Individual Mindset**
  - Bring them to the forefront before they are destroyed by incompetent management
  - Nurture "professional management" pool that consists of high-caliber individuals
  - Formulate and promote new business model led by new management generation

IRCJ

Enquiries

Tel. 03 6212-6400

Outline of revitalization plans of companies that the IRCJ has decided to assist (as of Aug 6, 2004)

Company name	Kyushu Industrial Transportation Co., Ltd. Kyushu Industrial Transportation	DIA KENSETSU Co., LTD.	Usui Honsha K.K. Usui Department Store K.K.	MITSUI MINING COMPANY, LIMITED Three other companies	Meisei Shokai K.K. EK	Matsuya Denki K.K.	Tsu Matsubishi Co.	Yagami Shoji K.K.
Date of approval of assistance	28-Aug-03	28-Aug-03	28-Aug-03	31-Oct-03	26-Sep-03	26-Sep-03	24-Oct-03	31-Oct-03
Date of purchase agreement	27-Nov-03	30-Sep-03	31-Oct-03	10-Dec-03	31-Oct-03	01-Dec-03	27-Nov-03	01-Dec-03
Outline of business								
Business	Regular coach services, trucking, tours, hotels	Apartment sales, apartment management, property rental, finance, hotels, building renovations	Department stores	Energy-related business, cement, construction materials-related businesses, machinery-related businesses, other businesses	Specialty trading company (Chemical products, electronic materials etc.)	Retail and wholesale of electrical appliances	Department stores	Wholesaler of medical hygiene products
Head office / Capital	Kumamoto City / ¥905 million (as of March 31, 2003)	Tokyo / ¥21.8 billion (as of June 30, 2003)	Fukushima / ¥400 million	Tokyo/ ¥11.64 billion (as of June 30, 2003)	Osaka / ¥80 million (as of March 31, 2003)	Osaka / ¥14.66 billion (as of July 31, 2003)	Mie / ¥100 million (as of July 31, 2003)	Aichi / ¥99 million
Group	20 affiliated companies	12 consolidated subsidiaries 1 affiliated company	-	77 subsidiaries 36 affiliated companies	3 subsidiaries	3 consolidated subsidiaries	2 subsidiaries	2 consolidated subsidiaries 4 affiliated companies
Number of employees	Regular employees - 4,112 (as of March 31, 2003)	644 - On a non-consolidated basis 3,169 - On a consolidated basis (as of March 31, 2003)	355 (as of July 2003)	732 in 3 companies (mining, transportation, coke) About 4,700 in the group	172 (as of July 2003)	975 2,500 - including franchisees (as of July 31, 2003)	188 (as of July 31, 2003)	183 (as of June 30, 2003)
Amount of debt	¥53.58 billion (at both Kyushu Transportation and Kyushu Logistics) (as of March 31, 2003)	¥193.95 billion - on a non-consolidated basis (as of March 31, 2003)	¥15.5 billion (as of July 2003)	¥242.5 billion (Total at 4 companies as of date of reapproval decision)	¥13.36 billion (as of March 2003)	¥53.0 billion (as of July 2003)	¥9.56 billion (as of February 2003)	¥5.95 billion (as of June 30, 2003)
Name of financial institution jointly submitting application	Mizuho Bank, Ltd.	Resona Bank, Ltd.	Akita Bank	Sumitomo Mitsui Banking Corporation	Sumitomo Mitsui Banking Corporation	Resona Bank Ltd.	THE HYAKUGO BANK LTD.	Juroku Bank, Ltd.
Outline of revitalization plan								
Background to application for assistance	The company had planned to repay debts run up during the bubble period. However, a decline in the size of the market for its bus business and a fall in the real estate rental market has made it difficult to repay this debt.	The collapse of Nippon Credit Bank and a decline in Dia Kensetsu's credit rating led to a deterioration in its business. Its negative net worth exceeded ¥100 billion because of non-performing assets accumulated during the bubble period.	After completing building renovations, the sales space at the department store expanded significantly. However sales fell short of expectations, which led to a build up of losses. The decline in sales slowed but the accumulated losses did not improve as the result of excessive invetment.	Slump in real estate market led to delay in asset sales. In addition to problems related to mine pollution and pneumoconiosis, there has been a delay in the core coal businesses returning to profit.	Management has been adversely affected by losses of about ¥4.5 billion incurred from trading shares on margin during the bubble period and harmful rumors. Subsequently demand has declined in all its business areas and sales have suffered because of the effects of deflation.	The company suffers from excessive debt. It has drawn up a medium-term business plan, however the earnings performance for the year ended March 31, 2003 fell far behind the plan, and it became difficult for the company to meet requests from non-main banks to increased debt repayments.	Responding to competition from suburban-type shopping centers, the company expanded its floor space. However, a decline in consumer consumption led to sluggish sales growth and the debts incurred for floor space expansion worsened the company's financial condition.	A delay in changing its business model away from the bulk delivery of a single product led to a decline in sales and profits. A low capacity utilization and operating efficiencies at the company's newly constructed distribution center worsened its financial situation.
Business plan	The company will pull out of all businesses except for regional bus operations, its sightseeing business, and landmark business. The Kyushu Logistics group will shift to high value-added operations.	Focus on quality, not on volume. Create a business model with fast asset turnover. Aim to expand apartment management and renovation business.	Rent out floor space and make better use of selling areas. Joint purchasing from suppliers with Mitsukoshi, improve gross profit margins. Expand the car parking area and reduce spending.	Focus on energy and machinery businesses as the core business. Pull out of all other businesses. Continue to merge and reorganize affiliates.	Continue core chemicals product business, develop strategic products in semi-core businesses, cut SG&A expenses, review and close unprofitable domestic and overseas branches, improve asset utilization efficiency.	Create business model for Matsuya Denki in electrical appliance market. Close unprofitable stores, and reorganize franchise stores.	Liquidate subsidiaries to streamline and improve operational efficiency. In addition to obtaining support from the sponsor, the company will thoroughly "select and focus" its product line-up.	The support from the sponsor will eliminate concerns about the company's creditworthiness. The ineffcient distribution center will be closed and its facilities integrated into the distribution centers of the sponsor to improve efficiencies and profitability.
Net sales - Operating income	3/03 ¥57.5 billion - ¥2.5 billion 3/08 ¥53.8 billion - ¥3.2 billion	3/03 ¥76.7billion - (¥670 million) 3/06 ¥61.4 billion - ¥6.3 billion	7/03 ¥16.9 billion - (¥590 million) 7/06 ¥16.0 billion - ¥80 million	3/03 ¥166.5 billion - ¥4.3 billion 3/07 ¥128.8 billion - ¥4.3 billion	3/03 ¥58.1 billion, ¥290 million 3/06 ¥50.3 billion, ¥320 million	3/03 ¥102 billion - ¥1.8 billion 3/06 ¥55 billion - ¥1.3 billion (On a non-consolidated basis)	2/03 ¥9.1 billion - ¥30 million 2/06 ¥9.4 billion - ¥290 million	6/03 ¥11.7 billion - (¥200 million) 6/07 ¥9.1 billion - ¥100 million
Outline of plan	The IRCJ bought 67% of all the outstanding shares of Kyushu Transportation. It also bought 95% of the outstanding shares of Kyushu Logistics	Integrate or abolish operational offices in apartment business. Continue apartment management and renovation businesses. Aim to pull out of remaining businesses.	To improve management efficiencies, the assets and liabilities of the department store operations were transferred from Usui Honsha to Usui Department Store.	Integrate mining, coke, and distribution companies	Meisei Shokai and its subsidiary EK will merge and will continue operating with Meisei Shokai as the remaining company.	Transfer operations to new company through Civil Rehabilitation proceedings	Improve efficiencies by closing unprofitable stores and liquidating subsidiaries. Receive investment from sponsors.	The company will be split up. The sponsor will create a new company and all the operations of the company will be transferred to this company. The former company will be dissolved.
Change in capital, debt/equity swap	The value of shares held by the owners in Kyushu Transportation will be reduced by 100%. The value of shares held by regular shareholders will be reduced by 95%. The IRCJ will invest ¥350 million and financial institutions will exchange debt for equity worth ¥620 million. The value of shares in Kyushu Logistics will be reduced by 100%, the IRCJ will invest ¥800 million	Capital reduced by 99%. ¥40 billion DES with Resona Bank. Raised ¥1.8 billion through third-party placement (to the sponsor)	Capital of Usui Department Store reduced by 100% ¥100 million DES with Akita Bank. Raised ¥100 million capital through third-party placement to Akita Bank, Mitsukoshi, IRCJ, local businesses, others.	Capital reduced by 99% ¥27 billion. Raised capital through third-party placement (to SMBC). ¥20 billion DES through IRCJ, which will also invest ¥19.5 billion	All shares held by the family of the owners and directors will be eliminated (about 85% of the total or ¥70 million of capital). The IRCJ will inject ¥500 million worth capital.	Shares of former company wil be dealt with during Civil Rehabilitation proceedings	Capital reduced by 99%. 10 shares consolidated into 1. (Shares held by the owner's family will be handed in without compensation following the capital reduction). Sponsors will invest ¥600 million DES of ¥500 million (Hyakugo Bank) DES ¥3.5 billion (Sponsors)	Sponsor, affiliates, and 5 manufacturers will invest a total ¥460 million capital in the new company
Selected sponsor	--	Leopalace21 Corp.	Mitsukoshi Ltd.	-	-	New MD Partners (Shinsei Bank Group)	Japan Recovery Fund (Phoenix Capital)	PIP-FUJIMOTO Co., Ltd.,
Amount of financial assistance	¥26.4 billion (including DES)	¥132.7 billion (including DES)	¥11.3 billion (including DES)	¥162.5 billion	¥5.1 billion	About ¥40 billion	¥7.1 billion (including DES)	¥3.3 billion
Principal value of debt purchased	¥39.23 billion	¥20.28 billion	¥4.54 billion	¥178.3 billion	¥4.57 billion	¥2.24 billion	¥960 million	¥3.7 billion

Outline of revitalization plans of companies that the IRCJ has decided to assist (as of Aug 6, 2004)

Company name	Fujiyugyo Co., Ltd.	Kimmon K.K. and 17 other companies	Yoshimoto Tochitatemono Co., Ltd. and Osaka Marubiru Co., Ltd.	1. Kanebo, Ltd. and 34 group companies 2. Kanebo Boutique Co., Ltd.		Fre'c	Okawaso Co., Ltd.	Taiho Industries Co., Ltd
Date of approval of assistance	19-Dec-03	January 28, 2004 (Assistance for 2 additional companies approved on March 10, 2004)	28-Jan-04	31-May-04	10-Mar-04	27-Apr-04	17-May-04	20-May-04
Date of purchase agreement	13-Feb-04	30-Mar-04	27-Feb-04	30-Jul-04	30-Mar-04	25-Jun-04	13-July 13-2004	5-July 5-2004
Outline of business								
Business	Oil wholesaler	Manufacture and sale of metering equipment (gas, LPG gas, and water meters)	Hotels	Home Products, Pharmaceuticals, Food, Fashion, Textiles, and New Materials	Cosmetics (following transfer of business)	Food supermarkets	Hot spring resort hotel	Manufacturing of industrial chemicals and chemicals for the automotive industry. Machinery-related and electronics-related businesses.
Head office / Capital	Hokkaido / ¥30.3 million (as of September 30, 2003)	Tokyo / ¥1,.575 million	Osaka / ¥655 million (total)	Tokyo / ¥31.342 billion (as of March 31, 2004)	Tokyo / ¥450 million (as of March 31, 2003)	Chiba / ¥386 million (as of March 31, 2003)	Fukushima / ¥31 million (as of March 31, 2004)	Tokyo / ¥358.2 billion (as of March 31, 2003)
Group	5 subsidiaries	20 consolidated subsidiaries and affiliated companies.	2 affiliated companies	55 consolidated subsidiaries, 8 affiliated companies	-	8 companies	--	Taiho Commercial Co., System Kikou Co., Ltd. and 3 other companies
Number of employees	87 (as of September 30, 2003)	622 (as of September 30, 2003)	86 (as of December 31, 2003) (total)	2,435 on a non-consolidated basis (of which 1,025 from cosmetics). 13,580 on a consolidated basis (of which 8,714 from cosmetics). (as of March 31, 2004)	28 (as of October 2003)	1,008 (as of March 31, 2003)	191 (as of April 2004)	268 (as of September 30, 2003)
Amount of debt	¥7.5 billion (as of March 2003)	¥33.87 billion (as of March, 2004)	¥20.31 billion (Total of the debt of Yoshimoto Tochitatemono as of April 30, 2003 and the debt of Osaka Marubiru as of Dec. 31, 2002)	¥601.4 billion (as of March 31, 2004)	¥1.4 billion (as of March 31, 2003)	¥10.1 billion (as of March 2004)	¥6.4 billion (as of March 2003)	¥8.45 billion (as of March 2004)
Name of financial institution jointly submitting application	Fuji Kosan Co., Ltd. (Parent company)	Resona Bank Ltd.	Sumitomo Mitsui Banking Corporation	Sumitomo Mitsui Banking Corporation		Chiba Bank	Toho Bank	UFJ Bank Limited
Outline of revitalization plan								
Background to application for assistance	Fuji Leasing, Fujiyugyo's subsidiary, went bankrupt after making excessive real estate loans during the bubble period. Fujiyugyo had extended ¥5 billion loan and ¥15 billion guarantee to Fuji Leasing, and subsequently Fujiyugyo was thrown into crisis.	The company faces significant problems because of excessive capital investment, a failure in diversifying its core business, and ineffective management of its core business.	The interest burden resulting from excessive investment for the hotel construction and the associated fund raised with a high debt ratio put downward pressure on profits. Additional losses were made during the bubble period, making it impossible for the company to reduce its excessive liabilities.	The company originally started its main business around textiles, that then pursued diversification by bringing completely different business with completely different profitability and business characteristics within one corporate structure, thus the competitiveness of the whole group was lost. Financially, the company has an excessive debt burden resulting from massive debts from over-investment and borrowings to cover losses.		The company amassed excessive liabilities through excessive investments in real estate and aggressive opening of stores. Despite its effort of reducing liabilities by closing low profitability stores, selling needless assets, etc., the company judged that revitalizing its business by itself was too difficult.	During the bubble period, the company over-invested in the construction of a new hotel building, but the costs were not managed effectively. When an economic recession led to a drop in net sales, the company was unable to reduce the excessive liabilities and raise sufficient capital to make necessary investments.	The company accumulated losses as a result of over-investment in its U.S. businesses. In pursuit of sales expansion, the company built up massive inventory and became unable to sustain its level of debt. The failure of the company's investment in securities and in golf course business resulted in an excessive burden of debt.
Business plan	Scale back low-profitability lubricant business, focus more on growth businesses such as direct sales of A-type oil, and retailing LPG.	Concentrate Kimmon's management resources on its three core metering businesses, and sell or withdraw from non-core operations. Aim to strengthen profitability and competitiveness in the core businesses to meet changing competitive environment.	Improve the management and administration of the three remaining divisions: Accomodation, Functions, Tenant.	All businesses will be classified into 4 categories: whether the business is 'core' or 'non-core' for Kanabo Group, and whether the business has a solid going-concern value or not. Kanebo's business portfolio will be reorganized accordingly.	Rebuild brand portfolio of cosmetics business , make strategic investments in sales promotions and advertising. Review channel policies, improve business efficiencies, improve management infrastructure.	Food supermarkets in Chiba Prefecture and Saitama Prefecture become its core business, taking into account factors such as profitability, market characeteristics of each business, competitiveness, and synergies with C TWO-NETWORK.	Okawaso will focus on three points: cleanliness, good food, and good spa. It will improve services to satisfy both personal and group guests.	In order to strengthen its business foundation, the company will concentrate management resouces on chemicals business where it has comparative advantage backed by technology and development strengths.
Net sales - Operating income	3/03 ¥24.9 billion - ¥210 million 3/07 ¥19.2 billion - ¥360 million	3/03 ¥51.58 billion - ¥2.13 billion 3/07 ¥42.1 billion - ¥3.0 billion	4/03 ¥4.66 billion - ¥980 million 4/07 ¥4.25 billion - ¥790 million	3/04 ¥437.7 billion - (¥33.67 billion)	3/03 ¥2.27 billion - ¥100 million	3/04 ¥26.62 billion - ¥210 million	3/04 ¥1.77 billion - (¥530 million) 3/07 ¥1.89 billion - ¥100 million	For the year to March 31, 2004 Net sales = ¥12.28 billion Recurring income = ¥40 million
Outline of plan	Rebuild the business with parent company Fuji Kosan that remains as the sponsor.	Sell or withdraw from non-core operations. Close or merge manufacturing subsidiaries mainly into Kimmon. Rebuild management culture by hiring external managers.	Yoshimoto Tochitatemono, which owns buildings, and Osaka Marubiru, which manages the Hotels Division, will be intergrated and their operations streamlined.	The business divisions will be reorganized in line with the business plan described above and financial restructring will be conducted as described below.	The cosmetics business will be transferred to Kanebo Boutique Co., Ltd.	The company will be split and merged into C TWO-NETWORK after sorting out the core and non-core businesses to be transferred.	Okawaso will form a business partnership with Yawataya from Bobata Onsen, a first class hot spring resort hotel operator, to significantly improve its operation quality.	Synergy Fund, the sponsor, will take a lead to strengthen Taiho Industries's governance to achieve prompt business revitalization.
Change in capital, debt/equity swap	Shares held by Fuji Kosan and Fuji Sangyo will be cancelled without compensation. In addition, capital held by existing shareholders will be reduced by 95%. At the same time, Fujiyugyo will be recapitalized with a ¥2 billion capital injection from sponsor Fuji Kosan, and a maximum ¥500 million injection from the IRCJ.	Shareholders' equity at Kimmon to be reduced by 90%. Increase capital through DES of ¥3 billion with the company's 2 main banks and a ¥3 billion capital injection by the IRCJ.	Shares held by the family of the owners will be reduced by 90%. Shares held by existing shareholders will be reduced by 50%. The sponsor (TBD) will invest ¥1.5 billion.	Capital will be reduced by about 99.7%. 10 shares will be consolidated into one. Sumitomo Mitsui Banking Corp. will invest ¥30 billion and the IRCJ will invest up to ¥20 billion.	The IRCJ will invest ¥86.0 billion in the new company, while Kanebo will invest ¥14.0 billion.	After Fre'c has been integrated into a sponser, the remaining parts will be liquidated	All shares will be eliminated without compensation (capital reduced by 100%)	95% of the company's capital will be reduced without compensation. Furthermore, the company will also raise capital through an allocation to a third party and will issue new preferred shares (shares that include a right to be converted into ordinary shares), which will serve to further dilute the proportionate position of existing Taiho shareholders.
Selected sponsor	Fuji Kosan Co., Ltd.	-	-	--		C TWO-NETWORK CO., LTD.	--	Synergy Fund
Amount of financial assistance	¥4.3 billion	¥10.7 billion (including DES)	¥6.6 billion	¥99.5 billion	--	About ¥7.0 billion	About ¥5.2 billion	DES of ¥1.3 billion
Principal value of debt purchased	¥1.9 billion	¥15.88 billion	¥3.83billion	¥110.82 billion	¥150 million	¥2.27 billion	¥6.3 billion	¥4.27 billion

Outline of revitalization plans of companies that the IRCJ has decided to assist (as of Aug 6, 2004)

Company name	Miyano Machinery Japan Inc.	Hotel Shikisai	Skynet Asia Airways Co., Ltd.	Amex Kyohan K.K. and 12 related companies	Tochigi Hikaku K.K.	OCC Corporation
Date of approval of assistance	04-Jun-04	04-Jun-04	25-Jun-04	13-Jul-04	21-Jul-04	06-Aug-04
Date of purchase agreement	13-Jul-04	30-July 30-2004	13-Jul-04	Period to apply for debt purchase ends October 12, 2004	Period to apply for debt purchase ends August 31, 2004	Period to apply for debt purchase ends September 22, 2004
Outline of business						
Business	Manufacture and sale of industrial precision machinery and appliances	Hot spring resort hotel	Passenger airline operations, other	Manufacture and sales of clay roof tiles	Leather industry	Manufacture and sales of submarine communications cable systems and others
Head office / Capital	Nagano / ¥705 million	Tochigi / ¥10 million	Miyazaki / ¥2,669 million (As of June 24, 2004)	Shimane / ¥50 million	Tochigi / ¥80 million	Kanagawa / ¥500 million (As of August 1, 2004)
Group	Miyano Machinery Inc. and 6 other companies	None	Skynet Communications Co., Ltd. Skynet Tours Co., Ltd. Skynet Sales Co., Ltd.	None	Falcon Corporation, Yukikawa Co., Ltd. Yukikegawa Co., Ltd. Velvon and 15 other Murakami Group companies	Nikkai-NS Corporation, OCC Techno-Plastic Corporation, OCC Elex Corporation
Number of employees	386 (as of December 31, 2003)	35 (as of April 2004)	291 (521 on a consolidated basis) (As of March 31, 2004)	220 at 13 group companies (As of January 31, 2004)	71 (As of June 30, 2004)	295 (As of March 31, 2004)
Amount of debt	¥12.35 billion (as of March 31, 2004)	¥1.74 billion (as of November 2003)	¥2.56 billion (as of March 31, 2004)	¥7.1 billion (As of January 2004)	¥4.1 billion (As of June 2003)	¥38.8 billion (As of March 2004)
Name of financial institution jointly submitting application	Sumitomo Mitsui Banking Corporation	The Ashikaga Bank, Ltd.	The Miyazaki Bank, Ltd. Miyazaki Taiyo Bank The Shoko Chukin Bank Japan Finance Corporation for Small Business Takanabe Shinkin Bank	The San-in Godo Bank. Ltd.	The Ashikaga Bank, Ltd.	Mizuho Project, Ltd.
Outline of revitalization plan						
Background to application for assistance	The company went into a distressed situation because of an excessive amount of interest-bearing debt incurred as a result of an over-investment in production facilities, etc., during the bubble period.	The company over-invested in a new hotel building: subsequent fall in net sales as a result of economic recession made it difficult for the company to reduce its excessive liabilities and raise sufficient capital to make necessary investments.	Poor cost management, inexperienced sales and marketing, absence of experienced management with a good understanding of all aspects of airline operations.	Expansion of production capacity and a huge capital investment in a raw materials supplier in 1996 resulted in an excessive debt.	The company purchased an affiliated company in pursuit of expansion of chrome tanning business. The business did not turn profitable because of supressed demand, making it difficult for the company to repay the debt. Subsequently the Murakami Group itself went into trouble without generating expected synergy effects.	The company incurred excessive debt due to huge equipment investment and inventory procurement to meet an increase in demand in submarine communications cable systems.
Business plan	The company will review its cost structure to be more consistent with changes in economic conditions and the level of capital expenditure. It will also reduce the types of machines that it currently manufactures by half to achieve "selection and focus."	The company will sharpen its managerial focus based on "valuing private space"concept company-wide. It will aim at becoming a small but high unit-priced hotel targeting wealthy guests.	The principal reform aganda are: a substantial efficiency increase by lowering costs, securing revenues by cutting price and raising turnover, achieving scale benefits by expanding operations, and further enhancement of aircraft safety.	Lowering production costs through the concentration of facilities; strengthening marketing through the introduction of area sales management methods; and speeding up decision making processes through the integration of group companies.	Tochigi Hikaku will be separated from the Murakami Group. Production, marketing and sales management processes of the company will be strengthened, while making the most of its technical advantages and product quality. Tochigi Hikaku will also deepen its business alliances with downstream	Concentrate management resources on the core businesses - submarine cables and onshore cables, after carefully considering marketability, competitive position, profit drivers and the future profit improvement opportunities of each business. Cut down OCC's excess production capacity to an appropriate
Net sales - Operating income	12/03 ¥13.63 billion - ¥584 million By 12/07 sales will be about the same, while operating income is expected to increase to about ¥900 million	11/03 ¥502 million - ¥19 million 11/07 ¥579 million - ¥27 million	3/03 ¥10.06 billion - (¥1.17 billion) 3/06 ¥16.9 billion - ¥0.3 billion	1/03 ¥3.2 billion - (¥66 million) 1/07 ¥3.1 - ¥226 million	6/03 ¥1.52 billion, ¥40 million	3/03 ¥9.45 billion - (¥3.7 billion) 3/07 ¥13.7 billion - ¥1.1 billion
Outline of plan	The group will withdraw from non-core businesses. Core businesses will be reorganized through measures such as management transfers of Group companies to clarify overall group governance structure, eg., through establishment of a holding company for overseas marketing companies.	After the company's operations are transferred to a new company, it will be liquidated.	The IRCJ plans to acquire more than half of shareholder voting rights and make the company into its wholly-owned subsidiary	Eight companies—Sekishu Tile Sales Co., Maruhachi Furnace, Imazaki Furnace, Sasaki Tile Industries, Tsuno Furnace Co., Uka Furnace, and Tsuromoto Furnace—will be merged into Amex Kyohan K.K., to create "New Amex Kyohan". Kaorin will be changed from a cooperative to a kabushiki kaisha organization to create "New Kaorin"	The entire operations of Tochigi Hikaku will be transferred into a new company. The new company will be organized by Daiwa SMBC Principal Investments K.K., which is allied with the Tochigi Regional Business Revitalization Fund.	The IRCJ will invest ¥1.5 billion in ordinary shares and acquire over half of the company's voting rights.
Change in capital, debt/equity swap	Shares held by existing shareholders will be reduced in value by 50%. (80% of the remaining shares held by the President's family will be eliminated without compensation.) The IRCJ will invest ¥2 billion and the company's main bank will swap debt worth ¥500 million into equity.	The IRCJ will invest 200 million in the new company. The value of the shares of the former company will become nil.	Parent company Mera Denki Sangyo will write down ¥900 million without compensation, and will swap ¥600 million in debt for equity. The IRCJ will invest ¥3.4 billion in ordinary shares. The Miyazaki Small and Medium Enterprises Support fund will invest ¥200 million.	The capital of New Amex and New Kaorin will be reduced by 90%. ¥200 million DES by the San-in Godo Bank for New Amex Kyohan. IRCJ, Revitalization Fund, etc., will invest total of ¥310 million.	The Tochigi Regional Business Revitalization Fund and the IRCJ will jointly invest in the new company and underwrite newly issued convertible bonds with attached warrants. The total investment will be up to ¥200 million, of which IRCJ's portion being 35%.	Capital reduced by 98%. Mizuho Project will swap ¥1 billion in debt for equity. The IRCJ will invest ¥1.5 billion.
Selected sponsor	--	--	-	-	-	-
Amount of financial assistance	¥2.94 billion (of debt forgiveness and DES)	About ¥1.2 billion	¥600 million (DES only)	About ¥3.7 billion (including DES)	About ¥6.4 billion	About ¥29 billion (including DES)
Principal value of debt purchased	¥8.09 billion	¥1 million	¥950 million	-	-	-

August 22, 2004

Identifying Critical Functions in Effective Corporate Governance
Presentation by Gordon Thiessen

Chairman, Canadian Public Accountability Board
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So much has been said and written recently on issues of corporate governance that I wonder whether there is much new that I can add at this conference. The OECD has, this year, revised and reissued its Principles of Corporate Governance. It seems to me that these Principles provide an excellent guide to the broad legislative and regulatory framework required for effective corporate governance in any country.

This Panel rightly focuses, therefore, on identifying the critical functions in effective corporate governance. Identifying critical functions would, I believe, also be helpful to emerging market countries where it might be difficult to fully implement all at once all the principles of good corporate governance. The area that I want to focus on today, and which I believe is crucial in a market economy, is the issue of reliable financial information.

My point of view on what is critical reflects, I must admit to you, my present position as Chairman of Canada's auditor oversight agency and my former role as head of the Canadian central bank. I would suggest that once a country has in place the basic legal and regulatory requirements that establish the framework under which corporations operate, a crucial requirement is for disclosure and transparency of all material matters regarding a publicly traded corporation. This is Principle V of the OECD Principles of Corporate Governance.

Disclosure and transparency

Why is disclosure and transparency so important? For any market-based economy to function well requires effective arrangements for the transfer of savings to those who need financing. And, of course, what matters most for the long run performance of an economy is the financing of the capital required to increase productivity and expand production. That includes not only the financing of structures, machinery and equipment, but also new technology, improved processes and the training of employees. That transfer of savings will only work well if investors have access to adequate information on the companies in which they may potentially invest. And that is particularly true in countries that are dependent on international capital flows to finance domestic capital investment. International lenders and investors cannot be expected to rely on informal sources of local information that domestic participants may use.

It is only in the last number of years that we have come to fully appreciate the importance of some of the infrastructure that is required to make this transfer process work well. It was really only when former soviet bloc countries and a number of emerging economies turned to more market-based economic systems that we economists finally paid sufficient attention to the necessity of having what I call a good “plumbing system” to support financial markets. The “plumbing system” I am referring to includes property rights and a system of private contracts, and the judicial and enforcement systems to make them effective. It also includes, more specifically, company disclosure requirements and the accounting standards that make those disclosures comparable among companies. And finally, it includes the audit standards and the independent auditors to help ensure that company disclosures are as reliable as possible.

Having seen the importance of this basic plumbing in transition and emerging market countries, we in industrial countries did not immediately examine our own arrangements to ensure that they were continuing to work as required. As you know, there have been a number of high-profile corporate scandals in industrial countries that have led to a serious re-examination of our regulatory requirements and corporate governance practices. As a result, led by the Sarbanes-Oxley legislation in the United States, there have been widespread changes in corporate governance requirements. Indeed, there is now a debate about whether those requirements may have gone too far so that the costs of adherence and enforcement may outweigh the benefits.

Auditing public companies

In my view, however, the benefits for disclosure and transparency of company information from the governance changes that have been made in the area of auditing of public company statements have clearly outweighed the costs. There are four changes that I would like to highlight and to recommend as important requirements in a framework for good corporate governance.

The first is a requirement with respect to the composition of audit committees of corporate boards of directors. In North America, the audit committees of the boards of public companies are now required to be composed of directors who are financially literate and independent of the management of the corporation. This helps to ensure that the board of directors is capable of providing objective and informed oversight of the financial information produced by the corporation.

The second requirement is that the audit committee be responsible, on behalf of the board of directors, for the engagement and compensation of the external auditors. In the past, it was typically management who engaged the external auditor, and audit committees were not always very effective bodies. These circumstances did not provide strong support for external auditors in the function they are supposed to play in our market system. The job of the external auditor is to provide the shareholders, as well as other stakeholders, an assessment of the reliability and fairness of the financial information being publicly submitted by the management of a corporation. The board and audit committee act as agents on behalf of shareholders. If external auditors are reliant on management, rather than the board, for their continued engagement and compensation, it could be more difficult for auditors to resist management pressures on issues of aggressive accounting practices or inadequate controls.

The third requirement that I want to emphasize is to have high quality accounting and auditing standards in place. Increasingly, accounting and auditing standards are being debated and agreed to internationally. This strikes me as a very valuable development. It is often difficult in individual countries to avoid political pressures of various sorts that can downgrade standards. Moreover, it is a huge investment for an individual country to develop and keep up to date its own unique accounting and auditing standards. High quality standards are needed for auditors to do their job well. And investors, whether investing in corporate stocks or bonds, want to be reassured that the same standards are being applied to the audited financial statements issued by all domestic corporations. An important development has been the new professional standards dealing with audit quality and auditor independence that have been developed under the auspices of the International Federation of Accountants. Hopefully, these will be the basis for new standards of quality and independence in an increasing number of countries. They are the basis for new standards in Canada.

The fourth requirement, which I would advocate, is an auditor oversight body to ensure that accounting and auditing standards are being enforced. Just giving auditors new and explicit standards to deal with the quality and independence problems that marred the work and undermined the credibility of auditors, at least in some countries in the past, is likely not enough. Traditionally, we relied on accountants' professional codes of conduct and their self-regulatory associations to ensure standards would be rigorously applied. In most cases during benign times, that might be sufficient. But what the recent corporate scandals in industrial countries have taught us is that we need to set up our corporate governance infrastructure so that it is effective not only in good times but also in difficult times. I am thinking of the difficult times when “irrational exuberance” takes hold—to use Alan Greenspan’s memorable turn of phrase. We need arrangements to help auditors face up to chief financial officers who may become desperate during such exuberant times to have their financial results meet analysts’ expectations and justify continued high and rising market valuations of their stock.

This is a more difficult problem than you might expect. The pressures can become enormous and the incentives facing auditors are not always helpful. In most countries that I know of, accounting firms that do audits are private, profit-seeking entities. In other words, they need their audit clients to provide them, one way or another, with a regular, reliable and adequate stream of revenue if they are going to be able to continue to survive in the audit business. But there are times when they need to discard otherwise profitable clients who start to engage in unacceptable financial practices. As well, audit firms that are going to do high quality audits need to ensure that their audit partners remain well trained and informed in a rapidly changing financial world. This is an expensive process. Auditors also have to be prepared at times to devote more resources than planned to a difficult audit, even when it may cost more than the fees they have agreed to with the client. These requirements do not sit comfortably, at least in the short run, with profit maximization.

Where I am going with this argument is that audit firms need the support and also the risk of potential disciplinary measures from an oversight body to ensure that they carry out their crucial public role in verifying financial statements of corporations to a high level of quality and objectivity. This is not to denigrate the self-regulation work done by professional accounting bodies around the world, but in market conditions where greed overwhelms fear, something more is needed.

I would argue that auditing has some elements of a public good, and the private sector, on its own, may not devote sufficient resources to the audit process without some intervention from an outside agency with a broad mission to protect the public interest.

Finally, I would contend that an independent audit oversight agency need not be expensive. In many countries, including my own, the very large accounting firms have most of the audit business. Thus in Canada, the oversight activities of the Canadian Public Accountability Board are heavily focused on the Big Four accounting firms. We will also inspect the next rank of medium-sized audit firms and any small firms that audit internationally-listed companies. We are going to rely on the professional, self-regulatory, accounting bodies to inspect the other small audit firms, subject to using our methodology and subject to our oversight. But this does not require a huge staff and a large budget. The Canadian Public Accountability Board operates with approximately 25 staff and has a budget of about 6 million Canadian dollars. This is financed by imposing a fee on audit firms equal to 1.6 per cent of their audit revenues.

Conclusion

Let me summarize. Disclosure and transparency by publicly traded companies is a crucial requirement if financial markets are going to do an effective job of transferring savings to companies that require external financing. It is even more important where a country is dependent on international flows of funds to finance domestic capital investment. International lenders and investors cannot be expected to have all the local knowledge available to domestic participants. As a result, these international lenders and investors will be even more reliant on the information provided by domestic corporate borrowers and are likely to want to be reassured about the quality and reliability of that information.

In the area of financial system regulation, a good deal of international time and attention has been devoted in particular to banking regulation, but also to the regulation of other financial institutions and financial markets. Less time and attention, until recently, has been devoted to issues of accounting and auditing standards and to the quality of auditors and the auditing process. That is now changing, and I would add that some international attention is also needed on the issue of auditor oversight. It is increasingly clear to me that an oversight agency should be part of an effective system of corporate governance arrangements. Such oversight is even more important in a world where capital movements are becoming more international but where the fallout from corporate scandals may mean that the attraction of recipient countries to international investors can be significantly affected by the reliability and credibility of its arrangements for company financial disclosure.

Effective Corporate Governance in Asia

Panelist: Joseph P.H. Fan

Professor of Accountancy and Finance
Deputy Director, Center for Institutions and Governance
Chinese University of Hong Kong

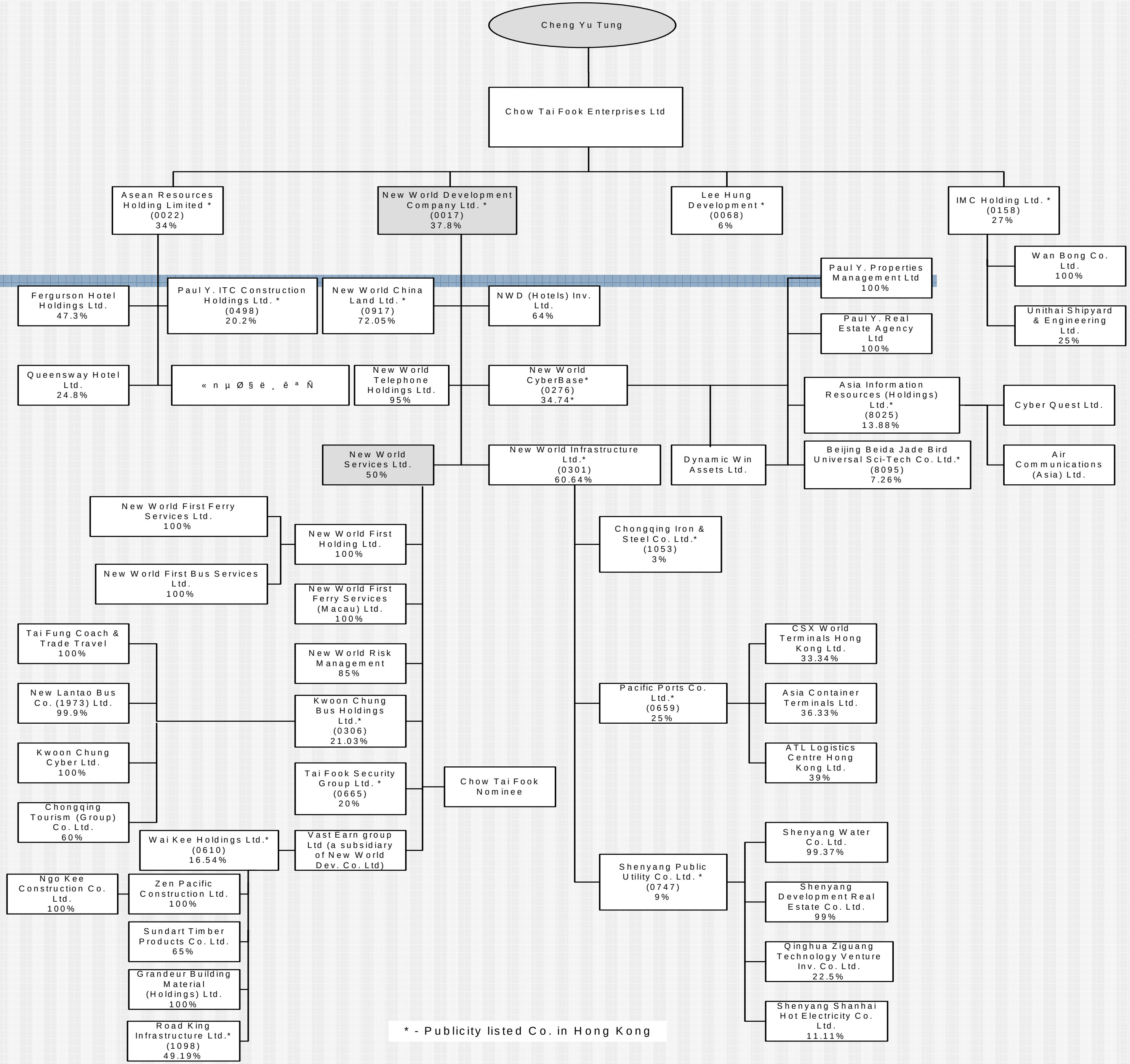
Prepared for panel discussion at the APEC High Level Conference on Structural Reform, September 8-9, 2004, Tokyo

Outline

- Why some Asian companies failed to produce reliable financial information?
- Auditor, audit committee, and audit supervisory agency
- Self-enforcement: the importance of reputation building in weak institutional environments
- Ultimate solution: institutional reforms

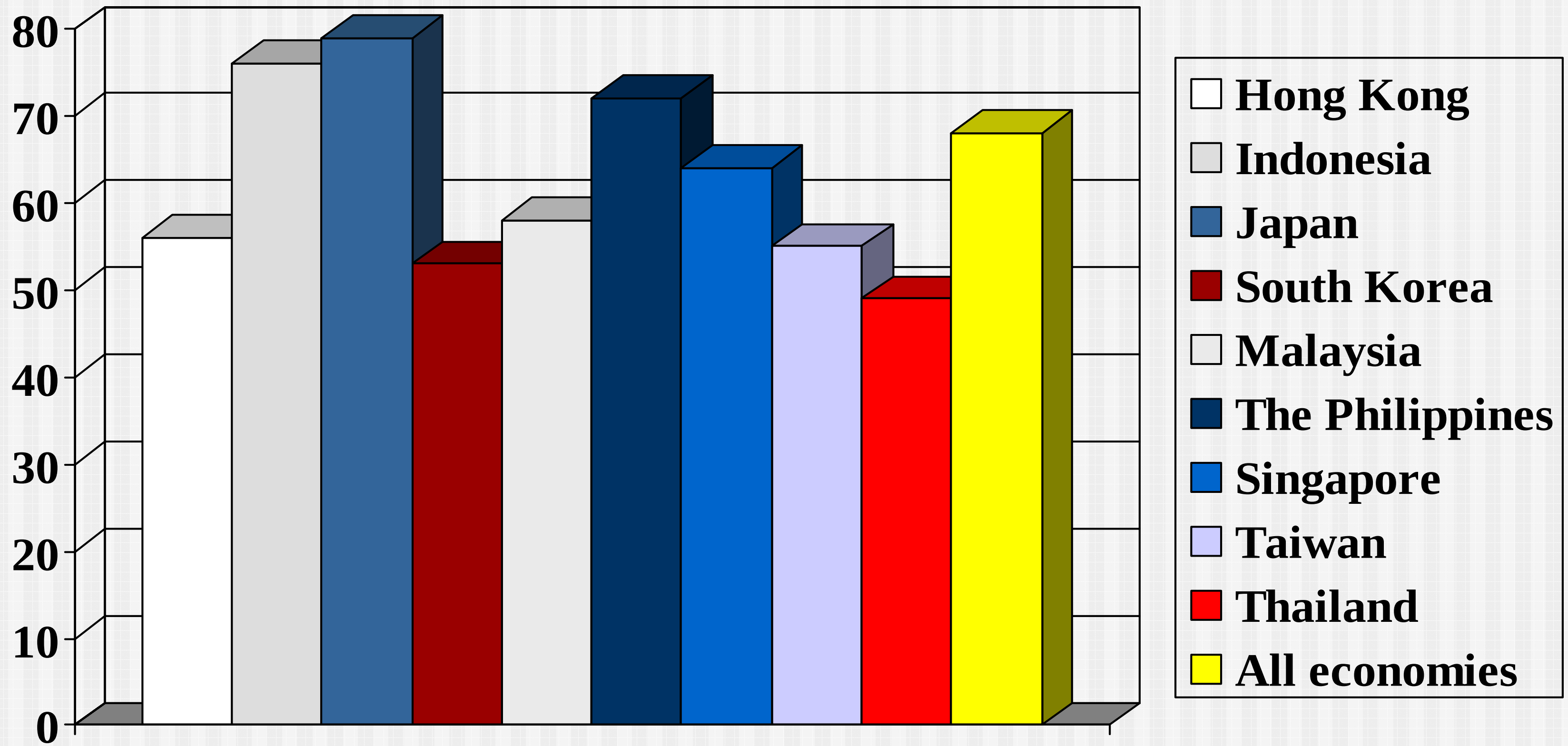
Why some Asian companies failed to produce reliable financial information?

- Complex organizational and ownership structures
- Covering up: difficulties of putting investors' interests before family interest
- Relationship-based business dealings, rent seeking, or even corruption
- Prevent predation and expropriation (sometimes by governments) in weak property rights systems
- If these institutional constraints cannot be relieved, it would be difficult to improve corporate transparency even with new accounting standards, laws, and regulations

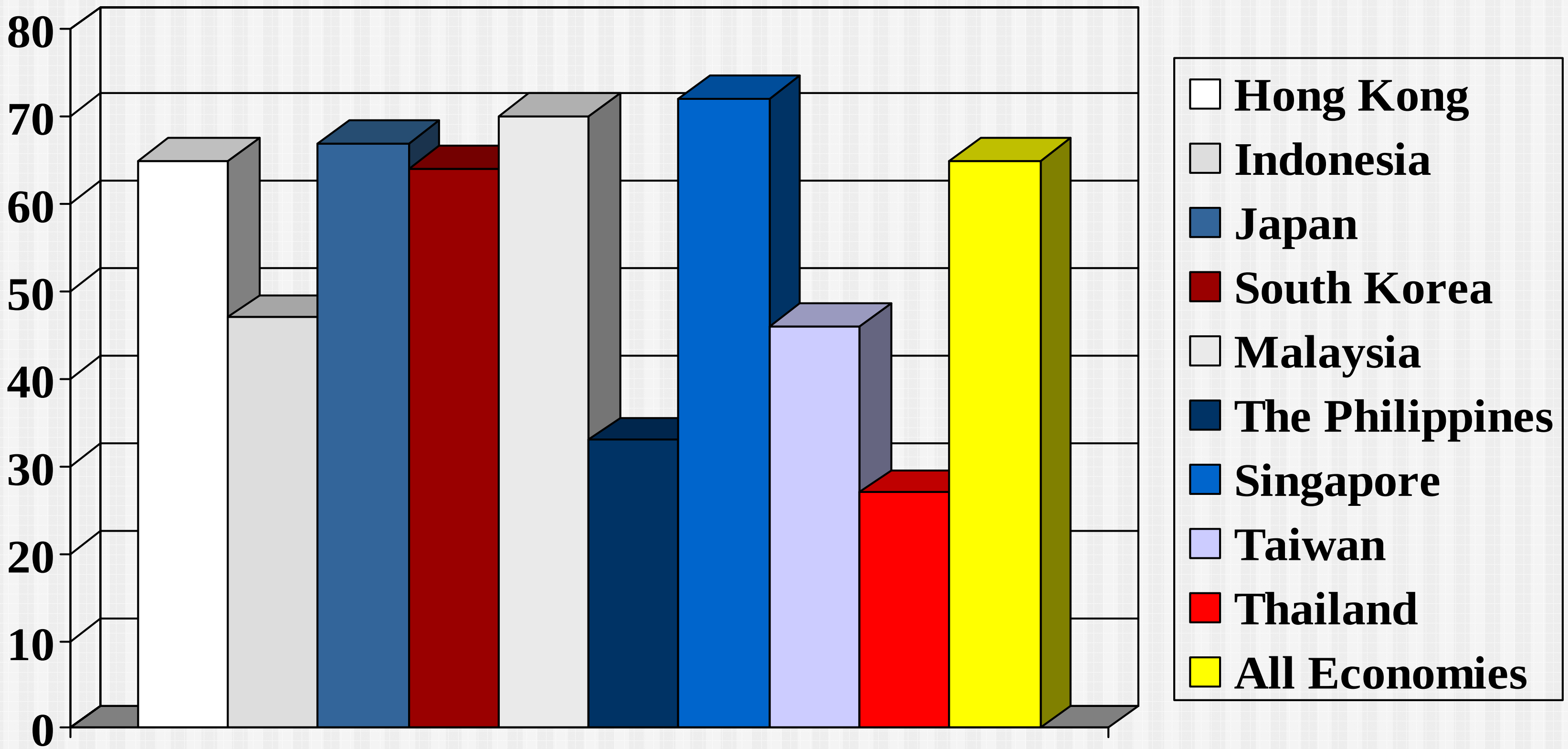


* - Publicity listed Co. in Hong Kong

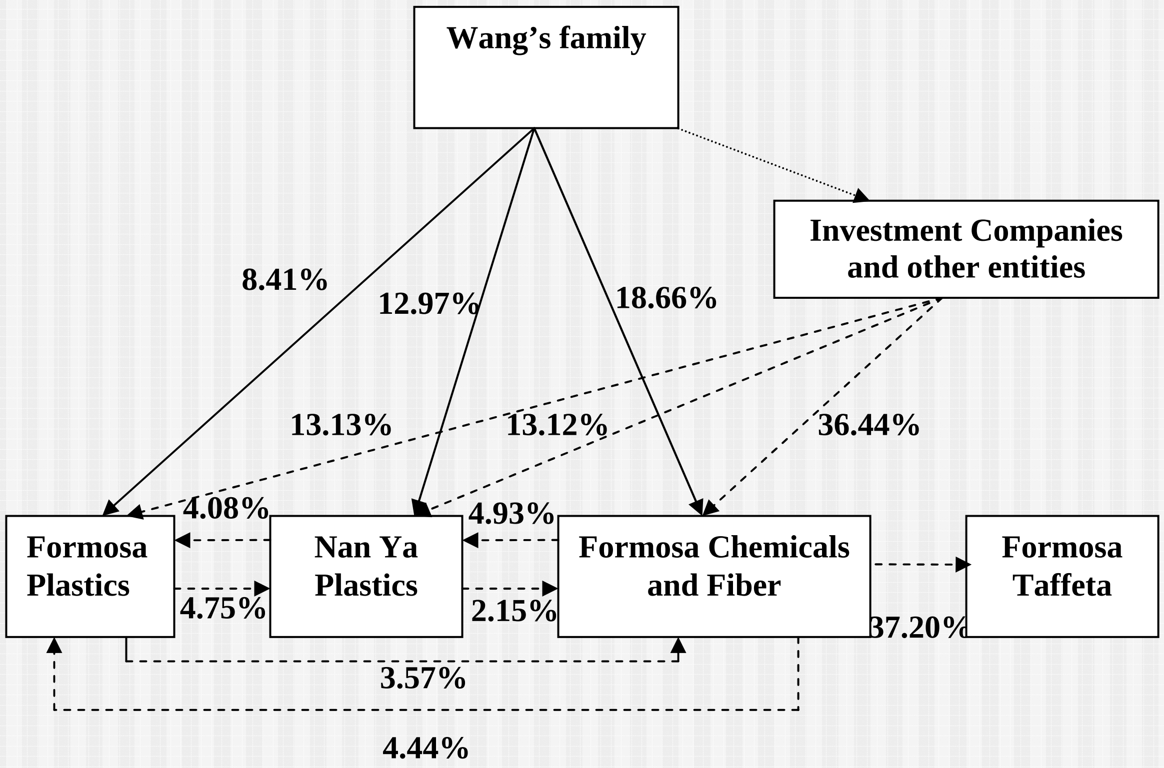
Percentage of listed Asian companies affiliated with business groups
(Source: Claessens, Fan, Lang, 2002)



Percentage of listed companies that are diversified (with multiple segments)



The Formosa Group (Taiwan) of the Wang's Family



Why some Asian companies failed to produce reliable financial information?

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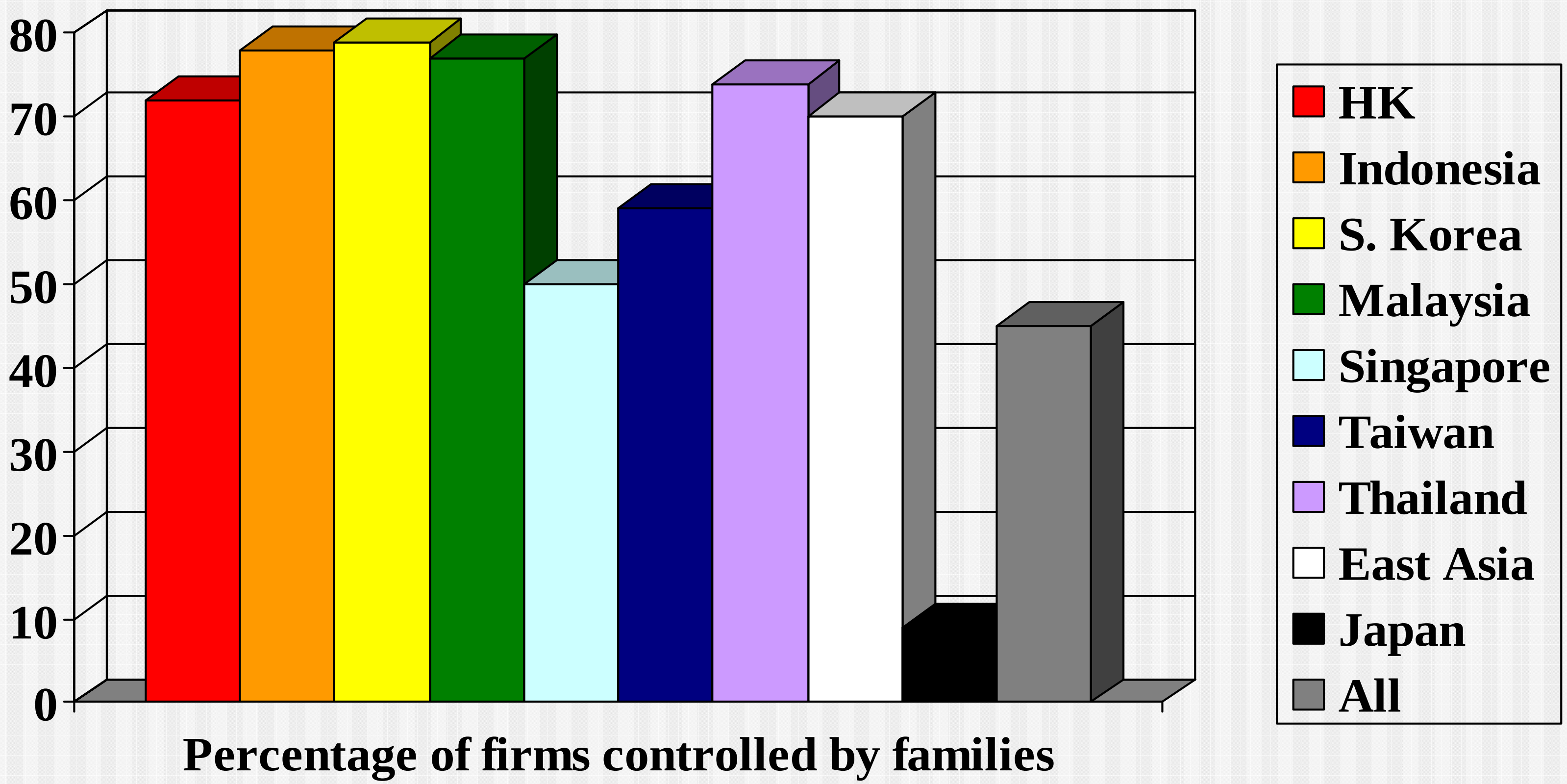
Family control



Asia's corporate governance problems are often induced by country level institutional constraints

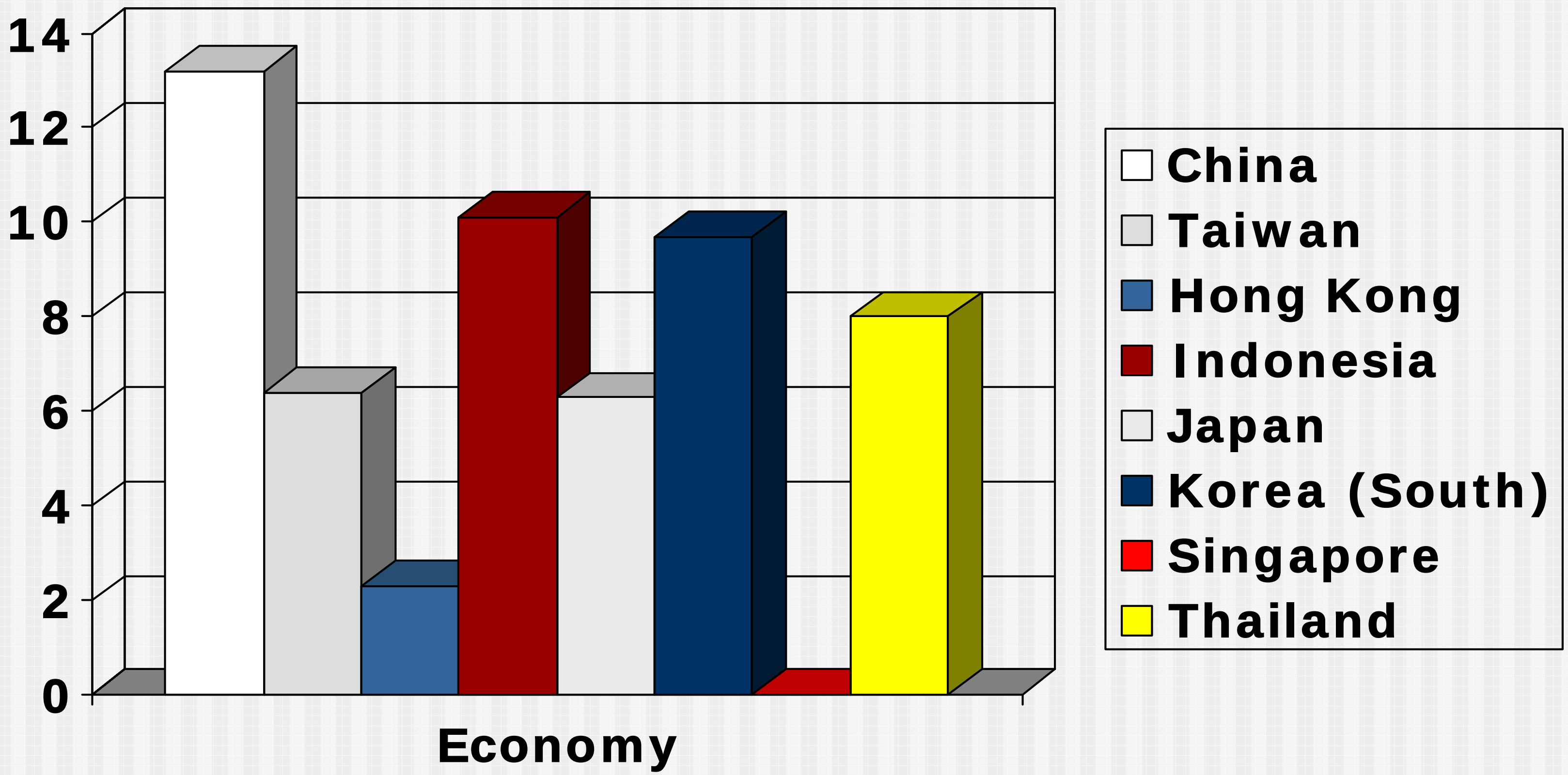
- Weak disciplinary market force
  - Hostile takeovers are rare in Asia
  - In china, state shares are not freely transferable
  - Product markets are heavily regulated in some economies
- Weak laws and public enforcement
  - Significant increase in the quantity of laws, but enforcement is weak
- Corruption and weak public governance in many Asian economies
- These country institutional factors affect the nature of business dealings in Asia and shape corporate governance practices

Corruption and corporate transparency

- Why corporate transparency in Asia is low, despite new laws and regulations requiring more disclosure?
- Why do Asian investors seldom read financial reports?
- Disclosure of proprietary information can be costly, even investors agree
- Fan and Wong, Journal of Accounting and Economics, 2002

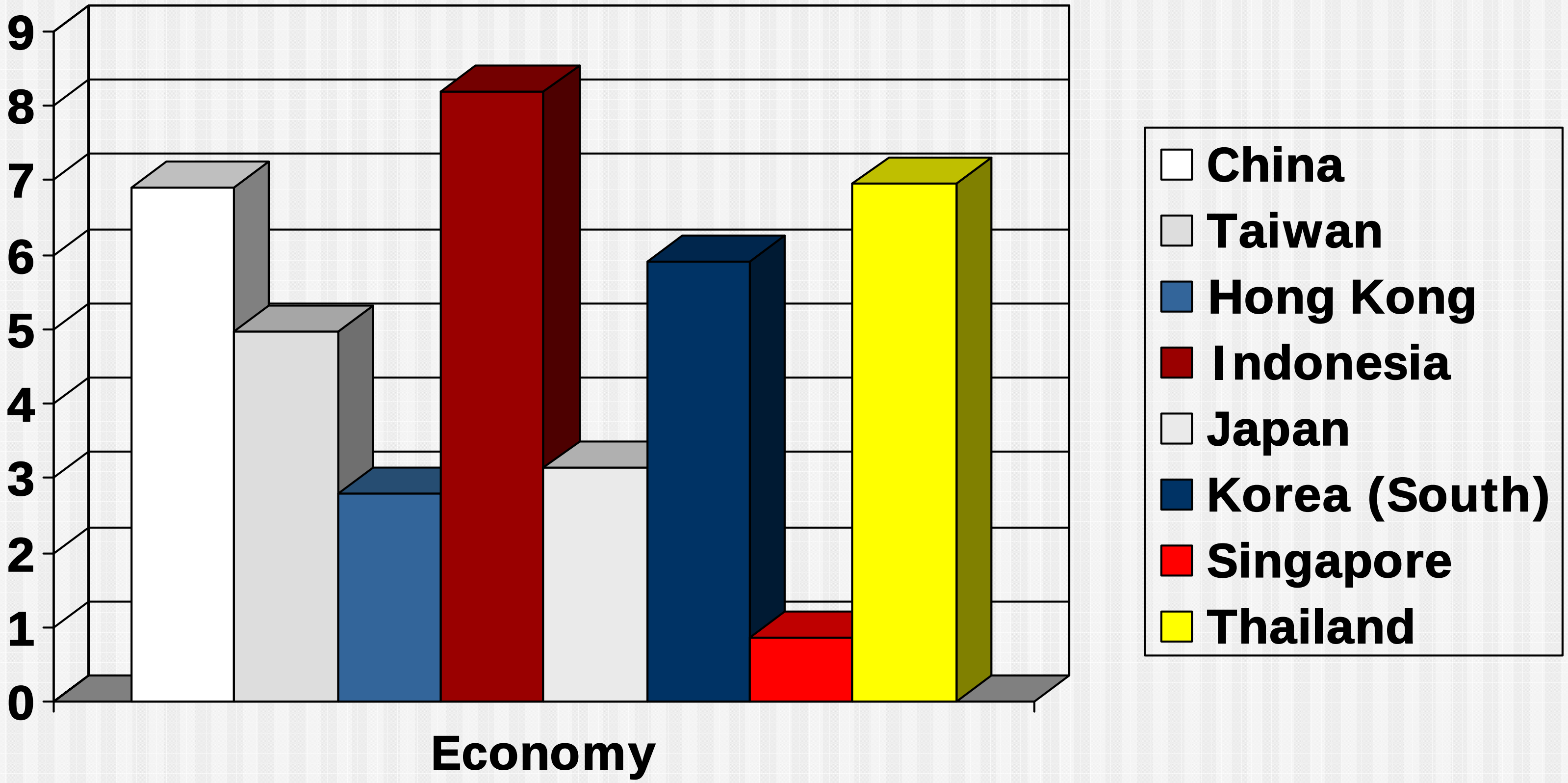
Opacity Premium in Asia

Source: PricewaterhouseCoopers



Corruption in Asian Economies

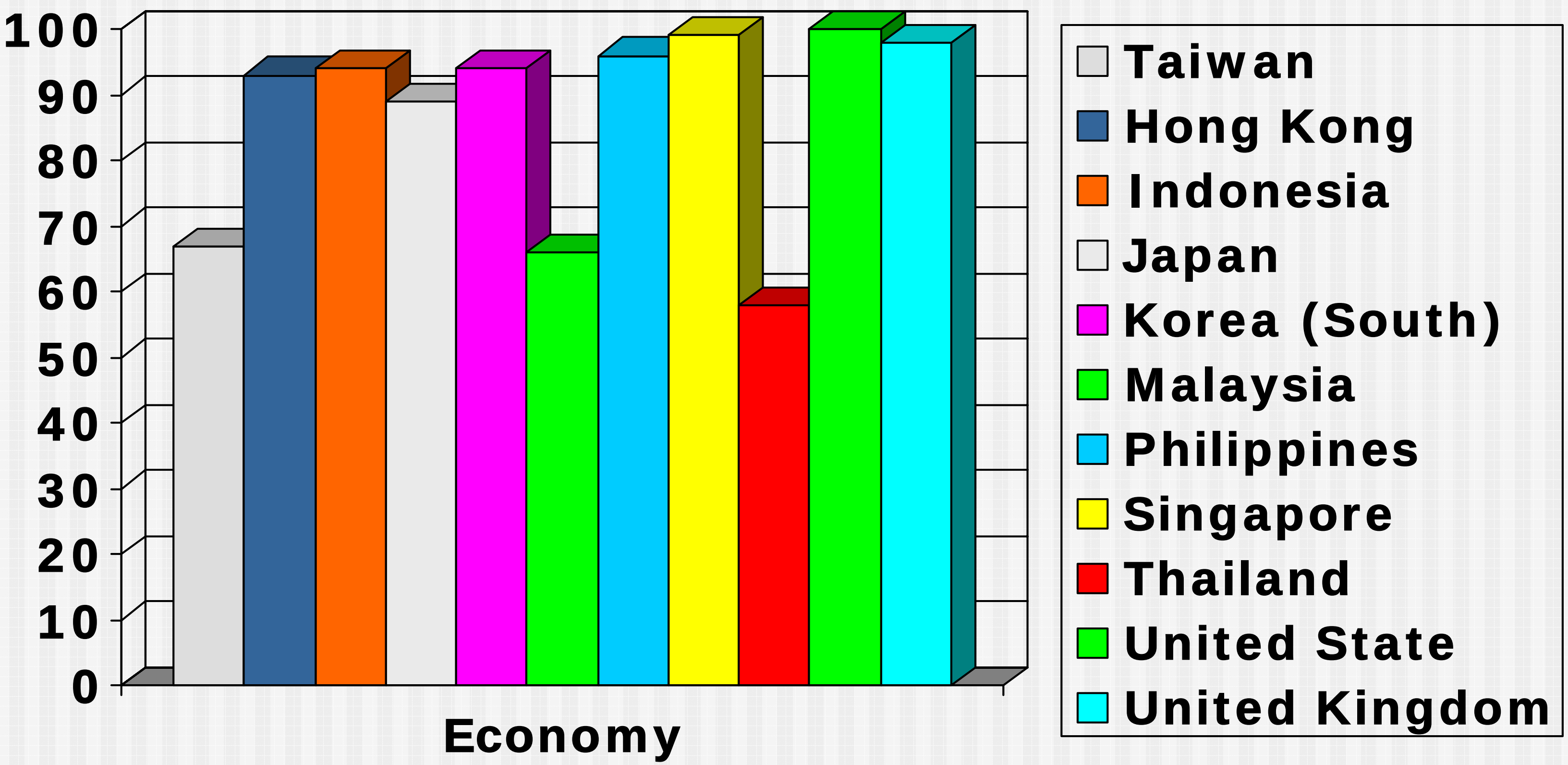
(Source: Transparency International: mean Corruption Perception Index 1992-2000)



Corporate governance roles of external auditors in Asia

- Important
  - Academic research (Fan and Wong, Journal of Accounting Research) has found that high quality auditors improve the credibility of accounting information to investors and help strengthening corporate governance in East Asia

Market Share of Big-Five and Big-Five Affiliated Auditors in Asia, US, and UK



Auditor oversight agency and audit committee

- Audit oversight body
  - Agree that creating an audit oversight body is important.
  - Does the agency have strong disciplinary power?
  - Will Asian governments and courts respect and help enforce the disciplinary actions recommended by the audit overseeing agency?
  - It may be unrealistic to rely on auditors as gatekeepers
- Will an audit committee help in Asia?
  - Yes if one can bypass institutional constraints

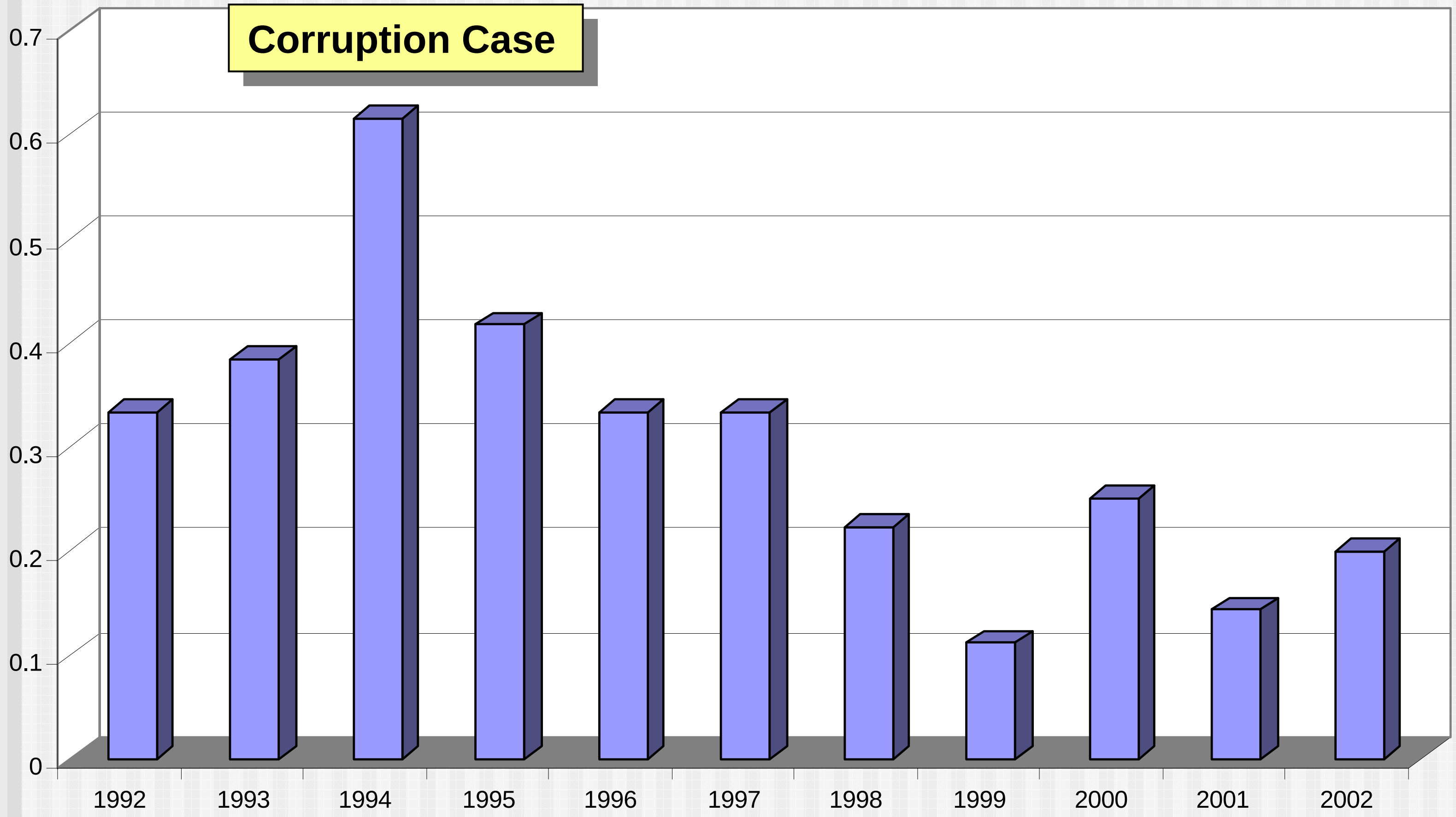
Boards of directors are weak in governance: the case of China
(Chen, Fan, Wong, 2004)

Board size	9.22 (range 5 to 19)
Manager directors	34%
Largest shareholder	53%
Minority shareholders	0%
Politicians	32%
Central govt	*4%*
Local govt	*19%*
Others	*9%*

Boards of directors are weak in governance: the case of China
(Chen, Fan, Wong, 2004)

Directors from unaffiliated firms (“expert” directors)	18%
Professionals	5%
Academics	14%
Woman directors	5%
Age	47
Education	*Between Junior college and university*

Corruption and board professionalism
Shougang Group in China
Percentage of Directors that Are Professionals –



Corporate governance in weak institutional environments: what work?

- **Reputation building**, in my view, is the most important self-enforcing mechanism of corporate governance
  - Reputation of profitability
  - Reputation of accountability
  - The two do not always go hand in hand

How do Asia's public corporations build reputation?

- Repeated transactions that show good results and reliability
- Bonding (borrowing someone else's reputation)
  - Foreign partners in joint ventures or strategic alliance
  - Foreign listings
  - Information intermediaries, such as rating agencies, financial analysts, and external auditors

Reputation ratings

Corporate Reputation Rating

Corporate Reputation Ratings: Banking Industry
Rating release date: 3 March 2003

For a brief description of each rating, position mouse pointer over the rating code.

Firm	RSR*
Fifth Third Bancorp (FITB)	AA
Northern Trust Corporation (NTRS)	AA
BB&T Corp. (BBT)	A
State Street Corporation (STT)	A
SunTrust Banks, Inc. (STI)	A
Wachovia Corporation (WB)	A
Washington Mutual, Inc. (WM)	A
Wells Fargo & Company (WFC)	A
Bank of America Corporation (BAC)	BBB
Bank of New York Co. (BK)	BBB
Citigroup Inc. (C)	BBB
Comerica Incorporated (CMA)	BBB
National City Corporation (NCC)	BBB
Regions Financial Corp. (RF)	BBB
SouthTrust Corporation (SOTR)	BBB
Bank One Corporation (ONE)	BB
FleetBoston Financial Corporation (FBF)	BB
JP Morgan Chase & Co. (JPM)	BB
KeyCorp (KEY)	BB
PNC Financial Services Group Inc. (PNC)	BB
U.S. Bancorp (USB)	BB

http://www.ratingresearch.com/

- Where else do we find reputation at work?

The CEO that holds a bible – does it work?

- He is the CEO of a listed micro-electronic company in Taiwan
- He always holds a bible in front of media and prays before company meetings
- He was recently married to a daughter of Mr. Wang Young-Ching, the chairman of Formosa Group, and the “god of management” in Taiwan
- His company has been involved in various law suits involving stealing trade secrets from competitors. He and his wife are prosecuted by the Taiwan court for 4 years in prison and monetary penalties
- Borrowing the reputation from the two gods, will he and his company prevail?

Conclusions

- **Sustainable growth** of corporations and economy as a whole is the ultimate reward of effective corporate governance
- **Reputation** is the most important corporate governance mechanism in Asia that all corporations should seek to establish with their stakeholders
- But there is a limitation of the self-enforcing solution. The ultimate solution is **institutional reform** that improve public governance and law enforcement

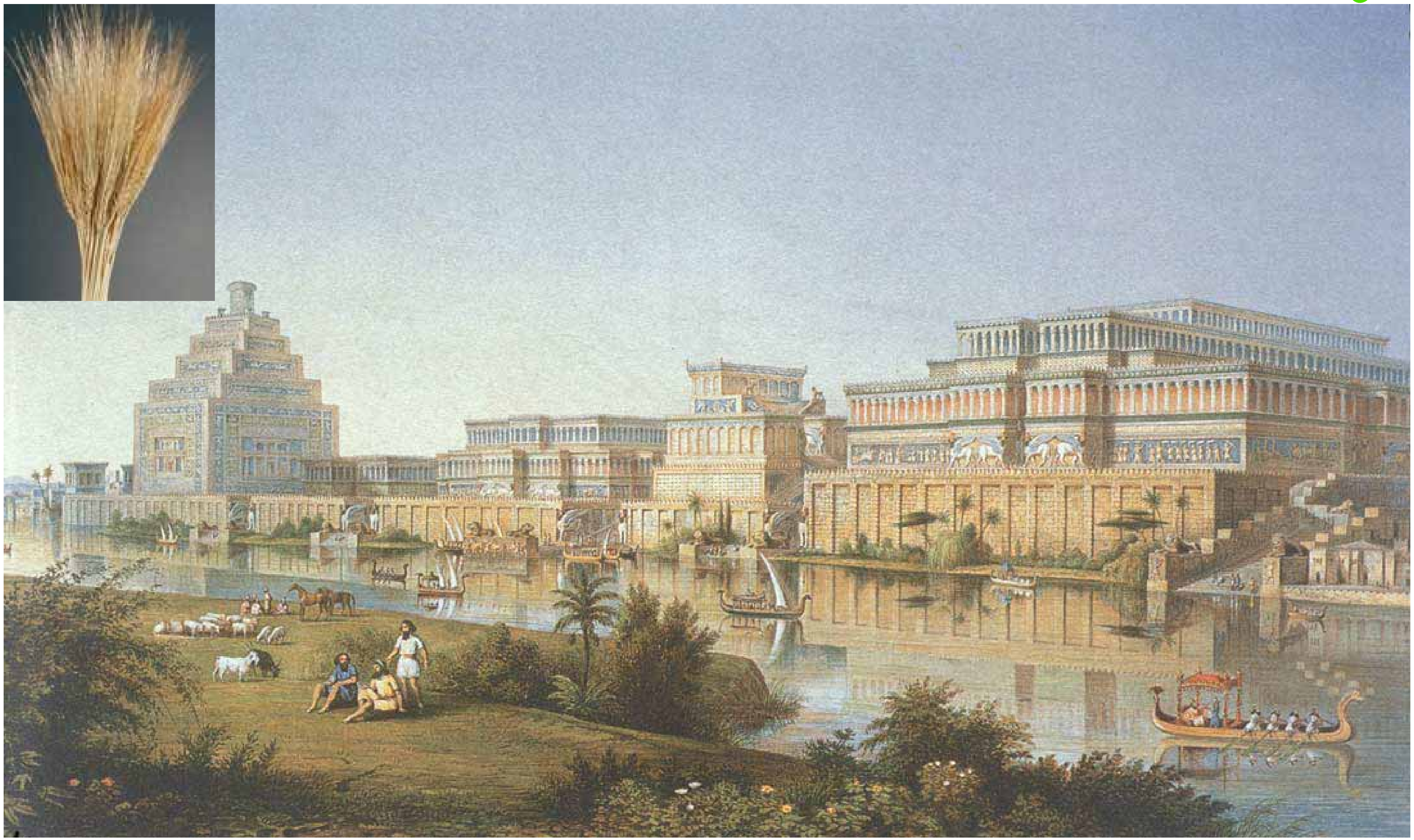
Strengthening Banking Systems:
Lessons From Around the World and Across the Ages

Dr. Kristin J. Forbes

Council of Economic Advisers

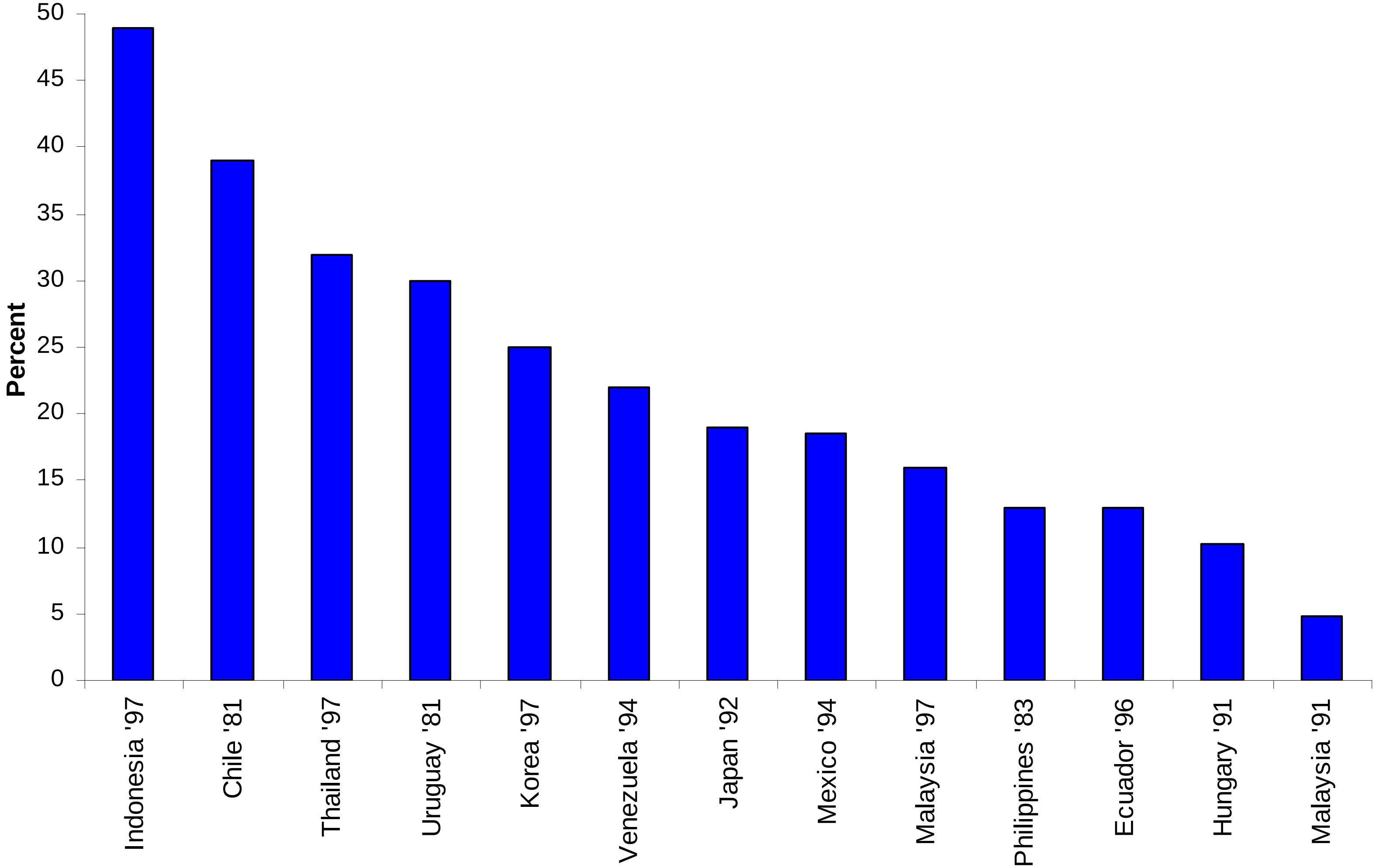
September 8, 2004

Early Banks and Currency



An Early Banking Crisis

Cost of Banking Crises (% of GDP)



Source: Honohan and Klingebiel (2002)." "Controlling the Fiscal Costs of Banking Crises." In Daniela Klingebiel and Luc Laeven, eds. *Managing the Real and Fiscal Effects of Banking Crises.* World Bank Discussion Paper No. 428.

7 Key Lessons

1. Enact sound prudential regulations, independent supervision & strong corporate governance
2. Provide partial, risk-adjusted deposit insurance
3. Ensure banks operate on a commercial basis, free from political interference
4. Encourage foreign investment in the banking system
5. Combine bank reform with corporate restructuring
6. Establish well-defined and speedy bankruptcy laws
7. Act promptly

Lesson 1

Enact

Sound Prudential Regulations,

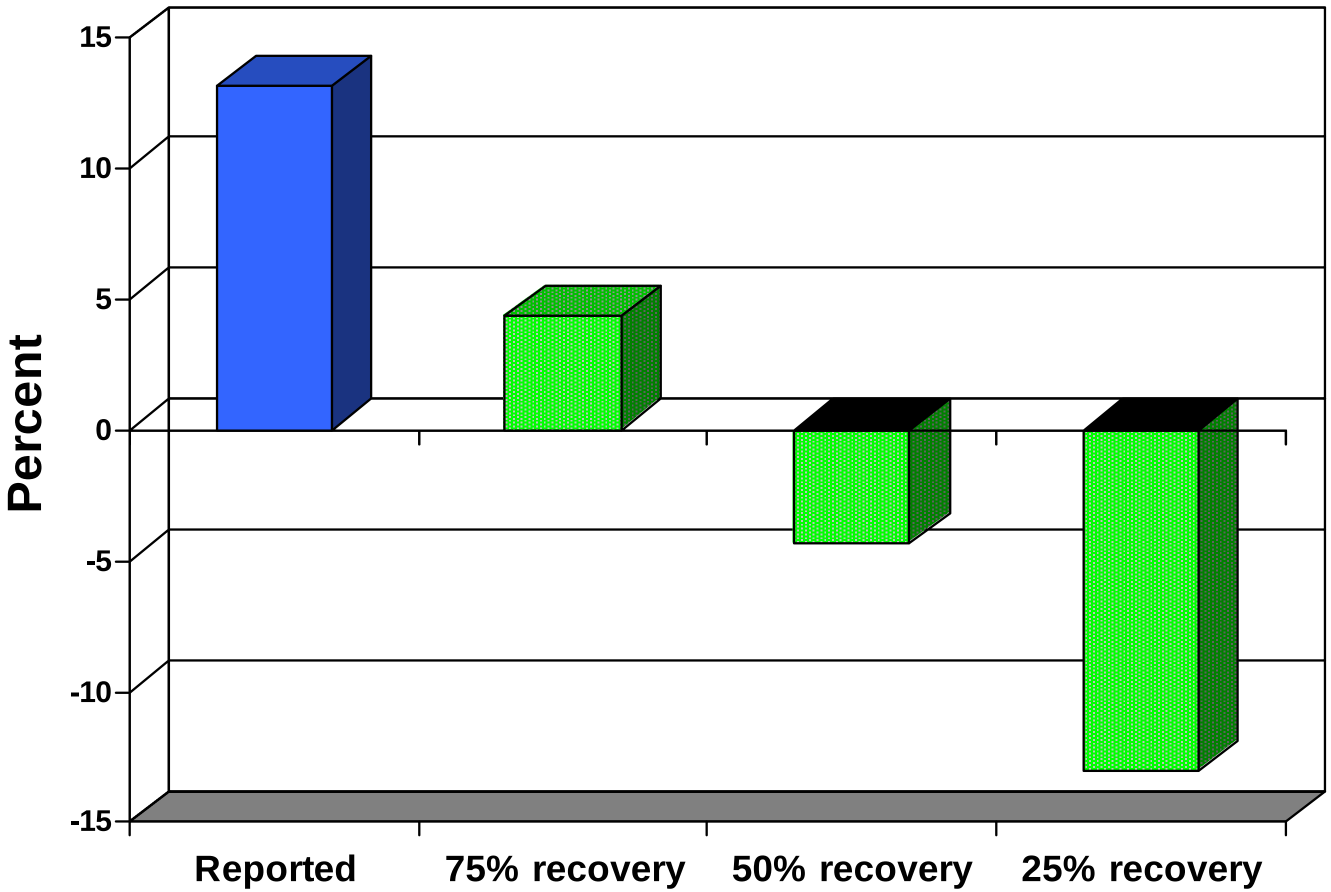
Independent Supervision, and

Strong Corporate Governance

The Basel Core Principles

- Prudential guidelines on issues such as capital, liquidity, lending concentrations & asset valuation
- Comprehensive licensing rules
- Requirements for internal controls & risk management systems
- Requirements for effective corporate governance
- Requirements for periodic reporting and examinations, supervision, and public disclosure
- Corrective measures to overcome difficulties
- Guidelines for accounting & auditing standards

Argentine Bank Capitalization: 2002



Capitalization ratios assuming different recovery values for govt. debt (Jan. 02)

Zero Tolerance for Fraud


(AP PHOTO)

Lesson 2

Provide

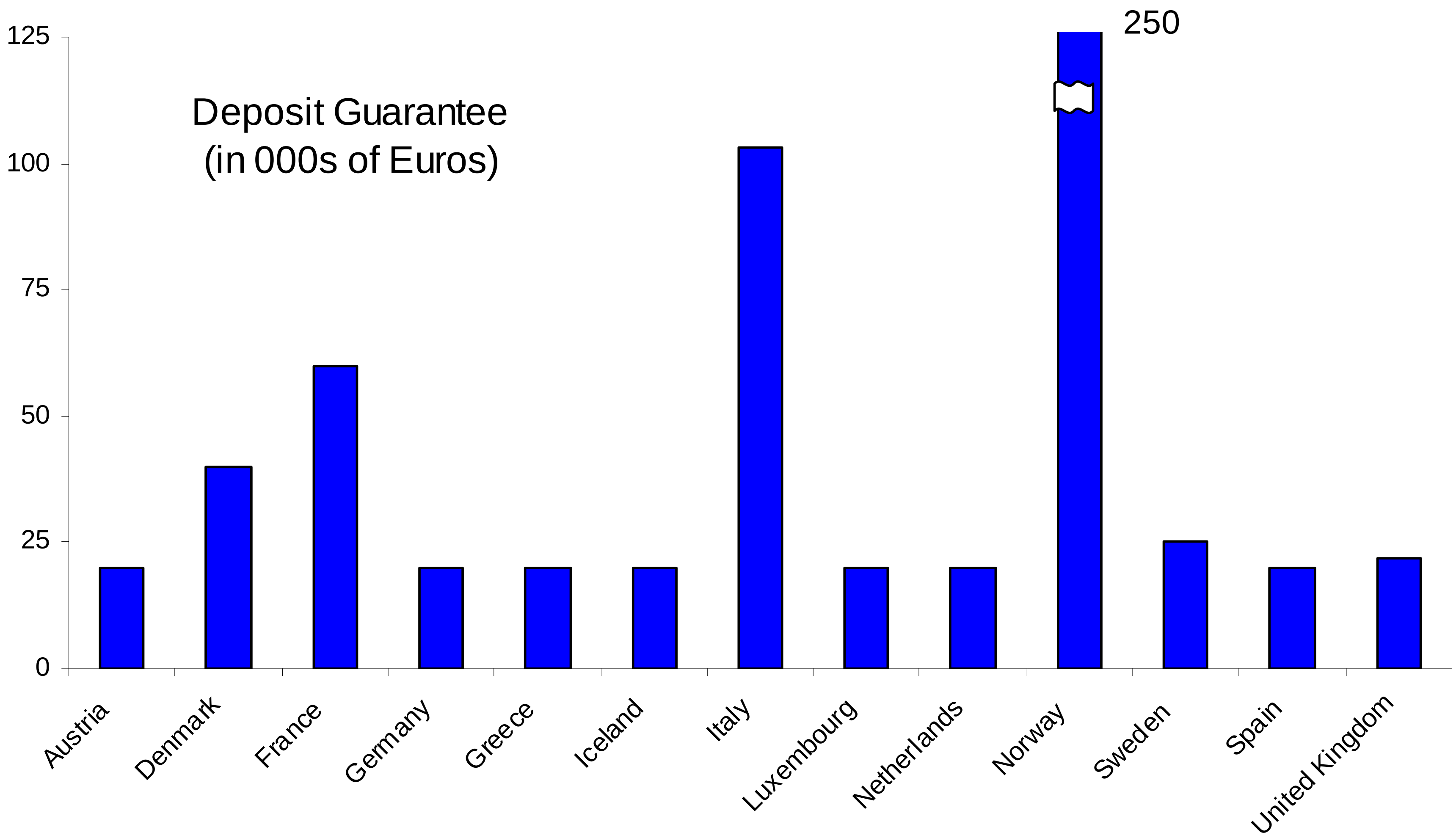
Partial, Risk-Adjusted

Deposit Insurance

Deposit Insurance Guidelines

- Include insurance premiums that are risk-adjusted
- Be available only after banks meet certain regulatory requirements
- Provide limits or caps on the insurance coverage
- Include well-designed supervision and regulation

Deposit Guarantee Schemes



Source: Belaisch et al. (2001). “Euro-Area Banking at the Crossroads.” IMF Working Paper #WP/01/28.

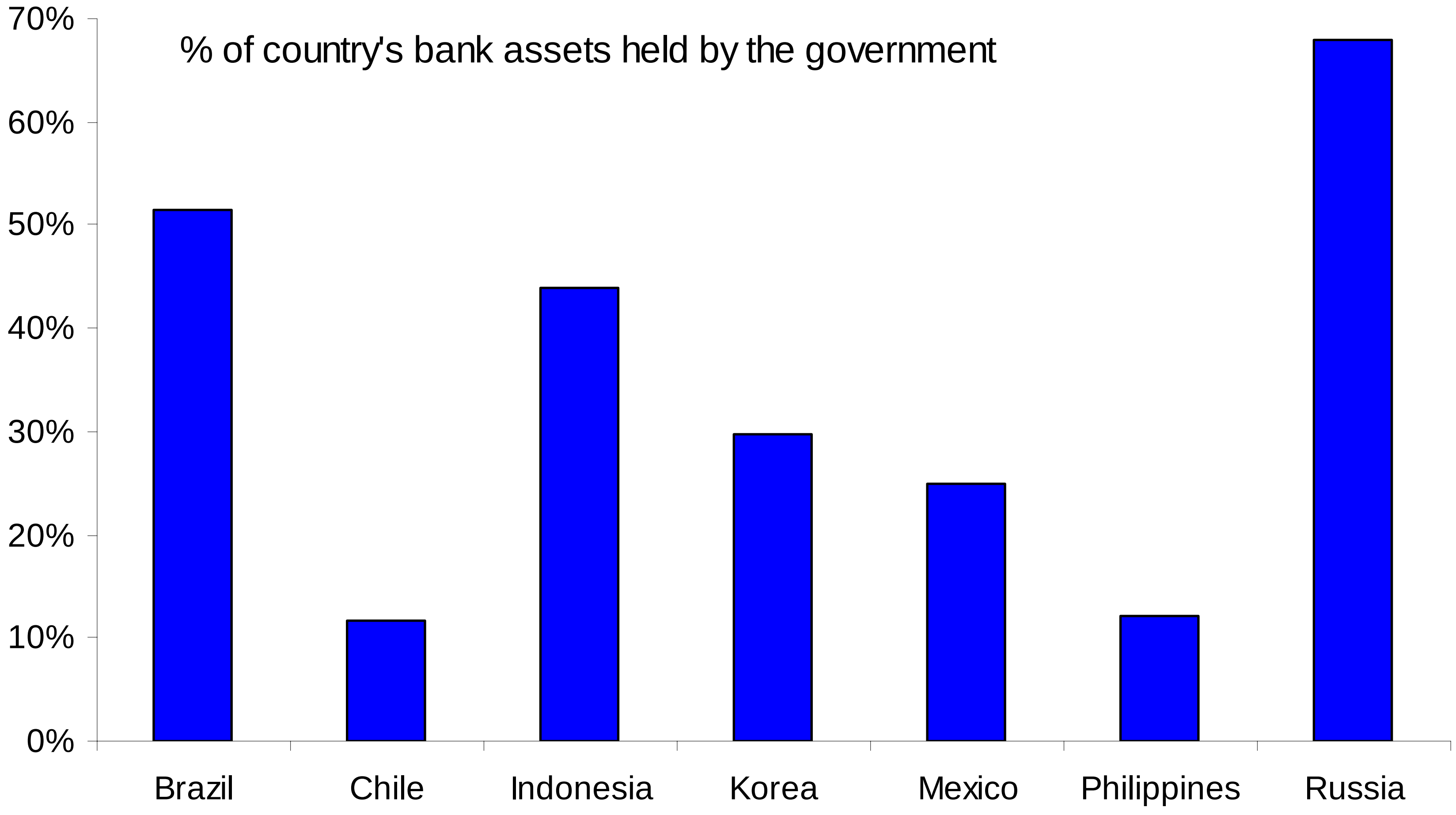
Lesson 3

Ensure

Banks Operate on a Commercial Basis,

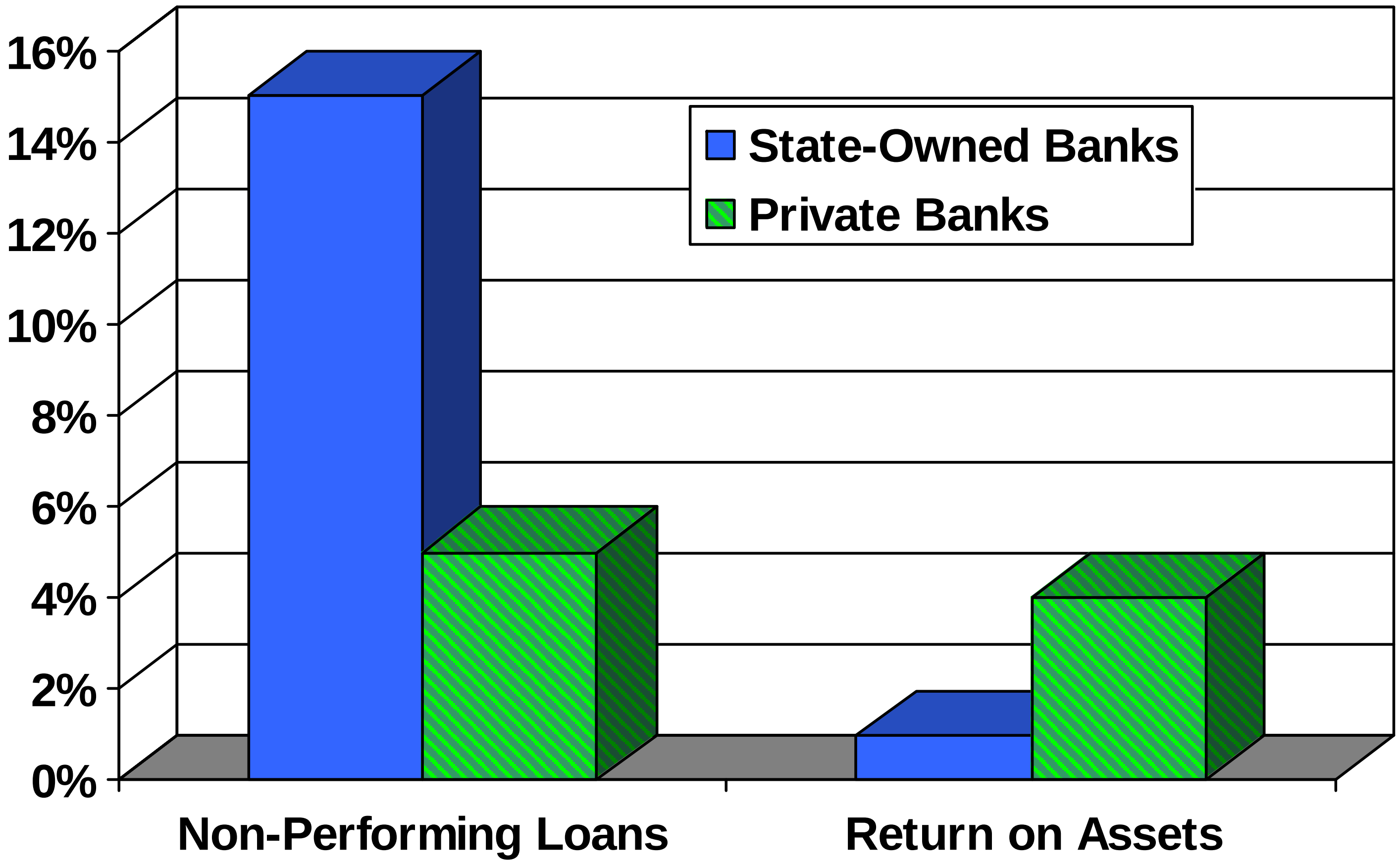
Free from Political Interference

Govt-Owned Banking Assets



Most recent year available. Source: Reserve Bank of Australia (2003). “Foreign Participation in East Asia’s Banking Sector.”

Indonesia: Bank Performance

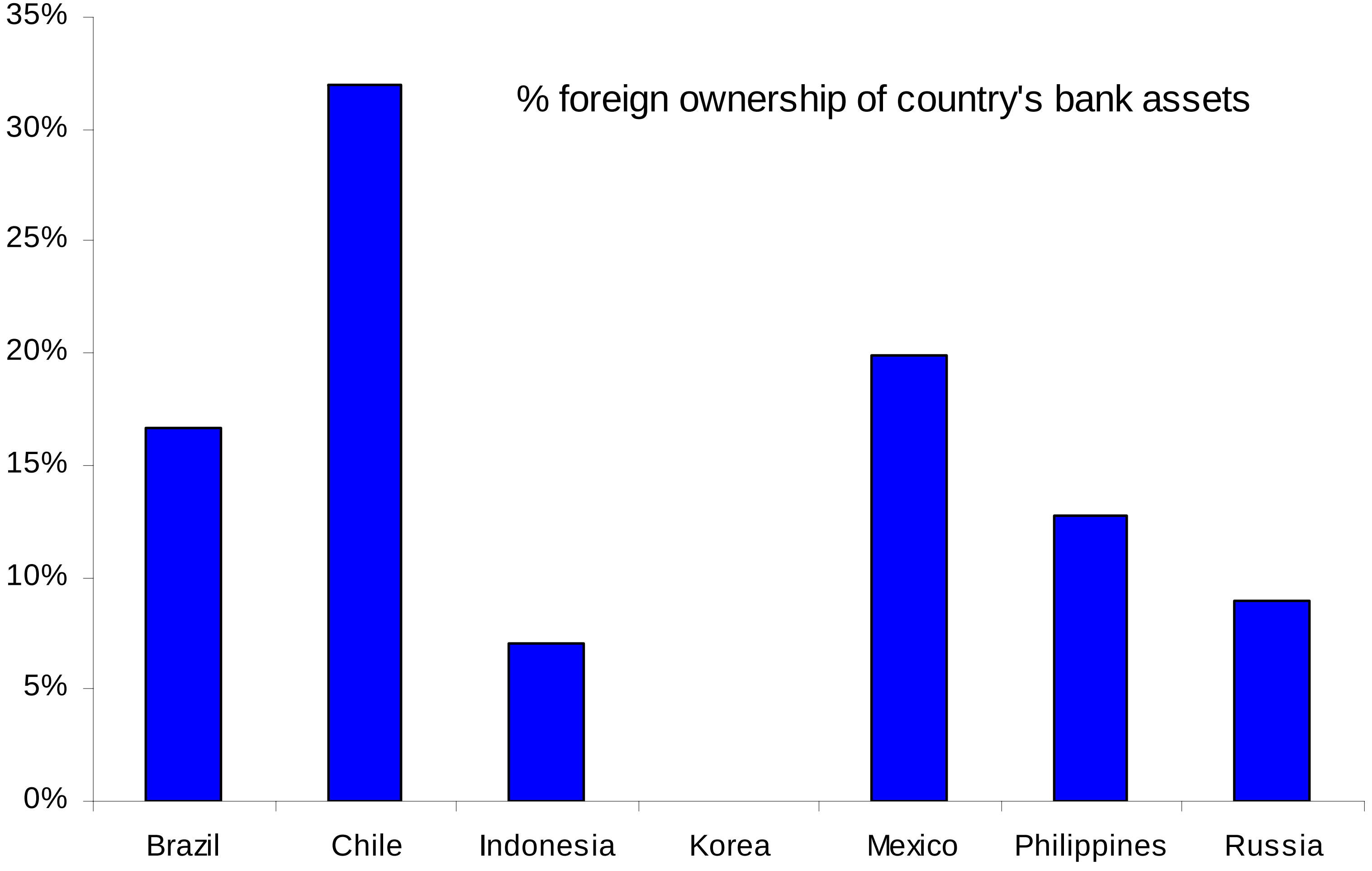


Data for 1995. Source: Barth et al. (1998) "The Role of Governments and Markets in International Banking Crises: The Case of East Asia." Milken Institute Policy Brief. Note that the information on return on assets for private banks is largely foreign-owned banks.

Lesson 4

Encourage
Foreign Investment
in the Banking System

Foreign-owned Banking Assets



Most recent year available. Source: Reserve Bank of Australia (2003). “Foreign Participation in East Asia’s Banking Sector.”

Lesson 5

Combine

Bank Reform

with Corporate Restructuring

Lesson 6

Establish

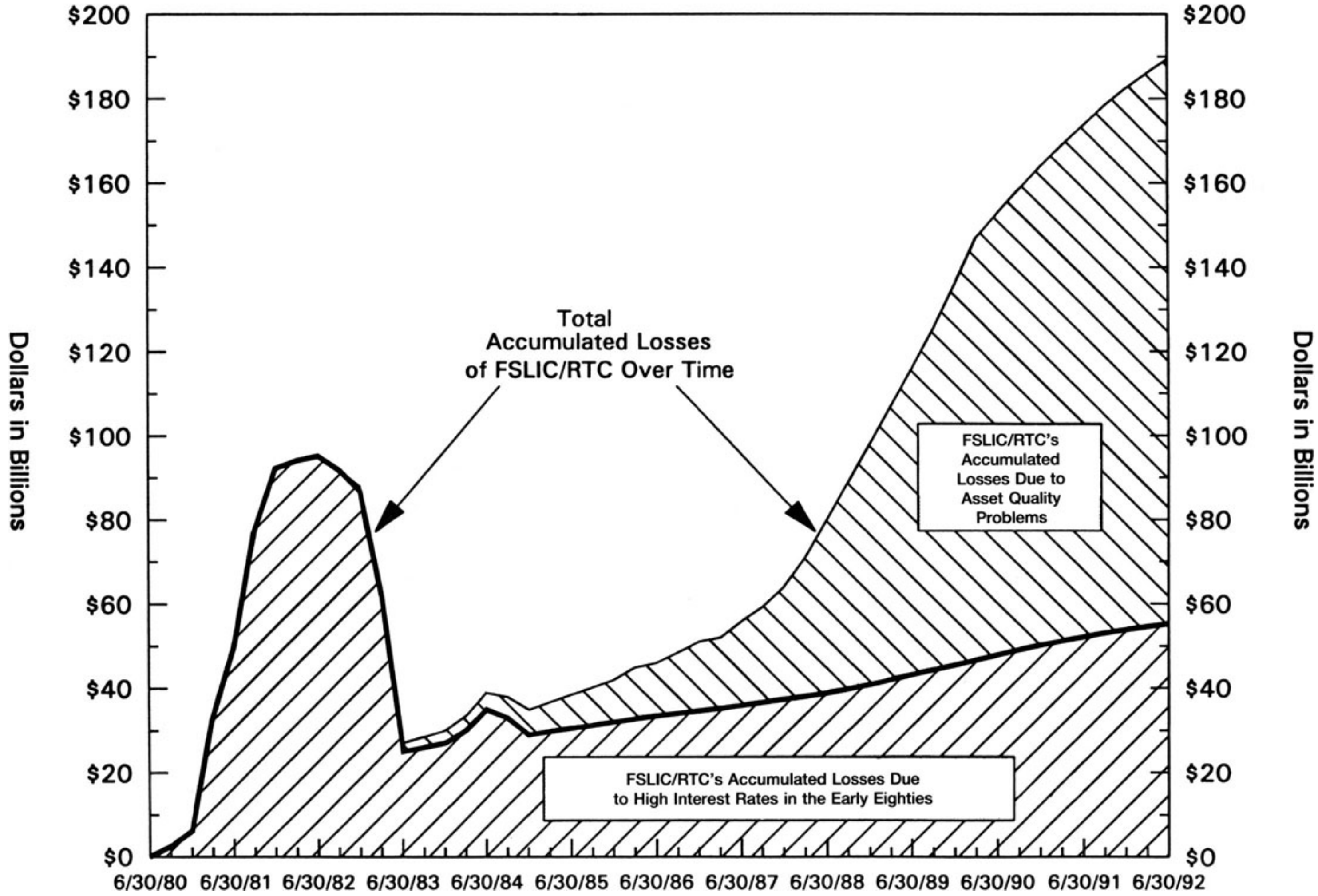
Well-defined and Speedy

Bankruptcy Laws

Lesson 7

Act Promptly

Costs of the US S&L Crisis



Source: Ely, Bert. (2004) "Savings and Loan Crisis," *The Concise Encyclopedia of Economics. Liberty Fund, Inc. Edition*. David R. Henderson Library of Economics and Liberty.

Conclusions

Lessons for
Strengthening Banking Systems
from Around the World
and Across the Ages

7 Key Lessons

1. Enact sound prudential regulations, independent supervision & strong corporate governance
2. Provide partial, risk-adjusted deposit insurance
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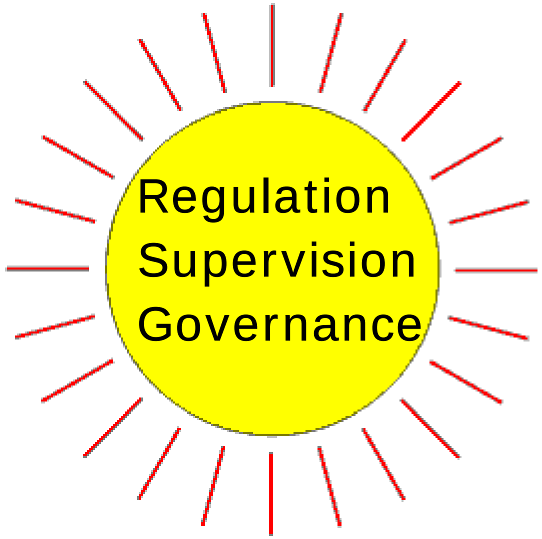

Regulation
Supervision
Governance

SHINSEI BANK

Corporate Headquarters & Main Branch, Tokyo

Hiroo, SFC

Roppongi Hills, SFC

Virtual Call Center

Creating a Better Bank

Shinsei Bank, Limited

Shinsei Bank

- In 1998, LTCB failed and was nationalized
- Government tried to sell LTCB to primarily Japanese banks, but no serious Japanese bidders found
- New LTCB Partners, a fund by investors led by Ripplewood and J.C. Flowers won the bid
- The new bank started in March 2000 as Shinsei, the “newly-born” bank

Shinsei Bank Needed a Complete Overhaul

- **Business model outdated and had a limited future**
- **Shinsei Bank was saddled with huge NPL problems even after the government's bailout**
- **NPLs were JPY 1.9 trillion at the beginning of fiscal 2000, equal to 22% of the total loan assets**

Returning the Bank to Health: Action Plan

- **Clean-up balance sheet**
- **Initiate customer-centric business initiatives**
- **Institutional: Solution-oriented investment banking products**
- **Retail: New retail launch with emphasis on convenience, service and efficiency**
- **Leverage state-of-the-art information technology**

Institutional Banking: Shinsei’s Approach

- **“Loan is one of many products”**
- **Customer-centric investment banking services**
  - **Securitization**
  - **Credit trading**
  - **Non-recourse lending**
  - **M&A, asset management and more**
- **Skilled bankers with wide knowledge and experience hired from outside**
- **Co-work with relationship management**

Retail Banking: Shinsei's Approach

- "Customer convenience and service"
- Expansion of retail channels
- Modernize image and product line-up
- Introduce "PowerFlex" accounts
  - Management of retail banking from single source
  - Broader offering of financial management products
- Introduce "PowerSmart" Housing Loans

IT: Shinsei's Approach

- **New CIO brought in**
- **IT as business process serving internal and external customers**
- **Time urgency and budget limit**
- **Heavy utilization of resources from India**
- **MIS implemented quickly**

Corporate Governance: Shinsei's Approach

- **Implemented global standard governance model**
- **Prominent business leaders appointed as independent board members and senior advisors**
- **Audit Committee, Nomination and Compensation Committee established**

SHINSEI BANK

Corporate Culture: Shinsei's Approach

- **Transparent management and reporting**
- **Accountability and speed in decisions**
- **Goals aligned throughout organization**
- **Higher motivation for success**

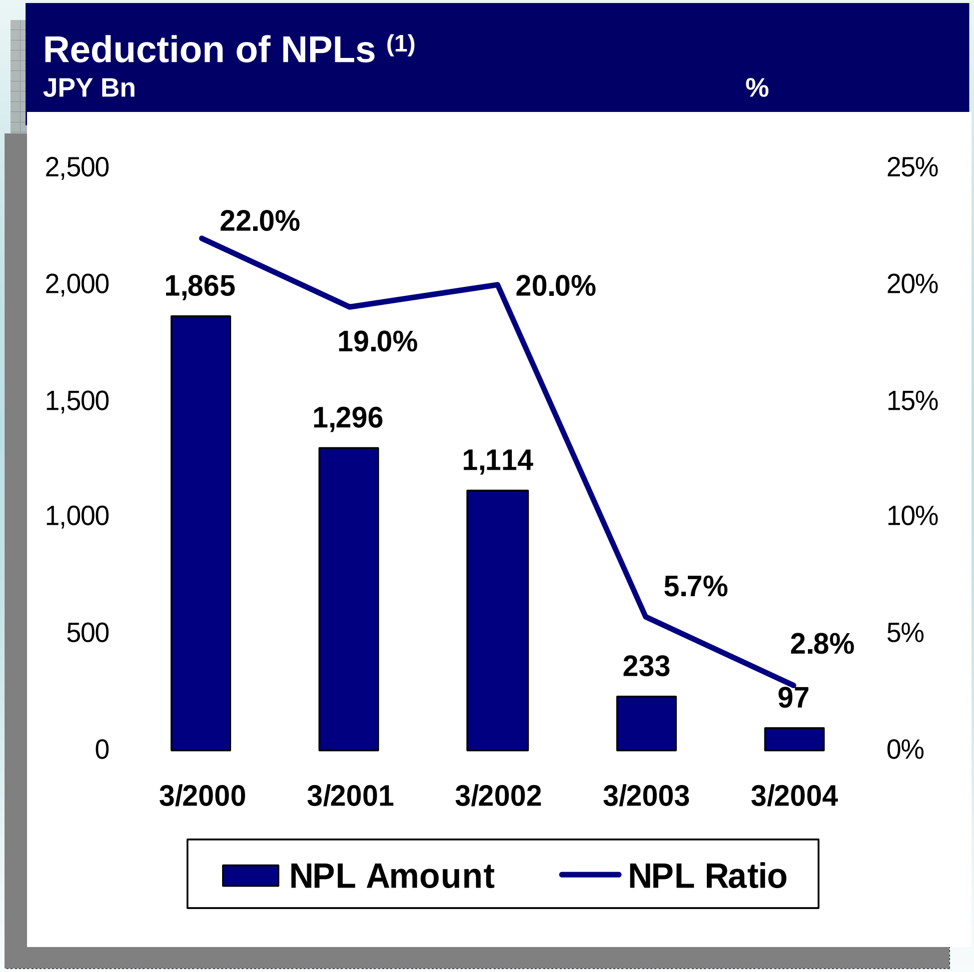
Human Resources: Shinsei's Approach

- **Seniority-system ended**
- **Mid-career hiring**
- **60% ex-LTCB employees, 30% mid-career hiring, 10% newly grads**
- **Culture mixed with various backgrounds**
- **Specialized skills and experiences emphasized**

PERFORMANCE

Balance Sheet – Results

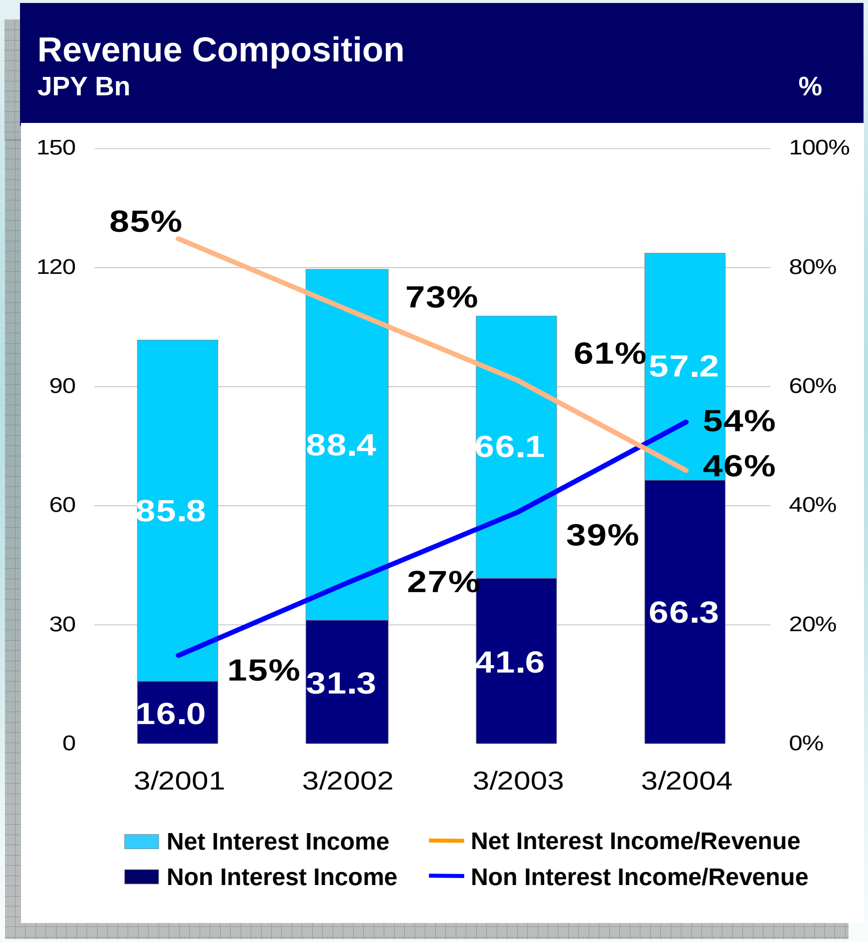
- **Dramatic reduction of non-performing loans**



1. Non-consolidated basis

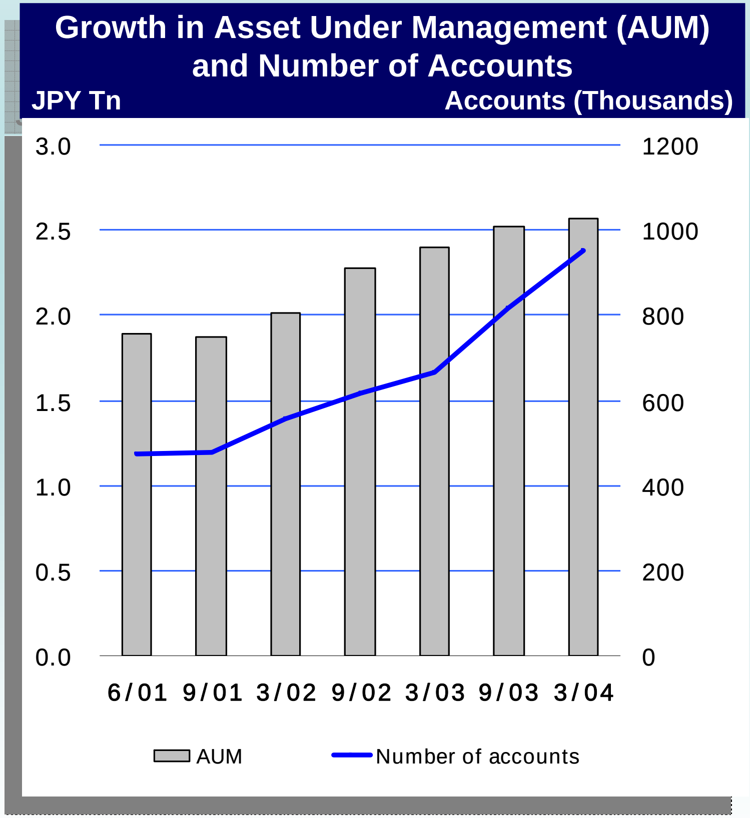
Institutional Banking – Results

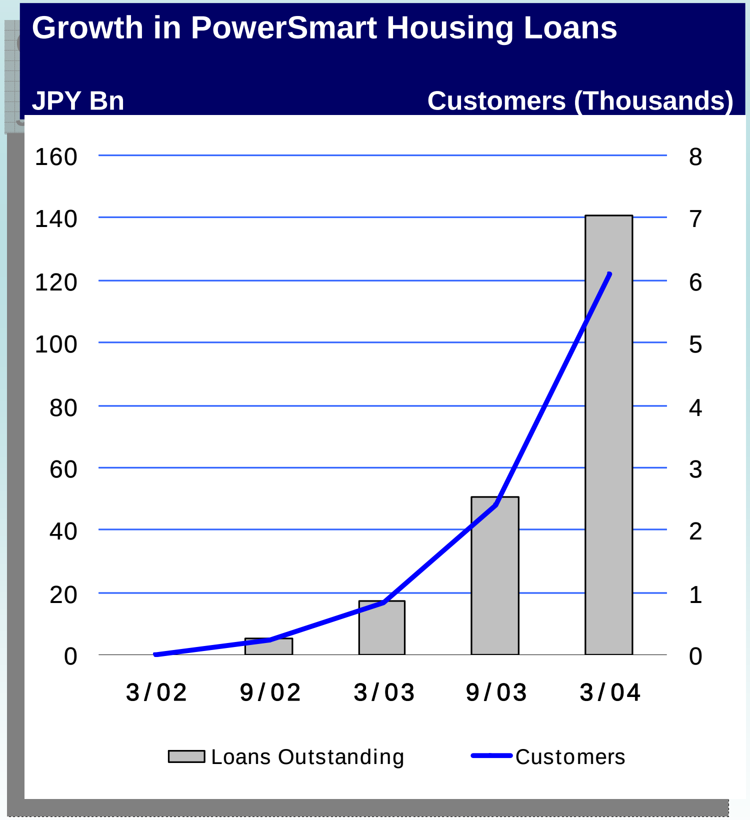
- Further progress in revenue diversification
- Non-interest income growth more than offsetting interest income decrease



Retail Banking - Results

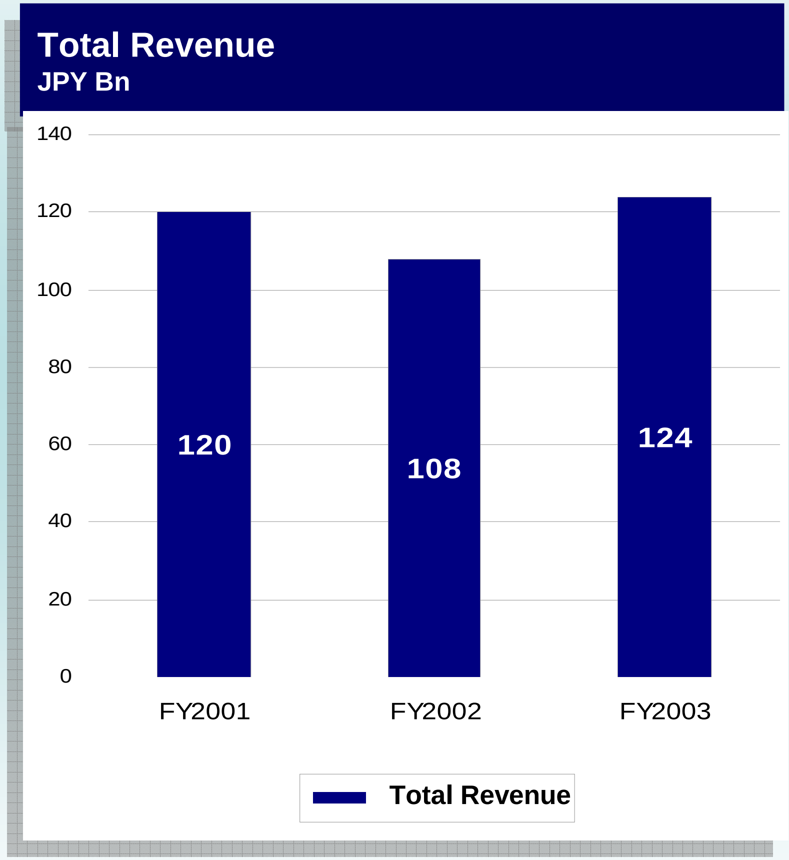
- Number of accounts reached 1,000,000 thus far
- “PowerSmart” reached JPY 140 billion in March 2004

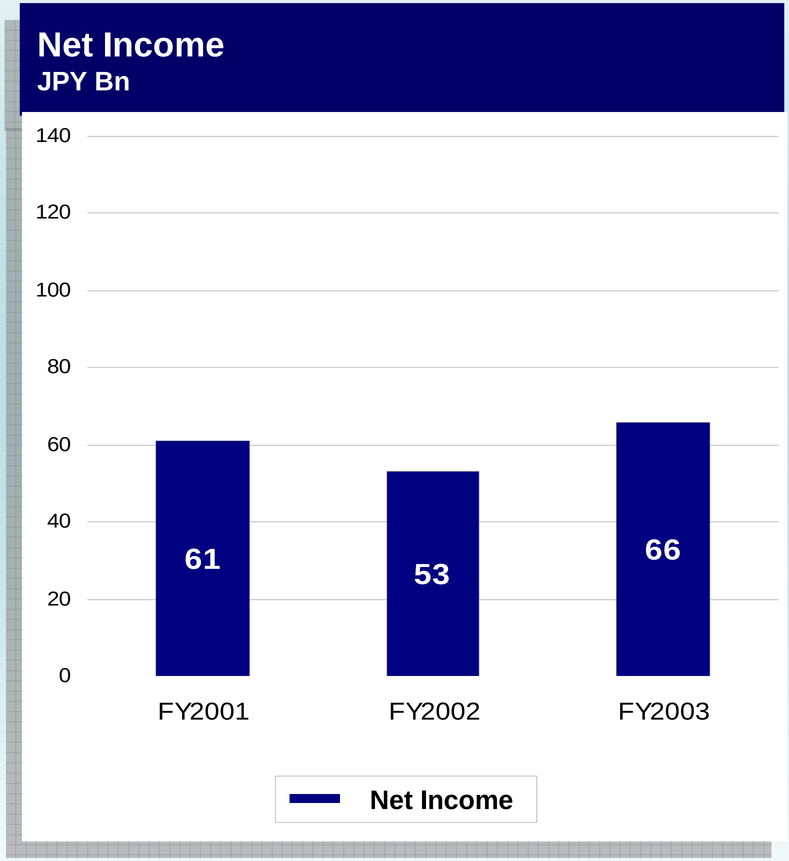




SHINSEI BANK

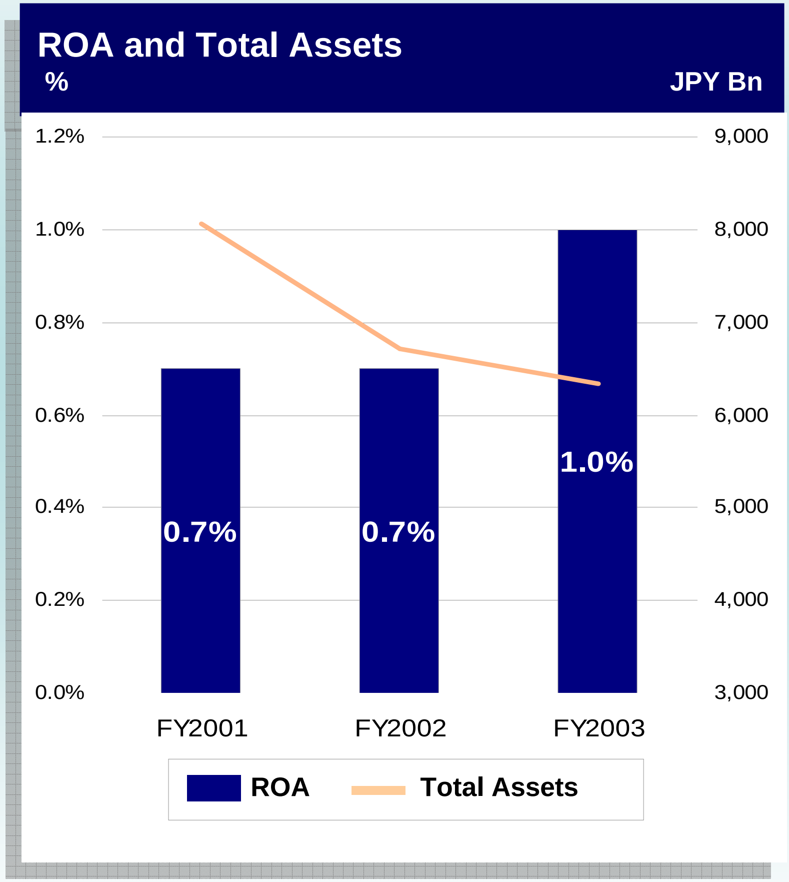
Total Revenue and Net Income

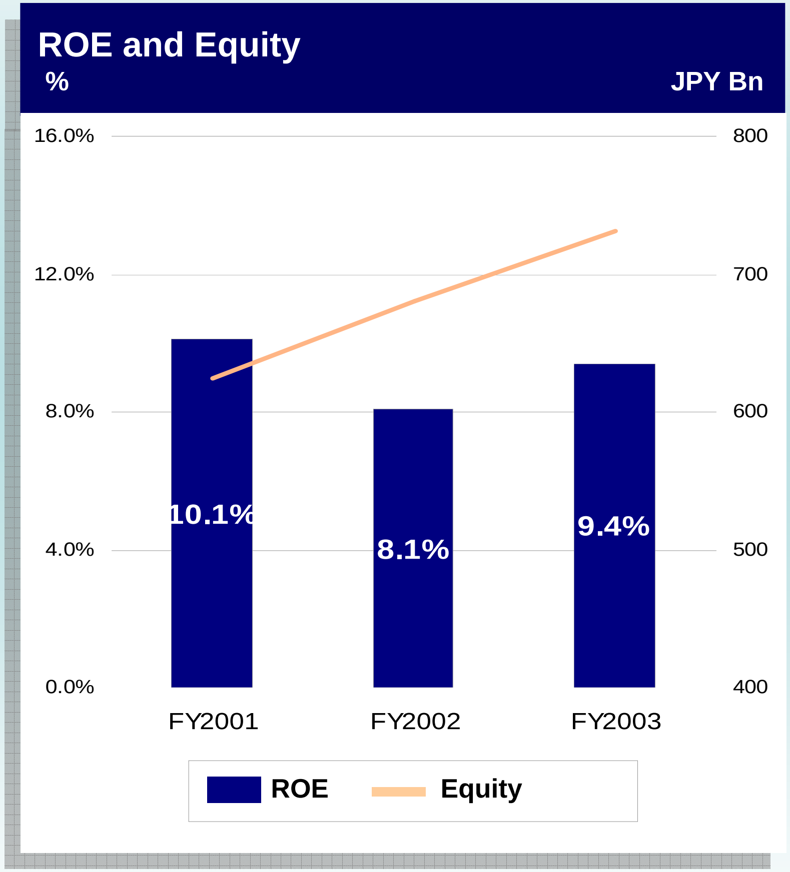




SHINSEI BANK

ROA and ROE





(Total Assets and Equity are as at March 31 of each fiscal year)

SHINSEI BANK

Our Goals

- **Bank of choice for institutional / retail customers**
- **Sustainable long-term growth of profitability**
- **Increasing shareholders' value**

Australian Government
The Treasury

Why is Structural Adjustment Important?

Steve French

Australian Treasury

Australian Government

The Treasury

Introduction

- Benefits of structural reform:
  - Higher sustainable growth and increases in living standards
  - Higher employment
  - Efficient allocation of resources
  - More flexible economy
  - Lower prices
  - More choice for consumers
  - Enhanced international trade and investment opportunities

Australian Government

The Treasury

Structural reform is not a choice

- Reform is either embraced or forced upon an economy
- Closed, rigid economy is not sustainable
  - Opportunity costs eventually force change
- Attempts to avoid reform fail
  - More difficult adjustment period

Reform experience

Australian Government
The Treasury

- Australian currency and trade reform
  - Floating of the currency
  - Reduction of trade barriers
- Subsequent waves of reform
  - Privatisation
  - Deregulation
- Reform is not without costs
  - Dislocation of labour
  - Regional impacts

Australian Government

The Treasury

The Reform Process

- Role for government: Managing the process
- Importance of macroeconomic stability
- Microeconomic reforms should, where appropriate, be broad-based
  - Australian reforms initially undertaken on a case-by-case basis
  - Broader reforms were then pursued

Australian Government
The Treasury

Non-traded sector reforms

- Non-traded sector reforms impact on the traded sector
  - Labour market reform
  - Product market reform
  - Financial market reform
- Different approaches necessary
  - Deregulation
  - Privatisation
  - Access regimes

Competition reforms

- Australian competition underpinned by:
  - National competition policy
  - Strong competition laws
  - Structural separation of utilities
  - Creation of independent regulatory authorities
  - Corporate law reforms

Australian Government
The Treasury

Maximising the benefits of reform

- Broad, cross market reform
  - Flexibility
- Productivity gains from reform
  - Stronger economic growth
- Dynamic effects of growth
- Empirical link between reform and productivity, employment and economic growth

Australian Government

The Treasury

Minimising costs of reform

- Some adjustment costs inevitable
  - Role for government
- Adjustment assistance
- Reform sequencing reduces costs
  - Macroeconomic stability
  - Robust institutions
- Identification of costs including distributional impacts of reform

Australian Government

The Treasury

Results of reform

- More than a decade of continuous economic growth
  - Unemployment fallen from 10.7% to 5.7%
- Record productivity growth
  - Labour productivity growth average 3.1%
  - Multifactor productivity growth average 1.7%
- Economic output 2.5% higher than without some reforms

Australian Government

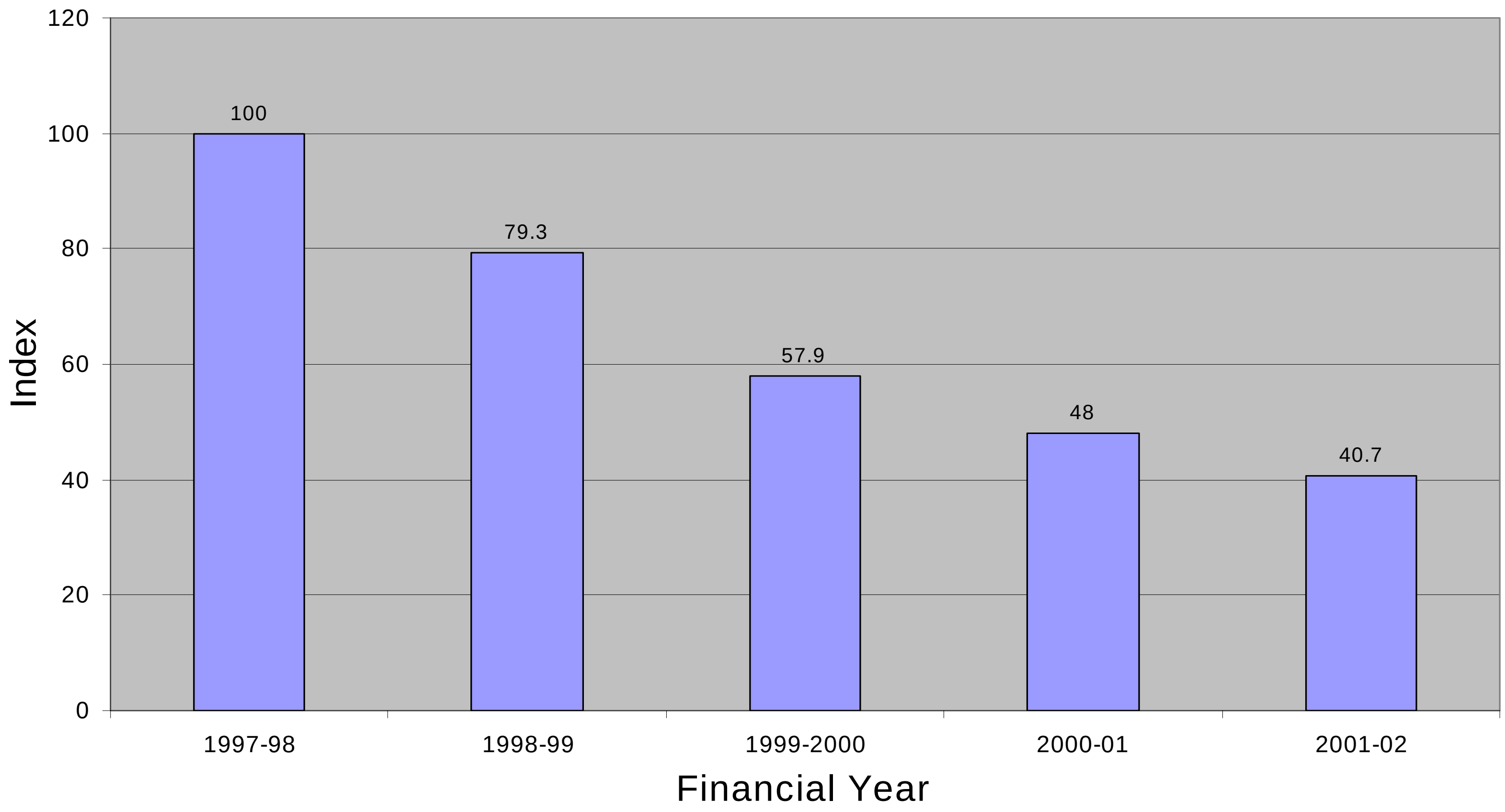
The Treasury

Telecommunications

- Real price decreases between 1997 and 2002-03 of 20.1%
- Fixed to mobile costs down 23%
- Mobile call costs down 23%

International call costs

Chart 1: Index for International Calls for all Consumers Between
1997-98 to 2001-02

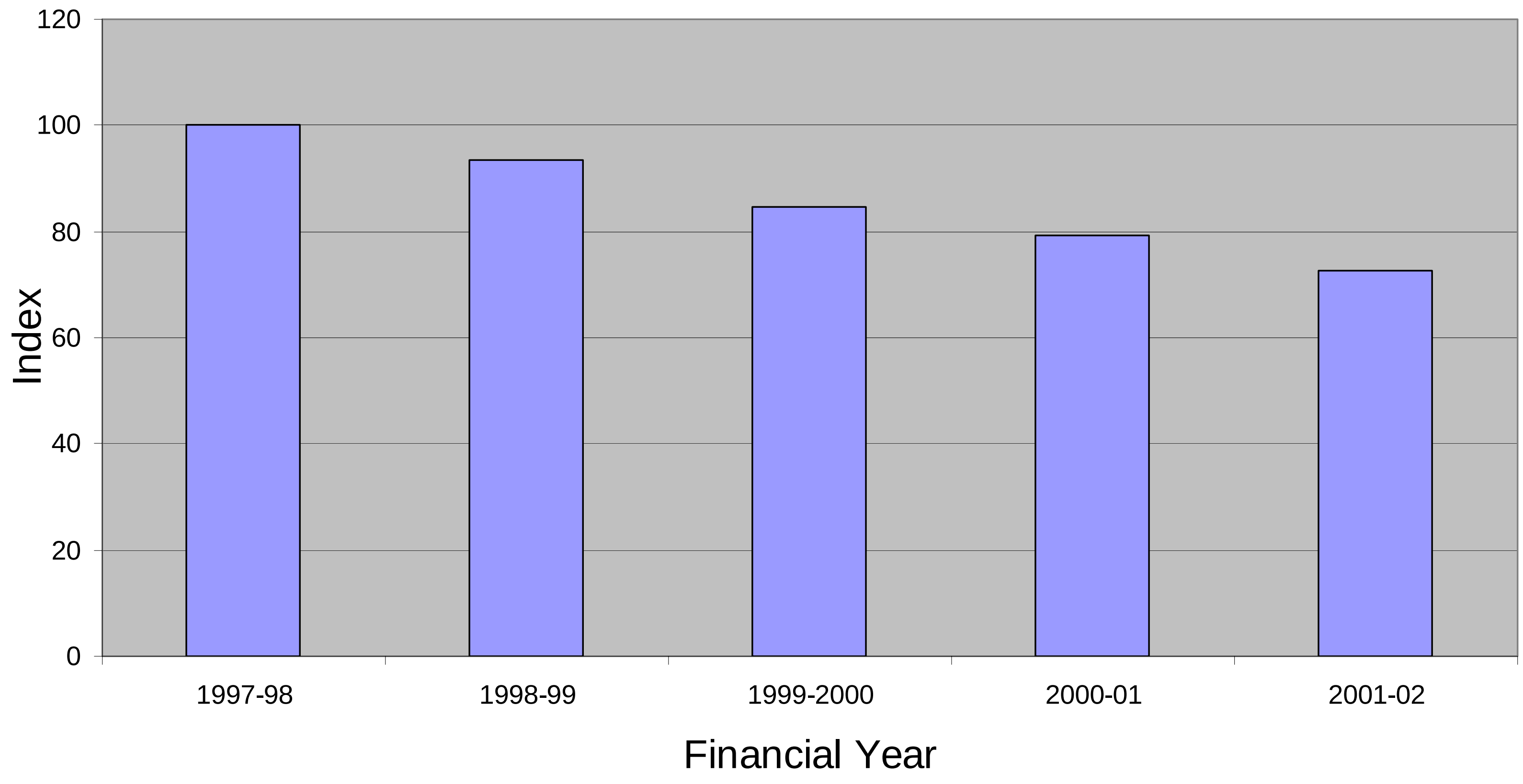


Australian Government

The Treasury

National long distance call costs

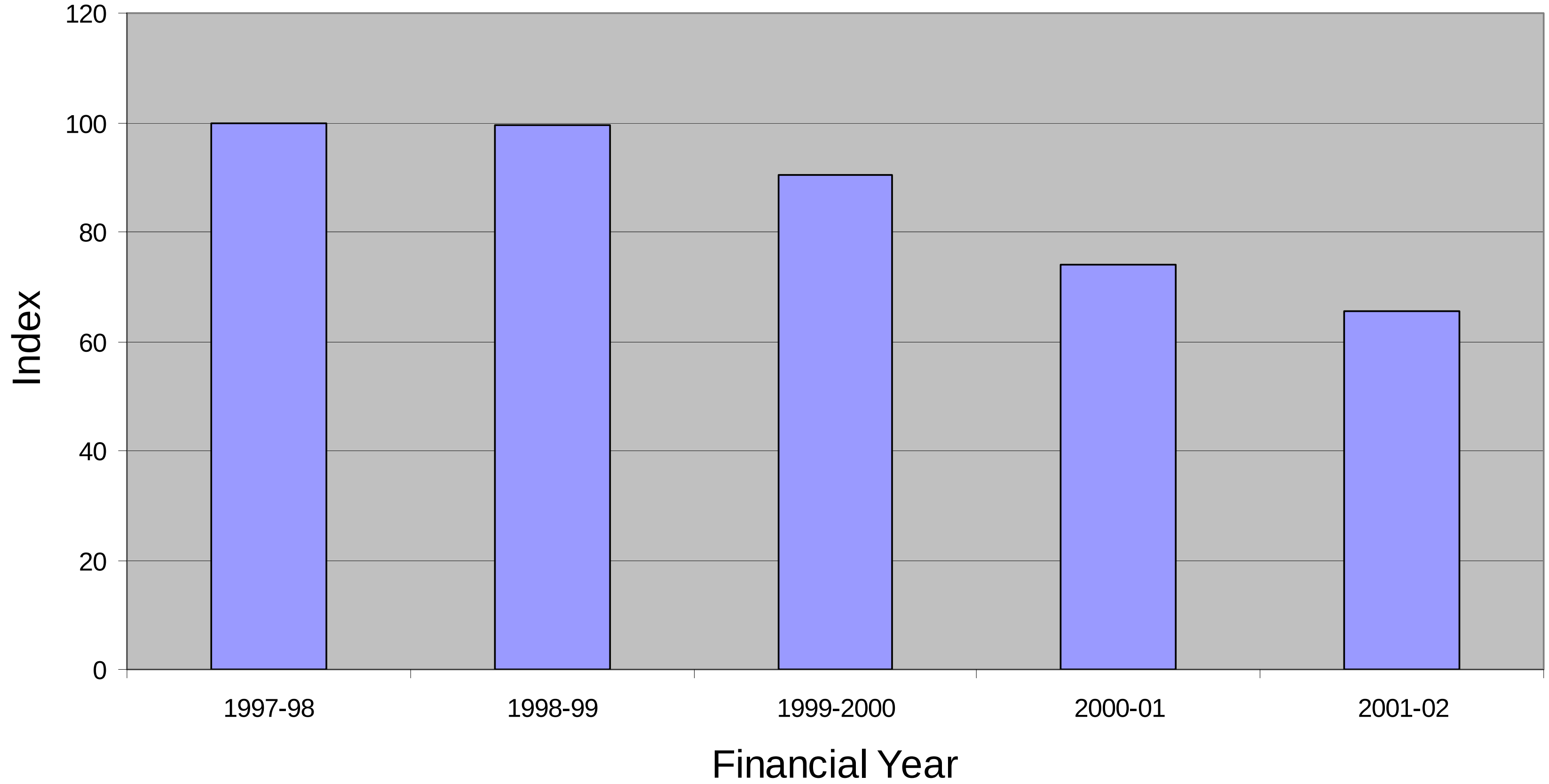
Chart 2: Index for national long distance calls for all consumers
1997-98 to 2001-02



Australian Government
The Treasury

Local call costs

Chart 3: Index for local calls for all consumers
1997-98 to 2001-02

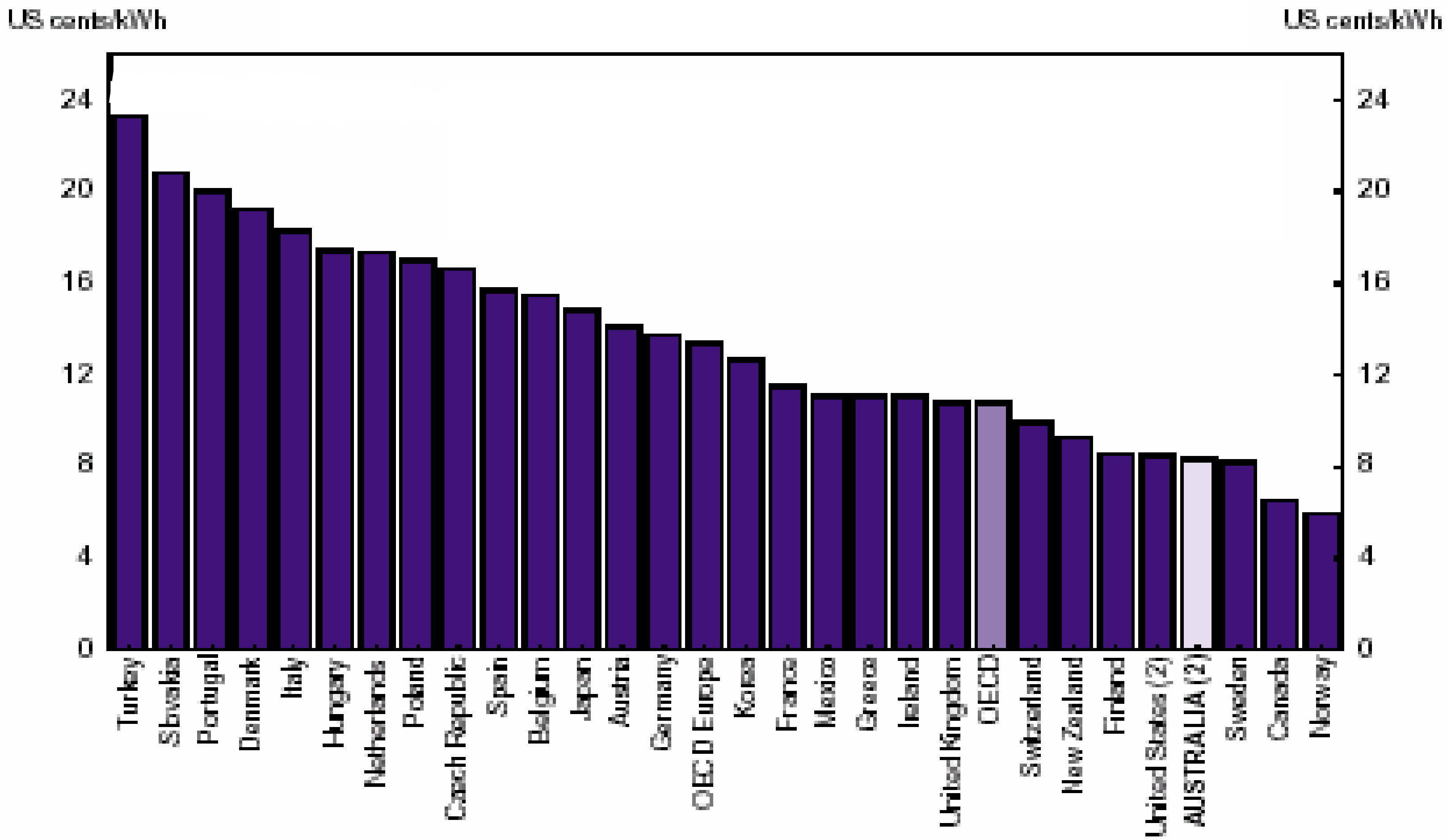


Australian Government
The Treasury

Other reforms

- Aviation: discount fares reduced by more than 30%
- Average national residential electricity prices fell almost 13% between 1993 and 2002
  - Prices to business fell around 11.5%

International electricity prices



1. In 2001 or latest year available.
2. Price excluding tax for Australia and the United States.

Source: IEA, Energy prices and taxes (2002).

Australian Government

The Treasury

Conclusion

- Broad, well-managed structural reform across product, labour and financial markets leads to:
  - Greater competition
  - Greater efficiency
  - More flexible labour market
  - Higher multifactor productivity growth
  - Lower unemployment
  - Higher economic growth.

The role of competition policy in structural adjustment

An overview of recent Australian structural reforms

Joe Dimasi

Executive General Manager – Regulatory Affairs Division

Australian Competition and Consumer Commission

9 September 2004

Introduction

- Australia undertook major reform in National Competition Policy (NCP) in early 1990s
- Was a response to concerns about Australia's poor economic productivity performance
  - GDP per capita and GDP per hour were ranked 16th out of OECD member countries
- NCP followed an independent review (Hilmer review)
- Focus of reforms was competition: competition was recognised as a means of enhancing community welfare by promoting a more efficient use of resources

Overview of the reforms

- Reforms included:
  - The creation of an economy wide competition law
  - Competitive neutrality between government and private enterprises
  - Removal of regulatory restrictions to competition
  - Structural reform of public monopolies
  - Access to essential facilities
  - Prices oversight to constrain monopoly pricing

Economy wide competition law

- In Australia, anti-competitive conduct rules (e.g. prohibitions on anti-competitive agreements, misuse of market power and certain mergers) are embodied in the *Trade Practices Act*
- The reforms gave these laws economy-wide application: due to constitutional law issues, these laws did not previously apply to state owned business enterprises or unincorporated associations
- Economy-wide application enables a consistent and uniform application of competition law
- Process in place to authorise anti-competitive conduct where competition benefits may not be sufficient to offset other social costs

Competitive neutrality

- Despite competitive neutrality at law, governments could still confer financial advantages upon their own businesses
- When operating in markets where private operators are present, governments agreed to a set of competitive neutrality principles, including:
  - Charging cost reflective prices, adopting corporate models, paying or making allowances for government taxes and commercial borrowing rates, and complying with the same regulations as private businesses
- These principles expressly did not apply to non-business, non-profit activities of government businesses
- Important as governments increasingly contracting with private operators to provide services

Removal of regulatory restrictions

- Despite economy-wide application of the *TPA*, regulatory barriers may impede emergence of competition in certain markets
  - E.g. legislated monopolies for public utilities, statutory marketing schemes and professional licensing arrangements
- Governments agreed to a systematic review of existing legislation
  - Restrictions on competition to be removed unless the benefits as a whole outweigh the costs and restricting competition was the only way to achieve those benefits
- Establishment of institution (National Competition Council) to monitor progress

Structural reform of public monopolies

- An economy wide competition law can protect competition but it cannot create competition in industries that lack a competitive market structure
  - E.g. gas and electricity industries were traditionally vertically integrated and mostly state owned monopolies
- Governments agreed to structural reform of public monopolies to separate the contestable and non-contestable elements
- The policy did not require governments to privatise their activities, but did require a transparent process to identify functions or activities that should stay with government, if the business was privatised or corporatised

Access to essential facilities

- Competition may still not be possible in markets with 'natural monopoly characteristics'
  - Problem common to a lot of network infrastructure
- To compete in related markets, new entrants need access to existing infrastructure
- Governments agreed to a national third party access regime for facilities that could not be economically duplicated and were of national significance
- Purpose was to create competition in industries dependent upon that infrastructure, not competition within the infrastructure industry itself

Prices oversight to constrain monopoly pricing

- In markets that are not contestable, businesses may have the ability to charge prices above competitive market prices for extended periods of time
  - Problem common to a lot of 'natural monopolies'
- Governments recognised that competition law will not constrain 'monopoly pricing' and introduced regulation to constrain pricing in a number of industries
- Purpose was not to create price competition in the infrastructure industry, but rather to preclude monopoly pricing from restricting the emergence of competition and more efficient outcomes in dependent industries

Industry specific reforms

- Economy wide reforms were accompanied by a number of sector specific reform initiatives
- Sector specific structural reform and access regulation were introduced into a number of industries as part of the reform of public monopolies
- Comment on four major sectors:
  - Electricity
  - Gas
  - Telecommunications
  - Rail

Electricity reforms

- Historically state based and publicly owned with each state largely self-sufficient in terms of generation
- Infrastructure for generating, transporting and retailing electricity was vertically integrated
- Governments agreed to:
  - Place utilities on a commercial footing
  - Vertical separation of infrastructure
  - Allowing for customer choice of supplier
  - Implementing a system of third party access to transmission and distribution infrastructure
  - Establishing a wholesale electricity trading market

Electricity reforms – Cont.

- Outcomes
  - Electricity wholesale prices have fallen (by around 50% in NSW and Victoria)
  - Retail prices have fallen for larger customers
  - Price differentials for summer peak: better investment signals
  - Greater interconnection
- Investment in regulated transmission sector is at a historically high level

Gas reforms

- Historically state based with supply to demand centres typically met by a single basin through a single set of pipeline infrastructure
- Infrastructure for transporting gas to demand centres was largely publicly owned and vertically integrated (across transmission, distribution and retail)
- Governments agreed to:
  - Remove legislative restriction upon interstate trade of gas
  - Place utilities on a commercial footing
  - Vertical separation of infrastructure
  - Allowing for customer choice of supplier
  - Implementing a system of third party access to transmission and distribution infrastructure

Gas reforms – Cont.

- Outcomes:
  - Some emerging competition between basins
  - Greater security of supply through improved interconnection
  - Higher level of investment in the regulated transmission sector

Telecommunications reforms

- Historically dominated by single government owned national carrier with a legislative monopoly
- Duopoly in fixed line telephony and triopoly in mobiles introduced in 1991
- Full competition and revisions to the regulatory framework in 1997

Telecommunications reforms

- Introduction of an access regime has been particularly significant as structural reform of the horizontally and vertically integrated national carrier has been limited
- Outcomes
  – Prices have fallen significantly – between 1977/8 to 2001/2 average basket of telecommunication service fell around 20%
  – Investment has been high
  – Quantitative estimates put growth to economy at $10b as a result of the reforms

Rail reforms

- Historically, the interstate track network was state based, with differences between states in the operation of networks restricting competition across the entire network
  - E.g. track widths varied between states
- Governments introduced reforms:
  - Vertical separation of rail ownership from above rail businesses of some government entities
  - Corporatisation and privatisation of some government entities
  - Establish a single corporation responsible for the management and operation of Australia’s interstate rail network

Rail reforms – Cont

  - Co-regulation of safety across states and mutual recognition of accreditation
  - Improving uniformity of technical standards and operating practices
  - Implementing systems of third party access to various track networks

- Outcomes
  - Improved volumes
  - Increased train lengths
  - Gross mass per train has improved

Outcomes of Reforms

- While a causal link is inherently difficult to establish, NCP and related reforms have coincided with the most consistent and sustained period of economic growth in Australia's history
  - GDP per person has grown by 2.5 per cent a year since 1990 compared with the OECD average of 1.7 per cent
  - Australia's OECD ranking has risen from the low of 16^{th} in 1990 to eighth in 2002
  - Australia's Productivity Commission estimates that household income is $7,000 per annum better off as a result

Paper - Building a Domestic Constituency for Structural Adjustment
Mr Rober Kerr
PDF Download (14MB)

Paper - A Government Perspective to Structural Adjustment in the Australian Automotive Industry
Mr Rober Kerr
PDF Download (4MB)

We apologise but these papers can be downloaded separately due to file size.

APEC High Level Conference on Structural Reform
8-9 September 2004, Tokyo

Promoting Structural Adjustment:

Deregulation and Structural Adjustment in the Context of Wider Macroeconomic Reform Processes - The New Zealand Agriculture Experience

Murray Sherwin, Director General
New Zealand Ministry of Agriculture and Forestry

MAF

New Zealand: setting the scene

- New Zealand similar in size to Japan or 3% of China
  - 4 million people
- Climatic conditions
  - Abundant rain and sunshine, mild to warm temperatures
  - Grass grows all year round and livestock are grazed outdoors
  - 1 600 kilometres from subtropical North to cool South
  - Mountainous terrain, variable soils
- Land use
  - 74% of farm land is in permanent pasture
  - 70 000 farms

MAF

Problems with New Zealand's economy before 1984

- No coherent economic strategy - acute problems
  - Fiscal deficit, public debt, current external deficit
- Tight financial sector controls and a fixed exchange rate
- High unemployment
- Government control pervasive
  - Import licensing, price and wage controls, interest rate controls
- Manufacturing
  - Grew behind quotas and tariffs and became increasingly inefficient
  - Protection of domestic manufacturing base increased costs to agriculture

Broad economic reforms, 1984 onward

- New Zealand dollar devalued and floated
- Tax and banking systems overhauled
- Export assistance removed, tariffs reduced
- Many government businesses corporatised or privatised
- Price stabilisation via tight monetary policy
- Labour market reform
- Capital flows liberalised
- Regulation of domestic markets reduced

State sector reforms, 1984 onward

- Principles for reform of the state sector:
  - Do not involve the state in any activities that would be more efficiently and effectively performed by the community or by private business.
  - Structure government trading enterprises along the lines of private sector.
  - Separate government policy and service delivery functions.
  - Make government managers fully accountable for the efficient running of their organisations.

Impact of the reforms

- A sound macroeconomic policy framework
  - Reduced inflation and a fiscal surplus
- Improvement in economic growth since early 1990s
  - One of faster growing economies in OECD during past decade.
  - 3.6% average annual growth rate from 1992-2002.
- Growth in service sector (particularly trade, transport and communications, business services etc)
- Clearer price signals in for producers and consumers across all sectors
- A more flexible labour market and improvements in labour utilisation
- Efficient and responsive public sector
- Increased openness of producers to international competition

THE CASE OF AGRICULTURE: overview of agriculture in New Zealand

- Pastoral farming dominates
  - Sheep: 39.7 million - Dairy cattle: 5.1 million
  - Beef cattle: 4.6 million - Deer: 1.7 million

- Horticulture is increasingly important
  - Kiwifruit orchards: 12 400 ha - Apple orchards: 12 200 ha
  - Wine grapes: 19 600 ha
- Arable farming
  - Wheat: 43 200 ha - Barley: 648 700 ha

- Forestry
  - 6.8% of total land area is planted in production forests, mainly *pinus radiata*

Importance of agriculture to New Zealand

- Agriculture, horticulture and forestry contribute almost 20% to GDP (in current prices, including processing and manufacture)
- Over 90% of New Zealand's agricultural production is exported
- Agriculture, horticulture, and forestry exports total $17.6 billion, which is 62% of total exports by value
- New Zealand is the world's:
  - No 1 sheep meat exporter
  - No 2 dairy products exporter
  - No 2 wool exporter

MAF

Government support for agriculture before 1984

- Support levels
  - 1960s: almost non-existent
  - 1970s: increased to 'protect' NZ from overseas shocks and to offset negative impact on exporters of high exchange rate
  - 1980-4: increased to compensate for high costs and low commodity prices
- Agricultural policy
  - Aimed at increasing production for export through government support
- Support mechanisms
  - Price supports: sheep meat, beef, wool and dairy
  - Input subsidies: such as taxation incentives, fertiliser, transport, pesticides, low interest loans, debt write-off, irrigation, research, extension and advisory services, etc. ...

MAF

Effects of government support on New Zealand agriculture

- Isolated NZ agriculture from market signals
  - loss of international competitiveness
- Misallocation of resources
  - low productivity
  - negative environmental impacts
  - subsidies capitalised into land prices
- Created dependence on government support
- Stifled innovation and entrepreneurial spirit

Agricultural policy reforms, 1984 onward

- Abolished price supports
- Removed capital subsidies and input subsidies
- Recover costs of government inspections on a “user pays” basis
- Advisory services moved to “user pays” basis. Subsequently privatised.
- Withdrew tax concessions
- Phased out interest rates and lending concessions

MAF

Impact of agricultural policy reforms

- Not as bad as feared, few farmers forced out, exit packages available
- Short term decline in farm incomes and land values, followed by recovery
- Clearer price signals led to reallocation of resources
  - Sheep numbers fell from 70 million to 40 million
  - Expansion of dairy, deer, goat, horticulture and forestry industries
- Productivity increased across all agriculture sectors
- Input costs decreased, farm size increased
- Environmental benefits from less intensive input use, better use of resources
- Stimulated investment, innovation and adoption of new technologies
- Increase in agriculture’s proportional contribution to economy

MAF Role

- NOT advocates for farmers – advocates for the wider national interest as it relates to agriculture and forestry
- MAF activities:
  - Policy advice to Government
  - Domestic business environment and regulatory framework
  - International trade liberalisation, standard-setting, and SPS assurances
  - Biosecurity maintenance, both at the border and within our environment
  - Food safety, both domestic and exported (NZ Food Safety Authority)
  - Sustainable use of natural resources

MAF

Lessons from New Zealand's reforms

- Intervention is easier to start than finish. Reform requires strong on-going political support.
- Reform needs to be carried out on a broad front across all sectors of the economy.
- Unilateral reform confers substantial benefits on the economy, the environment and society.
- Reform has given farmers a renewed sense of self-respect: they do not want a return to government hand-outs and are strong advocates for reform.

NEW ZEALAND INSTITUTE FOR THE STUDY OF COMPETITION AND REGULATION INC.

Structural Reform: the Dairy Industry in New Zealand

Lewis Evans

Professor of Economics
Victoria University of Wellington
Research Fellow, NZ Institute for the Study of Competition and Regulation

Prepared for the

APEC High Level Conference on Structural Reform

8-9 September 2004, Tokyo, Japan

(http:iscr.org.nz)

Overview

- Creation of subsidy-free agriculture 1983-2001
- Market (de)regulation: 2001 Dairy Reforms
- Summary of the New Zealand experience

Background to 1984

- New Zealand an economy riven by regulation
  - Forex controls
  - Import controls
  - Subsidies Manufacturing, and agricultural (30% of sales)
  - inducing extra production of unwanted product on otherwise uneconomic land
  - single desk exporting
- New Zealand economy performing badly since 1950
- Impetus for change, and crisis in 1984

1984-2000

- Structural change 1984-1991
    - economy-wide reform
    - elimination of subsidies/tariffs import controls
    - acceptable to interest groups: credibility enhanced by being applicable to all
    - Resource Management Act: focus on effects, not practices in resource decisions

- NZ Agriculture 1991- 2000
    - essentially subsidy free
    - still major control of export environment via producer boards

Effects of Structural Adjustment 1984-2003

- Major decline in farming profitability (especially sheep and beef) 1984-1993:
  recovery in the 1990s
- Major change in product mix
  e.g. sheep to trees/vines
- Major enhancement in product quality
  e.g. 40% less sheep/more higher quality lamb
- Major adjustment away from "uneconomic" use of inputs
  e.g. land and fertiliser
- Quite different mix of urban and rural activity
  e.g. rural residences coexisting with agriculture
- Portfolios and specialisation
  e.g. while the big get bigger- much diversification into tourism and recreation etc. increased focus on the environment

Dairy 1984-2001

All the change that had affected agriculture affected dairy: but issues remained

a) was engendering excess production from cooperative pricing
b) retained the single-desk export restriction - restricted entry
c) the single-desk was becoming dysfunctional

Dairy Board single desk status: market export product (almost all of New Zealand's manufacturing milk)

4 coops owned the Dairy Board two large (95%) two small (5%) (down from 500 coops in the 1930s)

Ownership/competition duopoly was affecting coordination of marketing and manufacture in foreign markets

Structural Change Options At 2001

1. One large coop buy the other coops out (single desk? insist on investor firms?)
2. The (2 large) coops merge with the Dairy Board and the single desk be removed

- Option 2 was preferred by farmers and was chosen subject to regulations relating to the dominant position of the merged entity (Fonterra), allocation of quota rights, division/divestment of public and private good activities of the Dairy Board.

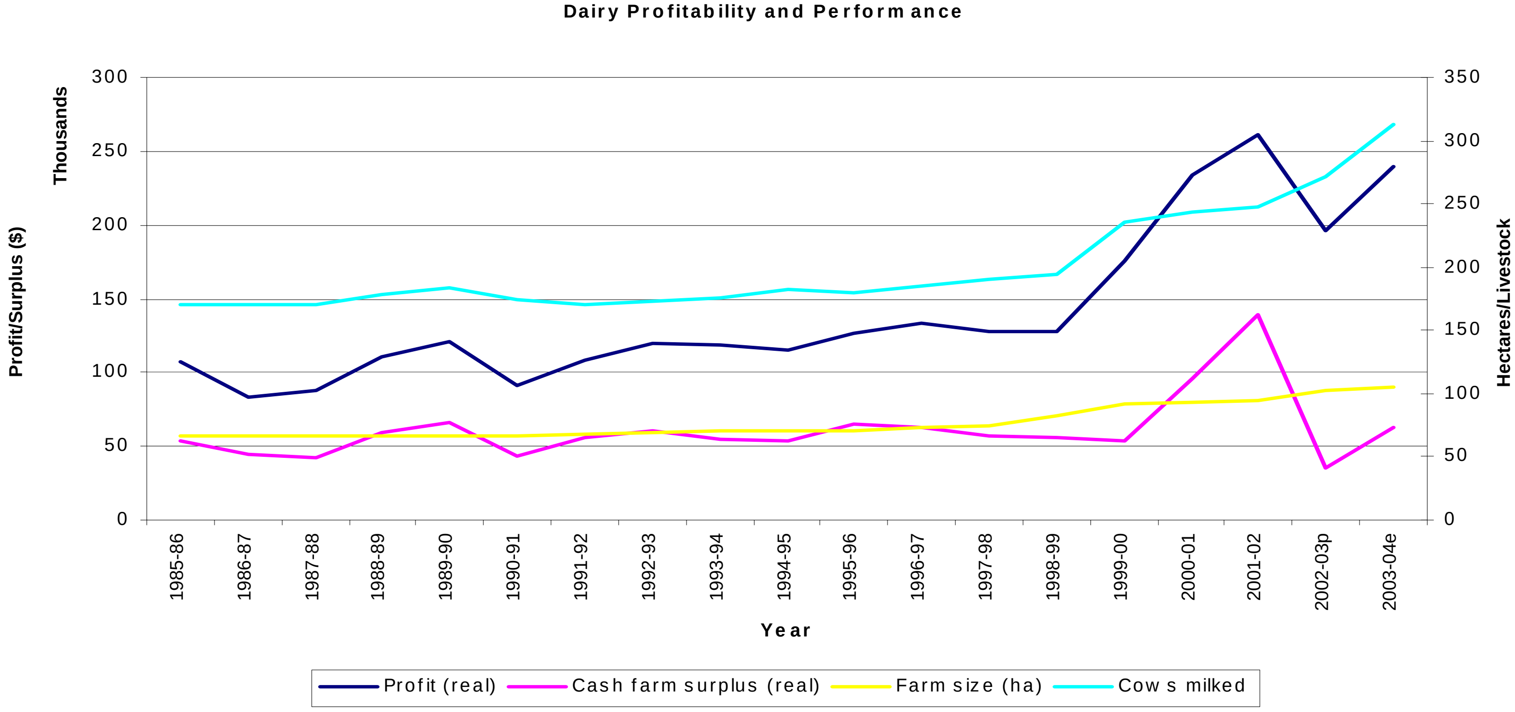
- Fonterra adopted fair-value share pricing that estimates the wholesale price of milk as the residual after the return on processing capital

Formation of Fonterra Cooperative Group in 2001

- Fonterra became a dominant cooperative (96% market share)
- Fair-value share pricing and open entry and exit of suppliers, and requirement to supply up to 400m litres disciplines Fonterra in the wholesale raw milk market
- The single desk limitation on competition removed from 2002
- Nature of the change meant that the competition law enforcement institution had to be bypassed to implement the policy

Dairy Performance

There has been some minor entry to date: Fonterra has continued to grow: domestic milk processed and joint ventures



Structure of Fonterra

Cooperative company structure: shares held by suppliers in the proportion to the kgs of milk solids supplied. It has interest bearing listed notes

In addition to its Board, has an elected Shareholders' Council that monitors the company and reports to shareholders. The council appoints the fair-value share (commodity milk price) pricing analyst.

In 2002 it had three divisions

NZMP collects milk from suppliers and produces 1000 product specifications through a supply chain to 100 countries

New Zealand Milk: dairy based consumer and food branded products and services

Fonterra Enterprises: innovation including its biotechnology company

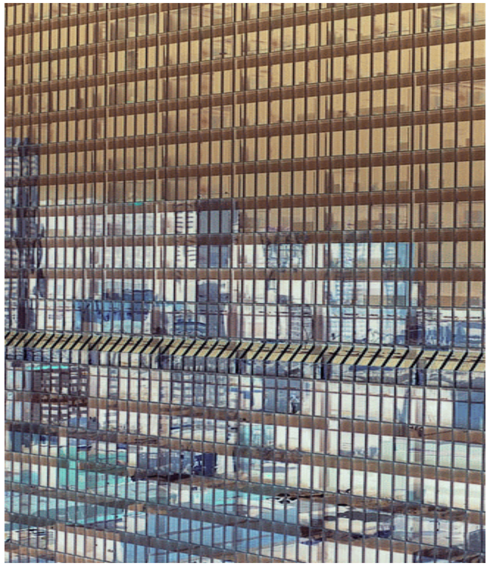
In 2002 produced 7% NZ GDP, the 2nd largest dairy company in the world by volume processed and 4th by sales

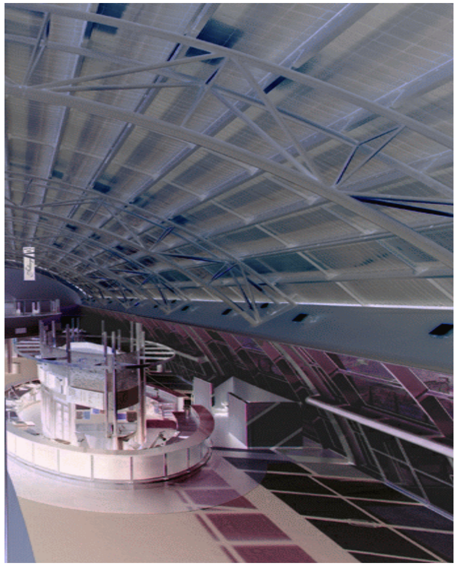
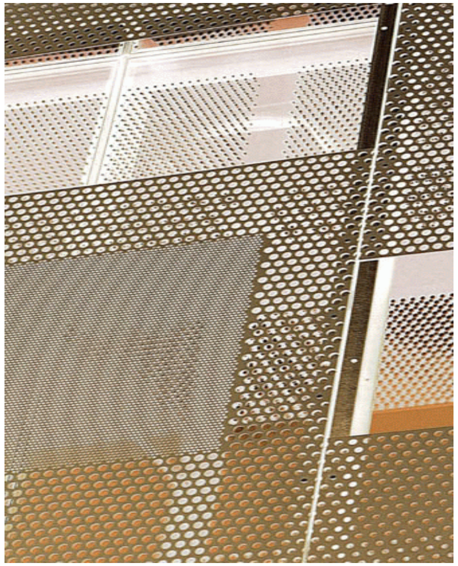
Summary: NZ's Dairy Structural Change

- Under the present regulatory structure the ultimate form of the dairy industry will depend upon the forces of the product, service, ownership labour and capital markets. There is no reason to intervene in this process. There remains some debate about the cooperative form and it is being tested

- The approach to de-regulation in 2001 allowed an orderly transition to a de-regulated environment. The alternatives would have
    - caused performance-affecting conflict
    - placed at risk the clean deregulation of exporting, and thereby entry

- The New Zealand experience of structural change, where it is deregulation, is that it has produced flexible agriculture, and an improved allocation of resources. The removal of subsidies in agriculture has been an important part of this.



Experiences with Structural Adjustment of the Australian Steel industry

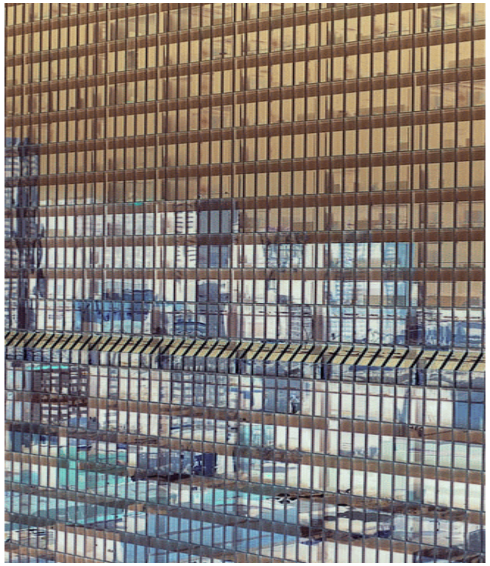
Presentation by Dr Bob Every

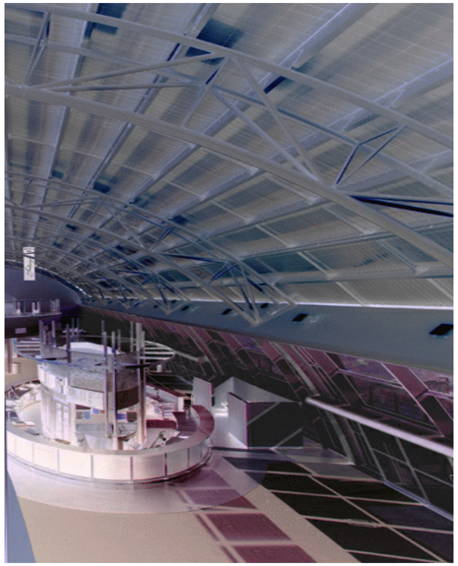
Managing Director and CEO of OneSteel Limited

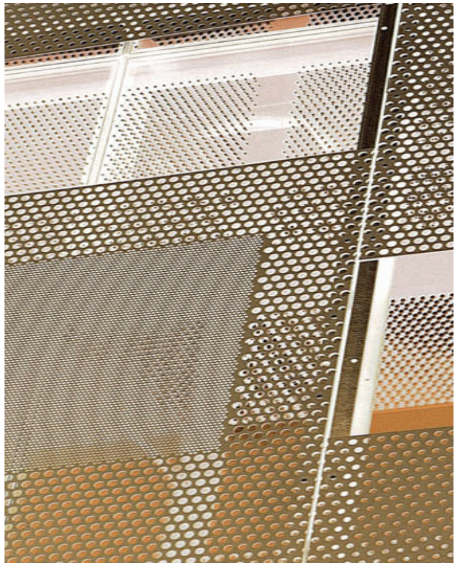
September 9, 2004

Contents

- Global Industry Landscape
- Australian Industry Landscape
- Current Trends and Structural Impacts
- The Future of Steel





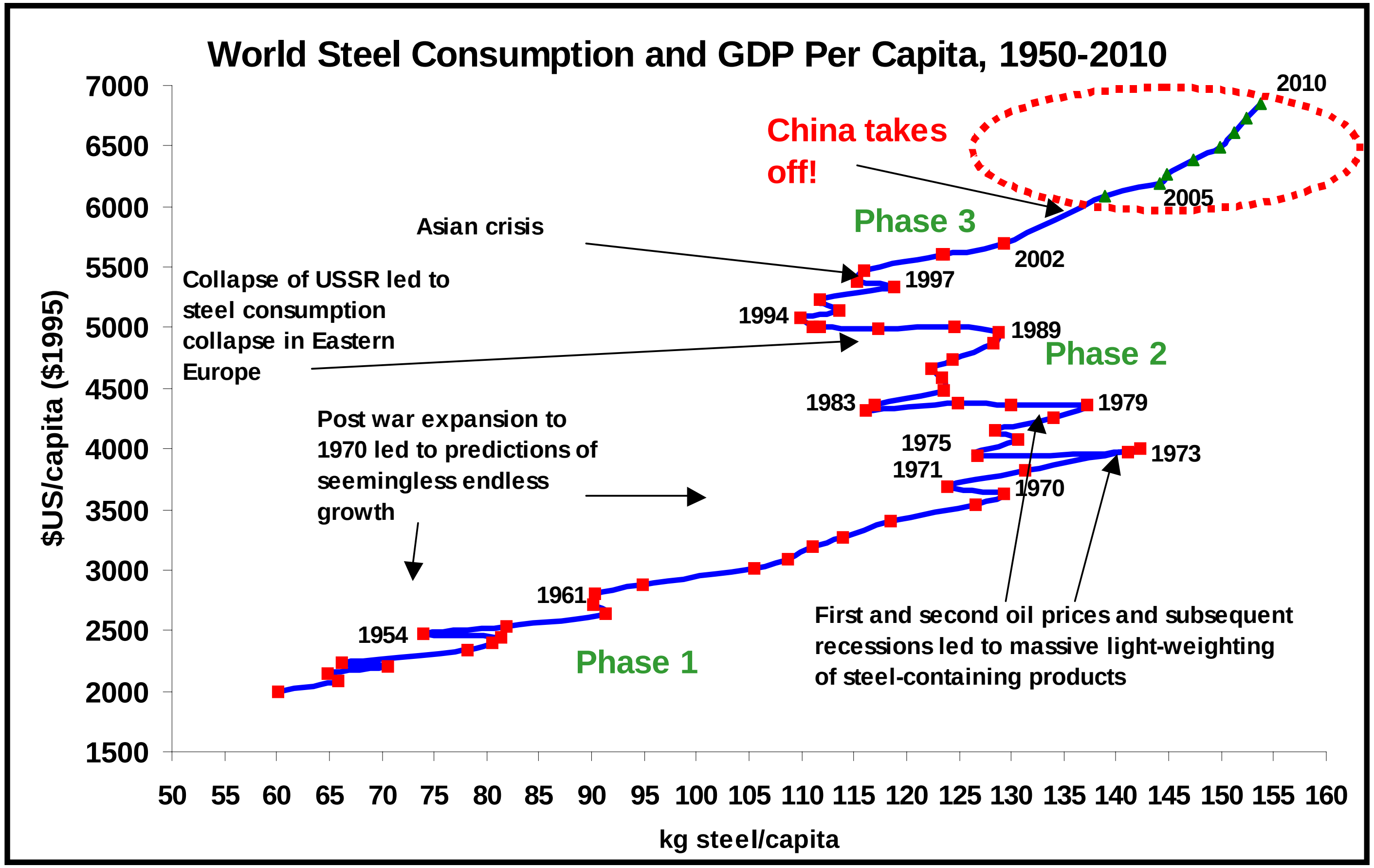


Global Steel Industry Landscape

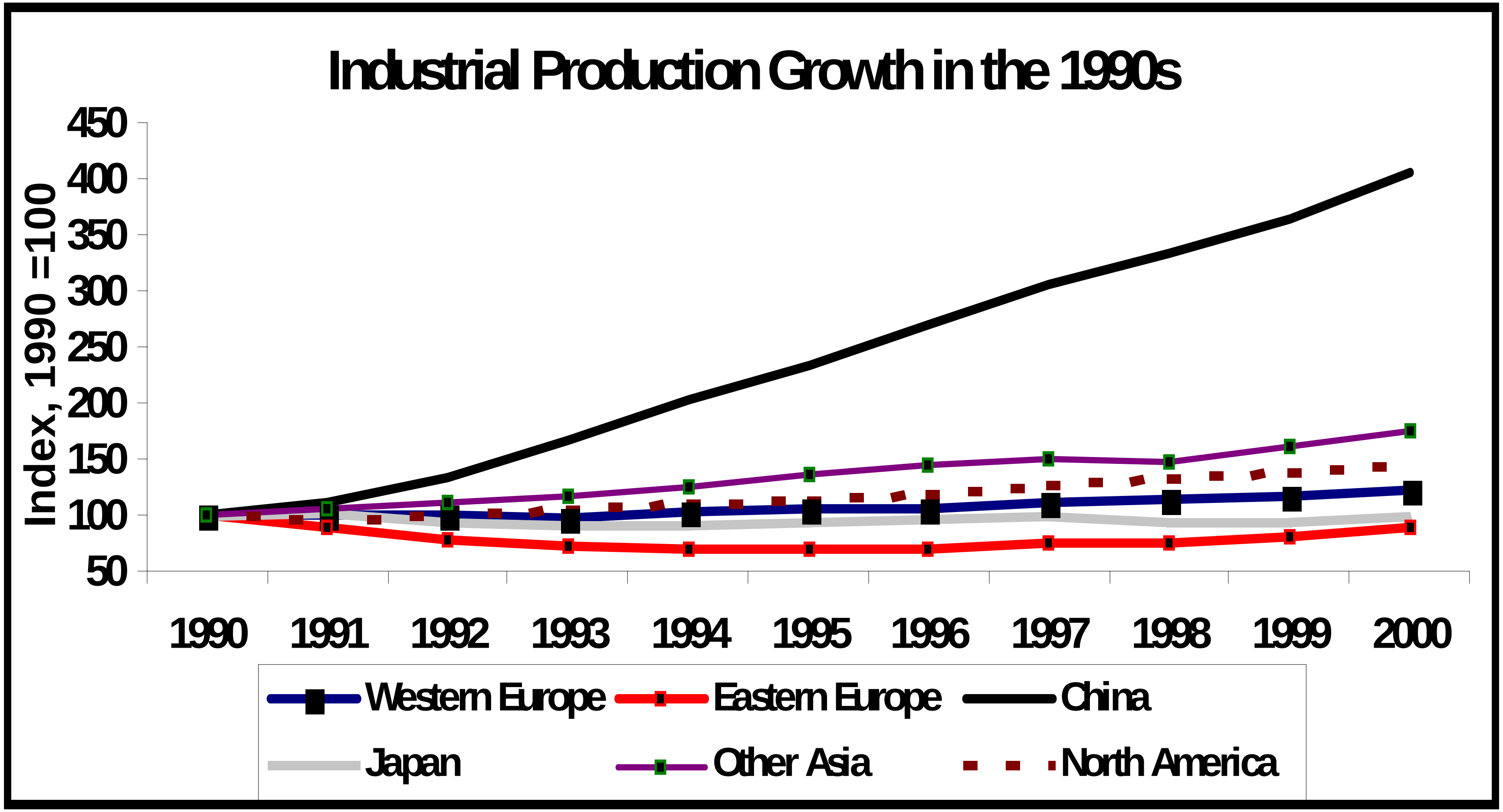
Global Steel Industry Landscape

- Period from 1970 to 2000
  - Global Over-capacity
    - 800 million tonnes demand
    - 950 million tonnes capacity
  - Fragmented Industry
    - 95 players produce more than 2 million tonnes p.a
    - Top player only produces 3-4% of world production
- Since 2000
  - Some consolidation is occurring
  - China has grown dramatically – 25-30% of world demand
  - Mega or niche to succeed

Steel in the Global Context



Steel in the Global Context



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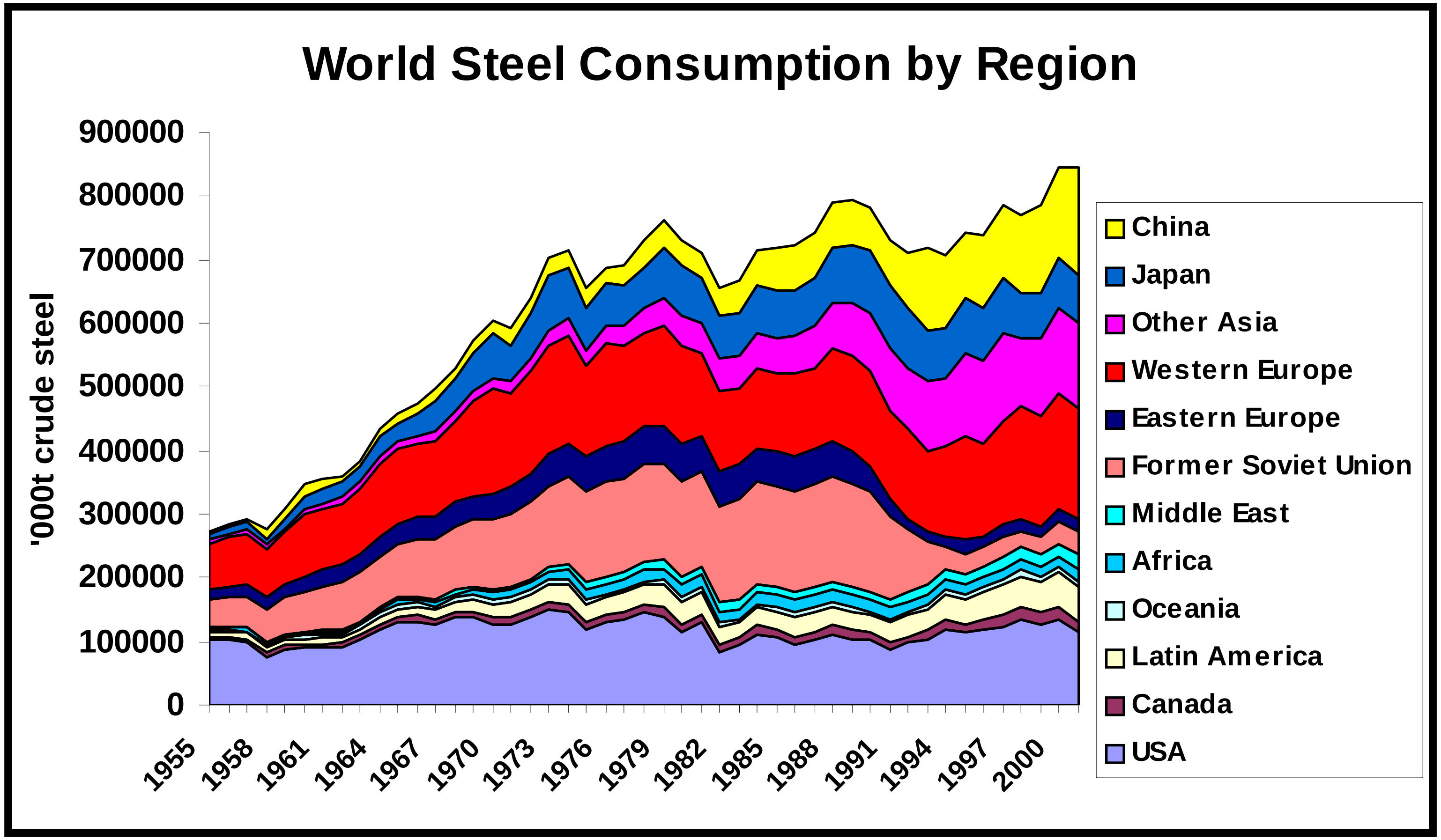
Steel in the Global Context



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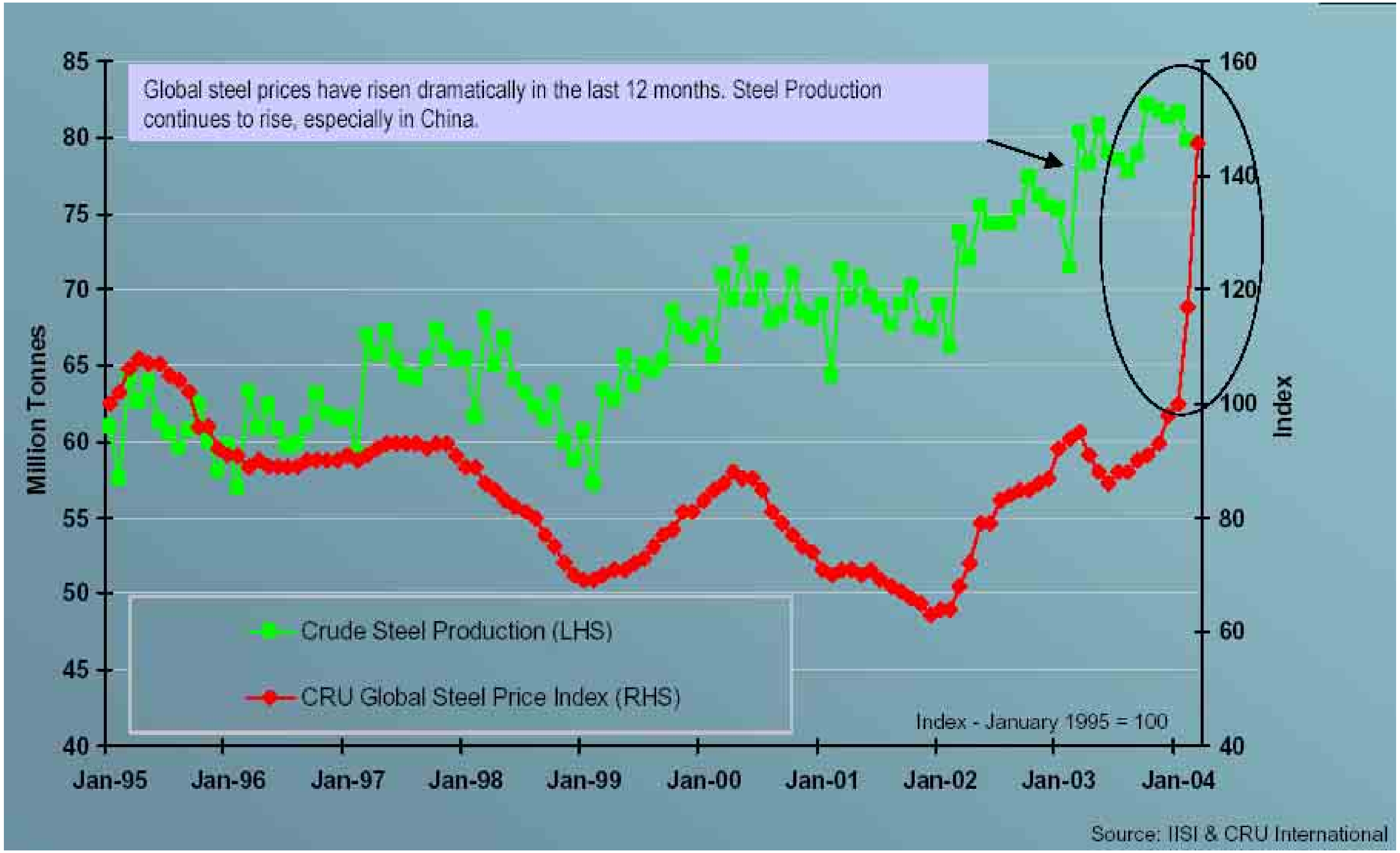
International Steel Production and Prices



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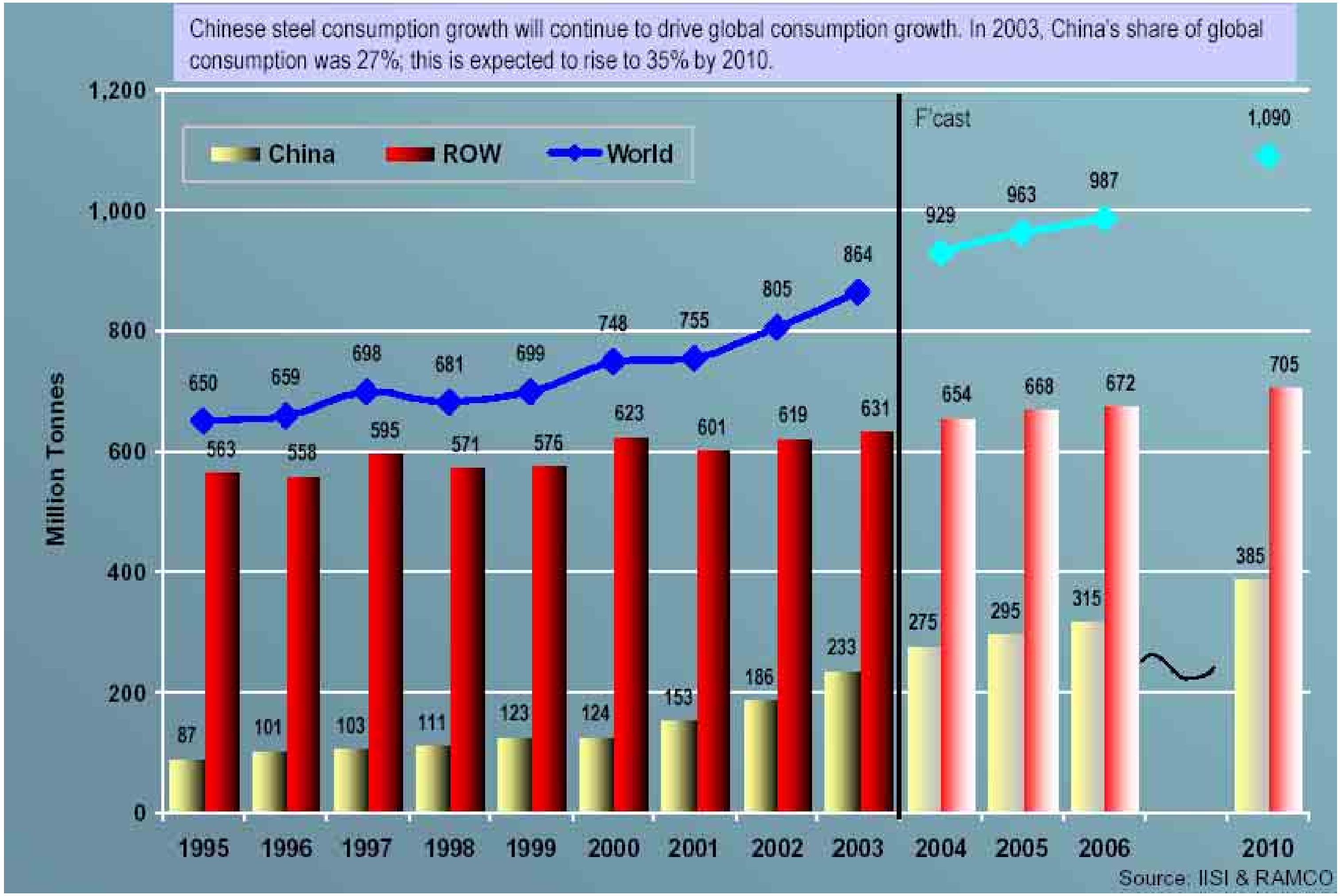
International Steel Forecast Demand



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Steel in the Global Context

Early signs of a complementary change on the production side

Consolidation is occurring

- Corus – from merger of British Steel and Hoogovens
  Arcelor – from merger of Usinor, Arbed and Aceralia
  JFE Steel – from NKK and Kawasaki
  U.S. Steel acquired assets of National Steel
  Nucor has made four acquisitions over two years

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Steel in the Global Context

So what does this all mean?

We may be entering a new period of growth in international steel – the first time in three decades

It has the potential to change the balance in the industry from over to under supply

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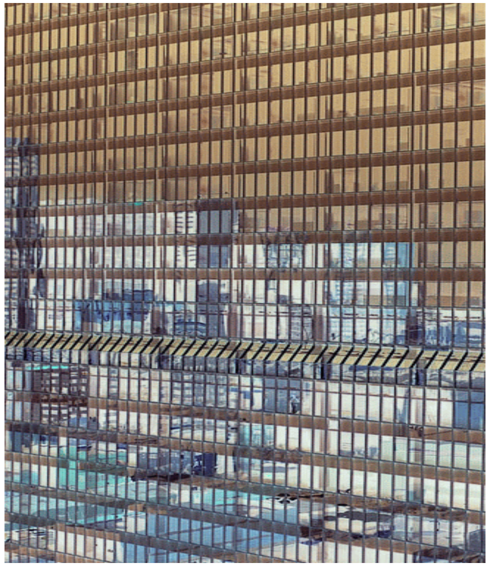

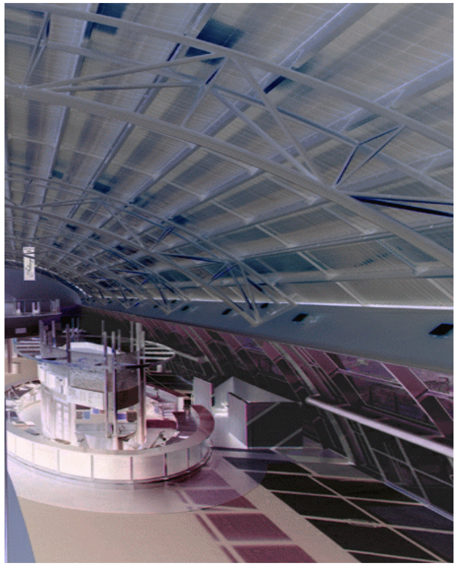
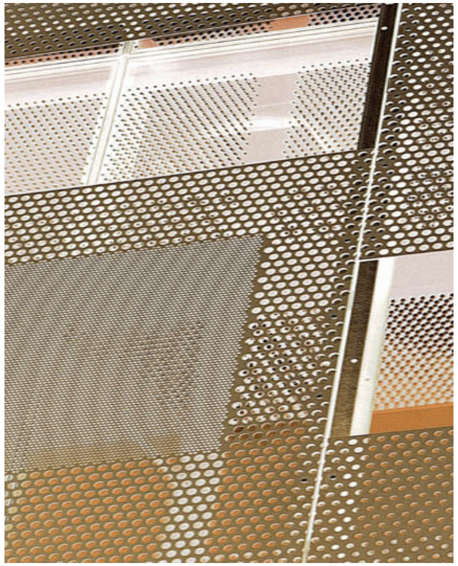

Australian Steel Industry Landscape

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Australian Steel Industry Landscape

- 1970s
  - One Steel producer – BHP (Blast furnace based)
- 1980s
  - Emergence of Smorgon Steel (Electric Arc furnace)
- 1990s
  - BHP closes Newcastle steel works (1.5 million tonne facility)
- 2000s, BHP exits steel
  - BHP spins off OneSteel Limited (long products)
  - BHP Billiton spins off BlueScope Steel (flat products)

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Australian Steel Industry Landscape

Long Product		Flat Product
Smorgon Steel **900,000 tonnes**	**OneSteel** **1.7 million tonnes**	**BlueScope Steel** **5 million tonnes**

Mainly Domestic | **Export**

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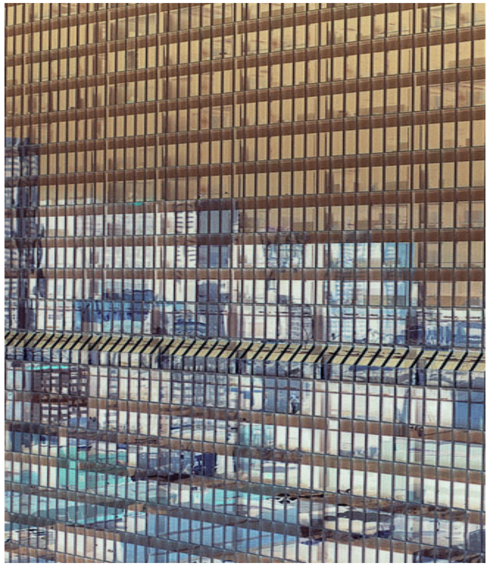
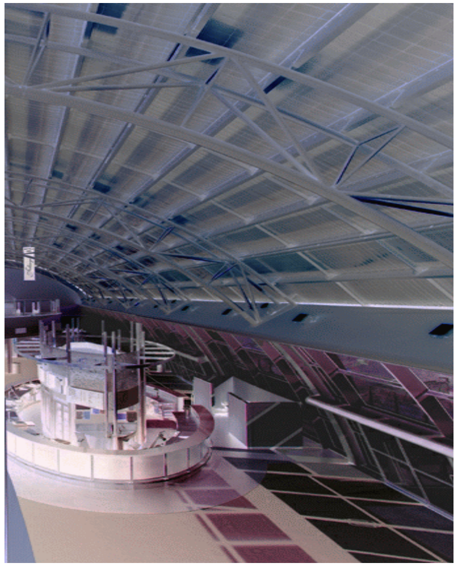
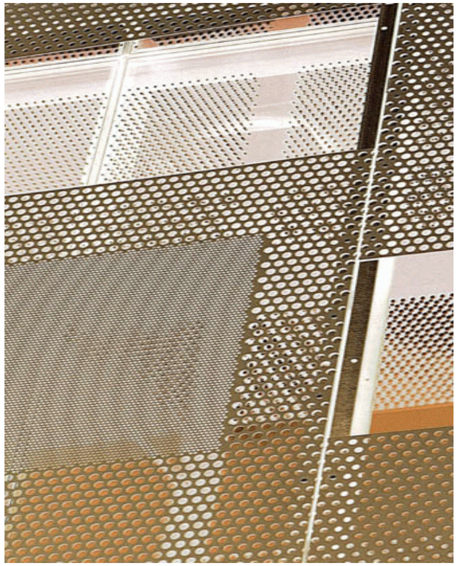
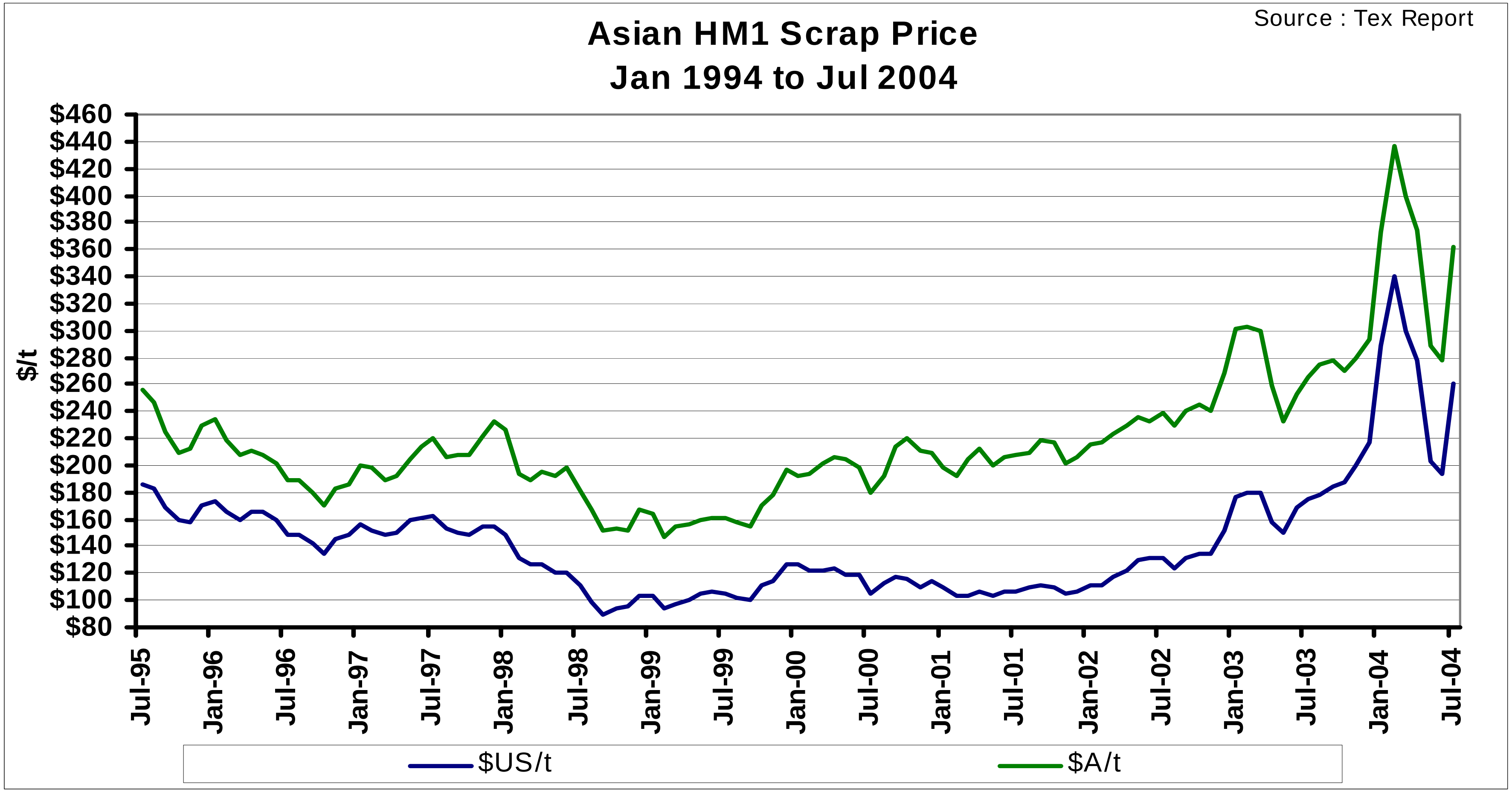


Current Trends and Structural Impacts

Scrap Prices



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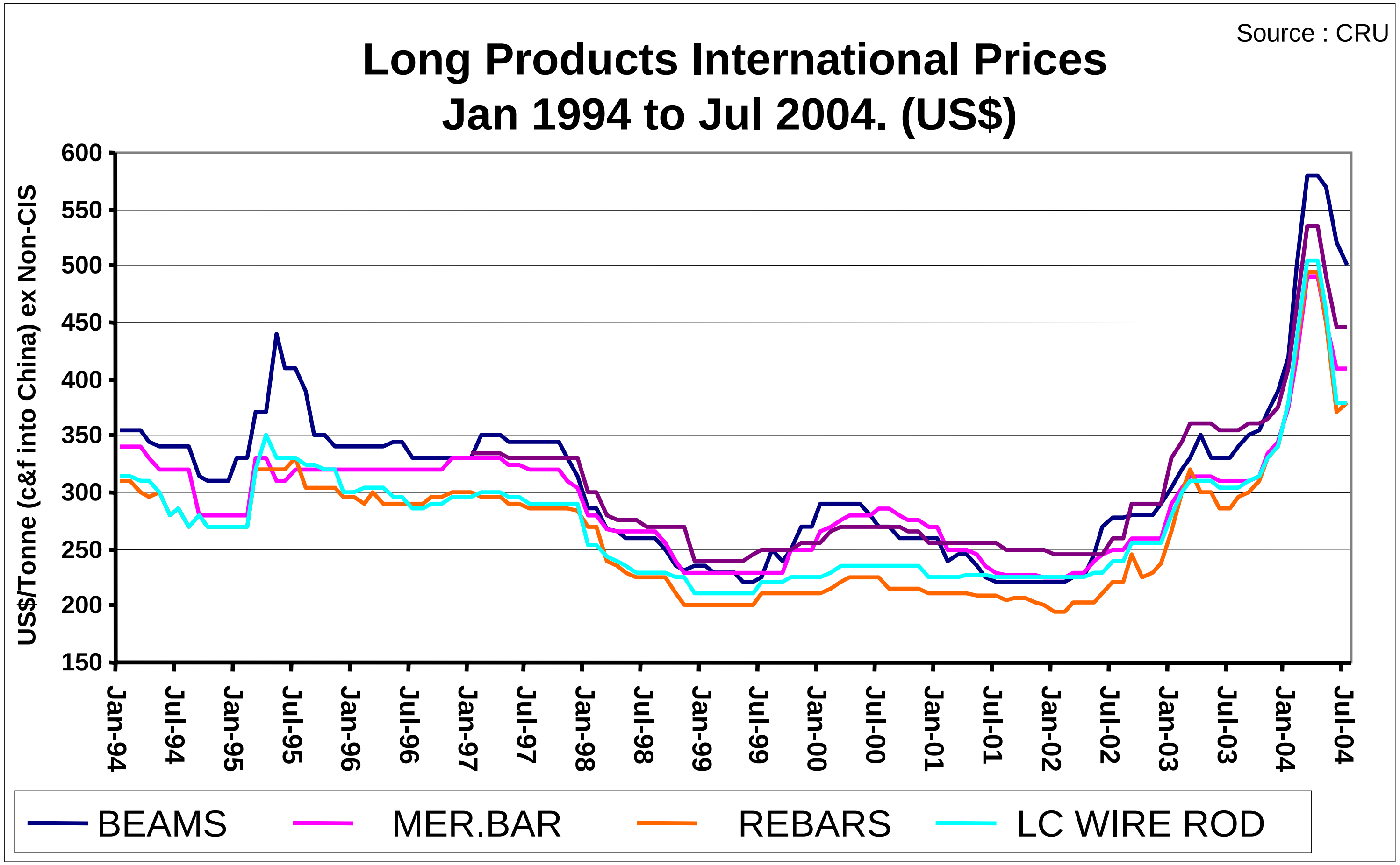
Trends in International Long Product Steel Prices



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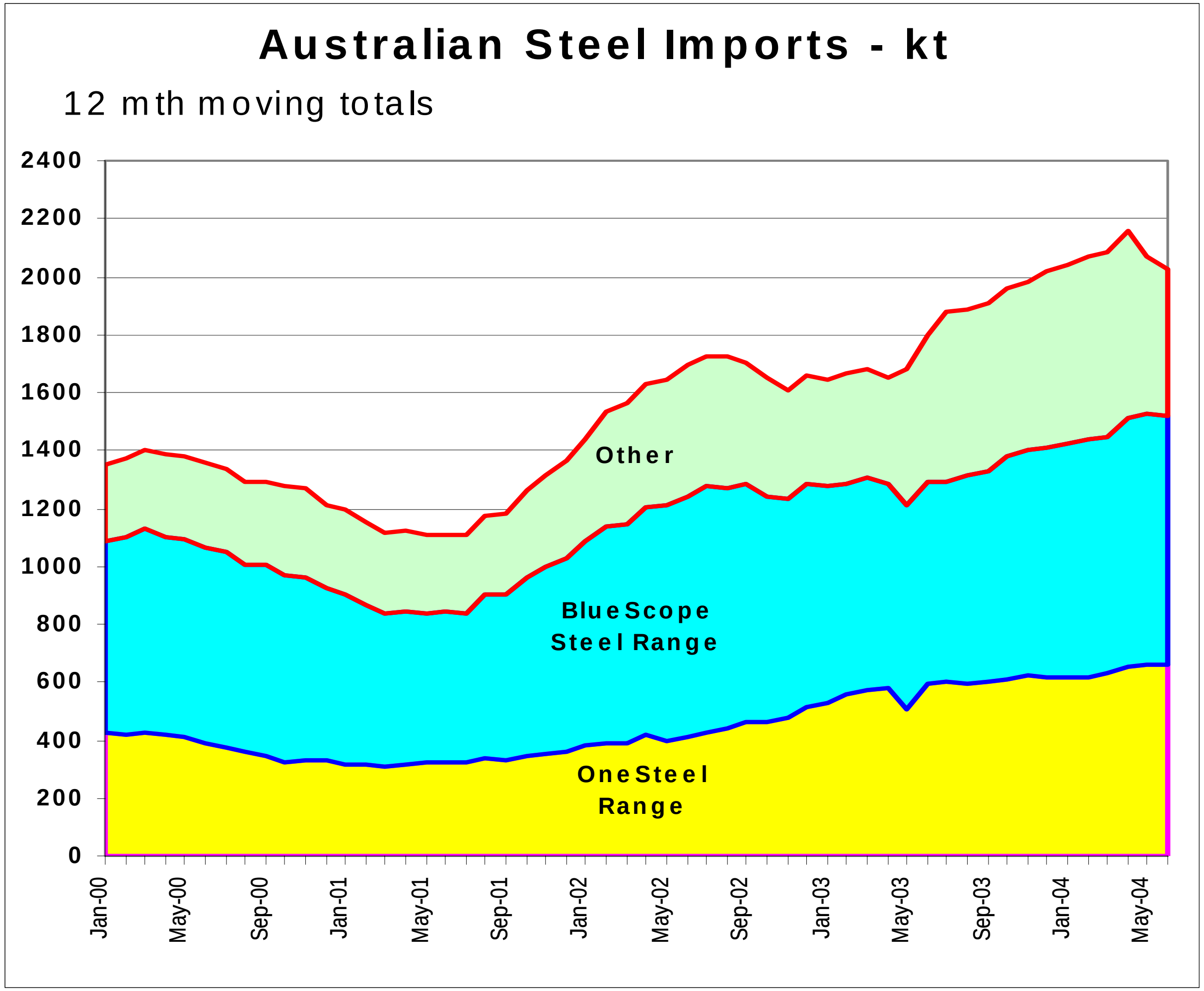
Imports into Australia



Source: Australian Bureau of Statistics and OST data

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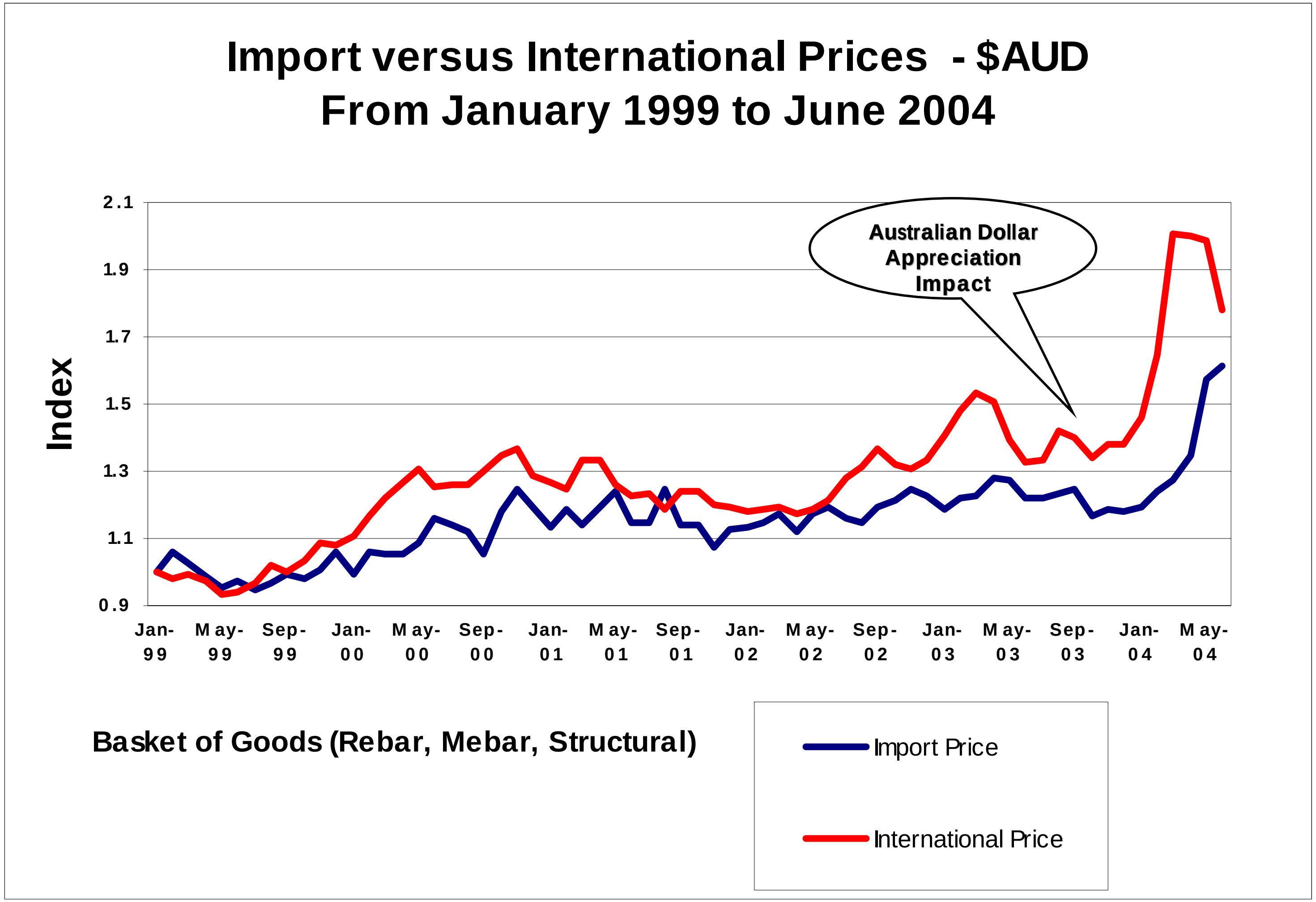
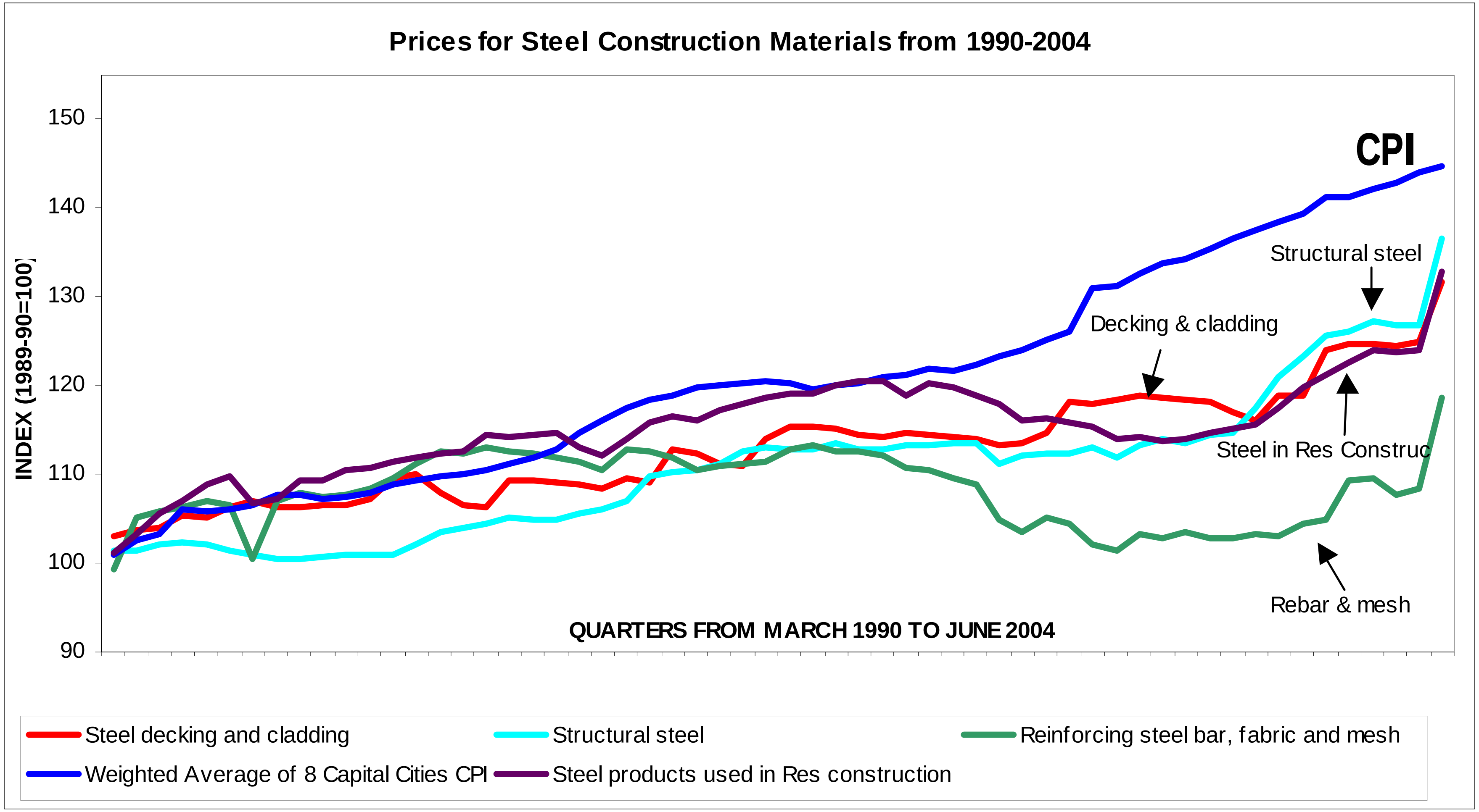
Import versus International Prices



Source: Australian Bureau of Statistics and OST data

Australian Steel Price Index



Source: Australian Bureau of Statistics

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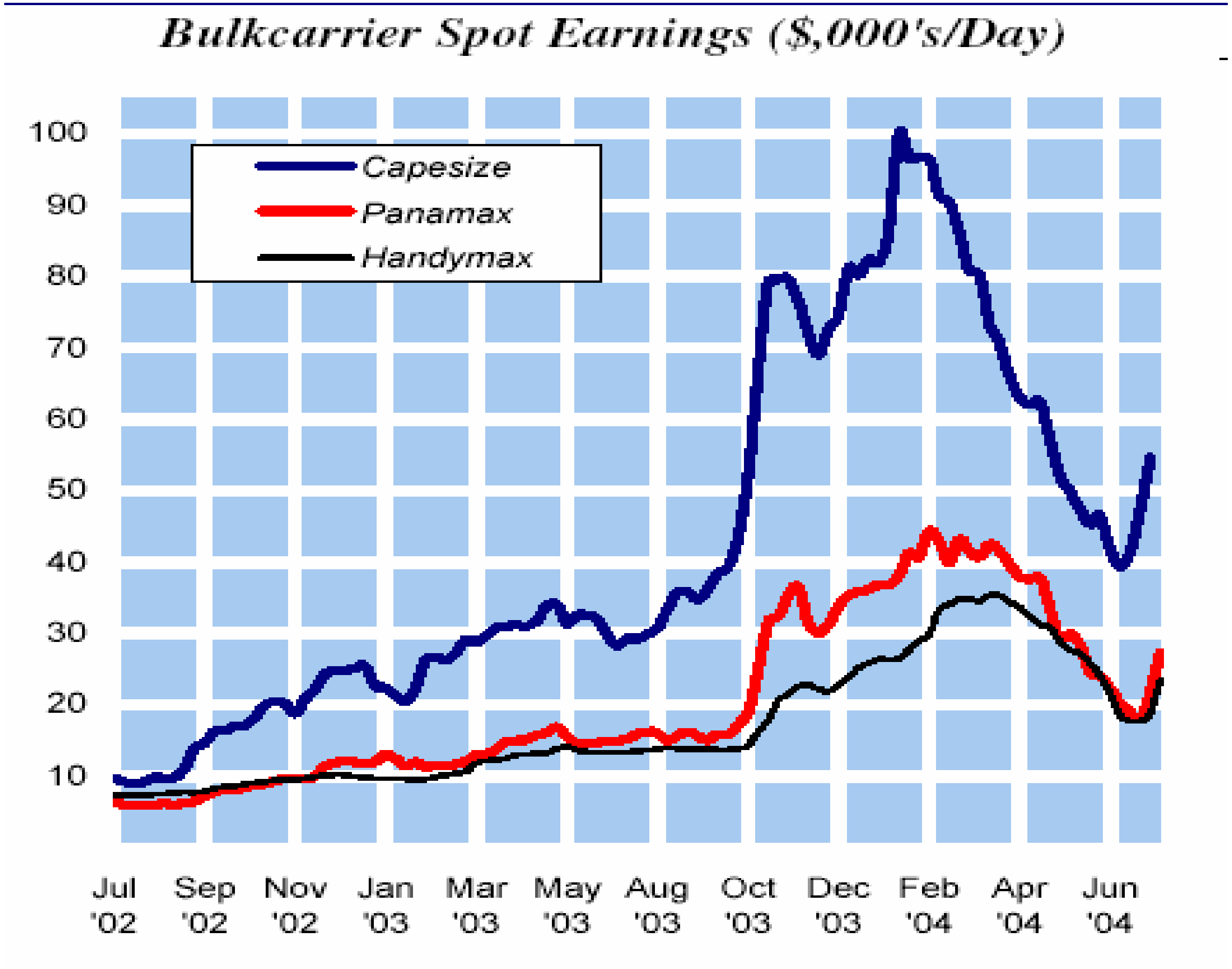
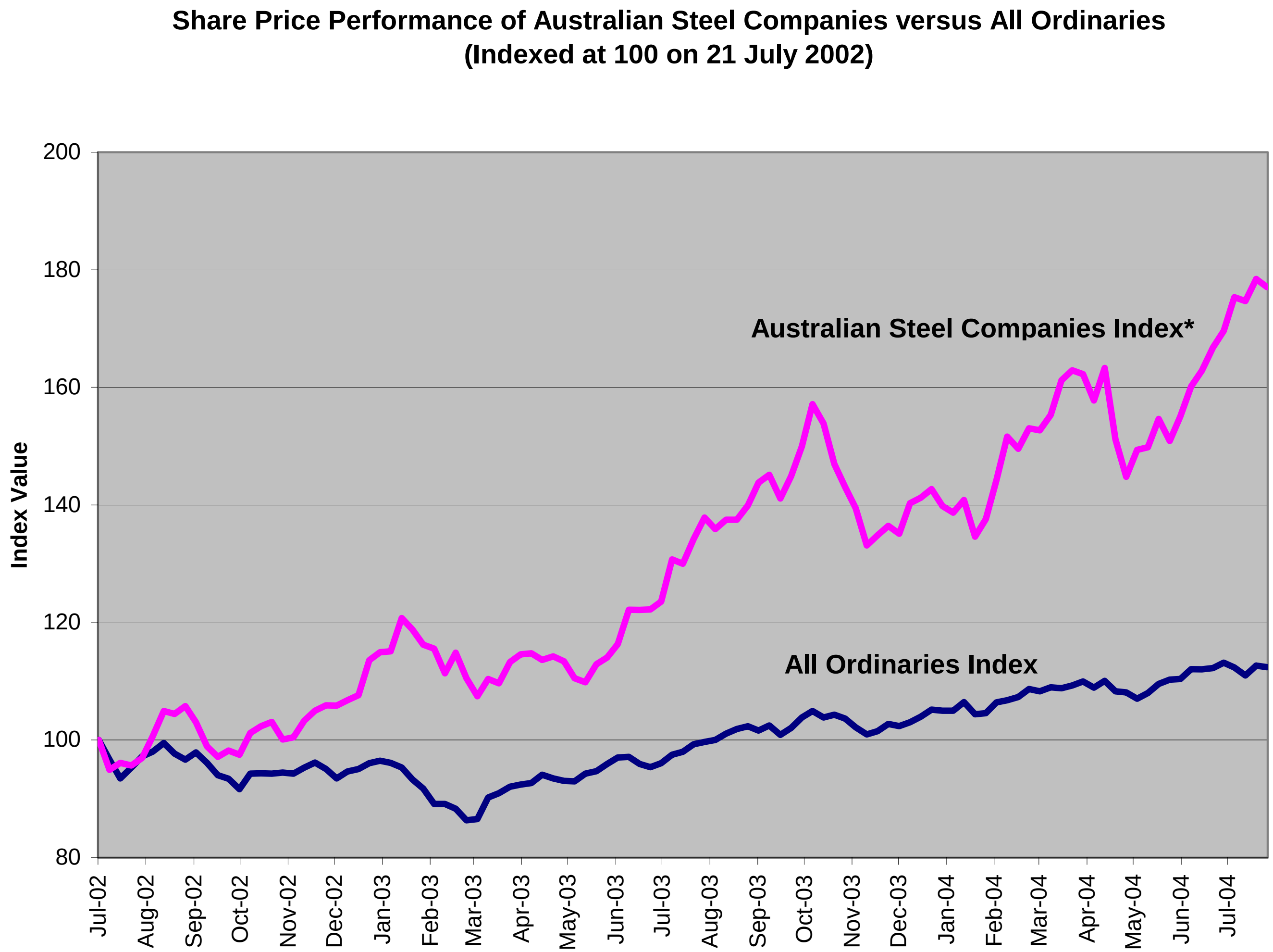
International Freight Rates



Source: Clarkson Research Studies

Performance of Australian Steel Companies



* Index of the share prices of BlueScope Steel, OneSteel, Sims and Smorgon Steel (not weighted by market capitalisation)

The Future for Steel

- Steel Consumption is rising, driven by China
- Less government ownership
- Consolidation is occurring, at least regionally

Conclusion

Australian steel industry undergone massive restructuring

An exciting decade ahead

- supply and demand changing
- potential for strong sustainable steel prices

Australian steel companies are creating value

OneSteel has undergone a process of reinvention

I believe we really are seeing the reinvention of steel

September 9, 2004

APEC High Level Conference on Structural Reform

Fair and Transparent Legal Environment for Business

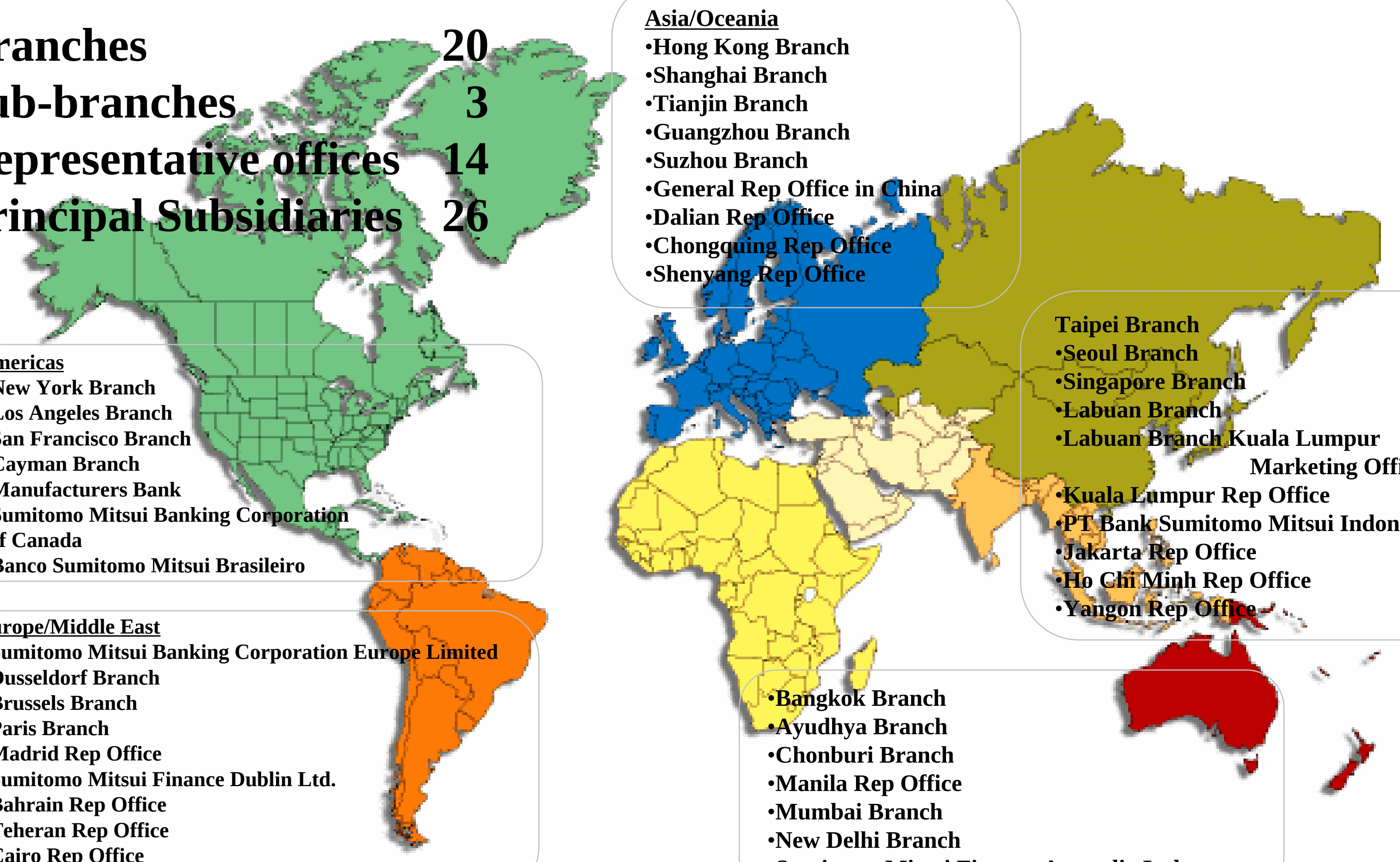
~ Debt Collection Regime ~

Masayuki Oku
Deputy President

SMBC SUMITOMO MITSUI BANKING CORPORATION

SMBC Global Network

Branches	20
Sub-branches	3
Representative offices	14
Principal Subsidiaries	26



Americas
- New York Branch
- Los Angeles Branch
- San Francisco Branch
- Cayman Branch
- Manufacturers Bank
- Sumitomo Mitsui Banking Corporation of Canada
- Banco Sumitomo Mitsui Brasileiro

Europe/Middle East
- Sumitomo Mitsui Banking Corporation Europe Limited
- Dusseldorf Branch
- Brussels Branch
- Paris Branch
- Madrid Rep Office
- Sumitomo Mitsui Finance Dublin Ltd.
- Bahrain Rep Office
- Teheran Rep Office
- Cairo Rep Office
- Johannesburg Rep Office

Asia/Oceania
- Hong Kong Branch
- Shanghai Branch
- Tianjin Branch
- Guangzhou Branch
- Suzhou Branch
- General Rep Office in China
- Dalian Rep Office
- Chongquing Rep Office
- Shenyang Rep Office

Taipei Branch
- Seoul Branch
- Singapore Branch
- Labuan Branch
- Labuan Branch Kuala Lumpur Marketing Office
- Kuala Lumpur Rep Office
- PT Bank Sumitomo Mitsui Indonesia
- Jakarta Rep Office
- Ho Chi Minh Rep Office
- Yangon Rep Office

- Bangkok Branch
- Ayudhya Branch
- Chonburi Branch
- Manila Rep Office
- Mumbai Branch
- New Delhi Branch
- Sumitomo Mitsui Finance Australia Ltd.

(Figures as of March 31, 2004)

Our Strategy in the Asian Market

Enhancing customer support capabilities through an operational structure tailored to the unique demands of each region.

- Building a business platform in China
  - ⇒ Established local sales network, including corporate research unit, treasury unit and functions of CMS product planning.
- Supporting customers business operations in Asian market
  - ⇒ Established Debt Capital Markets Dept. in Singapore and Hong Kong to provide asset securitization schemes and other financial solutions.
- Cooperation with local banks
  - ⇒ BESETO agreement with Bank of China and Korea Exchange Bank

Headings

- Legal Environment – A Crucial Building Block for Facilitating Foreign Capital Investment(P4)
- Review of Insolvency Legislation and Debt Collection Regime In Japan(P5〜P10)
- Legal Environment and Debt Collection Issues in the APEC Region (P11〜P12)
- Conclusion – Leveraging the Legal Environment to Accelerate Economic Growth of the APEC Region

Effective Legal Environment and Corporate Reorganization and Liquidation

➢ Facilitate Foreign and Domestic Investment

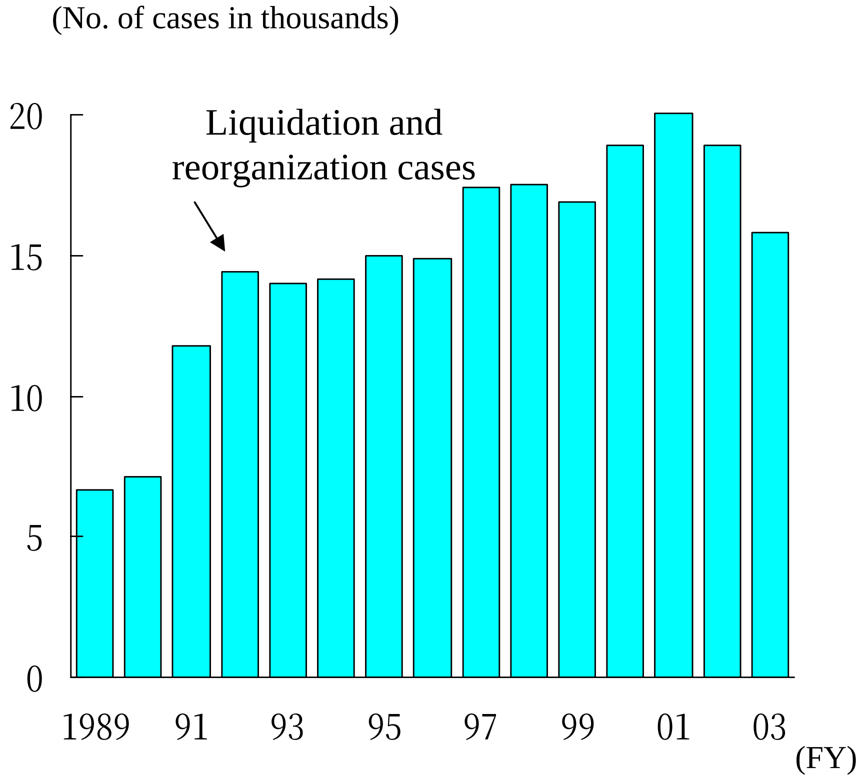
- Financial institutions and corporations can deal with defaults with high predictability when there is an effective legal framework with reliable and swift proceedings for liquidation or reorganization
- Reduces risks and encourages active investment

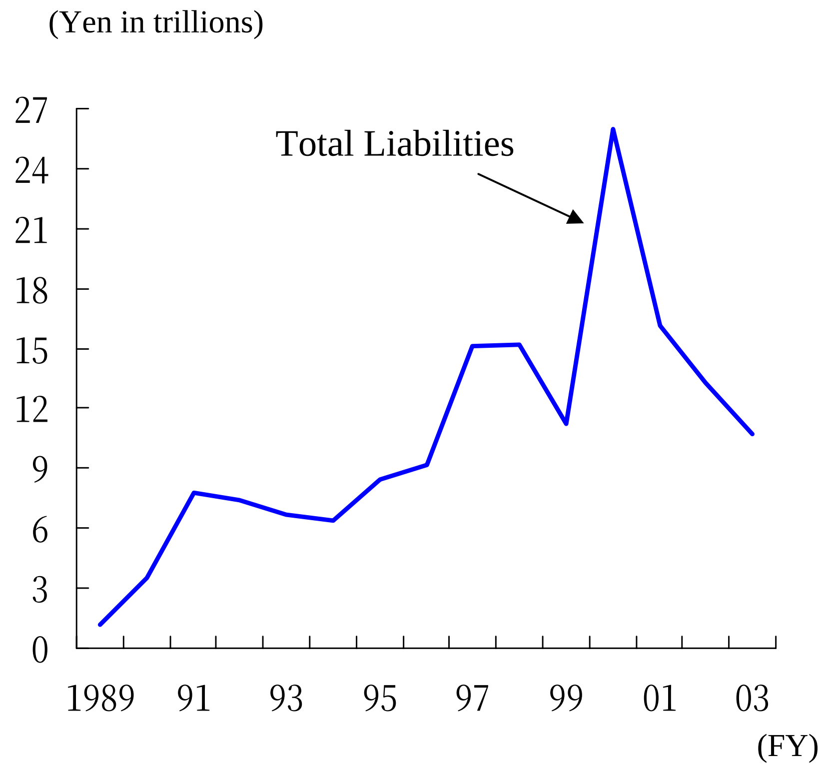
➢ Efficient allocation of resources

- Swift reorganization/liquidation facilitates efficient allocation of distressed corporation's capital and labor and this is desirable from a national economic perspective

Liquidation and Reorganization Filings in Japan

After the burst of the bubble economy in the early 90s, the Japanese economy entered a prolonged period of recession, resulting in an extremely high level of business failures in the latter half of the 90s.





(Source) "Bankruptcy Report"of Teikoku Data Bank

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Reinforcement of Reorganization-type Insolvency Laws

- Composition Law Replaced by Civil Rehabilitation Law in 2000
  - Relaxing of conditions enables early commencement of corporate reorganization procedures
  - Parties have leeway in when to formulate reorganization plan
  - Allows a court to restrict execution of security claims, select an administrator and supervise the implementation of the reorganization plan
- Corporate Reorganization Law procedures also streamlined in 2003

Guidelines for Out-of-Court Workouts

<u>Established in 2001 and based upon "Statement of Principles for Global Approach to Multi-Creditor Workouts" of INSOL</u>

- Achieve a common understanding between the debtor and creditors on out-of-court workouts
  - Mainly for when there are many creditors (financial institutions) and not just few banks lead by the main bank
  - Select only candidates with true potential for reconstruction based on their circumstances and reorganization plans
  - Out-of-court workout adjustment process outlined – such as "standstill" of debt collection and reinforcement of security interest to allow creditors to workout issues, and examination of the reorganization plan by professionals

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Public Purchase of Bank Loans

- 1993: Cooperative Credit Purchasing Company (CCPC) established by 164 private financial institutions

  ⇒ Purchase nonperforming loans secured with real estate

- 1998: Resolution & Collection Corporation (RCC) commences operation

  ⇒ Purchase nonperforming loans to borrowers classified as "Potentially Bankrupt Borrowers"

- 2003: Industrial Revitalization Corporation of Japan (IRCJ) established

  ⇒ Purchase loans to viable corporations classified as "Borrowers Requiring Caution"

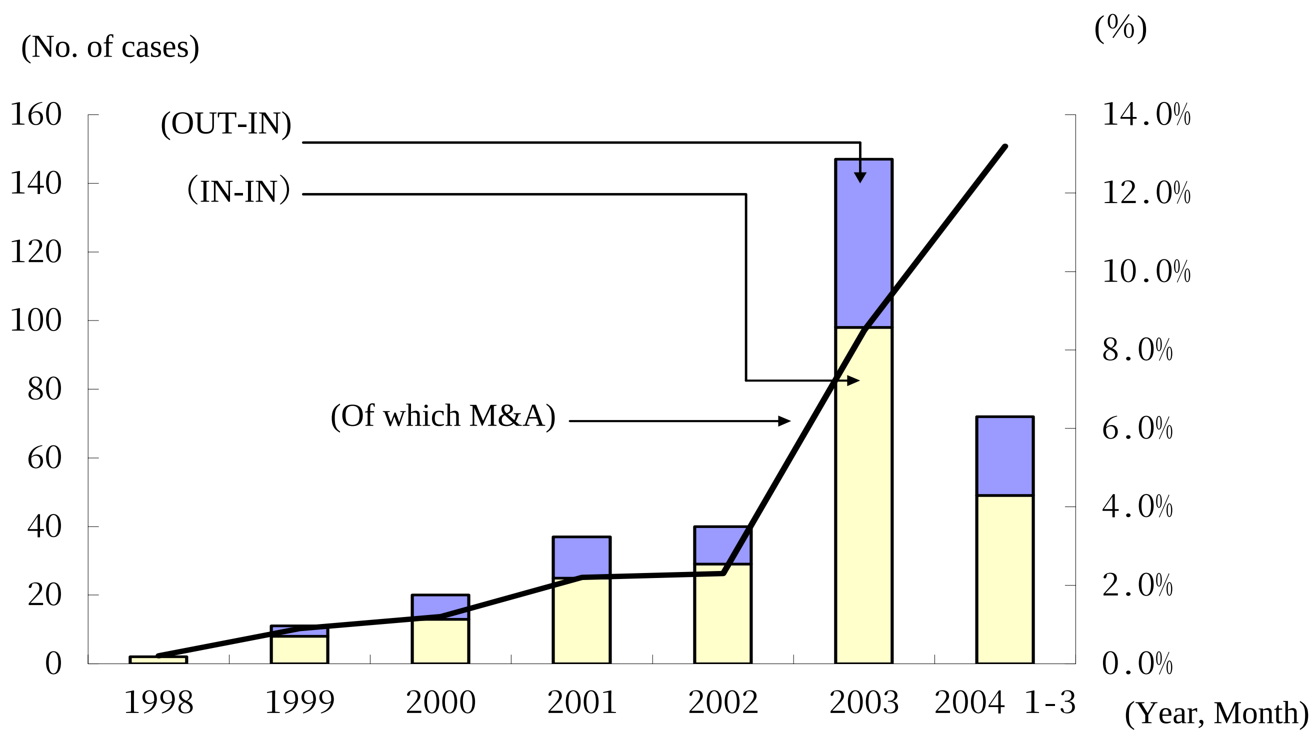
Amendment of Security Interest Laws and Bankruptcy Law

- 2004: Security Interest Laws
  - Abolishment of priority of short-term lease over mortgage, which had encouraged squatters to occupy mortgaged properties
  - Relaxing of conditions for commencement of civil procedures to remove squatters

- 2005: Bankruptcy Law
  - Bankruptcy proceedings streamlined
    (the number of competent courts increased, convening of meeting of creditors made voluntary, etc.)
  - Provisions on claims priority, avoidance, setoff and others revised
    (Other insolvency laws being reexamined from the same perspective)

Business Reorganization by Investment Funds

A considerable amount of foreign capital has flowed into, and continues to flow into, Japan through business reorganization funds and this has sparked establishment of many such private domestic funds.



(Source) RECOF

(Note) Includes distressed corporations other than "Potentially Bankrupt Borrowers".

SMBC SUMITOMO MITSUI BANKING CORPORATION

Progress in Creating an Effective Legal Environment by the APEC Economies

The APEC economies, particularly after the Asian financial crisis, have been making significant progress in establishing a legal framework for debt collection

- Modernizing and clarifying insolvency and security interest laws
- Introducing new reorganization-type insolvency legislation
- Implementing initiatives to encourage out-of-court workouts before filing for commencement of formal insolvency law proceedings
- Making progress in reforming judicial system

SMBC SUMITOMO MITSUI BANKING CORPORATION

Legal Environment Issues of the APEC Region

APEC economies differ historically, culturally and socially and are at different levels of development in establishing an effective legal environment and there are still a number of issues that must be further addressed.

In particular

- Remain committed to ongoing legal reform
- Establishing specific procedures and assuring the effectiveness of the execution and enforcement regime
- Ensuring all parties, both domestic and foreign, are treated in a fair and transparent manner

Korea's Institutional Reforms for Creating an FDI-friendly Environment

Presentation by Dr. Wan-soon Kim,

Investment Ombudsman of the Republic of Korea

APEC High-Level Conference on Structural Reform

September 8-9, 2004

Tokyo, Japan

INVEST KOREA

Summary

A. Five major institutional reform areas pertaining to FDI:

- Enhancement of investment incentives
- Liberalization of the capital and foreign exchange market
- Corporate governance system reforms
- Rectification of bad accounting practices
- Removal of barriers to mergers and acquisitions, or M&As

B. Pro-FDI Institutional Reforms: Office of the Investment Ombudsman

C. Benefits of FDI in Korea

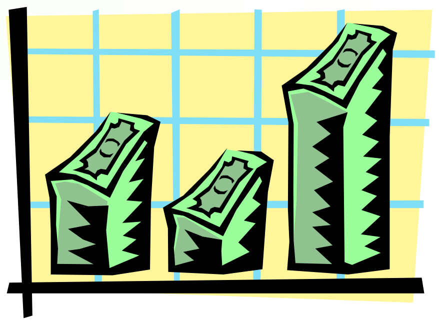
A. Major Institutional Reforms

Major Institutional Reforms

Legislation of the Foreign Investment Promotion Act(FIPA) of 1998

Enhancement of Investment Incentives

- Tax incentives granted to foreign direct investment under FIPA and the Special Tax Treatment Control Act (STTCA)
- Cash Grant system introduced earlier this year



Major Institutional Reforms

Liberalization of Capital and FOREX Markets

- After 1997, government opened Korea's capital markets to attract foreign funds
- Abolished ceilings on aggregate foreign ownership of listed Korean shares and short-term money market instruments
- Restrictions preventing hostile M&As also eased

Major Institutional Reforms

Corporate Governance System Reforms

- Korea's corporate restructuring since 1998 focused on improving management transparency and governance practices as well as attracting foreign investors

- The main goals of this strategy were:
  - Reducing corporate indebtedness
  - Boosting transparency of corporate governance
  - Improving responsibility of corporate managers and controlling shareholders (mainly *chaebol* owners)
  - Guaranteeing rights of minority shareholders as well as institutional investors
  - Strengthening capacity and function of boards of directors for listed companies
  - Improving intra-group relationships
  - Introducing outside directors and audit committees

Major Institutional Reforms

Rectifying Bad Accounting Practices

- IMF/ World Bank insisted that Korea upgrade accounting standards and disclosure rules to match international best practices after the financial crisis of 1997
- In March 1998 the Financial Supervisory Commission (FSC) organized the Special Committee to review existing accounting systems
- FSC's primary goal was to achieve transparency, credibility, and international comparability of Korean accounting standards
- In December 2003, the National Assembly ratified amendments to the Securities and Exchange Act, Act on External Audit of Stock Companies, and Certified Public Accountants Act

Major Institutional Reforms

Mergers & Acquisitions

- By May 2004, foreigners owned about 44 percent of the shares of the companies listed on Korea's stock exchanges

- Role of foreign capital was significant in Korea's privatization process through the issuance of depository receipts (DRs) by the New York and London Stock Exchanges

B. Pro-FDI institutional Reforms

Pro-FDI Institutional Reforms

The Ombudsman System

- Korea Investment Service Center (KISC) was founded in April 1998 within the Korea Trade-Investment Promotion Agency (KOTRA) to provide foreign investors with one-stop administrative services
- In December 2003, KISC was reorganized and rebranded as Invest KOREA in order to provide foreign investors with more efficient and integrated services
- The Office of the Investment Ombudsman was created in October 1999 to address and resolve any difficulties pertaining to business and daily living conditions experienced by foreign-invested companies in Korea through prompt aftercare services

C. Benefits of FDI

Benefits of FDI

In the case of KOREA,

FDI has enriched the economy in a number of crucial ways:

- A stable source of foreign exchange
- Creating jobs, stimulating rising consumption and investment
- Increasing sales performance
- FDI in the form of M&As has facilitated not only corporate restructuring, but also introduced global accounting standards, auditing, and information disclosure systems

Administrative Licensing Law and Other Commercial Law Reforms

----by Du Baozhong,

Ministry of Commerce, China

September 9^{th},2004

Administrative Licensing Law and Other Commercial Law Reforms

- Administrative Licensing Law
- Foreign Trade Law
- Anti-monopoly Law
- Other Commercial Laws

Part 1: Administrative Licensing Law

- Adopted on Aug 27th,2003
- Coming into force as of July 1st,2004

Main Content

- Definition
- Basic Principles
- The Power of Setting Down a Licensing
- Implementing Procedures for Licensing
- Charges for Licensing
- Supervision and Inspection
- Legal Liabilities

What's an administrative licensing

-
- Application by citizens, legal persons or other organizations
- Examination by administrative organs
- Permission(approval) to engage in specific activities

Basic Principles

- 1. Legitimacy
- 2. Publicity, fairness and impartiality
- 3. Facilitating people
- 4. Right to have remedies
- 5.Trust protection

What may set down (create) a licensing?

- Yes
- Laws
- Administrative regulations
- Decision of the State Council
- Provincial regulations

- No
- Ministry regulations
- Other regulatory documens

For what matters may a licensing be set down?

- 1. Specific activities bearing on national or public security, human health or environmental protection.
- 2. The development and utilization of limited natural resources, Market access of specific trade, public utilities such as power or water supply.
- 3.Specific vocations or trades bearing on public interest, i.e.attorney,accountant or doctor.

(continued)

- 4.Important or dangerous equipments or facilities: vehicles, boiler.
- 5. The setting-up of enterprises or other institutions
- 6.Other matters provided by laws or Administrative regulations

Procedure for Administrative Licensing

- 1.Application and Acceptance
- 2.Examination and Decision
- 3.Time Limit
- 4.Hearing
- 5.Modification and Extension
- 6.Special Procedures

Special Procedures

- 1. Licensing by means of tendering or auction
- 2. Licensing through national examination.
- 3.Decision-making on the basis of inspection,testing or quarantine.

Charges for Administrative licensing

- 1. In principle: No charges for licensing
- -----unless the laws or administrative regulations so stipulated

- 2. Application form: No charges

- 3. Expenditure: Ensured by budget

Supervision and Inspection

- Art.62: 1.Sample inspection, 2.examination on the spot, 3. periodical examination.
- Art.65: Accusation of violation by individuals or organs.

Supervision and inspection (continued)

- Art.69: Annulment of licensing
- ----Resulting from illegal acts.

- Art.70: Cancellation of licenses:
-

Legal liabilities

- Annulling illegal documents.
- Administrative disciplinary measures.
- Criminal penalties
- Administrative compensation
- Administrative penalties

Part 2: Foreign Trade Law

- Adopted on May 12th, 1994
- Coming into force as of July 1st,1994
- 7 Chapters,44 Articles.

- Revised on April 6,2004,
- Coming into force as of July 1,2004
- 11 chapters,70 articles.

Major Changes

- 1. Individuals may engage in import and export.
- 2. Licensing for engaging in import and export abolished
- 3.Foreign trade investigation established
- 4.Monitoring for import and export strengthened.
- 5. Foreign trade-related IPRs protected.
- 6.Penalties for violation perfected.

Part 3: Anti-monopoly Law

- Purposes of the law

- Building integrated,open and orderly market
- Protecting and promoting fair competition
- Preventing monopoly
- Protecting the lawful rights of consumers and public interest.

Contents might be included

- 1. Definition of monopoly
- 2.Competent authorities
- 3.Different types of monopoly
- 4.Anti-monopoly investigation
- 5.Legal liabilities.

Part 4: Other Commercial Law Reforms

- 1.Law on the Supervision and Administration of Banking(adopted on Dec 27,2003)
- 2. Law on Securities Investment Funds(adopted)
- 3.Law on Commercial Bank(revised)
- 4.Insolvency Law
- 5.Electronic Signature Law
- 6.Company Law.
- 7.Security Law.

STRUCTURAL POLICIES AND

REGULATORY REFORM: THE OECD EXPERIENCE

Remarks by Richard Hecklinger
Deputy Secretary-General of the OECD
At APEC High Level Conference on Structural Reform
Tokyo, 8-9 September, 2004

Introduction

Over the last two days, we have discussed a broad range of issues related to the subject of structural reform. In my remarks, I would like to offer a few comments on these issues from the perspective of the OECD. I would also like to mention the productive, ongoing cooperation between APEC and OECD on regulatory reform, which is a critical component of structural reform. Given that a number of members of APEC are also members of OECD (and contribute over half of its budget), there should be some consistency in our approaches to structural reform, and, I would hope, an opportunity for the two groups of nations to work more closely together on such issues in the years ahead.

Structural Policies and Growth

The Convention of the OECD calls on the organisation to promote policies designed to achieve the highest sustainable economic growth and employment and a rising standard of living. It was mandated to contribute to sound economic expansion in non-member, as well as member countries.

Much of the work of the OECD, throughout its 43 year history, has been dedicated to promoting structural reform -- from strengthening the skills, productivity and flexibility of labor, to creating diverse and efficient capital markets, to ensuring competitive product and service markets, and to encouraging innovation and use of new technologies. We have pressed for policies to expand trade and investment, to develop tax systems which support economic growth, to protect the environment most efficiently and effectively and to improve education and make it more relevant to today's economies. And over the past decade, we have increased our focus on regulatory reform, so government can more effectively facilitate competitive economic activity and the delivery of high quality, low cost services.

Structural reform requires continual change. The OECD has therefore devoted much attention to how to prepare our economies and societies to make necessary adjustments. This means providing safety nets, but also making labour and capital more flexible, and making it easier for firms to exit as well as enter the economy.

We pursue structural reforms through a process of analysis and assessment. We review national economies as well as issues which cut across national boundaries. In most cases, a team of Secretariat and national experts will carry out an examination of a country's policies with the full co-operation of host government officials. The resulting draft report provides the basis for a peer review in which officials of the examined country discuss the findings with representatives of other nations. We place considerable emphasis on policy recommendations and then on monitoring implementation. As we speak, a high level OECD team is in Japan carrying out the latest of our reviews of the Japanese economy, focusing primarily on structural policies. We heard yesterday about our recent reviews of regulatory policy in Mexico and Japan. We are also cooperating with certain non-OECD countries on economic and other reviews. To give two examples, we are currently working with the government of China on an economic review and with Russia on a review of regulatory policy.

Why is this review process useful? It is often helpful to have a respected outside organisation make recommendations which stimulate discussion within governments and within the media to help build stronger political support for necessary reforms. As many participants in this conference have pointed out, structural reforms are not easy to implement. There are many interests which benefit from the status quo. A grouping of nations, such as APEC or the OECD, can help to lend credibility to those who are pressing for change over the opposition of vested interests.

Structural reform is a long term process. It is never finished. OECD nations are good examples. We have been working at structural reform for decades and have accomplished a great deal, but we still have much to do. Most recently, we have been examining the possible reasons why rates of growth have varied within OECD countries. After years of convergence, we now see a divergence in growth rates. This situation is made more troubling by the fact that many OECD nations are aging rapidly and need higher levels of growth to maintain their standard of living. So we asked a simple question, which can only have a complicated answer: what has driven economic growth in OECD countries?

While there is insufficient time today to go into this question fully today, we have unearthed some useful findings. Macro-economic policies have played a role, but differences are probably more the result of structural policies.

- Among them, labour market policy is key. Growth has been higher in nations that have increased labour force utilisation -- not just from population growth, but through greater participation of older workers, women and lower skilled younger people. A number of nations still provide incentives for people *not* to work. That has to change.

- Programs to upgrade the education and skills of the workforce have important effects on growth. Currently, the working age population of OECD countries has between 10-14 years of education per capita, compared with 7-11 years in 1970. It is estimated that this improvement has increased GDP per capita by 10 - 20%.

- Evidence also shows a strong link between R&D and growth. Business sector R&D has the most direct impact for it can improve productivity as well as products. OECD analysis indicates that relatively small increases in business sector R&D in the 80's and 90's led to significant increases in growth.

- Pro-competitive regulation of product and service markets is also important. Restrictive regulations make it difficult for firms to catch up with the leading companies in their field. Pro-competitive regulation promotes efficiency, innovation, the adoption of new technologies, and growth (this includes of course the reduction of barriers to international trade). OECD nations which have less competitive product and service markets have experienced slower growth.

- A regulatory environment which facilitates firm creation and dissolution, including through bankruptcy, is key to the dynamic creation/dissolution process which is a hallmark of a competitive, innovative, growing economy.

- Finally, sound financial markets are critical. Regulation plays a role here, as we discovered in the crises of 1997 and during the recent series of corporate governance scandals. But we also have to be careful of over-regulation. Financial markets have to be strong, dynamic and innovative. Too much caution will stifle innovation and firm creation and thus hurt employment.

While one of these factors, labour force participation in an aging society, may not apply to many APEC countries—at least not yet—the other factors certainly do. We have done a lot of work on all of these factors in the OECD. So as you move ahead with the APEC program of structural reform, I encourage you to look at the experiences, bad and good, of the OECD countries. They offer 30 useful laboratories, and interestingly, some of the newest members have been able to make some of the more far-reaching reforms -- adopting policies that could be models for other countries around the world.

The cooperation between APEC and OECD on regulatory reform is a good example of how we can work together for our mutual benefit. But before I get to that, let me make a few general comments about regulatory reform.

OECD's work on Regulatory Reform

OECD's dedicated work on regulatory policies and reform goes back more than 10 years. In 1995, OECD Member Countries endorsed the first internationally agreed standard for regulatory reform – the OECD Checklist for regulatory quality. At that time regulatory reform was – at best – considered as a rather peripheral policy. Since then, it has emerged to become an important and well integrated government policy in most OECD countries – although at different levels of sophistication.

The concept of regulatory reform has also changed from one focussed primarily on deregulation and privatisation, to one focussed on development of a broad regulatory policy framework to promote a competitive market economy, while exercising necessary oversight of sensitive sectors (e.g. finance, corporate governance), and meeting essential social and environment goals.

A key factor in promoting regulatory reform has been the trend in most countries to use market—instead of government—mechanisms to deliver public services. Liberalisation and privatisation of former state-owned enterprises and the opening of former monopoly industries to competition requires not just de-regulation, but also the development of new regulatory frameworks designed to enhance performance of such sectors. This process has been driven in large part by the demand from citizens and business for high-quality, low-cost services. A more open global economy allows people to compare their telecommunications, energy and transportation services…as well as education, health and pensions to those available in other countries. The resulting pressure on their governments to do a better job has spurred regulatory reform throughout the OECD and many other countries in the world

APEC/OECD Cooperation in Regulatory Reform

The APEC-OECD Co-operative Initiative on Regulatory Reform was launched in 2000 to provide a forum for exchange of experiences on good regulatory concepts, policies and practices and to facilitate the implementation of similar principles of regulatory reform in their respective member economies.

We hope that the APEC-OECD Initiative on Regulatory Reform will reach a major landmark at the end of 2004, with the completion of an Integrated Checklist for self-assessment on regulatory, competition and market openness policies. The Integrated Checklist will be a flexible, voluntary instrument for a government to assess its reform policy and the tools and institutions supporting it.

This Integrated Checklist will be unique in the field of regulatory policy.

A conference will be held in Thailand on 1-2 November 2004 which will aim to:

- endorse the draft Integrated Checklist;
- recommend the approval by the highest bodies of the two organisations; and
- identify the elements for a potential third phase of the APEC-OECD co-operation.

We were pleased to receive recently a letter from the President of the Pacific Basin Economic Council, noting that PBEC has issued a statement asking leaders of the region to support the APEC-OECD Co-operative Initiative on Regulatory Reform, and in particular to support work on a common agenda for regulatory reform - i.e., the Integrated Checklist - across the Pacific Basin and in OECD Countries.

If approved by APEC and OECD countries, the next phase in the Initiative could focus on the implementation of the checklist, with an emphasis on exchange of experience concerning the lessons of implementation, identifying obstacles and diffusing good practices, and on developing a better understanding of key regulatory tools and procedures. Discussions of the results of self–assessments among APEC and OECD countries could add a very practical dimension to this new phase.

Conclusion

Despite the growing understanding of the benefits of reforms of structural and regulatory policies, reforms can be difficult to agree and implement. As I mentioned earlier, this has much to do with vested interests: losers of reform policies are generally easily identifiable; they are often well organised and are rapidly vocal in defending their interests, while winners are often dispersed throughout the economy, not well-informed about the short and long-term benefits, and their number grows typically only over time. There are also other difficulties, such as the complexities of many reform measures, the lag until results are noticeable, and the still-insufficient empirical underpinning of costs and benefits in some areas.

Because of the need to overcome vested interests, there is no alternative to strong political leadership in implementing reforms. The examples we heard yesterday about the role of the Prime Ministers of Japan and Ireland and the President of Mexico are cases in point. Crises can help—for they often present a unique opportunity to enact far-reaching policy changes. But wouldn't it be nice if we did not have to wait for crises in order to strengthen our structural and regulatory policies.

For some regions, integration can promote structural reform—that has been the case in the EU and, to a lesser extent, through free trade areas such as NAFTA, ASEAN and numerous bilateral FTAs. Short of that, nations have to concentrate on developing the appropriate policy reforms and building the domestic political consensus to implement them. We heard yesterday about the use of special zones to provide laboratories for reform, and we heard about the importance of gaining support from social partners. The competitive pressures and opportunities of the global market place are a strong incentive to make continual progress.

As I mentioned above, an international organisation or process can be very helpful. APEC, supported by the OECD and other organisations, can play a very positive role in helping their members build the momentum for reform

APEC High-Level Conference
on Structural Reform

Tokyo, 9 September 2004

Implementing the APEC Structural Reform Action Plan

Role of the Committee on Trade and Investment

Alan Bowman, CTI Chair*

alan.bowman@international.gc.ca

**This presentation and Alan Bowman's remarks are made in his personal capacity, and do not necessarily reflect the views of the CTI as a whole or of the Govenment of Canada.*

Structure of this presentation

1) Structural reform's contribution to the trade agenda

2) How APEC currently deals with Structural Reform

3) CTI's current role on Structural Reform

4) Where do we go from here?

Structural Reform and the Trade Agenda

- The Asian Financial Crisis demonstrated that structural reform is key to preserving and enhancing trade relationships

- « Behind the border » issues are now well within the WTO's agenda. Recognition of the importance of issues such as competition policy and investment in Geneva.

- Structural reform agenda not new: 1999 Auckland Leaders' Declaration focused on strengthening markets though regulatory reform and enhanced competition.

- But what is Structural Reform? What does it comprise? Is there a core?

How APEC deals with Structural Reform

- Multiplicity of Actors
  - CTI and its sub-fora
  - Economic Committee
  - Finance Ministers’ Process
  - Working Groups
- Very little coordination

CTI's Role (1)

- CTI: 10 sub-fora, 4 industry dialogues
- Structural Reform is a CTI priority
  - Friends of the Chair: Japan, Chile, China, Australia, New Zealand
- Two sub-fora are predominant
  - SELI
  - CPD
- Many succesful events over last few years
  - APEC-OECD Regulatory Reform Initiative (CPD)
  - Competition policy capacity building (CPD, SELI)
  - International financing instruments (SELI)
  - Strengthening commercial laws (SELI)
  - Debt collection litigation/arbitration (SELI)

CTI's Role (2)

- CTI's work to date: an assessment:
  - Strengths
    - Strong focus on capacity building
    - Wide range of issues
  - Weaknesses
    - No overall focus: a series of ad hoc projects proposed by member economies
    - Except for the APEC/OECD checklist on regulatory reform, our work is not prescriptive: limited to training and information sharing.
    - No peer reviews
    - No clear definition of structural reform, making it difficult for CTI to see whether we are addresing all the issues we should.

Recommendations for APEC

- Adopt a definition of structural reform: what should it include?
  - Corporate and financial governance?
  - Regulatory reform?
  - Competition policy?
  - Strengthening economic legal infrastructure?
  - Investment policy?
  - Other issues? (Fiscal policy, rule of law, enforcement of property rights, anti-corruption, education, etc.)

- Is there a core? Are there priorities? Is there universality?

- Focus on where APEC can add value, build on its existing work.

Recommendations for APEC

- The Auckland definition of the « strengthening markets » agenda is a good start:
  - Corporate and public sector governance
  - Enhancing the role of competition
  - Improving the quality of regulation and the capacity of regulators
  - Reducing compliance costs and facititating business growth
  - Building a favourable regional and international environment for free and fair competition

- Let’s add:
  - Strengthening Economic Legal Infrastructure
  - Investment policy?
  - Transparency and anti-corruption?

Recommendations for APEC

- Adopt clear priorities, objectives and focus
  - A short list of areas
  - Capacity building
  - Information sharing: best practices
  - Prescriptive solutions: adherence to international standards; development of APEC standards?
  - Benchmarking
  - Build our relationship with partner organizations and our peer review capacity
- Coordinate work and assign responsibilities
  - A steering group composed of representatives of the CTI, the EC, the Finance Ministers' Process
  - Clear objectives, results-oriented work plans

Chair's Report of the APEC High Level Conference on Structural Reform
Tokyo, Japan
8-9 September 2004

The APEC High Level Conference on Structural Reform was held on 8-9 September 2004 in Tokyo, Japan. Responding to Leaders' commitments on promoting structural reform at the APEC Economic Leaders' Meeting in Bangkok in 2003, the objectives of the Conference were to exchange and share views and information on policy measures and to discuss measures and activities to underpin future APEC initiatives on important structural reform related issues. Mindful of the broad and wide ranging coverage that structural reform encompasses, in order to produce a concrete outcome contributable to the APEC process, the Conference focused its discussions on the following areas: regulatory reform, corporate restructuring, corporate governance, banking reform, structural adjustment and strengthening economic and legal infrastructure. The Conference brought together a range of APEC stakeholders and beyond, including ministers, senior government officials, top corporate executives and distinguished scholars. The following issues were discussed over the two-day conference.

1 A key objective of structural reform is to improve the functioning of market so as to sustainably enhance living standards. The outcomes of structural reform have contributed not only to sound and sustainable economic development in each economy which undertook the reform, but also to that in the APEC region as a whole.

2 Within the APEC region, there is a divergence between those economies which have steadily implemented structural reform and those who have yet to do so.

3 While APEC does not have a clear definition of what structural reform entails, there is widespread recognition that "behind the border" structural reform assists APEC economies in realizing the benefits of trade and investment liberalization and facilitation "at the border." Thus, aiming to achieve the Bogor Goals of free and open trade and investment, structural reform initiatives in each economy should be mutually supportive among APEC members.

4 APEC economies still have ample scope for the implementation of structural reform. APEC economies can be the driving force for continued growth in the world economy by continuing to make appropriate structural reform which adapts to emerging challenges resulting from rapid economic change.

5 The important role that international trade liberalization through multilateral agreements and FTAs can play in creating the environment for and facilitating domestic structural reform was identified.

6 The effectiveness of a tailor-made approach to regulatory reform reflecting diverse social and cultural backgrounds of APEC economies was emphasized. Notably, Japan's Special Zones, where a local community or the private sector takes the initiative focusing on competitive advantages of the area, are identified as a potentially effective tool to ultimately speed up nation-wide regulatory reform.

7 With regard to corporate governance and banking sector reform, it is important to institute real corporate restructuring measures, not just "cosmetic" measures. Effective corporate governance comes not from government regulations alone but also from the exercise of shareholder voting rights and control.

8 APEC economies need to focus on the importance of corporate disclosure and transparency to ensure the efficient functioning of the financial system in market-oriented economies. It is a critical aspect of an efficient system of corporate governance, especially with the increasing importance of cross-border financial flows in the financing of capital investment in economies.

9 For disclosure laws and regulations to be credible, they need to be efficiently enforced through a combination of civil and criminal sanctions, reinforced by support from market participants and the press.

10 In economies where rent-seeking and corruption are prevalent, there is likely to be resistance to increased transparency, and increased disclosure requirements may not receive sufficient regulatory agency support. It is important in such circumstances to work on reversing those actions that perpetuate rent-seeking and corruption.

11 The banking crises in 1997 cost some APEC economies a large share of their GDPs. This makes it essential to reform the banking system, including measures for corporate restructuring, to promote economic growth.

12 The importance of clearly defining and conveying the benefits of structural reform and raising consciousness of the drivers of the reform process were acknowledged. In doing so, policy makers are assisted in building a domestic constituency for reform.

13 It may be appropriate to facilitate the structural adjustment process. This may involve the phasing or sequencing of reform measures, social safety nets, compensation payments, employment assistance, skills retraining, relocation assistance and other such measures.

14 Progress in structural reform through promoting fair, efficient and transparent legal infrastructure for both domestic and foreign businesses, especially those measures to strengthen investors' confidence, will contribute to sustainable and high quality economic growth in the APEC region.

15 Structural reform in APEC is handled by a multitude of actors in an uncoordinated manner. While APEC does already produce good work in a wide range of structural reform areas, including financial sector reform, competition policy and regulatory reform, there is ample scope to better focus and coordinate the organization's work on structural reform to make it more results-oriented.

16 As additional issues/areas to be included in APEC's activities on structural reform, competition policy, social safety nets, labour market reform and human resources development, privatization, investment policy, anti-corruption policy, public sector reform, and sector-specific reform are indicated.

Suggestions

The following presents the suggestions for an APEC agenda on structural reform. This agenda is a short list of priority items which, through extensive presentation and discussions, the participants in the conference identified as what APEC should undertake to advance structural reform initiatives. We are hopeful that the APEC Senior Officials will develop a course of actions and measures which will be proposed to the APEC Leaders for their commitment in Santiago this November, based on the following suggestions.

(i) General policy suggestions

17 To reaffirm the APEC Leaders' sustained political commitment to continued structural reform to enrich the economic and social potential of the APEC region, and to ensure sustainable economic growth and development in the Asia Pacific Region by raising our economic efficiency and increasing the competitiveness of our economies.

18 To acknowledge that addressing APEC's wide-ranging economic issues in the context of structural reform provides us a crosscutting perspective, which provides more synergy among APEC's traditional sector-wise issues.

19 To accelerate domestic efforts, share good practices, promote further capacity building, and enhance communication with businesses on priority areas to be identified by each member economy.

20 To emphasize the need for economies' internal policies to be applied consistently and predictably so that investors' confidence can be underpinned.

21 To strengthen cooperation and collaboration with relevant international fora, notably the OECD, to deepen and expand structural reform related activities and measures.

22 To introduce reforms in a phased and planned manner, where appropriate, to ensure that the adjustment costs can be more readily absorbed with the understanding that a failure to

take adjustment costs properly into account would derail the reform process. Well targeted adjustment assistance can help facilitate change, provided that it is appropriately phased out.

23 To recognize that addressing structural reform requires a long-term approach. As a part of APEC's major agenda, consideration should be given to measures which will strengthen structural reform related activities in APEC fora in a more effective, efficient and integrated manner.

24 To foster the understanding of the benefits of structural reform among APEC economies through better benchmarking and reporting process. It is important to obtain the views and involvement of all member economies on our on-going work and policy discussion.

25 To consider holding a Second APEC High Level Conference on Structural Reform with a view to further development of the APEC Structural Reform Action Plan and its steady review and implementation.

(ii) Specific policy options

26 Conference participants discussed a number of specific actions/measures that APEC or APEC member economies could/should undertake to make progress in the areas discussed at the conference: regulatory reform competition policy, corporate restructuring, corporate governance, banking reform and strengthening legal infrastructure, as well as the timing, sequencing and breath of structural adjustment. Participants also discussed how APEC as a whole could better organize itself to make progress on structural reform.

(Regulatory reform)

27 To further develop pioneering policies/measures with a view to encouraging the initiation of reforms and promoting nation-wide regulatory reform.

28 To pursue the APEC-OECD Co-operative Initiative on Regulatory Reform, with the objective of agreeing on a final checklist in time for the APEC MRT in 2005.

29 To consider the need to foster and promote competition when undertaking regulatory reform.

(Corporate restructuring and corporate governance)

30 To reduce overcapacity of production and promote efficient allocation of resources through corporate restructuring.

31 To promote disclosure and transparency as well as oversight by truly independent directors and institutional shareholders that follow proxy-voting guidelines.

32 To enforce disclosure laws and regulations through a combination of civil and criminal

sanctions, reinforced by support from market practices and the press.

33 To work to reverse those actions that perpetuate rent-seeking and corruption.

(Banking reform)

34 To move forward in strengthening banking systems through steps that allow banks to operate on a commercial basis, and to be free from political influence. To establish sound prudential regulations and independent supervision, to institute well defined and speedy bankruptcy laws, and to encourage foreign investment in the banking system.

35 To combine bank reform with corporate restructuring.

(Strengthening legal infrastructure)

36 To enhance transparency and fairness on business-related legislative systems, such as insolvency and creditors' rights laws, as well as their implementation, for both domestic and foreign business.

(Actions and measures for APEC process)

37 To agree to focus APEC's work on a short list of key areas, taking into account its ability to add value and build on its existing work. A suggested short list could include: regulatory reform; strengthening economic legal infrastructure; competition policy; investment policy; corporate and financial sector governance; and managing the overall reform process.

38 To develop an implementation plan that would list a number of specific objectives, activities, and desired results under each of these areas. These could include: capacity building activities; APEC best practices (where possible, using guidelines developed by other international organizations); information exchange; peer review exercises, where possible; and interaction with other international organizations.

39 To establish a steering group composed of representatives for the APEC Committee on Trade and Investment, the Economic Committee and the Finance Ministers' Process, to develop and oversee this implementation plan.

40 To call on APEC economies to continue to cooperate in implementing the actions outlined above and encourage each APEC economy to continue to report progress and plans to strengthen structural reform in its IAP.
