



Scrutinizing Corporate Governance in China via a "PEKEA-like" Framework

Wei Wang
China, Political Economy



Bangkok, 1-3 Nov 2004, *Third International Conference* : What feasible common future?



Dhurakijpundit University

Scrutinizing Corporate Governance in China via a “PEKEA-like” Framework

by

WANG Wei

Associate Professor,

Institute of World Economics and Politics,

Chinese Academy of Social Sciences

Add: 5, Jiannei Dajie Beijing 100732 China

Tel: +8610 8519 5771 Fax: +8610 6512 6105

E-mail: ww@cass.org.cn, weiwei1208@yahoo.com

«Our common future » - Pekea Conference 2004

Bangkok, 1–3 November 2004

Part 1

General background of Worldwide Movement for Corporate Governance Reform

WORLD ECONOMIC SITUATION IN 1990S

Three driving forces of world economy in 1990s

- EU (underway of integration)
- Japan and four “dragon” (bubble and crises)
- US (only “paradise”)

World economy dominated by leading Multinationals

- The total turnover of multinationals had transcended the total amount of world trade
- Enormous growth of FDI in developing countries
- Management and technology transfer

CRITIQUES ON CORPORATE GOVERNANCE AFTER ASIAN FINANCIAL CRISES

- Main bank system (Japan)
- Government interfering (South Korea)
- Lack of shareholders’ protection (Hong Kong)
- Internal control (SOEs in Mainland China)

2

PEKEA A political and ethical knowledge
on economic activities

Un saber político y ético
en las actividades económicas

Un savoir politique et éthique
sur les activités économiques



- Transparency

EMERGENCE OF CORPORATE GOVERNANCE REFORM

- OECD principles issued in 1999, worldwide corporate governance reform initiated
- Anglo-Saxon Model introduced
 - Protection of investors' interests
 - Structure of board of directors
 - Information disclosure and transparency
 - Standard accounting system

Latest Development on Corporate Governance Reform

- Consideration of stakeholders' interests
- Corporate social responsibility (CSR)
- Social responsibility investment
- Sustainable development

Part 2

Implementation for Corporate Governance Reform in China

EFFORTS TO MERGE INTO GLOBAL VILLAGE SINCE 1978

ECONOMIC REFORM AND FROM WHICH, DIVERSIFIED OWNERSHIPS APPLIED

- Result 1: FDI inflow enormously increased
- Result 2: private sector growing up
- Result 3: government released the authority to state-owned enterprises

PRESSURE AND MOTIVATION

- Process of the accession to WTO and the pressure from WTO
 - China's commitments to WTO
 - Opening market and privatisation
- Development of capital market and restructuring of SOEs
 - Shanghai and Shenzhen Stock Exchange restored in 1991
 - Main companies either already in or eager to enter stock market



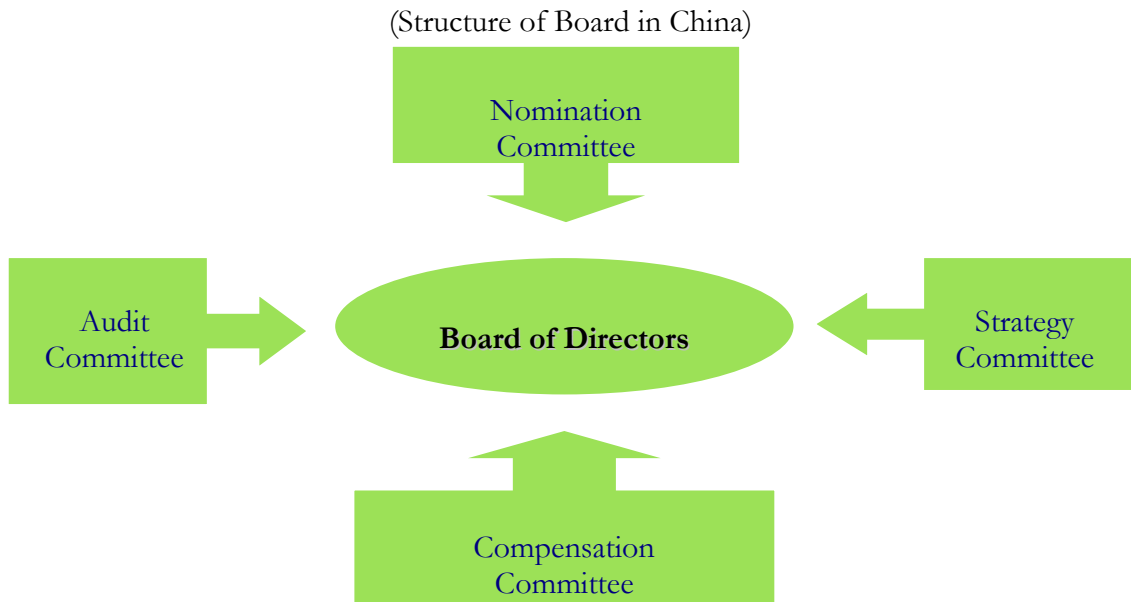
INITIATIVES OF CORPORATE GOVERNANCE REFORM

Corporate governance reform initiating in listed companies since 2001

- Regulatory administration: China Securities Regulatory Commission (CSRC), under state council
- CSRC issued China Corporate Governance Code in 2001 to initiate the implementation

MAIN CONTENT OF CHINA CG CODE

- Protecting shareholders’ legal rights and benefits
- Strengthening the duty and honesty of board directors
 - There should be at least 2-3 independent directors in the board
 - The board must contained 4 special committees



Main Content of China CG Code

- Promoting the function of supervisory board
- Creating the system of evaluation, stimulation and restriction
- Concerning stakeholder’s interests
- Strengthening the responsibility of information disclosure and rising corporate transparency



Part 3

Rethinking on Corporate Governance Reform

Corporate scandals since 2000:

- Events:
 - Enron
 - Worldcom
 -
- Key issues:
 - Transparency
 - Cheating
 - CEO internal control

RESULTS

- Losing of public confidence in firms
- Creating discrepancy amount people
- Causing social conflicts
- Pollution and irreversible damage of the environment
- Inequity to our future generations



Two ends of world



Enormous fortune

Enormous population



How to define properly in term of “firm”?

- Target: profit
- Function: supplementary to market
- Operating area: market
- Duty: legal activities

EXAGGERATED FUNCTION OF CORPORATE GOVERNANCE REFORM

- Promoting firm social responsibility
 - Using more resources, producing more products and then,
 - Spending more money on CSR
- Ignoring the cultural differences
 - World tendency for the consensus principles
 - Race, history, tradition, language, nation.....

RESTORING NEW SOCIAL VALUE AND REGULATING FIRM BEHAVIOUR WITH A PEKEA

FRAMEWORK

- Rebuild social confidence by:
 - Less products (environment)
 - Simple life (spirit)
 - Ethic in economic activities
- Search for common interests
- Building equity, harmony and fraternity of our society

CONCLUSIONS

- World tendency for the convergence of good corporate reform will probably only remain at the stage of codes, if it continuously goes, but not at the practice level.
- Variation and multiple choices for the diversified world where we live are reasonable, and perhaps the only one we could agree with consensus, based with the different background including countries, nations, cultures, traditions, histories, geographies as well as, maybe the most important concerning economic studies, the different stages of developing level.
- There seems no universal principles for corporate governance. It comes always case by case when studies firms, however, we could make the consensus on thinking based with common interests of human being. That is Pekea framework.

Thank you!