

CORPORATE GOVERNANCE
AND FINANCE IN EAST ASIA

A STUDY OF INDONESIA, REPUBLIC OF KOREA,
MALAYSIA, PHILIPPINES, AND THAILAND

VOLUME TWO
COUNTRY STUDIES

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ISBN 971-561-323-3
PUBLICATION STOCK No. 100800

PUBLISHED AND PRINTED BY THE ASIAN DEVELOPMENT BANK
P.O. Box 789, 0980 MANILA, PHILIPPINES

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FOREWORD

CORPORATE GOVERNANCE HAS BECOME A MAJOR POLICY CONCERN IN THE WAKE OF THE ASIAN FINANCIAL CRISIS. WEAK GOVERNANCE STRUCTURE, POOR INVESTMENT, AND RISKY FINANCING PRACTICES OF THE CORPORATE SECTOR IN THE AFFECTED COUNTRIES CONTRIBUTED TO THEIR SHARP ECONOMIC RECESSION IN 1997-1998. THE WEAKNESSES IN CORPORATE GOVERNANCE AND FINANCE UNDERMINED THE CAPACITY OF THESE COUNTRIES TO WITHSTAND THE COMBINED SHOCKS OF DEPRECIATED CURRENCIES, MASSIVE CAPITAL OUTFLOWS, INCREASED INTEREST RATES, AND LARGE CONTRACTION IN DOMESTIC DEMAND.

TO HELP UNDERSTAND CORPORATE GOVERNANCE ISSUES AND THEIR IMPACT, AS WELL AS TO IDENTIFY NEEDS FOR INTERVENTIONS IN ADDRESSING POLICY AND INSTITUTIONAL WEAKNESSES, THE ECONOMICS AND DEVELOPMENT RESOURCE CENTER OF THE ASIAN DEVELOPMENT BANK (ADB) UNDERTOOK A REGIONAL STUDY ON CORPORATE GOVERNANCE AND FINANCE IN SELECTED DEVELOPING MEMBER COUNTRIES. THE COUNTRIES COVERED ARE INDONESIA, REPUBLIC OF KOREA, MALAYSIA, PHILIPPINES, AND THAILAND. THIS BOOK PRESENTS THE MAJOR FINDINGS OF THE STUDY. THE POLICY RECOMMENDATIONS WILL SUPPORT ADB'S FINANCIAL SECTOR WORK IN ITS DEVELOPING MEMBER COUNTRIES.

ARVIND PANAGARIYA
CHIEF ECONOMIST

PREFACE

CORPORATE GOVERNANCE AND FINANCE IN EAST ASIA PRESENTS THE FINDINGS OF A REGIONAL STUDY OF CORPORATE GOVERNANCE AND FINANCE IN SELECTED DEVELOPING MEMBER COUNTRIES OF THE ASIAN DEVELOPMENT BANK (ADB). THE STUDY ATTEMPTS TO IDENTIFY THE WEAKNESSES IN CORPORATE GOVERNANCE AND FINANCE IN COUNTRIES MOST AFFECTED BY THE 1997 ASIAN FINANCIAL CRISIS, AND RECOMMENDS POLICY AND REFORM MEASURES TO ADDRESS THE WEAKNESSES. THE STUDY COVERS INDONESIA, REPUBLIC OF KOREA, MALAYSIA, PHILIPPINES, AND THAILAND.

THE FINDINGS OF THE STUDY ARE PRESENTED IN TWO VOLUMES. VOLUME ONE, *A CONSOLIDATED REPORT*, PRESENTS A FRAMEWORK FOR ANALYZING CORPORATE GOVERNANCE AND FINANCE, SUMMARIZES THE MAJOR FINDINGS OF THE FIVE COUNTRY STUDIES, AND PROVIDES KEY POLICY RECOMMENDATIONS FOR STRENGTHENING CORPORATE GOVERNANCE AND IMPROVING THE EFFICIENCY OF CORPORATE FINANCE IN ADB MEMBER COUNTRIES. VOLUME TWO, *COUNTRY STUDIES*, COLLECTS FOUR COUNTRY REPORTS. WE WOULD LIKE TO THANK COUNTRY EXPERTS SAUD HUSNAN OF GADSAB MADA UNIVERSITY, INDONESIA; KWANG S. CHUNG AND YEN KYUN WANG OF CHUNG-ANG UNIVERSITY, REPUBLIC OF KOREA; FAZILAH ABDUL SAMAD OF UNIVERSITY OF MALAYA, MALAYSIA; CESAR G. SALDAÑA OF PSR CONSULTING, INC., THE PHILIPPINES; AND PIMAN LIMPAPHAYOM OF ASIAN UNIVERSITY OF SCIENCE AND TECHNOLOGY, THAILAND, FOR THEIR EFFORTS AND COOPERATION IN CONDUCTING THE COUNTRY STUDIES. CESAR G. SALDAÑA ALSO PROVIDED USEFUL INPUTS TO THE PREPARATION OF THE CONSOLIDATED REPORT.

THE VOLUMES BENEFITED EXTENSIVELY FROM CONSTRUCTIVE COMMENTS FROM ADB STAFF AND OFFICIALS OF THE MINISTRIES OF FINANCE, CENTRAL BANKS, SECURITIES AND EXCHANGE COMMISSIONS, STOCK EXCHANGES, AND CORPORATE RESTRUCTURING AGENCIES OF THE EIGHT ADB MEMBER COUNTRIES THAT PARTICIPATED IN THE STUDY'S FINALIZATION WORKSHOP IN MANILA, ON 18-19 NOVEMBER 1999.

OUR DEEP APPRECIATION GOES TO JUNGSOO LEE, FORMER CHIEF ECONOMIST, AND S. GHON RHEE, FORMER RESIDENT SCHOLAR, FOR THEIR STRONG SUPPORT AT VARIOUS STAGES OF THE STUDY; MANABU FUJIMURA, FOR HIS EFFORTS IN ORGANIZING THE FINALIZATION WORKSHOP; MARCELIA GARCIA, MARINIE BAGUISA, MA. REGINA SIBAL, AND ROSANNA BENAVIDEZ, FOR THEIR ADMINISTRATIVE SUPPORT AND ASSISTANCE; AND JOSEF YAP, LEAH SUMULONG, GRAHAM JAMES DWYER, JUDITH BANNING, AND LYNETTE MALLERY, FOR THEIR EDITORIAL ASSISTANCE AND ADVICE.

ABBREVIATIONS

ADB	ASIAN DEVELOPMENT BANK
AGM	ANNUAL GENERAL MEETING
AGSM	ANNUAL GENERAL SHAREHOLDERS' MEETING
AMU	ASSET MANAGEMENT UNIT
APEC	ASIA-PACIFIC ECONOMIC COOPERATION
B	BAHT
BDC	BOND DEALERS' CLUB
BIBF	BANGKOK INTERNATIONAL BANKING FACILITY
BIS	BANK FOR INTERNATIONAL SETTLEMENTS
BOC	BOARD OF COMMISSIONERS
BOD	BOARD OF DIRECTORS
BSDC	BANGKOK STOCK DEALING CENTER
BSP	BANGKO SENTRAL NG PILIPINAS (CENTRAL BANK)
BUN	BANK UMUM NASIONAL
CB	CONVERTIBLE BOND
CDRAC	CORPORATE DEBT RESTRUCTURING ADVISORY COMMITTEE
CEO	CHIEF EXECUTIVE OFFICER
CP	COMMERCIAL PAPER
CRA	CORPORATE RESTRUCTURING AGREEMENT
DER	DEBT-TO-EQUITY RATIO
ESOP	EMPLOYEE STOCK OWNERSHIP PLAN
EVA	ECONOMIC VALUE ADDED
FDI	FOREIGN DIRECT INVESTMENT
FSC	FINANCIAL SUPERVISORY COMMISSION
GAAP	GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
GATT	GENERAL AGREEMENT ON TARIFFS AND TRADE
GDP	GROSS DOMESTIC PRODUCT
GNP	GROSS NATIONAL PRODUCT
HCI	HEAVY AND CHEMICAL INDUSTRIES
IBRA	INDONESIAN BANK RESTRUCTURING AGENCY
IDFR	INCREMENTAL DEBT FINANCING RATIO
IEFR	INCREMENTAL EQUITY FINANCING RATIO
IFS	INTERNATIONAL FINANCIAL STATISTICS
IMF	INTERNATIONAL MONETARY FUND
IPO	INITIAL PUBLIC OFFERING
IPP	INVESTMENT PRIORITIES PLAN
JSX	JAKARTA STOCK EXCHANGE
NBFI	NONBANK FINANCIAL INSTITUTION
NEFR	NEW EQUITY FINANCING RATIO
NPL	NONPERFORMING LOAN
OECD	ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
OTC	OVER-THE-COUNTER

P	PESO
PCO	PLANNING AND COORDINATION OFFICE
PD	PRESIDENTIAL DECREE
PICPA	PHILIPPINE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
PLDT	PHILIPPINE LONG DISTANCE TELEPHONE CO.
PSE	PHILIPPINE STOCK EXCHANGE
PTB	PRINCIPAL TRANSACTIONS BANK
ROA	RETURN ON ASSETS
ROE	RETURN ON EQUITY
Rp	RUPIAH
RSA	REVISED SECURITIES ACT
SBL	SINGLE BORROWER LIMIT
SCS	SHARE OF A CONTROLLING SHAREHOLDER
SEA	SECURITIES AND EXCHANGE ACT
SEC	SECURITIES AND EXCHANGE COMMISSION
SET	STOCK EXCHANGE OF THAILAND
SFR	SELF-FINANCING RATIO
SMC	SAN MIGUEL CORPORATION
SSS	SOCIAL SECURITY SYSTEM
SOC	STATE-OWNED COMPANY
TIE	TIMES INTEREST EARNED
TQ	TOBIN'S Q
W	WON
US	UNITED STATES

NOTE: IN THIS VOLUME, "\$" REFERS TO US DOLLARS, UNLESS OTHERWISE STATED.

