

Policy Dialogue on Corporate Governance in China
Welcome remarks by Deputy Secretary-General Richard Hecklinger
25 February 2004
The Grand Hyatt Hotel, Shanghai, China

Ladies and Gentleman,

1. It is a great honor to me to join **Mr. Shang Fulin**, Chairman of the China Securities Regulatory Commission, **Mr. Han Zheng**, Mayor of Shanghai Municipal Government and **Mr. Chen Qingtai**, Deputy Director of Development Research Center to welcome you all here today for ***the Policy Dialogue on Corporate Governance in China***. I would like to thank the Shanghai Stock Exchange for co-organising this event with the OECD, and the Enterprise Research Institute of Development Research Center for its co-operation. I would also like to thank the Government of Japan and the Global Corporate Governance Forum for their generous support, which made this event possible.

2. Good Corporate Governance is now widely recognized as essential for establishing an attractive investment climate characterized by competitive and efficient financial market. Good Corporate Governance also facilitates better corporate performance, access to capital and informed entrepreneurial risk-taking, which in the end lead to a sound development of the country.

3. Ironically, a series of corporate scandals over the past few years on the both sides of the Atlantic show us that corporate governance is indeed a global issue and it is a moving target as well. Many of the OECD member countries are facing new challenges as markets evolve and institutions react in sometimes unexpected ways. The magnitude of the problem varies among countries but sometimes a corporate governance problem occurring in a single company may lead to strong repercussions for a nation's economy when the issues are seen as symptomatic of a broader set of

companies. On occasion, the global financial market might even be destabilised. Once a country's market integrity is undermined, an enormous investment in time and effort is required to repair the situation. In today's globalized market, failure to deal with the regulatory issues associated with corporate governance can disadvantage the country's market and economy by causing a significant shift of capital to markets with higher market integrity.

4. Against this background, the OECD formulated the Principles of Corporate Governance in 1999 triggered by the Asian Financial Crisis and is now reviewing them based on our experience since then. Last week in Paris, we held the final meeting of the Steering Group on the review of the OECD Principles. My colleague from the OECD is happy to share with you the main directions the review process has taken in the next session.

5. Turning to China, as a result of the Chinese programme for partial flotation of large-scale state-owned corporations and the ensuing expansion of equity markets, corporate governance issues are becoming of critical importance for the success of enterprise reform and capital market development in achieving the country's goals, as well as for the stability of financial markets in the region. In the period of only a few years, China has made remarkable progress to enhance its corporate governance. Most recently, ***a first report on corporate governance in China***, which highlights the progress to date and remaining challenges, was published by the Shanghai Stock Exchange in June 2003.

6. China has been an active participant in ***the Asian Roundtable on Corporate Governance***. With the valuable contributions of China, the Asian Roundtable formulated the White Paper on Corporate Governance in Asia, which comprises a set of general policy recommendations, last year. The Asian Roundtable will continue its discussion, focusing on the implementation and enforcement of the policy recommendations in the White Paper. The OECD hopes that China will continue to stimulate the Roundtable discussions through active participation in the meetings. However the Roundtable is, by

its very nature, broad addressing a number of very different economies. Taking into consideration the unique nature of the Chinese corporate sector and its scale, the OECD believes that it is desirable to also take a more focused approach when considering the challenges faced by China. Thus, the meeting today and tomorrow will be a new and important juncture for the OECD's cooperation with China in the field of corporate governance.

7. Any discussion on corporate governance in China will inevitably touch upon the issue of State Assets Management. The 16th Communist Party Congress in late 2002 concluded that better management of the state owned assets would be one of the top priority areas for the current government and ***the State Assets Supervision and Administration Commission (SASAC)***, a new commission to manage state-owned assets, was set up in April 2003. The new Commission represents a crucial step in separating the ownership function from the regulatory one within the Chinese administration. This development coincides with the newly initiated OECD activity on ***Corporate Governance of State Owned Assets***, which aims to formulate guidelines among the OECD member countries as to how they should exercise their residual ownership function. The initiative is also meeting with a great deal of interest from non-member countries in the various roundtable regions. These guidelines will complement the OECD Principles of Corporate Governance. This OECD work can inform China of the lessons from member countries through the Policy Dialogue meetings such as the one today. In turn the OECD expects valuable inputs from China as to how it is dealing with the difficult question of state ownership.

8. The recent progress China has made both in the field of corporate governance and state asset management should be applauded. However, as indicated in the Shanghai Stock Exchange's first Annual Report on Corporate Governance, China is still facing many challenges, some of which are commonly shared with other countries, while others are quite unique to China. A promising sign for the future is that the Chinese authorities gathering here today are showing their commitment to maintain a strong momentum for reform of its corporate sector and to enhance corporate governance. The

OECD is happy to support our Chinese counterparts to facilitate the reform process by sharing with them the experience learned from our member countries and also non members through the regional Roundtables.

9. With your active participation in this Roundtable, our discussions over the next two days should produce tangible results for all of us on these very challenging issues. I would like to encourage you all to engage in frank, two-way dialogue.

10. In concluding my remarks, I must underline that holding a meeting is not a goal itself but a means to achieve the corporate governance reform. In this particular regard, a continuous dialogue on the issue is critically important since as I emphasized at the beginning of my remarks, corporate governance is an issue that tends to evolve as enterprises and policy evolve. I hope that our Chinese counterparts would share the same opinion and consider our future cooperation on these important issues through a continuing policy dialogue.

Thank you.