

APEBH 2007
Varieties of Capitalist Development & Corporate Governance
University of Sydney
12-14 February 2007

**THE IMPACT OF CORPORATE GOVERNANCE REFORMS ON
TWO ASIA-PACIFIC STOCK EXCHANGES**

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Abstract

Stock markets and their institutional administrators - stock exchanges - play important roles in “fostering good standards of corporate governance.” (Maasen 1999:80) They are important corporate governance institutions in countries being intrinsically involved in the life cycle of public companies through listing, overseeing, regulating and delisting. In essence, they play a central role in the economic activities of the private sector.

According to Summers (1987), financial markets are the wheels of economic growth, and “local stock exchanges are the keystone of the financial market-centred model of national economic growth.” (Weber & Davis 2000: 4). Stock markets channel capital, are mechanisms for effective governance, and are a fulcrum for producing institutional and social change within an economy.

Firstly, this paper discusses the major corporate governance systems around the world.

Secondly, current corporate governance reforms are examined with reference to the profound influence of the OECD Principles of Corporate Governance (1999, revised 2004), and the criticism of the Principles.

Thirdly, the growth of capital markets from 1990 to 2005 and the dominance of Anglo-American stock exchanges are examined.

Fourthly, the state of two stock exchanges in two Asia Pacific countries with differing socio-economic histories is compared: the Australian Stock Exchange with the Philippine Stock Exchange.

Finally, the paper concludes with recommendations for the future direction of corporate governance reforms.

The Impact of Corporate Governance Reforms on Two Asia-Pacific Stock Exchanges

Corporate Governance Systems Around the World

Different approaches to financing corporations in different regions of the world have prevailed since the diverse origins of capitalism. The evolution of the corporate form can be traced from the family and closely held capitalism of the early 19th century with the protection of ownership rights; through to the managerial capitalism of the early 20th century with further protection for listed corporations and limited liability; and finally the popular capitalism of the late 20th century with protection of minority interests and mass ownership. (Frentrop 2004; Clarke 2004, 2005)

However, different routes were followed in this evolution and different destinations reached in corporate practice, company law, and associated institutional development of Anglo-American, European and Asian forms of corporate enterprise. In the Asian system of corporate governance stronger elements of family ownership survive intact, and in the European system more managerial forms have survived. The result is two parallel universes of corporate governance:

- 1) A dispersed ownership model characterized by strong and liquid securities markets, high disclosure standards, high market transparency, and outsider-based system. This is commonly ascribed as the Anglo-American corporate governance system.
- 2) A concentrated ownership model characterized by insider-based controlling shareholders, weak securities markets, low transparency and disclosure standards and often a central monitoring role for large banks who have a stake in the company (Coffee 2000; Clarke 2005). This is known as the non-Anglo-American (European and Asian) corporate governance system.

Corporate governance debate has concerned the relative merits of the different systems, often with the assumption that the Anglo-American system with stronger security markets and higher levels of disclosure represents a more advanced and efficient mode of corporate finance and governance, and leading to the conclusion that inevitably there will be either an early, or more gradual, shift of the European and Asian systems of corporate governance towards the Anglo-American model (Hansmann and Kraakerman 2001; McCahery et al 2002; Hamilton and Quinlan 2005).

However the argument for inevitable convergence has tended to underestimate the extent of the different orientations and objectives of the alternative systems; the different institutional complementarities that have evolved; and failed to appreciate the significance of different cultures and conceptions of what a company is (Branson 2001; McDonnell 2002; Gordon and Roe 2004).

In different regions of the world there are deeply embedded differences regarding business values and ways of doing things, and very different relationships with stakeholders. There exist profoundly contrasting beliefs in the role of the market in the different systems, which influence the way the corporation is considered: simply as a bundle of tradable assets in the worst case scenario of the market based system; but as a productive institution to be passed on to future generations in the best case of the insider governance system. As a result, different measures of performance are applied, with the market based system looking for short term returns, and the European and Asian systems having much longer term horizons.

As a consequence of the differences in corporate governance structure and objectives, the different systems demonstrate unique strengths and weaknesses: essentially they are good at doing different things, and they all have weaknesses (Moerland 1995; Dore 2003). The Anglo-American governance system supports a dynamic market orientation, with fluid capital which can quickly chase market opportunities wherever they occur. This agility and speed equipped the United States to capitalize on the new economy of electronics, software, media, financial and professional services: an industrial resurgence that reasserted the US global economic ascendancy. The downside of this system is the corollary of its strength: the inherent volatility, short-termism and inadequate governance procedures that have often left US manufacturing industry stranded, and caused periodic stock market panics and occasional crashes that left the least well informed investors with crippling losses.

In marked contrast European enterprise as typified by the German governance system traditionally has committed to a long term industrial strategy supported by stable capital investment and robust governance procedures that build enduring relationships with key stakeholders (Cernat 2004; Lane 2003). This was the foundation of the German

economic miracle which carried the country forward to becoming the leading exporter in the world of products renowned for their quality and reliability including luxury automobiles, precision instruments, chemicals, and electrical engineering. Again, the weaknesses of the German system were the corollary of its strengths: the depth of relationships leading to a lack of flexibility that made it difficult to pursue initiatives for new businesses and industries while accumulating costs in established companies, resulting in high unemployment.

The Latin variant of European corporate governance as practiced in France and Italy is highly network oriented, with dominant holdings by the state, families, or industrial groups. Ownership concentration provides for stability and long term horizons, with strong relationships with stakeholders. This governance system has allowed the Southern European countries to specialize in selected industries with notable success, for example in France aerospace and luxury goods, and in Italy fashion goods (Goyer 2001). However weak governance accountability and frequent network and pyramid control diminishes the integrity of the equity market: the strength of the blockholder relationships precluding others from becoming involved.

Finally, the Asian corporate governance system is the most network-based of all, with the firm as the institutional centre of long, enduring and deep economic relationships of investors, employees, suppliers and customers (Claessens and Fan 2002). In the Japanese system there is a close dependence on bank finance and insider control. This approach has yielded the longest investment horizons of all and was the key to the Japanese success in progressively dominating overseas markets in the US and Europe in electronic consumer goods and automobiles. The Japanese economic miracle came to an abrupt end when paying the price for its own success, the hugely speculative bubble burst in the early 1990s, the resulting decade-long disorientation revealing the weaknesses of secretive and unaccountable Japanese governance.

In the East Asian model of corporate governance, the system is characterised by family control and high ownership concentration. Control and ownership is not separated. Most large firms are family owned, unlisted and if they are listed, are partially listed on the stock exchange so that the families' control of the companies are never challenged through the capital markets. Stock exchanges are relatively new and underdeveloped.

Control is through pyramid structures and cross-holdings. There is a long-term focus on wealth-building. In comparison to other models, firm and financial information is less publicly available. A small number of families control the economy and government officials directly participate in the control of the sector, suggesting the existence of crony capitalism. Countries belonging to this model include Hong Kong, Indonesia, Philippines, Malaysia, Singapore, South Korea and Thailand.

OECD Principles of Corporate Governance

The OECD Corporate Governance Principles (1999, 2004) are the most important and influential standards of corporate governance. There are 6 broad principles:

1. Ensuring the basis for an effective corporate governance framework
2. The rights of shareholders and key ownership functions
3. The equitable treatment of shareholders
4. The role of stakeholders in corporate governance
5. Disclosure and transparency
6. The responsibilities of the board¹

The principles reflect “a global consensus regarding the critical importance of good corporate governance in contributing to the vitality and stability of our economies.” (Jesover & Kirkpatrick 2005: 127)

Fairness, transparency, accountability and responsibility are the principles against which governance practice can be assessed. These principles are designed so that they are relevant whether the organised entity is private, public, state-owned or subject to other different forms of control and ownership. The principles look at the rights and equitable treatment of shareholders, the role of stakeholders, disclosure and transparency, and the responsibilities of the board. They “provide specific guidance for policymakers, regulators and market participants in improving the legal, institutional and regulatory framework that underpins corporate governance, with a focus on publicly traded companies. They also provide practical guidance and suggestions for stock exchanges, investors, corporations and other parties that have a role in the process of developing good corporate governance.” (Jesover & Kirkpatrick 2005: 172)

¹ OECD (2004) Principles of Corporate Governance

The principles “recognise that governance forms part of a wider macroeconomic context where the legal and institutional frameworks play a major part [and] provide for the participation of both governments and the private sector in the development of good governance” (Tu & Batten, 2001: 48).

While there are UN promulgations on behaviour of corporations² that codify corporate responsibility, they are not binding and do not have monitoring mechanisms in place. In the absence of an enforceable corporations law that can be applied to any business entity worldwide, the OECD principles act as the default normative framework. The principles can be categorised as ‘soft law’ (Abbott & Snidal 2000) - they are not legally binding obligations but they are influential. The principle’s influence can be seen in the reformulation of a country’s corporate governance principles with their unabashed reference on how the renewed principles adhere to, or are patterned after, the OECD principles.

In developed countries, the principles act as “an *aide memoire* that emphasises and reinforces best practice”, while in developing countries, “the principles can act as a blueprint for the establishment of a modern, outward-looking confident economy.” (Reid 2003: 237) The principles have been used extensively by the World Bank as a framework for policy dialogue to promote regional corporate governance reforms and roundtables in

² In 1974, the United Nations (UN) Charter of the Economic Rights and Duties of the State was adopted by members states. Article 2(b) of the charter expressed, perhaps more in hope than conviction : “*Each State has the right: to regulate and supervise the activities of Transnational Corporations (TNCs) within its national jurisdiction and take measures to ensure that such activities comply with its laws, rules and regulations and conform with its economic and social policies. Transnational corporations shall not intervene in the internal affairs of a host State.*” (Pryles et al. 2004: 126).

Thirty years later, the financial might of TNCs have superseded all but the economically strongest nation-states in the world, their growth and influence akin to the empire-building movement of the 19th Century, and their power beyond the harness of any one jurisdiction. TNCs have shaped the economic and social policies, and intervened in the internal affairs of a host State because they can and have the ability to do so (such as the case of Shell in Nigeria).

Perhaps in recognition of the obvious, the preamble to the 2003 UN Norms and Responsibilities reaffirmed “*that Transnational corporations and other business enterprises, their officers - including managers, members of corporate boards or directors and other executives - and persons working for them have, inter alia, human rights obligations and responsibilities and that these human rights norms will contribute to the making and development of international law as to those responsibilities and obligations.*”

The major difference between the 1974 and the 2003 statement is the latter’s specificity in stating the obligations of the humans responsible for a corporation: the managers, the members of corporate boards, directors, executives and employees. The 2003 Norms have placed accountability at the feet of the principals of the corporation.

Asia, Latin America, Eurasia, South East Europe and Russia.³ Significantly, the roundtables are held in non-OECD member countries. For example, the Asian Corporate Governance Roundtable has been held annually since 1999. The mandate came from the G-7 in the hopes that the countries concerned would “discuss improving corporate governance in non-OECD member countries of the Asian region.”⁴ The participation of most Asian countries “confirm the adaptability of the [OECD] principles as a reference in varying legal, economic and cultural contexts.” (Jesover & Kirkpatrick 2005: 128).

The roundtable dialogues have resulted in some common corporate governance issues across participating developing countries. They are:

1. Strengthening effective legal enforcement⁵
2. Strengthening and protecting shareholders, particularly minority owners⁶
3. Dealing with conflicts of interest⁷
4. Strengthening company oversight by boards⁸

In 2004, the principles were revised to reflect more fully the changes that have occurred in the corporate governance landscape, especially after the corporate crisis in America.

Criticisms of the Principles

One of the earliest scholarly reflections on the principles was Dignam and Galanis’ 1999

³ A list of corporate governance roundtables can be accessed through the OECD website:

<http://www.oecd.org>

⁴ OECD Asian Corporate Governance Roundtable

http://www.oecd.org/document/24/0,2340,en_2649_37439_2048216_1_1_1_37439,00.html

⁵ “Perhaps the most widespread sentiment expressed in the roundtables was the importance of improving the enforcement of existing law regulations...Proper implementation and effective enforcement create an obvious challenge in countries where the required human and financial resources are in short supply.” (Jesover & Kirkpatrick 2005: 131)

⁶ “The potential problems that arise from this combination of concentrated ownership, weak shareholder protection and insufficient disclosure has been highlighted in all the Regional Roundtables.” (Jesover & Kirkpatrick 2005: 131)

⁷ “In many of the Roundtable countries, banks have ownership structures and other features that may create conflicts of interest and undermine their own governance, as well as their role as monitors; for example, the same owner may control both the lending bank and the borrowing company. This can lead to related lending that harms the banks’ minority shareholders, in many cases its depositors, and ultimately the government, which usually offers explicit or implicit deposit insurance... conflicts of interest are widespread and can often lead to behaviour detrimental to shareholders, investors and stakeholders.” (Jesover & Kirkpatrick 2005: 133)

⁸ “Roundtable participants described most company boards as either passive “rubber stamps” or as active participants in furthering the interest of only the controlling shareholder...Board members that represent all shareholders, not just some, will better serve the company and its shareholders’ overall interests.” (Jesover & Kirkpatrick 2005: 134)

article, *Governing the World: The Development of the OECD's Corporate Governance Principles*.

According to the authors, there were two main considerations for the principles:

- I. For the better part of the 1990s, “the task of achieving a set of minimum corporate governance standards has occupied the domestic agenda in a number of countries: the UK, USA, France, Belgium, South Africa, Holland Australia, Canada and so on” (1999: 396)
- II. There were international concerns about the responsibilities of multinational corporations in overseas markets: “while such reports on corporate governance have made companies more aware of their domestic responsibilities, their international conduct remains largely unacceptable...Shell’s human rights and environmental record in the UK and Europe may be exemplary but its behaviour in Nigeria was not.” (396)

A Business Sector Advisory Group was set up in 1996, charged with setting up “minimum standards on corporate governance which should be followed by OECD countries.” Group members included corporate governance luminaries such as the UK’s Sir Adrian Cadbury and US lawyer-academic Ira Millstein. The members were “champions of the business lobby and charged with formulating behavioural norms for business in the international sphere.”⁹ (1999: 403)

By 1998, they were ready to deliver their standards. Coincidentally, the East Asian crisis was unravelling and so their deliberation gained importance as “the massive exit of global capital from the East Asian economies was a vote against corporate and financial malpractices in that region...[and] the Asian crisis may increase awareness of the dangers of an increased global economy and thus give initiatives designed to promote higher standards in that global economy more significance.” (396)

The principles well-articulated the responsibilities of the board, however in other areas of societal interests such as employment relations, the advisory group’s “unwillingness to consider such issues in greater depth and to propose any possible solutions seem to suggest that employment insecurity is an irreversible condition and part of the acceptable costs of globalisation.” (Dignam & Galanis 1999)

⁹ The sentence continues: “No consideration is given to the public in their deliberations and the view of the corporation as a private actor with limited responsibility to the societies in which they operate dominates the recommendations of the Advisory group.”

Present criticisms of the principles are based on the following issues:

1. The principles represent convergence towards the Anglo-American way of corporate governance.
2. The principles alter countries' corporate governance systems to attract and suit foreign investors.
3. The Anglo-American way of corporate governance is culturally difficult to apply in countries which do not have the same legal tradition or economic situation.

OECD Principles as a Convergence Tool

According to Iu and Batten (2001), the principles “provide a framework for the convergence of global corporate governance practice [and] that the basic principles exude commonality applicable across nations.” (47-48)

In response to the popularity of the OECD principles and perhaps being influenced by them, various regional organisations around the world have come up with their own corporate governance principles to reflect more fully the corporate governance environment in their regions. Organisations such as the Asia-Pacific Economic Cooperation (APEC) and Pacific Economic Cooperation Council¹⁰ (PECC), Asian Development Bank¹¹ (ADB), Commonwealth Association of Corporate Governances¹² (CACG), European Commission¹³ (EC) and the UN Economic Commission for Africa¹⁴ (UNECA) have all published their own principles.

For instance, the APEC-PECC Guidelines:

- “are committed to a process of aligning their corporate governance practices with global best practices, consistent with the OECD principles.” (2001: 3)
- “provide a non-binding and voluntary framework for the implementation of global best practices consistent with OECD core principles.” (3)

¹⁰ APEC & PECC (2001) Guidelines for Good Corporate Governance Practice

¹¹ ADB (2003) Corporate Governance Principles for Business Enterprises

¹² CACG (1999) Guidelines: Principles for Corporate Governance in the Commonwealth

¹³ EC (2003) Corporate Governance: Modernising Company Law and Enhancing Corporate Governance

¹⁴ UNECA (2002) Guidelines for Enhancing Good Economic and Corporate Governance in Africa

- suggests “regulatory authorities may then issue specific regulations that facilitate and encourage – clearly setting the direction towards – the OECD core principles.” (7)
- “in the spirit of assisting corporate directors, committed to making their board work more effectively in line with the OECD core principles” (8)

It is evident that the Asian corporate governance guidelines have been influenced by the OECD principles.

Implementing the Principles to Attract and Secure Foreign Investment

According to Arsalidou & Wang, “Investment decisions are substantially affected by the degree to which corporations observe basic principles of good corporate governance. The relationship between good corporate governance and investors’ confidence is huge in importance. Boards are accountable to the company and the shareholders and corporations are managed in a way that takes into account the interests of all stakeholders, as well as the community in which they operate.” (2005: 329)

As a general corporate governance guide, the OECD Principles are seen as a way of linking investor confidence with good corporate governance. Good corporate governance practices bring in investors and adherence to the OECD Principles are a way to ensure such acceptable practices are maintained.

The East Asian crisis exposed the defects of the corporate governance practices in the countries affected. The high growth rates achieved by the East Asian countries in a relatively short period of time exposed the institutional weaknesses of the countries - the institutions of the countries had not caught up with the needs of foreign investors. In Western countries, the development of corporate governance institutions occurred over a long period of time, and indeed most developed countries have not adopted such institutions.

In most East Asian countries, corporate governance institutions are new, and in some cases, unformed. When the crisis occurred, foreign investors left in droves leaving these economies with dire problems. Whereas the crisis in corporate America showed there were some systemic problems (e.g. in the auditing/consulting area), in East Asia there was no system or institutions (or if they were there, proved wholly ineffective) in place to

deal with the initial outflow of liquidity, which soon spiralled into the major regional macroeconomic problem of the 1990s.

However, what the following table also reveals is that most developed countries have not adopted or established corporate governance institutions at all and “many factors considered preconditions for development were actually consequences of it...[and that] considerable economic development occurred long before countries had fully institutionalised democracies, professional bureaucracies, rules for corporate governance, modern financial institutions, and extensive social welfare services.” (Grindle 2004: 531)

Table 1: Summary of Institutional Evolution in the Now Developed Countries (adapted from Grindle (2004: 532); Chang, H-J (2001))

ADOPTION	First	Majority	Last	UK	USA
Democracy					
Male suffrage	1848 (France)	1907	1925 (Japan)	1918	1870
Universal suffrage	1907 (NZ)	1946	1971 (Switzerland)	1928	1965
Modern bureaucracy	Early 1800s			Mid 1800s	Early 1900s
Modern judiciary				1930s?	
Intellectual property rights					
Patent law	1474 (Venice)	1840s	1912 (Netherlands)	1623	1793
Modern patent law	1836 (US)	1960s	1990s (Spain, Canada)	1852	1836
Modern copyright law				1862	1891 (1988)
Trademark law	1862 (UK)			1862	
Corporate governance institutions					
General limited liability	1844 (Sweden)			1856 (1862)	
Bankruptcy law				1542	1800
Modern bankruptcy law				1849	1898
Modern auditing/disclosure				1848	1933
Competition law	1890 (US)			1919	1890
Effective competition law	1914 (US)			1956	1914
Financial institutions					
Modern banking	Mid 1920s (UK)			Mid 1920s	
Central banking	1688 (Sweden)	1830s	1913 (US)	1694	1913
Modern central banking	1844 (UK)	1900s	1929	1844	1929
Securities regulation	1679 (UK)			1679	Mid 1800s
Modern securities regulation				1939	1933
Income tax	1842 (UK)			1842	1913
Social welfare & labour institutions					
Industrial accident institutions	1871 (Germany)	1898	1930 (US, Canada)	1897	1930
Health insurance	1883 (Germany)	1911		1911	Absent

State pension	1889 (Germany)	1909	1946 (Switzerland)	1908	1946
Unemployment insurance	1905 (France)	1920	1945 (Australia)	1911	1935
Child labour regulation	1802 (UK)			1802	1904
Modern child labour regulation	1878 (UK/ Germany)			1878	1935

The OECD principles were published two years after the East Asian Crisis and its diffusion in the region are a way to “compensate for deficiencies” and as a form of “legitimation pressures.” (Aguilera & Cuervo-Cazurra, 2004: 417). Again from Iu and Batten:

“Corporate governance has been posited as redressing internal corporate failure by ensuring efficient and effective corporate management. The objective is to make Asian corporations an attractive investment to reclaim foreign capital and to encourage the high levels of domestic savings to remain in Asia...the adoption of internationally recognised standards of good governance has been posited as an appropriate and expedient method of reforming perceived problems and offers enterprises the chance to gain a share of future investment capital. Using the benchmark provides the capacity to develop domestic institutions quicker than would otherwise be possible through self-design – the quicker, the better. The adoption of the OECD principles is a small step in this direction.” (2001: 60)

OECD Principles as Culturally Alien to non Anglo-American Countries

The OECD Principles are primarily based on Anglo-American legal and ethical precepts:

“Perhaps the most damning thing that can be said arising from it is that UK or US companies could easily adopt its recommendations, other corporate systems may have more difficulty. The study is dominated by a market-oriented Anglo-Saxon view of the world. This was probably unavoidable given the OECD’s free market remit and the rather limited objective this report is meant to achieve, i.e. to provide guidance on how to improve “access to capital in global markets”¹⁵. (Dignam & Galanis 1999: 403)

¹⁵ The sentence continues: “In accepting this as the main objective of corporate governance, the Advisory Group restricted its focus to the capital-raising function of the corporation. More fundamental issues such as how to deal with short-termism and how to promote sustainable development and social cohesion go unanswered. This is unfortunate given the socio-economic pressures exerted by globalisation. Good corporate governance does not only mean employment mechanisms to attract financial capital but more fundamentally, it means ensuring that this capital is used in a sustainable

Since the OECD principles are now being applied in some of these “global markets”, applying the principles in countries that do not follow the Anglo-Saxon view of the world is, inevitably, problematic. There are “substantial social and cultural differences between developing Asian and Western economies, difficulties will arise with the implementation of the Western Principles.” (Arsalidou & Wang 2005: 333)

In form, “the corporate governance codes in most Asian countries examined are well-drafted and closely follow the OECD standards (or the ‘Western standards’)” (Arsalidou & Wang 2005: 333) But in substance, are the principles being implemented (faith)fully?

According to Arsalidou and Wang, the principles are being adopted for aesthetic purposes as there are cultural obstacles to its full application:

“Many countries in Asia have adopted Western standards of corporate governance principles with the view to improving the marketability of their capital markets to the rest of the world. However, simple adoption of ‘foreign’ standards is not without difficulty when it comes to implementation...to enable the successful transplantation of the laws, it is believed that the composition of Asian companies will need to witness a change, moving from family- controlled and state-controlled companies to companies with a high percentage of institutional shareholders. Moreover, a change in culture may be necessary, which would entail a move towards a more litigious society where shareholder activism is encouraged.

“...countries in Asia would need to put into place better law enforcement mechanisms. However, to facilitate the proper adoption of Western standards into the examined Asian systems, it is doubtful whether these changes would ever indeed be possible. But even if the answer is positive, could this result in the unexpected or perhaps undesirable effect of Asia becoming the next “colony” of the West?” (2005: 339-340)

If the Principles are not changed to better reflect the heterogeneous business and regulatory environment of other global markets, then non Anglo-Saxon countries are left

manner. Sustainable development cannot be isolated from societal concerns, good corporate governance also involves the examination of the role of the corporation in society.”

with no choice but an outlook of “long-term change in practice [requiring] a cultural shift in the philosophical bases of the particular firms in the examined Asian countries.”

(Arsalidou & Wang 2005: 331)

The Role of Capital Markets and Corporate Governance Institutions

Capital markets and their institutional administrators, stock exchanges, play important roles in “fostering good standards of corporate governance.¹⁶” (Maasen 1999:80) As a prominent actor in the financial market system of a country, stock exchanges implement corporate governance practices du jour at the coal face. According to Summers (1987), financial markets are the wheels of economic growth, and “local stock exchanges are the keystone of the financial market-centred model of national economic growth.” (in Weber & Davis 2000: 4). Stock markets channel capital, are mechanisms for effective governance, and are a fulcrum for producing institutional and social change within an economy.

The importance of stock markets was emphasised in the World Bank’s World Development Report 2002, *Building Institutions for Markets*. This report is a treatise on the importance of building institutions in developing markets. To build effective institutions:

- design institutions so they complement existing human capabilities, available technologies and other supporting institutions,
- innovate to identify institutions that work and those that do not,
- connect communities of market players (from the dyadic to the multinational) through open information flows and open trade, and
- promote competition among jurisdictions, firms and individuals as actors in developing countries often face too little competition due to current institutional *structures* (underlining and italics added). (World Bank 2001: 2)

¹⁶ In this paper, the meaning of corporate governance is derived from two sources.

Firstly, the meaning from the 1992 Cadbury Committee into UK Corporate Governance which influenced corporate governance guidelines and principles worldwide: “*Corporate governance is the system by which companies are directed and controlled.*” (Cadbury Committee 1992).

Secondly, the expanded definition of corporate governance comes from the Chair of the Committee, Sir Adrian Cadbury: “*Corporate governance is concerned with holding the balance between economic and social goals, and between individual and communal goals. The governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of these resources. The aim is to align as nearly as possible the interests of individuals, of corporations and of society...Resources will flow to companies which inspire trust, through their approach to governance and through the integrity of those who manage them...The incentive for the adoption of [internationally accepted governance standards] by nation-states is that these standards will strengthen their economies and encourage business probity.*” (Cadbury in Claessens 2003: vii)

The report contained three parts, each focusing on the sectors of the economy with institutions: firms, government and society. Building institutions for firms include institutions for farmers, corporate governance institutions and financial system development. Building institutions for government include political institutions, judicial reform efforts, promoting competition and regulating infrastructure. Building institutions for society include integrating informal and formal “norms and networks” institutions, and ensuring the independence of the media. The table below summarises the different issues for institutions in each sector:

Table 2: Institutions for Building Markets

Firms	Government	Society
<ul style="list-style-type: none"> ▪ Secure and transferable rural land institutions; accessible rural financial institutions; institutions for agricultural technology and innovation ▪ Corporate governance institutions, laws and formal intermediaries ▪ Financial regulation for bank-based or market based financial systems, foreign investment, e-finance and financial services ▪ Business associations, rating agencies and foreign financial institutions 	<ul style="list-style-type: none"> ▪ Political institutions dealing with corruption and taxation ▪ Judicial systems over efficiency and cost; Judicial reforms over corruption ▪ Encouragement of domestic and international competition ▪ Designing and Regulation of infrastructure to deliver services to the poor 	<ul style="list-style-type: none"> ▪ Norms and networks; Building and adapting formal institutions, integrating informal and formal institutions ▪ Respect for the media’s independence, quality and reach ▪ Civil society organisations for freedom, transparency and anti-corruption

Furthermore, the report viewed “corporate governance institutions [as]...the organisations and rules that affect expectations about the exercise of control of resources in firms. Well-functioning governance institutions allow entrepreneurs to invest resources and create value that is shared among the investors in a firm, the managers, and employees, as well as with the entrepreneur/manager. These institutions therefore determine the expected returns to committing resources in firms. Where governance institutions are weak, the emergence and growth of firms are discouraged.” (2001: 55)

The Growth of Capital Markets

The intense financialization of the world economy through the growth of capital markets shows no sign of abating. According to the World Federation of Exchanges, the global

trade association for the stock exchange industry with 54 members from around the globe, from 1990 to 2005 the value of American zone equity markets (dominated by the NYSE and NASDAQ) propelled from a total of 3,417 billion dollars to 19,458 billion dollars. The European zone markets grew from just over 2,109 billion dollars in 1990 to 12,206 USD billion in 2005, while market capitalization in the Asia Pacific zone grew from 3,456 USD billion in 1990 to 9,310 billion dollars in 2006 (see Table 3 below):

Table 3: Domestic Equity Market Capitalization by Region (USD '000'000)

Region	End of 2005	End of 1990
Americas	19 457 672.8	3 417 467.0
Asia-Pacific	9 310 171.3	3 456 451.4
Europe-Africa-Middle East (EAM)	12 206 263.7	2 019 391.7
TOTAL	40 974 107.8	8 893 310.1

Source: World Federation of Exchanges (2006: 66) and time series statistics from the WFE website: <http://www.world-exchanges.org>

At the end of 1990, Japan's economic dominance carried the Asia-Pacific region into having the biggest share of the global domestic market cap (38.86%). By 2005, Asia's share has contracted to 22.72% with the effects of the East Asian Crisis of 1997 slowing growth in domestic stock market activity relative to the other regions.

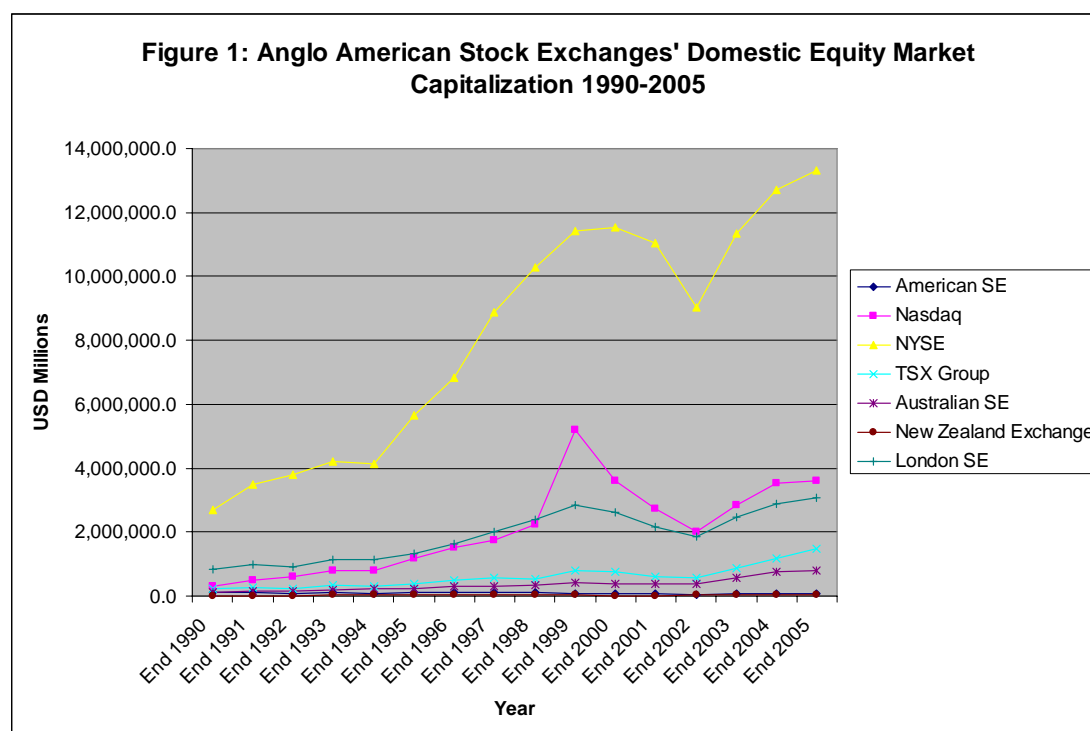
On the other hand, the domination of the Anglo-American stock markets is substantive. In 1990, each of the regions roughly shared a third of total global market capitalization value: 38% Americas, 26% EAM and 36% Asia Pacific (WFE 2004: 64). By 2005, this proportion has skewed with the stock exchanges of the Americas having 53% of the total global market capitalization value.

Furthermore, the Anglo-American stock markets of the NYSE, NASDAQ, Toronto London, American, Australian & New Zealand Stock Exchanges dominate the share of global domestic market activity. These 7 markets, out of 54, dominated 48% of global domestic market activity in 1990. By 2005, their share has grown to 54%. With the exception of the American Stock Exchange, all Anglo-American stock exchanges have expanded (see Table 4).

Table 4: Anglo American Exchanges' Domestic Equity Capitalization 1990 & 2005 (USD '000'000)

Stock Exchange	End of 2005	End of 1990
American	86 288.0	102 301.5
NASDAQ	3 603 984.9	310 800.0
NYSE	13 310 591.6	2 692 123.0
Toronto	1 482 184.6	241 924.1
London	3 058 182.4	850 011.8
Australian	804 014.8	107 936.0
New Zealand	40 592.5	8 823.8
TOTAL	22 385 838.8	4 315 370.2
TOTAL WFE	40 974 107.8	8 893 310.1
Anglo-American Share of Total WFE (%)	54.6%	48.5%

NYSE is the biggest stock market in the world and in 2005 has 32% of global stock market activity (see Figure 1). During the American corporate collapses of 2001-2002, NYSE contracted but it has recovered since. The other notable American stock exchange, the NASDAQ technology index, has not recovered to its pre-1999 level after the dot.com collapse of the late 1990s-early 2000s.



Data from the World Federation of Exchanges. Website: <http://www.world-exchanges.org>

Nevertheless, the concentration of equity market activity is even more apparent in share trading with the NYSE, NASDAQ and London having a combined total of share trading of 27,319 billion dollars while the stock exchanges of the rest of the world have a total of 14,810 billion dollars (WFE 2004: 50–6). What this demonstrates is the overwhelming

predominance of Anglo-American institutions and activity in world equity markets, and how to a great extent these markets reflect predominantly Anglo-American interests as the rest of the world depends more on these sources of corporate finance.

Stock Market Vulnerabilities

The exponential growth of such financial globalisation also means stock exchanges are “the central piece in the architecture of the global economic system”. They facilitate:

“Businesses in low-income countries [to] gain direct access to the enormous stocks of private capital generated in industrialised countries. Rather than having to rely on aid and loans by political organisations, they receive capital directly from the private investors. Bypassing potentially inefficient or corrupt government structures frees local entrepreneurial potential and accelerates economic growth. This encourages policy makers and corporate managers to make future-oriented decisions about the governance of their economic system. It also offers a unique opportunity for capital-deprived developing countries that can convince investors about the future prospect of their economy. Rather than wait for domestic capital to form in a slow process, they can borrow from foreign savers to speed development.” (Weber & Davis 2000:7, 8)

While in theory stock market development may be the “surest path of economic development”, regional crises such as the East Asian Crisis have shown the above practices are not fully reflected in reality. The ability to invest is equally reflected in the dexterity to disinvest at the first sign of an economic downturn (as seen in Figure 1). The casino capitalism aspect of stock markets is evidence of the inability of stock exchanges to prevent dramatic falls in stock prices. Technical mechanisms such as circuit breakers have had an ambivalent impact. The use of circuit breakers by NYSE during the week of September 11, 2001 went a long way in cushioning irrational freefalls and restore investor confidence in America. However, the same use by Thailand’s Stock Exchange in December 2006 to prevent the Thai baht’s rapid depreciation has received mixed results with an analyst likening the use of circuit breakers to: “hitting an ant with a sledgehammer.”¹⁷

¹⁷ “Analysts were shocked by capital controls, which they said would deter foreign capital inflows. JP Morgan head of research Sriyan Pietersz said: "It's like hitting an ant with a sledgehammer. It will probably be helpful in achieving their goal, like getting pressure off the baht, but it's a very broad

For newly established stock exchanges, the institutional arrangements that support a developed stock exchange do not exist or are nascent. According to Weber & Davis, “developing nations adopt structures and practices for reasons of legitimacy” and not necessarily for “technical requirements”. Using Swaziland as an example, they noted its stock exchange had an average daily trading volume of US\$822 in 1990 suggesting its stock market “is unlikely to provide either a powerful engine of economic development or a tool for maintaining economic subservience.” (2000: 15)

Stock market development worldwide has also increased “local dependency on decision making in New York and Washington” (Gowan in Weber & Davis 2000: 4) – the former containing foreign investors; the latter, the policymakers. On the other hand, national stock exchanges find themselves struggling to force incumbent elites to change in order to conform to the American global financial standard. Not surprisingly, elites resist any changes to the status quo that would threaten their position. Therefore, stock exchanges are examples of institutions caught in the globalisation conundrum of international conformity and local specificity.

The Australian Stock Exchange

As a former colony of Great Britain, the historical legal framework of the Australian Stock Exchange - with other former British colonies – is based on the English statute of Edward I in 1285 which licensed stockbrokers in the city of London. The corporate governance model of Australia follows the Anglo-American model with an emphasis on the outsider system of independent directors, widely dispersed ownership, major institutional holders, separation or independence between the board and management and a short-term business horizon.

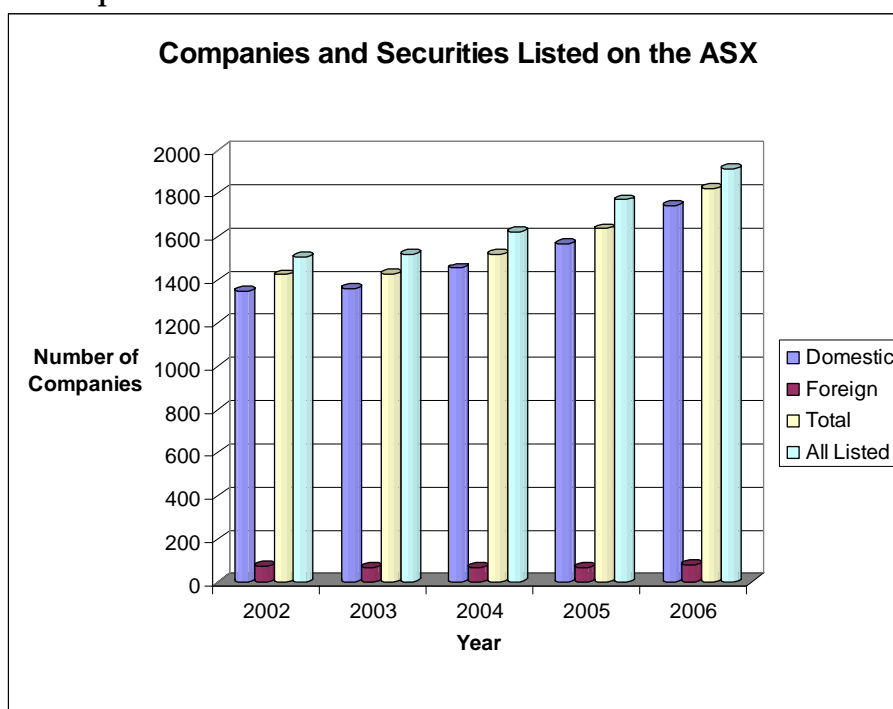
The first stock exchange in Australia was established in Melbourne in 1861. The Federation of 1901 consolidated the assorted Australian colonies into one federal nation-state, and in 1937, the Australian Associated Stock Exchanges was formed. In 1987, the

instrument because you are pounding equity investors as well.”” From Kazmin, A. (2006) Thailand Suspects Trade to Slow Baht, *The Australian*, 20 December.

Australian Stock Exchange (ASX) was established after the amalgamation of all six state stock exchanges. The ASX is based in Sydney. In 1996, the ASX was demutualised.¹⁸

In 2006, the ASX is the most dynamic exchange in the Asia Pacific hosting nearly 2000 listed entities on the stock exchange (see Figure 2).

Figure 2: Companies and Securities Listed on the ASX



Data from the Australian Stock Exchange. Website: <http://www.asx.com.au>

During the 1980s and 1990s, a series of government initiatives such as the privatisation of state-owned assets (mainly in infrastructure) and mandatory superannuation / retirement income schemes resulted in a majority of Australians becoming shareholders for the first time. In 2004, 44% of Australians directly owned shares while a further 11% owned shares indirectly through superannuation funds – a total of 55% of the population (AXISS 2005: 12). As a result, Australia has the highest concentration of share ownership in the world.

In 2004, the total value of share trading on the ASX reached \$525B while mandatory superannuation funds have accumulated investment fund assets of USD635B making Australia the largest in Asia and the 4th largest in the world after the USA (USD8107B), Luxembourg (USD1396B) and France (USD1371B) (AXISS 2005: 11, 15).

¹⁸ History of the ASX: http://www.asx.com.au/research/market_info/history/history_ASX.htm (accessed July 2006)

In 2003, in response to the corporate governance reforms in the USA and the Sarbanes-Oxley Act of 2002, the ASX launched its own principles called “The Principles of Good Corporate Governance and Best Practice Recommendations.” This was a 79-page document outlining “10 core principles that the ASX Corporate Governance Council believes underlie good corporate governance”. While not mandatory, the principles are a reference point for Australian-listed companies “for enhanced structures to minimise problems and optimise performance and accountability (2003: 3).” The principles are to:

1. Lay solid foundations for management and oversight
2. Structure the board to add value
3. Promote ethical and responsible decision-making
4. Safeguard integrity in financial reporting
5. Make timely and balanced disclosure
6. Respect the rights of shareholders
7. Recognise and manage risk
8. Encourage enhanced performance
9. Remunerate fairly and responsibly
10. Recognise the legitimate interests of shareholders

In 2005, Governance Metrics International rated Australia as 4th in its Global Corporate Governance Rating after the Anglo-American countries of UK, USA and Canada (AXISS 2005)

The Philippine Stock Exchange

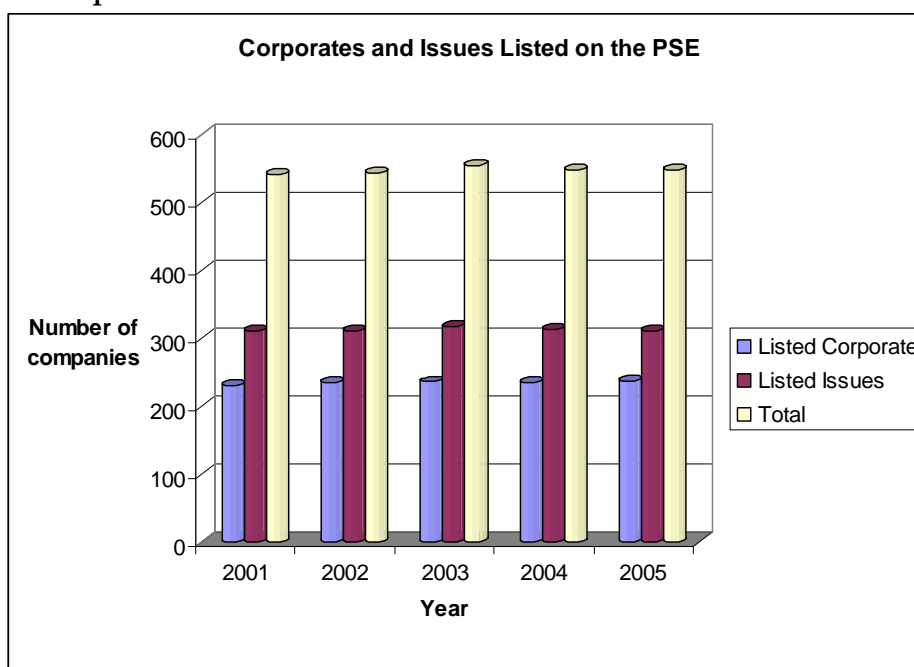
After the defeat of Spain by America in the Spanish-American war of 1898, and despite the efforts of Filipino nationalists, the Philippines became an American colony after 400 years of Spanish colonial rule and American administrative rule was introduced.

In 1927, five American businessmen established the Manila Stock Exchange. After Filipino independence was achieved at the end of World War II, another five businessmen (this time local) established the Makati Stock Exchange in 1963. In 1993, these two stock exchanges were united to form the Philippine Stock Exchange and the PSE became a member of the World Federation of Stock Exchanges (FIBV). In 2001, the PSE demutualised.

Despite 50 years of American colonisation, the Philippines corporate governance model follows a Latinised East Asian model of high ownership concentration, family-owned companies, weak institutional holders, boards intertwined with management and a long-term business horizon. Today, the Philippines is one of the poorest countries in the region and many Filipinos have immigrated to countries such as Australia to seek better economic opportunities while the Filipino diaspora in the USA is the second biggest after Mexico (World Bank 2006: 62). Indeed, the Philippines rank as the 5th biggest remittance-recipient country (after India, China, Mexico and France) in 2004 with USD11.6B. Remittances formed 13.5% of the country's GDP in that same year. (World Bank 2006: 90).

The tale of the Philippine Stock Exchange, indeed the country, is the polar opposite of Australia's. As the previous figures have shown, Australia is usually in the leader's position in the region in terms of scale and size. For the Philippines, it has the region's smallest stock market at less than USD10B and investment fund assets are at USD1B. The number of listings on the PSE is stable and a fraction of the ASX with 547 entities in 2005.

Figure 3: Corporations and Issues Listed on the PSE



Data from the Philippine Stock Exchange. Website: <http://www.pse.com.ph>

The lack of movement in the issuance of new listings over this 5-year period may be partly explained by the concentration of ownership and wealth in the Philippines. A

study by Claessens, Djankov and Lang (2000) showed that top 15 families in the Philippines own over 55% of listed corporate assets as seen in the following table:

Table 5: Concentration of Family Control – Philippines (adapted from Claessens, Djankov and Lang 2000)

Average number of firms per family	2.68
% of total value of listed corporate assets that families control (1996)	
Top 1 Family	17.1
Top 5 Families	42.8
Top 10 Families	52.5
Top 15 Families	55.1
% of concentration of control (all firms) and company size	
Widely Held	19.2
Family-Owned	44.6
State-Owned	2.1
Widely-Held Financial	7.5
Widely-Held Corporation	26.7
% of GDP (1996)	
Top 15 Families	46.7

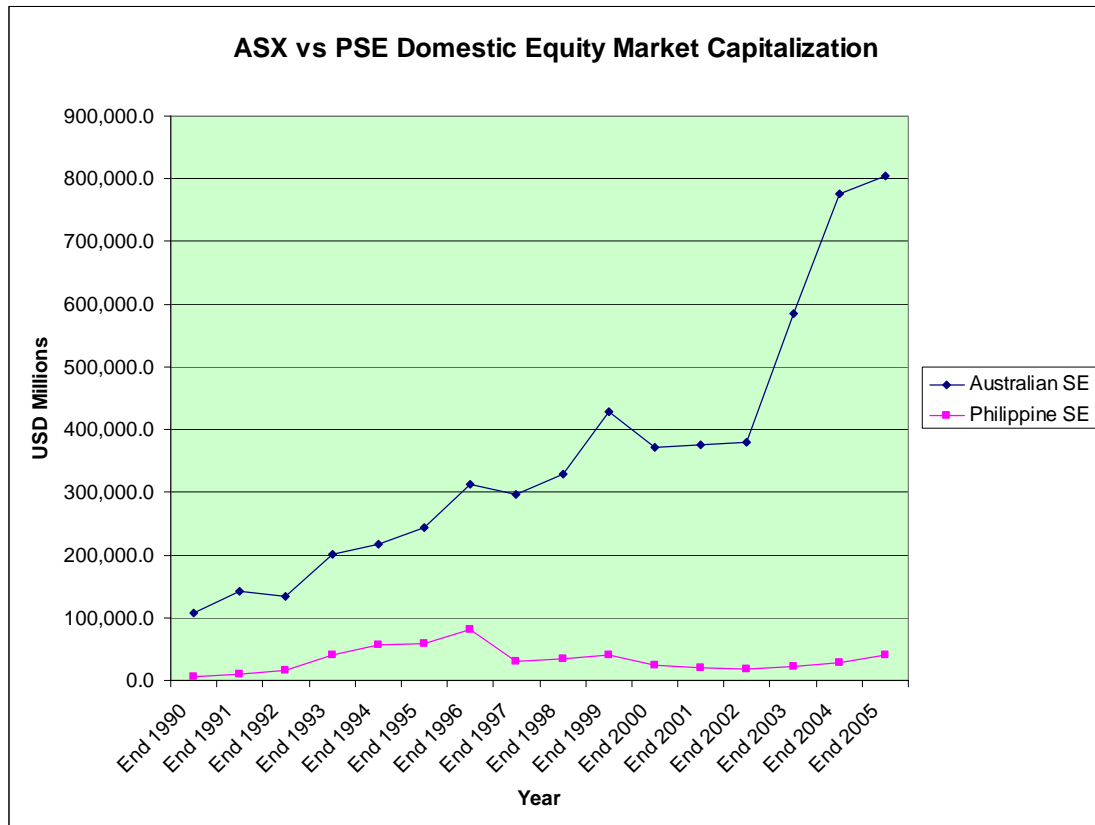
In a 2004 study by Standard & Poor's on Economic and Industry Risk in Asia-Pacific Banking Systems, the risk is high in the Philippines for potential investors, while Australia ranks as a low risk country (AXISS 2005: 40).

General studies of the Philippine business environment focus on the economic divide between the rich and poor. There have been quantitative and qualitative studies into ethnic Chinese-Filipino businessmen and their over-representation in the economy (Armstrong et al 2001, Chan et al 2002, Jomo & Folk 2003); elites and their attitudes towards the poor (Clarke & Sison 2003); and the cacique democracy of ruling political and business families (Anderson 1988). In an article by the Economist (2004), the magazine pointed out family ties are so strong in the Philippines that a third of the politicians in the Philippine congress were related to each other paralleling the domination of family-owned businesses in the Philippine economy (Gubita & Gianecchini, 2002, Vilaseca 2002, Corbetta & Salvato 2004, Gallo 2004).

The performance of the two stock exchanges cannot be starker. From 1990 to 2005, the domestic market cap of the ASX grew from 107 936 USD M to 804 018, while the PSE's

performance suggests that the domestic market is still recovering from the East Asian Crisis of 1997 albeit the market has grown six-fold since 1990.

Figure 4: ASX vs. PSE – Comparison of Domestic Equity Market Capitalization from 1990-2005



Data from World Federation of Exchanges.

Corporate governance reforms have been recently introduced in the Philippines. As corporate governance is a relatively new concept in the country, the Philippines is now in the process of catching up with governance practice of other countries in the region.

Since 2000, the Anglo-American standard of the separation of ownership and control with independent directors on the board has emerged in the country with the legislative requirement of at least two independent directors on Filipino company boards. This has had a seismic effect according to a well-informed source. Independent directors were seen as “interlopers who know nothing about the business of the corporation, and who shouldn’t be on the board”. However, this view is changing as the benefits of having an

independent, that is non-family, member on the board with a fair and objective view point is outweighing the costs.

The Securities and Exchange Commission Code of Corporate Governance of 2002 is the major corporate governance reform introduced in the country. This code aims to actively promote the reforms, raise investor confidence, develop the capital market and help achieve high sustained growth for the corporate sector and the economy.

The other reform is the Corporate Reform Act which was motivated by the Sarbanes-Oxley Act of 2002 in the USA. In effect the CRA is there to emulate the governance issues covered by the USA Act such as the issue of “directors’ conflict of interest.”

While largely an Anglo-American concept, instituting corporate governance reforms is seen as another policy panacea that could tackle the socio-economic problems of the Philippines. While instituting Anglo-American corporate governance may not be the silver bullet, there is a belief that the existing corporate governance regime in the Philippines needs improvement and such reforms are necessary. Again, from a well-informed source:

“Corporations, both private and public, are the engines of economic growth, and like all engines they have to be well-maintained to run smoothly and efficiently. Corporate governance provides these corporations with much needed “tune-ups” that help to eliminate waste and inefficiency. A good set of corporate governance procedures and practices goes a long way in promoting the strong performance and good-will and reputation of a company. The success of a corporation, in turn, will generate plenty of income for the company and, as a consequence, for individuals (employees’ salaries and wages) and governments (through taxes). More money for the individual will mean more spending, thus spurring the economy; more taxes collected by the government will mean more expenditure on infrastructure and social development.

“Corporate governance is a concept long overdue in the Philippines. The challenge is for corporations to make the necessary adjustments, to fully implement the same, and to adopt corporate governance as an integral part of its culture. Uniform adoption and application of corporate governance “levels the

playing field” and boosts confidence in business, thus helping the economy to improve and develop like those of the so-named Asian Tigers in the region.”

Conclusions

This paper related the implementation of Anglo-American corporate governance as symptomatic of the financial globalisation and policy convergence of capital markets on two Asia Pacific stock exchanges.

Corporate governance reforms, in particular the OECD reforms, have had enormous impact and rapid application in both developed and non-developing countries. In the case of Australia, there has been a robust application in theory and practice of the recommendations made by the OECD principles. The speed of the application is mainly due to the pre-existing legal and institutional frameworks that support the OECD reforms. On some points, Australia already had the principles in place as a matter of historical determinism.

In the case of the Philippines, there has been a gradual introduction of the OECD principles at the policy level and this has been met with a great deal of initial resistance. In practice, there have been difficulties in implementing the principles. Firstly, the OECD principles were initiated by and for developed countries. Secondly, most developed countries already have strong, robust and sophisticated institutions that allowed the efficient application of corporate governance reforms. Thirdly, depending on the cultural applicability of the principles, countries can and do reject the principles on the grounds that they are not feasible in the national context.

In the case of the Philippines there are weak and unstable institutions, the capital market is not as sophisticated and as fully developed as in OECD countries, and the business culture is markedly different from an open and transparent stock market-driven economy that the principles were meant for.

Ultimately, the OECD principles may be seen as another way for the West to impose their mode of business as a way of extending their investor culture. Are the principles a

Western imperialist policy? The movement towards OECD standards is also a movement towards Anglo-American rules-based corporate governance compliance with the promotion of shareholder value. In markets that are more principle-based and do not emphasise the protection of shareholders (due to the small size of the market and concentration of ownership), the OECD reforms are an unwelcome intrusion into the local business culture.

The precepts of accountability, transparency, disclosure and integrity may improve the economies of countries that lack these by encouraging local indigenous and foreign non-liquid investments and ensuring that business is conducted in the light and not in the shadows. Countries with insider-based corporate governance will take generations to transform to the outsider-based Anglo-American countries.

But the question is, is it advisable to radically transform a country's economy to the Anglo-American system? After all, the Anglo-American system has also been proven to be inherently unstable, subject to corporate collapses and fundamentally cyclical.

The financial globalisation of capital markets with a centralised corporate governance culture based on the Anglo-American system may prove to be an unhealthy development if differences between the stage of economic development, history, culture and institutional capacity are not acknowledged. It may be better for developing countries to promote aspects of the OECD principles that allow them (keeping in mind the capacity, capability, strength and integrity of their institutions), to implement, enforce and improve the business culture of their country. The overwhelming need should not be to implement all aspects of the principles for matters of legitimacy (when they have proven to be similarly unattractive to a developed country) but to be selective and shape them as appropriate to the culture as is required, because only then will their effectiveness as a tool in aid of the economic development of the country bear fruition

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