



developing countries that are less equipped to comply and thus resistance and rejection by them, including Malaysia, will continue. However, the country also takes the view that unless a start is made to attempt at compliance, left unprepared for too long would leave it behind should or when these become part of the trading rules.

The WTO started a group to examine the controversial relationship between competition-policy and trade in 1996.¹ Cartels possess dominant market power and their restrictive business practices curtail trade. For example, Japanese *kareitsus* buy from each other instead of through open competition. Of particular concern are cartels formed by cross-border mergers. The belief is that if countries have domestic competition policies, international market access would improve and competitive markets will lead to more efficient resource allocation and increased level of welfare in the world. In other words, even though it is generally accepted that more trade does boost global welfare, the arguments at trade talks, which are mainly among developed countries, are made on the basis of producer interest and market access. To developing countries, however, the concern is whether competition policy is desirable vis-à-vis national interest. Nevertheless there is a benefit, because a WTO enforced competition rule will prevent anti-competitive abuses on their markets by large multinationals that developing countries have less capacity to challenge on their own.

As for the financial sector, the Enron debacle in the U.S. brought a sobering message to those, who like most others, invest the greater proportion of their personal wealth in various financial instruments. There used to be no need for trust since reputable accounting firms like the Arthur Anderson namesake would police company records on behalf of folks like us. As events would have, it became fact that audits do not appear to be all that impartial such that the company much of our money may be tied up in turned up not at all financially sound. Audits are thus not enough to ensure protection for investors. Corporate governance is the critically needed supplement.

Competition policy in Malaysia

It is official policy in Malaysia that the importance of comprehensive efficient and fair trade within a competition policy and law is recognized.² The country is committed to the developmental and social obligation involved in competition advocacy because of the many economic benefits offered by the liberalization process, even though multilateral rules on this have not yet been established. In the meantime, the Ministry of Trade and Consumer Affairs has been taking the opportunity to build up both institutional capacity and experience as well as to inculcate competitive culture prior to the establishment of competition law. Steps being undertaken include dissemination of ideas on the regulatory framework for fair trade policy based on how markets are supposed to work and the establishment of market structures and support institutions such as establishing a Fair Trade Commission that will be necessary for achieving market efficiency. This also incorporates good corporate governance because of the inherent link between business practices and the regulatory regime under which business is conducted.

Although Malaysia does not currently have a national competition policy, it has nevertheless been piecing together regulations that will eventually become competition law under the proposed *Fair Trade Bill* in line with references made in the *Eighth Malaysia Plan 2001-2005* that "efforts will be made to foster fair trade practices that will contribute towards greater efficiency and competitiveness of the economy." The passage goes on to say that "a fair trade policy law will be formulated to prevent ant-competitive behaviour such as collusion, cartel price fixing, market allocation and abuse of market power. The fair trade policy will, among others, prevent firms from protecting or expanding their market shares by means other than greater efficiency in producing what consumers want."³ Even though this policy has yet to become law, existing industrial policies and liberalisation required under the *ASEAN Free Trade Agreement* or AFTA and privatisation policy, domestic and international trade policy, foreign participation and ownership policy as well as sectoral regulations have produced within them specific competition regulation. In particular, in the communications and multimedia sector, the Communications and Multimedia Act (CMA) 1998 specifically states that anti-competitive conduct such as collusion (rate fixing, market sharing, boycott of competitor) and tying are prohibited. The act makes provisions for the publication of guidelines on competition regulation. Three has since been issued: *Guideline on Substantial Lessening of Competition* (CMC 2000a), *Guideline on Dominant Position in a Communications Market* (CMC 2000b) and *Process of Assessing Allegations of Anti-Competitive conduct* (CMC 2000c).

Corporate Governance in Malaysia

The proactive steps taken on competition policy in Malaysia, is mainly to prepare, albeit cautiously, and be ready should it becomes part of multilateral rules in trade. On the issue of corporate governance, on the other hand, Malaysia has made substantial progress especially within the past couple of years. A joint study conducted by investment bank CLSA in Hong Kong and the *Asian Corporate Governance Association* ACGA showed that Malaysia made the biggest improvement in corporate governance among Asian countries having rose to 5.5 out of 10 from a standing of only 3.7 two years ago.⁴ This position for Malaysia closely mirrors South Korea's, which also rose to 5.5 from 3.8 two years ago. Rankings were based on regulatory and political environment, rules on enforcement, adoption of international accounting standards, institutional mechanism and corporate governance culture. On rules and regulations, Malaysia scored a handsome 9 out of 10, even though the enforcement score remained down at 3.5. Malaysian Airlines and Celcom were highlighted in the study. After the business of these

two companies were revamped to improve transparency and accountability, the value for their shareholders have enhanced and also resulted in their company ratings going up.

Last year, The *Malaysian Accounting Standards Board* MASB issued MASB Standard 26 that came into effect July 1 2002.⁵ This prescribed the minimum information content required for an interim financial report. Under the rules of the Kuala Lumpur Stock Exchange or KLSE, listed companies must publish these interim financial reports every three months. By making available both timely and reliable financial reporting, investors and creditors will be able to better assess a company's capacity to generate earnings and cash flows including its financial and liquidity situation. Compliance with MASB 26 will ensure conformity with International Accounting Standard 34 (1998). However, there is a limitation. Although MASB 26 will ensure that more information becomes available to interested parties, the type of information within each item on the financial statement remains discretionary to the board of directors of companies. Pertinent information might not be divulged and thus complete transparency is not necessarily achieved.

To instill more discipline among Malaysian companies, the KLSE introduced PN4 in February 2001 as a follow up action to the revamped listing requirements announced the month before. PN4 is one of six additional *practice notes* introduced by the KLSE pursuant to the revamped listing conditions.⁶ Essentially it would to some degree force listed companies to, within a given time frame, restructure and meet adequate financial conditions in order that they be allowed to continue trading on the exchange as stipulated in paragraph 8.14 of the revamped listing conditions. KLSE then began de-listing procedures against PN4 companies in January of this year. Press releases by the KLSE revealed that during the two-year grace period 21, or 18%, out of the 115 PN 4 companies identified at the beginning of 2001 satisfactorily regularized their financial conditions. A further 64 companies submitted their financial restructuring plans that are currently at various stages of implementation but an additional 13 PN4 companies have been designated since. One company asked for an extension on time to prepare its restructuring plan. This left 16 companies that came into default and with the deadline passed were the first to be de-listed from trading on the KLSE in January. De-listing does not affect the business and commercial activities of a company. Only its shares are no longer traded. Upon satisfactory implementation of a restructuring plan, if one is submitted for approval, it can apply for re-listing. More de-listings of companies will follow if newly designated PN4 companies miss their deadlines for submitting financial restructuring plans.

As of August this year, there were 79 PN4 companies, which make up about 9% of the 884 companies on the KLSE. However, in market capitalization terms, the 79 companies represent only RM3.82 billion or only less than 0.7% of the RM566.4billion capitalization value of the KLSE. This means that the position of KLSE listed companies will further improve as companies complete their financial restructuring plans.

Conclusion

Although it is popular view that political stability helps a country to grow, scientific studies have faced much difficulty in capturing its effects. Some have tried to probe deeper and discovered that with some modification, in particular measuring instead political creditability, i.e., not merely that the economy is stable but instead how the business community gauges the level of risk based and how laws are upheld, a strong correlation between this and economic growth is obtained.⁷ Economic growth draws its momentum from the market in which efficiency is achieved via information, which is more accurately processed by the masses rather than by a handful of policy makers. Thus sustaining growth requires liberalizing the economy. In Malaysia, liberalisation has been ongoing over the course of its economic history, freeing the market that brought about important structural changes. The latest are a variety of newly imposed rules as part of both competition policy and corporate governance. Structural changes bring systematic growth in the society allowing the market to evolve and government dutifully dampening anticipated cyclical transitions interspersed in between. Change for the better does not come simply because there are some people out there who say they know how to bring it about. Instead we best place our trust on the market, not a handful of people who think they know better. **§ Chan Huan Chiang.**

¹ See Hockman, B and Holmes, P (1999) "Competition Policy, developing countries and the WTO." *World Economy*. vol.22: 6, pp.875-893.; Meiklejohn, R (1999) "An international competition policy: Do we need it? Is it feasible?" *World Economy*. vol.22: 9, pp. 1233-1250.

² *Competition Policy in small economies—Malaysia*, OECD Global Forum on Competition, Paris, 10-11 Feb. 2003; *Malaysia country paper: Group 1 Competition Policy*. APEC Training Programme on Competition Policy, Bangkok 6-8 August 2002.

³ Eighth Malaysia Plan 2001-2005, paragraph 16:32. Government printers, Kuala Lumpur.

⁴ "Corporate governance standards show biggest improvement." *Business Times*. May 13, 2003

⁵ "The heightening of local corporate governance." *Business Times*, October 14, 2002.

⁶ Practice notes 5 through 10, cover aspects pertaining to training and independence of directors, classification of applicants or listed issuers, submission of semi-annual returns and disclosure pertaining to the Malaysian code of conduct of corporate governance and state internal control.

⁷ Borner, S, Brunetti, A and Weder, B (1995) *Political Credibility and Economic Development*, MacMillan Press; Knack S and Keefer, P (1995) "Institutions and economic performance: Cross country tests using alternative institutional measures." *Economics and Politics*, 7:3 pp. 207-227.

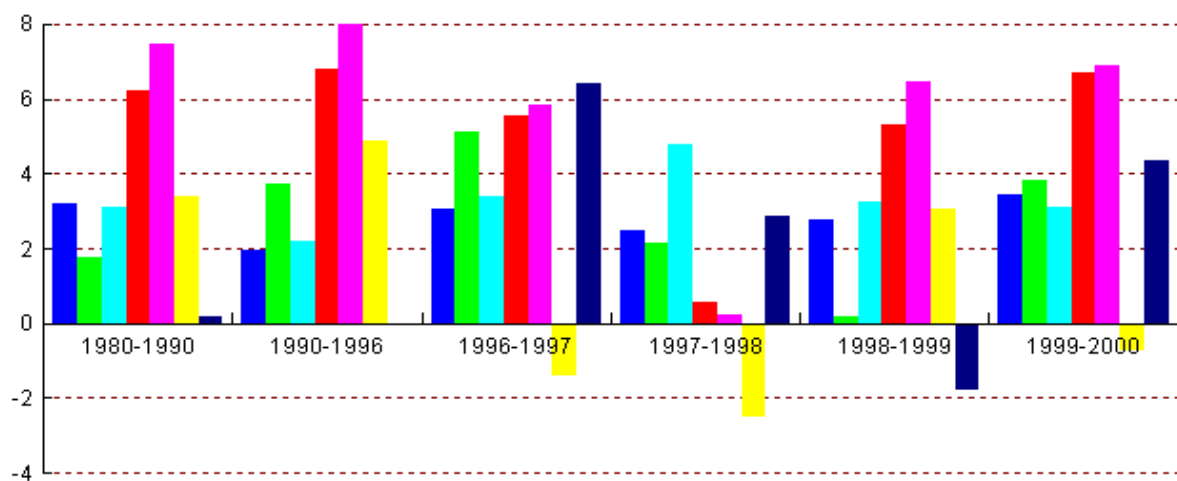


Regional Consolidation in East Asia during the Post-Crisis Years— Some Evidence

Introduction

Prior to 1997, East Asia was one of the fastest growing regions in the world, characterized by high growth rates and rapid industrialization. Such was the growth of the region that much reference was made to the “Asian Miricale” and Asia was expected to be the growth engine of the world for the 21st Century. East Asian countries started out fairly strong before the crisis. Combined, the current account (saving) surplus amounted to some \$150 billion per year with a combined foreign reserve of about \$600 billion¹. Despite this, various macroeconomic and financial exchange rate policies led several countries into vulnerable financial positions that led to the East Asian Financial Crisis. Relying heavily on short-term foreign borrowing to finance their current account deficits, the ratio of short-term foreign debt to official reserves in these countries saw a rapid increase that reached 110-190% prior to the crisis. In an ultimately unsuccessful attempt to defend its currency, Thailand used up all its foreign reserves rendering itself unable to meet its foreign currency obligations. As Thailand faltered, other countries came under more and more intense scrutiny. Indonesia and South Korea then promptly followed Thailand into crisis, their vulnerabilities exposed². IMF assistance soon followed, along with strict conditions in which the affected countries had little say.

7.2 Gross domestic product growth rates



Source: UNCTAD Handbook of Statistics

- [Developed countries](#)
- [Developing countries: America](#)
- [Developing countries: Africa](#)
- [Developing countries: Asia](#)
- [Other Asia](#)
- [Developing countries: Oceania](#)
- [Developing countries: Europe](#)

However, alternative approaches such as those by Malaysia and Hong Kong showed that there were other ways apart from the IMF method to deal with future crises. Much of the region has since recovered due to various factors, including more appropriate economic policies, financial support provided by the international community, and growth in global exports and intra-regional trade expansion. The crisis has, however, provided increased impetus for greater cooperation among East Asian countries. This has seen an increase in activity in various initiatives and actions of greater cooperation among its countries in the post-crisis period. Some of the results of which are embodied in the ASEAN +3 grouping, comprising the ASEAN 10 countries alongside China, Japan and South Korea. Another East Asian response to the crisis was the Chiang Mai Initiative, a financial swap

arrangement among the ASEAN countries aimed at providing a financial safety net to help prevent and mitigate future financial crises in the region. Increased cooperation and coordination among the various East Asian countries hopes to achieve several objectives, some of which include the prevention of future financial crises and better management of such crises should they be unavoidable. Another aim is for the region to be better able to use and leverage the financial resources of the region, such as the vast current account surplus, so as to have greater influence on the development of the regional and global financial system. And last but not least, greater monetary integration is also desirable, in line with the continuing economic integration of the region.

Chiang Mai Initiative

The Chiang Mai Initiative saw the establishment of a system of swap arrangements among the ASEAN +3 countries. Agreed to in May of 2000, this initiative sees the extension of the previous swap arrangement extended from the previous five countries (comprising Indonesia, Malaysia, Philippines, Singapore and Thailand) to include all ASEAN countries along with China, Japan and South Korea, as further supported by a network of bilateral swap arrangements among the ASEAN +3 countries.

Comprising a total of about \$40 billion, the Chiang Mai Initiative aims to provide liquidity support for member countries that experience balance of payment difficulties, so as to prevent or mitigate future financial crises or systemic failure in a country that may spread to the region.

However, the Chiang Mai Initiative is not without its limitations. Dr. Chalongphob Sussangkarn, president of the Thailand Development Research Institute points out several of these limitations in his presentation on East Asian Financial Cooperation. The first of these limitations is that the current amounts of liquidity in the framework are not sufficient to be significant in the world financial markets, particularly with regards to cases of insolvency.

Another problem raised by Dr. Sussangkarn is that of repayment. Even if the amount of funds were increased substantially, it does not change the fact that countries requiring funds will need to implement corrective policies to be able to repay the money. As such, the conditions for such circumstances under the Chiang Mai Initiatives are closely related to that of the IMF. As one of the objectives of post-crisis Asia is to avoid having to undergo the "blind" medicine of the IMF, it remains to be seen what alternative measures can be drawn up by the East Asian community.

Exchange Rate System

Since the Financial Crisis of 1997-1998, the East Asia region has seen a significant rise in intra-regional trade as well as an increasing level of instability in exchange rate movements. Over the past two decades, intra-regional trade has grown increasingly important to the East Asian region, rising from 36.1% of total trade in 1985 to almost 50% by 2000, a ratio higher than that of the North American Free Trade Area (NAFTA) and close to that of the European Union (EU). A recent study by Dr. Cho Jongwha has shown that the same period has also seen increasing levels of volatility in exchange rate movements, posing a threat to the growth of intra-regional trade³. The increasing interdependence of East Asian countries has created a need for greater cooperation between the East Asian countries, as well as greater efforts to strengthen and institutionalize these dependencies by creating cooperative mechanisms among them.

Achieving stability is particularly important due to the rise in export competitiveness among the East Asian countries, particularly within ASEAN. This is due to the increasingly similar exports of the various emerging economies in East Asia, causing them to become competitors to one another in the international market, and thus increasingly affected by any fluctuation in exchange rates with other countries.

An Export Similarity Index set up by Dr. Cho has shown that the export commodity structure of East Asian countries over the 1970-2000 period are becoming increasingly competitive. Measuring the number of countries each economy is in direct competition with, the emergence of China has seen it rise through the rankings to become a competitor to many East Asian countries, rising from an index of 0, or a direct competitor to no other East Asian country, to become a competitor to 7 East Asian countries. Malaysia saw its index rise from 3 to 7; Japan from 1 to 2; Thailand from 2 to 8; Indonesia from 1 to 6; and the Philippines from 3 to 8. Also, almost all other East Asian countries saw their export competitiveness with Japan rising. Increasing similarities in export commodity markets in



the area indicates that any change in the exchange rates of one country will affect the exports of an increasing number of its competitors within the region. As such, inter-regional exchange rate stability is important to ensure the growth and macroeconomic stability in an East Asian region heavily dependent on exports.

The importance of establishing some sort of mechanism to encourage and ensure exchange rate stability cannot be denied. However, the diverse macroeconomic policy and individual monetary policy objective of the East Asian countries make it extremely difficult to introduce a single currency unit in the foreseeable future. However, integration such as that of the EU can be desirable, and one option could be to implement policies such as the European Monetary Union as the EU did prior to introducing the single Euro currency. In the meantime, some issues to consider for implementation towards further integration of the region include the temporary pegging of East Asian currencies to a basket of currencies; coordination of macroeconomic policy objectives; and the establishing of a shared vision.

Bond Markets

According to the United Nations Conference on Trade and Development (UNCTAD), international reserves of the ASEAN Plus Three countries totaled \$172,269 million USD prior to the 1997-98 Asian Financial Crisis⁴. While this figure dropped to US\$144,757 million in 1997 and US\$164,004 million in 1998, it has since recovered to US\$183,686 million in 2001, exceeding pre-crisis levels. The advancement of a regional East Asian bond market is desirable so as to make full use of the region's vast pool of savings for direct use as long-term investment. This is important so as to further reduce any over-dependence in the region on other economies (ie. the US economy), avoid reliance on short-term foreign borrowing, and to reduce financial and exchange rate instability deal with any mismatches to avoid future financial crises.

However, the bond market in Asia is not yet fully developed. Currently, one development in this area in East Asia is the Asian Bond Fund (ABF). The ABF was built upon the success of the Chiang Mai Initiative, and currently manages funds of US\$1 billion, mainly for regional investment, investing in US dollar bonds. The ABF is not enough to have a significant effect on the region, however, but is nevertheless a positive step in the right direction. Local bond markets have also developed since the crisis, and there is now greater potential for a regional bond market to develop.

In order to fully realize a regional bond market, several initiatives on the supply side have been identified, including developing better regional credit ratings; harmonization of rules, regulations and taxes; settlement and clearing mechanisms; credit guarantee mechanisms; and the development of asset-backed securities. Efforts should also be made to attract the largest number of investors through strong market infrastructure, which involves the provisions for fuller information disclosures, fair credit ratings, and sufficient credit enhancement.

A developed regional bond market for East Asia promises to be a win-win situation for all involved. There is great potential for the vast current account (savings) surplus to be channeled into long-term investment and financing for the future growth and development of the region. Developing a regional bond market is the first step towards this goal.

Future of ASEAN +3

After the financial crisis, the share of intra-regional trade to total trade in the East Asia region rose significantly. Intra-regional trade registered only 36.1% of total trade in 1985. By 2000, the intra-regional trade share had risen to more than 50% of total trade, much higher than NAFTA's inter-regional trade ratio, and close to that of the European Union. Given that intra-regional trade is growing in importance for the future development of the region and there is increasing interdependence among East Asian economies, institutional strengthening through cooperative mechanisms among East Asian countries becomes crucial.

Examples of cooperative mechanisms already underway include the Chiang Mai Initiative and various other collaborations in regional economic surveillance, including policy dialogues and meetings of the ASEAN +3 finance ministers. However, further work needs to be carried out in developing the region's bond markets so as to make full use of the large current account surplus in the region by channeling it towards long-term development of the



region. It is also important to conduct more extensive research into the setting up of an appropriate exchange rate system for East Asian economies due to the increasing competition, linkages and interdependence between the East Asian economies.

Conclusion

East Asia during the post-crisis years has seen a substantial increase in inter-regional activity, both in physical trade of goods and services as well as initiatives in economic and political cooperation. The increasing levels of regional integration and cooperation only serves to underline the heightened importance of inter-regional trade and stability to the region. Initiatives such as those outlined in this article are but the first steps to creating a fully integrated East Asian Organization which is essential not only to avoid the reoccurrence of a financial crisis in the future, but also to remain competitive in the global economy. ***§ Terence Too.***

¹ ASEAN-Japan Research Institute Meeting, "Joint Study Report, ASEAN-Japan Comprehensive Economic Partnership: Vision and Tasks Ahead." July 2003.

² Ibid.

³ Cho, Jongwha. "The Need for Intraregional Exchange Rate Stability in Emerging East Asian Economies."

⁴ ASEAN Plus Three countries include: Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, Viet Nam, China PRC, Japan, and South Korea.