

## OPENING REMARKS

CHUL JU KIM, DEPUTY DEAN,

ASIAN DEVELOPMENT BANK INSTITUTE

ADB-ADBI Forum on Governance and Institutions:

“Issues in SOE Reforms and Corporate Governance”

11-13 June 2018, Seoul, Korea

### **1. Greetings and Introduction**

Very good morning, distinguished participants from the governments, colleagues from ADB Headquarters and resident missions and KDI officials,

As introduced, I am Chul Ju Kim, Deputy Dean of Asian Development Bank Institute (ADBI). On behalf of ADBI, I would like to express my sincere gratitude for having you all at this ADB-ADBI Forum on Governance and Institutions and welcome all participants.

First of all, I would like to express my heartfelt thanks to Korea Development Institute, KDI, for tireless efforts to make this event happen, providing this wonderful facility and indispensable inputs in developing detailed program of this event.

I also would like to deeply thank Dr. Chiara Bronchi, Deputy Director General, Sustainable Development and Climate Change Department of Asian Development Bank for kind remarks and joint organization of today's event.

This forum, I believe, is a result of ever closer cooperation, collaboration and preparation among joint organizers, KDI, ADB and ADBI. To be specific, we had a precursor workshop on SOE Reforms and Corporate Governance in Seoul last March to better prepare making this Forum a more valuable knowledge sharing platform.

I am very glad that all of you are able to join this Forum to share your experiences about various aspects of state ownership and SOEs. I hope this event will contribute to improvements of SOE corporate governance in Asia and thereby contributing to sustained economic growth and challenging global agenda, SDGs in the region.

In this opening, I just want to share with you a couple of thoughts on, first, the importance and challenges of SOEs and SOE governance in Asian countries, second, how to address these challenges through this Forum, and third, the importance of a wider cooperation and collaboration.

## **2. importance of SOEs and challenges in Asia**

Foremost, numerous SOEs have played an indispensable role in Asian economy, in almost all sectors, by building and operating key infrastructures, and delivering essential public services to citizens. As rightly mentioned by Chiara SOEs take a significant share of GDP and employment in many Asian countries. SOEs operate in most industries and areas, including those such as infrastructure, apparel, banking, and tourism, and mobile phone services. The sheer size and role of SOEs in Asian economies, coupled with their rather disappointing performances

and its fiscal implication, calls for our attention on how to ensure SOEs are operating in effective, efficient, transparent, and accountable manner so that we could make the most use of them for further economic development in Asia.

In addition, what we have to think about SOEs in the development context is its increasingly international characteristics. Indeed, many Asian countries have encouraged their largest SOEs to test their competitiveness and learn from foreign best practices. For instance, China started Go Global Strategy in 2001, encouraging its SOEs to operate internationally and to navigate unfamiliar foreign investment and legal environments. Now, the activities of larger SOEs could make an ever-more significant impact on the global economy.

However, SOEs' growing role in the global economy poses another challenge. Since governments usually give some preferential treatments to their SOEs, private companies may face unfair competition with SOEs both in domestic and global markets. That is, there may be a conflict of interests between SOEs operations in achieving development goals and more widely shared common interest in maintaining a healthy competitive environment for efficiency.

Taken together, we need to ask the salient question of how national authority and the international community enhance SOEs' good corporate governance and safeguard fair competition between public and private firms, so that inefficient but subsidized SOEs do not crowd out more efficient operators and do achieve their targets.

### **3. What are the key challenges and how can we address them in Asia?**

To address these challenges, during the Forum, we would like to focus on how to improve SOEs' governance through reforms. In fact, ADBI, together with ADB, has stressed out the importance of transparent and accountable corporate governance of SOEs for sound and sustained economic development of Asian emerging countries. Notwithstanding remarkable achievements we have witnessed in countries such as Malaysia, we can say considerable SOEs in Asia are still suffering from their disappointing performance and weak governance structures. Empirical evidence generally yields not so positive results on the economic performance of SOEs and suggests that SOEs are kind of a drag on fiscal sustainability of developing countries, which are also reflected in the large operating subsidies required to sustain them. These inefficiencies seem in part attributable to ownership effects and partly to lack of competition effects. One of the ways to tackle these problems is through well-planned SOE governance reforms. Well-aligned with international best practices such as OECD guidelines, SOE governance reforms focusing on such as clearer exercise of ownership function, management performance contracts, transparency and accountability mechanism, and greater exposure to competition could contribute to enhancing SOE performance, especially when privatization is not feasible.

### **4. Cooperation and collaboration**

Lastly, I would like to point out how important it is to share experience and discuss policy options on a wider development agenda, beyond today's topic SOEs reform, for sustained economic growth and poverty reduction in Asian countries.

Given different historical backgrounds and different paths taken by countries, I believe there is no one-size-fit-all development strategy. This means while there should be basic principles for development, right development policies differ across countries, across phases of development, and across sectors in their applications. This means development institutions like us should listen to and gather diverse experiences from different countries and disseminate them to countries that aspire to develop. In this sense, I am sure development experience of Korea, a country transforming itself from aid-taken to aid-providing country in a generation, would provide valuable lessons learned, be it success and/or failures, for development challenges in Asia. Therefore, I very much thank the Korean government for various activities in this regard and especially welcome this Global Knowledge Exchange and Developing Center to make development happen through connecting knowledge, ideas and people in one place. I further look forward to its greater contribution in the future through closer cooperation and collaboration among development partners and countries in Asia.

## **5. Future work and closing remarks**

In conclusion, ADBI, as a think tank, would like to continue to support SOE reform efforts through continuous national and regional knowledge sharing platforms in Asia. I believe these knowledge sharing activities would share experiences of various SOE reforms, come up with best practices for further reforms, addressing common challenges to SOE governance. This Forum is a good stepping stone to support this common endeavor by encouraging a policy dialogues among government officials, academia and representatives from SOEs.

I'd like to finish by thanking you all for your attendance and by encouraging your active participation in the Forum over the next three days.

Thank you for listening and I look forward to very fruitful discussions.