

economic liberalisation. In its absence, there will be volatility in these flows causing instability. A great disservice is done to developing countries when the western world encourages them to pursue market and financial liberalisation before the supporting infrastructure is ready.

27. This paper is not the forum for discussing the recent financial turmoil in East and South East Asia except to the extent that they are relevant to the subject of governance. The main reasons for these problems were,
- an unsustainable mix of monetary and exchange rate policies;
  - excessive foreign borrowing and domestic lending whose terms were mismatched;
  - weak domestic financial systems which were inadequately supervised;
  - the absence of a transparent governance structure in many private sector financial and commercial institutions; and
  - the considerable political interference in the economy leading to charges of crony capitalism.
28. The poor system of corporate governance was a major contributor to the problems in these countries. It shielded commercial and financial institutions from market disciplines of internal and external monitoring that would have taken place had there been **transparent financial reporting** of operations. An example of this was in Korea where each conglomerate (or chaebol as it is called) has a number of associated companies under its umbrella which were in a formal sense independent of each other. They provided cross guarantees for each other's bank loans without any requirement to assess the full impact of these on the financial standing of the group as a whole. A major weakness in financial reporting common in Japan has been the practice of showing major borrowings as off balance sheet liabilities, particularly when they are non performing. The reforms necessary to tackle these problems are the introduction of legislation making it mandatory for banks, large companies and conglomerates to adopt internationally accepted accounting and audit standards requiring full consolidation and adequate disclosure particularly when they operate globally. There will be significant training requirements in the countries to implement these reforms and there is considerable scope for the donor community to provide support.
29. **The role and composition of corporate boards** and their accountability to minority shareholders are another reform in corporate governance that needs to be introduced. In the past, board members have not actively monitored corporate performance. Boards have most