6th Global Forum on Reinventing Government

Market Economy and Corporate Governance

- Fairness and Transparency for Sustainable Growth

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- List -

I. Introduction

Globalization and informatization since 1980s, have brought a paradigm shift worldwide in political, economic, social and cultural environment, thereby causing dramatic changes in every part of human life. Such paradigm shift has led to substantial changes in governance of government and corporation, unfolding active discussions even now.

Although a clear concept has not yet been established on what constitutes ‘governance’, it is generally understood as a new cooperative relationship between and among government, the private sector and civil societies. It also means to transfer the traditional government’s role to civil society under the new circumstances, growing presence of multinational companies and international capital, more influence of civil community, rapid development of technology, globalization and localization.

Re-establishment of such governance is also regarded as an effort to enhance competitiveness to survive in this globalized era. Therefore, each nation around the globe is making a lot of endeavors to establish good governance through government innovation.

In other words, the scope of the government innovation, which had been confined to improving the internal management of administration, has expanded to deregulation, privatization, transfer of the government power and more participation from ordinary citizens, thereby bringing fundamental changes in the governance in terms of relationship between the government and civil society and that between the local and central governments. In addition, such governance is now shifting to the way to enhance confidence and transparency in more cooperative and decentralizing way.

While changes in governance have taken place in tandem throughout political, economic and social environments, what is noteworthy, especially from economic point of view, is its remarkable improvement in market functions.

This implies that the government has done away with its past practices of intervention, thereby strengthening market functions and re-establishing the role of the government and the market. Spread of market principles, regulatory reform, privatization and restructuring are currently spreading across the world like a fad, showing the active movement toward more market-oriented economy.

Market expansion in the economic field has strong consequences on political and social aspects as well. What is more, it serves as major force to drive their changes. Therefore, rightly establishing sound market order in the economic front can be considered as an important task in these days.

For market economy to function well, transparency in business management and fairness in market transaction should be ensured. Market economic system based on transparent business management and fair competition works to enhance corporate value and efficiency in resource allocation, and expand growth potential in the market.

In this regard, importance in corporate governance has recently become more stressed. The specific type of corporate governance is different depending on each country and company's environment and situation. However, good corporate governance armed with effective checks and balances system will improve transparency in business management, lower capital costs, and enhance corporate value, thereby strengthen business competitiveness.

Another thing to stress for enhanced corporate value and development in market economy is building 'trust' in the market over business activities. This is shown through increased interests in ethical management and corporate social responsibility.

This paper aims to take an overview on the development of market economy, and the discussion over the corporate governance and corporate social responsibility. Along with the development of market economy, which stimulates less role of government and market expansion, and paradigm shift of governance, I hope this paper can provide an opportunity to think about the thing required by companies and market these days.

II. Development of the Market Economy in the Globalization Era

The market economy is known to be the most efficient resource allocation system ever made by human. Among various economic systems, which have been made to produce, distribute and consume limited goods and services, the market economy has proved to be the best. This is mainly because it enables resources and energy to be mobilized in the most efficient and cost-effective manner.

However, it does not mean that the market economy is perfect. According to F.Hayek, a market economy takes place in certain period in human history, being under progress. In the primitive economy, when there was no market in a modern sense, resource allocation by tradition had been efficient. In the medieval era, the economy had been controlled by command and feudalism. As recently as in the 20th century, there was planned economy.

Nevertheless, there is no resource allocation system that can be replaced with the market economy. In particular, through its final victory in century-long competition with socialism's planned economy, the excellence and efficiency of market economy have accepted worldwide.

<Changing conditions of development of market economy: Globalization and IT Revolution>

Like other systems, market economy has also made development with changing historical and technological conditions. Besides the collapse of socialism, there have been much more profound historical and technological changes that have taken place since 1980s.

The first major change was globalization, which market capitalism spread worldwide. Globalization has accelerated, in particular, since 1990s, through the expansion of trade liberalization with the launch of the WTO, spread of multinational companies, liberalization of financial markets and deregulation.

The WTO, which was launched in 1995, has dramatically lowered tariff barriers to trade in goods, and prohibited any special support from the government such as providing subsidies to certain industries. Not only for manufacturing goods but also for services and agricultural sector, trade liberalization and market opening have been pursued. The OECD has made specific code of conduct for each industry, providing the basis for market economy growth. Under such circumstances, most countries around the globe have adopted market economic principles through coordination and cooperation at home and abroad.

Another critical driving force behind market economy is the advancement of information and telecommunication technology. Moving toward advanced information societies has nurtured participatory democracy and equally the market economy. Even in the past, public participation in the political process has gradually increased in proportion to the development of mass media. However, rapid development of information technology has expanded individual participation and enabled free choice, through immediate acquisition of information and interactive information exchange.

Now for example, more opportunities are open to the physically challenged where in the past, many faced limitations in the available choice of activities. Even those who live in remote areas can receive the same information at the same time as others who live in urban areas. This has expanded the market on a global scale and both consumers and producers can meet each other via the Internet. In other words, market transaction through electronic communication has become commonplace.

With the progress of globalization and informatization, market economic orders have become global order, exerting huge influence on a global scale like never before. These days, the market economy has become an unavoidable choice to any country around the world.

<Principles and Limits of Market Economy>

Market economy is in theory the most efficient resource allocation system ever made. It serves its role via price signals of the market where both parties – consumers and producers – behave respectively as maximizers of utility and of profit. It also assumes that all the information and knowledge in the market are known to all market participants without any costs.

Therefore, the variables in the market system are consumers' tastes and business technologies. The principle of market economy goes that when these variables act in a way to fulfill their own purpose, resources are efficiently allocated without any waste by 'invisible hand' of A. Smith.

In other words, when consumers set their consumption plan considering the marginal propensity to consume within their income, they can feel satisfaction to the full extent. On the other hand, producers allocate the input factor depending on the relative price of products, and produce the products at a point where marginal income meets marginal costs, thereby gaining the maximum profits and maximizing social efficiency.

The basic philosophy of market economy is liberalism. Freedom of each individual's economic activity should be fully ensured. To this end, property rights and the complete freedom for contract should be fully guaranteed. The thing to keep in mind is that it should be based on 'harm principle', meaning that one's freedom can be guaranteed as far as there is no harm to others. For this reason, the rule of game, fairness and honesty are respected.

However, the market economic system in the real world does not seem to be perfect as the theory goes. Due to both internal and external problems of market system, market economy has its own limits. Moreover, it is also continuously experiencing changes and advancement.

While individualism is the basis of the system theoretically, participants in the market tend to practice collectivism (Winter, 1993). Even if it assumes that there is no management cost in the market, actually it pays both transaction and management costs (Demsetz 1993). The market cannot build its system itself. When the free competition in the market is ensured, market power can be concentrated, and monopolistic power can exercise abusive behavior in the market. Furthermore, it can exert external market power. In this case, the market system itself can be undermined, weakening the strengths of market economy.

Although the market economy has taken its root, problems can arise in public goods allocation. That is because the public sector exists outside the market. Economic transaction and cooperation with countries in different level of economic situation can be influenced by political reasons, government's industrial support or trade protectionism rather than free market competition.

<Incomplete Competition and Spread of Government Intervention>

For inborn limits of market economy and various other reasons, the market economy has continuously faced challenges posed by interventionism. Market failure is often criticized as the market economy's biggest drawbacks. Market failure stems from both internal and external factors. On the internal front, it arises from incompleteness in the market, such as business cycle, monopoly and unfairness of distribution. On the external front, it generates from various sources, such as security, environment, and imbalanced allocation of resources, technology, capital and information.

Other than these factors, lack of market autonomy also poses problems. Market failure often takes place in any incomplete market or due to the source outside the market. It does not mean that market always needs to be perfect. F.Hayek also maintained that market goes through continuous evolvement rather than remain complete. Such evolutionary theory also applied to the price adjustment process.

Such imperfection and immaturity of the market system have justified the government's intervention into the market. What is worse, the intervention has become more spread due to political and military purpose. As a result, market environment after the World War II had shown dramatic increase in government intervention despite rapid economic growth.

Along with growing popularity of Keynesian economics worldwide after the World War II, the governments in many nations had expanded its influence in the market. In addition, during this period, even the government's moderating role in economic activities had seemed to be tolerated. In advanced countries, the proportion of the government's general budget in GNP reached 40%. This was mainly attributed to increased regulations, government intervention, high military costs, expansion of administration, rising costs for public facilities related to economic development and growing social welfare costs.

Areas the government intervened included public services, such as military, police, fire service, diplomacy and general administration, medical and healthcare service, sanitary service, social welfare, education, culture, welfare for the disabled and the aged, maintenance of social infrastructure, such as road and bridge, and price regulation for electricity, gas, transportation, telecommunication and waterworks.

The government also intervenes the market in various ways from fiscal spending policy, pricing policy, industrial policy, financial policy, tax policy, to appointment of business executives and intervention in business management and personnel affairs. In case of underdeveloped countries, they adopted the economic policy, which mixes market and planned economic systems.

The government intervention to the distortion of market structure is done to correct or prevent any monopoly, oligopoly or control of business conglomerates. To this end, the government establishes the barrier for entry and exit, takes corrective measures and regulates the price.

Such intervention by the government can be justified considering any possible failure, limits, immaturity and imperfection of market. However, in many cases, it often stretched out to unnecessary level, thereby increasing corruption, distorting resource allocation and triggering social loss. For example, when various approval and permission are used for personal profits, corruption and lobby can easily take place. This will make society and general public bear the costs for any lobby and market destruction. There are many studies related to corruption costs. According to the study done by Shleifer and Vishny(1993), more time and cost could occur for various targets for lobbying compared to the dictatorship.

The spread of interventionism restrains free competition and freedom of participation, which is a basic value of market economy, thereby weakening the principles of equal opportunity and fairness. Not only that, but it also heighten transaction costs in the market by triggering corruption. As a consequence, it can bring distortion in income distribution and social conflicts thereby letting the public pay for those losses. From the economic perspective, it distorts market economic system, increasing social costs.

However, with the progress of market economy, there has been growing awareness of inefficiency in government regulations. As excessive regulations bring the waste of resources, corruption, and market distortion, increasing transaction costs, regulation should be dramatically reduced. In particular, after the 1980s, with the spread of market economy worldwide, government intervention seems to be dramatically reduced with privatization of public sector, realization of small government and deregulation of the government.

Recently, there has been active movement toward privatization of public sectors, which have been managed and served by public institutions. Privatization efforts are seen in many countries around the globe. It aims to enhance efficiency and reduce corruption, thereby saving resources. In other words, this is to introduce market efficiency by integrating non-market sector to market economy.

<Establishing Free and Fair Market Rule>

Principles of free market economy these days are gaining more importance to strengthen international competitiveness arising from increased competition at home and abroad. Strengthened international competitiveness cannot be achieved when the government works on the forefront of economic management.

When the market system is established, free competition and fairness - the main values pursued by the market economy – can be achieved to a substantial extent. Even the income distribution, or in other words economic equality, can be acquired when the market economy takes its right place.

Consolidating the market system can be compared to setting automatic traffic signal at the crossroad. When the government official came out at the crossroad, arranging the traffic through hand signal, corruption, bribery or personal preference can be intervened. However, automatic traffic signal redresses such concerns. The government should not take intervention in each case. Rather, it should let the market system itself work.

Based on this framework, companies work to maximize profits while consumers work to fulfill their satisfaction. Only by doing so, balance among every economic participant can be achieved through invisible hand (automatic signal).

For free market to function well, there should be strong confidence in the rule that many competitors are engaged in fair competition. In addition, in order to keep and develop the market, the basic principle of capitalism, forming the ethical foundation and confidence among participants is more important than anything else.

These days, market economy has been expanded in a way to maximize autonomy and creativity of private sector while reducing the government intervention into business. In accordance with this trend, this leads to the efforts to re-establish the government's role and relationship between market and government.

In particular, transition countries and emerging countries, which have maintained the economic system heavily relying on the government, are currently making endeavors to establish more market oriented economic system.

Such efforts are translated into regulatory reform, such as unnecessary government regulations and those restraining free competition in the market. In addition, strong restructuring is carried out in the sector, which has born a lot of inefficiency due to excessive government intervention. Globalization has accelerated such endeavors.

Even though the level of economic development and competitiveness are different from country to country, establishing free and fair market economic rule has become a common challenge to all countries.

III. Transparent and Accountable Corporate Governance

As a major entity of production, employment and investment in the market economy, business plays a significantly important role. Business competitiveness is a driving engine of economic growth, and the rise and fall of corporations, having huge influence on the development of national economy.

In order to enhance growth potential of a nation, expanding consumer welfare through innovation is more important than anything else. In this process, companies are major force for innovation.

<Business Competitiveness and Corporate Governance>

Business competitiveness is translated to increase market share through steady innovation and technological development. In other words, whatever the elements for competitiveness, whether it is price, technology or factor costs, the result is shown through increase or decrease in market share.

So far, main stream economists have seen that price competitiveness determines business competitiveness provided that they have the same technology. In other case, if companies have monopolistic status thanks to their excellent technology, they are regarded as competitive. M.Porter(1998) made a comprehensive identification over competitiveness by considering environmental elements, such as conditions for factor and demands, related and supply industries, business strategy and structure, and rival companies, besides price competitiveness.

On the other hand, transaction cost economics has noticed that corporate governance affected competitiveness that influenced transaction cost (Williamson, 1985, 1995). Since 1990s, there have been growing interests in the importance of corporate governance worldwide.

Corporate governance is a rule and code of conduct, which defines the way to divide the power and responsibility of management and decision making process among shareholders and various stakeholders in business activities. In other words, it means the system, which regulates business executives to run business in a way to meet the interests of shareholders as well as all stakeholders, such as creditors, workers, and consumers.

In a narrow sense, it means internal control system to control business management through internal corporate body, such as general shareholders' meeting, board of directors and auditors in order to reduce the agent costs. In a broader sense, it covers external control system through capital market, such as changing share prices, proxy fight and hostile M&A, and the system, which reflects the opinions of stakeholders in business management.

<International Convergence of Corporate Governance>

Academic studies on corporate governance stem from Berle and Means's "The Modern Corporation and Private Property" in 1932. In mid 1980s, as productivity of Japanese and German companies surpassed that of the U.S. and the U.K.'s, a lot of interests were paid to corporate governance of the former countries. As a result, many efforts were made to compare different corporate governances in different countries. In particular, in 1990s, with rapid progress of liberalization and globalization of capital flow, shareholder activism of institutional investors in the U.S. has emerged, resulting in more interests and requests for improvement in corporate governance.

Even though the U.S. has been highly appreciated for its excellent corporate governance, in late 2001, several leading companies, such as Enron, Worldcom and Tyco, were found out to commit accounting fraud, spreading its crisis throughout overall financial market. These accounting fraud scandals have highlighted the importance of corporate governance.

Interests in corporate governance do not confine to advanced countries. Since the Asian Financial Crisis taken place around 1997, emerging countries in this region have also made significant amount of efforts to improve corporate governance. Such endeavors are mainly attributed to the awareness that the financial crisis stems from inefficient corporate governance in companies and financial institutions in these countries.

Undoubtedly, the goal of corporate governance lies in maximizing business performance, and market and share value by enhancing transparency and efficiency in business management. Therefore, improved corporate governance enables to select the most competent business executives, ensure effective management, checks and balances system over managerial rights for holding any responsibility for wrong management.

Corporate governance is different from country to country. Such difference is mainly due to difference in culture and the level of market development. In advanced capital market economies, which have relatively long history of market economy, they have effective corporate governance structure that can maximize business efficiency. However, in case of countries, which are still in their initial stage of market development, their corporate governance takes the form to focus more on long-term maintenance of companies and market expansion.

The exemplary corporate governance models these days are the market based one, often found in the U.K. and the U.S., and the relationship based one, often found in Japan and Germany.

Market based corporate governance model is based on the separation of ownership and business management, putting the priority on ensuring profits and power of shareholders consisting of institutional investors. Shareholders show their preference or any complaint toward business management through purchasing/selling of shares. Professional executives take charge of running the business while board of directors appointed in the shareholders' meeting monitor the management. This type of corporate governance has its merits in sensitive response to any market changes and focuses on efficiency while demerits in concentrating on short-term performance.

On the other hand, the relationship based corporate governance focuses on relationship between shareholders and stakeholders such as financial institutions, suppliers and other companies. As stakeholders, such as financial institutions and related companies, are engaged in cross shareholding relationship, companies can focus more on expanding productivity and market, rather than on short-term profits. Therefore, it can be more beneficial to long-term investment. However, by providing subsidies to insolvent affiliates, it can lead to excessive facilities, thereby causing long-term recession.

It is hard to say certain corporate governance is fundamentally better than others among various types of corporate governance. In addition, corporate governance reflects characteristics of political, economic, social and cultural environment of each nation. Therefore, it is hard to unify the corporate governance within a short period of time.

Nevertheless, with rapid integration of capital market worldwide, corporate laws in each nation have been converged. Moreover, with growing public awareness and interests in globalization, corporate governance also seems to be globally converged. For example, countries taking the relationship based corporate governance strive to adopt the advantages of shareholder capitalism model, through strengthening shareholders' rights and functions of board of directors, addressing cross shareholdings between companies, enhancing transparency and disclosing business information.

Such global convergence of corporate governance is mainly attributed to the globalization of business activities, development of capital market, convergence of securities law, activities of institutional investors, arrangement of international accounting standards and international cross listings.

<Good Corporate Governance>

Good and desirable corporate governance is the one to ensure maximized corporate value and fair distribution of profits to shareholders through transparent business management and appropriate rules of management executives. In general, when the profits of shareholders, who are residual claimants, are maximized, overall business value can be maximized as well. Therefore, companies will focus their management on shareholders. In other words, good corporate governance has the mechanism to ensure transparent business management and appropriate regulations for management executives, thereby effectively realizing management principles focusing on shareholders.

To be more specific, the concept of ‘good corporate governance’ can be different in each country and company depending on its environment, culture, and industry. However, in terms of general framework and direction, international consensus has been built.

In a narrow sense, good corporate governance stresses on protecting the profits of minority shareholders, enhancing transparency in management and accounting information and the role of outside directors. In addition, along with integration of global capital market, importance of external monitoring mechanism through capital market has been highlighted, spreading the efforts to facilitate such monitoring. In addition, discussions on addressing the problems of share pyramid, cross shareholdings and multiple voting rights, which often trigger gap between cash flow rights and voting rights, are actively taken place.

Recognizing the importance of corporate governance, OECD announced the OECD Principles of Corporate Governance in May 1999, in order to take the Principles as measures for market participants to review and develop rules and systems on corporate governance, and behavioral conduct.

The OECD Principles set five important sectors related to corporate governance, including shareholders’ rights, equitable treatment of shareholders, role of stakeholders, disclosure and transparency, and responsibilities of the board, suggesting principle and recommendations of each sector.

According to the Principles, corporate governance should have the structure, which can :i) protect shareholders’ rights (the rights of shareholders); ii) ensure the equitable treatment of all shareholders, including minority and foreign shareholders, and give them the same opportunity to obtain effective redress for violation of their rights (the equitable treatment of shareholders); iii) admit the legal rights of stakeholders, and stimulate active cooperation between companies and stakeholders in order to maintain financial soundness and create the opportunity for social welfare and employment (the role of stakeholders); iv) accurately and timely disclose the important business information, such as financial status, performance, ownership structure and corporate governance (disclosure and transparency); and v) ensure the strategic direction of companies, the accountability of board of directors on business and shareholders, and effective monitoring on business executives by the board of directors (The responsibilities of the board).

Moreover, OECD announced the final draft in May this year by strengthening and revising the principles of corporate governance. The revised version of the OECD Principles stressed the seriousness of the problem arising from abusive behavior by controlling shareholders, in particular in business conglomerates, and regarded the internal trading as important problem, under the recognition that ownership structure can have an impact of governance structure.

Another sector, which is currently focused regarding corporate governance, is disclosure. It covers regulations and laws related to corporate governance, any record of compensation to directors, businesses' social accountability and risk evaluation of companies. In addition, as internal control system attracts a lot of attention, prevention of business fraud, transparency in business management, effective communication with accounting auditors, and conflicts of interests between stakeholders have also become controversy.

Given the fact that the goal of improved corporate governance lies in increasing business value and facilitating the national economy through enhanced transparency and efficiency in business management, strenuous efforts should be made to build good corporate governance.

According to recent several studies on emerging countries, corporate governance have huge impact on business value. Therefore, international investors are paying a lot of interests in enhancing the value of investment assets through business monitoring, and corporate governance structure of target companies, in making investment decision.

Corporate governance is the result of the environment: Appropriate corporate governance helps improve competitiveness and vice versa. In particular, with the spread of market opening and informatization, corporate governance has become more important factor, determining individual business performance as well as transparency and efficiency of economic system of a nation. Along with this trend, many countries are making efforts to improve the governance structure.

IV. Business Ethics and Corporate Social Responsibility

In the modern capitalist society, most people are working in companies, gaining income from them. Products and advertising made by companies have enormously affected our lives.

In particular, with rapid progress of globalization and informatization, multinational corporations have carried out manufacturing and marketing activities worldwide. Not only that, but their influence on international economy is enormous. They account for 8% of global GDP, and one third of global exports. Therefore, annual revenues of one multinational corporation often surpass GDP of certain country.

With rising role and contribution of companies to economic activities, the request to social responsibility has increased, which can be regarded as something natural.

The fundamental goal of business activities is to create profits and value by producing goods and services. However, these days, as companies are more expected to serve as public entity as well as the entity of private economy pursuing profits, there are growing requests for their social responsibility.

<Corporate Social Responsibility>

Corporate social responsibility is for companies to set desirable policies by themselves considering the goal and value of society concerned, make a decision and put them into practice (Peter Drucker). It also means to unfold the business activities in a comprehensive way in the economic, environmental and social field for sustainable development.

In effect, there has been some academic controversies over corporate social responsibility. On the other hand, both negative and positive perspectives over social responsibility were raised while the position adjusting both perspectives were also raised (Lee, Sang-min, 2004)

In general, neo-classic economics take strong negative perspective against corporate social responsibility. They think that companies can contribute to society by maximizing their profits and improving their efficiency, reducing the costs. In other words, maximizing shareholders' profits is the major role of companies. As M. Friedman once mentioned in 1970, companies' key role is to generate economic performance.

On the other hand, stakeholder theory takes positive perspective towards corporate social responsibility (Johnson, 1971). With the development of capitalism in the 20th

century, the influence of companies has increased with its growing size. Therefore, they should serve their own role as members of society. From the long-term perspective, when companies avoid any social demands, such avoidance turns out to be the costs of overall society, thereby expanding the spending of business costs. Considering this, development of society will be beneficial to corporate development as well. (Carrol 1999)

The recent dominating view is that economic performance and social performance of companies should be dealt in the same context, rather than in a separate way. According to these opinions, shareholders profits can be also beneficial to stakeholders. Therefore, the ultimate goal of companies is to pursue profits while that should be focused on maximizing long-term profits rather than the short-term one. Socially responsible companies will give more profits to shareholders.

Building a trust with consumers is an important element to determine the fate of companies. That is because business confidence serves an important role in consumers' decision making in product purchasing. When companies lose consumer confidence, it will directly affect share prices, aggravating profits and threatening long-term existence of companies. Given this fact, it is a sure thing that market value and brand value of companies can be enhanced only when companies fulfill their social responsibility.

<Ethical Management>

With growing awareness over corporate social responsibility, more and more companies are introducing ethical management. In particular, a series of accounting scandals by the leading U.S. companies, such as Enron and Worldcom, have been an important occasion to recognize the importance of business ethics.
According to various experimental studies, ethical management has shown positive influence on business performance. Companies, which ensure high-level of ethical treatment, have seen improved productivity and profits for giving more motives and encouragement to their staffs to work harder.

In addition, ethical management has become important criteria as global standards to evaluate international competitiveness of companies. Institutional investors worldwide are asking for much higher level of ethical management to target invested companies. They are reducing the investment proportion to companies, which do not have transparent accounting system nor improve corporate governance. If companies ignore business ethics, they tend to be avoided from investors and consumers in the global market.

As a result, the importance of ‘Socially Responsible Investment (SRI)” has been highlighted worldwide. Through thorough review on corporate social responsibility, investors decrease the investment proportion to companies, which do not take any social responsibility. In other words, such trend has led to investment activities encouraging corporate social responsibility.

Along with advancement of systematic evaluation method, SRI is actively unfolded in the U.S. and the U.K. Its size and types have enormously increased in recent years.

In the U.S., it has rapidly surged from 639 billion dollars in 1995 to 1.49 trillion dollars in 1999 and 2.34 trillion dollars in 2001. Recently, about 12% of total amount of fund in the U.S. is the fund related to SRI. In the U.K., it has increased by more than twofold from 52 billion pound in 1999 to 120 billion pound in 2001.

Although the amount is less than that in the financially advanced western countries, SRI has become more vibrant these days in Asia, especially in Japan, Singapore, Hong Kong and Taiwan. Since the introduction of SRI fund in 1999, Japan has managed 11 funds, reaching 1 billion dollars while Hong Kong is now managing four funds since 2001. In Korea, since its adoption in 2001, there have been growing interests in SRI among financial institutions. (KIET 2004)

<Code of Conduct in Multinational Corporations>

With growing interests in international community to effectively manage business activities, specific codes of conduct in multinational corporations have been made. They are established in order to minimize any negative impact of multinational corporations in any countries concerned in terms of employment, labor-management relations, environment and taxes, and to strengthen social responsibility.

Such efforts to set the code of conduct have been made by international organizations, such as OECD and UN, and private companies and civic groups. The primary examples are “The OECD Guidelines for Multinational Enterprises”, “UN Global Compact” and

“Caux Principles for Business” made in 1994 by private companies, such as Philips and Canon.

The OECD Guidelines for Multinational Enterprises were enacted as a part of annex under “the OECD Declaration on International Investment and Multinational Enterprises (1976)”. It is a comprehensive code of conduct covering a wide range of topics on business ethics, including employment, information disclosure, labor-management relations, environment, competition, taxes, science and technology.

With rapid progress of economic globalization, the role and proportion of multinational corporations will expand further in the international economy. Along with this trend, there will be more requirements from citizens on corporate social responsibility. Under such circumstances, international rules and codes of conduct will become more important for companies to ensure their responsibility.

<Preventing Corruption>

Strengthened international efforts to prevent corruption can also enhance corporate social responsibility. By restraining fair competition worldwide, corruption blocks free flow of international trade and investment, and distorts effective allocation of resources, thereby impeding national economic development.

In the past, corruption was regarded as domestic problem. However, these days, with substantial increase in international trade and exchanges, corruption has been dealt as an international issue. These days, through more opened and liberalized international finance system, more than 1 trillion dollars of dirty money are now traded in the world. This fact clearly shows that corruption is no longer confined to the territory of one nation.

There are two types of efforts to prevent corruption in the international community. One is for international and regional organizations, such as OECD, UN and EU to regulate corruption by enacting binding rules between nations. These rules are enforced in the global perspective, which include OECD’s Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and UN Convention against Corruption. In the regional perspective, there are European Council’s Criminal Law Convention on Corruption and Inter-American Convention against Corruption.

Another international trend is an effort to enhance the recognition of international community over the necessity of anti-corruption by holding international forums and seminars through the participation of civic groups, such as Transparency International, international organizations and national governments. Global Forum on Fighting Corruption: Safeguarding Integrity among Justice and Security Officials and International Anti-Corruption Conference (IACC) are the leading examples of international conferences on corruption.

V. Conclusion

So far, I have briefly touched upon the international efforts to enhance transparency in business management and fairness in market transaction focusing on corporate governance and corporate social responsibility, along with the overview on the development of market economy in the globalized era.

Various changes triggered by globalization and informatization are leading our society in more positive direction. Market economy is expanding worldwide as global standard. Moreover, advanced information technology is serving as an element to facilitate participatory democracy.

Such changes have become strong driving engine in government innovation and establishment of governance. In order to meet the global standards, market principles are more widely adopted. In addition, with the progress of informatization, which enables interactive information exchanges, direct communication between public and the government has become possible, enhancing transparency and encouraging participation, thereby having positive impact on improving governance.

OPEN System (Online Procedures Enhancement for civil applications system, http://open.seoul.go.kr), established and managed by the Seoul City Government, can be seen as good example. By addressing more than 45% of civil applicants through OPEN system, the Seoul City Government is moving one step further toward e-government. Through this system, the process of handling civil applicant is transparently disclosed on a real-time basis. In addition, it reduces inconvenience of citizens arising from direct visit and abusive behavior of public officials.

These days, most countries are committed to government innovation for their clear recognition of the limits to face challenges of rapidly changing environment with the existing government functions.

More decentralized government, pro-competitive government, performance-oriented government, customer and market driven government are thought to be the one required in these days. As a consequence, localization, privatization, deregulation, introducing competition in government services and performance oriented budget are pursued as a specific direction of government innovation.

For government innovation to be successful, free and fair market economic rules should be rightly established. That is because the basic direction of government innovation is market oriented. In addition, only when market fulfills its role, sound role division between the government and market and establishment of right governance will become possible.

For market to fulfill its role, price signal mechanism as well as checks and balances of market disciplines should be well established. Moreover, transparency and fairness in market competition should be ensured. In this regard, corporate social responsibility and corporate governance are currently discussed, stressing their importance further.

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