



## Foreword

Corporate governance has been identified by the Chinese government as the core element of the “modern enterprise system.” The policy focus on corporate governance reflects the significant progress that China has made in building market institutions and the importance it attaches to changing corporate behavior.

More than two decades of market-oriented reforms in China have created economic entities with a relatively high degree of autonomy. To date, however, ownership diversification and corporatization have had only a limited impact on corporate behavior. China’s commitment to improving corporate governance practices reflects the authorities’ growing concerns about the potential consequences of a high-level of nonperforming loans in the banking system, overcapacity in most of the industrial sector, and a highly volatile and speculative stock market. Externally, commitments under the World Trade Organization will expose Chinese companies to the opportunities and challenges of globalization and add to the urgent need to tackle corporate governance issues in a comprehensive and systematic manner.

In this context, *Corporate Governance and Enterprise Reform in China* explores the main corporate governance issues that China is encountering during the course of corporatization and ownership transformation of its enterprise sector. It makes a large number of recommendations concerning the policy and legal frameworks, procedures, and institutional capacity for improving corporate governance practices in China.

The study reflects the increasing emphasis that IFC and the World Bank place on improving corporate governance practices as part of the general effort to support the development of the market institutions needed for sustained growth and poverty reduction. In China, the World Bank’s work over the years in support of government reforms in the financial sector, corporate restructuring, accounting, and legal and judicial practices has contributed directly to the development



## CORPORATE GOVERNANCE IN CHINA

of the institutions of corporate governance. At the company level, IFC is playing an important role in bringing Chinese companies closer to international standards in corporate governance through technical assistance, institution building in the area of financial markets, and incentives embedded in financial instruments. Current World Bank Group work in corporate governance emphasizes governance of financial institutions; capacity building through training for regulators, company directors, business owners, and investors; and dissemination of best practices through the Global Corporate Governance Forum, studies, and workshops.

We hope that this study will provide all those with an interest in the corporate governance practices of Chinese companies with new insights into their status and new ideas for ways to support and participate in their future improvement.

Javed Hamid  
*Director*  
East Asia and Pacific Department  
International Finance Corporation

Homi Kharas  
*Chief Economist*  
East Asia and Pacific  
World Bank

