

The Role of Capital Markets and the Reform of Corporate Governance in Taiwan — for Transformation to Knowledge-based Economies

Lee-Rong Wang

Research Fellow and Director

Center for Economic Forecasting

Chung-Hua Institution for Economic Research

Sept. 13, 2002

The Role Played by Different Sources of Capital in Knowledge-Based Economy (KBE)

- Venture Capital (VC) ———
Positive relation with long-term performance of venture enterprise

V.S.

Stock Investment ———
depends on short-term volatility of stock market



- The goal of VC is more consistent with that of venture enterprise

V.S.

- The goal of stock investor (or banker) is less consistent with that of venture enterprise



- Evaluation of enterprise performance:
 - (1) VC: close interaction
 - (2) fund manager: financial statements
 - (3) bank: — asymmetric information
 - hard to audit profitability and risk
 - short of incentive to provide value-added services (\because fixed interest revenue)



- VC has advantages in
 - (1) Integrating all kinds of resources
 - (2) Value-adding and raising productivity
 - (3) Effectively auditing the enterprise (corporate governance):
 - a. — terminate reinvestment
 - segmented investment



- b. Using variety of innovative financial tools to unite the benefits of VC and enterprise e.g., convertible preferred stocks, venture lease, mezzanine financing, leveraged buyout, etc.
- c. VC has the performance pressure to raise funds in the future



Some Other Fund Raising Channels for KBE

- Taiwan Technology Marketplace (TWTM)
- Angel club (enterprise in related field or individual investor from related industry)
greatest support in the early enterprise stage



- China Hi-tech Property Exchange
- Increasing role of
ECB
GDR, ADR, TDR,...

(notice: future impact incurred by
volatility of USD)



Reform of Corporate Governance (CG) in Taiwan

- Started since early 1980s ———
for the transformation from traditional labor-intensive industries to high-tech
 - ∴ high-tech companies need to share ownership with scientists, engineers, and managers
 - ∴ trend towards separation of ownership and control



- Enhanced after the Asian Crises in 1997 and accession to the WTO
- Greater transparency of CG is needed for enterprises to control risk.
- SFI, TSE, and TAISDAQ introduced the system of independent directors and independent supervisors (Code of Best Practice)



- Legal basis of CG in Taiwan

- (1) Company Law

- protect present and future shareholders and creditors

- (2) Securities and Exchange Law

- enhance the regulation of disclosure and transparency toward listed companies

