

The Rapid Growth of Chinese Companies, and the Institutional Investor Role

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Abstract

China has achieved rapid development under unique conditions. The strengths and weaknesses of the Chinese economy profoundly reflect the character of Chinese companies. Shimpo (2009) examined corporate governance of Chinese companies, and the possibility of an East Asian Community. This paper examines the characteristics of Chinese companies, which are the most important driving force of the Chinese economy. The focus is institutional investors to explain the strength and the instability of Chinese companies.

Section 1 examines the stockholders of Chinese companies. This section investigates, what kind of progress is expected in the development of the Chinese economy as state-owned enterprise influence weakens. **Section 2** examines the actual condition of trade and foreign direct investment (FDI) of Chinese companies by company. Through this examination the character of the Chinese type multinational company becomes clear.

Section 3 investigates the actual condition of institutional investors that is expected to play an important role as future stockholders of Chinese companies. **Section 4** focuses on sovereign wealth funds, one of China's institutional investor categories. Sovereign wealth funds are the leaders in Chinese foreign investment.

China now faces the possibility of either further advancement or stagnation. Many major companies are still largely ruled by the state-owned enterprises, In contrast, we see a trend toward weakened rule by state-owned enterprises and the increase of cross-shareholding by business groups or labor unions. Attention is focused on whether or not these attempts will succeed.

To foster the development of Chinese companies, the establishment of a base in financial and securities markets is indispensable. Although the financial securities market is gradually growing, the institutional investor role of pension funds or life insurance companies in long-term investment is still minimal.

I would like to stress the following items that are important if Chinese companies are to continue growing: 1) privatization of companies including financial institutions, increasing companies' independence from the government, establishing a base in financial and securities markets and 2) growth of domestic and foreign private institutional investors in supporting companies, including the indispensable expansion of long-term investment.

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Table of contents

Introduction

1. The Character of Chinese Companies: Their Stockholders
 - 1.1. Chinese Companies by FT, and Their Stockholders
 - 1.2. Changes in Chinese Companies: Business Groups and Labor Unions as Stockholders
 - 1.3. Still Powerful State-owned Enterprises: Chinese Companies by Chinese Data
2. Chinese Type Multinational Companies
 - 2.1. Taiwanese Companies Lead in Chinese Exports
 - 2.2. Foreign Investment by Huge State-owned Enterprises
3. The Future of Chinese Companies and Institutional Investors
 - 3.1. China's Bank-centered or Bank-based Financial System
 - 3.2. Underdeveloped Institutional Investors
 - 3.3. Activity of Securities Investment Funds and Institutional Investors
4. Chinese Sovereign Wealth Funds
 - 4.1. World Sovereign Wealth Funds
 - 4.2. Investment by China Investment Corporation

Conclusion

Keywords: State-owned enterprise, Chinese type multinational company, Bank-centered or Bank-based Financial System, Institutional investor, Sovereign wealth fund

Introduction

The continuing collapse of Middle Eastern dictatorial regimes during the beginning of 2011 is a process that is creating major global changes in the early 21st century. We do not yet know what the nature of these changes will be. This process will, sooner or later, influence Asia, especially China. However, the situation in China is quite different. The Chinese government controls information all over the country and the Communist Party of China permeates all aspects of life. Major companies are gradually being privatized while the influence of state-owned enterprise remains strong. This situation indicates that a collapse like that in the Middle East will not happen in China at least for the present.

China has achieved rapid development on its own terms under unique conditions. The strengths

and weaknesses of the Chinese economy profoundly reflect the character of Chinese companies. Shimpo (2009) examined corporate governance of Chinese companies, and the possibility of developing an East Asian Community. This paper examines the characteristics of Chinese companies, which are the most important driving force of the Chinese economy. The focus is institutional investors to explain the strength and the instability of Chinese companies.

Section 1 examines the stockholders of Chinese companies using both *Financial Times* (FT) and Chinese data. Through this data, we can confirm the global development of Chinese companies. This section examines, based on some examples, what kind of progress is expected in the development of the Chinese economy as state-owned enterprise influence weakens. **Section 2** examines the actual condition of trade and foreign direct investment (FDI) of Chinese companies by company. Through this examination the character of the Chinese type multinational company becomes clear in relationship to the findings in Section 1.

Section 3 investigates the actual condition of institutional investors that is expected to play an important role as future stockholders of Chinese companies. Improvement of the social security is remarkably backward, and the institutional investors that make long-term investments, such as pension funds and life insurance companies, have not developed in China. These conditions will be considered. **Section 4**, the last section, focuses on sovereign wealth funds, one of China's institutional investor categories. Sovereign wealth funds are the leaders in Chinese foreign investment. This section examines the kind of influence this remarkable development will have inside and outside China.

1. The Character of Chinese companies: Their Stockholders

1.1. Chinese Companies by FT and Their Stockholders

First, we examine the character of Chinese and Hong Kong companies¹⁾ using FT data. Each year the FT releases its world enterprise ranking based on stock market capitalization. Ranking by stock market capitalization is the best index for understanding the actual condition of a company because, unlike sales or assets, it is the company valuation determined by current market participants.

1) In examining based on FT, Hong Kong companies are included.

According to FT 2010 Global 500, the Chinese companies that combined Chinese and Hong Kong companies account for 10.3% of the world's total market capitalization, ranking second to the United States. The number of companies is 42, ranking second as Japan. FT 2008 totals indicate that the share held globally by Chinese companies continues to increase because there were 25 Chinese companies and 10 Hong Kong companies, totaling 35. This increase induces high expectations around the world for Chinese companies.

Table 1 is a list of the top 30 of 42 Chinese and Hong Kong companies. Among these companies, Hong Kong companies increased in number from eight to eleven, and their role increased. By industry the 30 companies include 11 banks, 3 life insurance companies, one financial service company, and 15 finance companies.

Aside from finance, two industries attract attention by the size of the aggregate market value of the companies. The first is oil and gas producers including the largest company, PetroChina, which three companies belong. The second is industrial metals and mining, one company, and natural resource-related companies, which includes four companies. Another is mobile telecommunications with one company, China Mobile. A typical feature in developing countries is that finance and resource-related companies are in the top ranks. The five new companies of the 30 FT 2010 companies include two in the finance industry, China Pacific Insurance and Industrial Bank. The proportion of finance companies increased. In contrast, China COSCO, Baoshan Iron & Steel and others were dropped from the ranks.

In the management index, the profit ratio increased from 4.5% in 2008 to 5.9% in 2010. The price to earnings (PE) ratio, an important index in the FT, fell from 24.4 to 19.5 due to a slip in stock prices, and the dividend yield showed little change, from 2.3% to 2.2%.

We will examine two major stockholders in the top 30 Chinese and Hong Kong companies. The major data on the stockholders in **Table 2** was obtained from ET Net. Either a # or * symbol is shown beside the stockholder name. The data for a stockholder with a # is calculated by all sh capital, and one with a * is calculated H shs only. The two ratios cannot be totaled directly. Stockholder data other than this data was obtained from the Shanghai Stock Exchange.

The most important characteristic of Chinese companies is the strong rule by state-owned enterprises and government organizations. In this, there is no big change compared to 2008 data in the major companies (Shimpo, 2009, Chapter 6). The ownership ratios of CNPC as a stockholder of PetroChina, CHINA MOBILE (HK) as a stockholder of China Mobile, and CENTRAL HUIJIN and

Table 1. FT Global 500 2010

Global rank 2010	Company	Country	Sector	Market value \$m	Turnover \$m	Net Income \$m	Total Assets \$m	Employees	PE ratio	Dividend yield (%)
4	Industrial & Commercial Bank of China	China	Banks	246,419.8	N/R	16,269.2	1,430,576.6	385,609	15.2	2.6
11	China Construction Bank	China	Banks	191,517.0	N/R	15,637.6	1,408,048.5	301,537		3.7
26	Bank of China	China	Banks	152,289.6	N/R	11,874.8	1,277,804.1	262,566		3.8
101	Bank of Communications	China	Banks	58,930.1	N/R	4,411.7	483,869.7	79,122	13.2	2.5
121	China Merchants Bank	China	Banks	52,710.4	N/R	3,093.7	230,338.3	36,916	24.6	0.4
185	China Citic Bank	China	Banks	37,972.0	N/R	1,960.1	174,093.4		15.0	1.3
255	Shanghai Pudong Development Bank	China	Banks	29,468.4	N/R	1,837.1	191,788.2	17,695	19.6	0.6
282	Industrial Bank	China	Banks	27,044.1	N/R	1,945.5	194,865.8	22,004		1.3
287	Hang Seng Bank	Hong Kong	Banks	26,641.3	N/R	1,705.1	106,523.0	9,342	15.7	4.8
310	Boc Hong Kong	Hong Kong	Banks	25,217.7	N/R	1,770.1	156,394.4	13,244	14.0	4.6
318	China Minsheng Banking	China	Banks	24,753.7	N/R	1,157.4	154,599.1	19,853	17.2	1.0
358	Kweichow Moutai	China	Beverages	21,951.3	1,315.2	631.7	2,862.8	9,149	34.7	
274	Citic Securities	China	Financial services	27,606.3	N/R	1,316.0	30,153.4	10,487	20.8	
237	Hutchison Whampoa	Hong Kong	General industrials	31,187.2	26,930.0	1,827.3	87,279.2	220,000		3.0
370	Jardine Strategic	Hong Kong	General industrials	21,301.2	18,899.2	1,843.4	37,762.0		6.5	1.0
356	Aluminum Corp. of China	China	Industrial metals & mining	22,095.3	10,292.9	-680.1	19,383.4	107,831		
41	China Life Insurance	China	Life insurance	122,532.9	N/R	4,816.4	179,622.1	104,535	28.2	2.1
107	Ping An Insurance	China	Life insurance	57,386.2	N/R	39.3	108,466.0	100,267		0.3
208	China Pacific Insurance	China	Life insurance	35,115.8	N/R	196.5	46,505.9	64,131		0.9
60	China Shenhua Energy	China	Mining	84,505.7	17,769.8	4,644.3	45,558.5	62,286	18.8	1.9
357	China Coal Energy	China	Mining	22,057.0	7,484.7	1,048.1	12,829.0	50,805	19.5	1.3
10	China Mobile	Hong Kong	Mobile telecommunications	192,998.6	66,167.6	16,855.1	108,751.2	145,954	11.5	3.7
289	China Unicom (Hong Kong)	Hong Kong	Mobile telecommunications	26,521.7	22,530.6	1,398.6	60,326.9	216,830		1.8
1	PetroChina	China	Oil & gas producers	329,259.7	149,303.4	15,144.1	212,395.9	539,168	14.6	3.4
36	Sinopec	China	Oil & gas producers	133,902.4	192,755.2	9,046.6	126,539.2	371,333	8.2	3.7
75	CNOOC	Hong Kong	Oil & gas producers	73,521.5	15,395.8	4,315.4	35,487.5	4,019	16.5	3.0
181	Sun Hung Kai Properties	Hong Kong	Real estate investment & services	38,573.9	N/R	1,336.2	39,975.4	31,500	28.9	2.1
251	Cheung Kong Holdings	Hong Kong	Real estate investment & services	29,829.4	N/R	2,619.1	38,364.7	8,700		2.7
197	Tencent Holdings	Hong Kong	Software & computer services	36,589.4	1,822.2	755.2	2,520.2	7,515	47.8	0.2
365	MTR	Hong Kong	Travel & leisure	21,692.0	2,424.3	1,243.1	22,760.9			1.8
Total				2,201,591.6		130,058.6			19.5	2.2

Note: Data from Thomson ONE Banker, Thomson Reuters Datastream and individual companies.
Source: FT Global 500 2010

Table 2. Two Major Stockholders of Top 30 Chinese and Hong Kong Companies

	Shareholders	Current Holding (million)	% Held
1 PetroChina	CNPC-NON-H SHS#	157,765	86.2
	ABERDEEN ASSET MGT-H SHS*	1,267	6.0
2 Industrial & Commercial Bank of China	CENTRAL HUIJIN-NON-H SHS#	118,317	35.4
	MOF OF THE PRC-NON-H SHS#	118,006	35.3
3 China Mobile	CHINA MOBILE (HK)	14,890	74.2
4 China Construction Bank	CENTRAL HUIJIN-H SHS#	133,262	59.3
	BANK OF AMERICA-H SHS*	25,580	11.4
5 Bank of China	CENTRAL HUIJIN-NON-H SHS#	171,412	67.5
	SOC. SEC. FUND-H SHS*	10,642	14.0
6 Sinopec	CHINA PETROCHEMICAL-NON-H SHS#	65,758	75.8
	TEMPLETON ASSET MGT-H SHS*	1,009	6.0
7 China Life Insurance	CHINA LIFE INS.-NON-H SHS#	19,324	68.4
	J.P. MORGAN CHASE & CO. -H SHS*	592	8.0
8 China Shenhua Energy	SHENHUA GROUP CORP-NON-H SHS#	14,511	73.0
	J.P. MORGAN CHASE & CO. -H SHS*	339	10.0
9 CNOOC	CNOOC	28,773	64.4
10 Bank of Communications	MOF OF THE PRC-NON-H SHS#	11,471	20.4
	HSBC HOLDINGS (00005)-H SHS*	10,758	40.6
11 Ping An Insurance	HSBC HOLDINGS (00005)-H SHS*	1,241	43.4
	SHENZHEN INV-NON-H SHS#	481	6.3
12 China Merchants Bank	CHINA MERCHANTS-NON-H SHS#	3,887	18.0
	COSCO GROUP-NON-H SHS#	1,284	6.0
13 Sun Hung Kai Properties	DIRECTOR KWONG SIU HING&FAMILY	1,082	42.1
14 China Citic Bank	CITIC GROUP-NON-H SHS#	24,116	61.8
	BBVA-H SHS*	5,734	46.2
15 Tencent Holdings	MIH	630	34.4
	DIRECTOR MA HUATENG	205	11.2
16 China Pacific Insurance	BAOSTEEL GROUP-NON-H SHS#	1,376	16.0
	SHENERGY GROUP-NON-H SHS#	1,225	14.3
17 Hutchison Whampoa	CHEUNG KONG (00001)	2,130	50.0
18 Cheung Kong Holdings	DIRECTOR LI KA SHING	986	42.6
19 Shanghai Pudong Development Bank	Shanghai International Group		21.2
	Shanghai Trust		6.5
20 Citic Securities	CITIC Group		23.5
	China Life Insurance Company		5.5
21 Industrial Bank	Fujian Provincial Department of Finance		20.8
	Hang Seng Bank		12.8
22 Hang Seng Bank	HSBC HOLDINGS (00005)	1,188	62.1
23 China Unicom (Hong Kong)	UNICOM GROUP	16,959	72.0
	TELEFONICA INTERNACIONAL	1,972	8.4
24 Boc Hong Kong	BANK OF CHINA (03988)	6,984	66.1
25 China Minsheng Banking	NEW HOPE GROUP-NON-H SHS#	1,577	7.1
	MORGAN STANLEY-H SHS*	217	5.3
26 Aluminum Corp. of China	ALUM. CORP OF CHINA-NON-H SHS#	5,656	41.8
	CHINA CINDA ASSET-NON-H SHS#	901	6.7
27 China Coal Energy	CHINA NATIONAL COAL-NON-H SHS#	7,482	56.4
	MORGAN STANLEY-H SHS*	326	7.9
28 Kweichow Moutai	China Kweichow Moutai Distillery		61.7
29 MTR	FIN SECRETARY INC	4,435	76.9
30 Jardine Strategic			

Note 1: #-calculated by all sh capital, *-calculated by H shs only.

2: Data is collected by the end of 2010.

3: Some clear errors are corrected.

Source: FT, ET Net, The Shanghai Stock Exchange.

MOF OF THE PRC as stockholders of Industrial & Commercial Bank of China has barely changed. **Orderly privatization**, unique to China, which does not shake the socialist system, has advanced. This differs from Russian privatization, which is advancing in confusion and disorder.

I use the term **state monopoly enterprises** for companies governed by state-owned enterprises and government organizations that largely govern the market (Shimpo, 2009, 8). The following are the three characteristics of state monopoly enterprises: (1) Although privatized, state-owned enterprises maintain a high ownership ratio in public companies as a holding company, and, through this, continue to substantially control company management. (2) The most efficient parts of all state-owned enterprise resources are transferred to public companies, and state monopoly enterprises continue to maintain monopolistic status in each market. (3) Such a monopolistic situation leads to political affinities and combinations, and, in some situations, corruption.

The character of Hong Kong family-run conglomerate companies has also not changed. No change in family rule is observed in the Sun Hung Kai Properties group, the Hutchison Whampoa group or Cheung Kong Holdings. Maintaining their exceptional family-run conglomerate character, Hong Kong companies are trying to partner with mainland China and continue to play the role of the international window for China. This role differs from that of Taiwan, which is developing a market economy and its companies and building an original economic structure centering on manufacturing industry.

Since Table 2 includes the top 30 companies, the following new characteristics become clear. The Bank of China and its subsidiary Boc Hong Kong were reported together. Companies listed on the Shanghai Stock Exchange, such as Shanghai Pudong Development Bank, Citic Securities, and Industrial Bank, were examined. The share held by the largest stockholders in these companies is comparatively low, compared with major companies. For the Industrial Bank, local governments, such as Fujian Provincial Department of Finance, were stockholders.

1.2. Changes in Chinese Companies: Business Groups and Labor Unions as Stockholders

How the characteristics of stockholding in Chinese companies will change is an important subject. If some Chinese companies weaken the rule of state-owned enterprise, government organization, and other aspects of state control, and become independent, the question is what kind of direction will be possible. One direction is a new change, which has taken place in highly ranked companies, such as Ping An Insurance and China Merchants Bank.

First, we examine Ping An Insurance in **Table 3**. The data shown in Table 3 is drawn from the stockholder information presented in each company's annual report. The ratios of each of company to all issued stock and to shares in circulation are shown.

The largest stockholder of Ping An Insurance is not a state-owned enterprise but a group of foreign companies led by Hongkong and Shanghai Banking Corporation. The ownership ratio to all issued stock is 16.79%. Although Hongkong and Shanghai Banking Corporation is a bank that has a historically close relationship to China, a foreign enterprise has already become the largest stockholder. The ownership ratio of Ping An Insurance's labor union and its group of companies amounts to 14.32% of the total. These two trends indicate the new direction of Chinese companies toward weakening the rule of state-owned enterprises and government organizations.

The largest stockholder of Bank of Communications is the Ministry of Finance of the People's Republic of China, but its ownership ratio is modest. As with Ping An Insurance, Hongkong and Shanghai Banking Corporation is a major stockholder, but the second largest, not the first. Investment by foreign companies will continue to increase. China Merchants Bank is another important example. China Merchants Group Ltd., the business group's parent company, is a state-owned enterprise. Although the ownership ratio of this parent company is comparatively low, China Merchants Steam Navigation Co. Ltd., China Merchants Finance Investment Holdings Co. Ltd., and Shenzhen Yan Qing Investment Development Co. Ltd., which are controlled by this parent company, also invested in China Merchants Bank.

Some possibilities for the development of Chinese company privatization were examined. It is difficult to predict which will become dominant. Section 3 will examine how privatization is launched as a full-scale process by institutional investors who are stockholders of companies and financial institutions. Imai and Watanabe (2006, Chapter 4) differ by emphasizing Management Buy-out (MBO). It seems, however, that it is difficult for MBO to impact big business. In addition to these possibilities, the influence of political change, specifically democratization, will become significant.

1.3. Still Powerful State-owned Enterprises: Chinese Companies by Chinese Data

This subsection will examine the data prepared by China Enterprise Confederation/ China Enterprise Directors Association, not FT. FT is based on stock market capitalization, while Chinese data uses the sales standard, which the world has until now generally used. The scale is the most important for sales standard.

The Rapid Growth of Chinese Companies, and the Institutional Investor Role (Hirohiko Shimpo)

Table 3. Three Major Companies' Annual Report

Bank of Communications					
Name of substantial shareholder	Capacity	Number of A shares	Nature of interest	Approximate percentage of issued A shares (%)	Approximate percentage of total issued shares (%)
Ministry of Finance of the People's Republic of China	Beneficial owner	9,974,982,648	Long position	38.47	20.36
Ministry of Finance of the People's Republic of China	Beneficial owner	3,000,000,000	Long position	13.01	6.12
	Total	12,974,982,648		51.48	26.48
SSF	Beneficial owner	5,555,555,556	Long position	24.09	11.34
The Hongkong and Shanghai Banking Corporation Limited	Beneficial owner	9,312,013,580	Long position	40.37	19.01
	Interest of controlled corporation	69,470,681	Long position	0.30	0.14
	Total	9,381,484,261		40.67	19.15
Ping An Insurance					
Name of substantial shareholder	Capacity	No. of H/A Shares	Nature of interest	Percentage of total number of H/A Shares in issue (%)	Percentage of total shares in issue (%)
HSBC Insurance Holdings Limited	Beneficial owner	618,886,334	Long position	24.19	8.43
The Hongkong and Shanghai Banking Corporation Limited	Beneficial owner	614,099,279	Long position	24.00	8.36
	Total			48.19	16.79
JPMorgan Chase & Co.	Beneficial owner	4,408,891	Long position	0.17	0.06
	Investment Manager	71,407,700	Long position	2.79	0.97
	Custodian	103,949,374	Long position	4.06	1.42
	Total	179,765,965		7.03	2.45
	Beneficial owner	1,361,458	Short position	0.05	0.02
Shenzhen Investment Holdings Co., Ltd.	Beneficial owner	481,359,551	Long position	10.06	6.55
Shenzhen Jingao Industrial Development Co., Ltd.	Beneficial owner	331,117,788	Long position	6.92	4.51
Ping An Securities Company, Ltd. Labor Union	Interest of controlled corporations	331,117,788	Long position	6.92	4.51
China Ping An Trust & Investment Co., Ltd. Labor Union	Interest of controlled corporations	331,117,788	Long position	6.92	4.51
Ping An Insurance (Group) Company of China, Ltd. Labor Union	Interest of controlled corporations	389,592,366	Long position	8.14	5.30
	Total	1,051,827,942		21.98	14.32
Shenzhen New Horse Investment Development Co., Ltd.	Beneficial owner	389,592,366	Long position	8.14	5.30
Yuan Trust Investment Company Ltd.	Beneficial owner	380,000,000	Long position	7.94	5.17
China Merchants Bank					
Name of Substantial Shareholder	Capacity	No. of shares	Long/short position	Percentage of the relevant share held in issue (%)	Percentage of all issued share (%)
China Merchants Group Ltd.	Interest of controlled corporation	3,420,446,637	Long	21.84	17.90 *
China Merchants Steam Navigation Co. Ltd.	Beneficial owner	2,364,586,372	Long	15.10	12.37
China Merchants Finance Investment Holdings Co. Ltd.	Interest of controlled corporation	1,055,860,265	Long	6.74	5.52
Shenzhen Yan Qing Investment Development Co. Ltd.	Beneficial owner	563,529,636	Long		
	Interest of controlled corporation	492,330,629	Long		
	Total	1,055,860,265		6.74	5.52
	Grand Total	7,896,753,539		50.42	41.31
China Ocean Shipping (Group) Company	Beneficial owner	1,231,813,269	Long	7.86	6.44
China Shipping (Group) Company	Beneficial owner	228,735,204	Long		
	Interest of controlled corporation	653,864,064	Long		
	Total	882,599,268		5.63	4.62
JPMorgan Chase & Co.	Beneficial owner	44,130,605	Long		
	Investment manager	260,619,846	Long		
	Custodian corporation/ approved lending agent	147,610,259	Long		
	Total	452,360,710		13.07	2.37

Source: Company's Annual Report

It is significant that state-owned enterprises that are the parent companies of listed companies are what is being studied in this case. However, for financial institutions, such as Industrial and Commercial Bank of China Limited, a listed company is studied. Other than finance companies, a railroad or construction industry such as China Railway Construction Corporation Limited, the listed company, rather than the parent company is also the object of study. China Enterprise Confederation/ China Enterprise Directors Association produced a table listing Chinese companies according to this standard. **Table 4** reports the top 30 of those companies.

Table 4 shows the listed company and the ratio of control by each company to sales, profits, assets, and employees. The enormous assets of mega-banks are exceptional. In terms of the number of employees, not only finance, but resources, communications and other sectors are large. The labor force of China National Petroleum Corporation (CNPC), a mega business, exceeds 1,600,000.

For companies whose listed company is an object of study, the name of listed company are shown in the right column of each company name. For companies without a listed company, such as State Grid Corporation of China, the listed company column is blank. China Huaneng Group has a subsidiary, Huaneng International Power Development Corporation, and this subsidiary governs the listed company Huaneng Power International, Inc. Table 4 shows both the subsidiary and its subsidiary which are listed companies.

The ratio of control of the listed company by a parent company exceeds 50% for almost all companies. One exception is the 42.03% control of Huaneng Power International Inc., a subsidiary of a subsidiary of China Huaneng Group and the 44.01% control of Bailian Group Co., Ltd., a subsidiary of Bailian Group. Through this data, unlike the data in Table 2 and Table 3, the fact that state-owned enterprise rule is still strong emerges. We may conclude that Table 4 was produced to emphasize the solidity of state-owned enterprise rule.

When state-owned enterprise influence is still strong, the mechanism of resource allocation through state-owned enterprises will continue to function. A direct effect is that a large portion of the increase in public company dividends rapidly returns to the government. An indirect effect is that natural resources, capital, and human resources continue to be distributed disproportionately to state-owned enterprises. In this way, resources and profits are concentrated in the huge state-owned enterprises. Their reallocation to the overall economy and stimulation through active market competition becomes difficult.

The Rapid Growth of Chinese Companies, and the Institutional Investor Role (Hirohiko Shimpo)

Table 4. Top 30 Companies by Chinese Data

	Public Company	Ownership Ratio (%)	Sales (ten million yuan)	Profit	Assets	employees (thousand)	
1	China Petrochemical Corporation	China Petroleum & Chemical Corporation	75.84	139,195	3,932	128,889	633
2	State Grid Corporation of China			126,031	-234	184,194	931
3	China National Petroleum Corporation (CNPC)	PetroChina Company Limited	86.20	121,828	7,017	222,140	1,650
4	China Mobile Communications Corporation	China Mobile Limited	74.22	49,012	10,971	94,379	228
5	Industrial and Commercial Bank of China Limited			47,341	12,935	1,178,505	390
6	China Construction Bank			39,867	10,684	962,336	302
7	China Life Insurance (Group) Company	China Life Insurance Company Ltd.	68.37	38,950	2,135	155,465	118
8	China Railway Construction Corporation Limited			35,552	673	28,299	235
9	China Railway Group Limited			34,637	741	31,178	276
10	Agricultural Bank of China			33,843	6,500	888,259	441
11	Bank of China Limited			33,474	6,436	874,812	263
12	China Southern Power Grid Co., Ltd.			31,242	189	44,044	290
13	Dongfeng Motor Corporation	Dongfeng Motor Group Co., Ltd.	66.86	26,916	1,490	17,553	144
14	China State Construction Eng. Corp. Ltd.			26,038	573	29,258	331
15	Sinochem Group	Sinofert Holdings Limited	52.69	24,303	522	17,160	44
16	China Telecommunications Corporation	China Telecom Corporation Limited	70.89	24,290	905	66,041	495
17	Shanghai Automotive Industry Corporation (Group)	SAIC Motor Corporation Limited	78.94	22,972	731	20,321	137
18	China Communications Constructions Group (Limited)	China Communications Construction Company Limited	70.13	22,861	765	27,238	106
19	China National Offshore Oil Corporation (CNOOC)	CNOOC Limited	64.41	20,958	3,865	51,835	61
20	CITIC Group	China CITIC Bank	61.78	20,906	1,889	215,384	125
21	China FAW Group Corporation	FAW Car Limited Company	53.03	20,655	1,593	13,149	83
22	China South Industries Group Corporation			19,644	477	18,988	200
23	Baosteel Group Corporation	Baoshan Iron & Steel Co., Ltd	73.97	19,531	1,218	40,200	119
24	COFCO (Hong Kong) Limited	China Foods Limited	74.22	17,829	430	17,862	84
25	China Huaneng Group	Huaneng International Power Development Corporation	51.98	17,774	504	57,828	128
		Huaneng Power International, Inc.	42.03				
26	Hebei Iron & Steel Group Co. Ltd.	Tangshan Iron and Steel Group Company Limited		17,709	206	23,783	122
		Hebei Iron and Steel Co., Ltd.	51.11				
27	China Metallurgical Group Corporation	Metallurgical Corporation of China Ltd.	64.18	17,671	430	26,426	156
28	Bailian Group	Shanghai Bailian Group Co., Ltd.	44.01	17,387		6,248	170
29	Aviation Industry Corporation of China	AviChina Industry & Technology Company Limited	56.70	17,207	718	39,318	383
30	China Minmetals Corporation	Minmetals Resources Limited	63.39	17,047	254	12,898	55

Source: ET net, Shanghai Stock Exchange, Shenzhen Stock Exchange, Company's Annual Report

2. Chinese Type Multinational Companies

This section considers the correlation between the character of Chinese companies as shown in Section 1 and foreign investment. Chinese statistics are qualitatively and quantitatively abundant. Not only the central and local government organizations but also various other organizations publish statistics. However, since the examination of the same subject by two or more organizations is rare, the reliability of the statistics is not necessarily high.

The data on trade and foreign direct investment by company is worthy of note because this data is not available in developed countries, which often keep information about individual companies secret. These statistics can be obtained only in China, whose government rules its companies. Even though other data that supports this data reliability is not currently available, and further study is required, I will, for now, examine the character of the foreign relations of Chinese companies based on this data.

2.1. Taiwanese Companies Lead in Chinese Exports

We must consider the trade data of Chinese companies. Based on *CHINA'S TOP 500 FOREIGN TRADE ENTERPRISES* edited by the Statistical Society for Foreign Economic Relations and Trade of China, the top 30 companies were listed in order of export volume along with their import and balance of trade figures. **Table 5** sheds light on the following important facts. First, Taiwanese companies lead in Chinese exports, especially the export of technology-intensive products. Although the company classifications in the original source are Foreign Invested Enterprise, and Hongkong and Macau or Taiwan Invested Enterprise, Taiwanese companies are included in the above two groups. The total number of Taiwanese companies is 14. Six companies are in the top 10, and 12 companies are in the top 20. Their positions are extremely high. The exports of the top two companies, TED-FRONG (SHANGHAI) COMPUTER CO. and HONGQFUJIN PRECISION INDUSTRY (SHENZHEN) CO. far exceed the other companies. Most Taiwanese companies produce computer products and China has become the Taiwanese production base.²⁾

Hon Hai Precision Industry has founded 86 subsidiaries on the mainland including HONGQFUJIN PRECISION INDUSTRY (SHENZHEN) CO. and also forms the largest Taiwanese company group. Agtmael (2008, Chapter 5) examined Hon Hai in detail. He found that the advantages of Hon Hai are (1) scale, (2) seeking the highest demand markets, (3) highly focused,

2) Taiwanese companies will be discussed in a forthcoming paper.

The Rapid Growth of Chinese Companies, and the Institutional Investor Role (Hirohiko Shimpo)

Table 5. Largest Exports Companies in 2009

(10 thousand dollars)

Company	Exports	Imports	Balance	Group	Country	Products
1 TED-FRONG (SHANGHAI) COMPUTER CO., LTD.	2,175,651	377,566	1,798,085	Hongkong, Macau or Taiwan Invested Enterprise	Taiwan	Computer Products
2 HONGQFUJIN PRECISION INDUSTRY (SHENZHEN) CO., LTD.	1,320,618	1,015,071	305,547	Foreign Invested Enterprise	Taiwan	Computer Products
3 COMPAL INFORMATION TECHNOLOGY (KUNSHAN) CO., LTD.	889,852	145,228	744,624	Foreign Invested Enterprise	Taiwan	Computer Products
4 FUTAIHUA INDUSTRIAL(SHENZHEN) CO., LTD.	879,727	748,700	131,027		Taiwan	
5 NOKIA (CHINA) INVESTMENT CO., LTD.	835,257	281,523	553,734	Foreign Invested Enterprise		Telecommunication Products
6 WISTRON INFOCOMM MANUFACTURING (KUNSHAN) CO., LTD.	716,321	74,113	642,208	Foreign Invested Enterprise	Taiwan	Computer Products
7 HUAWEI TECHNOLOGIES CO., LTD.	698,985	263,485	435,500	Private Enterprise		Telecommunication Products and Equipment
8 MAINTEK COMPUTER (SUZHOU) CO., LTD.	634,778	243,765	391,013	Foreign Invested Enterprise	Taiwan	Computer Products
9 CHINA SHIPBUILDING TRADING CO., LTD.	631,140	121,715	509,425	State-Owned Enterprise		Transportation Implement
10 CHINA NATIONAL PETROLEUM CORPORATION	527,720	2,182,162	-1,654,442	State-Owned Enterprise		Mineral fuel
11 HONG FU JIN PRECISION ELECTRONICES (YANTAI) CO., LTD.	516,483	379,038	137,445	Foreign Invested Enterprise	Taiwan	Computer Products
12 INVENTEC CORPORATION	510,862	85,058	425,804	HongKong, Macau or Taiwan Invested Enterprise	Taiwan	Computer Products
13 INVENTECHI-TECH CORPORATION	501,289	31,654	469,635	HongKong, Macau or Taiwan Invested Enterprise	Taiwan	Computer Products
14 CHINA PETROCHEMICAL CO., LTD.	427,179	5,088,616	-4,661,437	State-Owned Enterprise		Mineral fuel
15 QUNKANG TECHNOLOGY (SHENZHEN) CO., LTD.	396,003	222,586	173,417	Foreign Invested Enterprise	Taiwan	Other Products
16 CHINA NATIONAL MACHINERY INDUSTRY CORPORATION	396,002	172,777	223,225	State-Owned Enterprise		Transportation Implement
17 HONGFUTAI PRECISION ELECTRON (YANTAI) CO., LTD.	390,526	188,187	202,339	Foreign Invested Enterprise	Taiwan	Other Products
18 PROTEK (SHANGHAI) CO., LTD.	389,207	67,802	321,405	Foreign Invested Enterprise	Taiwan	Computer Products
19 HUIZHOU SAMSUNG ELECTRONICS CO., LTD.	386,737	269,915	116,822	Foreign Invested Enterprise		Telecommunication Products and Equipment
20 ZTE CORPORATION (SHENZHEN)	358,148	3,560	354,588	Other Enterprise		Telecommunication Products and Equipment
21 WISTRON INFOCOMM TECHNOLOGY (KUNSHAN) CO., LTD.	339,420	12,252	327,168	Foreign Invested Enterprise	Taiwan	Computer Products
22 COMPAL INFORMATION (KUNSHAN) CO., LTD.	314,938	15,210	299,728	Foreign Invested Enterprise	Taiwan	Computer Products
23 ZHENGJIANG INTERNATIONAL BUSINESS GROUP CO., LTD.	313,191	64,740	248,451	State-Owned Enterprise		Textiles and Garments
24 BEIJING SE PUTIAN MOBILE COMMUNICATION CO., LTD.	310,563	165,198	145,365	Foreign Invested Enterprise		Telecommunication Products and Equipment
25 GUANGDONG SILKTEX GROUP CO., LTD.	310,190	31,790	278,400	State-Owned Enterprise		Textiles and Garments
26 LENOVO INFORMATION PRODUCTS (SHENZHEN) CO., LTD.	292,081	1	292,080	Foreign Invested Enterprise		Computer Products
27 TOP VICTORY ELECTRONICS (FUJIAN) CO., LTD.	286,423	34,455	251,968	Foreign Invested Enterprise		Computer Products
28 FLEXTRONICS MANUFACTURE (ZHUHAI) CO., LTD.	280,559	138,111	142,448	Foreign Invested Enterprise		Telecommunication Products and Equipment
29 ISTE (INTERNATIONAL SYSTEM TECHNOLOGY SHENIHEN COMPANY)	272,183	131	272,052	Other Enterprise		Computer Products
30 TIANJIN SAMSUNG TELECOM TECHNOLOGY CO., LTD.	267,384	215,896	51,488	Foreign Invested Enterprise		Telecommunication Products and Equipment
Total	16,569,417	12,640,305	3,929,112			
Foreign Invested Enterprise	17	Taiwan	14	Computer Products		14
Hongkong, Macau or Taiwan Invested Enterprise	3			Telecommunication Products and Equipment		6
State-Owned Enterprise	6			Mineral fuel		2
Private Enterprise	1			Textiles and Garments		2
Other Enterprise	2			Transportation Implement		2
				Telecommunication Products		1
				Other Products		2
Total	29			Total		29

Note: Data is changed in order of export value.

Source: Ministry of Commerce of the People's Republic of China, Comprehensive Department, <http://zhs.mofcom.gov.cn/article/Nocategory/201010/20101007176819.html>

high-yield joint design, and (4) constantly moving up the value ladder. Since Taiwanese companies achieved the export performance reported here, we might predict that **intra-firm trade** by companies including Taiwanese companies involved in Chinese trade would grow to a remarkable scale. However, their situation is different from that³⁾ of developed country companies, because trade by Taiwanese companies is chiefly **OEM (Original Equipment Manufacturer)**, or **ODM (Original Design Manufacturing)**. I expect, therefore, that intra-firm trade will be small.⁴⁾

Chinese state-owned enterprise, which consists of six companies, contrasts with the Taiwanese model. Of the 30 companies in Table 5, only the trade balances of two major oil companies, CHINA NATIONAL PETROLEUM CORPORATION and CHINA PETROCHEMICAL CO., LTD., are in the red because of their large volume of imports. Chinese oil companies are working to get petroleum resources from the rest of the world.

Shimpo (2009) examined foreign-affiliated firms in China by sales. Foreign-affiliated automobile companies generally filled the higher ranks, and many other developed country companies are also at that level. The fact that developed country companies lead production and sales of technology-intensive products inside China, and that Taiwanese companies lead in the export of technology-intensive products becomes clear. In contrast, Chinese companies govern the infrastructure and resource industries including finance, centering on state-owned enterprises.

Based on the data of these individual firms, the previous document reports which portion of Chinese trade is from foreign companies. **Table 6** summarizes this, showing that the ratio of both total exports and total imports increases abruptly beginning in 1986, but has been falling slightly for the past several years. Even now, the ratio is high, in excess of 50%.

Based on Table 5, we can conclude that for technology-intensive product groups the ratio of foreign company involvement in trade is very high. However, it is difficult to believe that such a high ratio has continued over a long period in all export and import sectors. A ratio this high appeared for a limited time for Malaysia and other countries that promoted export-led industrialization, which depended on foreign-affiliated firms in the past. Since the detailed data supporting this result has not been released, we should regard this as one estimate. The Chinese intention in presenting Table 6 may be to urge a break with foreign-affiliated firms.

3) Regarding the intra-firm trade in developed country multinational companies, refer to Shimpo (1998).

4) Research on the intra-firm trade portion of Chinese trade has also tended to decrease recently.

Table 6. Share of the Import and Export Value of Foreign Invested Enterprises in China's Total Import and Export Value

(Unit: USD 100 million)

	Total		Exports		Imports	
	Value	%	Value	%	Value	%
1986	30.1	4.1	5.9	1.9	24.2	5.7
1987	47.2	5.7	12.1	3.1	35.1	8.1
1988	83.4	8.1	24.6	5.2	58.8	10.6
1989	139.2	12.5	49.2	9.4	90.0	15.2
1990	201.2	17.4	78.1	12.6	123.0	23.1
1991	289.6	21.3	120.5	16.7	169.1	26.5
1992	437.5	26.4	173.6	20.4	263.9	32.8
1993	670.7	34.3	252.4	27.5	418.3	40.2
1994	876.4	37.0	347.1	28.7	529.3	45.8
1995	1,098.2	39.1	468.8	31.5	629.4	47.7
1996	1,371.1	47.3	615.1	40.7	756.0	54.5
1997	1,526.2	46.9	749.0	41.0	777.2	54.6
1998	1,576.8	48.7	809.6	44.1	767.2	54.7
1999	1,745.1	48.4	886.3	45.5	858.8	51.8
2000	2,367.1	49.9	1,194.4	47.9	1,172.7	52.1
2001	2,591.0	50.8	1,332.4	50.1	1,258.6	51.7
2002	3,302.2	53.2	1,699.4	52.2	1,602.9	54.3
2003	4,722.6	55.5	2,403.4	54.8	2,319.1	56.2
2004	6,631.6	57.4	3,386.1	57.1	3,245.6	57.8
2005	8,317.3	58.5	4,442.1	58.3	3,875.2	57.8
2006	10,364.5	58.9	5,638.4	58.2	4,726.2	59.7
2007	12,549.3	57.7	6,955.2	57.1	5,594.1	58.5
2008	14,105.8	55.1	7,906.2	55.3	6,199.6	54.7

Source: 2009 CHINA'S TOP 500 FOREIGN TRADE ENTERPRISES, compiled by Statistical Society for Foreign Economic Relations and Trade of China

2.2. Foreign Investment by Huge State-owned Enterprises

China has foreign direct investment (FDI) statistics, and although these statistics are useful, they have a number of problems. Both outward and inward foreign direct investment are often tracked through Hong Kong. The biggest problem is the difficulty in determining the actual investment condition of either mainland Chinese companies or overseas companies that invest in China. China has FDI statistics by company that, as for trade, are not found in developed countries. There is no data on the volume of investment, only rankings, but, the data are attention-grabbing.

Table 7, based on outward FDI stocks figures from *2009 Statistical Bulletin of China's*

Outward Foreign Direct Investment, shows the rankings in foreign assets and foreign revenues and also the ranking in Table 2 and Table 4. Since these materials are made in China, this is not a public

Table 7. The Top 50 Non-financial Chinese TNCs Ranked by Outward FDI Stocks 2009

		Ranked by foreign assets	Ranked by foreign revenues	Ranked by FT	Ranked by Chinese top companies
No.	Name of Enterprise	No.	No.		
1	China National Petroleum Corporation	1	2	1	3
2	China National Offshore Oil Corporation	4	5	9	19
3	China Petrochemical Corporation	3	1	6	1
4	Aluminum corporation of China	9		26	
5	China Resources (Holdings) Co., Ltd.	2	4		
6	China Ocean Shipping (Group) Company	6	8		
7	China National Cereals, Oils & Foodsuff's Corp.	12	9		24
8	Sinochem Corporation	10	3		15
9	China Merchants Group	5	18	12	
10	China National Aviation Holding Corporation	21	49		
11	China Shipping (Group) Company	22	21		
12	SinoSteel Corporation	25	13		
13	SINOTRANS Changjiang National Shipping (Group) Corporation	30	42		
14	China Minmetals Corporation	18	11		30
15	CITIC Group	23	36	14, 20	20
16	China Unicom Corporation	15		23	
17	China State Construction Engineering Corporation	8	10		14
18	China Power Investment Corporation	14	20		
19	China Huaneng Group	26	29		25
20	China National Chemical Corporation	32	22		
21	China Mobile Communications Corporation	7		3	4
22	China Metallurgical Group Cop.	31	31		27
23	Shum Yip Holdings Company Limited	16	30		
24	Legend Holdings Ltd.	13	7		
25	Hunan Valin Iron & Steel (Group) Co. Ltd	19	25		
26	GDH Limited	20	27		
27	Huawei Technologies	11	6		
28	China Nonferrous Metal Mining & Construction (group) Co., Ltd.	40	41		
29	China Norh Industries Group Corporation	35	16		
30	Shanghai Baosteel Group Corporation	37	17		23

Source: 2009 Statistical Bulletin of China's Outward Foreign Direct Investment

company but a state-owned enterprise as the parent company, that is generally reported. The rank in outward FDI stock does not generally differ greatly from the rank in foreign assets and foreign revenues. The rank in foreign revenues of China National Aviation Holding Corporation is low. In SINOTRANS Changjiang National Shipping (Group) Corporation, the rank in both foreign assets and foreign revenues is low. These are characteristic examples. The important fact that Table 7 makes clear is that many of the higher rank companies are resource-related companies and their holding companies. This fact shows that essential resources increase rapidly during rapid economic growth and the improvement of living standards in China and that the Chinese companies studied try to procure resources from the world through FDI.

In contrast, few manufacturing industry companies are like Legend Holdings Ltd. No finance company that has become a global company in its scale of stock market capitalization or assets is found except CITIC Group, a sovereign wealth fund. Regarding communications, the largest company China Mobile Communications Corporation is also conducting FDI, but the company has not realized a profit.

What the **Chinese type multinational company** is, is an important theme in developing various discussions about the future. Using the above examination of trade and FDI, I will discuss the character of the Chinese type multinational company. A majority of the companies are resource-related state-owned enterprises. They do not lead in Chinese trade, which means that trade and FDI do not necessarily correspond. The Chinese type multinational company is a reflection of the fundamental characteristics of Chinese companies, which are still under the strong influence of state-owned enterprise. The Chinese type multinational company has a unique character that is considerably different from other developing country multinational companies that attained rapid growth on the foundation of the market economy.⁵⁾

3. The Future of Chinese Companies and Institutional Investors

The reduction of government involvement, the establishment of company autonomy, and the expansion of the market role are indispensable for the future development of the large Chinese

5) Ohashi and Marukawa (2009, Chapter 1) and Marukawa and Nakagawa (2008) discuss the Chinese type multinational company. These discussions do not necessarily clarify their relation to the fundamental character of Chinese companies. Moreover, although McNally (2007, Part 2, Chapter 5) examines the same subject, it is, regrettably, not well supported by sufficient data.

company. Whether these changes are possible under socialism and the Communist Party one-party dictatorship is being tested. Trials will include the organization of business groups and the expansion of labor union influence, as already described. However, this process has an additional aspect which may lead to preserving the authority of the Communist Party as a huge interest group consisting mainly of the government and state-owned enterprises.

The question is if another course would be appropriate. The first element to examine is increasing the role of domestic and foreign professional **institutional investors**. Foreign institutional investors are steadily increasing their investment so they may play that role. However, if this investment becomes too high, there will be strong resistance from the Communist Party and the Chinese government. Chinese institutional investors, therefore, attract the most interest.

3.1. China's Bank-centered or Bank-based Financial System

As the actual condition of socialist China came to be known through the policy of reform and opening doors, it was revealed that the social security system was remarkably inadequate on a national scale despite displaying a signboard called **socialism**. In particular, in rural areas, where the movement of people is restricted by the family registration system, sufficient social security has not been achieved. The institutional gap between bureaucrats and employees of state-owned enterprises who have adequate healthcare, and farmers in many rural areas, is significant.

The difficulty caused by the institutional defect of being slow to achieve a system of social security is gradually becoming enormous. In the long run, the possibility is that this institutional defect may destabilize Chinese society. As in Japan, the aging of the Chinese population advances steadily and a substantial social security system is immediately required. In these conditions, the development of institutional investors, such as public and private pension funds and life insurance companies, is remarkably inadequate. As we know, these funds have grown tremendously in developed countries. This underdevelopment is becoming the major factor causing the instability of the financial and securities market in China. Since the revival⁶⁾ of a securities market is quite recent, the development of securities firms is also backward. In this situation, the banks, which were central before the introduction of the socialist system (Shimpo, 2010), have maintained a position superior to other financial institutions as shown clearly in Table 2 or Table 4. This means that China

6) Although this was not an official argument in China, the reality is the revival of a securities market and not its establishment. Before the introduction of socialism, a market economy and a financial and securities market played an important role. Refer to Shimpo (2009).

has a **Bank-centered or Bank-based Financial System**⁷⁾ .

The Chinese Bank-centered or Bank-based Financial System differs from the Japanese main bank system, which is the Bank-centered or Bank-based Financial System of Japan that was established immediately after World War II but has lost influence now. The involvement of the government is restrictive and indirect in the **Japanese main bank system**.⁸⁾ The Japanese main bank is a private company, not a government owned bank. In contrast, most banks in China, especially mega-banks are government controlled banks. This means that the Chinese Bank-centered or Bank-based Financial System is not a Bank-centered or Bank-based Financial System, but a **Government-centered Financial System**.

Chun Liao surmised that the Japanese main bank system resembles the Chinese financial system.⁹⁾ Since such a simple analogy is often made between the financial systems of Japan and China, we must emphasize the fundamental difference between both systems again. Ren (2002, 192-196) said that the Bank-centered or Bank-based Financial System and the corporate governance system are the future direction of China, and proposed the introduction of the main bank system. However, even if the main bank system is introduced, unless the main bank becomes independent from the government, the influence of the government on companies will not be reduced. The more the main bank acts in accordance with government will, the more the financial institutions depending on the government and the company groups connected with them, all of them will get a chance to develop. In times of economic difficulty, however, the banks are forced to take over bad loans. As a result, the financial institutions and the function of financial markets, whose development has at last begun, may be weakened. The widespread privatization of companies and financial institutions including banks is required.

A variety of data show the size of indirect financing based on banks.¹⁰⁾ We will look at one example that has persisted over time. **Table 8** shows Ratio of Domestic Raised Capital in Stock Market to Amount of Loan of Bank. According to this data the ratio has been at the same level in most fiscal years. The proportion of indirect financing is remarkably high. The only exceptions are 21.21% in 2007, and 11.55% in 2000. Although it is possible that there is direct financing by companies other than through the stock market, the proportion of direct financing will not increase

7) Barth (2009, 92). This can also be named the indirect financial system.

8) Regarding the Japanese main bank system, refer to Shimpo (2009) in detail.

9) Liao (2009, 2.2.5.5)

10) Although the data is about the short term, more detailed data is in *China Financial Yearbook 2009*.

greatly from this figure because the amount does not exceed stock. Although the direct-financing ratio is increasing somewhat now, unless there is growth of institutional investors as described below, it will be difficult for the ratio to continue increasing.

3.2. Underdeveloped Institutional Investors

This subsection will show the kind of financial institutions that operate among Chinese institutional investors. In Table 2, the state-owned enterprises and the government organizations often appear as stockholders of the highly ranked companies, and neither pension funds nor life insurance companies appear as they do in developed countries.

According to **Figure 1**, based on *China Capital Markets Development Report* edited by China Securities Regulatory Commission, individual investors accounted for 51.3% of investors in China's stock market at the end of 2007. In developed countries, where financial institutions proliferated, China's level would be seen as unthinkable high. The next largest investors are

Table 8. Ratio of Domestic Raised Capital in Stock Market to Amount of Loan of Bank
(100 million yuan)

Year	Domestic Raised Capital	Amount of Loan of Bank	%
1993	314.5	6,335.4	5.0%
1994	138.1	7,216.6	1.9%
1995	118.9	9,339.8	1.3%
1996	341.5	10,683.3	3.2%
1997	933.8	10,712.5	8.7%
1998	803.6	11,490.9	7.0%
1999	897.4	10,846.4	8.3%
2000	1,541.0	13,346.6	11.5%
2001	1,182.1	12,439.4	9.5%
2002	779.8	18,979.2	4.1%
2003	823.1	27,702.3	3.0%
2004	862.7	19,201.6	4.5%
2005	338.1	16,492.6	2.1%
2006	2,463.7	30,594.9	8.1%
2007	7,723.0	36,405.6	21.2%
2008	3,535.0	41,703.7	8.5%
2009	5,051.5	95,940.0	5.3%

Original Source: PBC NBS and CSRC

Source: *China Securities and Futures Statistical Yearbook 2010*, p.15.

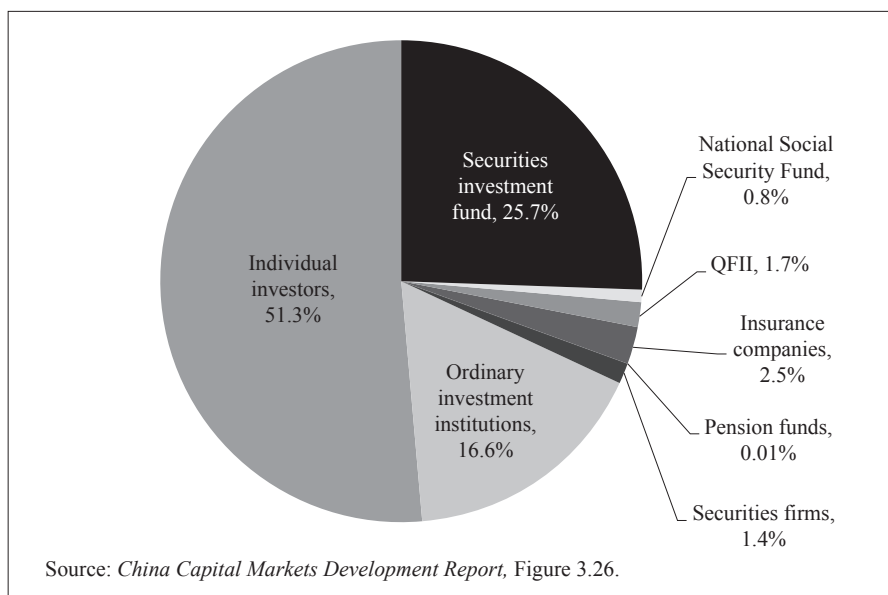


Figure 1. Market Shares of Different Types Investors in China's Stock Market at the end of 2007

securities investment funds at 25.7%. They are conspicuously prominent among the Chinese institutional investors. The next institutional investors are insurance companies at 2.5%. If qualified foreign institutional investors (QFII) are ignored, the next in rank are 1.4% from securities firms, 0.8% from National Social Security Fund¹¹⁾, and 0.01% from pension funds. Their difference in size from securities investment funds is too large. The percentage of individual investors who participate in securities investment funds is great. In summary, the Chinese stock market is the market that individual investors govern and the institutional investor role is much too small.

3.3. Activity of Securities Investment Funds and Institutional Investors

Subsection 3.3 will examine securities investment funds, the largest institutional investors. **Table 9** lists representative securities investment funds including Guotai Asset Management Co., Ltd. There is a small difference in registered capital. The large differences are in fund share and market capitalization of holding stocks. The largest securities investment fund, China Asset Management Co., Ltd. has a fund share of 192,700 million shares, and the market capitalization of

11) As an independent institutional investor, it is the largest. This is considered one of the sovereign wealth funds. As discussed in Section 4, although it is estimated as group five in Linaburg-Maduell Transparency Index, information disclosure is insufficient.

Table 9. Summary of Securities Investment Funds Management Corp.

No.		Registered Capital (yuan)	Registered in	Office Location	Date Founded	Fund Amounts	Fund Share (100 million shares)	Market Capitalization of Holding stocks (100 million yuan)
1	Guotai Asset Management Co., Ltd.	110,000,000	Shanghai.	Shanghai.	1998/3/5	15	603.7	594.0
	China Jianyin Investment Limited	70%						
2	China Southern Fund Huatai Securities	150,000,000 45%	Shenzhen	Shenzhen	1998/3/6	21	1,112.5	1,222.7
3	China Asset Management Co., Ltd.	138,000,000	Beijing	Beijing	1998/3/9	25	1,927.3	2,657.6
	CITIC Securities Co., Ltd.	100%						
4	Hua An Fund Management Co., Ltd.	150,000,000	Shanghai.	Shanghai.	1998/5/4	16	837.2	936.5
5	Bosera Asset Management Co., Ltd.	100,000,000	Shenzhen	Shenzhen	1998/7/13	18	1,358.9	1,504.5
	China Merchants Securities Co., Ltd.	73%						
6	Penghua Fund Management Co., Ltd.	150,000,000	Shenzhen	Shenzhen	1998/12/22	14	496.7	596.7
	Guosen Securities Co., Ltd.	50%						
7	Changsheng Fund Management Co., Ltd.	150,000,000	Shenzhen	Beijing	1999/3/26	13	448.8	484.7
	Guoyuan Securities Company Ltd.	41%						
8	Harvest Fund Management Co., Ltd.	150,000,000	Shanghai.	Beijing	1999/3/25	19	1,569.7	1,564.2
	China Credit Trust Co., Ltd	40%						
9	Dacheng Fund Management Co., Ltd.	200,000,000	Shenzhen	Shenzhen	1999/4/12	16	1,132.4	1,060.4
	Zhongtai Trust and Investment Co., Ltd.	48%						
10	Fullgoal Fund Management Co., Ltd.	180,000,000	Shanghai.	Shanghai.	1999/4/13	15	609.9	653.6

Note: The 2nd line data of each fund is the major stockholder and its ownership ratio.

Source: *China Securities and Futures Statistical Yearbook 2010*, 173. Regarding each securities investment funds, refer to *2008 Almanac of China's Securities Investment Funds*.

its stock holdings is 265,700 million yuan.¹²⁾

We will examine the stockholders of representative securities investment funds. The parent company of Guotai Asset Management Co., Ltd. is China Jianyin Investment Limited, as shown

12) Although the data of Xiaohu (2005, Chapter 3 and Directory) is not current, this is an English book which discusses each securities investment fund in detail.

in Table 12. Central Huijin has also invested in China Jianyin Investment Limited China Asset Management Co., Ltd. is the wholly-owned subsidiary of CITIC Securities Co., Ltd. These funds are strongly influenced by the government. Many other securities investment funds are also subsidiaries of securities firms or trust companies. Securities firms include government related securities firms such as China Merchants Securities Co., Ltd. and Guoyuan Securities Company Ltd. Other securities firms are closely related to local government and its companies. For example, Huatai Securities is related to the companies of Jiangsu Province; Hua An Fund Management Co., Ltd. is related to the companies of Shanghai. Five companies held almost the same number of Hua An Fund stock. In general, many securities investment funds are under the influence of the central or local governments.¹³⁾

From securities firms to securities investment funds, the role of government related companies remains significant in financial institutions. To further privatize companies and financial institutions, it must become easy for small-scale companies and financial institutions, and institutional investors as stockholders, to advance with little government influence. Privatization is not now progressing this way, but this kind of progress with minimal government influence is the only possibility for improvement.

Here are data worthy of note about the ownership of securities investment funds. According to **Table 10**, from 2005 to 2007 the ratio of individual investors increased abruptly from 54.23% to 89.58% as institutional investors decreased rapidly from 45.77% to 10.42%. The data are insufficient to explain this rapid change, but from Table 10 it seems that the influence of open-end funds has increased greatly. Based on this data the individual investor share in securities investment funds is high and individual investors influence is great. We can conclude that the activity of securities investment funds as institutional investors tends to be guided by the individual investor activity.¹⁴⁾

We will examine useful data about how different kinds of investors act in two securities markets. China Securities Regulatory Commission issued a report showing different types of investors. The report divides individual investors into five categories by assets and distinguishes

13) The information on securities firms is acquired from the following pages of The Securities Association of China. <http://cx.sac.net.cn/huiyuan/g/cn/cx/n.jsp?year=2010>

14) For detailed data, refer to The Securities Association of China (2009).

Table 10. Holders structure of securities investment funds (2005-2007)

	Closed-end funds		Open-end funds		ETF funds		QDII funds		Total	
	Institutional	Individual	Institutional	Individual	Institutional	Individual	Institutional	Individual	Institutional	Individual
2005	51.7%	48.3%	43.9%	56.1%	71.8%	28.2%			45.8%	54.2%
2006	60.6%	39.5%	19.4%	80.7%	70.0%	30.1%			28.1%	71.9%
2007	56.3%	43.7%	9.0%	91.0%	44.5%	55.5%	1.6%	98.4%	10.4%	89.6%

Statistics on Institutional investors' holding all kinds of open-end funds (2004-2007)

	Stock funds	Index stock funds	Stock-based funds	Balanced Fund	Bond-based funds	Bond funds	Principal guaranteed funds	Money funds	Short-term debt funds
2004	51.9%	45.4%	41.9%	41.2%	17.5%	22.5%	7.8%	31.8%	
2005	51.5%	45.8%	45.0%	46.1%	26.4%	26.8%	4.9%	45.8%	2.3%
2006	17.5%	21.8%	13.7%	16.7%	37.9%	36.4%	5.6%	36.6%	12.8%
2007	7.6%	5.2%	5.2%	7.6%	13.9%	60.7%	8.3%	44.4%	34.6%

Source: 2008 Almanac of China's Securities Investment Funds, p.116.

investments that exceed three months from those of less than three months¹⁵⁾. Among the individual investors in the Shanghai Stock Exchange, only those with one to five million Renminbi (RMB) investments had more long term than short term investments. Among institutional investors, only QFII investors had more long term investments. For securities investment funds or National Social Security Fund, there are more short term investments. In the Shenzhen securities exchange, for all groups of individual investors, investment for less than three months is overwhelmingly predominant. For institutional investors, QFII and National Social Security Fund have more investments of three months or more but less than 12 months.¹⁶⁾

This data show that the length of share ownership by individual investors is generally short, but institutional investors follow the same pattern. This is because institutional investors must meet the expectations of the individual investors that invest in each institution. Investor activity centering on short-term investment often causes sharp changes in a stock market, making it unstable. The unstable conditions may make companies hesitant to seek financing through the market. For this reason, the development of stable markets and companies requires institutional investors such as pension funds or life insurance companies that will promote long-term investment as they do in

15) *China Capital Markets Development Report*, Chapter 3 Section 5.

16) The volatility of a securities market is brought about easily as a result of this condition. Regarding the volatility of Chinese securities market, refer to Wei (2009, Chapter 9). However, this book does not adequately discuss the real market volatility.

developed countries.

4. Chinese Sovereign Wealth Funds

One more important group of institutional investors in China is the **sovereign wealth funds**. These institutional investors embody the character of socialist China. The sovereign wealth fund is a financial institution under direct governmental rule, as the name indicates, unlike the institutional investors described in the previous section. The fund is in essential conflict with the development of markets or companies. If sovereign wealth funds expand domestic investment, the general institutional investors' market share will fall. If investment is expanded abroad, sovereign wealth funds compete with institutional investors in each country and raise strong concerns about the control among the companies and the public organizations of the host country. The development of sovereign wealth funds may cause significant confrontation and conflict both at home and abroad.

4.1. World Sovereign Wealth Funds

The subsection 4.1 will survey the sovereign wealth funds of the world. Based on the data from Sovereign Wealth Fund Institute, **Table 11** ranks the top 30 funds. Funds related to Oil & Gas make up approximately 60% of the top 50 funds. Among the top 30, 17 funds are Oil & Gas related.

The second ranked Norwegian Government Pension Fund- Global is a developed country fund with remarkably high transparency. The fund differs from the following oil related funds with less transparency. Abu Dhabi Investment Authority and SAMA Foreign Holdings are the representative sovereign wealth funds of an oil exporting country with low transparency by contrast with the funds of developed countries.

The Non-Commodity related, Chinese SAFE Investment Company and China Investment Corporation, examined in the following section, and Hong Kong Monetary Authority Investment Portfolio funds are huge. SAFE Investment Company is a subsidiary in Hong Kong of **The State Administration of Foreign Exchange (SAFE)**.

The degree of progress in information disclosure and transparency by these funds is more important than anything else. When we compare using the Linaburg-Maduell Transparency Index of 30 funds, three oil related companies including Brunei Investment Agency of Brunei are in group 1 with the least transparency. Among Chinese companies, SAFE Investment Company is in group 2, China Investment Corporation is in group 6, and National Social Security Fund which must be

Table 11. Sovereign Wealth Fund Rankings

Largest Sovereign Wealth Funds by Assets Under Management

Country	Fund Name	Assets \$Billion	Inception Origin	<i>Linaburg- Maduell Transparency Index</i>
15 Algeria	Revenue Regulation Fund	\$56.70	2000 Oil	1
22 Brunei	Brunei Investment Agency	\$30	1983 Oil	1
24 Iran	Oil Stabilisation Fund	\$23	1999 Oil	1
3 Saudi Arabia	SAMA Foreign Holdings	\$439.10	n/a Oil	2
4 China	SAFE Investment Company	\$347.1**	1997 Non-Commodity	2
13 Libya	Libyan Investment Authority	\$70	2006 Oil	2
1 UAE – Abu Dhabi	Abu Dhabi Investment Authority	\$627	1976 Oil	3
20 Malaysia	Khazanah Nasional	\$36.80	1993 Non-Commodity	4
27 UAE – Dubai	Investment Corporation of Dubai	\$19.60	2006 Oil	4
9 China	National Social Security Fund	\$146.50	2000 Non-commodity	5
11 Russia	National Welfare Fund	\$142.5*	2008 Oil	5
12 Qatar	Qatar Investment Authority	\$85	2005 Oil	5
5 China	China Investment Corporation	\$332.40	2007 Non-Commodity	6
7 Singapore	Government of Singapore Investment Corporation	\$247.50	1981 Non-Commodity	6
8 Kuwait	Kuwait Investment Authority	\$202.80	1953 Oil	6
17 Kazakhstan	Kazakhstan National Fund	\$38	2000 Oil	6
6 China – Hong Kong	Hong Kong Monetary Authority Investment Portfolio	\$259.30	1993 Non-Commodity	8
18 South Korea	Korea Investment Corporation	\$37	2005 Non-Commodity	9
28 Canada	Alberta's Heritage Fund	\$14.40	1976 Oil	9
29 US – New Mexico	New Mexico State Investment Council	\$13.80	1958 Non-Commodity	9
2 Norway	Government Pension Fund – Global	\$512	1990 Oil	10
10 Singapore	Temasek Holdings	\$145.30	1974 Non-Commodity	10
14 Australia	Australian Future Fund	\$67.20	2004 Non-Commodity	10
19 US – Alaska	Alaska Permanent Fund	\$37	1976 Oil	10
21 Ireland	National Pensions Reserve Fund	\$33	2001 Non-Commodity	10
25 Chile	Social and Economic Stabilization Fund	\$21.80	1985 Copper	10
26 Azerbaijan	State Oil Fund	\$21.70	1999 Oil	10
30 UAE – Abu Dhabi	Mubadala Development Company	\$13.30	2002 Oil	10
16 UAE – Abu Dhabi	International Petroleum Investment Company	\$48.20	1984 Oil	n/a
23 France	Strategic Investment Fund	\$28	2008 Non-Commodity	n/a
	Total Oil & Gas Related in 50 SWFs	\$2,414.90	Oil 17	
	Total Other in 50 SWFs	\$1,754.20		
	50 SWF TOTAL	\$4,169.10		

Note *: This includes the oil stabilization fund of Russia.

** : This number is a best guess estimation.

*** : All figures quoted are from official sources, or, where the institutions concerned do not issue statistics of their assets, from other publicly available sources. Some of these figures are best estimates as market values change day to day.

Source: Sovereign Wealth Fund Institute.

highly transparent is, conversely, in group 5.

According to Sovereign Wealth Fund Institute, “at the year end of 2007, the SAFE held around \$18.9 billion in foreign securities and \$220.6 billion in foreign debt securities. This totals \$239.5 billion dollars in SAFE’s foreign investment portfolio ending year 2007. In addition, another \$107.6 billion is invested directly abroad which would bring the total to \$347.1 billion in foreign non-reserve assets.”¹⁷⁾

4.2. Investment by China Investment Corporation

This subsection will consider the investments of the important sovereign wealth fund, **China Investment Corporation**, in detail. “In September 2007, the Ministry of Finance issued special treasury bonds and acquired all the shares of Central Huijin from the People’s Bank of China. The acquired shares were injected into China Investment Corporation as part of its initial capital contribution for around US\$ 67 billion.”¹⁸⁾

Central Huijin Investment Limited is becoming the leading stockholder in many major banks. The ownership ratio of Central Huijin Investment, as reported in Table 2, is 35.4% of Industrial & Commercial Bank of China, 59.3% of China Construction Bank, 67.5% of Bank of China. It is the government’s financial institution for governing financial institutions. **Table 12** shows the other investments of Central Huijin Investment. They are 48.7% of China Development Bank and 50.0% of the just listed Agricultural Bank of China. Aside from these investments, Central Huijin Investment has invested in an investment company, a securities firm and widely in other companies.¹⁹⁾

The total assets of China Investment Corporation (CIC) itself is 332 billion dollars. The long-term equity investment is 201 billion dollars. According to **Table 13**, the total foreign direct investment in fiscal year 2009 is 8.3 billion dollars.²⁰⁾ All foreign direct investment is resource and energy related. The character of the Chinese multinational company, which we reviewed in Section 2, appears vividly here.

In China, governmental influence is still maintained in all financial institutions by the huge banks at the core of the financial system. This control extends even to the institutional investors

17) <http://www.swfinstitute.org/swfs/safe-investment-company/>

18) <http://www.swfinstitute.org/swfs/china-investment-corporation/>

19) Regarding the investment by China Investment Corporation (CIC), and its governance, refer to Sekine (2009, 2010).

20) These data are obtained from the CIC Annual Report. CIC information disclosure is also slowly improving.

Table 12. Central Huijin holds shares in the institutions

Corporate Name	Investment Type	Organization Structure	Major Business	Capital Stock			
				Amount on June. 30, 2009 (Billion Shares)	Date of Investment	Central Huijin's Holdings (Billion Shares)	%
China Development Bank	Share Holding	Corp.	Commercial Banking	300.000	2007/12/31	146.092	48.7%
Industrial and Commercial Bank of China	Equity Controlled	Corp.	Commercial Banking	334.019	2005/4/22	118.287	35.4%
Agricultural Bank of China	Equity Controlled	Corp.	Commercial Banking	260.000	2008/10/29	130.000	50.0%
Bank of China	Equity Controlled	Corp.	Commercial Banking	253.839	2003/12/30	171.407	67.5%
China Construction Bank	Equity Controlled	Corp.	Commercial Banking	233.689	2003/12/30	112.699	48.2%
China Everbright Bank	Equity Controlled	Corp.	Commercial Banking	28.217	2007/11/30	20.000	70.9%
China Reinsurance (Group) Corporation	Equity Controlled	Corp.	Reinsurance Business	36.149	2007/4/11	30.908	85.5%
China Jianyin Investment	Equity Controlled	Wholly state-owned Ltd. company	Investments	20.692	2004/9/9	20.692	100.0%
China Galaxy Financial Holdings	Equity Controlled	Co., Ltd.	Financial Investments	7.000	2005/7/14	5.500	78.6%
Shenyin & Wanguo Securities	Equity Controlled	Corp.	Securities Business	6.716	2005/9/21	2.500	37.2%
Guotai Junan Securities	Share Holding	Corp.	Securities Business	4.700	2005/10/14	1.000	21.3%

Source: Central Huijin Investment Ltd.

Table 13. Highlight of Selected Direct Investments in 2009

Company	Contract Month	Amount of Investment (Million USD)	Type of Investment	Sector	Approximate Initial Ownership %
Teck Resources Limited (Canada)	July	1,500	Class B subordinate voting shares	Mining and mineral development	17.2%
JSC KazMunaiGas Exploration Production (Kazakhstan)	July	940	Global depository receipts	Oil and gas	10.6%
Nobel Oil Group LTD (Russia)	September	270	Equity acquisition	Oil and gas	45.0%
PT Bumi Resources Tbk (Indonesia)	September	1,900	Private debt	Thermal coal production	Not Applicable
Noble Group Limited (Singapore)	September	858	Common shares	Resources	14.9% of outstanding shares on an undiluted basis
SouthGobi Energy Resources Limited (Canada)	November	500	30-year secured convertible debenture	Coal mining and exploration company	Not Applicable
AES Corporation (United States)	November	1,581	Common shares	Power generation	15.0%
GCL-Poly Energy Holdings Limited (Hong Kong)	November	717	Common shares	Renewable energy	20.1% on a fully-diluted basis
Total		8,266			

Source: China Investment Corporation Annual Report 2009

discussed in Section 3. Although privatization of financial institutions is slowly advancing, further development will take considerable time. Under such conditions, the development of sovereign wealth funds could reverse this progress. The development could weaken the function of the financial markets that have finally begun to develop.

When sovereign wealth funds and huge state-owned enterprises promote the overseas acquisition of the resources and energy which are the foundation of economic development, we must point out the possibility that they may intensify the confrontation and friction with developed countries' public companies, and may distort the function of the global market. Therefore, the requirement is reducing the sphere of activity and the scale of investment of sovereign wealth funds, shifting to private-sector financial institutions from sovereign wealth funds, and the general further development of institutional investors.

Conclusion

Through adoption of the policy of reform and opening doors, China became the second global economic power in approximately 30 years. Privatized Chinese companies have supported this economic development. Now Chinese companies are going to advance to a new development stage. Although privatization of Chinese companies has advanced to the major companies, China now faces the possibility of either further advancement or stagnation. Many major companies are still largely ruled by the state-owned enterprises, which are their parent companies. In contrast, we see a trend toward weakened rule by state-owned enterprises and the increase of cross-shareholding by business groups or labor unions. Attention is focused on whether or not these attempts will succeed.

Many privatized Chinese companies based in the domestic market are under state-owned enterprise rule. Foreign companies, including Taiwanese companies, are leading Chinese production. The role of foreign companies is remarkably high in research intensive industries. In contrast, the companies where foreign direct investment is increasing are mainly resource-related, and we can recognize the character of the Chinese type multinational company.

To foster the development of Chinese companies, the establishment of a base in financial and securities markets is indispensable. After the reform and open door policy, China had adopted the Bank-centered or Bank-based Financial System ruled by the government. Although the financial securities market is gradually growing, the institutional investor role of pension funds or life insurance companies in long-term investment is still minimal. In this market, the individual investor

continues to play a major role. The activity of individual investors that repeatedly does short-term deals generates company instability. This is the weak point of Chinese companies.

In China the rapid growth of sovereign wealth funds is seen in contrast to the underdevelopment of institutional investors such as pension funds or life insurance companies. Sovereign wealth funds invest in domestic corporations and overseas. Such investment distorts the activity of financial and securities markets and intensifies international confrontation. The low transparency of sovereign wealth funds strengthens the anxiety about the funds.

I would like to stress the following items that are important if Chinese companies are to continue growing: 1) privatization of companies including financial institutions, increasing companies' independence from the government, establishing a base in financial and securities markets and 2) growth of domestic and foreign private institutional investors in supporting companies, including the indispensable expansion of long-term investment.

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