

## **International listing as a means to improve the Benefit-Risk Calculus of Financial Globalisation: Micro-Level Evidence from China**

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## 1. Introduction

The question of how developing economies can improve the benefits derived from financial globalisation has dominated recent discourses on global integration. The standard neo-classical approach argues that long-term financial flows from capital rich to capital poor countries generate welfare gains for both sets of countries. However these “direct” benefits have proved difficult to quantify and a recent revision has argued that countries first need to reach a threshold of institutional development before they can hope to benefit from financial globalisation (Kose *et al*, 2006; Prasad *et al*, 2003). Similarly, the literature on corporate governance has mainly focused on the relationship between corporate governance and institutions, and in particular on how the quality of legal institutions determines the system of governance (La Porta *et al*, 1998, 2000). It suggests that in order to facilitate capital market development, emerging economies should converge towards governance systems that offer strong legal protection for investors. Yet, in developing economies, the institutions that underpin capital market development are either absent or at an early stage of development. China is a case in point. Its recent economic growth has been achieved in the absence of well-developed law and financial system. The puzzle is further deepened by the history of financial development, which shows that *laissez faire* was more the exception than the norm (Supple, 1976). This paper draws on the historical evolution of the Anglo-American system of corporate governance and micro level evidence from China’s large state enterprises, to examine how developing economies can improve the benefits from financial globalisation, when the institutional thresholds deemed necessary for convergence are not met.

Distinguishing itself from macro-level analyses of financial globalisation, this paper focuses on the micro-level innovations that enable firms in developing economies to overcome institutional constraints to better governance practices, increasing their benefits from financial globalisation. It explores how firms can use international listing to bond themselves to better governance practices, thereby enabling them to successfully access international financial markets. Drawing on both the experiences of China’s internationally listed enterprises that have implicitly used financial globalisation to access international finance, and the evolution of the Anglo American system of corporate governance, it argues that the mechanisms that enable firms in developing economies to benefit from financial globalisation are not necessarily the “direct” channels outlined in the neo-classical approach. It follows that



growth does not necessarily fit with standard theory (Allen *et al*, 2005). China's industrial capacity and economic growth were achieved behind high barriers (Wade, 2004). Much of the reductions in poverty occurred during agricultural de-collectivisation, rather than during the subsequent trade-opening phase (Ravallion, 2006). The Asian Financial Crisis illustrated the vulnerability of China to financial crashes and the fragility of China's financial institutions (Nolan, 2004).<sup>2</sup> In addition, political liberalisation in favour of democracy and the rule of law has been limited, and the one party monopoly still dominates (Li, 1998). It would therefore be natural to assume that China does not meet the institutional thresholds deemed necessary to benefit from financial globalisation. Yet, studies of China's internationally listed enterprises, regarded as China's leading corporations, suggest that it is not a necessary condition to reach the institutional thresholds in order to benefit from the international capital markets (e.g. Sun and Tobin, 2005). Case studies by Nolan (2001) suggest that although China's large enterprises still lag their international counterparts in terms of managerial competencies, they are actively engaging in, and adapting to international product markets. The following section outlines the limitations of the macro perspective for China. Secondly, a historical perspective on the evolution of the Anglo-American system of governance suggests that some answers to the question of how developing economies use financial globalisation can be found by examining micro-level innovations.

### ***Macro Level Perspectives***

The persistent efforts to address the puzzle of how developing economies benefit from financial globalisation have led to a revised analytical framework that analyses the "traditional" or direct benefits alongside the "collateral" or indirect benefits (Kose *et al*, 2006; Mishkin 2006) (see Figure 1). The revised framework acknowledges the relevance of traditional direct benefits, but in the absence of conclusive empirical evidence also argues that financial globalisation can act as a catalyst for certain collateral or indirect benefits (Kose *et al*, 2006). The indirect benefits of globalisation include financial market development, institutional development, better governance practices and macroeconomic discipline. Attaining these benefits is however conditional on countries reaching a series of thresholds in financial development, institutional quality and governance standards. Moreover



Mishkin (2006) dates the first age of financial globalisation to the late 19<sup>th</sup> century. True, the 19<sup>th</sup> century witnessed the emergence of London as a preferred market for securities, and it attracted international listings from the US and France (Michie, 1987). However economic history indicates that large economies benefited from the so-called “collateral” effects of globalisation long before this. From the 17<sup>th</sup> century onwards, financial globalisation aided the development of what is now regarded as the Anglo-American system of best corporate practice. At various stages in their history both the UK and US used micro-level innovations to become leading centres of international finance. These included borrowing international financial techniques and firm-level self-regulation.

The emergence of London as an international centre of finance came about through a combination of borrowed financial techniques, self-regulatory actions based on regime stability, and institutional development. London was not always the dominant financial centre of Europe. At the end of the 1600s, Amsterdam dominated Europe’s financial market. It had already developed large markets in securities, commodities and foreign exchange, and its stock market was the busiest and most technologically advanced in the world (Schubert, 1988). Schubert (1988) identifies three significant innovations central to the emergence of London as a major financial centre. The first concerns the taking control by parliament, of funding the national debt. This improved the standing of England as a borrower.<sup>4</sup> The national debt enabled parliament to borrow from the public pool of savings, but it also bound investors in national debt to the stability of the regime (Hoppit, 1986). The second concerns the importation of Dutch techniques of finance by William III. The techniques used by William to raise credit were in fact very similar to those he had employed in the Netherlands, the difference being the location (Neal, 1987). To aid him in his purpose, William brought with him numerous advisors “who were eager to apply in a relatively backward England, the financial techniques and institutions that had been developed over the past century in Amsterdam” (Neal, 1987: 98). The third concerns the founding of the Bank of England in 1694, which provided the London market with a credible and stable source of credit. These modernisations “gave London the opportunity to develop into a major financial centre on a par with Amsterdam (Schubert, 1988: 300).

An important difference between London and New York at the end of the 19<sup>th</sup> century was the level of investor confidence. What London had, New York lacked.



itself as the guardian of the financial quality of the issuers listed on it” (Coffee, 2001:37). The proactive self-regulatory approach adopted by the NYSE allowed it to distinguish itself from its competitors through what Coffee (2002) refers to as regulatory competition. Long before the Securities Acts of 1933 and the introduction of mandatory disclosure in 1934, the NYSE already had in place a strict set of listing requirements. Later this became evident in its preference for low risk companies, and its decision, albeit reluctantly, to refuse to list non-voting shares in the 1920s.

### ***A Firm-Level Perspective of Financial Globalisation***

Economic history and recent development in China suggest that focusing on innovations that affect the firm level can contribute to our understanding of financial globalisation. One explanation for the difficulties of empirical studies on financial liberalisation is the inadequacy of the macro-lens (Ravallion, 2006). In practice financial development not only occurs over a long time period, but in many cases stems from micro-level innovations (Glaeser et al, 2004). Coffee (2001) has cast doubt on the direction of the causation between legal systems and corporate governance that underpins much of the law and finance literature. Others such as Clay and Wright (2005) have demonstrated the ability of agents to organise economic activity in the absence of legal protections.

Accounting for the historical evolution of the Anglo American system of governance and recent preferences for international listing in China, our approach suggests that much can be learnt about financial globalisation by focusing on the firm level. This is confirmed by studies of corporate governance practices across developing economies, which reveal a large variation in governance standards, which cannot necessarily be explained by the quality and efficiency of a country’s legal institutions (Pistor *et al*, 2000; Klapper and Love, 2002; CLSA, 2004). Table 1 reports the relevant findings in CLSA (2004). It shows a significant variation in corporate governance practices, not only across different Asian countries, but also within these countries. Average company scores tend to vary in terms of country scores. Country scores measure such issues as rules and regulations, enforcement, political and regulatory and culture. Company scores also vary considerably in terms of upper and lower quartiles. Developing economies such as the Philippines, India, China and Indonesia show a marked variation between the governance practices of companies in the upper and lower quartiles. In fact the governance practices of top



the market place.<sup>8</sup> Compared to the neo-classical approach, the benefits of financial globalisation are achieved in reverse, and over a longer time period.

### *Financial Globalisation in China's Large SOEs*

The histories of financial development in the US and UK underscore the importance of incremental innovations at the firm and institutional level. These facilitated the borrowing of international financial techniques, the raising of large amounts of capital and ultimately led to the formation of the Anglo-American system of corporate governance. In a similar manner, China's large enterprises have attempted to overcome weak domestic institutional structures by drawing on international capital markets, particularly Hong Kong (Table 2). Between 1993 and 2005, some 76 Chinese state enterprises listed foreign or H-shares on Hong Kong's stock exchange. Other state enterprises incorporated subsidiaries in Hong Kong and were listed as "red chips". The first group of state enterprises listing overseas in the early 1990s did so at a crucial time. China had no securities law, the CSRC was barely in existence and the central government was the only authority that could sanction international listings. Although Hong Kong represented the major destination for Chinese listings, the global appeal of international listing is illustrated in statistics from the Hong Kong Securities and Futures Commission, which show that between July to November 2005, 32 mainland enterprises (H-shares and red-chips) were simultaneously traded in Hong Kong, the US and UK.<sup>9</sup> For these companies, 79 percent of the total trading value took place in Hong Kong, with 7.5 percent and 14 percent taking place in the UK and US respectively, further underscoring the importance of the Hong Kong market as a destination of choice for Chinese listings.

The attractiveness of the Hong Kong market is underpinned by strong practical benefits. Schenk (2007) points out the long history of financial relations between Hong Kong and the Mainland. These relations predated the foundation of the PRC and survived the nationalisation of China's financial system during the 1950s and the radical Cultural Revolution of 1966-76. For the Mainland, Hong Kong offers access not just to finance and a wider investor base, but also the opportunity to integrate better corporate governance standards and gain greater international visibility. For Chinese firms, Hong Kong's position as a centre of world finance and its proximity and affinity to the Mainland give it considerable competitive advantages over competing stock exchanges in London and New York. Hong Kong's non-



conclusively answer the question of why firms access international capital markets. Drawing on the firm-level framework outlined in figure 2, this section explores the micro level and its relationship to financial globalisation. Focusing first on the direct financial benefits, it points out that there is an implicit opportunity cost to using international capital markets. This cost is however mitigated, if not completely diminished, by the improvements in corporate governance, organisational learning, and the knowledge and technological transfers that accompany international listing. To illustrate how this occurs in practice, the paper draws on case studies of firms in three centrally regulated sectors of China's economy: banking, telecommunications and petrochemicals. The enterprises examined include the Bank of China (Hong Kong) (BOC (HK)), which, as the first international listing of a subsidiary of a state-owned commercial bank, represented a pioneering banking reform. In the telecoms sector, the international listings of China Unicom and China Mobile marked a significant departure for what was previously a political and militarily strategic industry. In the petrochemical sector the international listings of Shanghai Petrochemical Company (SPC), one of the first SOEs to list abroad, and its parent Sinopec, represented a major reform for a sector once regarded as a model of Maoist production. As enterprises that previously formed the backbone of central planning, the selected cases were somewhat unlikely participants, let alone beneficiaries of financial globalisation. Yet, in each case international listing was used to achieve outcomes that are typically associated with reaching institutional thresholds of legal and regulatory development.

### ***The Direct Financial Benefits***

The traditional view of globalisation typically emphasises the potential financial benefits for developing economies (Figure 1). While international listing has undoubtedly been successful in terms of the volume of capital raised (Table 2), the overall financial benefits are not conclusive. Enterprises listing in Hong Kong faced a large opportunity cost relative to listing on Mainland stock markets. Better share price performance, higher valuations, and cheaper finance without the transaction costs associated with international listing, could have been achieved using domestic capital markets. Throughout the 1990s and into the early 2000s, the Shanghai stock market outperformed its counterpart in Hong Kong. Enterprises listed on Mainland markets traded at much higher multiples (see Figure 3). In 2000 the Price Earnings ratio for the Shanghai Index stood at 59 times earnings compared to an earnings ratio of nine



separate banks, into a structure that was capable of competing with other Hong Kong banks. A second and arguably more significant reason is that it would force the bank to adopt a more appropriate form of governance by subjecting itself to external market discipline. Inertia and bureaucratic resistance often frustrated previous attempts at reform. With international listing, the pressure comes from an external source. A crucial issue cited by the bank, was that the main emphasis of the IPO was on restructuring rather than raising equity. The bank gained no additional funds from the IPO. Interestingly an executive at the bank noted “when a firm has the maximization of funding as its prime reason for listing, there is an incentive to conceal issues...for the BOC (HK), improving corporate governance was an objective so coming clean was very important.”<sup>14</sup> By putting governance reform to the fore of its floatation, the Bank effectively subjected itself to more rigorous disclosure practices.

Similar motivations are evident in the other sectors examined. An executive at Unicom, China’s second largest telecoms provider noted “from an overall perspective, (with domestic listing) you would not have incremental value and exposure to standards as with international IPO.”<sup>15</sup> In this regard *international capital markets* are important, not so much for raising capital, but rather the range of other commitments and learning experiences that come with it. A deputy director at Sinopec, China’s largest petrochemical refiner summed up the process by noting that while the role of the WTO is to speed up economic reforms, “the purpose of listing is to reform the management of SOEs.”<sup>16</sup> Prior to listing, production units were simply obliged to report production indices and profits to the state. International listing meant that profits now had to be reported to shareholders. It also came with a commitment to reduce costs and become more transparent. Sinopec committed to cut 100,000 workers from its 510,000 strong workforce and reduce costs by US\$1.6 billion, as well as investing US\$ 120 million on information technology.<sup>17</sup>

The above suggests that international listing formed part of a general long-term reform effort to subject enterprises to international corporate practices. Even before China’s enterprises listed on international stock markets, most large international companies already had some sort of business dealings in China. This is important as it indicates that the purpose of international listings was to bring China’s large enterprises to the attention of the international investment community. Sinopec acknowledged that international listing represented a progression of political efforts to improve SOE performance. “The government wanted its enterprises to



Executives were suspended and transferred to Beijing. This time, the offence involved the alleged unauthorised distribution for personal benefit of funds belonging to the controlling shareholder of the former constituent banks.<sup>22</sup>

Although these events created certain jurisdictional issues, the overall effect was to send a clear signal that corruption and mal-practice were incompatible with international capital markets. Moreover the monitoring effect of international markets is much more consistent. The effect of external monitoring imposed by international capital markets is best summed up in the statement that “before listing you could do all kinds, regulation was not stringent. *Now you can't just do it your way.* Listed companies also have an expectation to perform.”<sup>23</sup>

### ***Technology Transfer***

An important feature of China's large industrial enterprises is the high level of technical competence and also their ability to source technology abroad. At face value this would suggest that financial globalisation was not necessary for technology transfer. In both the telecom and oil sectors, the level of internal technical competence does not appear to have been a significant constraint. Most executives at China Mobile and Unicom had long backgrounds in engineering or local postal and telegraph administrations. Management at Sinopec were comprised of engineers with vast industrial experience.<sup>24</sup> It had also developed its own “good technology” for drilling and exploration.<sup>25</sup> The interest in China shown by multi-national oil and telecommunications companies meant that modern technology could be easily purchased if required, and was not a central motivation for seeking an international listing. In the telecom sector the willingness of foreign firms to sell network technology gave China significant choice over what type of network to adopt. In the oil sector China began importing refining technology from the West as early as the 1960s (Williams, 1975). Before listing, most large foreign oil companies had some business dealings with China's petrochemical enterprises.<sup>26</sup>

International capital markets did however offer a mechanism to access proprietary technology through improved reputation. For enterprises with ambitions to compete on an international level, quality has become a key issue. New technologies are often proprietary and harder to develop domestically. Firstly, international listings provided management with the autonomy and incentives to engage international partners. Secondly, it improved their international reputation. Unicom expressed the



### ***Organisational Learning and Knowledge***

China's large enterprises have used international listings to facilitate *organisational learning* and knowledge assimilation in order to overcome deficits in managerial competencies. Conceptually, learning is reflected in an enhancement of organisational competencies, which should overtime reduce the risk of organisational mortality (Levinthal, 1991). Related to the concept of learning is that of knowledge. Amsden (2001) makes an important distinction between asymmetries of *information* and *knowledge*. From the perspective of transaction cost economics, financial globalisation holds the prospect of reducing informational asymmetries. This however says little about the contribution of a firm's knowledge-based resources. The conceptual nature of knowledge means that its presence will depend to a large extent on firm-specific qualities. Like information, knowledge may also be imperfect, the implication being variations in productivity across sectors (Amsden, 2001).

Organisational learning and the assimilation of knowledge has been an implicit feature of international listing. The policy of listing smaller subsidiaries first known as "marrying the prettiest daughter first" has allowed enterprises to draw on the experiences of earlier listings. The listing of the BOC (HK) was viewed by many as a market test for the listing of its parent company the BOC, and the more problematic state commercial banks. After the listing of BOC (HK), the BOC was restructured into a shareholding company, carried out an overhaul of top management structures,<sup>31</sup> and was listed on Hong Kong's stock market in 2006. Part of its restructuring involved the recruitment of directors with international banking and regulatory experience. The listing of the better performing provincial mobile licenses first in China's telecom sector was indicative of a similar approach. An often-overlooked feature of this approach is that it provides a promotion mechanism to reward the learning of enterprise management. The BOC appointed directors from the BOC (HK) to its board in advance of listing. This allowed the BOC to draw on the knowledge and experiences gained from the listing of BOC (HK).

The petrochemical sector provides a specific example of how learning and knowledge assimilation occur. The listing of SPC in 1993 provided its parent company Sinopec with some valuable lessons on the functioning of international capital markets. If compared to other state enterprises that listed in the same year such as Tsingtao Brewery (110 times oversubscribed) and Guangzhou Shipyard (77 times oversubscribed), SPC at 1.2 times subscribed failed to make much of an impact in



There also remain considerable social, economic and historical obstacles at every level to better corporate practices. Prior to the 1990s, little market-based cooperation or oversight existed. However just as financial globalisation has induced reform at the firm level, it has also injected an element of dynamism into domestic institutional reforms. Two developments related to international listing are important in this context. First, the migration of Chinese companies towards Hong Kong and New York has created a more competitive environment for listings and equity investments. Coffee (2002) differentiates these improvements, which he refers to as *regulatory competition*, from the type of firm bonding outlined in the previous section. Regulatory competition is driven by efforts to stem the migration of companies abroad and is characterised by the move towards higher standards in domestic markets. Secondly, the listing of firms abroad and their exposure to international standards has had led to a demand for greater standardisation in the domestic business environment.

### ***Regulatory Competition***

As outlined earlier in this paper, the emergence of NYSE was underpinned by its ability to market itself as a listing destination for good quality shares. By offering shareholders strong protection, the NYSE became one of the world's leading markets, stemming the migration of US firms to European financial centres. To this day the NYSE continues to be viewed as a guardian of investor interests. The migration of better governed enterprises to Hong Kong and other international financial markets presents China's stock markets with a similar challenge. Xi (2006) argues that one of the effects of economic globalisation is that it has put the CSRC under competitive pressure to adopt higher standards of corporate governance. China's response has been significant not just for the measures introduced but also to the extent that they have followed the US model of mandating corporate governance practices.

China's first security legislation was introduced in 1999 and a code of corporate governance for listed companies followed in 2001. Both were essentially codes of best practice on international practices. The Securities Act of 2005 went a step further by increasing the level of legal protection afforded to individual Chinese investors. It prohibits any publicity or leaking of information before such information is announced, standardises securities dealing and underwriting and penalises issuers for use of funds in ways other than stated in their offering documents (Wu, 2006). It empowered investors to seek damages for losses incurred against insiders who trade



Chinese listings abide by the rules of the Hong Kong stock exchange (Zhu, 2001). In practice cross-jurisdictional cases have typically proved problematic for regulators in Hong Kong, as mainland probes into officials tend to take months to complete, with political considerations carefully weighed against financial and legal implications.<sup>37</sup> The recall to Beijing of Mr. Liu as head of the BOC (HK) in 2003 illustrates the practical limitations of financial globalisation. Authorities in Hong Kong had no opportunity to investigate Mr. Liu's actions. An official at the HKMA reported that he was as baffled as the public on Mr. Liu's situation.<sup>38</sup> These type of problems stem from fundamental differences between the two legal systems, particularly the difficulty of reconciling Hong Kong's case law with China's legal codes (Zhu, 2001).

Yet these difficulties have also provided a platform for greater cross-jurisdictional cooperation. In April 2007, both the HKSF and the CBRC signed a Memorandum of Understanding on the further enhancement of the regulatory co-operation. The purpose of this was to put in place a framework for the commencement of regulatory co-operation, mutual assistance and information sharing, to allow both authorities to promptly identify risks, and adopt regulatory measures to protect investors.

It is also clear that the prospect of international listing offers firms, even in troubled sectors of the economy a powerful incentive to reform. In China's state commercial banking sector the urgency of banking reform is well known, particularly in advance of the eventual opening of the China's banking market to foreign competition. Under the transition there exist few constraints for limiting demand and few measures for making borrowers bear the full cost of investing inefficiently (McKinnon, 1991). According to the Governor of the PBOC, "only when agencies at the micro level put in place risk control and capital constraint, could monetary policy transmission mechanism work".<sup>39</sup> In 2004 Vice Premier Huang Ju emphasised the need to learn from international practices so as to explore a route of supervision that complies with both China's real conditions and international norms.<sup>40</sup> Offering state commercial banks the possibility of an international stock market listing in return for reform is pushing even the most problematic state banks to improve financial performance.<sup>41</sup>

Being listed on international stock markets has also increased enterprise demands for more standardised regulatory pricing structures. In the telecom sector, executive directors are clearly aware of international investors demand for increased



performance improvements predicted by privatisation theory. Chinese firms listed in Hong Kong also have lower valuations and are priced more closely with market fundamentals than their Mainland counterparts. Yet, if anything, these costs underscore the significance of international listings and the role of international capital markets to China's future integration into the world economy. Given the huge political dimension to China's large enterprises, it is unlikely that these costs would be borne if the long term economic payoff was not significant.

Viewed from the micro level, China's rapid development in the absence of capital market liberalisation may be less of a puzzle. Although international listings account for a minority of state enterprises and are not a panacea for weak domestic regulation, the findings of this paper do indicate that greater emphasis needs to be placed on how economic agents organise economic activity in the absence of established political and legal institutions. Based on this, a more satisfactory explanation is that innovative firms can overcome institutional thresholds, secure access to international capital, and in doing so benefit and learn from international capital markets.



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- <sup>24</sup> Despite the low level of technology, considerable effort was invested into research, as is evident by the publications on refining in Chinese Scientific Journals during the 1950s and 60s (Williams, 1975: 244).
- <sup>25</sup> Interview: Sinopec Head Quarters, Beijing 12<sup>th</sup> August 2004.
- <sup>26</sup> Interview: Sinopec Head Quarters, Beijing 12<sup>th</sup> August 2004.
- <sup>27</sup> Interview: Sinopec Head Quarters, Beijing 12<sup>th</sup> August 2004.
- <sup>28</sup> “ABB investing US\$100 million in China Sinopec Corp. IPO” *ABB Press Release* (Zurich), 12<sup>th</sup> September 2000.
- <sup>29</sup> Interview: Sinopec Head Quarters, Beijing 12<sup>th</sup> August 2004.
- <sup>30</sup> “Exxon adds 500-outlet to deal to Sinopec stake,” *FT*, 12<sup>th</sup> September 2000.
- <sup>31</sup> See “BOC and CCB overhaul top management” *FT* 28<sup>th</sup> July 2004.
- <sup>32</sup> “Chinese Lessons” *Far Eastern Economic Review*, 12<sup>th</sup> August 1993.
- <sup>33</sup> Interview: Sinopec Head Quarters, Beijing 12<sup>th</sup> August 2004.
- <sup>34</sup> Interview: Sinopec Head Quarters, Beijing 12<sup>th</sup> August 2004.
- <sup>35</sup> Interview: Executive Director, Bank of China (Hong Kong), Hong Kong, 20<sup>th</sup> July 2004.
- <sup>36</sup> BOC (HK) Press Release 16<sup>th</sup> August 2004.
- <sup>37</sup> See “HKMA widens the Net in BOC Probe” *The Standard (HK)*, 6<sup>th</sup> August 2004.
- <sup>38</sup> HKMA Deputy Chief Executive HKMA as reported in *SCMP* 14<sup>th</sup> June 2003.
- <sup>39</sup> “Some Considerations in the Study of Monetary Policy Transmission” Zhou Xiaochuan Governor, People’s Bank of China, 12<sup>th</sup> May 2004
- <sup>40</sup> “Vice premier emphasizes introduction of best banking practice” *Peoples Daily* 1<sup>st</sup> July 2004.
- <sup>41</sup> “China grants permission to solely owned banks to list after reformation” *Peoples Daily*, 9<sup>th</sup> February 2002.



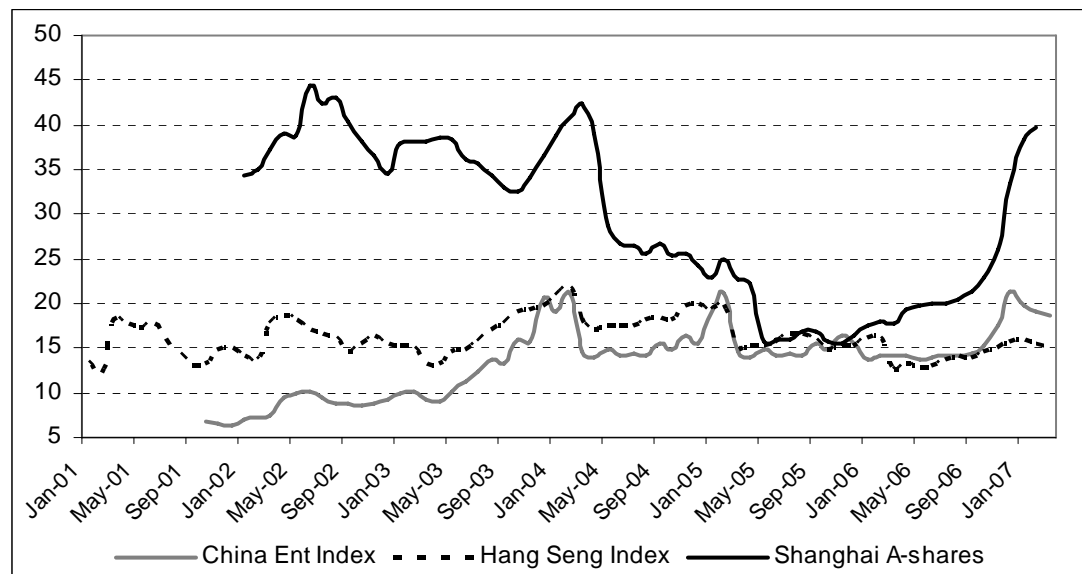
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Figure 3: Price Earnings Ratios of the Hang Seng, H-share &amp; Shanghai A-share Indices



Source: HSI Services and China Securities Regulatory Commission.

Table 1: Average Corporate Governance Scores of Asian Companies by Country

Country	Country score	Average company score	Average company scores Quartile 4	Average company scores Quartile 1	Difference (Q4-Q1)
Singapore	7.5	61.1	70.6	49.9	20.7
Hong Kong	6.7	64.2	75.2	52.1	23.1
India	6.2	54.9	70.3	39.3	31
Malaysia	6.0	62.5	75.4	48.9	26.5
Korea	5.8	56.8	73.8	38.2	35.6
Taiwan	5.5	54.9	68.4	40.8	27.6
Thailand	5.3	62.0	73.2	48.8	24.4
Philippines	5.0	56.3	80.4	20.2	60.2
China	5.3	51.0	64.3	36.7	27.6
Indonesia	5.3	44.3	59.6	30.9	28.7

Source: Data from CLSA (2004: 130)

