Corporate Governance Reform and International Listing:

Case of the Bank of China (Hong Kong)

Laixiang Sun
Department of Financial & Management Studies, SOAS, University of London
International Institute for Applied Systems Analysis, Laxenburg, Austria
Guanghua School of Management, Peking University, Beijing, China

Damian Tobin
Department of Financial & Management Studies, SOAS, University of London

ABSTRACT
While much research has focused on how weak domestic institutions constrain the emergence of good corporate governance practices in transition and developing economies, few studies have paid attention to the significant inter-firm variations in governance existing there. This paper focuses on firm-specific actions that aim to distinguish the firm from its peers. It reports the disparity in credit ratings between Chinese companies listed domestically and those listed on international stock exchanges. It examines the case of Bank of China Hong Kong (BoCHK). BoCHK's preparation for listing on Hong Kong Stock Exchange (HKSE) induced corporate restructuring and improvement in governance practices. The ability of the parent company (Bank of China) to intervene at will in the affairs of the BoCHK is countered by Hong Kong law and HKSE's regulations, and bad governance habits are punished by the market. Although it takes time for BoCHK to fully converge to international standards of corporate governance, the listing process is a robust first step towards that destination.

Please send correspondence to:
6 July to 25 August 2003: Prof. Laixiang Sun, International Institute for Applied Systems Analysis (IIASA), A-2361 Laxenburg, Austria. Tel. +43-2236-807-345, Fax. +43-2236-71313, Email: SUN@IIASA.AC.AT
Other periods: Prof. Laixiang Sun, Department of Financial and Management Studies, SOAS, University of London, Thornhaugh Street, Russell Square, London WC1H 0XG, UK. Tel. +44-20-78984821, Fax. +44-20-76377075, Email: Laixiang.Sun@soas.ac.uk.

1. Introduction

The question of how corporations are governed has become a topic of great concern in both developed and developing economies. This concern has been particularly acute in transition and developing economies such as China. The literature has largely focused on the relationship between corporate governance and domestic institutions, and in particular on how the legal system determines the system of governance (La Porta *et al*, 1997, 1998, 1999, 2000; Levine, 1999). It suggests that in order to facilitate capital market development, emerging economies should converge towards governance systems that offer strong investor protection. However there are specific difficulties for emerging economies in converging to international systems of governance. The forces that tend to promote convergence, such as the presence of active institutional investors, internationalisation of markets and competitive incentives, are absent in many emerging economies, thus making convergence at a national level almost impossible (Coffee, 1999). This however does not imply that progressive firms in emerging economies will not have an incentive to converge with international governance norms. Even in an economy with weak legal and market institutions, it is possible for those corporations that are prepared to bond themselves, install more creditable monitoring controls and meet higher standards of corporate governance to attract large amounts of external equity investment. One way for firms to compensate for weak domestic legal systems which has been observed in transition and developing economies is the process of gaining an international listing.

In the case of China, the credit ratings of internationally listed companies are typically higher than those of their domestically listed industrial peers. At the group aggregation level, 36 per cent (28/78) of the internationally listed are currently qualified for XFN-Far East China Credit Rating,[1] whereas the corresponding figure for the domestically listed is 11 per cent (132/1243). None of the domestically listed companies achieves the top ratings of AA+ and AAA. In contrast, 3 internationally listed companies achieve AAA and another 3 achieve AA+, together accounting for 8 per cent of the total internationally listed companies (Xinhua Financial Network, XFN hereafter, 2003).

As the first example of partial privatisation of large state-owned banks in China, the Bank of China (Hong Kong) (BoCHK) provides an interesting case of how international listing works in the intended direction. Prior to its IPO, banking experts viewed the Bank of China (BoC) and its overseas subsidiaries as a type of anomaly. It had all the characteristics of a third world bank including its governance practices, management abilities and risk-controls, yet its overseas subsidiaries have operated in highly competitive and regulated markets including London, Hong Kong and New York.[2] Operating in highly regulated markets has forced the BoC to adopt relatively higher standards of accountability than its domestic peers. For example, it

---

[1] Xinhua Financial Network (XFN) and Shanghai Far East Credit Rating Co. Ltd (Far East) started to rank credit risks of China's listed companies in January 2002, named as the XFN-Far East China Credit Rating. This is a pioneering undertaking in China. The rating is based on international standards and pays special attention to corporate governance concerns, given the generally perceived poor records on corporate governance in Chinese companies (XFN, 2002).

[2] See, for example, "Bank of China Pre-Markets IPO", FinanceAsia.com, 24 June 2002.

was the only one of China's state banks to publish a capital risk assets ratio.[3] The floatation of the BoCHK in 2002 brought to the public domain significant information regarding the operation of the bank. The IPO preparation and the floatation forced a house-clearing of third world practices, with the revelation of a range of irregularities both abroad and within the Bank's domestic operations.[4] The case of the BoCHK demonstrates that the preparation for international listings is able to force a degree of due diligence upon corporations, consequently improving corporate governance.

Existing research on the corporate governance of China's shareholding system has largely focused on how China's domestic institutions shape the corporate governance of listed companies. These include the relationship between corporate shareholding structure and performance (Xu and Wang, 1999, Qi *et al*, 2000), stock returns and government share transfers (Berkman *et al* 2002), corporate value and the government shareholding (Tian, 2002), and managerial discretion (Chang and Wong, 2002). These studies have shed light on the operation and functioning of China's stock markets and on how institutional constraints such as state ownership limit the ability of enterprises to improve corporate governance. However, little attention has been paid to investigating and explaining the innovative actions of progressive enterprises operating under such constraints. This paper intends to go beyond the tradition of examining the constraint nature of existing institutions. In other words, the emphasis of this paper is not on how existing institutions constrain or limit innovative actions of progressive enterprises, but rather on how they enable actions of, or create opportunities for, those who understand and use them (Bruton and Ahlstrom, 2003). More concretely, it examines how international listings have enabled state enterprises to improve their corporate governance in an innovative manner despite severe domestic institutional constraints.

The rest of the paper is organised as follows. Section 2 discusses the practical benefits for firms seeking an international listing and reports the disparity in credit ratings between internationally listed companies and their domestically listed peers. Section 3 analyses the motivation of the government to allow the partial privatisation of a large state-owned bank via an international listing. Sections 4–6 present the case study of the BoCHK. The case study includes an analysis of the IPO-induced restructuring (Section 4), an examination of transparency and accountability (Section 5), and a comparative investigation of BoCHK's business strategy and financial performance with reference to major international banks in the region (Section 6). Finally, Section 7 concludes the paper by exploring the implications for corporate governance reform in China.

2. Does Listing Abroad Make Difference? – Disparity of Credit Ratings

The question of why enterprises from emerging markets have shown willingness to be monitored by more developed capital markets abroad has been relatively unexplored in corporate governance literature. There are general analyses of the practical benefits for firms seeking an international listing. These benefits include securing cheap equity capital to finance new investment, allowing owners to divest control-

[3] "Disclosure slowly moving nearer international norms", *South China Morning Post*, 28 September 2001.

[4] "Irregularity committed by BoC branch in New York", *People's Daily*, 6 March 2002.

ling stakes on more liquid markets, preparation for foreign acquisitions, or improving the firm's reputation (Pagano *et al*, 2002). By examining international listings of EU and US companies, Pagano *et al* (2002) suggest that companies from countries with relatively weaker shareholder protection are more eager in seeking foreign listings. This implies that there is a pay-off for firms in converging to better governance practice. Korczak and Bohl (2002) observe permanent value enhancement and cumulative abnormal returns for enterprises from Central and Eastern Europe which have cross-listed on international stock markets. It is found that adopting an international listing contributes to attracting new international investors and improving stock liquidity.

The governments of transition economies increasingly view foreign listings as a useful means to advance the process of state-owned enterprise (SOE) reform. For example, the China Securities Regulatory Commission (CSRC), the state appointed regulatory body in charge of China's securities markets, publicly advocates the significant benefits for enterprises listing on international stock markets (www.csrc.com.cn). These include the benefit that international listings serve as a creditable way to clarify the ownership structure of SOEs and to impose modern corporate governance structures on the listed companies. International listings enable enterprises to draw on the experiences and practices of developed markets. They also serve to strengthen the contact and exchanges between China and the international securities communities, and to promote the adaptation of international standards in accounting, auditing and information disclosure.

For China's large SOEs, which have played a significant role in the economy, international listings offer the opportunity of accessing greater pools of international capital, and also the opportunity to enhance their international reputation. Many of China's large enterprises now have aspirations to compete on the global market (Nolan, 2001). The problem for these enterprises is that, given domestic institutional constraints and the gradual nature of China's economic reform, it is likely to take some time before China can converge with international governance norms as suggested by Coffee (1999). Equally problematic is the fact that institutional investors tend to rate countries' governance as a whole. For example, Calpers – one of the largest US pension funds, which has almost $1.8 billion invested in emerging markets – recently ruled out investing in China's stock markets due to stability and transparency concerns (*South China Morning Post*, 20 February 2003). It is also widely acknowledged that trading on China's stock markets is wildly speculative and subject to insider manipulation.[5] Given the features of underdeveloped capital markets in China, a growing number of enterprises have chosen to list on developed international markets. Between 1993 and June 2003, 78 enterprises raised capital through overseas equity issues (www.csrc.com.cn).

The crucial question for international listings is to what extent these companies can be distinguished from their peers that have listed on domestic stock markets. One practical way to do this is to check credit rating tables constructed by reputable commercial rating agents, as investors and creditors usually do. In developed economies, company ratings mainly provide a comparable measure of a firm's reputation and creditworthiness, given the limited measurable variations across

[5] In 2000, five of the companies with the worst balance sheets for 1999 were among the top 10 performing B shares. See "Zhou issues a veiled warning on market manipulation", *South China Morning Post*, 15 February 2001.

firms in corporate governance structures and practices (Black, 2001). In contrast, in a transition and developing economy like China, rating agents typically pay much more attention to corporate governance concerns due to the fact that the low quality of average governance practices in the economy leaves much room for inter-firm variation. For example, of the 7 firm-specific risk factors in the XFN-Far East China Credit Rating's criteria, 4 deal with corporate governance concerns, which include management quality, organisation structure, relationship with parent company, major shareholders and government, and disclosure practices. The XFN-Far East China Credit Rating provides comprehensive company credit ratings for China and has obtained a high reputation in the China-related commercial circle. Furthermore, these ratings appear to be forcing many managers to behave better, and the XFN indices have attracted China's mutual fund companies to link their investment portfolio with these indices, as cited by *The Economist* (May 24 2003, pp. 75–76). These ratings are instructive for the purpose of this paper in two ways. First, they show the severe disparity of creditworthiness between the group of internationally listed companies and the domestically listed. Second, they provide a highly useful proxy for the assessment of corporate governance practices.

Table 1 reports a summary of the XFN-Far East China Credit Ratings in June 2003.

Table 1: Summary Credit Rating of China's Listed Companies, June 2003

	International Listed Companies		Domestic Listed Companies	
Rating	No. of Companies	As % of the rated companies	No. of Companies	As % of the rated companies
AAA	3		0	
AA+	3		0	
AA	2		1	
AA-	1		7	
Subtotal	9	32.1	8	6.1
A+	3		5	
A	2		10	
A-	1		12	
Subtotal	6	21.4	27	20.4
BBB+	2		12	
BBB	2		18	
BBB-	5		15	
Subtotal	9	32.1	45	34.1
< BBB	4	14.2	52	39.4
Total rated	28	100.0	132	100.0
Total Listed	78		1243	

Source: XFN-Far East China Credit Rating Table (www.xfn.com/creditrating/).

Of 78 internationally listed companies, 28 qualified for the PI rating (i.e. based on publicly available information). In contrast, of 1243 domestically listed companies, 132 qualified for the PI rating. Of the 28 international listed companies with the credit ratings, 53.5 per cent (15 companies) achieved rating of A– or above. Whereas the corresponding figure for domestically listed companies in the rating table is 26.5 percent (35 companies). Table 1 also shows that the numbers of domestically listed enterprises figure much less prominently in the highest ratings. For example, none of the domestically listed enterprises achieved the top ratings of AA+ and AAA. In sharp contrast, 3 internationally listed companies achieved AAA and another 3 achieved AA+. In more detail, an intra-industrial comparison indicates that except for 2 cases in the electric appliance and metal industries, internationally listed companies typically achieved a higher or equal rating in comparison with their industrial peers which listed domestically.

The above comparison indicates where the crucial difference lies between international and domestic listings, while being viewed from the perspectives of investors and creditors. This also indicates that even in an economy with a weak legal system and weak norms governing the behaviour of corporations and their insiders, individual corporations can take it upon themselves to achieve better governance practices and higher credit ratings, and thus reduce their costs of capital financing.

3. Partial Privatisation of BoCHK as an Important Experiment: The Motivation of the Government

The previous section points to a significant level of variation in governance practices across listed companies in China. The variation is largely a result of the innovative actions of some progressive enterprises despite institutional limitations, and weak norms for insider conduct. Such innovative action is more evident in enterprises that have adopted international listings. The BoCHK is a more recent example of this type of enterprise.[6] In July 2002 the BoCHK listed on the Hong Kong Stock Exchange. The BoC as the ultimate owner sold approximately 2.298 billion shares (21.74 per cent of issued capital) through the BoC (BVI). Despite the negative press and a general downturn in world equity markets, the company's offering was well received. Both retail and institutional offerings were oversubscribed. The retail offering was 27-times oversubscribed, while the international offering was 5-times oversubscribed by institutional shareholders. Originally, analysts had expected a price in the region of HK$7.79–11.00, but this was scaled back to HK$6.93–9.50 (*The Business Times*, Singapore, 8 July 2002). The shares were listed at HK$8.50. The listing was the largest retail listing in Hong Kong by size and also the largest Hong Kong-only IPO. The bank raised HK$20.86 billion from the offering. This and the following sections examine how the BoCHK transformed itself from being a wholly state-owned bank with all the characteristics and limitations of China's banking sector, to one that organises and conducts its business increasingly in line with international standards.

The banking sector in China is dominated by the "Big Four" state-owned banks (Industrial and Commercial Bank of China, Agricultural Bank of China, China Construction Bank, and the BoC), which together account for more than 80 per cent of assets in the sector. The Big Four face little competitive threat and tend to be better known for their poor level of risk controls than their contribution to the economy. A combination of poor lending practices and the legacies of years of forced policy/political lending to unprofitable state-owned enterprises has left China's banks in a poor financial condition. At the start of 2003 the official figure of the

---

6 The BoCHK has not yet been rated by the XFN-Far East China Credit Rating, partly due to its short track records.

combined non-performing loan (NPL) ratio for the big four stood at 25.1 per cent, almost five times the average for banks in developed economies. The private sector estimates put the figure at between 35 per cent (by Ernst and Young) and 50 per cent (by Standard & Poor's) (*South China Morning Post*, 21 February 2003; *Emerging Market Monitoring*, 9 June 2003, pp. 1-2).

Efforts to tidy up China's banks have become increasingly focused on the process of China's preparation for entry to the WTO. In 1999 the government issued a special bond worth US$33 billion and injected the raised capital into the banks. The state also established four Asset Management Companies (AMCs) – Cinda, Huarong, Orient, and Great Wall – to tackle the bad-loan problems of the banks. However, this has come nowhere near clearing up the problems of the state banks. It is estimated that another 2.4 trillion Yuan in asset transfers and capital injections is necessary in order to make the banks competitive with international rivals (*South China Morning Post*, 21 February 2003). Another worrying development is that bad loans continue to grow despite the efforts of the government. Overall, these facts indicate a highly troubled sector that has been plagued by poor levels of risk control and inadequate systems of supervision.

Given the poor system of governance and risk control present in China's banking system, simply recapitalising banks and selling off bad loans is unlikely to be enough. Current reforms such as the establishment of asset management companies, debt for equity swaps and recapitalisation of banks, although helpful, in many cases simply redistribute the problems without improving governance. The root of these problems lies largely in the politicisation of the banking system (*Far Eastern Economic Review*, 31 January 2002). Banks are expected to support a wide range of political and social activities, thus giving managers a high degree of discretion in allocating funds. Such an environment supports bureaucratisation and crony-based lending decisions. To find alternative and innovative solutions to the banking sector's problems has become increasingly pressing. Preparation for international listing offers a more innovative approach to reform as it forces banks to undergo a complete house-cleaning of their operations, and it also leads to a greater standardisation of the relationship between the political and the banking systems. Moreover, the banks themselves have an incentive to achieve a listing. China's acceptance of the obligations of WTO membership means that national banks will soon face domestic competition from large international banks. This may mean that large international banks such as HSBC and Citibank already present in Hong Kong will be able to capture the best customers, leaving China's domestic banks in an even worse state.

The Chinese government has grasped the imperative of banking reforms. State banks are increasingly being restructured and organised in a manner towards a greater consistency with international banking standards. In return for advancing reform, banks have been offered the incentive of a stock market listing.[7] To achieve this, the banks are required to strengthen their credit and loan management systems in accordance with international conventions, to place greater emphasis on financial accounting and information disclosure and to achieve an optimisation of their organisational structures. Smaller commercial banks and city commercial banks have been organised in line with the shareholding structure since the 1980s, and have

---

[7] See, for example, "China grants permission to solely owned banks to list after reformation", *People's Daily*, 9 February 2002.

achieved significant improvements in their performance.[8] The reorganisation and listing of the BoCHK provides a first and unique case showing how this approach can work to improve the corporate governance of a large state-owned bank. It illustrates how joining the "self-regulation" clubs of international stock exchanges works to promote the convergence to the international standards of governance, whereas the experience of operating in a highly competitive and well-regulated banking environment alone has proved to be insufficient.

4. Restructuring Induced by the IPO Preparation[9]

The BoCHK is part of the BoC group of banks. The BoC was established in 1912. With approximately 13,000 domestic branches and subsidiaries and 560 branches and subsidiaries throughout the rest of the world, the bank is the fourth largest state-owned bank in China. As China's sole foreign exchange bank since 1949 and with substantial overseas operations in highly regulated banking environments such as Hong Kong, New York and London, it has had perhaps greater exposure to international business and regulatory standards than any other state enterprise. As part of the BoC's restructuring of its Hong Kong operations, the BoCHK was incorporated on the 12th of September 2001. Nine entities previously within the BoCHK Group were transferred to Po Sang Bank Limited. Po Sang's name was changed to BoCHK Limited on the same date. From a corporate governance perspective, this instituted a system of management that allowed a clearer definition of control rights between the BoC and the new group and within the group, thus making the task of risk management easier. This section examines how this change allowed the BoCHK to move closer to international standards of governance.

THE REORGANISATION OF CAPITAL AND GOVERNANCE STRUCTURES

The change in the capital structure of the BoCHK was significant as it laid the foundations for significant changes to the manner in which the bank was governed. These changes were not only reflected in the bank's organisational structure, but also in its management profile, greater levels of transparency, business strategy and, ultimately, in how the bank performed. In particular, the change in capital structure represented a change in how the state exercised property rights over the bank. The state's influence now became measurable in the form of its shareholding. As such, control became more formal and less bureaucratic.

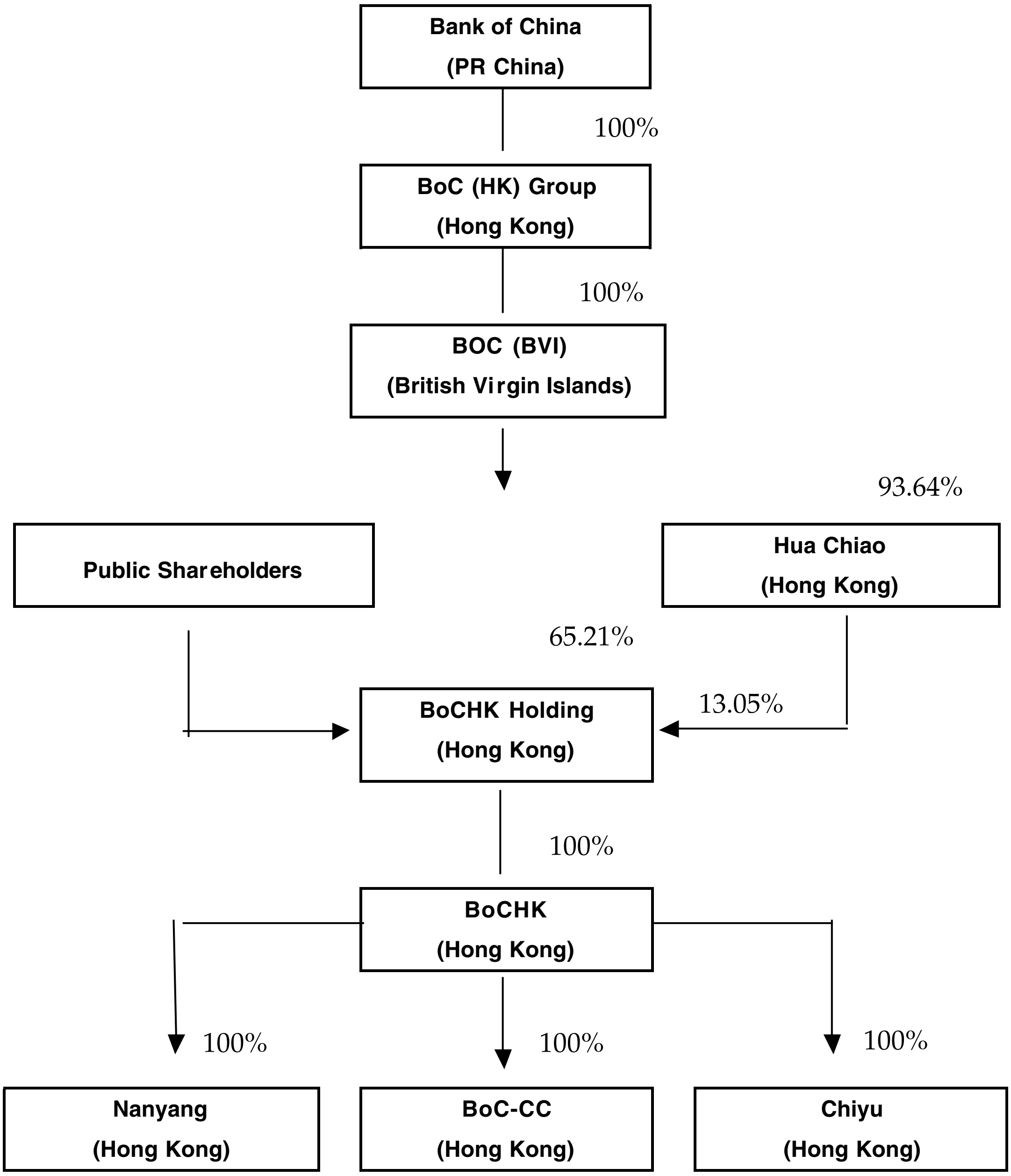
Figure 1 illustrates the shareholding structure of the BoCHK after its reorganisation and stock market listing. Through its outright control of the BoC (BVI) and its interest in Hua Chiao, the BoC effectively continues to hold the controlling position in the capital structure of the BoCHK. In terms of corporate governance the state share is typically viewed as a limiting factor for enterprise reform (Xu and Wang, 1999). However, this should not mask the significant restructuring at the level of BoCHK. A more significant feature of the restructuring is the transformation of the BoC's organisation in Hong Kong from one that was dispersed and suffered from an overlapping of functions, to one with a more efficient corporate structure comparable with that of international banking organisations.

---

8 "China's Joint stock banks in steady and stable development", *People's Daily*, 7 February 2002.

9 Unless specially mentioned, BoCHK-related data presented in the following sections are from BoC (HK) Global Offering Prospectus and BoC (HK) Annual Reports 2002. Both are published online (www.bochkholdings.com/ir_report_e.html).

Figure 1: BoC (HK) Shareholding Structure



Source: *BoC (HK) Global Offering Prospectus*. Hong Kong: BoC (HK), 2002.

Previously the BoC's Hong Kong operations were made up of Po Sang (which included the former Hong Kong branches of the BoC), China South Sea Bank, China State, Kincheng, National Commercial and Yien Yieh. The operations also included the former branches of Hua Chiao, Kwangtung and Sin Hua. The merger of these banks under the BoCHK gave the new entity a network of 278 branches in Hong Kong and six branches in mainland China. The new entity also had a 100 per cent interest in Nanyang Bank, which has a network of 43 branches in Hong Kong, six branches in the mainland China, and one branch in the United States. It also had a majority shareholding in Chiyu (HK), which at the time of listing had 23 branches in Hong Kong and two in the mainland. Both Nanyang and Chiyu Banks were to be allowed to continue to conduct their business independently. However, the BoCHK intended to use its position to encourage rationalisation at these banks and reduce the duplication of activities. The new corporate structure gave the BoCHK much greater scope to deliver efficiency improvements and monitor the level of risk undertaken by subsidiary banks.

It is also worth noting that, unlike domestic listing, the ability of the BoC to intervene at will in the affairs of the BoCHK is countered by Hong Kong laws and HKSE's regulations, which require directors to act in the best interests of the company rather than those of domestic politics. This applies regardless of whether the directors are appointed by the controlling shareholders such as the BoC, whose interests are inevitably unlikely to always coincide with other shareholders. In other words, while the controlling position allows the BoC to provide the BoCHK with the necessary support to ensure that it maintains adequate capital levels conforming to the generally accepted level of prudence for its field of business, the Hong Kong laws and HKSE's regulations limit the degree to which the BoC can exert its influence, thus helping to standardise the relationship between the bank and the political system. This reduces the ambiguities in property rights that continue to plague domestically-listed Chinese sate enterprises.

LIMITS OF THE CAPITAL REORGANISATION AND THE EXPECTATIONS FOR FURTHER PRIVATISATION

From the corporate governance perspective, the 22 per cent stake allocated to private investors is too small to influence the election of board members or resolutions at shareholders' meetings. Figure 1 shows that the BoC still retains a hierarchical type of control over the BoCHK. This confirms many investors' suspicions that the BoCHK has not achieved any real autonomy. In the run-up to the listing, it was evident that potential investors were linking the BoC's poor financial health to that of the BoCHK. Moreover, the control structure gives the BoC a high degree of latitude to intervene in the affairs of its subsidiary.

In order to lure private investors, the bank offered a 5 per cent discount as a sweetener (*The Business Times*, Singapore, 8 July 2002). More significantly, the bank brought on board a foreign strategic investor in the form of Standard Chartered Bank.[10] Standard Chartered, a British bank and one of the largest operators in Hong Kong, agreed to purchase HK$50 million worth of stock, giving it an ownership stake of approximately 0.65 per cent. This lent credibility to a listing that was subject to a considerable amount of bad press concerning transparency issues. For Standard Chartered, the benefits are less obvious. Why would it want to make a minority investment in a bank with a poor track record in risk management? However, it could be a valuable deal for Standard Chartered in the hope that it might curry favour in future banking privatisations. It also suggests a certain level of confidence on behalf of Standard Chartered in the reorganised BoCHK.

MANAGERIAL APPOINTMENTS

One of the perceived problems of the capital structure is that it limits competition in the selection of directors and senior management, as often seen in domestically listed state enterprises. However, the bank's desire to improve the level of transparency has shown some departure from this common domestic practice. Table 2 provides a profile of the company's management at the time of its listing. The table reveals that present or former BoC managers and directors dominate the board of

---

[10] "Standard Chartered to take stake in BOCHK", *Finance Asia*, 8 July 2002.

directors. Nevertheless, the appointment of four independent directors, a rarity in China's listed enterprises, does counteract this dominance to some extent. A survey of China's listed enterprises by Tenev and Zhang (2002) revealed that 3.1 per cent of directors had some degree of independence. At the BoCHK, 31 (4/13) per cent of directors are classed as independent, ten-times more than the national average. This represents a new departure in the corporate governance of China's listed enterprises. This type of reform, although limited in nature (e.g., independent non-executive directors are still in a minority), needs to be viewed in terms of a broader movement in the bank towards better corporate governance practices in general.

Table 2: Profile of Directors and Senior Management in the BoC (HK)

	The Company (Hong Kong)	Of which are BoC (PRC)	Of which are BoC (HK)
Directors & senior management	20	9	19
Executive directors	3	3	3
Non executive directors (of which are independent)	10 (4)	6 (0)	10 (4)
Senior management (of which held past positions at BoC)	7 (5)	0 -	6 -

Source: *BoC (HK) Global Offering Prospectus*. Hong Kong: BoC (HK), 2002.

5. The Great Improvements in Transparency and Accountability

One of the principal problems for the BoCHK is that although it has been keen to promote its successes in cost-cutting and rationalisation, media analysts have focused instead on its poor levels of transparency and accountability. In particular, analysts have tended to emphasise the problems of its parent company, the BoC. The run-up to the bank's IPO was characterised by the revelation of a litany of banking scandals. The revelations of fraud at the BoC's New York and Kaiping (Guangdong Province) branches, as well as questions regarding the true extent of the bank's exposure to NPLs, all served to cast a shadow over the bank's IPO. The disclosure of irregularities at the BoC New York led to the cancellation of a planned listing on the New York Stock Exchange (NYSE). In March 2002, the BoC confirmed that staff in a branch in the southern city of Kaiping had stolen over US$500 million over a period of seven years (*People's Daily*, 17 March 2002; *Far Eastern Economic Review*, 30 May 2002, pp. 26–28). The fact that the Kaiping fraud was only uncovered after seven years indicates the serious of transparency problems at the bank.

Although the Kaiping Branch and the BoC (New York) are not directly part of the BoC (Hong Kong) group, their risk management policies are perceived as largely similar. In this regard the BoCHK has had its share of troubles. A former assistant manager of its Hong Kong operations was convicted of accepting a bribe of $420,000 in return for approving a $40 million loan to a company in China in 1997, while three officials at the group's subsidiary Po Sang bank, were arrested in Hong Kong for their involvement in a $6.4 billion cross-border money-laundering scheme ("China's bankers rotten to the top", *Far Eastern Economic Review*, 31 January 2002). Another former deputy manager was put under investigation by authorities in China. These problems make it difficult for the BoCHK to claim that its governance practices are any better than those of its parent company.

While these scandals have deep roots in the distant past, the fact that such revelations appear to be largely concentrated in the BoC at present should be regarded as a very positive consequence of the listing process. They provide evidence that the preparation for international listing does enforce a greater level of transparency. The high levels of disclosure required leave little room for covering up underhand practices. The unearthing of these scandals forms part of a movement towards improved levels of corporate governance in general. The unearthing of fraud at the BoC (New York), for example, led to the dismissal of disqualified employees and a review of internal management procedures, aiming to bring them in line with international best practices. For the BoCHK, it led to a complete auditing and overhaul of its lending practices.

In preparation for its listing, independent international auditors performed a thorough audit of the loan portfolio. This involved the examination of the bank's loans with a particular focus on those that are greater than HK$20 million and China related and those that had been recently restructured. The audit also looked at the effectiveness of the loan classification system. It found that although the bank complied with the criteria set out by the Hong Kong Monetary Authority (HKMA), the implementation of these criteria was inconsistent. To resolve this, the bank restructured the way in which it classified its loans by further defining its loan portfolio beyond the level required by the HKMA. For example, pass loans were sub-divided in to 'good', 'satisfactory' and 'acceptable', to enable the bank to identify future risky loans more effectively. The improvement in the bank's loan portfolio also reflects the transfer of a significant portion of bad loans back to the BoC. Prior to the listing the bank transferred US$1.47 billion worth of NPLs to an AMC under its parent company ("BOC pre-markets IPO" *Finance Asia*, 24 June 2002). Such transfers, while improving the balance sheet of the BoCHK, do not necessarily reflect an improvement in the bank's governance. The real improvement here was the reform of the bank's system of loan classification, which represented a much deeper improvement in risk controls.

The listing process brought about much greater transparency on the level of risk facing the bank. Information brought into the public domain as a result of the IPO showed that future deterioration of the loan portfolio is a significant risk to the bank. Increased competition in China and Hong Kong is likely to put serious pressure onto the bank, as its proportion of classified loans is higher than the competitors'. At the end of 1999, 2000 and 2001, the cost of bad and doubtful debts accounted for 75.7 per cent, 57.2 per cent, and 56.4 per cent, respectively, of the bank's operating profits before provisions for these periods. The bank expressed concern that provisions for bad loans might not be adequate to cover any further deterioration in loan quality. Further deterioration in Hong Kong's economy is likely to put strain on the bank's lending portfolio. The bank is particularly vulnerable to Hong Kong's volatile property sector. At the end of 2001, 32 per cent of the bank's classified loans in Hong Kong were in the property development and investment sectors. In addition to this, 32.1 per cent of the bank's loans to customers were in the home mortgage and home ownership schemes. The bank's exposure to mainland China also increases its level of risk. At the end of 2001, 43.9 percent of its classified loans were concentrated in China, compared with 10.9 per cent in Hong Kong. Loans to the mainland and Hong Kong-based non-bank Chinese entities accounted for approximately 14.3 per cent of the bank's total loan portfolio. Loans to mainland Chinese banks accounted for 9 per cent of interest-earning assets in 2001, compared to 14 per cent in 1999. It was noted that loans to borrowers located in China have historically had a higher percentage of bad loans.

DEEPLY ROOTED BAD HABITS MEET THE SEVERE PUNISHMENT OF THE MARKET

While the above indicates significant advances in the level of disclosure at the bank, recent events suggest that problems with transparency still exist. On 28 May 2003, the BoCHK announced that its chief executive Liu Jinbao had resigned and was being moved to Beijing as part of a routine transfer. It later transpired that Mr Liu was being investigated for corrupt lending to a Shanghai property tycoon Zhou Zhengyi ("Bad Habits", The Economist, 12 June 2003). The problem for the BoCHK is that some of these loans appear to have been authorised around the time of the bank's listing, when it claimed that it had cleared up such actions and that corrupt lending and other malpractices were supposed to be eradicated after the bank's IPO. Moreover, analysts in Hong Kong regarded the BoCHK's response to the scandal as highly inadequate.[11] The bank's response to the scandal contravened the disclosure practices of the Hong Kong stock exchange on timely disclosure of information.[12] The bank's image was further tarnished when it was revealed that it had investigated Mr. Liu's activities as early as February 2002, but had not disclosed this fact to potential investors in the IPO prospectus.[13]

As a consequence of this, concerns among investors regarding the bank's credit approval process, risk management practices and internal controls have persisted. At the time, however, the bank was immediately punished by the market for its poor compliance with Hong Kong's standards of governance. The bank's credit rating was downgraded and its share price fell, despite the significantly improvement in its financial performance as presented in its 2002 Annual Report.[14] This affects the ability of the bank to raise funds in the future and therefore provides the bank a strong incentive to demonstrate to the market that it was serious about improving its level of transparency. In attempting to correct the problem, the bank held negotiations with the HKMA over the best manner in which to resolve the issue. As a result of these negotiations the bank agreed to carry out an interim audit and a special review of lending practice in accordance with the guidelines of the Hong Kong Society of Accountants. Neither the interim audit nor a special review were required by law or the listing requirements of the HKSE. The intention of the review was to report to shareholders on the adequacy of risk management and control mechanisms, asset quality, procedures on loan classification and, in particular, loans relating to property development, loans for financing mainland-listed companies and those that had a history of appeal.[15]

The interim audit is to be carried out by the bank's auditors in the same basis as if it were a mandatory annual audit. The special review is to be carried out

---

11 See "List of Downgrades Lengthens", *South China Morning Post*, 5 June 2003.

12 Practice note 19 of the Hong Kong Stock Exchange requires disclosure if "the controlling shareholder of the issuer has pledged its interest in shares of the issuer to secure debts" as is alleged in the case of Mr. Chau. See "Fraud Furore: One in the Eye for the Reformers", *South China Morning Post*, 4 June 2003.

13 "Chinese Scandal of Missing Funds Deepens", *Financial Times*, 8 June 2003.

14 For example, Standard & Poor reviewed its BBB+ long-term counterparty credit rating on the BoCHK from stable to negative citing poor levels of credit approval controls (see, "Control Concerns Spurns S&P to downgrade BoCHK", *South China Morning Post*, 12 June 2003).

15 Company Announcement to Hong Kong Stock Exchange, BoCHK, Hong Kong, 17 June 2003.

by an independent auditor, thus lessening the prospect of conflict of interest. This suggests that the initial audit of lending practices prior to listing and the consequent reform of lending practice were in themselves not sufficiently thorough. There is a process of learning-by-doing under external pressure. The necessity of carrying out a second audit of asset quality, particularly in relation to loan classification, is indicative of this type of learning and reform process towards bringing disclosure practices in line with international governance standards. Although we cannot expect that such deeply rooted bad habits will be cleaned up immediately by several sequential audits and reviews, these active and serious responses to the market disciplines do indicate significant behaviour changes in the bank, which was insulated from capital market disciplines before the floatation.

6. Improvements in Business Strategy and Financial Performance

BUSINESS STRATEGY

In its first annual report after the listing, the BoCHK group was at pains to state that its business development strategy had entered a new phase. The group's strategy was now based on enhancing the corporate governance framework and maximising shareholder value. In achieving this, the BoCHK intended to improve the utilisation of its solid financial position, its wide customer base and employees, as well as its relationship with the BoC and the mainland so as to exploit any economic upturn in the region. The bank has also been forced to adapt its business focus to cope with a lower interest-rate environment and economic downturn (*BoCHK Annual Report 2002*).

In order to enhance shareholder value, the bank has made specific efforts to rationalise its operations in Hong Kong. The reorganisation in 2001, although giving it a much wider customer base, also left it with an inefficient structure, as many of the group's new subsidiary banks had overlapping operations. The reduction in the total number of the group's branches to 319 at the end of 2002, 35 less than in October 2001 when the bank was restructured, reflects attempts by the bank to reduce the overlapping of services resulting from the merger in 2001. The bank has also initiated a "Model Bank Pilot Programme" with the aim of categorising banks into different service categories in order to fully utilise bank resources and continue the programme of rationalisation. The results of these reforms are beginning to be reflected in improved employee productivity and a reduction in costs.[16] The lowering of costs is attributed to a reduction in staff numbers and premises rental as a result of the group's rationalisation and integration in activities.

The drive to improve shareholder value is also evident in other aspects of the group's business development strategy outside of its general restructuring. The bank has made use of its post-restructuring distribution base to target a broader range of customers. In doing so, the bank increased its line of investment products in order to offer investors more opportunities in a low interest-rate environment. For example, the bank became the first in Hong Kong to offer a non-dollar-denominated

[16] Overall costs for the year 2002 increased by 3 per cent, however staff costs (the largest item in operating expenses) declined by 5.7 per cent. Premises and equipment expenses were reduced by 10 per cent (excluding depreciation). See *BOCHK Annual Report* 2002, p.11.

guaranteed fund.[17] The result was a 3.7 per cent increase in non-interest operating income and a 9.3 per cent growth in income from net fees and commissions. This was reflected in a rise in the ratio of non-interest income to operating income from 21.16 per cent in 2001 to 23.03 per cent in 2002. Such innovations were necessary in order to compensate for a drop of 7.0 per cent in net-interest income (*BoCHK Annual Report 2002*, p. 10).

FINANCIAL PERFORMANCE

The reorganisation of the BoCHK's operations gave it greater scope to achieve efficiency improvements. The bank's ability to improve its performance was, however, constrained by the legacies of its previous structure. These are reflected in the magnitude of NPLs and charges to the accounts for bad and doubtful debts. The size of these charges continues to materially affect operating profit. The poor asset quality of the bank's loan portfolio requires it to make provision in its accounts for the level of classified loans on its books. These provisions are based on the guidelines of the HKMA. In addition to this, the bank has had to allow for the costs of its restructuring and merger. Despite these problems the new entity has capitalised on its scope for greater efficiency, and this is being reflected in improved financial performance.

Table 3 shows the performance of the bank between 1999 and 2002. These figures illustrate significant improvements in performance, most notably between 1999 and 2000, and in 2002. The bank's performance did deteriorate between 2000 and 2001. Profits fell by 41 per cent, return of assets fell from 0.63 per cent to 0.36 per cent and the cost to income ratio rose from 27.7 per cent to 30.8 per cent. Classified loans as a percentage of gross loans rose by 0.9 per cent. Most of the indicators (with the exception of the percentage of classified loans) were worse than those in 1999. This can be partly explained by restructuring costs, which accounted for HK$937 million in 2001. However, it is also evident from the indicators that the proportion of classified loans increased. This would have resulted in an increase in level of charges and provisions for bad loans, which is also reflected in the increase in the cost to income ratio. The bank also cut its workforce by almost 2,000 between 1999 and 2001. This has led to an overall improvement in profit per employee, indicating that the bank has been successful in streamlining its operations and in becoming more efficient. Nevertheless, employee cuts have resulted in the bank incurring significant severance costs.

The most notable improvements are evident in 2002. The 2002 figures indicate that the bank's efforts to streamline and restructure its operations are beginning to pay off. Pre-tax profits doubled, classified loans declined,[18] and there was a general improvement across all indicators. The 2002 results are important as they indicate that the restructuring and listing has forced real changes in the bank's operations. It is also noteworthy that they were achieved during a period of poor economic growth in Hong Kong. This further points to improvements in the general efficiency of the bank's operations.

---

[17] The BOCHK became the sole authorised agent in Hong Kong for the AUD Australia Growth Guaranteed Fund.

[18] The bank attributed this to a more proactive loan recovery strategy and enhanced credit risk strategy.

Table 3: Efficiency and Financial Indicators for BoC (HK)

	1999	2000	2001	2002
Pre Tax Profits (HK$ million)	3,771	6,376	3,733	8,068
Return on Average Total Assets[a] (%)	0.39	0.63	0.36	0.91
Net Interest margin (%)	1.93	2.06	1.95	1.98
Classified Loans to Gross Loans (%)	15.9	10.6	11.5	8.0
Cost to Income Ratio (%)	32.5	27.7	30.8	33.3
Adjusted Earnings Per Share (HK$)	0.29	0.48	0.26	0.63
Capital Adequacy Ratio[b] (%)	-	-	14.4	14.0
Average Liquidity Ratio[c] (%)	-	-	39.9	41.2
Employees (person)	15,401	14,480	13,428	13,191
Profit per Employee (HK$ 1,000)	245	440	278	612

Note:

a Return on average total assets is calculated by dividing the profit after taxation with the daily average balance of total assets for the year.

b As the Hong Kong branches of the Transferring Banks (excluding Hua Chiao) were not required to maintain a minimum capital adequacy ratio prior to the Restructuring and Merger, a comparison of the capital adequacy ratio for 1999 and 2000 is not meaningful and accordingly is not presented.

c Prior to the Restructuring and Merger, the liquidity ratio of each of the Transferring Banks was managed on an individual basis. As a result, the average liquidity ratios of BoCHK for the periods prior to the Restructuring and Merger are not comparable and accordingly are not presented.

Source: BoC (HK) Global Offering Prospectus, BoC (HK) Annual Report 2002.

Table 4: Comparison of BoCHK Loan Portfolio (by Risk Category) with the Hong Kong Average (in the parentheses)

Year	Pass	Special Mention	Substandard	Doubtful	Loss
1999	75.9 (82.1)	8.3 (8.0)	7.0 (3.7)	6.5 (5.4)	2.3 (0.7)
2000	81.4 (86.3)	8.0 (6.5)	2.4 (2.5)	5.3 (4.1)	2.9 (0.5)
2001	83.1 (88.1)	5.4 (5.5)	2.9 (2.1)	4.3 (3.2)	4.1 (1.1)
2002	87.2	4.8	1.9	1.6	4.5

Source: *BoC (HK) Global Offering Prospectus*. Presentation Slide for 2002 Annual Results Announcement (www.bochkholdings.com/ir_report_e.html).

Table 5: Comparative Indicators between BoCHK and selected international Banks with significant operations in Hong Kong

Bank (Year)	Net Interest Margin (%)	Return on Average Assets (%)	Return on Average Equity	Cost To Income Ratio	Net Income US$m	Total Assets US$m
BoCHK (2002)	1.98	0.91	12.23	33.25	856	94,239
BoC (2000)	1.48	0.40	2.94	41.87	552	349,513
HSBC (2000)	2.59	1.23	16.76	57.26	7537	664,851
Deutsche Bank (2000)	0.84	0.58	17.44	42.22	4605	837,582
Hang Seng Bank (2000)	2.65	2.12	24.99	80.82	1283	64,203
Bank of East Asia (2000)	2.45	1.16	12.37	24.8	240	22,737

Source: *BoC (HK) Annual Report 2002* and Bankscope (http://bankscope.bvdep.com).

HOW CLOSE IS THE BOCHK TO INTERNATIONAL BANKS?

One of the most notable improvements in the BoCHK's transparency is the disclosure of the level of risks facing the bank. This has made it possible for potential investors to make meaningful comparisons between the BoCHK and other international banks. One area that has proved particularly contentious for China's banks is the issue of NPLs. Table 4 provides a breakdown of BoCHK's loan portfolio by risk category. In comparison with the average loan portfolios of Hong Kong's banking industry, it is evident that the BoCHK has made significant progress since 1999 in reducing the percentage of classified loans in its portfolio. This has brought it much closer to the industry norms. In the run-up to the listing, the proportion of loans in the pass category increased from 75.9 per cent in 1999 to 83.1 per cent in 2001, and further to 87.2 percent by the end of 2002. Around the time of its listing in July 2002, the BoCHK had managed to perform better than the Hong Kong average in the first three categories of classified loans, although the loss rate was still increasing. The table also indicates that by the end of 2002, the BoCHK had an NPL rate of 8 per cent (sum of the ratios in the "substandard", "doubtful" and "loss" categories), much lower than its parent company and the banking sector in China generally, but still much higher than the average of 5 per cent in Hong Kong. Some of Hong Kong's better-rated banks, such as Hang Seng and the Bank of East Asia, reported NPL rates of 3.1 per cent during 2001 ("BoC pre-markets IPO", *Finance Asia*, 24 June 2002). Nevertheless, this scale of improvement is impressive and interesting as it illustrates how preparation for the IPO acted as a catalyst for the BoCHK's reform. Prior to this reorganisation, the BoC was able to operate in Hong Kong's banking industry with poor risk controls and high NPL rates that were inferior to other banks, and with little imperative for real reform.

Table 5 provides an indication of how well the BoCHK has converged towards other international banks with significant operations in Hong Kong in terms of performance and size of operation. While the bank is considerably smaller than other large international banks in terms of total assets and income, it appears to compare quite favourably in terms of costs. In terms of returns, the BoCHK is rapidly approaching comparable levels with its international peers, whereas the BoC's position is much less favourable. Tables 3 and 4 together indicate that the financial performance of the BoCHK is rapidly converging towards the norms of international banks in Hong Kong. This convergence is important as international investors are unlikely to favour investing in the BoCHK unless its financial performance is comparable with international norms. These impressive improvements are persuasive for the Chinese government and other state-owned banks because it shows the significant benefits of the deep structural reform induced by the international listing in a large state bank.

7. Concluding Remarks: Lessons for Corporate Governance Reform in China

The conventional approach to comparative corporate governance issues has tended to assume that specific systems of governance adopted by a specific country determine corporate governance practices in the country. More recently the focus of this approach has been on legal origins. However, this paper has shown that in a country with weak legal systems like China, there exists significant inter-firm variation in corporate governance practices. In particular, the case of the BoCHK that we have examined indicates that the system of corporate governance at firm level can be reformed even under weak domestic institutional structures. This helps explain why variations in governance practice may exist. Enterprises can choose to be disciplined and regulated by an outside institution. For the BoCHK, choosing to be regulated by the Hong Kong stock market forced it to comply with the market's rules and put it under the supervision of more developed capital markets.

A number of factors appear to be crucial in creatng differences between domestic and international listings. Of particular importance in the case of the BoCHK was the real independent audit, which was required by the HKSE in advance of its IPO. Domestic listings are only subject to audit by domestic auditors. However, similar to the legal system, China has yet to develop a proficient and independent auditing profession. Allen *et al* (2002) note that the most glaring problem in China's accounting system is the lack of independent professional auditors. The IPO audit process proved particularly telling for the BoCHK. It forced the revelation of a host of poor management and risk control practices. More importantly, it resulted in the BoCHK reforming many of it practices, including those concerning the classification of loans, an issue that is particularly pressing for China's banking sector.

The role of Hong Kong's legal system is also significant here. Hong Kong's corporate law and its enforcement mechanisms offer much greater protection to minority shareholders than China's company law, which has been handicapped by a lack of enforceability. In particular, it serves as a deterrent against discretionary political intervention in the running of the banks. It also limits the ability of enterprises to engage in stock-market abuses such as lending money to parent companies and market speculation, practices that are rife even in some of China's better regarded enterprises ("Casino Capital", *The Economist*, 6 February 2003). Thuss listing in Hong Kong facilitates standardising the relationship between the state council (via the BoC) and the board of directors. The appointment of independent (non-executive) directors places an additional check on the actions of the state-appointed board. In brief, this type of international listing-induced reform is particularly innovative in the context of Chinese corporations because it provides not only a driving force but also mechanisms for a convergence towards international best practices.

The case of the BoCHK has also illustrated some limitations of international listings in improving firm-level governance. Recent revelations of new scandals suggest that improvements in disclosure and transparency have not been sufficient and that the bank has retained some of the bad habits of its past. The BoCHK claimed at the time of its listing that all the bad news had come out at once, thus allowing the listed entity a clean bill of health. The revelations of new scandals imply that the external disciplines imposed by an international listing may not be fully adequate when dealing with problematic industries such as China's banking sector where poor governance practices are deeply rooted. Although the BoCHK is now under the pressure to "self-discipline" itself in order to re-convince shareholders that it has departed from the poor practice associated with China's banking sector, some internal disciplinary mechanisms are needed for sustaining the new dynamics brought about by the IPO and the first year of the floatation. The minority 22 per cent of total shares allocated to private institutional and individual shareholders seems too small to have a substantial effect on the internal governance of the group. Further privatisation of the bank is clearly an appealing option in this regard, as expected by the Standard Chartered Bank and other minority shareholders of the BoCHK.

To explore the implication of the BoCHK's restructuring for the reform of the state sector in China, an important question is to what extent this type of international listing-induced reform can be replicated in other enterprises. The improved credit ratings achieved by a number of enterprises listed on international capital markets (Section 2) indicate that such reform can be replicated across a broad spectrum of enterprises. There is also evidence to suggest that there is potential for a spill-over effect from this type of reform. For example, Korczak and Bohl (2002) indicate that international listings have positive spill-over effects on the enterprises listed on domestic stock markets in Central and East European economies and that these effects prove useful for enterprises that are not in a position to gain international listings. In the case of the BoCHK, the international listing brought into the public domain significant information regarding malpractice at the BoC, its parent company. These exposures forced the BoC to tidy up its operations in New York and in China in order to improve its reputation and image. In order to comply with Hong Kong's laws, the BoC was required to standardise its dealings with its listed subsidiary, thus helping to improve certain aspects of its own corporate governance. International listings can also contribute to domestic capital market reform through the role of demonstration, interaction, and information exchanges (www.csrc.com.cn).

Whether to promote international listing has become a conscious aspect of Chinese policy is unclear, however the trend especially among larger enterprises reflects an increasing desire to list on HKSE, NYSE and London Stock Exchanges. For example, in 2003, Chinese companies made up 35 per cent of Hong Kong's stock market capitalisation compared to 7 per cent in 1995 ("Casino Capital", *The Economist*, 6 February 2003). Furthermore, the improved credit rating achieved by these internationally listed enterprises is unlikely to be mere coincidence. It is therefore evident that choosing to be regulated by international capital markets has considerable scope as a policy for advancing corporate governance reforms in China.

A broader implication of this paper for general comparative corporate governance study is that it illustrates the potential for moving beyond reiterating institutional limitations in transitional and developing economies. It argues that more emphasis should be placed on innovative reforms that can be made, despite the constraints of poor institutional development.

References

Allen, F., J. Qian and M. Qian, 2002. "Law, Finance, and Economic Growth in China" Working paper, The Wharton Financial Institutions Center: University of Pennsylvania.

Berkman, H., R. Cole and J. Fu, 2002. "From State to State: Improving corporate governance when the government is a large block holder" Unpublished working paper, University of Auckland.

Black, B., 2001. "Does Corporate Governance Matter? A Crude Test Using Russian Data", *University of Pennsylvania Law Review*, 149: 2131–50.

Bruton, G.D. and D. Ahlstrom, 2003. "An institutional view of China's venture capital industry: Explaining the differences between China and the West", *Journal of Business Venturing*, 18, pp. 233–59.

The Business Times (Singapore).

Coffee, J.C., 1999. "The Future as History: The Prospects for Global Convergence in Corporate Governance Convergence and its Implications", Working Paper, No.144, Center for Law and Economic Studies, Columbia University School of Law (NY).

Chang, E.C. and S. Wong, 2002. "Managerial Discretion and Corporate Performance of China's Listed Companies", Unpublished working paper, University of Hong Kong.

The Economist.

Emerging Market Monitoring.

Far East Economic Review.

FinancialAsia.com.

Financial Times.

Korczak, P. and M.T. Bohl, 2002. "Return, Performance, and Liquidity of Cross-Listed Central European Stocks", Working paper: European University Viadrina Frankfurt.

La Porta, R., F. Lopez-de-Silanes, A. Shleifer and R. Vishny, 1997. "Legal determinants of external finance", *Journal of Finance*, vol. 52, 1131–50.

_____ , 1998. "Law and Finance", *Journal of Political Economy*, 106: 1113–55.

_____ , 1999. "Corporate Ownership around the World", *Journal of Finance*, 52: 471–517.

_____ , 2000. "Investor protection and corporate governance", *Journal of Financial Economics*, vol. 58 (1), pp. 3–27.

Levine, Ross, 1999. "Law, finance, and economic growth", *Journal of Financial Intermediation*, vol. 8 (1), pp. 36–67.

Nolan, Peter H., 2001. *China and the Global Business Revolution*, Palgrave: Basingstoke.

Pagano, M., A.A. Roell and J. Zechner, 2002. "The Geography of Equity Listing: Why do Companies List Abroad?" *Journal of Finance*, 57 (6), pp. 2651–94.

People's Daily.

Qi, D., W. Woody and H. Zhang, 2000. "Shareholding Structure and Corporate Performance of Partially Privatised Firms: Evidence From Listed Chinese Companies", *Pacific-Basin Finance Journal*. 8, pp. 587–610.

South China Morning Post.

Tenev, S. and C. Zhang, 2002. "Corporate Governance and Enterprise Reform in China: Building the Institutions of Modern Markets", The World Bank and International Finance Corporation: Washington.

Tian, L., 2002. "Government Shareholding and the Value of China's Modern Firms", Unpublished working paper, London Business School.

Xinhua Financial Network (XFN), 2002. "Credit Ratings Methodology: XFN-Far East China Credit Rating", on www.xfn.com/creditrating/.

Xu, X. and Y. Wang, 1999. "Ownership Structure and Corporate Governance in Chinese Stock Companies", *China Economic Review*, 10, pp. 75–98.

For copies of current and recent Discussion Papers, contact:

The Editor **CeFiMS Discussion Papers**
Centre for Financial and Management Studies
Thornhaugh Street, London WC1H 0XG
United Kingdom

2003

DP37 Laixiang Sun, Damian Tobin ***Corporate Governance Reform and International Listing: Case of the Bank of China (Hong Kong)***

DP36 Fabrizio Adriani, Giancarlo Marini, Pasquale Scaramozzino ***The Inflationary Consequences of a Currency Changeover: Evidence from the*** **Michelin Red Guide**

DP35 Yasmeen Khwaja & Pasquale Scaramozzino ***Unknown Talents & the Brain Drain: The Informational Role of Migration***

DP34 Barbara Annicchiarico & Giancarlo Marini ***Government Deficits, Consumption & the Price Level***

DP33 Barbara Annicchiarico & Giancarlo Marini ***Fiscal Policy & Price Stability***

DP32 Leonardo Becchetti & Fabrizio Adriani ***Does the digital divide matter? The role of Information & Communication Technology in cross-country level & growth estimates***

2002

DP31 Bassam Fattouh ***A Note on Multinational Corporate Structure: Evidence from UK***

DP30 Simone Valente ***Sustainable Development, Renewable Resources & Technological Progress***

DP29 Alessandra Dal Colle Stievano ***Intermediation & Growth in Financially Open Economies***

DP27 Federico Dini ***Concentration & Competition in the Credit Market***

DP26 Fabio Cerina, Luca Deidda ***Do We Need More Time for Leisure?***

DP25 Pietro Senesi ***Endogenous Fluctuations in a one Capital Good Model***

DP24 Giancarlo Marini, Pietro Senesi ***Technological Externalities & First-best Policy-rules***

DP23 Laixiang Sun ***Fading out of Local Government Ownership: Recent Ownership Reform in China's Township & Village Enterprises***

DP22 Luca Deidda & Bassam Fattouh ***Concentration in the Banking Industry & Economic Growth***

DP21 Atsushi Tokuda **The Origin of the Corporation in Meiji Japan**

2001

DP20 Giancarlo Marini, Giovanni Piersanti ***Fiscal Deficits & Currency Crises***

DP19 Bassam Fattouh, Pasquale Scaramozzino, Laurence Harris ***Capital Structure in South Korea: A Quantile Regression Approach***

DP18 Anja Nagel ***The Role of Financial Sector Dynamics in Thailand 's 1997 Currency Crisis***

DP17 Luca G Deidda ***On the Growth Effects of Endogenous Financial Development***

DP16 Luca G. Deidda, Bassam Fattouh ***Non linearity between Finance & Growth***

DP15 Luca G. Deidda ***Financial Institutions' Expertise & Growth Effects of Financial Liberalisation***

DP14 Konstantinos Loizos, John Thompson ***The Demand for Money in Greece: 1962 to 1998***

DP13 Christopher Howe ***Development & International Economic Integration: Is China Ready? Some Ideological, Industrial & Regional Considerations***

DP12 Panicos O. Demetriades, Bassam Fattouh, Kalvinder Shields ***Financial Liberalisation & the Evolution of Banking & Financial Risks: the Case of South Korea***

DP11 Philip Arestis, Andrea Cipollini, Bassam Fattouh ***Threshold Effects in the US Budget Deficit***

DP10 Panicos O. Demetriades, Bassam Fattouh ***Unproductive' Credit & the South Korean Crisis***