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

Damian Tobin
Department of Finance & Management Studies (DeFiMS), School of Oriental & African Studies (SOAS), University of London.

Laixiang Sun
Department of Finance & Management Studies (DeFiMS), School of Oriental & African Studies (SOAS), University of London.
Guanghua School of Management, Peking University, Beijing, China.

(This Draft May 2007)

Corresponding Author: Laixiang Sun

Address for Correspondence: CeFiMS, SOAS, University of London, Thornhaugh Street, Russell Square, London WC1H 0XG, United Kingdom. Phone: +44 20 7898 4821. Fax: +44 20 7898 4089. Email: LS28@soas.ac.uk.

We would like to thank Pauline Loong, Stuart Chiron, Angela Tse, Ashley Alder, David Li, William Lo, Mathew Yiu, Roger Luk, Simon Ogus, Steven Green and Marc Laperouza for their assistance with various aspects of the research fieldwork.

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Abstract

This paper proposes a micro-level framework to account for how firms in developing economies overcome domestic institutional constraints. It illustrates that the mechanisms enabling those firms to benefit from financial globalisation are more complex than the "direct" financial channels outlined in the neo-classical approach. China provides an important example in this context, as its capital market liberalisation has been limited and neither the legal nor financial system is well developed. Yet micro-level evidence from China's internationally listed enterprises indicates that innovative firms can overcome institutional thresholds, secure access to international capital, and benefit and learn from international capital markets. This can in turn induce market-level improvements through regulatory competition and demands for a more standardised system of economic regulation.

Key Words: International listing, globalization, regulatory competition, corporate governance, East Asia, China.

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 the long term benefits may not be easily captured empricially in the direct financial benefits, but rather the less obvious "collateral" benefits.

Often viewed as relics of central planning, China's state enterprises are somewhat unlikely beneficiaries of financial globalisation. Many operate in near monopoly conditions and retain strong ties to the state bureaucracy. Capital controls insulate domestic stock markets from the volatility often associated with international capital flows. These protections, along with a shortage of alternative investment channels and the novelty of share ownership, have meant that domestic share valuations remain high by international standards, and firms face a high opportunity cost in seeking finance on international capital markets.[1] Yet, an increasing number of state enterprises have used international listing as a mechanism to access international capital markets. This has allowed them to draw not just on international finance, but also to learn from and integrate international best practices. The result is a type of globalisation in reverse. Firms benefit from the oversight of international capital markets, even though the capital controls and other barriers that shield domestic markets from the direct effects of financial globalisation remain in place.

The paper takes a political-economy perspective by examining the variety of ways in which firms can use international listings as a means to increase benefits and reduce risk in the process of financial globalisation. First, the theoretical framework outlined in section two describes how historically; weak legal and regulatory institutions did not necessarily impede the emergence of financial markets. Integrating the micro level into the traditional financial globalisation framework allows the identification of the significant firm-level efforts to overcome these obstacles. Applying this framework, section three uses firm level case studies, which illustrate the firm level restructuring, monitoring and learning induced by international capital markets. Section 4 outlines how micro-level improvements have induced market-level reform through regulatory competition and a more standardised system of regulation.

2. Theoretical Framework

The literatures on globalisation and corporate governance raise an interesting question, namely how, if at all, do developing countries benefit from financial globalisation? China provides an important example in this context, as equity market liberalisation has been limited and capital account transactions are tightly controlled. Although there is little doubt that China has benefited from international trade, its growth does not necessarily fit with standard theory (Allen *at 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).[2] 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 "collateral" benefits often occur over the long-term and are not so easily captured empirically by standard models of financial development.

(*Figure 1*)

For developing economies a difficulty with this approach is that attaining these thresholds involved a process of institutional evolution that took richer countries many decades, if not centuries to achieve. One of the most pressing problems facing developing economies is that of institution building (Kirkpatrick and Parker, 2004). Stiglitz (2000) points out that achieving financial market stability, even for a large developed economy, poses a significant challenge. For developing economies the challenge is magnified as the forces that tend to promote governance convergence, including the presence of institutional investors, internationalisation of markets, and competitive incentives, are largely absent.[3] Even if a country succeeds in transplanting the developed market institutions, it would still have to deal with such obstacles as informational asymmetries and lack of enforcement experience (Pistor, 2000; Pistor and Xu, 2005). Moreover the experiences of development indicate that the institutions developed in richer countries do not always translate well to poorer countries; instead good institutions need to be home grown (Mishkin, 2006).

A Historical Perspective on Financial Globalisation

Although China's recent economic growth is often viewed as unique, the economic logic underpinning such policies as international listing is not that unlike the institutional innovations that underpinned the evolution of the Anglo-American system of governance. Although the neo-classical approach to development suggests that countries should engage in capital account liberalisation in order to benefit from globalisation, a second approach suggests that economic development and growth are often achieved through unorthodox institutional innovations that depart from the standard rulebook (Rodrik, 2001). A relevant example is the emergence of the Anglo-American system of corporate governance. The US corporate system, often regarded today as the guardian of small investors, developed under a protectionist trade policy. The historical evolution of the Anglo-American system casts doubt upon the thesis that the US corporate form, with its strong managers and dispersed shareholders is a "path dependent" political artefact (Cheffins, 2000).

Mishkin (2006) dates the first age of financial globalisation to the late 19th century. True, the 19th 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 17th 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.[4] 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 19th century was the level of investor confidence. What London had, New York lacked.

The New York Stock Exchange (NYSE) was located far from the wealthy European investors. In addition such practices as price manipulation by controlling shareholders, judicial corruption, asset stripping, and arbitrary regulatory enforcement were rife in America's securities markets in the late 19th century.[5] Seligman (1983) notes the prevalence of "watered stock" during the period between 1897 and 1910, where 79 cases in all were identified. Despite these problems European investors were quite willing to purchase the stocks of US companies, particularly railways that were listed on such major international markets as London, Paris or Amsterdam.[6] For these companies the combination of efficiency and liquidity made an international listing in London particularly attractive.

Given the success of international listings, the question faced by US stock exchanges was how to give investors confidence in domestic markets? Two innovations were crucial to this. The first was the use of financial intermediaries. From the mid-1800s, US investment banks played an important intermediary function between American companies and European investors. J.P. Morgan, an American investment banker, found that in poorly organised US markets, substantial profits could be made by securing finance for well-known domestic companies (Davis, 1966). Investment banks took seats on the boards of these companies. The presence of a reputable investment bank as an intermediary resolved the information and incentive problems faced by foreign investors (Ramirez, 1995). Having a representative of J.P. Morgan sitting on the board of directors, added approximately thirty percent to the value of the company's ordinary stock (De Long, 1991). The attraction of substantial external finance and higher stock valuations meant that it was in the interests of firms to form close ties with investment banks.

A second important innovation was the self-regulatory role adopted by the NYSE. At the end of the 19th century the NYSE was not even the main stock market in the US. The first canal companies tended to raise finance in their own states. The capital demands of the railroads changed this. Private railroad operators were the first companies to raise capital outside of their own states (Chandler, 1977). This worked to the advantage of New York. Railway bond issuers gravitated towards New York from the 1850s, because it was the only financial centre that could supply the scale of finance necessary.[7] What distinguished the NYSE was how it competed for business. Unlike other exchanges, it did not attempt to compete for business based on low commissions. Instead it competed on quality. "From well before 1900, the NYSE saw 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 quartile companies in these countries are similar to those of the more developed countries in the region. Even in more developed market economies such as Hong Kong and Singapore, there still exists a variation in governance practices although these tend to be lower than in developing economies. This indicates that the relationship between governance institutions and firm-level practice may be less clear-cut than is assumed by legal and political perspectives. In the absence of reaching institutional thresholds, many firms have already achieved the standard of corporate governance that would enable them benefit from financial globalisation.

(*Table 1, Figure 2 and Table 2*)

To account for the variations outlined above, the framework outlined by Kose et al (2006) can be further modified by adding a firm level (see figure 2). At the firm level, innovative firms that are willing to bond themselves and commit to higher standards of governance can overcome the barrier of institutional thresholds. By using intermediary mechanisms to by-pass threshold conditions, firms have the potential to benefit from both direct and collateral benefits of globalisation. Direct benefits include finance, the standardisation of property relations and better financial performance. Collateral benefits include regulatory competition, improved disclosure and transparency, better long-term access to capital and technology, organisational learning, and knowledge assimilation.

Whereas the orthodox approach views improvements as immediate once the threshold conditions are met, the micro level approach views such improvements as a consequence of longer-term commitments to better practices. There is certain inevitability in the orthodox approach, as good institutions lead to better performance with little said about how good institutions are developed. From the micro perspective, the intuition is that better institutions will follow micro-level innovations. Overtime, collateral benefits should spill over into the domestic economy thereby influencing the development of domestic institutions, driving further reform over the long term. For example, international listings should lead to the transfer of better business practices to the domestic economy and induce regulatory competition between stock markets. This incremental view of financial globalisation is more consistent with the historical perspective on financial development, which suggests that legal and political institutions tended to confirm what had already been decided in the market place.[8] 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.[9] 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 nonprudential regulatory approach is arguably much more conducive to Mainland enterprises, than the more arduous prudential supervision of the New York market. Nevertheless, just in the same manner that leading US firms gravitated towards more developed capital markets and bound themselves to high standards of governance at the end of the 19th century, leading Chinese firms have shown a remarkable willingness to list on the Hong Kong market and comply with the high standards demanded. This is consistent with the findings of Pagano *et al* (2002) who show that firms from countries with weaker shareholder protection are more eager in seeking foreign listings.

Just as financial globalisation can create problems for developing countries, it can also create firm-level mismatches. Weak property rights and jurisdictional issues can limit cross-border monitoring by international institutions. The task of protecting shareholder's rights in overseas listed firms that have the bulk of their assets in Mainland China is made more complicated by difficulties in establishing the rights of competing claimants. This is particularly problematic in Mainland subsidiaries where property rights are less well defined.[10] Orders against the reporting of certain cases mitigate the effectiveness of improved disclosure.[11] International Listing also creates specific challenges for bureaucratic styled management. There is an inherent misalignment between the traditional “political skills” of SOE management and the expectations of international investors. Reforms created ambiguities as to how former bureaucrats were to behave under market conditions and how they could be trained to do so (Hsu, 1991). There is also a large political cost to financial globalisation. China’s internationally listed enterprises are ultimately subject to the political control of the Chinese Communist Party (CCP). Threats to this control or the revelation of corruption carry an implicit political cost. However, regardless of the costs associated with financial globalisation, the CCP appears to have recognised that at firm level there is little option but to reform.

3. The Firm Level Benefits of International Listing

One of the most significant aspects of foreign capital is that it carries a much greater obligation to repay. In the Chinese context, although many international listings were capital-raising events, capital was often not the primary concern. Much more important was the range of commitments and opportunities that were attached to international capital. Moreover, focusing on the direct financial benefits does not 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 times for H-share Index in Hong Kong. "China Enterprises Index" in Figure 3 illustrates how Chinese enterprises listed in Hong Kong were originally valued less than both their Hong Kong and Shanghai counterparts. However their valuations have since converged with the Hong Kong market generally, not least because of their strong role on the Hong Kong market. Similarly, since 2003, an oversupply of poor quality shares on the Shanghai market has seen valuations decline towards Hong Kong levels. Although the opportunity cost of raising finance has declined in recent years, the implication is that the finance motive should not be treated as conclusive.

A second direct effect of financial globalisation is its effect on performance. The intuition underpinning privatisation generally is that the social functions of SOEs are replaced with the objective of profit maximisation (Megginson *et al*, 1994; Boubakri and Cosset, 1998; D'Souza and Megginson, 1999). Domestic Chinese privatisations in China have typically been hampered by the problems of related party transactions and asset stripping (Green, 2004). In theory international listing provides a more credible means of monitoring management (Sun and Tobin, 2005). In practice, the post-privatisation performance of China's internationally listed enterprises suggests few quick benefits from using international capital markets (Table 3). Declining financial performance for all but a few enterprises suggest that the direct benefits of financial globalisation are not immediately obvious. Enterprises appear to have achieved pre IPO improvements induced by restructurings in preparation for international listing. However, similar to other studies on privatisation, in many cases these improvements have hardly been maintained over the longer-term.[12]

(*Figure 3 and Table 3*)

International Capital Markets and External Monitoring

The high opportunity cost of international listing and the limited improvements in financial performance suggest that from the perspective of the firm, the rationales underpinning international listings are more complex than capital-based explanations. This view is confirmed at firm level. For firms, capital markets offered a means of devolving the supervision of enterprise reforms to external institutions. The BOC (HK) cites important business and self-regulatory considerations underpinning the decision to pursue an international flotation.[13] From a business perspective the bank had the objective of transforming a loosely aligned business, consisting of 12 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."[14] 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." [15] 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."[16] 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.[17]

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 indications 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 engage in international capital markets as it gave them more exposure to international business practices."[18] In terms of capital, foreign investors became shareholders rather than revenue sharing partners. This is not to say that foreign investors did not play an important function. Unicom noted that the global mix of investors has created a type of dynamism within the firm that has forced management to do better. Preparation for listing induces enterprises to become more efficient and external market monitoring ensures that this efficiency is maintained.

Improvements in Disclosure and Transparency

Although the retention of controlling shares by the state meant that the role of foreign investors was somewhat limited, international capital markets did provide an important source of external monitoring through the due diligence process. Although the Hong Kong Stock Exchange (HKEx) is highly regarded, it is not a prudential regulator. Both the HKEx and the Hong Kong Securities and Futures Commission (HKSFC) rely to a large extent on the integrity of the due-diligence process.[19] The due-diligence process makes it much more difficult to hide off-balance sheet commitments and guarantees to related parties. Significantly, despite the concern over related party transactions between Hong Kong listed enterprises and their mainland parent companies, securities regulators in Hong Kong reported that listed state enterprises from China were no more problematic than other classes of company listed on the Hong Kong market.[20] In fact their property rights structures were much more straightforward than the more complicated Asian family business structure, which the Hong Kong market has traditionally financed.

How the due diligence process worked in practice is clearly illustrated in the international flotation of the BOC (HK) in 2002. Due diligence of the bank's operations brought into the public domain significant information regarding the operation of a bank generally regarded as plagued by high information asymmetries. Preparation for listing forced a house clearing of third world practices generally, with the revelation of a range of irregularities both abroad and within the Bank's domestic operations.[21] The diligence associated with listing was not a once off event. The aftermath of the IPO led to further revelation of wrongdoing. In June 2003, the bank's Chief Executive, Mr Liu Jinbao, resigned from his position and returned to Beijing as part of a "routine" transfer. Later it emerged that Liu had approved a loan to a disgraced Shanghai property tycoon. In August 2004, two of the banks Deputy Chief

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.[22]

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."[23]

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.[24] It had also developed its own "good technology" for drilling and exploration.[25] 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.[26]

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 view that the international IPO process is interlinked with technology transfer. Although international technology can be purchased relatively easily, entering an international partnership or joint venture offers access to a much more sustainable source of new and proprietary technology. A company with an international listing is likely to have a better international reputation and is therefore less likely to engage in potentially damaging intellectual property disputes.

In the petrochemical sector, similar motivations existed. Much of the technology upon which the sector was founded originated from the former Soviet Union and was now dated. Management also faced the challenge of substituting labour with modern technology. Lardy (1998) noted the failure among China's state enterprises to convert productivity gains into increased returns. When Sinopec listed in 2000, it was already achieving refining yields of over 90 percent. With high levels of capacity utilisation and yields, there was limited scope to increase capacity internally. The challenge was to build new capacity.[27] This is not so easy to achieve domestically. Chemical refining has become more technical, as refiners not only have to deal with low quality domestic inputs, but are also expected to produce to a higher standard, in order to compete with international products. As early as the 1970s, Sinopec imported refining equipment and technology from ABB, an international company specialising in ethylene purification technology. ABB later agreed to invest US$100 million in Sinopec's IPO.[28] Such leading international exploration and refining companies as Exxon Mobil, BP and Shell all took strategic shareholdings in the company's IPO. While Sinopec cited strategic investors as important for inspiring investor confidence in its IPO, there is also reason to believe that they needed these companies for strategic alliances. The main difference between refining and exploration equipment is that given its complex nature, refining technology tends to be proprietary. Sinopec acknowledged that for technology on the chemical side it was necessary to engage in joint ventures with ABB, BP, Shell, and Exxon Mobil.[29] As part of its IPO, Sinopec appeared unusually willing to grant incentives in order to encourage strategic investors. It negotiated a deal with Exxon Mobil allowing it access to a joint venture in gasoline stations.[30] Exxon possessed important proprietary hydrocarbon technologies.

***Organisational Learning and Knowledge*e**

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,[31] 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 terms of investor demand.[32] When Sinopec listed in 2000, management had much more market experiences to draw upon. In the first instance they were able to draw on the directors involved in the listing of SPC.[33] In 1994, Wang Jiming, the chairman who oversaw SPC's public listing was made deputy general manager at Sinopec. Based on past experiences, Sinopec placed considerable emphasis on restructuring its operations to bring them in line with international management practices. The poor reception that SPC received taught management that an integrated structure was easier to sell to investors as it reduced overlapping functions and competition between subsidiaries. Integrating upstream and downstream operations into one corporation also allowed Sinopec to absorb price increases in the price of raw materials, thus lessening it exposure to international price variations.[34]

In the banking sector the emphasis has been very much on using foreign directors as an important source of introducing international banking practices. For the BOC (HK) international directors represented an important source of knowledge, or "a shoulder to lean on" for the "Beijing" directors.[35] Since 2004 it has been bank policy to involve independent directors in the recruitment of senior management.[36] Independent directors have also become an integral part of the operation of the bank. Independent directors now spend a lot of personal effort addressing matters regarding the management of the bank. Prior to their appointment, no one at the bank would have considered having meetings through English or providing translations. They have made life much easier for the "Beijing" directors, most of who are executives at the BOC, as they now have someone to turn to for advice. Independent directors have been responsible for initiating many of the changes in how it operates, particularly changes in corporate governance. An indication of the new culture at the BOC (HK) is how the bank now benchmarks itself against such leading Hong Kong banks as HSBC and Hang Seng Bank. While the rest of China's banking sector are struggling to comply with Basel 1, the BOC (HK) intends to be among the first Hong Kong banks to comply with the advanced strand of Basel 2.

4. Market Level Improvements

While micro level evidence indicates that international listing has enabled firms to improve their benefits from financial globalisation, less clear is how these benefits can induce market level improvements. At the outset, equity market liberalisation has been limited and capital account transactions are tightly controlled.

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 words 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 on inside information (Xi, 2006a). However one of the most significant reforms was the mandatory requirement that at least one third of the board be independent, and that listed companies create an audit and remuneration committee, both of which would have a majority of independent directors (Xi, 2006). In addition boards were required to have a supervisory board, similar to that of German corporations. Company Law was also reformed with a revised law coming into force in January 2006. This reduced the all powerful role of the chairman of the company by providing that a director or manager may serve as the legal representative of the firm (Wu, 2006).

Not only was the codification of board structure in law unprecedented, but it also signalled the clear intention of the Chinese regulators to move towards the type of prudential market regulation typically associated with the US. China's mandatory approach to board composition is somewhat similar to the rational followed in the US where the legislature has acted when the interests of investors and the integrity of markets are perceived to be at risk. The Sarbanes–Oxley Act of 2002 mandated much corporate governance including the structure of boardroom committees (Roe, 2005). Although (Xi, 2006) points out that the enforcement problems and the misalignment of incentives remain, financial globalisation has undoubtedly induced regulatory competition in China even though many restrictions on capital flows remain.

Standardised Regulation

The second market level effect has been more subtle. Because of enforcement problems, codifying corporate governance requirements in law is likely to have limited effects in the short term. Indeed early utility regulation in the US emerged as a response to market developments, and a crystallisation of public opinion against monopolists, rather than a legal abstraction (Dillon, 1925). Firms themselves often demanded regulation as a means of avoiding competition (Demsetz, 1968). Ultimately to be successful, regulations need to be enforceable. The success of the "regulated monopolist" in the US was dependent on the establishment by the state, of a legal system and pricing structure that was supportive of innovation and competition (Bates, 1997). International listing has witnessed increased efforts for improving regulatory cooperation between China and Hong Kong and has also seen internationally listed enterprises demanding more standardised form of regulation.

The first listings witnessed the singing of Memorandums of Understanding on regulatory cooperation between the HFSFC and CSRC and the requirement that

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.[37] 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.[38] 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 HKSFC 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".[39] 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.[40] 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.[41]

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 shareholder value. However, at provincial level, price regulation is weak and it is political benchmarks that matter. As a consequence local managers tend to discount prices to enhance political standing. In the oil sector, increasing oil imports meant that listed firms were often at a disadvantage, as changes in the international oil price were not reflected in the state price. Differentials between the state price and the international price of crude can hurt the profitability of state producers whose profit margins are increasingly determined by market prices. The state price is often more driven by political and social considerations than market fundamentals. This in turn creates regulatory risk for investors. One Hong Kong based analyst likened this problem to that faced by European investors in the US in the 19th century who financed large infrastructural projects with little expectation of a financial return. These have led to continued demands for a more transparent pricing system.

5. Concluding Remarks

This paper set out to examine how international listing could serve the purpose of strengthening benefit and reducing risks which have associated with financial globalization for a developing economy like China. Departing from the conventional macro lens, it instead focused on the micro-level innovations that enable firms in developing economies to overcome institutional constraints to better governance practices. It described how micro-level innovations not only formed the basis for the evolution of the Anglo-American system of governance, but how they are being employed by China’s large enterprises. International listings have not only led to the transfer of better governance practices in China’s large state enterprises but have also induced regulatory competition at the market level. The findings further confirm China’s incremental approach to reform and development. Firms have benefited from the oversight of international capital markets, even though the capital controls and other barriers that shield domestic markets from the direct effects of financial globalisation remain in place. The policy implication of this is that just as providing technical assistance to developing economies often proves more fruitful than financial aid, promoting the mechanisms that assist the transfer of skills and knowledge may improve the benefit-risk calculus of globalisation at the firm level.

There are also significant opportunity costs to international listings. Listing exposes management to a type of external monitoring that they would have had little previous experience. International IPOs do not necessarily lead to the type of performance improvements predicted by privatisation theory. Chinese firms listed in Hong Kong also have lower valuations and are priced more closely with market fundamental 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 off 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.

Notes

[1] A study by the McKinsey Global Institute (2006) pointed out that on average, shares listed both in Hong Kong and in Mainland China (A-shares) trade at a 50 percent premium on the Mainland.

[2] The bankruptcy of GITIC and the insolvency of Guangdong Enterprises are two cases in point (See Nolan, (2004: 49).

[3] See Coffee (1999) for a discussion of the factors that promote corporate governance convergence.

[4] Neal (1987) notes that it is traditional to date the start of English National Debt, or long-term funded debt, to 1693 when William imposed a special duty on beer, ale and other liquors to guarantee inertest on a million pound loan.

[5] For a concise account of some of the problems faced by minority shareholders in Erie Railroad see Coffee (2001:27-28). The case illustrated how even the legislative protection afforded to shareholders could be nullified through bribery and judicial corruption, effectively legitimising corrupt practices.

[6] For example the Atchison, Topeka and Santa Fe Railroad Company issued 4 percent mortgage bonds on the Amsterdam and London Stock Exchange in 1896. 22.7 percent of the bonds were issued in Amsterdam, 29.5 percent in London and the remainder on the NYSE (Mitchie 1987).

[7] As capital became scarcer in Boston, many issuers increasingly turned to New York where capital was less scarce and money rates were lower (Chandler, 1977).

[8] For examples see Clay and Wright (2005), Fay (1948), Glaeser et al (2004) and Pratt (1980).

[9]*Trading of Mainland Stocks and HSI Constituent Stocks in Hong Kong, the UK and US, Hong Kong*, Securities and Futures Commission (2005), Research Paper No. 25.

[10] “Shanghai Land hit by new claim” *SCMP*, 23rd June 2003.

[11] “Avoid graft case, journalists told” *SCMP*, 16th June 2003.

[12] Dewenter and Malatesta (2001) find that much of the improvement in profitability occurs in the three years before the government reduces its shareholding indicating that preparation for privatisation may induce restructuring.

[13] Interview: Hong Kong 20th July 2004.

[14] Interview: Hong Kong 20th July 2004.

[15] Interview: Hong Kong 26th July 2004.

[16] Chen Ge, Deputy Director Sinopec quoted in *Business Week*, 23rd October 2000.

[17] “Investors to China: Open those Books” *Business Week*, 23rd October 2000.

[18] Interview: Sinopec Head Quarters, Beijing 12th August 2004.

[19] Interview HKEX, 22nd July 2004, and HKSFC, 5th July 2004. Securities regulation in Hong Kong is likely to become more prudential with regulations being put into stature to bring the Hong Kong into line with international practice.

[20] Interview with *HKEx* 22nd July 2004; *HKSFC* 5th July 2004.

[21] "Irregularity committed by BOC branch in New York", *Peoples Daily*, 6th March 2002.

[22] “Lender hit by new scandal” *The Standard (HK)* 4th August 2004.

[23] Interview: Hong Kong 26th July 2004.

[24] 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).

[25] Interview: Sinopec Head Quarters, Beijing 12th August 2004.

[26] Interview: Sinopec Head Quarters, Beijing 12th August 2004.

[27] Interview: Sinopec Head Quarters, Beijing 12th August 2004.

[28] "ABB investing US$100 million in China Sinopec Corp. IPO" *ABB Press Release* (Zurich), 12th September 2000.

[29] Interview: Sinopec Head Quarters, Beijing 12th August 2004.

[30] "Exxon adds 500-outlet to deal to Sinopec stake," *FT*, 12th September 2000.

[31] See "BOC and CCB overhaul top management" *FT* 28th July 2004.

[32] "Chinese Lessons" *Far Eastern Economic Review*, 12th August 1993.

[33] Interview: Sinopec Head Quarters, Beijing 12th August 2004.

[34] Interview: Sinopec Head Quarters, Beijing 12th August 2004.

[35] Interview: Executive Director, Bank of China (Hong Kong), Hong Kong, 20th July 2004.

[36] BOC (HK) Press Release 16th August 2004.

[37] See "HKMA widens the Net in BOC Probe" *The Standard (HK)*, 6th August 2004.

[38] HKMA Deputy Chief Executive HKMA as reported in *SCMP* 14th June 2003.

[39] "Some Considerations in the Study of Monetary Policy Transmission" Zhou Xiaochuan Governor, People's Bank of China, 12th May 2004

[40] "Vice premier emphasizes introduction of best banking practice" Peoples Daily 1st July 2004.

[41] "China grants permission to solely owned banks to list after reformation" *Peoples Daily*, 9th February 2002.

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Figure 1. Impact of financial globalization on developing countries: Recent revision on assessment framework

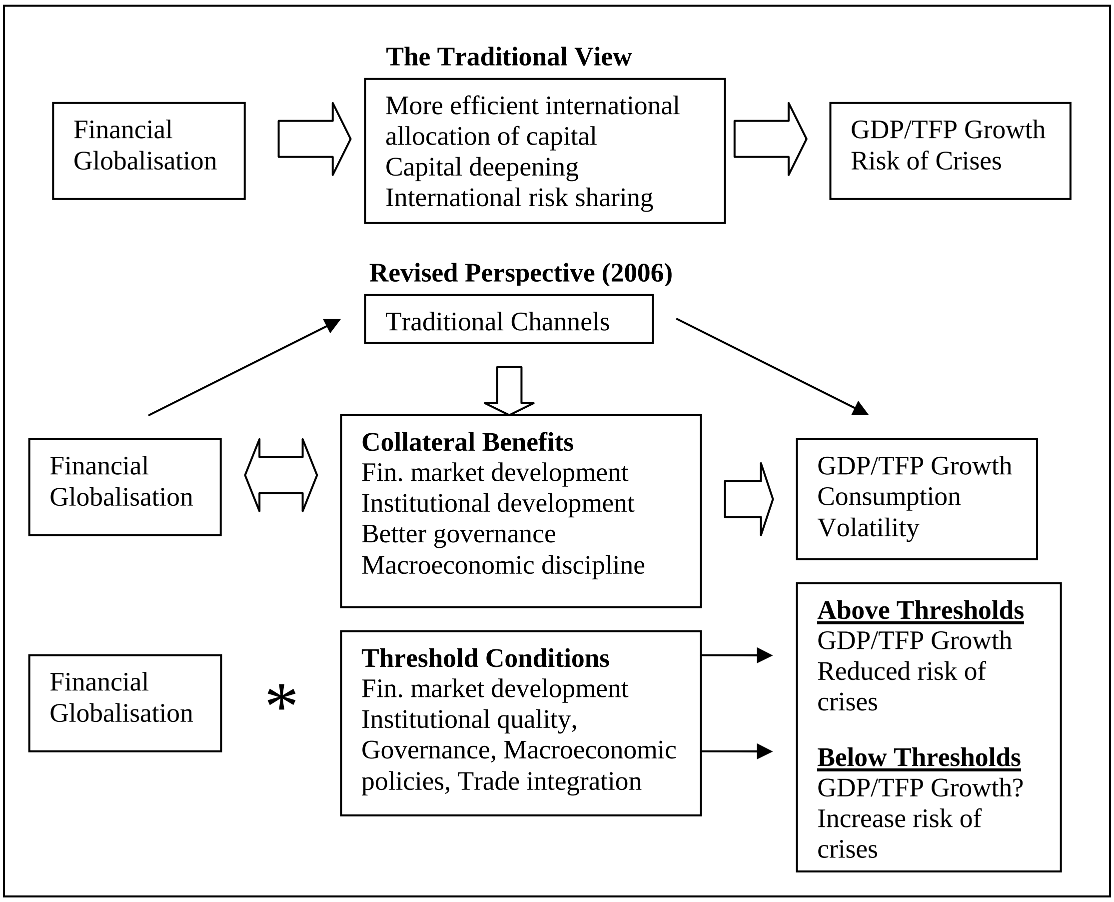


Figure 2: Impact of financial globalization on developing countries: A Firm Level Perspective on assessment framework

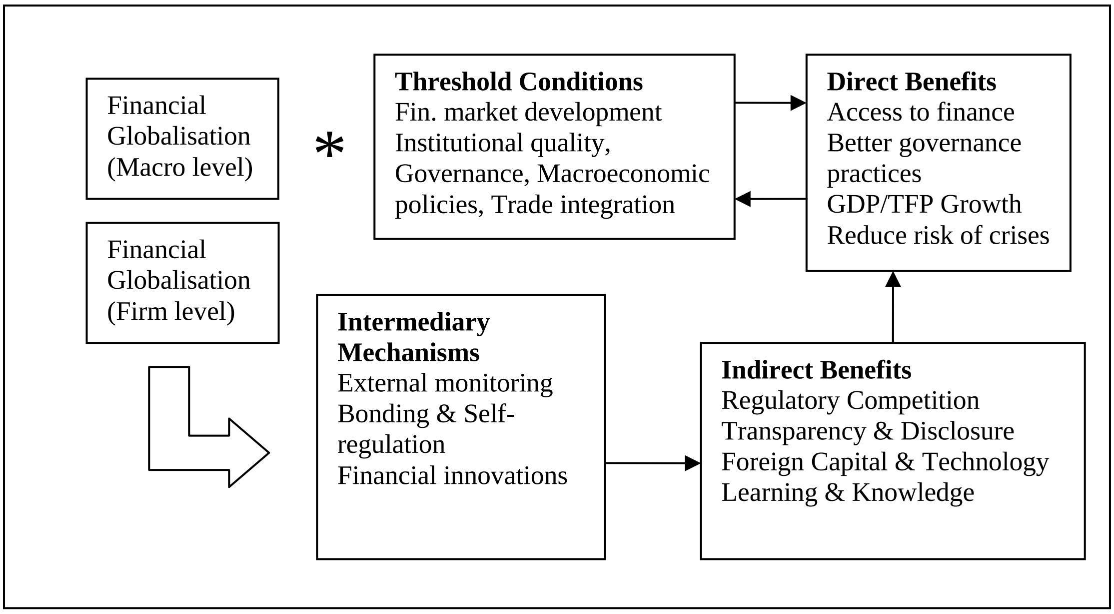
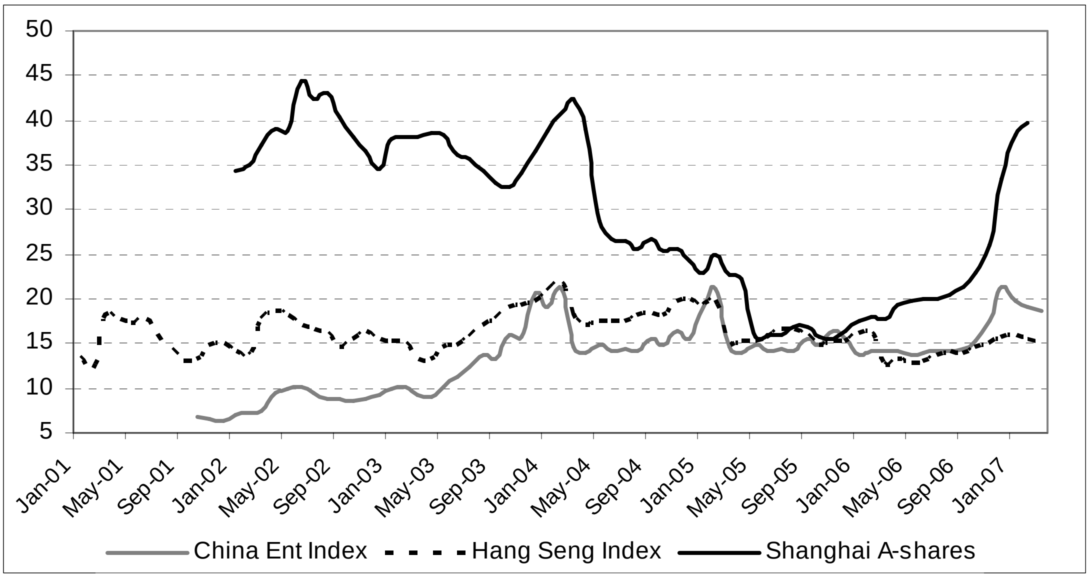


Figure 3: Price Earnings Rations of the Hang Seng, H-share & Shanghai A-share Indices



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)

Table 2: Equity Funds Raised by H-shares, 1993-2006 (HK$ million)

Year	IPOs	Post IPO	Total
1993	8,141.52	-	8,141.52
1994	9,879.81	-	9,879.81
1995	2,011.35	980.00	2,991.35
1996	6,834.16	1,037.50	7,871.66
1997	32,037.52	1,046.70	33,084.23
1998	2,072.36	1,480.16	3,552.52
1999	4,263.69	-	4,263.69
2000	51,750.69	-	51,750.69
2001	5,570.84	497.25	6,068.09
2002	16,873.60	-	16,873.60
2003	46,252.59	592.04	46,844.63
2004	40,016.78	19,229.95	59,246.73
2005	137,184.78	21,493.17	158,677.95
2006	290,026.72	13,796.28	303,823.01

Source: Hong Kong Sock Exchange China Dimension http://www.hkex.com.hk/.

Table 3: A Summary of the Long-Term Profitability of H-shares

Performance Proxy		Pre-IPO performance	3 years post IPO performance	5 years post IPO Performance
RNP Standardised to 1 in year of IPO	Median	0.71	1.197	0.614
	Mean (Stan. Dev.)	0.907 (0.664)	1.156 (1.061)	0.947 (1.307)
	n.	41	41	24
Real EBIT Standardised to 1 in year of IPO	Median	0.729	1.252	0.607
	Mean (Stan. Dev.)	0.935 (0.877)	1.527 (1.708)	1.173 (1.411)
	n.	38	38	21
EBIT/Sales	Median	0.160	0.143	0.099
	Mean (Stan. Dev.)	0.238 (0.260)	0.237 (0.255)	0.214 (0.279)
	n.	42	42	28

Note: This table presents the median, mean, standard deviation and number sampled (n.) for Real Net Profits (RNP), average Real Earnings before Interest & Tax (EBIT), and EBIT/sales.

Source: *Calculations based on data from the Taiwan Economic Journal.*