Journal of the Asia Pacific Economy ›
Volume 17, 2012 - Issue 2: Sovereign Wealth Funds

SPECIAL ISSUE ARTICLES

Operating in an inharmonious world: China Investment Corporation

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Pages 253-267 | Published online: 29 Mar 2012

Cite this article https://doi.org/10.1080/13547860.2012.668027

Abstract

This paper investigates the establishment and subsequent investment strategy of China's official sovereign wealth fund, the China Investment Corporation (CIC). CIC, as its stands today, is derivative of the contest between the People's Bank of China and Ministry of Finance for control over the nation's financial assets. The contest takes place amidst China's desire to avoid significant appreciation of its currency to protect its export markets and yuan value of its state-owned foreign financial assets. But investments of CIC are not merely regarded by the state as an instrument to influence the value of the yuan, they also reflect the state's attempt to better utilize its foreign exchange reserves to improve the nation's energy and resource security, and promote development of domestic industry. CIC's foreign investments have attracted global attention, but its support for China's SOEs through its banks might turn out to be more significant.

Keywords:

sovereign wealth fund

China investment corporation

JEL classifications:

F21

F59

G20

Notes

1. Huijin no longer has a substantial stake in BOCOM (Huijin 2008b). The major state owner is MOF, which owns 27.4% (BOCOM 2011, p. 36).

2. Calculated from US$/C¥ rates in NBS (2009, p. 724).

3. SWFs according to Blundell-Wignall et al. (2008) consist of assets controlled and managed by sovereign governments; they are commonly funded by foreign exchange reserves, resource revenue or general taxation; they can be invested domestically, and they are used to achieve certain national objectives. The US Treasury has a narrower definition. It considers a fund an SWF if its funding comes only from foreign reserves. It defines an SWF as a 'government investment vehicle which is funded by foreign exchange assets, and which manages these assets separately from the official reserves of the monetary authorities (the Central Bank and reserve-related functions of the finance) (US Treasury 2007).

4. 4.3% per year on C¥1.55 trillion (Ouyang and Liu 2009).

5. CDB is not an SOCB. It is a policy bank.

6. In 2003 the China Banking Regulatory Commission (CBRC) was established to take over from PBC the role of bank regulator. This did not reduce the influence of PBC over bank regulation, as most CBRC staff came from PBC. However, it did reduce the tension between PBC and MOF.

7. On 11 October 2009, it was announced that Huijin had bought additional shares in ICBC, CCB and BOC, increasing its stakes in these banks to 35.4%, 57.1% and 67.5%, respectively (Bloomberg News 2009).

8. They used the word ‘align’ instead of ‘coordinate’ in the English version of their paper, which suggests they wanted to indicate an unequal relationship between PBC and CIC on monetary policy matters.

9. Anderlini estimated that as of March 2009 CIC had paper losses of US$4 billion and SAFE had US$20 billion from their overseas equity investments (Anderlini 2009a, 2009b).

10. An example is the positive response of Indonesian authorities to the prospect of CIC investing up to US$25 billion in the country's energy and natural resource sectors (Agencies 2010, IBT 2010).

11. A rare exception is Martin (2010).

12. See Aizenman and Glick (2008, Table 1) for a list of the largest SWFs.

13. CIC is also investing in property directly. See Tudor and Isabella (2011).

14. For a Chinese perspective, see Jia (2011).

15. Other international institutions are also encouraged to establish funds in China. See China Daily (2010) and Williams (2011).

16. Most of them are in the FTSE 100 stock index and include some of Britain's most established and best-known companies, such as British Gas, Cadbury, Royal Bank of Scotland and Unilever (Cao et al. 2008).

Source: International Security

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