

The Chinese SWF(s)

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Is there one or several Chinese SWF ?

Academic literature devoted to sovereign fund analysis often considers that the People's Republic of China has several sovereign funds :

- the *State Administration of Foreign Exchange (SAFE)*;
- the *SAFE Investment Company*;
- the *National Social Security Fund (NSSF)*;
- the *China Development Bank (CDB)*;
- and the *China Investment Corporation (CIC)*.

Is there one or several Chinese SWF ?

Considering the definition of sovereign funds as provided by the International Monetary Fund (IMF) and used in the Santiago Principles, China only has one entity fulfilling all criteria: the CIC.

According to the Santiago Principles, the sovereign funds are indeed “special purpose investment funds or arrangements, owned by the general government. Created by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives, and employ a set of investment strategies which include investing in foreign financial assets. The SWFs are commonly established out of balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, fiscal surpluses, and/or receipts resulting from commodity exports.” “General government” refers to both central government and subnational government.

The Genesis of the CIC

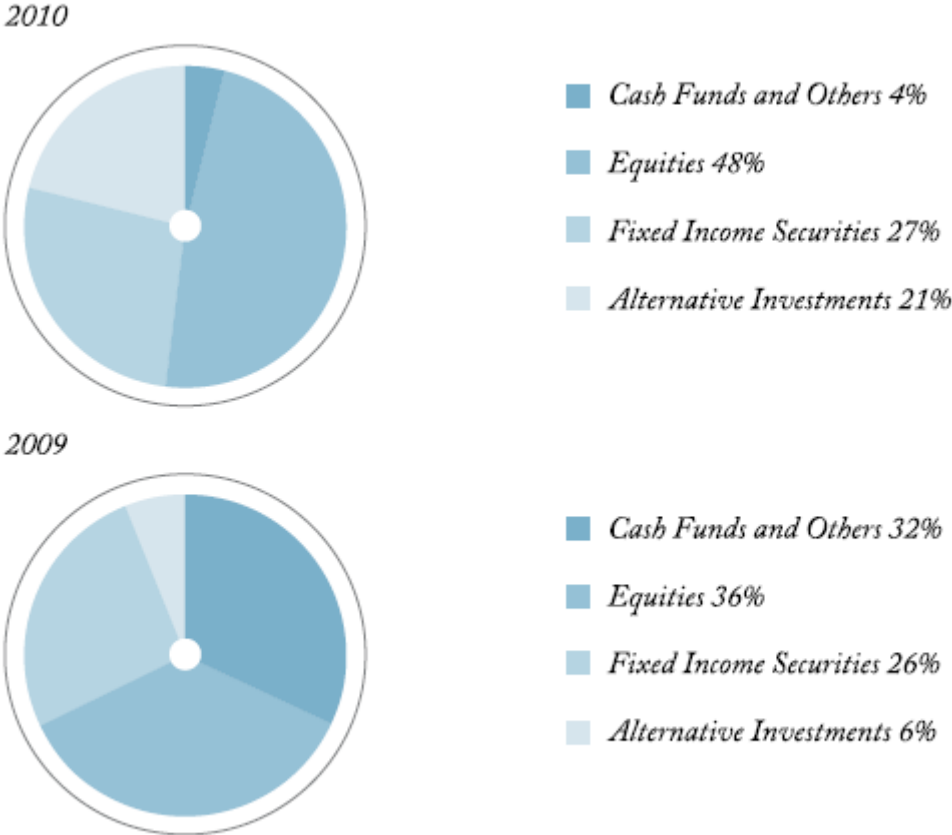
- Three years of political struggle
- Harsh negotiation about the technicalities
- Governance shared by the Ministry of Finance and the People's Bank of China
- The capital is shared between domestic and international investments
- International investments focused at first on financial entities in the United States (2007)

The CIC has been strongly hit by the crisis

- Huge potential losses on the initial investments
- Profits are driven by domestic investments
- Difficulties with the public opinion with the 5 bn USD loss in the Reserve Primary Fund
- Change in strategy towards emerging markets and commodities companies.

Rapid lack of funds

Figure 2: Global Investment Portfolio Distribution (December 31)

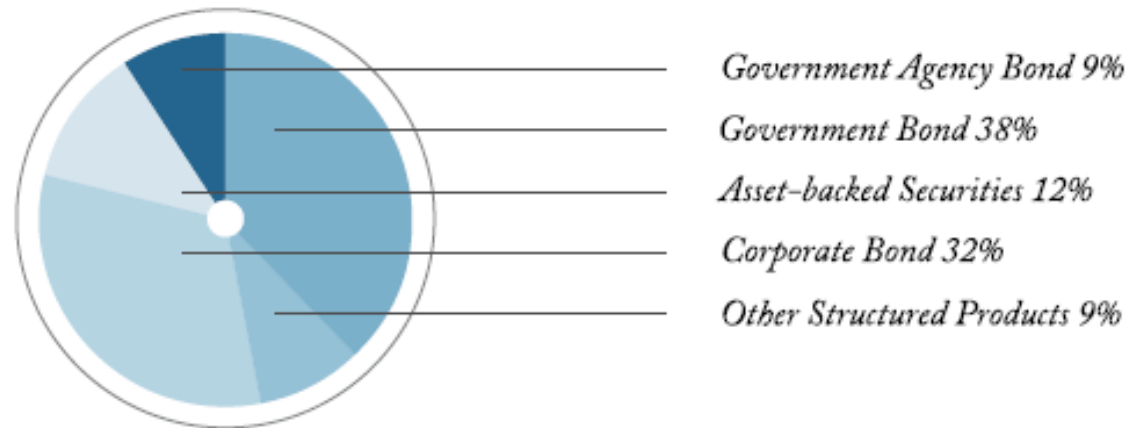


Note: Alternative Investments include private equity funds, hedge funds and etc.

Source : CIC 2010 Annual Report

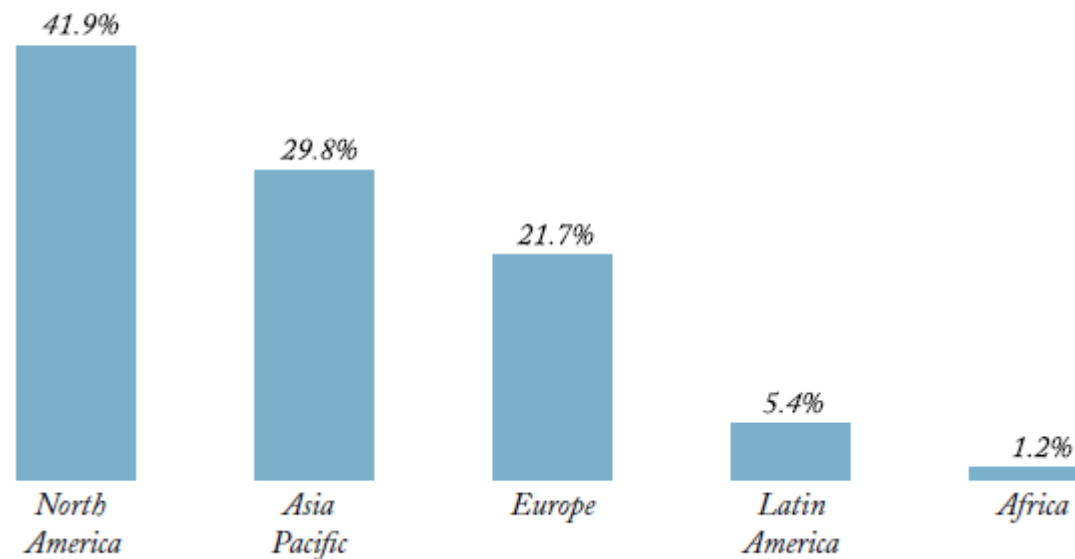
Rapid lack of funds

Figure 3: Diversified Fixed Income Securities by Type (December 31, 2010)



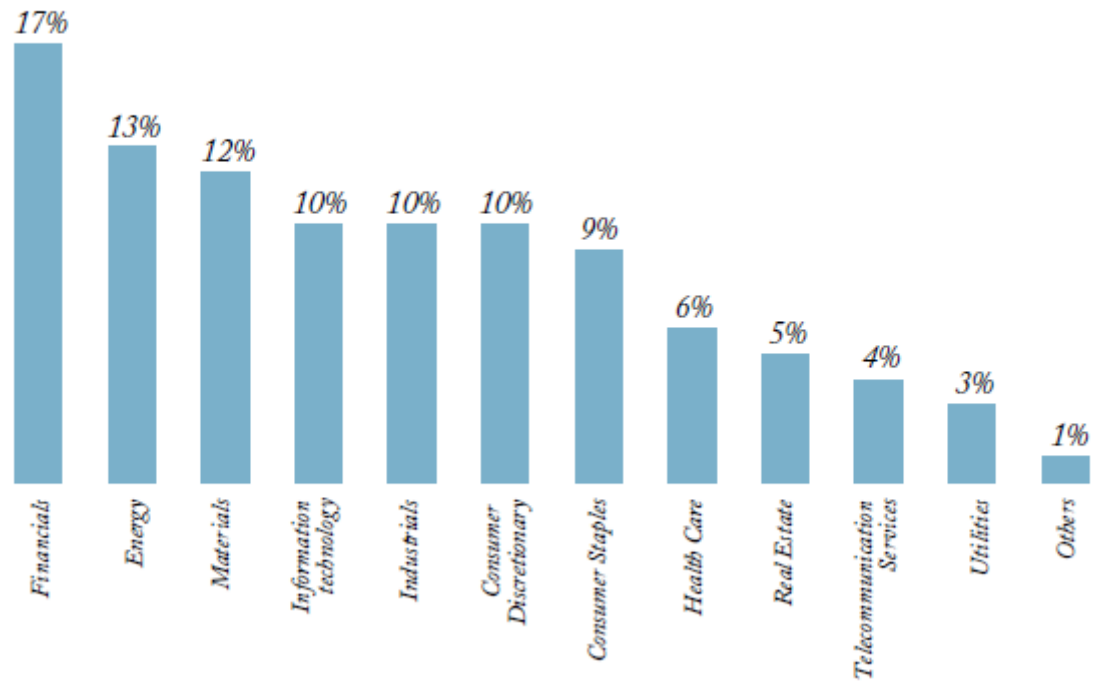
Rapid lack of funds

Figure 4: Distribution of Diversified Equities by Region (December 31, 2010)



Rapid lack of funds

Figure 5: Distribution of Diversified Equities by Business Sector (December 31, 2010)



Rapid lack of funds

Consolidated Balance Sheets

As of December 31

(Amount in millions of US dollars)

	2010	2009
Assets		
Cash and deposits	14,480	18,622
Financial assets at fair value through profit or loss		
Cash management products	3,458	20,673
Equities	65,645	39,828
Fixed income securities	34,932	25,383
Alternative investments	29,274	7,430
Total financial assets at fair value through profit or loss	133,309	93,314
Receivables and prepayments	4,210	3,067
Available-for-sale investments	113	–
Held-to-maturity investments	2,000	14,424
Long-term equity investments*	253,340	201,409
Deferred tax assets	1,046	962
Other assets	1,081	596
Total assets	409,579	332,394

* Principally comprised of investments by Central Huijin

Consolidated Balance Sheets (continued)

As of December 31

(Amount in millions of US dollars)

	2010	2009
Liabilities		
Financial liabilities at fair value through profit or loss	2,637	4,057
Bonds payable*	16,609	–
Deferred tax liabilities	3,772	1,575
Other liabilities	12,259	6,752
Total liabilities	35,277	12,384
Owner's equity:		
Owner's capital	200,000	200,000
Capital reserves and others	174,302	120,010
Total owner's equity	374,302	320,010
Total liabilities and owner's equity	409,579	332,394

* Represent bonds issued by Central Huijin

Reform of the CIC : still debated

- Creation of an international advisory committee
- Separation of CIC and Central Huijin ?
- Increase in capital ? April 2012 : + 50 bn USD

- International debate : the CIC threat or opportunity ?

Thank you for your attention

Q&A