THE ROLE OF CARIBBEAN TAX HAVENS AND OFFSHORE FINANCIAL CENTRES IN CHINESE OUTWARD FOREIGN DIRECT INVESTMENT

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ABSTRACT

Little empirical attention has been paid to the rapid expansion and the apparent decline of foreign direct investment between China and the Caribbean tax havens and offshore financial centres. Building on institutional theories, we argue that investment flows between these jurisdictions are primarily a response to China's capital market imperfections, with other institutional factors playing a contributing role. Using evidence from 72 Chinese firms for the period 1999 to 2010, we show that such outward investments involve significant capital augmentation and organisational restructuring to enable expansion in China. These processes of identifying and exploiting institutional environments can best be explained using the internalisation theory of foreign direct investment.

Keywords

Theory of FDI and the MNE; China; Caribbean Tax Havens; Institutional Environment

INTRODUCTION

Since 2000, China's outward foreign direct investment (OFDI) has grown at a faster rate than at any time in its preceding history. This is the result of domestic policy liberalisation and state promotion of OFDI (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Luo, Xue, & Han, 2010). Surprisingly, little attention has been paid to the significant investment flows between China and the world's tax havens and offshore financial centres (OFCs)[1]. By 2006, however, 44% of China's officially recognised OFDI flows (Table1; Figure 1) and 18% of its global OFDI stock (MOFCOM, 2008) was directed at just one tax haven alone, the Cayman Islands. In addition, by 2006, 18% of China's utilised inward foreign direct investment (IFDI) originated from one other tax heaven – the British Virgin Islands (BVI) (Table 1; Figure 2). After 2006, following legal and regulatory changes, direct outflows to these havens decreased. However, indirect flows, now being channelled to the Cayman Islands and BVI (CBVI) via Hong Kong, arguably remain large. As such, the CBVI remain important to understanding the pattern of China's OFDI. Nevertheless, these investment flows have been treated as a statistical discrepancy created by the 'round-tripping'[2] of capital to evade taxes that include no value-adding activities (Luo and Tung, 2007; Greguras, Bassett & Zhang, 2008). Consequently, these flows have not been considered to play an important role in the transformation of Chinese businesses and firms undertaking such activities have not been regarded as multi-national enterprises (MNEs) (Luo and Tung, 2007).

In this paper we investigate conceptually and empirically why so much FDI has moved between China and certain Caribbean tax havens and OFCs, specifically the CBVI. Focussing on capital market imperfections and institutional arbitrage arguments that have been put forward to explain China's OFDI (Morck, Yeung, & Zhao, 2008; Boisot & Meyer, 2008), we argue that Chinese OFDI to these tax havens should not be viewed only as the round-tripping of capital for the purposes of reducing tax burdens. Instead, the flow of FDI from China to the CBVI is a process that also involves capital augmentation accompanied by transformational restructuring, often involving China's most dynamic private sector businesses. Our discussion points to the important role of the CBVI for Chinese businesses in circumventing domestic capital market and institutional imperfections whilst addressing the temporality of these trends vis-à-vis state policy. Thus, firms that invest in these havens and, potentially, reinvest in their home countries, can be regarded as MNEs, as such investments constitute an important step in the evolution and maturing of these firms internationally. While we focus on investments from China, our study also informs research on OFDI from other markets and their relationships to tax havens and OFCs such as in the cases of Russia (Cyprus), India (Mauritius), or Brazil (CBVI) (Panibratov & Kalotay, 2009; UNCTAD, 2004a, 2004b).

TABLE 1; FIGURE 1; FIGURE 2 ABOUT HERE

This paper is organised into six further sections. The following section provides the theoretical background for our analysis. This is followed by our theoretical propositions. Section 4 details the methods used to explore our propositions, given the inherent secrecy of tax havens. We then present our findings which are based on a 72-firm sample of Chinese businesses incorporating in Caribbean tax havens and OFCs and listing on US stock markets. The conclusion argues that the general internalisation theory of FDI is robust in explaining China's OFDI to the CBVI and also provides policy implications related to these trends.

THEORY

Capital market imperfections and Chinese OFDI

The general theory of foreign direct investment suggests that FDI is determined by the internalisation of imperfect markets enabling MNEs to control crucial intermediate markets in goods, factors and services (Buckley & Casson, 1976). Outward investors also seek locations that minimise the cost of their activities so as to achieve optimality in location for the firm. Buckley et al. (2007) applied this theory to Chinese OFDI and found that special determinants arising from imperfections in China's capital market were a major factor in Chinese FDI. The capital market in China is clearly imperfect (Huang, 2003) and its perverse effects influence FDI. However, differential effects can be expected to apply to state owned enterprises (SOEs) and private firms.

The motivation for OFDI by SOEs is complex (Buckley et al., 2007). SOEs, especially 'national champion' business groups (Sutherland, 2009), may have privileged access to capital through the state banking sector at favourable rates and preferential access to capital markets due to their embedded nature within the Communist Party system (Nolan, 2001). However, SOEs are particularly dividend-averse (Morck et al., 2008). In the imperfect Chinese capital market, firms hold cash internally against future growth opportunities and SOEs can achieve higher share valuations in the protected and unrivalled Chinese capital market than through international listing (Tobin & Sun, 2009). Private firms, by comparison, generally face acute challenges in securing bank loans because of state control over lending within Chinese banks (Shen, Shen, Zu, & Bai, 2009). Private firms, except the favoured few, are crowded out of the capital market and starved of capital (Lu & Yao, 2009). As access to domestic capital is limited by regulation, discrimination by lenders and by the restricted range of outside funders, private firms must search for alternative ways to augment their capital stock, sometimes seeking capital outside of China. Investment in tax havens and OFCs via the creation of offshore holding companies is one such way of augmenting existing capital for these private businesses. Such offshore vehicles may provide better access to venture capitalists and importantly, international listings.

Institutional misalignments and Chinese OFDI

Aside from capital market imperfections there are a number of institutional 'misalignments' that have been used to explain Chinese OFDI. The most commonly discussed misalignment, for example, has been the favourable treatment of foreign investors. Until 2008, foreign invested enterprises (FIEs) received a substantial range of benefits including improved access to land and factor inputs; a reduction in land use fees; greater autonomy in the management and operation of enterprises; favourable tariff rates for the importation of parts and equipment; favourable export tariff rates; fewer trade restrictions and exemptions from export quotas; special access to foreign exchange and no requirement to remit foreign exchange to the Central Bank or State Administration of Foreign Exchange (SAFE); and tax concessions and holidays. The tax component of the benefits accruing to FIEs has often been used to explain round-tripping OFDI, which is one possible diminution strategy. This process is driven by the private sector's efforts to navigate around legal and administrative constraints by accomplishing preferential treatment of foreign capital (Huang, 2003).

Disguising Chinese businesses as foreign enterprises usually entails registering a firm in a tax haven to become a parent or contractor to a Chinese firm. Capital and equity is then restructured so that inward investment to China appears to be foreign, thereby obtaining preferential treatment by the Chinese government as a FIE. There is an assumption that a 'paper company' or redundant 'shell company' is created with no real function in the host country while the core operational activities are carried out in the home country or a third country (Greguras et. al, 2008). Accordingly, it is argued that round-tripping FDI distorts China's official FDI statistics, leading to attempts to quantify the magnitude of round-tripping FDI (Lau & Bruton, 2008; Xiao, 2004). More generally, Cantwell (1992) has drawn attention to the distorting role of tax havens and OFCs in the use of OFDI data whilst Beugelsdijk, Hennart, Slangen & Smeets (2010) maintain that FDI into tax havens does not generate value adding activity. The implication for the Chinese case is that the return leg capital remains fundamentally unaltered from the initial outbound capital.

OFDI to the CBVI, however, may also be an important route for Chinese firms to reduce costs arising from various types of institutional misalignments. Boisot & Meyer (2008) conceive Chinese OFDI as a means of 'institutional arbitrage', that is the strategic pursuit of an MNE to exploit differences in the configuration of the professional, administrative, cultural, economic, or geographic environment between countries to their own advantage (Ghemawat, 2003; Gaur & Lu, 2007; Zhao, 2006). In our case, Chinese firms look to avail themselves of more efficient administrative and professional institutions outside of China, and engage in a form of arbitrage whereby they exploit the superior institutions of foreign markets. More specifically, when transactions costs are high, as they are argued to be in China (Buckley et al., 2007), and the costs of crossing domestic borders exceed those of international borders, it is suggested that Chinese firms internationalize at a relatively earlier stage of their development (Boisot & Meyer, 2008). Chinese firms investing in the CBVI may therefore follow diminution or escape strategies to reduce exposure to Chinese institutional conditions (Witt & Levin, 2007). Firms that invest in the CBVI to reinvest in China follow a diminution strategy as the misalignment within China that has forced them to invest abroad has not been alleviated, but they have reduced the burden of it on the firm. Chinese OFDI to the CBVI positions the firm in such a way that it can actively navigate home country institutional obstacles to take advantage of domestic business opportunities. This questions the notion of pure internationalisation. Changes to institutional misalignments at home can lead to a move away from diminutive investments and an ebbing of bi-directional capital flows and diminutive strategies. Alternatively, escape strategies are followed where the firm leaves the home country and relocates its main business functions and loci of operations to a third country (Witt & Levin, 2007).

Capital augmentation and restructuring in the CBVI

Moving beyond the preferential tax treatment of FIEs as the received explanation for Chinese OFDI to the Caribbean tax havens and OFCs, it becomes necessary to ask whether there are any other mechanisms whereby a diminutive strategy may add value to Chinese capital. A limited number of studies have noted the importance of raising capital on foreign capital markets. Xiao, for example, accepts that some round-tripping is purely to escape regulations creating no additional value to Chinese capital (Xiao, 2004). However, Xiao also adds a further point, that there may be another type of round-tripping which ‘creates value added much like the financial sector’s role for the real economy’ (Xiao, 2004: 12). Xiao’s argument is not well developed, though the implications are clear: registering as a company in the CBVI could enable Chinese companies to circumvent imperfections in the domestic Chinese capital market. This may create greater value than they could obtain by listing on domestic stock exchanges, if such an option were available.[3] In addition to raising capital there may be a whole range of further benefits that Chinese firms may avail themselves of within the tax havens. Chinese firms may also benefit from foreign banking and financial expertise, which can add value to the Chinese capital (Zhan, 1995), as well as more sophisticated and stable legal institutions (Huang, 2003). These may provide greater flexibility in certain areas, for example in providing significant benefits in remunerating staff via stock options. Transactions for Chinese property rights involving mergers and acquisitions, for example, may also take place offshore. This would allow businesses to undertake significant restructuring of their mainland operations via the CBVI and reduce the exposure to and negotiation with Chinese institutions in this process. To date, however, the nature of the processes involved in Chinese OFDI to the CBVI and their full extent and implications have not been well documented. These points suggest that both a diminution strategy and escape strategy could be followed by Chinese firms that invest in these jurisdictions.

Summary

Capital market imperfections and institutional misalignment explanations provide us with significant insights into the underlying motivations for Chinese OFDI. There is, however, little empirical evidence specifying which institutional factors within China are driving the movement offshore, and concomitantly, which specific offshore institutions are being exploited by Chinese businesses. Whilst it is known that Chinese firms use tax havens and OFCs for the purpose of raising capital (Morck, et al., 2008), there are no estimates of the magnitude of the capital raised. Apart from such quantitative changes, no studies to date have examined qualitative changes to Chinese capital when completing its round-trip journey upon its re-entry into China. The exclusive focus on the Chinese institutional context comes at the expense of detailing the specific activities undertaken offshore. Moreover, explaining China's FDI to the CBVI by recourse to China's domestic institutional environment alone, does not explain why Chinese companies appear to overwhelmingly prefer the CBVI, as opposed to the numerous other internationally recognised tax havens and OFCs. Many other havens offer similar tax advantages. The heavy concentration of OFDI into and out of these two particular havens suggests that these locations may possess specific advantages attracting Chinese OFDI. We attempt to provide a systematic, theory-driven analysis of these.

THEORETICAL PROPOSITIONS

The primary purpose of this paper is to test the following propositions directly derived from the theory of the multinational enterprise (Buckley & Casson, 1976) as applied to China's OFDI to the Caribbean tax havens and OFCs:

Proposition 1. Chinese OFDI to the tax havens is a response to domestic (Chinese) capital market imperfections (Buckley et al., 2007).

Proposition 2. Chinese OFDI in the tax havens is a response to domestic (Chinese) non-capital market related institutional factors (Buckley et al., 2007; Boisot & Meyer, 2008).

Proposition 3. Chinese OFDI to the tax havens is dependent on the home country's institutional, legal, and financial configuration and therefore is highly time dependent upon changes in Government policies (Witt & Levin, 2007).

The case of Chinese OFDI to the CBVI is thus an intriguing test of the theory of FDI. It involves detailing the nature of the activities undertaken by Chinese firms in the havens and investigating why specific havens are selected and used in the manner they are.

RESEARCH METHOD

Sample selection

This study explores the rationale for Chinese OFDI to the Caribbean tax havens and OFCs. Owing to the inherent secrecy of tax havens it is difficult to determine which Chinese firms have interests in the CBVI and what activities they engage in once offshore. One of the few windows through which to observe such behaviour is the publicly available data of Chinese firms that have raised capital on foreign stock markets. All businesses that are listed on North American stock markets, for example, must submit various formal documents to the United States Securities Exchange Commission (SEC), including annual financial statements and reports. It is a requirement of the SEC that foreign private issuers complete a '20-F' form annually (SEC, 2009). These submissions, owing to legal obligations, are generally candid in nature and provide detailed information on company accounts; capital raising activities and use of proceeds from such activities; information on the organizational structure; subsidiary information including the country in which any listing vehicle is incorporated and the use of offshore vehicles for such purposes. As such, the usage of 20-F forms is now well established in corporate governance and accounting research (e.g., La Porta, Lopez-De-Silanes, Shleifer & Vishny, 2002)

To investigate our propositions we drew our sample from the population of Chinese firms listed on the SEC EDGAR database classified as having their 'state location' and primary business activities in China (totalling 869 firms as of June 2010). The data for each firm within our sample covers the time period from each firm's first 20-F submission until its latest submission, either in 2009 or 2010. We analyse all 20-F form submissions for each firm within our sample, of which there were 93 unique submitting firms and a total 423 20-F submissions (Table 2). For example, Qiao Xing Universal Telephone was the first firm within our sample to submit a 20-F form to the SEC in 1999. Accordingly we analyse each of its twelve 20-F form submissions and its two 20-F form amendment submissions which cover the time period 1999-2010. There are a number of firms within our sample which listed in the 2009-2010 period and have submitted one 20-F form to date e.g. 7 Days Group Holdings filed its first 20-F form in 2010. Our analysis is therefore informed by its single submission. Section 4 ('company history') of each 20-F form, however, includes information on the origins of the firm within China and details of its incorporation process within the CBVI. Thus the information provided covers the time period from the incorporation of the firm in the CBVI until the present.

TABLE 2 ABOUT HERE

Our final sample included: all publicly listed firms submitting 20-F forms in the period January 2009 through to June 2010, to ensure the sample included only operational firms; all firms incorporated in OECD recognised Caribbean tax havens (excluding blank check companies, i.e. a development stage company that has no operating activities or specific business plan); all firms originating in China as wholly Chinese owned entities. The final sample consists of 72 firms after the removal of blank check companies, Hong Kong based firms and those that did not commence operations in the PRC (Table 3). In our sample we further identify the number and location of holding companies (Table 3, column 5) as they are reported in the 20-F forms, as well as other non-holding company subsidiaries (column 6, both inside China and abroad).

We acknowledge that our approach has certain limitations regarding sampling and data. All of the firms we analyse, by definition, have raised foreign capital. This may limit the conclusions that we can draw, as we cannot compare our findings to the structures of firms that have invested in the CBVI to trade on other non-American markets, or have invested in the CBVI but do not wish to raise equity in this way (preferring, for example, to raise money through the banking system or venture capitalists). This said, given the legal obligations to accurately report information in SEC submissions, the use of 20-F forms partially overcomes issues of reliability and credibility that primary data would suffer from, particularly for businesses using tax havens. We rely, therefore, upon secondary data contained within 20-F forms only.

Testing the theoretic propositions

Proposition 1 is addressed using the amount raised in each company's initial public offering (IPO) as a proxy for capital raising activity due to capital market imperfections in China (Table 2, column 4). The magnitude of the capital raised in the IPO is calculated from information within the 20-F's section 4 ('company history'); section 5 ('investing activities' and 'financing activities'); and section 14 ('material modifications to the rights of security holders and use of proceeds'). We do not include further capital market related activities undertaken by our sample following IPO, such as subsequent offerings, bond issues, or international bank borrowing (although these are in our common in our sample). The incorporation of Chinese firms within the CBVI and their ensuing IPOs on North American stock markets discretely demonstrate the role of the Caribbean tax havens and OFCs in facilitating the initial access to international capital markets.

Given the potentially wide range of institutions that our sample firms may avail themselves of in the CBVI we focus on one specific area to investigate Proposition 2. This is whether the firm has used the offshore market for property rights to acquire other China based businesses also held through offshore vehicles. Specifically, for each firm we check whether it has acquired controlling interests in any other Chinese company (either privately held or publicly listed) that itself is controlled through an offshore vehicle. We take this as a useful proxy for the use of offshore institutions as it explicitly reflects how Chinese businesses restructure their operations back in China through offshore vehicles. It therefore provides one indicator of how offshore institutions are used for their benefit. Sections 3, 4 and 7 of the 20-F form, covering 'key information'; 'company history'; and 'related party transactions', respectively, were used to identify such activities. For each firm we used all available 20-F submissions.

The third proposition investigates the temporal nature of China's OFDI to the CBVI vis-a-vis the domestic institutional environment. Since 2006, new regulations mandate that all Chinese nationals wishing to invest overseas must register with their local SAFE. There are a number of similar additional regulations, promulgated under a number of circulars (though particularly circulars 75 and

106). Since 2008, the new Enterprise Income Tax (EIT) Law has harmonised tax rates for foreign and Chinese businesses. As such the tax incentives for setting up offshore holding companies have diminished greatly. Indeed, under the EIT Law, dividends, interests, rent or royalties payable by a foreign invested company to its foreign non-resident enterprise investors (and proceeds from the disposition of assets by a foreign enterprise investor) are subject to an additional 10% withholding tax. The new EIT law, however, has a provision that if the foreign enterprise investor's jurisdiction of incorporation has a tax treaty with China a reduced rate of withholding tax may be applied. Hong Kong introduced this provision in August 2006. Dividends paid by a foreign-invested enterprise in China to its direct holding company in Hong Kong are therefore subject to a lower withholding tax rate of only 5% (providing the foreign investor owns at least 25% of the shares of the foreign-invested enterprise directly).

The deployment of a Hong Kong based holding company directly holding mainland subsidiaries was therefore used as a discrete proxy for responsiveness to institutional change. Sections 3 and 4 of the 20-F form covering 'risk factors' and 'organisational structure', respectively, were used to establish how institutional changes influence investment decisions and the type of holding company structures used to mitigate these.

TABLE 3 ABOUT HERE

From our sample three case studies were selected to illustrate our findings regarding propositions 1-3, supported by aggregate data from the sample. Each case study was selected to illustrate a respective proposition. The selections were made on the basis that each case was representative of our sample firms and most clearly illustrated the activities involved for the respective proposition. The case studies provide richer detail of the activities undertaken by Chinese firms within the Caribbean tax havens allowing us to explore further the role of the CBVI and Hong Kong in this process (e.g. Eisendhart, 1989; Yin, 2008).

RESULTS

Capital market imperfections: The use of the CBVI for international listings

Collectively, the 72 sample firms raised estimated gross IPO proceeds of US$11bn and net IPO proceeds of US$9.8bn (sample average, US$164 million) (Table 2).[4] It is striking that 62 sample firms were incorporated in the Cayman Islands. Of these 62 firms, 42 also have one or more BVI holding companies held directly by the CI listing vehicle, usually in turn holding the mainland subsidiaries. The sample firms overwhelmingly followed similar procedures of incorporation prior to listing. For example, 25 of the sample firms first registered in the BVI prior to incorporating their listing vehicle in the CI.

Suntech Power provides us with a representative example of the listing process, illustrating the sequence whereby Chinese businesses develop their offshore corporate structures. Suntech, originally incorporated in China as Suntech China, designs, develops and manufactures a variety of photovoltaic cells and modules. It is now one of the world's largest producers. The following quote, taken from section 4 of its 20-F form, illustrates the process whereby offshore vehicles are used to raise capital and uses language that is echoed by a majority of sample firms in their 20-F forms:

'Suntech China was incorporated in January 2001 and commenced business operations in May 2002. To enable us to raise equity capital from investors outside of China, we established a holding company structure by incorporating Power Solar System Co., Ltd., or Suntech BVI, in the British Virgin Islands on January 11, 2005. Suntech BVI acquired all of the equity interests in Suntech China through a series of transactions that have been accounted for as a recapitalization. In anticipation of our initial public offering, we incorporated Suntech Power Holdings Co., Ltd., or Suntech, in the Cayman Islands as a listing vehicle on August 8, 2005. Suntech became our ultimate holding company when it issued shares to the existing shareholders of Suntech BVI on August 29, 2005 in exchange for all of the shares that these shareholders held in Suntech BVI. We conduct a significant portion of our operations through Suntech China' (Suntech, 2006: 27).

FIGURE 3 ABOUT HERE

The example of Suntech illustrates the typical processes and structures predominantly used by China's non state-owned businesses when raising capital on foreign stock markets. Suntech raised net IPO proceeds of US$321.8 million on the New York Stock Exchange (NYSE) in 2005 (Suntech, 2010). Once in place, these structures also allow Chinese companies to raise further capital in numerous other ways. In 2009, for example, Suntech closed a follow-on offering on the NYSE with net proceeds of US$277 million (Suntech, 2010). Suntech has also made use of two corporate bond offerings to raise capital in 2007 and 2008, with net proceeds of US$485.6 million and US$560.1 million, respectively. Following its IPO in 2005 Suntech's access to short term bank borrowing dramatically improved, its net proceeds from short term bank borrowing increased from US$15.3 million in 2005 to US$183.6 million in 2006 and to US$305.8 million by 2008 (Suntech, 2007, 2010). Suntech was also able to realise net proceeds of US$294.1 million in longer term bank loans by 2009 (Suntech, 2010). Both Chinese and international banks lent to Suntech.

The capital raised has allowed Suntech to expand its capacity and exploit its China based low-cost manufacturing model as well as allowing it to undertake a series of 'strategic acquisitions'. For example, in 2006 Suntech acquired MSK in Japan (now Suntech Japan) – a pioneer in the higher value-added building-integrated photovoltaics market (see Suntech Japan, Figure 3). In 2008, Suntech acquired one its component suppliers KSL-Kuttler, a leading German based manufacturer of automation systems for the printed circuit board industry whilst in 2009 Suntech acquired a 76.6% interest in CSG Solar, a German company involved in developing, producing and marketing PV cells. (Figure 3). Interestingly, Suntech has also created an investment fund in which it holds an 86% stake, Global Solar, to make investments in private companies that own or develop projects in the solar energy sector and (see Figure 3). At least two of these investments have been in Chinese companies registered in the BVI and thus have been undertaken offshore (an 18% equity stake in Glory Silicon undertaken in 2008 for a value of $21.4m and a 20% equity interest in Asia Silicon undertaken in 2009) (Suntech, 2010). This has allowed Suntech to avail of the offshore market for Chinese property rights, to which we now turn.

Institutional misalignments: The offshore market for Chinese companies

There are various institutional benefits of going offshore, but the use of an offshore market for property rights illustrates just one important yet unrecognised aspect of how offshore havens provide institutional support for the restructuring of businesses back in China. In our sample firms we find evidence that 22 firms have acquired fully or partially one or more other China based companies that are themselves held through offshore holding companies.

Xinhua Sports & Entertainment Limited (XSEL) is a sports and media entertainment group which conducts all of its operations in the PRC. It has grown significantly since its inception, primarily through the acquisition of assets and businesses and the development of its distribution (Xinhua, 2008: 29). XSEL undertook a different sequence to most of the sample firms, by directly incorporating in the CI. Xinhua completed its IPO on the NASDAQ in 2007, receiving net proceeds of US$200.3 million (Xinhua, 2008). XSEL has also raised capital via placements of convertible preferred shares (US$60 million in 2006 and US$29.2 million in 2008) and convertible bonds in 2008 (US$30.7 million) (Xinhua, 2009). Its access to bank borrowing has dramatically increased since its IPO, from US$5.6 million in 2006 to US$48.7 million in 2007 and to US$40.3 million in 2008. XSEL has used international capital markets extensively to undertake ‘strategic acquisitions’.

XSEL is interesting as since its IPO it has used proceeds to fully acquire at least seven privately held offshore holding companies that own (or control) other onshore Chinese businesses (shown in italics in Figure 4). It has also established one new offshore company (Xinhua Media Entertainment Ltd). In total six of these were incorporated in the BVI, one in the Cayman Islands and one in Hong Kong. Seven of these offshore companies in turn effectively control at least 29 mainland Chinese subsidiaries (compared to the sample average of 6.3).For example through its 2007 acquisition of East Alliance Limited a BVI holding company, XSEL now controls all of East Alliance's wholly owned subsidiaries and variable interest entities (VIEs) collectively known as M-Group, a PRC based mobile service provider. These VIEs are controlled via contractual agreements which include a secured loan agreement, exclusive equity purchase option agreement, an equity pledge agreement and a subrogation agreement entered into with Wuxianshijie (Figure 4). XSEL has 17 offshore holding companies in total (compared with the sample average of 3.3). As a result of these acquisitions XSEL has been able to expand aggressively into a range of different media, as well as expanding its geographical coverage of the Chinese market.

FIGURE 4 ABOUT HERE

The massive augmentation of capital and rapid growth of our sample firms has also brought the issue of taxation into the foreground. This has been a pressing concern for the authorities in China and arguably an ever more sensitive issue for our offshore sample firms that maintain the bulk of their operations on the mainland. We turn next to this issue, highlighting the new laws that have come into place to combat tax avoidance and evasion and in turn the response of our sample firms.

Responsiveness to domestic institutional change: China's taxation policy

An important explanation for the use of tax havens has been the preferential tax rates afforded to foreign invested enterprises in China (e.g. Huang, 2003). As noted above, recent legal and regulatory changes have increased the hurdles to set-up offshore vehicles. Their tax benefits have also been reduced. In response to these tax changes our sample firms have now increasingly incorporated a Hong Kong holding company, either beneath or in place of the BVI holding company, to directly hold their Chinese businesses. Between January 2005 and December 2009, for example, 46 of our sample firms had put in place a Hong Kong subsidiary. Moreover, every single one of the 330 20-F submissions made by the entire population of Chinese firms since the end of 2006 has specifically commented on the implications of new withholding taxes paid to offshore holding companies, including, specifically, the preferential tax arrangements with regards to Hong Kong holding companies (i.e. a lower 5% rate).

Actions Semiconductor provides us with a typical example. It is one of China's leading fabless semiconductor manufacturers specialising in portable media players. It was incorporated in the Cayman Islands in 2005 specifically to take advantage of access to international capital markets, like our other sample firms: '[B]y incorporating our company in the Cayman Islands, we believe that we may have additional flexibility to pursue future business opportunities or financing alternatives' (Actions, 2010: 23). Actions completed its IPO on the NASDAQ in 2005, receiving net proceeds of US$43.6 million. Since its IPO, Actions has also entered into a series of strategic investments, including transactions in other international business companies also incorporated in the BVI. Actions has also been active in the reorganisation of its offshore organisational structure, establishing holding companies in the BVI in 2005 and 2006 explicitly as 'tax effective investment vehicles' to counter the new withholding taxes (Actions, 2010: 23). Shortly before the EIT law was introduced, for example, Actions began to reconfigure its holding company and PRC subsidiary organisational structure explicitly for tax purposes (Figure 5): 'We determined that it is advantageous for us to adjust our investment structure to use Hong Kong companies to hold our interests in our PRC subsidiaries. On August 17, 2007 and September 6, 2007, we established two subsidiaries in Hong Kong …. which serve as the holding companies of our PRC subsidiaries. We wound up two BVI holding companies' (Actions, 2010: 23). Actions has changed its holding company structure so as to pre-empt the new tax law and avoid any possible complications regarding its holding company structure.

FIGURE 5 ABOUT HERE

A common theme found in sections 3 and 10 of the 20-F form (subsections 'Risks' and 'PRC taxation', respectively) is the pending review of the tax status of our sample firms, particularly regarding the introduction of withholding taxes paid on dividends to offshore holding companies. Many of the sample firms clearly state that all necessary measures will be taken to mitigate the adverse impacts of any possible rescinding of preferential taxation rates currently applied, and frequently cite the use of Hong Kong holding companies as a possible solution. For some, however, the financial impact is likely to be less great, as they have yet to start paying dividends (being still in their early fast growth stages). It is therefore clear from the annual filings of our sample firms that Hong Kong holding companies have been introduced and are seen as one means of circumventing the newly introduced withholding taxes paid on dividends to other offshore havens and OFCs.

DISCUSSION

Imperfect capital markets and Chinese OFDI

Our results demonstrate that some of China's most dynamic companies extensively use offshore vehicles, typically involving dual structures in the CBVI, to tap international capital markets. This is consistent with our first proposition that Chinese businesses use Caribbean tax havens and OFCs to raise significant amounts of capital and, as a result, address the domestic capital market imperfections they face within China.

An important trend, one that is captured to some extent in official Chinese OFDI and IFDI data, emerges from these findings, namely that the Cayman Islands is clearly the favoured destination for Chinese firms to establish their listing vehicles. While its zero rates of tax (income and capital gains) are undoubtedly an attraction, it is clear numerous other havens would also meet these criteria. We believe that the most important reason for Chinese firms to favour the Cayman Islands for their listing vehicles is its role as one of the world's largest OFCs. Unlike the BVI, it specialises in business related financial services and is host to a significant proportion of the world's internationally active banks and major accounting companies and is able to offer sophisticated investment and capital markets products. While around 80% of all global financial activity is conducted in OECD member countries, other OFCs, such as the Cayman Islands, collectively represent the balance (HOC, 2010). There is, moreover, a significant degree of integration between these OFCs, as typically the large centres are 'wholesalers' to the smaller centres. As such the Cayman Islands consistently ranks within the top ten global banking centres. Recent estimates suggests the Cayman Islands hosts 75% of the world's hedge funds and nearly half of the estimated US$1.1 trillion assets under management (HOC, 2010).

By locating a listing vehicle within the Cayman Islands, IPOs may also be undertaken on multiple stock exchanges, including both Hong Kong and US stock exchanges. Not all havens provide this facility. BVI firms, for example, do not enjoy this choice (Greguras et al., 2008). A Cayman Islands listing vehicle, therefore, can undertake an IPO in the market that gives the highest valuation, so maximising its value. This has arguably become more relevant to these firms after the stricter listing requirements of the Sarbanes Oxley Act were passed in 2002. The cost of incorporation is lower and it takes less time than many other havens (Bermuda, for example, takes 2 to 5 weeks and Hong Kong 4 to 7 days). It takes 1 to 3 days in the Cayman Islands (Greguras et al., 2008). These institutional advantages allow the Cayman Islands to offer an ideal tax-neutral platform for the intermediation of investment capital. The BVI, by contrast, specialises in international business company registrations.

A major reason for Chinese OFDI to the CBVI (via the creation of offshore holding companies) may be explained by the high transactions costs involved for private firms on Chinese capital markets. In this sense the ideas of institutional arbitrage (Boisot & Meyer, 2008) and strategic exit (Witt & Levin, 2007) do help to explain the capital augmenting OFDI that we observe. It is, however, in the specific areas where transactions costs are particularly high that these firms look to find international substitutes. Thus by moving outside of China these firms only internationalise specific parts of their firms' operations. This is also consistent with the internalisation theory of FDI (Buckley & Casson, 1976). Our sample shows that the capital raised outside of China is primarily to fund expansion back inside China. All firms in our sample cited expansion of domestic operations and facilities as a substantial use of their IPO proceeds. In this sense, we argue, the internationalisation of Chinese firms to the CBVI is quite specific and related to institutional constraints in the domestic capital market. Boisot & Meyer (2008) refer primarily to product markets, i.e., logistic costs. We extend their general idea of institutional arbitrage to the capital market.

With the harmonisation of tax rates and the imposition of withholding taxes on offshore vehicles in China, it might be expected that the use of offshore holding companies would decrease. Looking at the most recent listings of private Chinese companies on US stock-markets, however, we find no such decrease: 50 of our sample firms filed their first 20-F form in 2007 or later, whilst 13 firms filled their first 20-F form in 2009 and 2010 (Table 2). This again suggests the great importance of the CBVI for China's businesses in their efforts to raise capital.

Institutional benefits

The use of offshore havens, of course, may also provide numerous other benefits, including tax avoidance, greater security of property rights, increased secrecy (Morck et al., 2008), as well as allowing for more complex transactions to be structured and executed without the worry of political intervention. The Cayman Islands Companies Law, for example, does not prevent companies from adopting a wide range of defensive measures, such as staggered boards, blank check preferred stock, removal of directors only for cause and provisions that restrict the rights of shareholders to call meetings and submit shareholder proposals.

Offshore vehicles incorporated in the CBVI are commonly used to undertake property rights transactions to reconfigure businesses back in China and beyond. They may do this in a number of ways, by moving capital back to China to invest in manufacturing or research and development capacity, for example. One very important use of IPO proceeds, however, has been for the acquisition of other Chinese companies. A typical comment on the use of IPO proceeds, for example, refers to the possibility of undertaking strategic acquisitions. Many of these investments take place onshore but it is striking that a number of transactions also take place offshore.The offshore holding companies of other privately held Chinese companies are often bought by our sample firms. We find clear evidence that 22 of our sample firms used the offshore market for Chinese property rights. An offshore market for the property rights of Chinese businesses has therefore developed in these Caribbean jurisdictions. Our sample firms combine the raising of capital in tandem with exploitation of the superior institutions found offshore. The offshore market for property rights has become important for Chinese firms. The Caribbean tax havens and OFCs allow Chinese businesses make good use of the capital they raise on international markets. Domestic businesses are restructured in a relatively more stable and advanced institutional environment.

Recent Chinese legislation and its results

A variety of measures have been introduced since 2005 to restrict the use of offshore holding companies. Of particular importance, however, is China's new EIT law, effective since January 2008. This provides that enterprises established under the laws of foreign countries or regions but whose 'de facto management body' is located in the PRC be treated as a resident enterprise for PRC taxation purposes. This means holding companies in the CBVI may now be subject to the PRC income tax at the rate of 25% for their global income. Furthermore, new laws also impose a withholding income tax of 10% on dividends distributed by a foreign invested enterprise to its immediate holding company outside of China. Such measures are punitive to offshore holding companies. As already noted, however, there are exceptions. If the immediate holding company's jurisdiction of incorporation has a tax treaty with China, different withholding arrangements may be applied and these taxes may not be levied. Hong Kong has such a treaty and dividends paid by a FIE in China to its direct holding company incorporated in Hong Kong are subject to withholding tax at a rate of no more than 5%. No other jurisdictions offer this favourable rate of tax. Many of our sample firms are now incorporating a Hong Kong holding company beneath their listing vehicle to hold their Chinese subsidiaries (either maintaining or dissolving their BVI arms).

This process has been greatly facilitated by the close inter-dependence of the Cayman Islands, BVI and Hong Kong. All have been or still are overseas British territories. As such they share similar legal systems and integrated financial systems. This integration, moreover, was greatly promoted by Hong Kong's return to China in 1997. According to the IMF, for example, the BVI sent a delegation to Hong Kong in 1989 (when it was still a British Crown Colony), to 'promote the use of IBCs [international business companies] to hold assets in anticipation of the 1997 return of the colony to Chinese sovereignty' (IMF 2004: 16). This promotional visit was followed 'by a significant increase in the registration of IBCs by Hong Kong residents, and it is estimated that a significant number of IBCs continue to be formed by residents of Hong Kong' (IMF 2004: 16). Indeed, the bi-directional flows of capital between the BVI and Hong Kong are extremely large. It is 'common practice for Hong Kong companies to set up non-operating companies in offshore financial centres' (Census and Statistics Department, 2004: FC3). In 2007 the BVI was the largest recipient of Hong Kong OFDI flows with a share of 47.8%. It was also the second largest inward investor to Hong Kong (after the mainland itself), sending 36.6% of all inward investment (Census and Statistics Department, 2007). These large flows between Hong Kong and the BVI, which have been ongoing for a number of years, were due to the popularity for Hong Kong enterprises in setting up non-operating companies to channel funds back to Hong Kong or to other places' (Census and Statistics Department, 2007). Thus Hong Kong's close financial integration, particularly with the BVI means it is a comparatively simple step to respond to the current changes in Chinese law by establishing further Hong Kong based holding companies. This is indeed what we are witnessing.

Official OFDI data from China shows a precipitous drop in OFDI to the CBVI after 2006. This fall, however, has been accompanied by an increase in OFDI flows to Hong Kong. Our sample of firms, moreover, show that an increasing number of Chinese companies are using Hong Kong as the base from which to hold their Chinese subsidiaries, while continuing to use the CBVI to conduct further international capital market activity. This may in part explain the current movements in the aggregate data (Table 1).

Ownership: *private* business, capital markets, institutions and the CBVI

Finally, it is worth noting that most of our sample firms are owned and controlled (either directly, or beneficially through further BVI companies) by their founding entrepreneurs, many of whom are well recognized entrepreneurs in China in their own right (for example, they can be found in the Hurun rich list). Annual 20-F forms also provide details on the largest five shareholders, including individuals. For 42 of our sample firms the largest three shareholders owning over 20% of the companies' shares can be identified as Chinese nationals (using the most recent 20-F submission, either for 2009 or 2010). These individuals are also specifically identified as 'founders'. Nearly all of the other sample firms, moreover, also have significant stakes owned by Chinese nationals, though sometimes these ownership shares have been diluted by other investors (such as private equity and investment funds). There is little evidence of state ownership in these sample firms (though, admittedly, discerning ultimate ownership may at times be difficult).

While it was not our specific purpose to investigate the ownership structure of our sample firms, the finding that private companies are prevalent is unsurprising. As discussed above, it is generally considered that the private sector faces more severe constraints in accessing domestic capital markets within China. As such, privately owned companies may have little other recourse than locating offshore to tap international capital markets.

CONCLUSION

Our analysis has focused on establishing evidence of capital market and other institutional imperfections as drivers for Chinese OFDI to Caribbean tax havens. We argue that such investments are used to augment the existing capital stock of China's private firms. They also support them in coordinating their domestic businesses from an institutional environment that offers certain advantages beyond lower rates of tax. Our findings demonstrate that China's dynamic private sector businesses have been highly responsive to domestic legislation and to imperfections in the domestic capital markets from which they have been crowded out. China's private enterprises have consistently sought loopholes in the legislative framework (Huang, 2003), and have been extremely innovative in their OFDI strategies via the use of Caribbean tax havens and OFCs as a means for augmenting their available capital stock whilst at the same time, availing themselves of the superior institutional environment found in the Caribbean tax havens and OFCs. Their behaviour, moreover, is entirely consistent with the internalisation theory of FDI (Buckley and Casson 1976), which has emphasised the imperfections in the domestic Chinese capital market (Buckley et. al., 2007).

After 2006 stricter regulations, most importantly the imposition of withholding taxes on dividends paid to offshore vehicles and the harmonisation of tax rates, appear to have reduced the direct flows of FDI to Caribbean tax havens. Indirect movements to the Caribbean tax havens and OFCs, however, are now increasingly directed via Hong Kong, which has a tax treaty with China. Despite the increased costs of structuring offshore vehicles, and the harmonisation of taxes, private Chinese companies still look to benefit from the international capital markets and superior institutions found overseas. As such, Chinese OFDI can be seen to be complex, reflecting both the opportunities (loopholes) and regulations in the domestic economy. These issues are best conceptualised as market imperfections to which FDI is a response. The empirical work in this study represents an intriguing test of the theory of FDI at a micro level and illustrates the complexity with which explanations of FDI have to grapple.

Theory

In terms of our theoretical propositions above, we find that (1) Chinese OFDI is definitely a response to Chinese domestic capital market and institutional imperfections; (2) institutional factors combine with market imperfections in the explanation of Chinese OFDI to the Caribbean tax havens and OFCs, especially in the role that augmentation of capital plays in OFDI. This is in line with current strands of theorising; and (3) the rapid rise and apparent fall of Chinese OFDI to the Caribbean tax havens is intimately connected with Government policy on legal and financial configuration.

Policy

China's most dynamic private companies have raised large amounts of capital via the CBVI, almost US$11 billion in our 72-firm sample alone. They have also used the havens to restructure their domestic operations and to undertake activities offshore that otherwise would not have been possible in China. This includes such things as complex staff remuneration packages to create adequate staff incentive systems, complex mergers and acquisitions undertaken via offshore vehicles, as well as further foreign direct investments in third countries. As such these tax havens have played and continue to play vital roles in the development of many of China's most successful private companies. Since 2006 Chinese policy has been overwhelmingly directed towards regulating the use of tax havens and OFCs. These obstacles are likely to retard the development of these companies. A greater awareness of the activities undertaken by Chinese private companies in the tax havens and OFCs, particularly their capital augmentation and organisational restructuring, would direct the attention of policy-makers to the particular domestic market imperfections and institutional weaknesses that the current flows seek to overcome. Better understanding these activities, therefore, may help them to redirect policy accordingly.

ENDNOTES

[1] The OECD uses four criteria to define a tax haven: jurisdictions that have (i) no, or nominal taxes; (ii) a lack of transparency; (iii) laws or administrative practices that prevent the effective exchange of information for tax purposes with other governments on taxpayers benefiting from zero or nominal taxation; and (iv) an absence of a requirement that business activity be substantial (OECD, 2010). Zorome (2007: 7) classifies a country as an OFC "when it provides financial services to non-residents on a scale that is incommensurate with the size and the financing of its domestic economy". The Cayman Islands and Hong Kong classify as OFCs.

[2] Round-tripping has been defined as 'direct investment capital that is first exported by Chinese firms and then imported back into the country' (Huang, 2003: 37)

[3] For many years the Chinese government prevented companies (even large SOEs) from listing on Chinese stock markets – thereby forcing them to go overseas for financing.

[4] This estimation is based on the average difference between gross and net IPO proceeds directed towards to underwriting fees, advisory fees and related costs from firms returning both figures, applied to omitted IPO values from firms only returning either gross or net IPO proceeds in their 20-F statements.

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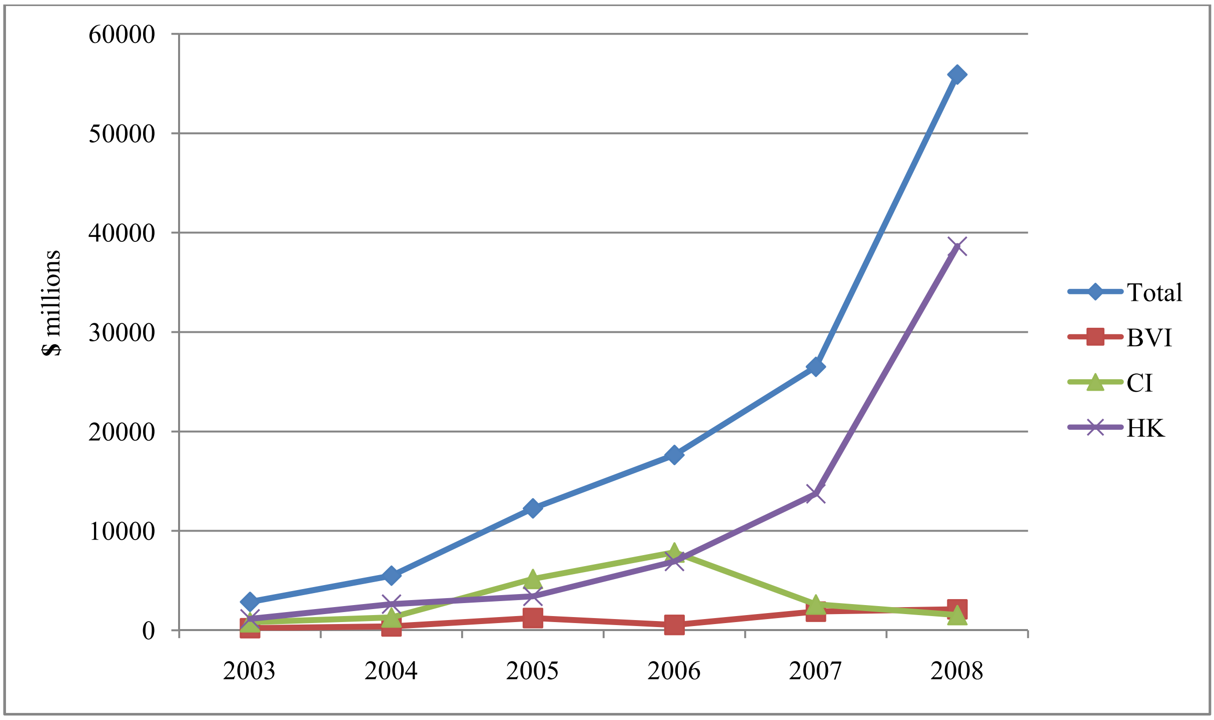
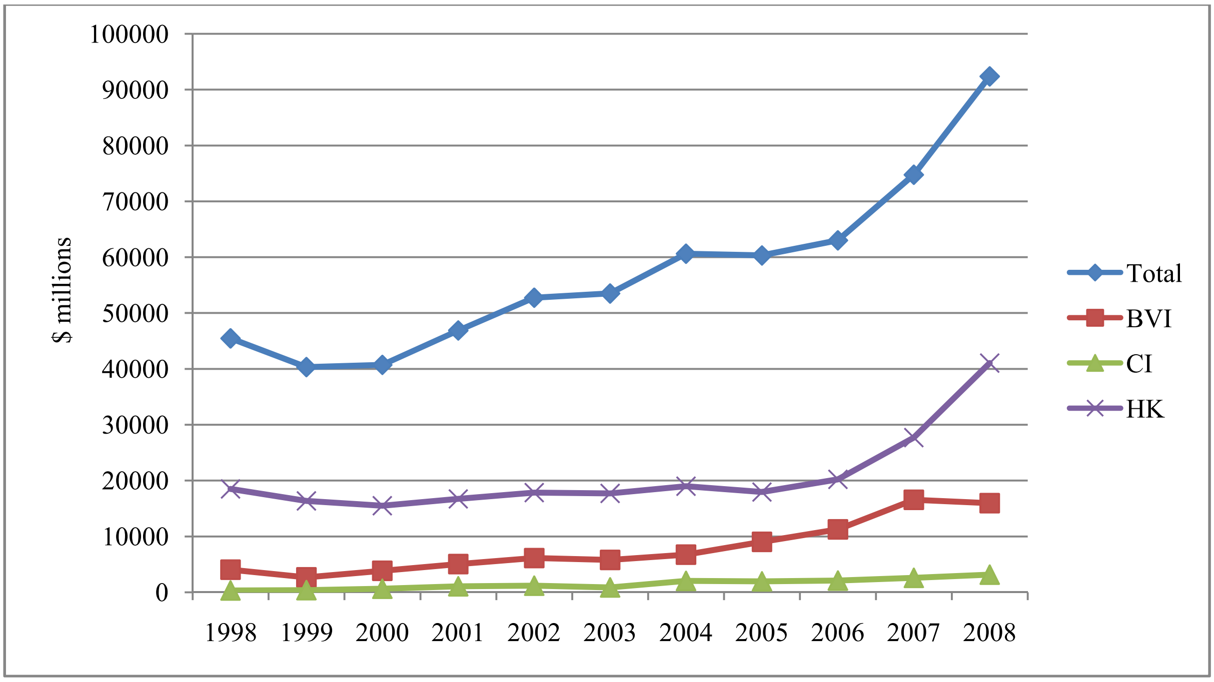
Figure 1: China's Net FDI Outflows to Hong Kong and the CBVI, 2003-2008



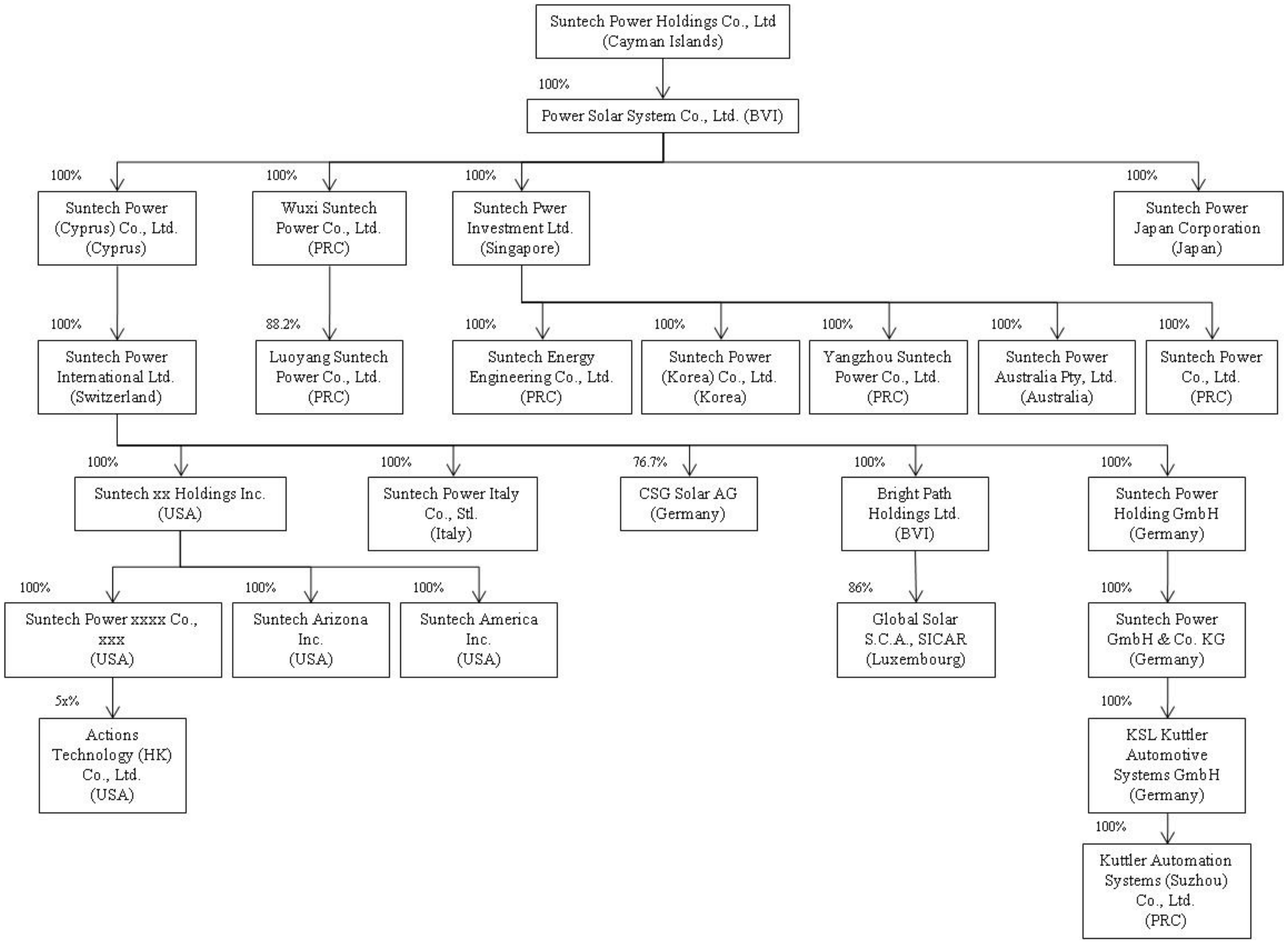
Source: MOFCOM, 2008: 67-72.

Figure 2: China's Utilised FDI Inflows from the CBVI and Hong Kong, 1998-2008



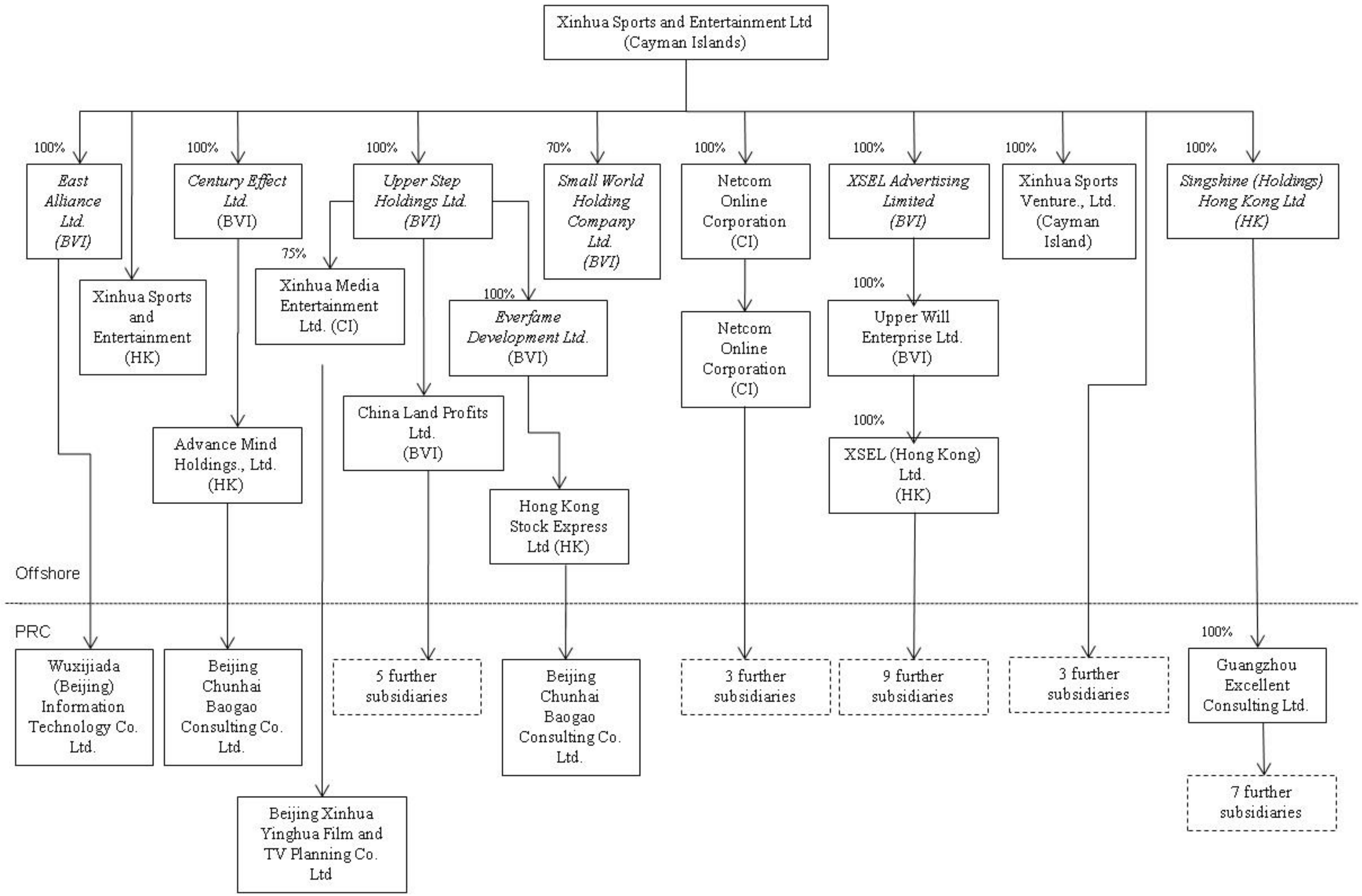
Source: NBS, various years: Section 17-15 'Foreign Investment Actually Utilised by Countries or Regions'.

Figure 3: Suntech Power Holding Co.'s Organisational Structure, 2010



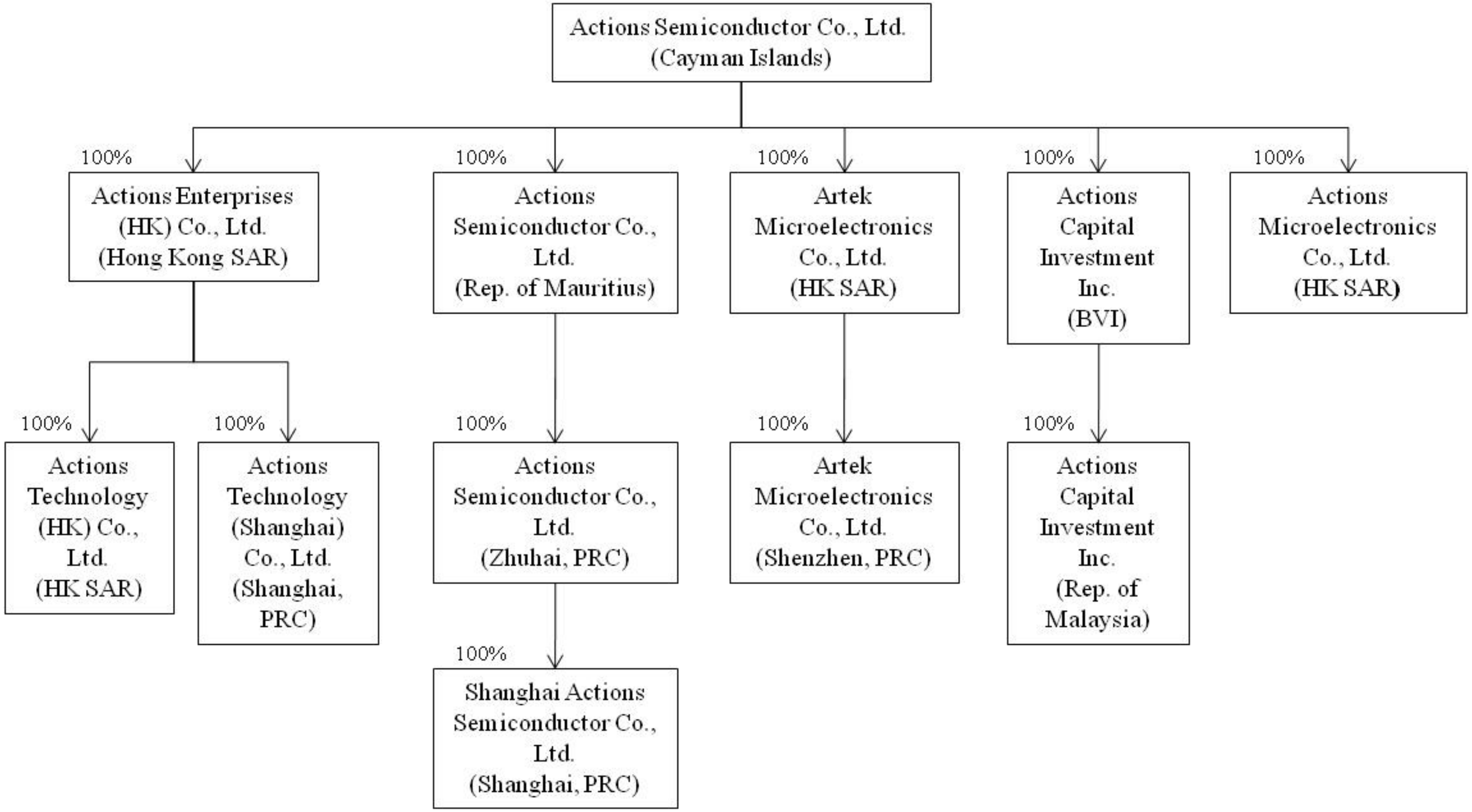
Source: (Suntech, 2010: 47)

Figure 4: Xinhua Sports and Entertainment Ltd.'s Organisational Structure, 2010



Source: (Xinhua Sports and Entertainment, 2010: 56)

Figure 5: Actions Semiconductor Co.'s Organisational Structure, 2010



Source: (Actions Semiconductor, 2010: 36)

Table 1: FDI flows between China, CBVI and Hong Kong, 2003-2008

	2003		2004		2005		2006		2007		2008		FDI Stock, 2008	
OFDI from China to:	**US$bn**	**%**	**US$bn**	**%**	**US$bn**	**%**	**US$bn**	**%**	**US$bn**	**%**	**US$bn**	**%**	**US$bn**	**%**
Cayman Islands	0.8	*28.3*	1.3	*23.4*	5.2	*42.1*	7.8	*44.4*	2.6	*9.8*	1.5	*2.7*	20.3	*11.0*
BVI	0.2	*7.3*	0.4	*7.0*	1.2	*10.0*	0.5	*3.1*	1.9	*7.1*	2.1	*3.8*	10.5	*5.7*
Hong Kong	1.1	*40.2*	2.6	*47.8*	3.4	*27.9*	6.9	*39.3*	13.7	*51.8*	38.6	*69.1*	115.8	*63.0*
Total	2.9		5.5		12.3		17.6		26.5		55.9		184.0	
FDI to China from:														
Cayman Islands	0.9	*1.6*	2.0	*3.4*	1.9	*3.2*	2.1	*3.3*	2.6	*3.4*	3.1	*3.4*		
BVI	5.8	*10.8*	6.7	*11.1*	9.0	*15.0*	11.2	*17.8*	16.6	*22.1*	16.0	*17.3*		
Hong Kong	17.7	*33.1*	19.0	*31.3*	17.9	*29.8*	20.2	*32.1*	27.7	*37.1*	41.0	*44.4*		
Total	53.5		60.6		60.3		63.0		74.8		92.4			

Source: MOFCOM, 2008: 67-78; NBS, various years: Section 17-15 ‘Foreign Investment Actually Utilised by Countries or Regions’.

Table 2: temporal distribution of 20-F forms

Year	Number of firms submitting 20-F forms	Total number of 20-F submissions	Number of sample firms submitting first 20-F forms	Total number of sample 20-F submissions
1999	1	1	1	1
2000	1	2	0	2
2001	1	4	0	3
2002	1	5	2	6
2003	6	13	0	9
2004	11	26	1	13
2005	25	51	7	24
2006	37	93	11	46
2007	50	152	10	78
2008	77	231	27	137
2009	83	325	7	203
2010	93	423	6	275

Table 3: Chinese Firms Incorporating in the Caribbean Tax Havens and OFCs Listed on US Markets, 2009 & 2010

Founding PRC firm (yr of inc.)	Industry	Place of Inc. Listing vehicle (year of inc.)	Total IPO proceeds (US$m) & market	Other holding co.s	Other subsidiaries	Off-shore PRC property rights	HK holding co.
Shenyang Sunshine (1993)	Pharmaceutical preparations	CI 3SBio (2006)	135.2 NASDAQ	1 BVI	1 PRC	...	Y
Tech JV (1998)	Employment agencies	CI 51Job (2000)	84.5 NASDAQ	1 BVI, 2 CI	10 PRC	...	...
7 Days Inn (2005)	Hotels & motels	CI 7 Days (2004)	133.1 NASDAQ	2 HK	12 PRC	...	Y
Beijing Acorn (1998)	Miscellaneous retails	CI Acorn International (2005)	119.3 NYSE	2 BVI, 1 HK	2 HK, 18 PRC	Y	Y
Actions Semiconductor (2001)	Semiconductors & related devices	CI Actions Semiconductor (2005)	48.8 NASDAQ	1 BVI, 3 HK	1 Malaysia, 4 PRC	...	Y
P3A (2000)	Agricultural production	CI Agria Corp. (2007)	206.2 NYSE	1BVI, 1 Singapore	1 HK, 1 NZ, 2 PRC	...	Y
Shengsi Lianhe (2005)	Advertising agencies	CI AirMedia (2007)	209.4 NASDAQ	2 BVI, 1 HK	2 BVI, 2 HK, 4 PRC	Y	Y
KYF inc. (n.d.)	Retails – Auto dealers & gasoline stations	CI AutoChina International (2007)	... NASDAQ	1 CI, 1 HK	3 PRC	...	Y
Baidu Online (2000)	Computer programming services	CI Baidu.com (2000)	108 NASDAQ	1 BVI	1 HK, 1 Japan, 3 PRC	...	Y
Sohu Group (2003)	Pre-packaged software	CI Changyou.com (2007)	61.3 NASDAQ	1 HK	1 Korea, 1 Malaysia, 1 UK, 1 US, 1 PRC	...	Y
China Cablecom (2006)	Cable & other pay-TV services	BVI China Cablecom	... NASDAQ	1 BVI, 1 HK	1 PRC	Y	Y

		(2007)					
Hengda (1993)	Structural clay products	BVI China Ceramics (n.d.)	125 NYSE	1 BVI, 1 HK	1 PRC	...	Y
N-T Information Engineering (1998)	Pre-packaged software	CI China Digital TV (2007)	226.5 NYSE	1 BVI	2 HK, 1 PRC	...	Y
Beijing Champion (2000)	Educational services	CI China Distance Education (2008)	59.8 NYSE	1 HK	2 PRC	...	Y
Henan green Complex Materials (n.d.)	Steel works, blast furnaces & rolling mills & finishing mills	BVI China Gerui Advanced Materials (2008)	46.4 NASDAQ	1 HK	1 PRC	...	Y
Shenzen GreenTech (1999)	Radio telephone communications	CI China GreenTech (2003)	93.7 NASDAQ	1 BVI, 1 PRC	4 PRC	...	...
Heilongjiang Sunrise Linen Textile Industry (2002)	Textile mill products	CI China Linen Textile Industry (2000)	... OTC	1 Vanutu	1 PRC	...	...
Mass media (2003) & Universal (2006)	Advertising agencies	CI China Mass Media (2007)	49 NYSE	1 BVI	1 PRC	...	...
Beijing Yuande Bio-Medical Engineering (1999)	Surgical & medical instruments	CI China Medical Technologies (2004)	110.4 NASDAQ	4 BVI, 3 HK	1 HK, 3 PRC	...	Y
Nepstar Pharmaceutical (1995)	Drug stores & proprietary stores	CI China Nepstar (2004)	384.2 NYSE	4 PRC	13 PRC	...	...
Shenyang Sainuo Technology Development (1997)	Pharmaceutical preparations	CI China Nuokang Bio-Pharmaceutical (2006)	39.3 NASDAQ	2 HK	3 PRC	...	Y
Shanghai Real Estate Sales (2000)	Real estate agents & managers	CI China Real Estate Information (2008)	251.7 NASDAQ	2 BVI, 1 CI, 3 HK	6 PRC	...	Y
Sunergy Nanjing (2004)	Semiconductors & related devices	CI China Sunergy	107.4 NASDAQ	1 BVI	1 HK, 1 Germany, 2 PRC	...	Y

		(2006)					
Techfaith Beijing (2002)	Business services	CI China Techfaith (2004)	140 NASDAQ	1 BVI, 1 PRC	7 BVI, 1 HK, 8 PRC, 1 US	Y	...
Beijing Hongxin (prior to 2006)	Media	CI China TopReach (2006)	42.6 OTC	2 BVI, 1 HK	6 PRC	...	Y
CMR Web-Learning (1999)	Educational services	CI China EduCorp (1999)	53.5 NASDAQ	...	3 PRC	...	...
Guangzou Nanyun Car Rental (1999)	Insurance agents/brokers	CI CnInsure (2007)	183.3 NASDAQ	1 BVI	1 BVI, 1 HK, 2 PRC	Y	Y
Ctrip.com (1999)	Business services	CI Ctrip.com (2000)	48.6 NASDAQ	1 HK	4 PRC	Y	Y
Shanghai Real Estate Sales Group (2000)	Real estate agents & managers	CI E-House (2004)	164.5 NYSE	4 BVI, 3 CI, 1 HK	1 HK, 7 PRC	...	Y
eFuture Beijing (2000)	Computer programming services	CI eFuture Information Technology (2000)	7 NASDAQ	...	2 PRC	...	...
Aiqi Advertisement (1997)	Advertising agencies	CI Focus Media (2005)	131.8 NASDAQ	1 BVI, 2 CI, 2 HK	4 PRC	Y	Y
Shandong Fuwei (2003)	Unsupported plastics film & sheet	CI Fuwei Films (2005)	37.2 NASDAQ	1 BVI	1 PRC	...	...
Giant Network (2004)	Business services	CI Giant Interactive (2006)	887 NYSE	1 BVI	1 PRC	...	Y
Sichuan Gushan (2001)	Industrial organic materials	CI Gushan Environmental (2007)	144 NYSE	4 BVI, 1 HK	1 HK, 8 PRC	...	...
Beijing Hollysys (1996)	Electrical industrial apparatus	BVI Hollysys Automation Technologies (2006)	34.6 NASDAQ	2 BVI, 1 HK, 3 PRC	3 PRC, 1 Singapore	Y	Y
Beijing Hurray! (1999)	Communication services	CI Hurray!	70.5 NASDAQ	2 BVI, 2 CI, 1 Taiwan	1 HK, 6 PRC, 1 Taiwan	...	Y

		(2002)					
JingAo solar Co. (2005)		CI JA Solar (n.d.)	258.8 NASDAQ	1 BVI, 1 HK, 1 Luxembourg	1 Germany, 1 Korea, 7 PRC, 1 US	...	Y
Beijing WINT (n.d.)	Telegraph & other message communications	CI Kongzhong (2002)	82.2 NASDAQ	3 CI	2 BVI, 1 HK, 5 PRC	Y	...
Jiangxi LDK Solar (n.d.)	Semiconductor & related devices	CI LDK Solar (2006)	469 NYSE	1 HK, 1 PRC, 1 US	1 EU, 1 Luxembourg, 4 PRC	...	Y
Intrinsic China Technology (1999)	Computer programming services	CI Linktone (2001)	86 NASDAQ	2 BVI, 2 HK	6 PRC	Y	Y
...	Computer programming services	CI Longtop Financial Technologies (2007)	164.1 NYSE	1 BVI, 2 HK	7 PRC, 1 Singapore, 2 US	Y	Y
Shenzen Mindray (1991)	Surgical & medical instruments	CI Mindray Medical (2005)	302.4 NYSE	2 BVI, 2 HK, 1 Netherlands, 1 Singapore	1 Brazil, 1 BVI, 1 Canada, 1 France, 1 Germany, 1 India, 1 Indonesia, 1 Italy, 1 Mexico, 3 PRC, 1 Russia, 1 Sweden, 1 Turkey, 1 UK, 2 US	...	Y
NetEase (1997)	Business services	CI NetEase.com (1999)	100 NASDAQ	1 BVI, 2 HK	6 PRC	...	Y
New Oriental China (2001)	Educational services	CI New Oriental Education & Technology (2005)	112 NYSE	3 HK	1 Canada, 6 PRC	...	Y
Ninetowns Technology (1995)	Pre-packaged software	CI Ninetowns Internet Technology (2002)	72.4 NASDAQ	3 BVI, 2 HK	3 BVI, 1 CI, 10 PRC	Y	Y
Noah Industrial (1999)	Pre-packaged software	CI Noah Education (2004)	148.6 NYSE	1 BVI, 3 HK, 3 PRC	19 PRC	Y	Y
State Harvest (n.d.)	Agricultural production	BVI Origin Agritech (2005)	21.2 NASDAQ	1 BVI, 1 PRC	8 PRC	...	...
Pansoft Jinan	Computer programming services	BVI Pansoft	9.4 NASDAQ	...	1 HK, 1 PRC	...	...

		(2006)					
PW Network (2004)	Business services	CI Perfect World (2006)	144 NASDAQ	1 HK	1 PRC, 1 US	Y	Y
Qiao Xing Telecommunciation Industry (1992)	Telephone & telegraph apparatus	BVI Qiao Xing Mobile Communication (2002)	148.5 NYSE	1 PRC	3 PRC	Y	...
Qiao Xing Telecommunciation Industry (1992)	Telephone & telegraph apparatus	BVI Qiao Xing Universal Telephone (2002)	150 NASDAQ	2 BVI, 1 HK	3 PRC	...	...
Fengding Construction (2003)	Semiconductors & related devices	BVI ReneSola (2006)	359.5 NYSE	1 PRC	5 PRC, 1 Singapore, 1 US	..	...
Semiconductor Manufacturing International (2000)	Semiconductors & related devices	CI Semiconductor Manufacturing International (2000)	1139 NYSE	2 BVI, 7 CI, 7 HK	1 BVI, 1 Italy, 1 Japan, 9 PRC, 1 Samoa, 1 US	...	Y
Shanda Networking (1999)handa	Business services	CI Shanda Games (2008)	... NASDAQ	2 HK, 1 Korea	1 Korea, 3 PRC, 1 Singapore	...	Y
Shanda Networking (1999)	Business services	CI Shanda Interactive Entertainment (2003)	118.5 NASDAQ	4 BVI, 2 CI, 4 HK	1 CI, 1 Korea, 5 PRC, 1 Singapore, 1 US	Y	Y
Henan Smart Food (1991)	Miscellaneous chemical products	CI Se Mei Te Food (2007)	35.7 OTC	1 BVI, 1 HK	1 PRC	Y	Y
Simcere Investment (n.d.)	Pharmaceutical preparations	CI Simcere Pharmaceutical (2006)	226.6 NYSE	1 BVI	2 HK, 12 PRC	...	...
Sinovac Beijing (2001)	Pharmaceutical preparations	Antigua Sinovac Biotech (2003)	... NASDAQ	1 HK	4 PRC	...	Y
Linyang China (2004)	Semiconductors & related devices	CI Solarfun Power (2006)	150 NASDAQ	1 BVI, 1 US	1 Germnay, 1 HK, 3 PRC, 1 US	...	Y
Suntech China (2001)	Semiconductors & related devices	CI Suntech Power	342.3 NYSE	2 BVI, 1 Cyprus, 1 Switzerland, 1 Singapore,	4 PRC, 4 Germany, 1 Italy, 1 Korea, 1 Japan, 5 US	Y	...

		(2005)		1 Luxembourg			
The9 China (n.d.)	Business services	CI The9 (1999)	95.2 NASDAQ	2 HK	1 HK, 4 PRC	...	Y
Guizhou Xianling (1999)	Pharmaceutical preparations	CI Tongjitang Chinese Medicines (2006)	88 NYSE	1 BVI, 1 HK	6 PRC	...	...
Trina China (1997)	Semiconductors & related devices	CI Trina Solar (2006)	98 NYSE	1 HK	1 Germany, 1 HK, 1 Italy, 1 Japan, 1 Korea, 1 Luxembourg, 1 PRC, 1 Spain, 1 Switzerland, 2 US	...	...
UIB (2001)	Insurance	CI UIB (2006)	40.3 OTC	1 BVI, 1 HK	1 PRC	...	Y
Wensi Chuangyi (1995)	Computer programming services	CI VanceInfo Technologies (2005)	62.5 NYSE	1 BVI, 1 Japan, 1 PRC, 1 US	1 HK, 5 PRC	...	...
Vimicro China (1999)	Semiconductors & related devices	CI Vimicro (2004)	86.9 NASDAQ	...	1 HK, 5 PRC, 1 US	...	...
China Digital Mobile TV (2005)	Advertising agencies	CI VisionChina Media (2006)	108 NASDAQ	1 HK	2 PRC	Y	...
Wuxi Seamless Oil Pipes Co. (1999)	Oil & gas field machinery & equipment	CI WSP (2006)	212.5 NYSE	1 BVI, 1 PRC	1 Canada, 6 PRC, 1 US	...	...
WuXi PharmaTech Co. (2000)	Pharmaceutical preparations	CI WuXi PharmaTech (2007)	184.4 NYSE	1 BVI, 1 US	5 PRC, 1 US	Y	...
EconWorld Media (n.d.)	Communication services	CI Xinhua Sports & Entertainment (2005)	225 NASDAQ	11 BVI, 1 CI, 6 HK,	20+ PRC, 1 US	Y	Y
Xinyuan Real Estate (1997)	Building contractors	CI Xinyuan Real Estate (2006)	281.8 NYSE	1 CI, 1 HK	11 PRC	...	Y
Tianwei Yingli (1998)	Semiconductors & related devices	CI Yingli Green Energy (2007)	324.5 NYSE	1 BVI, 1 PRC	2 Germany, 7 PRC	Y	...

Source: SEC, Various years: Form 20-F Annual Reports