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U.S.-China Economic and Security Review Commission

USCC REPORT: China's Investment Corporation
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USCC Report: China's Investment Corporation: Recent Developments in Performance, Strategy, and Governance.

Washington, DC - Today, the U.S.-China Economic and Security Review Commission released a staff report, "China Investment Corporation: Recent Developments in Performance, Strategy, and Governance," which examines China's flagship sovereign wealth fund (SWF) that has grown from $200 billion to an estimated $500 billion in assets in just five years.

The report explores the operations and investment strategy of China Investment Corp. (CIC), and considers how China's SWFs are regulated in the United States and internationally. Building on hearings and research previously conducted by the U.S.-China Economic and Security Review Commission, the report details how CIC has collaborated with Wall Street firms, bought shares in dozens of publicly traded U.S. companies, and provided capital to the U.S. energy sector.

Examining the larger issue of how China manages SWFs, the report argues that these funds are a product both of China's industrial policy and its efforts to better utilize its bulging foreign exchange reserves. The report notes that China's SWF strategy remains uncoordinated, with strong evidence of bureaucratic infighting. Four funds serve separate interests among branches of the Chinese government, and also compete with state-sponsored banks and enterprises for access to foreign exchange reserves. This may explain why CIC, China's only officially recognized SWF, has no defined strategy to guide its operations, while struggling to access funding from the central bank through a stable mechanism.

The report also considers the ways in which CIC, which is largely managed by government officials, has pursued strategic objectives despite claims of being strictly profit driven. As evidence of strategic intent, the report finds that CIC has invested in resource sectors in coordination with China's state-owned enterprises, supported China's bilateral relations with Russia and Singapore, formed close ties with China's domestic banks, and purchased Hong Kong-listed shares of Chinese enterprises.

The report concludes that China's SWFs are not being adequately regulated. While CIC has signed international agreements that enhance transparency, the terms are non-binding. In the United States, in turn, the report finds regulation of CIC to be fragmented and lenient, particularly in the financial sector. More broadly, the report finds that China's SWFs help to perpetuate a broader structural imbalance between deficit and surplus countries in the world economy.