Analysis of Foreign Ownership in China’s Listed Companies

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ABSTRACT

This paper provides an overview of the foreign ownership in the China’s listed companies. The characters are as follows: 1) It has a small proportion of shares, showing not in control position in most companies; 2) it has a strong preference for the banking industry; 3) most of them have been located in the developed regions; 4) most of them mainly come from Asia, especially from Hong Kong, Macau and Taiwan; 5) most of them have share in value-add big companies. In addition, this paper found a significant difference in big foreign shareholders of stock preference between direct and indirect investment.

Keywords: Big Shareholders, China, Chinese Stock Market, Foreign Ownership, Foreign Shareholders

1. INTRODUCTION

Although Chinese stock market has a history of only 20 years, and Chinese stock market has not been fully open so far, the foreign investors have entered China listed companies through various channels and became shareholders to varying degrees. What does foreign ownership affects the Chinese stock market? In particular what are its impacts on the volatility of Chinese stock market and what are the mechanisms of these impacts? These are our primary concerns in this paper.

By tracing back the current literatures, however, there exists a common problem, that is, some conclusions in the literatures may be biased due to the lack of a holistic and accurate data overview on foreign ownership in China’s listed companies. So to accurately estimate the effects of in-flow of foreign capital on the volatility of Chinese stock market, we must first clarify the status of foreign ownership in China. This paper is going to provide an accurately and holistic analysis of foreign ownership in China’s listed companies, to reveal a real diagram of foreign ownership in China’s listed companies.

2. THE DEVELOPMENT OF CHINESE STOCK MARKET IN THE PROCESS OF OPENING

In order to get an overall understanding of foreign ownership in China’s listed companies, it is necessary to make a brief review on the
development of Chinese stock market in the process of opening.

2.1. The General Situation of Chinese Stock Market

Chinese stock market has been unique in the history of the world capital market so far for its quick-paced development, remarkable achievements and rich contents, though it has only a short history of 20 years.

2.1.1. Rapid Expansion of Chinese Stock Market Scale

The size of stock market is measured by variables such as the ratio of stock market’s capitalization relative over GDP, number of Listed Companies, number of investors and stock trading volume. Figure 1 shows that, 1) the ratio of gross value of stock market over GDP increases quickly, from 3.89% in the year of 1994 to 66.69% in the end of year of 2010, reaching a summit of 123.07% on October, 2007. 2) The number of listed companies grows quickly, from 34 companies in the year of 1992 to 2304 companies in the year of 2011, resulting in an approximately 70-fold increase. 3) The number of investors grows rapidly. Investor accounts increase from 2,166,500 to 13,909,080,000 (10 percent or more of the population of China), resulting in over 60-fold increase. 4) Stock trading volume grows rapidly, from 68.3 billion RMB in 1992 to 2,068 billion RMB in the first 11 months of 2011, resulting in an approximately 30-fold increase.

2.1.2. Institutional Investors: The Main Force in Chinese Stock Market

Along with the development of twenty years, Chinese stock market has transformed from a market dominated by middle and small retail investors in the first 15 years into one experiencing the development of institutional investors especially securities investment funds in new Millennium, rapidly after 2005. End October 2011, there are 872 funds in Chinese stock market, while the proportion of the value of shares held by various institutional investors to negotiable stock market capitalization is over 71%.

2.1.3. The Construction of Chinese Multi-Level Capital Market System

Nowadays, China has two organized stock markets, Shanghai security exchange (SSE)
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