Chapter 2
International Cross-Listing of Chinese Firms

ABSTRACT

Regardless of the considerable challenges faced by the Chinese domestically, the opportunities China presents to the world are still attractive. The Global Financial Crisis (GFC) did not seriously affect China’s financial sector, and the Chinese government continues to encourage domestic companies to tap into overseas capital markets. Therefore, it is instructive to explore how cross-listing has become a complementary source of foreign capital inflows into the Chinese economy via international stock markets. This chapter describes the history of the Chinese stock market and its characteristics associated with the share market re-establishment since the 1990s. More importantly, it presents detailed information that reveals how the phenomenon of Chinese firms tapping the international markets evolved.

2.1 CHINA STOCK MARKET HISTORY

For more than 30 years, since the foundation of the People’s Republic of China in 1949, China operated a centrally planned economy. All enterprises were state owned or collectively owned and all investments were centrally planned and funded by government, as well as by loans from the state-owned mono-bank system (Wong, 2006). In December 1978, under the leadership of Deng Xiao Ping, the Chinese government launched the Open Door Policy calling for economic reform. China has since begun the process of transforming its economic system from centrally planned...
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to a more marked oriented economic system, while retaining overall control of the
Chinese Communist Party in the country. The economic reform and open-door
policy gradually lead to the re-establishment of the stock markets in China in 1990
(Field, 1984). The Shanghai Stock Exchange (hereafter referred to as the SSE) was
founded on November 16th, 1990. By the end of 2011, the SSE had a total of 1,691
listed shares, with RMB 14,837,622 million of combined market capitalization. On
December 1st, 1990, the Shenzhen Stock Exchange (hereafter referred to as the SZSE)
was founded, which is committed to building a multi-layer capital market system in
China, in order to facilitate the economic development and transformation as well
as the implementation of China’s independent innovation strategy. By the end of
2011, the SZSE had a total of 1,938 listed securities with a market capitalization
totaling RMB 12 trillion (CSRC Annual Report, 2011).

The history of the stock markets in China can be traced back to the nineteenth
century, when the first and original securities market was established in Shanghai.
Following the First Opium War, the Treaty of Nanking in 1842 established an area
in Shanghai known as the International Settlement. This development prompted
the emergence of foreign markets in the area, and culminated in the introduction
of securities trading in the late 1860s. In June 1866, the first share listing began
to appear, prompting a number of banks to form a legal framework for joint-stock
companies (Chavis, 2013). This was coupled by an interest in diversification for
investors and trading houses (although the trading houses themselves remained
partnerships). The 1880s saw the Chinese mining industry booming. In 1891, the
Shanghai Sharebrokers’ Association was established, creating China’s first stock
exchange. Most of the shares were supplied by local companies, and banks took the
opportunity to dominate the majority of the private shares. By the turn of the century,
Hong Kong and Shanghai banks had consolidated the majority of the trading shares
from foreign bases. In 1904, the Association moved to establish another exchange
in Hong Kong, expanding the grip of the Chinese market in the world economy
(Chavis, 2013). In 1920, in response to the development of a modern financial
market in Shanghai, the Shanghai Stock and Commodities Exchange was formally
established. This was followed the next year by the Shanghai Chinese Merchant
Exchange. In 1929, the markets combined and officially formed the Shanghai Stock
Market. Rubber became one of the prime shares at the same time as a number of
foreign companies, such as those from Japan, began to consolidate their economic
control of the Chinese Stock Market. In 1941, the Japanese military took control of
Shanghai and the stock market ceased operation (Chavis, 2013). After the Chinese
Communist Party took over power in China in 1949, all of the markets, including
native banks and private model banks, were officially closed, as the Communist
Party saw this as a pervasive symbol of capitalism, which did not fit China’s new
economic development path (centrally planned economy) (Ji, 2002).
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