Foreign investment in China and Qualified Foreign Institutional Investor (QFII)

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On Kit Tam[1], Sophia G Li[2], Zhifan Zhang[3] & Celina Ping Yu[4]

Abstract

Although foreign direct investment has been flowing into China at record high levels in recent years, foreign investors were not permitted to enter the domestic Chinese shares market (A shares) until the Chinese authorities decided at the end of 2002 to allow selected Qualified Foreign Institutional Investor (QFII) to enter the Chinese A-share market under a quantitative quota system. The aim of this financial reform initiative was to provide a pilot scheme for relaxing, in a limited way, foreign exchange controls over the country's capital account, as well as to leverage the investment and management skills of successful foreign financial institutions to raise the standards of the Chinese market. QFII are perceived by the Chinese Government to have stronger motivation to undertake long-term investment strategies. They are expected to bring with them not only advanced investment methodology and skills, but also an investment approach that may help develop a more stable and healthy stock market environment. This study examines the empirical evidence of this development to assess if such expectations are being fulfilled. The findings suggest that QFII have made some inroads, but have not yet been able to exert long-term impacts on the Chinese market.

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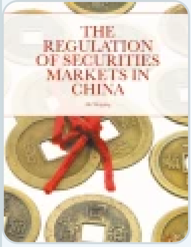

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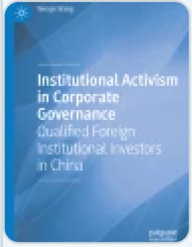

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Author information

Authors and Affiliations

RMIT University, 293 Bourke Street, Melbourne, 3000, Victoria, Australia

On Kit Tam

Department of Financial Engineering, Central University of Finance and Economics, Haidian District, Beijing, China

Sophia G Li

Department of Statistics, University of Chicago, Chicago, Illinois, USA

Zhifan Zhang

School of Economics, Finance and Marketing, RMIT University, Melbourne, 3000, Victoria, Australia

Celina Ping Yu

Corresponding author

Correspondence to On Kit Tam.

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