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



| Original Article | Published: 30 June 2010

| Volume 9, pages 425–448, (2010) [Cite this article](#)[Asian Business & Management](#)[Aims and scope](#) →[Submit manuscript](#) →[On Kit Tam](#) ¹, [Sophia G Li](#)², [Zhifan Zhang](#)³ & [Celina Ping Yu](#)⁴ **531** Accesses  **17** Citations [Explore all metrics](#) →

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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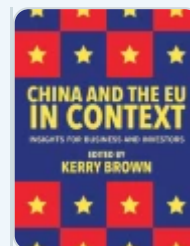
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Cite this article

Tam, O., Li, S., Zhang, Z. *et al.* Foreign investment in China and Qualified Foreign Institutional Investor (QFII). *Asian Bus Manage* **9**, 425–448 (2010). <https://doi.org/10.1057/abm.2010.15>

Received

01 November 2007

Published

30 June 2010

DOI

<https://doi.org/10.1057/abm.2010.15>

Revised

17 November 2008

Issue Date

01 September 2010

Accepted

05 January 2009

Keywords

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