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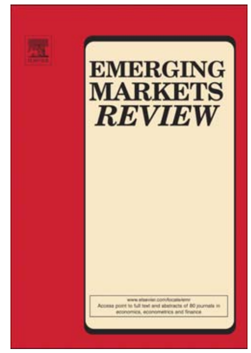

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Risk Contribution of the Chinese Stock Market to Developed Markets in the Post-Crisis Period

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Abstract

China sped up its progress toward the opening of its stock market in the post-crisis period after 2010. This study aims to investigate the risk contribution of the Chinese stock market to four representative developed markets. The significance and dominance of the risk contribution are tested with the extended Kolmogorov-Smirnov statistic by a bootstrap strategy. The results show a significant risk contribution of China to all the four developed countries. The dominance testing result shows clear regional effect in the risk contribution. The determinants of the risk contribution by macroeconomic variables are also identified in a forward-looking way.

Keywords: Chinese Stock Market, Risk Contribution, CoVaR, Tail Risk
JEL: E30, C32, C54, G18

1. Introduction

The 2007–2008 global financial crisis highlighted the propagation of risk internationally. International investors have increasingly entered the Chinese stock market in recent years, not only due to the unprecedented economic growth, and thus the great expansion of the market, but also the series of liberalization policies in China after 2010. For example, the RQFII[1] scheme came into effect in August 2011. The quota for the QFII[2] scheme doubled to 80 billion U.S. dollars in 2012, and again almost doubled in 2013 to 150 billion U.S. dollars. The launch of the Shanghai-Hong Kong Stock Connect Program in November 2014 was a new liberalization milestone that allowed investors in each market to trade shares on other markets through lo-

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[1]The Renminbi Qualified Foreign Institutional Investors (RQFII) scheme allows some eligible Chinese financial firms to establish RMB-denominated funds in Hong Kong to invest in the mainland.

[2]The Qualified Foreign Institutional Investors (QFII) scheme was enacted in 2002. This scheme allows foreign access to China's equity markets with restrictions on investment ratios, quotas, targets, and capital remittance controls.