

## How International Market Affect China Stock Market?

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### Editorial

In past 10 years, we could find that China stock market was changing from an isolated market to an international asset pricing centre. As the openness of China financial market is increasing these years, the rapid growth in the market is attracting a crowd of international investors. How much the international market could affect China stock market? Could China stock market hedge the risk of international market? Or could the international market be a leading indicator for China market? How to measure, this kind of influence could provide important suggestions for both domestic and foreign investors. There are many factors such as openness of capital account, international trade and global allocation that the international market could influence the stock movement in China market.

There are evidences that the higher the openness of capital account, the closer the links between domestic and international markets. Although capital account is still restricted by China regulator, QFII (Qualified Foreign Institutional Investor) and QDII (Qualified Domestic Institutional Investor) have been growing fast in recent years and there are indicators that Chinese regulator is trying to open the capital market if the financial risks could be under control. As an emerging market, there are new kinds of opportunities and risks emerging in China stock market. For global investors, China market could provide hedging instruments and potential growing returns. Now we could see that China stock market is an important component of the global investment portfolio. As financial markets become ever more linked, stock prices are increasingly set by international investors and reflect global economic and financial conditions.

Also the international trade could play an important role in

links between domestic and international financial markets. Now international trade is a key driver for China economic growth and China economy is evolving in increasing international economy and financial issues. The links between economies and trade could make the stock markets closer. And we could see this trend in the China stock market movement influenced by the US and EU economic data and policy making. Export to US, EU and Japan constitute a critical part in gross demand for China products and the sluggish international markets could also dip the China stock market. This phenomenon is increasingly important in recent years and the stock markets are now affected by similar factors. The deteriorating economic condition outside China could change the expectation of domestic investor about the future China economic growth which would be reflected in the stock prices.

Because of increasing openness in both capital and current account, we could see that China stock market is increasingly affected by international market. First driver of this influence is the global allocation of international investors and China stock market could provide instruments for diversification and hedging. Second driver of this influence is the close links between domestic and international economy and the factors that drive the foreign market like economic data and policy could exercise a great influence on domestic market.

This growing dependence and influence provide both opportunity and risk for China investor and how to measure this influence could be crucial for investing decision. The correlation between different asset prices is a key issue in risk and return allocation for fund manager. Now it is time for China mutual fund to pay attention to the interaction among different stock markets.

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Received July 23, 2012; Accepted July 26, 2012; Published July 28, 2012

Citation: Kong Y (2012) How International Market Affect China Stock Market? J Stock Forex Trad 1:e109. doi:[10.4172/2168-9458.1000e109](https://doi.org/10.4172/2168-9458.1000e109)

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