ABSTRACT

This study involves collecting daily indices of China's stock market Shanghai Composite ^SSEC (December19, 1990-November1, 2002) and Shenzhen Composite ^SZSEC (March16, 1994-November1, 2002) as well as other fourteen stock markets in order to determine whether, and to what degree, the correlations between China's stock market and other world major markets. They are two American markets: Canada, S&P TSX Composite; United States, Dow Jones Industrial Average. Seven Asia & Pacific: Australia, All Ordinaries; China HK, Hang Seng; Japan, Nikkei 225; Malaysia, KLSE Composite; Singapore, Straits Times; South Korea, Seoul Composite; Thailand, SET. Five Europe: France, CAC 40; Germany, DAX; Italy, MIBTel; Switzerland Swiss Market; U.K., FTSE 100. All the correlation coefficients are computed by applying Pearson Correlation.

The results of this study: First, all these correlation coefficients are located in (-0.1, +0.1), which indicates there are very low correlation coefficients between China's stock market and these fourteen markets. Second, the average of correlation coefficients of 1997-2002 is 0.0219 much greater than -0.0002 that of 1990-1996, which shows significant integration of China stock market (^SSEC) with these markets. However, ^SZSEC does not see this strong integration clearly. Third, the average cross-correlation coefficient among seven developed markets of 1990-2002 is 0.39, much higher than 0.0059(^SSEC), 0.0157(^SZSEC) that of China's stock market. These seven markets are Canada, S&P TSX Composite; China HK, Hang Seng; France, CAC 40; Germany, DAX; Japan, Nikkei 225U.K., FTSE 100; U.S., DJ INDU AVERAGE.

This study provides some empirical evidences for Bekaert's (1997) suggests emerging markets' feature: low correlations between both developed markets and the other emerging markets. The findings of this study would be important to international portfolio managers and individual investors in determining their appropriate weights in order to minimize their portfolio risk. The suggestions are the stronger the positive correlations, the lower weights of investments; the stronger the negative correlations, the higher weights of investments as well as high risk high returns.