THE SHANGHAI-HONG KONG STOCK CONNECT

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EAI Background Brief No. 1042

Date of Publication: 15 July 2015

Executive Summary

1. The official launching of the Stock Connect scheme on 17 November 2014 marked the very first time mutual market access between mainland China and Hong Kong stock markets was established. It is a milestone event in China's capital market reform.

2. The establishment of the mutual access channel was not without its hiccups. It began with a proposed programme called 'access shares in Hong Kong through train' in 2007 to allow mainland Chinese investors to directly buy shares listed in Hong Kong; the programme was however abruptly cancelled at the end of 2007.

3. The Shanghai-Hong Kong Stock Connect also failed to be launched in October 2014, the date initially set. Another date of 17 November 2014 was subsequently announced on 10 November 2014.

4. Experiences accumulated from the scheme will be of great value to mainland regulators, who will decide how to utilise these experiences for China's future opening up of its capital markets and for accelerating renminbi (RMB) internationalisation.

5. The quota for the trading arrangement received the most attention as it would reveal the effectiveness of the scheme. To ensure stability in the mainland and Hong Kong markets and the smooth implementation of the Stock Connect, both aggregate and daily quotas have been set.

6. Specifically, aggregate and daily quotas will apply only to 'net buying', that is, investors will be allowed to sell their cross-boundary securities without limit.

7. The aggregate quota of Northbound Trading where Hong Kong and foreign investors can trade certain stocks listed in Shanghai Stock Exchange is set at RMB300 billion.

8. For Southbound Trading, which provides mainland investors with access to certain stocks listed in Hong Kong stock exchange, the aggregate quota is RMB250 billion.

9. Chinese officials have expressed their concern over the potential risks of the programme. Nonetheless, with the quota system in place the authority believe it is able to cover known risks. Officials have repeatedly stated their confidence in the ability of the Stock Connect to at least avoid disruptive risks under the quota system.

10. The trading link between Shanghai and Hong Kong is the biggest move ever in the opening up of the capital market of China. The expansion of the Stock Connect programme, such as the Shenzhen-Hong Kong Stock Connect scheme and the further opening-up of China’s capital markets, is expected in 2015.