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The Institutional Transformation of China's Stock Exchanges

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Abstract

A stock exchange is a place to assemble trading orders and to match these orders in discovered prices. The Western exchanges have experienced dramatic changes from a not-for-profit membership organization to a for-profit demutualized company, of which some have been self-listed. In contrast, China's exchanges are more like semi-public and government-dominated departments. Their distinctions could be explained by two types of institutional change: the market-driven induced approach and the policy-driven imposed approach. The era before Western exchanges has illustrated the exchanges were wholly a market creation, and the influence of government authority over the exchanges was not significant. The later evolutions have also demonstrated that the institutional change was continuously induced by the market. However, the evolutionary trajectory of China's exchanges basically follows the imposed approach. China's exchanges were created by the government as a reaction to an OTC stock bubble. After that, the exchanges were shaped by policies and the government maintained the paternalistic governance of exchanges in three areas. If the imposed approach is persisted in the future, the same institutional changes as Western exchanges will not occur in China unless enabling policies are implemented.

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