RED-CHIP STOCKS OFFER REFUGE FROM POLITICAL SHOCKS

Red-chip stocks may be regarded as a safe haven for investors from political risks in Hong Kong, according to a research study conducted by Dr Kou-chiang Wei, Associate Professor of Finance at HKUST, and Mr Yue-cheong Chan, Lecturer of Business Studies at the Hong Kong Polytechnic University.

In their study of the impact of political disputes on stock market volatility, they found that while the Hang Seng Index and red-chip stocks are highly sensitive to political ups and downs, returns from the latter remain intact, providing a "political asylum" for investors.

"Red-chip stocks, such as Ka Wah Bank, China Resources and Guangzhou Investment, are mostly owned by China's state-owned enterprises, whose prime concern is long-term investment opportunities in Hong Kong. The strained relations between China and Britain thus have no implications for their business or profits," Dr Wei explained.

The study covered one of Hong Kong's most turbulent political periods, from 1 January 1990 to 31 May 1993, when the Chinese and British governments were at loggerheads over Hong Kong's new airport and future political system. The researchers scanned the front pages of the South China Morning Post during this period to identify "event days" for analysis.

In particular, they wanted to test whether the arrival of Governor Chris Patten in July 1992 amplified the impact of political events on market volatility.

They found that stock market volatility increased by an average of 40% after Governor Patten's arrival, affecting both red-chip and blue-chip stocks, the component stocks of the Hang Seng Index. However, unlike the blue-chip stocks, stock prices of the red-chip stocks were immune from political news.

"Nevertheless, as investors and Hong Kong people have become used to political quarrels between China and Britain, the stock market has been less responsive to political news. One exception is the rumours concerning the ailing health of China's paramount leader, Deng Xiaoping, which always lead to plunges in the local stock market," said Dr Wei.

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