Against Legal Origin: Of Ownership Concentration and Disclosure

Abstract

Using a sample of 49 countries, La Porta et al. show that countries with poor investor protections, measured by both the character of legal rules and the quality of law enforcement, have smaller and narrower capital market. They further conclude that countries whose legal rules originate in the common-law tradition tend to protect investors considerably more than the countries whose legal rules originate in the civil-law, and especially the French-civil-law tradition, with the German-civil-law and the Scandinavian countries taking an intermediate stance toward investor protections. With respect to the enforcement of law, their conclusion is that German-civil-law and Scandinavian countries have the best quality of law enforcement; law enforcement is strong in the common-law countries as well, whereas it is the weakest in the French-civil-law countries. Ownership concentration in their research is treated as an adaptive response to poor investor protection. In this article, we use evidence from China and other places to demonstrate that the political economy is more important than the legal origin in explaining the weak protection of minority shareholders in China's transitional economy. We argue that the ownership concentration of the state in China's listed companies is a direct result of the government's political goal of controlling most of the listed companies. We further show that the political goal of maintaining control of most of the listed companies by the government weakens the protection of minority shareholders in China.
Key words: legal origin, ownership concentration, minority shareholder protection, stock market development, political economy.

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