Improving Corporate Governance in China through Differentiated Listing Segments: Lessons from the Brazilian Novo Mercado

Janice Chin Poh Wah*

The concentrated ownership structure of Chinese listed corporations creates an agency problem where controlling shareholders use their advantageous position to expropriate minority shareholders. Based on the theory of controlling shareholder preferences, this note engages in a comparative study of corporate governance practice and its effect on the performance of stock markets in Brazil and the People's Republic of China (PRC/China). The differentiated governance listing segments consisting of the Novo Mercado and Special Corporate Governance Levels 1 and 2 in Brazil are visited as an example of a fresh approach towards market-oriented corporate governance reform efforts in Latin America. This approach not only resolves the problem of controlling shareholders' reluctance to adopt a strict governance mechanism, but also offers a novel solution towards diffusing good governance practices and increasing the overall governance quality of Brazilian listed corporations.

The note then proposes a new model that seeks to provide incentives for Chinese corporations to adopt stricter corporate governance standards with the aim of resolving the bottleneck of corporate governance reform in China. Under this proposed model, listed corporations are given the choice of a corporate governance standard of different stringencies. This provides a 'ladder' for companies to adjust their corporate governance practice based on their current corporate governance standard, and the level of the corporate controllers' commitment towards good governance practices. A step-by-step table is included to provide a framework for the practical application of this model.

* Legal & Secretariat Department, Hutchison Whamooa Limited. LLM (Chinese Comparative Law) (2009-2010), School of Law, City University of Hong Kong.