The dynamic dependence between the Chinese market and other international stock markets: A time-varying copula approach

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Abstract

The purpose of this paper is to study the dependence structures between the Chinese market and other major world markets, a reflection of China's increasing integration into the global economy. We used time-varying copula models to show that conditional copulas outperform both unconditional copulas and conventional GARCH models. We consistently found the Chinese market to have the highest levels of dependence, as well as the greatest variability in dependence, with markets in Japan and the Pacific. Our results provide investors interested in the Chinese market with more timely suggestions for portfolio diversification, risk management, and international asset allocation than those derived from static models.

Keyword：Dependence structure;Time-varying copula;International investment;Chinese market;Diversification