The Political Economy of Cumulative Voting:  
The Case of China*

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ABSTRACT

An understudied aspect of the comparative literature on cumulative voting is the varying national approaches to cumulative voting in East Asian jurisdictions. This article focuses on the Chinese approach to cumulative voting, which is characterized with a mandatory-permissive bifurcation. The political economy analysis shows that, during the legislative process, the mandatory approach to cumulative voting was disfavored, on the whole, by the majority/controlling shareholders of the Chinese listed sector, who can exert considerable influence on the Chinese lawmakers. This analysis offers an explanatory variable for understanding the legislative approach to cumulative voting under China’s 2005 Company Law, as well as the persistence of the mandatory-permissive bifurcation under the Chinese cumulative voting rules.

KEYWORDS: Cumulative Voting, China, Political Economy, corporate law, comparative law

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I. Introduction

Cumulative voting is a shareholder voting arrangement under which each shareholder has a number of votes equal to the number of shares she owns multiplied by the number of directors to be elected at the shareholders’ meeting. It allows shareholders to cast multiple votes for a single candidate, so that a candidate may be elected by less than a majority of the shares. The effect of cumulative voting is to enable large minority shareholders to elect their own representatives to the corporate board. The merits of allowing shareholders to vote cumulatively have, nevertheless, been an issue of much debate.

Advocates of cumulative voting see it as an important measure to “protect minority interests against overreaching by a majority” and to “empower large minority shareholders”, so much so that mandatory cumulative voting is the key to Black and Kraakman’s “self-enforcement approach” to corporate law. This view has been supported by some empirical researches, which suggest that a positive correlation exists between cumulative voting and firms’ values. The most prominent application of this line of theory is, arguably, the “Anti-Director Rights Index” featuring the law and finance literature campaigned by La Porta and his associates. The shareholders’ right to vote cumulatively has been presumed to be a

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1 Robert Charles Clark, Corporate Law 361–6 (Little, Brown and Company 1986).