Costs of Capital Market Policy Distortions:
Evidence from Overseas Listed Chinese Firms

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Abstract

As at the end of 2020, about 1600 Chinese firms with a total market capitalization of $5.3 trillion are listed in stock exchanges outside Mainland China. This paper investigates the motives and market valuation of overseas listed Chinese firms, and how they are affected by the policy distortions in China's capital market. Using an endogenous treatment effect model, we find contrary to the valuation premium generally found in the literature for overseas listed firms, Chinese firms listed in the US and Hong Kong stock market have a 50% valuation haircut compared with their domestically listed counterfactual, and this effect persists even five years after listing. Exploiting exogenous policy variations or shocks and firm heterogeneities, we examine the effects of three policy distortions on this valuation haircut: restrictions on foreign investment; administrative approval IPO system; and capital outflow controls. We find firms affected by such policy distortions face greater valuation discounts.

Keywords: Overseas Listings, Initial Public Offerings, Policy Distortions, Capital Controls

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