The Chinese Corporate Diaspora: Which Chinese Firms Cross-List on Which Exchanges and Why

By Elias Leight, Advised by Professor Hornstein
QAC, Wesleyan University

Why Firms Cross-List:

Financial benefits - Cross listing improves access to foreign investors, often raising share prices.

Reducing barriers for foreign investors - Information discrepancies and barriers to trade such as different regulations and transaction costs are mitigated.

Committing to higher corporate governance standards - Listing on a highly regulated foreign exchange sends positive signals to investors that firms are willing to commit to more intense regulation and disclosure.

Increased liquidity - Empirical evidence shows that cross-listing leads to a 40-50% increase in turnover.

Capitalizing on product market reputation – A company may cross-list to take advantage of a favorable reputation abroad which gives them a steady supply of foreign investors who know the firm’s products will sell in their country.

Reliance on foreign industrial expertise - Firms may choose to cross-list at a specific exchange due to the presence of analysts with specific technical knowledge pertinent to the firm's production processes.

Relative mispricing – The market timing theory suggests that firms may raise capital abroad to exploit temporarily high prices for their securities during ‘hot’ markets.

Institutions and Finance:

- La Porta, Lopez-de Silanes, Shleifer, and Vishny show that a certain set of legal institutions is highly beneficial to financial development.
  - They argue that the defining feature of various securities is the rights that they bring to their owners.
  - The rights to securities are directly influenced by laws and institutions.
  - They find that certain systems of laws, such as the common law system, offers the best protection and terms of finance to firms and individuals, leading to increased market breadth.

Methodology:

We will use a multinominal logit model, to determine what impacts a firm’s listing decision.

We control for:
- Firm characteristics
  - The operating environment in the home province of the firm
  - Institutional and economic characteristics of the country in which the firm lists
  - Year and industry fixed effects

We will run these regressions for the firms that only listed domestically, for the firms that only listed abroad, and for the whole group.

Expectations

- Firms that cross list are usually bigger firms in terms of leverage, investment, and growth rates
- More likely to engage in an equity offering near the time of listing
- More likely to have exhausted debt capacity

Conclusions (in progress):

- It appears many Chinese firms list internationally without first listing domestically. This is not seen in other countries, and has been largely ignored in previous investigations of Chinese firms.
- This could be due to:
  A. Huge foreign demand for investing in Chinese assets.
  B. The youth of the domestic Chinese exchanges, which makes them inefficient and volatile
  C. The Chinese market is dominated by risk averse retail investors, limiting the supply of available capital.
  D. China is the only country where the size of the stock market is under government control, and the average amount of time it takes to obtain a listing on the domestic exchanges is 5 years.

The number of observations we have by overseas listing exchange

<table>
<thead>
<tr>
<th>Exchange</th>
<th>Observations</th>
<th>Firms</th>
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<tbody>
<tr>
<td>HKEX</td>
<td>242,332</td>
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<td>NYSE</td>
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<tr>
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<td>Total</td>
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