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

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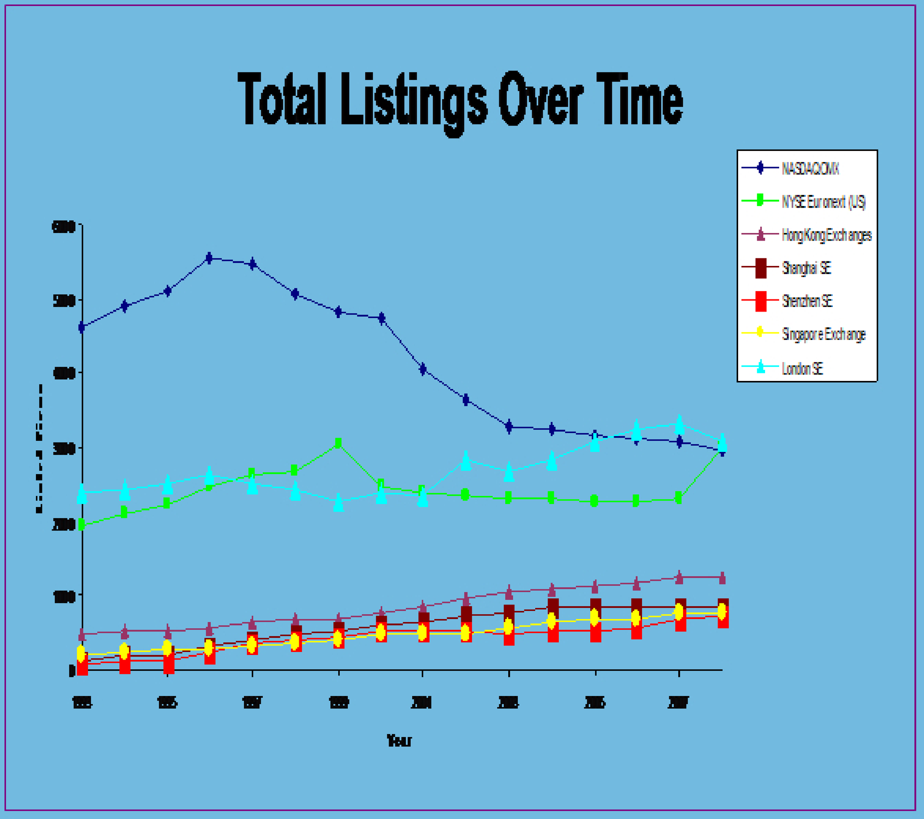
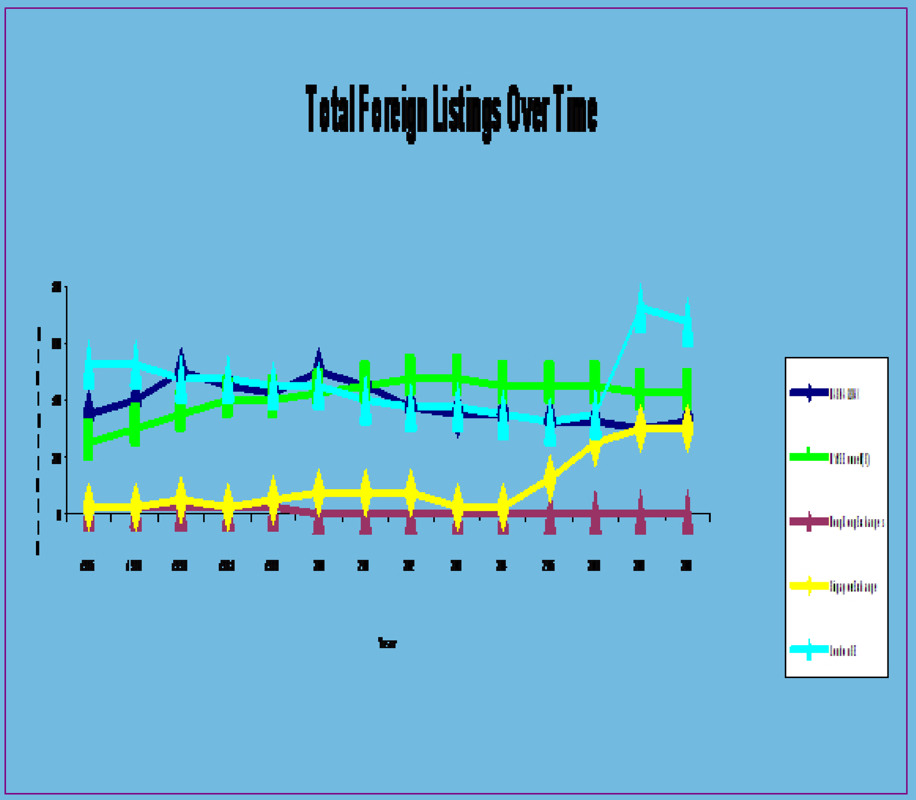
Introduction:

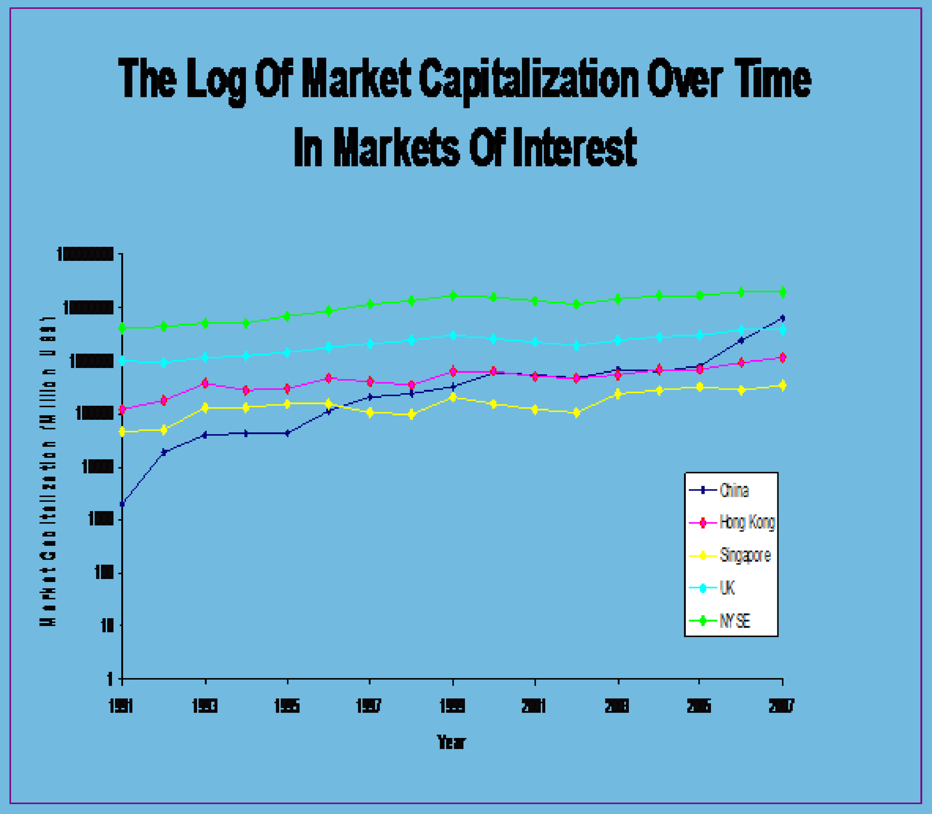
In the last two decades there has been a rapid increase in the interconnectedness of global equity markets. The total amount of capital raised outside of domestic markets has approximately quadrupled since 1991, and increased by a factor of 30 since 1980 (Zhang and King, 2008). During this period many countries also opened stock markets. Our focus herein is China, which opened two stock markets, the Shanghai Securities Exchange and Shenzhen Stock Exchange, in 1990 and 1991, respectively. We are interested in the subset of Chinese firms that chose to cross-list on foreign exchanges during this period. We examine their common characteristics and investigate the determinants of the probability that a particular Chinese firm would cross-list on any foreign exchange.



Since the early 90s, the number of firms listing on emerging Asian stock markets has been rising.



There number of foreign listings has seen more variation then the numbers of total listings and the levels of market capitalization



Market capitalization has also been increasing during this time period.

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 transactions 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.

The number of observations we have by overseas listing exchange

Exchange	Observations	Firms
HKEX	242,332	239
NYSE	36,857	38
NASDAQ	34,038	48
AMEX	11,594	6
SGX	723	126
SESDAQ	15	2
AIM	543	45
Total	326,102	504

Methodology:

We will use a multinomial 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.

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