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Going global? Examining the geography of Chinese firms' overseas listings on international stock exchanges

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ABSTRACT

In a globalising world, as economies are becoming increasingly integrated the number of firms seeking to connect to global capital markets and list on international stock exchanges is rapidly rising. Up to 2011 there have been more than 1000 Chinese firms listed on overseas stock exchanges. As a dynamic and emerging economy, the connection of Chinese firms to global capital markets and flows has the potential to reshape economic geography at a variety of geographical scales. Despite this, there has been limited academic enquiry attending to these issues and exploring the internationalisation of Chinese firms through overseas listing. Using a comprehensive dataset, this paper addresses this research lacuna and provides a preliminary analysis of the geography of overseas listings. The paper describes how the trend and geography of Chinese firms listing overseas started in the late 1980s but has grown rapidly in the past decade. Hong Kong, New York, Singapore, and London are the major destinations of larger Chinese firms for overseas listing, while emerging destinations such as Germany, South Korea, Australia, and Canada are attracting more firms. We found that firms in different locations and sectors favoured different markets. Generally listing firms tend to originate from eastern China, reflecting the spatial pattern of the Chinese economy. The paper argues that there are two main factors influencing the geography of Chinese firms' overseas listing activity. The first is the role of the state in influencing, and in some cases, directly determining the locational choice of overseas listing for Chinese firms. The second is the effect of proximity preferences in influencing the decision taken by some firms to list in particular overseas markets. The paper closes with a discussion on the impacts of overseas listings domestically in China and globally on international exchanges where firms list.

1. Introduction

A nascent focus within the widely defined geographies of finance and financialisation has been to understand the influence of stock markets in different contexts (Wójcik, 2009, 2012; Sarre, 2007; Clark and Wójcik, 2007; Clark et al., 2006; Wójcik and Burger, 2010). Due to the growing size, visibility and sheer power of stock markets, studies into their nature are timely and much warranted. With the deepening of financial globalisation according to measures such as gross capital flows, stocks of foreign assets and liabilities, and degree of co-movement of asset returns, the impact of stock market activity will only increase in volume and scope in the future (Claessens and Schmukler, 2007). Economic geographers are well placed to provide a new analytical perspective on the activities of stock markets that is attentive to wider political, economic, social and cultural contexts, and one that unpacks the spatialities of finance as well considering the traditional influence of the firm, labour, and the state (Barnes and Sheppard, 2000).

In terms of stock market activity it is most common for firms in any one country to choose to list their shares on their domestic stock exchange. However, a growing trend is that firms may choose instead to bypass or supplement the domestic listing by listing firm shares on a foreign stock exchange. This process of foreign listing is defined by Wójcik and Burger (2010: 276) as 'the listing and trading of corporate shares on stock markets outside of the home country of the issuer.' Listing on a foreign exchange can occur either as the first point of entry for a firm into the public equity market (hereafter 'overseas listing') or after having listed on their domestic listing (hereafter 'cross-listing').

As capital markets and economies become increasing integrated, the number of firms seeking to raise capital, connect to global capital markets and list on exchanges outside their home market has risen rapidly (Ernst, 2012). Firms have come to realise that the best means of raising equity financing is through the direct listing of shares on the most competitive exchanges to yield

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optimum returns (Clark and Wójcik, 2007). Growing internationalisation of firms has coupled with the proliferation of individuals and investors investing funds in foreign equity markets to diversify their portfolios and to earn higher yields than would be possible through their domestic market. In particular, institutional investors (e.g. pension funds) have developed a huge demand to diversify their portfolios internationally and have looked to stock markets as a means to do this (Clark, 2000, 1998; Toporowski, 1999). Such capital mobility has been accelerated by the virtualisation of stock exchanges, which has allowed for anytime–anywhere access for investors and a growing competition between international exchanges for firm listings (Pagano et al., 2002; Wójcik, 2009).

The exponential growth of Chinese firms listing overseas in stock markets in the past decade is the latest trend in overseas and cross-listing (Wójcik and Burger, 2010). As the largest BRIC economy and the fastest growing global economy, China warrants closer examination. Yet despite the rapid growth of Chinese firms listing overseas through both official and unofficial channels, there have been few studies into the geography, locational choices and putative impacts of the phenomena. Previous research has examined the performance, governance and informational benefits for mainland firms cross-listing in Hong Kong (Chi and Zhang, 2010; Jia et al., 2005; Yang and Lau, 2006; Zhang, 2008); the relationship between information symmetry and capital costs for overseas listing firms (Sami and Zhou, 2008); the varied motivations for Chinese firms listing in Hong Kong, Singapore, New York, London (Zhang and King, 2010), and; the learning benefits for Chinese firms bonding to different institutional systems via overseas listings (Tobin and Sun, 2009). This emerging body of literature has started to explore the trend towards overseas listing, but generally conclusions have been based on partial datasets or specific case studies of selected overseas exchanges.

The listing of Chinese firms abroad may result in significant and varied consequences at different scales. With Chinese firms experiencing limited access to cheap capital domestically, seeking capital overseas becomes a viable alternative with concomitant possibilities for industrial upgrading, economic development and innovation. Moreover, the firms can enhance corporate governance, cultivate their reputation, raise prestige and utilise external knowledge, thus potentially strengthening their product competitiveness in the marketplace. With increasingly influential Chinese firms listing on foreign stock exchanges, the architecture of global finance and stock market activity could be gradually reshaped. The paper considers such impacts, but more importantly sets out the geography of overseas listings of Chinese firms by drawing on a comprehensive dataset of Chinese firms listed on overseas stock exchanges from the 1980s to the end of 2011. In addition to that, the paper also aims to explain why these firms have chosen those destinations. The paper will focus in particular on two research questions: whether there is evidence of proximity preferences in the listing activities of Chinese firms, and to what extent the overseas listing of Chinese firms is influenced by the role of the Chinese government.

The structure of the paper is as follows. The first substantive section provides an overview and discussion of the motivations behind overseas listings, and explains the role of proximity preferences in influencing the locations where firms chose to list. The second section provides much-needed context on the unique characteristics of China's capital market, and explains the role of the state in regulating the overseas listing process. The third section is the analytical part of the paper, and examines the geography of Chinese firms' overseas listing according to the origins, destinations and the timeline of their listing activity. The final section provides a discussion of the preliminary findings, and is followed by the conclusion.

2. Overseas listings: trends, motivation, and the role of proximity preference

2.1. 2.1Global trends in overseas listing activity

While the activity of Chinese firms listing on overseas stock exchanges is a relatively new phenomenon, overseas and cross-listing are processes with a long history dating back to the very emergence of stock markets themselves in the 17th and 18th centuries (Braithwaite and Drahos, 2000). Overseas listing has been cyclical in nature and reflective of wider macro-economic trends and conditions. Evidence suggests that, during periods of economic prosperity, the process of overseas and cross-listing is more likely due to the fact that stocks can yield more on markets, and also that it is easier to raise capital from would-be investors (Pagano et al., 2001; Edison and Warnock, 2008).

In the last fifteen years two important trends have impacted upon what we might term the geography of overseas and cross-listing. Firstly, since 2000 there has been a rapid expansion in the number of host markets for overseas listing, with a number of smaller and emerging markets joining the ranks of more established markets like New York, London and Hong Kong. Emerging destinations include the likes of Argentina, Finland, Israel, Mexico, Poland, Portugal, Taiwan, and the United Arab Emirates (UAE) (Sarkissian and Schill, 2011). Secondly, there has been a growth in the number of firms from emerging economies seeking to list overseas. Notably, the growing number of firms from the BRIC emerging economies of Brazil, Russia, India and China which are seeking to internationalise are now attracting popular and academic interest (Wójcik and Burger, 2010; Zhang and King, 2010; Economist, 2011; Karolyi, 2004; Karmel, 2006). As more countries liberalise their economies, the mutual needs of governments and corporations to locate new sources of capital and of global investors to capitalise on overseas opportunities will continue to be met through the growth of overseas listing around the world.

2.2. Motivation of overseas listings

From a narrow economic perspective the motivation for listing overseas can be interpreted as one of financial gain in the form of rising stock prices and reductions in the cost of capital. There have been a number of studies to test the validity of assertions about the economic and financial benefits of overseas and cross-listing (Switzter, 1986; Torabzadeh et al., 1992; Karolyi, 1998; Foerster and Karolyi, 2000).

However, overseas and cross-listing motivations cannot be explained satisfactorily as simply a search for additional sources of capital in a segmented world. As Coffee (2002) argues, investor protection is becoming a strong motivation whereby the tough legal standards today attract, rather than repel, issuers who are listing. By committing themselves to increased levels of disclosure in major exchanges, firms could become more credible for would-be investors, and this will further increase firm earnings in the longer term.

An additional, less easily measureable motivation is to list overseas in order to raise the international visibility of firms. Raising visibility may strengthen the competitive position of the company in its industry, by enhancing its reputation with suppliers, employees, and customers. In their empirical enquiry, Baker et al. (2002) assert that the greatest visibility can be obtained by listing on the New York Stock Exchange or the London Stock Exchange.

It is often the case that firms from emerging countries listing overseas are motivated less by the desire to develop active markets in the major exchanges, and more by other potential benefits – such