A Data-Driven Look at the China Dream

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WRAP 2021

China's Meteoric Rise

China's GDP as grown by **3,900%** in the past 30 years
US's GDP has grown by **259%** in same period of time

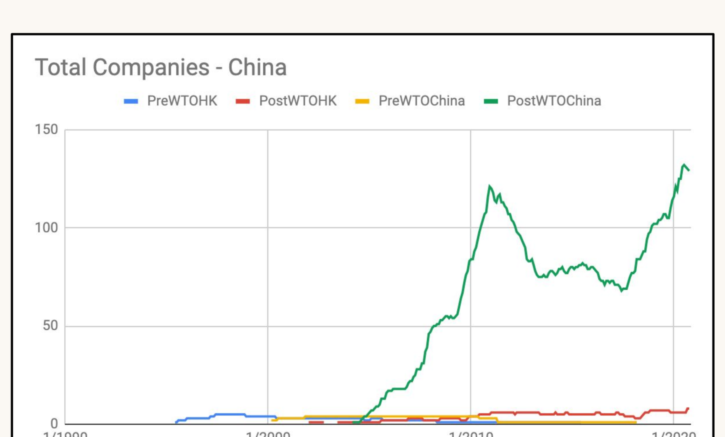
Shanghai in 1990

Shanghai in 2010

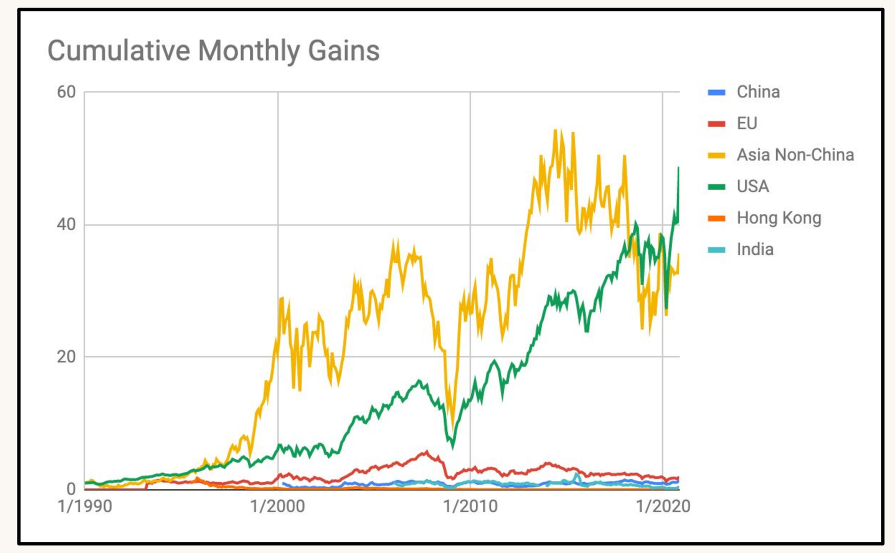
Does Investing In Chinese Stocks Reflect These gains?

History of US-Listed Chinese Firms

- China undergoes economic reform after the conclusion of the cultural revolution
- Chinese economy becomes more free under reforms led by Deng Xiaoping
- Most large Chinese corporations initially list on the Hong Kong Stock Exchange
- China joins the World Trade organization in 2001
- US stock market experiences a massive influx of Chinese company listings
- Listing of Chinese Companies take a hit during the 2008 Financial Crisis
- Listings rebound after economic recovery
- Initial Public Offerings of Chinese firms massively balloon in value
- US entered into Trade War against China under the Trump Administration
- High profile US-Listed Chinese firms are delisted
- DiDi goes public in the middle of 2021 for $4.4 bn and promptly dropping 20% in value, triggering Chinese crackdown in stock listings and an America freeze on all Chinese IPO applications



How do US-listed Chinese stocks perform relative to other stocks on the American Stock Market?



Performance of Firms

If you had invested $1000 representatively into:

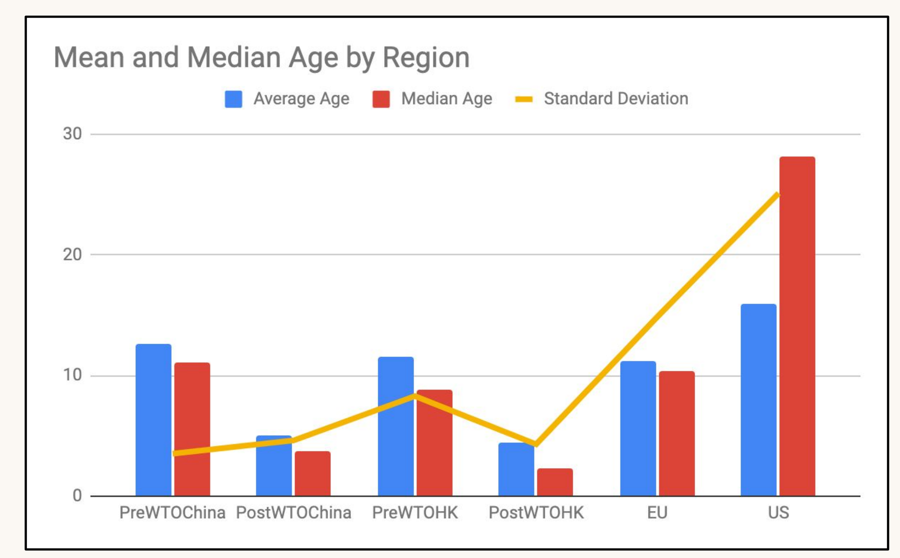
- **American Companies** on the US Stock Market in 1990, that investment would now be worth around $50,000.
- **Chinese Companies** on the US stock market, tha investment would now be worth $1,500.

Conclusion: Chinese firms on the US stock market have significantly underperformed US firms on that market, and definitely do not reflect that economic growth seen in China.

Quality of Firms

- Prior to China joining the WTO, the average lifespan of a firm's listing in China and Hong Kong matched that of European firms.
- After joining the WTO, firms from China and Hong Kong tended not to survive for as long.
- American Firms tend to survive longer than both Chinese, Cantonese, and European firms

Conclusion: After China joined the WTO, the quality of firms that came from China to list on the America market decreased.



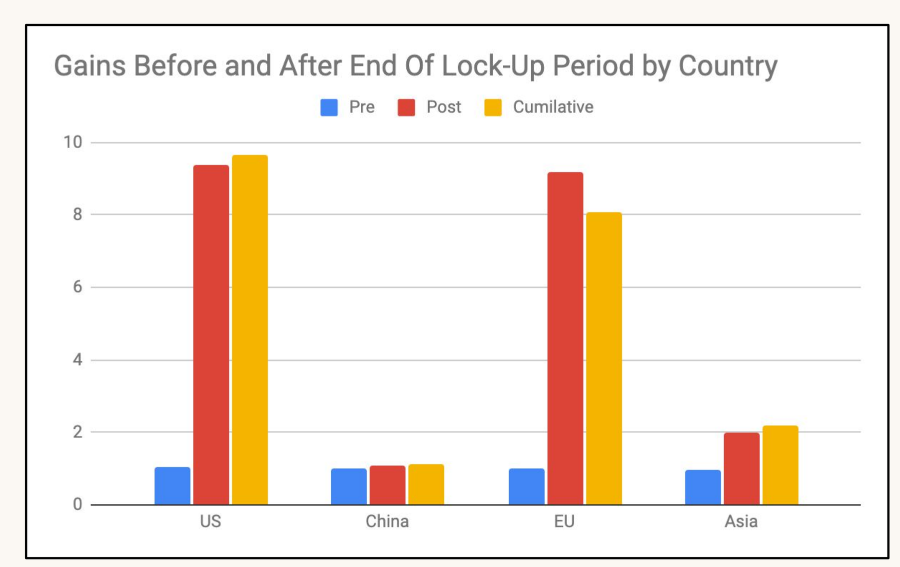
Potential Explanations for Poor Relative Performance

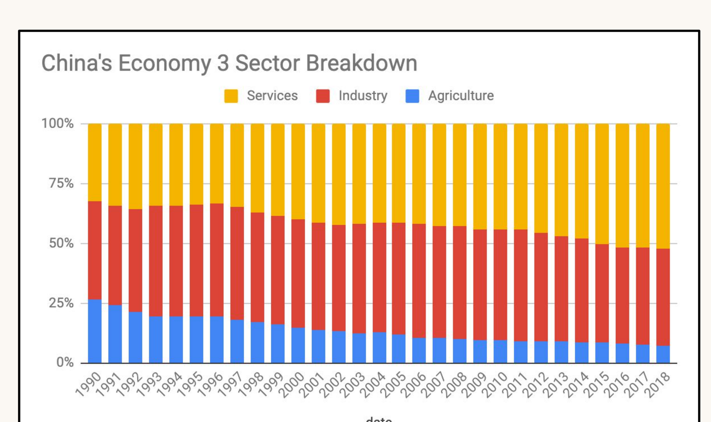
Lock-Up Manipulation Hypothesis

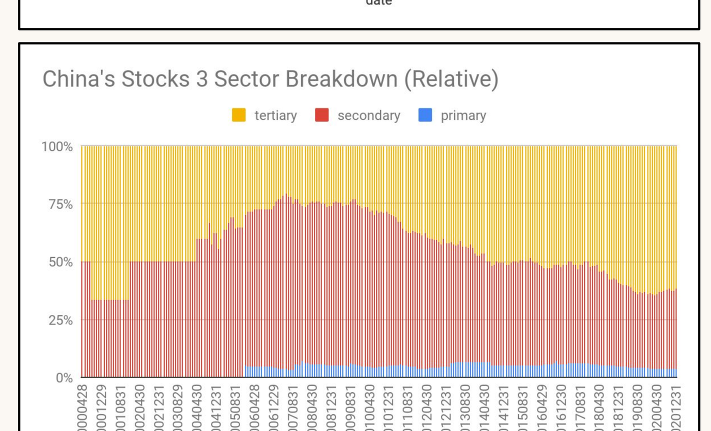
Underwriters bring low-quality **companies** to market purely for profits from fees and sell those shares to their **clients**. **They** then keep prices steady until after the post-listing lock-up period ends, so that their **clients** can unload their investments afterward.

Verdict

While China's overall gains are small relative to those of the rest of the world, it follows the standard trend, **contradicting this hypothesis.**







Sector Misrepresentation Hypothesis

The Chinese stock offerings on the American Stock market do not accurately reflect China's economic makeup. This implies that the China's US-Listed stock offerings fail to represent China's economic growth because it is not accurately representing where China's growth is actually occuring.

Verdict

- Less accurately representative prior to China joining the World Trade Organization due to small sample size
- Became more representative as sample size increase
- Accurately depicts China's growing Service sector
- Slight overrepresentation of growth sector (which is understandable in the speculative sphere that is the stock market)

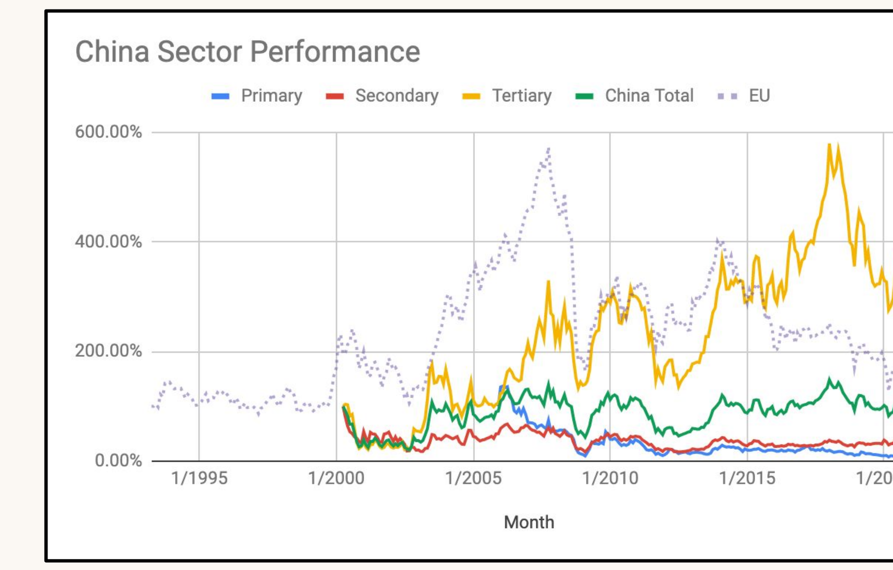
These findings thus **contradict this hypothesis.**

Recommendations

Performance By Sector

- China's Tertiary Sector has recently begun to outperform Europe's aggregate cumulative gains.
- Despite being known for its manufacturing capabilities, China's industrial firms do not perform well on the stock market

Conclusion: Investments in China's Service sector have been the most profitable relative to all other sectors listed; this trend also seems like it will continue.



Advisories

Variable Interest Entity Risk

- Chinese government restricts foreign investments in industries like education and advanced technologies
- VIEs control of a company through contracts instead of ownership, helping companies circumvent those restrictions
- Centralized power of Chinese Government could **close this loophole** at any time

US-China Geopolitical Tensions

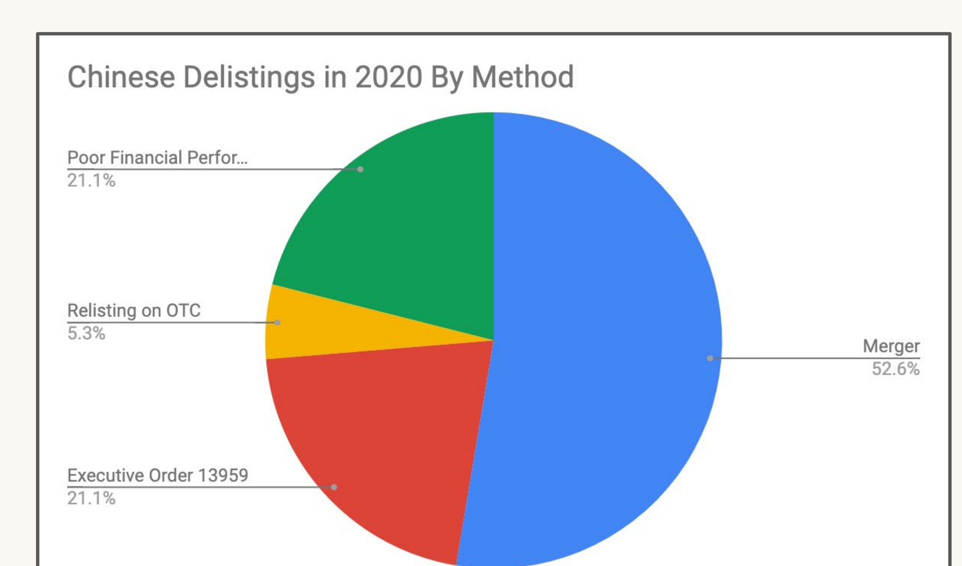
Trade War

- Tensions run high between Beijing and Washington, which bodes poorly for stability in economic relationships between the two
- The issue of Taiwan also looms large on the horizon

Executive Order 13959

- While this order was passed under the Trump Administration, the order remains in effect
- Sets precedent for Washington to forcibly pull Chinese firms off of the US Market

Potential to Return to China



- The expected reason to delist is typically due to poor financial performance
- Firms should prefer to stay public for this allows them access to more resources
- Chinese firms tend to delist due to acquisition by a private Chinese firm
- Chinese firms are effectively packing up their IPO gains then returning back to China where foreign investors in unable to invest in them
- Investment in successful Chinese firms could end in that firm returning to China and further investment being cut off