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因思想 而光华

Discussion of
“Does Access to Equity Promote Trade? Evidence from IPO Approvals in China?”

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Broader View of Research Question

- Access to equity finance and trade
  - Equity capital can be used to finance a company's working capital and physical investments in export-related activities
  - **Different** from debt financing
  - Example: research activities involving high risks, agency costs, and a lack of collateral
- Departure from the existing literature
  - IPO reduces firms' cost of capital (Brav 2009); stimulates investment (Kim and Weisbach 2008), increases employment (Benmelech, Bergman and Seru 2015), boosts R&D and innovation activities (Kim and Weisbach 2008; Bernstein 2015; Cong and Howell 2021)
  - This paper: identify the causal effect of IPOs on export performance
  - Challenge: endogenous decision in firms' IPO decisions and the selection of firms in China

Summary of Findings

- Identification: comparing successful and unsuccessful IPO firms as treatment and control groups.
- Exploit the IPO review meeting records to exclude rejections related to firm's export outcomes
- Data:
- WIND IPO Examination Database
    - Covers IPO applications on the Main Board, the GEM Board, and other boards in China application outcomes. After 2010, it provides detailed descriptions of reasons for rejections
- Chinese Customs Trade Statistics (CCTS)
    - Import and export transactions of Chinese firms from 2000 to 2016, including transaction values, quantities, and trade types for each HS6 product by destination country

Summary of Findings

- Findings
  - IPO approval leads to increases in 40% associated with the export value of firms six years after
  - Different from debt financing and export literature, equity financing affects export primarily through the extensive margin, by increasing the destination-product markets
  - However, with limited impact on the intensive margin—the average exports in each market
  - Potential channels: acceleration of intangible capital accumulation though technology stocks and consumer bases

The IPO Process in China

- Question is important given the difficulty in fund raising in China
- Special features include:
  - Pre IPO, reluctant to invest among VCs, uncertainties in the economy and limited exit opportunities
  - IPOs in China stand out for the extremely high first-day returns (also known as
  - IPO underpricing: the average first-day return is 172% during 1990-2021 (Jay Ritter's estimates)
  - Underwriter favoritism

The IPO Process in China

- Other special features include:
  - Selling method determines the way IPOs are priced and allocated. China has used either a fixed price offering (FPO), or an auction, or a combination of the two methods to sell IPO shares
  - Chinese regulators place limits on the offer price based on price-earnings (P/E) ratios, with the maximum far below what investors were willing to pay for most IPOs
- Investors treat IPOs as lotteries with extremely high short-term returns, with little attention to the long-term
- High cost of going public

The IPO Process in China

- Changes in the IPO regulations
  - Under the approval system, regulators decide which companies will be allowed to go public, in general gives preference to large state-owned enterprises
  - Similar to debt market, the difficulty and high cost of going public in China has led many companies, especially high growth firms with no positive earnings yet, to list in other markets rather than on domestic exchanges
  - Recent reforms attempt to address these issues:
    - The Science and Technology Innovation Board (STAR Market) of the Shanghai Stock Exchange launched in 2019 and the 2020 reform of the Shenzhen Growth Enterprise Market (GEM) aim to address these problems.
    - Specifically, on these two boards, a U.S.-style registration system has replaced the approval system; listing firms are not required to be profitable; and the offer price is not limited to a set P/E ratio

The IPO Process in China and Export

- What are the consequences of the approval system for IPOs
  - Uncertainties of how long the IPO process, leads to increases in the average IPO in China, after accounting for the direct and indirect costs
  - The costs may exceed the amount of money raised, inefficient for firms
  - High initial returns have implications on investors—little incentive to invest for the long-term
  - Can have negative impact on the efficiency of capital allocation, high growth companies choose to list in other markets
  - Therefore, it's important to consider the costs and potential distortions associated with IPO
  - May explain limited evidence on the intensive margin and innovation outcomes

The IPO Process in China and Export

- What are the consequences of the approval system for IPOs
- Can potentially explore:
  - Change in recent reforms and relaxing of restrictions and interventions by regulators on export patterns
  - Approval scheme vs. registration scheme
  - For example, should the pricing restrictions be abolished, and how to set the profitability requirement for IPO eligibility, relaxed or tighten?
  - How changes in IPO schemes affect the firms choose to be listed, productivity, and export share in different markets
  - Whether certain intervention increases the efficiency of capital allocation?
  - Compare with misallocation in bank credit, and discuss complementarity of debt and equity

Take away

- IPO reforms in China and implications on export
- The market dynamics are different
- This paper contributes to better understand the evaluation of IPO process and the real outcomes
- Use different identification methods to explore this question
- Look forward to impactful research