China's clamp down on US listings, here's what investors need to know

By Adriaan Pask

20 Jul 2021

Global investors are reeling from China's latest announcement to heighten restrictions on its US-listed companies, including the likes of Didi, Alibaba, Tencent and Bytedance. In a recent statement, the state council, which is constitutionally synonymous with the Central People's Government, said the regulations governing the international listing system will change, while measures that limit cross-border data flows will be intensified in what experts have coined as "the modernisation of China's system for capital market governance".

Adriaan Pask, chief investment officer, PSG Wealth

What’s behind the move?

According to Chinese officials, the stricter guidelines emphasise that data proliferation is a national security issue, a concern that was highlighted by the commencement of a probe into Didi, a Chinese-based hailing service company, by the Cyberspace Administration of China (CAC) last week in a bid to “safeguard national security and protect the public interest”.

The regulations have the potential to hinder the management of American depositary receipts (ADR) and undermine “effective measures to deal with risks from Chinese ADR firms,” according to Reuters. The restrictions could also threaten the IPO listings of other Chinese technology companies that are in the pipeline which may offer better market depth. Should China forge ahead with this plan, the Nasdaq and American Stock Exchange are poised to lose the most, given that Chinese IPOs have raised more than $106bn, according to Refinitiv data.

While the clampdown on technology firms is hardly a new phenomenon, Beijing is able to move swiftly which means that any abrupt movement can weigh on Wall Street and put pressure on the Chinese ADR market. Experts have also said the statement meant that going public in the US would become that much more difficult for businesses that are heavily reliant on data.

ABOUT THE AUTHOR

Adriaan Pask is the chief investment officer at PSG Wealth.

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