When Are Foreign Firms Listed in the US Worth Less?

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Abstract

The American Depositary Receipt (ADR) market experienced three booms in the mid-1980s, mid-1990s and post-2005, driven by issuers from advanced economies (AEs), emerging economies (EEs) and Mainland China, respectively. Using cross-sectional data in 1997, Doidge, Karolyi, and Stulz (2004) demonstrate a cross-listing premium for ADRs, arising from a "bonding" effect. From a longer and more recent panel of ADRs and their domestic peers, we find the ADR premium enjoyed by firms from EEs is significantly lower than that of AEs and may even become negative in some years. We extend the model of bonding theory to incorporate the effect of state expropriation and geopolitical risk on controlling shareholder's cross-listing decision and firm's valuation. Testing the model using an endogenous treatment effect framework, we find country-specific persistent risk of state expropriation leads to a cross-listing discount. We also document how geopolitical risk further shapes cross-listing outcomes: US geopolitical risk reduces the benefits of listing in the US, whereas home-country geopolitical risk generates a flight-to-quality premium for ADRs.

Keywords: Cross-listing, ADR, Bonding, State Expropriation, Geopolitical Risk, Financial Globalization

JEL Classification: G32, F38, O16

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