

# Estimating the Cost of Capital Market Distortions: Evidence from Chinese Overseas IPOs\*

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This version: 20 February 2024

## Abstract

Both capital controls and domestic capital market regulations impose a cost on firms. By comparing to firms listed at home, we estimate the entrepreneurs of overseas listed Chinese firms are willing to pay a 60% haircut in firm value in order to bypass these costs. With a structurally estimated model, we quantify the welfare loss due to capital market distortions to be 18% for a representative Chinese entrepreneur.

**JEL Classification:** G32, F38, O16

**Key Words:** Overseas IPO, capital control, self-selection

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\*We would like to thank valuable comments from discussants and audiences at various conferences, workshops and seminars. Financial support from Singapore MOE AcRF Research Grant is gratefully acknowledged. Feng and Wu are from Economics Division, School of Social Sciences, Nanyang Technological University, Singapore. Emails: qfeng@ntu.edu.sg and guiying.wu@ntu.edu.sg. Wei is from Columbia Business School and SIPA, Columbia University. Email: sw2446@gsb.columbia.edu. Yuan is from School of Economics and Finance, South China University of Technology. Email: mengying001@e.ntu.edu.sg