The Status of the China syndrome

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Abstract

Unlike any other experience in international financial markets, Chinese investors pay more for shares of Chinese stocks than do foreign investors. This premium, sometimes referred to as the China syndrome, is a phenomenon. Some researchers have attributed this difference to basic economic principles such as substitutability (Sun and Tong, 2000). Others have explored the area further by examining the impact of cross listing and the effect of Chinese stock presence in the US on this premium (Yang and Lau, 2005). In this study we use company-level data from 2001 to 2005 in a panel data analysis using the premium as the dependent variable. Some independent variables include a supply variable and a liquidity variable The basic model is an extension of the panel data analysis used by Domowitz *et al.* (1998). Results confirm what other researchers have found, but show that the premium, which one would expect to have shrunk given recent moves toward financial market liberalization by the Chinese, has instead increased in recent years.