

The impact of the Shanghai – Hong Kong stock market connection on corporate innovation: Evidence from mainland China

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Abstract:

The Shanghai stock market and the Hong Kong stock market were connected by the Chinese government in 2014, allowing Hong Kong investors to trade on a group of stocks on the Shanghai stock market. Using a difference-in-differences approach, we examine how this stock market connection affects corporate innovation in mainland China. We argue, and find, that the stock market connection facilitates external financing, enhances the informational feedback effect of stock prices, involves more sophisticated investors' monitoring and advising on firm management, and thereby spurs corporate innovation. We further show that the positive effect of the stock market connection on innovation is more pronounced for non-state-owned firms, firms with few political connections, firms with weak intellectual property rights protection, or firms that are headquartered in non-high-tech economic zones. Our study sheds light on how the opening of a developing stock market to a more developed stock market shapes corporate innovation.

Keywords: stock market connection; corporate innovation; external financing; informational content of stock prices, monitoring and advising on innovation

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