City University of Hong Kong
香港城市大學

An Empirical Study of the Impact of the US–China Trade War on Hong Kong Listed Firms

中美貿易戰對香港上市公司的影響

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Abstract

The beginning of the trade war with China instigated by the Trump administration (the 'US–China trade war'), which adversely affected Hong Kong's economy, was a turning point for globalisation. This thesis examines the effects of the US–China trade war from March 2018 to December 2019 on 508 public firms listed in the Hang Seng Composition Index (HSCI) and how those effects vary by industry and firm-specific characteristics.

My event-study analysis identifies 29 significant trade war events based on the 3-day cumulative raw returns (CRR) of the HSCI, 16 of which are significant bad-news events and 13 of which are good-news events. The events are classified into three main types: (i) the implementation of tariffs and responsive measures (implementation); (ii) announcements of proposals for higher tariffs, the imposition of higher tariffs, and actions taken in response to the higher tariffs (announcement); and (iii) news about bilateral negotiations (negotiation). On average, significant bad-news trade war events are followed by an average market return of –3.18%. Most of the negative trade war news related to the 'implementation' and 'announcement' events involved the imposition of tariffs. The prevailing market reactions at the time were negative, implying that negative news overwhelmed positive news during the US–China trade war, which motivated investors to respond by adopting risk-averse measures. The results show an average stock market rebound of 3.04% following the good-news events that recovered a portion of the losses associated with the bad news events.

Using an event study model to test 13 hypotheses that examine the relation between the extent of negative stock-price effects and firm-specific determinants, I find that the stock price decreases associated with bad-news events were more severe for the firms with US sales. There is also evidence that property firms suffered more than firms in other industries, suggesting that investors lost confidence in the property sector's economic performance following negative news about trade war events. Interestingly, I find strong evidence that firms whose corporate boards had more independent non-executive directors (INEDs) were better than other firms at withstanding the negative stock market effects that followed the arrival of bad-news trade war events. INEDs have three main functions: to advise the board, to monitor the board and to provide resources to the board. The results imply that during the

US–China trade war, INEDs' advisory and resource provision roles were important to firms threatened by trade wars and tariffs.

Other empirical results show that larger firms experienced bigger stock price declines, which is inconsistent with larger firms having the ability to perform better than smaller firms in an uncertain market environment. In addition, I do not find evidence that firms with higher profitability, higher liquidity, lower debts and lower financial risk (the Altman Z score (AZS)) had better-performing stock prices than other firms on bad news of events in the US–China trade war events.