

Strategic Choices of Chinese Concept Stocks Under Tariff Impact and Opportunities and Challenges in the Hong Kong Financial Market

Zedian Lin

School of JINAN University, Guangzhou, China

ABSTRACT

This paper focuses on the development status, challenges, strategic choices, and opportunities and challenges faced by the Hong Kong financial market of Chinese concept stocks under the background of tariff shocks. By analyzing the direct impact of escalating tariff shocks on the operating costs and market demand of Chinese concept stocks, as well as the increased delisting risk brought by tightening overseas regulatory policies to Chinese concept stock enterprises, this paper explores how Chinese concept stocks can make strategic choices in the capital market. At the same time, studying the market vitality and financial innovation opportunities gained by the return of Chinese concept stocks in the Hong Kong financial market, as well as the challenges faced by the Hong Kong financial market such as limited market capacity, weak liquidity, and regulation. Based on typical cases, policy recommendations are proposed for Chinese concept stock enterprises and the Hong Kong financial market, aiming to provide theoretical and practical guidance for Chinese concept stock enterprises to cope with difficulties and for the Hong Kong financial market to seize opportunities.

KEYWORDS

Tariff shock; Chinese concept stocks; Strategic choice; Hong Kong financial market; Opportunities and challenges

1. INTRODUCTION

In recent years, global trade protectionism has shown a clear upward trend, with countries adopting trade restriction measures, among which tariff policies have become the main means. As an important overseas listing location for Chinese concept stocks, the constantly upgrading tariff policies in the United States have had a serious impact on the overseas listing environment for Chinese concept stock companies. Since the United States imposed tariffs on Chinese goods in 2018, the trade friction between China and the United States has continued to escalate. The types of goods and tax rates involved in the tariff friction between the two sides have continued to expand and increase, and Chinese concept stocks, as important participants in economic exchanges between China and the United States, have been the first to be affected.

The United States has further tightened its regulation of Chinese concept stocks through the Foreign Company Accountability Act (HFCAA) and its implementation regulations specifically designed for Chinese companies. The bill requires foreign companies listed in the United States to prove that they are not under the control of the government of their country and to submit audit workpapers to the Public Company Accounting Oversight Board (PCAOB) without reservation. If the company fails to meet PCAOB requirements for three consecutive years, its stock will be forcibly delisted. In addition, the pre delisting system of the US Securities and Exchange Commission (SEC) has included

numerous Chinese concept stock companies, posing unprecedented delisting risks for Chinese concept stocks on exchanges such as NASDAQ [1].

The Hong Kong financial market, with its unique geographical location, sound legal system, and mature financial system, has always been an important bridge connecting mainland China and the international financial market. In recent years, the financial market in Hong Kong has continued to develop, with the stock market expanding and financial products becoming increasingly diverse. However, it also faces competitive pressure from other global financial centers. Against the backdrop of difficulties faced by Chinese concept stocks, the Hong Kong financial market has ushered in new development opportunities, but also faces many challenges [2].

2. ANALYSIS OF TARIFF IMPACT AND OVERSEAS LISTING RISKS OF CHINESE CONCEPT STOCKS

2.1. The Direct Impact of Tariff Shocks on Chinese Concept Stocks

2.1.1. Rising operating costs of enterprises

The increase in tariffs directly leads to a significant increase in raw material procurement costs and product transportation costs for Chinese concept stock enterprises. For Chinese concept stock enterprises that rely on imported raw materials, the increase in tariffs has led to a significant rise in raw material prices. At the same time, when products are exported to the US market, high tariffs also significantly increase transportation costs, further compressing the profit margins of enterprises. In order to cope with rising costs, companies often need to adjust their pricing strategies. However, increasing product prices may lead to a decrease in market share, especially in highly competitive international markets where consumers are more price sensitive and businesses may face the risk of customer loss after raising prices.

2.1.2. Shrinking Market Demand

The trade friction caused by tariff shocks has led to a significant decrease in overseas market demand for Chinese concept stocks, especially for export-oriented enterprises. Taking Chinese concept stocks in industries such as clothing and electronics as an example, after the United States imposed tariffs, the cost of purchasing Chinese products for American consumers increased, leading to a decrease in market demand. The changes in market demand not only have a direct impact on a company's revenue, but also affect its future development expectations. Enterprises may reduce production scale, cut R&D investment, and market expansion plans, which will have a negative impact on their long-term development. At the same time, the shrinking market demand also puts greater inventory pressure on enterprises, further increasing their operating costs and financial risks.

2.2. Tightening Regulatory Policies for Overseas Listings and Increasing Delisting Risks

HFCOA and its implementation rules have tightened the requirements for the review of audit workpapers and information disclosure for Chinese concept stocks. According to the bill, foreign companies listed in the United States are required to undergo a comprehensive audit by PCAOB, including providing detailed audit workpapers. However, due to restrictions on overseas disclosure of audit workpapers by Chinese companies under national laws and regulations, Chinese concept stock companies face practical difficulties in meeting regulatory requirements from both parties simultaneously. In order to meet regulatory requirements in the United States, Chinese concept stock companies need to invest a significant amount of manpower, material resources, and financial resources in organizing audit workpapers and improving information disclosure, resulting in a significant increase in compliance costs. The high cost is difficult for some small and medium-sized concept stocks to bear, and they even have to voluntarily delist. In terms of investor confidence, the

uncertainty of regulatory policies and the increased risk of delisting have led to a decrease in investor confidence in Chinese concept stocks, resulting in poor stock price performance. The decline in stock prices not only affects the market value of enterprises, but also reduces their financing ability. For enterprises, delisting will have a significant negative impact on their corporate image, reduce their visibility and reputation in the international market, and also harm the interests of shareholders, who may face investment losses [3].

3. STRATEGIC CHOICES OF CHINESE CONCEPT STOCKS UNDER THE IMPACT OF TARIFFS

3.1. Capital Market Strategy

3.1.1. Return to Hong Kong Stock Exchange Listing

It is not uncommon for Chinese concept stocks to delist from the US stock market and switch to secondary listing on the Hong Kong Stock Exchange. The main factors include avoiding regulatory risks in the United States, expanding into Asian markets, and obtaining more reasonable corporate valuations. The Hong Kong listing rules have strong adaptability to Chinese concept stocks, and the listing system of the Hong Kong Stock Exchange is constantly being optimized. Listing restrictions for companies with different equity structures are also being relaxed. Allowing companies with the same share but different rights (WVR) structure and variable interest entity (VIE) structure to go public. During the listing process, Chinese concept stock companies need to complete a series of key steps, including financial auditing, information disclosure, regulatory approval, etc. However, there are also some challenges, such as differences in accounting standards and information disclosure requirements between the two regions, which require companies to invest a lot of effort in coordination and adjustment [4].

3.1.2. Moving to other international capital markets

It is feasible for Chinese concept stocks to choose to be listed on other international capital markets such as London and Singapore. As one of the international financial centers, the London Stock Exchange has a long history and mature market system, which makes it highly attractive to international enterprises, especially Chinese concept stocks in industries such as finance and energy. The Singapore Stock Exchange has significant influence in the Asian region, with relatively flexible listing conditions and certain advantages for companies in industries such as technology and consumer goods.

There are differences in listing conditions, investor structure, and financing environment among different markets. London market investors are mainly institutional investors, who have high requirements for the financial condition and governance structure of enterprises; Investors in the Singapore market are relatively diversified, including local investors, investors from other parts of Asia, and international investors, and the market financing environment is relatively relaxed. Chinese concept stock companies need to choose suitable international capital markets for listing based on their own business characteristics and development needs [5].

3.2. Business Operation Strategy

3.2.1. Market Diversification Layout

Exploring emerging markets such as Southeast Asia, Europe, and the Middle East is an important strategy for Chinese concept stock companies to reduce their dependence on the US market. In the Southeast Asian market, Chinese concept stock companies can leverage the abundant local labor resources and vast consumer market to expand their business. However, there are also many challenges in the new market, such as cultural differences, policy barriers, and market competition.

Different countries and regions have different cultural customs and consumption habits, and enterprises need to adjust their products and marketing strategies to meet market demand. Meanwhile, the trade protection policies and complex administrative approval procedures of some countries have also increased the difficulty for enterprises to enter the market.

3.2.2. Industrial Chain Optimization and Cost Control

Chinese concept stock enterprises can effectively reduce tariff and transportation costs by adjusting their industrial chain layout, such as setting up factories overseas and establishing regional supply chain centers. Setting up factories overseas can bring enterprises closer to the origin of raw materials and consumer markets, reduce intermediate links, and improve production efficiency. By optimizing procurement channels and establishing long-term stable cooperative relationships with suppliers, enterprises can obtain more favorable procurement prices. Improving production efficiency, adopting advanced production technology and management models, can reduce the production cost of unit products and enhance the enterprise's ability to resist risks [6].

4. OPPORTUNITIES AND CHALLENGES FACED BY THE HONG KONG FINANCIAL MARKET

4.1. Opportunities Faced by the Hong Kong Financial Market

To meet the needs of Chinese concept stock enterprises and investors, the Hong Kong financial market has broad innovation space in stock derivatives, structured products, and other areas. Developing futures and options products related to Chinese concept stocks can provide investors with more risk management tools and meet the investment needs of different investors. Innovative structured products that combine Chinese concept stocks with other financial assets can enrich investment product types, increase market trading activity, and enhance risk management capabilities.

Chinese concept stocks have extensive international business and global influence, and their listing in Hong Kong will attract the attention and participation of global investors, strengthening the linkage between Hong Kong and the international financial market. This will help Hong Kong further consolidate its position in the global financial market, enhance the internationalization level and international discourse power of Hong Kong's financial market, and make Hong Kong a more influential international financial center.

4.2. Challenges Faced by the Hong Kong Financial Market

There are many differences and conflicts in the regulation of trading markets between Hong Kong, the United States, and mainland China. In terms of information disclosure standards, the United States requires stricter and more detailed requirements, while Hong Kong and mainland China have relatively relaxed information disclosure requirements, which makes it difficult for Chinese concept stock companies to meet regulatory requirements in different regions. In terms of regulatory cooperation on audit workpapers, there are obvious legal barriers to cross-border provision of audit workpapers due to differences in laws and regulations between China and the United States. Establishing a cross-border regulatory cooperation mechanism requires addressing these difficulties and key issues, strengthening communication and coordination among the three parties, and achieving regulatory information sharing and standardization [7].

The existing listing system in Hong Kong has shortcomings in dealing with the special equity structure and business model of Chinese concept stocks. For companies with the same stock but different ownership structures, the Hong Kong listing system needs to further improve relevant regulations to ensure the rationality of corporate governance structure and the protection of shareholder rights. For enterprises with emerging business models such as Internet platform economy, the existing listing rules are difficult to accurately assess enterprise value and risk in terms of financial

indicators, profit requirements, etc. Therefore, Hong Kong needs to make adaptive adjustments to its listing system and market rules to better meet the characteristics and development needs of Chinese concept stock enterprises, and enhance market inclusiveness and competitiveness.

5. CASE ANALYSIS

Taking Alibaba as an example, facing the uncertainty of global trade policies, especially the potential tariff risks brought about by the US China trade friction, Alibaba has formed a dedicated policy research team. The team closely monitors the trade policy dynamics of various countries and predicts the impact of trade frictions on their cross-border e-commerce business through analysis of policy trends. For example, in anticipation of possible tariff increases, Alibaba communicated with suppliers in advance to negotiate adjustments to purchase prices and delivery terms, while increasing investment in logistics facility construction in emerging markets such as Southeast Asia and Europe, optimizing supply chain layout, and reducing dependence on a single market.

In terms of risk management, Baidu has utilized big data and artificial intelligence technology to build a comprehensive risk monitoring system. In response to regulatory risks, Baidu regularly organizes internal legal and compliance teams to communicate with overseas regulatory agencies, timely understanding changes in policy requirements, and ensuring that the company's business complies with local laws and regulations. In the face of strict supervision by the US Securities and Exchange Commission (SEC) on the disclosure of information on Chinese concept stocks, Baidu has improved its information disclosure system in advance, increased the level of detail and transparency of disclosure content, and effectively reduced regulatory risks caused by information disclosure issues.

6. POLICY RECOMMENDATIONS

6.1. Suggestions for Chinese Concept Stock Enterprises

6.1.1. Strategic Planning and Risk Management

Chinese concept stock companies should establish a professional policy research team, consisting of experts from multiple fields such as international trade, financial regulation, and law, to continuously track the dynamic changes in global trade policies and overseas listing regulatory policies. By regularly analyzing policy trends and predicting the impact of policy adjustments on business operations and listing environment, forward-looking strategic planning can be formulated. In terms of risk management, establish a comprehensive risk management system and utilize technologies such as big data and artificial intelligence to conduct real-time monitoring and quantitative evaluation of tariff risk, exchange rate risk, regulatory risk, etc. Develop corresponding response plans for different types of risks.

6.1.2. Capital Operation and Business Transformation

In terms of capital operation, Chinese concept stock enterprises need to carefully choose the capital market listing path based on their own business models, financial conditions, and development strategies. For companies that are greatly affected by US regulatory policies and have development potential in the Asian market, priority can be given to returning to the Hong Kong stock market for listing; For companies with an international business layout and a desire to expand into the European market, they can explore listing on the London Stock Exchange. In terms of business transformation, increase R&D investment, promote technological innovation and business model innovation, and enhance the core competitiveness of the enterprise. Through business transformation, reduce dependence on a single market and traditional businesses, and enhance the ability of enterprises to resist external environmental changes.

6.2. Suggestions for the Hong Kong Financial Market

6.2.1. Optimize market infrastructure and institutional construction

The Hong Kong financial market should increase investment in funds and talents for trading systems, clearing and settlement infrastructure, introduce advanced information technology, and improve market operation efficiency and stability. In terms of institutional construction, further improve the listing system and trading rules. Develop more flexible and inclusive listing standards, simplify the listing process, and attract more high-quality Chinese concept stock companies to list in Hong Kong based on their special equity structure and business model. More importantly, the Hong Kong financial market should strengthen the supervision of market trading behavior, improve the information disclosure system, protect the legitimate rights and interests of investors, and maintain a fair, just, and open market order.

6.2.2. Strengthening Cross border Regulatory Cooperation and Financial Innovation

Hong Kong regulatory authorities should actively strengthen communication and cooperation with the United States, mainland China, and other international regulatory agencies, and establish a normalized cross-border regulatory coordination mechanism. By establishing a regulatory information sharing platform, real-time sharing of regulatory data can be achieved to improve cross-border regulatory efficiency. Encourage Hong Kong financial institutions to carry out financial system and mechanism innovation, develop diversified financial products and specialized services around the needs of Chinese concept stock enterprises and cross-border investors. Through financial innovation, we aim to enhance the service capabilities and international competitiveness of Hong Kong's financial market, and better meet the diversified needs of Chinese concept stock enterprises and investors.

7. CONCLUSION

This study delves into the crisis and response of Chinese concept stocks under the background of tariff shocks and changes in overseas listing regulatory policies. The impact of tariffs has led to increased operating costs for Chinese concept stocks, while the tightening of US regulatory policies has intensified the risk of delisting for Chinese concept stocks. In this context, Chinese concept stocks have become an important alternative for companies to choose to return to the Hong Kong stock market for listing or switch to other international capital markets in the capital market. In terms of business operations, they can respond to challenges by diversifying their market layout and optimizing their industrial chain. There is a close interactive relationship between Chinese concept stocks and the Hong Kong financial market. The coordinated development of the two can help Chinese concept stock enterprises overcome difficulties and also help Hong Kong consolidate its position as an international financial center, achieving mutual benefit and win-win results.

REFERENCES

- [1] Yang X, Vagnani G, Dong Y, et al. Short selling and firms' long-term stock return volatility: Evidence from Chinese concept stocks in Hong Kong [J]. *Finance Research Letters*, 2024, 70.
- [2] Liu Y, He L, Li D, et al. Correlation Analysis of Chinese Pork Concept Stocks Based on Big Data [C]//2020.
- [3] Zheng S, Hao L. China Concept Stocks: the Bubble and the Amendment of Capital Market [J]. *Journal of Shanghai Lixin University of Commerce*, 2011.
- [4] Hong X, Huixin L, Lili W. On the Tax Driving for Initial Public Offering of the Chinese Concept Shares in the A-stocks Market [J]. *Taxation Research*, 2016.
- [5] Chen Y, Xu X, Lan T, et al. The Predictability of Stock Price: Empirical Study on Tick Data in Chinese Stock Market [J]. *Big Data Research*, 2024, 35.

- [6] Lu Z, Wan X, Yu M, et al. Chinese Concept Stocks Return, Choose IPO or Backdoor Listing? -- Case Analysis Based on Qihoo 360 [C]//2017 International Conference on Education, Culture and Social Development (ICECSD 2017). 2017.
- [7] Zhenhai W, Chuanxi W. Research on the Development and Trend of Chinese Sports Industry Concept Stocks [J]. Bulletin of Sport Science & Technology, 2017.