Fed: US Stk-Listing Gives Emerging Mkt Firms Brief Boost
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WASHINGTON -(Dow Jones)- Chilean companies that listed their stocks on U.S. exchanges in the 1990s got a big capital infusion, but at the expense of companies that previously cross-listed their stocks, according to a new Federal Reserve study.

The study, which uses Chile as an example of how cross-listing might affect investment in emerging-market firms, found that found that Chilean firms tended to get only a temporary investment boost from listing their stocks in the U.S. through instruments such as American Depositary Receipts. As new Chilean firms issued ADRs, new U.S. investment went to the new firms.

"The financing acquired via the cross-listing appears to be a one-time event," says the study, by Sara B. Holland and Francis E. Warnock of the Fed's international-finance division. "U.S. investors buy into firms that cross-list, but do not appear to increase their stakes over time."

ADRs allow U.S. to buy foreign stock on a U.S. exchange, thus avoiding most of the costs and economic risks associated with purchasing a foreign stock in a foreign country. Accordingly, they're an increasingly popular vehicle for foreign companies seeking to attract U.S. capital. About 600 foreign firms currently list their stock on U.S. exchanges.

Over the years 19 Chilean firms have listed their stock on a U.S. exchange, more than half of them between 1994 and 1997, the study says. They benefited nicely: The study estimates that firms that cross-listed tended to receive three times as much U.S. investment as firms that didn't.

The study, based on confidential surveys conducted by the U.S. Treasury and the Fed in 1994 and 1997, found that Chilean firms that cross-listed between March 1994 and December 1997 saw their share of U.S. portfolios increase by 12 percentage points. But the increase came at the expense of Chilean firms that had cross-listed before 1994.

"Chilean firms typically have minuscule relative weights in U.S. investors' portfolios until they cross-list, at which time they experience an inflow of foreign capital," the study says. "This inflow, however, is not persistent: When subsequent firms cross-list and gain increased weights in U.S. portfolios, they do so at the expense of firms that cross listed earlier."

The study's authors said their research raises questions about just how much emerging-market countries benefit from financial liberalization. "When a country liberalizes, are its firms able to tap international savings?" the authors ask. "Our results suggest that the ability to access international funds is firm-specific and may not be long-lasting."


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