Industrial Policy *via* the IPO Market

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Abstract

This paper studies a novel instrument of industrial policy: the regulation of access to public equity markets. Using data on Chinese A-share IPOs and measures of industrial policy derived from textual analysis of Five-Year Plans, we show that policy strongly predicts IPO activity in China, while industry Tobin's Q, a standard proxy for investment opportunities, does not. The effect operates mainly through firms' application decisions rather than regulatory approvals, suggesting that firms anticipate policy priorities. Favored firms also receive faster review and higher valuations. Cross-market placebo tests support a causal interpretation. Our findings show how states can direct private capital through equity market access.

JEL Classification: G14, G18, G24, G32, G38, L52, O25, P16

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1 Introduction

Industrial policy—targeted government interventions aimed at altering the sectoral composition of the economy—is experiencing a powerful resurgence around the world, shifting from a once-taboo topic in mainstream economics to a central pillar of development strategy in many countries (Baldwin, 1969; Krueger, 1990; Rodrik, 2004, 2008). Advanced economies have launched high-profile industrial initiatives (for example, the U.S. CHIPS Act and Europe's green industrial programs), while emerging markets continue to expand their state-led development strategies, such as in China, where the state explicitly guides economic development through its Five-Year Plans (FYPs).

Despite this renewed interest, the existing literature has focused on traditional policy tools, such as fiscal subsidies, tax incentives, and directed credit through state-owned banks (Harrison and Rodríguez-Clare, 2010; Pack and Saggi, 2006; Lane, 2020; Juhász et al., 2024). There is a paucity of systematic evidence on how industrial policy might reshape public equity markets. This gap is critical because public equity is distinct from bank credit; it provides the risk-sharing capital essential for innovation-driven development. Unlike debt, which was the primary engine of the East Asian "miracle" economies of Japan and South Korea (Amsden, 1989; Wade, 1990), equity markets are becoming a vital venue for resource allocation as China attempts to transition from "high-speed" to "high-quality" growth.

This paper examines a novel form of state intervention: IPO-based industrial policy in China. We show that China's IPO regulatory regime has been used to channel equity financing toward favored industries and firms aligned with national development priorities. Unlike traditional fiscal tools, IPO-based industrial policy allows the state to steer private capital toward priority sectors without eroding the countrys fiscal capacity. While the aggregate proceeds from IPOs are smaller than the total volume of corporate bond or bank credit, their strategic importance is disproportionately large; as a "capital multiplier," a successful listing unlocks a firm's access to seasoned equity, lower-cost bank

credit, and bond markets. Furthermore, public listing provides the equity liquidity essential for attracting the high-level human capital required for innovations. Consequently, the IPO regulation can act as a primary valve controlling the flow of both subsequent capital and talent toward favored sectors.

In a frictionless capital market, the "invisible hand" allocates funds based on price signals: capital flows to sectors with the highest Tobin's Q, reflecting superior investment opportunities. However, China's financial system operates under a unique institutional logic where the state retains the ultimate prerogative to guide development. A simple comparison of IPO activity in the U.S. and China provides a striking illustration that motivates our study. Figure 1 plots industry-level IPO counts against industry Tobin's Q for both countries. In market-driven economies like the United States (Panel A), IPO activity strongly correlates with lagged industry valuations, the canonical measure of investment opportunities (Pástor and Veronesi, 2005). This foundational relationship, however, vanishes entirely in China (Panel B). This illustrative evidence suggests that a different logic governs capital allocation in China's equity market.

Our paper's central thesis is that industrial policy is a dominant driver of equity market access. We construct a comprehensive dataset of A-share IPOs from 2002 to 2022 and combine it with novel measures of industrial policy intensity derived from textual analysis of Five-Year Plans documents. We find strong evidence that favored industries designated by these plans have dramatically higher IPO activity. Descriptively, favored industries account for 60% to 72% of all IPOs in recent years while contributing roughly 20% of GDP. Regression results imply that the effect of being a favored industry is economically large and operates through both extensive and intensive margins. Favored industries are 25 percentage points more likely to experience any IPO activity. Conditional on having at least one IPO, they have approximately 64% more IPOs. Overall, this translates into an increase of 94% in the expected number of IPOs, indicating that industrial policy affects both the likelihood and the intensity of IPO activity. The policy effect

also strengthens over time: the marginal effect is insignificant for the 10th five-year plan period and has steadily increased from 0.48 in the 11th FYP period to 1.736 in the 14th FYP period.

The mechanism through which policy shapes IPO outcomes is revealing. We find that policy operates primarily through firms application decisions rather than regulators approval choices. Firms in policy-favored industries are significantly more likely to apply for IPOs. Decomposing the marginal effects reveals that policy favor increases the probability of an industry having any IPO applications by 22.9 percentage points, and increases the volume of applications by approximately 126% conditional on activity. Meanwhile, approval rates remain statistically similar across favored and non-favored industries conditional on IPO application. This pattern suggests that market participants internalize policy priorities and adjust their strategies accordingly, a form of anticipatory governance where regulatory signals shape behavior before any formal selection occurs. This channel indicates that the government can guide capital allocation through credible signaling, causing firms to self-select and reducing the administrative burden of case-by-case evaluation.

Although policy favor does not affect the likelihood of approval conditional on IPO application, it does affect the speed of approval. Applications from favored industries are processed about 47 days faster after controlling for firm characteristics and year effects, a reduction of approximately 8% relative to the average processing time for IPO firms in non-favored industries. This accelerated review creates a tangible benefit for firms in strategic sectors, reducing financing uncertainty and allowing them to access capital markets more quickly when conditions are favorable.

Furthermore, we find that industrial policy affects asset pricing. Favored firms receive a 12% higher valuation upon listing on the first trading day than comparable non-favored IPO firms. This valuation premium is not reversed in the three years following the IPO. This persistent premium indicates that policy support creates lasting value recognized

by investors, whether through reduced policy risk or coordination benefits from being in a government-prioritized sector. The fact that this premium does not reverse over three years, and that it appears in both domestic and Hong Kong markets for dual-listed firms, suggests the market's assessment reflects expectations of tangible benefits rather than temporary sentiment. Importantly, the 12% market value premium underestimates the benefits of policy preference, in that it is compared with other IPO firms: the benefit of IPO access itself is not included in this estimate.

A potential endogeneity concern is that the relationship between industrial policy and IPO activity may be driven by omitted fundamentals that influence both policy and IPO activity, e.g., sectors like artificial intelligence attract both government support and private market enthusiasm. We address this in several different ways.

First, we document that the use of IPO regulation as an industrial policy tool is explicitly stated by Chinese authorities. For instance, a 2020 State Council directive on integrated circuits and software industry explicitly calls to "strongly support qualified companies to list and finance...[and] accelerate the domestic listing review process." Similarly, the China Securities Regulatory Commission (CSRC) declared in 2014 that during IPO reviews, "issuers who do not comply with industrial policies will not be approved." For systematic evidence, we examine central policy documents issued during 2002–2022. Of the 529 documents classified as industrial policy, 34% explicitly mention IPO support as a policy tool.

Second , we conduct placebo tests using overseas listings of Chinese firms. If policy simply reflected market fundamentals, we should observe similar patterns abroad. We do not. In the U.S. market, Chinese industrial policy does not predict IPO activity, while industry Tobin's Q reasserts its predictive power. This cross-market comparison addresses the most plausible alternative hypothesis: that our results reflect omitted fundamentals correlated with both policy and investment opportunities.

Third, we exploit an exogenous policy shock as a natural experiment. In July 2021,

the "Double Reduction" policy banned for-profit K-12 tutoring and prohibited such firms from raising capital through IPOs. The policy was motivated by social objectives, including promoting educational equity and reducing academic pressure on students, rather than by economic considerations. Prior to its implementation, the for-profit tutoring sector had been booming. Immediately after the policy, domestic IPO activity in the sector collapsed to zero . This natural experiment demonstrates that policy can override market forces decisively: when the state explicitly disfavors a sector, market access disappears regardless of economic fundamentals.

Fourth, to sharpen our tests, we construct a firm-level Government Policy Alignment (GPA) index from the textual analysis of IPO prospectuses. This measure allows us to conduct powerful within-industry analyses, showing that even within the same broad policy-favored sector, firms with higher GPA scores receive higher IPO valuations, strengthening the evidence of policy effects.

In the last portion of this study, we show that our findings extend beyond the IPO market, revealing a comprehensive capital-market industrial policy framework. We document that in China's corporate bond market, policy-favored industries issue significantly more bonds controlling for credit risk and financing needs. We also examine the National Equities Exchange and Quotations (NEEQ), a platform analogous to over-the-counter equity markets, and find that policy-favored industries have substantially more NEEQ listings. These extensions demonstrate that the mechanism we document is not specific to IPOs but represents a systematic approach to directing access to capital markets.

This paper contributes to several literatures. First, we add to the rapidly growing research on the new economics of industrial policy by identifying a distinct and potent policy tool: the regulation of public equity market access. The classic industrial policy literature focused on targeted credit, trade protection, and subsidies to nurture infant industries (Johnson, 1982; Amsden, 1989; Wade, 1990). Recent work has revisited industrial policy with more detailed data and refined empirical methods, documenting more subtle

impacts of modern policies and emphasizing context and implementation (Juhász et al., 2024; Barwick et al., 2024a; Aghion et al., 2015). Juhász et al. (2025) apply textual analysis to quantify global policy use, while Cen et al. (2022) study how U.S. firms react to China's industrial policy, underscoring the global spillovers of such interventions.

A good share of recent studies focus on China due to the prevalence and scale of its industrial policy. Estimates suggest that China industrial support programs amount to several percentage points of GDP (Branstetter and Li, 2024; Garcia-Macia et al., 2025). Fang et al. (2025) use LLMs to analyze millions of government documents, uncovering the objectives, tools, and transmissions of policy across regions. Other studies examine various policy tools including subsidies (Aghion et al., 2015; Branstetter et al., 2023; Barwick et al., 2024b), technology for market access (Bai et al., 2025), and government venture capital (Chen et al., 2026; Beraja et al., 2025; Pan et al., 2022).

Distinct from the prior studies, our paper focuses on IPO regulation as a novel capital-market-based industrial policy. We show that controlling access to public equity financing enables the state to steer private capital toward priority sectors, complementing fiscal tools. This evidence underscores that industrial policy need not be limited to traditional tools: IPO regulation, often thought of as purely market-neutral infrastructure, can be repurposed to selectively promote industries.

Furthermore, our findings expand the taxonomy of industrial policy instruments (Juhász et al., 2024). While existing studies predominantly focus on fiscal tools—such as direct production subsidies, tax incentives, and government-guided equity funds—we highlight a powerful non-fiscal regulatory lever. Unlike traditional financial repression that channels household bank deposits to state-owned enterprises via artificially low interest rates, the IPO gatekeeping mechanism directs sophisticated private risk capital to innovative firms at zero direct cost to the government budget. This expands our understanding of how state capacity can shape capital allocation purely through regulatory authority over market access.

Second, our paper contributes to the literature on China's financial markets, especially on the IPO market. China's financial system has historically been dominated by bank-based financing. However, as the economy matures, the stock market is becoming an increasingly important channel for capital allocation, particularly for innovation-driven firms (Song and Xiong, 2018; Cong et al., 2020; He and Wei, 2023). We extend the recent survey by Qian et al. (2024), which highlights how regulatory constraints such as the approval system and price caps have led to persistent IPO underpricing and a costly listing process. Our findings show that IPO regulations are deployed with an industrial policy intent: the state actively skews the composition of listed firms toward strategic sectors. We also advance the literature on political connections and access to the IPO market (Fan et al., 2007; Piotroski and Zhang, 2014) by moving beyond case-by-case political favoritism ("guanxi") to systematic policy mandates.

Many studies of China's economy also document the effects of state ownership and the preferential treatments state-owned enterprises (SOEs) receive in fiscal support and bank loans. Qian et al. (2024) report that IPO firms are more likely to be SOEs in early periods (before 2008) but not in recent years. Our paper demonstrates that IPO regulations can promote priority industries regardless of state ownership.

The remainder of the paper is organized as follows. Section 2 describes the institutional background and measure construction. Section 3 presents main findings on industrial policy and IPO volume with Section 3.3 providing identification tests and extensions. Section 4 examines IPO pricing. Section 5 extends the analysis to broader Chinese capital markets. Section 7 concludes.

2 Background and Data

2.1 IPO Listing Regulations in China

IPO listing procedures in China differ from those in market-oriented economies such as the United States. In the U.S., IPO access is a registration system in which regulators ensure the adequacy of information disclosure, while market participants determine whether an offering proceeds and, if so, its pricing. By contrast, China's IPO process involves substantive regulatory review and administrative approval, making listing a regulated admission rather than an automatic outcome conditional on disclosure (see Qian et al. (2024) for a survey paper on China's IPO market).

Under the traditional approval system, the China Securities Regulatory Commission (CSRC) serves as the central authority overseeing IPO issuance. Firms must satisfy baseline listing requirements, such as minimum size and profitability, but the regulator ultimately determines which firms are permitted to go public and when. In making these decisions, the CSRC evaluates not only firm-level characteristics (e.g., firm quality) but also broader considerations, including the market condition and the states strategic priorities (Qian et al., 2024). One manifestation of this discretion is the use of IPO suspensions. Between the 1990s and mid-2010s, the CSRC periodically suspended IPO approvals for extended periods, during which no new firms were allowed to list (Cong and Howell, 2021).

The IPO process involves substantial time and cost. The review period is often lengthy and uncertain. The typical time between application and approval exceeds 400 days, substantially longer than in the U.S. In addition, offer prices have often been subject to regulatory caps on price-to-earnings ratios, which contributes to high levels of IPO underpricing (Qian et al., 2024). These issues impose severe direct and indirect costs on issuing firms.

Beginning in 2019, China initiated a transition toward a registration-based IPO sys-

tem, first implemented on the STAR Market and subsequently extended to other boards, including the Shenzhen Growth Enterprise Market and the main boards by 2023. Under this framework, stock exchangessuch as the Shanghai and Shenzhen Stock Exchangesare responsible for conducting the primary review of IPO applications, with greater emphasis on information disclosure relative to the prior approval system. However, the reform represents a reallocation rather than a removal of regulatory authority. IPOs must still be formally registered with CSRC following exchange review before issuance can proceed. The current regime is therefore commonly characterized as a two-tier system in which exchanges perform front-end screening, while CSRC conducts rulemaking, ensures compliance, and retains the ultimate authority over market access.

Importantly, the current system continues to incorporate substantive regulatory criteria beyond disclosure. The CSRC's *Administrative Measures for Initial Public Offerings* explicitly require that issuers' business operations comply with national industrial policies, thereby introducing a policy-based criterion into the listing review framework.[1] As a result, although the reform reduces certain administrative constraints and delegates review responsibilities to exchanges, IPO listing in China remains a regulated admission process in which the CSRC exercises final registration authority.

These institutional features motivate a cross-market comparison of how industry fundamentals map into IPO activity. In a market-driven capital market, such as the U.S., industries with stronger fundamentals, such as larger economic scale or higher valuations, should exhibit greater IPO activity (Pástor and Veronesi, 2005). With the influence

[1]Under the approval-based system, Article 11 of the *Administrative Measures for Initial Public Offerings and Listing* (CSRC Order No. 32, 2006; amended 2020) states: "The issuer's production and business operations shall comply with laws, administrative regulations, and the company's articles of association, and shall comply with national industrial policies." See https://www.csrc.gov.cn/csrc/c106256/c1653753/content.shtml. Under the registration-based system, this requirement is not only retained but strengthened. Article 13 of the *Measures for the Administration of Initial Public Offering Stocks Registration* (CSRC Order No. 205, 2023) preserves the identical industrial policy compliance condition. In addition, Article 23 stipulates that the CSRC shall, from the date the exchange receives the registration application, "simultaneously monitor whether the issuer complies with national industrial policies and the board's positioning," thereby formalizing the CSRC's active oversight of industrial policy alignment throughout the review process. See http://www.sse.com.cn/lawandrules/regulations/csrcorder/c/10116583/files/fbb4578ae47a4f0686713232e2692e67.pdf.

of industrial policy guidance and other government oversight, these relationships become ambiguous.

As a demonstration, we examine how industry size and valuation relate to IPO volume and proceeds in China and the United States. We estimate Tobit models on industry–year panels, regressing log(#IPOs) and log(IPO proceeds) on industry GDP and lagged industry Q in parallel for each country. The results (in the Internet Appendix) shows a clear contrast between the two countries. Industry size is positively associated with IPO activity in both countries, but the elasticity is substantially larger in the U.S. than in China. In addition, industry valuation is strongly positively related to IPO activity only in the U.S., consistent with equity issuance into high-valuation windows, whereas in China the estimated coefficients on Q are small and statistically indistinguishable from zero.

2.2 Measuring Industry Policy: Identifying Favored Industries

To capture the government's industrial policy orientation at the industry level, we construct measures of policy support based on language in China's national Five-Year Plans. These plans articulate the government's medium-term strategic priorities across economic, industrial, technological, and social domains. Issued every five years, they outline a comprehensive policy framework encompassing macroeconomic targets, industrial policy priorities, and goals for science and technology, as well as social and environmental objectives. In particular, they identify industries to be promoted, adjusted, or phased out.

The directives in the national plans cascade into provincial and sectoral plans, translating central priorities into more granular targets and policy tools tailored to local conditions and industries. Ministries and regulators then operationalize these objectives through concrete measures, linking strategic guidance to implementable actions.

To render these qualitative statements into tractable measures, we draw on the structured policy-text database from the China Research Data Services Platform (CNRDS), echoing the approach of previous studies (e.g. Chen et al., 2017; Cen et al., 2022). For

each Five-Year Plan, CNRDS identifies industry mentions in the plan text, maps them to the CSRC 2001 industry classification, and assigns a policy attitude label based on the language used in the surrounding context. Encouraging mentions are those in which the plan calls for the active development or promotion of an industry; neutral mentions involve adjustment-oriented language; and restrictive mentions indicate discouragement or phase-out.

Not all encouraging mentions, however, reflect the kind of substantive policy support we aim to measure. Some convey only directional guidance on how an industry should develop, while others explicitly designate an industry as a key strategic priority. CNRDS captures this distinction through a separate indicator for key priority industries, flagging mentions accompanied by language such as "key support," "pillar industry," or "priority development." We construct our main indicator `Favored` based on this key priority designation, and manually verify the pre-assigned labels by examining the context surrounding each mention.[2] We also revise industry mappings where the initial assignment does not align with the best-matching CSRC 2001 code.

We also construct a continuous measure, FavorIndex, which quantifies the intensity of policy support directed toward an industry in the Five-Year Plans. Each supportive reference contributes one unit to an industry's FavorIndex score, so multiple favorable references within the same plan reflect cumulative policy emphasis. A higher FavorIndex score therefore reflects more frequent affirmative policy support for the industry. The complete list of favored industries and additional details are provided in the Internet Appendix.

Table 1 lists the favored industries identified under each Five-Year Plan window. The table shows that policy favor is neither universal nor fixed over time. Some broad strategic sectors persist across planning cycles, but the set of favored industries also rotates meaningfully from one Five-Year Plan to the next. This pattern is consistent with the

[2]In the baseline implementation, a slightly stricter cutoff is applied to a small number of borderline mapped observations, without materially affecting the classification.

changing content of Chinese industrial policy. For example, biological-products manufacturing does not appear in 2001–2005 but enters the favored list in later plans, consistent with the rising official emphasis on biotechnology and other strategic emerging industries. This time variation is central to our empirical design because it helps distinguish policy designation from permanent industry characteristics.

[INSERT TABLE 1 HERE]

2.3 Measuring Firm-Level Policy Alignment

To further exploit within-industry heterogeneity and help separate policy-related effects from persistent industry characteristics, we construct a firm-level measure of government policy alignment based on firms' pre-IPO disclosures, denoted as *GPA*.

Specifically, we use the business scope descriptions disclosed in IPO prospectuses from Cninfo to proxy firms' strategic positioning prior to listing. These disclosures summarize firms' core business activities and development focus and are subject to regulatory scrutiny, making them a credible and standardized source of information on firms' stated business orientation at the time of IPO. Because business scope descriptions are determined before listing and remain relatively stable in the short run, they provide a suitable basis for measuring firms' alignment with prevailing policy priorities. We measure *GPA* based on the semantic proximity between the policy guidance articulated in the Five-Year Plans and a firm's business scope.

The construction of *GPA* proceeds in two steps. First, we quantify the semantic proximity between firms' business scope keywords and policy-related terms extracted from the corresponding Five-Year Plan using a word-embedding-based cosine similarity measure. Second, we aggregate these pairwise semantic proximities into a firm-level alignment index by weighting business-related terms based on their relative importance to the firm. Policy-related terms are weighted to reflect their informativeness in distinguish-

ing industries classified as policy-favored from non-favored ones based on industry-level policy designation.

This aggregation yields a continuous firm-level measure of policy alignment, where higher values of *GPA* indicate closer alignment between a firm's stated business focus and prevailing government policy priorities. Detailed descriptions of keyword construction, similarity computation, and weight calibration procedures are provided in the Internet Appendix. The Internet Appendix also reports the timeline matching between Five-Year Plans, firm disclosures, and IPO dates.

2.4 Data and Summary Statistics

Our empirical analysis is mainly based on a sample of China's A-share IPO market over the period from 2002 to 2022, which falls across five Five-Year Plan periods (from the 10th to the 14th). IPO-related information is obtained from the Wind database. The IPO sample covers mainland A-share listings and excludes Beijing Stock Exchange listings, which operate under a distinct market segment and enter the data only after 2021. Industry-level information is obtained from official industry accounts published by the National Bureau of Statistics and provincial statistical yearbooks. In particular, our industry GDP measure is an economy-wide industry output measure rather than an aggregate constructed from listed firms. Firm-level financial and accounting variables are obtained from THS iFinD.

Panel A of Table 2 reports summary statistics for the industry-year panel. From the indicator variable Favored, we can see that approximately 26% of industry-year observations are classified as policy-favored. Turning to the continuous measure FavorIndex, we observe substantial dispersion across industry-year observations, indicating meaningful variation in the intensity of policy emphasis beyond the binary designation and capturing differences along the intensive margin. Our IPO pricing analysis is conducted in the IPO sample, which covers 3,825 IPO events over the sample period. Over the full sample,

policy-favored industries account for 62.5% of IPOs and 48.3% of IPO proceeds, while their average annual GDP contribution share is only 24.3%.[3] This gap indicates that IPO activity is substantially more concentrated in favored industries than their footprint in the real economy.

[INSERT TABLE 2 HERE]

For the U.S. analysis, IPO data are obtained from SDC Platinum, and industry GDP is measured using U.S. Bureau of Economic Analysis industry accounts, which likewise cover overall industry activity rather than only public firms. Additional details are provided in the Internet Appendix.

3 Empirical Results: Industrial Policy and IPOs

3.1 Industrial Policy and IPO Activity

Following the market-fundamentals benchmark in Figure 1, we use lagged industry Q to capture investment opportunities and industry GDP to capture industry scale. GDP is important because larger industries mechanically contain more potential issuers and can generate larger aggregate IPO proceeds even absent policy favoritism. We use Tobit because around 40% of the baseline industry-year observations have no IPO activity, so the observed outcome is treated as left-censored at zero. As a visual preview, we first remove these two fundamentals and year fixed effects:

$$y_{j,t} = \theta \,\text{Industry Q}_{j,t-1} + \lambda \,\log(\text{Industry GDP}_{j,t}) + \delta_t + \varepsilon_{j,t}. \tag{1}$$

[3]The annual breakdown, reported in the Internet Appendix, shows that this pattern strengthens over time.

Figure 2 plots the residual distribution from Equation (1).[4] The residual distribution for favored industries is shifted to the right relative to non-favored industries, consistent with favored industries exhibiting systematically higher IPO activity even after conditioning on standard market-based fundamentals.

[INSERT FIGURE 2 HERE]

We then estimate the full policy specification at the industry-year level:

$$y_{j,t} = \beta\,\text{PolicyFavor}_{j,t} + \theta\,\text{Industry Q}_{j,t-1} + \lambda\,\log(\text{Industry GDP}_{j,t}) + \delta_t + \varepsilon_{j,t} \qquad (2)$$

where $y_{j,t}$ is either log IPO counts or log IPO proceeds for industry j in year t. The main independent variable, $\text{PolicyFavor}_{j,t}$, is our measure of industry-level policy support, proxied by either a dummy variable (`Favored`) or a continuous measure (`FavorIndex`). Control variables include lagged industry Tobin's Q and the logarithm of industry GDP. We include year fixed effects, δ_t, to absorb macroeconomic shocks common to all industries.

The China baseline estimates in Table 3 show that industries prioritized by industrial policy have significantly more IPO activity. In column (1), where the dependent variable is log(#IPOs), the policy favor dummy (`Favored`) is positive and statistically significant at the 1% level. Column (2) replaces the binary classification with `FavorIndex`, so the coefficient uses variation in the intensity of policy emphasis rather than only the favored/non-favored distinction. The positive coefficient on `FavorIndex` shows a dose-response pattern: industries mentioned more intensively in Five-Year Plans have more IPOs. Columns (4) and (5) show that the same pattern extends to the scale of capital raised through IPOs.

[INSERT TABLES 3 HERE]

[4]The corresponding regression estimates are reported in Internet Appendix Table IA2.

The economic magnitude of these effects is large. Because Tobit coefficients are not directly interpretable as effects on the observed censored outcome, we report average marginal effects in Internet Appendix Table IA6, separating the effect on the observed outcome from the extensive margin, defined as the probability of any IPO activity, and the intensive margin, defined as expected activity conditional on positive IPO activity (McDonald and Moffitt, 1980). For the number of IPOs, the overall marginal effect of `Favored` on observed log(#IPOs) is 0.665, corresponding to approximately 94% higher expected IPO activity for favored industries.[5] This 94% increase comes from two margins: policy favor raises the probability of any IPO activity by about 25 percentage points, and among industry-years with positive IPO activity, favored industries have about 64% more IPOs.

The policy effect on IPO proceeds is even larger in capital-market scale. The overall marginal effect of `Favored` on observed log(IPO proceeds) is 3.122, implying that expected IPO proceeds are roughly twenty-two times as large for favored industries. The continuous measure `FavorIndex` gives a similar economic message: each additional supportive policy mention is associated with about 62% higher expected IPO counts and IPO proceeds that are about 10 times as large. We also estimate linear OLS versions of the main Tobit specifications as robustness checks, with qualitatively similar results.[6]

The average baseline effect masks substantial time variation: the policy-IPO link strengthens across successive Five-Year Plans, with the largest difference appearing in the 14th FYP. We estimate pooled Tobit specifications that interact the policy measure with Five-

[5]For logged outcomes defined as $\log(1+y)$, we translate log-point marginal effects into approximate proportional changes using $e^{\Delta}-1$. Thus, a marginal effect of 0.665 corresponds to $e^{0.665}-1=0.944$, or about 94%.

[6]Internet Appendix Table IA14 reports the OLS robustness estimates for the baseline China policy specification. We also conduct OLS robustness checks for the other main results in the paper; these estimates remain stable and are reported in the Internet Appendix.

Year Plan indicators:

$$y_{j,t} = \beta\,\text{PolicyFavor}_{j,t} + \sum_{k\in\{11,12,13,14\}} \tau_k \left(\text{PolicyFavor}_{j,t} \times \mathbf{1}\{\text{FYP}_t = k\}\right) + \theta\text{Industry Q}_{j,t-1} + \lambda \log(\text{Industry GDP}_{j,t}) + \delta_t + \varepsilon_{j,t}, \quad (3)$$

where $\text{PolicyFavor}_{j,t}$ is either `Favored` or `FavorIndex`, estimated in separate regressions, and the 10th FYP is the omitted benchmark. Figure 3 plots the interaction coefficients τ_k for subsequent Five-Year Plans. The figure delivers a monotonic pattern: by the 14th FYP, the estimated policy effect is more than double the 11th FYP baseline.[7] This trend is consistent with recent literature documenting the expanding scope and intensity of China's industrial policy (Naughton, 2021; Heilmann and Shih, 2012). Our finding provides market-based evidence that the state's influence over IPO allocation has strengthened over time.

[INSERT FIGURE 3 HERE]

As a market-driven benchmark for this China-specific pattern, we repeat the industry-year analysis in the U.S. IPO market, where IPO activity should be more closely tied to market fundamentals than to industrial-policy designation. Constructing the U.S. policy measure requires mapping national industrial policies to industry codes. We use LLMs to process Congressional Research Service (CRS) reports and map 15 major U.S. industrial policies enacted during our sample period to specific SIC codes (e.g., the America COMPETES Act, the CHIPS and Science Act, and the Inflation Reduction Act). We then manually verify each AI-suggested mapping against official industry classifications, require direct evidence of industry-level support in the CRS reports, and exclude broad initiatives that lack specific industry-level funding or do not meet the strict OECD definition of industrial policy. Detailed methods and the final policy list are provided in

[7] The separate-subperiod Tobit coefficients and marginal effects reported in Internet Appendix Tables IA7, IA8, and IA9 show a consistent pattern.

Internet Appendix Section I.3.

The U.S. estimates in columns (3) and (6) confirm this benchmark contrast: after controlling for industry fundamentals and year effects, `Favored_US` does not predict either IPO counts or IPO proceeds. Market fundamentals, by contrast, retain predictive power in the U.S. specifications, while the corresponding China estimates in columns (1) and (4) show the opposite pattern: policy favor predicts IPO activity and Industry Q does not. This comparison indicates that the baseline China result is not a generic feature of IPO markets, but a policy-linked allocation pattern specific to China's regulatory environment.

3.2 Policy Favor in the IPO Pipeline

The number of IPOs in an industry depends on how many firms enter the IPO application pipeline and what happens to those firms after they apply. The higher IPO activity in favored industries can therefore come from a larger application pool, more favorable approval outcomes, or both. We therefore study IPO application and review records to separate these pipeline margins. Because CSRC firm-level disclosures on IPO application status and review progress become systematically available after 2014, our analysis covers 3,559 IPO applications from 2014 to 2022.

Re-estimating the baseline specification with the logarithm of the number of IPO applications as the dependent variable shows that favored industries send substantially more firms into the IPO pipeline. Columns (7) and (8) of Table 3 show that both `Favored` and `FavorIndex` are positive and statistically significant for IPO applications. The Tobit marginal effects in Internet Appendix Table IA10 imply that favored industries are 22.9 percentage points more likely to have any IPO applications and, among active industry-years, file about 126% more applications.

We next ask what happens after firms enter the pipeline. At the application level, 2,460 applications are from favored industries and 1,099 are from non-favored industries. Realized approval rates are nearly identical across the two groups: 69.5% for favored applications and 69.4% for non-favored applications. We also find no single calendar year when firms in favored industries have statistically higher average approval rates than firms in non-favored industries.[8] Because application decisions are themselves shaped by expected regulatory treatment and listing benefits, this approval-rate comparison should be interpreted as an equilibrium description of the applicant pool, not as evidence that approval standards are identical.

What drives so many more firms in favored industries to file for IPOs? One potential reason is that these firms face a faster review process once they apply. Descriptively, successful applicants in favored industries spend 479 days on average from application to listing, compared with 556 days for non-favored applicants, a 77-day raw difference.[9] Table 4 shows that the same pattern survives controls for `SOE`, `ROA`, `Leverage`, `Log(Assets)`, and year fixed effects. The coefficient on `Favored` is -0.088 and statistically significant at the 1% level, implying that firms in favored industries experience approximately 8.4% shorter waiting times ($1 - e^{-0.088} \approx 0.084$). Using this non-favored mean as the baseline, the adjusted estimate corresponds to about 47 fewer days in review.

[INSERT TABLE 4 HERE]

These pipeline results locate the baseline IPO effect primarily on the application margin: favored industries place substantially more firms into review, while realized approval rates are similar after firms apply. The approval-rate comparison is an equilibrium outcome, so we interpret the faster review of favored applicants as evidence that policy favor makes the IPO process more attractive rather than as proof that approval standards are identical.

[8] The annual approval-rate breakdown is reported in Internet Appendix Table IA4.
[9] The year-by-year approval-duration breakdown is reported in Internet Appendix Table IA5.

3.3 Separating Policy Effects from Industry Fundamentals

A central identification concern is that the baseline policy-IPO relation may reflect omitted industry fundamentals rather than the effect of industrial policy. Favored industries may simply contain better-performing firms with greater capital needs. If so, industrial policy would proxy for endogenous supply and demand dynamics rather than act as an external force shaping market outcomes. We present three pieces of evidence against this concern.

3.3.1 Policy Texts Explicitly Target IPO Access

Government and regulatory bodies explicitly state their intention to guide capital allocation through the IPO process. To document this systematically, we construct a document-level indicator from central policy texts issued between 2002 and 2022 using a two-stage classification procedure. First, we classify document titles using a large language model to identify industrial-policy documents, defined as documents that provide targeted support, guidance, or regulatory facilitation for specific industries or economic activities. Second, among those industrial-policy documents, we search the full text for IPO-related terms and use the same model to classify whether the relevant passages explicitly mention IPO-related facilitation, including references to firm listing, issuance review, or expanded access to direct financing.[10] The resulting share therefore measures how often industrial policy documents explicitly mention IPO facilitation as part of the policy toolkit.

Figure 4 summarizes this measure by Five-Year Plan window from the Tenth to the Fourteenth. Of the 529 documents classified as industrial policy, 34% explicitly mention IPO support. The share remains broadly stable across planning cycles rather than concentrating in a single episode, which is consistent with IPO facilitation being a persistent policy tool rather than an isolated intervention.

[10] As a quality check, we manually reviewed representative positive cases to verify that the classification captures substantive references to listing support, review acceleration, or direct-financing access rather than incidental mentions of capital markets.

[INSERT FIGURE 4 HERE]

One document in the Figure 4 sample illustrates how these central policy texts express IPO support at a broad policy level: the 2020 State Council notice on integrated circuits and software called for "vigorously supporting" qualified firms to list and "accelerating the domestic listing review process." Regulatory implementation can be more explicit. A 2014 CSRC press release stated that IPO applicants in overcapacity industries that "do not comply with industrial policy will not be approved." These statements show that IPO access is described not only as a broad policy objective but also as a criterion in regulatory review.

3.3.2 Policy-IPO Links Weaken Outside Mainland China

We next conduct placebo tests exploiting the fact that many Chinese firms list in the United States and Hong Kong, markets less directly impacted by mainland regulatory policy. If our results were driven by intrinsic firm quality, we should observe similar patterns overseas. Table 5, Panel A, presents results for Chinese firms listing in the United States. The coefficient on the policy favor dummy (`Favored`) is 0.239 for the number of IPOs and 1.327 for proceeds, neither statistically significant. The coefficient on `FavorIndex` is similarly small, at 0.165 for IPO counts and 0.848 for proceeds. The placebo null therefore survives in the U.S. market without the additional VIE control; the Internet Appendix shows that adding a proxy for industry-specific offshore-listing propensity, based on the prevalence of VIE structures in the same industry, does not change this conclusion.

[INSERT TABLE 5 HERE]

Table 5, Panel B, sharpens the Hong Kong placebo by contrasting IPOs by non-mainland issuers with IPOs by mainland Chinese issuers. For non-mainland issuers, the coefficients on the policy favor dummy are small and statistically insignificant: 0.065 for the number

of IPOs and 0.597 for proceeds. For mainland Chinese issuers listing in Hong Kong, the corresponding coefficients rise to 0.323 and 2.018, with the mainland count effect statistically significant. The coefficients on `FavorIndex` show the same pattern: 0.093 and 0.747 for non-mainland issuers versus 0.279 and 1.761 for mainland issuers. Even these mainland-in-Hong-Kong estimates remain far smaller than the mainland China estimates, indicating that policy-linked IPO access is strongest inside China's domestic regulatory environment and attenuates once firms list offshore.

Taken together, this evidence strongly rejects the alternative hypothesis that our results merely reflect better firms in favored industries. The overseas listings analysis shows that the IPO advantage enjoyed by favored industries disappears in the U.S., is absent for non-mainland issuers in Hong Kong, and is materially weaker for mainland Chinese issuers listing in Hong Kong than for firms listing domestically in mainland China.

3.3.3 The "Double Reduction" Shock Shut Down Education IPOs

We next exploit a sharp policy reversal that is orthogonal to the usual fundamentals underlying IPO demand. In July 2021, the "Double Reduction" policy prohibited for-profit K-12 tutoring firms from raising capital through IPOs. The motivation for this intervention was explicitly social and political, centered on reducing the education burden on households and promoting educational equity, rather than on deteriorating sectoral profitability or investment opportunities. Prior to the policy, the for-profit tutoring sector had been expanding rapidly. Major listed firms in the sector were still reporting strong operating performance in early 2021. For example, TAL reported fiscal-year 2021 revenue growth of 37.3% and enrollment growth of 54.4%, while New Oriental reported 29.0% revenue growth in the fiscal quarter ended February 2021 and a 35.7% increase in deferred revenue. Therefore, firms were still actively entering the IPO pipeline and achieved successful listings in the first half of 2021. However, after the policy, all education-related IPO applicants in our sample were terminated rather than listed. This abrupt disconti-

nuity is difficult to reconcile with a fundamentals-based explanation and instead shows directly that when the state explicitly withdraws policy support from a sector, access to equity markets can disappear regardless of prior market momentum.

4 Industrial Policy and IPO Pricing

4.1 Valuation Premium at IPO

IPO access determines which firms can tap public equity markets; IPO valuation determines how cheaply they can raise that equity. If investors expect policy-aligned firms to benefit from lower policy risk, preferential treatment, or coordination around state priorities, these firms should receive higher valuations when they list.

We measure IPO valuation using Tobin's Q on the first trading day, calculated as the market value of equity plus book value of debt divided by book value of assets. Because IPO prices in China are subject to regulatory caps and often hit daily price limits on the first trading day, we use the first "non-hit day" price, the first day when the stock does not hit its price limit, to compute market value (Qian et al., 2024).

We first estimate how policy favor maps into IPO-year valuations:

$$Q_{i,j}^{(0)} = \beta \, \text{PolicyFavor}_{j,t_i} + \Gamma' X_{i,t_i} + \delta_{t_i} + \varepsilon_{i,j}^{(0)} \tag{4}$$

where $Q_{i,j}^{(0)}$ is Tobin's Q for IPO firm i in industry j, measured at listing. t_i is firm i's IPO year. $\text{PolicyFavor}_{j,t_i}$ is our industry-level measure (either the dummy `Favored` or the continuous measure `FavorIndex`), X_{i,t_i} includes firm-level controls (`SOE`, `ROA`, `Leverage`, and `Log(Assets)`), and δ_{t_i} represents IPO-year fixed effects.

Panel A of Table 6 shows that industry-level policy favor predicts higher IPO valuations. The coefficient on `Favored` is 0.684; relative to the mean IPO-year Q of 4.659 in the updated pricing sample, this estimate implies a 14.7% valuation premium for firms in

policy-favored industries. The continuous `FavorIndex` measure yields the same conclusion: one additional policy-emphasis unit is associated with a 0.391 increase in Q, or 8.4% of the sample mean.

We then use firm-level Government Policy Alignment (GPA) to compare firms within the same industry:

$$Q_{i,j}^{(0)} = \beta \, \mathrm{GPA}_{i,t_i} + \Gamma' X_{i,t_i} + \delta_{t_i} + \mu_j + \varepsilon_{i,j}^{(0)}. \tag{5}$$

Here, μ_j represents industry fixed effects, so identification comes from variation in policy alignment among IPO firms operating in the same industry. In Panel A, column (3), the coefficient on GPA is 0.084 in the IPO-year specification. Given a GPA standard deviation of 6.149 in the updated pricing sample, a one-standard-deviation increase in GPA is associated with a 0.52 increase in Q, or 11.1% of the mean IPO-year valuation. This within-industry result is difficult to explain by permanent differences across industries and supports the interpretation that markets price firm-specific alignment with policy priorities.

[INSERT TABLE 6 HERE]

4.2 The Premium Concentrates Among Large Firms

The average valuation premium may mask which firms investors expect to benefit most from policy alignment. Firm size and state ownership are natural margins because large firms may be better able to convert policy alignment into financing access and government support, while SOEs may already receive some of those benefits through state ownership.

Panel B of Table 6 first shows that the valuation premium is concentrated among large firms. Using firm-level GPA, the implied small- and medium-firm premiums are 0.023 and 0.025, only about one-fifth of the large-firm premium of 0.112. The industry-level `FavorIndex` measure gives the same ordering: the small-firm premium is only 0.079, or

about one-eighth of the large-firm premium of 0.635, while the medium-firm premium is about 40% as large. These estimates indicate that investors attach the largest policy premium to firms with enough scale to convert policy alignment into financing access, procurement opportunities, or regulatory support.

The SOE interactions are negative in the post-IPO valuation columns, indicating that policy favor adds less incremental valuation for state-owned firms than for private firms. This pattern is consistent with SOEs already carrying an implicit state-affiliation premium, so marginal alignment with industrial policy matters more for private firms.

4.3 Persistence in Post-IPO Valuations

An IPO valuation premium could reflect either durable expected benefits from policy alignment or temporary optimism at the time of listing. Post-IPO valuations help distinguish these interpretations because a purely transitory premium should fade as firms trade in the secondary market.

The valuation premium remains visible after listing, which argues against a pure first-day sentiment explanation. Columns (4)–(9) of Table 6 repeat the same specifications using Tobin's Q measured one and three years after IPO, denoted $Q_{i,j}^{(1)}$ and $Q_{i,j}^{(3)}$.

The post-IPO estimates show no valuation reversal. Favored firms continue to trade at higher Tobin's Q one and three years after IPO: the one-year estimate equals 15.3% of mean one-year Q, and the three-year estimate equals 19.7% of mean three-year Q. The same pattern holds for the continuous `FavorIndex` measure and for firm-level GPA; a one-standard-deviation increase in GPA corresponds to 17.2% of mean one-year Q and 17.4% of mean three-year Q. These results indicate that investors do not simply overprice policy-aligned firms at listing; the valuation premium persists after the firms trade in the secondary market.

4.4 Cross-Market Valuation: A-H Premium

Dual-listed firms provide a cross-market check on whether policy alignment is priced only in mainland China or also in a market with international investors. The A-H premium compares the valuation of the same firm across its mainland A-shares and Hong Kong H-shares.

Table 7 reports A-H premium regressions for firms dual-listed in mainland China and Hong Kong. If the valuation premium for policy-aligned firms reflects China-specific factors, such as expectations of government support or preferential treatment, we would expect this premium to be larger in the A-share market than in Hong Kong. The coefficients on policy favor and GPA are not statistically significant, suggesting that both domestic and foreign investors recognize and price in the long-term benefits of policy alignment similarly across markets.

[INSERT TABLE 7 HERE]

The evidence in this section demonstrates that industrial policy affects not only the quantity of capital raised through IPOs but also the cost of capital. Firms in policy-favored industries receive a 14.7% valuation premium at IPO, and within industries a one-standard-deviation increase in GPA is associated with an 11.1% higher IPO-year valuation. These premiums do not reverse over three years, suggesting that investors recognize durable benefits from policy alignment. By reducing the cost of capital for policy-favored firms, industrial policy effectively subsidizes their access to equity markets. Together with evidence on IPO activity and approval speed, these findings suggest that China's industrial policy operates as a comprehensive capital allocation mechanism, shaping which firms access public equity markets and the terms on which capital is raised.

5 Evidence from Broader Chinese Capital Markets

To demonstrate that the influence of industrial policy on capital allocation is not confined to the main board IPO market, we extend our analysis to two other important segments of China's capital markets: the National Equities Exchange and Quotations (NEEQ) market and the corporate bond market.

5.1 The NEEQ Market

The National Equities Exchange and Quotations (NEEQ) market, also known as the "New Third Board," is an over-the-counter market established in 2012. It was explicitly designed to serve as a financing platform for small and medium-sized enterprises (SMEs), particularly those in innovative and high-tech sectors, which often struggle to meet the stringent listing requirements of the main boards (Du and Lu, 2025). The focus on SMEs is critical, as a large body of literature has shown that SMEs are a primary engine of job creation and economic dynamism (e.g., Rajan and Zingales, 1998; Beck et al., 2008; Haltiwanger, 2012). The NEEQ market's institutional design and policy orientation make it a natural setting to test the influence of industrial policy. Given its explicit mandate to support strategic industries, we hypothesize that the effect of policy favor on capital allocation will be even more pronounced in this market.

We re-estimate our baseline specification from Equation (2), with the dependent variable being the logarithm of the number of NEEQ listings. The results, presented in Panel A of Table 8, confirm this prediction. The policy favor dummy (`Favored`) is positive and statistically significant at the 1% level. The Tobit marginal effects in Internet Appendix Table IA11 show an overall marginal effect of 1.062 on observed log(#NEEQ listings), substantially larger than the corresponding main-board IPO effect of 0.665. Favored industries are more likely to have any NEEQ listings and have higher listing volume among active industry-years. This finding underscores the pervasive role of industrial policy in

guiding capital flows, particularly in markets explicitly designed to serve national strategic objectives.

[INSERT TABLES 8 HERE]

5.2 The Corporate Bond Market

Next, we turn to the corporate bond market. China's bond market has grown to become the second-largest in the world, with an outstanding value of over RMB 155 trillion (approximately USD 22 trillion) at the end of 2023 (National Association of Financial Market Institutional Investors, 2024). The market is characterized by two main segments: the exchange market and the larger, dominant interbank market, which accounts for the vast majority of trading volume (Amstad and He, 2019). Given its sheer size, the bond market is a crucial channel for capital allocation, and we test whether industrial policy also influences debt financing.

We estimate our baseline specification with the logarithm of the number of bond issuances and the logarithm of total bond proceeds as dependent variables. The results, presented in Panel B of Table 8, show that the effect of industrial policy extends to the bond market. The policy favor dummy is positive and statistically significant at the 1% level for both the number of bond issuances and bond proceeds. The Tobit marginal effects in Internet Appendix Table IA12 show that favored industries are 6.5 percentage points more likely to issue bonds and, among issuers, raise substantially more debt capital. The overall marginal effects, 0.687 for log issues and 1.071 for log proceeds, confirm that the influence of industrial policy is similarly powerful in the much larger debt market. Interestingly, we find that Industry Q has a significant *negative* relationship with bond issuance in China. This contrasts with the positive relationship typically observed in developed markets and further highlights the unique, policy-driven dynamics of China's

capital markets.

In summary, the evidence from both the NEEQ and corporate bond markets corroborates our main findings from the IPO market. Across different segments of China's capital markets, industrial policy appears to be a powerful determinant of capital allocation, often overshadowing traditional market-based fundamentals.

6 Discussion: The Advantages, Limitations, and Broader Applicability of IPO-Based Industrial Policy

Our evidence has shown that China has used equity market access as an industrial policy tool. While it is beyond the scope of this paper to evaluate the welfare effects of this policy, this form of invention may constitute a particularly powerful industrial policy instrument because it has several distinctive advantages.

First, IPO-based industrial policy does not directly erode state fiscal capacity. Traditional industrial policy instruments often require substantial fiscal expenditure, including production subsidies, tax credits, government procurement, or state-backed lending programs. Recent estimates suggest that industrial policy expenditures in China and advanced economies alike now amount to several percentage points of GDP (Garcia-Macia et al., 2025). Such interventions can become increasingly difficult to sustain as governments confront fiscal constraints, rising debt burdens, and political resistance to large-scale subsidies.

By contrast, IPO regulation reallocates private capital rather than public funds. The state influences which firms gain access to equity financing, but the actual financing is provided by private investors who voluntarily bear the underlying risks. Thus, IPO regulation allows governments to guide capital allocation while largely preserving fiscal resources.

Second, IPO access functions as a powerful capital multiplier. The direct proceeds raised at IPO represent only a fraction of the total financing benefits associated with public listing. A successful IPO substantially expands a firms future financing capacity through multiple channels documented in the corporate finance literature. Public firms gain access to seasoned equity offerings, typically obtain lower-cost bank credit, and can issue public corporate bonds more easily due to regulatory disclosure, certification by listing status, and investor visibility (Pagano, Panetta, and Zingales, 1998; Chemmanur and Fulghieri, 1999).

The capital multiplier function also extends upstream to entrepreneurial finance. A large literature in entrepreneurial finance emphasizes that venture capital investment depends critically on credible exit opportunities, especially through IPOs (Black and Gilson, 1998; Gompers and Lerner, 2004). By increasing the likelihood that firms in strategic sectors can eventually access public equity markets, IPO-based industrial policy can indirectly attract venture capital and private equity financing ex ante. This dynamic multiplier effect is particularly important for innovative industries characterized by high uncertainty and long investment horizons, where conventional bank financing is often unavailable. Several recent papers document that startup firms in policy-favored industries in China receive greater venture-capital support and entrepreneurial financing (Pan, Shu, Yao, Zhang, 2023; Ge, Xue, Zhang 2024 JCF; Beraja, Peng, yang, Yuchtman 2024; Chen, Gong, Li 2024).

Third, public listing generates liquid equity that facilitates the recruitment and retention of high-level human capital. Innovative firms depend heavily on scientists, engineers, entrepreneurs, and managerial talent whose incentives are frequently tied to equity compensation. The existence of a liquid secondary market allows firms to offer stock-based compensation that is both observable and monetizable, thereby improving their ability to compete for skilled labor. This mechanism is especially relevant in sectors such as semiconductors, biotechnology, artificial intelligence, and advanced manufacturing,

where intangible human capital constitutes a core input into production and innovation.

The importance of equity liquidity for innovation and human capital has long been recognized in the finance literature (Ittner, Lambert, Larcker 2003JAE; Oyer and Schaefer 2005JFE; Borisov, Ellul, and Sevilir, 2021JFE). Public equity markets not only finance risky investment, but also help align incentives between firms and highly skilled employees whose productivity is difficult to monitor directly. In this sense, IPO regulation influences not merely the allocation of financial capital, but also the allocation of talent across sectors.

Fourth, IPO regulation may partially mitigate the classic soft budget constraint problem that often plagues state-directed industrial policy. Kornai (1986) famously argued that firms receiving repeated state support may come to anticipate future bailouts, weakening incentives for efficiency, discipline, and innovation. This concern applies to both fiscal subsidies and directed credit (Caballero, Hoshi, and Kashyap 2008 AER, Cong, Gao, Ponticelli, and Yang 2019 RFS, Branstetter, Li, and Ren 2023 JCE).

IPO-based industrial policy differs because listed firms remain continuously exposed to public market discipline after listing. Public firms are subject to ongoing disclosure requirements, scrutiny by outside investors and analysts, stock-price feedback, and the threat of reputational or market-value deterioration if performance disappoints. Holmström and Tirole (1993) emphasize the value of stock market as a monitor of managerial performance. IPO regulation, as an industrial policy tool, combines state guidance in the initial admission into public market with decentralized market monitoring in a way that differs fundamentally from opaque subsidy allocation or policy-directed bank lending.

Finally, an IPO creates a strategic asset that private firms do not possess: the publicly traded stock itself. Public shares may serve as collateral for further borrowing or as acquisition currency in mergers and acquisitions. Empirical evidence shows that acquisition activity increases substantially after firms' IPO (Celikyurt, Sevilir, and Shivdasani, 2010). The availability of public equity as acquisition currency is particularly valuable in high-growth sectors where firms frequently rely on acquisitions to obtain technology,

intellectual property, or specialized talent. In some legal and institutional settings including China, publicly traded shares can also serve as collateral for additional borrowing, further expanding financing flexibility. Thus, public listing shapes not only firms ability to raise primary capital, but also their future capacity to scale, consolidate, and transact in capital markets.

Taken together, these features distinguish IPO regulation from conventional industrial-policy tools. Our findings imply that modern industrial policy cannot be understood solely through the lens of fiscal transfers or state-owned banking systems. Regulatory control over capital-market access may represent an equally important, and potentially more scalable, mechanism through which states shape economic development trajectories.

While its advantages are significant and the impact can be substantial, IPO-based industrial policy is not costless. From an allocative efficiency perspective, picking "winners" inherently involves penalizing "losers". By restricting public equity access for non-favored sectors, the state effectively "taxes" those industries, starving them of vital risk-sharing capital.

Like other forms of industrial policy, the success of this tool ultimately depends on the governments ability to identify and support industries with genuine long-run economic or innovative potential. It is not immune to the longstanding debate over whether governments possess the information, incentives, and institutional capacity necessary to pick winners efficiently (Baldwin, 1969; Krueger, 1990; Pack and Saggi, 2006).

Finally, while Western economies such as the United States do not appear to use IPO regulation as an explicit industrial-policy instrument in the same manner as China, government involvement in capital market access and regulatory discretion over listing approval may be more widespread than is commonly recognized. In the United States, even though the regime remains fundamentally disclosure-based, access to U.S. capital markets has increasingly become intertwined with national-security and geopolitical con-

cerns. For example, Chinese firms seeking U.S. listings have faced heightened scrutiny related to audit access and national security concerns. China Mobile, China Telecom, and China Unicom were delisted from the New York Stock Exchange following Executive Orders 13959 and 14032 restricting U.S. investment in firms alleged to have ties to the Chinese military. These episodes suggest that geopolitical considerations can affect access to public equity markets even in formally market-oriented systems.

More substantive forms of IPO review also appear across many developing and emerging economies, where IPO admission often involves substantive regulatory or exchange-level review beyond the verification of disclosure completeness. South Koreas Korea Exchange explicitly applies qualitative listing criteria, including assessments of business sustainability, operational transparency, and managerial quality, and may conduct on-site inspections before approving a listing. Taiwans Taiwan Stock Exchange similarly conducts IPO review that includes assessments of business quality, operational risk, innovative capability, and managerial integrity. Hong Kong Exchanges and Clearing also applies listing-suitability review, while the Securities and Futures Commission retains authority to object to listings or impose conditions in the public interest. Similar practices exist in parts of the Middle East. In Saudi Arabia, the Capital Market Authority and Tadawul exercise substantial discretion over IPO approval and listing admission within the broader context of the Kingdoms Vision 2030 economic transformation strategy. These examples suggest that IPO access in many emerging markets is frequently mediated through administrative review rather than purely market-based admission. However, the extent to which such interventions systematically reflect industrial-policy priorities remains understudied and poorly understood, representing a promising avenue for future research.

7 Conclusion

This paper establishes that public equity market regulation can function as a first-order industrial policy instrument, a channel that is distinct from, and potentially more powerful than, traditional fiscal tools. We show that in China, access to IPO financing is not primarily driven by market fundamentals, but is instead systematically directed toward industries aligned with national strategic priorities. This gatekeeping mechanism, explicitly confirmed by government and regulatory statements, channels capital on a scale comparable to the country's entire fiscal industrial policy apparatus, but does so by leveraging private capital and market-based valuations, making it a uniquely potent and non-transparent tool of statecraft.

Our evidence demonstrates that this policy works through a powerful signaling channel. Firms in favored industries are substantially more likely to apply for IPOs, with policy favor increasing both the probability of any applications by 22.9 percentage points and the volume of applications conditional on activity by 126%. They are also processed faster and receive a persistent valuation premium. These findings, robust to a suite of identification strategies, reveal a comprehensive capital-market industrial policy that extends beyond IPOs to corporate bonds and other financing platforms. While the long-term welfare implications of prioritizing policy over market signals remain an open and critical question, our research makes one thing clear: the regulatory architecture of capital markets is not neutral infrastructure. It can be, and is, a core arena for industrial policy, with profound implications for corporate finance, economic development, and the global balance of economic power. As nations worldwide reconsider the role of the state in shaping economic outcomes, understanding this powerful, non-fiscal channel is more critical than ever.

The efficacy of this regulatory channel has profound implications for the design of industrial policy globally. As nations engage in increasingly costly "subsidy races," with direct fiscal support often exceeding 1% of GDP in developed economies and 4% in China

(Garcia-Macia et al., 2025), fiscal constraints become a binding limitation on state intervention. Our findings demonstrate that governments can successfully steer massive flows of capital and stimulate real economic activity purely through the regulation of market access. For developing countries with limited fiscal capacity, utilizing capital market gatekeeping as an industrial policy tool offers a potent alternative to debt-financed subsidies. However, this zero-fiscal-cost approach is not without its own shadow costs; it inherently distorts the allocative efficiency of public equity markets and effectively taxes the excluded, non-favored sectors by restricting their access to vital risk capital.

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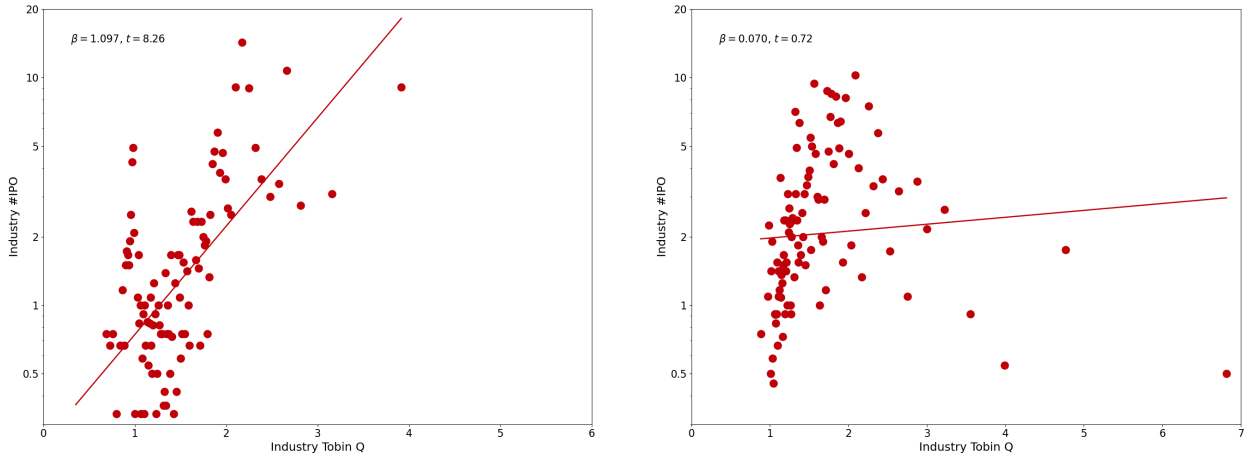
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Figures and Tables

Figure 1: Industry IPO Counts vs. Industry Tobin's Q: U.S. vs. China



(a) United States (b) China

Notes: This figure plots binned scatter plots of industry-level IPO counts against industry Tobin's Q for the United States (Panel A) and China (Panel B). The plotted IPO counts are raw counts, shown on a logarithmic y-axis. The China sample covers 2002 to 2022, excluding 2013. The U.S. sample covers 2002 to 2022. Each panel groups industry-year observations into 100 bins by industry Tobin's Q and plots bin means with a fitted line. The coefficient and t-statistic reported in each panel are from the corresponding log-linear fit of binned IPO counts on industry Tobin's Q.

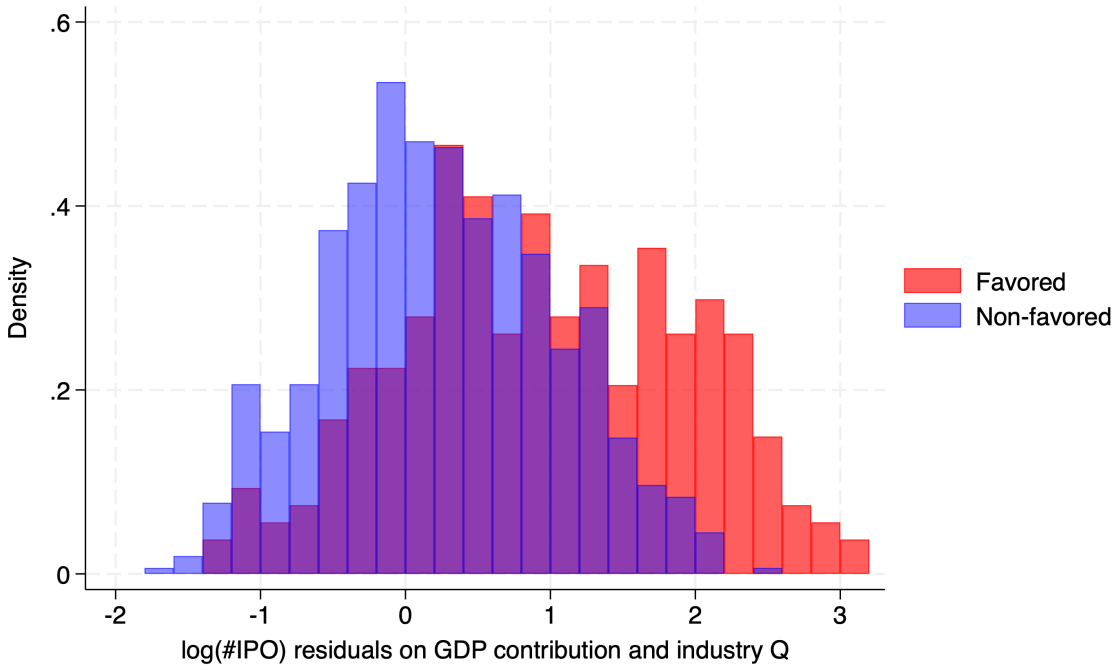


Figure 2: Residual IPO Activity Is Higher in Favored Industries

Notes: This figure plots the histogram of residuals from the corresponding Tobit regression reported in the Internet Appendix. The residuals are based on the log number of IPOs after controlling for industry GDP and lagged industry Q, and are shown separately for favored and non-favored industries. An industry is classified as favored when it receives positive policy emphasis in `FavorIndex`.

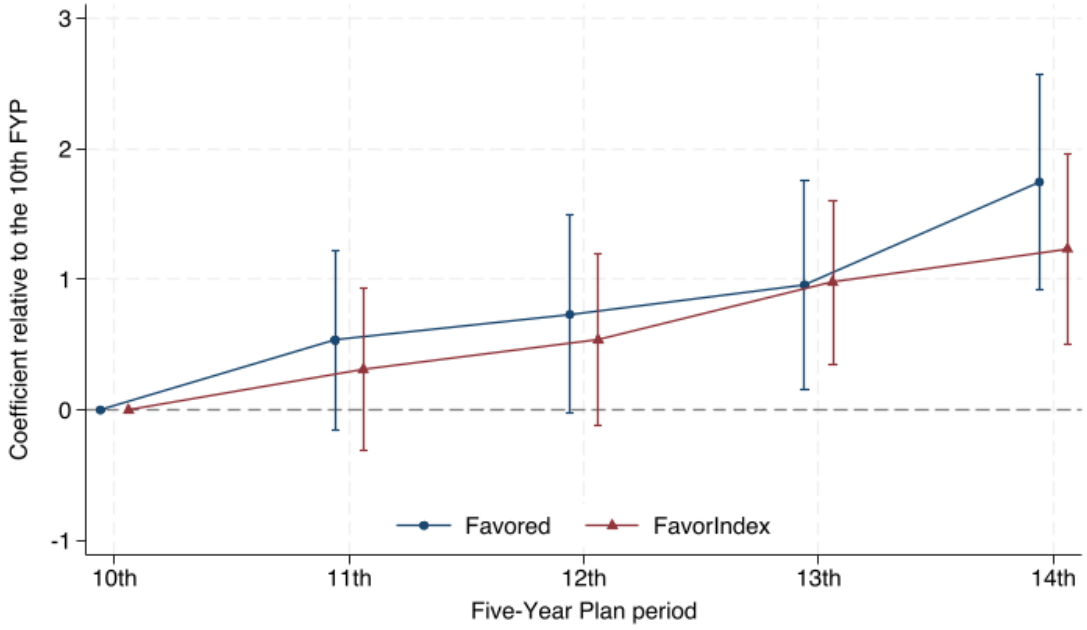


Figure 3: The Policy Effect on IPO Counts Strengthens Relative to the 10th FYP

Notes: This figure plots the implied effect of industrial policy on log(#IPOs) for each Five-Year Plan period from the 10th to the 14th FYP, normalized relative to the 10th FYP. The estimates come from the pooled Tobit interaction specification in Equation (3), estimated over 2002–2022 with controls for lagged Industry Q, log(Industry GDP), and year fixed effects; standard errors are clustered by industry. Circles report the FYP-specific effect of `Favored`, the binary favored-industry indicator, relative to the 10th FYP. Triangles report the corresponding relative effect of `FavorIndex`, the continuous policy emphasis measure. Vertical bars show 95% confidence intervals for the difference relative to the 10th FYP; the 10th-FYP benchmark is normalized to zero.

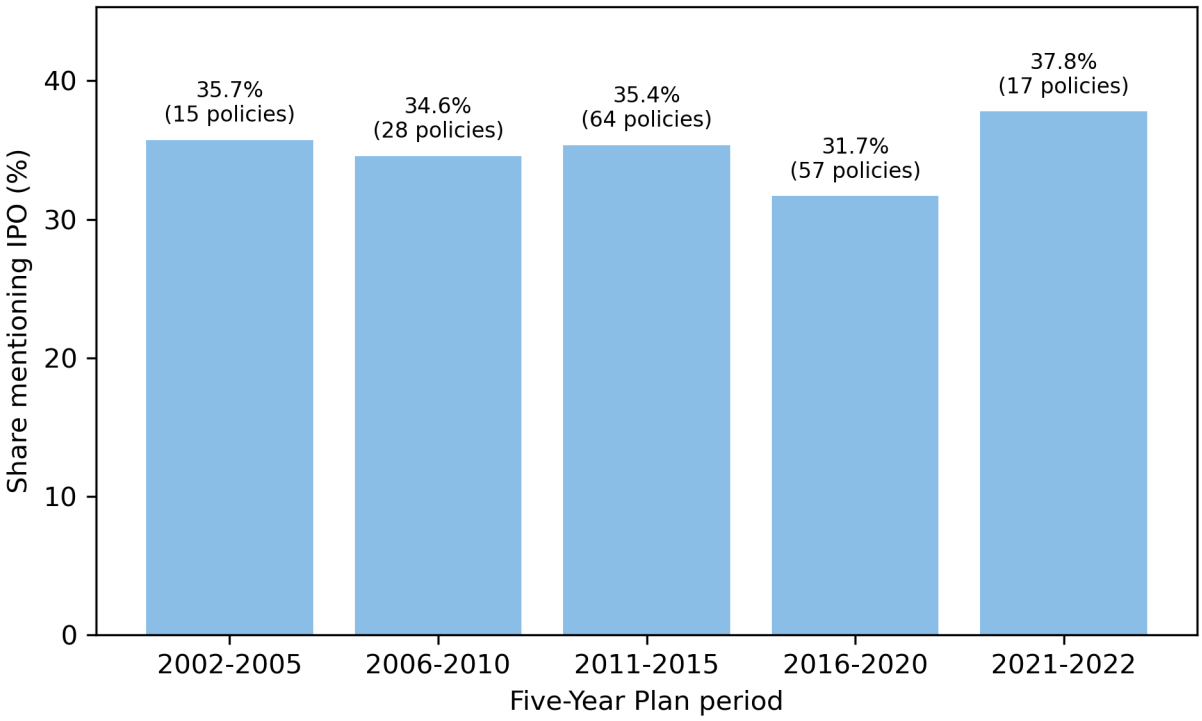


Figure 4: Share of Industrial Policies Mentioning IPO Support

Notes: This figure shows, for each Five-Year Plan period between 2002 and 2022, the share of industrial policy documents that explicitly mention IPO support. The source corpus restricts attention to national-level policy documents issued by central authorities, rather than routine administrative postings. The denominator is the number of documents classified as industrial policy in the period; the numerator is the subset of those documents with validated IPO-support language. The IPO-support indicator is constructed using LLM-based classification of document titles to identify industrial-policy documents, followed by full-text keyword search and LLM validation of IPO-related passages. Numbers in parentheses indicate the numerator in each period.

Table 1: Favored industries by Five-Year Plan

2001-2005	2006-2010	2011-2015	2016-2020	2021-2025
A01: Agriculture A03: Forestry A05: Animal Husbandry A07: Fishery A09: Agricultural and Related Servs. C51: Electronic Components Mfg. C55: Household Electronic Appliances Mfg. C57: Other Electronic Equip. Mfg. C71: General Machinery Mfg. C73: Special Equip. Mfg. C75: Transport Equip. Mfg. C76: Electrical Machinery and Equip. Mfg. C78: Instruments and Office Machinery Mfg. G81: Commun. Equip. Mfg. G83: Computer Equip. Mfg. G85: Telecommunications Servs. G87: Computer Application Servs. K34: Tourism L20: Information Transmission Servs.	A09: Agricultural and Related Servs. C01: Food Processing C03: Food Mfg. C05: Beverage Mfg. C51: Electronic Components Mfg. C57: Other Electronic Equip. Mfg. C71: General Machinery Mfg. C73: Special Equip. Mfg. C75: Transport Equip. Mfg. C76: Electrical Machinery and Equip. Mfg. C78: Instruments and Office Machinery Mfg. C81: Pharmaceutical Mfg. C85: Biological Products D01: Electric Power and Heat Supply F03: Road Transport F11: Transport Support Servs. F19: Other Transport Servs. F21: Warehousing G81: Commun. Equip. Mfg. G83: Computer Equip. Mfg. G85: Telecommunications Servs. G87: Computer Application Servs. K34: Tourism	A09: Agricultural and Related Servs. C01: Food Processing C35: Printing C43: Chemical Products Mfg. C47: Chemical Fiber Mfg. C51: Electronic Components Mfg. C57: Other Electronic Equip. Mfg. C71: General Machinery Mfg. C73: Special Equip. Mfg. C75: Transport Equip. Mfg. C81: Pharmaceutical Mfg. C85: Biological Products D01: Electric Power and Heat Supply F03: Road Transport F11: Transport Support Servs. F19: Other Transport Servs. F21: Warehousing G81: Commun. Equip. Mfg. G83: Computer Equip. Mfg. G85: Telecommunications Servs. G87: Computer Application Servs. K01: Public Utility Servs. K20: Professional and Scientific Servs. K99: Other Social Servs. L01: Publishing L05: Audiovisual Industry L10: Broadcasting, Film, and Television L99: Other Media and Cultural Services	A07: Fishery A09: Agricultural and Related Servs. C43: Chemical Products Mfg. C47: Chemical Fiber Mfg. C49: Plastics Mfg. C51: Electronic Components Mfg. C61: Non-Metallic Mineral Products C67: Non-Ferrous Metal Smelting and Rolling C73: Special Equip. Mfg. C75: Transport Equip. Mfg. C78: Instruments and Office Machinery Mfg. C81: Pharmaceutical Mfg. C85: Biological Products D01: Electric Power and Heat Supply F03: Road Transport F07: Water Transport F11: Transport Support Servs. F19: Other Transport Servs. F21: Warehousing G83: Computer Equip. Mfg. G85: Telecommunications Servs. G87: Computer Application Servs. K34: Tourism K99: Other Social Servs.	C43: Chemical Products Mfg. C47: Chemical Fiber Mfg. C48: Rubber Mfg. C49: Plastics Mfg. C51: Electronic Components Mfg. C55: Household Electronic Appliances Mfg. C57: Other Electronic Equip. Mfg. C59: Electronic Equip. Repair C61: Non-Metallic Mineral Products C65: Ferrous Metal Smelting and Rolling C67: Non-Ferrous Metal Smelting and Rolling C69: Metal Products Mfg. C71: General Machinery Mfg. C73: Special Equip. Mfg. C75: Transport Equip. Mfg. C76: Electrical Machinery and Equip. Mfg. C78: Instruments and Office Machinery Mfg. C81: Pharmaceutical Mfg. C85: Biological Products D01: Electric Power and Heat Supply F09: Air Transport G81: Commun. Equip. Mfg. G83: Computer Equip. Mfg. G85: Telecommunications Servs. G87: Computer Application Servs.

Notes: The industry codes follow the *Guidelines on Industry Classification of Listed Companies* (2001 edition) issued by the CSRC. Industry names are concise English renderings of the original CSRC 2001 Chinese titles. Abbreviations include: Mfg. (Manufacturing), Servs. (Services), Equip. (Equipment), and Commun. (Communication). Each column reports industries with positive policy-emphasis mentions in the corresponding Five-Year Plan window.

Table 2: Summary Statistics

Panel A: Variables at the industry-year level

	N	Mean	Median	St. Dev.	Min	Max
Favored	1044	0.26	0.00	0.44	0.00	1.00
FavorIndex	1044	0.31	0.00	0.56	0.00	2.13
#IPOs	1044	2.95	1.00	6.69	0.00	74.00
log(#IPOs)	1044	0.81	0.69	0.91	0.00	4.32
IPO proceeds	1044	338091.18	45907.90	1057666.94	0.00	13867096.00
log(IPO proceeds)	1044	7.03	10.73	6.13	0.00	16.45
Industry Q	1044	1.66	1.41	0.78	0.91	5.53
Industry GDP	1044	8390.70	4777.85	9974.36	175.31	77215.87
log(Industry GDP)	1044	8.46	8.47	1.12	5.17	11.25

Panel B: Firm-level variables at the IPO event level

Statistic	N	Mean	Median	St. Dev.	Min	Max
Q (winsorized)	3,825	2.911	2.237	2.091	0.657	19.330
GPAx1000	3,825	33.630	33.828	5.832	21.292	47.908
SOE	3,825	0.195	0	0.396	0	1
Assets100M	3,825	185.015	7.550	2,734.893	0.582	95,162.110
ROA	3,825	16.621	15.179	11.758	−124.660	163.308
Leverage	3,825	1.102	0.739	1.649	0.062	25.965

Notes: The continuous measure FavorIndex may take non-integer values due to the aggregation of policy emphasis across multiple industry classifications when mapping policy texts to industries. In Panel A, Industry GDP is reported in levels and measured in RMB 100 million. In Panel B, Assets100M is the total assets denominated in 100 million RMB yuan. GPA is winsorized at 1% and 99%. Size terciles are determined for an IPO firm at its IPO date when compared among all stocks listed then based on their market capitalization of equity. See Table A1 in the Internet Appendix for variable definitions and units.

Table 3: Policy favor predicts IPO access in China but not in the United States

	log(#IPOs)			log(IPO proceeds)			log(#IPO applications)	
	(1) China	(2) China	(3) U.S.	(4) China	(5) China	(6) U.S.	(7) China	(8) China
Favored	0.973***			4.407***			1.243***	
	(0.263)			(1.327)			(0.122)	
FavorIndex		0.784***			3.442***			1.064***
		(0.202)			(0.987)			(0.091)
Favored_US			0.304			0.968		
			(0.267)			(0.890)		
Industry Q	-0.058	-0.048	0.589***	-0.635	-0.589	1.686**	0.006	0.010
	(0.114)	(0.114)	(0.225)	(0.824)	(0.829)	(0.714)	(0.065)	(0.063)
log(Industry GDP)	0.211**	0.202**	0.648***	1.019**	0.987**	2.435***	0.184***	0.159***
	(0.083)	(0.082)	(0.115)	(0.499)	(0.500)	(0.411)	(0.051)	(0.049)
Constant	-2.043***	-1.912***	-8.742***	-6.291	-5.783	-31.733***	-1.159**	-1.027**
	(0.729)	(0.708)	(1.356)	(4.402)	(4.389)	(4.805)	(0.496)	(0.480)
Observations	1,044	1,044	1,188	1,044	1,044	1,188	536	536
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pseudo R-squared	0.0955	0.0998	0.137	0.0304	0.0306	0.0669	0.0819	0.0971

Notes: This table reports Tobit regressions of industry-year capital-market activity on policy favor and controls. Columns (1)–(2), (4)–(5), and (7)–(8) use China samples; columns (3) and (6) use the U.S. sample as a placebo. Columns (1)–(6) cover 2002–2022, with China's sample excluding 2013 because IPOs were suspended. Columns (7)–(8) use China's 2014–2022 IPO application sample. IPO proceeds are measured in RMB million for China and USD million for the United States. *Favored* is the China policy-favored industry indicator. *FavorIndex* is the cumulative policy emphasis score based on priority terms in China's Five-Year Plans. *Favored_US* is the U.S. policy-favored industry indicator; construction details are reported in the Internet Appendix. *Industry Q* is lagged industry Tobin's Q, defined as the asset-weighted average of firms' Tobin's Q ratios within an industry and winsorized at the 1st and 99th percentiles. *log(Industry GDP)* is the log of official industry GDP for China and BEA industry GDP for the United States. Year fixed effects are included in all specifications, and standard errors are clustered by industry and reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Table 4: IPO Application Time in Favored Industries

	(1) log(#Days to IPO)	(2) log(#Days to IPO)	(3) log(#Days to IPO)
Favored	-0.088***		
	(0.028)		
FavorIndex		-0.040**	
		(0.017)	
GPA			-0.018***
			(0.002)
SOE	-0.027	-0.026	-0.042
	(0.036)	(0.037)	(0.040)
ROA	0.000	0.000	-0.000
	(0.001)	(0.001)	(0.001)
Leverage	0.013	0.015	-0.021
	(0.010)	(0.010)	(0.017)
Log(Assets)	0.026	0.027	0.005
	(0.018)	(0.017)	(0.020)
Constant	4.881***	4.835***	5.802***
	(0.367)	(0.349)	(0.420)
Observations	2,108	2,108	2,108
R-squared	0.337	0.335	0.390
year FE	Yes	Yes	Yes
Industry FE	No	No	yes

Notes: This table reports regressions of `log(#Days to IPO)` on policy-favor measures and firm controls. `log(#Days to IPO)` is constructed as $\ln(1 + \texttt{days})$, where `days` is the number of calendar days between application and listing, winsorized at the 1st and 99th percentiles. `Favored` is a dummy variable indicating whether an industry is policy-favored, and `FavorIndex` is the cumulative policy emphasis score based on priority terms in China's Five-Year Plans. Controls include `SOE`, `ROA`, `Leverage`, and `Log(Assets)`. Year fixed effects are included in all specifications; industry fixed effects are included in column (3). Standard errors are reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 5: Chinese IPOs Outside Mainland China

Panel A: Chinese IPOs in the U.S. Market

	(1)	(2)	(3)	(4)	(5)	(6)
	log(#IPOs)		log(IPO proceeds)		IPO Occurrence	
Favored	0.239		1.327		0.264	
	(0.197)		(0.983)		(0.203)	
FavorIndex		0.165		0.848		0.163
		(0.146)		(0.705)		(0.145)
Industry Q	0.391**	0.391**	1.979**	1.988**	0.373*	0.374*
	(0.188)	(0.184)	(0.966)	(0.947)	(0.197)	(0.193)
Observations	1,193	1,193	1,193	1,193	1,193	1,193
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
Pseudo R-squared	0.0837	0.0853	0.0561	0.0570	0.0762	0.0774

Panel B: Chinese IPOs in the Hong Kong Market

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	log(#IPOs)				log(IPO proceeds)			
	Non-mainland		Mainland		Non-mainland		Mainland	
Favored	0.065		0.323*		0.597		2.018*	
	(0.164)		(0.192)		(0.892)		(1.194)	
FavorIndex		0.093		0.279**		0.747		1.761**
		(0.110)		(0.119)		(0.588)		(0.714)
Industry Q	-0.116	-0.117	0.006	0.001	-0.691	-0.702	0.169	0.143
	(0.115)	(0.116)	(0.124)	(0.124)	(0.631)	(0.637)	(0.779)	(0.780)
Observations	1,325	1,325	1,325	1,325	1,325	1,325	1,325	1,325
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Pseudo R-squared	0.0645	0.0652	0.0250	0.0284	0.0339	0.0348	0.0133	0.0151

Notes: Panel A reports Tobit regressions for Chinese firms listing in the U.S. market during 2002 to 2022. The dependent variables are the natural logarithm of the number of IPOs (log(#IPOs)), IPO proceeds (log(IPO proceeds)), and an IPO occurrence indicator equal to one if at least one IPO occurs in that industry-year. In Panel A, `log(IPO proceeds)` is ln(1 + total IPO proceeds) in USD million. Panel B reports Tobit regressions for Chinese firms listing in the Hong Kong market during 2002 to 2024. `log(#IPOs)` is ln(1 + number of IPOs) at the NAICS 3-digit industry-year level, and `log(IPO proceeds)` is ln(1 + total IPO proceeds) in HKD million. Columns (1)–(2) and (5)–(6) use non-mainland issuers; columns (3)–(4) and (7)–(8) use mainland Chinese issuers listing in Hong Kong. In both panels, `Favored` is the binary favored-industry indicator, `FavorIndex` is the cumulative policy emphasis score based on China's Five-Year Plans, and `Industry Q` is the asset-weighted average Tobin's Q within industry, winsorized at the 1st and 99th percentiles. Year fixed effects are included, and standard errors are clustered by industry and reported in parentheses. The Internet Appendix adds `Industry VIE ratio` as a robustness control. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 6: Policy-Aligned IPO Firms Receive Higher Valuations That Persist for Three Years

Panel A: Baseline Regressions

	0-Year Q			1-Year Q			3-Year Q		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Favored	0.684***			0.650***			0.598***		
	(0.208)			(0.183)			(0.137)		
FavorIndex		0.391*			0.389**			0.334***	
		(0.187)			(0.136)			(0.107)	
GPA			0.084***			0.119***			0.087***
			(0.016)			(0.022)			(0.013)
SOE	0.068	0.071	0.089	0.164***	0.167***	0.182***	−0.152*	−0.152*	−0.094
	(0.087)	(0.099)	(0.056)	(0.039)	(0.036)	(0.042)	(0.071)	(0.070)	(0.071)
ROA	0.025	0.025**	0.024**	0.109***	0.109***	0.113***	0.070***	0.071***	0.077***
	(0.014)	(0.010)	(0.009)	(0.028)	(0.029)	(0.029)	(0.011)	(0.010)	(0.009)
Leverage	−0.139	−0.143	−0.189	0.452**	0.445***	0.381**	0.018	0.012	−0.044
	(0.093)	(0.096)	(0.130)	(0.150)	(0.144)	(0.164)	(0.057)	(0.061)	(0.063)
Log(Assets)	−0.522***	−0.527***	−0.470***	−1.114***	−1.114***	−1.089***	−0.422***	−0.427***	−0.398***
	(0.105)	(0.110)	(0.093)	(0.237)	(0.241)	(0.216)	(0.076)	(0.077)	(0.060)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	No	No	Yes	No	No	Yes	No	No	Yes
Observations	3,825	3,825	3,845	3,830	3,830	3,850	3,828	3,828	3,848
Adjusted R^2	0.347	0.347	0.369	0.291	0.292	0.323	0.255	0.253	0.301

Panel B: Regressions with Interaction Terms

	0-Year Q			1-Year Q			3-Year Q		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Favored	1.072***			1.277***			0.720***		
	(0.304)			(0.214)			(0.085)		
FavorIndex		0.635*			0.683***			0.407***	
		(0.301)			(0.214)			(0.069)	
GPA			0.112***			0.142***			0.097***
			(0.023)			(0.028)			(0.018)
Favored × Small	−0.794***			−1.231***			−0.547***		
	(0.181)			(0.238)			(0.127)		
Favored × Medium	−0.654***			−0.741***			−0.401***		
	(0.118)			(0.220)			(0.117)		
Favored × SOE	−0.591			−0.861***			−0.513**		
	(0.333)			(0.263)			(0.205)		
FavorIndex × Small		−0.556**			−0.711***			−0.343***	
		(0.213)			(0.187)			(0.052)	
FavorIndex × Medium		−0.372*			−0.410**			−0.227***	
		(0.191)			(0.141)			(0.043)	
FavorIndex × SOE		−0.337			−0.432**			−0.300**	
		(0.191)			(0.174)			(0.109)	
GPA × Small			−0.089***			−0.132***			−0.073***
			(0.024)			(0.025)			(0.017)
GPA × Medium			−0.087***			−0.081***			−0.058***
			(0.016)			(0.024)			(0.013)
GPA × SOE			−0.008			−0.049**			−0.023*
			(0.019)			(0.020)			(0.012)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Industry FE	No	No	Yes	No	No	Yes	No	No	Yes
Observations	3,825	3,825	3,845	3,830	3,830	3,850	3,828	3,828	3,848
Adjusted R^2	0.516	0.517	0.532	0.521	0.520	0.538	0.509	0.510	0.532

Notes: Standard errors clustered at year and industry level in parentheses. *p<0.1; **p<0.05; ***p<0.01. The sample consists of China A-share IPOs from 2002 through 2022; post-IPO Q outcomes are measured using market data through 2025. The dependent variables are Tobin's Q measured at IPO, one year after IPO, and three years after IPO. "Favored" is an indicator for policy-favored industries. "FavorIndex" is the policy emphasis score for the firm's industry. "GPA" is scaled by 1000 and winsorized at 1% and 99%, calculated from pre-IPO prospectus text. Q is winsorized at 1% and 99% within each calendar year. "Small" and "Medium" indicate bottom and middle terciles of market capitalization at IPO. Controls include `SOE`, `ROA`, `Leverage`, and `Log(Assets)`.

Table 7: AH Premium and Favored Industry and GPA

	AH_premium		
	(1)	(2)	(3)
Favored	−8.036		
	(9.644)		
FavorIndex		−2.846	
		(7.052)	
GPA			0.097
			(1.079)
SOE	11.259	11.535	14.360
	(12.344)	(12.557)	(12.431)
ROA	−4.839***	−4.899***	−3.889***
	(0.989)	(1.006)	(0.995)
B/M	−66.898***	−65.965***	−63.895***
	(17.882)	(17.933)	(18.089)
log(ME)	−39.087***	−38.582***	−45.347***
	(4.820)	(4.958)	(5.202)
Date FE	Yes	Yes	Yes
Ind FE	Yes	No	No
Observations	14,127	14,127	14,127
R^2	0.462	0.461	0.493
Adjusted R^2	0.453	0.452	0.483
Residual Std. Error	77.073 (df = 13882)	77.133 (df = 13882)	74.886 (df = 13871)

Notes: This table reports A-H premium regressions for firms dual-listed in mainland China and Hong Kong. `AH_premium` is the monthly ratio between the market capitalization of A-shares listed in Shanghai or Shenzhen and H-shares listed in Hong Kong, minus one and multiplied by 100. `AH_premium` is winsorized at the 1st and 99th percentiles within each calendar year. Control variables include `SOE`, `ROA`, `Leverage`, `log(ME)`, and book-to-market. `log(ME)` is the log of total market capitalization across A-shares and H-shares. Date fixed effects are included in all specifications; industry fixed effects are included in column (1). Standard errors are clustered by month and firm and reported in parentheses. ***, **, and * denote significance at the 1%, 5%, and 10% levels, respectively.

Table 8: Alternative Capital Markets in Favored Industries

Panel A: NEEQ Listings

	(1) log(#NEEQ)	(2) log(#NEEQ)
Favored	1.233***	
	(0.113)	
FavorIndex		1.008***
		(0.086)
Industry Q	0.077	0.081
	(0.060)	(0.059)
log(Industry GDP)	0.371***	0.354***
	(0.048)	(0.047)
Constant	-1.756***	-1.630***
	(0.465)	(0.457)
Observations	536	536
Year FE	Yes	Yes
Pseudo R-squared	0.235	0.243

Panel B: Bond Issuance

	(1) log(Bond proceeds)	(2) log(Bond proceeds)	(3) log(#Bond Issues)	(4) log(#Bond Issues)
Favored	1.145***		0.758***	
	(0.420)		(0.289)	
FavorIndex		0.900***		0.579**
		(0.311)		(0.225)
Industry Q	-1.315***	-1.304***	-0.859***	-0.852***
	(0.298)	(0.297)	(0.196)	(0.196)
log(Industry GDP)	0.729***	0.712***	0.541***	0.530***
	(0.196)	(0.196)	(0.142)	(0.143)
Constant	-2.758	-2.630	-2.785**	-2.697**
	(1.763)	(1.752)	(1.216)	(1.213)
Observations	903	903	903	903
year FE	Yes	Yes	Yes	Yes
Pseudo R-squared	0.112	0.113	0.162	0.161

Notes: Panel A presents Tobit regressions analyzing the relationship between NEEQ listing and industry characteristics during 2014 to 2022. The dependent variable is the natural logarithm of the number of listings in the NEEQ market. Panel B presents Tobit regressions analyzing the relationship between bond issuance activity and industry characteristics during 2014 to 2021. The dependent variables are `log(Bond proceeds)`, defined as ln(1 + total corporate bond proceeds in RMB 100 million), and `log(#Bond Issues)`, defined as ln(1 + the number of corporate bond issues). In both panels, independent variables include `Favored`, a dummy variable indicating whether an industry is policy-favored, and `FavorIndex`, which represents the cumulative policy emphasis score based on the frequency of priority terms in China's Five-Year Plans. `Industry Q` is the asset-weighted average Tobin's Q within industry and is winsorized at the 1st and 99th percentiles. `log(Industry GDP)` measures industry GDP. Year fixed effects are included, and standard errors are clustered by industry and reported in parentheses. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Appendix

Table A1: Definitions of Variables

Variable	Definition
AH_premium	Monthly A/H market cap premium (A/H − 1) ×100; winsorized at 1%/99% by calendar year.
Assets	Total assets in RMB yuan; level.
B/M	Book-to-market ratio.
BHAR	Buy-and-hold abnormal return from the first non-limit-up day over 12/24/36 months, minus matched benchmark returns; percent.
#Bond Issues	Number of corporate bond issues by industry-year; count.
Bond proceeds	Total corporate bond proceeds by industry-year; measured in RMB 100 million.
#Days to IPO	Calendar days from IPO application acceptance to listing; winsorized at 1%/99% within the sample in the approval-duration analysis.
Favored	Indicator for a policy-favored industry in a given year (industry-year); 1 if the industry receives positive policy emphasis, 0 otherwise. In the baseline implementation, a slightly stricter rule is applied in a small number of borderline mapped cases.
FavorIndex	Technical measure of industry-level policy emphasis constructed from Five-Year Plan texts using the CNRDS policy-text mapping to CSRC 2001 industries. For the plan in force in year t, the measure counts the number of supportive policy references and priority phrases mapped to an industry, with repeated mentions adding to the score. Higher values indicate stronger policy emphasis.
Favored_US	U.S. sample policy-favored industry indicator used in cross-country regressions; 1/0.
GPA	Firm-level policy alignment measure from pre-IPO prospectus text; level. The paper reports this variable uniformly as GPA; some appendix subsidy regressions additionally winsorize GPA at 1%/99% within the regression sample.
Industry GDP	Official industry GDP in year t; level. Measured in RMB 100 million for China and USD million for the U.S. For China, the series comes from National Bureau of Statistics and provincial statistical yearbooks; for the U.S., from BEA industry accounts. Covers the full industry, not only listed firms.
Industry Q	Asset-weighted industry Tobins Q, lagged one year ($t-1$); winsorized at 1%/99% level.
#IPO applications	Annual number of IPO applications in an industry-year.
#IPOs	Annual number of IPOs in an industry-year.
IPO Occurrence	Indicator for whether at least one IPO occurs in the industry-year; 1/0.
IPO proceeds	Total annual IPO proceeds in an industry-year. It is measured in 10,000 RMB for the mainland China sample, USD million for Chinese firms listing in the U.S., and HKD million for Chinese firms listing in Hong Kong. Zero in industry-years with no IPOs.
Leverage	Total liabilities / shareholders' equity.
ME	Total market capitalization.
Medium	Indicator for middle tercile of market capitalization at IPO among then-listed firms; 1/0.
#NEEQ	Annual number of NEEQ listings in an industry-year; count.
Q First Day	Tobins Q using the first non-limit-up day IPO price; winsorized at 1%/99% within calendar year.
ROA	Return on assets.
SOE	State-owned enterprise indicator; 1 if SOE, else 0.
Small	Indicator for bottom tercile of market capitalization at IPO among then-listed firms; 1/0.

Notes: This table defines the underlying variables in levels. When regressions use logged specifications, the natural log is taken outside the variable definition. For count, proceeds, and duration variables, the logged form is $\ln(1+x)$, including #Bond Issues, #Days to IPO, #IPO applications, #IPOs, #NEEQ, Bond proceeds, and IPO proceeds. For strictly positive scale variables, the logged form is $\ln(x)$, including Assets, Industry GDP, and ME. Unless otherwise noted, variables are winsorized at the 1st and 99th percentiles in the relevant regression sample.