



Global Economic Policy Uncertainty, Liquidity of Hong Kong Stocks, and the A-H Share Price Discount

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Abstract. Using data from AH-listed companies and the Global Economic Policy Uncertainty Index from November 2013 to December 2023, this paper examines the impact of global economic policy uncertainty on the liquidity of H-shares of AH companies and, subsequently, the impact on the A-H share price discount resulting from changes in liquidity. The study finds that global economic policy uncertainty increases systemic risks, leading to the withdrawal of foreign institutional funds, which reduces the liquidity and valuation of the Hong Kong stock market and exacerbates the A-H share price discount. It also explores the heterogeneity of AH companies under the influence of global economic policy uncertainty, revealing that the impact of rising global economic policy uncertainty on the A-H share price discount is stronger among non-state-owned enterprises (non-SOEs), reflecting their greater sensitivity to market changes and reliance on market mechanisms to respond to changes in the A-H share price discount. In contrast, SOEs may enjoy more policy support and resource acquisition channels, resulting in a weaker response to changes in the independent variable.

Keywords: Global Economic Policy Uncertainty, Hong Kong Stock Market, Liquidity, A-H Share Price Discount

1 Introduction

The opening-up of capital markets is a crucial issue for China's economic revitalization, representing an important measure to continuously expand the level of opening up, enhance global economic influence, and integrate further with the world. Enhancing capital market liquidity is an inherent requirement for establishing a unified national market and promoting the coordinated development of domestic and international dual circulation.

In recent years, China's capital market opening-up has exhibited gradual and accelerated characteristics. From the relaxation of various unilateral opening-up policies such as QFII, QDII, RQFII, and RQDII to the two-way selection of Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect, China has concurrently pursued the "bring in" and "go out" strategies, continuously improving the degree of financial internationalization.

The implementation of the Shanghai-Hong Kong Stock Connect policy aimed to alleviate the long-standing severe segmentation between the mainland and Hong Kong markets and reduce capital restrictions caused by institutional barriers. The mainland market hoped to improve the pricing efficiency of the A-share market by attracting foreign capital, while the Hong Kong stock market sought to invigorate itself by introducing domestic funds to change the phenomenon of many companies being significantly undervalued.

Since the launch of the Shanghai-Hong Kong Stock Connect in 2014, with the continuous inflow of southbound funds, the Hang Seng China AH Premium Index has shown a fluctuating downward trend, functioning to reduce the A-H share premium within the interval. However, after January 2019, with the continuous increase of southbound funds, the Hang Seng China AH Premium Index has been fluctuating upwards, with the A-H premium remaining at a high level in recent years and the A-H share price discount continuing to widen. A-shares have a higher valuation than their corresponding H-shares, even though they are issued by the same Chinese companies and their shareholders have the same rights. This price difference has been regarded as one of the puzzles in the literature (Wang et al., 2020)^[1].

On the other hand, foreign capital (northbound funds) has gained dominance and pricing power in the A-share market, with A-share market fluctuations showing a high correlation with the flow of northbound funds. Many domestic funds follow the trading trends of northbound funds. Currently, both the A-share and Hong Kong stock markets are actually trapped in a dilemma of foreign capital dominance (stock pricing power and trading activity).

As an important part of China's capital market, the Hong Kong stock market faces this dilemma. Studying the underlying causes of the widening A-H share price discount and enhancing the effectiveness of policy implementation have become important avenues to invigorate the Hong Kong stock market and improve its stock pricing efficiency. Previous studies have focused mainly on the effects of policy implementation and changes in the A-H share price discount. This paper, based on observations, delves deeper into the causes, enriching the understanding of the reasons for changes in the A-H share price discount from different perspectives.

2 Theoretical Analysis and Research Hypotheses

Since the 2008 financial crisis, various countries and regions have frequently adjusted their current economic policies based on their actual situations to smooth economic passivity and avoid greater shocks. Therefore, economic uncertainty is mainly manifested as economic policy uncertainty (Gu and Chen, 2018)^[2]. Economic policy uncertainty refers to the uncertainty arising from the government's unclear policy objectives, unconfirmed policy implementation intensity, and uncommitted policy stance (Peng et al., 2018)^[3].

Global economic policy uncertainty affects domestic systemic financial risks by altering the asset-liability structure and allocation of international and domestic financial institutions (Zuo, 2022)^[4]. On the one hand, due to increased uncertainty and investment risks, international financial institutions tend to transfer assets to developed

economies, leading to short-term cross-border capital outflows from emerging markets. On the other hand, faced with higher uncertainty, investors allocate more to low-risk financial assets and sell off risky assets with poor liquidity.

Additionally, the rise in systemic financial risks can lead to a dominance of risk aversion among investors, prompting them to sell off domestic assets and transfer capital abroad, resulting in tight liquidity in domestic financial markets, falling asset prices, and suppressed domestic production and investment activities (Yang et al., 2024) ^[5].

During China's reform and opening-up, policy conveniences and cost advantages, along with market size and other conditions, have attracted a large amount of foreign capital. The investment of foreign institutions has played a significant role in promoting China's economic restructuring and development and advancing its deep participation in economic globalization. However, since the COVID-19 pandemic, the huge impact of the public health event has made China's investment environment relatively difficult, with declining investment and consumption (He et al., 2020) ^[6]. Coupled with the Trump administration's call for "manufacturing repatriation," the issue of foreign capital outflows has once again become a focus. In particular, the Federal Reserve's interest rate hikes have increased the yield of US dollar assets, leading to the repatriation of some foreign capital from China, and this capital outflow phenomenon is particularly prominent in cross-border investment and financing (Wang, 2023) ^[7]. Essentially, the outflow of foreign institutional funds reflects the reallocation of capital and resources by foreign enterprises on a global scale (Wu, 2021) ^[8].

Global public health events, "manufacturing repatriation," and Federal Reserve interest rate hikes have caused continuous capital outflows from the Hong Kong dollar system, leading to weak liquidity in the Hong Kong stock market. Lack of liquidity is an important factor contributing to low valuations. When asset liquidity is high, meaning there are sufficient buyers and sellers, market participants are more willing to trade or hold the asset. Therefore, a decline in trading activity generally leads to a decrease in valuation premiums.

As the fourth-largest stock exchange in the world in terms of market capitalization, the Hong Kong stock market exhibits relatively poor liquidity compared to the A-share and US stock markets, with significantly lower trading volumes and turnover rates.

Since 2020, with the gradual deepening of decoupling in trade and investment between China and the United States, US restrictions on investment in China, and the impact of public health events, foreign institutional funds in the Hong Kong stock market have gradually withdrawn, leading to a decline in liquidity and valuation levels in the Hong Kong stock market, and further pushing down stock prices, thereby widening the A-H share price discount. Even with the continuous inflow of Hong Kong Stock Connect funds, it has been unable to elevate the valuation levels and drive stock price increases in the Hong Kong stock market.

Moreover, as an exogenous shock, global economic policy uncertainty can affect micro-subjects (Song et al., 2022) ^[9], increasing investors' uncertainty and anxiety, leading to fluctuating investor sentiment. In such circumstances, a large inflow of Hong Kong Stock Connect funds can more intensely affect market volatility and asset price fluctuations because investors are more sensitive to external news and events, making

them more prone to herd behavior and emotional contagion effects. According to Zhang and Wang (2013) ^[10], the higher the investor sentiment level, the farther the stock price deviates from its intrinsic value, and the greater the stock market volatility.

Therefore, when global economic policy uncertainty rises, China, as an international risk receiver, may experience short-term net outflows of cross-border capital during periods of volatility due to weakened ability of its financial markets to withstand external risk shocks (Liu et al., 2020) ^[11]. The withdrawal of foreign institutional funds reduces the valuation levels of the Hong Kong stock market and affects the liquidity of H-shares of AH share sample companies. Even with the influx of a large amount of Hong Kong Stock Connect funds into the Hong Kong stock market, the pricing efficiency of the Hong Kong stock market has not changed due to uneven capital distribution, instead weakening the liquidity of corresponding H-shares.

Faced with the liquidity issues caused by the above situation, stocks with poor liquidity typically face liquidity premiums, which may result in lower H-share prices. When H-share liquidity is poor, market prices may fail to accurately reflect the fundamentals of the company, leading to an undervaluation of H-share prices and further widening the A-H share price discount.

Based on the above analysis, the following hypotheses are proposed:

H1: Global economic policy uncertainty is negatively correlated with the A-H share price discount.

H2: The liquidity of H-shares plays a mediating role in the impact of global economic policy uncertainty on the A-H share price discount.

3 Research Design

3.1 Sample Selection and Data Sources

Based on the timing of the launch of the Shanghai-Hong Kong Stock Connect, this paper uses data from AH-listed companies from November 2013 to December 2023, with monthly transaction data as the sample data. The raw data are sourced from the Guotai'an Database and WIND Financial Database. Additionally, the sample is screened and cleaned, and the filtered data within the sample interval will be used for the empirical testing in this paper.

3.2 Variable Definitions

3.2.1 Explanatory Variable

Drawing on Baker's (2016) research, this paper uses the Global Economic Policy Uncertainty Index (GEPU) as a measure of global economic policy uncertainty. The Global Economic Policy Uncertainty Index (Economic Policy Uncertainty Index, abbreviated as EPU) is jointly compiled by scholars Scott R. Baker, Nicholas Bloom, and Steven J. Davis from Stanford University and the University of Chicago, mainly reflecting the uncertainty of economies and policies in major economies worldwide. The index is calculated based on data from news media reports, policy documents, and economist surveys.

3.2.2 Dependent Variable

Many studies on the A-H share price discount have used similar indicators for representing the A-H share price discount, consistent with the approach taken by Hu et al. (2008)^[12] and Tan (2017). This paper adopts the ratio of the A-share price of a company at a given point in time to its H-share price listed in the Hong Kong stock market, with the H-share price adjusted using the exchange rate of that day, to measure and define the A-H share price discount. The larger this ratio, the greater the premium of A-shares over H-shares. The specific calculation formula for the A-H share premium is

as follows:
$$AHPG_{i,t} = \frac{P_{i,t}^A}{P_{i,t}^H * Erate_t}$$

where $AHPG_{i,t}$ represents the A-H share premium of company i at time t , $P_{i,t}^A$ represents the closing price of company i 's A-shares on trading day t , $P_{i,t}^H$ represents the closing price of company i 's H-shares on trading day t , and $Erate_t$ represents the central parity rate of the Renminbi against the Hong Kong dollar on day t , measured in Renminbi per Hong Kong dollar.

This paper believes that this is a common indicator for measuring the price difference between A-shares and H-shares, directly reflecting the premium situation between the two stock markets. Using this ratio as a variable definition can more directly capture the impact of the Shanghai-Hong Kong Stock Connect policy on the A-H share price discount, as it reflects market participants' pricing and trading behavior of A-H shares. The larger this index, the greater the A-H share price discount.

3.2.3 Mediating Variable

After the standardization of stock trading, turnover rate has become an important indicator for measuring stock activity. Drawing on Su and Xiong's (2013)^[13] measurement of liquidity indicators in their study on stock liquidity and stock price information content, this paper uses the turnover rate of H-shares of AH sample companies to measure the liquidity level of H-shares of AH companies.

3.2.4 Control Variables

Control variables are selected to represent company-level characteristics, including earnings per share (EPS), total share capital (TS), relative floating share capital (CS), and Hong Kong stock market price-earnings ratio (PE). Variables representing overall and regional market-level characteristics include the ratio of the Shanghai Composite Index return to the Hang Seng Index return (SHR), volatility of the Hang Seng Index (IV), the Shanghai Composite Index (SR), the China Foreign Exchange Trade System (CFETS) Renminbi exchange rate index, and the A-share turnover rate (AC). Policy impact is controlled using variables such as southbound funds (NS) and northbound transactions (Amount, Quota). Here is **Table 1**, which is the variable definition table, presenting all types of variables used in this paper.

Table 1. Variable Definition Table

Variable Type	Variable Name	Variable Symbol	Variable Description
Dependent Variable	A-H Share Price Discount	AHPG	Measured as PH/PA, where PA represents the closing price of the A-share in the Shanghai market on a given day, and PH represents the closing price of the H-share in the Hong Kong market, adjusted for the exchange rate of that day.
Explanatory Variable	Global Economic Policy Uncertainty	GEPU	Adopted from the Global Economic Policy Uncertainty Index compiled by scholars from Stanford University and the University of Chicago.
Mediating Variable	Liquidity Level of H-shares of AH Companies	Liquidity	Measured as the logarithm of the turnover rate of H-shares of AH sample companies.
Control Variables	Earnings Per Share	EPS	Net profit divided by total share capital.
Control Variables	Total Share Capital	TS	Sum of A-share and H-share total share capital (logarithm).
Control Variables	Relative Floating Share Capital	CS	Ratio of A-share to H-share floating share capital.
Control Variables	Hong Kong Stock Market Price-Earnings Ratio	PE	Ratio of stock price to earnings per share.
Control Variables	Market Environment	SHR	Ratio of the Shanghai Composite Index return to the Hang Seng Index return.
Control Variables	Hang Seng Index Volatility	IV	Change range of the Hang Seng Index over a certain period, reflecting its volatility.
Control Variables	Shanghai Composite Index	SR	Weighted comprehensive stock price index based on issuance volume.
Control Variables	CFETS Renminbi Exchange Rate Index	CFETS	Compiled and published by the China Foreign Exchange Trade System.
Control Variables	Southbound Funds Cumulative Net Inflow	NS	Monthly cumulative southbound net inflow funds.
Control Variables	A-share Turnover Rate	AC	Turnover rate of A-shares of AH companies.
Control Variables	Northbound Transactions	Amount	Sum of daily trading amounts of Shanghai Stock Connect and Shenzhen Stock Connect.
Control Variables	Northbound Transactions	Quota	Sum of daily usage quotas of Shanghai Stock Connect and Shenzhen Stock Connect.

3.3 Model Construction

To verify whether the increase in global economic policy uncertainty (GEPU) will widen the A-H share price gap, this paper constructs Model (1) to test Hypothesis H1:

$$AHPG = \alpha_0 + \alpha_1 * GEPU + Control + \mu_{i,t} \quad (1)$$

Regarding the role of H-share liquidity of AH companies in the impact of rising global economic policy uncertainty on the A-H share price gap, this paper draws on the review of mediation effect regression methods by Wen Zhonglin and Ye Baojuan (2014) [14]. By adopting the stepwise regression coefficient test method, we explore whether the H-share liquidity of AH companies plays a mediating role. Therefore, the following Models (2) and (3) are established:

$$Liquidity = \beta_0 + \beta_1 * GEPU + Control + \mu_{i,t} \quad (2)$$

$$AHPG = \gamma_0 + \gamma_1 * GEPU + \gamma_2 * Liquidity + Control + \mu_{i,t} \quad (3)$$

4 Empirical Results Analysis

4.1 Descriptive Analysis

Table 2. Descriptive Statistics

Variable	N	Min	Max	Mean	SD	p25	p50	p75
AHPG	8052	0	8.732	1.941	0.910	1.393	1.704	2.227
GEPU	8052	1.938	2.635	2.218	0.161	2.092	2.196	2.347
Liquidity	8052	0	6.762	2.351	0.782	1.880	2.363	2.844
NS	8052	0	10.13	7.895	2.881	7.408	8.854	9.819
EPS	8052	-2.401	9.849	0.619	1.006	0.117	0.400	0.886
TS	8052	19.50	26.63	23.09	1.257	22.20	23.08	24.00
CS	8052	19.03	25.93	22.40	1.260	21.50	22.39	23.31
PE	8052	7.234	16.50	10.48	1.783	9.269	9.970	11.46
SHR	7524	-245.5	42.29	-2.234	24.32	-0.179	0.463	1.108
IV	8052	9.781	40.09	19.37	6.605	14.92	17.69	22.46
AC	8052	0	583.0	22.90	35.17	6.464	13.06	25.46
SR	8052	7.614	8.437	8.024	0.152	7.972	8.045	8.109
CFETS	8052	0	104.4	77.41	38.43	92.05	94.54	98.14
Amount	8052	0	9.365	6.826	2.482	6.479	7.558	8.405
Quota	8052	0	9.869	8.088	2.813	7.699	9.373	9.729

From the statistical results (Table 2), it can be observed that the maximum value of AHPG, the dependent variable studied in this paper, is 8.732, while the minimum value is 0. The gap between the maximum and minimum values is exceptionally pronounced. The average A-H share price gap for the sample is 1.941, indicating that A-shares are, on average, priced at a premium of over 94% compared to H-shares, with the highest premium approaching five times. Overall, the A-H share price gap remains relatively large throughout the decade-long period of change.

Regarding the liquidity of H-shares (Liquidity) for the AH sample companies, the minimum value is 0 and the maximum value is 6.762, with a mean of 2.351 and a standard deviation of 0.782. This suggests that the liquidity of H-shares for AH sample companies exhibits considerable variability, with the liquidity levels of most companies concentrated in the lower range.

For GEPU (global economic policy uncertainty), the minimum value is 1.938, the maximum value is 2.635, and the average value is 2.653, with a standard deviation of 0.161. This indicates that the data distribution is relatively concentrated with low variability. The 25th percentile is 2.465, the median is 2.196, and the 75th percentile is 2.347, further indicating that the middle 50% of the data is relatively concentrated.

4.2 Benchmark Regression Analysis

Table 3. Benchmark Regression Results

VARIABLES	(1) AHPG	(2) AHPG
GEPU	0.702*** (11.22)	0.234*** (3.18)
AC		0.008*** (29.15)
EPS		-0.300*** (-35.30)
TS		-0.748*** (-3.42)
CS		0.543** (2.49)
PE		-0.031*** (-4.06)
SHR		0.000 (0.18)
NS		0.231*** (7.71)
IV		0.005*** (2.89)
SR		0.333*** (3.03)
CFETS		-0.000 (-0.13)
Amount		-0.122*** (-3.99)
Quota		-0.068*** (-3.81)
Constant	0.383*** (2.75)	3.687*** (4.16)
Observations	8,052	7,524
R-squared	0.015	0.365

t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

In the Table 3 above reports the results of the benchmark regression. Column (1) shows the results without any variables added, with a regression coefficient of 0.702 that is significantly positive at the 1% level. Column (2) presents the results after including all control variables, with a regression coefficient of 0.234 that is also significantly posi-

tive at the 1% level. This result indicates that as global economic uncertainty rises, investor sentiment and the market will experience fluctuations and impacts, leading to outflows of international capital from the Hong Kong stock market. This, in turn, causes Hong Kong stock prices to deviate from their original reasonable range, thereby widening the A-H share price gap.

4.3 The Intermediary Role of Liquidity

Table 4. Analysis of Mediating Effect

VARIABLES	(1) Liquidity	(2) AHPG
GEPU	-0.353*** (-5.18)	0.220*** (2.99)
Liquidity		-0.039*** (-3.12)
AC	0.010*** (39.87)	0.008*** (27.80)
EPS	0.107*** (13.59)	-0.296*** (-34.41)
TS	0.974*** (4.81)	-0.710*** (-3.24)
CS	-0.855*** (-4.23)	0.509** (2.33)
PE	0.028*** (3.90)	-0.030*** (-3.92)
SHR	-0.001 (-1.51)	0.000 (0.13)
NS	-0.306*** (-11.02)	0.219*** (7.26)
IV	0.004*** (2.65)	0.005*** (2.98)
SR	0.189* (1.85)	0.341*** (3.09)
CFETS	0.002*** (4.23)	0.000 (0.02)
Amount	0.354*** (12.47)	-0.109*** (-3.51)
Quota	-0.043** (-2.56)	-0.070*** (-3.90)
Constant	-2.231*** (-2.72)	3.600*** (4.06)
Observations	7,524	7,524
R-squared	0.268	0.365

t-statistics in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Table 4 shows the analysis of the mediating effect of liquidity. Further analysis reveals that the regression coefficient of global economic policy uncertainty on H-share li-

quidity is -0.353, which is significantly negative at the 1% level. An increase in global economic policy uncertainty significantly reduces H-share liquidity, and this decrease in H-share liquidity in turn significantly widens the A-H share price difference. The mediation effect analysis indicates that global economic policy uncertainty (GEPU) indirectly widens the A-H share price difference by reducing H-share liquidity, with an indirect effect of 0.013 ($p < 0.01$). This result supports our hypothesis that global economic policy uncertainty exacerbates the A-H share price difference by affecting H-share liquidity.

5 Robustness Check

Table 5. Robustness Check

VARIABLES	(1) AHPG	(2) AHPG
CEPU	0.080** (2.40)	
GEPU		0.341** (2.27)
AC	0.008*** (29.17)	0.007*** (9.35)
EPS	-0.300*** (-35.21)	-0.325*** (-20.99)
TS	-0.743*** (-3.40)	-2.204*** (-11.31)
CS	0.538** (2.46)	1.983*** (10.30)
PE	-0.047*** (-6.53)	-0.009 (-0.79)
SHR	-0.000 (-0.23)	0.005 (1.54)
NS	0.241*** (8.12)	0.131** (2.00)
IV	0.005** (2.52)	0.011*** (2.92)
SR	0.451*** (3.78)	0.791** (2.48)
CFETS	-0.000 (-0.34)	0.002 (0.27)
Amount	-0.120*** (-3.91)	-0.135*** (-2.72)
Quota	-0.079*** (-4.54)	-0.001 (-0.01)
Constant	3.227*** (3.36)	1.008 (0.46)
Observations	7,524	4,356
R-squared	0.364	0.301

t-statistics in parentheses
*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

In the **Table 5** above, (1) presents the results after replacing the explanatory variable GEPU. Given the unique nature of the H-share market, which is also influenced by Asian countries and markets, we follow the approach taken by Yang and Zhang (2024) in their study on global economic uncertainty and short-term capital outflows. By substituting the global economic uncertainty variable with the China Economic Policy Uncertainty (CEPU) variable, we obtain a regression result of 0.08, which is significantly positive at the 5% level, thus supporting our previous hypothesis. In column (2) of the table, we narrow the sample range to avoid differences arising from interval selection, using data from 2016 to 2021 for the regression. The regression coefficient for global economic policy uncertainty is 0.341, which is significantly positive at the 1% level, consistent with the results mentioned earlier.

6 Further Analysis

Existing research has shown that compared to non-state-owned enterprises (non-SOEs), state-owned enterprises (SOEs) may possess more policy resources and informational advantages, enabling them to adopt more effective strategies when coping with global economic policy uncertainty and mitigate its impact. For non-SOEs, however, their liquidity may be influenced by various factors such as market demand, industry competition, and corporate financial conditions. Therefore, when global economic policy uncertainty increases, liquidity is also affected. Below are the regression results for AH sample companies based on their ownership nature.

Table 6. Heterogeneity Analysis

VARIABLES	non—SOEs AHPG	SOEs AHPG
GEPU	0.410*** (2.61)	0.162** (2.02)
AC	0.009*** (17.35)	0.008*** (25.80)
EPS	-0.219*** (-15.57)	-0.296*** (-26.08)
TS	-0.180 (-0.74)	-7.607*** (-4.65)
CS	-0.107 (-0.44)	7.401*** (4.53)
PE	-0.035** (-2.14)	-0.030*** (-3.60)
SHR	-0.000 (-0.38)	0.000 (0.46)
NS	0.269*** (4.22)	0.227*** (6.97)
IV	0.003 (0.72)	0.006*** (3.06)
SR	-0.231 (-0.99)	0.483*** (4.01)

CFETS	-0.001 (-0.89)	0.000 (0.59)
Amount	-0.132** (-2.01)	-0.127*** (-3.82)
Quota	-0.080** (-2.08)	-0.066*** (-3.37)
Constant	8.906*** (4.74)	7.448*** (4.99)
Observations	1,938	5,586
R-squared	0.386	0.383

t-statistics in parentheses
*** p<0.01, ** p<0.05, * p<0.1

The heterogeneity regression results (**Table 6**) show that the impact of the independent variable on the dependent variable is significantly positive for both state-owned enterprises (SOEs) and non-state-owned enterprises (non-SOEs), but the impact is greater for non-SOEs. Specifically, the regression coefficient for the SOE sample is 0.162 and significantly positive at the 5% level, while the regression coefficient for the non-SOE sample is 0.410 and significantly positive at the 1% level. This result indicates that the rise in global economic policy uncertainty has a stronger impact on the A-H share price difference among non-SOEs, reflecting their greater sensitivity to market changes and greater reliance on market mechanisms to cope with fluctuations in the A-H share price difference. In contrast, SOEs may enjoy more policy support and resource access channels, making them less responsive to changes in the independent variable.

7 Research Conclusions and Recommendations

This article uses data from AH-listed companies and the Global Economic Policy Uncertainty (GEPU) index from November 2013 to December 2023 as samples to explore the impact of GEPU on the liquidity level of H-shares of AH companies. Based on this, it further investigates the impact of liquidity changes on the A-H share price difference. It is found that GEPU leads to an increase in systemic risk, causing the withdrawal of foreign institutional funds, which exacerbates the A-H share price difference. This impact is realized through the mediating effect of reducing H-share liquidity.

Based on the above conclusions, this article proposes the following recommendations: (1) Promote the internationalization and diversification of the capital market. This includes continuously optimizing and improving the Shanghai-Hong Kong Stock Connect and Qualified Foreign Institutional Investor (QFII) mechanisms to facilitate foreign investment in A-shares; strengthen policy outreach to encourage high-quality listed companies to conduct overseas roadshows, helping foreign investors gain a comprehensive understanding of China's economy and the development of listed companies. (2) By attracting more types of investors (such as individual investors and international funds) to participate in H-share market transactions, the structural weaknesses of the H-share market can be avoided, thereby improving overall liquidity and better maintaining the open, fair, and just order of the capital market. (3) Pay close

attention to changes in global economic policies and international market dynamics, and establish a sound risk warning mechanism. By closely monitoring changes in international markets, economies, and policies, timely measures can be taken to prevent excessive transmission of external risks to the domestic market.

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