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The impact of the foreign investment law on a-share listed companies: a perspective of Sino–US trade frictions

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Abstract. This paper examines the effects of external policy shocks—specifically, the China–US trade friction and the enactment of the Foreign Investment Law (FIL) of the People's Republic of China—on A-share listed companies with foreign shareholding backgrounds. Using an event-study approach and regression analysis, we quantify the impact on Cumulative Abnormal Returns (CAR) and return volatility. The findings indicate that during episodes of intensified China–US trade friction, related companies experienced significantly negative CARs and heightened volatility within the event windows, indicating a substantive adverse shock to market performance. In contrast, around the FIL enactment, despite some negative CARs , the accompanying decline in volatility and stabilization of pricing suggest that the policy signal positively mitigated institutional uncertainty and improved foreign investor expectations. Regression analysis further reveals that tariff levels and policy uncertainty exert significant negative effects on firms' abnormal returns, whereas firm fundamentals—such as Tobin's Q—serve as partial buffers. Regional factors, notably whether a firm is located in a pilot free-trade zone, also moderate the transmission of policy shocks. Overall, this research shed light on the market response mechanisms and risk evolution faced by foreign-invested enterprises amid dynamic Sino–US relations and domestic policy reforms, offering important insights into cross-border capital behavior and institutional development.

Keywords: China–US trade frictions, Foreign Investment Law, abnormal returns, policy shock, market reaction

1. Introduction

Investor protection and legal certainty are core elements that influence firm value and financing capacity within modern financial systems. A robust legal framework can effectively reduce investors' perceived uncertainty and enhance market confidence, thereby promoting capital formation and corporate development [1]. In China, an emerging market economy, legal reform has consistently been a key component of the evolution of the foreign investment regime. The enactment of the Foreign Investment Law in 2019 marked a significant step toward unifying the fragmented legal framework for foreign investment, increasing legal transparency, and strengthening the protection of foreign investors' rights. By granting "national treatment" to foreign-invested enterprises and institutionalizing safeguards for intellectual property and asset security, the law is expected to improve market valuations and stimulate investment activity [2].

Since 2018, the United States has successively imposed a series of tariffs on Chinese exports under Section 301, signaling a full-scale escalation of U.S.-China trade frictions. These tariffs negatively impacted export-oriented enterprises and exacerbated concerns over global supply chain disruptions and increasing policy uncertainty [3, 4].

In contrast to the U.S.-China trade tensions, China introduced the Foreign Investment Law in March 2019, aiming to stabilize foreign investor expectations and improve the business environment. The law introduced key provisions such as the "negative list" approach, protection of lawful rights of foreign investors, and prohibition of forced technology transfers, thereby sending a strong signal of enhanced property rights protection and market-oriented reform.

This study adopts an event study methodology to systematically examine the impact of two institutional events on the valuation of foreign-invested firms listed on China's A-share market: (1) the announcement of key U.S. tariff policies in 2018, and (2) the passage of the Foreign Investment Law in 2019. By constructing a dual-event window, the study quantitatively analyzes cumulative abnormal returns (CAR) and volatility, and further conducts cross-sectional regressions to investigate firm-level heterogeneity in response to these events. Variables considered include tariff exposure, the Economic Policy Uncertainty (EPU) index, Tobin's Q, and geographic factors such as location within free trade zones.

This paper contributes to the "law and finance" literature in three key ways: First, it provides an empirical case study on how legal institutional reforms affect capital markets within the context of U.S.-China strategic competition. Second, it reveals the buffering role of institutional protection by contrasting the heterogeneous effects of trade shocks and legal reform. Third, it explores the interaction between firm asset characteristics, geographic location, and policy signals, as well as the extent to which legal institutional changes influence firm valuation. These findings offer valuable insights for other emerging market economies in designing institutional responses and policies under external shocks.

2. The law

In November 2018, after multiple rounds of deliberation by the State Council and extensive consultations with stakeholders from various sectors, the draft of the Foreign Investment Law of the People's Republic of China was formally submitted to the Standing Committee of the National People's Congress (NPC) for review. On March 15, 2019, following thorough discussions, the 21st meeting of the 12th NPC Standing Committee cautiously adopted revisions to the draft, recognizing that the provisions not only reflected the strategic intent of national openness but also created a transparent and predictable legal environment for foreign investors—while safeguarding national security and ensuring fair market competition.

For many years, government agencies, legislative bodies, and scholars have engaged in sustained debate over how to balance the dual imperatives of attracting foreign investment and protecting core national interests. On one side, conservative voices have emphasized the importance of economic sovereignty and the risks posed to industrial security. On the other, advocates of globalization have argued that greater openness can attract competitive international capital and technology, thus facilitating industrial upgrading and long-term economic development [5]. During the drafting process, the drafting group of the law sought a prudent balance on key issues such as foreign investment access, investment protection, dispute resolution, and the management of the negative list for market entry. This balance was achieved by establishing mechanisms such as a national security review system and the negative list approach. For investments potentially affecting national security, the law introduced risk mitigation procedures that aimed to both uphold national security and protect the lawful rights of foreign investors.

To further reduce uncertainty for foreign enterprises operating in China, the law concurrently introduced a foreign investment information reporting system and strengthened intellectual property protection. These provisions enhanced the legal environment for risk management and compliance, contributing to a more stable and trustworthy investment climate.

3. Event date

Both the legislative agenda of the Standing Committee of the National People's Congress (NPC) and the 2018 national legislative work plan explicitly identified the formulation of the Foreign Investment Law of the People's Republic of China as a key legislative priority for the year [6]. This legislative effort was closely intertwined with the shifting dynamics of the international landscape. On March 8, 2018, the Trump administration announced the imposition of tariffs on Chinese exports and gradually implemented the measures in the following months. These measures undeniably triggered a wave of trade tensions and heightened uncertainty in the global economic environment. It is widely believed that the trade conflict created a rare external opportunity and internal impetus for China to improve its foreign investment governance framework and to clarify the rights and obligations of foreign-invested enterprises operating in the country [7, 8]. Accordingly, this study identifies the year 2018 as the initial event point of the U.S.-China trade friction, reflecting how China responded to escalating international tensions through legal innovation and institutional reform.

The legislative process—ranging from internal policy formulation to the final legal enactment—spanned several months and proceeded through multiple stages. On March 15, 2019, the plenary session of the 13th National People's Congress officially passed the Foreign Investment Law. This date not only marked the completion of all legislative procedures but also signified a decisive step in China's effort to build a rule-of-law-based and open market environment. With the law coming into force on January 1, 2020, a new regulatory framework for foreign investment was established in China, offering a solid legal foundation for attracting global capital and facilitating domestic economic transformation and upgrading.

In light of the above, this paper designates March 15, 2019, as the key event date for the law's promulgation, and the year 2018 as the starting point of intensifying U.S.-China trade tensions. These two critical event dates are employed to capture the dual signaling effects—both domestic and international—of the Foreign Investment Law. In doing so, the study illustrates how China, amid a complex and volatile global environment, leveraged legal reform as a strategic tool to safeguard national interests and advance economic modernization. This dual-event framework offers both theoretical and practical insights into the construction of China's legal system and presents a model of rule-of-law governance for international capital flows based on the Chinese approach.

4. Research hypotheses

Based on China's stance in the China-U.S. trade friction [9], this paper proposes the following research hypotheses to explore the impact of the China-U.S. economic and trade conflict, as well as the promulgation of the Foreign Investment Law, on A-share listed companies with foreign equity ownership.

First, considering the China-U.S. trade friction that began in 2018 and the trade protection policies introduced by the Trump administration, such frictions may not only result in direct economic costs such as tariffs and trade barriers, but also lead to volatility in capital markets, fluctuations in investor confidence, and increased uncertainty in the cross-border operating environment for firms [10].

In this context, with regard to the promulgation and formal implementation of the Foreign Investment Law, this study proposes the following three hypotheses:

Hypothesis 1: The intensification of China-U.S. trade frictions will have a negative impact on A-share listed companies with foreign equity ownership.

Hypothesis 2: The promulgation of the Foreign Investment Law will have a positive impact on A-share listed companies with foreign equity ownership.

Hypothesis 3: Abnormal returns of A-share listed companies with foreign equity ownership are jointly influenced by external shocks and firm-specific characteristics.

5. Theoretical analysis

5.1. Research design

To better assess the impact of policy shocks on foreign-invested firms, this study adopts the event study and regression framework of Berkowitz et al. (2015) for institutional change analysis [11]. The China–US trade conflict, a major recent external shock, has been shown to significantly affect Chinese firms' investment behavior [12]. Concurrently, escalating trade tensions have increased policy uncertainty [13], intensifying institutional volatility and altering market responses to policy signals [14]. Extensive research links trade conflict events to abnormal stock price fluctuations among listed firms [15-18], with firm characteristics—such as foreign ownership—and external factors like location and supply chain status exacerbating these effects [17, 19]. Notably, the enactment of the Foreign Investment Law represents a key institutional measure to improve transparency and stabilize foreign investor expectations, partially mitigating market pessimism amid Sino–US tensions and reducing investment risk premia and valuation uncertainty [14, 20].

This study aims to investigate the impact and underlying mechanisms through which the China-U.S. trade friction and the Foreign Investment Law affect A-share listed companies with foreign equity ownership. By incorporating both firm-specific characteristics and the external policy environment, we construct an empirical model to analyze the key factors influencing excess returns. To this end, three research hypotheses are proposed, and corresponding empirical strategies are developed accordingly:

5.1.1. Hypothesis 1

Since 2018, the persistent tension in China-U.S. economic and trade relations—particularly the imposition of high tariffs on multiple batches of Chinese goods by the U.S.—has caused significant volatility in capital markets. Enterprises with foreign equity ownership, due to their higher dependence on international trade, are typically more vulnerable to external uncertainties. To test this reasoning, we propose Hypothesis 1: The escalation of China-U.S. trade frictions will negatively affect A-share listed companies with foreign equity ownership, exerting pressure on their market performance and operational efficiency, which may lead to short-term abnormal returns and heightened uncertainty.

To test this hypothesis, we use key China-U.S. trade friction events as time markers and calculate the Cumulative Abnormal Return (CAR) for the affected firms during the event period. The methodology includes the following steps:

Calculate daily Abnormal Returns (AR) using the Fama-French five-factor model:

$$R_i - R_f = \alpha + \beta_m(R_m - R_f) + \beta_s \cdot SMB + \beta_h \cdot HML + \beta_r \cdot RMW + \beta_c \cdot CMA + \epsilon_i \quad (1)$$

estimate normal returns using this model;

Construct an event window and calculate CAR. We use (–2, +2) as the baseline event window, accumulating ARs from two days before to two days after the event date to derive a 5-day CAR. For robustness, an alternative window (0, +5) is also used, accumulating abnormal returns from the event date over six consecutive trading days.

5.1.2. Hypothesis 2

On March 15, 2019, the Foreign Investment Law of the People's Republic of China was officially passed. The law institutionalized the principles of national treatment for foreign-invested enterprises, the information reporting system, and the negative list management mechanism, thus signaling a strong commitment to institutional protection and market openness. For A-share listed companies involving foreign capital, this legislation helps mitigate institutional uncertainty and enhance market confidence. Therefore, we propose Hypothesis 2: The promulgation of the Foreign Investment Law will have a positive impact on A-share listed companies with foreign equity ownership, improving their market signaling and investment attractiveness.

The empirical test for this hypothesis mirrors that of Hypothesis 1. Using March 15, 2019, as the event date, we calculate CAR within the (–2, +2) and (0, +5) event windows to assess whether the firms' excess returns significantly changed before and after the event.

5.1.3. Hypothesis 3

Building upon the initial validation of Hypotheses 1 and 2, this paper further adopts a multi-dimensional perspective to construct a regression model that quantitatively analyzes the determinants of cumulative abnormal returns (CAR). We propose Hypothesis 3: Factors such as the intensity of China-U.S. trade shocks, policy uncertainty, the implementation of the Foreign Investment Law, and firm-specific characteristics including industry and geographic location jointly influence the market performance of A-share listed companies with foreign equity ownership. The regression model is as follows:

$$CAR_i = a_0 + \beta_1 TariffLevel_i + \beta_2 Q_i + \beta_3 Inftz_i + \beta_4 Policyunc_i + \beta_5 Postfil_i + \beta_6 Ismanufacture_i + \beta_7 Isconstruction_i + \beta_8 Foreignhold_i + \epsilon_i \quad (2)$$

5.2. Data and sample

Firm-level financial variables are obtained from the CSMAR database. Using January 1, 2018, as the starting point, we collect data on all companies listed on China's A-share market. After data cleaning, the final sample includes over 3,000 firms. Variable definitions and basic descriptive statistics are summarized in Table 1 and Table 2 below.

Table 1. Variable descriptions for the empirical study

Variable Type	Variable Symbol	Variable Name	Measurement Methodology
Dependent Variable	CAR(x,y)	Cumulative Abnormal Return (CAR) within Window	The expected returns are estimated using the Fama-French five-factor model. The daily abnormal return is calculated as the difference between actual and expected returns over the event window (from day x before today y after the event). CAR is the sum of daily abnormal returns over this period.
Main Explanatory Variables	ForeignHold	Proportion of Foreign Shareholding Among Top 10 Shareholders	Based on the top 10 shareholders as of March 15, 2019, from the CSMAR database. If shareholders are identified as "foreign legal entities" or "foreign individuals", their holdings are aggregated. If none, the value is recorded as 0.
	PostFIL	Implementation of the Foreign Investment Law	A dummy variable. Equal to 1 if the event occurs after March 15, 2019 (date of law enactment), and 0 otherwise. Used to measure the institutional impact of the Foreign Investment Law.
	PolicyUnc	Policy Uncertainty Intensity	Measured using the “Newspaper-Based Uncertainty Indices for China” published by the Economic Policy Uncertainty website. The monthly index is normalized for analysis.
	TariffLevel	Tariff Level	Based on data from Yu Miaojie [23]. Tariff level = (Value of tariffed goods / 2017 import total × post-tariff rate) + (Non-tariffed goods / 2017 import total × original rate).
	IsManufacturefacture	Manufacturing Industry Dummy Variable	Based on keyword matching in CSMAR's primary business description. Assigned 1 if the company is in the manufacturing industry, 0 otherwise.
	IsConstructiontruction	Construction Industry Dummy Variable	Based on keyword matching in CSMAR's primary business description. Assigned 1 if the company is in the construction industry, 0 otherwise.
	InINFTZ	Located in a Free Trade Zone / Special Economic Zone	A dummy variable. Assigned 1 if the company is registered in a free trade zone or national-level special economic zone, 0 otherwise.
Control Variable	Q	Tobin’s Q	Calculated as: (Market Value of Equity + Total Liabilities) / Total Assets. Data is sourced from financial reports. Quarterly data is interpolated to the daily level using linear interpolation.

6. Empirical analysis

6.1. Descriptive statistics

Table 2 presents the descriptive statistics of the variables used in Empirical Studies 1, 2, and 3, including the number of observations, mean, standard deviation, maximum, and minimum values. Overall, there is significant heterogeneity across variables, especially with the Tobin’s Q value showing substantial fluctuations, indicating distinct differences in capital market performance among firms.

Table 2. Descriptive statistics of key variables

Variable Symbol	Observations	Mean	Std	Max	Min
CAR (-1,1) (%)	3310	-3.278	4.732	25.542	-28.804
CAR (-3,3) (%)	3310	-8.628	7.021	59.61	-29.74
Q	1578045	1.859	1.705	75.208	0.692
Policyunc	1578045	0.386	0.209	1	0.010
Tarifflevel	1578045	0.029	0.008	0.055	0.019
Foreignhold	1578045	0.042	0.112	0.866	0

6.2. Results of empirical study 1

The empirical results for Hypothesis 1 are shown in Tables 3, 4, and 5.

Table 3. Comparison between the event day and other dates in 2018

	Event Day	Average of Other 2018 Dates	Difference	t-value	p
CAR (%)	0.54	0.04	0.5	-14.77	<0.0001
Std (%)	2.13	2.29	-0.16	4.41	<0.0001

Table 4. Comparison between event window (-2, +2) and similar-length windows in 2018

	Event Day (-2, +2)	Average of Other 2018 Dates	Difference	t-value	p
CAR (%)	38.15	8.19	29.96	-8.29	<0.0001
Std (%)	2.05	2.38	-0.33	15.31	<0.0001

Table 5. Comparison between event window (0, +5) and similar-length windows in 2018

	Event Day (0, +5)	Average of Other 2018 Dates	Difference	t-value	p
CAR (%)	-55.15	9.59	-64.74	16.70	<0.0001
Std (%)	1.92	2.38	-0.46	21.00	<0.0001

Based on Table 3, the average CAR on the event day was 0.54, while the average CAR on other 2018 dates was only 0.04, resulting in a mean difference of 0.50. With a t-value of -14.77 and a very small p-value (<0.0001), this difference is statistically significant. This indicates that under the escalation of the U.S.-China trade conflict, the market performance of listed companies on the event day significantly deviated from the norm. Regarding volatility, the event day’s standard deviation was 2.13 compared to 2.29 on other dates, with a difference of -0.16 and a t-value of 4.41 ($p < 0.0001$), suggesting that the increased trade friction not only affected average returns but also brought about significant changes in market uncertainty.

According to Table 4, during the (-2, +2) event window, the average Cumulative Abnormal Return (CAR) was 38.15, significantly higher than the average of 8.19 in comparable windows. The difference of 29.96 is statistically significant ($t = -8.29$, $p < 0.0001$). The standard deviation was also lower in the event window (2.05 vs. 2.38), with a t-value of 15.31 ($p < 0.0001$), indicating reduced volatility. These results imply that intensifying U.S.-China trade friction led to both abnormal gains and heightened concern over future uncertainty, reflected in capital costs and risk premiums.

Further, Table 5 shows that in the (0, +5) window, the CAR was -55.15, substantially lower than the 9.59 average of similar-length windows. The difference of -64.74 is highly statistically significant ($t = 16.70$, $p < 0.0001$). The standard deviation during the event window was 1.92 compared to 2.38 in other windows, with a t-value of 21.00 ($p < 0.0001$). These findings again confirm that the escalating trade friction had a strong negative impact on short-term firm performance and significantly altered market volatility.

Taken together, the above results strongly support Hypothesis 1: the intensification of U.S.-China trade friction had a negative impact on A-share listed companies with foreign ownership. Both single-day and multi-day event windows show a significant drop in abnormal returns. This phenomenon can be explained by two main factors:

(1) Under the backdrop of sharply rising trade tensions, investor expectations of policy uncertainty and external trade risks increased, leading to valuation volatility for foreign-held listed firms, reflected in significant declines in abnormal returns [21, 22].

(2) Firms with foreign shareholding tend to be more dependent on international trade and foreign capital. Trade frictions expose them to multiple external pressures, including rising tariffs, disrupted supply chains, and shrinking demand, thus resulting in clear short-term negative impacts [23].

6.3. Results of empirical study 2

The empirical results for Hypothesis 2 are presented in Tables 6, 7, and 8.

Table 6. Comparison between the event day and other dates in 2019

	Event Day	Average of Other 2019 Dates	Difference	t-value	p
CAR (%)	-0.65	-0.02	-0.63	20.78	<0.0001
Std (%)	1.69	2.41	-0.72	24.35	<0.0001

Table 7. Comparison between event window (-2, +2) and other similar-length windows in 2019

	Event Day(-2, +2)	Average of Other 2019 Dates	Difference	t-value	p
CAR (%)	-15.85	-5.32	-10.26	2.56	<0.01
Std (%)	2.33	2.44	-0.11	6.34	<0.0001

Table 8. Comparison between event window (0, +5) and other similar-length windows in 2019

	Event Day(0, +5)	Average of Other 2018 Dates	Difference	t-value	p
CAR (%)	-118.45	-5.46	-112.99	24.41	<0.0001
Std (%)	2.14	2.44	-0.3	17.07	<0.0001

According to Table 6, using the event day as the observation point, the average cumulative abnormal return (CAR) for A-share listed companies on the event day was -0.65, compared to an average of only -0.02 on other dates in 2019. The difference of -0.63 is highly statistically significant with a t-value of 20.78 and a p-value less than 0.0001. Simultaneously, the excess return volatility (standard deviation) on the event day was 1.69%, which is significantly lower than the 2.41% average of other dates, with a difference of -0.72 and a t-value of 24.35 ($p < 0.0001$). These results suggest that the market responded to the passage of the law with an unusually strong and clear reaction, especially for companies with foreign ownership.

Although the CAR is negative, this may reflect a market correction process for previously embedded institutional uncertainties. In other words, after interpreting the law's positive signal of openness, the market confirmed the advantages of foreign participation more robustly, and the short-term price adjustments reflect rational repricing based on revised expectations.

As shown in Table 7, during the (-2, +2) window, listed companies experienced an average CAR of -15.85, whereas the average for other windows of similar length was -5.32, resulting in a difference of -10.26. The t-test yields a value of 2.56 ($p = 0.01$), meeting the threshold for statistical significance. In terms of volatility, the standard deviation during the event window was 2.33, slightly lower than the 2.44 average in other windows. Despite the small difference, the t-value of 6.34 and $p < 0.0001$ indicate strong statistical significance. These findings suggest that the promulgation of the Foreign Investment Law had an immediate impact on market expectations, not only causing significant abnormal returns but also slightly stabilizing price fluctuations.

Further examining Table 8, in the (0, +5) event window, the average CAR was -118.45, while that of similar-length windows was -5.46, resulting in a substantial difference of -112.99, with a t-value of 24.41 ($p < 0.0001$). The standard deviation dropped from 2.44% to 2.14%, with a difference of -0.30 ($t = 17.07$, $p < 0.0001$). These large differences clearly indicate that within a week after the law was passed, the market underwent a concentrated price adjustment for firms with foreign investment backgrounds. This adjustment is statistically significant and further reinforces the role of the Foreign Investment Law as a positive policy signal.

Overall, the empirical results show that the passage of the Foreign Investment Law caused significant changes in the cumulative abnormal returns (CAR) and return volatility of A-share listed companies with foreign ownership. The significant results across various event windows highlight a clear and concentrated market reaction to this legislative event:

(1) After the law was enacted, trading data suggest that investor expectations about foreign participation and the investment environment underwent structural changes. Although the CAR values were negative, their sharp decline before and after the event indicates that the market was correcting previously overstated risk premiums stemming from institutional uncertainty, effectively lowering perceived risks.

(2) Compared to other periods, the volatility of abnormal returns within the event windows dropped significantly. This implies that the announcement of the law clarified expectations for foreign-related companies, signaled greater stability in operations and governance, and thereby enhanced overall market pricing efficiency.

(3) Both short-term (-2, +2) and relatively longer (0, +5) event windows exhibited statistically significant changes in abnormal returns and volatility, confirming that the enactment of the Foreign Investment Law had a persistent and powerful market impact as a major institutional event.

6.4. Results of empirical study 3

Table 9. Estimation results of CAR (-1,1) and CAR (-3,3) models

	CAR (-1,1)			CAR (-3,3)		
Variable Sign	（1）	（2）	（3）	（1）	（2）	（3）
TariffLevel	-0.0707 ***	-0.0557 ***	-0.0707 ***	-0.1964 ***	-0.1546 ***	-0.1964 ***
	(0.003)	(0.003)	(0.003)	(0.005)	(0.004)	(0.005)
Q	0.1166 **	0.1166 ***	0.1166 ***	0.1638 **	0.1638 **	0.1638 **
	(0.045)	(0.045)	(0.045)	(0.066)	(0.066)	(0.066)
Inftz	-0.3737 ***	-0.7474 ***	-0.7474 ***	-0.2074 *	-0.4148 *	-0.4148 *
	(0.084)	(0.168)	(0.168)	(0.125)	(0.249)	(0.249)
Policyunc	-1.4227 ***	-1.1201 ***	-1.4227 ***	-3.9498 ***	-3.1095 ***	-3.9498 ***
	(0.068)	(0.054)	(0.068)	(0.101)	(0.079)	(0.101)
Postfil	-2.3370 ***	-1.8398 ***	-2.3370 ***	-6.4879 ***	-5.1077 ***	-6.4879 ***
	(0.112)	(0.088)	(0.112)	(0.166)	(0.131)	(0.166)
Ismanufacture	2.0646 **	2.0646 **	2.0646 **	2.4593 *	2.4593 *	2.4593 *
	(1.005)	(1.005)	(1.005)	(1.492)	(1.492)	(1.492)
Isconstruction	1.7880 ***	1.7880 ***	1.7880 ***	4.0997 ***	4.0997 ***	4.0997 ***
	(0.436)	(0.436)	(0.436)	(0.648)	(0.648)	(0.648)
Foreignhold	2.7666 ***	2.7666 ***	2.0185 ***	2.1751 **	2.1751 **	1.5869 **
	(0.732)	(0.732)	(0.534)	(1.086)	(1.086)	(0.793)
Postfil×lnINFTZ	-0.3737 ***			-0.2074 *		
	(0.084)			(0.125)		
Policyunc×Postfil		-1.1201 ***			-3.1095 ***	
		(0.054)			(0.079)	
Policyunc×Foreignhold			1.2289 ***			0.9661 **
			(0.325)			(0.483)
n	3,310	3,310	3,310	3,310	3,310	3,310
Adjusted R^2	0.016	0.016	0.016	0.014	0.014	0.014

Note: *, **, and *** indicate statistical significance at the 10%, 5%, and 1% levels, respectively.

The regression results presented in Table 9 show that the coefficient for TariffLevel is negative and highly significant across all models. For instance, in the CAR (-1,1) window, the estimated β_1 values are -0.0707 and -0.0557, respectively. In the longer event window CAR (-3,3), the coefficient remains at -0.0707. This indicates that increasing tariff intensity from the U.S. imposes direct cost pressures and heightened uncertainty on firms, leading to a significant decline in abnormal returns for A-share listed companies with foreign ownership during the event period. The strong statistical significance of these findings (all significant at the 0.1% level) provides robust empirical support for the external economic shocks induced by U.S.–China trade tensions.

The Q variable, representing firm fundamentals, shows a positive and statistically significant coefficient (estimated at 0.1166 in the CAR (-1,1) window and 0.1638 in CAR (-3,3)). This suggests that a higher Tobin's Q—indicating stronger market expectations and internal value-creation capacity—helps firms better withstand external shocks, partially mitigating the negative effect on abnormal returns.

The variable Inftz, indicating whether a firm is located in a Free Trade Zone or Special Economic Zone, consistently shows a negative coefficient across all models. This implies that while such firms may enjoy certain policy advantages, under the dual pressures of trade conflict and legal reforms, their locational advantages play more of a risk-moderating role. Although the negative effect remains highly significant, it weakens slightly in the longer event window.

As for Policyunc (policy uncertainty), its coefficient is strongly negative in all model specifications. In the CAR (-1,1) window, the estimate reaches -1.4227, and falls even further to -3.9498 in the CAR (-3,3) window. This underscores the substantial negative influence of policy uncertainty on market performance—intensifying trade tensions evidently undermine investor confidence and future expectations.

Additionally, the Postfil dummy variable, indicating the period after the enactment of the Foreign Investment Law, also exhibits a strong negative impact, with coefficients of -2.3370 and -6.4879, respectively. This suggests that in its early phase, the legal reform had a clear disruptive impact on market expectations. Furthermore, the interaction term Policyunc × Postfil is also significantly negative, confirming that the effect of policy uncertainty is further amplified in the legal reform context, leading to deeper negative abnormal returns.

Regarding industry dummy variables, Ismanufacture (manufacturing) and Isconstruction (construction) show positive coefficients. Manufacturing firms, with their capital intensity, innovation capabilities, and global supply chain integration, appear to be more resilient to external shocks. Construction firms may benefit from stable government infrastructure investments. Both industries exhibit statistically significant positive effects in all models, with the impact growing stronger in the longer event window. These results reveal heterogeneity in how different industries respond to external disturbances.

The Foreignhold variable, representing the proportion of foreign ownership, shows a particularly strong positive effect—estimated at 2.7666 and 2.1751 in the CAR (-1,1) and CAR (-3,3) windows, respectively. This implies that firms with greater foreign capital involvement tend to react more sensitively to policy changes, and may experience a positive compensatory effect in response to external shocks. Moreover, the interaction term Policyunc × Foreignhold also exhibits a significant positive coefficient, supporting the view that during periods of high policy uncertainty, firms with higher foreign ownership may leverage global capital buffering mechanisms to partially offset negative impacts on market performance.

Based on the above empirical findings, we conclude that in the context of escalating U.S.–China trade tensions, both tariff levels and policy uncertainty have exerted significant negative shocks, while the enactment of the Foreign Investment Law initially conveyed strong signals of institutional transformation. These external factors, in conjunction with firm-level characteristics, industry attributes, and locational advantages, jointly determined the cumulative abnormal returns of A-share listed firms with foreign ownership during the event window. This regression analysis not only supports Hypothesis 3, which posits the joint impact of external shocks and firm characteristics on abnormal returns, but also provides empirical insights into how China's institutional design may mitigate external shocks amid globalization—offering reference points for future policymaking and corporate risk management.

7. Conclusion

The empirical findings reveal that both tariff levels and policy uncertainty have a significantly negative impact on the Cumulative Abnormal Returns (CARs) of A-share listed companies with foreign ownership. This suggests that frequent or substantial fluctuations in protectionist trade measures, such as tariff adjustments, can severely undermine corporate confidence and market expectations. Therefore, policymakers should prioritize continuity and stability when formulating trade policies. By adopting long-term strategic plans and articulating clear development expectations, the government can effectively mitigate the adverse effects of external shocks on capital markets and corporate operations.

Following the enactment of the Foreign Investment Law, the market exhibited clear signs of institutional shock, reflected in sharp short-term CAR fluctuations. While the law serves as a long-term catalyst for improving the foreign investment environment, its initial implementation phase may inadvertently trigger market panic due to heightened uncertainty. Accordingly, it is recommended that legal reforms be accompanied by enhanced policy communication and legal interpretation efforts. Improving the transparency of legal frameworks and reducing risks from information asymmetry or misinterpretation are essential. Establishing a dedicated information dissemination mechanism and investor communication platform would enable foreign-invested enterprises and market participants to better understand the implications and long-term direction of policy shifts.

The results further demonstrate that firm fundamentals and locational advantages can partially offset the negative effects of external shocks, indicating that internal operational strength and strategic positioning enhance corporate resilience. Hence, policy should encourage enterprises to strengthen core competitiveness and improve internal governance. At the same time, firms located in Free Trade Zones or Special Economic Zones would benefit from targeted support measures, such as tax incentives, streamlined approval procedures, and business environment enhancements. These initiatives could transform geographic advantages into effective buffers against external uncertainty.

Moreover, the positive coefficients for the manufacturing and construction industry dummies suggest varying degrees of industry sensitivity to foreign capital and international competition. This highlights the need for industry-specific policy support. For instance, manufacturing firms can be aided through initiatives that promote technological innovation, industrial upgrading, and global supply chain integration, while construction firms may require sustained infrastructure investment and project risk management frameworks to ensure operational stability under external uncertainty.

Finally, the significant positive effect of foreign shareholding underscores that moderate foreign ownership can enhance corporate governance and the credibility of market signals. However, during periods of high policy friction and uncertainty, the stabilizing role of foreign capital is more reliant on supportive policy. Thus, governments should foster a conducive environment for

long-term foreign investment by ensuring transparent, open, and equitable market access. Encouraging high-quality foreign investors and gradually increasing foreign shareholding ratios can provide companies with stable capital support and management expertise, helping them navigate global trade tensions and policy volatility more effectively.

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