Proceedings of ICILLP 2025 Symposium: Digital Governance: Inter-Firm Coopetition and Legal Frameworks for Sustainability
DOI: 10.54254/2753-7048/2025.BR25541

Legal Challenges and Regulatory Risks Faced by Chinese Technology Companies in Pursuing U.S. Listings

Yuxuan Zhou

Warrington School of Business, University of Florida, Gainesville, USA
yuxuan.zhou@ufl.edu

Abstract. In recent years, a growing number of Chinese technology companies have turned to U.S. stock exchanges to access global capital, enhance their international visibility, and increase market valuation. However, such cross-border listings have encountered increasingly complex legal and regulatory challenges. This paper examines the major obstacles facing these companies, with a particular focus on three critical areas: data security, technology security, and legal system risks. It highlights how differences between the Chinese and U.S. regulatory frameworks—especially in cybersecurity, export controls, and legal traditions—have created dual compliance pressures that may disrupt IPO plans, lower company valuations, or even lead to forced delistings. Through case studies such as Didi Chuxing, Luckin Coffee, and SenseTime, the paper illustrates the real-world consequences of failing to anticipate regulatory expectations. To address these challenges, the paper proposes several compliance strategies, including localized data governance, risk assessments for sensitive technologies, collaboration with U.S. legal experts, and litigation preparedness planning. Ultimately, the paper argues that Chinese firms must move beyond passive compliance and adopt a proactive and legally informed approach to succeed in the evolving global capital market. By improving transparency and aligning more closely with regulatory requirements, these companies can better manage legal uncertainty, protect shareholder interests, and achieve sustainable international growth.

Keywords: Chinese technology companies, U.S. IPOs, data security, legal compliance, cross-border regulation

1. Introduction

In recent years, more and more Chinese technology companies have turned to international capital markets as an important means to promote their globalization strategy and achieve sustainable growth [1]. Among the many listing destinations, the United States—being home to the most liquid and mature financial market in the world—has already become the preferred choice for many leading Chinese technology companies [2]. From internet giants like Alibaba and JD.com to emerging platforms such as Pinduoduo and Didi Chuxing, more and more companies are seeking ways to go public on U.S. exchanges to attract a broader range of investors, achieve higher market valuations, and enhance their international image and global recognition [3]. As of the fourth quarter of 2023, despite an overall market downturn, Chinese companies have remained active in pursuing

DOI: 10.54254/2753-7048/2025.BR25541

listings in the United States. According to data from Ernst & Young, Chinese firms ranked first in Asia in terms of the number of U.S. IPOs in 2023, reflecting their strong reliance on the U.S. capital market [4]. The motivations behind such cross-border listings are closely related to the structural differences between the Chinese and U.S. capital markets. The U.S. capital market is known for its flexible institutional design and efficient listing procedures, and it shows a high degree of tolerance toward companies using the Variable Interest Entity structure [3]. Compared to the Chinese regulatory system, which imposes strict restrictions on certain industries and corporate structures, these institutional advantages make it difficult for some firms to complete IPOs domestically [5]. As a result, turning to overseas markets, particularly the U.S., has become a strategically significant choice for these companies seeking funding opportunities.

However, the trend of listing in the United States is not without risks. In recent years, several high-profile incidents have highlighted the legal and regulatory challenges faced by Chinese technology companies going public in the U.S. For example, shortly after completing its IPO on the New York Stock Exchange in 2021, Didi Chuxing was subjected to a cybersecurity review by Chinese authorities and was eventually forced to delist [6]. Luckin Coffee was fined $180 million by the U.S. Securities and Exchange Commission for financial fraud and delisted in 2020 [7]. Pinduoduo also came under regulatory investigation due to employee death incidents and data security concerns [8]. Additionally, the U.S. Holding Foreign Companies Accountable Act requires Chinese companies listed in the U.S. to undergo audits, with mandatory delisting if they fail to comply for three consecutive years [9]. Meanwhile, China's Data Security Law and Cybersecurity Law impose restrictions on cross-border data transfers, which may conflict with U.S. disclosure requirements [10]. This dual regulatory pressure significantly increases the legal risks and uncertainties for Chinese companies seeking overseas listings.

Given the current developments, it has become increasingly urgent to examine the legal and regulatory challenges faced by Chinese technology companies seeking to list in the United States. These challenges are not merely technical legal issues, but reflect a broader range of concerns, including corporate governance, cross-border regulatory coordination, national security, and the future direction of globalized capital markets. A deep understanding of these complexities is crucial for companies considering overseas listings, and equally important for policymakers aiming to promote international financing while safeguarding national interests.

Although listing in the United States remains a key strategic option for many Chinese tech firms, the legal and regulatory barriers they face—especially the dual-jurisdiction pressures from both China and the U.S.—are becoming increasingly complex. Chinese companies seeking to list in the United States are increasingly facing a diverse and growing array of risks. These challenges are not merely technical legal issues, but reflect a broader range of concerns, including corporate governance, cross-border regulatory coordination, national security, and the future direction of globalized capital markets.

Therefore, given the current developments, it has become increasingly urgent to examine the legal and regulatory challenges faced by Chinese technology companies seeking to list in the United States. A deep understanding of these complexities is crucial for companies considering overseas listings, and equally important for policymakers aiming to promote international financing while safeguarding national interests. This paper argues that only by thoroughly understanding the associated legal risks and adopting practical compliance strategies can Chinese enterprises achieve long-term success and sustainable development in the U.S. capital markets.

This paper explores the legal and regulatory challenges faced by Chinese technology companies seeking to list in the United States, with particular focus on data security, technology security, and

DOI: 10.54254/2753-7048/2025.BR25541

the dual compliance pressures arising from both Chinese and U.S. regulatory regimes. It also offers corresponding insights and recommendations to address these challenges.

2. Current challenges faced by Chinese technology companies in U.S. listings and suggestion

2.1. Data security

As Chinese technology companies pursue listings in the United States, data security has gradually emerged as one of the most challenging legal and regulatory obstacles. In recent years, China has introduced a series of data governance laws, including the Data Security Law and the Personal Information Protection Law, which impose strict compliance requirements on enterprises regarding data collection, processing, and cross-border transfers. Centered on national security and the public interest, these laws clearly stipulate that any cross-border transfer involving "important data" or "personal information" must undergo a security assessment and fulfill filing procedures [10]. Violations of these regulations may result in administrative penalties, substantial fines, or even criminal liability.

At the same time, U.S. regulatory agencies such as the Securities and Exchange Commission and the Cybersecurity and Infrastructure Security Agency require publicly listed companies to disclose information in offering prospectuses, annual reports, and other public filings—including cybersecurity incidents, major operational risks, and related data details [11]. These disclosure requirements often involve user data and commercially sensitive information, which may directly conflict with China's restrictions on the outbound transfer of sensitive data. As a result, companies face a "compliance dilemma": if they comply with U.S. disclosure obligations, they risk violating Chinese laws; if they strictly follow Chinese regulatory requirements, they may be seen by U.S. authorities as lacking transparency, which could affect their eligibility and compliance for listing.

In addition, as China continues to strengthen its regulatory framework governing cross-border data transfers, companies that handle large volumes of personal information must complete a data export security assessment and fulfill related filing obligations before pursuing an overseas listing. Due to the current lack of transparency and the lengthy nature of the approval process, this compliance requirement introduces additional uncertainty to companies' IPO plans. The case of Didi Chuxing serves as a prominent example. In 2021, shortly after completing its initial public offering on the New York Stock Exchange, the company came under cybersecurity review by Chinese regulators on the grounds of national data security, ultimately leading to its forced delisting [6]. This incident clearly demonstrates that, under the stark divergence between Chinese and U.S. data regulatory regimes, even leading industry players may lose access to international capital markets due to data compliance issues.

2.2. Technology security

Amid rising geopolitical tensions, the U.S. government has increasingly incorporated technology security into its national security review system. Under the Export Administration Regulations, if a Chinese company is deemed to be involved in "sensitive technologies" or "dual-use technologies"- such as advanced semiconductors, artificial intelligence algorithms, or high-performance computing —its products or services may be restricted from entering the U.S. market [12]. The criteria for such determinations are often highly subjective and politically influenced, adding considerable uncertainty to the overseas operations and technological collaborations of Chinese tech firms.

DOI: 10.54254/2753-7048/2025.BR25541

The "Entity List," maintained by the U.S. Department of Commerce, has become a key tool for restricting foreign companies from engaging in business with U.S. entities. In recent years, major Chinese companies such as Huawei, SenseTime, and Sugon have been added to the list, leading to disruptions in their U.S. operations, tightened fundraising channels, and significant downward adjustments in their market valuations [13]. For technology firms preparing for IPOs, even if they are not formally included on the list, a high level of technological sensitivity may cause investment banks to label them as "high-risk," resulting in setbacks such as being discouraged by intermediaries or having their prospectuses delayed by the SEC.

In addition, the growing trend of U.S.-China "technological decoupling" has negatively affected market expectations. The United States has introduced various policies aimed at restricting Chinese companies' access to advanced equipment and capital, with the intention of slowing China's technological advancement. This structural confrontation not only raises the policy risk premium of Chinese stocks but also causes tech firms to suffer valuation discounts and reduced fundraising capacity when listing in the U.S. SenseTime's forced suspension of its IPO in Hong Kong after being added to the U.S. investment blacklist is a typical example [14]. This demonstrates that technology security has become one of the key variables determining whether a company can successfully access international capital markets.

2.3. Legal system risk

One often overlooked yet critically important risk faced by Chinese companies seeking to list in the United States is the fundamental divergence between the civil law system adopted in China and the common law system that underpins the U.S. legal framework [15]. In China, the legal system is codified and heavily reliant on written statutes enacted by legislative bodies. Judicial decisions, while potentially influential in certain cases, do not carry binding presidential authority. In contrast, the U.S. legal system places significant emphasis on case law, judicial interpretation, and court precedents. This reliance on precedent contributes to a more dynamic and interpretive legal environment, particularly in areas such as securities regulation and corporate governance.

For Chinese companies unfamiliar with this legal structure, the implications can be significant. In the United States, judicial decisions can expand the scope of liability even in the absence of specific statutory language. This means that corporate defendants may be held accountable under evolving interpretations of concepts such as "material misstatement," "fiduciary duty," or the "reasonable expectations of investors." Furthermore, class action lawsuits—particularly in the context of securities law—are a routine legal mechanism in the U.S., whereas they remain rare and underdeveloped in China. As Perino notes, since the enactment of the Securities Act of 1933 and the Exchange Act of 1934, U.S. courts have consistently broadened the definitions of material misstatements and fiduciary duties. At the same time, plaintiffs' attorneys have leveraged lead plaintiff provisions to institutionalize securities class actions as a primary enforcement tool. This legal landscape renders foreign issuers, including Chinese firms, especially vulnerable to becoming targets of litigation [16]. Such lawsuits may be initiated by shareholders following stock price declines, alleged omissions in prospectuses, or perceived corporate governance failures—issues that might not trigger legal liability in the Chinese legal system. As a result, Chinese companies may find themselves facing lawsuits in the U.S. for conduct that would not normally incur liability in their home jurisdiction, often catching them off guard.

The adversarial nature of the U.S. legal system further adds to its complexity. One of the hallmarks of American civil litigation is the discovery process, which compels parties to exchange large volumes of internal documents and communications—an unfamiliar and often unsettling

DOI: 10.54254/2753-7048/2025.BR25541

practice for most Chinese companies [17]. This may lead to the unintended disclosure of sensitive business information, posing reputational or strategic risks. Additionally, jury trials, a standard feature of litigation in the United States, introduce an added layer of uncertainty for foreign defendants who may be unfamiliar with American cultural norms and legal expectations [18].

From a strategic perspective, these systematic differences increase compliance costs, raise the possibility of litigation, and require a more proactive legal risk management approach than many Chinese companies are accustomed to. If a company fails to adapt to the legal environment in the United States as early as possible, including hiring experienced cross-border lawyers and implementing strengthened internal controls, it may find itself unprepared to meet the procedural and substantive requirements of U.S. securities laws. In conclusion, the divergence between the civil law system and the Anglo-American law system is not a theoretical issue but a practical and high-risk one, which will have a significant impact on the ability of Chinese companies to succeed in the US capital market.

2.4. Mitigate data security risks

To effectively mitigate the data security risks associated with U.S. listings, Chinese technology companies must adopt a comprehensive, forward-looking compliance framework that addresses both domestic and foreign regulatory expectations. First and foremost, enterprises should implement an internal data classification system to distinguish "important data," "core data," and "personal information" in accordance with China's Data Security Law and the Personal Information Protection Law. This enables companies to identify which datasets may trigger cross-border transfer restrictions or national security reviews. For sensitive information intended to be disclosed in SEC filings, companies should proactively assess whether it falls under the scope of China's outbound data transfer rules and prepare corresponding documentation for regulatory approval. Simultaneously, firms should localize their critical data infrastructure within mainland China to avoid unnecessary international transmission risks.

Second, to meet both Chinese and U.S. requirements, companies may deploy technical solutions such as data anonymization, de-identification, or synthetic datasets when preparing financial disclosures. Advanced tools like federated learning and secure multi-party computation can support operational needs while preserving regulatory compliance. It is also advisable for companies to establish dedicated compliance teams that include both Chinese and U.S. legal experts who can ensure alignment with disclosure standards and national cybersecurity laws.

Moreover, maintaining close communication with regulators—such as the Cyberspace Administration of China and the SEC—can provide guidance and help manage expectations regarding disclosure scope and review timelines. Companies should also consider running simulated regulatory audits and "compliance sandbox" tests before IPO filings to identify gaps and reduce approval uncertainties. Finally, enhancing investor transparency through pre-listing risk disclosures about potential data restrictions can help build credibility and reduce litigation risk. In an era of growing techno-nationalism and regulatory fragmentation, a robust dual-compliance system is no longer optional—it is essential for long-term success and risk containment in cross-border capital markets.

2.5. Mitigate technology security risks

To mitigate the legal and regulatory risks arising from technology security concerns, Chinese technology companies seeking U.S. listings must implement a multi-layered compliance strategy

DOI: 10.54254/2753-7048/2025.BR25541

that anticipates and addresses geopolitical scrutiny. First, companies should conduct a proactive technology risk audit to identify whether their core products or services involve "sensitive" or "dual use" technologies as defined under U.S. Export Administration Regulations. High-risk areas—such as artificial intelligence, high-performance computing, quantum encryption, or semiconductor design—must be flagged early in the IPO planning process. Firms whose technologies are likely to draw attention should engage with U.S. counsel experienced in export controls to ensure that their business models and product disclosures do not trigger unnecessary regulatory concern or misclassification.

Second, to reduce exposure to U.S. export restrictions or investment blacklists, companies should consider restructuring their corporate and operational architecture. For example, high-risk technologies may be ring-fenced within China-based subsidiaries that do not participate in overseas fundraising or directly engage with U.S. markets. Firms should also ensure that products intended for U.S. use are clearly differentiated from those involving restricted technologies.

Third, close monitoring of U.S. government entity lists—including the Department of Commerce's Entity List and the Non-SDN Chinese Military-Industrial Complex Companies List—is critical. Firms must establish compliance teams capable of assessing the evolving political and legal landscape and providing timely strategic adjustments. If risk of designation arises, early voluntary disclosure and engagement with regulators may reduce adverse outcomes.

Finally, transparency with investors and regulators is essential. IPO prospectuses should clearly disclose any existing or potential exposure to export controls, investment banks, or national security reviews. Companies should also provide contingency plans for operations or revenue streams that could be disrupted by such restrictions. In an environment of increasing U.S.-China technological decoupling, companies that take a transparent, adaptive, and legally informed approach will be far better positioned to maintain access to global capital markets and manage long-term strategic risk.

2.6. Mitigate legal system risks

To navigate the legal system asymmetries between China's civil law and the United States' common law traditions, Chinese companies planning U.S. listings should adopt a preventive and adaptive legal strategy well before initiating IPO procedures. First, they should retain U.S.-licensed legal counsel with expertise in securities law, class action defense, and transnational litigation. These professionals can review prospectuses, internal controls, and risk disclosures to ensure compliance with U.S. legal standards, particularly those derived from judicial precedent and fiduciary expectations. Second, firms must strengthen their investor relations capabilities to ensure transparent, timely communication with shareholders and media—an essential step in preventing litigation driven by misinformation or perceived nondisclosure. Maintaining frequent disclosures and managing market expectations can minimize class action triggers.

Additionally, Chinese companies should consider purchasing Directors and Officers liability insurance tailored to U.S. litigation environments. This helps mitigate financial losses arising from lawsuits and protects management against claims of negligence, omission, or fiduciary failure. Furthermore, legal and compliance teams should receive training on key procedural differences in U.S. litigation, including discovery obligations, jury trials, attorney–client privilege boundaries, and settlement practices, as these factors can significantly affect litigation outcomes and costs.

Finally, firms should conduct scenario planning that includes potential legal disputes, building internal playbooks for crisis communication and document preservation. By proactively understanding how common law systems expand liability through precedent and how U.S. courts interpret shareholder rights, Chinese companies can avoid being caught off guard by legal standards that differ sharply from their home jurisdiction. In short, early engagement, ongoing legal education, and structural preparedness are crucial to reducing exposure and enhancing long-term resilience in the U.S. capital market.

3. Conclusion and future impact

The growing presence of Chinese technology companies in U.S. capital markets reflects more than just a search for funding—it represents a strategic ambition to enhance global visibility, diversify investor bases, and signal international credibility. However, as this paper has demonstrated, the legal and regulatory environment governing such listings has become increasingly intricate and volatile. Data security restrictions imposed by Chinese law, the geopolitical sensitivity of advanced technologies, and the structural divergence between Chinese civil law and the U.S. common law system collectively present formidable barriers to successful cross-border listings. These risks are not theoretical; the cases of Didi Chuxing, Luckin Coffee, and SenseTime reveal the serious consequences of underestimating regulatory friction, ranging from fines and investor lawsuits to forced delistings and reputational damage.

Looking ahead, the challenges facing Chinese companies seeking U.S. listings are likely to intensify. Rising tensions between China and the United States, more aggressive enforcement of data and technology controls, and increasingly demanding disclosure obligations by U.S. regulators will all contribute to an environment of heightened scrutiny and reduced regulatory tolerance. Moreover, the lack of a stable legal framework for cross-border oversight cooperation exacerbates uncertainty and compliance costs for foreign issuers. In this context, success will not be determined by financial or technological innovation alone, but by a firm's capacity to construct and maintain an adaptive, jurisdiction-sensitive compliance architecture.

Ultimately, for Chinese firms to achieve sustainable integration into global capital markets, they must shift from reactive compliance to strategic legal foresight. This includes investing in dual-jurisdiction compliance teams, building robust disclosure and governance systems, and engaging in proactive communication with both domestic regulators and international investors. Those companies that take a transparent, structured, and legally informed approach will be far better positioned to manage risk, maintain investor confidence, and ensure long-term viability in an increasingly fragmented regulatory world.

References

[1] Chen, X., & Young, M. (2010). Cross-listing as a bonding mechanism: Evidence from Chinese firms. Corporate Governance: An International Review, 18 (5), 403–421. https: //doi.org/10.1111/j.1467-8683.2010.00809.x
[2] World Economic Forum. (2022). Global competitiveness report. https: //www.weforum.org/reports
[3] Gillis, T. W. (2021). Variable interest entities in China: American securities law and the next Chinese crisis. University of Pennsylvania Journal of International Law, 42 (1), 1–55.
[4] Ernst & Young. (2023). Global IPO trends: Q4 2023. https: //www.ey.com/content/dam/ey-unified-site/ey-com/en-gl/services/ipo/documents/ey-global-ipo-trends-2023-q4.pdf
[5] Howson, N. C. (2017). China's IPO and securities regulation. In R. M. Lastra & J. G. Allen (Eds.), Research handbook on international financial regulation (pp. 345–366). Edward Elgar Publishing.
[6] Bloomberg. (2021). Didi begins plan for U.S. delisting, Hong Kong share sale. https: //www.bloomberg.com/news/articles/2021-12-03/didi-prepares-u-s-delisting-hong-kong-share-debut
[7] Reuters. (2020). Luckin Coffee to pay $180 mln penalty to settle accounting fraud charges - U.S. SEC. https: //www.reuters.com/world/china/luckin-coffee-pay-180-mln-penalty-settle-accounting-fraud-charges-us-sec-2020-12-16/
[8] TechNode. (2021). Pinduoduo faces probe after worker death; e-commerce giants fined. https: //technode.com/2021/01/06/pinduoduo-faces-probe-after-worker-death-e-commerce-giants-fined-retailheads/

DOI: 10.54254/2753-7048/2025.BR25541

[9] U.S. Congress. (2020). Holding Foreign Companies Accountable Act. https: //www.congress.gov/bill/116th-congress/senate-bill/945
[10] DigiChina Project. (2021). Translation: Data Security Law of the People's Republic of China (Effective Sept. 1, 2021). Stanford Cyber Policy Center. https: //digichina.stanford.edu/work/translation-data-security-law-of-the-peoples-republic-of-china/
[11] U.S. Securities and Exchange Commission (SEC). (2022). Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure. https: //www.sec.gov/news/press-release/2022-39
[12] U.S. Department of Commerce. (2022). Commerce Implements New Export Controls on Advanced Computing and Semiconductor Manufacturing Items to Address National Security Concerns. https: //www.bis.doc.gov/index.php/documents/about-bis/newsroom/press-releases/3158-2022-10-07-bis-press-release-advanced-computing-and-semiconductor-manufacturing-controls-final/file
[13] U.S. Department of Commerce. (2019). Addition of Certain Entities to the Entity List. Federal Register. https: //www.federalregister.gov/documents/2019/10/09/2019-22210/addition-of-certain-entities-to-the-entity-list
[14] Fortune. (2019). China's 3 Leading A.I. Firms Land on U.S.'s Latest Blacklist. https: //fortune.com/2019/10/08/china-ai-us-entity-list/
[15] Zweigert, K., & Kötz, H. (1998). An Introduction to Comparative Law (3rd ed., T. Weir, Trans.). Oxford University Press. Retrieved from: https: //www.pierre-legrand.com/zweigert-and-kotz.pdf
[16] Perino, M. A. (2012). The rise of securities class action litigation. In J. Arlen (Ed.), Research handbook on corporate crime and financial misdealing (pp. 305–324). Edward Elgar Publishing.
[17] American Bar Association. (n.d.). The U.S. Legal System: Discovery. Section of International Law. Retrieved from: https: //www.americanbar.org/content/dam/aba-cms-dotorg/products/inv/book/398729434/5030659_sample.pdf
[18] Vidmar, N., & Hans, V. P. (2007). American Juries: The Verdict. Prometheus Books. Retrieved from: https: //www.worldcat.org/title/american-juries-the-verdict/oclc/123456789