

Institutional Foundations of China's Growth and Slowdown

Chong-en Bai (Tsinghua)

Chang-Tai Hsieh (Chicago)

Zheng Song (Chinese University of HK)

The Puzzle of China:

World Bank Doing Business Indicators (2013)

Ease of Starting a Business: 151

same as the Congo (yes this Mobutu's Congo)

现代快报

公信铸就品质 贴近赢得信赖

现代快报
WWW.XDKB.NET

2014年9月26日
星期五

农历甲午年九月初三
今日5叠共96版

官方微博
@现代快报

官方微信
现代快报

96060
24小时读者热线



企业盖栋楼，要交95种税费盖192个章

南京民企老总抱怨懒政之下办事难；江苏确定简政放权路线图，行政审批大幅“瘦身” 封5-7

守着银行 专偷“大户”

徐州破获特大盗抢案
4人团伙流窜9省1市
8年盗抢1200万元

封8



犯罪嫌疑人被押回徐州
图片由警方提供

南京一名医生
一天看了192个病人

封12

27岁南通小伙
任职福建龙海副市长

封17

充气时轮胎爆炸
汽修老板不幸身亡

封10

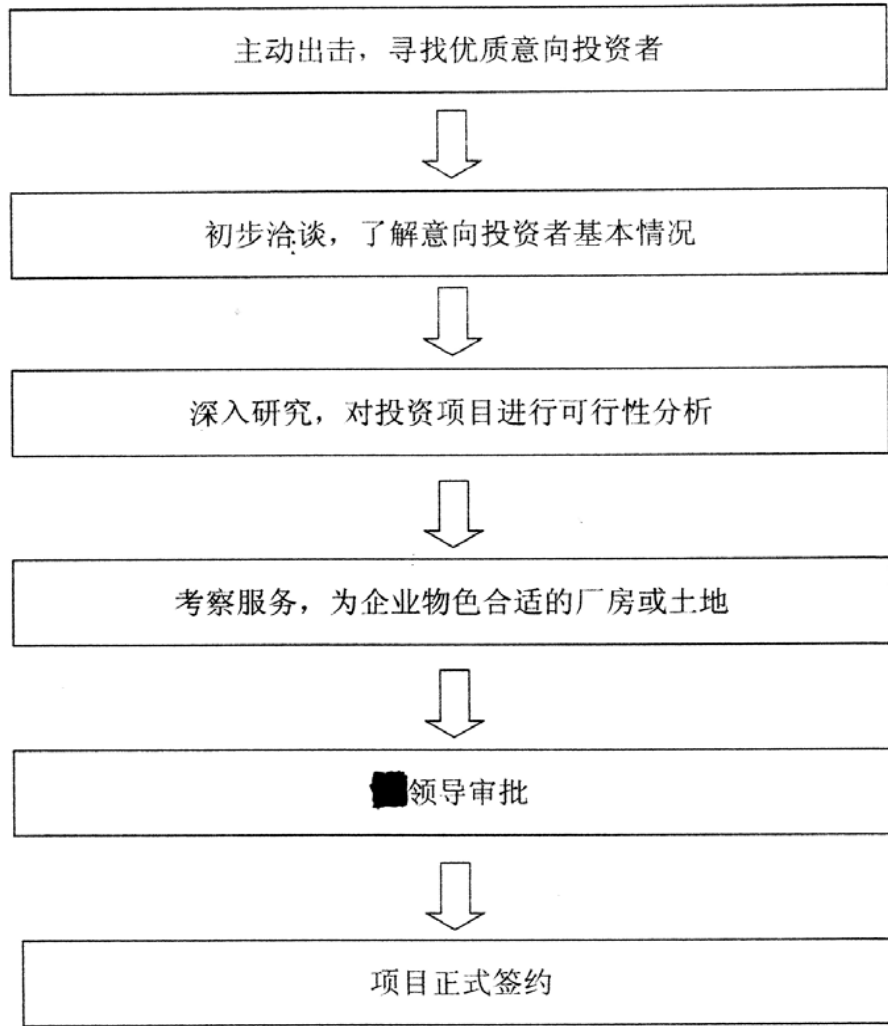
亚运会上再遭羞辱
国奥0:2不敌泰国

A10

40位抗战老兵聚会
南京体彩组织专车接送

封19

"Small" City (2 million people) in Southern China



Actively look for quality prospects

Initial discussion to learn about investor

Feasibility Analysis

Identify land and other needed services

Approval by Vice-Mayor

Sign agreement

Organization of Local Government

Party Secretary

Mayor

9 Vice-Mayors

Each Vice-Mayor assigned 20 "important" projects

"Zhengzhou Speed"

iPhone 6 produced in Foxconn Zhengzhou (200,000 workers)

2007: Foxconn opens plant in Wuhan (Hebei Province)

2008: Guo Gengmao (Governor of Hebei) moved to Henan.

June 20, 2010: Governor of Henan Province welcomed Gou Tai-ming (Chairman of Foxconn) at airport

June 29, 2010: Agreement was signed

August 2010: Foxconn Zhengzhou opened





Formal vs. Informal Institutions

Discretion of local officials is key informal institution

Local governments work very hard to stimulate business

But not any business

Only favored businesses

Chinese system is regime of “special deals”

Why is Chinese Crony Capitalism Different?

Free Entry into "Cronyism"

Organizational capacity of Leninist Party State

High powered incentives to make deals

Encouraged by Organization Department?

Easy to obtain private benefits?

Limited access to financial resources (until 2009)

Help for cronies did not worsen capital allocation

Competition between local governments

Block entry into in your jurisdiction but not in others

Why did local governments have limited access to capital?

1994 tax sharing reform: removed control of local governments over revenues

1994 budget law (illegal to run deficits)

1998 financial centralization (“vertical management system”)

Removed political influence of local officials over loan allocation

Shanghai-GM

Largest car manufacturer in China

50% owned by GM, 50% owned by SAIC Motor Co.

SAIC Motor Co. is publicly listed but majority stake held by SAIC Group

SAIC Group is owned by local government of Shanghai

SAIC Motor also owns 50% of Shanghai-Volkswagen

SAIC also owns a stand-alone car company

Shanghai-GM's business model

Sell low quality cars at monopoly prices (who owns the firm?)

Buick New Century

Opel Corsa rebranded as Buick Sail

Daewoo Matiz rebranded as Chevrolet Spark

Six months before Shanghai-GM was ready, Chery-Wuhu came out with an identical car (Chery QQ)

Buick New Century



Opel Corsa vs. Buick Sail



Chevrolet Spark vs. Chery QQ



Chery-Wuhu (Wuhu, Anhui Province)

Yin Tongyao (Former engineer of First Auto Works) and Zhan Xialai (Wuhu Vice-Mayor) in 1996.

Zhan Xialai: "You let me take care of the politics; you just focus on getting some cars built here."

Bought and shipped Ford engine plant from UK

Bought and shipped assembly plant in Spain (VW-SEAT)

First car was a clone of VW Jetta (Chery Fengyuan)

Second car was clone of Chevrolet Spark (Chery QQ)

The Party Boss (Zhan Xialai)



The Entrepreneur (Yin Tongyao)



Chery-Wuhu

Legally registered as state owned firm (Wuhu local government holds majority stake)

Chery-Wuhu is major exporter

40% of revenues are exports

Shanghai-GM does not export



On-Budget Government Spending (trillion Yuan)

	Planned Stimulus		On Budget Increase in Spending	
			Central + Local	Local Governments
Housing Security	0.40	Housing Security	0.20	0.12
Rural Livelihood and Infrastructure	0.37	Urban and Rural Community Affairs + Agriculture, Forestry and Water Conservancy	0.20	0.20
Railway, Road, Airport, Water Conservancy and Urban Power Grids	1.50	Transportation	0.27	0.31
Health, Education and Culture	0.15	Health, Education and Culture	0.11	0.11
Environment Protection	0.21	Environment Protection	0.05	0.05
Self-Independent Innovation and Structural Adjustment	0.37		N.A.	N.A.
Post-Disaster	1.00	Post-Disaster	0.23	0.21

Reconstruction

Reconstruction

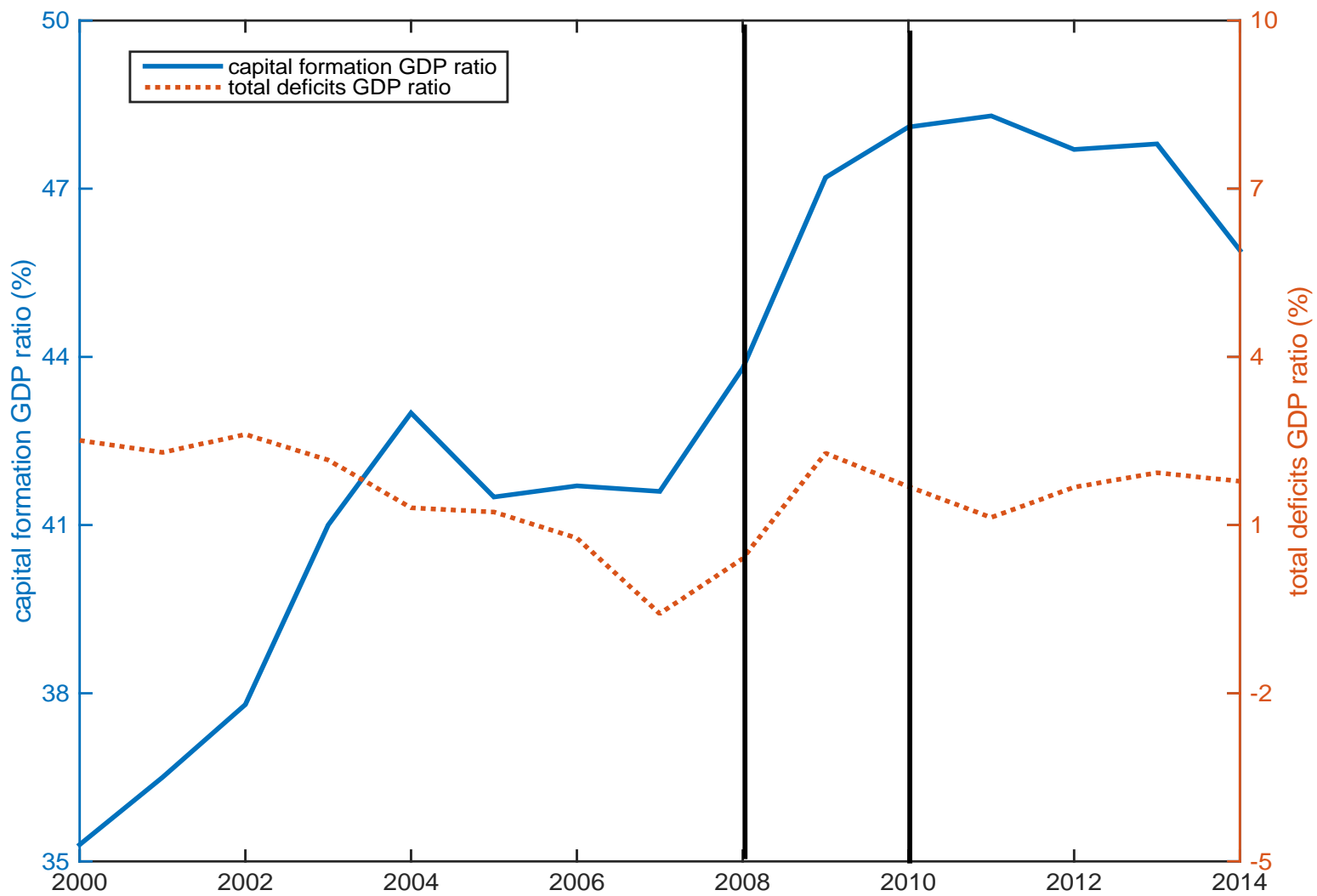
Total

4

1.05

1.00

Investment Rate and Budget Deficit



Publicly available data on local financing vehicles:

- WIND: Financial statements of LFVs that issue bonds

Individual data on LFVs, **total** debt

- 2011 and 2013 Audit of *all* LFVs (National Audit Office)

Only covers “Official” debt.

“Debt that government has responsibility to repay or debt the government would fulfill the responsibility of guarantee or for bailout when the debtor encounters difficulty in repayment.”

Aquatic Cube and Bird's Nest



Owned by Beijing Asset Management Company (BSAM)

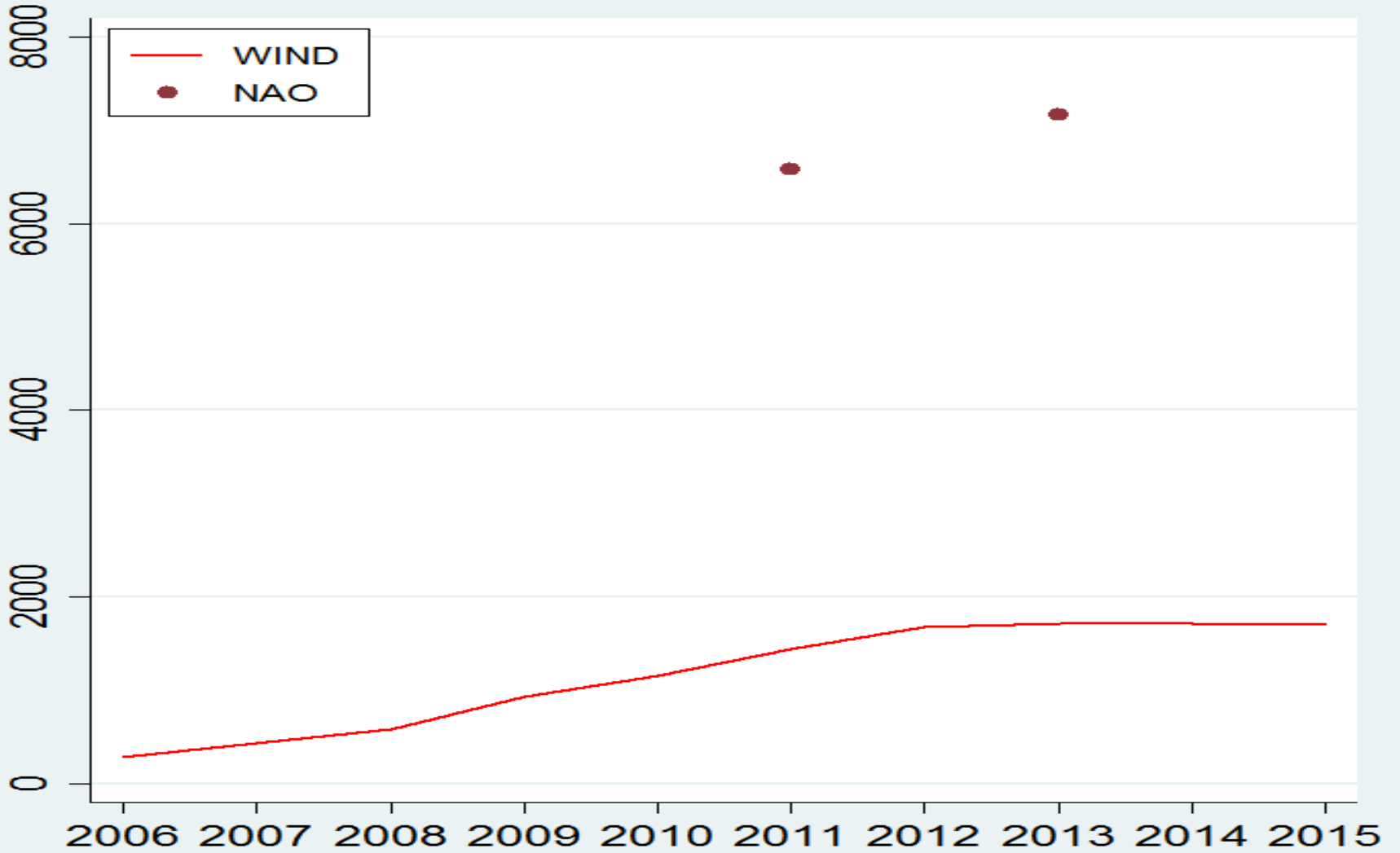
Total 2015 debt (as reported in WIND): 70 billion

Also owns financial, real estate, and manufacturing companies

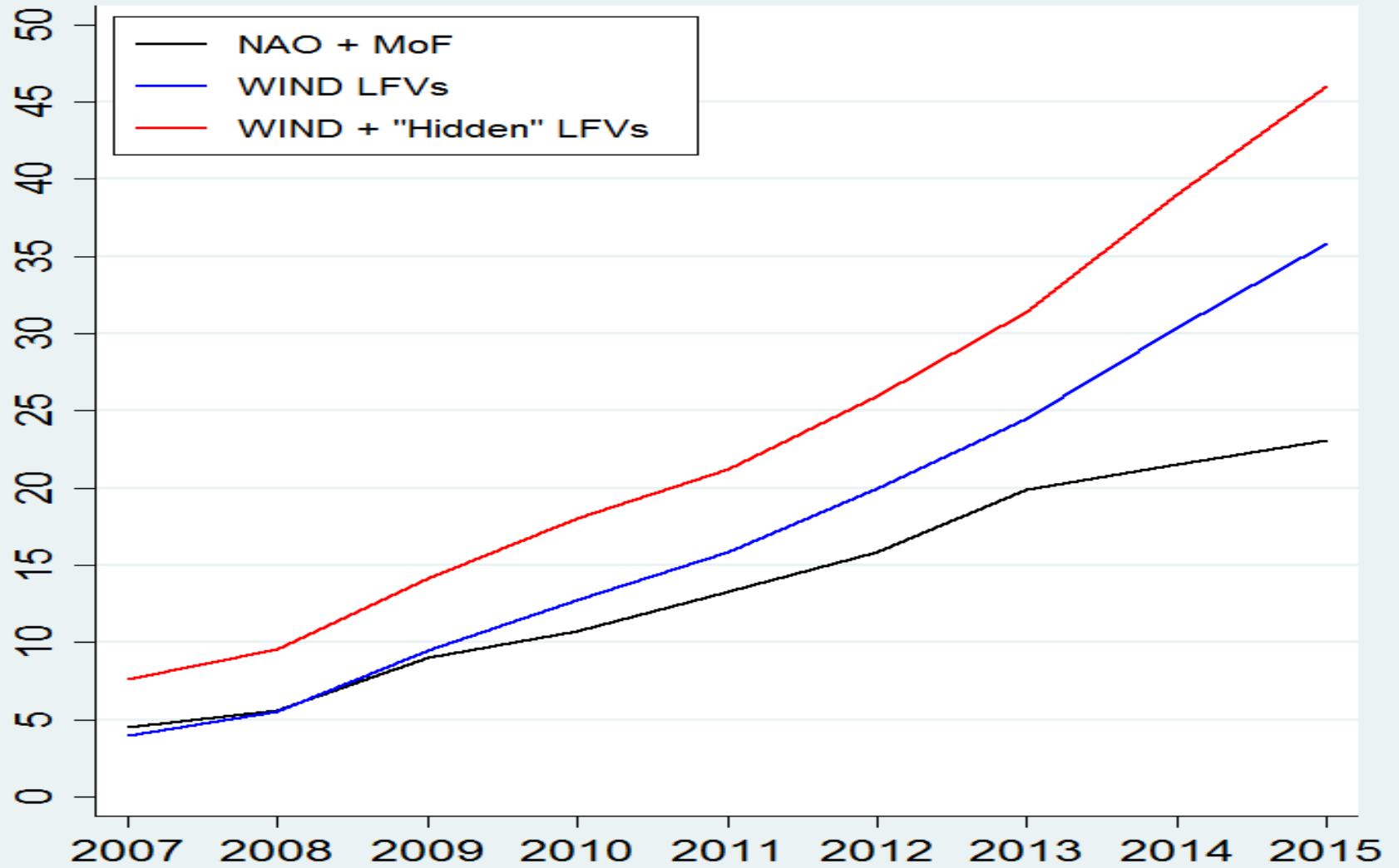
Shareholder of Bank of Beijing and Beijing Auto Group

Beijing Auto Group owns seven car manufactures, including 50% of Beijing-Hyundai

Number of Local Financing Vehicles



Total Debt of Local Financing Vehicles



Standard Deviation of Average Product of Capital

