Institutional Foundations of China’s Growth and Slowdown

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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

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”

守着银行
专偷“大户”
徐州破获特大盗抢案
4人团伙流窜8省1市
8年盗抢1200万元

南京一名医生
一天看了192个病人

27岁南通小伙
任职福建龙海副市长

充气时轮胎爆炸
汽修老板不幸身亡

亚运会上再遭羞辱
国奥0:2不敌泰国

40位抗战老兵聚会
南京体彩组织专车接送
"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
富士康
工程专用通道
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)
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)

<table>
<thead>
<tr>
<th>Area</th>
<th>Planned Stimulus</th>
<th>On Budget Increase in Spending</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Central +</td>
<td>Local</td>
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<tr>
<td></td>
<td>Local Governments</td>
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<tr>
<td>Housing Security</td>
<td>0.40</td>
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<tr>
<td>Rural Livelihood and Infrastructure</td>
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<td>0.20</td>
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<td></td>
<td></td>
<td>0.20</td>
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<tr>
<td>Railway, Road, Airport, Water</td>
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<td>Conservancy and Urban Power Grids</td>
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<tr>
<td>Health, Education and Culture</td>
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<td>Environment Protection</td>
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<td>0.05</td>
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<td></td>
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<td>0.05</td>
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<tr>
<td>Self-Independent Innovation and</td>
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<tr>
<td>Structural Adjustment</td>
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<td>N.A.</td>
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<tr>
<td>Post-Disaster</td>
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<td>0.23</td>
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<tr>
<td></td>
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<td>0.21</td>
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<tr>
<td>Reconstruction</td>
<td>Reconstruction</td>
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<tr>
<td>Total</td>
<td>4</td>
<td>1.05</td>
</tr>
</tbody>
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**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

- WIND
- NAO

Graph showing the number of local financing vehicles from 2006 to 2015.
Total Debt of Local Financing Vehicles

- NAO + MoF
- WIND LFVs
- WIND + "Hidden" LFVs
Standard Deviation of Average Product of Capital