

Special Deals with Chinese Characteristics

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The Puzzle of China

World Bank Doing Business Indicators (2013)

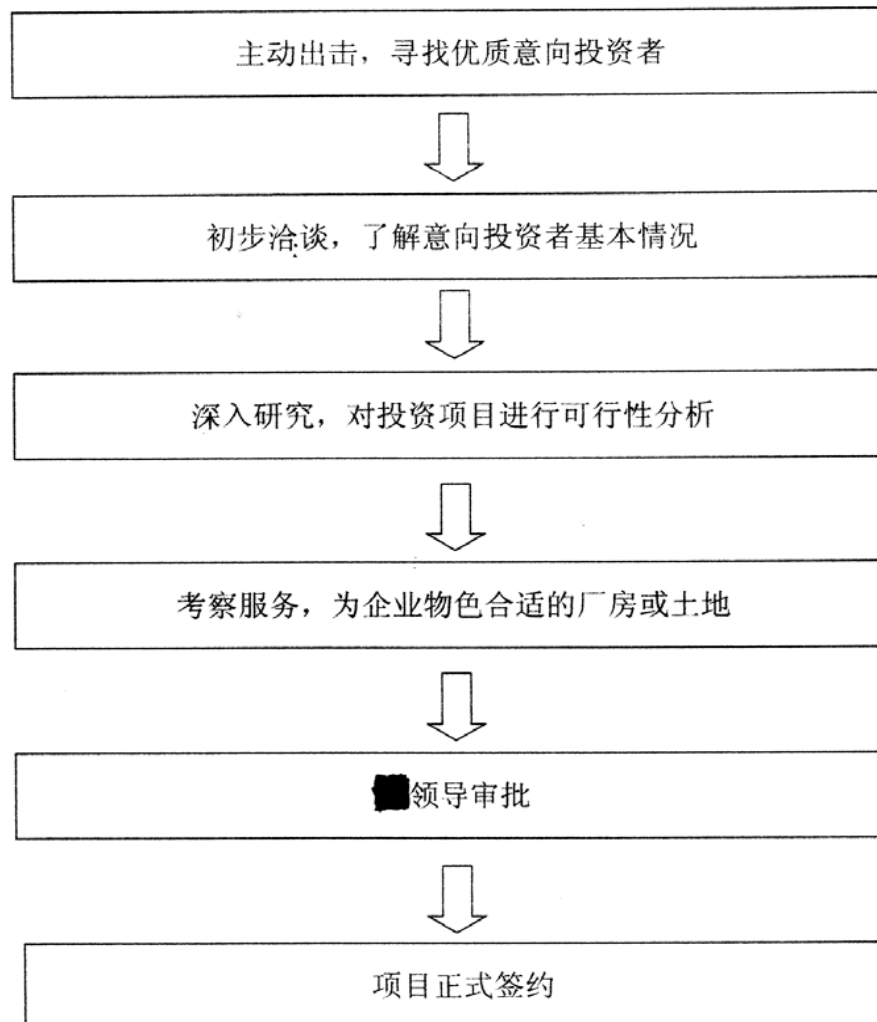
Ease of Starting a Business:

China: 151

Congo: 152

Haiti: 140

"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

"Each locality operates like a stand-alone company. They prompt investment, strong-arm banks for finance and often hold shares in the businesses themselves...Localities operate almost like a holding company for local businesses....at the same time the local party's overwhelming powers within its own borders effectively make each district its own separate jurisdiction, with direct control over the courts and over local regulations governing business activities."

This is incomplete

- Power of Communist Party only for *favored* firms
- Compete with other local governments

Strategic and Pillar Industry Policy

- Precursor of “Made in China 2025”
- 9 industries designated as “Strategic and Pillar” in late 1990s.
- Only designated state owned firms could be in these sectors.
- Massive entry of “unauthorized” firms in “strategic and pillar” industries.

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 owned by local government of Shanghai

SAIC Motor also owns 50% of Shanghai-Volkswagen

SAIC also owns a stand-alone car company

What did GM want?

- Monopoly on cars with engines > 2000 cc
- Support of Shanghai Communist Party

"The commercial goal of selling more GM Buicks and Chevrolets in China becomes a political and economic campaign to enhance the power and might of the city of Shanghai. Think of it as Shanghai Inc., with the Communist Party Secretary as Chairman and CEO"

- But afraid of theft of intellectual property

Buick New Century



Chevrolet Spark vs. Chery QQ



Chery-Wuhu (Wuhu, Anhui Province)

Former engineer of First Auto Works (Yin Tongyao) and Wuhu Vice Mayor (Zhang Xialai)

Mr. Yin in charge of relocating VW-Westmoreland to Changchun

Wuhu Vice Mayor: "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)

Chery-Wuhu

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

Chery-Wuhu is major exporter

Shanghai-GM does not export

Chery Van in Villavecencio, Colombia



Special Deals with Chinese Characteristics:

- 1) Leninist state supports (selected) private firms

Monopolies/resource misallocation vs productivity improvement in supported private firms?

- 2) Why support private firms?

Culture and Reward Structure of Organization Dept?

Or remarkable Tolerance of Private Rents

- 3) Large Number of Competing Local Governments