



Two Strong Hands: China's Vision of the Private Sector

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26. May 2022

Markus

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- **Commanding Heights**: strategically important sectors
 - Public utilities
 - Natural resources
 - Platform economy (Alibaba, Tencent, ...)

- **Middle income trap – Anti-resilience**
 - Switch from **catching up** to frontier **R&D**
 - Example of escaping:

Beijing's Bismarcking Ghosts"
(with Rush Doshi and Harold James) *Washington*

Quarterly

Imperial Germany vs. UK | China vs. US

- Berlin-Bagdad Railway | Belt-Road Initiative
- Tech acquisition: Krupp | AI
- Standard setting: Telefunken

China's Strong Hand Destroys "Invisible Hand"

- Invisible Hand (Adam Smith)
 - Price signal
 - Conveyer of information about **scarcity**
 - Future **cash flows**
- Interventionistic hand
 - Price signal
 - Investors collect info about
 - Gov. intervention
 - Not cash flows

"China's Model of Managing its Financial System"
(with Michael Sockin and Wei Xiong) *Review of Econ
Studies*

The Battle of Ideas

- “Economic Model” of a country
 - Promote competition to limit concentration of power
- German Ordoliberalism (Freiburger School)
- Private sector:
 - Mittelstand companies vs. National Champions
Germany France
 - Promote SMEs, but large firms are more productive
 - Public sector:
 - Germany: Federalism
 - China: Tournament among local cadres

Poll

1. China's crackdown on the tech sector and financial conglomerates will harm the economy
 - a. Yes
 - b. No
2. Does Xi Jinping want to return to Mao's economic vision?
 - a. Yes
 - b. No
3. China's economy will collapse in the medium run?
 - a. Yes
 - b. No

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Poll

1. What could the most successful growth model?
 - a. Import substitution
 - b. Export-led growth
 - c. Consumption-led growth
2. What is the biggest impact on Africa's growth?
 - a. Education
 - b. New forms of governance
 - c. New Tech (incl. FinTech)
 - d. Global trade
 - e. New entrepreneurship
 - f. Others
3. African demographics is more of a
 - a. Opportunity
 - b. Challenge

Economic Outlook for China

Chang-Tai Hsieh

May 2022

End of Free Markets and Private Enterprise?

- Crackdown on technology companies (Alibaba, Tencent, Meituan-Dianping, Didi)
- Dismantling of large conglomerates starting in 2018 (Wanda, Anbang, Hainan, Tomorrow, Evergrande)
- “Xi Jinping Aims to Rein in Chinese Capitalism, How to Mao’s Socialist Vision,” WSJ, September 2021
- “Is China Uninvestable?” The Economist, May 2022

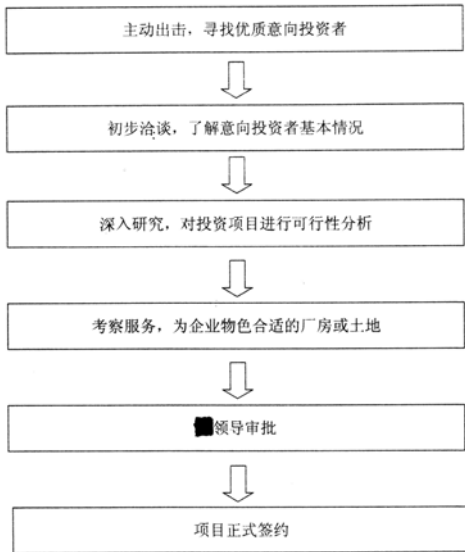
Improved Conditions for Private Firms

- Rank in WB Doing Business Indicators improved substantially
 - ▶ Doing business type of indicators for each city/province
- Simplified business regulations
 - ▶ Business registration done online (less than five minutes.)
- Judicial/Legal Institutions
 - ▶ Bankruptcy law, new bankruptcy courts
 - ▶ Payment enforcement, enforced by social credit system
 - ▶ New courts to adjudicate business disputes; Adjudication time falls; business dispute decisions published online
- Better access to credit
 - ▶ Share of credit to SMEs increase
 - ▶ New Beijing and Shanghai Stock Exchanges (STAR)

Contradiction in China's Policy Direction?

- Dangerous time to be Jack Ma
 - ▶ Market capitalization of publicly traded firms fallen by more than 1 trillion
- But conditions for SMEs have never been better
 - ▶ Number of firms increases from 55 million in 2012 to 150 million in 2021
 - ▶ Vibrant startup/VC industry

“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

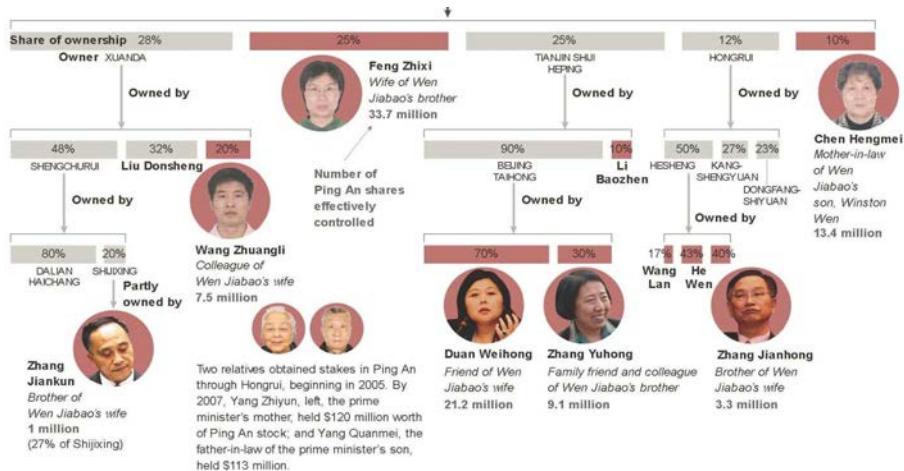
Organization of Local Government

- Party Secretary
- Mayor
- 9 Vice-Mayors
- Each Vice-Mayor assigned 20 “important” projects
- Local cadres use power of local Communist Party to help their “projects”

Ping-An Insurance

- Traded in HK and Shanghai, Market Value \approx 200 billion US\$
- Major Shareholders:
 - ▶ HSBC Insurance (10%)
 - ▶ HSBC Bank (10%)
 - ▶ Shenzhen Investment Management Company (9%)
 - ▶ Yuanxinhang Investment (8%)
 - ▶ Shenzhen Xin Hao Shi/Shenzhen Jing Ao (11.5%)
- “Ping-An’s Hidden Shareholders,” New York Times, November 2012
- 3% Owned by Taihong Holdings

Taihong Holdings



Campaign to Restore Party Control

- Influence of wealthy individuals (such as Duan Weihong) so widespread that it was viewed as an existential threat to the Party
- First strong hand: Crackdown on forces that pose a threat to party control, which includes large wealthy private firms
- Part of broader campaign to restore Party control
 - ▶ Anti-corruption campaign (2012 - ?)
 - ▶ Party cells in private companies and NGOs
 - ▶ “Golden” shares in critical companies
 - ▶ Increase authority of Party committees in SOEs, hospitals, universities
 - ▶ Increased importance of loyalty in party promotion
 - ▶ Local cadres spend time on “political study sessions” and Party inspection teams

Campaign to Support “Desirable” Private Firms

- Campaign to rein in successful Chinese firms hurts growth
- Second strong hand: Support SMEs that do not threaten the party
- Vision is a dynamic market economy under the control of the Communist Party
- Aggregate growth effect depends on net effect of the “two strong hands”