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Chang-Tai Hsieh on Two Strong Hands: China's Vision for the Private Sector

May 26, 2022

Webinar Transcript

Transcript:

Markus Brunnermeier: So welcome back everybody for another webinar organized by Princeton for everyone worldwide, we're very happy to have Chang-Tai Hsieh with us, hi Chang-Tai. Chang-Tai will talk about two strong hands, China's vision of the private sector, so we're looking forward to learning a lot about China and the vision that the Chinese Government has for its economy. When I think about hands, I think about invisible hands, by Adam Smith, and I was wondering, to what extent strong hands or a strong hand destroys the invisible hand. And typically invisible hands, you can associate with the price signal its economy of information about the scarcity of a particular product or an asset and the future cash flows, or what it pays off, so one is the marginal utility, one is the payoff. And if you have too much of an interventionist hand, then the price signal might not necessarily depend on the information about the underlying fundamentals, about the cash flows and so forth, but it might be much more signaling what the government will do in the future. I've done some work with Wei Xiong and Michael Sockin where we really focus on that— actually once investors think mostly what will the government do, what government intervention will come, they will zoom in on collecting information about that, and the best only signals about future government interventions, rather than the cash flows and that actually might distort resources down the road. Now that's essentially if you have strong hands but, more generally, if you have China's model, if you think about it as a government, you might want to throw the commanding heights, that's how Lenin put it. And Lenin said okay you don't have to control the whole economy, you just have to control the commanding heights consisting of strategically important sectors, like public utilities and natural resources and I would say platforms which are now in the new world where data is part of the commanding heights like Alibaba and financial Tencent and others. So that's essentially where Chang-Tai will go today. And one other challenge for China is essentially whether it will be caught in the middle income trap or not, so we know that different economies catch up with the advanced economies. Initially it's a very different process, because you just have to copy essentially what the advanced economies are doing, but once you add the frontier, you have to do your own R&D and they have to have a very different economic structure in this switch over from trying to catch up, from being at the frontier and pushing the frontier is very different, and you might be trapped if you don't manage to switch over as well, you don't have the resilience in a sense if you don't manage to switch over. And there's some examples where you know people escape this middle income trap and if you go back in the 19th century, you can actually compare imperial Germany. When imperial Germany in the 19th century tried to catch up with the UK and similarly the US was trying to catch up with the UK. While China is catching up with the US now and then you know being potentially caught in the middle income or not

caught, but what's striking essentially is that there's a lot of similarities between imperial Germany in the 19 century to China today, so imperial Germany actually was trying, it was a landlocked empire, so it tried to build you know, railways and there's famous Berlin backup railway and if you go to Istanbul, you see, you know, still a lot of these remaining part of the railways and the Belt and Road initiative is essentially similar concept, what China is doing now. There were also a lot of attempts to acquire new technological knowledge, and that's the same thing that China is doing now, in the way you compete in order to be able to set the standards. There was a big competition, for mobile communication and other types of communication, and how to set the standards at that time. And similarly there's some standard setting now in artificial intelligence and China's putting a lot of effort in this now. There are a lot of similarities that are strikingly similar. And, Germany and the US in the 19th century escaped the middle income trap and of course it could be that China is escaping it too, but it requires certain strategies and perhaps the two strong hands is one of the strategies.

4:30

So when I think about the two strong hands, Chang-Tai will say more about it. It comes to me through the battle of ideas, you know, what economic model does a country pursue and the different ways to do it. One way it seems very close to me to have this German Ordoliberalism perspective where you promote competition to limit concentration of power, so you really want to have no concentration of power, so you limit the concentration of power, and one way to do it is to have more competition. And you can do this in the private sector and in the public sector and this Freiburger school or the Ordoliberalist, they actually would like to have competition at the private sector, where you know, instead of having national champions, so in France, they promote national champions, it's a different economic model. In Germany, they want to have this Middelstand which is you know you have a lot of midsize economies, mid sized companies, and you promote competition among the midsize companies rather than have a few national champions being globally, you know big companies. And that was essentially very much what the German model was as German Ordoliberalism became very prominent in Germany after the Second World War, also because the allies really didn't like any concentration of power in Berlin, they wanted to avoid any concentration of power, so we have a lot of competition at the private sector, so no concentration of economic power, but also have a federal system, not to have a concentration in one capital, but you have a decentralized governance structure so there's no concentration of power unlike what the Nazis had before. It seems to me to some extent, and I think Chang-Tai today will enlighten us that, for the private sector, the Chinese are going the same route that they would like to have more mid-sized companies competing with each other rather than a few national champions. But in the public sector it's very different, so the German structure was off the second was a very federal structure, no concentration of political powers while in China, you had a tournament of local leaders and you select the best local leaders out of that and I don't know how this will play out, but there's of course there's a very strong power at the center, much more powerful than in Germany and that's you know, a different way of doing it, so I will be curious to learn how one would put this to strong hands in the context, how you know we think in Germany vs France, but there's a struggle within Europe, what economic model to follow. So Chang-Tai put forward three questions and I'm curious how we will think about them after Chang-Tai gives us his perspective. The first question was China's crackdown on the tech sector and the financial conglomerates will harm the economy, yes or no? And actually it is 80% thought it will harm the economy and 17% know so that's a strong, so the going after and financial tense and, and all this will actually harm the economy.

48

00:11:55.530 --> 00:12:10.230

Markus Brunnermeier: The second question was does shipping, the President of China, what does he want to return the mouse economic vision is it, yes or no, and actually one quarter thought he wants to go back to mouse economic vision, which you know might not be so successful.

49

00:12:10.590 --> 00:12:20.010

Markus Brunnermeier: But 75 think yeah we will go a different direction that's for the second question, the third question is china's economy would collapse in the medium term on the medium Brown.

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00:12:20.640 --> 00:12:29.130

Markus Brunnermeier: And only 10% thing china's economy would collapse 9% thing that will do fine and you know the high debt levels and all those things will not be.

51

00:12:29.670 --> 00:12:33.540

Markus Brunnermeier: warning, but it was not a worrisome because it won't collapse.

52

00:12:34.230 --> 00:12:44.670

Markus Brunnermeier: So with this we pass on the microphone to Shanghai and he will tell us about is too strong hands, and so, by increasing title, and I think it's a very nice auditors.

53

00:12:45.150 --> 00:12:55.890

Markus Brunnermeier: To get deeper insights how the Chinese economy will look like or is moving to a new framework thanks again Dante we're looking forward to your presentation.

54

00:12:56.880 --> 00:12:59.040

Chang-Tai Hsieh: Thank you Marcus can everybody hear me.

55

00:12:59.580 --> 00:13:00.000

Markus Brunnermeier: Yes.

56

00:13:00.120 --> 00:13:11.760

Chang-Tai Hsieh: Okay, great so if there's one message, or one idea or one question that I want you to be thinking about it's, the question is.

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00:13:12.750 --> 00:13:25.080

Chang-Tai Hsieh: What is the political foundation for china's support of the private sector so that's going to be my overarching question and that that's going to be what i'm going to try to answer.

58

00:13:25.770 --> 00:13:36.960

Chang-Tai Hsieh: The we're going to start this is that i'm going to start by just revisiting the headlines coming out of China that we've seen in the last two or three years and the headlights have been dominated.

59

00:13:37.440 --> 00:13:53.550

Chang-Tai Hsieh: By by the stories of of of of the crackdowns on some of the most successful Chinese companies that that that edits and it's useful to group it into two groups of of companies.

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00:13:54.090 --> 00:14:05.280

Chang-Tai Hsieh: there's been a crackdown on some of the most innovative Chinese companies on the tech sector and here i'm just with this thing, some of them, but it's not, these are not the only one, so.

61

00:14:05.520 --> 00:14:15.090

Chang-Tai Hsieh: there's been a crackdown on on on Ali Baba has been acquired done a Ted said there's been a crackdown on on the main one there's been a crackdown on dd.

62

00:14:16.050 --> 00:14:31.140

Chang-Tai Hsieh: You know not too long ago, I think I was having a conversation with mark is just a few years ago about whether some of the money platforms of 10 cent or Ali are going to dominate the world, nobody is talking about that now.

63

00:14:33.000 --> 00:14:36.660

Chang-Tai Hsieh: So so just think about sort of the sea change that we've seen in.

64

00:14:38.250 --> 00:14:41.430

Chang-Tai Hsieh: In the last two years, the other thing I.

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00:14:43.500 --> 00:14:51.660

Chang-Tai Hsieh: want you to know that this is also come out in in the media, but perhaps it's been less prominent but it's also been as important.

66

00:14:52.140 --> 00:15:01.200

Chang-Tai Hsieh: This started earlier, starting in about 2018 there's been a systematic dismantling of the largest Chinese conglomerates.

67

00:15:01.650 --> 00:15:08.220

Chang-Tai Hsieh: that these are accommodation of financial companies real estate companies or just mix conglomerates.

68

00:15:08.550 --> 00:15:15.390

Chang-Tai Hsieh: That do a variety of things so here i'm just listening, some of them, the one that group was perhaps what are the first one.

69

00:15:15.750 --> 00:15:31.050

Chang-Tai Hsieh: The unbound group the high Niall group that does everything from airlines to banking to real estate, you know it's I guess it's it's a conglomerate the the tomorrow group and and and last fall everybody was.

70

00:15:31.500 --> 00:15:45.150

Chang-Tai Hsieh: was focused on on the hunger or in English every ground right so that's been the other, but I just want you to realize that this is not all that good going on that, I think that the message.

71

00:15:45.450 --> 00:15:52.500

Chang-Tai Hsieh: That what you see out I think is absolutely right that there's been a crackdown on some of the largest and some of the largest some of those.

72

00:15:53.160 --> 00:15:56.160

Chang-Tai Hsieh: Some of the most successful with Chinese companies which.

73

00:15:56.580 --> 00:16:04.110

Chang-Tai Hsieh: You know, I think that if you would ask if we were to be doing the seminar three or four years ago, or five years ago nobody would have ever expected there everybody thought.

74

00:16:04.380 --> 00:16:12.540

Chang-Tai Hsieh: that some of these companies were going to be the Chinese were the Chinese champions, or they were eventually going to be the Chinese champions.

75

00:16:12.990 --> 00:16:23.640

Chang-Tai Hsieh: So what's going on, and I was saying that there's one there's a conventional wisdom that is emerging, that I see emerging and i'll just pick on to.

76

00:16:24.270 --> 00:16:33.450

Chang-Tai Hsieh: headlines to illustrate what I think is the conventional wisdom water journals That said, September of 2021.

77

00:16:33.900 --> 00:16:51.840

Chang-Tai Hsieh: The headline is it says Xi Jinping aims to rein in Chinese capitalism when to mouth socialist vision that basically China is going back to mouse economic model of socialism central planning reminds on stayed on firms.

78

00:16:52.950 --> 00:17:05.820

Chang-Tai Hsieh: Just in the most recent issue of The Economist the headline was a China an investable right, so this is one sort of dominant story that's come out of China.

79

00:17:07.560 --> 00:17:33.330

Chang-Tai Hsieh: What I also want to highlight is that there's also another campaign that's been going on for 567 years that hasn't really made it into the headlines, but for anybody that pays attention to what goes on on the ground in China it's equally big equally strong and and maybe even have.

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00:17:34.440 --> 00:17:45.300

Chang-Tai Hsieh: have important effects, so I would so here's what I just want to summarize that, at the same time that you have seen this crackdown.

81

00:17:45.870 --> 00:17:54.270

Chang-Tai Hsieh: On on the largest and most successful Chinese private firms what you also see is that there's been a rollout.

82

00:17:54.750 --> 00:18:03.870

Chang-Tai Hsieh: of a number of institutional changes that have improved conditions for private firms right, so I just want to.

83

00:18:04.410 --> 00:18:09.570

Chang-Tai Hsieh: there's a lot that there's a lot here and I will say that this has been done.

84

00:18:10.080 --> 00:18:23.670

Chang-Tai Hsieh: Maybe in a in a more quiet way, and none of this has made it into the Western media, but I think it's equally as important and what what I see quantitatively in the data is that they're equally as important.

85

00:18:24.000 --> 00:18:30.960

Chang-Tai Hsieh: there's a lot of so let me just try to summarize what I think are the most important parts of this number one is that.

86

00:18:31.500 --> 00:18:44.310

Chang-Tai Hsieh: Business regulations have been dramatically simplified, that is, in every locality in China, it is now really, really, easy to register your business that's either done online.

87

00:18:44.640 --> 00:19:00.240

Chang-Tai Hsieh: or there's or every single tell every single village every single city there's there's a one stop shop where you can register your business and the other thing that has happened is that the amount of capital that you need in order to register your business has.

88

00:19:01.800 --> 00:19:14.520

Chang-Tai Hsieh: has come down so starting a business has become very, very easy in China, and later on I'll show you some data that I think that this is that a very big effect in a number of startups in China.

89

00:19:15.090 --> 00:19:25.710

Chang-Tai Hsieh: The second piece of the changes that I've seen is, I think that there's been a vast improvement or changes in what I'm going to call judicial legal institutions.

90

00:19:26.040 --> 00:19:33.390

Chang-Tai Hsieh: That are focused on business okay I don't want to just leave the impression that there's been an overall improvement in judicial in.

91

00:19:33.990 --> 00:19:47.040

Chang-Tai Hsieh: In in legal it's legal institutions there how's it, but particularly but the ones that are focused on business, I don't think there's any question that these are change, and I think for for the better, I.

92

00:19:48.090 --> 00:19:56.250

Chang-Tai Hsieh: Here, let me just highlight three things there's a new bankruptcy law and there's a there's a new bankruptcy law, and there are new bankruptcy courts.

93

00:19:57.750 --> 00:20:10.680

Chang-Tai Hsieh: So this was a process bankruptcies used to be done by the local by used to be done by local Congress and it's now out of the hands of the local colleges that there's there's no legal system and there's no.

94

00:20:11.190 --> 00:20:19.980

Chang-Tai Hsieh: There there there's our judicial system that deals with the bankruptcy there's even a vast improvement in payment enforcement.

95

00:20:20.460 --> 00:20:35.340

Chang-Tai Hsieh: And I think that you know, a big part of it has been the creation and the spread of the social credit system so that it's now really easily or very hard to escape not making your payments so payment enforcement.

96

00:20:36.480 --> 00:20:51.480

Chang-Tai Hsieh: has improved dramatically they're also now new ports outside of bankruptcy new legal there's now a new legal system whose only purpose is to adjudicate business disputes contract disputes and.

97

00:20:52.830 --> 00:21:04.440

Chang-Tai Hsieh: Things like that empirically what you see in the data is that the the time that it takes to adjudicate a business dispute drops dramatically right, and if you.

98

00:21:05.250 --> 00:21:15.840

Chang-Tai Hsieh: talk with people to do try to understand what's going on on the ground, what you also find out very quickly is that is that there's the creation of this new legal system.

99

00:21:16.170 --> 00:21:19.920

Chang-Tai Hsieh: And there are also high powered incentives that have been put in place on the.

100

00:21:20.460 --> 00:21:31.080

Chang-Tai Hsieh: On the people that are in charge of the system to be as efficient as possible, so maybe the way to think about it is that there's like a mini now was campaign to make business dispute.

101

00:21:31.380 --> 00:21:45.540

Chang-Tai Hsieh: Resolution death or he or easy what you also see is all of these decisions are published online, so you can go and and there are millions of them so then so they it's really easy to get this information.

102

00:21:46.530 --> 00:21:47.610

Markus Brunnermeier: Like can ask a quick.

103

00:21:47.700 --> 00:21:59.010

Markus Brunnermeier: Essentially, China wide the whole Oh, is it from Providence to Providence the from so is ios or control that there's more control moving to Beijing away from the local authorities.

104

00:21:59.730 --> 00:22:01.890

Chang-Tai Hsieh: This is all done at the local level.

105

00:22:01.980 --> 00:22:03.750

Chang-Tai Hsieh: I mean, this is all yeah.

106

00:22:04.050 --> 00:22:06.840

Markus Brunnermeier: The bankruptcy law applies to all of China, I guess.

107

00:22:07.440 --> 00:22:21.360

Chang-Tai Hsieh: Yes, the bankruptcy law applies I the law, yes that's that's right but, but if you know anything about China that basically it's still in terms of the administrative authority it's still it's still a huge in the system.

108

00:22:21.660 --> 00:22:26.010

Chang-Tai Hsieh: And it's and it's up to the local government to implement this.

109

00:22:29.490 --> 00:22:35.610

Chang-Tai Hsieh: The third thing that I want to highlight is that I think that there's also been a big improvement of of.

110

00:22:36.240 --> 00:22:42.150

Chang-Tai Hsieh: Financial institutions that empirically what you see in the data is that the sheer of credit from the state on banks.

111

00:22:42.540 --> 00:22:55.650

Chang-Tai Hsieh: to small and medium sized family goes up empirically what you see in the data is that there's there's an explosion in vc funds and there's an explosion in startups that are funded by bye bye bye.

112

00:22:56.460 --> 00:23:11.880

Chang-Tai Hsieh: bye bye vc funds there's a vibrant Chinese version or several Chinese versions of Silicon Valley in the Shenzhen and also there's there's a district in Beijing called song one soon which which.

113

00:23:12.270 --> 00:23:21.750

Chang-Tai Hsieh: there's not been a whole lot of discussion here, but I think it's also a vibrant startup ecosystem there as as well.

114

00:23:22.320 --> 00:23:30.780

Chang-Tai Hsieh: and the last thing I want what I mentioned, is that there are now two new stock exchanges there's now there's a new Beijing stock exchange and there was a.

115

00:23:31.170 --> 00:23:49.500

Chang-Tai Hsieh: Earlier, there was a Shanghai stock exchange called star, which was dedicated only to to a science and technology startup so what this does is that you can see how this helps helps us helps the vcs and the vc funded startups because it provides an exit option.

116

00:23:50.520 --> 00:23:55.470

Chang-Tai Hsieh: For that, and one last fact, if you want to summarize all this.

117

00:23:57.810 --> 00:24:06.330

Chang-Tai Hsieh: If you look at how China did in the World Bank doing business indicators this thing that was candid last year, which I think is rather.

118

00:24:06.630 --> 00:24:11.880

Chang-Tai Hsieh: Unfortunate there are all kinds of problems with with things like the World Bank doing, they are being been.

119

00:24:12.270 --> 00:24:21.750

Chang-Tai Hsieh: Doing Business indicators, but I do think there's a lot of useful information that I think you know the way I think about the doing business indicators it's like the US news and world report.

120

00:24:22.110 --> 00:24:29.340

Chang-Tai Hsieh: rankings of the best universities in the US, there are all sorts of problems, but I rather it be there than not being there because there's useful there is.

121

00:24:29.580 --> 00:24:42.000

Chang-Tai Hsieh: There is useful information but yeah so, but what you see in terms of the World Bank doing business indicators before it was canned last year is a China over the last 10 years has improved dramatically.

122

00:24:42.960 --> 00:25:00.510

Chang-Tai Hsieh: In and what you also see is that the Chinese authorities have replicated something like the World Bank doing business indicators across China us to to basically collect data on on how each locality was doing in terms of of of.

123

00:25:01.500 --> 00:25:06.120

Chang-Tai Hsieh: Making business easier, we make a making the business better okay so.

124

00:25:07.110 --> 00:25:08.160

Chang-Tai Hsieh: What is going on, I think.

125

00:25:08.220 --> 00:25:14.610

Chang-Tai Hsieh: This is the reality in in in in in China now so.

126

00:25:14.760 --> 00:25:15.420

Markus Brunnermeier: Can I just.

127

00:25:15.450 --> 00:25:18.690

Markus Brunnermeier: guess what about this a credit to SMEs to small and medium.

128

00:25:18.690 --> 00:25:23.340

Markus Brunnermeier: Enterprises, this is primarily coming from and financial and the new platforms, but.

129

00:25:23.340 --> 00:25:24.420

Markus Brunnermeier: Joe was coming.

130

00:25:25.650 --> 00:25:25.830

Chang-Tai Hsieh: No.

131

00:25:26.310 --> 00:25:33.360

Chang-Tai Hsieh: i'm saying is basically a credit that is coming from the state on back so if you add on the stuff that are coming from.

132

00:25:33.600 --> 00:25:40.380

Chang-Tai Hsieh: And from ED financial and all these other financial it's not just financial but all these local financing vehicles.

133

00:25:40.650 --> 00:25:49.590

Chang-Tai Hsieh: What you see is that the sheer of money that of credit that's going to do to small and medium sized private firms has really exploded dramatically.

134

00:25:50.490 --> 00:26:01.710

Chang-Tai Hsieh: So the data that aside is only from the state of that what i'm saying is that you even see it among the the state on backs, so the way they would say that you know.

135

00:26:01.770 --> 00:26:02.490

Chang-Tai Hsieh: we're trying.

136

00:26:03.300 --> 00:26:14.670

Markus Brunnermeier: To start a public policy statement saying that our second hand always say any official announcement, or just you see it on the ground but there's no jumping never announced that.

137

00:26:14.670 --> 00:26:16.380

Chang-Tai Hsieh: Second there's never any announcement.

138

00:26:16.440 --> 00:26:20.700

Chang-Tai Hsieh: that the second head or even the first head that's my terminology.

139

00:26:21.960 --> 00:26:29.910

Chang-Tai Hsieh: that's something that I, I like it, though, so the the names that are giving is not Communist Party.

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00:26:30.660 --> 00:26:36.690

Chang-Tai Hsieh: it's my name for for it, I tried to mimic the Communist Party that if if they were to have.

141

00:26:37.020 --> 00:26:45.780

Chang-Tai Hsieh: A marketing department or a well functioning marketing department, not the propaganda department, but they do have a wealth ocean market harbor, this is what.

142

00:26:46.590 --> 00:26:54.120

Chang-Tai Hsieh: I would say, they should interests of marketing right, so this is the Chinese version of the Marcus academy right, if you want to put.

143

00:26:55.710 --> 00:27:09.030

Chang-Tai Hsieh: Put put it that way, so you may think that, so let me just point out that what what seems to be a contradiction in china's policy direction that on the one hand.

144

00:27:09.870 --> 00:27:23.340

Chang-Tai Hsieh: It is a very dangerous time to be somebody like Java like it's it's it's, and this is well understood and in the data what you see, and this is the part that is widely.

145

00:27:25.020 --> 00:27:33.930

Chang-Tai Hsieh: discussed in the media that the market cap of the largest publicly tray or large largest publicly traded from the China has fallen life has fallen like a rock.

146

00:27:35.040 --> 00:27:42.510

Chang-Tai Hsieh: That, if you put your money into publicly traded tray nice firms God bless you because you will have lost a ton of money.

147

00:27:43.410 --> 00:27:54.780

Chang-Tai Hsieh: But at the same time that the conditions for the private small and medium sized firms, I think, most obviously, most of which are still not treated as the moderator.

148

00:27:55.650 --> 00:28:06.090

Chang-Tai Hsieh: have never been better if you look at the data and say the number, the number of firms, you see a tripling in the number of firms over the last 10 years.

149

00:28:07.710 --> 00:28:16.230

Chang-Tai Hsieh: You see, I mentioned before a vibrant startup and and and and the vibrant vc industry.

150

00:28:17.280 --> 00:28:32.640

Chang-Tai Hsieh: So the big question is what is going on, why is it dangerous to be jack ma and why is it that, at the same time that they're dead they're putting down the hammer.

151

00:28:33.000 --> 00:28:42.930

Chang-Tai Hsieh: On the most successful Chinese companies they're trying to help the other firms that could eventually turned out to be like jack ma.

152

00:28:43.830 --> 00:28:53.640

Chang-Tai Hsieh: i'm taking my time to answer that question because i'm going to take a step back and i'm going to bring you back to China from 10 years ago and I want to illustrate.

153

00:28:55.470 --> 00:29:06.210

Chang-Tai Hsieh: We, why is it that it is currently a very dangerous time to be joking about this, I think, to understand that question, you have to understand where Chinese growth comes from.

154

00:29:07.020 --> 00:29:15.960

Chang-Tai Hsieh: Okay, so forgive me for ID tour i'm going to give a five Min admitted detour then i'm going to come back and answer the question.

155

00:29:16.530 --> 00:29:28.740

Chang-Tai Hsieh: Okay, so let me start by bringing you back to China for about 10 years ago so about 10 years ago, maybe this is nine years ago nine or eight years.

156

00:29:30.090 --> 00:29:39.090

Chang-Tai Hsieh: my collaborators on this other project, we made a visit to a small Chinese city in southern China small about 2 million people.

157

00:29:40.350 --> 00:29:57.600

Chang-Tai Hsieh: We went there because we wanted to understand what local governments did right, so we got there and our entree into the system was through the this person that was a vice Mayor of education in this city.

158

00:29:58.770 --> 00:30:02.280

Chang-Tai Hsieh: Because he was a former student of one of one of the people that.

159

00:30:02.820 --> 00:30:13.620

Chang-Tai Hsieh: I was doing this project with so my collaborators showed up at device mayor's office so just to be clear who this person was this was a person in charge of the public schools in the city.

160

00:30:14.250 --> 00:30:27.480

Chang-Tai Hsieh: We got there and the vice mayor was not there, and this person Chief of Staff apologized I said that you know that he was looking forward to your visit my his most Honorable teacher.

161

00:30:28.560 --> 00:30:38.700

Chang-Tai Hsieh: And he's going to try really hard to to to to meet with him later that day the some important visitors had come had had come to town so then.

162

00:30:39.480 --> 00:30:50.250

Chang-Tai Hsieh: he's they started to chat about what divided mayor's Office does and the vice mayor's Chief of Staff proudly you know after about half an hour handed us this flow chart.

163

00:30:51.330 --> 00:30:53.820

Chang-Tai Hsieh: Okay, then say this is what we do.

164

00:30:55.350 --> 00:31:04.050

Chang-Tai Hsieh: And here i'm going to give you my translation of what this flowchart site, so the vice mayor for education, this is the most important thing that they do.

165

00:31:04.380 --> 00:31:13.740

Chang-Tai Hsieh: They there's a process, they actively look for quality prospects, they have an initial discussion to learn about the investor the other take a feasibility analysis that it.

166

00:31:14.100 --> 00:31:20.550

Chang-Tai Hsieh: landed other nita services there, whatever it is that they're talking about goes through the approval by the Vice mayor and they sign the.

167

00:31:21.270 --> 00:31:32.130

Chang-Tai Hsieh: sign the agreement, so let me take a pause here, and let me ask if there's a way in which I can ask the audience, what do you think the vice mayor's Chief of Staff is talking about.

168

00:31:37.230 --> 00:31:44.280

Markus Brunnermeier: yeah probably it's about new projects to sell a certain land where new companies can build.

169

00:31:45.000 --> 00:31:53.250

Chang-Tai Hsieh: it's not about what let me see what this is this is exactly what it looks like that what the vice mayor's office was doing.

170

00:31:53.580 --> 00:32:06.660

Chang-Tai Hsieh: was basically what I call what our quality prospects, these are basically businesses that that are that are setting up in the city, so what you quickly find out, and I guess we went there.

171

00:32:07.410 --> 00:32:11.610

Chang-Tai Hsieh: my mind my collaborators went there, because they they knew what was going on.

172

00:32:12.030 --> 00:32:17.730

Chang-Tai Hsieh: That what you see in the city, and this is something that you see in every city in China.

173

00:32:17.970 --> 00:32:31.380

Chang-Tai Hsieh: Is that what at every level of the bureaucracy, the main thing that they'd be rockers he was doing is that they weren't doing what the official title or the official office was doing what they were doing is that they were basically.

174

00:32:31.830 --> 00:32:42.180

Chang-Tai Hsieh: working overtime to basically get companies have set up in the city that's what quality prospects are it's basically all these companies, you know who can I.

175

00:32:42.960 --> 00:32:52.770

Chang-Tai Hsieh: So, think of what they were doing as being sort of the equivalent of what half of of you know what happened three years ago when.

176

00:32:53.730 --> 00:33:03.540

Chang-Tai Hsieh: In American studies when Amazon said that they were going to set up a second headquarter right all the cities went into overdrive and saying hey me me me me it's.

177

00:33:04.080 --> 00:33:13.860

Chang-Tai Hsieh: Like that's what these guys are doing right that's what these these guys, so let me just give you a broader sense of how this local government is organized.

178

00:33:14.190 --> 00:33:22.800

Chang-Tai Hsieh: The number one guy is the secretary of the Communist Party number two guy is the mayor, so this is, I think that's well understood so be ever do anything in China.

179

00:33:23.070 --> 00:33:30.810

Chang-Tai Hsieh: don't ever make the mistake to think that the mayor is the number one guy he's not is not it's the party Secretary that's the number one guy.

180

00:33:31.200 --> 00:33:42.270

Chang-Tai Hsieh: And then there are nine vice mayors and the guy that we knew is one of the nine by smears but what you find and then and then what we can document in this case.

181

00:33:42.630 --> 00:33:50.970

Chang-Tai Hsieh: Is that each of the vice mayor is assigned roughly 20 important projects and what what we mean by projects.

182

00:33:51.420 --> 00:34:04.980

Chang-Tai Hsieh: aren't are busy they are in charge, they are the point person for specific private companies and they are responsible for bringing them into the city they're responsible for making sure that these companies have everything that they need.

183

00:34:05.460 --> 00:34:19.710

Chang-Tai Hsieh: In order to grow, the grow and we were we were not able to figure out the companies that the beer was in charge of or the partner, secondly, which Roger daltrey there are some that are in their heads, so the way that you want to see.

184

00:34:20.250 --> 00:34:25.500

Markus Brunnermeier: These startups So these are large companies just searching for new headquarters like Amazon.

185

00:34:26.220 --> 00:34:31.020

Chang-Tai Hsieh: These are, in this case it's mostly large companies, the.

186

00:34:32.460 --> 00:34:37.560

Chang-Tai Hsieh: yeah these are and just to be clear, for you know, for those of you who For those of you who are.

187

00:34:38.010 --> 00:34:51.600

Chang-Tai Hsieh: enamored with the notion of state on firms, these are all private firms, I mean, these are all private firm so so really would like what these guys care, the most about is not the local state owned firms but it's but it's these private firms.

188

00:34:53.550 --> 00:34:57.690

Chang-Tai Hsieh: That that's what they are 10 years ago that's what they are spending their time on.

189

00:34:58.110 --> 00:35:10.470

Chang-Tai Hsieh: And that was their most important political priority to try to bring these companies at the town and to get these companies to grow, so the way I want to summarize sort of what the system was.

190

00:35:10.830 --> 00:35:25.290

Chang-Tai Hsieh: Is that these local officials these local cadres they use the power of the local Communist Party to help their projects in this case, think about 250 companies in the city of two in the city of to.

191

00:35:27.270 --> 00:35:38.580

Chang-Tai Hsieh: 2 million, and then the other piece, which I think is important is that it's not just this this local government that is doing that that that all these local governments are competing with with our are.

192

00:35:38.970 --> 00:35:49.860

Chang-Tai Hsieh: are competing with each other in order, in order to do the soul, the best way that I can think of to to describe how competition takes place is that.

193

00:35:50.310 --> 00:36:11.190

Chang-Tai Hsieh: it's it's really about the competition between businesses in the different cities it's the competition between Shanghai in all the companies that are tied to the party Secretary of aging versus Beijing Inc versus shenton incubator versus the 2000 other localities in China okay.

194

00:36:11.340 --> 00:36:19.740

Markus Brunnermeier: So is it like opening the doors to make regulation easy or is it also providing funding so they're connected with state owned dangerous.

195

00:36:19.890 --> 00:36:22.170

Markus Brunnermeier: that's a boring fund is this companies.

196

00:36:22.350 --> 00:36:36.360

Chang-Tai Hsieh: yeah that's a great question until about 2010 or so local governments did not have access to capital city, it was not about access to capital, one of the consequences of the 2008 financial crisis.

197

00:36:36.660 --> 00:36:44.220

Chang-Tai Hsieh: Was that trying to implemented a big fiscal stimulus and that opened the doors, because the way that was implemented was that they basically.

198

00:36:44.640 --> 00:36:50.040

Chang-Tai Hsieh: got these local governments to create these off balance sheet financial companies and then, when the fiscal.

199

00:36:50.520 --> 00:36:59.130

Chang-Tai Hsieh: Fiscal program or the fiscal stimulus was over, they basically use these financial vehicles these ufology companies to then channel money.

200

00:36:59.640 --> 00:37:14.370

Chang-Tai Hsieh: And, and that that became the origin of shadow banking in in China, a couple years later that's men shadow banking started as an effort to try to get access to funds directly from from from a Chinese families.

201

00:37:15.540 --> 00:37:33.240

Chang-Tai Hsieh: But that was that so think of this as being sort of where things were about 10 years ago, why does this lead us up to the moment that we're in it's about the political implications of this month of this this particular.

202

00:37:34.860 --> 00:37:43.080

Chang-Tai Hsieh: model of growth and the maybe the way that I want to illustrate this is to talk about a story that came out in the New York Times in 2012.

203

00:37:43.530 --> 00:37:50.700

Chang-Tai Hsieh: That did two things in one of the New York Times, the Pulitzer prize, and it also got the New York Times permanently blocked in China.

204

00:37:51.090 --> 00:38:00.570

Chang-Tai Hsieh: Okay, but, and I think it's important because it's because I think this illustrates the story in in the times here the streets, the political.

205

00:38:01.530 --> 00:38:09.030

Chang-Tai Hsieh: The political consequences of that particular model which is, which is going to lead us to the first strong hand that.

206

00:38:09.600 --> 00:38:15.330

Chang-Tai Hsieh: They give back to in a minute, so the story in The Times came out it came up in October of 2012.

207

00:38:15.660 --> 00:38:27.840

Chang-Tai Hsieh: was a story about this big insurance company wasn't just an insurance company called Ping on insurance think of this as a company, this was traded in Hong Kong Shanghai with a market cap of about \$200 billion.

208

00:38:28.320 --> 00:38:39.810

Chang-Tai Hsieh: If you look at who owns the company it's the hsbc back at three local financing vehicles so local governments that have put their money.

209

00:38:40.350 --> 00:38:49.080

Chang-Tai Hsieh: What the New York Times noticed, so the title of the article of the new Yorkers was called the hidden shareholders of.

210

00:38:49.590 --> 00:39:08.760

Chang-Tai Hsieh: of keeping on and what the guy from the times figured out it's a good question how he figured out that a couple of years before 2012 3% of the company shifted to becoming owned by this by this by this other company called high home holdings.

211

00:39:10.260 --> 00:39:22.650

Chang-Tai Hsieh: Which what is tiger holding it's basically a holding show right, so what the article is about is basically what is type on holdings Okay, so this is a picture.

212

00:39:23.130 --> 00:39:32.430

Chang-Tai Hsieh: From that piece in the times Okay, what is ty ty Hong Kong holdings, when what the times was able to do is that at the time.

213

00:39:32.760 --> 00:39:40.170

Chang-Tai Hsieh: there's this Chinese registration data is basically the the registration records of companies.

214

00:39:40.590 --> 00:39:50.610

Chang-Tai Hsieh: And it was possible at that time to basically go to these to these local registration officers you follow a very basic form you pay a small fee.

215

00:39:50.850 --> 00:40:02.430

Chang-Tai Hsieh: And you can see the registration documents or every Chinese company so that's what the time is there and what, and this is what he felt that he found a typhoon holdings is owned by two people.

216

00:40:02.790 --> 00:40:13.860

Chang-Tai Hsieh: And by three other holding shots right and then he went back and he looked got the registration documents of each one of these holding shells and the first thing that he documented.

217

00:40:14.220 --> 00:40:27.630

Chang-Tai Hsieh: Is at these holding shells are look like they look like a Russian doll, that is, you know it's a holding show we look at the whole thing show in itself is owned by several other holding shells and that that holding shelf is owned by a bunch of other whole.

218

00:40:28.170 --> 00:40:38.190

Chang-Tai Hsieh: bunch of other holding shells and so on, what the report of the times, he had a patient is that he basically went any trace down the entire tree.

219

00:40:38.730 --> 00:40:50.610

Chang-Tai Hsieh: He traced on the entire tree eventually he figured out that tae kwon holdings was owned by basically people were relatives have one job as family.

220

00:40:51.120 --> 00:41:07.140

Chang-Tai Hsieh: which was who he was the the the number two person in China at the time Okay, and by this other person called the the woman at the bottom called one color dwyane Wade Hong.

221

00:41:07.860 --> 00:41:25.800

Chang-Tai Hsieh: Kong called top ramen home and there's no a fascinating book written by her former husband that came out in the last year called red room that that I strongly recommend that you read, because now, I think, with that book, we now know the full story of this case okay so.

222

00:41:26.970 --> 00:41:35.220

Chang-Tai Hsieh: What do I want you to take away from this, what I want you to take from this is that this kind of corporate structure started to become.

223

00:41:35.970 --> 00:41:46.080

Chang-Tai Hsieh: The standard the norm for all the large Chinese private companies ended is when you started asked why it's easy to think about a reason why.

224

00:41:46.500 --> 00:41:56.880

Chang-Tai Hsieh: Think back to the previous model where all these private companies they needed these local communist party officials to basically smooth the path for them.

225

00:41:57.480 --> 00:42:05.700

Chang-Tai Hsieh: Okay Now you can ask a question okay Why are these local Communist Party visuals doing this for them, maybe they're doing this because they are.

226

00:42:05.910 --> 00:42:13.590

Chang-Tai Hsieh: The Chinese equivalent of, say, priests of the Catholic Church they're doing us out of the goodness of their hearts and our the sense of mission.

227

00:42:14.130 --> 00:42:24.420

Chang-Tai Hsieh: Maybe that's part of what's going on, but then at at a point where some of these companies, some of these projects turned out to be billion dollar companies.

228

00:42:25.050 --> 00:42:46.470

Chang-Tai Hsieh: You know there's a very real temptation to say why not, you know I work so hard to get this company from \$10 million to a billion why isn't it just fear that I have a small piece of that Okay, so this started to become this practice started to become widespread.

229

00:42:48.120 --> 00:42:59.340

Chang-Tai Hsieh: Widespread so this brings us back then to the first strong hand Okay, so this was the world as of 2012 2013 2014.

230

00:43:01.230 --> 00:43:07.770

Markus Brunnermeier: What my interpretation is people almost only got the Chinese way of having oligarchs.

231

00:43:08.700 --> 00:43:15.810

Chang-Tai Hsieh: This is, I would say that's right, I would say I think what prevented from being oligarchy is is just.

232

00:43:16.350 --> 00:43:25.740

Chang-Tai Hsieh: Yes, and no, yes, but what what there's also this other feature of the Chinese system which is tremendous competition which basically limits there.

233

00:43:26.550 --> 00:43:33.120

Chang-Tai Hsieh: So it's different from V, I think the Russian model which what what what what typically thinks about you think about.

234

00:43:33.540 --> 00:43:46.920

Chang-Tai Hsieh: All the characters are very little of this, I think, is about rent most of it is really the that these are real businesses, these are real businesses, and they are, they are competitive, that they are yes it's a very competitive system.

235

00:43:48.390 --> 00:43:58.050

Chang-Tai Hsieh: But the political so I want to bring you back the political implication of this particular model is that it's this.

236

00:43:58.860 --> 00:44:16.320

Chang-Tai Hsieh: Is that this system was based on this on this alliance between entrepreneurs and local party congress Okay, so what started to happen in my interpretation is that.

237

00:44:17.190 --> 00:44:31.890

Chang-Tai Hsieh: As these companies grew and became billion dollar companies, you know building dollars means that you start to matter right and you start to matter and the influence of the wealthy people such as this one, who was in.

238

00:44:32.730 --> 00:44:43.740

Chang-Tai Hsieh: The picture become so widespread that it was viewed as an existential threat to the party in in the following sets that, basically, if you are a local party Qadri.

239

00:44:44.760 --> 00:44:53.790

Chang-Tai Hsieh: What do you care more about do you care more about your hundred million dollars worth of equity.

240

00:44:55.440 --> 00:45:09.900

Chang-Tai Hsieh: In these companies or do you care about maintaining your loyalty to the party and what is fabulous about the book by Miss daughter's husband and I strongly strongly recommend is that there's one chapter in the book where.

241

00:45:09.930 --> 00:45:12.480

Markus Brunnermeier: You can you repeat the title because somebody would like to know that.

242

00:45:12.540 --> 00:45:16.500

Chang-Tai Hsieh: Yes, let read grew let.

243

00:45:16.560 --> 00:45:30.660

Chang-Tai Hsieh: His title there's a fascinating chapter in the book where they describe how they were able to basically push for the promotion of their of their people in the party.

244

00:45:31.980 --> 00:45:42.900

Chang-Tai Hsieh: So, think about what what happens then the question is who controls, who right is is it is it a party that's in charge of sort of the most important parts of the party on in terms of WHO.

245

00:45:43.260 --> 00:45:52.500

Chang-Tai Hsieh: The who gets promoted up the system, or is it just the private interest of people like miss dawn and her husband, and I would say that you would you see is growing.

246

00:45:52.890 --> 00:46:09.330

Chang-Tai Hsieh: evidence that that that it is these entrepreneurs start to become really powerful political they started becoming very, very powerful, or at least, there was the perception that these guys really matter politically.

247

00:46:09.840 --> 00:46:10.950

Markus Brunnermeier: So drunken can I.

248

00:46:11.370 --> 00:46:16.320

Markus Brunnermeier: So there's this understanding that how the Chinese system works is through this tournament within the party.

249

00:46:16.410 --> 00:46:27.090

Markus Brunnermeier: You know you're very successful in your Providence once you're more successful than the others, you move up the ranks and began them was successful in Beijing, you this would be undermined, to do subscribe to this tournament you.

250

00:46:28.170 --> 00:46:30.720

Markus Brunnermeier: Or do you think this is not destroying the tournament viewers entry.

251

00:46:33.270 --> 00:46:40.230

Chang-Tai Hsieh: I mean the tournament view is, I would say the official narrative in China that's the official narrative it's.

252

00:46:41.670 --> 00:46:42.750

Obviously.

253

00:46:44.040 --> 00:46:59.790

Chang-Tai Hsieh: it's really hard to know whether this is what is going on, or not I mean, so that this is not a joke, but it's all like the day when I get access to the personnel files of the communist party's organization department, I can test it apparently.

254

00:47:01.230 --> 00:47:04.680

Chang-Tai Hsieh: that's not going that's going to happen, so I can safely say.

255

00:47:05.730 --> 00:47:19.050

Chang-Tai Hsieh: i'm going to put forward, I think that they are i'm sure there are cases in which it's this tournament, but I would say that that is the I think a dramatic over simplification of of of.

256

00:47:19.620 --> 00:47:25.950

Chang-Tai Hsieh: of how who have who gets promoted and who does not get promoted and I want to say that there's.

257

00:47:26.730 --> 00:47:33.450

Chang-Tai Hsieh: There there, there are lots of other potential forces that also drive that that will that will also.

258

00:47:34.080 --> 00:47:44.700

Chang-Tai Hsieh: drive it, so let me just come back and say what we have seen in China in the last 10 years is this broad based campaign okay.

259

00:47:45.120 --> 00:47:54.240

Chang-Tai Hsieh: of which what i'm describing is only one part of it, to restore the control of the party and I will say that the way that you want it to think about it is that.

260

00:47:54.780 --> 00:48:02.460

Chang-Tai Hsieh: You know I think there's this conventional wisdom that that the senior leader parties senior leaders in the party, the frequently talked about the.

261

00:48:03.330 --> 00:48:16.770

Chang-Tai Hsieh: The the Soviet Union and Eastern Europe and they say that the main mistake that was made, and this is a little quote is that they were not man enough to stand out and take an.

262

00:48:17.250 --> 00:48:29.460

Chang-Tai Hsieh: intake and and and take and take back control so their prescription of what happened of of what happened in Eastern Europe is that the Communist Party lost.

263

00:48:30.540 --> 00:48:36.570

Chang-Tai Hsieh: lost their monopoly on power and they were not willing to fight in order to keep the monopoly power so.

264

00:48:37.980 --> 00:48:49.110

Chang-Tai Hsieh: What what what's happened in China in the last 10 years was basically like the have a big campaign by the party to not go that route right.

265

00:48:49.620 --> 00:49:01.200

Chang-Tai Hsieh: To to not go that route so i'm going to call this, this is not party that is not what the party has called it, but I would call it the first strong hand that is it's basically.

266

00:49:01.830 --> 00:49:12.270

Chang-Tai Hsieh: What has happened is that there's been a crackdown on forces that pose any kind of a threat to to the control of the party which includes some large wealthy private private firms and and.

267

00:49:12.510 --> 00:49:19.860

Chang-Tai Hsieh: and hopefully it's now clear at least my view on why is it that these guys posed sport was viewed as both in such a threat.

268

00:49:20.190 --> 00:49:32.400

Chang-Tai Hsieh: To the party so it's not just a standard story in the US, that the wealthy companies have money, and they are power, but I think it's in China is a little bit different just because of this of the particular.

269

00:49:32.730 --> 00:49:44.640

Chang-Tai Hsieh: alliance between the local Communist Party Congress and and successful entrepreneur, but I also want what what the audience to realize that it's not just this right that it's part of this broader.

270

00:49:45.090 --> 00:49:58.350

Chang-Tai Hsieh: Cat it's part of the broader campaign to restore the control of the party that's the way you want to think about the anti corruption campaign that all almost all the anti corruption cases is about these local cadres.

271

00:49:58.740 --> 00:50:06.480

Chang-Tai Hsieh: Getting pills from from from from wealthy are from a wealthy entrepreneurs just going to crack down.

272

00:50:06.810 --> 00:50:17.760

Chang-Tai Hsieh: On celebrities you think about why our celebrities dangerous well because they're celebrities other that they're a source of independent political powers, but the crackdown.

273

00:50:18.180 --> 00:50:26.550

Chang-Tai Hsieh: NGOs is a crackdown on all the other potential sources of the transmission of ideology and he's that's my interpretation of the crackdown on.

274

00:50:26.970 --> 00:50:34.380

Chang-Tai Hsieh: On the after school Tutoring companies because there's no, you know these these Tutoring companies by not in the business of transmitting.

275

00:50:34.680 --> 00:50:40.800

Chang-Tai Hsieh: Communist Party ideology they're there to make sure your kid passes the methods and and that does no good.

276

00:50:41.400 --> 00:51:00.330

Chang-Tai Hsieh: Because you don't control what is being taught in the end, then let me just go on and say there the party cells in there's now widespread sells the Communist Party in private companies golden shares in critical infrastructure companies at the level of the party.

277

00:51:01.710 --> 00:51:14.190

Chang-Tai Hsieh: party committees are now much more important in in state entities, by which I mean stayed on firms hospitals university, so, if anything, it used to be that there.

278

00:51:14.610 --> 00:51:19.560

Chang-Tai Hsieh: always has been, this door structure in the stadium in the city in the state on and.

279

00:51:20.130 --> 00:51:26.700

Chang-Tai Hsieh: stayed on entities, for example, for most of the people here in this audience, you may have visited Chinese universities.

280

00:51:26.970 --> 00:51:35.580

Chang-Tai Hsieh: That there's the president of the university or the dean of the school that that that you may see, but what you also know.

281

00:51:35.820 --> 00:51:42.810

Chang-Tai Hsieh: Is are almost always right across the corridor there's also the office of the party Secretary of the Secretary of the Communist Party.

282

00:51:43.140 --> 00:51:48.570

Chang-Tai Hsieh: And the authority of of of the ladder has increased relative to the authority.

283

00:51:48.990 --> 00:51:58.200

Chang-Tai Hsieh: Of the of the former there's now that increase importance of showing making sure that you are loyal to the party in terms of in terms of whether you are.

284

00:51:58.620 --> 00:52:07.530

Chang-Tai Hsieh: promoted empirically what you see is that the the same guys that my co authors visited they used to work 24 seven.

285

00:52:08.010 --> 00:52:23.430

Chang-Tai Hsieh: On business development that's no longer true right they now spend a great deal of their time on political study said on on Political Studies polluted study surgeons learning XI Jinping thought, etc, and also.

286

00:52:24.660 --> 00:52:41.820

Chang-Tai Hsieh: every few months there's now a different party inspection team that comes through that comes through check some things checks, I think, and it's a way to try to say it's all part of this care part of this campaign to impose party discipline OK so.

287

00:52:41.940 --> 00:52:46.920

Markus Brunnermeier: The way to quantify how big efficiently losses on terms of economic brokenness.

288

00:52:47.580 --> 00:52:48.120

Chang-Tai Hsieh: it's a great.

289

00:52:48.180 --> 00:52:49.230

Chang-Tai Hsieh: Question right.

290

00:52:53.910 --> 00:53:01.050

Chang-Tai Hsieh: I wish yeah I mean I would love to do that, or I would love if somebody were to able to even something simple like.

291

00:53:01.470 --> 00:53:13.890

Chang-Tai Hsieh: Just a time you survey, or what local cutters are doing are spending time on are doing time and that would be lovely but part of what that I think will be very hard to do it in in.

292

00:53:14.400 --> 00:53:24.600

Chang-Tai Hsieh: today's China because it will, it will be viewed as something that also threatens the control of the party, if you if you were to try to do that so.

293

00:53:25.260 --> 00:53:34.680

Chang-Tai Hsieh: So, so this is the first strong hands and and the way I want you to understand is that it's not in isolation right it's not just this one thing, but it's just.

294

00:53:35.130 --> 00:53:55.410

Chang-Tai Hsieh: part is just I think probably the most important component of this broader of this of this broader campaign to try to you know I guess to use marcus's term to try to make sure that Chinese all the guards do not control the political system.

295

00:53:56.670 --> 00:54:08.010

Chang-Tai Hsieh: Okay Now let me just say that what just be clear sort of this my view on what this is not Okay, it is not a crackdown on large companies per se.

296

00:54:08.520 --> 00:54:14.700

Chang-Tai Hsieh: right that is it's not about the trainees, all of a sudden becoming like Elizabeth Warren.

297

00:54:15.360 --> 00:54:22.290

Chang-Tai Hsieh: That I don't think that that's what it is because there's no practical if if you know there's a lot of people who are saying that oh it's about.

298

00:54:22.500 --> 00:54:34.770

Chang-Tai Hsieh: crackdown on monopolies trying to deal with mark trying to deal with the market power of some of these platform company there is zero crack down on some of the biggest monopolies that they just happen to be stayed on.

299

00:54:35.100 --> 00:54:46.470

Chang-Tai Hsieh: write about, and let me just also highlight for the for the for the foreign investors is that there were zero crackdown on the large foreign firms and, in fact.

300

00:54:46.830 --> 00:54:57.450

Chang-Tai Hsieh: The conditions for the foreign firms, I think, have gotten even better so tesla in Shanghai has gotten deals that I think no other company.

301

00:54:57.960 --> 00:55:19.770

Chang-Tai Hsieh: In China has been able to get access to Taiwan semiconductor in a non in a non Jing is treated well as well, and if they ever wanted to expand in China, you will guarantee you that 1000 local governments will we will have will be knocking on their door foxconn.

302

00:55:20.430 --> 00:55:27.600

Markus Brunnermeier: is staying organized by the local government or in Beijing that give testimony special deal with deciding about the special.

303

00:55:27.990 --> 00:55:36.540

Chang-Tai Hsieh: it's I mean it's it's it's a Shanghai, to me, let me just say that, like the biggest deal that does, I mean.

304

00:55:37.950 --> 00:55:58.050

Chang-Tai Hsieh: You look at the kind of deals that tesla has is is incredible the like they get some of the best land in Shanghai for free, they are the only foreign car company that's that has been allowed to own the company 100% all the other companies have to operate through joint ventures.

305

00:55:59.130 --> 00:56:11.070

Chang-Tai Hsieh: And the reason is because it is viewed it's viewed in the same way by the Chinese as as US us investors like, if you think about why tesla is.

306

00:56:11.760 --> 00:56:19.320

Chang-Tai Hsieh: valuation is so high, is because it's viewed as being the company that is going to bring us to the next stage of cars.

307

00:56:19.680 --> 00:56:25.980

Chang-Tai Hsieh: That we are finally good to go to move away from the hubble year from the model that was introduced by Henry Ford.

308

00:56:26.280 --> 00:56:38.340

Chang-Tai Hsieh: And we there's going to be the new paradigm and tesla is going to be in in charge of it, so they are willing to do whatever it takes to to get their piece of of this so for a.

309

00:56:39.180 --> 00:56:43.680

Chang-Tai Hsieh: If the way I think about it is I look the reason why there's no path and and large.

310

00:56:44.310 --> 00:56:51.660

Chang-Tai Hsieh: A large for foreign firms is or it's easy to understand why there's no crackdown on the state on monopolies that is.

311

00:56:51.960 --> 00:57:02.520

Chang-Tai Hsieh: You control so they never pose a threat to you why is there not a crackdown on a large for for for what, precisely because there, for that is because there for firms, they can.

312

00:57:03.150 --> 00:57:10.140

Chang-Tai Hsieh: They they can never challenge you politically in the same way that that chalk mark can.

313

00:57:11.070 --> 00:57:17.250

Chang-Tai Hsieh: Okay, so it sort of reminds me of the story, I don't know whether it's true but there's a story that i've heard about.

314

00:57:17.490 --> 00:57:24.570

Chang-Tai Hsieh: Indonesia under Suharto that the only people that could make the deals with waters families where the Indonesian Chinese.

315

00:57:24.870 --> 00:57:32.850

Chang-Tai Hsieh: That if you're a native Indonesian you weren't able to make a deal, and the reason was because the Chinese were in the minority and they were also hated.

316

00:57:33.180 --> 00:57:43.380

Chang-Tai Hsieh: There was a hater so that even if they become billionaires because they were Chinese they could never threaten Suharto poor they can they never threaten so hard to Paul.

317

00:57:44.370 --> 00:57:57.780

Chang-Tai Hsieh: So so hard to a political, so I again I want to emphasize here that it's my us that it's not about sort of it's a very different, although on the surface, it may look like.

318

00:57:58.170 --> 00:58:08.070

Chang-Tai Hsieh: The same kind of thing that we're seeing in the US, you know the stories that we're hearing out of the FTC the things stories we're hearing out of Elizabeth Warren staff.

319

00:58:08.490 --> 00:58:27.330

Chang-Tai Hsieh: About you know growing monopoly power, etc, etc, I don't think at all what is going on in China, despite on a spot on the surface, it looks like the same thing here, I think, fundamentally, is about the threat to to a threat to the Lennon as part of.

320

00:58:29.190 --> 00:58:33.690

Chang-Tai Hsieh: Now let me end by saying that you know the problem.

321

00:58:34.770 --> 00:58:42.150

Chang-Tai Hsieh: With this political campaign with the first strong hand this was what Marcus high versus what what.

322

00:58:42.780 --> 00:58:57.420

Chang-Tai Hsieh: Marcus highlighted that if you crack down and some of your most successful firms and, more broadly, if you if you crack down on the model on this alliance that has delivered you growth that obviously.

323

00:58:57.810 --> 00:59:06.690

Chang-Tai Hsieh: You know you're going to grow that, if so, and then, if you heard growth, then, that if you ever grow, then, then I mean that.

324

00:59:07.110 --> 00:59:17.430

Chang-Tai Hsieh: That is the other thing that eventually I think if if the Chinese economy falters, in the long run, that I think is also going to pose a very real threat to the party.

325

00:59:17.730 --> 00:59:36.390

Chang-Tai Hsieh: To to the power of the party because it's built a lot of its legitimacy on this notion that it is competent at it and it is deliberate, growth and prosperity Chinese citizens, and if it doesn't do that anymore, then that then, then that is serious political trouble.

326

00:59:37.410 --> 00:59:41.070

Chang-Tai Hsieh: So this is where the second strong hand comes.

327

00:59:42.120 --> 00:59:43.980

Chang-Tai Hsieh: Right, the second song and and.

328

00:59:45.390 --> 00:59:46.080

Chang-Tai Hsieh: And then.

329

00:59:47.940 --> 00:59:54.390

Chang-Tai Hsieh: i'm not going to to repeat the list of things that have done, but let me just say what is the vision.

330

00:59:55.020 --> 01:00:03.720

Chang-Tai Hsieh: That the vision is that it's basically the recognition that the first strong hand which they need in order to survive politically.

331

01:00:04.230 --> 01:00:17.250

Chang-Tai Hsieh: Basically, to kill off the oligarchs also hurts growth, but if you really heard growth that is also going to kill you so you, and then the second strong hand is to try to square that circle that is.

332

01:00:17.550 --> 01:00:20.940

Chang-Tai Hsieh: it's what we're going to what what what I think what they're attempting to do.

333

01:00:21.330 --> 01:00:34.200

Chang-Tai Hsieh: is to support the millions of small and medium sized firms to do what they haven't done for decades, but now they're beginning to they they are that they are beginning to to.

334

01:00:34.620 --> 01:00:43.890

Chang-Tai Hsieh: To do this, and the key advantage of the small and medium sized firms is that as long as they remain small they don't pose a political threat.

335

01:00:44.880 --> 01:00:55.290

Chang-Tai Hsieh: They are not oligarchs so it's about you don't you don't face a threat from a \$30 billion company, but you do face a threat from a \$30 billion company.

336

01:00:56.340 --> 01:00:57.570

Markus Brunnermeier: Leave somebody owns.

337

01:00:58.080 --> 01:01:00.480

Markus Brunnermeier: 20 of these firms is this a problem.

338

01:01:02.280 --> 01:01:13.200

Chang-Tai Hsieh: It is possible it's possible that there's somebody that owns 20 of them, and if you have a bad Marcus I have another paper we are trying to document, this does.

339

01:01:14.700 --> 01:01:15.330
Chang-Tai Hsieh: not go.

340

01:01:16.620 --> 01:01:39.000

Chang-Tai Hsieh: In let me not go into that now, but let me just end by just saying, but summarizing what I think the vision is that it's about trying to do to have two things it's about having a dynamic market economy Okay, that is fully under the control of the Communist Party.

341

01:01:40.470 --> 01:01:42.360

Chang-Tai Hsieh: that's the goal okay.

342

01:01:42.720 --> 01:01:52.740

Chang-Tai Hsieh: And whether they're going to be able to do it, or whether these or another way to say this is that whether these two strong hands are in contradiction.

343

01:01:53.910 --> 01:02:09.000

Chang-Tai Hsieh: I guess I don't know I don't know so you know, can you have growth if you if it from from a lot more billion dollar companies, but at the same time you kill off the.

344

01:02:09.390 --> 01:02:27.840

Chang-Tai Hsieh: The you kill off the billion dollar companies will the billion dollar companies start investing if they know that if they ever become a billion dollar company, they will come into the firing line of the party right I don't know I don't know if that's the but here I.

345

01:02:29.790 --> 01:02:36.810

Chang-Tai Hsieh: yeah so I guess that's all that's all I want to say that is this is where I think, China is now, and whether it will work or not.

346

01:02:38.460 --> 01:02:39.780

Chang-Tai Hsieh: But time will tell.

347

01:02:40.620 --> 01:02:43.440

Markus Brunnermeier: Let me ask a few questions also from the audience.

348

01:02:44.640 --> 01:02:46.440

Markus Brunnermeier: So you have more slides or we can.

349

01:02:47.430 --> 01:02:48.630

yeah let me questions.

350

01:02:51.090 --> 01:02:57.930

Markus Brunnermeier: So one thing is if i'm a small and medium enterprise, but i'm being successful become bigger and bigger.

351

01:02:58.170 --> 01:03:07.860

Markus Brunnermeier: yeah what do I do when I become too big, I spin off companies in all States small or do we just stop growing and saying I don't want to fly under the radar.

352

01:03:08.430 --> 01:03:25.980

Markus Brunnermeier: The two ways that I just don't become active anymore I just keep doing what i'm doing but I don't expand was a spin off companies do we see already so companies spinning off other sub companies, just to stay small to be one conclusion somebody might have.

353

01:03:27.870 --> 01:03:36.240

Markus Brunnermeier: To specialize more and the other thing having thing i've conglomerate with covering many, many things I spin off companies and they're all small and independent them.

354

01:03:39.930 --> 01:03:48.570

Chang-Tai Hsieh: that's a good question, I guess, I don't have the evidence yet to fully I yeah I would say that I don't have the evidence to fully answer that question.

355

01:03:52.080 --> 01:04:02.940

Chang-Tai Hsieh: I mean one answer could be that you just you that if you know this is going to happen, then you just don't undertake the efforts and you don't undertake the investments that are needed in order to grow.

356

01:04:05.100 --> 01:04:06.120

Markus Brunnermeier: start a new company.

357

01:04:07.620 --> 01:04:09.870

Chang-Tai Hsieh: The question then is what is view.

358

01:04:11.250 --> 01:04:25.380

Chang-Tai Hsieh: You could start up a new company and I guess, I do have documentation that an important margin, by which entrepreneurs grow in China is is through is through the is through the extensive margin.

359

01:04:26.760 --> 01:04:28.290

Chang-Tai Hsieh: Not a not so much to the.

360

01:04:29.490 --> 01:04:34.260

Chang-Tai Hsieh: The question is whether having lots of companies will also put you in the firing line.

361

01:04:36.030 --> 01:04:36.510

Chang-Tai Hsieh: and

362

01:04:38.910 --> 01:04:40.890

Chang-Tai Hsieh: Let me just say that, and I think there's.

363

01:04:41.100 --> 01:04:45.900

Markus Brunnermeier: Because you said everybody was managing 20 companies, it could be that I manage now hundred companies.

364

01:04:45.990 --> 01:04:51.720

Markus Brunnermeier: hundred small companies and i'm my incentives are equally distorted not belong to the party too, but below.

365

01:04:51.720 --> 01:04:54.930

Chang-Tai Hsieh: yeah yeah no you're so let me just go back to sort.

366

01:04:54.930 --> 01:05:10.470

Chang-Tai Hsieh: Of the story from the times it, so the way that guy from the times did it is he basically went to the went through the paper documents, what is now possible is at fault that all these registration data it's been digitized.

367

01:05:10.830 --> 01:05:12.930

Chang-Tai Hsieh: And they are now a couple of companies.

368

01:05:12.960 --> 01:05:20.520

Chang-Tai Hsieh: Then now sell it there now so as, so now it is really easy to sort of be to to put together this ownership map.

369

01:05:21.240 --> 01:05:26.520

Chang-Tai Hsieh: of a given person so it's really before it used to be hard you basically have to go through every single.

370

01:05:26.940 --> 01:05:44.700

Chang-Tai Hsieh: registry if a person owns 200 companies it's a lot of work to figure it out now I think it's it's it's much easier to figure out whether a person has to to us as 200 companies and then, if you have 200 companies that are collected worth \$30 billion.

371

01:05:46.830 --> 01:05:51.180

Chang-Tai Hsieh: I would think that the party is going to think of them in the same way, because.

372

01:05:56.340 --> 01:05:57.540

Markus Brunnermeier: So the the I don't really know.

373

01:05:58.140 --> 01:06:07.980

Markus Brunnermeier: Also me is that this you know if you think about when people talk about what's the big advantage of China and everybody tells me it's a scale.

374

01:06:08.160 --> 01:06:15.600

Markus Brunnermeier: Know it's like you have 1.6 million people a billion people well if you go to another market it's a small tiny market here.

375

01:06:15.600 --> 01:06:16.470

Markus Brunnermeier: Yes, scale.

376

01:06:17.010 --> 01:06:33.270

Markus Brunnermeier: yeah and that speaks essentially that there's a huge advantage for being big and if the official doctrine is not to allow you to be big you don't take advantage of the scale, so you can actually reduce the scope to become much more specialized and still scale up.

377

01:06:34.500 --> 01:06:50.160

Markus Brunnermeier: Is this one, you see that you know companies, become more specialized less conglomerates, but they still want to explore this scale or or that will be attention of the two strong hands and saying, or you know, the first animal prevent exploiting the scale of dementia.

378

01:06:52.110 --> 01:06:56.940

Chang-Tai Hsieh: We see lots of creation of small companies, I think that the creation of new companies is.

379

01:06:58.050 --> 01:07:00.390

Chang-Tai Hsieh: Is recent enough that I don't.

380

01:07:02.730 --> 01:07:12.120

Chang-Tai Hsieh: So let me just say that there are two things that we've seen in the data in the last 15 years so whatever they tell you now is based on the registration right.

381

01:07:13.230 --> 01:07:36.600

Chang-Tai Hsieh: Ray just registration records that you see that the top the top owners grow and the way they grow is is by essentially by by building up more firms and the way it's typically done is they build up more firms by through joint ventures with stayed on firms so that's one pattern.

382

01:07:37.710 --> 01:07:47.040

Chang-Tai Hsieh: Now, whether that has come to a halt that's kinda how I guess our data doesn't it's it's I think this this what i'm talking about is to recent.

383

01:07:47.670 --> 01:07:59.790

Chang-Tai Hsieh: For it to show up yeah in in the data The other thing that you see is a lot of the single owner or one owner one firm that that has.

384

01:08:00.510 --> 01:08:09.930

Chang-Tai Hsieh: That has exploded, the question that you're asking I think it's really more a question about 10 years down the line, what are these guys going to do right and.

385

01:08:10.350 --> 01:08:12.150

Chang-Tai Hsieh: Yes, we'll we'll see.

386

01:08:14.820 --> 01:08:27.000

Markus Brunnermeier: So the other thing is, and you hinted to it a little bit is that it might be that certain data is just reclassified so once you know the government doesn't like big firms anymore i'd rather have five small SMEs.

387

01:08:27.810 --> 01:08:32.940

Markus Brunnermeier: And what was initially treated as one big firm is now you know to five SMEs.

388

01:08:34.080 --> 01:08:40.800

Markus Brunnermeier: is still an issue that also the loan data and other things you know, given that i'm a get a favorable treatment before label myself an SME.

389

01:08:41.880 --> 01:08:45.480

Markus Brunnermeier: That there's a relabeling going on, or that the stores to Daytona sense.

390

01:08:48.810 --> 01:08:49.410
Markus Brunnermeier: Just to.

391
01:08:53.340 --> 01:08:55.260
Chang-Tai Hsieh: get this data in the data that I have.

392
01:08:55.290 --> 01:08:56.250
Chang-Tai Hsieh: It so I have.

393
01:08:57.390 --> 01:09:04.680
Chang-Tai Hsieh: Access to the registration data up into 2009 until 2019 I don't see that yet in the data.

394
01:09:05.910 --> 01:09:09.840
Chang-Tai Hsieh: So maybe eventually is going to happen, but I haven't seen it yet.

395
01:09:11.880 --> 01:09:15.240
Markus Brunnermeier: So the next issue would like to raise is.

396
01:09:16.740 --> 01:09:24.300
Markus Brunnermeier: There was always the understanding and we talked about this earlier that the Chinese firms expand become national champions, and then also make.

397
01:09:24.660 --> 01:09:35.040
Markus Brunnermeier: take on an important role in the international market and other countries if you don't allow national champions, if you don't allow big companies it's probably much harder to reach a broad.

398
01:09:35.910 --> 01:09:44.670
Markus Brunnermeier: Is this less important for the Chinese party that you know you have some national champions, you know being very active in in other Asian countries or in Africa.

399
01:09:45.930 --> 01:09:53.970
Markus Brunnermeier: One is sacrificing that deliberately or that's it's overlooked that that's one of the costs.

400
01:09:54.030 --> 01:09:55.680
Chang-Tai Hsieh: Well that's that.

401

01:09:56.940 --> 01:10:06.390

Chang-Tai Hsieh: If you go back to the world in China in 2012 2013 there's this really interesting pattern that you see in the Chinese data that.

402

01:10:08.370 --> 01:10:13.680

Chang-Tai Hsieh: In almost every country in the world what you see is a large firms, export and smaller firms.

403

01:10:14.760 --> 01:10:16.410

Chang-Tai Hsieh: That that's a pattern, you see, almost.

404

01:10:17.460 --> 01:10:29.940

Chang-Tai Hsieh: Everywhere in China in in at least in the manufacturing data, you see exactly the opposite pattern what you see is that the smaller firms are the one that export and the big firms don't.

405

01:10:30.930 --> 01:10:41.310

Chang-Tai Hsieh: My interpretation of that pattern is is that is one of the consequences, what is one of the negative consequences of that particular of the model of growth that I described.

406

01:10:41.760 --> 01:10:51.390

Chang-Tai Hsieh: That, if you are say a car company based in Shanghai what you do is that because you are the local champion you don't.

407

01:10:52.680 --> 01:10:58.200

Chang-Tai Hsieh: You have the power to not let anybody else in to that market okay.

408

01:10:59.730 --> 01:11:06.990

Chang-Tai Hsieh: But these are the largest companies like, if you look at the largest car company, these are the Shanghai based car car car now.

409

01:11:07.650 --> 01:11:16.530

Chang-Tai Hsieh: The car companies that export in China, these are the companies that are the local champions of a city like the one that I described.

410

01:11:17.010 --> 01:11:24.150

Chang-Tai Hsieh: I visit a 2 million person city, these are the companies that were like to sell in Shanghai, but they don't.

411

01:11:24.780 --> 01:11:37.620

Chang-Tai Hsieh: They don't because they're basically blocked by by by the by the Shanghai companies so so the way that they can do it, so what you see them doing is that the end this is almost their words, they say that.

412

01:11:37.950 --> 01:11:54.360

Chang-Tai Hsieh: When we sell in Central America, the reason that we sell in Central America is because we can compete on a level playing field in Central America, but in Shanghai or Beijing or other cities we were up against the local party bus.

413

01:11:55.500 --> 01:12:07.260

Chang-Tai Hsieh: So I would think to just flip your question and had that having more small and medium sized club because of this part in so that, let me just say Lord the empirical pattern.

414

01:12:07.620 --> 01:12:16.290

Chang-Tai Hsieh: Is that the larger Chinese companies generally by and large, do not export or the export less it's a small and medium sized firms that do.

415

01:12:16.710 --> 01:12:31.770

Chang-Tai Hsieh: That do having more small and medium sized firms that force by itself, my prediction is that that's going to lead to more, not less Okay, with one caveat with with one caveat, which is is.

416

01:12:33.750 --> 01:12:38.400

Chang-Tai Hsieh: The reaction of the West to this month, that is.

417

01:12:39.480 --> 01:12:48.930

Chang-Tai Hsieh: If you know that this is what you're dealing with what you are that this, you are, that that you are trading.

418

01:12:49.470 --> 01:12:59.580

Chang-Tai Hsieh: With the market economy and under the control of the Communist Party then does that will that make you and which a lot of discussion about this world that would.

419

01:12:59.880 --> 01:13:17.520

Chang-Tai Hsieh: make you try to be more cautious in terms of who you are engaged in treatment that, fundamentally, you know that even the these are small companies that they are fundamentally still under the control of the party right so it's it's it's it's the huawei debate with barge.

420

01:13:19.530 --> 01:13:28.380

Markus Brunnermeier: But if I may summarize what you're saying, because of this local party control, you have essentially a segmented market at home in China yeah.

421

01:13:28.710 --> 01:13:40.050

Markus Brunnermeier: And you don't have to scale effect because it's so segmented so it's a big disadvantage, so what you do is rather than try to sell abroad coming internationals small company exporting a lot yeah.

422

01:13:40.140 --> 01:13:52.290

Markus Brunnermeier: Absolutely, but China for goes this entry through the segmentation this big advantage of scale effects at home, which it still allows the test last if one comes back and explore the scale, but the domestic ones cannot.

423

01:13:52.770 --> 01:13:55.590

Markus Brunnermeier: exactly is this to stock OK.

424

01:13:57.930 --> 01:14:12.840

Markus Brunnermeier: I see so that's a very interesting, but in a sense, it reminds me you're In Germany, we have to submit those down this mid sized companies, which are small very specialized but a very internationally active, they are the leaders in very small segments.

425

01:14:13.890 --> 01:14:14.820

Markus Brunnermeier: around the globe.

426

01:14:16.050 --> 01:14:20.250

Markus Brunnermeier: But they don't they don't grow too large conglomerates that was done by some families.

427

01:14:21.960 --> 01:14:25.620

Markus Brunnermeier: And there's some similarity they I guess on this.

428

01:14:28.740 --> 01:14:29.070

Markus Brunnermeier: topic.

429

01:14:29.220 --> 01:14:35.580

Chang-Tai Hsieh: I would love to know why is it that Germany develop in this way, I mean I.

430

01:14:36.870 --> 01:14:37.140

I.

431

01:14:40.770 --> 01:14:46.830

Markus Brunnermeier: So historically Germany was very segmented to know it was it was not one concrete was many little.

432

01:14:47.970 --> 01:14:55.380

Markus Brunnermeier: small States come together and there was a spirit always to have smaller cameras family and companies.

433

01:14:56.610 --> 01:15:03.570

Markus Brunnermeier: What smalling I probably it's what small in China might be large Germany because number of people is not not much not.

434

01:15:05.340 --> 01:15:05.850

Markus Brunnermeier: So.

435

01:15:07.800 --> 01:15:16.620

Markus Brunnermeier: Let me just conclude a little bit so we also we did not touch on this over investment in real estate, the huge debt burden.

436

01:15:16.920 --> 01:15:27.120

Markus Brunnermeier: Does this interact in this vision, somehow, and this came also from you know how you may how China was actually managing you 2008 the global financial crisis by having this huge stimulus.

437

01:15:27.510 --> 01:15:35.130

Markus Brunnermeier: You touched upon it a little bit that this had so many vacations that suddenly the local leaders could also help in the financing of these new companies.

438

01:15:35.610 --> 01:15:48.390

Markus Brunnermeier: and give them extra leverage and make this more powerful and for the first time in but you see the debt level into playing with us on investment in real estate is this totally orthogonal or do we have to see any.

439

01:15:50.190 --> 01:16:04.140

Chang-Tai Hsieh: Part of it, I mean I think it's it's part of it, I mean, where does that come from it comes from the sing it comes from the same alliance it comes from exactly the same lions.

440

01:16:06.240 --> 01:16:19.980

Chang-Tai Hsieh: But where it was i'm going to say the institutional consequence of how China decided to fund its fiscal stimulus, that is if the funny thing is that, if you look at the if you look at the.

441

01:16:20.490 --> 01:16:33.330

Chang-Tai Hsieh: The the accounts of the Chinese Government in 2008 2009 when they ran a huge fiscal stimulus you look at the budget deficit of the government, nothing changed.

442

01:16:34.860 --> 01:16:41.250

Chang-Tai Hsieh: And the reason is because the way that it was basically to create all these off balance sheet companies, and then they would borrow.

443

01:16:41.790 --> 01:16:51.510

Chang-Tai Hsieh: they're not officially part of the guy was officially part of the government, the really interesting that then to just go back your story is what happened after 2010.

444

01:16:51.930 --> 01:17:02.760

Chang-Tai Hsieh: When the fiscal stimulus was over the central government say okay guys, the fiscal stimulus program is over, that that shut down all these local these these often and she companies.

445

01:17:03.030 --> 01:17:13.650

Chang-Tai Hsieh: And you can imagine what these local governments, said that you know I have 10% of GDP flowing in flowing through these financial companies, no, thank you, I like.

446

01:17:14.340 --> 01:17:28.920

Chang-Tai Hsieh: Having can having control over this, then what happens that then they started to fund these companies and they saw they started to fund these projects right, it is this alliance and starting into 2000 and then.

447

01:17:30.210 --> 01:17:42.510

Chang-Tai Hsieh: If you want to go through the full story in 2012 and what what What happened was that the central garbage can order the state on bands to stop lending to the archeology companies.

448

01:17:42.840 --> 01:17:53.760

Chang-Tai Hsieh: The response of the local government than was was to say okay fine we're then going to set up these shadow banking institutions to basically get money that we know we can no longer get from.

449

01:17:54.090 --> 01:18:03.300

Chang-Tai Hsieh: The you know no longer get from the central bank's either what they started, and I would say that what is all this will make a lovely study to that that is.

450

01:18:04.380 --> 01:18:19.950

Chang-Tai Hsieh: I think that what they've been doing is partly what you said to basically lend to real estate lend to all these projects that are that are have gone bust that will eventually go bust, but I also think that.

451

01:18:21.390 --> 01:18:30.420

Chang-Tai Hsieh: Almost all of the vc funds are also funded by these local financing the logo, so it that I I my.

452

01:18:31.020 --> 01:18:37.500

Chang-Tai Hsieh: My guess is that if you are to get all that data and give it a look at the price of what they've invested their money and.

453

01:18:37.830 --> 01:18:53.190

Chang-Tai Hsieh: I think what you what you're going to find is the Bible distribution, that is, they are going to be a bunch of projects that I think are are is stuff that you think that the financial sector should be doing and and a bunch of stuff that looks like that looks like crony lending.

454

01:18:56.340 --> 01:19:11.700

Chang-Tai Hsieh: that's My guess right that's My guess but, but the long answer to your question is is that it's think about it, as the consequence of this, this overlanding as as it's coming from the same alliance, coupled with financial liberalisation.

455

01:19:12.270 --> 01:19:13.200

Chang-Tai Hsieh: In the Chinese way.

456

01:19:15.240 --> 01:19:17.520

Markus Brunnermeier: So let me conclude with the final question.

457

01:19:19.530 --> 01:19:25.890

Markus Brunnermeier: Do you think what the Chinese party does is the ultimate thing for them to do, given the amount of stay in control.

458

01:19:26.970 --> 01:19:40.410

Markus Brunnermeier: And secondly, do you think it was a deliberate strategy to to strong hands that haven't go, we have there's two components, or do you think it just happened to an out this way, and you exposed found this rationalization.

459

01:19:43.230 --> 01:19:50.880

Chang-Tai Hsieh: Let me answer the second question, first, I absolutely believe that it is very much the way I would describe it.

460

01:19:51.300 --> 01:19:57.450

Chang-Tai Hsieh: I don't think at all, it was a deliberate strategy, I think it really is the second thing that you, you are.

461

01:19:57.840 --> 01:20:10.920

Chang-Tai Hsieh: Describing I think what I mean I may the way I present It may sound like it was a deliberate strategy I don't mean to do that at all, it was very much like to use the Chinese term crossing the River by.

462

01:20:11.310 --> 01:20:14.580

Chang-Tai Hsieh: Putting stones, it was very much, I think.

463

01:20:15.000 --> 01:20:21.390

Chang-Tai Hsieh: Just trial and error and and figure out what works and figure out what what what what.

464

01:20:21.990 --> 01:20:27.750

Chang-Tai Hsieh: doesn't work, but I think that is true of almost like almost everything that you see coming out of China that I think.

465

01:20:28.140 --> 01:20:39.150

Chang-Tai Hsieh: That that very rarely is a plan in this way is applied in this way and it's only after the fact that they you start to package, it into.

466

01:20:39.510 --> 01:20:48.150

Chang-Tai Hsieh: I mean, I think you know you started out by talking about the belt and road about the role the way I think about about the road is that it was primarily a marketing campaign.

467

01:20:48.540 --> 01:20:52.080

Chang-Tai Hsieh: That it was already good going with I think there's one the other consequence.

468

01:20:52.560 --> 01:20:57.570

Chang-Tai Hsieh: Of the fiscal stimulus that after the fiscal stimulus ended all these companies, then took their projects and they went.

469

01:20:58.020 --> 01:21:07.650

Chang-Tai Hsieh: And they basically took their projects abroad in 2015 days before the central government decided to do is to basically put a ribbon around all these projects and call it.

470

01:21:08.340 --> 01:21:22.110

Chang-Tai Hsieh: campaign, and many of us then interpreted as this campaign, you by the Communist Party to control the world I would look at what what what is what the origin of it, I don't think that's the case.

471

01:21:22.500 --> 01:21:29.250

Chang-Tai Hsieh: that's the case at all, so let me just answer that is that I don't think at all, it was a dilute it was a deliberate campaign, I think.

472

01:21:29.520 --> 01:21:39.330

Chang-Tai Hsieh: that the first strong hand, I think, very much is a deliberative campaign because that I think was I don't think they call it that, right they they that's not what they call it.

473

01:21:40.380 --> 01:21:52.980

Chang-Tai Hsieh: But that and but, but even then I don't think they decided and all the pieces, at the same time, I mean the first piece was the anti corruption campaign and all the other pieces was again.

474

01:21:53.340 --> 01:22:06.060

Chang-Tai Hsieh: crossing the River right coke or across the river bye bye touch the song so in a sense, I guess, to what i'm doing is that I am yeah I am putting a label on putting a ribbon on.

475

01:22:07.140 --> 01:22:08.670

Chang-Tai Hsieh: What I see them doing, but if.

476

01:22:08.670 --> 01:22:12.300

Markus Brunnermeier: You do think it's the optimal strategy for the Chinese Communist Party.

477

01:22:14.250 --> 01:22:15.870

Chang-Tai Hsieh: Well, what goal.

478

01:22:16.320 --> 01:22:18.360

Markus Brunnermeier: Given the goal, you want to stay in control.

479

01:22:19.620 --> 01:22:26.550

Markus Brunnermeier: And you don't want to bring their economic growth, I mean you have to keep, as you said, keep economic growth going, otherwise you also lose power.

480

01:22:27.300 --> 01:22:30.120

Chang-Tai Hsieh: My own view you want about my own view.

481

01:22:30.840 --> 01:22:31.290

Yes.

482

01:22:33.630 --> 01:22:37.500

Chang-Tai Hsieh: I mean my own personal view, is it absolutely is the wrong church.

483

01:22:38.250 --> 01:22:39.090

Markus Brunnermeier: absolutely wrong so.

484

01:22:39.510 --> 01:22:43.530

Chang-Tai Hsieh: Much it's as is a wrong is wrong is around me.

485

01:22:44.640 --> 01:22:54.540

Chang-Tai Hsieh: I think it comes back to sort of this i'm going to call it, this new this new eroticism of the party that that that.

486

01:22:55.620 --> 01:23:06.120

Chang-Tai Hsieh: you either have complete control over everything or you die or you die that I think is just me that is sort of fundamental to the DNA of the party.

487

01:23:06.600 --> 01:23:15.390

Chang-Tai Hsieh: My belief is that it's absolutely NUTS right but it's a way that they it's a way that they think it's a way that I think and and you know I.

488

01:23:15.870 --> 01:23:33.360

Chang-Tai Hsieh: I respect how everybody thinks, but in my own personal view, I think that's just a crazy view of the world, I mean you know I believe in freedom, I believe in freedom, I think that there are ways in which you can do what you want to do, while still giving people their freedom.

489

01:23:35.880 --> 01:23:38.010

Chang-Tai Hsieh: I mean what is it it's liberal democracy right.

490

01:23:40.110 --> 01:23:55.140

Markus Brunnermeier: So you don't think so, this strategy makes it harder to stay within one unified global economy to think that makes makes a bipolar world more likely as well, or because you have, on the one hand, you have more.

491

01:23:55.200 --> 01:23:55.680

yeah.

492

01:23:56.760 --> 01:23:57.510

Markus Brunnermeier: Or is this.

493

01:23:58.740 --> 01:24:01.500

Markus Brunnermeier: Independent we can still have a lot of trade and.

494

01:24:01.740 --> 01:24:04.230

Chang-Tai Hsieh: it's a great question right it's a great.

495

01:24:04.320 --> 01:24:05.880

Chang-Tai Hsieh: Question Marcus and i've been.

496

01:24:07.080 --> 01:24:08.760

Chang-Tai Hsieh: struggling with this.

497

01:24:13.050 --> 01:24:14.550

Chang-Tai Hsieh: Let me refer to you in.

498

01:24:16.380 --> 01:24:34.290

Chang-Tai Hsieh: Yiannis corn, I wrote this op ED in the Financial Times, the titled something like I have created a Frankenstein and if you know something about your nose or nine he was instrumental in the first 10 years of Chinese reform.

499

01:24:34.800 --> 01:24:42.150

Chang-Tai Hsieh: But she was one of the people behind sort of the design of their price liberalisation strategy.

500

01:24:42.690 --> 01:24:57.780

Chang-Tai Hsieh: There was this famous week long boat ride down the Yangtze river in 1985 when all the young Chinese read all the young Chinese reformers hammered out their plan and yellows wasn't fighting on that boat right was.

501

01:24:58.710 --> 01:25:13.890

Chang-Tai Hsieh: ended jada's road and basically said look, you know I thought back in 1985 that I was doing something good right, but what i've done what he said is that i've created this Frankenstein which is way by which he means it's this.

502

01:25:14.910 --> 01:25:34.860

Chang-Tai Hsieh: rich country, but with a particular political structure and it's it's become a Frankenstein and I don't know the answer to to to that well, I guess, would I say that I don't know I don't know so so it's it's it's that I think is the fundamental question.

503

01:25:36.690 --> 01:25:49.710

Chang-Tai Hsieh: That that faces us right that that the face of we all understand about the gains from trade we all, you know so that's well understood the question is, what are you willing.

504

01:25:50.310 --> 01:26:00.990

Chang-Tai Hsieh: To trade off right, what are you willing, I mean sort of the same dilemma that Europe is facing germany's facing with respect to Russia now right that they are games from trade but.

505

01:26:01.860 --> 01:26:15.870

Chang-Tai Hsieh: What else, are you are you trading So the question is what, and this is beyond my pay scale we were, which is what are the implications of the world, for having if we.

506

01:26:16.350 --> 01:26:30.570

Chang-Tai Hsieh: If this vision works right what will, what are the implications for the world if the most powerful country economically, the world is this lead into structure as well right and.

507

01:26:34.320 --> 01:26:35.520

Markus Brunnermeier: Good so with this.

508

01:26:35.580 --> 01:26:37.410

Markus Brunnermeier: Big open question.

509

01:26:37.470 --> 01:26:39.660

Chang-Tai Hsieh: Adam I don't know.

510

01:26:40.020 --> 01:26:43.890

Markus Brunnermeier: We will come back once you have answered or found a solution.

511

01:26:45.000 --> 01:26:57.480

Markus Brunnermeier: To that this was very fascinating I think it's very nice to you know put a ribbon around it and kept the big vision and conceptualization what's going on, I think I really appreciate that and I really like it.

512

01:26:59.130 --> 01:27:10.680

Markus Brunnermeier: So, thanks to you, and thanks to all the participants and next week, we will talk about how we can actually make all purchases more efficient, in particular by having a purchasing board.

513

01:27:11.280 --> 01:27:20.100

Markus Brunnermeier: In contrast to OPEC, so how to design the best way to purchase energy instead of ashes on will present that next Thursday.

514

01:27:21.480 --> 01:27:22.920

Markus Brunnermeier: So thanks again.

515

01:27:23.010 --> 01:27:24.660

Markus Brunnermeier: All right, talk to you soon.

516

01:27:24.840 --> 01:27:25.590

Markus Brunnermeier: All right, bye bye.