

# **Crony Capitalism in China**

**Chong-en Bai**

Tsinghua University

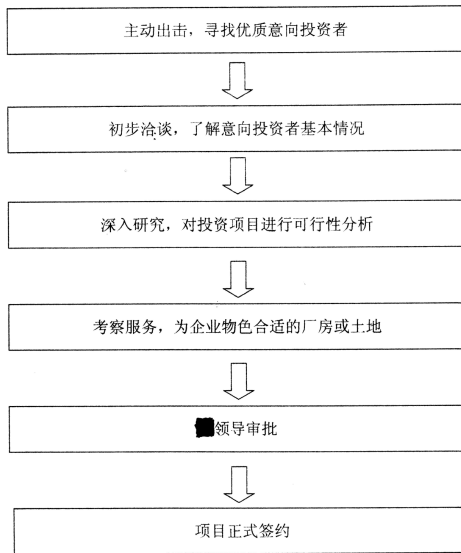
**Chang-Tai Hsieh**

University of Chicago

**Zheng Song**

Chinese University of Hong Kong

## “Small” City (2 million people) in Southern China



Actively look for quality prospects

Initial discussion to learn about investor

Feasibility Analysis

Identify land and other needed services

Approval by Vice-Mayor

Sign agreement

# General Motors in China

- Industrial policy limits car production to designated state owned firms
- Shanghai-GM
  - ▶ JV with Shanghai Auto
  - ▶ Shanghai-GM largest car company in China until 2018
  - ▶ Shanghai-GM given monopoly over “large” cars
  - ▶ Shanghai Auto wanted IP in return
- Exploit monopoly power while limiting IP transfer

## Buick New Century



## Opel Corsa vs. Buick Sail



## Chevrolet Spark vs. Chery QQ



## The Entrepreneur (Yin Tongyao)



## Wuhu Vice Mayor (Zhan Xialai)



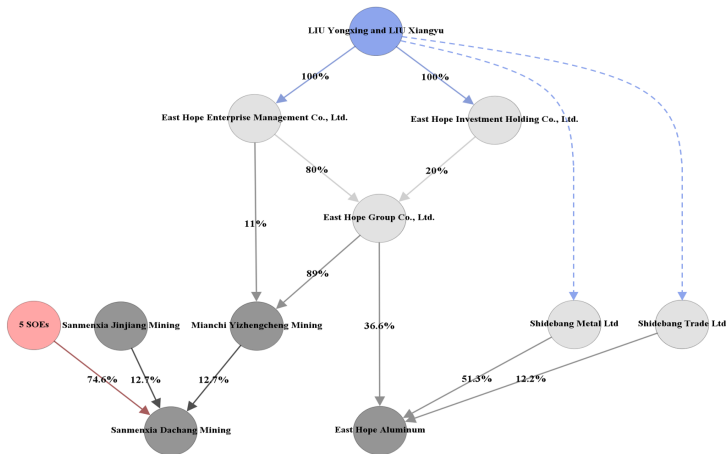
“You let me focus on the politics, you just take care of getting cars built here.”



# Chinese Crony Capitalism

- Special Deal for Chery/Mr. Yin?
  - ▶ For 5+ years, Mr. Zhan focused on “making Chery work”
  - ▶ No access to resources except land
  - ▶ “Let me take care of politics; you focus on getting cars built here”
- High powered incentives and administrative capacity
  - ▶ “Free entry” into special deals
  - ▶ Extract rents *after* enabling growth
- Competition between local governments
  - ▶ Entrepreneurs have options

# Owners of East Hope Aluminum and Dachang Mining



236 Firms in East Hope Group

15 are JVs with State Entities

# Connected Owners Account for All Private Sector Growth

## Registered Capital Share

	All Private	“Connected” Private
2000	63.1%	18.3%
2019	78.6%	35.4%