

Crony Capitalism in Modern China

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THE CHINESE ECONOMY IN THE LONG RUN, STANFORD

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OUTLINE

China is a bureaucratic-authoritarian one-party state, in principle highly centralized but in practice substantially decentralized.

Kroeber, 2016

❖ **REAL-WORLD CASES FROM THE PERSPECTIVE OF LOCAL GOVERNMENT OFFICIALS**

- ❖ Dual roles: government officials serving as corporate executives

❖ **CENTRAL-LOCAL GOVERNMENT RELATIONS (央地关系)**

- ❖ Misalignment of incentives between central and local governments

❖ **AN INTERESTING CASE OF AN ENTREPRENEUR MENTIONED IN THE PAPER**

- ❖ Special deals from multiple local governments



AN INTERESTING CASE



CHERY

❖ **ZHAN, XIALAI (詹夏来)**

- ❖ 1999-2004: Secretary of the Wuhu (芜湖) Municipal Party Committee, serving as **Chairman of Chery Automobile**
- ❖ Shanghai-GM's strategy of exploiting its monopoly power
 - GM used the political power of its partner SAIC to obtain exclusive rights to sell large sedans
- ❖ How ZHAN countered and responded:
 - Secured a license for Chery (奇瑞) to manufacture car engines
 - Lobbied Beijing for a car manufacturing license, with restriction of only selling in Wuhu (芜湖)
 - Further lobbied Beijing to expand sales throughout China, though encountered significant resistance in Shanghai and other cities with established local automotive companies

1999年1月任芜湖市委副书记、市长; *Since January 2003, he served as the Secretary of the Wuhu Municipal Committee and Director of the Standing Committee of the Municipal People's Congress (1997/01-2004/02, he concurrently served as the Chairman of the Board of Chery Automobile Co., Ltd.).*

1999年10月任芜湖市委书记、市长;

2000年11月任芜湖市委书记;

2003年1月任芜湖市委书记、市人大常委会主任(1997年1月至2004年2月兼任奇瑞汽车有限公司董事长);

2005年5月任安徽省常委, 芜湖市委书记、市人大常委会主任;

2008年1月任安徽省常委, 芜湖市委书记;

2008年6月任安徽省常委、省委秘书长;

2011年4月任安徽省常委、省委秘书长, 省政府副省长、党组副书记;

2011年10月任安徽省常委、省政府副省长、党组副书记;

2013年8月任安徽省常委、省政府副省长、党组副书记, 省食安委主任。



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MORE CASES, LGFV



SUN, ZHE (孙喆)

2004-2013: Mayor of Jiamusi City (佳木斯), concurrently serving as Chairman of the Jiamusi City Urban Infrastructure Investment and Financing Development Center (a **Local Government Financing Vehicle, LGFV**)



WANG, ZHAOCHUN (王赵春)

2010-2013: Party Secretary and Director of Anqing (安庆) City Finance Bureau, concurrently serving as Party Secretary and Chairman of the City Urban Investment Company (an LGFV)

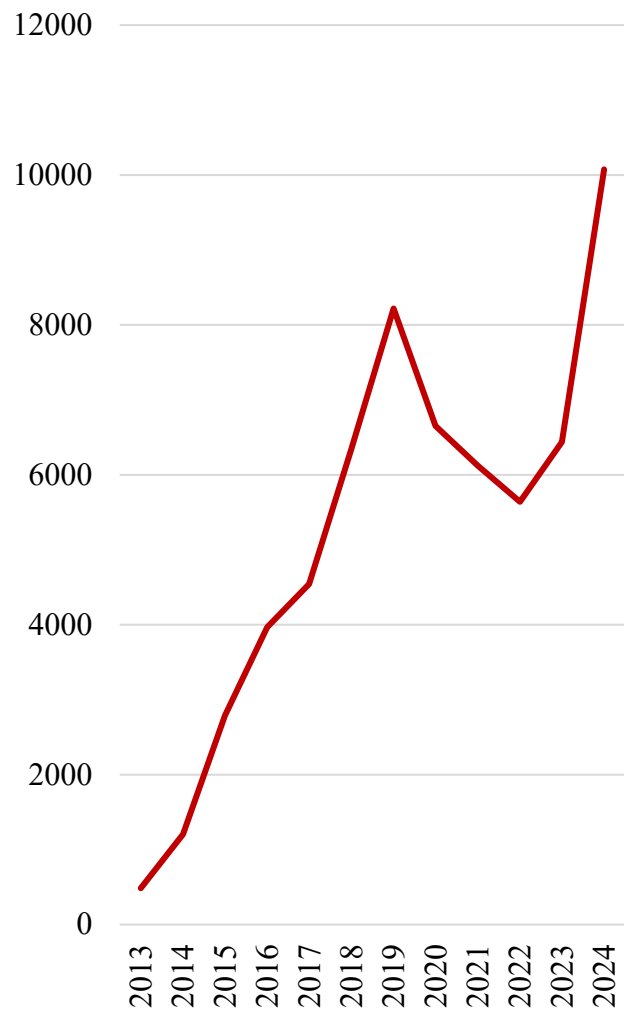
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Post 18th Party Congress (2013), government officials **no longer allowed** to hold concurrent positions in enterprises



CORRUPTION CASES

County Level



City Level



Provincial Level



Data Source: Central Commission for Discipline Inspection



LGFV AND DEBT

- ❖ **STARTED FROM 2009 4-TRILLION STIMULUS PLAN**
 - ❖ Mostly implemented through local governments (Bai, Hsieh and Song, 2016, Brookings)
 - 1 trillion from Beijing; the rest via LGFV (地方政府融资平台)
 - LGFV: State-Owned Enterprises, “Corporations”
 - ❖ Off-budget entities that enabled local governments to bypass borrowing restrictions while fueling explosive growth in local government debt
- ❖ **2017: “THE LIFETIME ACCOUNTABILITY SYSTEM FOR LOCAL GOVERNMENT DEBT”**
 - ❖ Curb local government (hidden) debt expansion by creating personal stakes for decision-makers
 - ❖ Since 2022, the Ministry of Finance have publicly announced 32 accountability cases involving hidden local government debt



THE CENTRAL'S STANCE ON LOCAL PREFERENTIAL POLICIES

❖ IN RECENT YEARS BEIJING TRIED TO MOVE AWAY FROM A REGIME OF SPECIAL DEALS

- ❖ In 2014, the State Council laid out specific policies to stop local leaders from providing special deals
 - ❖ In 2015, the State Council reversed its earlier decision on the use of preferential policies
- ❖ In 2024, the State Council issued “the Fair Competition Review Regulation (公平竞争审查条例)”, in order to establish a unified national market and create a level playing field for businesses
 - Prohibits local governments from creating market barriers or offering unauthorized preferential treatment



CHINESE METAL TYCOON



❖ **STORY IN THE PAPER AND ACEMOGLU AND ROBINSON (2012)**

- ❖ In 2002, DAI Guofang (戴国芳) established Jiangsu Tieben (江苏铁本钢铁有限公司) in Jiangsu province (江苏省)
- ❖ With strong backing from local government officials in Changzhou (常州市), Tieben expanded aggressively
- ❖ However, DAI's ambitions collided with national industrial policy. DAI was arrested in 2004, in jail for 4 years

❖ **EPILOGUE EXPLORED IN BAI, HSIEH AND SONG (2020)**

- ❖ Following his release from prison, DAI established Jiangsu Delong Nickel Company (江苏德龙镍业有限公司) in 2008, with support from Xiangshui county (响水县) government in Yancheng city (盐城市) (another city in Jiangsu Province)
- ❖ Delong rapidly expanded across several regions in Jiangsu, including Xuzhou (徐州市) and Dainan (戴南镇), and even ventured into Indonesia



EPILOGUE TO THE EPILOGUE

❖ **SUCCESSFUL ENTERPRISES ARE ALL ALIKE; EVERY UNSUCCESSFUL ENTERPRISE IS UNSUCCESSFUL IN ITS OWN WAY**

- ❖ A sharp decline in ferro-nickel prices sent Delong into financial distress
- ❖ In August 2024, Delong declared bankruptcy and placed under court-supervised restructuring
 - ❖ Well, basic market forces are at work
- ❖ It triggered a complex and contentious battle b/w various local governments that had supported the company's operations in their jurisdictions
 - These local authorities now found themselves fighting over the Delong's remaining assets, each attempting to minimize financial losses and protect local employment
- ❖ To be continued...



CONCLUDING REMARKS

❖ **CENTRAL GOVERNMENT IS TAKING A BIGGER SHARE OF FISCAL BURDEN**

❖ Trade-in (like Cash for Clunkers) program

❖ **ANECDOTALLY, LOCAL GOVERNMENT OFFICIALS WERE LYING FLAT (躺平) IN 2023-2024**

❖ **MARCH 4TH, 2025, OPENING SESSION OF THE NATIONAL PEOPLE'S CONGRESS IN BEIJING**

❖ Still set the goal of GDP growth to be 5%

❖ Aggressive fiscal spending plan, from Beijing's pockets (special-purpose bonds) but implemented by local governments

❖ Special deals have been gone (?), but no silver bullets from Beijing so far

