Spatial Misallocation across Chinese Firms

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Quick Summary

• Key questions:
  • What are the welfare implications of firm-level frictions in China?
  • Focusing on the ownership and spatial misallocation perspectives.

• Research strategy:
  • Quantifying the macro-economic implications of the firm-level frictions through several counter-factual exercises based on a general equilibrium framework.
Quick Summary

• Major findings:
  • The labor and output frictions both significantly existed, and got worsened during 1998-2007.
  • The existing frictions favored the SOEs over the private firms, leading to substantial welfare loss.
  • The spatial disparity of the frictions led to both welfare loss and higher spatial inequality.

• Key contributions:
  • Linking firm-level frictions to both ownership type and location.
  • Important insights into key features of China’s economy.
  • Evaluating potential effects of key reform policies.
Suggestions - 1

- Two other important frictions on the input side:
  - Local governments’ control on industrial land prices:
    - Substantial subsidy in the industrial land market.
Suggestions - 1

• Two other important frictions on the input side:
  
  • Local governments' control on industrial land prices:
    – Substantial subsidy in the industrial land market.
    – Also linked to both ownership type and location.
Suggestions - 1

• Two other important frictions on the input side:
  • Financing costs:
    – The existing literature has provided rich evidences on the potential misallocation in China’s financial market, especially from the aspect of firms’ financing costs (among others, Allen, Qian and Qian, 2005; Li et al, 2008; Ayyagari, Demirguc-Kunt and Maksimovic, 2010; Deng et al, 2015).
    – Again, linked to ownership type and location.
  
• In China, the magnitudes and impacts of these two frictions might be even larger than the labor friction.
Suggestions - 2

• Potential relationship between ownership and location misallocations:

  • The distributions of frictions on ownership structure and location might be related.

    – Due to major industries, resource endowments, historical development path, etc.

    – For example, Northeast China vs Pearl River Delta.

• Discussions on such potential relationship can help provide more insights on the cause of the misallocations.

• In particular, the results of some counter-factual analysis might be biased, since you could not only remove one type of misallocations.
Suggestions - Others

• What about the post-2007 period?
  • The large impact of the stimulus plan, on both the ownership structure and regional disparity.
  • Micro-level firm data have become more available for this period.

• SOEs and private firms might not be totally comparable in the ASIF dataset.
  • All SOEs vs large private firms.

• Potential difference between central SOEs and local SOEs.
Summary

• A very important and interesting topic, especially in the context of China’s future reform.

• Incorporating other potential frictions?

• More discussions on the potential correlation between the ownership and location misallocations.