

Spatial Misallocation across Chinese Firms

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Quick Summary

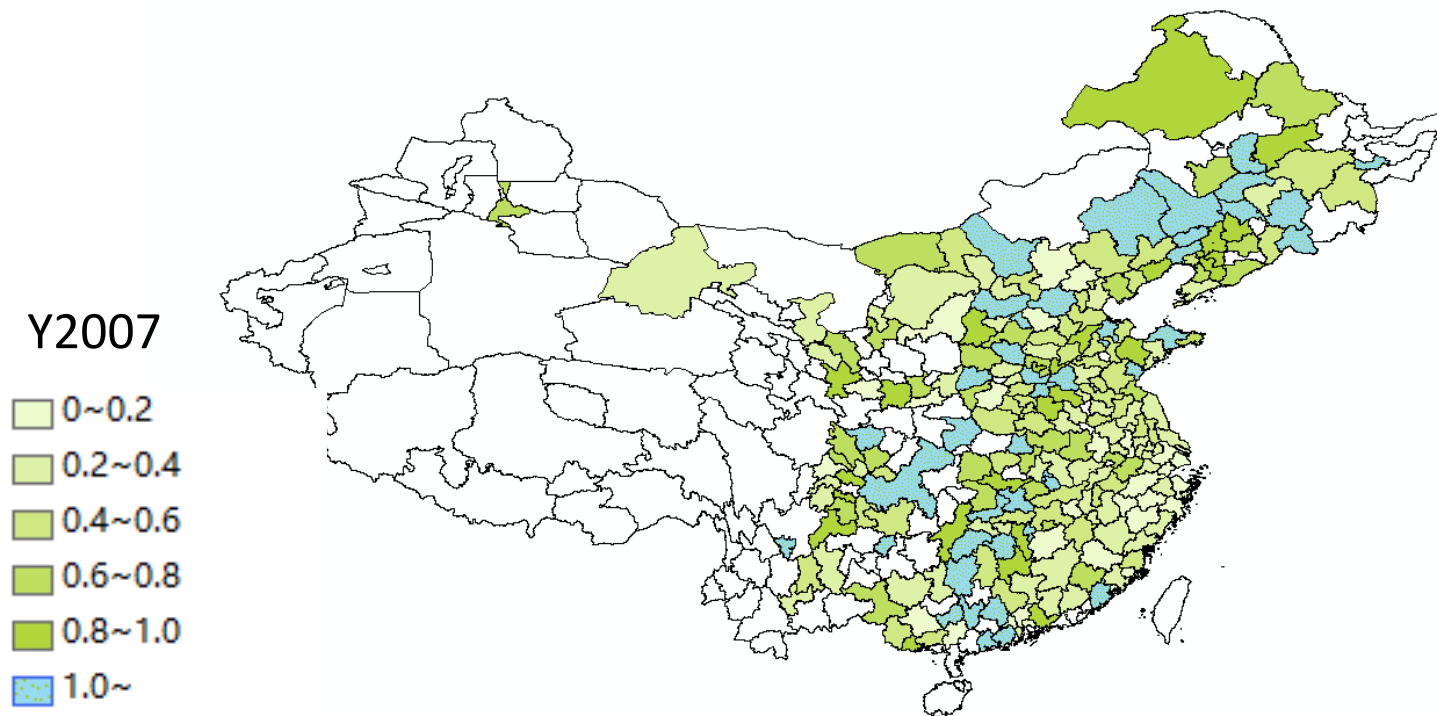
- Key questions:
 - What are the welfare implications of firm-level frictions in China?
 - Focusing on the ownership and spatial misallocation perspectives.
- Research strategy:
 - Using Hsieh and Klenow's (2009) method and the ASIF dataset to estimate the firm-level labor and output frictions between 1998 and 2007.
 - 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.

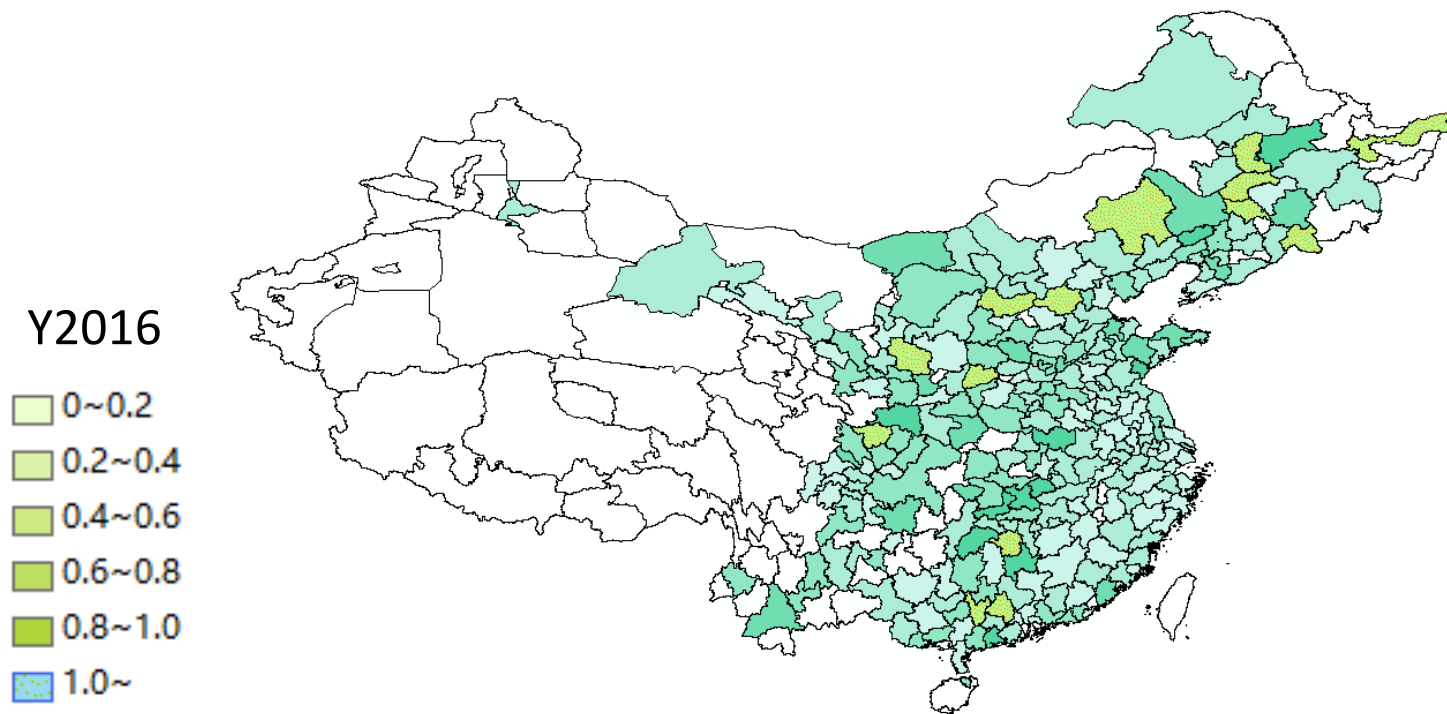
Suggestions - 1

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



Suggestions - 1

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– 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.