Discussion on “Going Bankrupt in China” authored by Bo Li and Jacopo Ponticelli

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Summary

• The paper uses the staggered introduction of specialized courts on bankruptcy and documents the following stylized facts: (DID with control from cases handled by civil courts)

• On the courts
  • Have more experienced, better trained judges;
  • Reach resolution faster;
  • More filings (# and portion of the economy (SOE)).

• On the economic outcomes
  • Reduction of zombie firms
  • Increased capital productivity.

• On the cross sectional difference
  • Only effective with local SOEs,
  • Not publicly listed firms, not central SOEs.
Overview

• The approach of the paper is clear;
• The results are clear;
• The paper is well (superb) written!
Big picture: What is the underlying-mechanism of the punchline?

• Institution works. Really?
  • Why not 2007 bankruptcy law revision?
  • Why not civil courts?
  • Why not all firms?

• “SPECIAL” courts
  • Introduced with explicit objective to reduce zombie firms;
  • Prioritize resources and talents;
  • Clear-fast pathway for creditors’ filing and co-ordinations;
  • Local officials’ political career jeopardy if disobey central government guideline.

• Government prioritized and the efforts worked!
Implication on the debate of supporting mechanism in Chinese economy growth

• The debate on the supporting mechanism:
  1) Law, Institutions, markets -- Capitalism (..9#/% of literature..)
  2) State capitalism (Fan, Morck, Yeung 2011, etc)
  3) Social, business networks -- Cronyism (Rajan and Zingales 2003)
     or a market mechanism of information and reputation?
     (Allen, Qian, Qian 2005, Perterson 2016, Allen, Qian, and Xie 2019, etc)

• What does this paper say?
  • State efforts in directing “capitalism”
  • Reducing “political cronyism”
  • Relation to a strand of recent literature:
    • How the political system in China uses political career aspiration
      of bureaucrats to achieve capitalism results.
     (Li and Zhou 2011, Cao, Lemmon, Pan, Qian, and Tian 2019)
Questions to think about for this paper

The paper documents the special organization of and results achieved by special courts.

• How do special courts exactly achieve isolation of local officials and courts?

• “Special” is not in the spirit of free market, how could we distinguish the law-institution effect from political-institution effect in this mix?

• Why only SOE or public listed firm or central SOEs?
  Political economy reason?
  Economic reason? --- This can be addressed in the paper.

• What should be controlled and corresponding implications?

  If confident with the controls of operational/financial condition and the difference sustains, the implication is disturbing:
  --- The special court is not doing what court should do ---- bankruptcy based on financial performance or ownership.
Technical comments

• Endogeneity problem
  An economic or political reason that drives both the likelihood that a SOE is under court case and is cut/marginalized from financing.

• What are the potential latent variable?
  • They are zombie firm --- can be verified by showing their financial performance.

  Question: Are publicly listed firm and central SOEs with similar financials have similar likelihood of being filed in the court and marginalized on the credit market?

• What are the alternatives?
  • Targets of government initiatives;
  • A way to reshuffle political camps’ economic power?
Sum up

• An interesting, well written paper. I really enjoyed reading it.

• Excellent documentation on what happens around the special bankruptcy courts.
  • Courts organization, cases outcomes, and credit market response

• What we learned in economics sense?
  • “special” courts work – Judicial arrangement? Political Incentives?
  • Institutions? Or state capitalism?
  • How does the selection occurred? SOEs verus non-SOEs