

# Comments on “Government Credit and Trade War” by Cai, Feng, Liu, Ru, and Yang

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May 29, 2019 ABFER

# Summary

- This paper studies how the variation of loans by China Development Bank (CDB) across provinces and industries affects
  - ① export activities of the same industry (distinguish SOE and private firms)
  - ② export activities of the downstream industries (distinguish SOE and private firms)
  - ③ US firms ... (more on this later)
- Loan data that vary by province and industry ( $31 \times 95 = 2945$ ).
- Customs data and the often-used manufacturing survey data.
- CDB loans mostly for infrastructure projects and certain industries (utility and mining, etc) that are typically SOE-heavy and upstream.
- CDB is stated owned and heavily influenced by the governments.

# Identification

- **Instrument:** “At the province-industry level, we interact the dummy of the focal industries in any cities of a province and the turnover cycles of these cities’ party secretaries.”
  - ▶ Focal industry: the industry of which the SOEs of the city have largest assets in sum.
  - ▶ Party secretaries tend to borrow and spend a lot during their early years in office.
  - ▶ Used predicted years in office rather than actual years (to reduce endogeneity concern)

## Findings on Export Activities

- **For SOEs in the same industry, found significant and positive effects** on *export amount*, *number of destinations* and *number of exported products* with an elasticity around 0.04, 0.016, and 0.012, respectively.
- Not much on private firms in the same industry.
- **For private firms in the downstream industries: found significant and positive effects** on *export amount*, *number of destinations* and *number of exported products* with an elasticity around 0.02, 0.014, and 0.012, respectively.
- Not much on SOE in the downstreams.
- **Channel?** Investigated the effects of CDB loans on **export prices**:
  - ▶ Own industries: No effects (SOE or private)
  - ▶ Downstream industries: No effects for SOE; **negative effects (export price reduction) for private firms.**

# The Effects on US firms

- Explore the effects of “predicted export” by industry on (CompuStat) firm performances of the same industry and of the downstream industries in the US.
- Predicted exports given by summing across the “predicted increased exports” induced by CBD loans on own industry SOE firms and on downstream private firms in their sample.
- Findings:
  - ▶ Negative horizontal effect (import competition)
  - ▶ Positive effects on downstream firms’ assets, sales, and employment.
  - ▶ Qualitative similar results when regressing on **predicted reduction in export prices induced by CBD loans.**

## Comment 1: Overall take on the empirical results

- Plausible identification: The instrument is arguably a good choice, and the **predicted changes in xxx induced by CBD loans** is also arguably exogenous.
- In the construction of the instrument, the focal industry is identified by the the industry with the largest assets in sum. But if capital is already large, why do they need more?
- A better way to identify the focal industry is by the **growth in assets or in sales in recent years?**
  - ▶ Firm growth is a little persistent, and expansion needs credit.
  - ▶ Party secretary can help and would like to help growing industries.

## Comment 2: Mechanism?

- Even with the tests on the price channel .... how do export prices of the downstream private firms affected by the CBD loans (mostly to SOE)?
  - ▶ price reduction: reflects either **productivity increases or fiercer competition** of the downstream private firms, but which one actually occurs and how?
  - ▶ Does the SOEs provides cheaper and better inputs to downstream firms so that downstream firms output productivity improves through this **input effect**?
  - ▶ At least price reduction implies that the quality improvement channel is unlikely.

## Comment 2: Mechanism?

- Might want to think in terms of the galaxy story by Bai, Hsieh, Song, and Wang (2019).
  - ▶ Growth driven by private firms who face credit constraints
  - ▶ Successful private firms often-times linked to a few star firms who are often-times big SOEs (verified by their network data).
  - ▶ Credit constraints loosened via these links (formally or informally). Star SOEs actually not doing many **real** things....
  - ▶ Since these SOEs who get loans from CDB are at the very top of the supply chain, they mostly have downstream firms to connect.
  - ▶ Would be nice to conduct some mechanism tests to see whether this galaxy story explains the downstream effects here.



## Comment 3: On the Downstream US firms

- The effects on downstream Chinese firms may be explained by the above-mentioned input effect or galaxy story (needing tests).
- The effects of exports (or export prices) on same-industry US firms. Okay because it is direct import competition.
- The effects of exports (or export prices) on downstream US firms?? We don't see whether these downstream firms actually import from China. The Galaxy story doesn't work here. The link on input effect is a bit weak. So, more direct measure of exposures to intermediate inputs from China would be useful.

## Comment 4: Other General Questions

- There is product differentiation among different banks. Does the CDB experience generalize to other banks (because the title says “government credit”)? Differentiation may undermine the results. So, might want to check correlations of loans to SOE among different banks.
- This paper paints government credit as something possibly bright and useful, but it doesn't erase the facts that the loans (when mostly made to SOEs) can be highly distortive (Hsieh and Klenow 2009) as it gives SOEs and SOE-linked firms more market power.
- If downstream private firms benefit in some way, it would be useful to uncover the link, if any, that a distortive policy for one industry might reduce distortion in the downstream industries.

# Minor Comments

- Trade war is something you discuss in the introduction and conclusion, but I don't feel a very strong direct link. Perhaps not very nice to have it as part of the title.
- Chinese Industry Census (CIC) – Please don't call it a census.