

Special Deals from Special Investors

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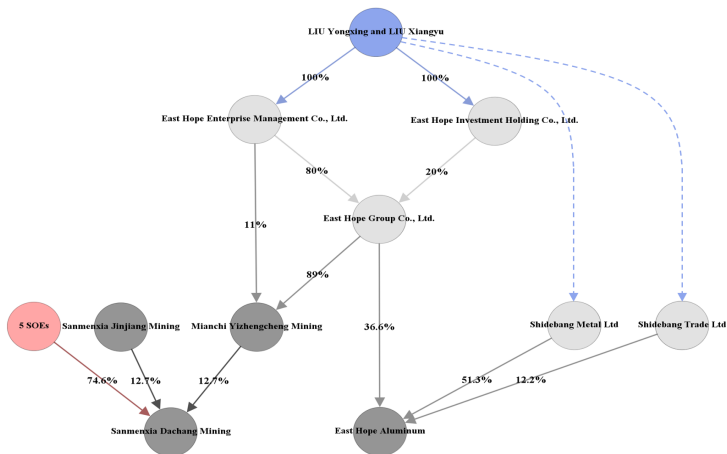
Successful Firms have “Connected” Investors

- Baihang Credit
 - ▶ First licensed personal credit agency
 - ▶ JV between PBOC, Ant Financial, and Tencent
- “Strategic Emerging and Industries” from late 1990s to 2014
 - ▶ Shanghai Auto’s “investment” in Chery
 - ▶ Sanmenxia local government’s “investment” in East Hope Aluminum
- Administrative data on universe of firms with data on their owners

China's Firm Registry

- All firms in 2013 and 2019
- Data identifies owners of all firms
 - ▶ Individual, with anonymized personal ID
 - ▶ Legal person, with name and ID: Another firm or a holding company
 - ▶ Collective: publicly traded shares
- Almost all large private companies owned by several holding shells, which are themselves owned by other holding shells.
- All Chinese holding shells also in the data
- Foreign legal persons and collective owners not in data
- Equity share in 2019 and 2013 (or exit date) of each owner

Owners of East Hope Aluminum and Dachang Mining



We focus on *ultimate* owners, not firms

Measure equity links between owners

Owners of the East Hope Group

	<u>Liu Family</u>	<u>State</u>	<u>Other Private</u>
# of Owners	1	15	11
Firms per Owner	236	599	305
East Hope's Joint Ventures	27	15	12
Capital per Owner (billions)	26.5	226	5.1

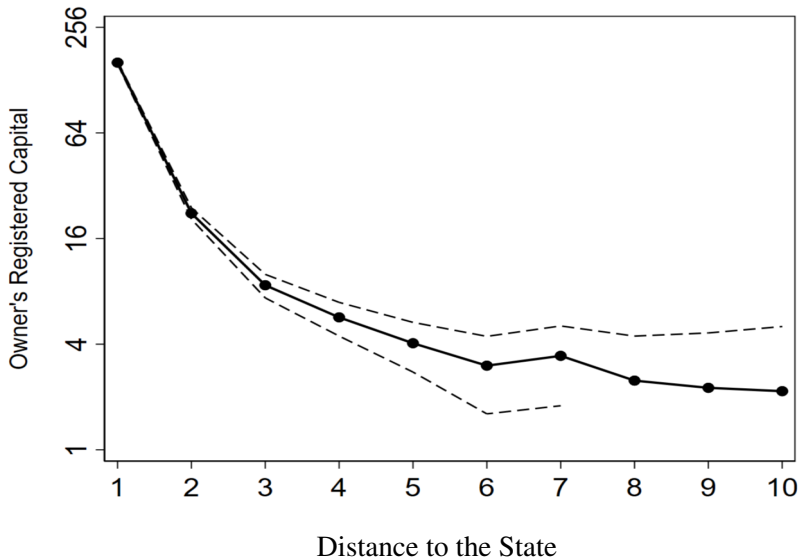
Lessons from East Hope Group

- Multiple Ownership Links
 - ▶ East Hope has JVs with 15 state owners and 11 private owners.
- Hierarchy of Owners
 - ▶ Largest Owners: State Owners with JVs with East Hope
 - ▶ Next Largest Owner: East Hope
 - ★ “Directly” Connected to State Owner
 - ▶ Next Tier: Private Owners connected to East Hope.
 - ★ “Indirectly” Connected to State Owner

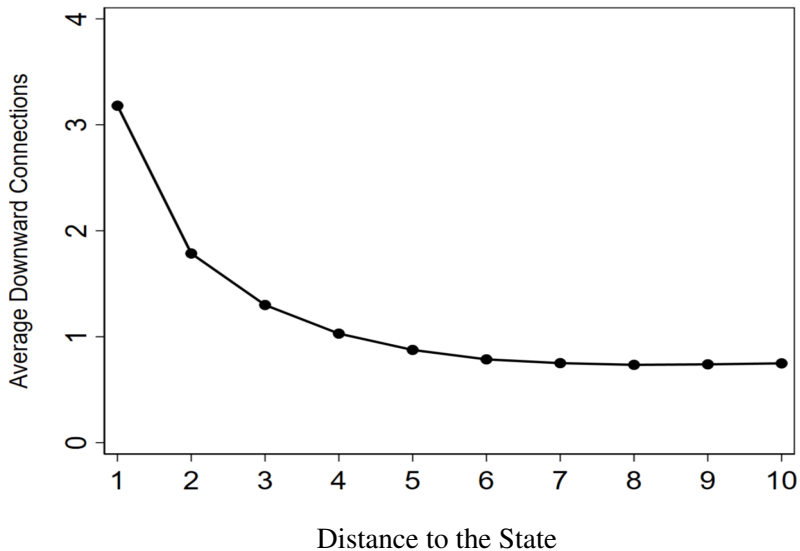
Top Owners in China are Connected

	Top 100	Top 100,000
State Owners	63	6,826
Connected	63	5,243
Private Owners	37	93,174
Directly Connected	31	17,236
Indirectly Connected	3	37,360

Large Owners are “Closer” to the State



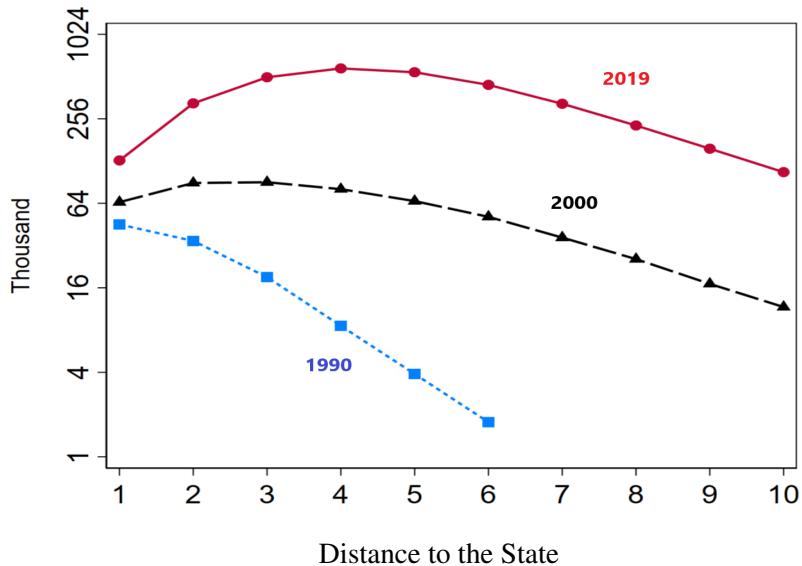
Owners “Closer” to the State have more Downward Connections



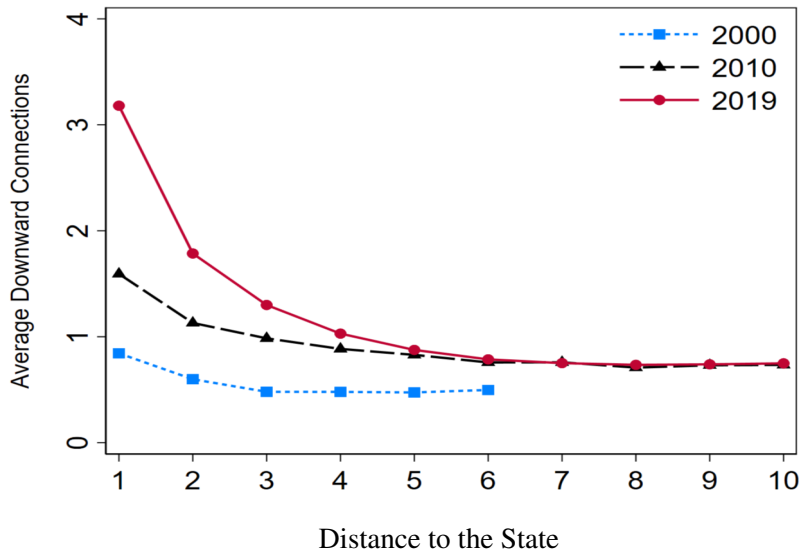
Increase in Number of Connected Private Owners

- Increase in “investments” by state owners in private firms
 - ▶ 2000: 3 investments/state owner
 - ▶ 2019: 15 investments/state owner
- In 2019 100K private owners have equity ties with state owners, about 18.2% of registered capital.
- Connected private owners invest in other private companies
 - ▶ Large increase in private owners “indirectly” connected to state owners
 - ▶ \approx 15.3% of registered capital
- Connected private owners expand into new industries/provinces
- Connected private owners account for 33% of registered capital

Increase in Number of Connected Private Owners



Number of Downward Connections per Private Owner



Change in Share of Registered Capital, 1990-2019

- Connected Private Owners: +19.4%
- All Private Owners: +22%
- Connected State Owners: -16%

Broader Implications

- Easier to “scale” connections of “connected” owners
 - ▶ Number and size of connected owners ↑
- Expansion of regime of special deals
 - ▶ No longer need direct access to local party boss
 - ▶ Only need a “connected” investor
 - ▶ Connected investor “scales” her advantages
- Accounts for 27% of private sector GDP growth