Institutional Foundations of China's Growth and Growth Slowdown

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The Puzzle of China

Weak formal institutions

Strong economic growth
China does poorly in World Bank Doing Business Indicators

Ease of Starting a Business: 151

Same as Congo (yes this is Mobutu’s Congo)
企业盖栋楼，要交95种税费盖192个章
南京民企老总抱怨从政之下办事难；江苏确定简政放权路线图，行政审批大幅“瘦身”
"Long March" for Licenses
City in Southern China

- Actively look for quality prospects
- Initial discussion to learn about investor
- Feasibility Analysis
- Identify land and other needed services
- Approval by Vice-Mayor
- Sign agreement
Organization of Local Government

Party Secretary

Mayor

9 Vice-Mayors

Each Vice-Mayor assigned 20 "important" projects
"Zhengzhou Speed"

iPhone 6 produced in Foxconn Zhengzhou (300,000 workers)

2007: Foxconn opens plant in Wuhan (Hebei Province)

2008: Guo Gengmao (Governor of Hebei) moved to Henan.

June 20, 2010: Governor of Henan Province welcomed Gou Taiming (Chairman of Foxconn) at airport

June 29, 2010: Agreement was signed

August 2010: Foxconn Zhenzhou opened
Chinese System is *Crony* Capitalism

Weak formal institutions

Successful Firms use informal institutions

Successful Firms are "Cronies"
But with Chinese Characteristics

Free Entry into "Cronyism"

Strong local state capacity

Easy to make deals

Encouraged by Organization Department?

Remarkable tolerance of corruption (until 2013?)

Limited access to financial resources (until 2009)

Help for cronies did not worsen capital allocation

Competition between local governments

Block entry into in your jurisdiction but not in others
Aggregate Growth Slowed After 2009
Long Shadow of 2009 "Fiscal" Stimulus

Local Governments (informally) allowed to:

   Borrow through “local financing vehicles”

   Create “shadow banks”

8-9% of GDP intermediated through shadow banks/local financing vehicles by 2013
Crackdown on Corruption (2013 - ?)