Party Controlled Businesses

Oliver Zhen Li
NUS Business School

Are they any good?

Are they any good?

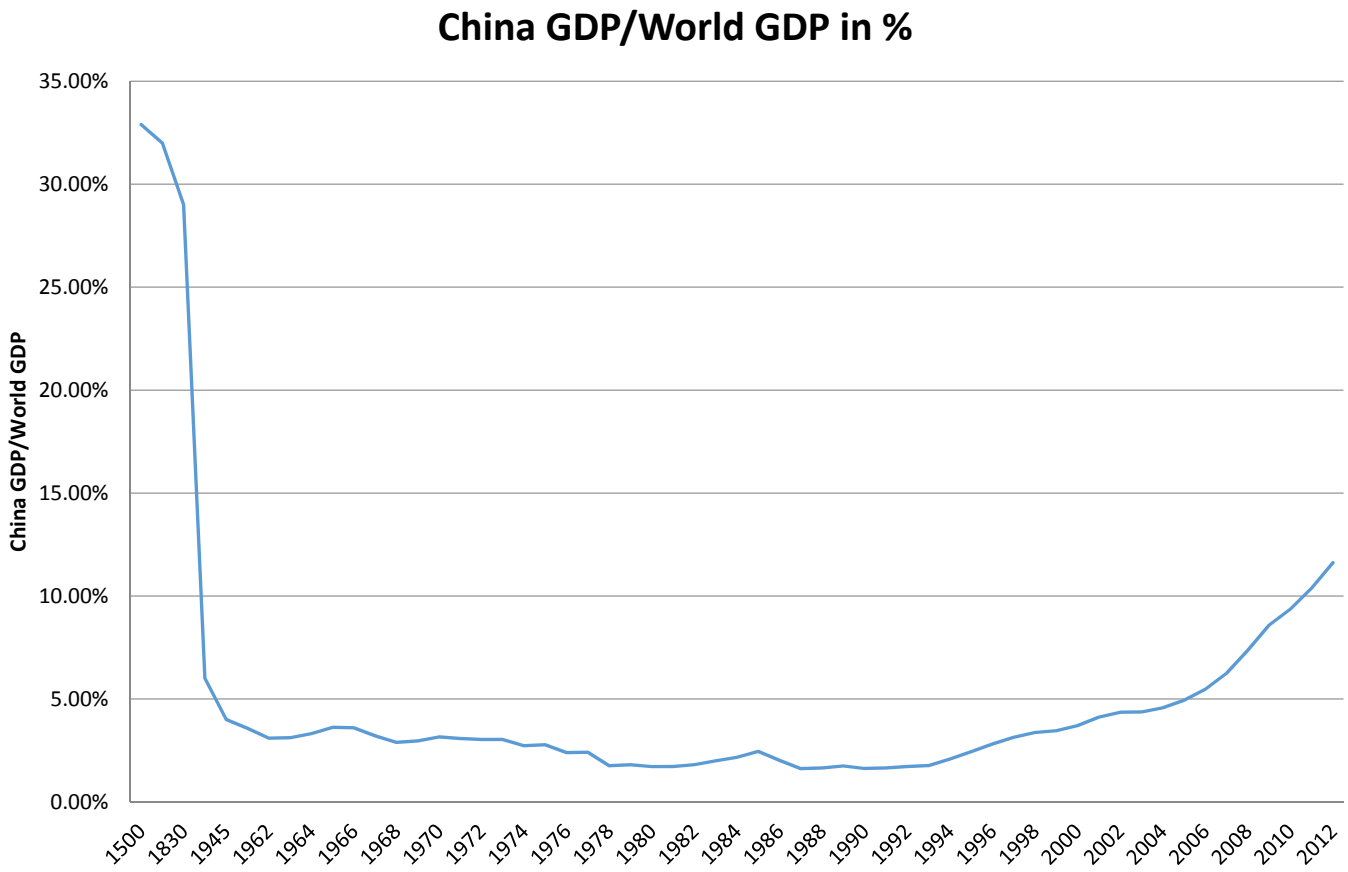
They are mighty good.

Parties to Ownership Contracts

- between managers and shareholders
- between managers and the state

Transformation of China's State Owned Enterprises

China's Share of the World's GDP



List by the International Monetary Fund (Estimates for 2016)[16]

Rank	Country	GDP (millions of US$)
	World[19]	**75,212,696**
1	United States	18,561,930
—	*European Union*[n 1][19]	17,110,523
2	China[n 2]	11,391,619
3	Japan	4,730,300
4	Germany	3,494,900
5	United Kingdom	2,649,890
6	France	2,488,280
7	India	2,250,990
8	Italy	1,852,500
9	Brazil	1,769,600
10	Canada	1,532,340
11	South Korea	1,404,380
12	Russia	1,267,750
13	Australia	1,256,640
14	Spain	1,252,160
15	Mexico	1,063,610
16	Indonesia	940,953

List by the World Bank (2017)[20]

Rank	Country	GDP (millions of US$)
	World	**73,891,889**
1	United States	18,036,648
—	*European Union*[n 1][22]	16,229,464
2	China[n 6]	11,007,721
3	Japan	4,123,258
4	Germany	3,363,447
5	United Kingdom	2,858,003
6	France	2,418,836
7	India	2,095,398
8	Italy	1,821,497
9	Brazil	1,774,725
10	Canada	1,550,537
11	South Korea	1,377,873
12	Australia	1,339,539
13	Russia	1,326,015
14	Spain	1,199,057
15	Mexico	1,144,331
16	Indonesia	861,934

List by the United Nations (2015)[21]

Rank	Country	GDP (millions of US$)
	World[23]	**74,196,404**
—	*European Union*[n 1][24]	18,518,430
1	United States	18,036,648
2	China[n 6]	11,158,457
3	Japan	4,383,076
4	Germany	3,363,600
5	United Kingdom	2,858,003
6	France	2,418,945
7	India	2,116,239
8	Italy	1,821,580
9	Brazil	1,772,591
10	Canada	1,552,807
11	South Korea	1,377,873
12	Russia	1,326,016
13	Australia	1,230,859
14	Spain	1,192,955
15	Mexico	1,140,724
16	Indonesia	861,933

List by the International Monetary Fund (Estimates for 2016)[4]

Rank	Country	GDP (millions of Int$)
	World	**119,097,427**
1	China	21,269,331
—	*European Union*[n 1]	19,748,883
2	United States	18,562,129
3	India	8,720,758
4	Japan	4,932,102
5	Germany	3,979,664
6	Russia	3,745,081
7	Brazil	3,134,247
8	Indonesia	3,027,746
9	United Kingdom	2,787,748
10	France	2,736,378
11	Mexico	2,227,176
12	Italy	2,213,909
13	Saudi Arabia	2,145,000
14	South Korea	1,929.027
15	Spain	1,674,019
16	Canada	1,671,860
17	Turkey	1,665,332

List by the World Bank (2015)[5]

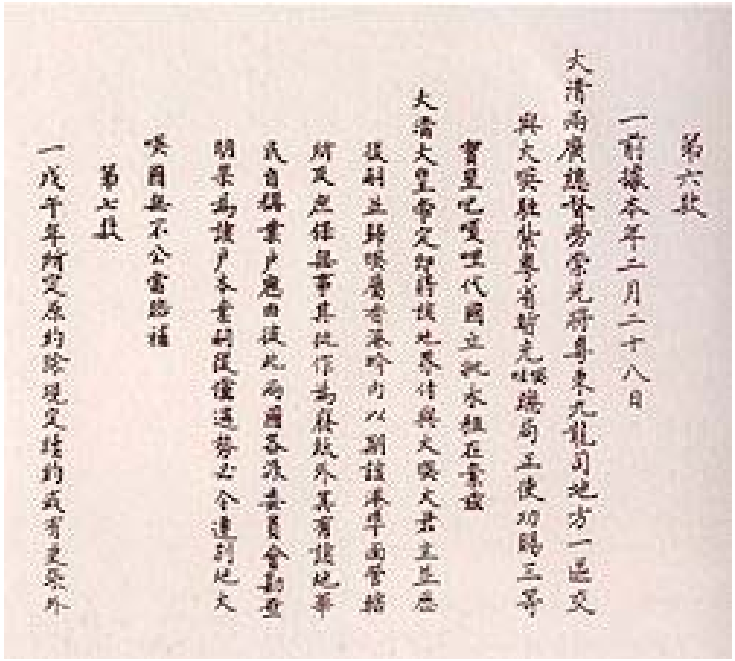
Rank	Country	GDP (millions of Int$)
	World	**114,212,979**
1	China	19,524,348
—	*European Union*[n 1]	19,137,699
2	United States	17,946,996
3	India	7,982,528
4	Japan	4,738,294
5	Germany	3,799,826
6	Russia	3,579,826
7	Brazil	3,198,898
8	Indonesia	2,842,241
9	United Kingdom	2,691,809
10	France	2,650,823
11	Mexico	2,194,431
12	Italy	2,182,580
13	South Korea	1,748,776
14	Saudi Arabia	1,685,204
15	Spain	1,602,660
16	Canada	1,588,596
17	Turkey	1,543,284

List by the CIA World Factbook (1993–2015)[6]

Rank	Country	GDP (billions of Int$)	Year
	World	**119,400**	**2016 est.**
1	China	21,270	2016 est.
—	*European Union*[n 1]	19,180	2016 est.
2	United States	18,560	2016 est.
3	India	8,721	2016 est.
4	Japan	4,932	2016 est.
5	Germany	3,979	2016 est.
6	Russia	3,745	2016 est.
7	Brazil	3,135	2016 est.
8	Indonesia	3,028	2016 est.
9	United Kingdom	2,788	2016 est.
10	France	2,737	2016 est.
11	Mexico	2,307	2016 est.
12	Italy	2,221	2016 est.
13	South Korea	1,929	2016 est.
14	Saudi Arabia	1,731	2016 est.
15	Spain	1,690	2016 est.
16	Canada	1,674	2016 est.
17	Turkey	1,670	2016 est.
18	Iran	1,459	2016 est.
19	Australia	1,189	2016 est.

Two Opium Wars Lost

- Treaty of Tianjian
  - Russia, USA, UK and France
- Treaty of Beijing
  - UK, France and Russia



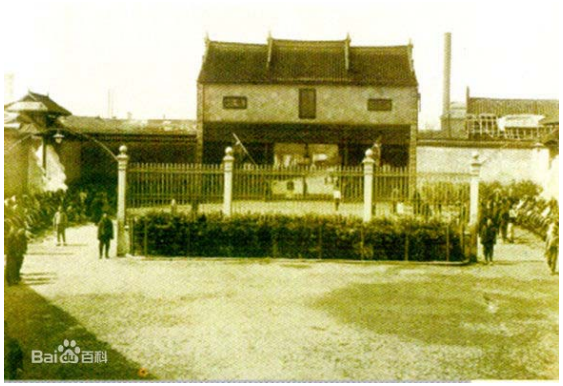
What to Do Next?

What to Do Next?

Learn from Western powers.

The late Qing Dynasty: Emulating Foreign Businesses 洋务运动 1860-1890

- Learning from foreign developed countries
- 官办 (government ownership)、官督商办 (government authorized private ownership) 、官商合办 (PPP)



江南制造局是中国第一个较大的官办军事工厂，1865年由李鸿章在上海创办，全厂约2000余人，主要制造枪炮、弹药、水雷等军用品，同时还制造轮船，1867年后开始制造船舰。

1873年1月17日在上海洋泾滨永安街正式设立“轮船招商公局”，这是洋务运动中由军工企业转向兼办民用企业、由官办转向官督商办的第一个企业。其中官股10万两，朱其昂、朱其诏兄弟各10万两，李鸿章5万两，轮船4艘，从事江浙漕粮运输及各种客货运输业务

During and After the Communist Revolution: Planned Economy

- China's central government had complete control over the economy. Nearly all companies were state-owned enterprises referred to as SOEs
- China implemented "two lines of revenue and expenditure" for state-owned enterprises.
  - The state provided raw materials for enterprises and formed a unified production plan.
  - The profits of the enterprises are uniformly handed over to the state.
  - Finally, the products are uniformly distributed by the state.
- Enterprises do not have production and management autonomy.

After the Communist Revolution: Planned Economy

- Due to economic, political and military considerations, state-owned firms were assigned different political ranks to enable them to be embedded into the national political system.
- This kind of hierarchy is a part of China's historical and cultural tradition that is deeply rooted in the society.
- Also, learning from Soviet Russia

After 1978: SOE Reforms

- 1979: SOE managers were given greater autonomy on how to spend surplus income, over and above government quotas
- 1983: The state implemented new policy in SOEs' financial contributions to tax profits instead of claiming for the profits
- 1984: SOEs were allowed to sell their excess production in the market
- 1992: the 14th Communist Party of China (CPC) Party Congress announced that the next step of economic reform was for China to create a "socialist market economy".
- 1994: the general corporate law was enacted, allowing for privately owned enterprises
- 1997: The 15th Party Congress approved a plan to convert the SOEs into shareholding corporations, SOEs could begin to sell their shares on the Shanghai and Shenzhen Stock Exchanges
- 2001: China ascended to the WTO, In order to make the SOEs larger and more competitive against the MNCs, both at home and abroad, China's policy has been to continue to merge and consolidate them, building larger, more powerful SOEs

Socialist Market Economy

- A combination of state ownership and the market
- China does not strictly follow other people's model
- "Crossing the river by feeling the stones."

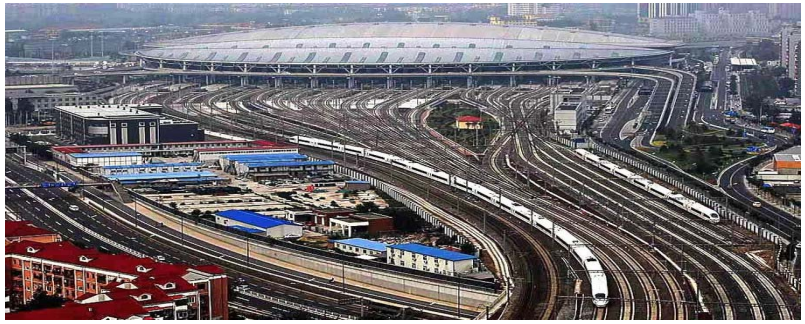
In Sum

- A product of the planned economy and reflects political positions in the state that firms' managers occupy.
- Due to economic, political and military considerations, state-owned firms were initially assigned political ranks to enable them to be embedded into the national political system.
- This kind of hierarchy is also a part of China's historical and cultural tradition that is deeply rooted in the society.
- Political goals are often carried out in the design and allocation of firm ranks.
- Managers who are assigned to run these firms naturally gain political ranks.
- Firm rank and manager rank are two sides of the same coin.
  - One side is the rank of the assets under management.
  - The other side is the rank of the manager.

In China, is Government Ownership Inefficient?


中国南车


www.cnbridge.cn



Not Inefficient!

Not Inefficient!

In Fact, Deadly Efficient!

Why?

Why?

They have a form of governance.

Communist Party Controls and Manages Its Personnel

- Party representatives of state-owned firms can be members of the boards of directors and the committees of supervisors.
  - Party representatives of the boards of directors, committees of supervisors, and managers can also enter the party committee.
  - A way to carrying out personnel control is the political ranking system.

Dual Appointments for Managers

- Managers of China's state-owned firms receive dual nominations.
  - offers from firms' boards of directors to be high level managers,
  - nominations from the Personnel Organization Department of the Communist Party Commission to be government officials.

Party Controls Business and Governance through Political Ranks

- Managers of China's state-owned firms work in a closed pyramidal managerial labor market.
- They enjoy non-transferable benefits if they choose to stay within this system.
- The higher up are they in this labor market hierarchy (their political ranks), the fewer are their outside employment opportunities.

A Little Digression - Relationship

- West: Arms length transaction
  - In fact, this is not a relationship or no relationship is built after transactions

- China: Long-term and often inextricable relationship
  - Aboriginal people
  - Long history
  - Central government control

How to Govern and Manage?

Political Ranking System

省部级: provincial and ministerial level

厅局级: department and bureau level

县处级: county and division level

乡科级: township and section level

Political ranking system reflects the political positions in the state that managers occupy.

Types of Shareholders

Type 1: 国务院国资委 (Central-level State-owned Assets Supervision and Administration Commission)

Type 2: 省市县乡国资委 (Provincial, City, County and Township Level State-owned Assets Supervision and Administration Commission)

Type 3: 中央部委 (Ministry of Central Government)

Type 4: 新疆建设兵团 (Xinjiang Production and Construction Corp)

Type 5: 高等院校 (University)

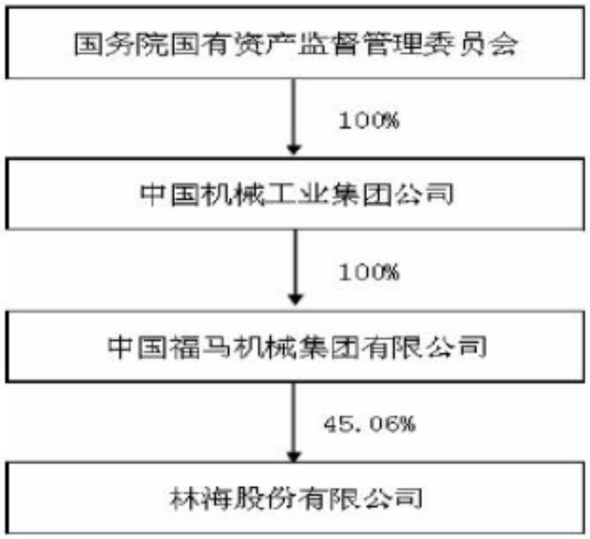
Type 6: 汇金公司 (Central Huijin Investment Ltd.)

Type 7: 较为复杂的控股股东 (Complex Shareholders)

国务院国资委 (Central-level State-owned Assets Supervision and Administration Commission)

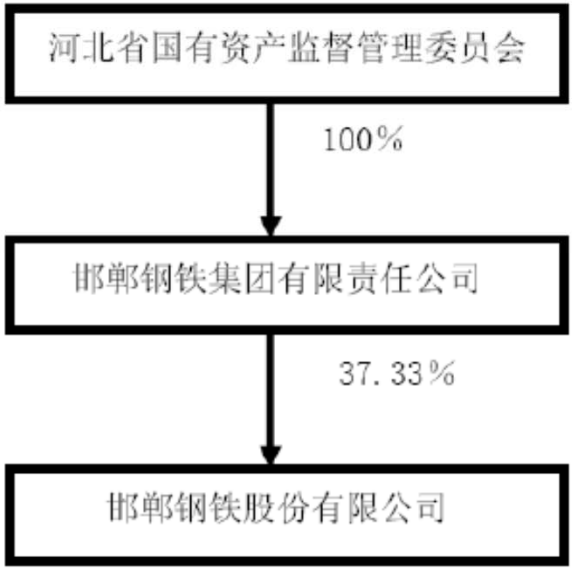
Type 1: 国务院国资委 (Central-level State-owned Assets Supervision and Administration Commission)

600099 (Linhai Co., Ltd, 林海股份), from the annual report (2007, Page 8)



省市县乡国资委 (Provincial, City, County and Township Level State-owned Assets Supervision and Administration Commission)

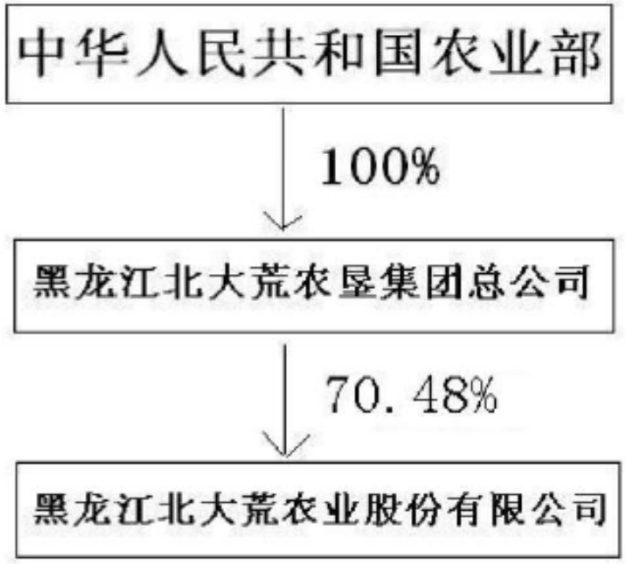
600001 (Handan Iron & Steel Co., Ltd, 邯郸钢铁), from the annual report (2007, Page 5)



中央部委 (Ministry of Central Government)

Type 3: 中央部委 (Ministry of Central Government)

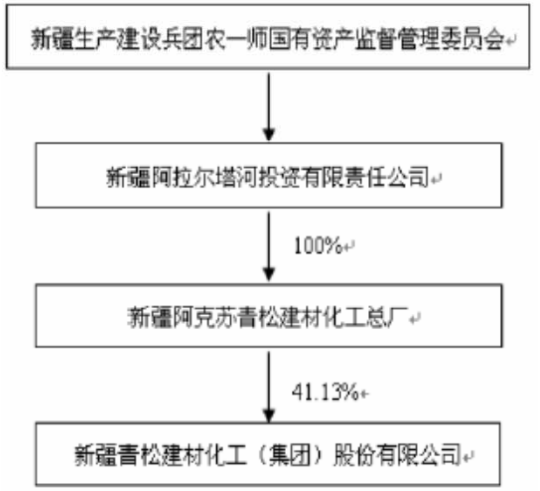
600598 (Heilongjiang Agriculture Company Limited, 北大荒), from the annual report (2007, Page 6)



新疆建设兵团 (Xinjiang Production and Construction Corp)

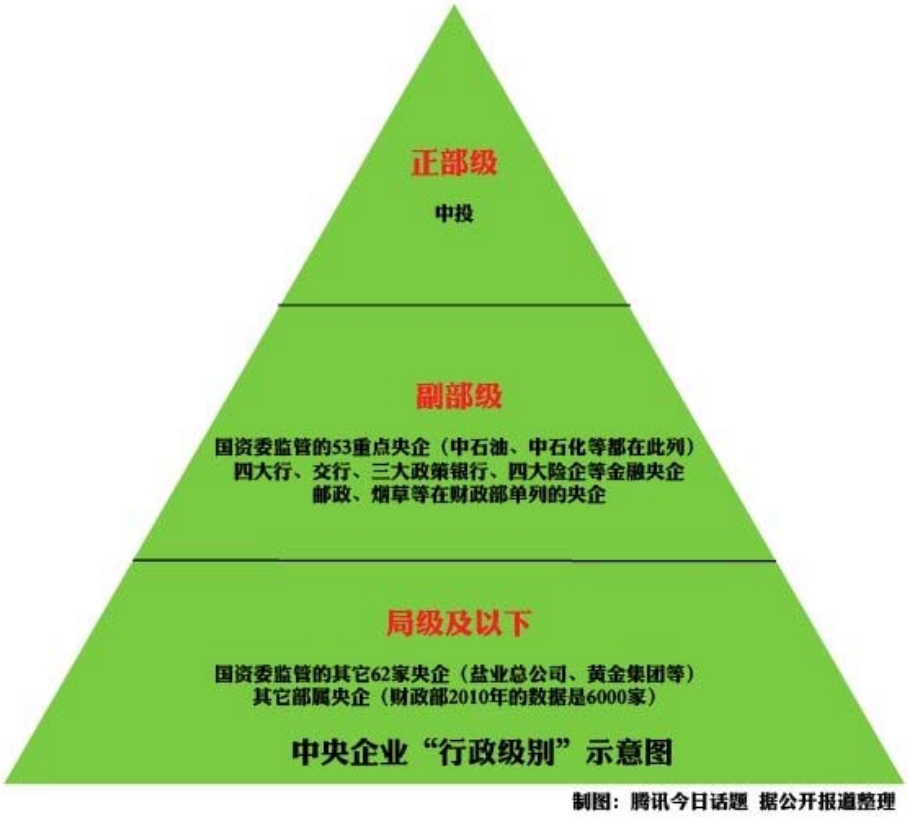
Type 4: 新疆建设兵团 (Xinjiang Production and Construction Corps)

600425 (Xinjiang Qingsong Building Materials and Chemicals (Group) Co., Ltd., 青松建化), from the annual report (2007, Page 8)



Internal Mobility in A Tournament

- Within the system, managers can realize migrations from firms to firms or from firms to the government.
- They can also be promoted to higher ranks within their current firms or in other firms through a tournament-style competition within the closed hierarchical managerial labor market.



External Immobility

- It is difficult for them to find comparably prestigious employment opportunities outside the party organization.
- They are unlikely to voluntarily quit their current positions given a large chasm between lives within and outside the government. This creates a lock-in effect.
- Many managers of state-owned firms spend their entire career in this system.

Incubator for Business-Savvy Officials

- The government makes economic development its priority.
- The government observes and cultivates state-owned firms' managers and government officials.
- The political ranking system is a tool that the government uses to motivate, monitor and select its cadres.
- It ensures of the completion and execution of government's will and goals.

China’s officials are often business savvy.

Of course, a focus on GDP has its pitfalls.

Of course, a focus on GDP has its pitfalls.

Environmental Issues

China's Progressive Political Ranking System for SOE Managers

- A relatively closed, though still competitive, internal labor market – departure from the system may lead to no comparable employment opportunities as within the system
- SOE managers are also government officials with political ranks – a role that motivates them to exercise more caution to meet political agenda
- The higher is a manager's political rank, the more likely is he or she to receive strict government monitor, thus more caution is he or she likely to exercise in the business administration.
- They are more risk averse.

Tullock's (1965) Bureaucrats

- Bureaucrats, as politicians, seek promotions.
- They act in a manner that is rewarded by the sovereign. Therefore, pleasing the sovereign is the most important task.
- High (low) ranking managers' promotions are more determined by politics (economic performance).
- High ranking managers therefore are less likely to cause crashes as they engage in fewer risky strategies to boost economic performance, as compared with low ranking managers.

Hypothesis

State-owned firms' stock price crash risk is negatively associated with their managers' political ranks.

Stock Price Crash Risk

$$r_{jt} = a_j + b_{1j}r_{mt-2} + b_{2j}r_{mt-1} + b_{3j}r_{mt} + b_{4j}r_{mt+1} + b_{5j}r_{mt+2} + \varepsilon_{jt}, \quad (1)$$

where r_{jt} is Stock j's return during Week t; r_{mt-2}, r_{mt-1}, r_{mt}, r_{mt+1} and r_{mt+2} are market returns during Weeks $t-2$, $t-1$, t, $t+1$ and $t+2$, respectively.

$$Ncskew_{jt} = -[n(n-1)^{3/2}\sum W^3_{jt}]/[(n-1)(n-2)(\sum W^2_{jt})^{3/2}], \quad (2)$$

where W is firm-specific return estimated using Equation (1) and n is the number of weeks used to compute $Ncskew$.

Regression Analysis

Similar to Chen, Hong and Stein (2001) and Kim, Li and Zhang (2011a, 2011b), we estimate the following regressions:

$$Crash_t = a_0 + a_1 Dshi_{t-1} + a_2 Dturn_{t-1} + a_3 Ncskew_{t-1} + a_4 Sigma_{t-1} + a_5 Wret_{t-1} + a_6 Size_{t-1} + a_7 MB_{t-1} + a_8 Lev_{t-1} + a_9 Roa_{t-1} + a_{10} Accm_{t-1} + \varepsilon_t, \quad (3)$$

$$Ncskew_t = a_0 + a_1 Dshi_{t-1} + a_2 Dturn_{t-1} + a_3 Ncskew_{t-1} + a_4 Sigma_{t-1} + a_5 Wret_{t-1} + a_6 Size_{t-1} + a_7 MB_{t-1} + a_8 Lev_{t-1} + a_9 Roa_{t-1} + a_{10} Accm_{t-1} + \varepsilon_t, \quad (4)$$

Sample Selection (2005-2012)

Panel A: State-owned Firms

Year	Starting # of Firms	Excluding Firms Less Than Two Years Old	Excluding Financial Firms	Excluding Firms with Missing Variable Values	Final # of Observations
2005	862	51	2	158	651
2006	841	8	2	156	675
2007	814	13	2	116	683
2008	850	18	2	103	727
2009	795	5	3	55	732
2010	718	13	11	44	650
2011	765	19	8	42	696
2012	859	8	15	60	776
Total Observations	6504	135	45	734	5590

Panel B: Non-state-owned Firms

Year	Starting # of Firms	Excluding Firms Less Than Two Years Old	Excluding Financial Firms	Excluding Firms with Missing Variable Values	Final # of Observations
2005	374	48	3	74	249
2006	402	8	4	116	274
2007	481	45	4	130	302
2008	562	85	4	144	329
2009	602	57	4	149	392
2010	686	122	3	192	369
2011	1001	341	3	235	422
2012	1242	278	3	463	498
Total Observations	5350	984	28	1503	2835

Descriptive Statistics

Panel A: Descriptive Statistics

Variable	N	Mean	Std	Lower Quartile	Median	Upper Quartile
Ret_t	5590	0.3725	1.0638	-0.2109	0.0186	0.4691
$Crash_t$	5590	0.2195	0.4139	0	0	0
$Ncskew_t$	5590	-0.3551	0.6599	-0.7244	-0.3350	0.0425
$Dshi_{t-1}$	5590	2.3608	0.8127	2	2	3
$Dturn_{t-1}$	5590	0.1206	0.0769	0.0584	0.1069	0.1715
$Ncskew_{t-1}$	5590	-0.3296	0.6730	-0.7039	-0.3238	0.0464
$Sigma_{t-1}$	5590	0.0474	0.0159	0.0360	0.0450	0.0560
$Wret_{t-1}$	5590	-0.0012	0.0009	-0.0016	-0.0010	-0.0006
$Size_{t-1}$	5590	21.8699	1.1592	21.0488	21.7346	22.5415
MB_{t-1}	5590	3.5475	3.6760	1.6192	2.5598	4.3057
Lev_{t-1}	5590	0.5291	0.1951	0.3976	0.5392	0.6585
Roa_{t-1}	5590	0.0283	0.0634	0.0097	0.0285	0.0536
$Accm_{t-1}$	5590	0.1952	0.1486	0.0960	0.1542	0.2457
$Dsage_{t-1}$	5560	51.0808	6.4240	46	51	56
$Dstenure_{t-1}$	5553	2.0267	1.1320	1	2	3

Panel B: $Crash_t$ and $Ncskew_t$ within Each Category of $Dshi_{t-1}$

Rank	N	Variable	Mean	Std	Lower Quartile	Median	Upper Quartile
0	2835	$Crash_t$	0.2434	0.4292	0	0	0
		$Ncskew_t$	-0.3168	0.6911	-0.7052	-0.2783	0.0854
1	942	$Crash_t$	0.2399	0.4273	0	0	0
		$Ncskew_t$	-0.3581	0.6383	-0.7194	-0.3395	0.0329
2	1948	$Crash_t$	0.2202	0.4145	0	0	0
		$Ncskew_t$	-0.3519	0.6492	-0.7131	-0.3245	0.0427
3	2441	$Crash_t$	0.2147	0.4107	0	0	0
		$Ncskew_t$	-0.3579	0.6785	-0.7419	-0.3405	0.0461
4	259	$Crash_t$	0.1853	0.3893	0	0	0
		$Ncskew_t$	-0.3419	0.6439	-0.6886	-0.3243	0.0411

Correlations

Panel C: Correlations

		A	B	C	D	E	F	G	H	I	J	K	L
$Crash_t$	A	1.0000	0.5270	-0.0244	-0.0890	-0.0084	-0.0774	0.0772	0.0346	0.0365	-0.0105	0.0545	0.0163
			<.0001	0.0678	<.0001	0.5292	<.0001	<.0001	0.0097	0.0064	0.4331	<.0001	0.2244
$Ncskew_t$	B	0.5243	1.0000	-0.0016	-0.0746	0.0258	0.0114	-0.0108	0.0738	0.0581	0.0222	0.0950	0.0259
		<.0001		0.9080	<.0001	0.0534	0.3932	0.4177	<.0001	<.0001	0.0969	<.0001	0.0529
$Dshi_{t-1}$	C	-0.0259	0.0010	1.0000	-0.0885	0.0021	0.0020	-0.0020	0.2880	-0.0170	-0.0095	0.1175	0.0159
		0.0527	0.9429		<.0001	0.8730	0.8789	0.8800	<.0001	0.2046	0.4778	<.0001	0.2354
$Dturn_{t-1}$	D	-0.0822	-0.0561	-0.0974	1.0000	-0.1684	0.5644	-0.5658	-0.2064	0.2684	0.0104	-0.0883	0.0070
		<.0001	<.0001	<.0001		<.0001	<.0001	<.0001	<.0001	<.0001	0.4372	<.0001	0.6023
$Ncskew_{t-1}$	E	-0.0076	0.0227	0.0002	-0.1533	1.0000	-0.1143	0.1281	0.0227	-0.0159	-0.0054	0.0458	0.0195
		0.5698	0.0891	0.9895	<.0001		<.0001	<.0001	0.0901	0.2343	0.6888	0.0006	0.1448
$Sigma_{t-1}$	F	-0.0681	0.0285	-0.0016	0.5057	-0.0892	1.0000	-0.9999	-0.1281	0.3747	0.1050	-0.0394	0.1204
		<.0001	0.0330	0.9025	<.0001	<.0001		<.0001	<.0001	<.0001	<.0001	0.0032	<.0001
$Wret_{t-1}$	G	0.0552	-0.0355	-0.0016	-0.4524	0.0973	-0.9703	1.0000	0.1281	-0.3745	-0.1047	0.0399	-0.1199
		<.0001	0.0080	0.9067	<.0001	<.0001	<.0001		<.0001	<.0001	<.0001	0.0028	<.0001
$Size_{t-1}$	H	0.0317	0.0759	0.3206	-0.2228	0.0179	-0.1403	0.1227	1.0000	-0.1945	0.2534	0.2203	-0.0347
		0.0176	<.0001	<.0001	<.0001	0.1807	<.0001	<.0001		<.0001	<.0001	<.0001	0.0094
MB_{t-1}	I	0.0260	0.0628	-0.0003	0.1451	-0.0176	0.3201	-0.3226	-0.1508	1.0000	0.0698	0.2005	0.1553
		0.0522	<.0001	0.9803	<.0001	0.1883	<.0001	<.0001	<.0001		<.0001	<.0001	<.0001
Lev_{t-1}	J	-0.0080	0.0254	-0.0136	0.0069	0.0069	0.1088	-0.0992	0.2016	0.0694	1.0000	-0.3693	0.1543
		0.5508	0.0575	0.3109	0.6076	0.6067	<.0001	<.0001	<.0001	<.0001		<.0001	<.0001
Roa_{t-1}	K	0.0484	0.0535	0.1199	-0.0823	-0.0014	-0.0573	0.0468	0.2209	0.0511	-0.3874	1.0000	0.0334
		0.0003	<.0001	<.0001	<.0001	0.9190	<.0001	0.0005	<.0001	0.0001	<.0001		0.0125
$Accm_{t-1}$	L	-0.0092	0.0192	0.0272	0.0124	0.0150	0.1246	-0.1137	-0.0131	0.0958	0.1924	-0.0379	1.0000
		0.4907	0.1506	0.0418	0.3546	0.2616	<.0001	<.0001	0.3260	<.0001	<.0001	0.0046	

The lower triangle contains Pearson correlations and the upper triangle contains Spearmen correlations.

Political Ranks Reduce Crash Risk

	Crash Risk	Crash Risk
VARIABLES	(1) $Crash_t$	(2) $Ncskew_t$
$Dshi_{t-1}$	-0.1195*** (-2.65)	-0.0262** (-2.19)

More Pronounced for Young Managers

Age > 51

Age < 51

VARIABLES	(1) $Crash_t$	(2) $Ncskew_t$	(3) $Crash_t$ $Age_{t-1} > 51$	(4) $Crash_t$ $Age_{t-1} \leq 51$
$LogAge_{t-1}$	-0.0475	-0.0155	-	-
	(-0.16)	(-0.20)		
$Dshi_{t-1}$	-	-	-0.0820	-0.1720**
			(-1.33)	(-2.55)

More Pronounced for Managers with Short Tenure

Tenure > 2

Tenure < 2

VARIABLES	(1) $Crash_t$	(2) $Ncskew_t$	(3) $Crash_t$ $Tenure_{t-1} > 2$	(4) $Crash_t$ $Tenure_{t-1} \leq 2$
$LogTenure_{t-1}$	0.1480	0.0205	-	-
	(1.47)	(0.81)		
$Dshi_{t-1}$	-	-	-0.0977	-0.1316**
			(-1.16)	(-2.40)

Market Mechanism – Labor Mobility

High Labor Mobility

Low Labor Mobility

Panel A: Institutional Environment of Labor Market

VARIABLES	(1) $Crash_t$ $Mobility\ Index_{t-1}$ > 5.91	(2) $Crash_t$ $Mobility\ Index_{t-1}$ ≤ 5.91
$Dshi_{t-1}$	-0.0605	-0.1775***
	(-0.93)	(-2.84)

Market Mechanism – Product Market Concentration

Low Product Market Concentration

High Product Market Concentration

Panel B: Institutional Environment of Product Market:

VARIABLES	(1) $Crash_t$ $Herindex_{t-1}$ < 0.0439	(2) $Crash_t$ $Herindex_{t-1}$ ≥ 0.0439
$Dshi_{t-1}$	-0.0841	-0.1594**
	(-1.28)	(-2.50)

Foreign Capital

With Foreign Capital

Without Foreign Capital

VARIABLES	(1) $Crash_t$ AB or AH or $QFII_{t-1} = 1$	(2) $Crash_t$ $AB = AH = QFII_{t-1} = 0$
$Dshi_{t-1}$	0.0261	-0.1601***
	(0.25)	(-3.16)

Political ranking system is potentially a substitute for the market mechanism.

Its fits China's current stage of development.

Promotions of Provincial Governors

With Promotions

Without Promotions

Panel A: Local Provincial Leaders' Promotions

VARIABLES	(1) $Crash_t$ $Promotion_t = 1$ or $Promotion_{t+1} = 1$	(2) $Crash_t$ $Promotion_t = 0$ and $Promotion_{t+1} = 0$
$Dshi_{t-1}$	-0.0841	-0.1358**

Chairman Promotions

With Promotions

Without Promotions

Panel B: Chairmen's Promotions

VARIABLES	(1) $Crash_t$ $Promotion_t = 1$ or $Promotion_{t+1} = 1$	(2) $Crash_t$ $Promotion_t = 0$ and $Promotion_{t+1} = 0$
$Dshi_{t-1}$	0.0105	-0.1180**

Instrumental Variable Analysis

Panel A: Formation of Political Ranks

VARIABLES	(1) $Dshi_{t-1}$
Space	-0.0711***
	(-6.72)
Bus	0.0023***
	(9.60)
Water	-0.0110***
	(-2.73)
Gas	0.0021**
	(2.16)
$Dturn_{t-1}$	-0.4184**
	(-2.25)
$Ncskew_{t-1}$	-0.0112
	(-0.73)
$Sigma_{t-1}$	7.9489***
	(2.99)
$Wret_{t-1}$	0.9468**
	(2.20)
$Size_{t-1}$	0.2483***
	(22.47)
MB_{t-1}	0.0117***
	(3.17)
Lev_{t-1}	-0.3461***
	(-5.28)
Roa_{t-1}	0.1824
	(0.99)
$Accm_{t-1}$	0.2781***
	(3.88)
Constant	-2.1136***
	(-5.14)
Year Indicators	Yes
Industry Indicators	Yes
Observations	5590
R^2	0.1854
F Value	35.35

Instruments: per capita living space, public transportation, water and gas supply.

Panel B: Administrative Ranks and Crash Risk

VARIABLES	(1) $Crash_t$	(2) $Ncskew_t$	(3) $Crash_t$ $Age_{t-1} > 51$	(4) $Crash_t$ $Age_{t-1} \leq 51$	(5) $Ncskew_t$ $Age_{t-1} > 51$	(6) $Ncskew_t$ $Age_{t-1} \leq 51$	(7) $Crash_t$ $Tenure_{t-1} > 2$	(8) $Crash_t$ $Tenure_{t-1} \leq 2$	(9) $Ncskew_t$ $Tenure_{t-1} > 2$	(10) $Ncskew_t$ $Tenure_{t-1} \leq 2$
$Dshi_{t-1}$	**-0.0863***	**-0.2142*****	**-0.0879**	**-0.0888**	**-0.0743**	**-0.3665*****	**0.0162**	**-0.1376*****	**0.0966**	**-0.3705*****
	(-1.78)	**(-2.48)**	**(-1.45)**	**(-1.09)**	**(-0.74)**	**(-2.38)**	**(0.20)**	**(-2.09)**	**(0.73)**	**(-2.99)**
$Dturn_{t-1}$	-0.2526**	-0.6005***	-0.3364**	-0.1488	-0.3309	-0.9250***	-0.1581	-0.2699**	-0.7351**	-0.4852**
	(-2.30)	(-3.26)	(-2.26)	(-0.83)	(-1.36)	(-2.87)	(-0.82)	(-2.00)	(-2.39)	(-2.01)
$Ncskew_{t-1}$	-0.0055	0.0177	-0.0068	-0.0062	0.0188	0.0034	-0.0028	-0.0052	0.0094	0.0299*
	(-0.64)	(1.27)	(-0.57)	(-0.50)	(0.96)	(0.16)	(-0.18)	(-0.49)	(0.37)	(1.67)
$Sigma_{t-1}$	0.3339	9.0656***	1.4147	-0.2031	8.9160**	12.2918***	3.0936	-0.9909	13.1432***	6.4025*
	(0.20)	(3.09)	(0.55)	(-0.09)	(2.39)	(2.75)	(1.09)	(-0.49)	(2.64)	(1.69)
$Wret_{t-1}$	-0.0808	0.7391	0.0971	-0.1653	0.7968	1.1720	0.5517	-0.3767	1.5353**	0.2571
	(-0.30)	(1.50)	(0.22)	(-0.44)	(1.34)	(1.61)	(1.28)	(-1.12)	(2.01)	(0.40)
$Size_{t-1}$	0.0144	0.0911***	0.0248	0.0054	0.0769**	0.0993***	-0.0056	0.0246	0.0007	0.1359***
	(0.99)	(3.57)	(1.20)	(0.27)	(2.31)	(2.66)	(-0.23)	(1.27)	(0.02)	(3.70)
MB_{t-1}	0.0022	0.0093**	0.0032	0.0015	0.0030	0.0137**	-0.0004	0.0030	0.0014	0.0120**

Other Mechanisms? Unfair Benefits?

Panel A: Alternative Effects

VARIABLES	(1) *Loan_asset*$_t$	(2) *Fin_loan*$_t$	(3) *Tax_toin*$_t$	(4) *SEO_indicator*$_t$	(5) *SEO_asset*$_t$	(6) *Sub_asset*$_t$	(7) *Prop_asset*$_t$
Dshi$_{t-1}$	**-0.0043**	**-0.0055**	**-0.0050**	**0.0660**	**0.0006**	**0.0001**	**0.0006**
	(-1.00)	**(-1.01)**	**(-1.07)**	**(0.78)**	**(0.87)**	**(0.51)**	**(0.36)**
Size$_{t-1}$	0.0107***	-0.0107***	-0.0050	0.2047***	-0.0006	-0.0008***	-0.0074***
	(2.73)	(-3.04)	(-1.37)	(3.35)	(-0.89)	(-3.76)	(-3.45)
MB$_{t-1}$	-0.0018	-0.0006	-0.0007	0.0230*	0.0005**	0.0001	0.0004
	(-1.40)	(-0.54)	(-0.39)	(1.70)	(2.18)	(0.72)	(0.85)
Lev$_{t-1}$	0.4728***	0.1772***	0.0541**	2.8989***	0.0164***	0.0043***	0.0462**
	(21.12)	(5.28)	(2.29)	(7.96)	(4.86)	(3.30)	(2.38)
Roa$_{t-1}$	-0.1997***	-0.1088	-0.1656**	8.8240***	0.0582***	-0.0012	-0.1857***

VARIABLES	(1) *Violation*$_t$	(2) *InforViolation*$_t$	(3) *Auditop*$_t$
Dshi$_{t-1}$	**-0.3406*** **	**-0.2853***	**-0.3846****
	(-2.67)	**(-1.96)**	**(-2.18)**
Size$_{t-1}$	-0.2187*	-0.3263**	-0.0144
	(-1.69)	(-2.15)	(-0.08)
MB$_{t-1}$	-0.0393	-0.0707**	-0.0836***
	(-1.49)	(-2.57)	(-2.65)
Lev$_{t-1}$	1.1951**	0.8767	1.6496*
	(2.18)	(1.62)	(1.86)

Change Analysis

Panel A: Change Model for the Association between Political Ranks and Crash Risk

VARIABLES	(1) $Crash_t$	(2) $Ncskew_t$	(3) $Crash_t$	(4) $Ncskew_t$	(5) $Crash_t$	(6) $Ncskew_t$
	$-1 \leq \Delta Dshi_{t-1} \leq +1$		$-2 \leq \Delta Dshi_{t-1} \leq +2$		$-3 \leq \Delta Dshi_{t-1} \leq +3$	
Up_{t-1}	-0.3926*	-0.1588*	-0.3756*	-0.1310	-0.3331	-0.1205
	(-1.76)	(-1.92)	(-1.78)	(-1.64)	(-1.60)	(-1.51)
$\Delta Dturn_{t-1}$	-0.0247	-0.2150	1.6412	-0.0157	1.3496	-0.0906
	(-0.01)	(-0.24)	(0.66)	(-0.02)	(0.55)	(-0.11)
$\Delta Ncskew_{t-1}$	-0.6285***	-0.4277***	-0.6407***	-0.4295***	-0.6479***	-0.4331***
	(-5.14)	(-9.21)	(-5.53)	(-9.73)	(-5.66)	(-9.78)

Panel B: Full Sample Analysis with Chairman Changes and Control Chain Changes

VARIABLES	(1) $Crash_t$	(2) $Ncskew_t$	(3) $Crash_t$	(4) $Ncskew_t$	(5) $Crash_t$	(6) $Ncskew_t$
	$-1 \leq \Delta Dshi_{t-1} \leq +1$		$-2 \leq \Delta Dshi_{t-1} \leq +2$		$-3 \leq \Delta Dshi_{t-1} \leq +3$	
$Up\_chairman_{t-1}$	-0.0882	-0.1449	-0.1010	-0.1257	-0.0640	-0.1149
	(-0.34)	(-1.44)	(-0.41)	(-1.31)	(-0.27)	(-1.20)
Up_chain_{t-1}	-0.5317**	-0.0938	-0.5065**	-0.0695	-0.4665**	-0.0580
	(-2.19)	(-1.01)	(-2.20)	(-0.77)	(-2.02)	(-0.65)
Up_other_{t-1}	-0.0547	-0.0020	-0.0476	-0.0005	-0.0424	0.0009
	(-0.56)	(-0.06)	(-0.49)	(-0.02)	(-0.43)	(0.03)
$Stable_{t-1}$	-0.3479**	-0.0700	-0.2910*	-0.0581	-0.2577	-0.0485
	(-2.09)	(-1.11)	(-1.80)	(-0.96)	(-1.59)	(-0.80)
$\Delta Dturn_{t-1}$	0.5910	0.1236	0.7235	0.1439	0.7049	0.1386

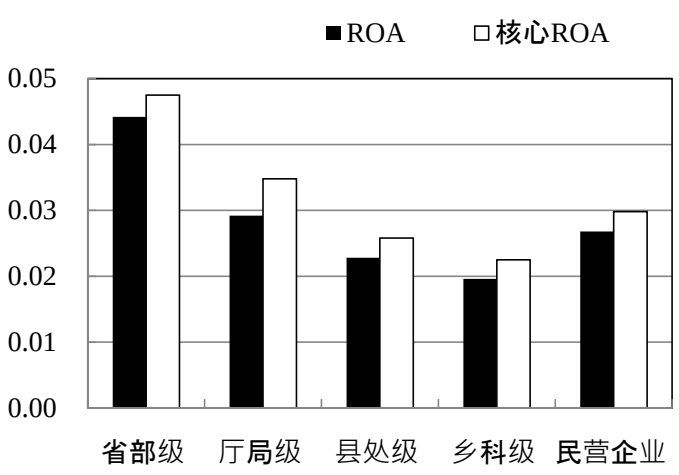
Retirement Shock Test to Further Deal with Endogeneity

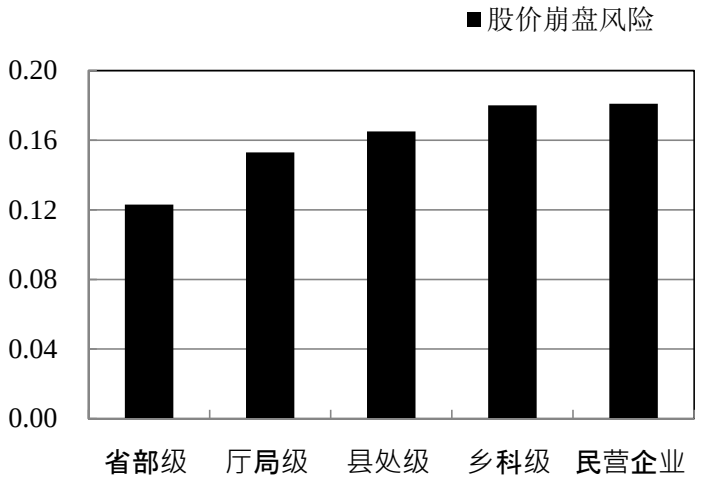
VARIABLES	(1) $Crash_t$	(2) $Ncskew_t$	VARIABLES	(3) $Crash_t$	(4) $Ncskew_t$
$Postretire_t$	1.8649*	-0.1105	$Postyoung_t$	0.1696***	0.0180
	(1.90)	(-0.44)		(2.96)	(1.39)
$Postretire_t \cdot Dshi_{t-1}$	**-0.5749**	**0.0270**	$Postyoung_t \cdot Dshi_{t-1}$	**-0.0648*****	**-0.0094***
	(-1.60)	**(0.29)**		**(-2.63)**	**(-1.76)**
$Dshi_{t-1}$	-0.0172	-0.0817	$Dshi_{t-1}$	-0.1348	-0.0303
	(-0.06)	(-1.06)		(-0.55)	(-0.55)
$Dturn_{t-1}$	-3.2716*	-0.6542	$Dturn_{t-1}$	-2.8408	-0.6601

So, Is State-Ownership Necessarily Bad?

No!

Low Risk, High Performance





China's Success

- Central control
- Economic development as a priority
- Government engineering – industrial policies
- Governance – political ranking system
- Growth-savvy officials

China's Success

- Central control
- Economic development as a priority
- Government engineering – industrial policies
- Governance – political ranking system
- Growth-savvy officials

- Countries all over the world will learn from China.