

Discussion on “Going Bankrupt in China”
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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 versus non-SOEs