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The Political Economy of Corporate Finance: Evidence from ‘Re-nationalization’ in China

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Abstract

We investigate the power structure of the Chinese political system and its implications on corporate sectors. We document large-scale ‘re-nationalization’ — local government re-possessing controlling ownership stakes in previously privatized firms during the period 1999-2007. Firms located in provinces with newly appointed, top-ranked Communist Party leaders who are not affiliated with any of the dominant political factions are more likely to be re-nationalized. With a number of instrument variables including the political status of the top-ranked provincial Party leader, we find that re-nationalization leads to lower profitability and labor productivity. While re-nationalization temporarily lowers the unemployment rate in the region, it does not appear to have any long-term economic benefits.

Keywords: Re-nationalization, privatization, political faction, unemployment, productivity**JEL Classification:** G32, H11, P31, L22[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID2475733_code209409.pdf?abstractid=2475733&mirid=1\)](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=430132)[Open PDF in Browser \(Delivery.cfm/SSRN_ID2475733_code209409.pdf?abstractid=2475733&mirid=1&type=2\)](https://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=430132)

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