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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

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