

Essays on China's mixed-ownership reform

Abstract

ZHANG Yufei (Kyoto University, GSE)

Since 2013, the predominant approach to SOE reform in China has centered around the implementation of mixed-ownership reform. This reform encourages SOEs to absorb private capital and improve their corporate governance structure and also encourages SOEs to invest in POEs. Therefore, this reform is regarded as a two-directional reform: privatization of SOEs and nationalization of POEs. From this perspective, the mixed-ownership reform is significantly different from the former SOE reforms. Therefore, my paper aims to estimate the effects of the mixed-ownership reform on the POEs and SOEs respectively.

In Chapter 3, I estimate how the privatization of SOEs under the mixed-ownership reform impacts the profitability of SOEs. I collect data from A share listed SOEs from 2011 to 2020 and use the Difference-in-Differences (DiD) approach for estimation. The paper treats SOEs undergoing the reform as the treatment group and those not undergoing the reform as the control group. Using ROA and ROE to measure corporate profitability, the results indicate that the reform significantly increases the profitability of reformed SOEs. Mechanism analysis suggests that the reform enhances SOE profitability by reducing redundant workers, administrative fees, and related-party transactions. I also find that the effects of the reform are heterogeneous, with greater impacts observed among SOEs in unregulated industries, local SOEs, and SOEs in areas with low marketization.

In Chapter 4, I estimate how the nationalization of POEs under the mixed-ownership reform impacts the profitability of POEs. I collect data from A share listed POEs from 2011 to 2020 and use the Difference-in-Differences (DiD) approach for estimation. The paper treats nationalized POEs as the treatment group and those not nationalized POEs as the control group. Using ROA and ROE to measure corporate profitability, this research reveals that the nationalized POEs experienced a decline in profitability following nationalization. We also identify four channels through which nationalization adversely affects firm performance: the establishment of party branches in POEs, a decrease in the ratio of productive workers, an increase in tax burden, and a relaxation of financial constraints. Notably, the effect of nationalization exhibits heterogeneity, with firms located in areas with low levels of marketization and non-east regions experiencing a more pronounced reduction in profitability.

The preceding two chapters analyze the privatization of SOEs and the nationalization of POEs under the mixed-ownership reforms. Subsequently, Chapter 5 aims to conduct a more comprehensive study of the mixed-ownership reform and its effects. This chapter seeks to examine the relative profitability of the two types of firms undergoing the mixed-ownership reform (privatized SOEs and nationalized POEs) as well as their reform objects (SOEs and POEs). Collecting data from the Chinese A-share listed market (from 2011 to 2020) and NBS survey data (from 2011 to 2015), I divide the firms into POEs, Mixed firms controlled by the state (MixedSOEs), and Mixed firms controlled by the private sectors (MixedPOEs). Measuring profitability using ROA and ROE, we find that POEs exhibit the highest profitability, followed by MixedPOEs, then MixedSOEs, with SOEs having the lowest profitability. Within Mixed firms, more state shares are related to lower profitability, and more private shares are related to higher profitability. We try to address the endogeneity challenge in several ways and get similar results.