

USC Marshall School of Business Presents
“The China Conference: Institutions, Markets and Firms”
May 17-18, 2019

Highlights of the Presentations

The USC Marshall China Research Group held its second annual conference on May 17 – 18, 2019, in Fertitta Hall on USC’s main campus. Scholars from around the world presented work on topics ranging from anti-corruption to media censorship, lessons from China on emerging markets to firm environmental performance. Highlights of the presentations are below.

May 17, 2019

Keynote Speech: The Longevity of Chinese Absolutism
Yasheng Huang, MIT Sloan School of Management

Why is the Chinese state so powerful and so durable?

Professor Yasheng Huang examines this question in a book project, and argues that as far back as 2123 – 2025 BCE, the Chinese people delegated decision rights to the state. Later, the hereditary succession institution and the civil service examination system were established to stabilize the highly concentrated regime.

In a recent working paper, Huang and his co-author further examined the stabilizing role of the civil service examination (CSE) system, and how the CSE system reconciled the need to broaden the talent base with the desire to reduce threats from wealthy individuals from challenging the throne. They found that in the first two stages of the CSE system, which are anonymous, the CSE succeeds in recruiting talent, but in the third stage, which is not anonymous, candidates are filtered based on their political loyalty. These results indicate that the combination of the CSE’s meritocratic function to recruit talents while filtering potential threats from the wealthy contributes to the longevity of the political regimes in China.



Session 1: Explaining China's Paradox of Economic Boom & Vast Corruption
Yuen Yuen Ang, Dept of Political Science, University of Michigan

Do different types of corruption affect a country's economy differently?

China has achieved astronomical economic growth while corruption remains widespread and rampant. In her new book, *China's Gilded Age*, Professor Yuen Yuen Ang unbundles corruption into qualitatively different types. She argues that in the interest of economic growth, the Chinese government may have allowed the use of "access money," an exchange type of corruption that enables political elites to share profits with firms. The book shows that China effectively curtailed forms of corruption that directly inhibit entrepreneurial growth, even as elite exchanges of power and wealth exploded. She suggests that profit sharing between bureaucrats and firms is an incentive alignment device.

Session 2: Concealing Corruption: How Chinese Officials Distort Upward Reporting of Online Grievances
Jennifer Pan, Dept. of Communication, Stanford University

Will the Chinese government's local monitoring agencies truthfully and completely report what they know to their superiors?

Allowing the general public to file complaints is an important approach used by the Chinese government to discipline lower-tier officials. But Professor Jennifer Pan finds that the citizens' online grievances toward corruption are systematically concealed from upper-level authorities. Using a unique data set of internal communications between a local monitoring agency and upper-level officials in China, Pan also found that grievances are more likely to be concealed when they implicate officials with patronage ties.

Session 3: The Challenges of Data-Driven Governance
Rachel E. Stern, UC Berkeley Law School

What are the challenges to implementing data-driven governance?

Artificial Intelligence and big data have great potential to improve government efficiency by providing officials with metrics on the bureaucracy, helping standardize decision-making, and uncovering trends in society. Chinese courts have placed tens of millions of court judgments online.

But according to Professor Stern, three challenges must be addressed before data-driven governance can be fully employed: (1) Controlling implementation and coordination in an environment where local courts disclose information incorrectly; (2) Developing added value technology for the courts; and (3) Leveraging legal analytics efficiently.

Session 4: Crackdowns in Hierarchies: Evidence from China's Environmental Inspections

Valerie Karplus, MIT Sloan School of Management

Did crackdowns on air pollution work?

Professor Karplus and her co-author found a sharp (approximately 30 percent) reduction in sulfur dioxide (SO₂) pollution at plants during the crackdown of the "Central Environmental Inspection Teams" in 2013.

They also saw the level of pollution quickly reverted to previous levels after crackdowns ended, a reversal that appeared to be led by state-owned enterprises outranking the city government. Karplus said her study indicates that hierarchical ties to the center may have undermined firm's accountability to the local environmental protection bureau.

May 18, 2019

Keynote Speech: What Can Asia Teach Emerging Markets?

Randall Morck, University of Alberta Business School

Why have East Asian countries such as Japan and South Korean experienced spectacular economic growth? What can China learn from their past?

In a study of the development trajectories of Japan and South Korea Professor Morck found that countries rose subsequent to private-sector-led marketization in the classical liberal sense, in which the stock markets instead of banks provided project financing and free trade prevailed.

Morck also discussed the value of extensive family business groups during early stages of development in a country, and their potential threat to the economy as their entrenchment impedes further market development.

Session 5: Force Behind Anti-Corruption: Evidence from China

Hong Ru, Nanyang Business School

Do political connections to the central government have value during a corruption crackdown?

Professor Ru found that connected local politicians are less likely to be investigated during a crackdown, and received lighter sentencing once investigated.

A subsequent discussion of the project led by Professor Yang Xie of University of California, Riverside, showed disparate findings in seven projects in addition to Ru's that examined anticorruption campaigns in China. Emergent themes in anti-corruption studies

include the logic of the party rule, personnel management, efficiency and patronage networks.

Session 6: Informational Role of Official Newspapers in China

Tianyu Zhang, Chinese University of Hong Kong Business School

Do official and non-official newspapers in China contain the same types of information?

Professor Zhang found that compared to non-official newspapers, official newspapers contained more market-wide and industry-wide news and generated a higher impact on stock co-movement. These effects are particularly strong during salient political events, including the National Congress of the CCP, and President Xi's visit to the state media.

By contrast, non-official newspapers appeared to carry more firm-specific information. The discussant, Gwen Yu, Professor of Accounting from University of Michigan, argued that the media can play different roles, such as a dissemination role and an analysis role, and that is why they do not provide the same information.

Session 7: The Coordination Consequences of Media Censorship

David Yang, Dept of Economics, Harvard University

Does an uncensored internet lead citizens to politically sensitive information that could change their beliefs?

Professor Yang used a field experiment to show that free access to media alone did not induce subjects to acquire politically sensitive information.

However, once citizens are encouraged to access politically sensitive information, Yang saw a persistent increase in their interest in it. He also noted that accessing information generated broad, substantial, and persistent changes to knowledge, beliefs, attitudes, and intended behaviors of these individuals.