ACADEMIC SEMINAR

Anti-Corruption Reforms and Shareholder Valuations: Evidence from China

Chinese share prices rose sharply on the Politburo's Dec. 4th 2012 announcement of its new Eight-point Regulation, outlining new Party policy against corruption. The announcement came surprisingly soon after a change in leadership and was surprisingly detailed and concrete. The positive reaction is significantly larger in provinces with more advanced market reforms. The reaction is uniformly positive for state-owned enterprises, but heterogeneous across non-SOEs. Among the latter, the reaction is more positive in regions with more complete market reforms and for firms with lower reported entertainment and travel costs (ETC), higher prior productivity, greater external financing needs, and greater growth potential. Negative price reactions are evident for non-SOE firms with substantial entertainment and travel costs located in regions with less complete market reforms. We posit that limiting corruption cuts the valuations of such non-SOEs by limiting their ability to "grease" bureaucratic gears. SOEs are well-connected in any case, and their ETC may be pure perks consumption or signs of self-dealing by the officials running them at the time. Reforms that limit this boost the SOEs' valuations and presumably increase state revenues from any subsequent sales of their shares. Overall, these results are consistent with investors believing the reforms to be meaningful, and to work to more the advantage of more productive firms with less past investment in connections located in more market-friendly regions.

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