



The 27th Annual Conference of Chinese Economics Society Australia (CESA)

## **Sustainable development and capital markets: China's role in the world economy**

Sunday 12 – Tuesday 14 July 2015

University of Wollongong, New South Wales, Australia

The CESA 27th Annual Conference is being organized by members of the Chinese Commerce Research Centre and proudly hosted by the School of Accounting, Economics and Finance, the Faculty of Business and the University of Wollongong, with support and assistance from China Update and Australian Centre on China in the World (ANU).



## Keynote Speakers



**Professor Liqing Zhang**

Central University of  
Finance and Economics,  
China

Liqing Zhang is a professor of international economics; Dean of School of Finance and Director of Center for International Finance Studies at Central University of Finance and Economics (CUFE) in Beijing, China. Liqing Zhang is author, co-author or editor of numerous publications on international economics and finance issues, particularly in the areas of capital flows, exchange rate, financial development and economic globalization. Holding a Ph.D. degree in Economics in Renmin University of China, he was senior visiting fellows at World Bank (1995), Tilburg University (1996), Petersons Institute for International Economics (2004) and Columbia University sponsored by the Fulbright Foundation (2005), and Australia National University (2009). He is the vice president of China Society of World Economy. He has advised many governmental departments in China, including People's Bank of China and State Administration of Foreign Exchange over the past decades, and served as the member of Approval Committee of Listed Companies with China Securities Regulation Commission.

Hanming Fang is a Professor of Economics at the University of Pennsylvania and a Research Associate at the National Bureau of Economic Research (NBER) where he is also the acting director of its Chinese Economy Working Group. He is also a visiting professor at the University of New South Wales. Professor Fang is an applied microeconomist with broad theoretical and empirical interests focusing on public economics. His research covers topics ranging from discrimination, social economics, welfare reform, psychology and economics, to public good provision mechanisms, auctions and health insurance markets. He is currently working on issues related to insurance markets, particularly the interaction between the labour market and the U.S. health insurance reform, and aspects of the Chinese economy. He also studies issues related to discrimination and affirmative action. He serves as a co-editor of the International Economic Review. Professor Fang obtained his B.A. degree in economics from Fudan University, and received his PhD in Economics from the University of Pennsylvania in 2000. Before joining the Penn faculty, he held positions at Yale University and Duke University.



**Professor Hanming Fang**

University of Pennsylvania,  
USA



**Professor Joseph Fan**

Chinese University of  
Hong Kong, China

Joseph Fan is a Professor of School of Accountancy and Department of Finance, and Director of Centre of Economics and Finance of The Chinese University of Hong Kong (CUHK). He is also a part-time professor of Research School of Finance, Australian National University. He received his bachelor degree in economics from National Taiwan University, and Ph.D. degree in finance from University of Pittsburgh, USA. Professor Fan is one of the most cited finance professors in Asia. He is an expert in finance and governance of emerging market corporations. He has done pioneer research in topics such as political connections of Chinese firms, organizational pyramids of state owned enterprises in China, ownership structure and stock valuation of Asian firms, succession of Chinese family businesses, and marriages and networks in Thailand. He has published many of his works in world top academic journals including *Journal of Finance*, *Journal of Financial Economics*, *Journal of Financial and Quantitative Analysis*, *Journal of Accounting & Economics*, and *Journal of Accounting Research*. His research has often been featured by global and regional media, including *The Economist*, *New York Times*, *Asian Wall Street Journal*, *Financial Times*, and *South China Morning Post*. He is an advisory editor of *Financial Management*, and associate editor of *Asia-Pacific Journal of Financial Studies*, *Corporate Governance: An International Review*, *Journal of Corporate Finance*, *Pacific-Basin Finance Journal*, and *Review of Finance*. He is honorary director of Private Enterprise Governance and Development Centre of Renmin University of China. He has consulting activities with Asian corporations and international organizations including the World Bank and OECD.

**Conference Organisers:**

Dr Shiguang Ma, University of Wollongong

Professor Brian Andrew, University of Wollongong

Professor Gary Tian, University of Wollongong

**President of CESA:**

Dr Sizhong Sun, James Cook University

## CONFERENCE SCHEDULE

Time	Topic	Venues
<b>Sunday 12 July</b>		
<b>Building 67</b>		
<b>4.00-5.00PM</b>	Conference Registration	Foyer
<b>5.00-6.00PM</b>	Welcome Reception	Foyer
<b>Monday 13 July</b>		
<b>Building 67</b>		
<b>9.00-9.10AM</b>	Conference Registration	Foyer
<b>9.10-9.30AM</b>	Welcome Address by: <i>Professor John Glynn</i> Dean, Faculty of Business, UOW <i>Professor Brian Andrew</i> Decipline Head and conference organizer <i>Dr Sizhong Sun</i> President of CESA	104
<b>9.30-10.15AM</b>	Keynote Speech: The Future of Reminbi Internationalization <i>Professor Liqing Zhang</i>	104
<b>10.15-10.30AM</b>	Photo Shooting	Frontage
<b>10.30-10.45AM</b>	Morning Tea	Foyer
<b>10.45AM-12.15PM</b>	Concurrent Sessions	202; 203
<b>12.15-1.00PM</b>	Lunch	Foyer
<b>1.00-1.45PM</b>	Keynote Speech: Demystifying the Chinese Housing Boom <i>Professor Hanming Fang</i>	104
<b>1.45-2.45PM</b>	Concurrent Sessions	202; 203
<b>2.45-3.00PM</b>	Afternoon Tea	Foyer
<b>3.00-4.00PM</b>	Concurrent Sessions	202; 203
<b>4.00-5.00PM</b>	Concurrent Sessions	202; 203
<b>6.00-8.00PM</b>	Conference Dinner Indinner speech by: <i>Associate Professor Ligang Song</i> <i>Dr Shiguang Ma</i> Best paper award announcement	Best Western City Sands (Wollongong Golf Club)
<b>Tuesday 14 July</b>		
<b>Building 67</b>		
<b>9.15-10.00AM</b>	Keynote Speech: The Roles of Public Governance in the Organisation and Finance of Chinese Firms <i>Professor Joseph Fan</i>	104
<b>10.00-10.15</b>	Morning Tea	Foyer
<b>10.15AM-11.15PM</b>	Concurrent Sessions	202; 203
<b>11.15AM-12.15PM</b>	Concurrent Sessions	202; 203
<b>12.15-12.30PM</b>	CESA Annual General Meeting	202
<b>12.30-1.30PM</b>	Lunch Goodby speech by <i>Professors Gary Tian and Zhang-Yue Zhou</i>	Foyer

## CONFERENCE PORGRAM

<b>MONDAY 13 JULY</b>		<b>Building 67</b>
<b>Keynote speech</b>	<b>9.30-10.15AM</b>	<b>Room: 104</b>
<p><i>The Future of Reminbi Internationalization</i>  <b>Professor Liqing Zhang:</b> Central University of Finance and Economics            Session Chair:  <b>Ligang Song:</b> Australian National University</p>		
Photo Shooting (10.15-10.30AM) Morning Tea (10.30-10.45AM)		
<b>Session 1: Capital and Policy</b>	<b>10.45AM-12.15PM</b>	<b>Room: 202</b>
<p><i>Measuring Financial Integration: the Network Approach</i>  <b>Ying Xu:</b> Australian National University            Jenny Corbett: Australian National University</p> <p><i>Chinese monetary policy and the banking system</i>  <b>Leon Berkelmans:</b> Reserve Bank of Australia            Gerard Kelly: Reserve Bank of Australia            Dena Sadeghian: Reserve Bank of Australia</p> <p><i>A Structural Investigation of the Chinese Economy with a Hybrid Monetary Policy Rule</i>  <b>Ran Li:</b> Peking University and Australian National University            Jiao Wang: Australian National University</p> <p><i>Local Governments' Fiscal Competition in China: The Characteristics and Its Capital Allocation Effect</i>  <b>Liang He:</b> Harbin Engineering University</p> <p>Session Chair:  <b>Jane Golley:</b> Australian National University</p>		
<b>Session 2: Foreign Direct Investment (FDI)</b>	<b>10.45AM-12.15PM</b>	<b>Room: 203</b>
<p><i>Drivers of China's Outward Foreign Direct Investment: A Comprehensive Panel Data Analysis</i>  <b>Tong Tong:</b> Griffith University            Tarlok Singh: Griffith University            Bin Li: Griffith University</p> <p><i>The Impact of Globalisation on Urbanisation: Evidence from China</i>            Yan Wu: Australian National University  <b>Chunlai Chen:</b> Australian National University</p> <p>FDI, domestic sales and export intensity: Evidence from China's manufacturing industries  <b>Sizhong Sun:</b> James Cook University</p> <p><i>Understanding Australian public opinion towards Chinese investment in Australian agribusiness</i>  <b>James Laurenceson:</b> University of Technology, Sydney            Paul Burke: University of Technology, Sydney            Edward Wei: University of Technology, Sydney</p> <p>Session Chair:  <b>Zhang-Yue Zhou:</b> James Cook University</p>		

Lunch (12.15-1.00PM)		
<b>Keynote speech</b>	<b>1.00-1.45PM</b>	<b>Room: 104</b>
<p><i>Demystifying the Chinese Housing Boom</i>  <b>Professor Hanming Fang:</b> University of Pennsylvania, USA  Session Chair:  <b>Yanrui Wu:</b> University of Western Australia</p>		
<b>Session 3: Energy and Environment (1)</b>	<b>1.45-2.45PM</b>	<b>Room: 202</b>
<p><i>China's natural gas market liberalization and its impact on world gas markets</i>  <b>Xunpeng Shi:</b> National University of Singapore  M. P. Hari: National University of Singapore</p> <p><i>Re-examining Energy Price Convergence in China: Application of a Nonlinear Panel Unit Root Test under Cross Section Dependence</i>  Qing King Guo: Beijing Normal University-Hong Kong Baptist University  Chi Keung Marco Lau: Northumbria University  Kunwang Li: Nankai University, China  <b>Ligang Song:</b> Australian National University</p> <p><i>The Calculation of Increasing Block Fuel Tariffs: a Personal Carbon Trading Perspective</i>  <b>Jin Fan:</b> University of Science and Technology of China  Yao Li: University of Science and Technology of China  Yanrui Wu: University of Western Australia  Dingtao Zhao: University of Science and Technology of China  Jun Li: University of Science and Technology of China</p> <p>Session Chair:  <b>Chunlai Chen:</b> Australian National University</p>		
<b>Session 4: Society and Education</b>	<b>1.45-2.45PM</b>	<b>Room: 203</b>
<p><i>Education in rural and urban China: unequal opportunities, unequal outcomes</i>  <b>Jane Golley:</b> Australian National University  Sherry Tao Kong: Peking University</p> <p><i>Income Inequality, Entrepreneurship and the Economic Development</i>  <b>Zhaobin Fan:</b> Jinan University</p> <p><i>Does Consuming More Make You Happier? Evidence from Chinese Panel Data</i>  <b>Haining Wang:</b> Shandong University</p> <p>Session Chair:  <b>Sizhong Sun:</b> James Cook University</p>		

Afternoon Tea (2.45-3.00PM)		
<b>Session 5: Capital and Market</b>	<b>3.00-4.00PM</b>	<b>Room: 202</b>
<p><i>Capital account liberalization and economic growth revisited: Different effects of inflow and outflow liberalization</i>  <b>Qin Gou:</b> Central University of Finance and Economics  Yiping Huang: Peking University  Jianguo Xu: Peking University</p> <p><i>Defining and Measuring the ‘Pandemic’ Phase of Financial Contagion: a dynamic quantile regression approach</i>  <b>Liming Wang:</b> University College Dublin; Beijing University of Technology  Jian Ke: Beijing Technology and Business University; Minjiang University</p> <p><i>Credit Market Development and Firm Innovation: Evidence from China</i>  <b>Hua Shang:</b> Southwestern University of Finance and Economics  Quanyun Song: Southwestern University of Finance and Economics  Yu Wu: Southwestern University of Finance and Economics</p> <p>Session Chair:  <b>Leon Berkelmans:</b> Reserve Bank of Australia</p>		
<b>Session 6: Finance &amp; Corporate (1)</b>	<b>3.00-4.00PM</b>	<b>Room: 203</b>
<p><i>Understanding corporate leverage in China: evidence from listed companies</i>  Ivan Roberts: Reserve Bank of Australia  <b>Andrew Zurawski:</b> Reserve Bank of Australia</p> <p><i>Survive or Die? An Empirical Study on Chinese Special Treatment Firms</i>  Yanran Annie Zhou: Telestra Corporations  <b>Maria H. Kim:</b> University of Wollongong  Shiguang Ma: University of Wollongong</p> <p><i>The Stewardship role of Assets Impairment in China</i>  Xueyun Zeng: Beijing University of Posts and Telecommunications  <b>Fei Guo:</b> Zhongnan University of Economics and Law</p> <p>Session Chair:  <b>Qigui Liu:</b> University of Wollongong</p>		

<b>Session 7: International Economy</b>	<b>4.00-5.00PM</b>	<b>Room: 202</b>
<p><i>Import Trade, R&amp;D Spillovers and Technical Progress Mechanism</i>  Lin Wang: Institute of Economics Chinese Academy of Social Sciences  <b>Yihong Tang</b>: Central University of Finance and Economics</p> <p><i>Estimating the Extensive Margin and the Intensive Margin Effect of Export Tax Rebate Rate Change on Trade</i>  Li Bing: Central University of Finance and Economics  <b>Jing Yan</b>: Central University of Finance and Economics  Zhang Yan: Central University of Finance and Economics</p> <p><i>Learning more by exporting more? Firm-level Evidence from China</i>  Yongbing CHEN: Zhongnan University of Economic and Law  <b>Dahai FU</b>: Central University of Finance and Economics  Helmut Fryges: University of Tasmania</p> <p>Session Chair:  <b>James Laurenceson</b>: University of Technology, Sydney</p>		
<b>Session 8: Food Security</b>	<b>4.00-5.00PM</b>	<b>Room: 203</b>
<p><i>Impact of China and India's Food Security Efforts on Global Food Security in 2050</i>  <b>Zhang-Yue Zhou</b>: James Cook University  Guang-Hua Wan: Asian Development Bank Institute  Jing Xiang: Chinese Academy of Social Science  Wei-Ming Tian: China Agricultural University  Vasant Gandhi: Indian Institute of Management</p> <p><i>Chinese investment in Australian agrifood sector: Challenges and prospects</i>  <b>Guohong Zhang</b>: Shanghai Customs College  Lilai Xu: RMIT University</p> <p>Session Chair:  <b>Ying Xu</b>: Australian National University</p>		

<b>TUESDAY 14 JULY</b>	<b>Building 67</b>	
<b>Keynote speech</b>	<b>9.15-10.00AM</b>	<b>Room: 104</b>
<i>The Roles of Public Governance in the Organisation and Finance of Chinese Firm</i>		
<b>Professor Joseph Fan:</b> Chinese University of Hong Kong; Australian National University		
Session Chair:		
<b>Gary Tian:</b> University of Wollongong		
Morning Tea (10.00-10.15AM)		
<b>Session 9: Finance &amp; Corporate (2)</b>	<b>10.15-11.15AM</b>	<b>Room: 202</b>
<i>How do political connections affect M&amp;A decisions and post-M&amp;A performance? A comparison between SOEs and non-SOEs</i>		
Qigui Liu: University of Wollongong		
<b>Tianpei Luo:</b> University of Wollongong		
Gary Tian: University of Wollongong		
<i>Politically Connected CEOs and Earnings Management: Evidence from China</i>		
Jing Chi: Massey University		
<b>Jing Liao:</b> Massey University		
Xiaojun Chen: Massey University		
<i>Political Connections, Audit Opinions and Auditor Choice: Evidence from Corruption Cases</i>		
<b>Ku He:</b> University of Wollongong		
Xiaofei Pan: University of Wollongong		
Gary Tian: University of Wollongong		
Session Chair:		
<b>Shiguang Ma:</b> University of Wollongong		
<b>Session 10: Conglomerate</b>	<b>10.15-11.15AM</b>	<b>Room: 203</b>
Session Chair:		
<i>Chinese Style Regulation: Incentive, Collusion and Competition</i>		
<b>Zhen Qi:</b> Chinese Academy of Social Sciences; Australian National University		
<i>Technical efficiency of Chinese Private manufacturing SMEs- A Regional Comparison between Different Development-stages within China</i>		
<b>Leqi Zhao:</b> University of Wollongong		
<i>Population Growth and the Environmental Kuznets Curve</i>		
<b>Sophie Xuefei Wang:</b> Central University of Finance and Economics		
Yu Benjamin Fu: Simon Fraser University		
Zhe George Zhang: Simon Fraser University; Western Washington University		
<b>Lilai Xu:</b> RMIT University		

<b>Session 11: Finance &amp; Corporate (3)</b>	<b>11.15AM-12.15PM</b>	<b>Room: 202</b>
<p><i>Investor Overconfidence and Stock Price Crash Risk</i>  <b>Xin Yang:</b> SUN Yat-Sen University</p> <p><i>Family Control, Accounting Misstatements, and Market Reactions to Restatements: Evidence from China</i>  <b>Lingbo Ma:</b> University of Wollongong  Shiguang Ma: University of Wollongong  Gary Tian: University of Wollongong</p> <p>Session Chair:  <b>Zhiming Cheng:</b> University of Wollongong</p>		
<b>Session 12: Energy and Environment (2)</b>	<b>11.15AM-12.15PM</b>	<b>Room: 203</b>
<p><i>The Greenness of Chinese Cities: Carbon Dioxide Emission and Its Determinants</i>  <b>Jianxin Wu:</b> Jinan University; University of Western Australia  Yanrui Wu: University of Western Australia  Bing Wang: Jinan University</p> <p><i>CO2 Emissions in Chinese Cities: A Distribution Dynamics Approach</i>  Tsun Se Cheong: University of Western Australia  <b>Yanrui Wu:</b> University of Western Australia  Jianxin Wu: Jinan University; University of Western Australia</p> <p><i>Spatial Analysis of China Province-level PM2.5 Pollution</i>  <b>Kun Xiang:</b> HuaZhong University of Science And Technology</p> <p>Session Chair:  <b>Liming Wang:</b> University College Dublin</p>		

## **Abstract List (in alphabetical sequence of the paper topics)**

### **A Structural Investigation of the Chinese Economy with a Hybrid Monetary Policy Rule**

**Ran Li:** Peking University and Australian National University

Jiao Wang: Australian National University

In this paper, we aim to understand how monetary policy is conducted in China and what the main sources of fluctuations in China's business cycle are. To this end, we extend a standard New Keynesian dynamic stochastic general equilibrium model with financial frictions and investment-specific technology shocks. We incorporate a hybrid form of monetary policy rule and employ a Bayesian estimation strategy using Chinese data. We find that the People's Bank of China conducts monetary policy by adjusting the policy rate in response to inflation, output growth as well as real money growth. We also find that neutral technology shocks are the main drivers of the fluctuations in output and consumption while the investment-specific technology shock is the primary source of the variation in investment. This paper offers a new way of examining the rule of China's monetary policy and indicates a structural break of the neutral technology development that may have contributed to the slowing down of GDP growth since 2010.

### **Capital account liberalization and economic growth revisited: Different effects of inflow and outflow liberalization**

**Qin Gou:** Central University of Finance and Economics

Yiping Huang: Peking University

Jianguo Xu: Peking University

We revisit the effect of capital account liberalization on economic growth by considering liberalization of capital inflows and capital outflows separately. Employing cross-country industry level data, we find their effects to be opposite. Capital inflow liberalization enhances economic growth while capital outflow liberalization impedes economic growth. These effects tend to be more pronounced for an economy with lower GDP, less developed financial markets, more corruption, or higher income inequality. These effects also tend to be more pronounced for an industry that is more external capital dependent, capital intensive, or technology intensive. These findings support that viewpoint that capital account opening may benefit economic growth if proceeding gradually and conditionally.

## **China's natural gas market liberalization and its impact on world gas markets**

**Xunpeng Shi:** National University of Singapore

M. P. Hari: National University of Singapore

The regional and global impact of China's gas sector has become increasingly significant but is a relatively new issue to most energy researchers. While much attention has been focussed on the cases of oil and minerals such as Copper, Nickel and Iron ore, an emerging impact is seen in the world natural gas and LNG markets. The rise of China as a rapidly growing gas consumer will be a game changer in the regional and global gas markets. While pipeline gas (PPG) is not sourced through open market, the contract pricing mechanisms will have implications for East Asia's LNG prices. The diversity of supply of natural gas makes it possible for China to generate a hub prices that can have regional impact. The scale of China's demand will also have significant impact on the regions, and even the global, gas market. In the past decade, the focus of China gas sector policy is on market liberalization, which aims to let markets determine the prices. The ongoing market liberalization of the gas sector in China would also be a key factor that is influential for the East Asian regional market and the global gas markets. China's gas pricing could be an important benchmark for the East Asian region because the largest importing capacity in Asia, the most diversified (and relatively balanced) portfolios of supplies, and the most diversified means of transport and routes (Chen, 2014). The key issue for this study is: what are the possible impacts of China gas market liberation on China and the world's gas and LNG market?

## **Chinese investment in Australian agrifood sector: Challenges and prospects**

**Guohong Zhang:** Shanghai Customs College

Lilai Xu: RMIT University

The Australia-China business climate has been positive over the past years and there is a growing awareness of the complementarity between the food Australia produces and the demand from Chinese consumers. Fresh efforts are now underway from both the Australian and Chinese governments to encourage Chinese FDI in Australian agrifood sector. The latest data on investment approvals/proposals in Australia has demonstrated an improved investment outlook. This paper examines opportunities existing for commercial cooperation between Australian and Chinese businesses in the production, processing, distribution and sale of premium, safe Australian food, and investigates different investment modes to be considered for the different parts of the premium produce value chain. The discussions in the paper are based on the cases reported in the media and released by industries. Analysis is performed with the rigor and care typical of much academic research. At the same time, great efforts are made to present the results in practical, policy-oriented terms.

## **Chinese monetary policy and the banking system**

**Leon Berkelmans:** Reserve Bank of Australia

Gerard Kelly: Reserve Bank of Australia

Dena Sadeghian: Reserve Bank of Australia

Using a model of the banking sector, this paper assesses the efficacy of Chinese monetary policy. We find that direct interest rate changes are a poor instrument of monetary control in China, due to the ambiguous response of deposit demand to such changes. Other monetary instruments do not suffer from this lack of clarity. This may be why interest rate changes are used sparingly in China. We also consider policy in a more liberalised setting and find that the ambiguous deposit demand response poses challenges for the efficacy of open market operations.

## **Chinese style regulation: incentive, collusion and competition**

**Zhen Qi:** Chinese Academy of Social Sciences, Australian National University

China, as a transition economy, has its own style in regulating state owned enterprises (SOEs). This style is rooted in the principal-agent relationship between the state and the SOEs and at the same time reflects some unique features associated with a transition economy. This paper takes a theoretical approach in investigating the problem of optimal regulatory regime for regulating the state sector in China. It identifies a trade-off which exists in the principle's regime choices: a separated and more decentralised regime with comparative advantage of proofing the collusion between regulators and SOEs, versus an integrated and more centralised regime with comparative advantage in motivating regulators. The pros and cons of each regime are discussed in the context of SOE reform in China. As market competition increases the principle benefits more from switching from the separated regulatory regime to the integrated one. The study sheds light on the logic that lies behind changes in Chinese SOEs' regulatory regimes and the resulting impact on SOEs' investment behaviours in the reform period. The study also compares the different outcomes resulting from the applications of different regulatory regimes which were applied to different types of SOEs. The study concludes that the integrated and more centralised regulatory regime which is applied to the monopolised SOEs is likely to lead to collusions between the regulators and enterprises causing enterprises' inefficiency and corruption involving both the regulators and the managers. The findings have some policy implications for reforming China's current regulatory regimes.

## **CO2 Emissions in Chinese Cities: A Distribution Dynamics Approach**

Tsun Se Cheong: University of Western Australia

**Yanrui Wu:** University of Western Australia

Jianxin Wu: Jinan University; University of Western Australia

The aim of this paper is to examine the transitional dynamics of CO<sub>2</sub> emission in China by using a city-level database. Convergence analysis is conducted and mobility probability plots (MPPs) are employed to examine distribution dynamics of 286 cities from 2002 to 2011. In the first part of this study, the research is carried out at the national level, and it provides an overall view of the evolution of CO<sub>2</sub> emission in China. The database is then divided into smaller groupings so as to investigate distribution dynamics in greater details. The second part is based on spatial groupings, and it reveals the relationship between CO<sub>2</sub> emission and geographical location. The third part is based on income groupings, and the link between CO<sub>2</sub> emission and income is shown for each income group. The findings of this study offer valuable information on convergence and future evolution of CO<sub>2</sub> emission in China.

### **Credit Market Development and Firm Innovation: Evidence from China**

**Hua Shang:** Southwestern University of Finance and Economics

Quanyun Song: Southwestern University of Finance and Economics

Yu Wu: Southwestern University of Finance and Economics

From the perspective of credit allocation, this paper analyzes the effect of credit market development on firm innovation abilities in China. Using a large data set of Chinese industrial firms in 31 provinces, we find out that, from the credit allocation perspective, provincial-level credit market development enhances both firm innovation incentives and outcomes. We show that firm financial constraints and firm performances are two channels through which the credit market development affects firm innovation abilities. The innovation incentives and outcomes of more financially restrained firms and firms with better performances are affected by credit market development more than those of other types of firms. Our results are built on logit, conditional logit, fixed effect regression and Tobit methods. In order to minimize the endogeneity problems caused by omitted variables which affect both credit market development and firm innovation incentives and outcomes, we include both firm-level, industry-level, provincial-levels controls and dummies. We also lag the credit market development and control variables for one period to reduce the reverse causality problem. Our results are robust to different credit market development measures and different samples.

## **Defining and Measuring the ‘Pandemic’ Phase of Financial Contagion: a dynamic quantile regression approach**

**Liming Wang:** University College Dublin; Beijing University of Technology

Jian Ke: Beijing Technology and Business University; Minjiang University

The Global Financial Crisis of 2007 to 2009 was originated from the U.S. subprime mortgage crisis and rapidly spread across effectively all economies, especially affected equity markets worldwide. The financial sector, especially European banks experienced sharp reductions of market value in financial assets and commodities. The transmission of the recent financial crises presents an ideal case to revisit the debate about nature and degrees of financial contagion. The purpose of this paper is to define and assess the ‘pandemic’ phase of financial contagion with reference to the spread of medical disease. From the three dimensional measurements, including susceptibility, depth and breadth, we would give the conceptual framework to define the ‘pandemic’ phase of financial contagion. In the case of the correlations of some markets are not linear relationship, co-movement test has certain limitations. Therefore, a dynamic quantile regression model to test the Value at Risk (VaR) is employed in this study. Based on the investigation about the structural characteristics of constant and coefficient functions, we would find the timely susceptibility and the degree of pandemic depth in the regional and global contagion process. The empirical findings would provide the bench mark to set the standards when estimating the different pandemic phases of international financial contagion.

## ***Demystifying the Chinese Housing Boom***

**Hanming Fang:** University of Pennsylvania

Quanlin Gu: Peking University

Wei Xiong: Princeton University and the NBER

Li-An Zhou: Peking University

We construct housing price indices for 120 major cities in China in 2003-2013 based on sequential sales of new homes within the same housing developments. By using these indices and detailed information on mortgage borrowers across these cities, we find enormous housing price appreciation during the decade, which was accompanied by equally impressive growth in household income, except in a few first-tier cities. While bottom-income mortgage borrowers endured severe financial burdens by using price-to-income ratios over eight to buy homes, their participation in the housing market remained steady and their mortgage loans were protected by down payments commonly in excess of 35 percent. As such, the housing market is unlikely to trigger an imminent financial crisis in China, even though it may crash with a sudden stop in the Chinese economy and act as an amplifier of the initial shock.

## **Does Consuming More Make You Happier? Evidence from Chinese Panel Data**

**Haining Wang:** Shandong University

This study examines the relationship between consumption and happiness, using panel data from China Family Panel Studies (CFPS). We find that total consumption expenditure has a significant and positive effect on happiness for the full sample. We find no evidence of a non-linear relationship between consumption and happiness. We find heterogeneous effects of consumption on happiness across subsamples and for different types of consumption expenditure. We find that relative consumption matters, irrespective if the reference group is defined in terms of consumption at the community or county level or on the basis of age, education and gender. However, the extent to which comparison effects are upward looking or asymmetric depend on how the comparison group is defined. We also find that comparison with one's past consumption has no significant effect on an individual's happiness.

## **Drivers of China's Outward Foreign Direct Investment: A Comprehensive Panel Data Analysis**

**Tong Tong:** Griffith University

Tarlok Singh: Griffith University

Bin Li: Griffith University

China has experienced a tremendous economic growth since the economic reform that started in 1978. With the adoption of the "Open Door" economic policy, China has become the third largest country for outward direct investment (ODI); however, little empirical research has been conducted to explain this phenomenon. In this paper, we investigate the primary motivations of China's ODI decisions, using a recent panel data sample covering the period 2003-2012 and 176 host countries. We find that market size, trade variables and natural resources variables are strongly related to the Chinese ODI stocks. This indicates that Chinese ODI decisions are driven by both market-seeking and resource-seeking motives. Sub-period sample test results provide even a relatively stronger support to the market-seeking motive for ODI. These results seem to emerge from the policy changes that were undertaken during the sample period. Moreover, we also perform sub-group tests, and we find that the main purposes of China's ODI in the top 100 countries are natural resources explorations and production line replacements.

## **Education in rural and urban China: Unequal opportunities, unequal outcomes**

**Jane Golley:** Australian National University

Sherry Tao Kong: Peking University

This paper investigates trends in intergenerational patterns of educational attainment over time and space in China. Drawing on the China Family Panel Studies data for 2010 and 2012, we first measure the inequality in educational outcomes in and between rural and urban China, and how this inequality varies across age cohorts (from those born in the 1940s through to those born in the 1980s). We then assess the determinants of educational attainment in rural and urban China, identifying factors such as gender, parental education levels and Communist Party membership, ethnic minority status, and position in the family birth order that impact on individual educational achievements. This enables us to identify not only the determinants of inequality in rural and urban educational outcomes, but also the ‘inequality of opportunity’ in those outcomes – stemming from those factors that reflect circumstances beyond the individual’s own control. While only accounting for a relatively small share of overall inequality in educational outcomes between rural and urban China, the rising contribution from unequal opportunities – as opposed to unequal ‘effort’ – is alarming, and deserves the attention of China’s educational policy makers.

## **Estimating the Extensive Margin and the Intensive Margin Effect of Export Tax Rebate Rate Change on Trade**

Li Bing: Central University of Finance and Economics

**Jing Yan:** Central University of Finance and Economics

Zhang Yan: Central University of Finance and Economics

Using yearly transaction data covering all Chinese exporters over the 2001-2011 period, we investigate how Chinese exporters respond to the export tax rebate rate change. We find that an increase in the export tax rebate rate leads to an increase in the total export volume and value at the HS-6 digit product level. To explore its underlying mechanism, we further disentangle this effect into the extensive margin effect and the intensive margin effect. Specifically, we look at the effect of export tax rebate change on the number of Chinese exporters and the average export volume/value for surviving exporters. We find that export tax rebate rate change only has a significant effect on the export volume/value per surviving exporter, yet a minimal effect on the number of exporters. Our study contributes to a complete understanding of the effects of export tax rebate rate change on trade.

## **Family Control, Accounting Misstatements, and Market Reactions to Restatements: Evidence from China**

**Lingbo Ma:** University of Wollongong

Shiguang Ma: University of Wollongong

Gary Tian: University of Wollongong

We examine the impact of family control on the likelihood of accounting misstatements and market reactions to subsequent restatements. Using a matched-firm approach, we find that family control overall reduces the incidence of misstatements, consistent with the notion that controlling families have greater reputation concerns than nonfamily blockholders. However, compared to nonfamily firm restatements, restatements announced by family-controlled firms trigger significantly more negative market reactions, which are even more pronounced when the risk of expropriation by controlling shareholder is higher. We also find a larger drop in the information content of earnings in family restatement firms than in nonfamily restatement firms. We attribute the stronger market reactions and the larger loss of earnings informativeness to greater investor skepticism of the credibility of corporate insiders and lower perception of earnings quality in family-controlled firms following restatements. Our study highlights that investors are more sensitive to the deterioration in earnings quality in family-controlled firms than in nonfamily-controlled firms, which in turn affects market reactions to accounting restatements

## **FDI, domestic sales and export intensity: Evidence from China's manufacturing industries**

**Sizhong Sun:** James Cook University

Using panel data on over the period 2005-2007, this paper explores the interrelationship among foreign presence, domestic sales and export intensity of local firms in China's manufacturing industries. We find that the domestic sales and exports are substitutes for local firms in China's textile and transportation equipment, and communication equipment and general equipment manufacturing industries. An increase in the average domestic sales increases foreign presence in each of these three industries. The same applies to an increase in the average export intensity. An increase in the level of competition in China's textile industry increases the export intensity as well as domestic sales of local textile firms. In the case of China's transportation equipment manufacturing industry, an increase in the level of competition decreases domestic sales of local firms. Furthermore, an increase in the firm size increases domestic sales of Chinese firms in all three manufacturing industries.

## **How do political connections affect M&A decisions and post-M&A performance? A comparison between SOEs and non-SOEs**

Qigui Liu,: University of Wollongong

**Tianpei Luo:** University of Wollongong

Gary Tian: University of Wollongong

This study examines the impact of political connections on Mergers and Acquisitions (M&A) decisions and post-M&A performance of Chinese listed firms. We document that M&A decisions made by politically connected managers destroy (create) value in SOEs (non-SOEs) by having a worse (better) post-M&A performance and paying a higher (lower) M&A premium. We further find that the M&A decisions in SOEs with connected managers are more likely to be influenced by government interventions and managers' opportunistic behavior by acquiring local SOEs with poor performance and through horizontal/diversified mergers. While connected managers in non-SOEs tend to help firms obtain quality M&A targets, the acquisitions create value to shareholders. We argue that, in an emerging market like China, with widely occurring government intervention, connected managers in SOEs usually make M&A decisions to maximize the government interest, while non-SOEs seek connected managers to obtain quality target firms.

## **Impact of China and India's Food Security Efforts on Global Food Security in 2050**

**Zhang-Yue Zhou:** James Cook University

Guang-Hua Wan: Asian Development Bank Institute

Jing Xiang: Chinese Academy of Social Science

Wei-Ming Tian: China Agricultural University

Vasant Gandhi: Indian Institute of Management

The sheer size of China and India's population and economy and their potential in growing more food can have significant impact not only on future food security of their own, but also for the Asian region and globally. This paper sheds some light on the impact of China and India on global food security in 2030 and 2050 under various scenarios based on GTAP data. Our preliminary results suggest that unless the worst scenario occurs (fast population but low economic growth combined with low agricultural TFP growth), China and India's efforts for improving their food security are unlikely to generate notable impacts on global food security.

## **Import Trade, R&D Spillovers and Technical Progress Mechanism**

Lin Wang: Institute of Economics Chinese Academy of Social Sciences

**Yihong Tang:** Central University of Finance and Economics

This article uses the 1995-2010 panel data of 34 OECD developed countries and 26 Non-OECD developing countries, from the aspects of total products and different categories products to empirically test whether the R&D spillovers from the import trade between developed and developing countries (including North-North, North-South, South-South) can make the technical progress of all the countries. The empirical results suggest that, no matter for the developed countries or developing countries, the import trade R&D spillovers significantly promote the technological progress of all countries. But for different R&D spillover sources, such as the different categories products from different countries, their R&D spillover effects differ. We use the R&D researchers and information technology as the main control variables, and to empirically test whether they are the mechanism of import trade influencing technological progress. The empirical results suggest that only the R&D researchers of developed countries can make technological progress, and the information technology have no significant effects on the developed and developing countries technological progress. So the developed countries R&D researchers' absorption of R&D spillover technology is the mechanism of import trade promoting technological progress.

## **Income Inequality, Entrepreneurship and the Economic Development**

**Zhaobin Fan:** Jinan University

The relationship between income inequality and economic development has been examined by growing literature from the perspective of human capital formation recently. On the basis of the relation between entrepreneurship and economic development, this paper builds an overlapping generation model to examine the impact of income inequality on economic development from the viewpoint of entrepreneur formation. The results show that entrepreneurs encourage labors to invest in their own education in order to move into the modern production sector, therefore facilitate economic development. In the presence of credit constraints, the impact of income inequality on economic development depends on the developmental stage. In early stages of development, a higher level of income inequality is beneficial for the formation of entrepreneurs through releasing the credit constraints, thereby facilitate economic development. In later stages of development, however, a lower level of income inequality stimulates the formation of entrepreneurs through releasing the credit constraints, thereby facilitates economic development. By the data of China's 28 provinces and 4 municipalities in the 2002-2012 period, this paper estimates the role of entrepreneurs in economic development and the impact of income inequality on the formation of entrepreneurs. The empirical results support the theory.

## **Investor Overconfidence and Stock Price Crash Risk**

**Xin Yang** : SUN Yat-Sen University

This article investigate the relationship between investor overconfidence behavior and stock price crash risk at firm level. Overconfidence is the common cognitive bias of the human beings, the degree of overconfidence in the financial market lead investors to overestimate their own capability and underestimate risk and volatility. As a result, stock price is misvalued , which can lead to stock price crash. We follow Rhodes-Kropf et al (2005) to construct proxy for the degree of overconfidence by measuring stock misvaluation for each stock. Using the data from Chinese listed firms for the period of 2003-2013, our results suggest that investor overconfidence behavior contribute to the future stock price crash risk. The key implication of our finding helps us understand the effect of investor overconfidence behavior and the development of capital market in China.

## **Learning more by exporting more? Firm-level Evidence from China**

Yongbing CHEN: Zhongnan University of Economic and Law

**Dahai FU**: Central University of Finance and Economics

Helmut Fryges: University of Tasmania

Whether firms can learn from their exporting activities is of great significance for the long-run growth of developing countries. However, previous empirical studies always failed to find the learning-by-exporting effects. One possible reason for this result is that they only focus on a firm's export status rather than the level of their exports. Even some studies take the export volume into account, they are restricted to analysing some developed countries. In this paper, we apply the newly developed generalised propensity score (GPS) methodology to examine the causal effect of a firm's export intensity on its labor productivity. Using a large panel data set for Chinese manufacturing firms between 2000 and 2007, We find that there is a causal effect of firms' export activities on labour productivity in China. However, the results show an inverted U-shaped pattern: the labor productivity of firms increase as export-sales ratio rises up to about 10%-16%, and decline thereafter. This suggests that in China, the firms do not learn more by exporting more. Those that sell most in domestic markets but also export at the same time benefit most from exporting activities.

## **Local Governments' Fiscal Competition in China: The Characteristics and Its Capital Allocation Effect**

**Liang He:** Harbin Engineering University

The ultimate object of China's economic reform is to achieve maximum accelerated economic development by introducing market mechanism into socialist system. The central government implements reform in phases in different region to ensure the stable development of the economy. At the same time, financial system reform and political institution adjustments provides economic and political incentives for local governments, which made the competition between local governments more complicated than that in western country. The now-large empirical study on China's fiscal competition has focus on provincial government despite the fact that the fiercest fiscal competition in China exists in the city and county level. Based on 231 Chinese cities' panel data from 1985 to 2013, we explored the characteristics and capital allocation effect of local governments' fiscal competition by the use of a spatial econometric model. The results indicate that imitative strategic interactions between the cities in the same province are more obvious than between the cities in different provinces especially on those tax and public expenditure items which can stimulate economic growth in the short term. These results reveal that political incentive based on promotion tournament plays a leading role in the formation mechanism of intergovernment competition in China. Further empirical study estimates capital allocation effect of fiscal competition under political motivation. The results show that strategic imitation on economic-stimulating public expenditure and tax reduction policy improved capital allocation efficiency before tax sharing reform in 1994, while this positive effect turn to negative impact after 1994. Finally, it is propose that a more perfect performance assessment system should conclude not only local GDP but also the productivity of the public services and recourses allocation efficiency.

## **Male-only Board, State Control and Corporate Risk-Taking**

**Jing Liao:** Massey University

Karren Lee-Hwei Khaw: Northern University of Malaysia

Udomsak Wongchoti: Massey University

This paper examines the corporate risk-taking behaviour of Chinese listed firms. We use the volatility of firm-level profitability as proxy for corporate risk-taking as performance volatility is a fundamental factor that affects long-term economic growth. The results show that male-only boards significantly increase corporate risk-taking, but the risk-seeking behaviour can be mitigated by promoting female directors in the boardrooms. State controlled firms, on the other hand, are more reluctant to take risk. We further document that male-only boards have insignificant effect on corporate risk-taking prior to the Non-Tradable Share (NTS) reform in 2005. However, after the implementation of the NTS reform the positive impact of male-only boards on corporate risk-taking becomes highly significant, whereas the negative impact of state control on corporate risk-taking weakens. This result indicates that male-only boards will have growing influence on firm risk-taking behavior when the state control is further relinquished due to the implementation of the NTS reform. Though risk-taking may have positive impact on firms' long-run growth, higher level of corporate risk-taking in weak shareholders' protection countries is not necessarily associated with high-risk positive-NPV projects. Therefore, we argue that to control for corporate risk-taking the Chinese government needs to further promote gender diversity in boardrooms as an effort to enhance corporate governance for firms' sustainable performance and survival. The results are robust to tests for endogeneity.

## **Measuring Financial Integration: the Network Approach**

**Ying Xu:** Australian National University

Jenny Corbett: Australian National University

While deeper financial integration is often considered conducive to the efficient allocation of resources and risk sharing, an increasingly important policy concern is whether it brings greater vulnerability to shocks. To address the latter concern, this paper uses a different approach to measuring financial integration, highlighting interconnectedness in a network of financial flows. Applying an adapted version of eigenvector centrality, often used in network analysis, the new measure provides a nuanced picture of financial integration and interconnectedness in the global and regional financial networks. The United States and the United Kingdom remain the ‘core’ in the global banking network, with all other countries scattered in the ‘periphery’. Similarly, United Kingdom is the centre of the European banking network. With China rapidly integrating with the region, the Asian banking network increasingly resembles the structure of the global network. This is the beginning of essential work to discover whether such network structures pose an added threat of shock transmission around the region.

## **Political Connections, Audit Opinions and Auditor Choice: Evidence from Corruption Cases**

**Ku He:** University of Wollongong

Xiaofei Pan: University of Wollongong

Gary Tian: University of Wollongong

In this paper, we examine the joint impact of corporate political connections and ownership structures on the auditor reporting behaviours and firms’ auditor choice patterns in the Chinese market. We construct a natural experiment that alleviates endogeneity concern by employing 56 corruption cases involving high-level government bureaucrats from 2004 to 2012, and a set of publicly traded companies whose managers or directors directly involved in the bribing activities or were connected with the corrupt bureaucrats through family or previous job affiliations. Our empirical findings suggest that once the political connections are broken because of the corruption events, politically connected non-SOE firms are more likely to receive unfavourable audit opinions and have less chance to hire local small auditors in subsequent years, compared with the non-connected firms. However, relative to those without political ties, SOEs connected to the corrupt bureaucrats would have a higher possibility to get favourable opinions at the occurrences of corruption cases, and are more likely to choose local small auditors in the following years. Moreover, further study indicates that the market reactions to the corruption events are significantly negative for non-SOE firms, but positive for SOEs. In summary, our study suggest that corporate political connections have a substantial effect in deciding the auditor reporting behaviours, auditor choice patterns and firm value. More important, the effect of political connections is subject to firms’ ownership structures.

## **Politically Connected CEOs and Earnings Management: Evidence from China**

Jing Chi: Massey University

**Jing Liao:** Massey University

Xiaojun Chen: Massey University

This paper examines the impact of politically connected CEOs on earnings management in China and the results show that firms with politically connected CEOs have significantly lower earnings management, measured by total accruals and discretionary accruals. We argue that the concern of political reputation and easy access to capital and recourse possibly lead to less incentive for these firms to conduct earnings management. Evidence is found that firms with political connected CEOs issue more H-shares, have higher leverage and conduct less seasoned equity offerings (SEOs) after listing. In addition, our difference-in-difference tests show that earnings management in firms with politically connected CEOs are higher in non-state controlled firms or in post non-tradable share (NTS) reform period, compared to state controlled firms and pre-NTS reform period. These results suggest that the government support or the privilege of politically connected CEOs can be key factors that influence earnings management behavior of political connected CEOs. Finally, our findings are robust after controlling for the endogeneity.

## **Population Growth and the Environmental Kuznets Curve**

**Sophie Xuefei Wang:** Central University of Finance and Economics

Yu Benjamin Fu: Simon Fraser University

Zhe George Zhang: Simon Fraser University; Western Washington University

This paper provides a specific application of the environmental Kuznets curve (EKC) in order to explain the effect of population growth on the environment. The main purpose is contributing to enhance the connection between theoretical and empirical analysis. Our test hypotheses are: the relationship between pollution emission and income is inverted U-shaped, and population growth makes the EKC steeper and have higher peak, thus, putting extra burden on the environment. Using Chinese data at the province level, we first rule out spurious regressions by performing unit-root tests and cointegration tests. The econometric analysis finds evidence supporting these two hypotheses.

## **Re-examining Energy Price Convergence in China: Application of a Nonlinear Panel Unit Root Test under Cross Section Dependence**

Qing King Guo: Beijing Normal University-Hong Kong Baptist University

Chi Keung Marco Lau: Northumbria University

Kunwang Li: Nankai University, China

**Ligang Song:** Australian National University

This paper explores China's energy price reform and its impact on domestic energy product prices by examining whether the energy prices are convergent or divergent over time across the energy markets in different regions. We use 10-day interval price data (January 2006–December 2012), collected from the Price Supervision Centre on twenty energy products in 60 Chinese cities, to investigate whether the energy market in China has experienced a relative price convergence to the national mean as one would expect, given the increased economic integration across Chinese provinces over the reform period. The sample period also coincides with the implementation of the key energy policies by the Chinese government, for example, to reduce coal use by 20 per cent over that period, as well as the global financial crisis (GFC) which through a large fiscal stimulus package by the Chinese government could impact on variations in both energy prices and energy efficiency. We use a nonlinear panel unit root test and find little evidence of energy price convergence in the Chinese energy markets over the sample period suggesting that the Chinese internal energy markets have not well been integrated across cities as a number of previous studies suggested. We also find the coefficient of variations in prices of some key energy products such as gasoline, diesel, coal and gas changed substantially since the GFC.

## **Spatial analysis of China province-level PM<sub>2.5</sub> pollution**

**Kun Xiang:** HuaZhong University of Science And Technology

With the spatial differences in economic level and geographical environment of Chinese provinces, the spatial distribution of PM<sub>2.5</sub> pollution demonstrates great variety. This study offers a unique contribution to the literature by investigating PM<sub>2.5</sub> pollution among a panel of 31 Chinese provinces. We use novel spatial panel data models to analyze the drivers of PM<sub>2.5</sub> pollution, which we posit are characterized by spatial dependence. Estimation and diagnostic analysis show that (1) the positive spatial autocorrelation has been detected in intra- and inter-province PM<sub>2.5</sub> pollution; and (2) there are statistically significant, positive economic and energetic spillovers to province-level pollution.

## **Survive or Die? An Empirical Study on Chinese Special Treatment Firms**

Yanran Annie Zhou: Telestra Corporations

Maria H. Kim: University of Wollongong

Shiguang Ma: University of Wollongong

A number of listed firms that are experiencing financial distress have had a Special Treatment (ST) 'cap' imposed on them by the China Securities Regulatory Commission. The ST 'cap' can be removed if the firms improve performance. Alternatively, a ST firm which goes bankrupt is delisted from the market. Using a sample of 441 ST firms tracked from 1998 to 2011, this paper employs Cox's proportional hazards model to predict turnaround probability for a distressed firm to remove the ST 'cap'. The predictor variables incorporate: (1) accounting-driven ratios, (2) market-driven variables, and (3) information on ownership structure and restructuring status throughout the process. In contrast to previous distress studies, this paper finds that market variables do not add predictive power to the model when combined with accounting variables. Also, incorporating the time effect, the Cox hazards model was found to outperform the logit model in the out-of-sample forecast.

## **Technical efficiency of Chinese private manufacturing SMEs- a regional comparison between different development-stages within China**

Leqi Zhao: University of Wollongong

Endogenous growth theory emphasises that knowledge is the engine of a sustainable economic growth. Since knowledge must be embodied in entrepreneurs and spill-overed by building private enterprises, most of which are SMEs, private SME sector in China plays a significance role in economy. It is especially significant for current Chinese economic transition to be an innovation-driven economy in 2020 and for manufacturing sector to be most innovative in the world in 2015 since its big contribution to innovation. However, in general, they are still producing less efficiently than large firms so that they have less competitiveness, wage level and innovation orientation. This paper aims to evaluate the technical efficiency of 23,500 Chinese private manufacturing SMEs selected from *China Industry Business Performance database* in 2007 and identify the possible key determinants of their technical efficiency using both non-parametric and parametric methods (bootstrapping hyperbolic DEA and hyperbolic SFA). Moreover, since the big provincial economic inequality within China, provinces in China have different development stages including factor-driven economy, efficiency-driven economy, innovation-driven economy and transitions. This research will compare the results between provinces in different development stages. The results of this research will show the technical efficiency of manufacturing SMEs in China's provinces and provide policy makers suggestions on how to promote private SME's technical efficiency, especially in less developed provinces in order to make China transit into innovation-driven economy inclusively in the short future.

## **The Calculation of Increasing Block Fuel Tariffs: a Personal Carbon Trading Perspective**

**Jin Fan:** University of Science and Technology of China

Yao Li: University of Science and Technology of China

Yanrui Wu: University of Western Australia

Dingtao Zhao: University of Science and Technology of China

Jun Li: University of Science and Technology of China

This paper puts forward a two-tiered structure of increasing block tariffs (IBTs) of fuel from a novel perspective of personal carbon trading (PCT) scheme in Chinese transportation sector. An optimization model of PCT is developed and subsequently the equilibrium carbon price is derived on the basis of a market clearing condition. We investigate that the consumers with different fuel consumption would be burdened with discriminated fuel costs, providing a theoretical basis for IBTs of fuel. Based on the derived equilibrium carbon price, we propose formulas to calculate the IBTs of fuel. Then we conduct parameter estimations and calculations based on a large-scale survey data collected from 4s shops in China and derive the specific block tariff design based on the selected samples. Finally, sensitivity analyses are conducted to investigate the effect of the fuel prices and allowance budget on the block prices. The results indicate that the over-emitters would be charged 1.66 times as much as the under-emitters under our parameter settings. And the block prices would be susceptible to the fuel prices and allowance budget in different ways.

## **The Future of Reminbi Internationalization**

*Professor Liqing Zhang: Central University of Finance and Economics*

The speech is to give a brief overview of the rapid development of renminbi internationalization (RMBI) since 2009, especially focusing on the driving forces and its economic impacts; to figure out the main factors that may affect its future development; and to provide policy suggestions for making RMBI more sustainable and influential. The main points include: (1) although it is developing very fast, RMBI is still at an early stage and its scale is very limited especially as a reserve currency; (2) China's quick rising as a big economy lays an important foundation for the rapid development of RMBI, however the main driving forces for the process since 2009 are the deregulation of financial service (particularly in trade settlement service), orderly liberalization of capital account, strongly expected appreciation of RMB in exchange rate and the volatility of USD and other international currencies; (3) the main challenges RMBI may have in the coming years include: being caught in "middle income trap", the decline of balance of payment surplus and stop of currency appreciation and imprudently accelerating liberalization of capital account; (4) for making RMBI a sustainable process, it is important for China to maintain strong and sustainable growth and a competitive trade sector in the coming decades; to accelerate domestic financial reforms, though this should be done in a cautious manner, especially in the case of capital account liberalization; to reform RMB exchange rate regime into a more flexible one; and to strengthen global and regional financial cooperation.

## **The Greenness of Chinese Cities: Carbon Dioxide Emission and Its Determinants**

**Jianxin Wu:** Jinan University; University of Western Australia

Yanrui Wu: University of Western Australia

Bing Wang: Jinan University

This paper investigates the efficiency of carbon dioxide (CO<sub>2</sub>) emission and its determinants in 286 Chinese cities. Our results strongly support the inverted U-shaped relationship between per capita CO<sub>2</sub> emissions and urban development. However the realization of this relationship depends on stringent governmental policy interventions. Our regression analysis shows that city size is positively correlated with CO<sub>2</sub> emission efficiency, but negatively correlated with per capita CO<sub>2</sub> emissions. This result suggests the population restrictions in large cities tend to increase CO<sub>2</sub> emissions. We also find that regional development programs are likely to encourage economic activities in low CO<sub>2</sub> emission efficient regions and may lead to significant environmental consequences.

## **The Impact of Globalisation on Urbanisation: Evidence from China**

Yan Wu: Australian National University

**Chunlai Chen:** Australian National University

This paper investigates the impact of globalisation – FDI and international trade – on urbanisation in China. By using city level panel data covering China's 262 cities for the period 2004-2012 and employing dynamic SGMM regression technique, the study found that FDI and international trade on average have played a significantly positive role in the development of China's urbanisation. However, the impact of FDI and international trade on urbanisation is different by regions. FDI has significantly positive impact on urbanisation in the coastal region but has negative impact in the inland region. International trade has significantly positive impact on urbanisation in the inland region but has negative impact in the coastal region. This may be attributed to that in recent decade first, FDI increasingly flowed into services and emerging high-tech industries in the coastal region while FDI increasingly flowed into resources and agricultural industries in the inland region; second, firms especially export-oriented firms in the coastal region moved and relocated their production sites from urban areas to rural areas and to inland regions in order to reduce production costs in the process of economic structural changes and industrial upgrading. Overall, China's urbanisation has responded to the structural changes in the economy as a result of globalisation.

## **The Roles of Public Governance in the Organization and Finance of Chinese firms**

Joseph Fan: Chinese University of Hong Kong; Australian National University

Government intervention in the market place and associated distortions has long been an important topic interested by researchers, policy makers and the general public around the world. In this speech, Professor Joseph Fan will share his research findings of how the quality of bureaucrats and civil servants influence the behaviours and economic outcomes of firms in China. Specific topics include organizational pyramids, vertical integration and diversification, capital structure, financial distress, corporate transparency, and the emergence of family ownership.

## **The Stewardship role of Assets Impairment in China**

Xueyun Zeng: Beijing University of Posts and Telecommunications

**Fei Guo:** Zhongnan University of Economics and Law

Based on a large sample of Chinese listed firms, this paper examines the association between CEOs' compensation and asset impairments. The results show that the executive's pay is negatively (positively) related to asset write-downs (write-ups), indicating the economic reality and senior managers' performance after the report incentives are controlled. This study illustrates the importance of the supervision of the internal shareholders and the usefulness of accounting information in internal decision-making. This study is the first to examine the stewardship role of assets impairment.

## **Understanding Australian public opinion towards Chinese investment in Australian agribusiness**

**James Laurenceson:** University of Technology, Sydney

Paul Burke: University of Technology, Sydney

Edward Wei: University of Technology, Sydney

The Lowy Poll has consistently reported that a majority of Australians think that the government is "allowing too much investment from China". Yet Lowy does not ask their respondents whether they also think the same is true for investment from other countries, such as the US and Japan. Nor is it clear the extent to which the "country of origin" of investment is being conflated with other factors. For example, public opinion might turn not so much on investment coming from China, but rather on perceptions fanned by the media that all Chinese investment is coming from state-owned rather than privately-owned enterprises. In this study we use choice modelling techniques to analyse a unique data set comprising of the views of 1500 Australians towards foreign investment in Australia's agribusiness sector. The results will inform a more informed commentary on Chinese investment in Australian agribusinesses, as well as regulatory settings towards it.

## **Understanding corporate leverage in China: evidence from listed companies**

Ivan Roberts: Reserve Bank of Australia

**Andrew Zurawski:** Reserve Bank of Australia

This paper examines trends in the capital structure of Chinese listed companies over the past 14 years to consider the influence of economy-wide and firm-specific factors on corporate leverage. First, we consider the compositional shift in leverage away from private firms towards state-owned enterprises since 2008, and the decline in relative operating performance by local and central state-owned listed companies. Second, we estimate a range of models to help explain leverage among Chinese listed firms. Accounting for changes in the economic environment that affect all firms, the most important predictors of leverage are profitability, firm size and industry-level leverage patterns. Controlling for standard firm-level characteristics, we find that state-owned companies' leverage increased relative to private firms in the period following the 2008-09 credit stimulus. If we allow explicitly for the dynamics of leverage at the firm level and persistence in leverage decisions over time, the evidence is much weaker, but this finding is tempered when we consider a broader measure of leverage that accounts for rising non-debt liabilities in recent years.