

# Investing with the Government: A Field Experiment in China

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# Road Map

The Paper

My Comments

Final Remarks

## The Paper in a Nutshell

Do investors have a (dis)-preference for governments?

- An experimental survey of 688 General Partner (GP) firms and 312 Limited Partners (LP) in 2019;
- GPs **dislike** LPs with government ties (Tables 7 and 8);
- LPs **like** GPs who manage funds containing LPs with government ties (Tables 9).
  - Consistent with finding in Fei (2018), using real-world data and network analysis.

An interesting way to show investor preference – experiments with “hypothetical” information (LP/GP files).

“Dare to be angry (at governments) without speaking” – An ancient Chinese quote.

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## Comment 1 – Experiment

Is Experiment the best way to study preference for governments?

- The experiment used in this paper is used and well-accepted in the racial and gender bias literature.
- However, the aim there is to show investors have behavioral biases.
- It is very hard to think about the preference for governments is primarily due to **behavior** biases. Instead, the purpose of investing with governments is to gain **real** benefits (land usage, informal support...).

Suggestions

- Interpretation: **non-pecuniary** and **behavioral-driven** (dis)-preference for governments instead of the "grabbing hand" story.
- Not limited to the preference for governments (and potentially focus more on) behavioral dimensions of the investor preference: gender, racial (minority), education level, geographic (home bias) (Hochberg and Rauh, 2013), environmental concerns (Zhang, 2022) ...

## Comment 2 – GP-LP Matching

Does the GP-LP matching tell us about the "grabbing hand" theory?

- Grabbing hand – government bureaucrats and politicians grab the profits from private investors.
- The main concern on potential "grabbing hand": the government LPs "grab" money from other LPs and/or GPs.
  - So, it is about the agency conflicts among investors (Axelson et al., 2009) and grey income (Agarwal et al., 2020).
- Political frictions are universal (e.g., Andonov et al., 2016). What matters in modern society is mechanisms to reduce political and agency frictions.
  - Fang et al., (2017) on intellectual property rights protection.
  - To limit the potential "grabbing hand" by governments, in formal government invested funds in China (i.e., government guided funds), government LPs are forced to invest in a fixed share and exit after private investors.

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Very interesting paper, important topic, interesting method.

- Regression analysis, experiment, model – a lot of work!
- Contribution: experimental evidence on investor preference.

### Minor comments

- Why do we need the model in addition to the experiment? Does a two-sided search and matching model the best fit for studying the relationship to governments?
- Different economic mechanisms: the matching model (matching frictions) and the experiment (investor preference).
- NBER WP misses Table 10 (implying no model 😊?).

Good Luck!