Facilitating Investment Flows:

Evidence from China's High-Speed Passenger Rail Network*

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Abstract

This paper investigates how transportation infrastructure projects facilitate interregional flows of private investments, by exploiting the staggered expansions of passenger high-speed rail (HSR) network as plausibly exogenous shocks to the ease of travel between cities. Drawing on a unique dataset of the universe of firm registrations in China, we document that the introduction of a direct HSR connection between a pair of cities increases the amount of cross-city investment between the pair by 45%. We control for city-pair fixed effects to capture static linkages between the cities –e.g., geographical distance, cultural proximity– as well as city-time fixed effects to capture any variations in economic dynamics across and within cities. We find similar patterns when examining new connections between cities that are already on the HSR network but have not been connected to each other, and city-pairs that are *indirectly* connected by new routes. HSR connection effects exist for both investors considering controlling stakes (more than 50% share in invested firms) and non-controlling stakes, with the effects in former greater in magnitude. It suggests that apart from facilitating monitoring, HSR also helps reduce information frictions in portfolio investment decisions and help investors better discover and evaluate investment opportunities in other cities.

Keywords:

High-speed rail, home bias, investment flows, transportation infrastructure development