Facilitating Investment Flows:

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

Yatang Lin
Department of Economics, Division of Environment and Sustainability, Division of Social Science, HKUST

Yu Qin
Department of Real Estate, National University of Singapore

Johan Sulaeman
Department of Finance, National University of Singapore

Jubo Yan
Division of Economics, School of Social Sciences, Nanyang Technological University

Jialiang Zhang
National School of Development, Peking University

* We thank seminar participants at National University of Singapore, National Chengchi University, Peking University and 2018 SFS Cavalcade Asia-Pacific for helpful discussions and valuable comments. Johan Sulaeman acknowledges research support from NUS Start-Up Research Grant WBS R-315-000-113-133. All errors are our own.
Facilitating Investment Flows: Evidence from China’s High-Speed Passenger Rail Network

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