

# Terror to the Evil: The Collapse of Patronage Networks and the Growth of Local Firms

Yuhang LONG

The Chinese University of Hong Kong  
Department of Management

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# Concepts

In China, provincial officials enjoy discretion in resource allocation and personnel decisions.

Municipal officials compete in a GDP tournament; winners have a high possibility for promotion.

## Patrons & Clienteles

- **Clienteles:** Local officials with personal connections to and promoted by a certain high-level official.
- **Patrons:** high-level officials with personal connections to certain local officials promoted by themselves.
- **Patronage networks:** consistent and reciprocal relational systems that channel resources, information and political protection ([Hicken, 2011, Paik and Baum, 2014]).
- **Network collapse:** shock from patron conviction dismantles informal protections and raises scrutiny.

## Anti-corruption campaigns in PRC

- **Benefits:** improve governance and economic outcomes and reduce misconduct (e.g. [Zhong and Zheng, 2025, Wu and Zhu, 2011]).
- **Costs:** Emerging evidence shows bureaucratic paralysis and slow local economic activity ([Qu et al., 2018, Wang and Yan, 2020]).
- **Key puzzle:**
  - When a high-level official is convicted, how do surviving low-level officials respond?
  - How will local firms be affected by their response?
- **Importance:** Local officials implement policies that directly affect firm growth in a decentralized bureaucratic system.

# Gaps

- ① Turnover literature treats removals as contained within a single administrative level; neglects **network spillovers**.
  - [Zhong et al., 2019]: Normal turnover of municipal officials  $\Rightarrow$  performance of foreign subsidiaries  $\downarrow$
  - [Zhong and Zheng, 2025]: Abnormal turnover of officials  $\Rightarrow$  patent application  $\uparrow$ , patents granted  $\downarrow$

Presume others who survived to be immune to the potential influence

- ② Political incentive studies emphasize **formal promotion tournaments**
  - Formal incentives to achieving goals: economic, political, and social welfare goals in sequence of priority set by the state ([Edin, 2003, Wang and Luo, 2019])
  - Underplaying the demand for informal protections
- ③ The indirect shock on politically connected firms following upstream shocks is underexplored.
  - Can be liabilities ...
  - to firms as well as politicians themselves ...
  - even the politicians are still ruling

# Hypothesis 1

Formal performance incentives overridden by **fear of scrutiny**

- Loss of informal political protection  $\Rightarrow$  clienteles face higher personal risk
- Shift to risk-averse governance (“do as little as possible”)
- Disruption of cross-level information and resource flows previously coordinated by the patron
- Strict enforcement of rules replaces flexible facilitation of firm activity (highly related to corruption!)

*H1. Local firms in cities governed by municipal clienteles experience lower growth after the provincial patron's conviction compared to firms in cities without municipal clienteles*

# Hypothesis 2

Political ties become **liabilities for both sides** under intensified scrutiny.

- Clienteles avoid connected firms to minimize guilt-by-association risks
- Withdrawal of privileged access (approvals, information, subsidies)
- Relational stigma: embedded firms absorb the shock more strongly.
- Selective retreat: clienteles disengage disproportionately from firms linked to them.

*H2. The decrease in growth is larger for local firms that have political ties to municipal clienteles*

- **Theoretical:** Reframes anti-corruption as a network-disruption event; shows dynamics of incentives of local officials interchanging between formal and informal ones.
- **Empirical:** Exposes cross-level contagion effects of political shocks that are typically ignored.
- **Practical:** Anti-corruption campaigns are not cost-free; clearer formal incentive structures needed to alleviate the concerns of the good words.



## Identification

- Exploit conviction of provincial officials as a plausibly exogenous shock.
- Difference-in-Differences (DiD) design comparing firms in *cliente cities* (treated) vs *non-clientele cities* (controls).

## Data

- Political resumes: comprehensive dataset of party and administrative positions (internal dataset; also common sources like China Economic Net)
- Fundamentals: WIND and CSMAR (sales, assets, liabilities, ROA, etc.)
- Time period: 18th – 20th National Congress of CCP (2013 – 2022)

# Variable Measurement

- Dependent variable: firm growth =  $\log(\text{sales}_{it})$ .
- Treatment: city governed by a municipal official identified as a clientele of convicted provincial patron.
- Moderator (H2): firm–official political ties via hometown, alumni, or institutional roles (e.g., NPC/CPPCC affiliations).
- Controls: firm size, age, ownership, industry FE, year FE, city FE, macro controls.

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