

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? Not a golden standard!

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:** Informal mechanism fails due to the removal of a patron.

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:** If we take their **embeddedness** into consideration...
 - 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:
 - [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 mechanism**
 - Achieving goals: Economic, political, and social welfare goals in sequence of priority set by the state ([Edin, 2003, Wang and Luo, 2019])
 - Underplaying the informal mechanism
- ③ The indirect shock on politically connected firms following upstream shocks is underexplored.
 - Can be liabilities ...
 - to firms as well as politicians themselves ...
 - even if the connected politicians are still ruling

Hypothesis 1

Incentives in formal mechanism overridden by loss of informal mechanism

- Subjective:
 - Loss of protection \Rightarrow clienteles face higher personal risk, fear of scrutiny
 - Shift to risk-averse governance (“do as little as possible”)
- Objective
 - Disruption of cross-level information and resource flows previously coordinated by the patron
- Result:

Tightened policies and regulations replaces flexible facilitation of firm activity (highly susceptible of 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.

- Lifelong responsibility system \Rightarrow distance connected firms to minimize risk
- Less particularism: Withdrawal of privileged access (approvals, information, subsidies)
- Embedded firms absorb the shock more strongly.

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

- **Theoretical:** Conceptualize anti-corruption as a network-disruption event; shows dynamics of strategies of local officials when faced with a change to their promotion mechanisms.
- **Empirical:** Exposes cross-level contagion effects of political shocks that are previously ignored.
- **Practical:** Anti-corruption campaigns are not cost-free; clearer formal incentive structures needed to alleviate the concerns of the good words.

Identification

- Confidential investigation of CCDI and CITs \Rightarrow 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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