

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

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Terror to the evil

Terror

- *For rulers are not a **terror** to good works, but **to the evil**.*
— Romans XIII:III, KJV
作官的原不是叫行善的惧怕，乃是叫作恶的惧怕。
— 罗马书13:3，和合本
- "...person's trust in you results in a position far more vulnerable than that of a stranger." [Granovetter, 1985]

Political Arena in PRC

薄熙来个性冷酷 曾踩断其父薄一波三根肋骨

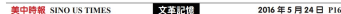
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【大纪元2013年08月21日讯】（大纪元记者陈静慧综合报导）前重庆市委书记薄熙来个性冷酷，台媒报导称，其在文革中曾亲手殴打父亲薄一波，甚至踩断三根肋骨。薄熙来的老同学近日在接受《美国之音》采访时曾说，“这人六亲不认，什么事都干的出来的。”并表示，此人野心很大，瞄准的目标是中共第一党魁。



看劉少奇的醜惡靈魂

劉少奇子女劉濤 劉北鵬 / 文



則應將該分區（該區未劃入）遷往該分區的土地。

1968年12月，劉少奇的女兒劉潔思因《造劉少奇反》、讀毛澤東著作《革命和革命黨》、不劃一個圈兒、又與朱德爭論在貼信（看）劉少奇的機要室等。被「文化大革命」記過（高舉 羅廣其 天津人民日報社 1988.9）起點，1967年7月，劉少奇的女兒劉丹陽帶著劉少奇去看望自己的生母王德蘭，相繼王德蘭的姑父，整理成了這家大字據，於1967年1月8日，一式三份分別貼在華大書、中國師範工食堂門口等地方。並派胡錦輝抄，加上各種紅衛兵大字報大量翻印，散佈到全國。文革時，不知有多少無恥卑鄙的奴才為了達到加害的目的，帶給他人同等的苦難，把自己的生身父母弄入獄中。劉丹陽人同此心，何可說別的快慰。

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.

- Lifelong responsibility system
- 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

- 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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