Cronies in the Courtroom: Political Interference and Judicial Reforms*

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Abstract. Utilizing 1.57 million judicial judgments from enterprise-to-enterprise litigation between 2014 and 2019 in China, we provide evidence of municipal leaders exerting influence over the courts to favor enterprises connected to them. By leveraging variations in enterprise connections resulting from official turnover, we show that enterprises with connections to party leaders have higher chances of winning in business litigation than unconnected enterprises. We also examine the impact of the staggered roll-out of circuit courts, a top-down institutional reform, on cronyism in the courtroom. Our findings show that this reform has effectively reduced the judicial advantage enjoyed by connected enterprises by two-thirds.

Keywords: Political Interference, Judicial Reform, Judicial Independence.

JEL Classification. K10 O12

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1. Introduction

Institutions play a crucial role in economic performance, especially in developing countries. Courts, in particular, are vital for economic growth as they are responsible for securing property rights and enforcing contracts (Djankov, La Porta, Lopez-de Silanes, and Shleifer 2003 and Acemoglu and Johnson 2005). However, in developing countries, a common issue is that compromised courts make biased decisions, distorting incentives and hindering economic efficiency.

The lack of judicial independence is a case in point: executive officials who wield influence over local courts may leverage their influence to favor their cronies who are involved in legal disputes. This form of connection-based favoritism not only remains concealed but is also executed indirectly. Given its hidden and indirect nature, there is a dearth of empirical studies that document corruption within the judiciary that stems from the lack of judicial independence. Furthermore, there are even fewer studies that specifically examine which disciplinary measures would be effective for courts in this context.

In this paper, we tackle both of these issues within the context of China, utilizing a comprehensive dataset of business litigation. We gathered and analyzed approximately 1.5 million civil judgments pertaining to enterprise-to-enterprise litigations that occurred between 2014 and 2019, which includes detailed information about the litigants involved and the outcomes of the litigations. As a first step of our investigation, we focus on the connection-based favoritism within the courtroom. It is crucial to highlight that our examination specifically centers on the impact of connections between enterprises and municipal officials who do not possess direct judicial authority over individual litigations but hold influence over the courts.

Our strategy involves comparing the litigation outcomes of nonlocal enterprises with connections to those of nonlocal enterprises without connections, ceteris paribus. Following the common approach of proxying connections by social ties, we define a nonlocal enterprise as connected when it is registered and located in a city where the incumbent municipal official has previously worked or studied or was born.[1] To infer causal effects, we exploit the variation in the connection status of the same type of nonlocal enterprises caused by officials' turnover. Specifically, when a municipal official is replaced by another, some enterprises connected to the former may lose their connections, while some others may have the reverse luck.

We employ a two-way fixed effects model to estimate the impact of connections,

[1]This approach to proxying social connections has been widely used in studies on China's political and academic systems, (e.g., Fisman, Shi, Wang, and Wu 2020; Fisman, Shi, Wang, and Xu 2018; Francois, Trebbi, and Xiao 2016; Jia, Kudamatsu, and Seim 2015; and Shih, Adolph, and Liu 2012).

conditional on fixed differences across politicians' tenures and enterprise types (categorized by their connection patterns). Our estimations additionally account for case and regional characteristics, issue areas, and year-quarter fixed effects.

We find evidence of interference from municipal leaders in Chinese civil court. Enterprise plaintiffs who have connections to municipal party secretaries are more likely to win compared to those who are not connected, with a difference of approximately 3.81 percentage points. This effect is economically large, considering that the average chance of success for enterprise plaintiffs is around 76% in our sample and that our measurement of connection is relatively loose, which biases the estimated effect towards zero. Similarly, plaintiff enterprises with connections to party judicial secretaries (who oversee the judicial system within the party) have a significant advantage of 2.82 percentage points. However, the advantage of having connections to mayors is reduced to less than 1 percentage point, which is only marginally significant. This result is consistent with the power structure of Chinese political system. Mayors, although second highest in the municipal leadership hierarchy after party secretaries, have no direct power over the municipal court system, while party judicial secretaries, who oversee the legal system, have direct power and influence over the judicial sector.

We also investigate how the impact of connections to officials varies based on the size of the claim in the lawsuit. We find that the influence of connections is weaker when the monetary value involved in the disputes is lower, which supports our interpretation of political interference. Enterprises may be less likely to leverage their connections with municipal officials if the stakes of a particular lawsuit are not large enough, as seeking favors through personal ties is costly.

We next examine how judicial reforms affect the court advantages enjoyed by connected firms. This analysis serves two important purposes in our study. First, it provides a more credible identification of connection effects. Second, it reveals potential mechanisms for regulating courts and limiting political interference in a system without judicial independence.

Since 2014, China's Supreme Court has implemented reforms to enhance trial transparency and judicial fairness through institutional and technological monitoring mechanisms. We focus on one sweeping reform: the staggered introduction of circuit courts, a top-down initiative that established external oversight of local courts. Beginning in early 2015, the Supreme Court established six circuit courts across two waves, each overseeing courts in multiple provinces. This reform strengthens judicial accountability by providing litigants easier access to Supreme Court monitoring, thereby creating deterrent effects on local courts and officials.

We examine whether the introduction of circuit courts effectively curbed political

interference in the judicial system. To estimate the impact, we employ a generalized difference-in-differences model, using spatial and temporal variations in the establishment of circuit courts. We incorporate court city fixed effects into our specification and ensure that our estimated effects are not driven by fixed differences across cities. Additionally, controlling for year-quarter effects helps to isolate changes over time. Our findings indicate that the introduction of circuit courts has eliminated more than two-thirds of the advantage previously enjoyed by connected nonlocal plaintiffs.

To address potential endogeneity in the timing of circuit court establishment, we conduct two additional tests. First, we utilize an event study model to validate the parallel trends assumption between treated and untreated courts. Second, our analysis of the pre-reform sub-sample reveals no significant difference in connection-based favoritism impacts between provinces selected for the first or second batch of circuit courts and the remaining provinces during the pre-reform period. This suggests that the selection of provinces for the first or second waves of circuit courts is unlikely to be associated with the extent of interference in local courts.

Furthermore, we provide evidence to substantiate why the circuit court system can be effective. Each circuit court supervises multiple neighboring provinces, encompassing a vast geographical area and numerous courts. If the circuit court effect is through deterrence of local officials and courts, then these local entities are more likely to be influenced by the presence of a nearby circuit court. Our findings confirm that the treatment effect of circuit courts is stronger on courts situated closer to the circuit court than on those further away.

We also perform a placebo test by assigning a different circuit court to supervise each province, recalculating the distance measure, and repeating the aforementioned exercises. In other words, we maintain the timing of the circuit court's establishment but reassign the distance between each local court within a province and its supervising circuit court. In this placebo test, we find that the circuit court remains influential, but the distance loses its predictive power for the strength of the treatment effect. These results indicate that the distance between local courts and their overseeing circuit court indeed plays a crucial role in determining the impact of circuit courts.

Do judicial reforms aimed at improving fairness *always* have an impact on connection-based favoritism and reduce interference from municipal leaders? We examine the effects of another major judicial reform, the Open Justice reform, which began in late 2016. In this reform, the Supreme Court of China mandated that all courts broadcast their trials live online through a centralized platform. This reform aims to influence local judiciaries by enhancing judicial transparency and reducing the costs of community and grassroots participation in monitoring. The public can easily watch trials

online in real time and access recordings of the proceedings afterward. Interestingly, by using the variations in the implementation of the live broadcasting reform, we explore whether the litigation advantage that connected enterprises hold over unconnected enterprises would change once trials are broadcast online real time. We do not observe any discernible effects.

Why do the two judicial reforms yield such different effects on connection-based favoritism? The reason lies in the concealed nature of connections and municipal interference. Judges make biased decisions for their own personal interests, either due to pressure from municipal leaders, benefits offered by them, or both. They are aware that such actions are improper, unlawful, or even illegal, and that they, along with other involved parties, could face severe consequences if exposed or caught. As a result, these compromised judges make efforts to conceal their partiality.

As a top-down effort to institute monitoring, the introduction of circuit courts facilitates appeals and investigations when deemed necessary, effectively increasing the likelihood of exposing and catching wrongdoing by officials and judges. Therefore, municipal officials and judges are more likely to avoid distorting court judgments following the establishment of circuit courts.

On the other hand, connections to officials are typically concealed and unobservable to the public. This means that even though the public can access trials through live broadcasting, they may be unaware of which litigants have connections that might result in judicial favoritism under the influence of party officials. Judges can present themselves professionally in the courtroom, knowing they are being recorded by surveillance cameras, and carefully hide any bias in their decisions. The information asymmetry regarding hidden connections renders the live broadcasting system ineffective in reducing connection-based favoritism.

Our study contributes to the literature on the economics of judicial decisions in two main ways. First, we provide evidence of political interference by municipal leaders in the judicial system, a phenomenon that is prevalent in developing countries but still has limited documentation. Second, we offer insights into how to effectively monitor the judicial system. By comparing two judicial reforms—the introduction of circuit courts and the implementation of live trial broadcasting—we not only reveal why the circuit court system is effective in reducing interference from municipal leaders but also demonstrate that understanding the root causes of institutional weaknesses is crucial for designing and implementing reforms to address them.

Specifically, our paper is related to a few strands of literature in this area. First, a set of new studies focus on court decisions in cases where governments or politicians are direct litigants. Mehmood (2022) demonstrates that shifting judicial appointments

in Pakistan from presidential to peer selection with life tenure reduces government victories and likely improves judicial quality. Mehmood and Ali (2024) reveals that judges receiving government real estate allocations show increased propensity to rule in the federal government's favor. In Brazil, Lambais and Sigstad (2023) finds that winning mayoral candidates are 65% less likely to face misconduct convictions. Our study differs in that we examine how executive influence affects judicial outcomes in firm-to-firm disputes, providing direct evidence of compromised judicial independence in cases where government is not a litigant.

Second, the paper is related to the growing literature of political connections in developing countries. In its general theme, our work is close to Zhang (2023), who explores the effects of the anti-corruption campaign on favoritism enjoyed by listed firms with connections to the public sector in China.[2] However, our study differs in that we focus on the lack of judicial independence and institutional reforms that can effectively mitigate its impacts. Moreover, our research utilizes a comprehensive sample of business litigation, encompassing enterprises of all types, including non-listed firms. Importantly, our study shows that crony enterprises can gain an upper hand in the courtroom through connections to party secretaries or party judicial secretaries, while the advantage is considerably weaker when connected to mayors. This finding emphasizes the importance of understanding the power dynamics within the Chinese governmental hierarchy when examining political influences.

It is worth noting that Chen and Kung (2019) examine the indirect nature of favoritism using land transaction data in China and show that firms connected to supreme political elites acquired land at much lower prices from local authorities. Our work highlights the prevalence of such a triangular connection in a different context, in which three players, i.e., municipal leaders, local courts, and enterprises, are involved.

Furthermore, our paper is related to but differs from the literature on the relationship between judicial reforms and development. Chemin (2009) shows that judicial reforms in Pakistan led to substantial economic and political gains at a relatively low cost.[3] Similarly, Lichand and Soares (2014) find that judicial reforms simplifying legal procedures enhanced entrepreneurship in Brazil. Kondylis and Stein (2021) find that judicial reforms streamlining court procedures improved firm performance in Senegal. Liu, Lu, Peng, and Wang (2024) find that judicial reforms reducing local protectionism

[2]In earlier literature, Li, Meng, Wang, and Zhou (2008) and Ang and Jia (2014) find that politically connected private firms are indeed more confident in resorting to legal channels in business disputes. Lu, Pan, and Zhang (2015) and Firth, Rui, and Wu (2011) collect more than 4,000 cases of business litigation and analyze whether public firms with state ownership or politically connected corporate leaders tend to be favored in court.

[3]By comparing economic performance before and after judicial reforms, other studies show that perceptions of judicial quality have improved in Africa (Chemin 2021), firm productivity has been enhanced (Chemin 2020), and positive economic outcomes have been achieved in India (Chemin 2012).

enhanced regional integration in China. Our study differs from this line of research by focusing on political interference in business litigation court decisions in China and contrasting the effects of various judicial reforms in mitigating these biases.[4]

2. Background

2.1. The Court, the Party and Judicial Reforms

In China, the judicial and administrative divisions largely coincide with each other: there is one primary court located in each county, one intermediate court in each prefecture, and one high court in each province, and the Supreme Court is located in Beijing. By January 2021, there were 3,087 primary courts, 416 intermediate courts, and 33 high courts in China.[5] In general, superior courts are obligated to supervise and monitor the subordinate courts in the same jurisdictional region. For example, all primary courts are supervised directly by the intermediate court located in the corresponding administrative prefecture.

Unlike independent judicial systems, in addition to being subject to the supervision of superior courts, primary and intermediate courts are regulated by the Municipal Party Committee (MPC) of their respective cities.[6] There are two key areas where the MPC has absolute authority over subordinate courts: personnel nomination and supervision.

First, the MPC, led by the Secretary of the Municipal Party Committee (hereafter, municipal party secretary), makes the final decisions on primary court head nominations and is responsible for the appointment of party secretaries at the intermediate-court level.[7] Second, the MPC supervises legal bodies (including courts) through the

[4]Even more broadly, our work adds to the large literature that studies various factors that influence court decisions, including gender (Boyd, Epstein, and Martin 2010; Songer and Crews-Meyer 2000; Lim, Silveira, and Snyder 2016; Ash, Chen, and Ornaghi 2021; Anwar, Bayer, and Hjalmarsson 2019; Chen, Chen, and Yang 2022), race (Alesina and La Ferrara 2014), ideology (Anwar, Bayer, and Hjalmarsson 2019; Chen, Michaeli, and Spiro 2019), media coverage (Philippe and Ouss 2018; Lim, Snyder Jr, and Stromberg 2015), and behavioral factors (Dobbie, Goldin, and Yang 2018; Eren and Mocan 2018 and 2020). Contributing to this literature, we examine executive interference in judicial proceedings, a novel aspect of biased court decisions in non-democratic countries.

[5]According to Articles 17 and 23 of the Organic Law of the People's Courts of China, primary courts are mainly responsible for hearing and ruling on general cases. Intermediate courts handle larger and more influential cases in addition to cases transferred or appealed from their subordinate primary courts. High courts are the highest judicial organ in each province and each province-level municipality, and they are responsible for cases transferred or appealed from intermediate courts. High courts also take responsibility for reviewing the cases of subordinate courts and making retrial decisions on any with ambiguous or incorrect judgments.

[6]The absolute leadership of upper-level party committees is emphasized in Article 26 of the Interim Regulations on the Selection and Appointment of Party- and Government-leading Cadres (1995).

[7]Typically, the same party official holds the positions of court head and party secretary for one court. Court head nominations need to be approved by the People's Congress, but this approval is usually automatic.

Politics and Legal Affairs Committee (PLC) under the Municipal Party Committee. The PLC is led by the Secretary of the Politics and Legal Affairs Committee (judicial secretary, thereafter), who is a member of the MPC. According to the Regulations of the Communist Party of China on Political and Legal Works, the main responsibility of the PLC is to supervise political and legal institutions and implement the decisions of the MPC across subordinate courts.[8]

Given this institutional arrangement, both the municipal party secretary and the judicial secretary have substantial power over the leadership of the courts within their jurisdictions. In contrast, mayors, who are members of the MPC, have authority over their municipal budgets and issues related to the economy and development but do not have direct influence over legal bodies, including public security bureaus, courts, procuratorates, the prison system, and legal bureaus.

This lack of judicial independence has induced a number of long-standing issues, such as low transparency, bureaucratism and local protectionism. To address these issues embedded in the judicial system, the Supreme Court began implementing a series of reforms in 2014 with the objective of mitigating judicial bias and improving judicial quality.

The key idea of these reforms was to incorporate external systems to monitor local courts and curb judicial bias while maintaining the Party's control over the courts. In this paper, we investigate the effects of judicial reforms on judicial bias arising from cronyism. Specifically, our study centers on the introduction of circuit courts as the primary judicial reform under scrutiny.

2.2. Circuit Courts in China

Circuit courts have become a major supervisory body within the Chinese judicial system, each having jurisdiction over a number of provinces. The main goal of establishing the circuit court system was to provide litigants with more convenient access to justice and to monitor local courts via an additional external authority.

The key functions of the circuit court system are threefold. First, similar to the circuit courts in the US, China's circuit courts act as tribunals, adjudicating administrative, civil, and commercial disputes. They effectively expand the reach of the Supreme

[8]The Regulations of the Communist Party of China on Political and Legal Works was published in 2019, and it specifies the responsibilities in terms of political and legal work of the municipal party secretary and the judiciary secretary. The main responsibility of the Party Committee and the municipal party secretary is to plan political and legal activities to safeguard local security, especially political security. The judiciary secretary is mainly responsible for investigating, supervising, and implementing the decisions of the local Party Committee and higher-level Party Committee to coordinate political and legal institutions.

Court to resolve appeals of court rulings within local jurisdictions.[9]

Secondly, the Supreme People's Court dispatches judges to the circuit courts to hear and monitor trials. In China, to ensure the effectiveness of this top-down approach, dispatched judges are rotated on a regular basis.

Third and more importantly, unlike circuit courts in other countries, Chinese circuit courts collect and process petitions from litigants. This additional disciplinary mechanism is intended to monitor and deter unjust behavior of local judiciaries and governments. Petitions, also called "Xinfang" or "letters and visits," allow citizens to make complaints to various government bodies, including the executive and judicial branches, and request investigations.[10] We describe how circuit courts handle petitions in Appendix A.

As of early 2020, the six circuit courts of China had handled 67,939 appealed cases and received several hundred thousand petitions from litigants since their establishment.[11] For example, the second circuit court received approximately 1,000 petitions per day at the time of its establishment (including all pending cases); moreover, it received 4,720 visits related to complaints in February and 6,330 visits related to complaints in March of 2015.[12]

Circuit courts have been gradually introduced over time. In January 2015, the Supreme People's Court of China established circuit courts in Shenzhen and Shenyang, each having jurisdiction over a number of Chinese provinces. The provinces chosen for the first wave of reform represent a balance of geographical diversity and developmental levels. In December 2016, four other circuit courts were established, and the jurisdiction of these courts was expanded to all provinces in China except for five provinces adjacent to Beijing, which fall under the direct jurisdiction of the Supreme People's Court. The rollout and jurisdiction of the circuit courts are shown in Figure 1, where the solid line represents the jurisdiction of the first wave of circuit courts and the dotted area indicates the jurisdiction of the second wave. The details of the rollout are summarized in Table A1 of Appendix A.

[9]Regarding appeals, the Chinese circuit courts differ slightly from those of the U.S. The Chinese circuit courts have the same authority as the Supreme Court, while their counterparts in the United States have a lower level of authority than the Supreme Court. For information on the function of the Chinese circuit court, see the Provisions of the Supreme People's Court on Several Issues concerning the Trial of Cases by the Circuit Courts, issued in January 2015.

[10]Previous studies show that petitions play an important role in governance in China, performing functions such as collecting information via grassroots methods (Paik 2012) and resolving the agent-principal problem between central authorities and local officials (Minzner 2006).

[11]This information was sourced from the official website of the Chinese government: https://www.court.gov.cn/zixun-xiangqing-289951.html.

[12]See press coverage from http://www.gdzf.org.cn/index/zfyw/201610/t20161011_797733.htm

2.3. Issue Areas and Jurisdiction in China

In this paper, we focus on civil litigations between enterprises. Several features of the judicial system are relevant to our empirical analysis and identification strategy. First, there are 9 major official issue areas under the category of civil litigation, i.e., (1) personality rights, (2) marriage, family and inheritance, (3) property, (4) contracts, (5) intellectual property, (6) industrial disputes, (7) finance, security and insurance, (8) tort liability and (9) special procedures. Cases that cannot be properly categorized are pooled together under the category of "others." Approximately 65% of the litigations between enterprises fall into the area of contract disputes.

Second, the China Civil Procedural Law (i.e., Article 21) strictly regulates the adjudication location of *remote litigations*, i.e., civil lawsuits in which the plaintiff and the defendant have different domiciles. By default, such litigation shall be filed under the jurisdiction of the court at the place of the defendant's domicile. In regular corporate litigation, a legal entity's place of domicile is defined as its registered address. However, exceptions can be made for some contract disputes and property-related litigation. If the parties to a contract agree in advance on the location for resolving potential disputes, lawsuits can be initiated in the jurisdiction governing the plaintiff's domicile, the location where the contract was performed or signed, the place where the subject matter is located, or any other place connected to the dispute such that the corresponding court will have jurisdiction over the dispute.[13]

3. Data Construction

3.1. Sample Construction

We create a dataset by combining our litigation data, including those on the characteristics of litigants and the specifics of litigations, with information on each geographical jurisdiction, including biographical notes on the corresponding executives and party officials and socioeconomic data (such as those on population and GDP per capita).

Litigation Sample Construction

We acquire court decision documents covering 2014 to 2019 from *China Judgments On-*

[13]See Article 23 and 34 of the China Civil Procedural Law. Further, articles 18, 19, and 20 of the Interpretations of the Supreme People's Court on the Applicability of the Civil Procedural Law of the People's Republic of China provides sufficient classifications for locations for contract performance regarding the categories of contracts and property and whether there is a specified place in the agreement. Article 18 of the Interpretation stipulates that when the place of performance is agreed upon in a contract, that place shall be the place of contract performance; however, in the absence of any agreement on the place of contract performance or in the case of an ambiguous agreement, the contract performance place is the location where the disputed subject payment took place. Articles 19 and 20 of the Interpretation stipulate the place of contract performance for financial contract disputes and clarify the contract performance place under different payment channels.

line with the assistance of a commercial data company. This website was officially launched in July 2013, and the Supreme Court requested that all courts in China publish their legal documents and court files (with some exceptions) on this website. Granting free access to legal documents online is an integral part of the nationwide judicial reforms enacted after the 18th National Congress. The goal was to make past court decisions available to the public in an easy-to-access manner. As of December 2021, more than 120 million documents pertaining to criminal, civil, and administrative cases had been posted on the site.

We focus on civil litigation between enterprises, which is the most economically significant type of litigation, from 2014 to 2019. First, to process the litigation data, we analyze the corpus of civil judgments with text extraction techniques. A typical judgment is written in a standardized format. It starts with basic information on the case, such as the specifics of the court, sentencing date, document type, litigants and litigants' representatives. Then, it presents the claims of both parties and the evidence provided. The next section of the judgment describes the evidence that the court recognized and justifies the rationale that the court used to apply specific laws. Finally, the last section explicates the outcomes of the litigation. The semistructured text format substantially facilitates the information extraction process.

We are able to extract detailed information that is useful for our analysis, including that on trial dates, plaintiffs' and defendants' names, courts, status (at the trial of first or second instance), the number of attorneys for both sides, and the litigation decisions made, in which the presiding judges explicate the total legal cost involved and how the cost should be shared among the plaintiffs and defendants.

Second, we focus on the category of litigation between enterprises. The acquired data contain litigation cases between all types of parties–not only enterprises but also individuals and organizations. To distinguish between enterprises and non-enterprise litigants, we utilize the names of the litigants disclosed in the court judgments.[14]

Third, for cases with more than one plaintiff or defendant, we label the first plaintiff and first defendant as representatives. This is reasonable because in the Chinese judicial system, the first plaintiff is the primary initiator of the lawsuit (and a representative is officially elected if more than 10 plaintiffs are involved); moreover, the first defendant is the direct party, while the remaining defendants are indirect parties. In total, there are approximately 1.57 million cases with enterprise litigants in our possession. The Appendix B elaborates the details of this process.

[14]In China, according to enterprise naming regulations for enterprises registered as legal persons, a registered enterprise must end its name with the organizational form of "Center," "Shop," or "Store," etc. The same rules apply if the enterprise is registered with any of the following terms, "Limited Liability Firm" or "Company Limited," or their abbreviations, if registered under Company Law. Based on these naming conventions, we design an algorithm to extract only civil cases between enterprises.

Fourth, we pinpoint the place of domicile for each enterprise in our data. In China, enterprises are instructed to include the name of the city in which they are located in their registered name. Therefore, we can collect each enterprise's registered location from its name.[15] For any enterprises that do not include their locations in their names, we search for their names on Baidu Maps and identify their locations accordingly.

Finally, we collect data on the two judicial reforms concerned: the introduction of circuit courts and the implementation of live trial broadcasting. First, we compile data on the exact locations and founding dates of each of the circuit courts and on the jurisdiction of each circuit court.[16] We then add the information on the circuit courts to our litigation sample; therefore, we know whether each civil case is under a circuit court's geographical jurisdiction at the time of trial.

We determine whether each case was broadcast live by using information from the China Court Trial Online website (discussed in section 6.1). The site live-streams ongoing trials and provides video recordings of trials that have been broadcast. The website publishes detailed trial information about each case, including a unique case code, the trial date, the court venue, and litigant information. We acquire all 11 million cases listed on China Court Trial Online up to April 2021 and then match these data with the litigation sample we constructed.

Officials Sample Construction

To study the impact of cronyism on litigation outcomes, we need to proxy enterprise connections with officials, which are unobservable. To construct underlying connections with local officials, we build a dataset using biographical notes on local officials. Our primary data source is each municipal government's official website, which provides the resumes of that government's officials. We further complement these data with information from Wikipedia, the Baidu Encyclopedia, and other sources. We manually collect information on the municipal party secretaries, mayors, and judicial secretaries of all 333 prefecture-level cities and four municipalities from 2014 to 2019.

Next, we gather data on those officials' birthplaces and the cities where they completed their higher education and worked. Fortunately, most of these pertinent details can be found online, and only a small fraction of information is missing. Specifically, we code information about officials holding the three key positions considered (i.e., party secretary, mayor, and judicial secretary) for each month and each city. Approximately 7.6% of the total month $\times$ official pairs are missing, most of which are due to temporary vacancies in the judicial secretary position. In summary, we gather data on

[15] However, there are exceptions: if a firm's name contains only the name of the province where it is located, its registered capital must be higher than a specific threshold; moreover, if the firm's name does not contain regional information at all, it must obtain approval from the State Administration of Industry and Commerce.

[16] All this information can be obtained from https://www.court.gov.cn/xunhui.html.

2,545 persons employed.

Finally, we match the data on officials with our litigation sample. Specifically, we match each case with the information of the incumbent officials who hold the positions of party secretary, mayor, and judicial secretary in the city where the corresponding court is located at the time of the trial (month level). Approximately 4.1% of our litigation sample cannot be merged with the official sample. This is mainly because a relevant position was vacant on the trial date. In addition, approximately 8.8% of the official sample cannot be merged with the litigation sample; this is largely because for some city$\times$ month cells, no enterprise-to-enterprise civil lawsuits have been uploaded to China Judgments Online. Our full litigation sample contained a total of 1,575,899 civil judgments.

3.2. Constructing Variables

Based on information extracted from the examined judgments, we create a number of variables describing each case for our analysis. We acquire the case code of each case, as these codes are useful for merging our data with other datasets. *Instance* indicates whether a case is being heard for the first time in the original jurisdiction or for the second time, i.e., if an appeal is being reheard. In China, there are 9 well-defined legal areas and one undefined area ("other area"), and 6 of these are highly relevant for enterprise-to-enterprise lawsuits, such as contract disputes and intellectual property disputes, while the remaining legal areas are clustered as "miscellaneous."In addition, we code the court information, such as the *court name*, the court *level* (local, intermediate, high or supreme court), and the *court city* (i.e., the city where the court is located). The litigant information section identifies the names of the litigants, allowing us to determine whether each case involves individuals, organizations, or enterprises. In addition, we extract the registered cities of both the plaintiffs and the defendants from their names, which we denote as *plaintiff city* and *defendant city*, respectively. The lawyer information includes the total number of attorneys representing the plaintiffs and the defendants, denoted by *plaintiff lawyers* and *defendant lawyers*, respectively.

Litigation Outcomes

The construction of another three key variables deserves elaboration. First, we code the litigation outcomes using the amount of *legal costs* and how these costs are divided among the litigants. According to civil law practice, a plaintiff's share of litigation court fees is inversely proportional to the extent to which the court upholds that plaintiff's claim.[17] In other words, the share of legal cost paid by a defendant is

[17]See "Measures on the Payment of Litigation Costs," which was adopted at the State Council's executive meeting on December 8, 2006 and took effect on April 1, 2007; additionally, see Chapter 11 of China's Civil Procedure Law.

proportional to the extent to which the court supports the corresponding plaintiff's claims. We define the *plaintiff's share of legal costs* as the fraction of the legal costs paid by the plaintiff. For robustness, we provide a coarser definition of litigation outcomes, plaintiff success, which is a dummy variable that takes the value 1 when the plaintiff's share is below 50% and 0 otherwise.

Nonlocal Enterprise

We consider a plaintiff or defendant to be local if the enterprise is registered in the same city as the adjudicating court; conversely, we consider an enterprise to be nonlocal if it is registered in a city other than the court city. For instance, if enterprise A, registered in Shenzhen, files a lawsuit against enterprise B, registered in Xiamen, at one of the district-level primary courts in Xiamen, we classify the plaintiff as a nonlocal enterprise and the defendant as a local enterprise. As a result, four subsamples emerge: local plaintiffs versus local defendants, nonlocal plaintiffs versus local defendants, local plaintiffs versus nonlocal defendants, and nonlocal plaintiffs versus nonlocal defendants.

Connections

Connections between enterprises and local officials are important for our analysis but unobservable. Following Fisman, Shi, Wang, and Wu (2020), we defined a nonlocal enterprise as considered to be connected to an incumbent official when its registration city is a city where the official has previous experience, i.e., (a) his or her birthplace or (b) previous working place or (c) the city where his or her higher education was received. For example, if a nonlocal plaintiff enterprise is registered in a city where the incumbent municipal party secretary was born, worked or studied, the nonlocal enterprise is considered to be connected to the party secretary. For robustness, in our empirical analysis, we examine the definition of connection using each of the aforementioned categories, namely, (a), (b) and (c).

3.3. Descriptive Statistics

We elaborate details and aspects of the constructed datasets in the Appendices B and C. In this section, we briefly discuss relevant information for our empirical investigation. Table A2 of the Appendix C summarizes the distribution of the litigations in our sample by year, area and court level. There are a total of 1,575,899 enterprise-to-enterprise civil litigations in our sample. A notable trend is the yearly increase in the number of cases, with the majority originating from primary and intermediate courts. The primary focus of enterprise-to-enterprise civil litigations revolves around contract disputes.

The case-related summary statistics of our sample are shown in Table A3, which include summarized legal cost, number of lawyers for the plaintiff and the defendant,

the number of cases under supervised by the circuit court, and the number of cases that were broadcast online during our sample period.

Table A4 summarises the sample officials' personal information. For our sample, we compile a dataset consisting of the resume information of the party secretary, mayor, and judicial secretary of each of the 337 cities in China from 2014 to 2019. The table summarises basic personal information, education, and tenure month of officials. In addition, panel B of Table A4 provides information on the number of turnovers for each position. Table A5 summarizes the case-level information related to enterprise-official connections, which includes the ratio of connected cases using different connection definitions.

4. Connection and Litigation Outcomes

4.1. Impacts of Connection

We start our analysis by examining the impacts of enterprises' connections to officials on litigation outcomes. To this end, we consider one subset of litigations: those with nonlocal plaintiffs and local defendants. This focus on nonlocal-local pairs is motivated by an institutional feature of the judicial system of China: by default, if the enterprises involved in a dispute are registered in different administrative areas, the dispute is adjudicated in the court of the defendant's domicile. Exceptions are made such that legal disputes are adjudicated in the courts of the plaintiff's domicile or elsewhere only when either the contract between the plaintiff and defendant indicates in advance the jurisdiction for disputes or the contract has certain legal structures. In light of this regulation, working with this default category (namely, with nonlocal plaintiffs and local defendants) can help bypass the selection issue where certain parties have a degree of choice in terms of jurisdiction when formulating contracts.

Specifically, we explore the impacts of connections on litigation outcomes by comparing nonlocal enterprises with connections and nonlocal enterprises without connections. However, the association between the differential in litigation outcomes (if any) and litigants' connection status cannot be interpreted as causal. To mitigate this issue, we exploit the variations in connection status caused by officials' turnover.

Table 1 illustrates this strategy with a simplified example: one city has two distinct officials who hold a particular position in sequence over the period of investigation. According to their connection status, there are four types of enterprises in total. Specifically, in this example, Type 1 enterprises are connected to an official who leaves his or her position and have no connection to the replacement official. In contrast, Type 2 enterprises are not connected to the former official but to his or her replacement; therefore, they gain access to this leader and potentially an edge in court. Type 3 enter-

prises happen to have connections to both, while Type 4 enterprises have connections to neither. The connection status of enterprises in Type 3 and 4 does not change after turnover. When this example is extended to characterize scenarios with more than two tenures, the number of enterprise types increases accordingly.

We take advantage of variations across types and over tenures and use a two-way fixed effects model to estimate the impact of connections conditional on fixed differences across tenures and fixed differences across enterprise types. Specifically, we estimate the following equation:

$$y_{i,l,p,k,c,t} = \beta_0 + \beta^C \times \text{Connection}_i + \omega_l^{reg} + \omega_p^{tenure} + \omega_k^{area} + \omega_c + \omega_t + \epsilon_{i,l,p,k,c,t} \quad (1)$$

where the dependent variable $y_{i,l,p,k,c,t}$ is an outcome of case i; the plaintiff of this case is registered in city l, and it is judged during a given official's tenure p, in issue area k, in city c where the court is located, and during year-quarter t. Connection_i is a dummy that takes the value of 1 if the plaintiff enterprise in case i is connected to the *incumbent* official of the city where the court is located and 0 otherwise. The fixed effects of the official's tenure are captured by ω_p^{tenure}, and the enterprise type fixed effects are absorbed by the plaintiff enterprise's registration location fixed effects ω_l^{reg}, given our definition of connections.

Since the plaintiffs' chances of winning vary across issue areas, across courts and over time, we impose three additional sets of fixed effects on the benchmark model: a full set of issue area fixed effects ω_k^{area}, court city fixed effects ω_c and calendar year-quarter fixed effects ω_t. All standard errors are clustered at the court level in this specification and the subsequent ones.

We are mainly interested in the coefficient β^C, which captures the impact of connections on litigation outcomes. Fixed differences across enterprise types cannot drive our estimated effects because we control for the fixed effects of the plaintiff enterprises' registration locations and exploit variations across tenures within enterprise types. Similarly, we difference out cross tenure changes by controlling for tenure fixed effects.

To be cautious, in addition to the baseline model, we also estimate a specification with a set of control variables X_i at both the case and prefecture levels. Since in each estimation, we focus on the impact of connections to officials in one particular position, we control for the status of enterprises' connections to officials in other positions. For example, when estimating the impact of a connection that an enterprise has to a municipal party secretary, we control for the status of that enterprise's connections to the mayor and judicial secretary of the same city at the time of the trial. We create a dummy variable, *other connection*, which takes the value of 1 when the focal enterprise

is connected with at least one of the other two officials and 0 otherwise. We also add the total legal fees involved in each case as a control variable, which is a proxy for the size of the dispute. We include the numbers of lawyers working for the plaintiffs and the number of those working for the defendants, approximating the relative resources for legal battles possessed by both sides, as well as the court level (primary or intermediate court), which captures the potential impacts of different legal procedures on the outcomes. The prefecture-level control variables include GDP and population, which are used to proxy the focal region's development level and size.

Main Results. We estimate the model specified by Equation (1) with the sample of litigations involving nonlocal plaintiffs versus local defendants. Table 2 shows the results using the *plaintiff's share of legal costs* as the dependent variable. Columns (1) to (3) of Table 2 present the results. The results show that having a connection to the party secretary (or judicial secretary) leads to a 3.81 (or 2.82) percentage point advantage in court, and this effect is statistically significant. On the other hand, having a connection to the mayor leads to an estimated advantage of less than one percentage point and the estimate is only marginally significant. Similar outcomes are observed when considering the plaintiff's success as the dependent variable (refer to Table A6 in Appendix D). This set of findings provides evidence of local officials' interference in the judicial system: party officials who have an influence over courts may pressure them to adjudicate in favor of litigants connected to them.

It is interesting that the estimated effects of connections to officials vary across positions: party and judicial secretaries have much stronger impacts on court decisions, while we find weaker evidence that mayors have such influences. Such variation is reasonable and consistent with the way power is structured (discussed in section 2.1): party officials lead and have direct power over courts in the areas of personnel nominations and supervision, but executive officials, such as mayors, possess less power over court-related affairs. These distinct effects of connections to party officials and mayors lend further support to our interpretation that courts favor crony enterprises with connections to powerful officials who have influence over courts.

Downwards Biased Estimates Our estimated connection effects likely represent a lower bound due to both selection and measurement issues. Selection issue could arise, because nonlocal connected firms may be more likely to file cases than their unconnected counterparts, who might only litigate when their winning probability exceeds that of connected firms. The measurement of connections presents another downward bias. While we assume officials' cronies lose their court advantages upon the official's departure, promoted or retired leaders often maintain informal power in their former jurisdictions, potentially preserving their influence over local courts. This continued influence would further underestimate the true effects of connections.

Decomposing the Impacts of Connections. According to our definition, an enterprise and an official are considered to be connected when the enterprise is registered in (a) the official's birth place or (b) where the official completed higher education or (c) a city where the official has a past employment history. Does one of these channels drive our findings? To decompose these impacts, we specify three narrower definitions of connections: an enterprise is considered to be connected to an official through only channel (a), (b) or (c) individually. For each definition of connection, we re-perform all the estimations reported in Table 2 and the results are reported in Table 3.

The estimated effects for the positions of party and judicial secretaries, regardless of the alternative definitions used, show similar patterns as those observed with the default definition. When considering connections to mayors, firms that are connected through shared work or birth cities do enjoy some advantage, although the magnitude of this advantage is relatively small. Conversely, the advantage in court associated with ties to mayors from cities where they studied is negligible. These contrasting effects of connections to party officials and mayors align with our findings using a broader definition of connection and further reinforce our interpretation that courts tend to show favoritism towards businesses with ties to influential officials who wield power within the judicial system.

Litigation Size and Effects of Connection. To corroborate our interpretation, we examine how the effects of connections to officials vary based on the size of litigations. It is reasonable to conjecture that the impact of the measured connections should be smaller when the amounts of money involved in the corresponding disputes are small. Considering that it may be rather costly for enterprises to seek favor from officials with whom they share social ties, enterprises may be less likely to leverage their connections if the stakes of a particular litigation are not very high.

We have divided our full sample into two subgroups based on the amount of litigation cost involved, which is proportional to the stakes in disputes. The two subgroups are cases with litigation costs higher than the mean (i.e., high litigation cost sample) and cases with litigation costs lower than the mean (i.e., low litigation cost sample). We have performed a re-estimation of Equation (1) within each subsample for each position. The estimated coefficients for the low litigation cost sample are reported in columns (1) to (3) of Table 4, while the estimated coefficients for the high litigation cost sample are reported in columns (4) to (6) of Table 4.

Interestingly, we have found that in low-cost litigation, only the connection to party secretaries has a significant impact. However, in high-cost litigation, connections to officials in all three positions (mayors, party secretaries, and judges) show significant effects, and the magnitude of the estimated coefficients is also much larger than the

counterparts in the low-cost sample. This observed pattern supports the interpretation of our results that connected enterprises exploit their connections to city officials to gain advantages within the judicial system.

Sample with Local Plaintiffs versus Nonlocal Defendants. In our analysis, we use a sample of litigations with nonlocal plaintiffs versus local defendants to prevent the potential selection of jurisdiction at the contracting stage. An enterprise may agree to resolve potential lawsuits in the city where the other contractual party is located because the enterprise has operated in that city for some time and established social ties. In this case, we would expect the measured advantage of connected nonlocal defendants, relative to that of unconnected nonlocal defendants, to be biased toward zero. In Appendix E, we verify this conjecture by using a sample of litigations with local plaintiffs versus nonlocal defendants and estimating Equation (1). See Table A9 and Table A10 for the results of using the plaintiff's share of legal costs and plaintiffs' success as dependent variables, respectively.

5. Circuit Courts and Connection-based Favoritism

We next examine how judicial reforms affect the court advantages enjoyed by connected firms. This analysis is important for two key reasons. First, while our previous analysis in section 4 treats official turnover as exogenous to litigation outcomes, there might be unobserved factors simultaneously influencing official assignments and court management. The judicial reform setting provides a more credible identification strategy to address this concern. Second, by analyzing these reforms and their impacts, we uncover potential mechanisms for regulating courts and limiting political interference in a system lacking judicial independence.

5.1. The Impacts of Circuit Courts

To understand the impacts of circuit courts on mitigating cronyism, we employ a generalized difference-in-differences approach, by leveraging the spatial and time variations in the introduction of circuit courts. We introduce a dummy variable, i.e., Circuit_{tc}, which takes the value of 1 if court c was covered and monitored by a circuit court during year-quarter t and 0 otherwise. Using our sample of litigations with nonlocal plaintiffs versus local defendants, we estimate the following equation:

$$\begin{aligned} y_{i,l,p,k,c,t} = \beta_0 + \beta_1 \text{Connection}_i + \beta_2 \text{Circuit}_{tc} + \beta^C_{\text{Circuit}} \text{Connection}_i \times \text{Circuit}_{tc} \\ + \omega^{reg}_l + \omega^{tenure}_p + \omega^{area}_k + \omega_c + \omega_t + \epsilon_{i,l,p,k,c,t} \end{aligned} \tag{2}$$

In this specification, we have included the same sets of fixed effects as in Equation (1). Our primary focus is on the coefficient of the interaction term, denoted as β^C_{Circuit}. It is

essential to note that our model includes both court city and year-quarter fixed effects, represented by ω_c and ω_t, respectively. Therefore, our estimated effects are not driven by fixed differences across court cities, as we control for the fixed effects of court city and exploit variations over time. Similarly, we have controlled for year-quarter effects to difference out changes over time.

When the plaintiff's share of legal costs is the dependent variable, if this coefficient is positive and significant, it implies that the preferential treatment that connected enterprises enjoy was smaller after the introduction of the reform. In contrast, if it is not significant, this suggests that the reform was likely inconsequential in relation to corruption.

Main Results The regression results are presented in Table 5. Columns (1) to (3) present the estimated results, with each column representing one of the three positions. In columns (1) to (3), the estimated coefficients on the interaction term are positive. This set of findings shows that the implementation of circuit courts has had a substantial impact on the advantage enjoyed by connected nonlocal plaintiffs in court. Using the estimated results reported in column (1) (or column (3)), we observe that the share of legal costs covered by these plaintiffs, who have connections to a party (or judicial) secretary, increased by 5.15 (or 5.71) percentage points compared to unconnected plaintiffs. This suggests that more than two-thirds of the advantage previously enjoyed by connected nonlocal plaintiffs has been eliminated with the introduction of circuit courts. Furthermore, since mayors have less authority over courts compared to party officials, the disciplinary effect of circuit courts on mayors appears to be minimal, as suggested by results in column (2).

Pre-existing Trend By employing the difference-in-differences strategy, we make the assumption of parallel trends. This assumption requires that the advantage in courts experienced by connected plaintiffs compared to unconnected enterprises should follow a similar trend in the treated courts (where circuit courts were implemented) as it does in the courts of the control group (where circuit courts were not implemented), in the absence of the implementation of circuit courts. To test this assumption, we estimate the following event study model:

$$\begin{aligned} y_{i,l,p,k,c,t} = \beta_0 + \beta_1 \times \text{Connection}_i + \sum_{\tau \neq -1} \lambda_\tau \text{Period}_{tc}^{\tau} \times \text{Connection}_i \\ + \omega_l^{reg} + \omega_p^{tenure} + \omega_k^{area} + \omega_c + \omega_t + \epsilon_{i,l,p,k,c,t} \end{aligned} \tag{3}$$

We have replaced the dummy variable Circuit_{tc} with a series indicator $\text{Period}_{tc}^{\tau}$ (where τ ranges from -4 to 8). The indicator takes a value of one if the court is in the period τ months away from the period when it is covered by a circuit court. To account for the

impacts outside the estimation window, we consider $\tau \leq -4$ to represent both the 4th month before the reform and all preceding months, while $\tau \geq 8$ represents both the 8th month after the reform and all subsequent months. We have excluded the month prior to the reform (i.e., $\tau = -1$) as the reference period for our analysis.

Figure 2 displays the estimated coefficients λ_τ from the event-study model for each of the three positions using *plaintiff's share of legal costs* as dependent variable. Prior to the implementation of the circuit court, the coefficients on the interaction terms are found to be close to zero. This finding indicates that there is no discernible pre-trend, aligning with the assumption of parallel trends for circuit court rollouts.

Upon examining the dynamics of treatment effects following the implementation of the circuit court, we observe a diminishing effect in the influence of connections with the party and judicial secretaries on litigation outcomes over time. This effect is particularly noticeable a few months after the establishment of circuit courts. This pattern is reasonable, as it takes some time for circuit courts to receive cases, address complaints, and demonstrate their judicial authority over the courts.

For the position of mayors, we find no evidence of a pre-trend before the implementation of circuit courts. Additionally, we observe a very weak impact of the reform on the influence of connections with mayors. This finding is consistent with the hypothesis that connections with mayors have a smaller impact on litigation outcomes and that the judicial reform therefore has a lesser effect. Furthermore, we re-preform this event study analysis by using *plaintiff's success* as dependent variable and the pattern found is rather similar. See Figure A2 in Appendix D.

Selection Issues. The reform implementation followed a staggered approach, with certain provinces selected as a batch to receive circuit courts first. These provinces were chosen to ensure a balanced geographical coverage and represent regions with varying levels of development. However, one might raise concerns that these provinces were selected due to higher levels of corruption in the court system and executive interference in those particular regions.

To address this concern, we analyze the pre-reform sub-sample, assessing the effects of connections to officials in provinces included in the initial and second waves of circuit court establishments. We create dummy variables, "first wave" and "second wave," which take the value 1 if the provinces are part of the respective waves. We add interaction terms between "connection" and these dummy variables to Equation (1) and estimate the resulting specifications using the pre-reform data sub-sample.

The results for the investigation of provinces in the first batch are presented in columns (1) to (3) of Table 6, covering three positions respectively. The analysis of provinces in the second batch is shown in columns (4) to (6) of Table 6. The re-

sults indicate that the estimated coefficients on the interaction terms for both first and second wave provinces are statistically insignificant. This finding implies that there was no significant difference between the provinces selected for either batch of circuit courts and the rest of the provinces in the pre-reform period regarding the impacts of connection-based favoritism.

Alternative Mechanisms. One potential concern is that the circuit court reform might not only alter the local courts' monitoring and inspection system but also affect the volume and size of disputes. To address this, we conducted an empirical analysis at the court-quarter level. Column (1) of Table 7 presents results using the volume of civil litigation cases for each court-quarter as the dependent variable. The coefficient on the *Circuit* variable is not statistically significant, indicating no substantial changes in litigation volume following the implementation of circuit courts. Similarly, column (2) of Table 7 shows that the average size of litigations per court-quarter did not experience significant changes before and after the circuit court implementation.

5.2. Distance to Circuit Court

To further validate the circuit court system's impact on local judiciaries, we exploit variations in distances between local courts and their overseeing circuit courts. These distances provide exogenous variation independent of both political connections and the timing of circuit court establishment.

We examine whether circuit court effects vary with distance. Each circuit court oversees multiple adjacent provinces, covering extensive geographical areas and numerous courts. If circuit courts influence local judiciaries through deterrence, we expect their impact to be stronger on nearby courts. This spatial variation hypothesis stems from the premise that local officials and courts are more sensitive to oversight when the circuit court is geographically proximate.

To test this idea, we gather data on the geographic distance between the city where each local court is located and its overseeing circuit court. This information allows us to construct a variable, *Inverse Distance*, which represents the *reciprocal* of the measured distance in kilometers. This variable enables us to assess the proximity of each local court to its overseeing circuit court. Larger values of *Inverse Distance* indicate closer proximity, while smaller values indicate greater distance.

We introduce an interaction term between *Inverse Distance* and $\text{Connection}_i \times \text{Circuit}_{tc}$ into Equation (2) and proceed to re-estimate the resulting specification. The outcomes of our investigation are presented in Table 8. In columns (1) and (3), it is evident that the coefficient on the term *Connection x Circuit x Inverse Distance* is positive and statistically significant at the 5% level for the positions of party secretary or judicial secretary.

However, for the position of mayor, the coefficient is smaller in magnitude and statistically insignificant, as observed in column (2). These findings suggest that, within the jurisdiction of a circuit court, the extent to which reform impacts local courts is influenced by the distance of the court from the circuit court. In other words, the closer the court is to the circuit court, the stronger the impact on connection-based favoritism.

To corroborate this mechanism, we conduct a placebo test by assigning a different circuit court to supervise each province and recalculating the distance measure. In other words, we keep the timing of the circuit court's establishment unchanged, but reassign the distance between each local court within a province and its overseeing circuit court. Specifically, for the initial wave of two circuit courts, we interchange the provinces under the jurisdiction of the first and second circuit courts. As for the subsequent four circuit courts in the second wave, we reassign the provinces under the jurisdiction of the third Circuit Court to the fourth Circuit Court, the provinces under the jurisdiction of the fourth Circuit Court to the fifth Circuit Court, the provinces under the jurisdiction of the fifth Circuit Court to the sixth Circuit Court, and finally the provinces under the jurisdiction of the sixth Circuit Court to the third Circuit Court.

If our previous findings, indicating that the impact of reform on local courts is influenced by the distance from the circuit court, are driven by unobserved factors that our current specification fails to capture, we would anticipate a similar pattern to emerge in this placebo test. The results of the placebo test are presented in columns (4) to (6). It is noteworthy that the coefficient on the triple interaction term consistently becomes statistically insignificant, and the magnitude is rather small as well. These findings suggest that the distance between local courts and their overseeing circuit court does indeed play a significant role in determining the strength of the impacts of circuit courts.

6. Discussion: The Effectiveness of Judicial Reforms

6.1. The Open Justice Reform

Do judicial reforms aimed at improving fairness consistently reduce connection-based favoritism and political interference? In this section, we examine the Open Justice reform, implemented during the same period as circuit courts. Contrasting these reforms may help illuminate the mechanisms through which circuit courts effectively constrain political interference.

The Open Justice reform, initiated in late 2016, required courts to broadcast trials live on a centralized online platform, with the ultimate goal of universal trial broadcasting. This reform aimed to enhance judicial transparency by reducing monitoring costs: the public could observe trials in real time and access recordings afterward.

Appendix A.2 provides additional institutional details.[18]

Does the implementation of trial broadcasting deliver similar disciplinary effects on courts and reduce the favoritism received by crony enterprises? To investigate, we estimate the following equation using our sample of litigations with nonlocal plaintiffs versus local defendants:

$$\begin{aligned} y_{i,l,p,k,c,t} = \beta_0 + \beta_1 \times \text{Connection}_i + \beta_2 \times \text{Live}_i + \beta^C_{\text{Live}} \times \text{Connection}_i \times \text{Live}_i \\ + \omega^{reg}_l + \omega^{tenure}_p + \omega^{area}_k + \omega_c + \omega_t + \epsilon_{i,l,p,k,c,t} \end{aligned} \tag{4}$$

where Live_i is a dummy variable taking the value of 1 if case i was broadcast live and 0 otherwise. We include the same set of fixed effects and control variables as included in Equation (1). We are interested in the coefficient of the interaction term, i.e., β^C_{Live}.

If the preferential treatment that connected enterprises receive over unconnected enterprises decreases when trials are broadcast live, we would expect a positive coefficient when using the plaintiff's share of legal costs as the dependent variable. However, caution must be exercised when interpreting the coefficient of β^C_{Live} due to a potential selection issue that could confound the estimate. As discussed in Appendix A.2, the decision to broadcast a trial or not is at the discretion of the court handling the case. Therefore, it is reasonable to speculate that cases involving plaintiffs with connections are less likely to be broadcast live. Importantly, this conjectured selection mechanism is based on connections that are observable only to the court. If such an issue does exist, the difference in litigation outcomes between connected and unconnected plaintiffs would be even smaller when cases are broadcast live than when they are not (i.e., the coefficient β^C_{Live} would be even larger). This mechanism confounds the impact of the reform.

Columns (1) to (3) of Table 9 display the regression results. Despite the potential presence of the selection mechanism that inflates the estimates, the estimated coefficients on the interaction term β^C_{Live} are found to be very small in magnitude and statistically insignificant for all three positions. These results indicate that the advantage enjoyed by connected enterprises over unconnected enterprises in court is unlikely to change when trials are broadcast live. In other words, the live broadcast of trials appears to have little impact on the differences in litigation outcomes between connected

[18]Chen, Chen, and Yang (2022) examine the impact of this reform and uncover its significant influence on the gender gap in litigation outcomes of civil cases among individuals. Their findings show that prior to the reform, female litigants had a lower likelihood of prevailing in civil litigation than their male counterparts. However, following the reform, there was a substantial reduction in the gap between the chances of winning for female and male plaintiffs. Further evidence suggests that this effect can be attributed to the fact that, in response to the reform, judges are now obligated to regulate their behavior during trials and exhibit a higher level of professionalism, such as following procedures and giving all litigants an equal amount of attention.

and unconnected plaintiffs.

6.2. Interpreting Impacts of Judicial Reforms

On the one hand, our findings in Section 5.1 suggest that the introduction of circuit courts helps reduce crony favoritism in the judicial system. On the other hand, our findings in Section 6.1 show that the trial live-broadcasting reform, aimed at increasing judicial visibility, fails to effectively reduce the impact of connections to party officials on litigation outcomes. Given that both reforms are intended to enhance judicial quality, the contrasting effects of the two on corruption are indeed intriguing.

The circuit court system impacts local judiciaries by providing litigants with easier access to an additional monitoring organ dispatched by the Supreme Court and the associated deterrence effects on courts and local officials. This top-down reform may affect judges' decisions regarding connected litigants relative to unconnected litigants. If litigants know that their opposing parties are leveraging political influence on judges and gaining favor in court, they could file petitions to publicize any corrupt judicial decisions. The establishment of circuit courts decreases the cost and enhances the effectiveness of such endeavors, posing a higher risk for corrupt judges and local officials. The findings in Section 5.2 suggest that the deterrent effects are likely to be stronger when the circuit court is in closer proximity.

In contrast, implementing a live broadcasting system affects local judiciaries by enhancing judicial visibility and allowing the public to watch trials. However, connections to officials are often hidden and unobservable to the public. This means that even though the public can access trials through live broadcasting, they are unaware of which litigants have connections and might be favored by judges who are under the influence of party officials. Consequently, in response to broadcasting, judges may generally alter their judicial behaviors in the courtroom but not necessarily their decisions based on hidden connections. They may present themselves professionally in the courtroom, knowing that they are being recorded by surveillance cameras, and carefully conceal the bias in their decisions. This behavior renders the live broadcasting system ineffective in reducing favoritism based on connections.

7. Concluding Remarks

In developing countries, a prevalent issue is the presence of compromised courts that make biased decisions, distorting incentives and impeding economic efficiency. In this paper, we employ a comprehensive dataset of business litigations in China to present evidence of connection-based favoritism in civil courts. Our findings show that enterprises can exploit their connections with city officials who hold sway over

judges, leading to favorable outcomes in business litigation. This evidence aligns with the notion that China lacks judicial independence.

In addition, the recent waves of judicial reforms in China designed to promote open justice and trial fairness provide a unique opportunity to assess the effectiveness of various strategies used to monitor courts, a special and important type of formal institution. We take this opportunity and study the impacts of the introduction of circuit courts, a traditional top-down approach to court monitoring, and the implementation of online live trial broadcasting, an innovative approach used to promote grassroots monitoring. The former is shown to be effective at curbing corruption. In contrast, the mechanism of live trial broadcasting, which enhances judicial visibility and community participation through information technology, does not exert effects on corruption.

Our analysis of these reforms in China provides useful lessons for designing judicial reforms in developing countries in general. Top-down institutional reform and information-technology-enabled community monitoring can be effective or ineffective depending on the mechanisms that generate biased judicial decisions. Understanding these mechanisms is the key to employing the right tools to correct them.

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Figure 1. *The Rollout of the Circuit Court System in China*

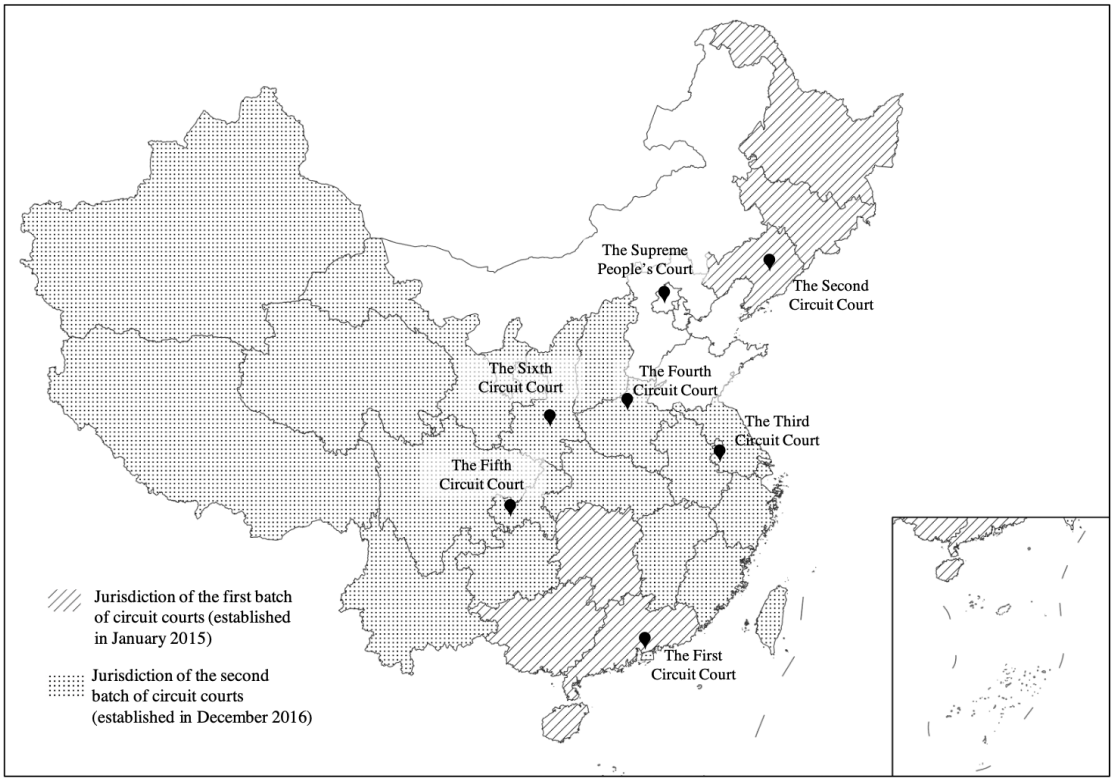
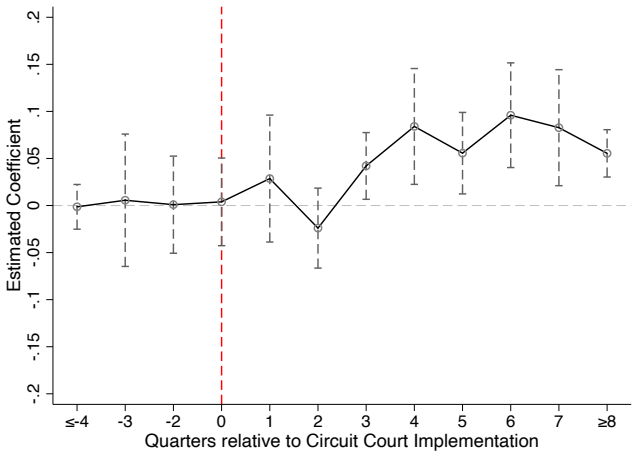
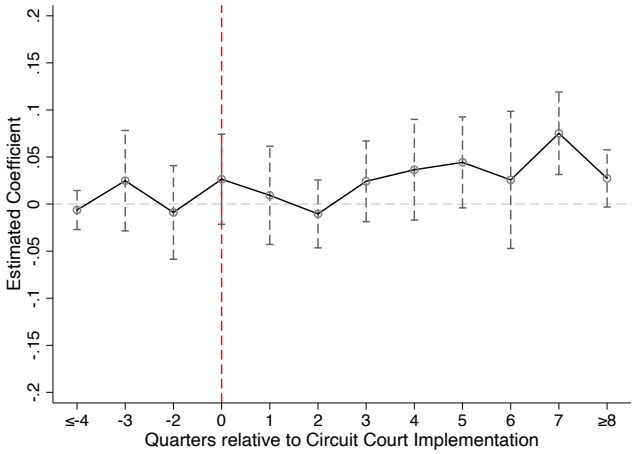


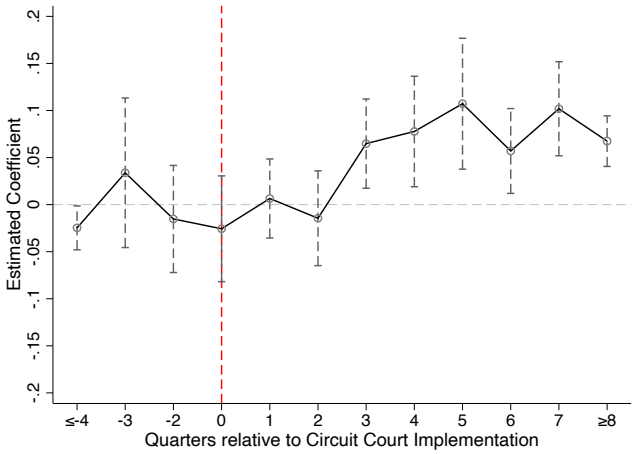
Figure 2. *Event Study*



(1) Municipal Party Secretary



(2) Mayor



(3) Judicial Secretary

Notes: These figures illustrate the estimated effect of the reform on connection to three different positions by using the plaintiff's share of legal costs as the dependent variable. The estimations are over period $(\tau = -4, -3, ..., -1, 0, 2, 3, ..., 8)$*, i.e., from 4 quarters before the introduction of the reform to 8 quarters after the reform with* $\tau = -1$ *dropped as the reference point. No pre-trend is found. The effect of reform is particularly noticeable a few quarters after the establishment of circuit courts. This finding is reasonable and expected, as it takes some time for circuit courts to receive cases, address complaints, and demonstrate their judicial authority over the courts.*

Table 1. *Tenure of Officials and Connection Status*

	Tenure A	Tenure B
Type 1 Enterprises	Connected	Non-connected
Type 2 Enterprises	Non-connected	Connected
Type 3 Enterprises	Connected	Connected
Type 4 Enterprises	Non-connected	Non-connected

Table 2. *Difference-in-differences Estimation: Connection and Litigation Outcomes with Nonlocal Plaintiffs versus Local Defendants*

	Plaintiff's Share of Legal Costs		
	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)
Connection	-0.0381***	-0.00880*	-0.0282***
	(0.00684)	(0.00473)	(0.00861)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Court City FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	282,292	282,938	267,004
R-squared	0.202	0.201	0.206

Notes: Case-level control variables include the dummy variable of other connection which takes the value of 1 if the enterprise in dispute is connected to any of the other two officials, legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers (log) of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.1, ** p<0.05, *** p<0.01.

Table 3. *Different Connection Definition (Nonlocal Plaintiffs versus Local Defendants)*

Panel A. Using Officials' Birthplaces to Proxy Connection			
	Plaintiff's Share of Legal Costs		
	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)
Connection	-0.0340***	-0.0131	-0.0432***
	(0.0113)	(0.00863)	(0.0137)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
Defendant City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Observations	282,292	282,938	267,004
R-squared	0.201	0.2	0.205
Panel B. Using the Location of Officials' Higher Education to Proxy Connection			
	Plaintiff's Share of Legal Costs		
	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)
Connection	-0.0259**	-0.0049	-0.0365***
	(0.0101)	(0.00965)	(0.0116)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
Defendant City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Observations	282,292	282,938	267,004
R-squared	0.201	0.2	0.205
Panel C. Using Officials' Previous Working Places to Proxy Connection			
	Plaintiff's Share of Legal Costs		
	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)
Connection	-0.0404***	-0.0151***	-0.0232**
	(0.00768)	(0.00554)	(0.00992)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
Defendant City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Observations	282,292	282,938	267,004
R-squared	0.202	0.201	0.206

Table 4. *Difference-in-differences Estimation: Connection and Litigation Outcomes with Nonlocal Plaintiffs versus Local Defendants (Different Legal Costs)*

	Plaintiff's Share of Legal Costs					
	Low Legal Fee			High Legal Fee		
	Party Secretary	Mayor	Judicial Secretary	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)	(4)	(5)	(6)
Connection	-0.0382***	-0.00589	-0.0175	-0.0983***	-0.0307***	-0.115***
	(0.0105)	(0.00949)	(0.0125)	(0.00669)	(0.00711)	(0.00867)
Circuit	0.000812	-0.00408	-0.015	-0.00808	-0.0177	-0.00697
	(0.0115)	(0.0128)	(0.0172)	(0.0132)	(0.0142)	(0.0153)
Connection x	0.0366***	0.00384	0.0414**	0.0764***	0.0300***	0.0821***
Circuit	(0.0139)	(0.0144)	(0.0164)	(0.00858)	(0.00844)	(0.0109)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes
Court City FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	145,718	144,917	135,274	144,778	144,003	134,070
R-squared	0.182	0.183	0.184	0.252	0.252	0.26

Notes: Case-level control variables include the dummy variable of other connection which takes the value of 1 if the enterprise in dispute is connected to any of the other two officials, legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers (log) of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.1, ** p<0.05, *** p<0.01.

Table 5. *Impacts of Introducing Circuit Courts: Nonlocal Plaintiffs versus Local Defendants*

	Plaintiff's Success		
	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)
Connection	-0.0686***	-0.0190***	-0.0625***
	(0.00687)	(0.00628)	(0.01050)
Circuit	-0.0082	-0.0254*	-0.0301*
	(0.01190)	(0.01490)	(0.01600)
Connection x Circuit	0.0515***	0.0176*	0.0571***
	(0.0107)	(0.00949)	(0.0126)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Court City FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	282,292	282,938	267,004
R-squared	0.202	0.201	0.206

Notes: Case-level control variables include the dummy variable of other connection which takes the value of 1 if the enterprise in dispute is connected to any of the other two officials, legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers (log) of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.1, ** p<0.05, *** p<0.01.

Table 6. *Batch Selection?*

	Plaintiff's Share of Legal Costs					
	Party Secretary	Mayor	Judicial Secretary	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)	(4)	(5)	(6)
Connection	-0.0804***	-0.0338**	-0.0869***	-0.0678***	-0.0528**	-0.109***
	(0.0110)	(0.0156)	(0.0196)	(0.0255)	(0.0208)	(0.0223)
Connection x First Batch	0.0583	-0.0214	-0.0232			
	(0.0412)	(0.0547)	(0.0360)			
Connection x Second Batch				-0.000395	0.0252	0.0290
				(0.0270)	(0.0320)	(0.0402)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes
Defendant City FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	17,462	17,408	13,257	17,462	17,408	13,257
R-squared	0.208	0.206	0.214	0.208	0.206	0.214

Notes: Case-level control variables include the dummy variable of other connection which takes the value of 1 if the enterprise in dispute is connected to any of the other two officials, legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers (log) of plaintiff and defendant to proxy the legal resources of each side. Standard errors in parentheses clustered at court level; * p<0.1, ** p<0.05, *** p<0.01.

Table 7. *Volume and Size of Litigations Before and After the Circuit Court Reform*

	Volume	Average Legal Fee
	(1)	(2)
Circuit	-1.749	0.0405
	(4.033)	(0.0268)
Controls	Yes	Yes
Year-quarter FE	Yes	Yes
Court city FE	Yes	Yes
Observations	65,722	65,722
R-squared	0.078	0.075

Notes: Court-level control variable includes level of court. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court city level; * p<0.1, ** p<0.05, *** p<0.01.

Table 8. *Distance Between the Circuit Courts and the Court City*

	Plaintiff's Share of Legal Costs					
	Party Secretary	Mayor	Judicial Secretary	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)	(4)	(5)	(6)
Connection	-0.0621***	-0.0228***	-0.0699***	-0.0606***	-0.0220**	-0.0687***
	(0.00933)	(0.00874)	(0.0146)	(0.00944)	(0.00858)	(0.0146)
Circuit	-0.0165	-0.0377***	-0.0412**	-0.0164	-0.0379***	-0.0413**
	(0.0117)	(0.0144)	(0.0174)	(0.0118)	(0.0144)	(0.0173)
Connection x Circuit	0.0280**	0.00184	0.0373**	0.0460***	0.0179	0.0638***
	(0.0119)	(0.0110)	(0.0151)	(0.0123)	(0.0118)	(0.0161)
Connection x Circuit	1.453***	1.094***	1.954***			
x Distance	(0.354)	(0.388)	(0.751)			
Connection x Circuit				-3.375	-3.040	-4.506
x Distance (Placebo)				(3.131)	(2.881)	(3.602)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes
Court City FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	236,403	236,947	223,523	236,207	236,947	223,523
R-squared	0.217	0.216	0.222	0.217	0.216	0.222

Notes: Case-level control variables include the dummy variable of other connection which takes the value of 1 if the enterprise in dispute is connected to any of the other two officials, legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers (log) of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.1, ** p<0.05, *** p<0.01.

Table 9. *Impacts of Implementing Trials Live Broadcasting: Nonlocal Plaintiffs versus Local Defendants*

	Plaintiff's Share of Legal Costs		
	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)
Connection	-0.0402***	-0.00920*	-0.0299***
	(0.00760)	(0.00495)	(0.00907)
Live	-0.0232*	-0.0217	-0.0239*
	(0.0127)	(0.0134)	(0.0134)
Connection x Live	0.0157	0.00279	0.0123
	(0.0120)	(0.0126)	(0.0142)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Court City FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	282,292	282,938	267,004
R-squared	0.202	0.201	0.206

Notes: Case-level control variables include the dummy variable of other connection which takes the value of 1 if the enterprise in dispute is connected to any of the other two officials, legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.1, ** p<0.05, *** p<0.01.

Appendix

A. Institutional Details

A.1. Circuit Courts

A petition can be filed when a litigant does not have the legal right to appeal to a circuit court. Petitions from litigants put enormous pressure on courts and local party committees because they reveal much specific information that justifies the litigants' claims that the petitioned courts behaved partially or made grossly unfair judgments.

When a circuit court receives a petition case, the case is designated to the court immediately above the petitioned court, and action is to be taken within five working days. After the issue is resolved, the outcome must be reported back to the circuit court for inspection.[19] When a court is petitioned repeatedly on the same issue or when the issue is excessively intricate, the relevant circuit court may intervene directly by sending its own personnel to investigate.

In addition, the circuit court can exercise supervisory authority over local courts and governments. The circuit court can intervene as a monitor by resolving problems involving the interests of local governments and local courts. For example, a circuit court, after receiving a petition, may arrange a hearing with both the court corresponding to the first instance of the case and that corresponding to the second instance as well as the relevant local government and compel the local government to accommodate the petitioner's demands.

The Supreme People's Court prioritizes the administration of petitions, and each court is required to present a monthly progress report on petition-related cases. The volume of petitions directly affects local courts' year-end reviews related to trial quality and effectiveness. Courts and judges are penalized for retrials, especially for cases returned for retrial on the basis of a petition.[20] Awards and honors are commonly given when there are no petitions.[21]

[19] See the Provisions of the Supreme People's Court on Several Issues concerning the Trial of Cases by the Circuit Courts and the Guiding Opinion for the Work Practice of the Second Circuit Court of the Supreme People's Court.

[20] Take Tianjin Binhai District Court for example, which published its assessment rubrics online. Source form https://bhxqfy.chinacourt.gov.cn/article/detail/2019/01/id/3715173.shtml

[21] Courts in the province of Henan present "Outstanding jurisprudence without complaint or petition" awards to courts and judges to recognize high-quality judicial judgments. See press coverage at http://hbxxfy.hncourt.gov.cn/public/detail.php?id=1080

Table A1. *Circuit Court Rollout*

Court No.	Timing	Location	Jurisdiction
1	Jan. 2015	Shenzhen, Guangdong	Guangdong, Guangxi, Hunan and Hainan;
2	Jan. 2015	Shenyang, Jilin	Jilin, Heilongjiang and Liaoning
3	Dec. 2016	Nanjing, Jiangsu	Jiangsu, Shanghai, Zhejiang, Fujian and Jiangxi
4	Dec. 2016	Zhengzhou, Henan	Henan, Shanxi, Hubei and Anhui
5	Dec. 2016	Chongqing	Chongqing, Sichuan, Guizhou, Yunnan and Tibet
6	Dec. 2016	Xian, Shaanxi	Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang

A.2. Trials Live Broadcasting

To enhance the transparency and quality of trials, the Supreme Court started pursuing an "Open Justice" reform in September 2016, instructing courts at all levels across China to broadcast their trials live. By design, a trial that is broadcast can be viewed in real time online on a centralized platform called "China Court Trial Online" and the video recording can be replayed for review. The Open Justice reform was documented and studied by Chen, Chen, and Yang (2022).

The main purpose of this reform was to pressure courts and judges by improving judicial visibility. It essentially encourages grassroots participation in monitoring court proceedings and decisions by using information technology to increase the number of individuals viewing cases.[22] Once trials are broadcast online, the public and legal professionals have opportunities to monitor and understand the operation of the courts either in real time or afterwards. This incentivizes judges and other court staff to adhere to legal procedures (e.g., giving litigants sufficient time to respond to judges' questions), because nonstandard procedural practices that are recorded would be challenged by litigants who believe that their trials were unfair.[23] Furthermore, in the face of this additional monitoring mechanism, judges are compelled to behave more impartially because the process of adjudication can be viewed and reviewed by

[22]See The Revision of the Supreme Court's Regulations on Court Broadcasting and Video Recording published in February 2017 for information about the main purpose and benefits of increasing trial efficiency.

[23]See an anecdotal study on the Xiangzhou court showing that lawyers believe judges exhibit better attitudes during live broadcasting,
http://www.zhxzcourt.gov.cn/index.php?do=court&ac=info&cid=3656

both litigants and other legal professionals.

Even though the long-term goal is to broadcast all trials as they happen, the progress of the reform, in practice, has been gradual over time and imbalanced across the courts of China. Due to technical and financial constraints, the timing of the courts' connections to the website varied greatly: by September 2016, 383 courts had connected (accounting for 10.89 percent of all courts); by January 2017, another 762 courts had connected to the website, and by February 2018, all 3,517 courts had connected.

Furthermore, almost all the courts have steadily increased the fraction of their trials that are broadcast. Approximately one-third of the civil trials that took place during the last quarter of 2019 were broadcast online. By the end of 2021, more than 16 million cases had been broadcast. The platform, "China Court Trial Online," attracts much attention from members of the public, including citizens, journalists, and legal practitioners.

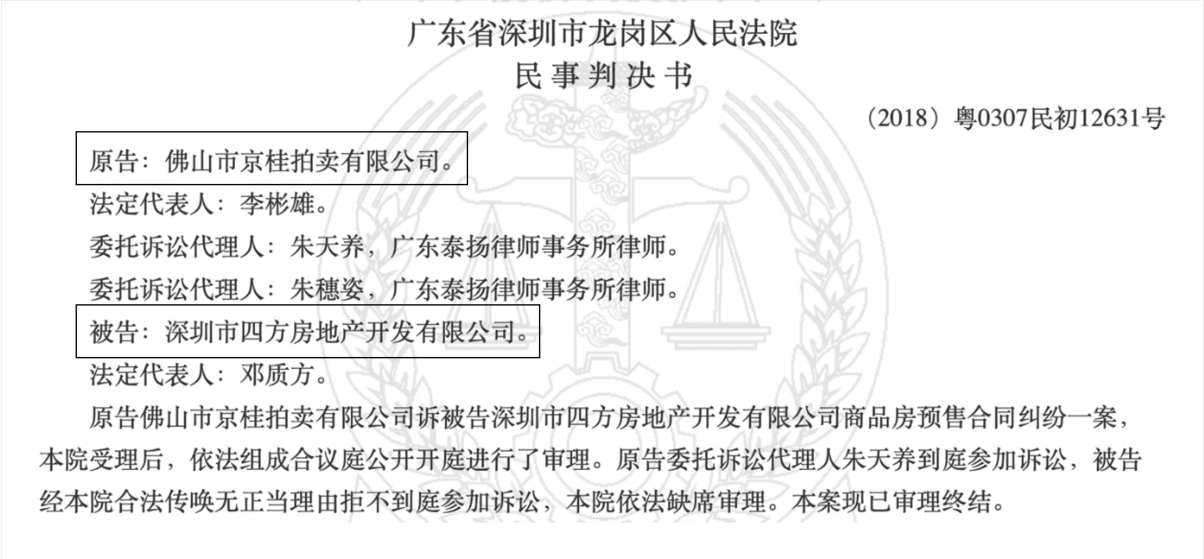
B. Data Construction

Our raw data consists of 25,340,886 written judgements of civil cases in China spanning from 2014 to 2019. In comparison, the corresponding written judgments available on the China Judgement Online platform amount to approximately 26.98 million during the same period. This similarity in the sizes of the two datasets suggests that the raw data we obtained is relatively comprehensive and complete.

Following several rounds of data processing, we extract various variables from the full text of the legal documents, such as litigation time, case number, plaintiff, defendant, and court, among others. In the initial stage, we exclude cases that have incomplete data. We observed that about 8.8% of the sample had missing data for at least one variable, such as plaintiff or defendant's name, instance, and total legal fee. Consequently, we were left with 23,114,576 cases. Furthermore, there were 36,211 samples where the percentage of legal fees covered by the plaintiff and defendant could not be identified.

To focus specifically on enterprise-versus-enterprise legal cases, we need to determine whether the plaintiff and defendant are individuals or enterprises. To distinguish between these two types of litigants, we rely on the names provided in the court judgments. In China, there are specific naming regulations for enterprises. For instance, if an enterprise is registered under the regulations on the registration of enterprises as legal persons, its name must end with terms such as "Center," "Shop," or "Store." Similarly, if it is registered under the Company Law, it must include terms like "Limited Liability Firm" or "Company Limited," or their abbreviations. We have developed an algorithm based on these naming conventions to extract only civil cases involving enterprises. After applying this identification process, we have identified 2,263,955 sample cases as enterprise-versus-enterprise civil cases, which accounts for 9.8% of the total sample.

Furthermore, we extracted the location information of both the plaintiff and defendant from the address details provided in the judgments. While most legal documents include specific address information, there are cases where this information is missing (a sample can be seen in Figure A1). For cases with a precise address mentioned in the judgments, we directly extract the city location from the address. We extract the registration city from their names for cases with missing address information. In situations where enterprises do not include their locations in their names, we conduct a search on Baidu Maps to identify their respective locations. As a result of this process, we obtained a sample of 1,575,899 enterprise-versus-enterprise civil cases with identifiable cities for both the plaintiff and defendant.



广东省深圳市龙岗区人民法院

民 事 判 决 书

（2018）粤0307民初12631号

原告：佛山市京桂拍卖有限公司。

法定代表人：李彬雄。

委托诉讼代理人：朱天养，广东泰扬律师事务所律师。

委托诉讼代理人：朱穗姿，广东泰扬律师事务所律师。

被告：深圳市四方房地产开发有限公司。

法定代表人：邓质方。

原告佛山市京桂拍卖有限公司诉被告深圳市四方房地产开发有限公司商品房预售合同纠纷一案，本院受理后，依法组成合议庭公开开庭进行了审理。原告委托诉讼代理人朱天养到庭参加诉讼，被告经本院合法传唤无正当理由拒不到庭参加诉讼，本院依法缺席审理。本案现已审理终结。

Figure A1. *An example of judgements of civil cases without specific address shown in the judgements.*

C. Summary Statistics

Table A2 summarizes the distribution of the number of litigations in our sample by year, area and court level. Panel A illustrates the number of claims filed each year between 2014 and 2019 for the total sample and the four subsamples depending on whether the litigants are local or nonlocal. We observe that the number of civil litigations increased substantially over the period of investigation, growing from approximately 100 thousand in 2014 to more than triple that number in 2019; this likely reflects the increased size and complexity of the economy.

Approximately 58.5% of the 1.58 million civil cases in our sample involve local plaintiffs and defendants, whereas approximately 5% of the cases involve only nonlocal plaintiffs and defendants. In the remaining sample, the number of cases that involve nonlocal plaintiffs and local defendants and that of cases that involve local plaintiffs and nonlocal defendants are roughly the same.

Panel B displays the litigation distribution by court level. In our sample, 60% of the cases were filed at a primary court, 37% were filed at an intermediate court, and only a tiny fraction were adjudicated at the high court or Supreme court.

Panel C shows the distribution of cases by issue area. The majority of the civil litigations between enterprises fall into the areas of contract disputes, improper management, and inappropriate profit, i.e., these cases account for more than 65% of all the cases. More than 6% of the cases involve intellectual property disputes. Approximately 21% of the litigation cannot be categorized into any of the six predefined issue

Table A2. *Summary Statistics for Litigation*

Panel A. Case Distribution by Year

	Full Sample		Subsamples			
	Cases	Ratio	NL-L	L-NL	NL-NL	L-L
2014	115,660	7.34%	15.47%	14.20%	7.38%	62.94%
2015	200,373	12.71%	15.11%	15.18%	6.90%	62.81%
2016	268,309	17.03%	24.09%	15.75%	4.63%	55.53%
2017	299,054	18.98%	16.35%	18.45%	4.48%	60.73%
2018	327,918	20.81%	18.24%	19.24%	4.43%	58.08%
2019	364,585	23.14%	19.97%	19.83%	4.68%	55.52%
Total	1,575,899	100.00%	18.68%	17.75%	5.06%	58.51%

Panel B. Case Distribution by Court Level

	Full Sample		Subsamples			
	Cases	Ratio	NL-L	L-NL	NL-NL	L-L
Primary court	940,913	59.71%	17.71%	18.18%	3.85%	60.26%
Intermediate court	579,353	36.76%	20.60%	17.05%	5.14%	57.22%
High court	32,217	2.04%	11.73%	14.45%	28.98%	44.85%
Supreme court	23,416	1.49%	19.48%	22.33%	18.93%	39.26%
Total	1,575,899	100.00%	18.68%	17.75%	5.06%	58.51%

Panel C. Case Distribution by Issue Area

	Full Sample		Subsamples			
	Cases	Ratio	NL-L	L-NL	NL-NL	L-L
Contracts	1,023,668	64.96%	17.00%	18.76%	3.88%	60.36%
Intellectual Property	97,309	6.17%	55.69%	18.45%	10.84%	15.02%
Finance, Security and Insurance	70,888	4.50%	12.94%	13.38%	4.39%	69.29%
Tort Liability	29,091	1.85%	12.29%	14.77%	16.08%	56.85%
Property	21,767	1.38%	7.32%	7.44%	2.85%	82.39%
Labor Dispute	11,282	0.72%	9.67%	12.41%	7.46%	70.46%
Miscellaneous	321,894	20.43%	15.74%	16.42%	6.29%	61.55%
Total	1,575,899	100.00%	18.68%	17.75%	5.06%	58.51%

Notes: NL-L: Non-Local Plaintiffs v.s. Local Defendants; L-NL: Local Plaintiffs v.s. Non-Local Defendants; NL-NL: Non-Local Plaintiffs v.s. Non-Local Defendants; L-L: Local Plaintiffs v.s. Local Defendants.

Table A3. *Summary Statistics for Case Characteristics*

	Full Sample	NL-L	L-NL	NL-NL	L-L
	Mean	Mean	Mean	Mean	Mean
Legal cost (ln)	8.285	7.756	8.244	8.466	8.433
Plaintiff Lawyer (1=Yes)	0.668	0.758	0.671	0.715	0.636
Plaintiff Lawyer No.	0.905	1.044	0.903	1.000	0.856
Defendant Lawyer (1=Yes)	0.375	0.417	0.332	0.474	0.365
Defendant Lawyer No.	0.567	0.597	0.491	0.738	0.563
Circuit Court (1=Yes)	0.554	0.605	0.563	0.521	0.540
Live Broadcasting (1=Yes)	0.109	0.122	0.120	0.113	0.102

Notes: NL-L: Non-Local Plaintiffs v.s. Local Defendants; L-NL: Local Plaintiffs v.s. Non-Local Defendants; NL-NL: Non-Local Plaintiffs v.s. Non-Local Defendants; L-L: Local Plaintiffs v.s. Local Defendants.

areas.

The case-related summary statistics of our sample are shown in Table A3. Among the enterprise-to-enterprise civil cases, 67% of the plaintiffs retained counsel, while just 38% of the defendants did so. The ratio of cases with lawyers is greater for the nonlocal-local pairs than for the local-local pairs, which suggests that the cost of initiating a lawsuit in a home court is likely lower than that of initiating a lawsuit in another court. The average number of plaintiff lawyers is 0.905, whereas the average number of defendant lawyers is 0.567. More than half of the cases were adjudicated when the corresponding courts were monitored by circuit courts, and approximately 10% of the cases were broadcast live online during the sample period.

Table A4 presents a summary of the sample officials' personal information. For our sample, we compile a dataset consisting of the resume information of the party secretary, mayor, and judicial secretary of each of the 337 cities in China from 2014 to 2019. In Panel A, we observe that the average age of the officials in our sample is 52 years old, and the average age of the sample municipal party secretaries is slightly higher, at approximately 53. In terms of education, almost all of them have earned a bachelor degree. Approximately 95% of the officials are male. The average length of tenure in our sample is approximately 26 months if we focus on the period between January 2014 and December 2019.

Panel B of the table summarizes the turnover pattern of each position over the period of our investigation. For the majority of the cities, one or two turnovers occur in the positions of party secretary and mayor. The turnover rate for the position of judicial secretary is lower.

Table A4. *Summary Statistics for Officials and Turnovers*

Panel A. Summary Statistics for Officials					
	Full Sample		Party Secretary	Mayor	Judicial Secretary
	N	Mean	Mean	Mean	Mean
Basic Information					
Age	2544	51.88	53.08	51.05	51.45
Male	2544	0.95	0.95	0.94	0.96
Education					
Bachelor	2544	0.99	0.99	1.00	0.99
Master	2544	0.79	0.82	0.81	0.71
PhD	2544	0.18	0.23	0.22	0.06
Career					
Tenure (month)	2544	25.47	25.16	25.24	26.13

Panel B. Turnover at City-level from 2014-2019						
Turnovers Nº	0	1	2	3	4	5
Party Secretary	25	118	147	41	5	1
Mayor	21	125	144	41	6	0
Judicial Secretary	77	138	89	30	2	0

Table A5 summarizes the case-level information related to enterprise-official connections. The upper part of the table presents the relevant information for cases that involve nonlocal plaintiffs and local defendants. Approximately 1.4% of the cases involve plaintiffs that are connected to party secretaries through their birthplaces, 5% involve those connected through cities where party secretaries received higher education, and about 8% involve those connected through cities where party secretaries have previous work experience. In total, 10% of the plaintiffs in this subsample are connected to the incumbent party secretary of the city where the corresponding litigation is adjudicated. For mayors, the ratio of connected cases is similar, and a bit higher. For judicial secretaries, the ratio is lower, especially for those connected to previous working places. The lower part of the table displays details regarding the cases that involve local plaintiffs and nonlocal defendants, and the pattern is generally similar.

Table A5. *Summary Statistics for Connections*

	NL-L cases: Nonlocal plaintiff is connected through the City of			
	Birthplace	Education	Working Experience	All places
Party Secretary	0.014	0.049	0.075	0.104
Mayor	0.019	0.058	0.086	0.122
Judicial Secretary	0.009	0.043	0.028	0.064
Total	0.014	0.050	0.064	0.097
	L-NL cases: Nonlocal defendant is connected through the City of			
	Birthplace	Education	Working Experience	All places
Party Secretary	0.018	0.048	0.088	0.116
Mayor	0.028	0.056	0.093	0.132
Judicial Secretary	0.014	0.046	0.040	0.078
Total	0.020	0.050	0.075	0.109

D. Robustness and Auxiliary Results

Table A6. *Difference-in-differences Estimation: Connection and Litigation Outcomes with Nonlocal Plaintiffs versus Local Defendants*

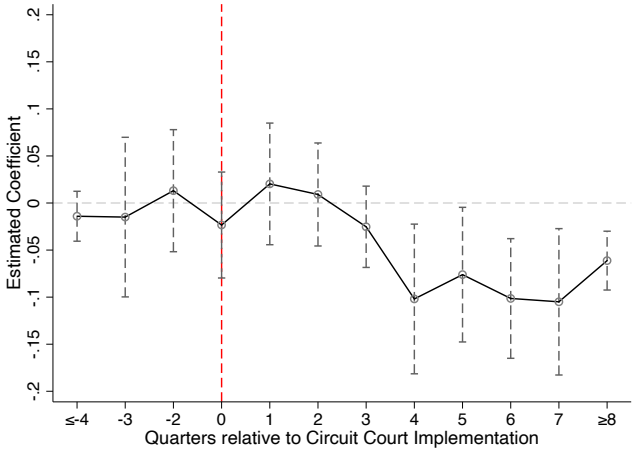
	Plaintiff's Success		
	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)
Connection	0.0454***	0.0131**	0.0294***
	(0.00826)	(0.00574)	(0.00880)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Court City FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	282,292	282,938	267,004
R-squared	0.168	0.167	0.170

Notes: Case-level control variables include the dummy variable of other connection which takes the value of 1 if the enterprise in dispute is connected to any of the other two officials, legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers (log) of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.1, ** p<0.05, *** p<0.01.

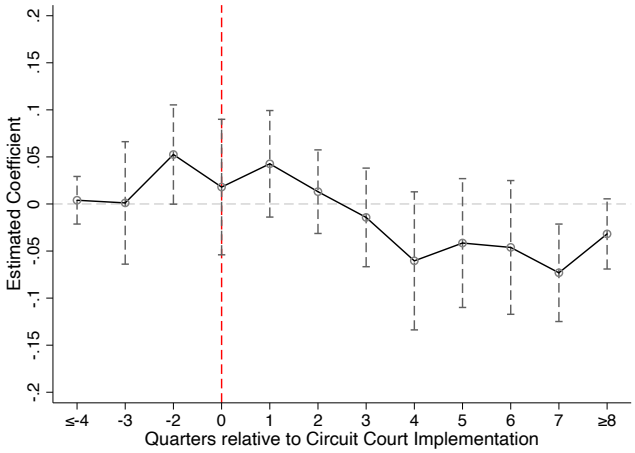
Table A7. *Impacts of Introducing Circuit Courts: Nonlocal Plaintiffs versus Local Defendants*

	Plaintiff's Success		
	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)
Connection	0.0726***	0.0253***	0.0539***
	(0.00933)	(0.00753)	(0.0103)
Circuit	0.00625	0.0294*	0.0307*
	(0.0121)	(0.0153)	(0.0161)
Connection x Circuit	-0.0460***	-0.0209*	-0.0406***
	(0.0128)	(0.0113)	(0.0137)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Court City FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	282,292	282,938	267,004
R-squared	0.168	0.167	0.170

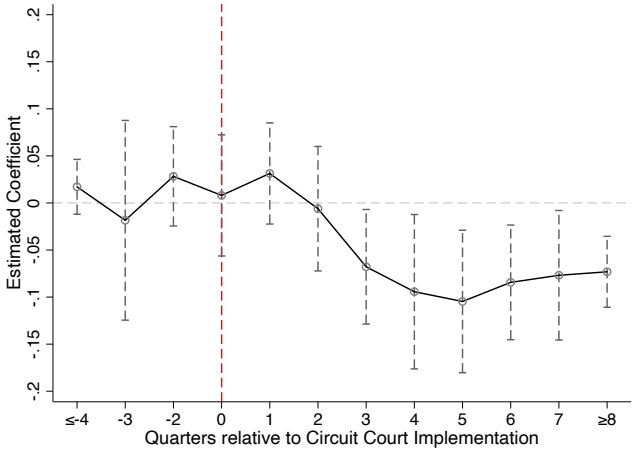
Notes: Case-level control variables include the dummy variable of other connection which takes the value of 1 if the enterprise in dispute is connected to any of the other two officials, legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers (log) of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.1, ** p<0.05, *** p<0.01.



(1) Municipal Party Secretary



(2) Mayor



(3) Judicial Secretary

Figure A2. *Event Study. These figures illustrate the estimated effect of the reform on connection to three different positions by using the plaintiff's success as the dependent variable. The estimations are over period* $(\tau = -4, -3, ..., -1, 0, 2, 3, ..., 8)$*, i.e., from 4 quarters before the introduction of the reform to 8 quarters after the reform with* $\tau = -1$ *dropped as the reference point. No pre-trend is found.*

Table A8. *Impacts of Implementing Trials Live Broadcasting: Nonlocal Plaintiffs versus Local Defendants*

	Plaintiff's Success		
	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)
Connection	0.0479***	0.0148**	0.0310***
	(0.00892)	(0.00619)	(0.00916)
Live	0.0340***	0.0333***	0.0354***
	(0.0118)	(0.0128)	(0.0129)
Connection x Live	-0.0185	-0.0133	-0.0119
	(0.0139)	(0.0140)	(0.0158)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Court City FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	282,292	282,938	267,004
R-squared	0.169	0.167	0.170

Notes: Case-level control variables include the dummy variable of other connection which takes the value of 1 if the enterprise in dispute is connected to any of the other two officials, legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.1, ** p<0.05, *** p<0.01.

E. Alternative Samples with Local Plaintiffs

In the main text, we rely on the samples of local defendants. As discussed in section 4.1, by default, if the enterprises involved in a dispute are registered in different administrative areas, the dispute is adjudicated in the court of the defendant's domicile. An enterprise may agree to resolve potential lawsuits in the city where the other contractual party is located because the enterprise has operated in that city for some time and established social ties. Thus, we expect the measured advantage of connected nonlocal defendants relative to unconnected nonlocal defendants to be biased toward zero.

To verify this conjecture, we examine the sample of litigations involving local plaintiffs and nonlocal defendants and estimate Equation (1). In this specification, ω_l^{reg} represents the fixed effects of the defendant's registered location. The results are presented in Table A9 and Table A10, using the *plaintiff's share of legal costs* and *plaintiff's success* as dependent variables, respectively.

Columns (1) to (3) of both Table A9 and A10 show the estimated results. We find that if a nonlocal defendant is connected to the incumbent municipal party secretary or judicial secretary of the court city, the plaintiff is less likely to win the case. The effects for cases of local plaintiffs versus non-local defendants are statistically significant, but the magnitude of these effects is smaller than that of their counterparts reported in Table 2 and A6. Connections to the mayor have no significant impact on litigation outcomes, as shown in column (2) of Table A9 and Table A10.

Table A9. *Difference-in-differences Estimation: Connection and Litigation Outcomes with Local Plaintiffs versus Nonlocal Defendants*

	Plaintiff's Share of Legal Costs		
	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)
Connection	0.0243***	0.0057	0.0150***
	(0.00529)	(0.00604)	(0.00539)
Controls	Yes	Yes	Yes
Defendant City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Court City FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	268,499	269,447	253,173
R-squared	0.251	0.252	0.253

Notes: Case-level control variables include the dummy variable of other connection which takes the value of 1 if the enterprise in dispute is connected to any of the other two officials, legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers (log) of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.1, ** p<0.05, *** p<0.01.

Table A10. *Difference-in-differences Estimation: Connection and Litigation Outcomes with Local Plaintiffs versus Nonlocal Defendants*

	Plaintiff's Success		
	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)
Connection	-0.0224***	-0.00257	-0.0218***
	(0.00548)	(0.00680)	(0.00620)
Controls	Yes	Yes	Yes
Defendant City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Court City FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	268,499	269,447	253,173
R-squared	0.224	0.225	0.226

Notes: Case-level control variables include the dummy variable of other connection which takes the value of 1 if the enterprise in dispute is connected to any of the other two officials, legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers (log) of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.1, ** p<0.05, *** p<0.01.

Table A11. *Impact of Introducing Circuit Courts: Local Plaintiffs versus Nonlocal Defendants*

	Plaintiff's Share of Legal Costs		
	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)
Connection	0.0468***	0.0136*	0.0350***
	(0.0107)	(0.00715)	(0.00909)
Circuit	-0.0136*	-0.0200**	-0.0177**
	(0.00704)	(0.00848)	(0.00786)
Connection x Circuit	-0.0347***	-0.0123	-0.0292***
	(0.0118)	(0.00918)	(0.00985)
Controls	Yes	Yes	Yes
Defendant City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Court City FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	268,499	269,447	253,173
R-squared	0.251	0.252	0.254

Notes: Case-level control variables include the dummy variable of other connection which takes the value of 1 if the enterprise in dispute is connected to any of the other two officials, legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers (log) of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.1, ** p<0.05, *** p<0.01.

Table A12. *Impacts of Implementing Trials Live Broadcasting: Local Plaintiffs versus Nonlocal Defendants*

	Plaintiff's Share of Legal Costs		
	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)
Connection	0.0260***	0.00563	0.0150**
	(0.00565)	(0.00651)	(0.00585)
Live	-0.0319***	-0.0339***	-0.0349***
	(0.00808)	(0.00849)	(0.00870)
Connection x Live	-0.00968	0.00045	-0.000286
	(0.00793)	(0.00845)	(0.01140)
Controls	Yes	Yes	Yes
Defendant City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Court City FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	268,499	269,447	253,173
R-squared	0.252	0.253	0.254

Notes: Case-level control variables include the dummy variable of other connection which takes the value of 1 if the enterprise in dispute is connected to any of the other two officials, legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.1, ** p<0.05, *** p<0.01.