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## The Value of Political Connections: Evidence from China's Anti-Corruption Campaign

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**JEL Codes: G3, H0, O1, P2**

**Keywords: Board of directors, Political connections, China, Corruption, Misallocation.**

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## 1. Introduction

We examine the value of politically connected firm directors to the Chinese elite in terms of getting preferential access to resources. In order to do so, we build a new dataset of exogenous connections between directors of the board and members of the Politburo in China. We rely on a historical measure of connections using school ties that predate the current relationship of board directors with politicians. In this way we rule out the possibility that our results are driven by the most able managers acquiring useful political connections as a result of their present position. We find that private firms with politically connected directors in the board get around 16% higher subsidies over sales, which translates into 7.2 million yuan on average (corresponding to USD 1.2 million using a 0.16 exchange rate), while connected state-owned enterprises (SOEs) pay 11% less in interest rates, translating into 31.9 million yuan (USD 5.1 million) lower payments on average per firm.

We also exploit the arrival of Xi Jinping to power and the launch of the Anti-Corruption Campaign (henceforth ACC) to investigate if political connections as a means to obtain resources have become more or less important for firms after the campaign. Our empirical evidence shows that connections increased in importance for private firms in the wake of the ACC. Connected private firms have received more subsidies after 2012, while connected SOEs still get access to lower cost of debt, though at a lower magnitude than before the ACC. The different effect of the ACC for the private and state sectors is consistent with the distinct Chinese institutional environment that private and state firms face. Doing business through corruption has become harder for private firms after the ACC, increasing the relative importance of elite connections. By contrast, state firms are naturally connected to the political world, meaning that connected directors do not add additional value to the firm. Our results suggest that friends are purposely placed on mega-firms. This effect has become milder with the ACC.

From an empirical perspective, our new measure improves on the currently dominant proxy for Chinese connections used in the literature.[1] We proxy personal relationships with Politburo members by exploiting the alumni network of politicians. Most of the literature on Chinese connections builds the links using past or current working

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[1] Our measure relates to that used by scholars analyzing the effects of external networks on corporate decisions and performance outside China. See, e.g., Nguyen (2012), Schoenherr (2019), and Do et al. (2016) for France, Korea, and United States.

experience in the Party, an enormous organization with more than 90 million members. To mention some examples, Jia et al. (2019), Wang (2015), and Li et al. (2008) consider a firm to be connected if at least one chairman is affiliated to the Chinese Communist Party or has working experience in some key Party organisms. By contrast, our measure captures whether a board director attended university with one of the 25 members of the Politburo, the highest political organism representing China's selective elite. To the best of our knowledge, we are the first to analyze the influence of past educational ties on resource allocation to private and state firms in China.[2] We additionally show that firms connected to politicians expelled from the Party lose their benefits, further increasing the credibility of our measure of connections.

Our measure has several other advantages. From an empirical perspective, it provides a better identification of connections than alternative measures as it is exogenous in two senses. First, it captures the value of "inherited" connections, as opposed to connections built later in anticipation of economic benefits. Second, it is uncorrelated to China's recent events since it is a historical measure that predates the position of directors in the board. Finally, the educational tie allows us to disentangle the effect of the connection from other means of achieving resources, such as pecuniary corruption. Until now, any type of "personal allocation mechanism" in China has been broadly termed as corruption. Our results show that political connections remain valuable after controlling for pecuniary corruption, suggesting that they are both relevant, even though they are distinct tools directly related to the procurement of resources. We also show that the firms that benefit from connections are not more efficient than others, despite their preferential treatment.

These findings have policy implications for our understanding of China's economic growth. Developing countries' institutions often lead to resource misallocation, preventing economic development (Hsieh and Klenow, 2009). Song et al. (2011) show that China's take-off has been largely due to an efficient factor reallocation. Despite this "factor reallocation great leap forward", China is still in a stage of development where state discriminatory policies matter (Zilibotti, 2017). In order to maintain high economic growth rates, China needs to eliminate barriers that prevent the allocation of resources to its most efficient firms. Our paper brings evidence on an allocation mechanism –

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[2] Outside the firm context, scholars have proxied Chinese connections using the educational network (Shih et al., 2012; Jia et al., 2015; Fisman et al., 2020). Moving to the firm context, Griffin et al. (2021) use a similar measure, but they relate it to the probability of being prosecuted.

Politburo connections – that has been preventing the country from reaching its full growth potential as it inefficiently diverts productive resources. We thus point to a Chinese institutional feature whose improvement could translate into higher economic growth – and one that the ACC has not solved.

Our paper considers the unique institutional Chinese environment, where many SOEs coexist with private firms. Private and state firms are different in their nature and needs. Historically, Chinese SOEs have benefited from their relation to the state, sometimes obtaining lower cost of debt (Shailer and Wang, 2015) or facing a "soft budget constraint" (Haley and Haley, 2013; Lim et al., 2018). Our results show that connected directors bring positive subsidies to private firms whereas connected state companies enjoy lower cost of debt. Additionally, we find evidence suggesting that connections play a different role in each sector. While connections in the private sector act as a door to resources that would be difficult to obtain otherwise, connected directors in the state sector seem to be purposely appointed to mega-size companies.

Finally, our paper sheds new insights into the literature examining the effect of the ACC and contributes to a broader literature that studies Chinese market institutions. Lack of strong enforcement of the rule of law in China has led to the development of alternative "hidden rules" governing the market (Bi et al., 2018). We examine if there has been a change in the value of the "being linked to the elite" rule after 2012. We show that the value of personal ties with politicians does not disappear after the ACC. In the case of private firms, it became stronger: connected firms get more subsidies relative to non-connected firms. Our research is close to Chen and Kung (2019) who study the effect of family connections in China in terms of getting significant land price discounts. Similarly to Fang et al. (2018) and Giannetti et al. (2021), we study the effect of the ACC on the allocation of subsidies and cost of debt. However, we differ from them by our focus on an alternative channel: elite connections.

## 2. Connections and the Chinese institutional background

In this section we provide context required to understand the role of connections in the Chinese institutional setting. Personal connections ("guanxi" practices) and corruption are widespread in China (Du et al., 2014; Hudik and Fang, 2020; Pei, 2016). China's clan-based social organization has made personal relationships a key feature of its market economy (Greif and Tabellini, 2017; Morgan, 2021). Connections to powerful elites can

thus play a relevant role for market participants. Protection of property rights and access to goods controlled by the Chinese Communist Party depend to a great extent on personal relationships.[3]

The spread of corruption in China since the market reforms period from 1978 has been well documented.[4] There have been occasional efforts to combat these practices. A policy that attracted worldwide attention was the 2012 ACC launched by President Xi right after his takeover. The crackdown's effect on cronyism is, however, unclear. On the one hand, the value of personal connections to politicians could have decreased as they can be understood as a form of non-pecuniary corruption. On the other hand, the political elite may have acted as a protective umbrella to its friends.

The 2102 ACC was novel in two senses, when compared to previous anti-corruption campaigns (Tang et al., 2018). First, it was unexpected. President Xi announced it on November 8th, 2012, only two weeks after he was elected as General Secretary of the Party. Precedents showed that new policies were usually announced in the plenum of the Central Committee, which was expected to take place months later.[5] Second, the intensity and extent of the campaign has been the largest since 1978: more than two million people have been investigated for corruption.[6]

It is unclear whether the ACC is just a political tool against political enemies or a real attack on corruption (Bian, 2018). Empirically, there is mixed evidence on the real motivations behind the campaign: prosecution seems to be both driven by factionalist and anti-corruption motives (Griffin et al., 2021; Lorentzen and Lu, 2018). Part of the research evaluating the ACC up to now relies on the assumption that reducing corruption will automatically be a positive step towards a more efficient market economy. The results of Giannetti et al. (2021) and Fang et al. (2018) support this view since they find some convergence towards an economy with a more efficient resource allocation.

However, a lack of strong institutions that support a merit-based economy in China can lead to unintended consequences. Impersonal market institutions have been developed in China only during the last decades and have become poorly ingrained in society (Duan

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[3] See Feng et al. (2015); Johansson et al. (2017); Li et al. (2008); Long and Yang (2016); Saha and Sen (2020); Wu et al. (2012).

[4] See, for example, Ang (2020), Oi (1989), Pei (2016), Sun (2004), and Wedeman (2012).

[5] Fang et al. (2018) provide empirical evidence supporting the surprising character of the ACC.

[6] This is confirmed by Western and Chinese newspaper articles. See Ref. 1-4, Table A2 (tables named with and A are shown in the Appendix).

and Martins, 2019; Gong and Zhou, 2015; Mattingly, 2016). A key question when analyzing the ACC is whether there are alternative, non-market-based mechanisms – such as political connections – by means of which goods are allocated. Osburg's field research provide some evidence showing that the ACC has made access to goods provided by the state even harder through the empowerment of a smaller elite (Osburg, 2018). Thus, the ACC may be shifting China towards an elite economy rather than a market-based economy. The empirical question of whether the ACC has affected the allocation of goods in the economy driven by elite connections is hence still a puzzle.

Illustrative evidence supports the interpretation of elite connections driving the allocation of resources in the economy both before and after the ACC. Figure 1 plots the average subsidies received by firms each year. Two points can be highlighted out of this figure. First, the trend of the subsidies received by firms connected to fallen politicians suggests that our measure of connection captures a real tie to the elite. Whereas before 2012 connected firms to these politicians received high and increasing amounts of subsidies, they experienced a sudden decline coinciding with their political fall. Second, connected firms not only received more subsidies than non-connected firms prior to the ACC, but the gap relative to non-connected firms tended to increase afterwards.

The literature on the increasing importance of SOEs in China and their concentration in the hands of powerful elites supports our hypothesis. Against predictions that the size of the Chinese state sector would decline in favor of the private sector following marketization, Chinese public ownership has grown in recent years by building pyramidal structures (Lardy, 2019; Naughton and Tsai, 2015). These business empires, as Sutherland and Ning (2015) state, are "often orchestrated by those in very powerful positions that are accountable to very few". This paper analyzes whether China is turning into a club-economy where an elite has privileged access to goods.

Figure 1: Average Subsidies Received by Firms
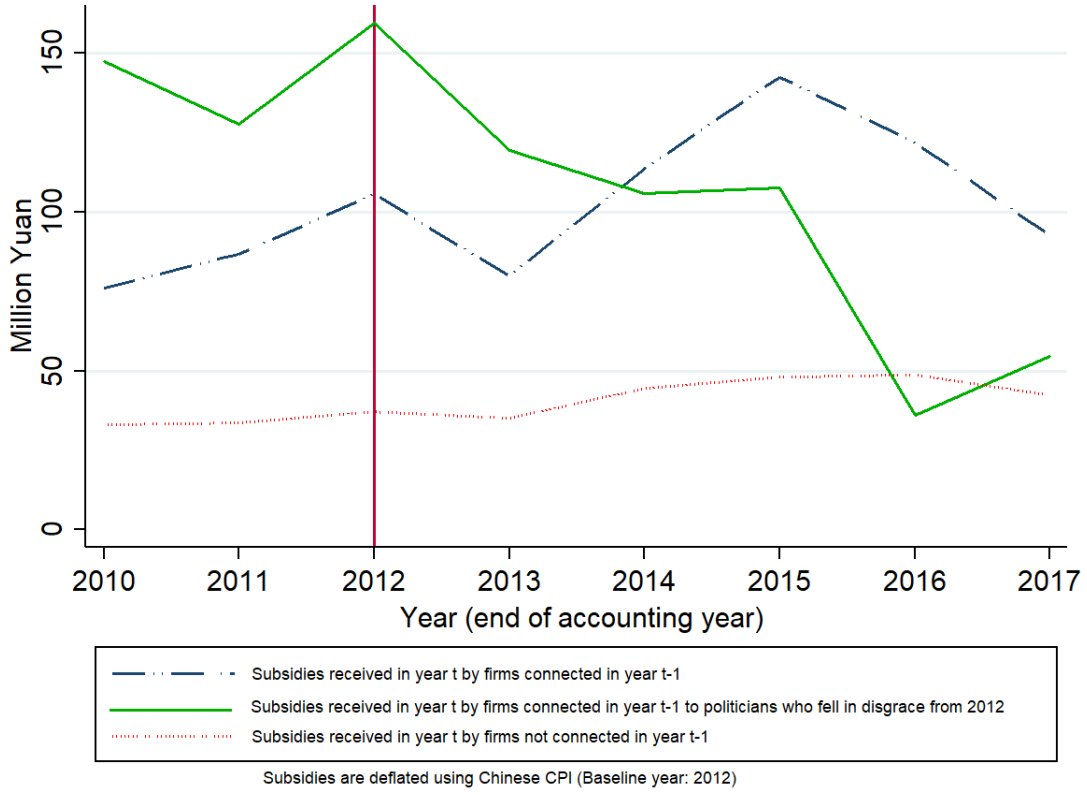


Figure 1 shows the average subsidies received in year *t* by firms connected to Politburo politicians (dashed-dotted line); non-connected firms (dotted line); and firms connected to fallen politicians (solid line), namely, Bo Xilai, Zhou Yongkang, Xu Caihou, Guo Boxiong, and Sun Zhengcai. Quantities are expressed in million yuan and are deflated using the China's CPI.
Source: CSMAR and National Bureau of Statistics of China.

## 3. Methodology and Data

In this section, we present our empirical model and the way we build our variables and sample. Next, describe the characteristics of connected and non-connected firms.

### 3.1. Methodology

We conduct panel regression analysis to test the value of politically-connected members of the board. Our baseline specification is the following:

$$Outcome_{i,s,p,t} = \gamma_0 + \gamma_1 Connection_{i,s,p,t-1} + \gamma_2 Entertainment_{i,s,p,t-1}$$
$$+ \boldsymbol{\gamma_3}' \boldsymbol{x_{i,s,p,t-1}} + \rho_i + \theta_s + \delta_p + \varphi_t + \varepsilon_{i,s,p,t}$$

The dependent variable $Outcome_{i,s,p,t}$ accounts for resources received or paid by firm $i$, in industry $s$, at the province $p$, in year $t$. We focus on access to subsidies and cost of debt.[7] For both of these, access under good conditions partly depends on discretionary choices by government officials (Feng et al., 2015; Li et al., 2008; Long and Yang, 2016).[8] We compute the total amount of financial subsidies received from the government each year scaled by total revenues the previous year. As for cost of debt, we follow the previous literature and measure it as interest expenses over total debt (Wang, 2015; Giannetti et al., 2017).[9]

Our main independent variable is *Connection*, a dummy that equals one if the firm has at least one director in the board connected to a member of the Politburo in power in year *t-1*. We identify the connections as follows. First, we obtain past education history from the board members in Chinese companies. This information is provided by China Stock Market and Accounting Research (CSMAR). We collect: university attended, graduation year, and type of degree.[10] Additionally, we hand-collect education information about the Politburo members, both for those politicians in the Politburo before 2012 and for the ones after the elections of 2012, when Xi Jinping took office.[11] These are the 25 members of the central and top-level political committee. Our measure of connection indicates whether a member of the board has attended the same university as any member of the Politburo, within four years of each other, and has studied the same degree type. For directors about whom we do not have data on when they attended university, we use their age.[12] This four-year window provides a sensible span when it is likely that the director and the politician met at university.[13]

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[7] We also analyze firms' effective tax rate and find no significant results. These findings go in line with those of Lim et al. (2018), who explain that tax-based subsidies are given on a less subjective basis. See Table A3.

[8] We provide an extended explanation on how our measure of political connections can affect these two outcomes in Table A4.

[9] We further use sales growth and investment as dependent variables. As measures of firm performance and firm behavior, they could be affected by a preferential treatment in the allocation of resources.

[10] We classify university degree programs into four categories: undergraduate degree, master's degree, PhD, or other.

[11] We obtain Politburo members' personal information from China Vitae (http://www.chinavitae.com/index.php). This database is operated by the Carnegie Endowment for International Peace and has been used by Jia et al. (2015). Table A5 lists all Politburo members.

[12] About 57% of our observations are missing the graduation date. For these observations we use directors' age as a proxy. This likely leads to some measurement error due to falsely including some directors as connected and excluding some connected ones in our sample of connected firms. Since this kind of error is expected to be random, reported coefficients suffer attenuation bias, suggesting the true results are stronger.

[13] Our measure is close to that of Do et al. (2016) for the USA. We repeat our analysis using a 2 and 3 year window and the results hold. See Tables A6 to A9.

We account for *Entertainment* as a measure of corruption to disentangle the effect of corruption and political connections. Cai et al. (2011) showed that the item Entertainment and Travelling Costs displayed on the footnotes of the financial statements of firms is a good proxy for corruption in China. We also obtain this data from CSMAR, and for the sake of simplicity, we refer to these costs, scaled by sales, as *Entertainment*. We follow the growing literature that uses this accounting item to analyze corruption (Lin et al., 2016; Giannetti et al., 2017; Fang et al., 2018; Griffin et al., 2021).[14]

We assume that the effect of connections and corruption is not immediate. Additionally, we only see the composition of the board at the end of each year, so we do not know if new directors arrive at the beginning or at the end of the year. Lagging the variable *Connection* one year hence provides enough time for directors to bring resources to the company.[15]

We also add a vector of control variables $x_{i,s,p,t-1}$ based on a large extant literature (Bliss and Gul, 2012; Pittman and Fortin, 2004; Rajan and Petersen, 1994). We control for leverage, since highly leveraged firms are likely to be considered riskier by lenders. Firms with higher profitability measures are usually in a better position to repay debts, so we add cashflows from operation to control for the ability of the firm to generate cash internally. We also include market-to-book ratio (as higher market valuation could translate into lower cost of debt); capital expenditure; size, measured as the log of total assets; and intangibility, a key determinant of investment (Pan and Tian, 2017). Following the previous literature, we use the same controls for subsidies but we exclude cash holdings and growth (Feng et al., 2015; Li et al., 2019; Wang, 2015). When relevant, we control for state-ownership, as firms held by the government have been shown to obtain greater benefits than their private counterparts (Wu et al., 2012; Harrison et al., 2019). The variable *State* is a dummy that equals one if the state is the ultimate largest shareholder of the company. Additionally, we add board controls: the ratio of board independent directors, and the board gender ratio.[16] Finally, we control for time-invariant specific characteristics that may be correlated with omitted explanatory variables by using

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[14] While we acknowledge that this item contains both legitimate and illegitimate expenses, it allows us to rule out the possibility that the effect of political connections is totally driven by monetary corruption.

[15] We try different lag structures of *Connection*, and results are similar. See Tables A10 and A11.

[16] A more detailed explanation of the controls is provided in Table A12.

fixed-effect specifications (firm $\rho_i$, industry $\theta_s$, province $\delta_p$, and year $\varphi_t$). Standard errors are also clustered by firm, industry, province, and year.[17]

Differences between state and non-state firms make them hard to compare. Thus, we divide our sample into private and state-owned companies to see which sector is driving the results and whether connections function in a different way in private and state-owned firms. We also divide our sample in two periods to assess the magnitude of the effect before and after the launch of the ACC in 2012. Our windows span from 2007 to 2012 and from 2013 to 2017 because in China the President and the Central Politburo are elected for five years in the National Congress. Connected directors in the first period are those linked with one of the 25 members of the 17th Politburo; and in the second period, to one of those of the 18th Politburo.

### 3.2. Data and Descriptive Statistics

We use data provided by the China Stock Market and Accounting Research (CSMAR). Our sample covers publicly listed firms in the two mainland Stock Exchange markets: Shanghai and Shenzhen Stock Exchange.[18]

We first identify connections in the full CSMAR universe and then merge these data with accounting data. Both the number of Chinese listed firms and data availability in CSMAR increase over the years. We drop financial, special treatment, B-shares firms; and those firms that experienced an IPO in year *t* or *t-1*. We eliminate observations with missing directors' education data or missing accounting data.[19] We end up with 7,266 firm-year observations, out of which 999 have at least one member of the board connected to a Politburo politician (for a distribution by year, see Figure 2). We have data on 1,867 firms: 1,395 are private firms and 512 are state-owned enterprises.[20]

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[17] We provide further explanation of the variables in Table A1.
[18] We exclude from the sample firms belonging to the financial sector due to their peculiarities, as is standard in the literature.
[19] For robustness, we repeat the analysis considering missing connections as non-connected firms. Results are slightly weaker but still hold.
[20] For more information on our sample, see Table A5.

Figure 2: Distribution of Connections by Year



Number of Connected and Non-Connected Firms by Year
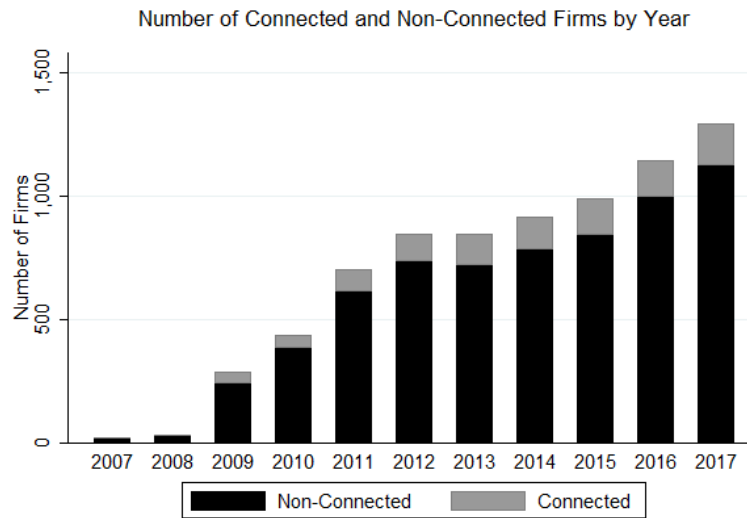
We follow a matching strategy to rule out two potential concerns. First, different characteristics between connected and non-connected firms may explain the different outcomes. Additionally, belonging to a specific industry may lead to a firm receiving larger subsidies. From 2005 until 2015 the Chinese Government spent about 1% of GDP in subsidizing R&D (Fang et al., 2018). Thus, industries with more intensive R&D were more eligible for subsidies.[21] The matched sample allows us to perform the analysis on two groups of firms with similar observable characteristics. Non-connected firms are selected from (i) the same accounting year, (ii) the same industry, and (iii) equal state ownership. Next, we match our treatment observations to cases from the control group without replacement, by establishing a maximum caliper distance along size and leverage. Following this procedure, our matched sample contains 4,532 firm-year observations, out of which 825 correspond to connected firms.

    TABLE 1 HERE

Table 1 reports the characteristics of the sample variables, both the total sample and the matched sample (Panel A). Subsidies received from the government on average amount to 138.7 million yuan per firm, which corresponds to 1.6% of firm sales.[22] Firms pay on average interest expenses equivalent to 1.9% of their debt. Corruption, proxied by the variable *Entertainment*, represents 1.1% of firms' total sales. However, there is large

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[21] Table A13 provides the distribution of connected and non-connected of firms across industries.
[22] 95% of the firms in our sample receive subsidies from the government, as it is common in the case of listed companies.

variation among firms: the standard deviation is 1.5%. Moreover, we can see that while some firms have entertainment expenses close to zero, others spend up to 13.8% of sales in *Entertainment* (9.15% in the matched sample).

We consider our baseline to be the matched sample. Panel B in Table 1 reports univariate t-test on differences in means between connected and non-connected firms. Connected firms are significantly more leveraged, own more assets, and spend less on *Entertainment*. Differences in sales growth, market-to-book ratio and capital expenditure are significant as well. Finally, there are more state firms that are politically connected than not.

The matched sample offers more balanced characteristics among connected and non-connected firms, as shown in the last columns of Panel B in Table 1. Panel C in Table 1 shows the univariate differences in control variables after splitting the matched sample into private and state-owned companies. While there is no statistically significant difference between connected and non-connected firms in the private sector except for capital expenditure and the board independence ratio, it is not possible to match connected and non-connected state-owned enterprises along size. This is due to the distribution of connections according to firm size in the state sector, which includes most of China's mega-companies. Indeed, more than 77% of the top 10% biggest companies in our sample are state-owned enterprises.[23] Figure 3 plots the distribution of connections on the total sample conditional on their size, and distinguishing between the private and state sectors. The distribution of connected and non-connected firms is similar in the private sector, even if slightly shifted to the right for connected companies. However, there is a clear divergence in the case of state-owned enterprises. Most connections in the state sector occur in mega-companies: 48% of connected state-owned enterprises have total assets above 21.9 billion yuan, corresponding to the largest top 10% of companies, while only 21% of non-connected state-owned enterprises are that large.[24]

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[23] These are firms with size exceeding 21.9 billion yuan.

[24] It is not possible to find a match that is non-significantly different in size for each connected state-owned firm.

Figure 3: Distribution of Connections by Size
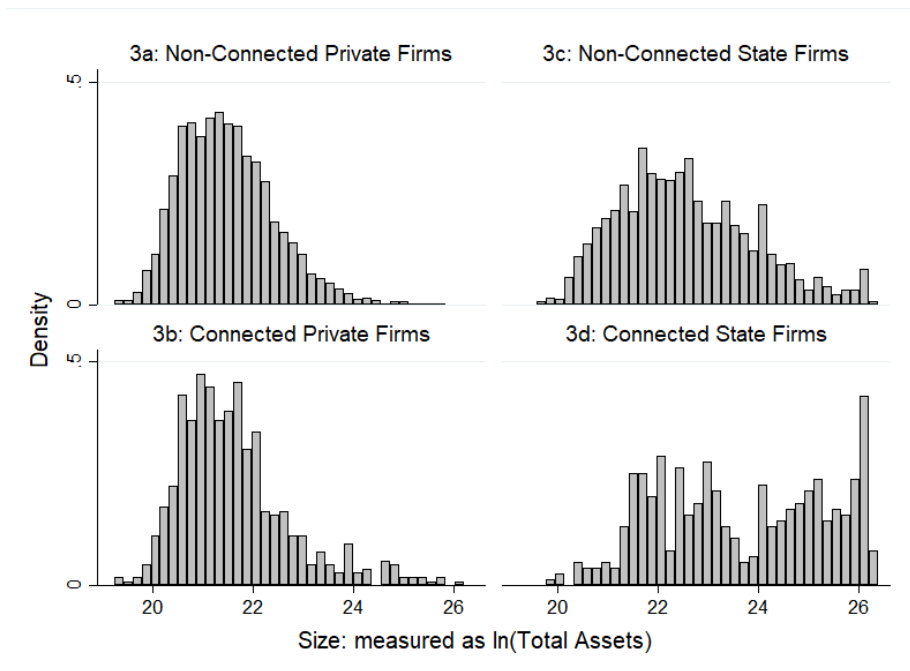


Charts 3a and 3b show the distribution of non-connected and connected private firms by size. Charts 3c and 3d show the distribution of non-connected and connected SOEs by size. Firms above 24 are those whose total assets surpass 26.5 billion yuan per year. Source: CSMAR.

Finally, a potential concern regarding the variable *Entertainment*, which accounts for pecuniary corruption, is that it could be highly correlated with being connected. In that case, our measure of connection might just be a proxy of the variable *Entertainment* and we would not be able to disentangle their effects. But in fact, the linear correlation between *Connection* and *Entertainment* is only -0.061.[25]

## 4. Empirical Findings

The different nature of private and state firms requires that we study how they obtain subsidies and cost of debt separately. We later distinguish two sub-periods: before and after the ACC. Finally, we explore the relationship between connections and two additional outcomes: investment and sales growth.

### 4.1. The value of Connections: Private and State Sector

We now analyze the relation between political connections and our two key dependent variables, subsidies and cost of debt. The results are reported in Tables 2 and 3. Panel A

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[25] Table A14 reports the cross-correlations of all variables.

of the tables corresponds to the regression analysis run over the total sample, and Panel B shows the results for the matched sample.[26]

We first focus on Panel A in Table 2, where we find that alumni networks become important only in the private sector. Columns (1) to (3) show that for all firms the result is not statistically significant. However, when we split the sample into private and state-owned firms, as we do in columns (4) to (9), connections become relevant for the private sector. Connected private firms get 0.2 percentage points higher subsidies than non-connected firms, as shown in columns (4) to (6).[27] We do not find the same effect of connections in the state sector. However, we cannot rule out that connected SOEs receive higher subsidies. Our results are likely driven by the large size of the state firms where connections take place. The huge size of these companies' sales makes the variable *Subsidy* (total subsidies over sales) small. This explains why connections are not significant in the case of state firms. In fact, if we use total subsidies in the regression analysis, we observe that connected SOEs receive significantly higher subsidies as well (see Table A21).

TABLEs 2 AND 3 HERE

Connections matter also in terms of receiving cheaper debt, as reported in Table 3, columns (1) to (3). We find no effect for private firms in finding lower cost of debt, shown in columns (4) to (6). However, connections are relevant in the case of SOEs. Connected state-owned firms pay 0.2 percentage points lower interest rates on their debts, all else constant, as we show in columns (7) to (9). The 0.2 percentage points magnitude that we find are relative to an average of 1.9% (see Table 1), which implies that connected firms pay 11% lower cost of debt, or in monetary terms, 31.9 million yuan less.

We now turn to our baseline results (Panel B), where we eliminate potential biases coming from heterogeneity on the observable characteristics. We proceed with the regression analysis over a matched sample. The coefficients obtained (reported in Panel B of Tables 2 and 3) reinforce previous findings. Connected private firms obtain 0.3 percentage points higher subsidies. Since average subsidies over sales amount to 1.6% (see Table 1), this corresponds to 16.1% higher subsidies.[28] The economic significance is large: 7.22 million

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[26] Regressions with the full set of controls are shown in Tables A15 to A20.

[27] Since average subsidies over sales amount to 1.6% (see Table 1), this corresponds to 13% higher subsidies).

[28] The precise calculation corresponds to 0.256/1.59=16.1%.

yuan per firm on average. Connected state firms in turn benefit from a 0.2 percentage points lower cost of debt, as we report in Table 3, Panel B, columns (7) to (9).[29] This corresponds to 11% lower cost of debt for these firms, corresponding to average savings per firm of 31.87 million yuan (USD 5.1 million).

For both the total and the matched sample, the value of connections remains strong when controlling for corruption, which is proxied by *Entertainment* expenses. This means that *Connection* is not just capturing the effect of spending more money on Entertainment and Travelling Costs. However, controlling for *Entertainment* does not rule out the possibility of connected firms also obtaining resources by means of corruption. We test this hypothesis by adding an interaction term.[30] We observe that there is no joint significance of the interactive relationship between *Connection* and *Entertainment*. This leads us to conclude that connection matters independently of the expense on *Entertainment*.

### 4.2. Connections around the Anti-Corruption Campaign

We now examine whether there has been a change in the value of political connections with the launch of the ACC in 2012. Fang et al. (2018) and Giannetti et al. (2021) study whether the ACC has been effective in reducing corruption, measured by *Entertainment*. We are interested instead in the value of personal connections, as opposed to "pecuniary corruption".

We show in Panel A Table 4 that connections became important in the private sector after the President's arrival to power, supporting Osburg's theory of the rising importance of the elite (Osburg, 2018). Before 2012, connected directors in private firms did not bring subsidies to the companies, as we observe in columns (3) and (4). By contrast, connected private firms received 0.2 percentage points higher subsidies after Xi Jinping's arrival to the Presidency, as shown in columns (5) and (6).

Turning to Panel B Table 4, we find that connected SOEs display preferential treatment in terms of lower interest rates both before and after 2012, as seen in columns (7) to (10). However, the magnitude and significance change. While in the first period connected

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[29] To rule out the possibility that our results are driven by companies' mega-size in the state sector, we remove them and repeat our analysis, we remove them and repeat our analysis. Results hold. See Table A22.

[30] These additional results can be obtained using our replication code.

SOEs paid 0.3 percentage points lower interest rates, after 2012 the difference went down to 0.2.[31]

Consistent with our results in the previous section, we find that connections did not have an effect in the state sector in terms of getting subsidies (see columns (7) to (10) in Panel A Table 4), nor in the private sector in terms of reducing the cost of debt (see columns (3) to (6) in Panel B Table 4). We will discuss and provide an interpretation of these findings in the following section.

TABLE 4 HERE

## 4.3. Connections and Firms' Behavior

Finally, we explore whether the effect of connections on resource allocation is reflected on other outcomes. We focus on sales growth and investment, since they proxy firm-level market performance, and firm strategic decisions. The main question is whether the access to higher subsidies for connected private firms or lower cost of debt for connected SOEs translates into better outcomes.

We find that neither higher subsidies nor lower cost of debt induce firms to obtain more sales, as reported in Table 5, Panel A. Regressions in columns (1) and (2) show that sales in connected firms in fact grow around 5 percentage points less than in non-connected firms. These results are confirmed when we instead run the regression on the matched sample, as shown in columns (5) to (8), even though the negative correlation is significant only for state-owned firms.

Connected private firms invest less although not significantly so, as shown in Panel B. Coefficients are positive and significant in SOEs. Both in our total and matched samples, state firms display 0.9 percentage points higher investment (columns (4) and (8) in Table 5).

Our results are suggestive of an inefficient allocation of resources, which seem to be distributed according to personal criteria, namely linkages to the political elite, as opposed to impersonal but efficient criteria. Connected private firms obtain significantly higher subsidies even though they display no better performance in terms of sales growth and

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[31] We also conduct the analysis including pre- and post-2012 dummies. Results are similar. See Table A23.

investment. Connected SOEs receive preferential interest rates while showing worse outcomes in sales growth.

TABLE 5 HERE

## 5. Discussion

In this section we interpret the effect of connections in the private and state sectors. We argue that connected directors in the private sector bring resources to the firm while this is not the case for SOEs. Next, we provide an explanation of the differential effect of the ACC for the private and state sectors. Finally, we rule out alternative explanations.

### 5.1. Value of Connections in the Private and State Sectors

We find that connections play a different role for the private and the state sectors. Our results indicate that connections in China matter for private sector firms to receive higher subsidies and for the state sector to receive favorable financial conditions.[32] These results are not surprising if we consider China's context.

China's financial and banking sectors are controlled by the government and serve as a means to finance government's projects. This is achieved by fueling money into state-owned enterprises, which are the main tool of the Party to conduct social policies, such as decreasing unemployment or controlling strategic sectors (Lin and Li, 2008; Zhang et al., 2017). Loans are investments, and their profitability could directly affect officials' political career paths. However, officials are not evaluated according to returns on subsidies since subsidies are transfers of money that are not expected to be returned. Banks operate according to political criteria. Officials can freely provide loans to SOEs, whether profitable or not, without bearing personal risks by justifying that they are meeting Party directives. On the contrary, the state's command of the banking sector makes it harder for private companies to get loans as it implies taking a financial risk without political justification. Banks' subordination to political priorities makes them "prefer to lend to companies that enjoy explicit or implicit government support" (Bisio,

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[32] As previously noted, the fact that our results do not show that state-owned companies receive higher subsidies over sales might be driven by the skewed distribution of connections in the largest state sector firms.

2020).[33] In some periods, the banking sector has been almost closed to private companies (Allen et al., 2005; Haggard and Huang, 2008; Lardy, 2019).

Moreover, the timespan of our sample coincides with the 2008 financial crisis, when Chinese authorities announced a 4 trillion-yuan (USD 586 billion) stimulus package with the goal of providing a financial buffer to state companies, which were meant to lower unemployment and embark on investment projects. The stimulus package had a crowding out effect and increased shadow banking in the country (Chen et al., 2020; Huang et al., 2020). Overall, this means that being friends with the elite does not compensate for the risk that an official in the financial sector bears when granting an "unjustified" loan to a private company, as opposed to lending to state companies.

Subsidies, by contrast, constitute an alternative financial resort for which private companies are eligible. By contrast with banks, government can legitimately grant subsidies to private companies without bearing similar financial risks. Indeed, we find connections play an effective role in the private sector when it comes to getting access to subsidies. As for the state sector, connected firms receive the same amount of subsidies as those that are not.

While we acknowledge that we cannot claim causality out of our empirical strategy, we argue that connected directors in the private sector bring resources to the firm. The exogeneity of our measure of connections leaves only as a potential endogeneity concern the fact that connected directors are placed on specific companies. If connected directors are randomly allocated, implying that they have not been placed in specific companies, then the conditional distribution of connected firms by size should replicate that of non-connected firms. This is what happens in the private sector (see Figure 3). We also observe from Figure 1 that the fall of the politicians to whom any given firm is connected leads to an immediate decrease in subsidies to those firms.

On the contrary, we cannot rule out that connected directors in SOEs are intentionally placed in mega-companies. As we stated before, 48% of connected state-owned enterprises are mega-companies while only 21% of non-connected state firms are that large. There are several potential explanations for such placements. One is pure cronyism, meaning that friends are placed in companies where they can extract resources for

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[33] As noted by Wu Hai, an entrepreneur surveyed by the Financial Times, "If the loan defaults, it's the loan officer who gets blamed". See Ref. 5, Table A2.

personal benefit. A second reason for politicians' friends being appointed to such companies is to act as watchmen: to monitor SOEs and to ensure that they achieve government's goals. Zhang et al. (2017) provide a third reason called the "adaptive power-sharing hypothesis". They claim that the Party uses "lucrative central SOEs as a source of patronage (...) to appease powerful political elites in the ruling party", which would mean that state firms are capstones sustaining China's political equilibrium. The placement of connected directors in mega-companies in the state sector does not rule out causality by itself. Indeed, when we truncate the sample by eliminating the largest 10% of firms, connected SOEs still receive cheaper debt (see Table A22). However, the fact that they could have been placed in specific companies prevents us from disentangling the two effects.[34]

### 5.2. Connections after the Anti-Corruption Campaign

We find that connections became stronger in the private sector after the launch of the ACC, but weaker in the state sector. These mixed outcomes are explained by the different role played by corruption in the private and the state sectors. Corruption in the private sector plays a "greasing wheels" role: it has been a widespread channel for eased access to resources (Lin et al., 2016; Pan and Tian, 2017). As a consequence of the ACC, corruption suffered a negative shock, meaning that this conventional door to resources was closed, or at least, hampered (Giannetti et al., 2017; Fang et al., 2018). Hence, the value of the alternative and less visible channel of connections to the political elite increased after the ACC, as shown by our findings.

In the state sector, by contrast, connections did not increase in value and significance after the ACC. Two reasons explain this finding. On the one hand, corruption plays a different role for SOEs. In the state sector, there is no need to engage in corrupt practices to obtain more resources from the state (Lin et al., 2016; Pan and Tian, 2017). Therefore, it makes sense that the ACC negative shock on corruption did not increase the value of connections as they are not substitute channels. On the other hand, SOEs are a first natural and easy target of the ACC: they face larger scrutiny from political authorities, as echoed by the Chinese press following the ACC.[35]

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[34] Additionally, we repeat further alternative regression analysis to eliminate potential confounding effects. Results reinforce our argument. See Tables A24 and A25.

[35] See Ref.6-8, Table A2.

Overall, these findings reinforce our previous argument that connected directors have a causal effect in the private sector. The fact that their value increased in private firms after the ACC supports our argument that they act as resource providers. This cannot be claimed for the state sector.[36]

## 6. Conclusion

In this paper we measure the value of connections to the Chinese Politburo members for firms, through an exogenous measure of political connections relying on past educational networks. We build a new database, which allows us to evaluate the value of political connections before and after the ACC. We find that private firms with connected members in the board get more subsidies than non-connected ones: 0.3 percentage points higher subsidies over sales, which translates into 7.2 million yuan on average (approximately USD 1.2 million). In turn, connected SOEs access debt at 0.2 percentage points cheaper rates than non-connected SOEs (approximately 31.9 million yuan or USD 5.1 million). Our results suggest that connections seem valuable for Chinese firms as they provide an additional channel to access resources. However, despite the resource allocation power of connections, these do not translate into higher sales growth or higher investment ratios. On the contrary, we find that connected firms display around 5 percentage points less sales growth than non-connected firms. Our results hence support the viewpoint that a substantial degree of misallocation exists in China due to political reasons.

Additionally, we show that being connected to the elite has remained a relevant channel to access resources since 2012. The previous literature showed that pecuniary corruption decreased substantially after the fierce ACC (Fang et al., 2018 and Giannetti et al., 2021). But according to our findings, the effect of connections did not disappear after the campaign. In fact, our evidence suggests that the value of connections increased in terms of obtaining subsidies for private firms. By contrast, the effect decreased, but still persists, for state-owned companies with respect to their costs of debt.

Finally, our results support the hypothesis that connections play a different role in the private and state sectors. Connections in private firms open access to resources that could be difficult to obtain otherwise. This is consistent with the increasing value of connections

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[36] We additionally rule out the possibility that our results are driven by other effects unrelated to connections in section "Ruling out alternative explanations" in the Appendix.

in the private sector after the ACC, as they could act as an alternative channel to corruption in order to get resources. We cannot claim the same for the state sector.

The nature of personal relationships in the context of Chinese history and political institutions means that policies such as the ACC are unlikely to be impartial or to succeed fully. Regardless of its intention, a single campaign cannot be expected to build an institutional bargain that supports impersonal markets in which politics does not play a role.

# TABLES

## Table 1: Descriptive Statistics

This table describes the sample of Chinese listed firm-year observations. Panel A describes the characteristics of firms in the total and matched samples. Panel B reports the mean differences between connected and non-connected firms, both in the total and matched sample. Panel C reports the mean differences in the matched sample between connected and non-connected after splitting firms into private and state-owned. All accounting and board variables are obtained from CSMAR.

Panel A: Total and Matched Sample - Descriptive Statistics

| | Total Sample | | | | Matched Sample | | | |
|---|---|---|---|---|---|---|---|---|
| | Mean | Min | Max | SD | Mean | Min | Max | SD |
| Subsidy | 0.016 | 0 | 0.463 | 0.023 | 0.016 | 0 | 0.2 | 0.02 |
| Cost of Debt | 0.019 | -0.053 | 0.08 | 0.016 | 0.019 | -0.047 | 0.087 | 0.016 |
| Return on Assets | 0.046 | -0.235 | 0.226 | 0.051 | 0.045 | -0.235 | 0.258 | 0.048 |
| Size | 21.893 | 19.232 | 26.215 | 1.319 | 21.927 | 19.046 | 26.179 | 1.291 |
| Leverage | 0.398 | 0.019 | 0.957 | 0.204 | 0.405 | 0.018 | 0.944 | 0.209 |
| Entertainment | 0.011 | 0 | 0.138 | 0.015 | 0.011 | 0 | 0.091 | 0.015 |
| Cash Holdings | 0.199 | 0.004 | 0.862 | 0.161 | 0.201 | 0.005 | 0.906 | 0.163 |
| Growth | 0.224 | -0.737 | 7.292 | 0.526 | 0.231 | -0.714 | 7.767 | 0.565 |
| Capital Expenditure | 0.06 | 0 | 0.294 | 0.053 | 0.058 | 0 | 0.294 | 0.052 |
| Operating Revenue | 0.622 | 0.006 | 11.416 | 0.5 | 0.617 | 0.006 | 11.416 | 0.515 |
| State | 0.295 | 0 | 1 | 0.456 | 0.327 | 0 | 1 | 0.469 |
| Market to Book | 2.609 | 0.13 | 17.685 | 2.271 | 2.572 | 0.13 | 17.685 | 2.311 |
| Board Independence ratio | 0.392 | 0 | 1 | 0.357 | 0.392 | 0 | 1 | 0.347 |
| Board Gender ratio | 0.759 | 0 | 1 | 0.302 | 0.76 | 0 | 1 | 0.295 |
| N firm-year obs. | 7,266 | | | | 4,532 | | | |
| N firms | 1,867 | | | | 1,494 | | | |

Panel B: Total and Matched Sample - Connected vs. Non-Connected

| | Total Sample | | | | Matched Sample | | |
|---|---|---|---|---|---|---|---|
| | Non-Conn. | Conn. | Diff. (p-value) | | Non Conn. | Conn. | Diff. (p-value) |
| Growth | 0.229 | 0.193 | 0.032** | | 0.23 | 0.21 | 0.29 |
| Leverage | 0.409 | 0.445 | 0.000*** | | 0.417 | 0.422 | 0.567 |
| Market to Book | 2.386 | 2.099 | 0.000*** | | 2.342 | 2.244 | 0.214 |
| Cash Holdings | 0.171 | 0.173 | 0.6 | | 0.175 | 0.18 | 0.393 |
| Capital Expenditure | 0.058 | 0.054 | 0.044** | | 0.056 | 0.052 | 0.02** |
| Size | 21.969 | 22.723 | 0.000*** | | 22.018 | 22.424 | 0.000*** |
| State | 0.268 | 0.422 | 0.000*** | | 0.307 | 0.366 | 0.001*** |
| Entertainment | 0.012 | 0.01 | 0.000*** | | 0.012 | 0.011 | 0.004*** |
| Board Independence ratio | 0.391 | 0.38 | 0.349 | | 0.389 | 0.385 | 0.762 |
| Board Gender ratio | 0.764 | 0.769 | 0.625 | | 0.766 | 0.77 | 0.625 |
| N firm-year obs. | 6,267 | 999 | | | 3,707 | 825 | |
| N firms | 1,762 | 367 | | | 1,394 | 329 | |

Panel C: Matched Sample - Private and State Firms

| | Private Firms | | | | Matched Sample | | |
|---|---|---|---|---|---|---|---|
| | Non-Conn. | Conn. | Diff. (p-value) | | Non Conn. | Conn. | Diff. (p-value) |
| Growth | 0.263 | 0.251 | 0.635 | | 0.155 | 0.138 | 0.52 |
| Leverage | 0.375 | 0.366 | 0.341 | | 0.512 | 0.518 | 0.625 |
| Market to Book | 2.708 | 2.716 | 0.934 | | 1.523 | 1.438 | 0.37 |
| Cash Holdings | 0.187 | 0.196 | 0.195 | | 0.149 | 0.152 | 0.726 |
| Capital Expenditure | 0.058 | 0.052 | 0.015** | | 0.053 | 0.052 | 0.753 |
| Size | 21.69 | 21.769 | 0.113 | | 22.76 | 23.559 | 0.000*** |
| Entertainment | 0.015 | 0.013 | 0.194 | | 0.007 | 0.005 | 0.023** |
| Board Independence ratio | 0.364 | 0.393 | 0.062* | | 0.446 | 0.371 | 0.002*** |
| Board Gender ratio | 0.753 | 0.756 | 0.808 | | 0.795 | 0.794 | 0.967 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| N firm-year obs. | 2,523 | 527 | | | | 1,184 | 298 | | |
| N firms | 1,022 | 220 | | | | 392 | 112 | | |

## Table 2: Connections and Subsidies

In this table we estimate regressions at the firm level. The dependent variable is the total subsidies over sales in year $t$. The independent variable of interest is Connection, a binary variable equal to 1 if there is at least one director of the board connected to a member of the Politburo in year $t-1$, and zero otherwise. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

Panel A: Total Sample

| | All firms | | | Private | | | State | | |
|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Connection | 0.001 | 0.001 | 0.001 | 0.002** | 0.002* | 0.002* | -0.002* | -0.002* | -0.002 |
| | (0.000) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment | | | 0.030 | | | 0.023 | | | 0.096 |
| | | | (0.052) | | | (0.064) | | | (0.116) |
| Controls | No | Yes | Yes | No | Yes | Yes | No | Yes | Yes |
| | | | | | | | | | |
| Observations | 7,266 | 7,266 | 7,266 | 5,119 | 5,119 | 5,119 | 2,147 | 2,147 | 2,147 |
| Adj. R-squared | 0.520 | 0.522 | 0.522 | 0.540 | 0.541 | 0.540 | 0.509 | 0.515 | 0.515 |

Panel B: Matched Sample

| | All firms | | | Private | | | State | | |
|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Connection | 0.001 | 0.001 | 0.001 | 0.002** | 0.003** | 0.003** | -0.002 | -0.002 | -0.002 |
| | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment | | | 0.094 | | | 0.122 | | | 0.027 |
| | | | (0.096) | | | (0.109) | | | (0.086) |
| Controls | No | Yes | Yes | No | Yes | Yes | No | Yes | Yes |
| | | | | | | | | | |
| Observations | 4,532 | 4,532 | 4,532 | 3,050 | 3,050 | 3,050 | 1,482 | 1,482 | 1,482 |
| Adj. R-squared | 0.549 | 0.552 | 0.553 | 0.528 | 0.528 | 0.531 | 0.609 | 0.625 | 0.625 |

## Table 3: Connections and Cost of Debt

In this table we estimate regressions at the firm level. The dependent variable is the cost of debt in year $t$. The independent variable of interest is Connection, a binary variable equal to 1 if there is at least one director of the board connected to a member of the Politburo in year $t-1$, and zero otherwise. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

Panel A: Total Sample

| | All firms | | | Private | | | State | | |
|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Connection | -0.001*** | -0.001*** | -0.001*** | -0.001*** | -0.000 | -0.000 | -0.002** | -0.002** | -0.002** |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment | | | -0.049* | | | -0.045* | | | -0.004 |
| | | | (0.024) | | | (0.021) | | | (0.035) |
| Controls | No | Yes | Yes | No | Yes | Yes | No | Yes | Yes |
| | | | | | | | | | |
| Observations | 7,266 | 7,266 | 7,266 | 5,119 | 5,119 | 5,119 | 2,147 | 2,147 | 2,147 |
| Adj. R-squared | 0.629 | 0.687 | 0.687 | 0.588 | 0.659 | 0.660 | 0.749 | 0.783 | 0.783 |

Panel B: Matched Sample

| | All firms | | | Private | | | State | | |
|---|---|---|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Connection | -0.001*** | -0.001** | -0.001** | -0.001** | -0.001 | -0.001 | -0.002*** | -0.002*** | -0.002*** |
| | (0.000) | (0.000) | (0.001) | (0.000) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment | | | -0.057** | | | -0.064** | | | 0.023 |
| | | | (0.025) | | | (0.027) | | | (0.069) |
| Controls | No | Yes | Yes | No | Yes | Yes | No | Yes | Yes |
| | | | | | | | | | |
| Observations | 4,532 | 4,532 | 4,532 | 3,050 | 3,050 | 3,050 | 1,482 | 1,482 | 1,482 |
| Adj. R-squared | 0.639 | 0.692 | 0.693 | 0.583 | 0.648 | 0.648 | 0.760 | 0.794 | 0.793 |

## Table 4: Subsidies and Cost of Debt Before and After the Anti-Corruption Campaign

In this table we estimate regressions at the firm level, splitting the matched sample between before and after the Anti-Corruption Campaign. Pre-2012 period dates from 2007 to 2012, while Post-2012 period spans from 2013 to 2017. Panel A shows results for subsidies, while Panel B for cost of debt. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

Panel A: Subsidies

| | Pre-2012 | Post-2012 | Pre-2012 | Pre-2012 | Post-2012 | Post-2012 | Pre-2012 | Pre-2012 | Post-2012 | Post-2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| | All firms | | | | Private | | | | State | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| Connection | 0.000 | 0.001 | 0.002 | 0.002 | 0.002** | 0.002** | -0.003 | -0.003 | -0.003 | -0.003 |
| | (0.003) | (0.001) | (0.005) | (0.006) | (0.001) | (0.001) | (0.002) | (0.001) | (0.002) | (0.002) |
| Entertainment | 0.010 | 0.036 | | 0.041 | | 0.018 | | -0.153** | | 0.266* |
| | (0.074) | (0.044) | | (0.237) | | (0.071) | | (0.057) | | (0.098) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 1,493 | 3,039 | 934 | 934 | 2,116 | 2,116 | 559 | 559 | 923 | 923 |
| Adj. R-squared | 0.547 | 0.601 | 0.425 | 0.424 | 0.607 | 0.607 | 0.700 | 0.701 | 0.601 | 0.601 |

Panel B: Cost of Debt

| | Pre-2012 | Post-2012 | Pre-2012 | Pre-2012 | Post-2012 | Post-2012 | Pre-2012 | Pre-2012 | Post-2012 | Post-2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| | All firms | | | | Private | | | | State | |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| Connection | 0.003 | -0.002 | 0.006 | 0.006 | -0.001 | -0.001 | -0.003** | -0.003** | -0.002* | -0.002* |
| | (0.002) | (0.001) | (0.003) | (0.003) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment | -0.004 | -0.053 | | -0.042 | | -0.059 | | 0.041 | | -0.013 |
| | (0.058) | (0.032) | | (0.083) | | (0.035) | | (0.045) | | (0.041) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 1,493 | 3,039 | 934 | 934 | 2,116 | 2,116 | 559 | 559 | 923 | 923 |
| Adj. R-squared | 0.768 | 0.707 | 0.723 | 0.722 | 0.638 | 0.638 | 0.817 | 0.817 | 0.836 | 0.835 |

Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

## Table 5: Sales Growth and Investment

In this table we estimate regressions at the firm level. The dependent variable is growth of sales from year t−1 to year t in Panel A, and investment in Panel B. The independent variable of interest is Connection, a binary variable equal to 1 if there is at least one director of the board connected to a member of the Politburo, and zero otherwise. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

Panel A: Sales Growth

| | Total Sample | | | | Matched Sample | | | |
|---|---|---|---|---|---|---|---|---|
| | All firms | | Private | State | All firms | | Private | State |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| Connection | -0.047* | -0.052** | -0.056* | -0.044 | -0.039 | -0.043** | -0.042 | -0.047* |
| | (0.022) | (0.018) | (0.026) | (0.029) | (0.024) | (0.018) | (0.025) | (0.023) |
| Entertainment | | 14.734** | 16.857** | 5.201* | | 9.480** | 8.886** | 12.375** |
| | | (6.260) | (7.091) | (2.652) | | (3.166) | (3.799) | (4.511) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 7,266 | 7,266 | 5,119 | 2,147 | 4,532 | 4,532 | 3,050 | 1,482 |
| Adj. R-squared | 0.185 | 0.219 | 0.243 | 0.090 | 0.115 | 0.134 | 0.108 | 0.105 |

Panel B: Investment

| | Total Sample | | | | Matched Sample | | | |
|---|---|---|---|---|---|---|---|---|
| | All firms | | Private | State | All firms | | Private | State |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| Connection | 0.002 | 0.002 | -0.002 | 0.009*** | 0.002 | 0.002 | -0.002 | 0.009** |
| | (0.003) | (0.003) | (0.004) | (0.003) | (0.004) | (0.004) | (0.004) | (0.003) |
| Entertainment | | -0.077 | -0.124 | -0.010 | | 0.022 | -0.004 | -0.138 |
| | | (0.089) | (0.079) | (0.292) | | (0.159) | (0.168) | (0.639) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 5,402 | 5,402 | 3,537 | 1,865 | 3,419 | 3,419 | 2,138 | 1,281 |
| Adj. R-squared | 0.521 | 0.521 | 0.498 | 0.565 | 0.508 | 0.507 | 0.491 | 0.530 |

Robust standard errors in parentheses, *** p<0.01, ** p<0.05, * p<0.1

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# Appendix: Additional Tables and Empirical Results

## Table A1: Variables description

| | |
|---|---|
| Board Gender | Ratio of male directors to total number of board members. Winsorized at the 1% and 99% level. |
| Board Independence Ratio | Ratio of independent directors (those who are neither executive directors nor have any pecuniary relationship with the corporation) over total number of board members. Winsorized at the 1% and 99% level. |
| Capital Expenditure | Ratio of capital expenditure to total assets. Winsorized at the 1% and 99% level. |
| Cash Holding | Cash ratio. Winsorized at the 1% and 99% level. |
| Connection | Dummy variable equal to one if a firm has at least one board member who attended the same university as a Politburo member, graduated within a four-year window, and studied the same type of degree. |
| Subsidy | Total government subsidies received by firm i in year t over total operating revenue in year t-1. Winsorized at the 1% and 99% level. |
| Connection_2yw | Binary variable equal to one if a firm has at least one board member who attended the same university as a Politburo member, graduated within a two-year window, and studied the same type of degree. |
| Connection_3yw | Binary variable equal to one if a firm has at least one board member who attended the same university as a Politburo member, graduated within a two-year window, and studied the same type of degree. |
| Connection_bothPB | Dummy variable equal to 1 if the firm has at least one director connected to a Politburo member that was both electedin the 17th and 18th Party Congress. |
| Connected_New PB members | Dummy variable equal to 1 if at least one director of a given firm gained a connection in 2012 to a newly elected Politburo member. |
| Cost of Debt (CoD) | Ratio of total interest payment to total debt. Winsorized at the 1% and 99% level. |
| Effective Tax Rate (ETR) | Tax Expenses minus deferred taxes over pre-tax profits. Variable truncated between 0 and 1. |
| Entertainment | Ratio of travelling and business entertainment expenses to operating revenue. Winsorized at the 1% and 99% level. |
| Intangible | Net intangible assets to total assets. Net intangible assets are the total intangible assets minus the depreciation, amortization and provision for impairment. |
| Leverage | Ratio of total assets to total liabilities. Winsorized at the 1% and 99% level. |
| Growth | Sales Growth. Winsorized at the 1% and 99% level. |
| Market to Book | Ratio of market value to total assets. Market value is computed by multiplying total shares times its price. We take prices on December 31st of each year. Winsorized at the 1% and 99% level. |
| Size | Natural logarithm of total assets. Winsorized at the 1% and 99% level. |
| Return on Assets (ROA) | Ratio of net profit to total assets. Winsorized at the 1% and 99% level. |
| State | Dummy variable that takes a value of one if a firm is state-owned, 0 otherwise. |
| University | Dummy variable equal to one if at least one board member attended the same university as a Politburo member. |
| Top5 | Dummy variable equal to 1 if at least one of the directors in the board attended one of the top 5 universities in China. |
| Tot_Subs | Total amount of subsidies, expressed in million yuans. Winsorized at the 1% and 99% level. |

1

## Table A2: Media References

| Ref. Nº | Source of the media reference |
|---|---|
| Ref. 1 | Gerry Shih, "In China, investigations and purges become the new normal", *The Washington Post*, October 22, 2018. https://www.washingtonpost.com/world/asia_pacific/in-china-investigations-and-purges-become-the-new-normal/2018/10/21/077fa736-d39c-11e8-a275-81c671a50422_story.html |
| Ref. 2 | Chris Buckley, "Pursuing Graft Cases at Higher Levels, Chinese Leader Risks Unsettling Elites", *The New York Times*, September 25, 2013. https://www.nytimes.com/2013/09/26/world/asia/pursuing-graft-cases-at-higher-levels-chinese-leader-risks-unsettling-elites.html |
| Ref. 3 | "Xi Jinping's anti-corruption campaign: how broad is it? What is the goal?" (Xíjìnpíng de fǎnfǔ yùndòng: Fànwéi yǒu duō guǎng? Mùbiāo shì shénme?), *BBC News*, October 23, 2017. www.bbc.com/zhongwen/simp/chinese-news-41719314 |
| Ref. 4 | "Central inspection team: benefit transmission and related transactions become the key words of central enterprises corruption" (Zhōngyāng xúnshì zǔ: Lìyì shūsòng, guānlián jiāoyì chéng yāngqǐ fǔbài guānjiàn cí), *Sohu News*, October 19, 2015. https://business.sohu.com/20151019/n423607053.shtml |
| Ref. 5 | Tom Mitchell, Xinning Liu, and Gabriel Wildau, "China's private sector struggles for funding as growth slows" *Financial Times*, January 21, 2019. https://www.ft.com/content/56771148-1d1c-11e9-b126-46fc3ad87c65 |
| Ref. 6 | "Central inspection team: benefit transmission and related transactions become the key words of central enterprises corruption" (Zhōngyāng xúnshì zǔ: Lìyì shūsòng, guānlián jiāoyì chéng yāngqǐ fǔbài guānjiàn cí), *Sohu News*, October 19, 2015. https://business.sohu.com/20151019/n423607053.shtml |
| Ref. 7 | "More than 30 executives of state-owned enterprises have been investigated this year, including two middle-management cadres" (Jīnnián yǐ yǒu 30 yú míng guóqǐ gāo guǎn bèi chá hán liǎng míng zhōng guǎn gànbù), *CPC News*, August 16, 2018. http://fanfu.people.com.cn/n1/2018/0816/c64371-30231773.html |
| Ref. 8 | "The Central Commission for Discipline Inspection revealed that state-owned enterprise leaders are most likely to make these mistakes" (Jǐngtì! Zhōng jìwěi pīlù, guóqǐ lǐngdǎo zuì róngyì fàn zhèxiē cuò), *QQ news.* https://new.qq.com/omn/20181018/20181018A0BB05.html?pc= |

2

## Table A3: Connections and Effective Tax Rate, 2007-2017

In this table we estimate regressions at the firm level. The dependent variable is the effective tax rate (ETR) in year $t$, computed as the total amount of income tax to total profits, subtracting the deferred taxes. The independent variable of interest is *Connection* in year $t-1$, a binary variable equal to 1 if there is at least one director of the board connected to a member of the Politburo, and zero otherwise. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

### Panel A: Total Sample

| VARIABLES | All Firms | | | Private | | | State | | |
|---|---|---|---|---|---|---|---|---|---|
| | ETR | ETR | ETR | ETR | ETR | ETR | ETR | ETR | ETR |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Connection | -0.011 | -0.010 | -0.010 | -0.012 | -0.011 | -0.011 | -0.009 | -0.011 | -0.011 |
| | (0.018) | (0.018) | (0.018) | (0.012) | (0.012) | (0.013) | (0.026) | (0.029) | (0.028) |
| Entertainment | | | -0.323 | | | -0.182 | | | -0.309 |
| | | | (0.366) | | | (0.350) | | | (0.779) |
| Size | | 0.010 | 0.009 | | 0.010 | 0.010 | | 0.016* | 0.016 |
| | | (0.010) | (0.010) | | (0.010) | (0.011) | | (0.009) | (0.010) |
| Leverage | | 0.017 | 0.015 | | 0.014 | 0.013 | | 0.012 | 0.011 |
| | | (0.026) | (0.027) | | (0.028) | (0.029) | | (0.090) | (0.086) |
| Market to Book | | -0.000 | -0.000 | | 0.002 | 0.002 | | -0.005 | -0.005 |
| | | (0.002) | (0.002) | | (0.002) | (0.002) | | (0.008) | (0.008) |
| Return on Assets | | -0.100 | -0.111 | | -0.150 | -0.157 | | 0.073 | 0.064 |
| | | (0.112) | (0.119) | | (0.132) | (0.140) | | (0.201) | (0.176) |
| State | | -0.001 | -0.000 | | | | | | |
| | | (0.037) | (0.038) | | | | | | |
| Board Indep. | | -0.011 | -0.011 | | -0.009 | -0.009 | | -0.018 | -0.017 |
| | | (0.013) | (0.013) | | (0.015) | (0.016) | | (0.024) | (0.024) |
| Board Gender | | -0.006 | -0.005 | | -0.010 | -0.009 | | 0.018 | 0.018 |
| | | (0.021) | (0.021) | | (0.018) | (0.018) | | (0.026) | (0.026) |
| Constant | 0.208*** | -0.001 | 0.018 | 0.193*** | -0.019 | -0.006 | 0.241*** | -0.140 | -0.119 |
| | (0.003) | (0.213) | (0.222) | (0.001) | (0.232) | (0.248) | (0.006) | (0.146) | (0.185) |
| Observations | 6,160 | 6,160 | 6,160 | 4,180 | 4,180 | 4,180 | 1,980 | 1,980 | 1,980 |
| Adjusted R-squared | 0.227 | 0.227 | 0.227 | 0.153 | 0.153 | 0.153 | 0.289 | 0.287 | 0.287 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

### Panel B: Matched Sample

| VARIABLES | All Firms | | | Private | | | State | | |
|---|---|---|---|---|---|---|---|---|---|
| | ETR | ETR | ETR | ETR | ETR | ETR | ETR | ETR | ETR |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Connection | -0.007 | -0.006 | -0.006 | -0.003 | -0.001 | -0.001 | -0.020 | -0.021 | -0.021 |
| | (0.022) | (0.024) | (0.024) | (0.013) | (0.013) | (0.013) | (0.042) | (0.043) | (0.045) |
| Entertainment | | | -0.219 | | | -0.177 | | | -0.524 |
| | | | (0.211) | | | (0.250) | | | (0.466) |
| Size | | 0.005 | 0.005 | | 0.008 | 0.008 | | -0.001 | -0.002 |
| | | (0.010) | (0.010) | | (0.009) | (0.009) | | (0.003) | (0.003) |
| Leverage | | 0.038 | 0.038 | | 0.026 | 0.026 | | 0.062 | 0.060 |
| | | (0.024) | (0.025) | | (0.032) | (0.035) | | (0.087) | (0.086) |
| Market to Book | | -0.002 | -0.002 | | -0.000 | -0.000 | | -0.003 | -0.002 |
| | | (0.002) | (0.002) | | (0.001) | (0.001) | | (0.011) | (0.011) |
| Return on Assets | | -0.043 | -0.050 | | -0.116 | -0.122 | | 0.035 | 0.022 |
| | | (0.133) | (0.131) | | (0.161) | (0.158) | | (0.120) | (0.120) |
| State | | 0.009 | 0.009 | | | | | | |
| | | (0.026) | (0.026) | | | | | | |
| Board Indep. | | -0.019 | -0.019 | | -0.010 | -0.010 | | -0.045 | -0.045 |
| | | (0.014) | (0.014) | | (0.021) | (0.021) | | (0.026) | (0.025) |
| Board Gender | | -0.014 | -0.014 | | -0.042 | -0.042* | | 0.045 | 0.045 |
| | | (0.019) | (0.019) | | (0.024) | (0.023) | | (0.033) | (0.033) |
| Constant | 0.201*** | 0.089 | 0.104 | 0.189*** | 0.045 | 0.060 | 0.224*** | 0.202*** | 0.240*** |
| | (0.004) | (0.212) | (0.221) | (0.002) | (0.211) | (0.220) | (0.009) | (0.000) | (0.000) |
| Observations | 3,903 | 3,903 | 3,903 | 2,538 | 2,538 | 2,538 | 1,365 | 1,365 | 1,365 |
| Adjusted R-squared | 0.196 | 0.195 | 0.195 | 0.167 | 0.167 | 0.167 | 0.208 | 0.205 | 0.204 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Clustered robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

3

Table A4: Institutional Mechanism of our Variable of Political connections

Many decisions in China are taken at the local level. In the case of subsidies, as Fang et al. (2018) explain, their approval follows a pyramidal structure. While the applications can be done at the local level, they are subsequently approved by upper levels (i.e., the municipal, provincial, and central levels). Local officials with career concerns have an incentive to cultivate good relationships with people connected to the elite, who can potentially affect their future promotion. Therefore, being connected to the Politburo can affect local officials' decisions to approve subsidy applications at their level and submit them to the upper lever to be considered.

As for banks, even if local, they are also closely tied to the political system. Martin (2012), when explaining the different types of banks in China, says that all of them (also city commercial banks and equitized banks) have senior officers who are members of the Chinese Communist Party, or have been appointed by the central government or Party agencies, and have political career concerns. These officers "are also assigned ranks in the Chinese government's hierarchy, ranging from the equivalent of a bureau chief to a viceminister. The professional career of the senior bank officers is determined by the CCP, and may involve moving into positions within the Party (...)" (Martin, 2012). Again, the vertical and centralized structure of the political career in China (Xu, 2011), makes a connection to the central elite a powerful tool to get resources even at the local level as long as there are officials with career concerns.

Table A5: Politburo Members  Directors

Table A5 shows Politburo members elected after the 17th and 18th Party Congress. New members arriving in 2012 are in italics. Fallen politicians are marked with an asterisk. All fallen politicians were expelled after they left the Politburo. Source: China Vitae (http://www.chinavitae.com/). The third and fifth columns contain the number of directors connected to each politician in our sample. In our sample of firms, there are 62,930 director-year observations according to the number of directors in our sample's Chinese boards. We identify 1,261 director-year connections to at least one Politburo member. In our final sample, we have the educational and personal information of 11,862 directors. 2,017 (17%) went to top 5 universities in China, and 2,605 (22%) went to one of the top 10 universities in China. 484 individual directors are connected to at least one politician in the Politburo, this corresponds to 4% of our total number of directors. Among these connected directors, 59% (61%) went to top 5 (top 10) universities in China. 63% of directors sit in one board, 87% sit in three boards or less. Less than 1% of directors sits in more than 10 boards. Notice that one third of the connections come from directors' links to one of the 25 members of the first Politburo, while two thirds from links to the second Politburo members.

|  | 2007-2012 | | 2012-2017 | |
|---|---|---|---|---|
|  | Politburo member | N connected directors | Politburo member | N connected directors |
| 1 | Hu Jintao | 16 | Xi Jinping | 31 |
| 2 | Wen Jiabao | 0 | Li Keqiang | 49 |
| 3 | Bo Xilai* | 32 | Fan Changlong | 19 |
| 4 | Guo Boxiong* | 0 | Guo Jinlong | 3 |
| 5 | He Guoqiang | 0 | Han Zheng | 37 |
| 6 | Hui Liangyu | 0 | Hu Chunhua | 82 |
| 7 | Jia Qinglin | 2 | Li Jianguo | 1 |
| 8 | Li Changchun | 0 | Li Yuanchao | 38 |
| 9 | Li Keqiang | 39 | Li Zhanshu | 25 |
| 10 | Li Yuanchao | 24 | Liu Qibao | 1 |
| 11 | Liu Qi | 0 | Liu Yandong | 29 |
| 12 | Liu Yandong | 32 | Liu Yunshan | 3 |
| 13 | Liu Yunshan | 0 | Ma Kai | 14 |
| 14 | Wang Gang | 3 | Meng Jianzhu | 0 |
| 15 | Wang Lequan | 4 | Sun Chunlan | 16 |
| 16 | Wang Qishan | 2 | Sun Zhengcai* | 5 |
| 17 | Wang Yang | 24 | Wang Huning | 17 |
| 18 | Wang Zhaoguo | 9 | Wang Qishan | 4 |
| 19 | Wu Bangguo | 24 | Wang Yang | 26 |
| 20 | Xi Jinping | 28 | Xu Qiliang | 4 |
| 21 | Xu Caihou* | 0 | Yu Zhengsheng | 0 |
| 22 | Yu Zhengsheng | 0 | Zhang Chuxian | 0 |
| 23 | Zhang Dejiang | 0 | Zhang Dejiang | 0 |
| 24 | Zhang Gaoli | 4 | Zhang Gaoli | 6 |
| 25 | Zhou Yongkang* | 5 | Zhao Leji | 70 |

Table A6: Alternative Measure of Connections using a 2 Year Window

In this table we repeat the regressions shown in Tables 2 and 3 using the variable *Connection_2yw*, an alternative measure of connections. Instead of using a 4 year window to consider that a director is connected, we use a 2 year window. The independent variable of interest is *Connection_2yw*, a binary variable equal to 1 if there is at least one director of the board connected to a member of the Politburo in year $t-1$, and zero otherwise. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

Panel A: Total Sample - Subsidies

| VARIABLES | All Firms | | | Private | | | State | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Connection_2yw | 0.002*** | 0.002** | 0.002** | 0.003*** | 0.003*** | 0.003*** | -0.001 | -0.001 | -0.001 |
| | (0.000) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.000) | (0.001) | (0.001) |
| Entertainment | | | 0.029 | | | 0.024 | | | 0.103 |
| | | | (0.052) | | | (0.064) | | | (0.114) |
| Controls | No | Yes | Yes | No | Yes | Yes | No | Yes | Yes |
| Observations | 7,266 | 7,266 | 7,266 | 5,119 | 5,119 | 5,119 | 2,147 | 2,147 | 2,147 |
| Adjusted R-squared | 0.520 | 0.522 | 0.522 | 0.540 | 0.541 | 0.541 | 0.509 | 0.513 | 0.514 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Panel B: Total Sample - Cost of Debt

| VARIABLES | All Firms | | | Private | | | State | | |
|---|---|---|---|---|---|---|---|---|---|
| | CoD | CoD | CoD | CoD | CoD | CoD | CoD | CoD | CoD |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Connection_2yw | -0.000** | -0.000 | -0.000 | 0.000 | 0.000 | 0.000 | -0.001 | -0.001 | -0.001 |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment | | | -0.050* | | | -0.045* | | | -0.007 |
| | | | (0.024) | | | (0.021) | | | (0.037) |
| Controls | No | Yes | Yes | No | Yes | Yes | No | Yes | Yes |
| Observations | 7,266 | 7,266 | 7,266 | 5,119 | 5,119 | 5,119 | 2,147 | 2,147 | 2,147 |
| Adjusted R-squared | 0.629 | 0.687 | 0.687 | 0.588 | 0.659 | 0.660 | 0.748 | 0.782 | 0.782 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

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Table A7: Alternative Measure of Connections using a 2 Year Window (Cont.)

In this table we repeat the regressions shown in Table 4 using the variable Connection_2yw, an alternative measure of connections. Instead of using a 4 year window to consider that a director is connected, we use a 2 year window. The independent variable of interest is Connection_2yw, a binary variable equal to 1 if there is at least one director of the board connected to a member of the Politburo in year $t-1$, and zero otherwise. Pre-2012 period dates from 2007 to 2012, while Post-2012 period spans from 2013 to 2017. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

Panel A: Subsidies Before and After 2012

| VARIABLES | Pre-2012 All Firms Subsidy (1) | Post-2012 All Firms Subsidy (2) | Pre-2012 Private Subsidy (3) | Pre-2012 Private Subsidy (4) | Post-2012 Private Subsidy (5) | Post-2012 Private Subsidy (6) | Pre-2012 State Subsidy (7) | Pre-2012 State Subsidy (8) | Post-2012 State Subsidy (9) | Post-2012 State Subsidy (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| Connection_2yw | 0.002 | 0.001 | 0.005 | 0.005 | 0.003** | 0.003** | 0.004 | 0.004 | -0.002 | -0.003 |
| | (0.005) | (0.001) | (0.005) | (0.005) | (0.001) | (0.001) | (0.006) | (0.006) | (0.002) | (0.002) |
| Entertainment | 0.067 | 0.249** | | -0.081 | | -0.002 | | 0.186 | | 0.086 |
| | (0.099) | (0.083) | | (0.093) | | (0.068) | | (0.171) | | (0.157) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 2,297 | 4,969 | 1,424 | 1,424 | 3,695 | 3,351 | 873 | 873 | 1,274 | 1,274 |
| Adjusted R-squared | 0.536 | 0.619 | 0.469 | 0.470 | 0.581 | 0.565 | 0.391 | 0.392 | 0.615 | 0.615 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Panel B: Total Sample - Cost of Debt Before and After 2012

| VARIABLES | Pre-2012 All Firms CoD (1) | Post-2012 All Firms CoD (2) | Pre-2012 Private CoD (3) | Pre-2012 Private CoD (4) | Post-2012 Private CoD (5) | Post-2012 Private CoD (6) | Pre-2012 State CoD (7) | Pre-2012 State CoD (8) | Post-2012 State CoD (9) | Post-2012 State CoD (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| Connection_2yw | 0.001 | -0.000 | 0.005** | 0.004* | -0.000 | -0.000 | -0.003** | -0.003** | -0.001 | -0.001 |
| | (0.001) | (0.001) | (0.002) | (0.002) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment | -0.041 | -0.055 | | -0.088 | | -0.028 | | 0.074 | | -0.064 |
| | (0.047) | (0.032) | | (0.061) | | (0.029) | | (0.047) | | (0.033) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 2,297 | 4,969 | 1,424 | 1,424 | 3,695 | 3,695 | 873 | 873 | 1,274 | 1,274 |
| Adjusted R-squared | 0.786 | 0.711 | 0.762 | 0.764 | 0.674 | 0.674 | 0.816 | 0.817 | 0.825 | 0.825 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Clustered robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

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Table A8: Alternative Measure of Connections using a 3 Year Window

In this table we repeat the regressions shown in Tables 2 and 3 using the variable *Connection_3yw*, an alternative measure of connections. Instead of using a 4 year window to consider that a director is connected, we use a 3 year window. The independent variable of interest is *Connection_3yw*, a binary variable equal to 1 if there is at least one director of the board connected to a member of the Politburo in year $t-1$, and zero otherwise. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

Panel A: Subsidies

| VARIABLES | All Firms | | | Private | | | State | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Connection_3yw | 0.001 | 0.001 | 0.001 | 0.002* | 0.002 | 0.002 | -0.001 | -0.001 | -0.001 |
| | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment | | | 0.029 | | | 0.022 | | | 0.094 |
| | | | (0.052) | | | (0.064) | | | (0.117) |
| Controls | No | Yes | Yes | No | Yes | Yes | No | Yes | Yes |
| Observations | 7,266 | 7,266 | 7,266 | 5,119 | 5,119 | 5,119 | 2,147 | 2,147 | 2,147 |
| Adjusted R-squared | 0.520 | 0.522 | 0.522 | 0.540 | 0.540 | 0.540 | 0.509 | 0.515 | 0.515 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Panel B: Cost of Debt

| VARIABLES | All Firms | | | Private | | | State | | |
|---|---|---|---|---|---|---|---|---|---|
| | CoD | CoD | CoD | CoD | CoD | CoD | CoD | CoD | CoD |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Connection_3yw | -0.001*** | -0.001** | -0.001* | -0.000 | 0.000 | 0.000 | -0.002** | -0.002** | -0.002** |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment | | | -0.050* | | | -0.045* | | | -0.004 |
| | | | (0.024) | | | (0.021) | | | (0.036) |
| Controls | No | Yes | Yes | No | Yes | Yes | No | Yes | Yes |
| Observations | 7,266 | 7,266 | 7,266 | 5,119 | 5,119 | 5,119 | 2,147 | 2,147 | 2,147 |
| Adjusted R-squared | 0.629 | 0.687 | 0.687 | 0.588 | 0.659 | 0.660 | 0.749 | 0.783 | 0.783 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

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Table A9: Alternative Measure of Connections using a 3 Year Window (Cont.)

In this table we repeat the regressions shown in Table 4 using the variable *Connection_3yw*, an alternative measure of connections. Instead of using a 4 year window to consider that a director is connected, we use a 3 year window. The independent variable of interest is *Connection_3yw*, a binary variable equal to 1 if there is at least one director of the board connected to a member of the Politburo in year $t - 1$, and zero otherwise. Pre-2012 period dates from 2007 to 2012, while Post-2012 period spans from 2013 to 2017. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

Panel A: Subsidies Before and After 2012

| VARIABLES | Pre-2012 | Post-2012 | Pre-2012 | Pre-2012 | Post-2012 | Post-2012 | Pre-2012 | Pre-2012 | Post-2012 | Post-2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| | All Firms | | Private | | | | State | | | |
| | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| Connection_3yw | -0.000 | 0.000 | 0.001 | 0.001 | 0.002* | 0.002* | 0.004 | 0.004 | -0.002 | -0.002 |
| | (0.003) | (0.001) | (0.003) | (0.003) | (0.001) | (0.001) | (0.006) | (0.006) | (0.001) | (0.002) |
| Entertainment | 0.065 | 0.250** | | -0.084 | | -0.003 | | 0.186 | | 0.085 |
| | (0.101) | (0.084) | | (0.087) | | (0.068) | | (0.171) | | (0.155) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 2,297 | 4,969 | 1,424 | 1,424 | 3,695 | 3,351 | 873 | 873 | 1,274 | 1,274 |
| Adjusted R-squared | 0.536 | 0.619 | 0.468 | 0.469 | 0.581 | 0.565 | 0.391 | 0.392 | 0.615 | 0.615 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Panel B: Cost of Debt Before and After 2012

| VARIABLES | Pre-2012 | Post-2012 | Pre-2012 | Pre-2012 | Post-2012 | Post-2012 | Pre-2012 | Pre-2012 | Post-2012 | Post-2012 |
|---|---|---|---|---|---|---|---|---|---|---|
| | All Firms | | Private | | | | State | | | |
| | CoD | CoD | CoD | CoD | CoD | CoD | CoD | CoD | CoD | CoD |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) |
| Connection_3yw | 0.001 | -0.000 | 0.003 | 0.003 | 0.000 | 0.000 | -0.003** | -0.003** | -0.002* | -0.002* |
| | (0.002) | (0.001) | (0.003) | (0.003) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment | -0.041 | -0.054 | | -0.090 | | -0.028 | | 0.074 | | -0.061 |
| | (0.048) | (0.032) | | (0.060) | | (0.029) | | (0.046) | | (0.033) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 2,297 | 4,969 | 1,424 | 1,424 | 3,695 | 3,695 | 873 | 873 | 1,274 | 1,274 |
| Adjusted R-squared | 0.786 | 0.711 | 0.761 | 0.763 | 0.674 | 0.674 | 0.816 | 0.817 | 0.826 | 0.826 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Clustered robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table A10: Connections in $t$

In this table we estimate regressions at the firm level. The dependent variables are subsidies over sales and cost of debt in year $t$. The independent variable of interest is *Connection*, a binary variable equal to 1 if there is at least one director of the board connected to a member of the Politburo in years $t-1$ and $t$, and zero if there is no connected director in those years. Other independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

Panel A: Total Sample

| VARIABLES | All Firms | | Private | | State | | All Firms | | Private | | State | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | CoD | CoD | CoD | CoD | CoD | CoD |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
| Connection | 0.001 | 0.001 | 0.003** | 0.003** | -0.002 | -0.002 | -0.001*** | -0.001* | -0.000 | 0.001 | -0.002*** | -0.003** |
| | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.002) | (0.000) | (0.000) | (0.000) | (0.001) | (0.000) | (0.001) |
| Controls | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes |
| Observations | 7,017 | 7,017 | 4,953 | 4,953 | 2,064 | 2,064 | 7,017 | 7,017 | 4,953 | 4,953 | 2,064 | 2,064 |
| Adjusted R-squared | 0.515 | 0.516 | 0.537 | 0.537 | 0.502 | 0.507 | 0.628 | 0.686 | 0.587 | 0.659 | 0.748 | 0.783 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Panel B: Matched Sample

| VARIABLES | All Firms | | Private | | State | | All Firms | | Private | | State | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | CoD | CoD | CoD | CoD | CoD | CoD |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
| Connection | 0.002 | 0.001 | 0.003*** | 0.003** | -0.002 | -0.002 | -0.001* | -0.001 | -0.000 | 0.000 | -0.003*** | -0.003** |
| | (0.001) | (0.001) | (0.001) | (0.001) | (0.002) | (0.002) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Controls | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes |
| Observations | 4,337 | 4,337 | 2,914 | 2,914 | 1,423 | 1,423 | 4,337 | 4,337 | 2,914 | 2,914 | 1,423 | 1,423 |
| Adjusted R-squared | 0.543 | 0.546 | 0.522 | 0.525 | 0.603 | 0.612 | 0.636 | 0.689 | 0.580 | 0.644 | 0.757 | 0.791 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Clustered robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table A11: Connections in $t-2$

In this table we estimate regressions at the firm level. The dependent variables are subsidies over sales and cost of debt in year $t$. The independent variable of interest is *Connection*, a binary variable equal to 1 if there is at least one director of the board connected to a member of the Politburo in years $t-1$ and $t$, and zero if there is no connected director in those years. Other independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

Panel A: Total Sample

| VARIABLES | All Firms | | Private | | State | | All Firms | | Private | | State | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | CoD | CoD | CoD | CoD | CoD | CoD |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
| Connection | 0.001 | 0.001 | 0.003** | 0.003** | -0.002 | -0.002 | -0.001*** | -0.001* | -0.000 | 0.001 | -0.002*** | -0.003** |
| | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.002) | (0.000) | (0.000) | (0.000) | (0.001) | (0.000) | (0.001) |
| Controls | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes |
| Observations | 7,017 | 7,017 | 4,953 | 4,953 | 2,064 | 2,064 | 7,017 | 7,017 | 4,953 | 4,953 | 2,064 | 2,064 |
| Adjusted R-squared | 0.515 | 0.516 | 0.537 | 0.537 | 0.502 | 0.507 | 0.628 | 0.686 | 0.587 | 0.659 | 0.748 | 0.783 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Panel B: Matched Sample

| VARIABLES | All Firms | | Private | | State | | All Firms | | Private | | State | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | Subsidy | CoD | CoD | CoD | CoD | CoD | CoD |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) |
| Connection | 0.002 | 0.001 | 0.003*** | 0.003** | -0.002 | -0.002 | -0.001* | -0.001 | -0.000 | 0.000 | -0.003*** | -0.003** |
| | (0.001) | (0.001) | (0.001) | (0.001) | (0.002) | (0.002) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Controls | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes | No | Yes |
| Observations | 4,337 | 4,337 | 2,914 | 2,914 | 1,423 | 1,423 | 4,337 | 4,337 | 2,914 | 2,914 | 1,423 | 1,423 |
| Adjusted R-squared | 0.543 | 0.546 | 0.522 | 0.525 | 0.603 | 0.612 | 0.636 | 0.689 | 0.580 | 0.644 | 0.757 | 0.791 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Clustered robust standard errors in parentheses

*** p<0.01, ** p<0.05, * p<0.1

## Table A12: Controls Explanation

We add a vector of control variables $x_{i,s,p,t-1}$ based on a large extant literature. Jin and Zhang (2019) find that leverage, size, and Tobin's Q (which we proxy with market to book ratio) significantly affect subsidies. They also control for return on assets even though they do not find a significant relation to subsidies. By contrast, Feng et al. (2015), who also analyze subsidies in China and use the same set of controls, find that return on assets can affect changes in subsidies. In the sample analyzed by Fang et al. (2018), both return on assets and Tobin's Q have a significant effect over subsidies. Following this literature, we control for leverage, size, return on assets and market-to-book ratio when estimating subsidies. We also add capital expenditure as firms that invest more are more likely to apply for subsidies or might have higher chances of receiving subsidies.

As for cost of debt, we control for leverage, since highly leveraged firms are likely to be considered riskier by lenders. We therefore expect high levels of leverage to be positively correlated with high cost of debt since a risk premium is to be expected. Firms with higher profitability measures are usually in a better position to repay debts, so we add return on assets as a control as well. We also include market-to-book ratio, as higher market valuation could translate into lower cost of debt (Dhaliwal et al., 2008), and size, measured as the log of total assets (Carey et al., 1993).We add three additional controls when estimating cost of debt as they have been shown to be potential determinants of it: cash holdings, sales growth, and capital expenditure. Cash holdings may impact cost of debt on opposite directions. On the one hand, firms with higher cash holdings, and thus higher liquidity, can service their debts easier, making the cost of debt lower. On the other hand, excessive cash holdings could be driven by a precautionary motive of risky firms leading to an increase in the cost of debt (Acharya et al., 2012). Additionally, the agency costs theory posits that excessive cash could signal poor investment decisions and poor management. If the liquidity effect dominates, then cash holdings will be negative related to cost of debt. If the latter two effects prevail, the coefficient will be positive (Jensen, 1986; Shailer and Wang, 2015). Growth sales have also been shown to determine firms' cost of debt (Lim et al., 2018; Pittman and Fortin, 2004; Rajan and Petersen, 1994). Firms with growing sales are expected to have lower cost of debt as they are considered less risky (Bliss and Gul, 2012). Shailer and Wang (2015), who analyzed the cost of debt of Chinese firms, show that firms with higher sales growth pay significantly lower interest rates. Capital expenditure reflects the firm's investment decision, which is related to a firm's investment opportunities and its cost of debt (Lai, 2011; Myers, 1977; Smith Jr and Watts, 1992).

Table A13: Distribution of Connections among Industries

Table A13 shows the distribution of firms conditional on industry. Columns (1) and (2) show the distribution over the total sample. Columns (3) and (6) show the conditional distribution of firms after splitting the sample into connected (columns (3) and (4)), and non-connected (columns (5) and (6)) firms. Source of the industry classification: China Securities Regulatory Commission (http://www.csrc.gov.cn/pub/csrc_en).

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| | Total sample | | Connected | | Non-connected | |
| Industry | No. | % | No. | % | No. | % |
| A0 (Agriculture, forestry, animal husbandry and fishery) | 91 | 1.25 | 5 | 0.50 | 86 | 1.37 |
| B0 (Mining industry) | 124 | 1.71 | 35 | 3.50 | 89 | 1.42 |
| B1 (Other mining activities) | 42 | 0.58 | 11 | 1.10 | 31 | 0.49 |
| C1 (Manufacturing textile industry) | 496 | 6.83 | 36 | 3.60 | 460 | 7.34 |
| C2 (Manufacturing wood industry) | 1,462 | 20.12 | 141 | 14.11 | 1,321 | 21.08 |
| C3 (Manufacturing metallic products) | 2,902 | 39.94 | 400 | 40.04 | 2,502 | 39.92 |
| C4 (Other manufacturing) | 161 | 2.22 | 12 | 1.20 | 149 | 2.38 |
| D4 (Electric and gas power) | 134 | 1.84 | 24 | 2.40 | 110 | 1.76 |
| E4 (Construction industry) | 135 | 1.86 | 36 | 3.60 | 99 | 1.58 |
| E5 (Architecture and other construction) | 67 | 0.92 | 18 | 1.80 | 49 | 0.78 |
| F5 (Wholesale and retail) | 263 | 3.62 | 34 | 3.40 | 229 | 3.65 |
| G5 (Transport and storage) | 233 | 3.21 | 47 | 4.70 | 186 | 2.97 |
| G6 (Postal service) | 2 | 0.03 | 0 | 0 | 2 | 0.03 |
| H6 (Accommodation and catering) | 21 | 0.29 | 1 | 0.10 | 20 | 0.32 |
| I6 (Information transmission, software and IT) | 539 | 7.42 | 120 | 12.01 | 419 | 6.69 |
| K7 (Real estate) | 256 | 3.52 | 38 | 3.80 | 218 | 3.48 |
| L7 (Leasing and commercial services) | 72 | 0.99 | 11 | 1.10 | 61 | 0.97 |
| M7 (Scientific research and technical service industry) | 48 | 0.66 | 7 | 0.70 | 41 | 0.65 |
| N7 (Water, environment and public facility management) | 69 | 0.95 | 6 | 7 | 62 | 0.99 |
| O7 (Resident service, repair, and other services industry) | 1 | 0.01 | 0 | 0 | 1 | 0.02 |
| O8 (Repair services) | 5 | 0.07 | 0 | 0 | 5 | 0.08 |
| Q8 (Health and social work) | 18 | 0.25 | 0 | 0 | 18 | 0.29 |
| R8 (Culture, sports and entertainment) | 91 | 1.25 | 15 | 1.50 | 76 | 1.21 |
| S9 (Diversified industries) | 34 | 0.47 | 1 | 0.10 | 33 | 0.53 |
| Total | 7,266 | 100 | 999 | 100 | 6,267 | 100 |

Table A14: Correlation Matrix

Table A14 shows the Pearson correlation among variables.

| | Subsidy | CoD | Connection | Entert. | Growth | Capex | ROA | Size | Leverage | Cash | Op.Rev. | State | M/B | Intang. | Indep. | Gender |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Subsidy | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| CoD | -0.017 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Connection | -0.021 | -0.060 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Entertainment | 0.253 | -0.130 | -0.059 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Growth | 0.107 | -0.058 | -0.043 | 0.080 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Capex | 0.049 | 0.059 | -0.006 | -0.086 | 0.003 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Return on Assets (ROA) | 0.051 | -0.256 | 0.033 | 0.030 | 0.173 | 0.095 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Size | -0.010 | 0.059 | 0.203 | -0.306 | 0.032 | 0.061 | 0.022 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Leverage | -0.123 | 0.283 | 0.050 | -0.283 | 0.010 | -0.009 | -0.349 | 0.489 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash holding | 0.067 | -0.298 | 0.008 | 0.143 | 0.015 | -0.089 | 0.251 | -0.201 | -0.333 | 1 | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating Revenue (Op.Rev.) | -0.226 | 0.001 | 0.019 | -0.233 | 0.049 | 0.013 | 0.128 | 0.030 | 0.120 | 0.033 | 1 | 0 | 0 | 0 | 0 | 0 |
| State | -0.066 | 0.029 | 0.108 | -0.251 | -0.097 | 0.030 | -0.071 | 0.401 | 0.300 | -0.043 | 0.088 | 1 | 0 | 0 | 0 | 0 |
| Market to Book (M/B) | 0.159 | -0.211 | -0.049 | 0.297 | 0.092 | -0.021 | 0.268 | -0.479 | -0.503 | 0.288 | -0.064 | -0.296 | 1 | 0 | 0 | 0 |
| Intangible | 0.014 | 0.078 | -0.014 | -0.009 | 0.158 | 0.157 | 0.053 | 0.011 | -0.045 | -0.071 | -0.074 | 0.054 | 0.027 | 1 | 0 | 0 |
| Board Indep. (Indep.) | -0.052 | 0.027 | -0.043 | -0.074 | -0.004 | 0.024 | -0.019 | 0.013 | 0.050 | -0.004 | 0.023 | 0.052 | -0.045 | -0.010 | 1 | 0 |
| Board Gender (Gender) | -0.023 | -0.003 | 0.002 | -0.035 | 0.012 | -0.001 | 0.006 | 0.065 | 0.044 | 0.001 | 0.051 | 0.065 | -0.068 | 0.005 | 0.153 | 1 |

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Table A15: Connections and Subsidies

In this table we report regressions with the full set of controls at the firm level. The dependent variable is the total subsidies over sales in year $t$. The independent variable of interest is *Connection*, a binary variable equal to 1 if there is at least one director of the board connected to a member of the Politburo in year $t-1$, and zero otherwise. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

## Panel A: Total Sample

| VARIABLES | All Firms | | | Private | | | State | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subsidy (1) | Subsidy (2) | Subsidy (3) | Subsidy (4) | Subsidy (5) | Subsidy (6) | Subsidy (7) | Subsidy (8) | Subsidy (9) |
| Connection | 0.001 | 0.001 | 0.001 | 0.002** | 0.002* | 0.002* | -0.002* | -0.002* | -0.002 |
| | (0.000) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment | | | 0.030 | | | 0.023 | | | 0.097 |
| | | | (0.052) | | | (0.064) | | | (0.116) |
| Size | | 0.000 | 0.000 | | 0.001 | 0.001 | | -0.001 | -0.001 |
| | | (0.001) | (0.001) | | (0.001) | (0.001) | | (0.002) | (0.002) |
| Leverage | | 0.001 | 0.001 | | -0.001 | -0.001 | | 0.013* | 0.013 |
| | | (0.002) | (0.002) | | (0.002) | (0.002) | | (0.007) | (0.007) |
| Market to Book | | 0.000 | -0.000 | | 0.000 | 0.000 | | 0.000 | 0.000 |
| | | (0.000) | (0.000) | | (0.000) | (0.000) | | (0.000) | (0.000) |
| Return on Assets | | 0.001 | 0.002 | | 0.002 | 0.003 | | -0.009 | -0.006 |
| | | (0.013) | (0.014) | | (0.015) | (0.016) | | (0.017) | (0.017) |
| Capex | | 0.014** | 0.014** | | 0.012 | 0.011 | | 0.028** | 0.027** |
| | | (0.006) | (0.006) | | (0.008) | (0.008) | | (0.010) | (0.010) |
| State | | -0.004 | -0.004 | | | | | | |
| | | (0.004) | (0.004) | | | | | | |
| Board Indep. | | 0.000 | 0.000 | | 0.000 | 0.000 | | 0.000 | 0.000 |
| | | (0.002) | (0.002) | | (0.001) | (0.001) | | (0.003) | (0.002) |
| Board Gender | | -0.004*** | -0.004*** | | -0.003*** | -0.003** | | -0.008* | -0.008 |
| | | (0.001) | (0.001) | | (0.001) | (0.001) | | (0.004) | (0.005) |
| Constant | 0.013*** | 0.009 | 0.008 | 0.014*** | 0.003 | 0.001 | 0.012*** | 0.040 | 0.033 |
| | (0.000) | (0.026) | (0.027) | (0.000) | (0.021) | (0.023) | (0.000) | (0.037) | (0.034) |
| Observations | 7,266 | 7,266 | 7,266 | 5,119 | 5,119 | 5,119 | 2,147 | 2,147 | 2,147 |
| Adj. R-squared | 0.520 | 0.522 | 0.522 | 0.540 | 0.540 | 0.540 | 0.509 | 0.515 | 0.515 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

## Panel B: Matched Sample

| VARIABLES | All Firms | | | Private | | | State | | |
|---|---|---|---|---|---|---|---|---|---|
| | Subsidy (1) | Subsidy (2) | Subsidy (3) | Subsidy (4) | Subsidy (5) | Subsidy (6) | Subsidy (7) | Subsidy (8) | Subsidy (9) |
| Connection | 0.001 | 0.001 | 0.001 | 0.002** | 0.003** | 0.003** | -0.002 | -0.002 | -0.002 |
| | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment | | | 0.094 | | | 0.122 | | | 0.027 |
| | | | (0.096) | | | (0.109) | | | (0.086) |
| Size | | 0.001 | 0.001 | | 0.002 | 0.002 | | -0.001 | -0.001 |
| | | (0.001) | (0.002) | | (0.001) | (0.001) | | (0.001) | (0.001) |
| Leverage | | 0.002 | 0.002 | | -0.001 | -0.001 | | 0.017** | 0.017** |
| | | (0.003) | (0.003) | | (0.004) | (0.005) | | (0.007) | (0.007) |
| Market to Book | | 0.000 | 0.000 | | 0.000 | 0.000 | | 0.001 | 0.001 |
| | | (0.000) | (0.000) | | (0.000) | (0.000) | | (0.000) | (0.000) |
| Return on Assets | | -0.008 | -0.005 | | -0.002 | 0.002 | | -0.020 | -0.019 |
| | | (0.012) | (0.014) | | (0.018) | (0.021) | | (0.011) | (0.011) |
| Capex | | 0.021** | 0.020** | | 0.014 | 0.014 | | 0.047** | 0.047** |
| | | (0.008) | (0.008) | | (0.013) | (0.012) | | (0.015) | (0.015) |
| State | | -0.006 | -0.006 | | | | | | |
| | | (0.007) | (0.007) | | | | | | |
| Board Indep. | | 0.000 | 0.000 | | -0.000 | -0.001 | | 0.001 | 0.001 |
| | | (0.001) | (0.001) | | (0.001) | (0.001) | | (0.003) | (0.002) |
| Board Gender | | -0.004** | -0.005** | | -0.003 | -0.003 | | -0.008*** | -0.008*** |
| | | (0.002) | (0.002) | | (0.002) | (0.002) | | (0.002) | (0.002) |
| Constant | 0.013*** | -0.001 | -0.007 | 0.014*** | -0.023 | -0.034 | 0.013*** | 0.025 | 0.023 |
| | (0.000) | (0.032) | (0.036) | (0.000) | (0.027) | (0.033) | (0.000) | (0.022) | (0.027) |
| Observations | 4,532 | 4,532 | 4,532 | 3,050 | 3,050 | 3,050 | 1,482 | 1,482 | 1,482 |
| Adj. R-squared | 0.549 | 0.552 | 0.553 | 0.528 | 0.528 | 0.531 | 0.609 | 0.625 | 0.625 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Clustered robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

## Table A16: Connections and Cost of Debt

In this table we report regressions with the full set of controls at the firm level. The dependent variable is the cost of debt (CoD) in year $t$: interest paid over total debt. The independent variable of interest is *Connection* in year $t-1$, a binary variable equal to 1 if there is at least one director of the board connected to a member of the Politburo, and zero otherwise. Independent variables are lagged one year. All specifications include firm, year, industry and province fixed effects.

### Panel A: Total Sample

| VARIABLES | All Firms | | | Private | | | State | | |
|---|---|---|---|---|---|---|---|---|---|
| | CoD (1) | CoD (2) | CoD (3) | CoD (4) | CoD (5) | CoD (6) | CoD (7) | CoD (8) | CoD (9) |
| Connection | -0.001*** | -0.001*** | -0.001*** | -0.001 | -0.000 | -0.000 | -0.002** | -0.002** | -0.002** |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment | | | -0.050* | | | -0.045* | | | -0.004 |
| | | | (0.024) | | | (0.021) | | | (0.036) |
| Size | | 0.002* | 0.002* | | 0.002** | 0.002** | | 0.002 | 0.002 |
| | | (0.001) | (0.001) | | (0.001) | (0.001) | | (0.001) | (0.001) |
| Leverage | | 0.035*** | 0.035*** | | 0.038*** | 0.038*** | | 0.029*** | 0.029*** |
| | | (0.003) | (0.003) | | (0.003) | (0.003) | | (0.004) | (0.004) |
| Market to Book | | -0.000 | -0.000 | | -0.000 | -0.000 | | 0.000 | 0.000 |
| | | (0.000) | (0.000) | | (0.000) | (0.000) | | (0.000) | (0.000) |
| Return on Assets | | -0.018*** | -0.020*** | | -0.019** | -0.021*** | | -0.018 | -0.018 |
| | | (0.006) | (0.006) | | (0.006) | (0.006) | | (0.011) | (0.011) |
| Capex | | -0.009 | -0.009 | | -0.005 | -0.005 | | -0.030*** | -0.030*** |
| | | (0.006) | (0.006) | | (0.007) | (0.007) | | (0.006) | (0.006) |
| Cash Holding | | -0.007*** | -0.008*** | | -0.008*** | -0.008*** | | -0.009* | -0.009* |
| | | (0.002) | (0.002) | | (0.002) | (0.002) | | (0.005) | (0.005) |
| Growth | | -0.001* | -0.001* | | -0.001** | -0.001** | | -0.000 | -0.000 |
| | | (0.000) | (0.000) | | (0.000) | (0.000) | | (0.000) | (0.000) |
| State | -0.003 | -0.005** | -0.005** | | | | | | |
| | (0.002) | (0.002) | (0.002) | | | | | | |
| Board Indep. | | -0.001 | -0.001 | | -0.000 | -0.000 | | -0.001 | -0.001 |
| | | (0.001) | (0.001) | | (0.001) | (0.001) | | (0.001) | (0.001) |
| Board Gender | | -0.000 | -0.000 | | -0.001 | -0.001 | | 0.001 | 0.001 |
| | | (0.001) | (0.001) | | (0.001) | (0.001) | | (0.001) | (0.001) |
| Constant | 0.020*** | -0.026 | -0.023 | 0.018 | -0.043** | -0.040* | 0.021*** | -0.027 | -0.027 |
| | (0.001) | (0.019) | (0.019) | (0.000) | (0.019) | (0.019) | (0.000) | (0.025) | (0.025) |
| Observations | 7,266 | 7,266 | 7,266 | 5,119 | 5,119 | 5,119 | 2,147 | 2,147 | 2,147 |
| Adj. R-squared | 0.629 | 0.687 | 0.687 | 0.588 | 0.659 | 0.660 | 0.749 | 0.783 | 0.783 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

### Panel B: Matched Sample

| VARIABLES | All Firms | | | Private | | | State | | |
|---|---|---|---|---|---|---|---|---|---|
| | CoD (1) | CoD (2) | CoD (3) | CoD (4) | CoD (5) | CoD (6) | CoD (7) | CoD (8) | CoD (9) |
| Connection | -0.001*** | -0.001** | -0.001** | -0.001** | -0.001 | -0.001 | -0.002*** | -0.002*** | -0.002*** |
| | (0.000) | (0.000) | (0.001) | (0.000) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment | | | -0.057** | | | -0.064** | | | 0.023 |
| | | | (0.025) | | | (0.027) | | | (0.069) |
| Size | | 0.001 | 0.001 | | 0.002 | 0.002 | | 0.000 | 0.000 |
| | | (0.001) | (0.001) | | (0.001) | (0.001) | | (0.001) | (0.001) |
| Leverage | | 0.034*** | 0.034*** | | 0.035*** | 0.035*** | | 0.031*** | 0.031*** |
| | | (0.003) | (0.003) | | (0.003) | (0.003) | | (0.005) | (0.005) |
| Market to Book | | -0.000** | -0.000** | | -0.000*** | -0.000** | | 0.000 | 0.000 |
| | | (0.000) | (0.000) | | (0.000) | (0.000) | | (0.000) | (0.000) |
| Return on Assets | | -0.022*** | -0.024*** | | -0.027*** | -0.029*** | | -0.012 | -0.012 |
| | | (0.005) | (0.005) | | (0.005) | (0.005) | | (0.010) | (0.009) |
| Capex | | -0.017*** | -0.016** | | -0.012 | -0.012 | | -0.031*** | -0.031*** |
| | | (0.005) | (0.005) | | (0.007) | (0.007) | | (0.009) | (0.009) |
| Cash Holdings | | -0.008** | -0.008*** | | -0.009*** | -0.010*** | | -0.007 | -0.007 |
| | | (0.002) | (0.002) | | (0.002) | (0.003) | | (0.005) | (0.005) |
| Growth | | -0.001 | -0.001* | | -0.001* | -0.001** | | -0.000 | -0.000 |
| | | (0.000) | (0.000) | | (0.000) | (0.001) | | (0.000) | (0.000) |
| State | -0.005 | -0.006 | -0.006 | | | | | | |
| | (0.005) | (0.004) | (0.004) | | | | | | |
| Board Indep. | | -0.001 | -0.001 | | -0.001 | -0.001 | | 0.000 | 0.000 |
| | | (0.001) | (0.001) | | (0.001) | (0.001) | | (0.001) | (0.001) |
| Board Gneder | | 0.000 | 0.000 | | -0.000 | 0.000 | | -0.001 | -0.001 |
| | | (0.001) | (0.001) | | (0.002) | (0.002) | | (0.001) | (0.001) |
| Constant | 0.021*** | -0.013 | -0.009 | 0.018*** | -0.032 | -0.027 | 0.021*** | -0.001 | -0.003 |
| | (0.001) | (0.021) | (0.020) | (0.000) | (0.026) | (0.025) | (0.000) | (0.027) | (0.028) |
| Observations | 4,532 | 4,532 | 4,532 | 3,050 | 3,050 | 3,050 | 1,482 | 1,482 | 1,482 |
| Adj. R-squared | 0.639 | 0.692 | 0.693 | 0.583 | 0.648 | 0.648 | 0.760 | 0.794 | 0.793 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

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Clustered robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

## Table A17: Subsidies Before and After the Anti-Corruption Campaign

In this table we report regressions with the full set of controls at the firm level, splitting the matched sample between before and after the Anti-Corruption Campaign of 2012. Pre-2012 period dates from 2007 to 2012, while Post-2012 period spans from 2013 to 2017. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

| VARIABLES | Pre-2012 Subsidy (1) | Post-2012 Subsidy (2) | Pre-2012 Private Subsidy (3) | Pre-2012 Private Subsidy (4) | Post-2012 Private Subsidy (5) | Post-2012 Private Subsidy (6) | Pre-2012 State Subsidy (7) | Pre-2012 State Subsidy (8) | Post-2012 State Subsidy (9) | Post-2012 State Subsidy (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| | All Firms | | | | | | | | | |
| Connection | 0.000 (0.003) | 0.001 (0.001) | 0.002 (0.005) | 0.002 (0.006) | 0.002** (0.001) | 0.002** (0.001) | -0.003 (0.002) | -0.003 (0.001) | -0.003 (0.002) | -0.003 (0.002) |
| Entertainment | 0.010 (0.074) | 0.036 (0.044) | | 0.041 (0.237) | | 0.018 (0.071) | | -0.153** (0.057) | | 0.266* (0.098) |
| Size | 0.001 (0.001) | 0.002 (0.002) | 0.003*** (0.000) | 0.003*** (0.000) | 0.003 (0.002) | 0.003 (0.002) | -0.003 (0.003) | -0.004 (0.003) | -0.003* (0.001) | -0.003 (0.001) |
| Leverage | 0.005 (0.012) | 0.000 (0.004) | -0.017 (0.020) | -0.017 (0.029) | -0.001 (0.004) | -0.001 (0.004) | 0.042* (0.017) | 0.041* (0.017) | 0.009 (0.010) | 0.009 (0.010) |
| Market to Book | 0.000 (0.000) | 0.000 (0.000) | -0.000 (0.001) | -0.000 (0.001) | 0.001 (0.000) | 0.001 (0.000) | 0.001 (0.001) | 0.001 (0.001) | 0.001 (0.001) | 0.001 (0.001) |
| Return on Assets | -0.008 (0.015) | -0.007 (0.027) | -0.026 (0.019) | -0.025 (0.020) | -0.002 (0.032) | -0.001 (0.035) | 0.014 (0.018) | 0.011 (0.018) | -0.028 (0.021) | -0.022 (0.021) |
| Capex | 0.009 (0.009) | 0.043*** (0.007) | 0.007 (0.024) | 0.008 (0.035) | 0.028 (0.016) | 0.028 (0.015) | 0.016 (0.012) | 0.018 (0.013) | 0.093** (0.027) | 0.093** (0.027) |
| Board Indep. | -0.006 (0.003) | 0.001 (0.001) | -0.006 (0.006) | -0.006 (0.008) | 0.001 (0.002) | 0.001 (0.002) | -0.002 (0.004) | -0.002 (0.004) | 0.001 (0.002) | 0.001 (0.002) |
| Board Gender | -0.002 (0.003) | -0.004 (0.002) | 0.003 (0.002) | 0.003 (0.003) | -0.003 (0.002) | -0.003 (0.002) | -0.006** (0.002) | -0.005** (0.002) | -0.007 (0.004) | -0.007 (0.004) |
| Constant | 0.000 (0.028) | -0.025 (0.039) | -0.045*** (0.001) | -0.047*** (0.006) | -0.052 (0.035) | -0.054 (0.038) | 0.069 (0.064) | 0.094 (0.071) | 0.078* (0.029) | 0.064 (0.033) |
| Observations | 1,493 | 3,039 | 934 | 934 | 2,116 | 2,116 | 559 | 559 | 923 | 923 |
| Adj. R-squared | 0.547 | 0.601 | 0.425 | 0.424 | 0.607 | 0.607 | 0.700 | 0.701 | 0.601 | 0.601 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Clustered robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

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## Table A18: Cost of Debt Before and After the Anti-Corruption Campaign

In this table we report regressions with the full set of controls at the firm level, splitting the matched sample between before and after the Anti-Corruption Campaign of 2012. The pre-2012 period dates from 2007 to 2012, while the post-2012 period spans from 2013 to 2017. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

| VARIABLES | Pre-2012 All Firms CoD (1) | Post-2012 All Firms CoD (2) | Pre-2012 Private CoD (3) | Pre-2012 Private CoD (4) | Post-2012 Private CoD (5) | Post-2012 Private CoD (6) | Pre-2012 State CoD (7) | Pre-2012 State CoD (8) | Post-2012 State CoD (9) | Post-2012 State CoD (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| Connection | 0.003 | -0.002 | 0.006 | 0.006 | -0.001 | -0.001 | -0.003** | -0.003** | -0.002* | -0.002* |
| | (0.002) | (0.001) | (0.003) | (0.003) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment | -0.004 | -0.053 | | -0.042 | | -0.059 | | 0.041 | | -0.013 |
| | (0.058) | (0.032) | | (0.083) | | (0.035) | | (0.045) | | (0.041) |
| Size | 0.000 | 0.003* | -0.001 | -0.001 | 0.004** | 0.004** | 0.001 | 0.001 | 0.003* | 0.003* |
| | (0.002) | (0.001) | (0.002) | (0.002) | (0.001) | (0.001) | (0.002) | (0.002) | (0.001) | (0.001) |
| Leverage | 0.030*** | 0.041*** | 0.039*** | 0.039*** | 0.042*** | 0.042*** | 0.015* | 0.015* | 0.039*** | 0.039*** |
| | (0.007) | (0.004) | (0.007) | (0.008) | (0.006) | (0.005) | (0.006) | (0.006) | (0.006) | (0.006) |
| Market to Book | 0.000 | -0.001** | -0.000 | -0.000 | -0.001** | -0.001** | 0.001 | 0.001 | -0.000 | -0.000 |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.001) | (0.001) | (0.001) | (0.001) |
| Return on Assets | -0.011 | -0.018*** | -0.019 | -0.019 | -0.019*** | -0.021*** | -0.006 | -0.005 | -0.009 | -0.010 |
| | (0.015) | (0.003) | (0.019) | (0.020) | (0.004) | (0.004) | (0.011) | (0.011) | (0.013) | (0.013) |
| Capex | -0.026 | -0.013 | -0.022 | -0.023 | -0.016 | -0.016 | -0.029 | -0.030 | -0.009 | -0.009 |
| | (0.017) | (0.010) | (0.019) | (0.019) | (0.011) | (0.011) | (0.016) | (0.016) | (0.007) | (0.007) |
| Cash Holdings | 0.001 | -0.010* | -0.001 | -0.002 | -0.009 | -0.009 | 0.009 | 0.009 | -0.023 | -0.023 |
| | (0.004) | (0.004) | (0.004) | (0.004) | (0.005) | (0.005) | (0.010) | (0.010) | (0.012) | (0.012) |
| Growth | -0.000 | -0.001 | 0.001 | 0.001 | -0.001 | -0.001* | -0.000 | -0.000 | -0.000 | -0.000 |
| | (0.001) | (0.001) | (0.002) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| State | -0.014 | -0.008 | | | | | | | | |
| | (0.007) | (0.004) | | | | | | | | |
| Board Indep. | 0.003 | -0.000 | 0.003 | 0.003 | -0.001 | -0.001 | 0.002 | 0.002 | -0.000 | -0.000 |
| | (0.002) | (0.001) | (0.003) | (0.003) | (0.001) | (0.001) | (0.004) | (0.004) | (0.001) | (0.001) |
| Board Gender | -0.002 | -0.001 | -0.004 | -0.003 | -0.001 | -0.001 | -0.001 | -0.001 | -0.003 | -0.003 |
| | (0.002) | (0.002) | (0.002) | (0.003) | (0.002) | (0.002) | (0.002) | (0.002) | (0.002) | (0.002) |
| Constant | 0.006 | -0.052 | 0.024 | 0.025 | -0.074** | -0.069* | -0.006 | -0.012 | -0.053 | -0.053 |
| | (0.041) | (0.031) | (0.045) | (0.044) | (0.023) | (0.026) | (0.052) | (0.055) | (0.028) | (0.028) |
| Observations | 1,493 | 3,039 | 934 | 934 | 2,116 | 2,116 | 559 | 559 | 923 | 923 |
| Adj. R-squared | 0.768 | 0.707 | 0.723 | 0.722 | 0.638 | 0.638 | 0.817 | 0.817 | 0.836 | 0.835 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Clustered Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

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Table A19: Connections and Growth

In this table we estimate regressions at the firm level. The dependent variable is growth of sales from year $t-1$ to year $t$. The independent variable of interest is *Connection*, a binary variable equal to 1 if there is at least one director of the board connected to a member of the Politburo, and zero otherwise. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

| | Total Sample | | | | Matched Sample | | | |
|---|---|---|---|---|---|---|---|---|
| | All Firms | | Private | State | All Firms | | Private | State |
| VARIABLES | Growth | Growth | Growth | Growth | Growth | Growth | Growth | Growth |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| Connection | -0.051** | -0.056*** | -0.063** | -0.044 | -0.039 | -0.043** | -0.042 | -0.047* |
| | (0.021) | (0.017) | (0.023) | (0.028) | (0.024) | (0.018) | (0.025) | (0.023) |
| Entertainment | | 14.741** | 16.861** | 5.239* | | 9.480** | 8.886** | 12.375** |
| | | (6.260) | (7.088) | (2.659) | | (3.166) | (3.799) | (4.511) |
| Size | -0.222*** | -0.180*** | -0.165* | -0.227** | -0.297*** | -0.266*** | -0.275*** | -0.343** |
| | (0.048) | (0.048) | (0.077) | (0.075) | (0.063) | (0.063) | (0.084) | (0.135) |
| Leverage | 0.312** | 0.371* | 0.397 | 0.350* | 0.344 | 0.361 | 0.327 | 0.454* |
| | (0.140) | (0.179) | (0.224) | (0.159) | (0.203) | (0.249) | (0.249) | (0.227) |
| Market to Book | 0.042*** | 0.041*** | 0.042** | 0.036** | 0.044*** | 0.044*** | 0.042** | 0.044** |
| | (0.011) | (0.012) | (0.014) | (0.014) | (0.012) | (0.013) | (0.014) | (0.016) |
| Cash Holding | -0.106** | -0.040 | 0.044 | -0.331** | 0.042 | 0.081 | 0.145 | -0.043 |
| | (0.039) | (0.059) | (0.064) | (0.145) | (0.072) | (0.078) | (0.097) | (0.253) |
| Capex | -0.540 | -0.621 | -0.948** | 0.646 | 0.059 | 0.031 | -0.321 | 1.025 |
| | (0.326) | (0.392) | (0.338) | (0.394) | (0.323) | (0.346) | (0.229) | (0.698) |
| State | 0.122*** | 0.085*** | | | 0.166** | 0.160** | | |
| | (0.023) | (0.026) | | | (0.063) | (0.067) | | |
| Board Indep. | 0.023 | 0.028 | 0.011 | 0.024 | 0.040 | 0.040 | 0.079 | -0.018 |
| | (0.028) | (0.025) | (0.038) | (0.039) | (0.033) | (0.034) | (0.062) | (0.059) |
| Board Gender | 0.087 | 0.067 | 0.137* | -0.042 | 0.025 | 0.023 | 0.044 | 0.028 |
| | (0.053) | (0.056) | (0.066) | (0.034) | (0.038) | (0.039) | (0.030) | (0.065) |
| Constant | 4.800*** | 3.704*** | 3.256* | 5.101** | 6.376*** | 5.601*** | 5.736*** | 7.527** |
| | (0.989) | (1.041) | (1.707) | (1.646) | (1.271) | (1.265) | (1.704) | (3.000) |
| | | | | | | | | |
| Observations | 7,266 | 7,266 | 5,119 | 2,147 | 4,532 | 4,532 | 3,050 | 1,482 |
| Adj. R-squared | 0.185 | 0.219 | 0.243 | 0.089 | 0.115 | 0.134 | 0.108 | 0.105 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Clustered robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

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### Table A20: Connections and Investment

In this table we estimate regressions at the firm level. The dependent variable is investment, proxied by capital expenditure (Capex), from year $t-1$ to year $t$. The independent variable of interest is *Connection*, a binary variable equal to 1 if there is at least one director of the board connected to a member of the Politburo, and zero otherwise. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

| VARIABLES | Total Sample | | | | Matched Sample | | | |
|---|---|---|---|---|---|---|---|---|
| | All Firms | | Private | State | All Firms | | Private | State |
| | Capex | Capex | Capex | Capex | Capex | Capex | Capex | Capex |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
| Connection | 0.002 | 0.002 | -0.002 | 0.009*** | 0.002 | 0.002 | -0.002 | 0.009** |
| | (0.003) | (0.003) | (0.004) | (0.003) | (0.004) | (0.004) | (0.004) | (0.003) |
| Entertainment | | -0.076 | -0.124 | -0.010 | | 0.022 | -0.004 | -0.138 |
| | | (0.089) | (0.079) | (0.290) | | (0.159) | (0.168) | (0.639) |
| Size | 0.002 | 0.002 | 0.004* | -0.004 | 0.004*** | 0.004** | 0.006 | -0.001 |
| | (0.001) | (0.002) | (0.002) | (0.007) | (0.001) | (0.002) | (0.004) | (0.004) |
| Leverage | -0.018 | -0.018 | -0.008 | -0.038 | -0.012 | -0.012 | 0.008 | -0.047 |
| | (0.015) | (0.015) | (0.007) | (0.026) | (0.018) | (0.018) | (0.010) | (0.033) |
| Market to Book | 0.002** | 0.002** | 0.002** | 0.003 | 0.002 | 0.002 | 0.002 | 0.003 |
| | (0.001) | (0.001) | (0.001) | (0.002) | (0.001) | (0.001) | (0.001) | (0.002) |
| Cash Holding | 0.053*** | 0.053*** | 0.049*** | 0.066** | 0.050* | 0.050* | 0.052*** | 0.045 |
| | (0.014) | (0.014) | (0.011) | (0.029) | (0.026) | (0.024) | (0.014) | (0.030) |
| Operating Revenue | 0.002 | 0.001 | 0.002 | 0.000 | 0.000 | 0.000 | 0.000 | -0.002 |
| | (0.003) | (0.003) | (0.003) | (0.006) | (0.003) | (0.004) | (0.004) | (0.006) |
| Intangible | 0.058** | 0.057** | 0.078*** | 0.032 | 0.061 | 0.061 | 0.074* | 0.055 |
| | (0.024) | (0.023) | (0.014) | (0.054) | (0.038) | (0.038) | (0.039) | (0.080) |
| State | -0.015 | -0.015 | | | -0.020 | -0.020 | | |
| | (0.014) | (0.013) | | | (0.014) | (0.012) | | |
| Board Indep. | 0.004 | 0.004 | 0.000 | 0.010 | 0.004 | 0.004 | 0.002 | 0.009 |
| | (0.003) | (0.003) | (0.003) | (0.006) | (0.005) | (0.005) | (0.005) | (0.009) |
| Board Gender | 0.005 | 0.005 | 0.005 | 0.003 | 0.002 | 0.002 | 0.008 | -0.005 |
| | (0.005) | (0.005) | (0.004) | (0.010) | (0.007) | (0.007) | (0.008) | (0.007) |
| Constant | -0.008 | 0.000 | -0.056 | 0.135 | -0.036 | -0.039 | -0.103 | 0.081 |
| | (0.036) | (0.040) | (0.043) | (0.162) | (0.027) | (0.036) | (0.097) | (0.105) |
| Observations | 5,402 | 5,402 | 3,537 | 1,865 | 3,419 | 3,419 | 2,138 | 1,281 |
| Adj. R-squared | 0.521 | 0.521 | 0.498 | 0.566 | 0.508 | 0.507 | 0.491 | 0.530 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Clustered robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table A21: Connections and Total Subsidies

In this table we estimate regressions at the firm level. The dependent variable is total subsidies (in millions) in year $t$. The independent variable of interest is *Connection*, a binary variable equal to 1 if there is at least one director of the board connected to a member of the Politburo in year $t-1$, and zero otherwise. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

| VARIABLES | All Firms | | | Private | | | State | | |
|---|---|---|---|---|---|---|---|---|---|
| | Tot_Subs (1) | Tot_Subs (2) | Tot_Subs (3) | Tot_Subs (4) | Tot_Subs (5) | Tot_Subs (6) | Tot_Subs (7) | Tot_Subs (8) | Tot_Subs (9) |
| Connection | 13.439*** | 13.252** | 13.348** | 7.370*** | 8.463** | 8.501** | 22.407*** | 19.932* | 21.052* |
| | (3.772) | (4.458) | (4.448) | (2.190) | (3.566) | (3.475) | (7.866) | (10.758) | (11.064) |
| Entertainment | | | -212.172 | | | 188.238 | | | -733.250 |
| | | | (261.576) | | | (119.264) | | | (790.447) |
| Size | | 24.409** | 23.857* | | 23.282*** | 23.934*** | | 48.867* | 46.444* |
| | | (10.557) | (10.739) | | (4.684) | (5.107) | | (24.976) | (24.726) |
| Leverage | | 28.753** | 28.246** | | 9.685 | 10.199 | | 121.540*** | 120.173** |
| | | (11.450) | (11.285) | | (10.835) | (10.934) | | (44.035) | (44.264) |
| Market to Book | | 2.662 | 2.711 | | 3.633** | 3.603** | | 5.974 | 6.213 |
| | | (2.056) | (2.035) | | (1.620) | (1.598) | | (4.070) | (4.141) |
| Return on Assets | | 81.401 | 74.746 | | 119.031* | 125.488* | | -19.334 | -36.686 |
| | | (71.408) | (74.552) | | (63.969) | (68.107) | | (148.145) | (149.732) |
| Capex | | 77.690 | 78.943* | | 62.669 | 61.973 | | 149.369 | 152.460 |
| | | (43.494) | (43.285) | | (41.283) | (40.674) | | (90.669) | (90.148) |
| State | | -21.304*** | -21.219*** | | | | | | |
| | | (5.542) | (5.689) | | | | | | |
| Board Indep. | | 9.722* | 9.736* | | -4.755* | -4.899* | | 35.865*** | 35.978*** |
| | | (5.009) | (4.931) | | (2.176) | (2.528) | | (7.890) | (8.099) |
| Board Gender | | -19.974* | -19.903* | | -11.952 | -12.179 | | -56.959*** | -57.181** |
| | | (9.738) | (9.837) | | (7.325) | (7.220) | | (14.416) | (18.088) |
| Constant | 48.754*** | -494.780* | -480.109* | 23.625*** | -490.741*** | -507.465*** | 100.808*** | -1,062.556* | -1,001.977 |
| | (0.601) | (229.547) | (234.645) | (0.268) | (105.842) | (116.888) | (0.629) | (579.642) | (574.121) |
| Observations | 4,531 | 4,531 | 4,531 | 3,049 | 3,049 | 3,049 | 1,482 | 1,482 | 1,482 |
| Adj. R-squared | 0.667 | 0.672 | 0.672 | 0.630 | 0.653 | 0.653 | 0.665 | 0.673 | 0.673 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Clustered robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

Table A22: Connections and Cost of Debt: Truncated Sample

In this table we estimate regressions at the firm level over a truncated sample. The sample was truncated by eliminating the 10% largest firms. The dependent variable is cost of debt (CoD) in year $t$: interest paid over total debt. The independent variable of interest is *Connection* in year $t-1$, a binary variable equal to 1 if there is at least one director of the board connected to a member of the Politburo, and zero otherwise. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

| | Total sample | | | Matched sample | | | | |
| | | | | | | | Pre-2012 | Post-2012 |
| | All Firms | Private | State | All Firms | Private | State | State | State |
| VARIABLES | CoD | CoD | CoD | CoD | CoD | CoD | CoD | CoD |
| | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) |
|---|---|---|---|---|---|---|---|---|
| Connection | -0.001** | -0.000 | -0.003** | -0.001* | -0.001 | -0.003*** | -0.004** | -0.003** |
| | (0.000) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment | -0.049 | -0.049* | 0.012 | -0.058* | -0.066* | 0.035 | 0.031 | -0.024 |
| | (0.030) | (0.025) | (0.052) | (0.031) | (0.035) | (0.066) | (0.043) | (0.062) |
| Size | 0.002** | 0.003*** | 0.002 | 0.001 | 0.002* | 0.001 | 0.002 | 0.003 |
| | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.002) | (0.003) |
| Leverage | 0.036*** | 0.038*** | 0.030*** | 0.035*** | 0.035*** | 0.033*** | 0.013 | 0.044*** |
| | (0.002) | (0.003) | (0.005) | (0.003) | (0.003) | (0.006) | (0.009) | (0.004) |
| Market to Book | -0.000 | -0.000 | 0.000 | -0.000 | -0.000* | 0.000 | 0.001 | -0.000 |
| | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.000) | (0.001) | (0.001) |
| Cash Holdings | -0.008*** | -0.008*** | -0.010* | -0.009** | -0.010*** | -0.007 | 0.016 | -0.026 |
| | (0.002) | (0.002) | (0.005) | (0.003) | (0.003) | (0.006) | (0.010) | (0.013) |
| Growth | -0.001** | -0.001** | -0.000 | -0.001* | -0.001** | -0.000 | 0.000 | 0.000 |
| | (0.000) | (0.000) | (0.001) | (0.001) | (0.000) | (0.001) | (0.001) | (0.002) |
| Capex | -0.008 | -0.004 | -0.030*** | -0.014* | -0.010 | -0.029*** | -0.033 | -0.004 |
| | (0.007) | (0.008) | (0.006) | (0.007) | (0.009) | (0.009) | (0.025) | (0.011) |
| Return on Assets | -0.023*** | -0.022*** | -0.022* | -0.029*** | -0.032*** | -0.016 | -0.017 | -0.013 |
| | (0.006) | (0.006) | (0.012) | (0.007) | (0.006) | (0.013) | (0.014) | (0.012) |
| State | -0.004** | | | -0.006 | | | | |
| | (0.002) | | | (0.004) | | | | |
| Board Indep. | -0.000 | -0.001 | 0.001 | 0.000 | -0.001 | 0.002* | 0.004 | 0.002* |
| | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.005) | (0.001) |
| Board Gender | -0.000 | -0.001 | -0.000 | 0.000 | 0.000 | -0.001 | -0.001 | -0.002 |
| | (0.001) | (0.001) | (0.002) | (0.002) | (0.002) | (0.001) | (0.001) | (0.002) |
| Constant | -0.040* | -0.052** | -0.031 | -0.019 | -0.032 | -0.007 | -0.028 | -0.054 |
| | (0.018) | (0.020) | (0.033) | (0.019) | (0.024) | (0.032) | (0.046) | (0.060) |
| | | | | | | | | |
| Observations | 6,419 | 4,905 | 1,514 | 4,026 | 2,938 | 1,088 | 418 | 670 |
| Adjusted R-squared | 0.684 | 0.667 | 0.771 | 0.686 | 0.655 | 0.779 | 0.798 | 0.816 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Clustered robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

## Table A23: Pre and Post Anti-Corruption Campaign

In this table we estimate regressions at the firm level, differentiating the pre and post Anti-Corruption Campaign periods. The pre-2012 period dates from 2007 to 2012, while the post-2012 period spans from 2013 to 2017. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

Panel A: Subsidies

|  | All Firms | | | Private | | | State | | |
|---|---|---|---|---|---|---|---|---|---|
|  | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Connection*Pre | 0.001 | 0.001 | 0.001 | 0.002 | 0.002 | 0.003 | -0.001 | 0.000 | 0.000 |
|  | (0.001) | (0.001) | (0.001) | (0.002) | (0.002) | (0.002) | (0.002) | (0.004) | (0.004) |
| Connection*Post | 0.001* | 0.001 | 0.001 | 0.002*** | 0.002** | 0.003*** | -0.003 | -0.003 | -0.003 |
|  | (0.000) | (0.001) | (0.001) | (0.000) | (0.001) | (0.001) | (0.001) | (0.001) | (0.002) |
| Entertainment |  |  | 0.098 |  |  | 0.124 |  |  | 0.030 |
|  |  |  | (0.096) |  |  | (0.110) |  |  | (0.138) |
| Controls | No | Yes | Yes | No | Yes | Yes | No | Yes | Yes |
| Observations | 4,532 | 4,532 | 4,532 | 3,050 | 3,050 | 3,050 | 1,482 | 1,482 | 1,482 |
| Adjusted R-squared | 0.549 | 0.550 | 0.551 | 0.528 | 0.528 | 0.530 | 0.609 | 0.619 | 0.618 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Panel B: Cost of Debt

|  | All Firms | | | Private | | | State | | |
|---|---|---|---|---|---|---|---|---|---|
|  | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| Connection*Pre | -0.001 | -0.001 | -0.001 | 0.001 | 0.001 | 0.001 | -0.004*** | -0.003*** | -0.003*** |
|  | (0.001) | (0.002) | (0.002) | (0.003) | (0.003) | (0.003) | (0.001) | (0.001) | (0.001) |
| Connection*Post | -0.002*** | -0.001** | -0.001** | -0.002*** | -0.001 | -0.001 | -0.002 | -0.002* | -0.002* |
|  | (0.000) | (0.000) | (0.000) | (0.000) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment |  |  | -0.057** |  |  | -0.050* |  |  | 0.037 |
|  |  |  | (0.024) |  |  | (0.026) |  |  | (0.072) |
| Controls | No | Yes | Yes | No | Yes | Yes | No | Yes | Yes |
| Observations | 4,532 | 4,532 | 4,532 | 3,050 | 3,050 | 3,050 | 1,482 | 1,482 | 1,482 |
| Adjusted R-squared | 0.639 | 0.692 | 0.693 | 0.583 | 0.645 | 0.646 | 0.761 | 0.793 | 0.793 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Robust standard errors in parentheses
*** $p<0.01$, ** $p<0.05$, * $p<0.1$

Table A24: Connections to Politburo members that were both elected in the 17th and 18th Party Congress

In this table we repeat the main regressions of the paper using an alternative measure of connection. We consider as connected only those firms that have at least one director connected to a Politburo member that was both elected in the 17th and 18th Party Congress. By doing so, we eliminate potential confounding effects. Columns (1) and (2) refer to the whole sample period, whereas columns (3) to (10) refer to either the pre-2012 or post-2012 period. Subsidies are reported in Panel A and Cost of Debt in Panel B. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

Panel A: Subsidies

| VARIABLES | Private Subsidy (1) | State Subsidy (2) | Pre-2012 Private Subsidy (3) | Pre-2012 Private Subsidy (4) | Post-2012 Private Subsidy (5) | Post-2012 Private Subsidy (6) | Pre-2012 State Subsidy (7) | Pre-2012 State Subsidy (8) | Post-2012 State Subsidy (9) | Post-2012 State Subsidy (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| Connection_bothPB | 0.003* | -0.002 | 0.004 | 0.004 | 0.003** | 0.003** | 0.002 | 0.002 | -0.003 | -0.003 |
|  | (0.001) | (0.002) | (0.003) | (0.003) | (0.001) | (0.001) | (0.006) | (0.007) | (0.002) | (0.002) |
| Entertainment | 0.034 | 0.097 |  | -0.045 |  | 0.016 |  | 0.173 |  | 0.100 |
|  | (0.070) | (0.111) |  | (0.076) |  | (0.060) |  | (0.160) |  | (0.150) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 5,322 | 2,191 | 1,442 | 1,442 | 3,880 | 3,880 | 883 | 883 | 1,308 | 1,308 |
| Adjusted R-squared | 0.537 | 0.514 | 0.464 | 0.464 | 0.585 | 0.585 | 0.390 | 0.391 | 0.609 | 0.609 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Panel B: Cost of Debt

| VARIABLES | Private CoD (1) | State CoD (2) | Pre-2012 Private CoD (3) | Pre-2012 Private CoD (4) | Post-2012 Private CoD (5) | Post-2012 Private CoD (6) | Pre-2012 State CoD (7) | Pre-2012 State CoD (8) | Post-2012 State CoD (9) | Post-2012 State CoD (10) |
|---|---|---|---|---|---|---|---|---|---|---|
| Connection_bothPB | 0.000 | -0.001 | 0.004 | 0.004 | -0.000 | -0.000 | -0.001 | -0.001 | -0.000 | -0.000 |
|  | (0.001) | (0.001) | (0.003) | (0.003) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Entertainment | -0.038* | -0.015 |  | -0.092 |  | -0.018 |  | 0.057 |  | -0.054 |
|  | (0.019) | (0.033) |  | (0.064) |  | (0.031) |  | (0.047) |  | (0.032) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 4,972 | 2,086 | 1,133 | 1,133 | 3,549 | 3,549 | 793 | 793 | 1,212 | 1,212 |
| Adjusted R-squared | 0.655 | 0.776 | 0.759 | 0.761 | 0.657 | 0.657 | 0.788 | 0.788 | 0.823 | 0.823 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |

Clustered robust standard errors in parentheses
*** $p<0.01$, ** $p<0.05$, * $p<0.1$

Table A25: Connections to newly elected Politburo members in 2012

In this table exploit the arrival of new members to the Politburo in 2012. The variable *Connected_NewPBmembers* is a dummy equal to one if at least one director of that firm started to be connected in 2012 to a newly elected Politburo member. The interaction *Connected_NewPBmembers * Post* captures the effect of being connected to a new Politburo member after 2012. In Panel A we run this regression over a sample with firms connected to newly elected Politburo members and non-connected firms. In Panel B we run again the same regression reducing our sample only to firms that became connected to new Politburo members after 2012. The variable *Post* is a dummy equal to one for years after 2012 and zero otherwise. Independent variables are lagged one year. All specifications include firm, industry, and province fixed effects.

Panel A: Treatment and Controls

| VARIABLES | Subsidy | Private Subsidy | State Subsidy | Cost of Debt | Private Cost of Debt | State Cost of Debt |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| Connected_New PB members*Post | 0.001 | 0.002** | -0.002 | -0.001 | -0.001 | -0.001 |
| | (0.001) | (0.001) | (0.002) | (0.001) | (0.001) | (0.001) |
| Post | -0.001 | -0.002** | 0.002 | -0.001 | -0.001 | 0.000 |
| | (0.001) | (0.001) | (0.002) | (0.001) | (0.001) | (0.001) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| | | | | | | |
| Observations | 6,912 | 4,899 | 2,013 | 6,912 | 4,899 | 2,013 |
| Adjusted R-squared | 0.506 | 0.526 | 0.479 | 0.676 | 0.649 | 0.765 |
| Year FE | No | No | No | No | No | No |
| Industry FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Province FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | Yes | Yes | Yes | Yes | Yes | Yes |

Panel B: Treatment

| VARIABLES | Subsidy | Private Subsidy | State Subsidy | Cost of Debt | Private Cost of Debt | State Cost of Debt |
|---|---|---|---|---|---|---|
| | (1) | (2) | (3) | (4) | (5) | (6) |
| Connected_New PB members*Post | 0.002* | 0.003** | 0.001 | -0.001* | -0.001 | -0.001 |
| | (0.001) | (0.001) | (0.002) | (0.001) | (0.001) | (0.001) |
| Post | -0.003 | -0.004** | -0.000 | 0.001 | 0.001 | 0.001 |
| | (0.002) | (0.002) | (0.004) | (0.001) | (0.001) | (0.001) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| | | | | | | |
| Observations | 1,159 | 703 | 456 | 1,159 | 703 | 456 |
| Adjusted R-squared | 0.496 | 0.576 | 0.439 | 0.694 | 0.627 | 0.789 |
| Year FE | No | No | No | No | No | No |
| Industry FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Province FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Firm FE | Yes | Yes | Yes | Yes | Yes | Yes |

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

## Table A26: Universities Attended by Politburo Members

Table A26 shows the universities attended by Politburo members. Universities belonging to the top 10 Chinese universities according to the 2020 QS World Ranking Universities are marked an asterisk. The top 10 universities are, in this order: Tsinghua University, Peking University, Fudan University, Zhejiang University, Shanghai Jiao Tong University, University of Science and Technology of China in Hefei city, Nanjing University, Wuhan University, Tongji University, and Beijing Normal University.

Source: China Vitae (http://www.chinavitae.com/)

|  | University Name |
|----|---|
| 1 | Anhui Normal University |
| 2 | Anshan Institute of Iron and Steel Technology |
| 3 | Beijing Agriculture and Forestry Institute |
| 4 | Beijing Institute of Chemical Engineering |
| 5 | Beijing Institute of Geology |
| 6 | Beijing Institute of Iron and Steel Engineering |
| 7 | Beijing Institute of Petroleum (now China University of Petroleum) |
| 8 | Beijing University of Science and Technology |
| 9 | Central Party School |
| 10 | China Agricultural University |
| 11 | Chinese Academy of Social Sciences |
| 12 | East China Normal University |
| 13 | Fudan University* |
| 14 | Harbin Institute of Technology |
| 15 | Harbin Military Academy of Engineering Institute |
| 16 | Hebei Institute of Technology (now Hebei University of Technology) |
| 17 | Hebei Normal University |
| 18 | Jilin Agricultural University |
| 19 | Jilin University |
| 20 | Kim-Il Sung University |
| 21 | Laiyang Agricultural College (now Qingdao Agricultural University) |
| 22 | Liaoning University |
| 23 | Nanjing University* |
| 24 | National Defense University |
| 25 | National Defense University in Beijing |
| 26 | Northeastern Heavy Machinery Institute (now Yanshan University) |
| 27 | Northwestern University in Xi'an City |
| 28 | Peking University* |
| 29 | People's Liberation Army Military Academy /Beijing Military Academy |
| 30 | People's Liberation Army Xuanhua Artillery Academy |
| 31 | PLA Air Force Academy in Xinyang City |
| 32 | PLA Air Force No. 1 Preparatory School in Shenyang City |
| 33 | PLA Air Force's No. 5 Aviation School in Wuwei City |
| 34 | PLA Air Force's No. 8 Aviation School in Shenyang |
| 35 | Renmin University of China |
| 36 | Shandong University |
| 37 | Shanghai Institute of Machinery |
| 38 | Shanghai Mechanical College (now part of University of Shanghai for Science and Technology) |
| 39 | Shanghai Normal University |
| 40 | Shijiazhuang Institute of Commerce |
| 41 | Teachers College in Jining District |
| 42 | Tsinghua University* |
| 43 | Union Correspondence University of Economic Management, Shanghai Campus |
| 44 | University of Science and Technology of China in Hefei City* |
| 45 | Xiamen University |
| 46 | Xi'an Army Academy in People's Liberation Army Military Academy |
| 47 | Yanbian University |

# Ruling Out Alternative Explanations

In this section we rule out the possibility that our results are driven by other effects unrelated to connections. Due to the way we identify connections, it could be argued that we are capturing an educational effect. It could also be argued that our measure of connections cannot capture elite ties because of massive university attendance in China, which could make our measure too noisy. We provide evidence against both possibilities.

As connected firms are those that have at least one director who attended the same universities as the members of the Politburo, we could think that the effect of obtaining higher subsidies or lower cost of debt derives from the education of board members. For example, the universities attended by top politicians could provide better business and financial training, or it could simply be that the most talented individuals attend the same universities. In fact, the best universities in China are among the group of universities attended by both Politburo members and board members.[1] To rule out this hypothesis, we repeat the analysis using two alternative variables: *University* and *Top5*. *University* is a dummy that takes a value of one if at least one board director of a firm attended the same university as a Politburo member, irrespective of time period and type of degree. The results under this specification are not significant, which suggests that our results are not driven by the quality of the educational institutions or, more generally, by the alumni networks. Tables A27 and A28 summarizes the results (in order to be concise, we also report the coefficients of the regressions run over the matched sample). Similarly, *Top5* is a dummy that equals one if at least one director in the board attended one of the top 5 universities in China. Results are shown in Tables A29 and A30. Overall, political connections remain significant after controlling for the presence of alumni directors from top universities in the board.

It could also be argued that Chinese universities have large cohorts, making our measure a weak proxy of connections. However, most members of both Politburos and board of directors attended university before 1998, when fewer people graduated from university in China. In fact, during the Cultural Revolution, "students were selected mainly according to their family

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[1]Table A26 in the Appendix contains a list with the universities that Politburo members attended.

Table A27: Value of Attending the Same Universities: Matched Sample

In this table we estimate regressions at the firm level for the matched sample. The dependent variables are subsidies, cost of debt, sales growth and investment (Capex). The independent variable of interest is *University*, a binary variable equal to 1 if there is at least one director of the board who attended the same university as any member of the Politburo, irrespective of the time period and degree type, and zero otherwise. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

Panel A: Subsidies

|  | | Private | | | State | |
|  | | Pre-2012 | Post-2012 | | Pre-2012 | Post-2012 |
|  | (1) | (2) | (3) | (4) | (5) | (6) |
| University | 0.001 | 0.001 | 0.001 | -0.002* | -0.001 | -0.002 |
|  | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.003) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 3,050 | 934 | 2,116 | 1,482 | 559 | 923 |
| Adj. R-squared | 0.529 | 0.425 | 0.604 | 0.618 | 0.701 | 0.581 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes |

Panel B: Cost of Debt

|  | | Private | | | State | |
|  | | Pre-2012 | Post-2012 | | Pre-2012 | Post-2012 |
|  | (1) | (2) | (3) | (4) | (5) | (6) |
| University | -0.000 | 0.003* | 0.001 | -0.000 | -0.002 | -0.000 |
|  | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.002) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 3,050 | 934 | 2,116 | 1,482 | 559 | 923 |
| Adj. R-squared | 0.648 | 0.720 | 0.638 | 0.792 | 0.816 | 0.834 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes |

Panel C: Growth and Investment

|  | | Growth | | | Investment | |
|  | All Firms | Private | State | All Firms | Private | State |
|  | (1) | (2) | (3) | (4) | (5) | (6) |
| University | 0.023 | 0.032 | 0.003 | 0.004 | 0.002 | 0.006 |
|  | (0.035) | (0.040) | (0.049) | (0.004) | (0.003) | (0.005) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 4,532 | 3,050 | 1,482 | 3,419 | 2,138 | 1,281 |
| Adj. R-squared | 0.056 | 0.052 | 0.065 | 0.144 | 0.161 | 0.198 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes |

Robust standard errors in parentheses
*** $p<0.01$, ** $p<0.05$, * $p<0.1$

### Table A28: Value of Attending the Same Universities: Full Sample

In this table we estimate regressions at the firm level for the full sample. The dependent variables are subsidies, cost of debt, sales growth and investment (Capex). The independent variable of interest is *University*, a binary variable equal to 1 if there is at least one director of the board who attended the same university as any member of the Politburo, irrespective of the time period and degree type, and zero otherwise. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

Panel A: Subsidies

|  | | Private | | | State | |
|  | | Pre-2012 | Post-2012 | | Pre-2012 | Post-2012 |
|  | (1) | (2) | (3) | (4) | (5) | (6) |
| --- | --- | --- | --- | --- | --- | --- |
| University | 0.001 | 0.005 | 0.001* | -0.003* | -0.011 | -0.002 |
|  | (0.001) | (0.004) | (0.000) | (0.002) | (0.009) | (0.004) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
|  |  |  |  |  |  |  |
| Observations | 5,028 | 1,372 | 3,656 | 2,124 | 860 | 1,264 |
| Adjusted R-squared | 0.544 | 0.468 | 0.587 | 0.512 | 0.398 | 0.600 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes |

Panel B: Cost of Debt

|  | | Private | | | State | |
|  | | Pre-2012 | Post-2012 | | Pre-2012 | Post-2012 |
|  | (1) | (2) | (3) | (4) | (5) | (6) |
| --- | --- | --- | --- | --- | --- | --- |
| University | -0.000 | 0.002 | -0.000 | -0.000 | -0.001 | -0.000 |
|  | (0.000) | (0.002) | (0.000) | (0.001) | (0.003) | (0.001) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
|  |  |  |  |  |  |  |
| Observations | 5,028 | 1,222 | 3,656 | 2,124 | 711 | 1,264 |
| Adjusted R-squared | 0.658 | 0.771 | 0.675 | 0.780 | 0.814 | 0.823 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes |

Panel C: Growth and Investment

|  | | Growth | | | Investment | |
|  | All Firms | Private | State | All Firms | Private | State |
|  | (1) | (2) | (3) | (4) | (5) | (6) |
| --- | --- | --- | --- | --- | --- | --- |
| University | 0.058 | 0.078* | -0.005 | 0.002 | 0.001 | 0.003 |
|  | (0.034) | (0.042) | (0.030) | (0.003) | (0.003) | (0.004) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
|  |  |  |  |  |  |  |
| Observations | 7,152 | 5,028 | 2,124 | 5,317 | 3,473 | 1,844 |
| Adjusted R-squared | 0.220 | 0.248 | 0.088 | 0.520 | 0.497 | 0.562 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes |

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

## Table A29: Value of Attending Top5 Universities: Matched Sample

In this table we estimate regressions at the firm level for the matched sample, including a dummy variable *Top5*, which equals one if at least one of the directors in the board attended one of the top 5 universities in China. The dependent variables are subsidies, cost of debt, sales growth and investment (Capex). Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

Panel A: Subsidies

| | | Private | | | State | |
| | | Pre-2012 | Post-2012 | | Pre-2012 | Post-2012 |
| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Connection | 0.003** | 0.002 | 0.002** | -0.002 | -0.002 | -0.003 |
| | (0.001) | (0.007) | (0.001) | (0.001) | (0.001) | (0.002) |
| Top5 | -0.000 | -0.000 | 0.001 | 0.000 | -0.004** | -0.000 |
| | (0.001) | (0.004) | (0.001) | (0.001) | (0.001) | (0.002) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| | | | | | | |
| Observations | 3,050 | 934 | 2,116 | 1,482 | 559 | 923 |
| Adj. R-squared | 0.530 | 0.422 | 0.607 | 0.624 | 0.702 | 0.601 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes |

Panel B: Cost of Debt

| | | Private | | | State | |
| | | Pre-2012 | Post-2012 | | Pre-2012 | Post-2012 |
| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Connection | -0.001 | 0.005 | -0.002 | -0.002*** | -0.003 | -0.003* |
| | (0.001) | (0.004) | (0.001) | (0.001) | (0.001) | (0.001) |
| Top5 | 0.001 | 0.003* | 0.001 | 0.001 | -0.002 | 0.000 |
| | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) | (0.001) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| | | | | | | |
| Observations | 3,050 | 934 | 2,116 | 1,482 | 559 | 923 |
| Adj. R-squared | 0.649 | 0.723 | 0.638 | 0.793 | 0.817 | 0.835 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes |

Panel C: Growth and Investment

| | | Growth | | | Investment | |
| | All Firms | Private | State | All Firms | Private | State |
| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Connection | -0.042* | -0.043 | -0.047 | 0.000 | -0.005 | 0.009 |
| | (0.019) | (0.028) | (0.035) | (0.003) | (0.004) | (0.005) |
| Top5 | -0.004 | 0.009 | -0.011 | 0.003 | 0.004 | -0.001 |
| | (0.027) | (0.046) | (0.033) | (0.003) | (0.004) | (0.005) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| | | | | | | |
| Observations | 4,532 | 3,050 | 1,482 | 3,419 | 2,138 | 1,281 |
| Adj. R-squared | 0.134 | 0.112 | 0.139 | 0.500 | 0.482 | 0.545 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes |

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

# Table A30: Value of Attending Top5 Universities: Full Sample

In this table we estimate regressions at the firm level for the full sample, including a dummy variable *Top5*, which equals one if at least one of the directors in the board attended one of the top 5 universities in China. The dependent variables are subsidies, cost of debt, sales growth and investment (Capex). Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

Panel A: Subsidies

|  | | Private | | | State | |
|  | | Pre-2012 | Post-2012 | | Pre-2012 | Post-2012 |
|  | (1) | (2) | (3) | (4) | (5) | (6) |
| --- | --- | --- | --- | --- | --- | --- |
| Connection | 0.002* | 0.001 | 0.002* | -0.001 | 0.007 | -0.003 |
|  | (0.001) | (0.003) | (0.001) | (0.001) | (0.009) | (0.002) |
| Top5 | 0.001* | -0.000 | 0.001* | -0.002 | -0.014 | -0.000 |
|  | (0.000) | (0.003) | (0.001) | (0.002) | (0.009) | (0.002) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
|  | | | | | | |
| Observations | 5,119 | 1,424 | 3,695 | 2,147 | 873 | 1,274 |
| Adj. R-squared | 0.541 | 0.467 | 0.581 | 0.516 | 0.408 | 0.615 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes |

Panel B: Cost of Debt

|  | | Private | | | State | |
|  | | Pre-2012 | Post-2012 | | Pre-2012 | Post-2012 |
|  | (1) | (2) | (3) | (4) | (5) | (6) |
| --- | --- | --- | --- | --- | --- | --- |
| Connection | -0.000 | 0.003 | -0.001 | -0.002*** | -0.003** | -0.002** |
|  | (0.001) | (0.003) | (0.001) | (0.001) | (0.001) | (0.001) |
| Top5 | 0.001 | 0.002* | 0.000 | 0.001 | 0.000 | 0.001 |
|  | (0.001) | (0.001) | (0.000) | (0.001) | (0.001) | (0.001) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
|  | | | | | | |
| Observations | 5,119 | 1,424 | 3,695 | 2,147 | 873 | 1,274 |
| Adj. R-squared | 0.660 | 0.763 | 0.674 | 0.783 | 0.817 | 0.826 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes |

Panel C: Growth and Investment

|  | | Growth | | | Investment | |
|  | All Firms | Private | State | All Firms | Private | State |
|  | (1) | (2) | (3) | (4) | (5) | (6) |
| --- | --- | --- | --- | --- | --- | --- |
| Connection | -0.054* | -0.060 | -0.041 | 0.001 | -0.004 | 0.009* |
|  | (0.026) | (0.034) | (0.029) | (0.003) | (0.004) | (0.004) |
| Top5 | 0.020 | 0.031 | 0.005 | 0.001 | 0.002 | -0.001 |
|  | (0.024) | (0.034) | (0.015) | (0.002) | (0.003) | (0.003) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
|  | | | | | | |
| Observations | 7,266 | 5,119 | 2,147 | 5,402 | 3,537 | 1,865 |
| Adj. R-squared | 0.214 | 0.240 | 0.104 | 0.512 | 0.488 | 0.570 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes |

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

backgrounds and political beliefs" and only 280,000 students were admitted every year (Chen, 2013). The year 1977 was a turning point in terms of higher education in China with the resumption of entrance examinations and the establishment of academic scores as entrance criteria. Despite the re-opening of academic institutions, the shift from "elite" education to "mass" education did not occur until 1999. As shown in Figure 1, the number of college admissions surged from that year. In 1998, China hosted only 3.4 million students across 1,022 academic institutions, meaning that each university had on average only 3,335 students (Chen, 2013). In 1999 the number of institutions and students almost doubled, reaching 1,942 institutions and 7.2 million students. During the following years it kept growing at high rates (Chen, 2013).
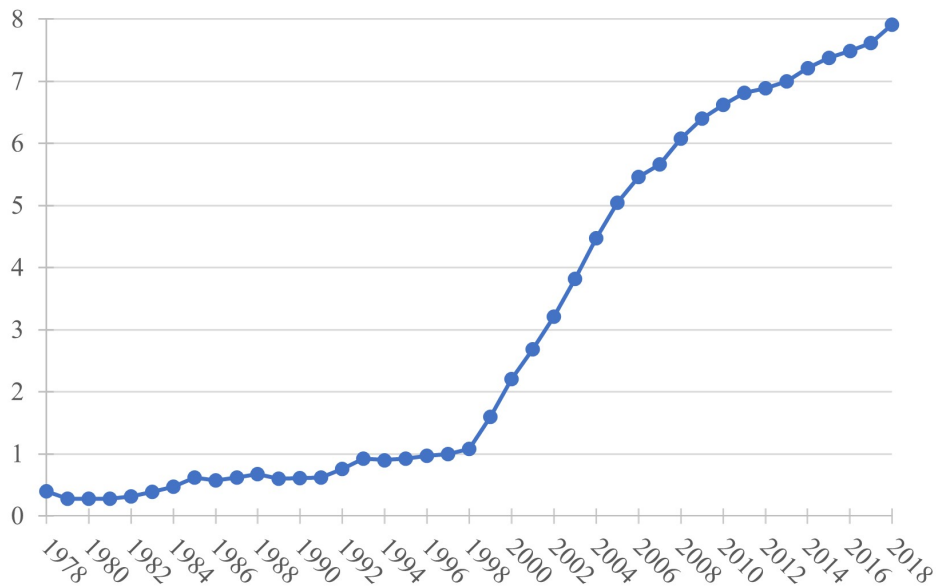
Figure 1: College Admissions in China (millions)



Figure 1 shows the number of college students admitted in China from 1978 to 2018 in millions. While there was a sudden jump in 1999, before that year the total amount of admitted students per year did barely surpass a million students. Source: National Bureau of Statistics of China (China Statistical Yearbook, years 2001 and 2019).

Therefore, our variable *Connection* is exempt from China's current mass education phenomenon, increasing the probability of capturing real elite connections.

Additionally, we perform intensity robustness tests with alternative non-dichotomous mea-

sures of connections. We look at the ratio and total number of connected directors in the board. We observe that a greater number of directors in the board is correlated with more resources. We find that firms with higher ratios of connected directors or more connected directors in the board access more benefits. Table A31 shows the results. Overall, we find that a higher number of connected directors translates into higher subsidies in private companies and lower cost of debt in state firms.

Table A31: Number of Connections in the Board

In this table we estimate regressions at the firm level in the matched sample. The dependent variables are the total subsidies over sales, total subsidies (in millions) and cost of debt in year $t$. In Panel A, the independent variable of interest is *Ratio_Connections*, the ratio of directors of the board connected to a member of the Politburo in year $t-1$. In Panel B, the independent variable of interest is the *Number_Connections*, which is the number of connected directors in the board. Independent variables are lagged one year. All specifications include firm, year, industry, and province fixed effects.

Panel A: Ratio Connections and Subsidies

|  | Private | | | State | | |
|  | | Pre-2012 | Post-2012 | | Pre-2012 | Post-2012 |
|  | (1) | (2) | (3) | (4) | (5) | (6) |
| Ratio_Connections | 0.016** | 0.000 | 0.018*** | -0.007 | -0.010 | -0.015 |
|  | (0.006) | (0.020) | (0.004) | (0.008) | (0.010) | (0.012) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 3,050 | 934 | 2,116 | 1,482 | 559 | 923 |
| Adj. R-squared | 0.531 | 0.423 | 0.607 | 0.624 | 0.701 | 0.601 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes |

Panel B: Ratio Connections and Cost of Debt

|  | Private | | | State | | |
|  | | Pre-2012 | Post-2012 | | Pre-2012 | Post-2012 |
|  | (1) | (2) | (3) | (4) | (5) | (6) |
| Ratio_Connections | 0.002 | 0.017 | -0.002 | -0.013** | -0.023* | -0.011 |
|  | (0.004) | (0.015) | (0.008) | (0.004) | (0.011) | (0.007) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 3,050 | 934 | 2,116 | 1,482 | 559 | 923 |
| Adjusted R-squared | 0.648 | 0.720 | 0.637 | 0.793 | 0.817 | 0.834 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes |

Panel C: Number of Connections and Subsidies

|  | Private | | | State | | |
|  | | Pre-2012 | Post-2012 | | Pre-2012 | Post-2012 |
|  | (1) | (2) | (3) | (4) | (5) | (6) |
| Number_Connections | 0.002*** | 0.002 | 0.002** | -0.001 | -0.001 | -0.001 |
|  | (0.000) | (0.004) | (0.000) | (0.001) | (0.001) | (0.001) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 3,050 | 934 | 2,116 | 1,482 | 559 | 923 |
| Adjusted R-squared | 0.531 | 0.424 | 0.607 | 0.624 | 0.700 | 0.600 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes |

Panel D: Number of Connections and Cost of Debt

|  | Private | | | State | | |
|  | | Pre-2012 | Post-2012 | | Pre-2012 | Post-2012 |
|  | (1) | (2) | (3) | (4) | (5) | (6) |
| Number_Connections | 0.000 | 0.005* | -0.000 | -0.002*** | -0.002* | -0.001 |
|  | (0.001) | (0.002) | (0.001) | (0.000) | (0.001) | (0.001) |
| Controls | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 3,050 | 934 | 2,116 | 1,482 | 559 | 923 |
| Adjusted R-squared | 0.648 | 0.724 | 0.637 | 0.793 | 0.817 | 0.834 |
| FE | Yes | Yes | Yes | Yes | Yes | Yes |

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

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