

Monitoring Courts: A Top-down or Grassroots

Approach?*

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Abstract. Using 1.4 million judgments of enterprise-to-enterprise litigations from 2014 to 2019 in China, we study the impacts of judicial reforms on biased court decisions. We find that the introduction of circuit courts, a top-down institutional reform, effectively curbed cronyism in the courtroom, i.e., favoritism received by enterprises that are connected to local party officials; however, this reform did not mitigate the home court advantage that local enterprises enjoy. In contrast, the implementation of live online trial broadcasts, a technological innovation that enhances transparency and mobilizes grassroots participation in monitoring local courts, did not reduce corruption but substantially suppressed home bias. The contrasting impacts of these reforms suggest that different monitoring approaches are necessary to correct different types of judicial bias.

Keywords: Top-down, Grassroots, Monitoring, Judicial Reform, Home Bias, Corruption.

JEL Classification. K10 O12

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1. Introduction

Institutions matter for economic performance, particularly in developing countries. To monitor policy makers and public officials, who are critical for the quality and function of institutions, two general strategies have been proposed and studied (Olken 2007): top-down monitoring, which increases the cost of making biased decisions involving external authorities, and grassroots monitoring, which enhances the visibility of decision-making processes with community participation. However, very little is known about whether these strategies are effective in terms of monitoring courts.

Courts are crucial formal institutions that secure property and enforce contracts (Djankov et al. 2003 and Acemoglu and Johnson 2005). In developing countries, one common issue is that compromised courts make biased decisions that hinder economic efficiency and increase resource misallocation. Rampant corruption and home court bias are cases in point. Which strategy, top-down or grassroots monitoring, can effectively suppress judicial bias and incentivize courts to rule impartially?

In this paper, we revisit this important issue in the context of judicial reforms in China. The Supreme Court of China began instituting a series of reforms in 2014. The goal of these reforms is to promote judicial independence, trial openness and judgment fairness by introducing various external monitoring mechanisms, both institutional and technological in nature, to enhance the surveillance of local courts. This set of reforms provides us with an opportunity to examine the effectiveness of various monitoring strategies and unveil corresponding mechanisms.

Specifically, we consider two prominent, sweeping reforms, i.e., the staggered introduction of circuit courts and the gradual implementation of live courtroom trial broadcasts. The former is a typical top-down reform that introduced an external authority to discipline local courts, while the latter is a technological innovation that incentivizes community participation in monitoring court proceedings. Starting in early 2015, the Supreme Court set up a total of six circuit courts in two waves, and each circuit court oversees the courts in a number of provinces. The circuit court system impacts local judiciaries because it offers litigants easier access to an additional monitoring organ dispatched by the Supreme Court, imposing deterring effects on local courts and authorities.

In addition, since late 2016, the Supreme Court has made efforts to instruct all courts in China to broadcast their trials online in real time on a centralized platform, with the long-term goal of all proceedings eventually being aired live. This trial broadcasting mechanism impacts local judiciaries because it improves judicial visibility and decreases the costs of community and grassroots participation in monitoring: the public can easily observe trials online in real time and access recordings of proceedings af-

terwards. In response, judges may have to regulate their behaviors during trials (e.g., adhering to procedures and giving litigants a fair amount of attention).

In the context of business litigation in China, we focus on the impacts of judicial reforms on both corruption (i.e., connection-based favoritism) and home court bias (i.e., locality-based favoritism), which constitute frictions for the economy and contribute to resource misallocation. Given the lack of judicial independence in China, it is likely that local officials who wield power over local court heads leverage their influence to favor their cronies involved in legal disputes. Given the strong tendency toward social identification in China, we also expect that home courts favor local enterprises and discriminate against nonlocal enterprises.

For the period 2014-2019 in China, approximately 1.4 million civil judgments of enterprise-to-enterprise litigations are available to us, with detailed information about the corresponding litigants and litigation outcomes. Using this dataset, we first identify connection-based favoritism in the courtroom. One hurdle to overcome is that connections to officials are intentionally hidden and thus inherently unobservable. Thus, we leverage an important observation about the favor-exchange culture in China: when an enterprise is registered and located in a city where the incumbent official has previously worked or studied or was born, the managerial members of the enterprise and the official are likely to be connected through social ties. Therefore, these individuals have a higher level of trust in each other, which facilitates favor trading.¹

Since we can proxy connections between nonlocal enterprises and nonlocal officials with social ties, our strategy is to compare the litigation outcomes of nonlocal but connected enterprises with those of nonlocal enterprises without connections, *ceteris paribus*. To infer causal effects, we exploit the variation in the connection status of the same type of nonlocal enterprises caused by officials' turnover. To be specific, given our definition of connections, when a municipal official is replaced by another, some enterprises connected to the former may lose their connections, some that were not connected to the former may unexpectedly gain connections with the replacement, and the connection status of other enterprises may not change after the turnover because they are either connected to neither or both officials.

We take advantage of variations across types and over tenures and estimate a *generalized difference-in-differences* model that identifies the causal impacts of connections conditional on fixed differences across tenures and fixed differences across enterprise types. To be cautious, we always control for a number of case- and region-level vari-

¹This approach to proxying social connections has been widely used in studies on China's political and academic systems because this type of connection plays a particularly important role in Chinese society (e.g., Fisman, Shi, Wang, and Wu 2020; Fisman, Shi, Wang, and Xu 2018; Francois, Trebbi, and Xiao 2016; Jia, Kudamatsu, and Seim 2015; and Shih, Adolph, and Liu 2012).

ables, as well as court, issue area, and year-quarter fixed effects, in our estimations.

We find that enterprise plaintiffs connected to municipal party or judicial secretaries are more likely to win than those that are unconnected by approximately 3 percentage points. Interestingly, we find little evidence showing that connections to mayors matter in terms of litigation outcomes. In fact, the difference between party and executive officials is consistent with the power structure and division of labor in the context of municipal leadership.²

Did the studied judicial reforms successfully curb connection-based favoritism? We find that connected enterprises win less often, relative to the unconnected enterprises, after a circuit court begins covering and monitoring the adjudicating courts. Such disciplinary effects are found for enterprises connected to party officials but not for those connected to mayors. In other words, the top-down approach is effective. In contrast, when investigating the impacts of the implementation of the live broadcasting reform, we find that the advantage in litigation that connected enterprises enjoy over unconnected enterprises does not differ, regardless of whether live broadcasts of proceedings are implemented.

These contrasting findings are consistent with the two distinct mechanisms through which judicial reforms materialize their impacts. The circuit court is effective because litigants that possess evidence showing that court decisions are compromised due to corruption (such as evidence showing that the opposing litigants have connections to local officials) can resort to petitioning the circuit court for an investigation. This top-down approach changes the incentive structures (i.e., costs and benefits of filing petitions) of litigants who have stakes in disputes, which in turn deters local courts and officials. The live broadcasting trial reform was intended to mobilize grassroots participation in monitoring. However, it is ineffective because only judges can observe the connections that litigants have while grassroots participants (or viewers) cannot. As a result, this monitoring device does not induce judges to change their favoritism in their decisions regarding connected litigants relative to unconnected litigants.

Next, we examine locality-based favoritism in business litigation. A home court advantage arises when judges possess psychological in-group bias in support of local enterprises and against nonlocal ones or when judges intentionally favor local enterprises to protect the economic interests of their own jurisdictions. We find that when filing litigation against local defendants, nonlocal plaintiffs are less likely to win than

²Party secretaries are more powerful than the other studied officials and responsible for all municipal-level issues, including legal affairs; judicial secretaries oversee all legal bodies, especially in the areas of personnel and trial supervision; and mayors have no direct power and therefore much less influence over courts. This heterogeneous pattern strengthens our confidence in the interpretation that the estimated effects of connections arise because officials leverage their power to favor the litigants they are connected to.

local plaintiffs by more than 2 percentage points after a number of case- and region-level characteristics, as well as plaintiff city, court, issue area, and year-quarter fixed effects, are controlled. Furthermore, home bias can be larger in areas where the cultural tendency to protect local enterprises is stronger. We find that the home court advantage is greater under municipal party committees that consist of local-born leaders.

Did the studied set of judicial reforms effectively undermine locality-based favoritism toward local litigants? We do not find any evidence that home bias was mitigated after the circuit court system was introduced. In contrast, the live broadcasting trial reform was effective: by comparing trials that were broadcasted live with those that were not, we find that the advantage that local enterprises enjoy over nonlocal enterprises almost vanishes. After addressing a potential confounding issue in that the assignment of live broadcasting may not be entirely random, we still find evidence of a causal impact of trial broadcasting on home bias.

This reversed contrast is again consistent with the mechanisms of the two judicial reforms. Unlike corruption, for both in-group bias and local protectionism, it is difficult for litigants to provide concrete evidence of home bias and resort to the corresponding circuit court for justice. However, live-broadcasting technology enhances judicial visibility and decreases the cost of community participation in monitoring, thus disciplining judges. The key lies in whether litigants are nonlocal can be easily identified by viewers. As a result, judges who treat nonlocal litigants unfairly during trials that are not broadcast behave more impartially, knowing that their trials are broadcasted and recorded. The presence of concurrent or future viewers increases the cost judges incur when acting on their discriminative preferences.

Our study provides new insights into how to best monitor the public sectors of developing countries (Olken and Pande 2012). In particular, Olken (2007) shows that the top-down approach to corruption control (i.e., auditors dispatched by the government) is effective, but the effort to enhance community participation in monitoring does not pay off. On the one hand, we uncover a similar finding; that is, the top-down approach to fighting corruption in the judicial system is effective, but the use of information technology to enable public participation in monitoring is not. On the other hand, our findings suggest another message in addition to this established insight. The aforementioned contrast in relation to effectiveness is not universal: in terms of correcting other types of compromised decisions, such as those stemming from favoritism based on one's social identification or preferential treatment towards members of one's own group, grassroots and community monitoring is indeed effective, and the top-down approach is inconsequential.

Our findings have two general implications. First, the observability of litigants'

characteristics represents a crucial difference between corruption and home bias: connections to local officials are not observable, but the locality of an enterprise is. Second, there is no panacea to correct judicial bias. Targeting mechanisms that lead to compromised decisions is the key to designing monitoring devices in general and effective judicial reforms in particular.

These findings and novel insights contribute to a growing body of literature on judicial reforms in developing countries. A number of recent studies provide causal evidence on the economic gains brought about by judicial reforms that enhance the accessibility, efficiency and quality of courts. For example, Chemin (2009) shows that judicial reforms in Pakistan led to substantial economic and political gains at a relatively low cost.³ Similarly, Lichand and Soares (2014) show that a judicial reform consisting of simplifying legal procedures promoted entrepreneurship in Brazil. Kondylis and Stein (2021) show that in Senegal, procedural reforms have indeed improved judicial efficiency, which in turn has benefited firms. While much of this literature aims to establish the economic impacts of judicial reforms, little is known about how to design reforms to ensure fair judicial outcomes that facilitate desired economic benefits. Our work fills this gap.

We also provide new evidence regarding home bias and corruption in court decisions.⁴ First, our paper extends the home bias literature. Bhattacharya, Galpin, and Haslem (2007) show that courts in the United States may rule in favor of domestic enterprise defendants at the expense of international plaintiffs. Mai and Stoyanov (2019) find similar anti-foreign bias in Canadian courts. We show that the Chinese civil court systematically discriminates against nonlocal enterprises.⁵ Second, we show that local authorities interfere with courts, contributing to the literature on the value of political connections in developing countries (Fisman 2001, Chen and Kung 2019 and Kung and Ma 2018). While it is not surprising that connected firms are favored in courts, we provide causal evidence revealing an unexploited mechanism: connections to local party officials help crony enterprises gain the upper hand in the courtroom, while connections to executive leaders are less useful.⁶ Furthermore, we study and reveal

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

⁴Several other factors that influence court decisions have been studied by this literature, including gender (Boyd, Epstein, and Martin 2010; Songer and Crews-Meyer 2000; Lim, Silveira, and Snyder 2016; Ash, Chen, and Ornaghi 2021; Anwar, Bayer, and Hjalmarsson 2019; Chen, Chen, and Yang 2022), race (Alesina and La Ferrara 2014), ideology (Anwar, Bayer, and Hjalmarsson 2019; Chen, Michaeli, and Spiro 2019), media coverage (Philippe and Ouss 2018; Lim, Snyder Jr, and Stromberg 2015), and behavioral factors (Dobbie, Goldin, and Yang 2018; Eren and Mocan 2018 and 2020).

⁵This finding is broadly related to the in-group bias literature, such as Shayo and Zussman (2011), who find evidence for in-group bias based on ethnicity in the context of small claims courts in Israel.

⁶Li, Meng, Wang, and Zhou (2008) and Ang and Jia (2014) find that politically connected private firms are indeed more confident in resorting to legal channels in business disputes. Both Lu, Pan, and

effective approaches to mitigating the judicial bias of these two types.

2. Background

2.1. The Court, the Party and Judicial Reforms

In China, the judicial and administrative divisions largely coincide with each other: there is one primary court located in each county, one intermediate court in each prefecture, and one high court in each province, and the Supreme Court is located in Beijing. By January 2021, there were 3,087 primary courts, 416 intermediate courts, and 33 high courts in China.⁷ In general, superior courts are obligated to supervise and monitor the subordinate courts in the same jurisdictional region. For example, all primary courts are supervised directly by the intermediate court located in the corresponding administrative prefecture.

Unlike independent judicial systems, in addition to being subject to the supervision of superior courts, primary and intermediate courts are regulated by the Municipal Party Committee (MPC) of their respective cities (Liu 2012; Geng, Zhong, and Pang 2014).⁸ There are two key areas where the MPC has absolute authority over subordinate courts: personnel nomination and supervision.

First, the MPC, led by the Secretary of the Municipal Party Committee (hereafter, municipal party secretary), makes the final decisions on primary court head nomination and is responsible for the appointment of party secretaries at the intermediate-court level (Liu 2012).⁹ Second, the MPC supervises legal bodies (including courts) through the Politics and Legal Affairs Committee (PLC) under the Municipal Party Committee. The PLC is led by the Secretary of the Politics and Legal Affairs Committee (judicial secretary, thereafter), who is a member of the MPC (Hou 2016). According to the Regulations of the Communist Party of China on Political and Legal Works, the main responsibility of the PLC is to supervise political and legal institutions and

Zhang (2015) and Firth, Rui, and Wu (2011) collect more than 4,000 such cases and analyze whether public firms with state ownership or politically connected corporate leaders tend to be favored in court. Our paper provides an identification strategy to overcome endogeneity issues and considers party interference as the mechanism.

⁷According to Articles 17 and 23 of the Organic Law of the People's Courts of China, primary courts are mainly responsible for hearing and ruling on general cases. Intermediate courts handle larger and more influential cases in addition to cases transferred or appealed from their subordinate primary courts. High courts are the highest judicial organ in each province and each province-level municipality, and they are responsible for cases transferred or appealed from intermediate courts. High courts also take responsibility for reviewing the cases of subordinate courts and making retrial decisions on any with ambiguous or incorrect judgments.

⁸The absolute leadership of upper-level party committees is emphasized in Article 26 of the Interim Regulations on the Selection and Appointment of Party- and Government-leading Cadres (1995).

⁹Typically, the same party official holds the positions of court head and party secretary for one court. However, court head nominations need to be approved by the People's Congress, but this approval is usually automatic.

implement the decisions of the MPC across subordinate courts.¹⁰

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

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

The key idea of these reforms was to introduce external monitoring mechanisms to discipline local courts and reduce judicial bias without decreasing the Party's control over the courts. In this paper, we study the impacts of judicial reforms on judicial bias resulting from cronyism and home-court favoritism. The two reforms that we focus on, i.e., the introduction of circuit courts and the implementation of trial broadcasting, are representative of the traditional top-down and grassroots monitoring approaches.

2.2. Circuit Courts with Chinese Characteristics

The primary goal of the establishment of the circuit court system was to monitor local courts via an additional external authority and to provide litigants with more convenient access to justice. Circuit courts function like the Supreme People's Court, and each has jurisdiction over only a number of provinces. The Supreme People's Court dispatches judges to the circuit courts to hear and monitor trials. To ensure that the top-down approach adopted is effective, the dispatched judges are rotated on a regular basis.

Circuit courts have been gradually introduced over time. In January 2015, the Supreme People's Court of China established circuit courts in Shenzhen and Shenyang, each having jurisdiction over a number of Chinese provinces. In December 2016, four other circuit courts were established, and the jurisdiction of these courts was expanded

¹⁰The Regulations of the Communist Party of China on Political and Legal Works was published in 2019, and it specifies the responsibilities in terms of political and legal work of the municipal party secretary and the judiciary secretary. The main responsibility of the Party Committee and the municipal party secretary is to plan political and legal activities to safeguard local security, especially political security. The judiciary secretary is mainly responsible for investigating, supervising, and implementing the decisions of the local Party Committee and higher-level Party Committee to coordinate political and legal institutions.

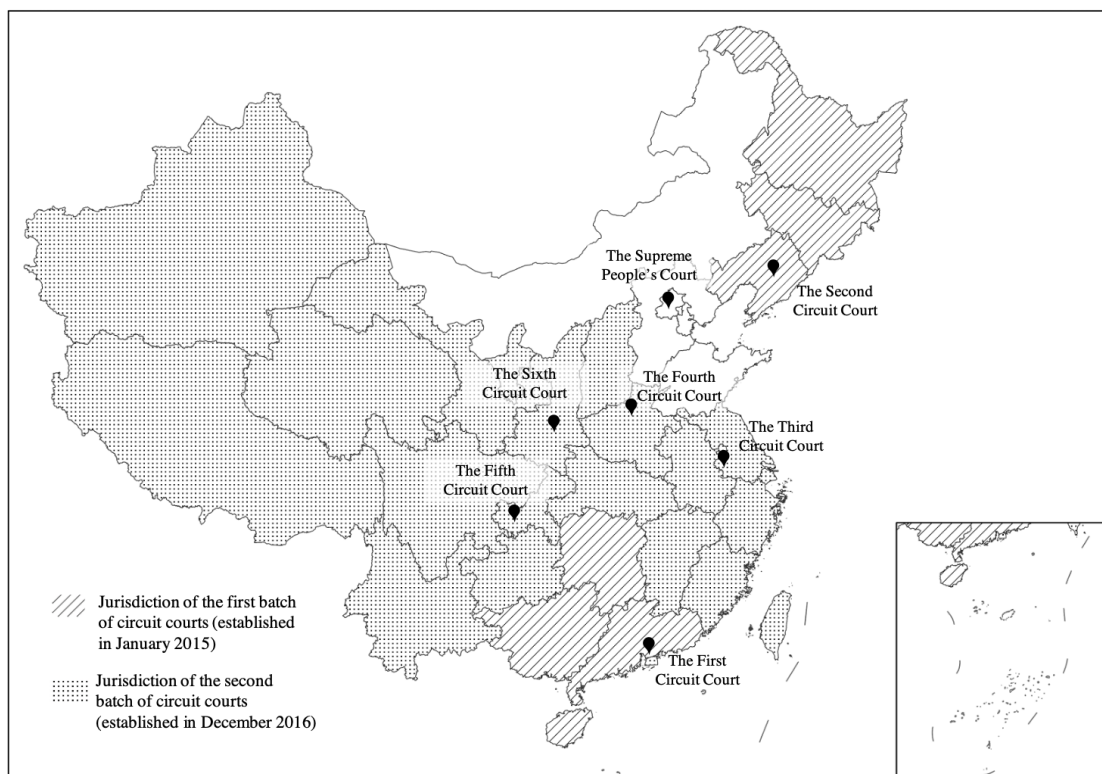


Figure 1. The Rollout of the Circuit Court System in China

to all provinces in China except for five provinces adjacent to Beijing, which fall under the direct jurisdiction of the Supreme People’s Court. The rollout and jurisdiction of the circuit courts are shown in Figure 1, where the solid line represents the jurisdiction of the first wave of circuit courts and the dotted area indicates the jurisdiction of the second wave. The details of the rollout are summarized in Table 11 of Appendix A.

The key functions of the circuit court system are twofold. First, similar to the circuit courts in the US, the circuit courts of China act as tribunals, adjudicating administrative, civil, and commercial disputes. Circuit courts effectively expand the reach of the Supreme Court to resolve appeals of court rulings within local jurisdictions.¹¹

Second and more importantly, unlike circuit courts in other countries, Chinese circuit courts collect and process petitions from litigants, which is an additional disciplinary mechanism intended to monitor and deter the unjust behavior of local judiciaries and governments. Petitions are also called “Xinfang” or “letters and visits”, and citizens can use petitions to make complaints to various government bodies, including

¹¹Regarding appeals, the circuit courts of China differ slightly from those of the U.S. The Chinese circuit courts have the same authority as the Supreme Court, while their counterparts in the United States have a lower level of authority than the Supreme Court. For information on the function of the Chinese circuit court, see the Provisions of the Supreme People’s Court on Several Issues concerning the Trial of Cases by the Circuit Courts, which was issued in January 2015.

the executive and judicial branches of government, and ask for investigations.¹² We describe how circuit courts handle petitions in Appendix A.

Circuit courts have become a major monitoring body within the Chinese judicial system. As of early 2020, the six circuit courts of China had handled 67,939 appealed cases and received several hundred thousand petitions from litigants since their establishment.¹³ For example, the second circuit court was receiving approximately 1,000 petitions per day at the time of its establishment (including all pending cases); moreover, it received 4,720 complaining visitors in February and 6,330 complaining visitors in March of 2015.¹⁴

2.3. Broadcasting Trials Live

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

The main purpose of this reform was to pressure courts and judges by improving judicial visibility. It essentially encourages grassroots participation in monitoring court proceedings and decisions by using information technology to increase the number of individuals viewing cases.¹⁵ Once trials are broadcast online, the public and legal professionals have opportunities to “monitor and understand the operation of the courts” either in real time or afterwards (Fan and Lee 2019). This incentivizes judges and other court staff to adhere to legal procedures (e.g., giving litigants sufficient time to respond to judges’ questions), because nonprocedural practices that are recorded would be challenged by litigants who believe that their trials were unfair.¹⁶ Furthermore, judges, in the face of this additional monitoring mechanism, are compelled to behave more impartially because the process of adjudication can be viewed and reviewed by both litigants and other legal professionals.

¹²Previous studies show that petitions play an important role in governance in China, performing functions such as collecting information via grassroots methods (Paik 2012) and resolving the agent-principal problem between central authorities and local officials (Minzner 2006).

¹³This information was sourced from the official website of the Chinese government: <https://www.court.gov.cn/zixun-xiangqing-289951.html>.

¹⁴See press coverage from http://www.gdzf.org.cn/index/zfyw/201610/t20161011_797733.htm

¹⁵See The Revision of the Supreme Court’s Regulations on Court Broadcasting and Video Recording published in February 2017 for information about the main purpose and benefits of increasing trial efficiency.

¹⁶See an anecdotal study on the Xiangzhou court showing that lawyers believe judges exhibit better attitudes during live broadcasting, <http://www.zhxcourt.gov.cn/index.php?do=court&ac=info&cid=3656>

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

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

2.4. Issue Areas and Jurisdiction in China

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

Second, the China Civil Procedural Law (i.e., Article 21) strictly regulates the adjudication location of *remote litigations*, i.e., civil litigations in which the plaintiff and the defendant have different domiciles. By default, such litigation shall be filed under the jurisdiction of the court at the place of the defendant's domicile.¹⁷ In regular corporate litigation, a legal entity's place of domicile is defined as its registered address. However, exceptions can be made for some contract disputes and property-related litigation. If the parties to a contract agree in advance on the locations for potential disputes, lawsuits can be initiated in the place of domicile of the plaintiff, the location where the contract was performed or signed, the place where the subject matter is located, or any other place connected to the dispute such that the corresponding court will have jurisdiction over the dispute (Article 23 and 34 of the China Civil Procedural

¹⁷Article 21 of the China Civil Procedural Law, Article 63 of the Civil Code of the People's Republic of China, and Articles 3 and 7 of the Interpretations of the Supreme People's Court on the Applicability of the Civil Procedural Law of the People's Republic of China explicate the definition and scope of the place of domicile, namely, the residence of a citizen, the place where the principal office of a company is located, or the registered address of a company.

Law).¹⁸

3. Data Construction

3.1. Sample Construction

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

Litigation Sample Construction

We acquire court decision documents covering 2014 to 2019 from *China Judgments Online* with the assistance of a commercial data company. This website was officially launched in July 2013, and the Supreme Court requested that all courts in China publish their legal documents and court files (with some exceptions) on this website. Granting free access to legal documents online is an integral part of the nationwide judicial reforms enacted after the 18th National Congress. The goal was to make past court decisions available to the public in an easy-to-access manner. As of December 2021, more than 120 million documents pertaining to criminal, civil, and administrative cases had been posted on the site.

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

We are able to extract detailed information that is useful for our analysis, including that on trial dates, plaintiffs' and defendants' names, courts, status (at the trial of first

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

or second instance), the number of attorneys for both sides, and the litigation decisions made, in which the presiding judges explicate the total legal cost involved and how the cost should be shared among the plaintiffs and defendants.

Second, we focus on the category of litigation between enterprises. The acquired data contain litigation cases between all types of parties—not only enterprises but also individuals and organizations. To distinguish between enterprises and nonenterprise litigants, we utilize the names of the litigants disclosed in the court judgments.¹⁹

Third, for cases with more than one plaintiff or defendant, we label the first plaintiff and first defendant as representatives. This is reasonable because in the Chinese judicial system, the first plaintiff is the primary initiator of the lawsuit (and a representative is officially elected if more than 10 plaintiffs are involved); moreover, the first defendant is the direct party, while the remaining defendants are indirect parties. In total, there are approximately 1.5 million cases with enterprise litigants in our possession.

Fourth, we pinpoint the place of domicile of each enterprise in our data. In China, enterprises are instructed to include the name of the city in which they are located in their registered name. Therefore, we can collect each enterprise's registered location from its name.²⁰ For any enterprises that do not include their locations in their names, we search for their names on Baidu Maps and identify their locations accordingly. For approximately 10% of the cases, either the litigants' registration location cannot be found or some of the variables mentioned above are missing.

Finally, we collect data on the two judicial reforms concerned: the introduction of circuit courts and the implementation of live trial broadcasting. First, we compile data on the exact locations and founding dates of each of the circuit courts and on the jurisdiction of each circuit court.²¹ We then add the information on the circuit courts to our litigation sample; therefore, we know whether each civil case is under a circuit court's geographical jurisdiction at the time of trial.

We determine whether each case was broadcast live by using information from the China Court Trial Online website (discussed in section 2.3). The site live-streams ongoing trials and provides video recordings of trials that have been broadcast. The

¹⁹In China, according to enterprise naming regulations, a registered enterprise must end its name with the organizational form of "Center," "Shop," or "Store," etc., if registered under the regulations on the registration of enterprises as legal persons or contain the terms "Limited Liability Firm" or "Company Limited," or their abbreviations, if registered under the Company Law. Based on these naming conventions, we design an algorithm to extract only civil cases between enterprises.

²⁰However, there are exceptions: if a firm's name contains only the name of the province where it is located, its registered capital must be higher than a specific threshold; moreover, if the firm's name does not contain regional information at all, it must obtain approval from the State Administration of Industry and Commerce.

²¹All this information can be obtained from <https://www.court.gov.cn/xunhui.html>.

website publishes detailed trial information about each case, including a unique case code, the trial date, the court venue, and litigant information. We acquire all 11 million cases listed on China Court Trial Online up to April 2021. Then, we match these data with the litigation sample we constructed using the unique case codes.

Officials Sample Construction

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

Next, we gather data on those officials' birthplaces and the cities where they completed their higher education and worked. Fortunately, most of these pertinent details can be found online, and only a small fraction of information is missing. Specifically, we code information about officials holding the three key positions considered (i.e., party secretary, mayor, and judicial secretary) for each month and each city. Approximately 9% of the total month \times official pairs are missing, most of which are due to temporary vacancies in the judicial secretary position. In summary, we gather data on 1,903 persons employed in 1,011 positions at the city level.

Finally, we match the data on officials with our litigation sample. Specifically, we match each case with the information of the incumbent officials who hold the positions of party secretary, mayor, and judicial secretary in the city where the corresponding court is located at the time of the trial (month level). Approximately 11% of our litigation sample cannot be merged with the official sample. This is mainly because a relevant position was vacant on the trial date. In addition, approximately 5.5% of the official sample cannot be merged with the litigation sample; this is largely because for some city \times month cells, no enterprise-to-enterprise civil lawsuit cases have been uploaded to China Judgments Online. Our full litigation sample contained a total of 1,379,572 civil judgments.

3.2. Constructing Variables

Based on information extracted from the examined judgments, we create a number of variables describing each case for our analysis. We acquire the case code of each case, as these codes are useful for merging our data with other datasets. *Instance* indicates whether a case is being heard for the first time in the original jurisdiction or for the second time, i.e., if an appeal is being reheard. In China, there are 9 well-

defined legal areas and one undefined area (“other area”), and 6 of these are most relevant for enterprise-to-enterprise lawsuits, such as contract disputes and intellectual property disputes, while the remaining ones are clustered as “miscellaneous.” In addition, we code the court information, such as the *court name*, the court *level* (local, intermediate, high or supreme court), and the *court city* (i.e., the city where the court is located). The litigant information section identifies the names of the litigants, allowing us to determine whether each case involves individuals, organizations, or enterprises. In addition, we extract the registered cities of both the plaintiffs and the defendants from their names, which we denote as *plaintiff city* and *defendant city*, respectively. The lawyer information includes the total number of attorneys representing the plaintiffs and the defendants, denoted by *plaintiff lawyers* and *defendant lawyers*, respectively.

Litigation Outcomes

The construction of another three key variables deserves elaboration. First, we code the litigation outcomes using the amount of *legal costs* and how these costs are divided among the litigants. According to civil law practice, a plaintiff’s share of litigation court fees is inversely proportional to the extent to which the court upholds that plaintiff’s claim.²² In other words, the share of legal cost paid by a defendant is proportional to the extent to which the court supports the corresponding plaintiff’s claims. We define the *plaintiff’s share of legal costs* as the fraction of the legal costs paid by the plaintiff. Furthermore, based on this metric, we come up with a coarser definition of litigation outcomes: *plaintiff’s success* is a dummy variable that takes the value 1 when the plaintiff’s share is below 50% and 0 otherwise.

Nonlocal Enterprise

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

Connections

Connections between enterprises and local officials are important for our analysis but unobservable. In this study, a nonlocal enterprise is considered to be connected to an

²²See “Measures on the Payment of Litigation Costs,” which was adopted at the State Council’s executive meeting on December 8, 2006 and took effect on April 1, 2007; additionally, see Chapter 11 of China’s Civil Procedure Law.

incumbent official when its registration city is a city where the official has previous experience, i.e., (a) his or her birthplace or (b) previous working place or (c) the city where his or her higher education was received. For example, if a nonlocal plaintiff enterprise is registered in a city where the incumbent municipal party secretary was born, worked or studied, the nonlocal enterprise is considered to be connected to the party secretary. For robustness, in our empirical analysis, we examine the definition of connection using each of the aforementioned categories, namely, (a), (b) and (c).

3.3. Summary Statistics

Table 1 summarizes the distribution of the number of litigations in our sample by year, area and court level. Panel A illustrates the number of claims filed each year between 2014 and 2019 for the total sample and the four subsamples depending on whether the litigants are local or nonlocal. We observe that the number of civil litigations increased substantially over the period of investigation, growing from approximately 100 thousand in 2014 to more than triple that number in 2019; this likely reflects the increased size and complexity of the economy.

Approximately 60% of the 1.4 million civil cases in our sample involve local plaintiffs and defendants, whereas approximately 5% of the cases involve only nonlocal plaintiffs and defendants. In the remaining sample, the number of cases that involve nonlocal plaintiffs and local defendants and that of cases that involve local plaintiffs and nonlocal defendants are roughly the same.

Panel B displays the litigation distribution by court level. In our sample, 58% of the cases were filed at a primary court, 37% were filed at an intermediate court, and only a tiny fraction were adjudicated at the high court or Supreme court.

Panel C shows the distribution of cases by issue area. The majority of the civil litigations between enterprises fall into the areas of contract disputes, improper management, and inappropriate profit, i.e., these cases account for more than 60% of all the cases. More than 6% of the cases involve intellectual property disputes. Approximately 20% of the litigation cannot be categorized into any of the nine predefined issue areas.

The case-related summary statistics of our sample are shown in Table 2. Among the enterprise-to-enterprise civil cases, 67% of the plaintiffs retained counsel, while just 38.4% of the defendants did so. The ratio of cases with lawyers is greater for the nonlocal-local pairs than for the local-local pairs, which suggests that the cost of initiating a lawsuit in a home court is likely lower than that of initiating a lawsuit in another court. The average number of plaintiff lawyers is 0.90, whereas the average

Table 1. Litigation Sample Summary

Panel A. Case Distribution by Year						
	Full Sample		Subsamples			
	Cases	Ratio	NL-L	L-NL	NL-NL	L-L
2014	102,771	7.45%	16.12%	14.68%	7.80%	61.40%
2015	176,031	12.76%	15.69%	15.76%	7.29%	61.25%
2016	214,400	15.54%	17.21%	18.04%	5.37%	59.38%
2017	269,363	19.53%	17.16%	19.06%	4.71%	59.07%
2018	294,527	21.35%	19.33%	19.46%	4.73%	56.47%
2019	322,480	23.38%	21.21%	19.47%	4.99%	54.33%
Total	1,379,572	100%	18.31%	18.34%	5.44%	57.91%

Panel B. Case Distribution by Court Level						
	Full Sample		Subsamples			
	Cases	Ratio	NL-L	L-NL	NL-NL	L-L
Primary court	809,261	58.66%	16.33%	19.14%	4.22%	60.30%
Intermediate court	520,598	37.74%	21.68%	17.11%	5.39%	55.82%
High court	28,784	2.09%	11.47%	14.09%	30.99%	43.46%
Supreme court	20,929	1.52%	20.67%	23.45%	18.66%	37.23%
Total	1,379,572	100%	18.31%	18.34%	5.44%	57.91%

Panel C. Case Distribution by Issue Area						
	Full Sample		Subsamples			
	Cases	Ratio	NL-L	L-NL	NL-NL	L-L
Contracts	881,914	63.93%	15.74%	19.55%	4.20%	60.50%
Intellectual Property	93,045	6.74%	56.37%	18.13%	11.15%	14.35%
Finance, Security and Insurance	63,045	4.57%	13.76%	13.49%	4.64%	68.11%
Tort Liability	26,407	1.91%	12.76%	14.85%	16.62%	55.78%
Property	19,946	1.45%	7.73%	7.34%	2.94%	81.99%
Labor Dispute	10,606	0.77%	10.01%	12.26%	7.67%	70.05%
Miscellaneous	284,609	16.43%	20.63%	17.02%	6.65%	59.90%
Total	1,379,572	100%	18.31%	18.34%	5.44%	57.91%

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

Table 2. Summary Statistics

	Full Sample	NL-L	L-NL	NL-NL	L-L
	Mean	Mean	Mean	Mean	Mean
Legal Cost (ln)	8.235	7.733	8.174	8.411	8.396
Plaintiff Lawyer (1=Yes)	0.670	0.757	0.674	0.710	0.638
Plaintiff Lawyer N ^o	0.908	1.041	0.911	0.990	0.858
Defendant Lawyer (1=Yes)	0.384	0.419	0.360	0.467	0.373
Defendant Lawyer N ^o	0.576	0.596	0.524	0.720	0.573
Live Broadcasting (1=Yes)	0.116	0.116	0.122	0.111	0.115
Circuit Court (1=Yes)	0.563	0.607	0.595	0.513	0.543

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

Table 3. Summary Statistics for Officials and Turnovers

Panel A. Summary Statistics for Officials					
	Full Sample		Party Secretary	Mayor	Judicial Secretary
	N	Mean	Mean	Mean	Mean
Basic information					
Age	2383	52.06	53.11	51.14	51.87
Male	2383	0.95	0.96	0.94	0.96
Education					
Year of schooling	2383	19.14	19.41	19.34	18.52
Bachelor	2383	0.99	0.99	1.00	0.99
Career					
Tenure (month)	2383	26.03	25.96	25.92	26.28
Panel B. Turnover at City-level from 2014-2019					
No. turnovers	0	1	2	3	4
Party Secretary	34	111	143	41	4
Mayor	32	116	141	37	6
Judicial Secretary	98	122	67	24	2

number of defendant lawyers is 0.58. More than half of the cases were adjudicated when the corresponding courts were monitored by circuit courts, and approximately 12% of the cases were broadcast live online during the sample period.

Table 3 presents a summary of the sample officials' personal information. For our sample, we compile a dataset consisting of the resume information of the party secre-

Table 4. Summary Statistics for Connections

	NL-L cases: Nonlocal plaintiff is connected through the City of			
	Birthplace	Education	Working Experience	All places
Party Secretary	0.019	0.062	0.100	0.138
Mayor	0.019	0.070	0.097	0.139
Judicial Secretary	0.012	0.061	0.042	0.088
Total	0.017	0.064	0.083	0.124
	L-NL cases: Nonlocal defendant is connected through the City of			
	Birthplace	Education	Working Experience	All places
Party Secretary	0.017	0.044	0.082	0.109
Mayor	0.026	0.051	0.084	0.120
Judicial Secretary	0.013	0.048	0.043	0.080
Total	0.019	0.048	0.072	0.105

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

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

Table 4 summarizes the case-level information related to enterprise-official connections. The upper part of the table presents the relevant information for cases that involve nonlocal plaintiffs and local defendants. Approximately 2% of the cases involve plaintiffs that are connected to party secretaries through their birthplaces, 6% involve those connected through cities where party secretaries received higher education, and more than 10% involve those connected through cities where party secretaries have previous work experience. In total, 13.8% of the plaintiffs in this subsample are connected to the incumbent party secretary of the city where the corresponding litigation is adjudicated. For mayors, the ratio of connected cases is similar. For judicial secretaries, the ratio is lower, given that a larger fraction of judicial secretaries are home-grown. The lower part of the table displays details regarding the cases that involve local plaintiffs and nonlocal defendants, and the pattern is generally similar.

4. Judicial Bias: Corruption and Home Bias

4.1. Identifying the Impacts of Connection

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

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

Table 5 illustrates this strategy with a simplified example: one city has two distinct officials who hold a particular position in sequence over the period of investigation. According to their connection status, there are four types of enterprises in total. Specifically, in this example, Type 1 enterprises are connected to an official who leaves his or her position and have no connection to the replacement official. In contrast, Type 2 enterprises are not connected to the former official but to his or her replacement; therefore, they gain access to this leader and potentially an edge in court. Type 3 enterprises happen to have connections to both, while Type 4 enterprises have connections to neither. The connection status of Type 3 and 4 enterprises does not change after turnover. When this example is extended to characterize scenarios with more than two tenures, the number of enterprise types increases accordingly.

We take advantage of variations across types and over tenures and estimate a *generalized difference-in-differences* model that identifies the causal impact of connections conditional on fixed differences across tenures and fixed differences across enterprise

Table 5. Tenure of Officials and Connection Status

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

types. Specifically, we estimate the following equation:

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

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

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

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

To be cautious, in addition to the baseline model, we also estimate a specification with a set of control variables X_i at both the case and prefecture levels. Since in each estimation, we focus on the impact of connections to officials in one particular position, we control for the status of enterprises' connections to officials in other positions. For example, when estimating the impact of a connection that an enterprise has to a

municipal party secretary, we control for the status of that enterprise's connections to the mayor and judicial secretary of the same city at the time of the trial. We create a dummy variable, *other connection*, which takes the value of 1 when the focal enterprise is connected with at least one of the other two officials and 0 otherwise. We also add the total legal fees (log) involved in each case as a control variable, which is a proxy for the size of the dispute. We include the number of lawyers working for the plaintiffs and the number of those working for the defendants, approximating the relative resources for legal battles possessed by both sides, as well as the current instance of the trial, which captures the potential impacts of different legal procedures on the outcomes. The prefecture-level control variables include GDP per capita (log) and population (log), which are used to proxy the focal region's development level and size.

Main Results. We estimate the generalized difference-in-differences model specified by Equation (1) with the sample of litigations involving nonlocal plaintiffs versus local defendants. Columns (1) to (3) of Table 6 show the results using *plaintiff's success* as the dependent variable. The results show that if a nonlocal plaintiff is connected with the incumbent municipal party secretary or judicial secretary of the court city, the plaintiff is more likely to win the case: connection to the party secretary (or judicial secretary) leads to an advantage of 3 (or 2.2) percentage points, and this effect is statistically significant. In contrast, a connection to the mayor appears to be much less impactful on litigation outcomes: the size of the estimate is close to zero and nonsignificant.

Columns (4) to (6) of Table 6 present the results with *plaintiff's share of legal costs* as the dependent variable. These results show that nonlocal plaintiffs that are connected to a municipal party secretary (or judicial secretary), on average, pay 2.98 (or 1.79) percentage points less in legal fees than nonconnected plaintiffs, and this effect is statistically significant. A connection to the mayor does not have any significant effects on legal cost sharing.

This set of findings provides evidence of local officials' interference in the judicial system: party officials who have an influence over courts can pressure them to adjudicate in favor of litigants connected to them. When officials and managerial heads of enterprises are connected, i.e., when they share social ties or stay relatively close in their social networks, they have a higher degree of trust in each other, which facilitates favor trading.

Interestingly, the estimated effects of connections to officials also vary across positions: party and judicial secretaries have much stronger impacts on court decisions, while we do not find evidence that mayors have such influences. Such variation is reasonable and consistent with the way power is structured (discussed in section 2.1):

Table 6. Difference-in-differences Estimation: Connection and Litigation Outcomes with Nonlocal Plaintiffs versus Local Defendants

	Plaintiff's Success			Plaintiff's Share of Legal Costs		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)	Party Secretary (4)	Mayor (5)	Judicial Secretary (6)
Connection	0.0302*** (0.00898)	0.00189 (0.00673)	0.0227** (0.00889)	-0.0298*** (0.00872)	0.00366 (0.00593)	-0.0179** (0.00859)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes
Court FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	220,238	213,408	161,074	220,238	213,408	161,074
R-squared	0.273	0.272	0.267	0.297	0.295	0.291

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

party officials lead and have direct power over courts in the areas of personnel nominations and supervision, but executive officials, such as mayors, possess less power over court-related affairs. These distinct effects of connections to party officials and mayors lend further support to our interpretation that courts favor crony enterprises with connections to powerful officials who have influence over courts.

Identification Issues One selection issue arises in that nonlocal connected firms could be more likely to file a case than nonlocal unconnected firms. In other words, nonlocal unconnected firms file a case only when they expect to have a greater chance of winning than a connected firm. Another possible selection issue, albeit technically unlikely, is that corrupt court decisions related to incumbent officials may be suppressed and not released. Both mechanisms, if they exist, would bias the estimated impact of connections toward zero.

Another issue concerns the measurement of connections. Our implicit assumption is that once an official leaves his or her current position, his or her cronies lose the favorable treatment that they had previously received in the courts of the corresponding city. However, promoted and retired leaders may still wield influence in the cities where they previously worked and therefore, to some extent, maintain their leverage over the courts even after leaving their positions. This mechanism would also downward bias the estimated effects of connection.

In our empirical design, we treat turnover as exogenous to litigation outcomes. However, there could be some unobserved common factors that simultaneously influence the assignment of officials and the management of local courts (and therefore litigation outcomes). To mitigate this concern, we resort to a placebo test. We randomly assign turnover patterns of officials across cities over our sample period, with the timing of the turnovers and the officials in each tenure drawn from the set of actual turnovers in the data. We randomly draw 2,000 sets of placebo turnover assignments and rerun the estimation. Finally, we compare the connection effect estimated using actual data to the distribution of the placebo connection effect estimated using randomly assigned turnovers. We show this set of results in Figure ?? of Appendix B. The randomization based pseudo p-values are both less than 0.001 for effects of connection to party secretary, despite the dependent variables and 0.004 and 0.011 for those of judicial secretary for plaintiffs' success and share of legal costs being the dependent variables, respectively. By contrast, for effects of connection to mayor, the respective pseudo p-values are 0.713 and 0.483. The comparison leave us more confident that the concern of endogenous turnover assignments are not too worrisome.

Litigation Size and Effects of Connection. To corroborate our interpretation, we examine how the effects of connections to officials vary based on the size of litigations.

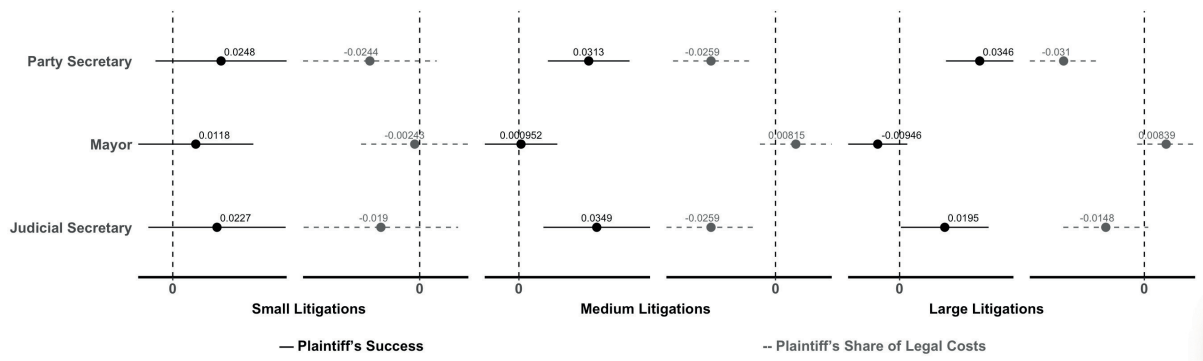


Figure 2. *Litigation Sizes and Effects of Connections.* This figure illustrates the difference-in-differences coefficient and 95 percent confidence interval estimated for each outcome variable, each position and each subsample. Regardless of the outcome variable used for litigation outcomes, we find no evidence for impacts of connections to any officials when the stakes of disputes are low. However, for medium-sized and large litigations, the pattern found is rather similar to that in Table 6.

It is reasonable to predict that the impact of the measured connections should be quite small when the amounts of money involved in the corresponding disputes are small. Considering that it may be rather costly for enterprises to seek favor from officials with whom they share social ties, enterprises may not leverage their connections if the stakes of a particular litigation are not very high.

To test this auxiliary prediction, we divide the litigation sample into three subsamples according to the amount of legal fees involved (which increase the money involved in disputes). Specifically, we pool the litigations that fall into the lowest third in terms of legal fees each year to form a sample of small litigations, those that fall into the middle third to form a sample consisting of medium-sized litigations, and those that fall into the highest third to form a sample of large litigations. Then, we perform the same set of regression analyses for each subsample (namely, those reported in Table 6) and report the results in Tables 12, 13 and 14, which are all relegated to Appendix B.

We summarize the estimated coefficients of connections in Figure 2. For the subsample of small litigations, all the estimated coefficients are rather small in magnitude, and none of them are significant for any of the positions or dependent variables considered. This pattern is consistent with our prediction that connections to officials should not be relevant for the outcomes of small litigations. Interestingly, for the subsample of medium-sized and large litigations, we observe that the effect of a connection to the mayor is still nonsignificant, but the effects of connections to party officials are significant; this pattern is consistent with that estimated using the full sample.

Decomposing the Impacts of Connections. According to our definition, an enterprise and an official are considered to be connected when the enterprise is registered in (a)

the official's birth place or (b) a city where he or she has worked or (c) where he or she completed higher education. Does one of these channels drive our findings? To decompose these impacts, we specify three narrower definitions of connections: an enterprise is considered to be connected to an official through only channel (a), (b) or (c) individually. For each definition of connection, we re-perform all the exercises reported in Table 6. The results are reported in Tables 15, 16, and 17 of Appendix B, respectively. We summarize the estimated coefficients of connection in Figure 4 of Appendix B. The patterns of the estimated effects across the three positions, using any of the three alternatives, are similar to that observed when using the default definition. Thus, it is unlikely that the definition of connection drives our findings.

Sample with Local Plaintiffs versus Nonlocal Defendants. In our analysis, we use a sample of litigations with nonlocal plaintiffs versus local defendants to prevent the potential selection of jurisdiction at the contracting stage. An enterprise may agree to resolve potential lawsuits in the city where the other contractual party is located because the enterprise has operated in that city for some time and established social ties. In this case, we would expect the measured advantage of connected nonlocal defendants, relative to that of unconnected nonlocal defendants, to be biased toward zero. In Appendix C, we verify this conjecture by using a sample of litigations with local plaintiffs versus nonlocal defendants and estimating Equation (1) (See Table 21).

4.2. Home Bias

In this section, we turn to the effects of home bias – which refers to courts favoring litigants from their own jurisdictions – on litigation outcomes. There are two likely driving forces underlying home bias in the courtroom. First and more generally, home bias can be broadly categorized as a form of in-group bias, i.e., the provision of favorable treatments to members of one's own group. In China, most judges are from the jurisdiction where they work; therefore, it is reasonable to conjecture that in-group favoritism exists based on locality. Second and more specifically to China, local protectionism, i.e., local governments shielding local enterprises from outside competition, could penetrate into the judicial system and work against nonlocal enterprises in the context of business litigation.

We start our analysis by examining the litigation outcome patterns over the sample period. By comparing the litigations between nonlocal plaintiffs and local defendants to those between local litigants, we observe that nonlocal plaintiffs are less likely to win and shoulder more legal costs than local plaintiffs. Similarly, by comparing the litigations between local plaintiffs and nonlocal defendants to those between local litigants, we observe that nonlocal defendants are more likely to lose and shoulder more legal costs than local defendants. See Figure 3. These findings present *prima facie*

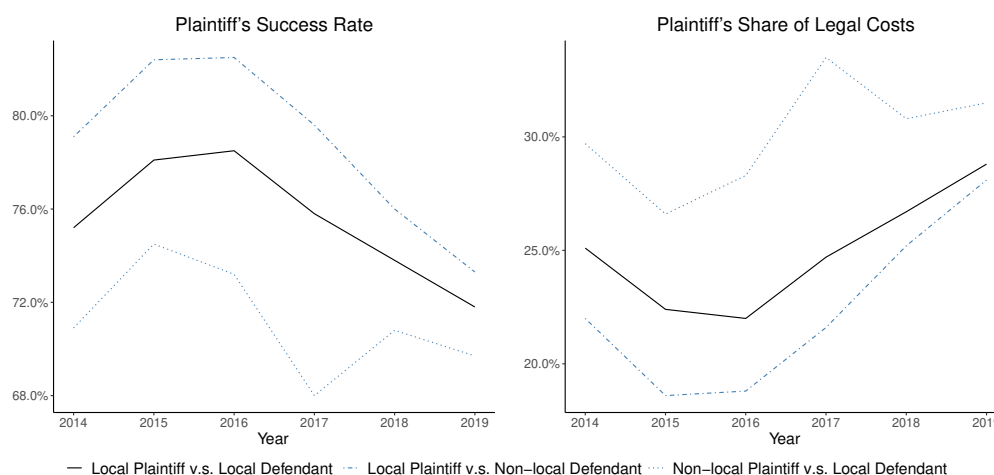


Figure 3. *Litigation Outcomes for Subsamples.* The panel on the left presents the plaintiffs' average success rate within each category over time, while the right panel illustrates the plaintiffs' average share of legal costs. Comparing the litigations between nonlocal plaintiffs and local defendants to those between local litigants, we find that nonlocal plaintiffs are less likely to win and shoulder a higher share of legal costs than local plaintiffs. Similarly, comparing the litigations between local plaintiffs and nonlocal defendants to those between local litigants, we find that nonlocal defendants are more likely to lose and share more legal costs than local defendants.

evidence for home bias: local enterprises are likely to be favored in the context of litigation.

We then turn to regression analysis and use a subsample that includes the litigations that involve local and nonlocal plaintiffs and local defendants. We estimate the following equation:

$$y_{i,l,k,c,t} = \beta_0 + \beta^H \times \text{Non-Local}_i + \omega_l^{\text{reg}} + \omega_k^{\text{area}} + \omega_c^{\text{court}} + \omega_t + \epsilon_{i,l,k,c,t} \quad (2)$$

where the dependent variable, $y_{i,l,k,c,t}$ is the outcome of case i ; the plaintiff of this case is registered in city l , the case pertains to issue area k , is heard in court c , and is decided during year-quarter t . Non-Local_i is a dummy that takes the value of 1 if the plaintiff enterprise of case i is nonlocal and 0 if it is local. As usual, we add fixed effects pertaining to the plaintiff's registration city, the issue area, the court and the year-quarter. We also include the full set of control variables discussed earlier.

We present our ordinary least squares (OLS) results in Table 7. In column (1), in which the plaintiff's success is used as the dependent variable, we can observe that the chance of winning for nonlocal plaintiffs is lower than that for local plaintiffs by approximately 2.2 percentage points. In column (2), in which the plaintiff's share of

Table 7. Home Bias: Local or Non-local Plaintiffs versus Local Defendants

	Plaintiff's Success (1)	Plaintiff's Share (2)	Plaintiff's Success (3)	Plaintiff's Share (4)
Non-Local Plaintiff	-0.0220*** (0.00380)	0.0277*** (0.00382)	-0.0116*** (0.00407)	0.0186*** (0.00420)
Local Leader			0.00403 (0.00403)	-0.00273 (0.00401)
Non-Local Plaintiff × Local Leader			-0.0508*** (0.00907)	0.0443*** (0.00888)
Controls	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes
Court FE	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes
Observations	949,563	949,563	949,563	949,563
R-squared	0.267	0.289	0.267	0.289

Notes: Case-level control variables include legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers (log) of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.1, ** p<0.05, *** p<0.01.

legal costs is used as the dependent variable, it can be observed that nonlocal plaintiffs pay 2.7 percentage points more than their local counterparts.

Local Leadership and the Effects of Home Bias. As discussed earlier, home bias in the courtroom can be partially driven by local protectionism, i.e., local courts favor local enterprises in litigation to protect local economic interests. If this mechanism indeed plays a role in home bias, we expect that this incentive is stronger in prefectures where leaders of communist party committees were local-born. It is likely that local-born leaders create a stronger culture of local protectionism in the public sector, even though they do not directly or immediately benefit from it.

To test this conjecture, we create a dummy, Local-leader, which takes the value of 1 if at least one of the key leaders (party secretary, mayor or judicial secretary) in office when case i was being adjudicated was born locally; otherwise, it equals 0. We add Local-leader as well as its interaction term with Non-Local $_i$ to Equation (2) and report the results of estimating this equation in Table 7. In column (3), in which the plaintiff's success is used as the dependent variable, the coefficient of the interaction term is negative and highly significant. This shows that home bias is indeed stronger when the municipal leadership of a region consists of local leaders. This result is also confirmed by using the plaintiff's share of legal costs as the dependent variable (see

column (4)).

Sample with Local Plaintiffs versus Local or Nonlocal Defendants. As a robustness check, we also study a subsample of litigations involving local plaintiffs versus local or nonlocal defendants. We expect that local defendants enjoy an advantage over their nonlocal counterparts when the plaintiffs are also local enterprises. In Appendix C, we verify this conjecture (see Table 22).

5. Judicial Reforms

Do judicial reforms successfully curb the impacts of cronyism and home bias in the courtroom? To answer this question, we consider and contrast the two aforementioned reforms, i.e., the staggered introduction of circuit courts and the implementation of trial broadcasting in courtrooms across China.

5.1. The Introduction of Circuit Courts

To understand the impacts of circuit courts on cronyism, we utilize our sample of litigations with nonlocal plaintiffs versus local defendants and estimate the following equation:

$$y_{i,l,p,k,c,t} = \beta_0 + \beta_1 \times \text{Connection}_i + \beta_2 \times \text{Circuit}_{tc} + \beta_{\text{Circuit}}^C \times \text{Connection}_i \times \text{Circuit}_{tc} + \omega_l^{\text{reg}} + \omega_p^{\text{tenure}} + \omega_k^{\text{area}} + \omega_c^{\text{court}} + \omega_t + \epsilon_{i,l,p,k,c,t} \quad (3)$$

where Circuit_{tc} is a dummy variable taking the value of 1 if court c was covered and monitored by a circuit court during year-quarter t and 0 otherwise. We include the same sets of fixed effects included in Equation (1). We are interested in the coefficient of the interaction term, i.e., β_{Circuit}^C . Using *plaintiff's success* (*plaintiff's share* of legal costs) as the dependent variable, if this coefficient is negative (positive) and significant, the preferential treatment that connected enterprises enjoy was smaller after the introduction of the reform. In contrast, if it is not significant, this suggests that the reform was likely inconsequential in relation to corruption.

The regression results are shown in Table 8. Columns (1) to (3) display the estimated results using *plaintiff's success* as the dependent variable, with each column corresponding to one of the three positions. Columns (4) to (6) show the same set of results using the *plaintiff's share* of legal costs. The estimated coefficients of the interaction term are all negative in columns (1) to (3) and all positive in columns (4) to (6); however, they are significant for only the positions of party officials.

Our estimation results suggest that more than half of the advantage that connected nonlocal plaintiffs enjoy in court is eliminated by the introduction of circuit courts.

Table 8. Impacts of Introducing Circuit Courts: Nonlocal Plaintiffs versus Local Defendants

	Plaintiff's Success			Plaintiff's Share of Legal Costs		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)	Party Secretary (4)	Mayor (5)	Judicial Secretary (6)
Connection	0.0477*** (0.0112)	0.00610 (0.00702)	0.0479*** (0.0104)	-0.0509*** (0.0113)	0.000918 (0.00711)	-0.0487*** (0.0101)
Circuit	-0.00460 (0.0129)	0.00249 (0.00997)	0.0135 (0.0121)	0.00487 (0.0102)	0.00220 (0.00775)	-0.0120 (0.0106)
Connection x Circuit	-0.0305*** (0.0113)	-0.00745 (0.0101)	-0.0371** (0.0147)	0.0367*** (0.0117)	0.00485 (0.0100)	0.0453*** (0.0135)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes
Court FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	220,238	213,408	161,074	220,238	213,408	161,074
R-squared	0.273	0.272	0.267	0.297	0.295	0.291

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

The chance of winning for nonlocal plaintiffs connected to a party (or judicial) secretary, relative to unconnected plaintiffs, declined by 3 (or 3.7) percentage points, while these plaintiffs' share of legal costs increased by 3.67 (or 4.5) percentage points. Since mayors have much less power over courts, in comparison with party officials, there is no disciplinary effect of circuit courts on mayors.

Litigation Sizes and the Impacts of Circuit Courts. In section 4.1, we show that connected nonlocal enterprises leverage their connections to party officials to influence court decisions only for litigations that have sufficiently high stakes. Therefore, our conjecture is that the impact of circuit courts should also work in the case of relatively large litigations. To investigate this possibility, we re-estimate Equation (3) with subsamples of small, medium-sized and large litigations. The results are reported in Tables 18, 19 and 20 (of Appendix B). The estimation results using the subsamples of small and medium-sized litigations suggest that the introduction of the circuit court system had little impact on the effects of connections. In contrast, using the subsample of large litigations, we find that the magnitude of the coefficients of the interaction term β_{Circuit}^C are consistently larger than those we find using the full sample.

Our investigation reveals that the introduction of the circuit court system mainly affected litigations with relatively high stakes. The pattern of this set of results is consistent with the disciplinary mechanism of circuit courts. It is rather costly for litigants to file petitions or appeal to the circuit courts to reverse the decisions of local judiciaries. Therefore, it is reasonable to suggest that enterprise litigants pay such the high costs associated with fighting out-of-court legal battles only when the amount of money involved is large enough to make it worthwhile.

Did the introduction of the circuit court system alleviate home bias? To provide an answer to this question, we utilize the subsample that includes litigations involving local or nonlocal plaintiffs versus local defendants. We add Circuit_{tc} and its interaction term with Non-Local_i to Equation (2) and estimate the following equation:

$$y_{i,l,k,c,t} = \beta_0 + \beta_1 \times \text{Non-Local}_i + \beta_2 \times \text{Circuit}_{tc} + \beta_{\text{Circuit}}^H \times \text{Non-Local}_i \times \text{Circuit}_{tc} + \omega_l^{\text{reg}} + \omega_k^{\text{area}} + \omega_c^{\text{court}} + \omega_t + \epsilon_{i,l,k,c,t} \quad (4)$$

We are interested in the coefficient of the interaction term, i.e., β_{Circuit}^H which captures the impacts of circuit courts on home bias. The estimation results are shown in Table 10. Columns (1) and (2) present the estimated coefficients of Equation (4). The coefficients of the interaction term β_{Circuit}^H are rather small in magnitude and statistically nonsignificant, whether the dependent variables is the plaintiff's success or the plaintiff's share of legal costs. This suggests that the introduction of a circuit court is inconsequential for home bias in the context of business litigation.

Moreover, this result is informative about whether the differential in the chances of winning across local and nonlocal plaintiffs is driven by the fact that local enterprises are more likely to be connected than nonlocal enterprises or the tendency of home courts to favor local enterprises. If the differential is largely driven by differences in local and nonlocal enterprises' connections to local authorities, we would expect the introduction of circuit courts to be impactful. However, the estimated coefficient β_{Circuit}^H is nearly zero, which is not consistent with this interpretation. Thus, we are more confident that psychological factors such as in-group bias and incentives to protect local businesses underlie the home bias found in section 4.2.

As a robustness check, we also study a subsample of litigations involving local plaintiffs versus local or nonlocal defendants. We expect that the introduction of a circuit court has no impact on home bias in this subsample. We present our analysis and confirm this conjecture in Appendix C.

5.2. The Implementation of Live Broadcasting

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

$$y_{i,l,p,k,c,t} = \beta_0 + \beta_1 \times \text{Connection}_i + \beta_2 \times \text{Live}_i + \beta_{\text{Live}}^C \times \text{Connection}_i \times \text{Live}_i + \omega_l^{\text{reg}} + \omega_p^{\text{tenure}} + \omega_k^{\text{area}} + \omega_c^{\text{court}} + \omega_t + \epsilon_{i,l,p,k,c,t} \quad (5)$$

where Live_i is a dummy variable taking the value of 1 if case i was broadcast live and 0 otherwise. We include the same set of fixed effects and control variables as included in Equation (1). We are interested in the coefficient of the interaction term, i.e., β_{Live}^C . If the preferential treatment that connected enterprises enjoy relative to unconnected enterprises decreases when trials are broadcast live, we would expect the coefficient to be negative (positive) when *plaintiff's success* (*plaintiff's share* of legal costs) is used as the dependent variable.

Caution is needed, however, when interpreting the coefficient of β_{Live}^C because a potential selection issue could be a confounding factor. As discussed earlier, whether a trial is broadcast or not is subject to the decision of the court where the case is adjudicated. Therefore, it is reasonable to conjecture that a case that involves plaintiffs with connections is less likely to broadcast live. To be sure, the conjectured selection mechanism is based on connections *observable to the court*. Therefore, if this issue indeed exists, the difference in litigation outcomes between connected and unconnected plaintiffs would be smaller when cases are broadcast live than when they are not. We

expect the coefficient of the interaction term to be negative (positive) when we use *plaintiff's success* (*plaintiff's share* of legal costs) as the dependent variable. This mechanism confounds the impact of the reform.

The regression results are shown in Table 9. The estimated coefficients of the interaction term β_{Live}^C are all very small in magnitude and nonsignificant for all three positions, regardless of the dependent variable being used. These findings suggest that the favoritism in the courtroom that connected enterprises enjoy relative to unconnected enterprises is unlikely to change when the procedures of court trials are broadcast live. In other words, whether trials are broadcast live may have little effect on the differences in litigation outcomes across connected and unconnected plaintiffs.

If the implementation of live court trial broadcasting does not reduce corruption, does it have an impact on home bias? We utilize the subsample that includes litigations involving local or nonlocal plaintiffs versus local defendants and estimate the following equation, to which we add Live_i and its interaction terms with Non-Local_i to Equation (2),

$$y_{i,l,k,c,t} = \beta_0 + \beta_1 \times \text{Non-Local}_i + \beta_2 \times \text{Live}_i + \beta_{\text{Live}}^H \times \text{Non-Local}_i \times \text{Live}_i + \omega_l^{\text{reg}} + \omega_k^{\text{area}} + \omega_c^{\text{court}} + \omega_t + \epsilon_{i,l,k,c,t} \quad (6)$$

Columns (3) and (4) of Table 10 present the estimated coefficients of Equation (6). The coefficients of the interaction term β_{Live}^H are both statistically significant. Local plaintiffs' chances of winning, relative to those of nonlocal plaintiffs, decrease by 2.2 percentage points when those trials are broadcasted live. Similarly, relative to local plaintiffs, nonlocal enterprises pay 1.2 percentage points less in terms of their share of legal costs when the trial proceedings are aired live.

However, there is an important caveat that must be considered when interpreting the estimated coefficients as evidence for the impact of the open justice reform on home bias. Indeed, the selection issue discussed earlier can loom large in this setting: it is possible that courts choose to broadcast cases based on unobservable characteristics.

To show that this selection mechanism may not drive our findings entirely, we resort to randomization inferences. Specifically, we first randomize the treatment of live broadcasting among the cases in each area \times year-quarter \times court-level area (i.e., local court, intermediate court and high court). With such a randomized sample, we re-estimate Equation (6) and obtain the estimated coefficient of the interaction term. We repeat this exercise 2,000 times, which allows us to compare the distribution of

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

	Plaintiff's Success			Plaintiff's Share of Legal Costs		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)	Party Secretary (4)	Mayor (5)	Judicial Secretary (6)
Connection	0.0305*** (0.00931)	0.00315 (0.00706)	0.0236** (0.00939)	-0.0300*** (0.00923)	0.00335 (0.00622)	-0.0193** (0.00919)
Live	0.0373*** (0.00688)	0.0411*** (0.00699)	0.0485*** (0.00833)	-0.0268*** (0.00636)	-0.0294*** (0.00606)	-0.0370*** (0.00708)
Connection x Live	0.000278 (0.0112)	-0.0101 (0.0109)	-0.00971 (0.0158)	-0.000110 (0.0107)	0.000230 (0.00971)	0.0133 (0.0148)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes
Court FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	220,238	213,408	161,074	220,238	213,408	161,074
R-squared	0.274	0.272	0.268	0.297	0.296	0.292

Notes: Case-level control variables include the dummy variable of other connection which takes the value of 1 if the enterprise in dispute is connected to any of the other two officials, legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.01, ** p<0.05, *** p<0.001.

Table 10. Reforms: Local or Non-local Plaintiffs versus Local Defendants

	Circuit Court		Live Broadcasting	
	Plaintiff's Success (1)	Plaintiff's Share (2)	Plaintiff's Success (3)	Plaintiff's Share (4)
Non-local	-0.0204*** (0.00600)	0.0269*** (0.00554)	-0.0245*** (0.00410)	0.0293*** (0.00409)
Circuit	-0.00914 (0.00560)	0.0114* (0.00584)		
Non-local x Circuit	-0.00292 (0.00928)	0.00147 (0.00861)		
Live			-0.00362 (0.00292)	0.00552** (0.00261)
Non-local x Live			0.0243*** (0.00782)	-0.0149* (0.00795)
Controls	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes
Court FE	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes
Observations	949,563	949,563	949,563	949,563
R-squared	0.267	0.289	0.267	0.289

Notes: Case-level control variables include legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers (log) of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.1, ** p<0.05, *** p<0.01.

the placebo effects and the actual effect estimated. Figure 5 in Appendix B illustrates the results. We also compute the randomization inference-based p values of the actual treatment effects, and both are less than 0.001 whether the dependent variable is plaintiff's success or plaintiff's share of legal costs. This set of results suggests that home bias is alleviated by the enhanced transparency and that the conjectured selection mechanism may not be too worrisome.

5.3. Interpreting the Contrasting Impacts of Judicial Reforms

Ironically, part of the reason the circuit court system was established was to deal with judicial discrimination against nonlocal litigants. However, our findings in section 5.1 suggest that this system is inconsequential in terms of curbing home bias but effective in terms of reducing connection-based favoritism. In the same vein, part of the reason for broadcasting trials live online is to improve judicial transparency and deter corruption. However, our findings in section 5.2 suggest that the resulting enhanced judicial visibility does not effectively mitigate the effects of connections to party officials on

litigation outcomes; instead, it successfully suppresses home bias.

The contrasting effects of the two reforms on corruption and home bias lead to a number of key insights for judicial reforms. First, the circuit court system impacts local judiciaries by providing litigants with easier access to an additional monitoring organ dispatched by the Supreme Court and the associated deterring effects on courts and local officials. This top-down reform may affect judges' decisions regarding connected litigants relative to unconnected litigants. If litigants know that their opposing parties are leveraging political influence on judges and gaining favor in court, they could file petitions to publicize any corrupt judicial decisions. The establishment of circuit courts decreases the cost and enhances the effectiveness of such endeavors.

However, the top-down reform may not affect decisions regarding nonlocal litigants relative to local litigants. This is because it is difficult for litigants to provide convincing evidence of psychology-based in-group bias or of local protectionism, which does not involve immediate favor exchanges, and file petitions to contest the corresponding litigation outcomes.

In contrast, the implementation of a live broadcasting mechanism impacts local judiciaries in that it improves judicial visibility (i.e., providing the public with an opportunity to observe trials) and induces behavioral changes in judges. For example, according to our interviews with legal professionals, such as judges, lawyers and prosecutors, if judges intentionally favor the litigants on one side of a dispute, they bend the procedural rules against the other side; for example, they may give the other side little to no time to provide answers to questions or present evidence that would function as integral input to the judgment and grounds for adjudication.

Connections to officials are typically hidden and not observable to the public. That is, even though the public is granted access to trials through live broadcasting, they do not know which litigants are connected and potentially favored by judges. As a result, in response to broadcasting, judges may change their behaviors in general. However, judges do not have to change their decisions based on their hidden connections. This may render the live broadcasting mechanism ineffective at reducing favoritism based on connections.

Such an interpretation may imply that the live broadcasting mechanism can be effective in terms of curbing judicial bias when such bias stems from litigants' *observable* characteristics. Our finding that home bias is reduced by the live broadcasting mechanism is a good case in point, as the identity of nonlocal litigants is observable. Exposing the decision-making process to viewers online effectively increases the cost judges incur when they act out their discriminatory preferences against nonlocal litigants. In other words, judges who would discriminate against nonlocal litigants during trials

that are not broadcast behave more impartially when they know that their trials are broadcast and recorded.

6. Concluding Remarks: No Panacea For All Ills

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

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

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Appendix A: Institutional Details

(Not intended for publication)

Table 11. Circuit Court Rollout

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

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

When a circuit court receives a petition case, the case is designated to the court immediately above the petitioned court, and action is to be taken within five working days. After the issue is resolved, the outcome must be reported back to the circuit court for inspection.²³ When a court is petitioned repeatedly on the same issue or when the issue is excessively intricate, the relevant circuit court may intervene directly by sending its own personnel to investigate.

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

The Supreme People's Court prioritizes the administration of petitions, and each

²³See the Provisions of the Supreme People's Court on Several Issues concerning the Trial of Cases by the Circuit Courts and the Guiding Opinion for the Work Practice of the Second Circuit Court of the Supreme People's Court.

court is required to present a monthly progress report on petition-related cases. The volume of petitions directly affects local courts' year-end reviews related to trial quality and effectiveness. Courts and judges are penalized for retrials, especially for cases returned for retrial on the basis of a petition.²⁴ Awards and honors are commonly given when there are no petitions.²⁵

²⁴Take Tianjin Binhai District Court for example, which published its assessment rubrics online. Source from <https://bhxqfy.chinacourt.gov.cn/article/detail/2019/01/id/3715173.shtml>

²⁵Courts in the province of Henan present "Outstanding jurisprudence without complaint or petition" awards to courts and judges to recognize high-quality judicial judgments. See press coverage at <http://hbxxfy.hncourt.gov.cn/public/detail.php?id=1080>

Appendix B: Robustness and Auxiliary Results

Table 12. Difference-in-differences Estimation (Low Legal Fees): Connection and Litigation Outcomes with Nonlocal Plaintiffs versus Local Defendants

	Plaintiff's Success			Plaintiff's Share of Legal Costs		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)	Party Secretary (4)	Mayor (5)	Judicial Secretary (6)
Connection	0.0248 (0.0172)	0.0118 (0.0151)	0.0227 (0.0180)	-0.0244 (0.0167)	-0.00243 (0.0134)	-0.0190 (0.0193)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes
Court FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	75,235	72,794	55,304	75,235	72,794	55,304
R-squared	0.368	0.363	0.388	0.385	0.377	0.406

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

Table 13. Difference-in-differences Estimation (Medium Legal Fees): Connection and Litigation Outcomes with Nonlocal Plaintiffs versus Local Defendants

	Plaintiff's Success			Plaintiff's Share of Legal Costs		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)	Party Secretary (4)	Mayor (5)	Judicial Secretary (6)
Connection	0.0313*** (0.00934)	0.000952 (0.00831)	0.0349*** (0.0122)	-0.0259*** (0.00778)	0.00815 (0.00736)	-0.0259*** (0.00914)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes
Court FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	72,442	70,233	52,675	72,442	70,233	52,675
R-squared	0.312	0.313	0.305	0.338	0.340	0.329

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

Table 14. Difference-in-differences Estimation (Large Legal Fees): Connection and Litigation Outcomes with Nonlocal Plaintiffs versus Local Defendants

	Plaintiff's Success			Plaintiff's Share of Legal Costs		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)	Party Secretary (4)	Mayor (5)	Judicial Secretary (6)
Connection	0.0346*** (0.00744)	-0.00946 (0.00653)	0.0195** (0.00967)	-0.0310*** (0.00663)	0.00839 (0.00568)	-0.0148* (0.00833)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes
Court FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	71,740	69,549	52,168	71,740	69,549	52,168
R-squared	0.283	0.284	0.273	0.308	0.309	0.297

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

Table 15. Robustness: Using Officials' Birthplaces to Proxy Connections (Nonlocal Plaintiffs versus Local Defendants)

	Plaintiff's Success			Plaintiff's Share of Legal Costs		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)	Party Secretary (4)	Mayor (5)	Judicial Secretary (6)
Connection	0.0310** (0.0125)	-0.00498 (0.0105)	0.0619*** (0.0200)	-0.0164 (0.0101)	0.0123 (0.00934)	-0.0521*** (0.0147)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes
Court FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	220,238	213,408	161,074	220,238	213,408	161,074
R-squared	0.273	0.271	0.267	0.297	0.295	0.291

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

Table 16. Robustness: Using Officials' Previous Working Places (Nonlocal Plaintiffs versus Local Defendants)

	Plaintiff's Success			Plaintiff's Share of Legal Costs		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)	Party Secretary (4)	Mayor (5)	Judicial Secretary (6)
Connection	0.0262*** (0.00964)	0.00866 (0.00760)	0.0134 (0.0136)	-0.0261*** (0.00967)	-0.00199 (0.00721)	-0.0136 (0.0124)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes
Court FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	220,238	213,408	161,074	220,238	213,408	161,074
R-squared	0.273	0.272	0.267	0.297	0.295	0.291

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

Table 17. Robustness: Using the Location of Officials' Higher Education to Proxy Connections (Nonlocal Plaintiffs versus Local Defendants)

	Plaintiff's Success			Plaintiff's Share of Legal Costs		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)	Party Secretary (4)	Mayor (5)	Judicial Secretary (6)
Connection	0.0189** (0.00939)	-0.00400 (0.00985)	0.0352*** (0.0125)	-0.0174** (0.00854)	0.00465 (0.00896)	-0.0292** (0.0123)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes
Court FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	220,238	213,408	161,074	220,238	213,408	161,074
R-squared	0.273	0.271	0.267	0.297	0.295	0.291

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

Table 18. Impact of Introducing Circuit Courts (Low Legal Fees): Nonlocal Plaintiffs versus Local Defendants

	Plaintiff's Success			Plaintiff's Share of Legal Costs		
	Party Secretary	Mayor	Judicial Secretary	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)	(4)	(5)	(6)
Connection	0.0426** (0.0207)	0.00803 (0.0147)	0.0273 (0.0202)	-0.0504** (0.0208)	0.00555 (0.0136)	-0.0360* (0.0216)
Circuit	0.0148 (0.0145)	0.0188 (0.0188)	0.0219 (0.0196)	-0.0101 (0.0132)	-0.0134 (0.0148)	-0.0202 (0.0170)
Connection x Circuit	-0.0326 (0.0213)	0.00690 (0.0214)	-0.00680 (0.0354)	0.0475** (0.0222)	-0.0145 (0.0207)	0.0260 (0.0323)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes
Court FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	75,235	72,794	55,304	75,235	72,794	55,304
R-squared	0.368	0.363	0.388	0.385	0.377	0.406

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

Table 19. Impact of Introducing Circuit Courts (Medium Legal Fees): Nonlocal Plaintiffs versus Local Defendants

	Plaintiff's Success				Plaintiff's Share of Legal Costs			
	Party Secretary	Mayor	Judicial Secretary	Party Secretary	Mayor	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Connection	0.0417*** (0.0148)	0.0138 (0.00881)	0.0477** (0.0217)	-0.0321** (0.0127)	0.00172 (0.00900)	-0.0424*** (0.0160)		
Circuit	-0.00933 (0.0181)	0.00321 (0.0126)	0.00461 (0.0165)	0.00596 (0.0136)	-0.00267 (0.00919)	-0.000906 (0.0133)		
Connection x Circuit	-0.0181 (0.0156)	-0.0227* (0.0136)	-0.0186 (0.0224)	0.0108 (0.0140)	0.0113 (0.0125)	0.0241 (0.0177)		
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Court FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	72,442	70,233	52,675	72,442	70,233	52,675		
R-squared	0.312	0.313	0.305	0.338	0.340	0.329		

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

Table 20. Impact of Introducing Circuit Courts (Large Legal Fees): Nonlocal Plaintiffs versus Local Defendants

	Plaintiff's Success						Plaintiff's Share of Legal Costs					
	Party Secretary		Mayor		Judicial Secretary		Party Secretary		Mayor		Judicial Secretary	
	(1)	(2)	(3)	(4)	(5)	(6)						
Connection	0.0616*** (0.00960)	-0.00882 (0.00917)	0.0594*** (0.0155)	-0.0618*** (0.00853)	0.00584 (0.00843)	-0.0601*** (0.0120)						
Circuit	-0.00290 (0.0145)	-0.0122 (0.0131)	-0.00387 (0.0166)	0.00649 (0.0126)	0.0145 (0.0113)	0.00283 (0.0137)						
Connection x Circuit	-0.0458*** (0.0122)	-0.00114 (0.0103)	-0.0585*** (0.0186)	0.0521*** (0.0105)	0.00449 (0.00989)	0.0664*** (0.0153)						
Controls	Yes	Yes	Yes	Yes	Yes	Yes						
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes						
Court FE	Yes	Yes	Yes	Yes	Yes	Yes						
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes						
Area FE	Yes	Yes	Yes	Yes	Yes	Yes						
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes						
Observations	71,740	69,549	52,168	71,740	69,549	52,168						
R-squared	0.283	0.284	0.273	0.309	0.309	0.297						

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

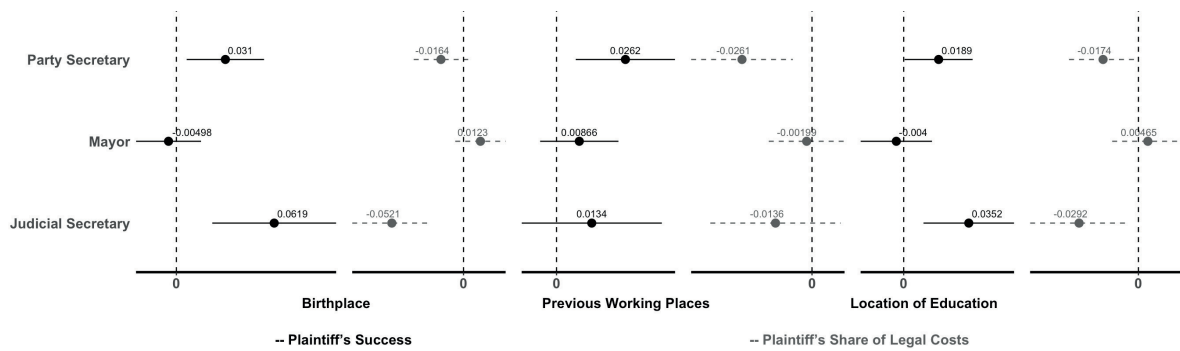


Figure 4. *Decomposing the Impacts of Connection.* The figure illustrates the difference-in-differences coefficient and 95 percent confidence interval estimated for each definition of connections, each outcome variable and each position. Regardless of the outcome variable used for litigation outcomes or the definition of connection used, we find evidence for impacts of connections to party secretaries and judicial secretaries on litigation outcomes, which is consistent with the findings produced based on our default measure of connections. There is no evidence showing an effect of connections to mayors.

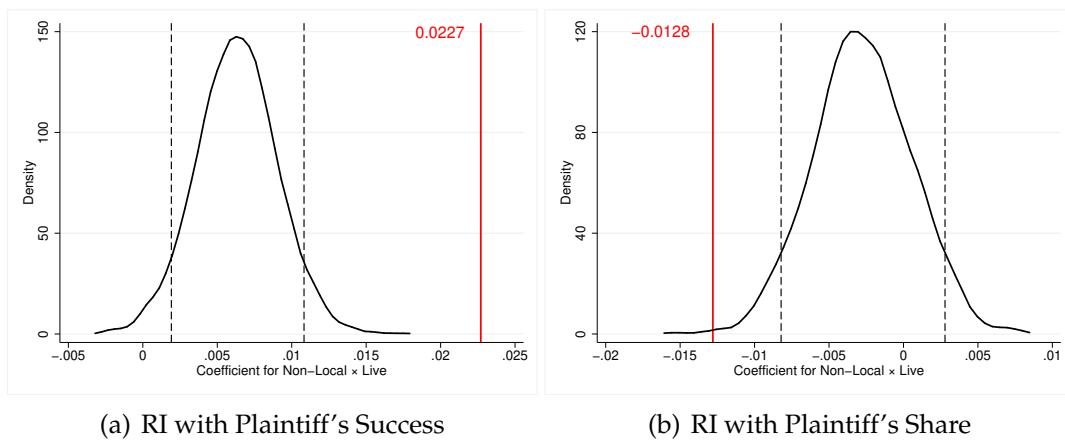


Figure 5. *Randomization Inferences.* The black vertical dashed lines mark the 95% confidence interval, and the red solid line marks the estimated actual treatment effect.

Appendix C: Alternative Samples with Local Plaintiffs

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

To verify this conjecture, we analyze the sample of litigations with local plaintiffs versus nonlocal defendants and estimate Equation (1). Notably, in this specification, ω_i^{reg} represents the fixed effects of the defendant's registered location. The results are reported in Table 21.

Columns (1) to (3) of Table 21 show the results using *plaintiff's success* as the dependent variable. We find that if a nonlocal defendant is connected to the incumbent municipal party secretary or judicial secretary of the court city, the plaintiff is less likely to win the case. The effects, shown in columns (1) and (3), respectively, are statistically significant, but the magnitude of these effects is smaller than that of their counterparts reported in columns (1) and (3) of Table 6. Connections to the mayor have no significant impact on litigation outcomes, as shown in column (2) of Table 21. Columns (4) to (6) of Table 21 present a similar pattern across positions, using *plaintiff's share of legal costs* as the dependent variable.

To investigate home bias, we estimate Equation (2) with the sample of litigations involving local plaintiffs versus local or nonlocal defendants. Columns (1) and (2) of Table 22 present the results. We further add the dummy Local Leader and its interaction term with Non-local to Equation (2) and present the estimation results in columns (3) and (4) of Table 22. The results shown in Table 22 are consistent with the findings reported in Table 7 in the main text.

To examine the impacts of the two reforms, we estimate Equations (3) and (5) with the sample of local plaintiffs versus non-local defendants. The estimation results are reported in Table 23 and 24, respectively. The pattern is rather similar to those estimated with the sample of non-local plaintiffs versus local defendants, which are reported in Table (8) and (9). The introduction of circuit court cubed effects of connections to party officials, but the implementation of live broadcasting is not impactful.

We also estimate Equations (4) and (6) with the sample consisting of local plaintiffs versus local or nonlocal defendants. The estimation results are shown in Table 25. Columns (1) and (2) of Table 25 present the estimated coefficients of Equation (4).

The coefficients of the interaction term β_{Circuit}^H are rather small in magnitude and statistically nonsignificant, regardless of whether the dependent variable is the plaintiff's success or share of legal costs.

Columns (3) and (4) of Table 25 present the estimated coefficients of Equation (6). The coefficients of the interaction term β_{Live}^H are both statistically significant. Local plaintiffs' chances of winning, when filing litigation against nonlocal defendants, relative to their chances when filing against local defendants, shrink by 1.2 percentage points, on condition that their trials are broadcast live. Similarly, when filing litigation against nonlocal defendants, relative to filing against local defendants, plaintiffs pay 1.2 percentage points more in terms of their share of legal costs when their trial proceedings are aired live.

Table 21. Difference-in-differences Estimation: Connection and Litigation Outcomes with Local Plaintiffs versus Nonlocal Defendants

	Plaintiff's Success			Plaintiff's Share of Legal Costs		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)	Party Secretary (4)	Mayor (5)	Judicial Secretary (6)
Connection	-0.0216*** (0.00514)	-0.00249 (0.00488)	-0.0229*** (0.00615)	0.0216*** (0.00490)	0.00805* (0.00425)	0.0162*** (0.00548)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Defendant City FE	Yes	Yes	Yes	Yes	Yes	Yes
Court FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	221,369	216,135	159,539	221,369	216,135	159,539
R-squared	0.380	0.380	0.384	0.410	0.410	0.415

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

Table 22. Home Bias: Local Plaintiffs versus Local or Non-local Defendants

	Plaintiff's Success (1)	Plaintiff's Share (2)	Plaintiff's Success (3)	Plaintiff's Share (4)
Non-local Defendant	0.0220*** (0.00240)	-0.0163*** (0.00237)	0.0160*** (0.00253)	-0.0109*** (0.00254)
Local Leader			0.000340 (0.00376)	0.000539 (0.00364)
Non-local Defendant × Local Leader			0.0256*** (0.00571)	-0.0234*** (0.00518)
Controls	Yes	Yes	Yes	Yes
Defendant City FE	Yes	Yes	Yes	Yes
Court FE	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes
Observations	951,075	951,075	951,075	951,075
R-squared	0.298	0.320	0.298	0.320

Notes: Case-level control variables include legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers (log) of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.1, ** p<0.05, *** p<0.01.

Table 23. Impact of Introducing Circuit Courts: Local Plaintiffs versus Nonlocal Defendants

	Plaintiff's Success						Plaintiff's Share of Legal Costs					
	Party Secretary		Mayor		Judicial Secretary		Party Secretary		Mayor		Judicial Secretary	
	(1)	(2)	(3)	(4)	(5)	(6)						
Connection	-0.0355*** (0.00934)	-0.0109* (0.00647)	-0.0453*** (0.00983)	0.0376*** (0.0101)	0.0184*** (0.00561)	0.0365*** (0.00966)						
Circuit	0.00265 (0.00657)	0.0100 (0.00651)	0.0102 (0.00861)	-0.00284 (0.00594)	-0.00882 (0.00670)	-0.0139 (0.00889)						
Connection x Circuit	0.0220** (0.0102)	0.0138* (0.00751)	0.0318*** (0.0106)	-0.0254** (0.0108)	-0.0170** (0.00722)	-0.0288*** (0.0104)						
Controls	Yes	Yes	Yes	Yes	Yes	Yes						
Defendant City FE	Yes	Yes	Yes	Yes	Yes	Yes						
Court FE	Yes	Yes	Yes	Yes	Yes	Yes						
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes						
Area FE	Yes	Yes	Yes	Yes	Yes	Yes						
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes						
Observations	221,369	216,135	159,539	221,369	216,135	159,539						
R-squared	0.380	0.380	0.384	0.410	0.411	0.415						

Notes: Case-level control variables include the dummy variable of other connection which takes the value of 1 if the enterprise in dispute is connected to any of the other two officials, instance, legal fees (log) to proxy size of the dispute, as well as lawyer numbers (log) of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.01, ** p<0.05, *** p<0.001.

Table 24. Impacts of Implementing Trials Live Broadcasting: Local Plaintiffs versus Nonlocal Defendants

	Plaintiff's Success						Plaintiff's Share of Legal Costs		
	Party Secretary	Mayor	Judicial Secretary	Party Secretary	Mayor	Judicial Secretary	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)	(4)	(5)	(6)	(4)	(5)	(6)
Connection	-0.0198*** (0.00538)	-0.00194 (0.00507)	-0.0209*** (0.00654)	0.0201*** (0.00527)	0.00723 (0.00445)	0.0145** (0.00568)			
Live	-0.0194*** (0.00413)	-0.0202*** (0.00439)	-0.0201*** (0.00475)	0.0206*** (0.00371)	0.0209*** (0.00394)	0.0211*** (0.00463)			
Connection x Live	-0.0151 (0.0104)	-0.00502 (0.00959)	-0.0164 (0.0141)	0.0129 (0.00854)	0.00752 (0.00757)	0.0139 (0.0137)			
Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Defendant City FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Court FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	221,369	216,135	159,539	221,369	216,135	159,539	221,369	216,135	159,539
R-squared	0.381	0.381	0.384	0.411	0.411	0.415	0.411	0.411	0.415

Notes: Case-level control variables include the dummy variable of other connection which takes the value of 1 if the enterprise in dispute is connected to any of the other two officials, instance, legal fees (log) to proxy size of the dispute, as well as lawyer numbers of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.01, ** p<0.05, *** p<0.001.

Table 25. Reforms: Local Plaintiffs versus Local or Non-local Defendants

	Circuit Court		Live Broadcasting	
	Plaintiff's Success (1)	Plaintiff's Share (2)	Plaintiff's Success (3)	Plaintiff's Share (4)
Non-local	0.0196*** (0.00304)	-0.0141*** (0.00300)	0.0233*** (0.00243)	-0.0178*** (0.00236)
Circuit	-0.00653 (0.00465)	0.00646 (0.00517)		
Non-local x Circuit	0.00417 (0.00348)	-0.00376 (0.00344)		
Live			-0.00887*** (0.00279)	0.00871*** (0.00262)
Non-local x Live			-0.0121** (0.00465)	0.0140*** (0.00428)
Controls	Yes	Yes	Yes	Yes
Defendant City FE	Yes	Yes	Yes	Yes
Court FE	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes
Observations	951,075	951,075	951,075	951,075
R-squared	0.298	0.320	0.298	0.320

Notes: Case-level control variables include legal fees (log) to proxy size of the dispute, case instance, as well as lawyer numbers (log) of plaintiff and defendant to proxy the legal resources of each side. Prefecture-level control variables include GDP per capita (log) and population (log) to proxy the region's development level and size. Standard errors in parentheses clustered at court level; * p<0.1, ** p<0.05, *** p<0.01.