

# Cronies in the Courtroom: Political Interference and Judicial Reforms\*

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*Abstract.* Utilizing 1.54 million judicial judgments from enterprise-to-enterprise litigation between 2014 and 2019 in China, we provide evidence of municipal leaders exerting influence over the courts to favor enterprises connected to them. By leveraging variations in enterprise connections resulting from official turnover, we show that enterprises with connections to party leaders have higher chances of winning in business litigation than unconnected enterprises. We also examine the impact of the staggered roll-out of circuit courts, a top-down institutional reform, on cronyism in the courtroom. Our findings show that this reform has effectively reduced the judicial advantage enjoyed by connected enterprises by two-thirds. By contrast, the trial live-broadcasting reform increases visibility but is not associated with a reduction in the effect of political connections, suggesting that different forms of judicial bias require different monitoring approaches.

*Keywords:* Interference, Judicial Reform, Circuit Courts, Open Justice.

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## 1. Introduction

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

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

In this paper, we tackle both of these issues within the context of China, utilizing a comprehensive dataset of business litigation. We gathered and analyzed approximately 1.54 million civil judgments pertaining to enterprise-to-enterprise litigations that occurred between 2014 and 2019, which includes detailed information about the litigants involved and the outcomes of the litigations. As a first step of our investigation, we focus on the connection-based favoritism within the courtroom. It is crucial to highlight that our examination specifically centers on the impact of connections between enterprises and municipal officials who do not possess direct judicial authority over individual litigations but hold influence over the courts.

Our empirical strategy leverages China's civil litigation jurisdiction rules, which generally require cases to be heard in the defendant's locality. We therefore focus on disputes in which non-local enterprises sue local defendants, and compare the litigation outcomes of non-local enterprises with political connections to those of otherwise similar non-local enterprises without connections, *ceteris paribus*. Following the common approach of proxying connections by social ties, we define a non-local enterprise as connected when it is registered and located in a city where the incumbent municipal official has previously worked or studied or was born. To estimate the impact of connections, we exploit the variation in the connection status of the same type of non-local enterprises caused by officials' turnover. Specifically, when a municipal official is replaced by another, some enterprises connected to the former may lose their connections, while some others may have the reverse luck.<sup>1</sup>

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<sup>1</sup>We focus on city-level political connections because this is the most institutionally proximate and

We employ a multi-way fixed effects model, estimating the impact of the connection conditional on fixed differences across politicians' tenures and enterprise types (categorized by their connection patterns). Our estimations additionally account for case and regional characteristics, issue areas, and year-quarter fixed effects.

We find evidence consistent with interference by municipal leaders in Chinese civil courts. Enterprise plaintiffs connected to municipal party secretaries are about 3.54 percentage points more likely to prevail than non-connected plaintiffs, which is economically meaningful given an average plaintiff win rate of roughly 76% in our sample. Similarly, plaintiffs connected to party judicial secretaries (who oversee the Party's judicial affairs) enjoy a significant advantage of 2.53 percentage points. By contrast, connections to mayors are associated with little to no advantage. We further find that the effect of political connections increases with the monetary value of the dispute, a pattern consistent with political interference: firms are less likely to mobilize costly political ties when the stakes are low. This result is consistent with the power structure of Chinese political system. Mayors, although second highest in the municipal leadership hierarchy after party secretaries, have no direct power over the municipal court system, while party judicial secretaries, who oversee the legal system, have direct power and influence over the judicial sector.

Two important caveats are worth noting when interpreting these findings. First, because social ties between firms and public officials are largely unobservable, we follow the literature on China's political and academic systems and proxy connections using widely adopted measures (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). Specifically, we use shared geographic ties—such as an official's birthplace, schooling location, or prior work location—to proxy for potential firm–official connections. Importantly, these ties can facilitate access even without contemporaneous co-location, as entrepreneurs may rely on local social networks to establish contact. To the extent that these proxies are measured with error, the resulting attenuation bias would work against finding effects, implying that our estimates likely represent a lower bound of the true connection advantage. Second, our design does not speak to whether *local* firms systematically perform better or worse than non-local firms in litigation, because we deliberately restrict the comparison to *non-*

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empirically tractable level at which political influence can plausibly operate in Chinese courts. Most civil commercial disputes in our data are adjudicated in basic and intermediate courts, which function within a city's administrative and informational environment; city leaders therefore have more direct interaction with local firms and state bodies and more plausible channels to affect case-level outcomes. The city level also offers the most comprehensive and consistent measurement of connections and frequent turnover events, which is essential for our turnover-based identification. By contrast, provincial or higher-level influence on individual cases is likely to be indirect and mediated through city actors, and a comparable turnover-based design at higher levels is less feasible given fewer turnovers and a less clear definition of "local" versus "non-local".

*local* plaintiffs and identify the effect of political connections by contrasting connected and unconnected non-local firms.

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

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

We examine whether the introduction of circuit courts effectively curbed political interference in the judicial system. To estimate the impact, we employ a generalized difference-in-differences model, using spatial and temporal variations in the establishment of circuit courts. We incorporate tenure fixed effects, which account for court city variation, into our specification to ensure that our estimated effects are not driven by fixed differences across cities. Additionally, controlling for year-quarter effects helps absorb common and temporal shocks. Our findings indicate that the introduction of circuit courts has eliminated more than two-thirds of the advantage previously enjoyed by connected non-local plaintiffs.

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

Our results suggest that the introduction of circuit courts affects connected firms' chances of prevailing in litigation, operating on the intensive margin. To support this interpretation and address potential extensive-margin responses, we conduct two tests. First, to assess whether firms strategically adjust litigation behavior in response to political connections, we show that the implementation of circuit courts does not

significantly affect the composition of connected cases at the court–quarter level. Second, we find that the reform does not significantly change either the volume of civil cases or their average dispute size. Together, these results support the interpretation that the circuit-court reform primarily operates through the intensive margin, rather than through changes in case composition or filing volume..

Furthermore, we provide evidence consistent with the circuit-court system operating through a deterrence channel that constrains local officials and courts. Each circuit court oversees multiple neighboring provinces, spanning a large geographic area and numerous lower-level courts. If the reform works primarily by deterring local interference, the influence of a circuit court should be stronger where its presence is more salient—namely, for courts located closer to the circuit court. Consistent with this prediction, we find that the estimated treatment effect is larger for courts situated nearer to the circuit court than for those farther away.

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

Do judicial reforms aimed at improving fairness *always* have an impact on connection-based favoritism and reduce interference from municipal leaders? We examine the effects of another major judicial reform, the Open Justice reform, which began in late 2016. In this reform, the Supreme Court of China mandated that all courts broadcast their trials live online through a centralized platform. This reform aims to influence local judiciaries by enhancing judicial transparency and reducing the costs of community and grassroots participation in monitoring. The public can easily watch trials online in real time and access recordings of the proceedings afterward. Interestingly, by using the variations in the implementation of the live broadcasting reform, we explore whether the litigation advantage that connected enterprises hold over unconnected enterprises would change once trials are broadcast online real time. We do not observe any discernible effects.

Why do the two judicial reforms yield such different effects on connection-based favoritism? The reason lies in the concealed nature of connections and municipal interference. Judges make biased decisions for their own personal interests, either due to pressure from municipal leaders, benefits offered by them, or both. They are aware

that such actions are improper, unlawful, or even illegal, and that they, along with other involved parties, could face severe consequences if exposed or caught. As a result, these compromised judges make efforts to conceal their partiality.

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

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

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

Our paper contributes to several strands of literature. First, we add to the broader literature on crony capitalism, particularly regarding political connections' influence on institutions. While prior studies largely examine connected firms' impact on legislation in developed countries (see Bombardini and Trebbi (2020) for a comprehensive review), research in developing countries reveals their influence extends to the judiciary. Early work by Li, Meng, Wang, and Zhou (2008) and Ang and Jia (2014) documents that politically connected private firms show greater confidence in using legal channels for dispute resolution. Further evidence comes from Lu, Pan, and Zhang (2015) and Firth, Rui, and Wu (2011), who analyze over 4,000 business litigation cases to show that firms with state ownership or political connections receive favorable court treatment. More recently, Zhang (2023) examines how China's anti-corruption campaign affected judicial favoritism toward politically connected listed firms.

We advance this literature by developing a novel research design that exploits leader-level, turnover-driven variation to illuminate the micro-mechanisms of judicial capture. Our analysis reveals that crony enterprises gain advantages through connections to party secretaries or judicial secretaries, with notably weaker effects for mayoral connections. These findings provide nuanced insights into Party-state power dynamics within crony capitalism.<sup>2</sup>

Second, we contribute to research on judicial reforms and their impacts. Prior studies document various benefits across developing countries: enhanced firm productivity in Africa (Chemin 2020, Kondylis and Stein 2021), improved economic outcomes in India (Chemin 2012), and increased entrepreneurship in Brazil following procedural simplifications (Lichand and Soares 2014). In the Chinese context, Liu, Lu, Peng, and Wang (2022), Li and Ponticelli (2022), and Lai, Yang, Wang, and Anderson (2023) find that reforms reducing local protectionism promoted regional integration.

Our study advances this literature by specifically examining how different reform approaches affect political interference in business litigation. We find that hierarchical oversight through circuit courts effectively reduces executive influence while public transparency via broadcasting proves less effective. These findings provide broader lessons for designing judicial reforms in developing countries: while both top-down institutional reforms and information-technology-enabled community monitoring can be implemented, their effectiveness depends critically on the underlying mechanisms generating judicial bias.

Third, we complement recent work on judicial decisions in cases directly involving governments or politicians. Mehmood (2022) demonstrates that shifting from presidential to peer selection with life tenure for judicial appointments reduces government victories in Pakistan. Mehmood and Ali (2024) shows that judges receiving government real estate allocations increasingly favor federal government positions. In Brazil, Lambais and Sigstad (2023) finds that winning mayoral candidates face 65% fewer misconduct convictions. Our study differs by examining executive influence in firm-to-firm disputes, providing direct evidence of compromised judicial independence even when government is not a litigant.

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<sup>2</sup>Our work parallels (Chen and Kung 2019), who document indirect favoritism in Chinese land transactions where firms connected to supreme political elites obtained discounted land from local authorities. While both studies examine triangular relationships, we focus on interactions between municipal leaders, local courts, and enterprises in the judicial context.

## 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.<sup>3</sup> 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.<sup>4</sup> There are two key areas where the MPC has absolute authority over subordinate courts: personnel nomination and supervision.

First, the MPC, led by the Secretary of the Municipal Party Committee (hereafter, municipal party secretary), makes the final decisions on primary court head nominations and is responsible for the appointment of party secretaries at the intermediate-court level.<sup>5</sup> 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. According to the Regulations of the Communist Party of China on Political and Legal Works, the main responsibility of the PLC is to supervise political and legal institutions and implement the decisions of the MPC across subordinate courts.<sup>6</sup>

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<sup>3</sup>According to Articles 17 and 23 of the Organic Law of the People's Courts of China, primary courts are mainly responsible for hearing and ruling on general cases. Intermediate courts handle larger and more influential cases in addition to cases transferred or appealed from their subordinate primary courts. High courts are the highest judicial organ in each province and each province-level municipality, and they are responsible for cases transferred or appealed from intermediate courts. High courts also take responsibility for reviewing the cases of subordinate courts and making retrial decisions on any with ambiguous or incorrect judgments.

<sup>4</sup>The absolute leadership of upper-level party committees is emphasized in Article 26 of the Interim Regulations on the Selection and Appointment of Party- and Government-leading Cadres (1995).

<sup>5</sup>Typically, the same party official holds the positions of court head and party secretary for one court. Court head nominations need to be approved by the People's Congress, but this approval is usually automatic.

<sup>6</sup>The Regulations of the Communist Party of China on Political and Legal Works was published in 2019, and it specifies the responsibilities in terms of political and legal work of the municipal party secretary and the judiciary secretary. The main responsibility of the Party Committee and the municipal party secretary is to plan political and legal activities to safeguard local security, especially political security. The judiciary secretary is mainly responsible for investigating, supervising, and implementing

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

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

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

## **2.2. Circuit Courts in China**

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

The key functions of the circuit court system are threefold. First, similar to the circuit courts in the US, China's circuit courts act as tribunals, adjudicating administrative, civil, and commercial disputes. They effectively expand the reach of the Supreme Court to resolve appeals of court rulings within local jurisdictions.<sup>7</sup>

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

Third and more importantly, unlike circuit courts in other countries, Chinese circuit courts collect and process petitions from litigants. This additional disciplinary mechanism is intended to monitor and deter unjust behavior of local judiciaries and

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the decisions of the local Party Committee and higher-level Party Committee to coordinate political and legal institutions.

<sup>7</sup>Regarding appeals, the Chinese circuit courts differ slightly from those of the U.S. The Chinese circuit courts have the same authority as the Supreme Court, while their counterparts in the United States have a lower level of authority than the Supreme Court. For information on the function of the Chinese circuit court, see the Provisions of the Supreme People's Court on Several Issues concerning the Trial of Cases by the Circuit Courts, issued in January 2015.

governments. Petitions, also called "Xinfang" or "letters and visits," allow citizens to make complaints to various government bodies, including the executive and judicial branches, and request investigations.<sup>8</sup> We describe how circuit courts handle petitions in Appendix A.1.

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. For example, the second circuit court received approximately 1,000 petitions per day at the time of its establishment (including all pending cases); moreover, it received 4,720 visits related to complaints in February and 6,330 visits related to complaints in March of 2015.

Circuit courts have been gradually introduced over time. In January 2015, the Supreme People's Court of China established circuit courts in Shenzhen and Shenyang, each having jurisdiction over a number of Chinese provinces. The provinces chosen for the first wave of reform represent a balance of geographical diversity and developmental levels. In December 2016, four other circuit courts were established, and the jurisdiction of these courts was expanded to all provinces in China except for five provinces adjacent to Beijing, which fall under the direct jurisdiction of the Supreme People's Court. The rollout and jurisdiction of the circuit courts are shown in Figure A2, where the solid line represents the jurisdiction of the first wave of circuit courts and the dotted area indicates the jurisdiction of the second wave. The details of the rollout are summarized in Table A1 of Appendix A.1.

### 2.3. Issue Areas and Jurisdiction in China

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

Second, the China Civil Procedural Law (i.e., Article 21) strictly regulates the adjudication location of *remote litigations*, i.e., civil lawsuits in which the plaintiff and the defendant have different domiciles. By default, such litigation shall be filed under the jurisdiction of the court at the place of the defendant's domicile. In regular cor-

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<sup>8</sup>Previous studies show that petitions play an important role in governance in China, performing functions such as collecting information via grassroots methods (Paik 2012) and resolving the agent-principal problem between central authorities and local officials (Minzner 2006).

porate litigation, a legal entity’s place of domicile is defined as its registered address. However, exceptions can be made for some contract disputes and property-related litigation. If the parties to a contract agree in advance on the location for resolving potential disputes, lawsuits can be initiated in the jurisdiction governing the plaintiff’s domicile, the location where the contract was performed or signed, the place where the subject matter is located, or any other place connected to the dispute such that the corresponding court will have jurisdiction over the dispute.<sup>9</sup>

### 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.<sup>10</sup>

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<sup>9</sup>See Article 23 and 34 of the China Civil Procedural Law. Further, articles 18, 19, and 20 of the Interpretations of the Supreme People’s Court on the Applicability of the Civil Procedural Law of the People’s Republic of China provides sufficient classifications for locations for contract performance regarding the categories of contracts and property and whether there is a specified place in the agreement. Article 18 of the Interpretation stipulates that when the place of performance is agreed upon in a contract, that place shall be the place of contract performance; however, in the absence of any agreement on the place of contract performance or in the case of an ambiguous agreement, the contract performance place is the location where the disputed subject payment took place. Articles 19 and 20 of the Interpretation stipulate the place of contract performance for financial contract disputes and clarify the contract performance place under different payment channels.

<sup>10</sup>Coverage of the China Judgments Online (CJO) database is known to be incomplete, especially in the early years (notably around 2013), in part due to capacity constraints, although posting compliance improved substantially thereafter. Any selective posting could, in principle, bias estimates in either direction. Prior work nonetheless supports the use of CJO for empirical research in this setting. For example, Liu et al. (2022) document that the database is broadly reliable for studying court outcomes and note that early under-posting was partly mitigated as additional judgments were uploaded over time. Consistent with this institutional evolution, we restrict attention to 2014–2019 and exclude the pre-2014 period, when coverage was most limited. In addition, a well-known removal campaign occurred in 2021; we collected judgments for 2014–2018 in 2019 and for 2019 in 2020, so our dataset was assem-

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

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

Second, we focus on the category of litigation between enterprises. The acquired data contain litigation cases between all types of parties—not only enterprises but also individuals and organizations. To distinguish between enterprises and non-enterprise litigants, we utilize the names of the litigants disclosed in the court judgments.<sup>11</sup>

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 1.54 million cases with enterprise litigants in our possession. The Appendix B elaborates the details of this process.

Fourth, we pinpoint the place of domicile for each enterprise in our data. In China, enterprises are instructed to include the name of the city in which they are located in their registered name. Therefore, we can collect each enterprise's registered location from its name.<sup>12</sup> For any enterprises that do not include their locations in their names,

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bled prior to these large-scale removals. Finally, widely discussed removals have primarily concerned sensitive criminal cases, whereas our analysis focuses on civil firm-to-firm litigation.

<sup>11</sup>In China, according to enterprise naming regulations for enterprises registered as legal persons, a registered enterprise must end its name with the organizational form of "Center," "Shop," or "Store," etc. The same rules apply if the enterprise is registered with any of the following terms, "Limited Liability Firm" or "Company Limited," or their abbreviations, if registered under Company Law. Based on these naming conventions, we design an algorithm to extract only civil cases between enterprises.

<sup>12</sup>However, there are exceptions: if a firm's name contains only the name of the province where it is located, its registered capital must be higher than a specific threshold; moreover, if the firm's name does not contain regional information at all, it must obtain approval from the State Administration of

we search for their names on Baidu Maps and identify their locations accordingly.

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

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

#### *Officials Sample Construction*

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

Next, we collect data on officials' birthplaces, the cities where they completed higher education (including all postgraduate degrees), and the cities where they worked. Most of these biographical details are available from online sources, and only a small share is missing. Specifically, we code the identities and biographies of officials holding the three key positions (party secretary, mayor, and judicial secretary) for each city and month. Overall, 7.6% of city-month-position observations are missing, mostly reflecting temporary vacancies in the judicial secretary position. In total, we collect information on 2,544 officials.

Finally, we match the data on officials with our litigation sample. Specifically, we match each case with the information of the incumbent officials who hold the positions of party secretary, mayor, and judicial secretary in the city where the corresponding court is located at the time of the trial (month level). Approximately 4.1% of our litigation sample cannot be merged with the official sample. This is mainly because a

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relevant position was vacant on the trial date. In addition, approximately 8.8% of the official sample cannot be merged with the litigation sample; this is largely because for some city  $\times$  month cells, no enterprise-to-enterprise civil lawsuits have been uploaded to China Judgments Online. Our full litigation sample contained a total of 1,540,005 civil judgments.

### 3.2. Constructing Variables

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

#### *Litigation Outcomes*

The construction of another three key variables deserves elaboration. First, we code the litigation outcomes using the amount of *legal costs* and how these costs are divided among the litigants. According to civil law practice, a plaintiff's share of litigation court fees is inversely proportional to the extent to which the court upholds that plaintiff's claim.<sup>13</sup> 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. For robustness, we provide a coarser definition of litigation outcomes, plaintiff success, which is a dummy variable that takes the value 1 when the plaintiff's share is below 50% and 0 otherwise.

#### *Non-local Enterprise*

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<sup>13</sup>See "Measures on the Payment of Litigation Costs," which was adopted at the State Council's executive meeting on December 8, 2006 and took effect on April 1, 2007; additionally, see Chapter 11 of China's Civil Procedure Law.

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 non-local 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 non-local enterprise and the defendant as a local enterprise. As a result, four subsamples emerge: local plaintiffs versus local defendants, non-local plaintiffs versus local defendants, local plaintiffs versus non-local defendants, and non-local plaintiffs versus non-local defendants.

### *Connections*

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

We elaborate details and aspects of the constructed datasets in the Appendices B and C. In this section, we briefly discuss relevant information for our empirical investigation. Table A2 of the Appendix C summarizes the distribution of the litigations in our sample by year, area and court level. There are a total of 1,540,005 enterprise-to-enterprise civil litigations in our sample. A notable trend is the yearly increase in the number of cases, with the majority originating from primary and intermediate courts. The primary focus of enterprise-to-enterprise civil litigations revolves around contract disputes.

The case-level summary statistics are reported in Table 1. In the full sample of enterprise-to-enterprise civil cases, plaintiffs win in 76.3% of cases (s.d. 0.425). The corresponding win rates are 74.3% in the NL–L subsample and 78.3% in the L–NL subsample, providing the appropriate baseline outcome levels for interpreting the magnitude of our estimated effects in each configuration.

Plaintiffs are also substantially more likely than defendants to retain counsel: 67.5% of plaintiffs have a lawyer, compared with 37.2% of defendants. Consistent with this pattern, plaintiffs are represented by more lawyers on average (0.926) than defendants

*Table 1. Summary Statistics for Case Characteristics*

	Full Sample (N=1,540,005)		NL-L (N=287,411)		L-NL (N=271,991)	
	Mean	Sd	Mean	Sd	Mean	Sd
Win Rate (Plaintiff)	0.763	0.425	0.743	0.437	0.783	0.412
Plaintiff's Share of Legal Costs	0.247	0.389	0.271	0.39	0.229	0.377
Legal cost (ln)	8.346	2.247	8.185	2.478	8.199	2.055
Plaintiff Lawyer No.	0.926	0.786	1.124	0.768	0.916	0.769
Plaintiff Lawyer (1=Yes)	0.675	0.468	0.778	0.415	0.676	0.468
Defendant Lawyer No.	0.561	0.95	0.544	0.836	0.521	0.917
Defendant Lawyer (1=Yes)	0.372	0.483	0.381	0.486	0.357	0.479
Circuit Court (1=Yes)	0.571	0.495	0.638	0.480	0.602	0.489
Live Broadcasting (1=Yes)	0.117	0.321	0.109	0.312	0.137	0.344

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

(0.561). Focusing on the subsamples used in our main analysis, representation rates are higher in NL–L cases: 77.8% of non-local plaintiffs retain counsel (with an average of 1.124 plaintiff lawyers), while 38.1% of local defendants do so (0.544 defendant lawyers). In the L–NL cases, 67.6% of local plaintiffs have a lawyer (0.916 lawyers on average), compared with 35.7% of non-local defendants (0.521).

Finally, 57.1% of cases in the full sample are adjudicated in periods when the relevant courts are subject to circuit-court oversight. Live broadcasting remains limited during our sample period: 11.7% of cases are broadcast in the full sample (10.9% in NL–L and 13.7% in L–NL).

Table A3 in Appendix C summarizes personal characteristics of the officials in our sample. We construct a city–year panel of resume information for the party secretary, mayor, and judicial secretary in each of China's 337 cities over 2014–2019. The table reports officials' basic demographics, educational background, and tenure length (in months). Panel B of Table A3 further reports the number of turnovers for each position over the sample period.

Table A4 summarizes case-level information on enterprise–official connections, including the share of cases classified as connected under alternative connection definitions. The three connection indicators are only moderately correlated: the correlation between connections to the Party Secretary and the Mayor is 0.439, between the Party Secretary and the Judicial Secretary is 0.414, and between the Mayor and the Judicial Secretary is 0.395. These magnitudes suggest that connections to different municipal

leaders tend to co-occur, but the three measures are far from perfectly overlapping.

## 4. Connection and Litigation Outcomes

### 4.1. Impacts of Connection

We begin our analysis by examining how enterprises' political connections affect litigation outcomes. Our empirical strategy focuses on cases with non-local plaintiffs and local defendants, leveraging an important institutional feature of China's judicial system: by default, disputes between enterprises from different administrative areas are adjudicated in the defendant's local court. While exceptions exist for cases where contracts specify alternative jurisdictions or have specific legal structures, focusing on this default category helps us avoid selection issues arising from parties choosing their preferred jurisdiction.<sup>14</sup>

To estimate the impact of connections on litigation outcomes, we compare non-local enterprises with and without political connections, exploiting two sources of variation: differences across plaintiff cities and changes in executive leadership in court cities due to official turnover.<sup>15</sup>

Table 2 illustrates our strategy with a simplified example where one court city has two distinct officials who sequentially hold a particular position during our study period. We classify plaintiff cities into four types based on their connection patterns to these officials. Enterprises from type 1 plaintiff cities are connected to the official who leaves office but have no connection to the replacement official, thus losing their potential court advantage after the turnover. Conversely, enterprises from type 2 plaintiff cities have no connection to the former official but have connections with the replacement official, potentially gaining an edge in court after the turnover. Enterprises from type 3 plaintiff cities maintain connections to both officials, while those from type 4 plaintiff cities have no connections to either official; consequently, their connection status remains unchanged. This framework naturally extends to scenarios with more than two tenures, though with an accordingly larger number of city types.

To estimate the impact of connections, we exploit variations both across plaintiff

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<sup>14</sup>China's court jurisdiction rules for corporate litigation follow several principles. By default, civil cases fall under the jurisdiction of the local court where the defendant is registered or resides. However, jurisdiction rules vary by case type: contract disputes allow parties to select their forum through written agreements, while tort claims can be filed either where the tort occurred or in the defendant's jurisdiction. In our sample, we observe a roughly equal number of cases between non-local plaintiffs suing local defendants and local plaintiffs suing non-local defendants.

<sup>15</sup>Because we study lawsuits filed by non-local enterprise plaintiffs against local defendants, the defendant is, by construction, always located in the court city and thus is classified as connected. This leaves no within-sample variation in defendants' connections in our setting, so the estimated effects should be interpreted as capturing the role of plaintiffs' connections.

*Table 2. Tenure of Officials and Connection Status*

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

city types and over official tenures using a multi-way fixed effects model. This approach allows us to estimate connection effects while controlling for systematic differences across tenures and plaintiff city types. Our baseline specification is:

$$y_{i,pc,l,k,s,t} = \beta^C \times \text{Connection}_i + \omega_{pc}^{reg} + \omega_l^{tenure} + \omega_k^{area} + \omega_s^{judge} + \omega_t^{quarter} + \epsilon_{i,pc,l,k,s,t}. \quad (1)$$

The dependent variable  $y_{i,pc,l,k,s,t}$  captures the outcome of case  $i$ , where the plaintiff is registered in city  $pc$ , the case is adjudicated during official tenure  $l$  in the court city, belongs to issue area  $k$ , occurs in year-quarter  $t$ , and is decided under judge  $s$ . Our key explanatory variable,  $\text{Connection}_i$ , is an indicator equal to 1 if the plaintiff enterprise has connections to the incumbent court city official, and 0 otherwise. Our multi-way fixed effects framework includes tenure fixed effects  $\omega_l^{tenure}$  and plaintiff city fixed effects  $\omega_{pc}^{reg}$ , which absorb all tenure-specific and time-invariant plaintiff city characteristics, respectively. Since plaintiffs' chances of winning may vary across issue areas and over time, we additionally control for issue area fixed effects  $\omega_k^{area}$  and calendar year-quarter fixed effects  $\omega_t^{quarter}$ . In addition, we add judge fixed effects  $\omega_s^{judge}$ . Throughout our analysis, we cluster standard errors at the court and plaintiff city level to account for potential within-court and plaintiff city correlation in judicial decisions.

We are mainly interested in the coefficient  $\beta^C$ , which captures the impact of connections on litigation outcomes. Fixed differences across plaintiff cities cannot drive our estimated effects because we control for the fixed effects of the plaintiff enterprises' registration locations and exploit variations across tenures within plaintiff city. 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 specifications that include a vector of case- and prefecture-level controls, denoted by  $X_i$ . Because each regression focuses on connections to officials in a single position, we additionally control for the enterprise's connections to officials in other positions. Specifically, we construct an indicator, *other connection*, which equals 1 if the focal enterprise is connected to at least one of the other two officials at the time of trial (and 0 otherwise). For example, when estimating the effect of a connection to the municipal party secretary,

we control for contemporaneous connections to the mayor and the judicial secretary in the same city.

At the case level, we also control for total legal fees (as a proxy for dispute size), the number of lawyers representing the plaintiff and the defendant (capturing relative litigation resources), and the court level (primary, intermediate, high and supreme), which may reflect differences in legal procedures.<sup>16</sup> To proxy for case complexity, we include two text-based measures: the length of the *facts* section and the length of the *court's reasoning* section, as more complex disputes typically require more detailed factual narratives and more extensive judicial justification. At the prefecture level, we include GDP and population to capture local economic development and market size.

**Main Results.** We estimate the model specified by Equation (1) with the sample of litigations involving non-local plaintiffs versus local defendants. Table 3 shows the results using the *plaintiff's share of legal costs* as the dependent variable. Columns (1) to (3) of Table 3 present the results. The results show that having a connection to the party secretary (or judicial secretary) leads to a 3.54 (or 2.53) percentage point advantage in court, and this effect is statistically significant. On the other hand, having a connection to the mayor leads to almost no advantage and the estimate is not significant. Similar outcomes are observed when considering the plaintiff's success as the dependent variable (refer to Table OA1 in Online Appendix OA1). This set of findings provides evidence of local officials' interference in the judicial system: party officials who have an influence over courts may pressure them to adjudicate in favor of litigants connected to them.

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

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<sup>16</sup>We use the total legal fees recorded in the judgment as our baseline proxy for the financial scale of the dispute. In principle, the case-acceptance (filing) fee is mechanically linked to the claimed amount at filing under the court-fee schedule and thus is closer to an ideal pre-treatment proxy for dispute size. In practice, however, the mapping from acceptance fees to underlying dispute magnitude can vary across case types and fee schedules, and the acceptance fee may not fully reflect later amendments to claims or additional disputed items that arise during litigation. Total legal fees provide a simple summary measure of the overall monetary scale of the case that is commonly used in the literature on judicial decisions, while recognizing that it may also capture within-process components.

*Table 3. Connection and Litigation Outcomes (Nonlocal Plaintiffs versus Local Defendants)*

	Plaintiff's Share of Legal Costs		
	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)
Connection	-0.0354*** (0.00592)	-0.00602 (0.00524)	-0.0253*** (0.00733)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	261,520	262,098	246,838
R-squared	0.453	0.452	0.459

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, court level, legal fees (log) to proxy size of the dispute, length of facts (log), length of reasoning(log), 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 and plaintiff city level; \* p<0.1, \*\* p<0.05, \*\*\* p<0.01.

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

**Decomposing the Impacts of Connections.** According to our definition, an enterprise and an official are considered to be connected when the enterprise is registered in (a) the official's birth place or (b) where the official completed higher education or (c) a city where the official has a past employment history. Does one of these channels drive our findings? To decompose these impacts, we specify three narrower definitions of connections: an enterprise is considered to be connected to an official through only channel (a), (b) or (c) individually. For each definition of connection, we re-perform all the estimations reported in Table 3 and the results are reported in Table A5 of Appendix D.

The estimated effects for the positions of party and judicial secretaries, regardless of the alternative definitions used, show similar patterns as those observed with the

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

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

We have divided our full sample into two subgroups based on the amount of litigation cost involved, which is proportional to the stakes in disputes. The two subgroups are cases with litigation costs higher than the median (i.e., high litigation cost sample) and cases with litigation costs lower than the median (i.e., low litigation cost sample). We have performed a re-estimation of Equation (1) within each subsample for each position. The estimated coefficients for the low litigation cost sample are reported in columns (1)–(3) of Table A6 in Appendix D, while those for the high litigation cost sample are reported in columns (4)–(6) of the same table.

Interestingly, we have found that in low-cost litigation, only the connection to party secretaries has a significant impact. However, in high-cost litigation, connections to officials in party and judicial secretaries show significant effects, and the magnitude of the estimated coefficients is also much larger than the counterparts in the low-cost sample. This observed pattern supports the interpretation of our results that connected enterprises exploit their connections to city officials to gain advantages within the judicial system.

**Sample with Local Plaintiffs versus Non-local Defendants.** Our main analysis focuses on cases with non-local plaintiffs and local defendants (NL-L), where the observed court of adjudication coincide with the default venue rule (typically, the defendant's domicile) and is therefore less susceptible to strategic venue selection at the contracting stage. By contrast, in the subsample with local plaintiffs and non-local defendants (L-NL), the adjudicating court is more likely to reflect non-default venue choice (e.g., agreement jurisdiction or other statutory exceptions). This feature can in-

roduce additional sorting: if venue choice is correlated with both the parties' connection status and unobserved case strength, then the estimated connection coefficients may be biased and are not directly comparable to those from the NL-L design.

For completeness, we replicate our baseline difference-in-differences specification using the L-NL subsample in Online Appendix OA2. Tables OA2 and OA3 report the results using, respectively, the plaintiff's share of legal costs and the plaintiff win indicator as outcomes. The estimates display a similar qualitative pattern to our main results: connections to party secretaries and judicial secretaries are associated with greater plaintiff advantage in court, whereas connections to mayors are not. Because the L-NL subsample is more exposed to non-default venue selection, we interpret these coefficients as supportive but with caution.

**Auxiliary Robustness Discussions.** We conduct several additional robustness checks to assess the sensitivity of our main findings. First, we replace separate court and year fixed effects with court-by-year fixed effects, which tightens the comparison set and improves the comparability of cases within each court-year cell. The estimated coefficients remain very close to our baseline estimates in both magnitude and statistical significance.

Second, we estimate a joint specification that includes all three connection indicators simultaneously. To implement this specification in a manner consistent with our turnover-based design, we include tenure fixed effects for each position (party secretary, mayor, and judicial secretary). The results closely mirror our baseline estimates: connections to the party secretary and to the judicial secretary remain associated with meaningful differences in judicial outcomes, whereas the incremental effect of a mayoral connection is small and not statistically distinguishable from zero once the other connection measures are included.

Finally, we address concerns that potentially unobserved factors (e.g., firm-level characteristics) may confound our estimates by conducting a coefficient-stability test following Oster (2019). The results suggest that our main connection effects are robust to plausible omitted-variable bias.

## 5. Circuit Courts and Connection-based Favoritism

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

impacts, we uncover potential mechanisms for regulating courts and limiting political interference in a system lacking judicial independence.

### 5.1. The Impacts of Circuit Courts

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

$$y_{i,pc,l,k,s,t} = \beta_1 \text{Connection}_i + \beta_2 \text{Circuit}_{tc} + \beta_{\text{Circuit}}^C \text{Connection}_i \times \text{Circuit}_{tc} + \omega_{pc}^{\text{reg}} + \omega_l^{\text{tenure}} + \omega_k^{\text{area}} + \omega_s^{\text{judge}} + \omega_t^{\text{quarter}} + \epsilon_{i,pc,l,k,s,t} \quad (2)$$

In this specification, we have included the same sets of fixed effects as in Equation (1). Our primary focus is on the coefficient of the interaction term, denoted as  $\beta_{\text{Circuit}}^C$ . It is essential to note that our model incorporates both tenure and year-quarter fixed effects, represented by  $\omega_l$  and  $\omega_t$ , respectively. This means that our estimated effects are not driven by fixed differences across court cities, as we account for tenure fixed effects that capture variation across court cities, and exploit variations over time. Similarly, we have controlled for year-quarter effects to difference out changes over time.

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

**Main Results** The regression results are presented in Table 4. Columns (1) to (3) present the estimated results, with each column representing one of the three positions. In columns (1) to (3), the estimated coefficients on the interaction term are positive. This set of findings shows that the implementation of circuit courts has had a substantial impact on the advantage enjoyed by connected non-local plaintiffs in court. Using the estimated results reported in column (1) (or column (3)), we observe that the share of legal costs covered by these plaintiffs, who have connections to a party (or judicial) secretary, increased by 4.34 (or 6.11) percentage points compared to unconnected plaintiffs. This suggests that more than two-thirds of the advantage previously enjoyed by connected non-local plaintiffs has been eliminated with the introduction of circuit courts. Furthermore, since mayors have less authority over courts compared to party officials, the disciplinary effect of circuit courts on mayors appears

**Table 4.** Impacts of Introducing Circuit Courts (Nonlocal Plaintiffs versus Local Defendants)

	Plaintiff's Share of Legal Costs		
	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)
Connection	-0.0606*** (0.00738)	-0.0130** (0.00524)	-0.0613*** (0.00782)
Circuit	0.00544 (0.00839)	0.00934 (0.00879)	-0.00631 (0.00878)
Connection × Circuit	0.0434*** (0.0113)	0.0119 (0.00848)	0.0611*** (0.0128)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	261,520	262,098	246,838
R-squared	0.453	0.452	0.459

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, court level, legal fees (log) to proxy size of the dispute, length of facts (log), length of reasoning(log), 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 and plaintiff city level; \* p<0.1, \*\* p<0.05, \*\*\* p<0.01.

to be minimal, as suggested by results in column (2).

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

$$\begin{aligned}
 y_{i,pc,l,k,s,t} = & \beta_1 \times \text{Connection}_i + \sum_{\tau \neq -1} \lambda_\tau \text{Period}_{tc}^\tau \times \text{Connection}_i \\
 & + \omega_{pc}^{reg} + \omega_l^{tenure} + \omega_k^{area} + \omega_s^{judge} + \omega_t^{quarter} + \epsilon_{i,pc,l,k,s,t}
 \end{aligned} \quad (3)$$

We have replaced the dummy variable  $\text{Circuit}_{tc}$  with a series indicator  $\text{Period}_{tc}^\tau$  (where  $\tau$  ranges from -4 to 8). The indicator takes a value of one if the court is in the period  $\tau$  quarters away from the period when it is covered by a circuit court. To account for the impacts outside the estimation window, we consider  $\tau \leq -4$  to represent both the

4th quarter before the reform and all preceding quarters, while  $\tau \geq 8$  represents both the 8th quarter after the reform and all subsequent quarters. We have excluded the quarter prior to the reform (i.e.,  $\tau = -1$ ) as the reference period for our analysis.

Figure 1 and Table A7 display the estimated coefficients  $\lambda_\tau$  from the event-study model for each of the three positions using *plaintiff's share of legal costs* as dependent variable. Prior to the implementation of the circuit court, the coefficients on the interaction terms are found to be close to zero. This finding indicates that there is no discernible pre-trend, aligning with the assumption of parallel trends for circuit court rollouts.

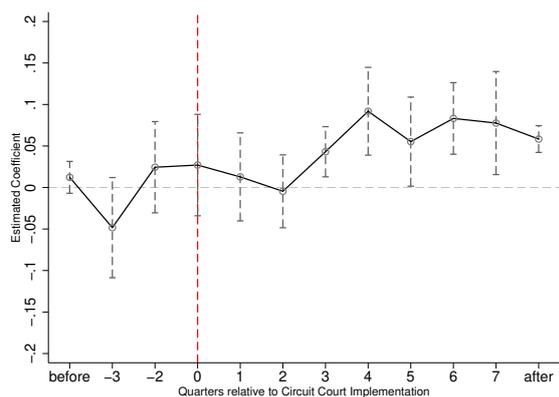
Upon examining the dynamics of treatment effects following the implementation of the circuit court, we observe a reduced effect in the influence of connections with the party and judicial secretaries on litigation outcomes over time. This effect is particularly noticeable a few quarters after the establishment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

For the position of mayors, we find no evidence of a pre-trend before the implementation of circuit courts. Additionally, we observe a very weak impact of the reform on the influence of connections with mayors. This finding is consistent with the hypothesis that connections with mayors have a smaller impact on litigation outcomes and that the judicial reform therefore has a lesser effect. Furthermore, we re-perform this event study analysis by using *plaintiff's success* as dependent variable and the pattern found is rather similar. See Figure OA1 in Online Appendix OA1.

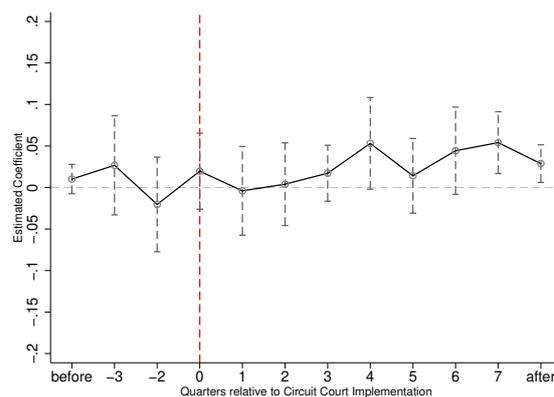
**Timing of Implementation.** The reform implementation followed a staggered approach, with certain provinces selected as a batch to receive circuit courts first. These provinces were chosen to ensure a balanced geographical coverage and represent regions with varying levels of development. However,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

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

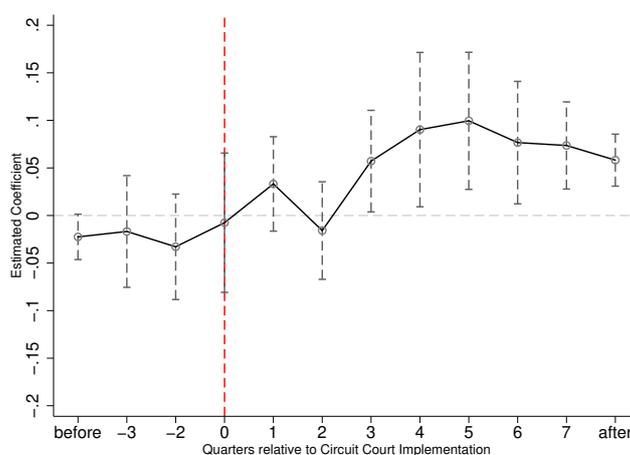
The results for the investigation of provinces in the first batch are presented in columns (1) to (3) of Table A8 in Appendix D, covering three positions respectively.



(1) *Municipal Party Secretary*



(2) *Mayor*



(3) *Judicial Secretary*

**Figure 1.** *Event Study.* Note: These figures illustrate the estimated effect of the reform on connection to three different positions by using the plaintiff's share of legal costs as the dependent variable. The estimations are over period ( $\tau = -4, -3, \dots, -1, 0, 2, 3, \dots, 8$ ), i.e., from 4 quarters before the introduction of the reform to 8 quarters after the reform with  $\tau = -1$  dropped as the reference point. No pre-trend is found. The effect of reform is particularly noticeable a few quarters after the establishment of circuit courts. This finding is reasonable and expected, as it takes some time for circuit courts to receive cases, address complaints, and demonstrate their judicial authority over the courts. Table A7 provides the estimated coefficients plotted in this figure.

The analysis of provinces in the second batch is shown in columns (4) to (6) of Table A8. The results indicate that the estimated coefficients on the interaction terms for both first and second wave provinces are statistically insignificant. This finding implies that there was no significant difference between the provinces selected for either batch of circuit courts and the rest of the provinces in the pre-reform period regarding the impacts of connection-based favoritism.

**Litigation Composition.** An endogeneity concern in our analysis is that firms' litigation behavior may systematically respond to changes in their political connections. Specifically, gaining or losing political connections could alter firms' incentives and

strategies in pursuing legal action, potentially creating selection bias in our sample. We examine whether the circuit court reform affects the composition of cases filed by connected firms. If the implementation of circuit court is orthogonal to such a composition, such a concern can be alleviated. We conduct court-quarter level analyses by calculating the ratio of connected cases for each type of connection (party secretary, mayor, and judicial secretary) at court  $c$  during year-quarter  $t$ . The outcome variable is the percentage of connected cases at the court-quarter level, and our key independent variable is an indicator that equals 1 if the court was monitored by a circuit court during that year-quarter. The specification includes court city and year-quarter fixed effects. Results are reported in Table A9 in Appendix D. The table shows that the implementation of circuit courts does not significantly affect the ratio of connected cases for any of the three types of political connections, suggesting that our main results are unlikely to be driven by changes in firms' litigation behavior.

**Litigation Activity.** A related concern is that the circuit court reform may have affected not only local courts' monitoring and inspection system, but also the number and size of disputes brought to court. To examine this possibility, we use court-quarter level data and test whether litigation activity changes around the reform. Table A10 in Appendix D reports the results. Column (1) uses the number of civil cases filed in a court-quarter as the dependent variable and shows that the coefficient on *Circuit* is statistically insignificant, implying no detectable change in litigation volume after circuit courts were introduced. Column (2) reports analogous results for the average dispute size per court-quarter and likewise finds no significant pre/post difference.

**Concurrent Policies.** A remaining concern is that other time-varying shocks may coincide with the reform timing—for example, other policies implemented in the same period. To address this possibility, we re-estimate our baseline specification including city-by-year-quarter fixed effects. These fixed effects absorb any city-specific shocks at the quarterly frequency, including contemporaneous policy bundles. The main results remain robust to this specification (see Table A11), supporting the interpretation that our estimates are not driven by coincident reforms or other contemporaneous shocks.

## 5.2. Distance to Circuit Court

To further strengthen our identification strategy, we exploit variations in distances between local courts and their overseeing circuit courts. Each circuit court oversees multiple adjacent provinces, creating natural variation in the geographical proximity to local courts under their jurisdiction. This variation in distance provides an exogenous source of heterogeneity that is independent of both political connections and the timing of circuit court establishment.

We hypothesize that if circuit courts influence local judiciaries through deterrence,

their impact should be stronger on geographically proximate courts. This spatial variation hypothesis is grounded in two key oversight activities that require circuit judges to travel. First, circuit courts dispatch judges to conduct mobile adjudication activities, including trials and hearings, in local jurisdictions. Second, they assign judges to visit local authority offices to coordinate and supervise petition-related matters. The effectiveness of both oversight activities naturally diminishes with distance, as greater geographical separation increases travel costs and reduces the frequency of these visits.

To test this hypothesis, we construct a measure of proximity between each local court and its overseeing circuit court. Specifically, we calculate the *Inverse Distance* variable as the *reciprocal* of the geographic distance (in kilometers) between the city where each local court is located and its circuit court. Higher values of *Inverse Distance* indicate closer proximity and, by our hypothesis, stronger oversight effects.

We introduce an interaction term between *Inverse Distance* and  $Connection_i \times Circuit_{tc}$  into Equation (2) and proceed to re-estimate the resulting specification. The outcomes of our investigation are presented in Table 5. In columns (1) and (3), it is evident that the coefficient on the term  $Connection \times Circuit \times Inverse Distance$  is positive and statistically significant for all three positions of party secretary, mayor, and judicial secretary. These findings suggest that, within the jurisdiction of a circuit court, the extent to which reform impacts local courts is influenced by the distance of the court from the circuit court. In other words, the closer the court is to the circuit court, the stronger the impact on connection-based favoritism.

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

If our previous findings, indicating that the impact of reform on local courts is influenced by the distance from the circuit court, are driven by unobserved factors that our current specification fails to capture, we would anticipate a similar pattern to emerge in this placebo test. The results of the placebo test are presented in columns (4)

Table 5. Distance Between the Circuit Courts and the Court City

	Plaintiff's Share of Legal Costs					
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)	Party Secretary (4)	Mayor (5)	Judicial Secretary (6)
Connection	-0.0528*** (0.0104)	-0.0104 (0.00744)	-0.0626*** (0.0107)	-0.0521*** (0.0104)	-0.00972 (0.00742)	-0.0615*** (0.0107)
Circuit	0.00441 (0.0110)	0.0115 (0.00971)	-0.00846 (0.00991)	0.00448 (0.0110)	0.0113 (0.00975)	-0.00871 (0.00992)
Connection × Circuit	0.0216* (0.0117)	-0.00688 (0.0101)	0.0365*** (0.0121)	0.0497** (0.0216)	0.0205 (0.0166)	0.0698*** (0.0219)
Connection × Circuit × Distance (Inverse)	1.073*** (0.312)	0.910*** (0.237)	1.797*** (0.440)			
Connection × Circuit × Placebo Distance (Inverse)				-17.10 (12.37)	-17.20 (12.57)	-13.34 (14.31)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	219,289	219,794	207,014	219,289	219,794	207,014
R-squared	0.471	0.470	0.478	0.471	0.470	0.477

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, court level, legal fees (log) to proxy size of the dispute, length of facts (log), length of reasoning(log), 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 and plaintiff city level; \* p<0.1, \*\* p<0.05, \*\*\* p<0.01.

to (6). It is noteworthy that the coefficient on the triple interaction term consistently becomes statistically insignificant, and the magnitude is rather small as well. These findings suggest that the distance between local courts and their overseeing circuit court does indeed play a significant role in determining the strength of the impacts of circuit courts.

## **6. The Open Justice Reform**

### **6.1. Live-Broadcasting and Connection-Based Favoritism**

Do judicial reforms aimed at improving judicial quality necessarily reduce connection-based favoritism? In this section, we examine China's Open Justice reform, introduced during the same reform period (2014–2017) as the circuit court reform. By expanding public access to trials and strengthening external monitoring, Open Justice is intended to enhance procedural regularity and judicial professionalism. Contrasting its effects with those of circuit courts helps clarify the mechanisms through which circuit courts constrain political interference.

China's "Open Justice" reform began in September 2016, when the Supreme People's Court instructed courts nationwide to broadcast trials online. Trials designated for broadcast are shown in real time on the centralized platform China Court Trial Online, and recordings remain available for later replay and review. The reform is best understood as a technology-enabled transparency initiative: it expands public access to courtroom proceedings at scale and creates a durable audiovisual record of what happened in court.

The reform's central mechanism is heightened visibility and monitoring pressure. By making courtroom conduct observable to litigants, lawyers, other legal professionals, journalists, and the general public, live broadcasting strengthens external scrutiny over procedural regularity (e.g., whether parties are heard, whether the judge follows prescribed steps) and over judicial demeanor. Because deviations from standard procedure can be seen, replayed, and potentially cited in complaints, appeals, or professional discussions, the reform is intended to increase judges' incentives to follow procedure and to behave more impartially. In this sense, the policy complements other transparency tools by shifting oversight from purely internal discipline toward a broader audience that can observe and evaluate court performance. Appendix A.2 provides additional institutional details.

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 specification using our sample of litigations with non-local

plaintiffs versus local defendants:

$$y_{i,pc,l,k,s,t} = \beta_1 \times \text{Connection}_i + \beta_2 \times \text{Live}_i + \beta_{\text{Live}}^C \times \text{Connection}_i \times \text{Live}_i + \omega_{pc}^{\text{reg}} + \omega_l^{\text{tenure}} + \omega_k^{\text{area}} + \omega_s^{\text{judge}} + \omega_t^{\text{quarter}} + \epsilon_{i,pc,l,k,s,t}, \quad (4)$$

where  $\text{Live}_i$  is an indicator equal to 1 if case  $i$  was broadcast live and 0 otherwise. We include the same set of fixed effects and control variables as in Equation (1).

Our coefficient of interest is  $\beta_{\text{Live}}^C$ , which captures whether the outcome gap between connected and unconnected plaintiffs differs when trials are broadcast live. If live broadcasting disciplines judges and reduces preferential treatment toward connected enterprises, then connected plaintiffs should lose some of their advantage under live broadcasting. With the plaintiff's share of legal costs as the dependent variable (where a lower share reflects a more favorable outcome for the plaintiff), this prediction implies a positive  $\beta_{\text{Live}}^C$ : connected plaintiffs should bear a *larger* share of legal costs relative to unconnected plaintiffs when proceedings are broadcast live.

Columns (1) to (3) of Table 6 report the regression results. The estimated coefficients on the interaction term  $\beta_{\text{Live}}^C$  are small in magnitude and statistically insignificant across all three positions. Taken at face value, these estimates provide little evidence that the connection-related advantage differs between broadcast and non-broadcast cases. In other words, live broadcasting does not appear to materially narrow the outcome gap between connected and unconnected plaintiffs.

A key concern in interpreting the live-broadcasting analysis is that broadcasting is not randomly assigned at the case level. As discussed in Appendix A.2, courts retain discretion over whether a particular case is broadcast. If courts (or local actors) selectively choose which cases to broadcast—for example, avoiding cases that are politically sensitive or involve connected firms—then comparisons between broadcast and non-broadcast cases may be confounded by this selection process rather than capturing the causal effect of transparency.

To strengthen the empirical interpretation and connect the analysis more directly to the reform's mechanism (increased transparency and external monitoring), we exploit variation in *how intensively courts implement* live broadcasting after the reform begins. The intuition is that where broadcasting becomes routine and pervasive, transparency is plausibly higher and the scope for strategic (case-by-case) selection into broadcasting is more limited. If visibility constrains connection-based favoritism, we should therefore expect a larger reduction in the connection advantage in courts that implement live broadcasting more intensively.

Using data after the reform starts, we construct a court-level measure of *live-broadcasting*

**Table 6.** *Impacts of Trials Live Broadcasting (Nonlocal Plaintiffs versus Local Defendants)*

	Plaintiff's Share of Legal Costs		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)
Connection	-0.0371*** (0.00561)	-0.00646 (0.00543)	-0.0270*** (0.00760)
Live	-0.0123** (0.00549)	-0.0139*** (0.00533)	-0.0128** (0.00544)
Connection × Live	0.0130 (0.0103)	0.00343 (0.00894)	0.0130 (0.0103)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	261,520	262,098	246,838
R-squared	0.453	0.452	0.459

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, court level, legal fees (log) to proxy size of the dispute, length of facts (log), length of reasoning(log), 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 and plaintiff city level; \* p<0.1, \*\* p<0.05, \*\*\* p<0.01.

*intensity* as the average broadcasting rate in the post-reform period. We classify a court as a *high-intensity* court if its post-reform intensity is above the median, and as a *low-intensity* court otherwise. We then re-estimate our baseline specification separately within the low- and high-intensity subsamples.

Table 7 reports the results using the plaintiff's share of legal costs as the dependent variable. The estimated interaction term *Connection* × *Live* is small in magnitude and statistically insignificant in both low- and high-intensity courts, and across all three positions. Accordingly, even in courts where broadcasting is more pervasive—and where the reform would be expected to generate stronger transparency and monitoring—we find little evidence that live broadcasting materially attenuates the effect of political connections on litigation outcomes. Overall, these results are consistent with our earlier finding that increased visibility alone may not be sufficient to curb connection-based favoritism in this setting.

*Table 7. Connection and Litigation Outcomes: High v.s. Low Intensity Courts*

	Plaintiff's Share of Legal Costs					
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)	Party Secretary (4)	Mayor (5)	Judicial Secretary (6)
	Low Live Intensity Courts			High Live Intensity Courts		
Connection	-0.0226*** (0.00865)	-0.0129 (0.00860)	-0.00244 (0.0150)	-0.0464*** (0.00966)	-0.0143 (0.00923)	-0.0241** (0.00981)
Live	-0.00133 (0.00886)	-0.00431 (0.0103)	-0.00671 (0.00968)	-0.0204*** (0.00673)	-0.0192*** (0.00674)	-0.0166** (0.00680)
Connection × Live	-0.0373 (0.0280)	-0.00288 (0.0357)	0.0355 (0.0345)	0.0192 (0.0135)	0.00852 (0.0124)	0.00944 (0.0126)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	103,883	104,570	101,688	99,132	99,590	97,545
R-squared	0.536	0.535	0.541	0.449	0.449	0.450

Notes: The Post-reform sample. 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, court level, legal fees (log) to proxy size of the dispute, length of facts (log), length of reasoning(log), 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 and plaintiff city level; \* p<0.1, \*\* p<0.05, \*\*\* p<0.01.

## 6.2. Contrasting Impacts of Judicial Reforms

On the one hand, our findings in Section 5.1 suggest that the introduction of circuit courts helps reduce crony favoritism in the judicial system. On the other hand, the evidence in Section 6.1 indicates that the trial live-broadcasting reform—which primarily increases judicial visibility—does not materially weaken the influence of political connections on litigation outcomes. Since both reforms are intended to improve judicial performance, the contrast between their effects on connection-based favoritism is notable and motivates closer attention to the distinct mechanisms through which these reforms operate.

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

In contrast, implementing a live broadcasting system affects local judiciaries by enhancing judicial visibility and allowing the public to watch trials. However, connections to officials are often hidden and unobservable to the public. This means that even though the public can access trials through live broadcasting, they are unaware of which litigants have connections and might be favored by judges who are under the influence of party officials. Consequently, in response to broadcasting, judges may generally alter their judicial behaviors in the courtroom but not necessarily their decisions based on hidden connections. They may present themselves professionally in the courtroom, knowing that they are being recorded by surveillance cameras, and carefully conceal the bias in their decisions. This behavior renders the live broadcasting system ineffective in reducing favoritism based on connections.<sup>17</sup>

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<sup>17</sup>Chen, Chen, and Yang (2025) examine the impact of this reform and uncover its significant influence on the gender gap in litigation outcomes of civil cases among individuals. Their findings show that prior to the reform, female litigants had a lower likelihood of prevailing in civil litigation than their male counterparts. However, following the reform, there was a substantial reduction in the gap between the chances of winning for female and male plaintiffs. Further evidence suggests that this effect can be attributed to the fact that, in response to the reform, judges are now obligated to regulate their behavior during trials and exhibit a higher level of professionalism, such as following procedures and giving all litigants an equal amount of attention.

## 7. Concluding Remarks

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

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

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

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# Appendix

## A. Institutional Details

### A.1. Circuit Courts

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

When a circuit court receives a petition case, the case is designated to the court immediately above the petitioned court, and action is to be taken within five working days. After the issue is resolved, the outcome must be reported back to the circuit court for inspection.<sup>18</sup> When a court is petitioned repeatedly on the same issue or when the issue is excessively intricate, the relevant circuit court may intervene directly by sending its own personnel to investigate.

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

The Supreme People's Court prioritizes the administration of petitions, and each court is required to present a monthly progress report on petition-related cases. The volume of petitions directly affects local courts' year-end reviews related to trial quality and effectiveness. Courts and judges are penalized for retrials, especially for cases returned for retrial on the basis of a petition.<sup>19</sup> Awards and honors are commonly given when there are no petitions.<sup>20</sup>

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<sup>18</sup>See the Provisions of the Supreme People's Court on Several Issues concerning the Trial of Cases by the Circuit Courts and the Guiding Opinion for the Work Practice of the Second Circuit Court of the Supreme People's Court.

<sup>19</sup>Take 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>

<sup>20</sup>Courts in the province of Henan present "Outstanding jurisprudence without complaint or petition" awards to courts and judges to recognize high-quality judicial judgments. See press coverage at <http://hbxxfy.hncourt.gov.cn/public/detail.php?id=1080>

*Table A1. Circuit Court Rollout*

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

## **A.2. Trials Live Broadcasting**

To enhance the transparency and quality of trials, the Supreme Court started pursuing an “Open Justice” reform in September 2016, instructing courts at all levels across China to broadcast their trials live. By design, a trial that is broadcast can be viewed in real time online on a centralized platform called “China Court Trial Online” and the video recording can be replayed for review. The Open Justice reform was documented and studied by Chen, Chen, and Yang (2025).

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.<sup>21</sup> Once trials are broadcast online, the public and legal professionals have opportunities to monitor and understand the operation of the courts either in real time or afterwards. This incentivizes judges and other court staff to adhere to legal procedures (e.g., giving litigants sufficient time to respond to judges’ questions), because nonstandard procedural practices that are recorded would be challenged by litigants who believe that their trials were unfair. Furthermore, in the face of this additional monitoring mechanism, judges are compelled to behave more impartially because the process of adjudication can be viewed and reviewed by both litigants and other legal professionals.

Even though the long-term goal is to broadcast all trials as they happen, the progress

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<sup>21</sup>See The Revision of the Supreme Court’s Regulations on Court Broadcasting and Video Recording published in February 2017 for information about the main purpose and benefits of increasing trial efficiency.

of the reform, in practice, has been gradual over time and imbalanced across the courts of China. Due to technical and financial constraints, the timing of the courts' connections to the website varied greatly: by September 2016, 383 courts had connected (accounting for 10.89 percent of all courts); by January 2017, another 762 courts had connected to the website, and by February 2018, all 3,517 courts had connected.

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

## B. Data Construction

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

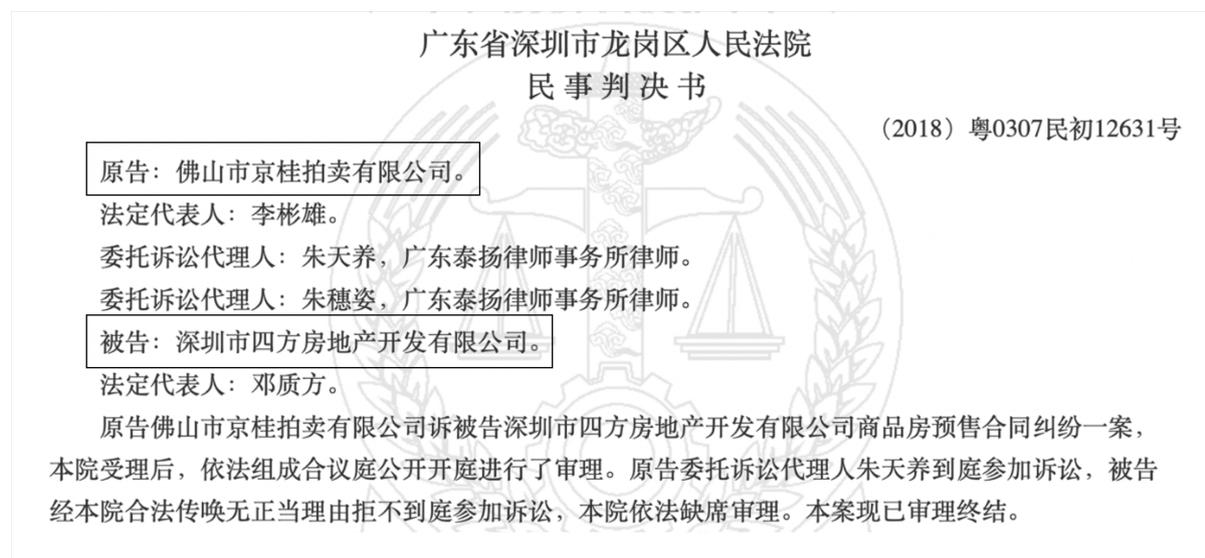
Following several rounds of data processing, we extract various variables from the full text of the legal documents, such as litigation time, case number, plaintiff, defendant, and court, among others. In the initial stage, we exclude cases that have incomplete data. We observed that about 8.8% of the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

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

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

In addition, we obtain data for judges to control for judge fixed effects. However,

due to missing data for some judges, we ultimately end up with a sample size of 1,540,005.



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

### C. Summary Statistics

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

Approximately 58.5% of the 1.54 million civil cases in our sample involve local plaintiffs and defendants, whereas approximately 5% of the cases involve only non-local plaintiffs and defendants. In the remaining sample, the number of cases that involve non-local plaintiffs and local defendants and that of cases that involve local plaintiffs and non-local defendants are roughly the same.

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

Panel C shows the distribution of cases by issue area. The majority of the civil

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

Table A3 presents a summary of the sample officials' personal information. For our sample, we compile a dataset consisting of the resume information of the party secretary, mayor, and judicial secretary of each of the 337 cities in China from 2014 to 2019. In Panel A, we observe that the average age of the officials in our sample is 52 years old, and the average age of the sample municipal party secretaries is slightly higher, at approximately 53. In terms of education, almost all of them have earned a bachelor degree. Approximately 95% of the officials are male. The average length of tenure in our sample is approximately 26 months if we focus on the period between January 2014 and December 2019.

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

Table A4 summarizes the case-level information related to enterprise-official connections. The upper part of the table presents the relevant information for cases that involve non-local plaintiffs and local defendants. Approximately 1.4% of the cases involve plaintiffs that are connected to party secretaries through their birthplaces, 5% involve those connected through cities where party secretaries received higher education, and about 8% involve those connected through cities where party secretaries have previous work experience. In total, 10% of the plaintiffs in this subsample are connected to the incumbent party secretary of the city where the corresponding litigation is adjudicated. For mayors, the ratio of connected cases is similar, and a bit higher. For judicial secretaries, the ratio is lower, especially for those connected to previous working places. The lower part of the table displays details regarding the cases that involve local plaintiffs and non-local defendants, and the pattern is generally similar.

*Table A2. Summary Statistics for Litigation*

<b>Panel A. Case Distribution by Year</b>						
	Full Sample		Subsamples			
	Cases	Ratio	NL-L	L-NL	NL-NL	L-L
2014	114,284	7.42%	17,722	16,281	8,227	72,054
2015	198,011	12.86%	29,937	30,099	13,360	124,615
2016	266,441	17.30%	64,262	41,847	12,315	148,017
2017	296,944	19.28%	48,571	54,565	13,319	180,489
2018	325,380	21.13%	59,357	62,386	14,450	189,187
2019	338,945	22.01%	67,562	66,813	15,771	188,799
Total	1,540,005	100.00%	287,411	271,991	77,442	903,161

<b>Panel B. Case Distribution by Court Level</b>						
	Full Sample		Subsamples			
	Cases	Ratio	NL-L	L-NL	NL-NL	L-L
Primary court	920,260	59.76%	163,112	166,634	34,993	555,521
Intermediate court	565,557	36.72%	116,188	95,854	28,943	324,572
High court	31,350	2.04%	3,697	4,416	9,144	14,093
Supreme court	22,838	1.48%	4,414	5,087	4,362	8,975
Total	1,540,005	100.00%	287,411	271,991	77,442	903,161

<b>Panel C. Case Distribution by Issue Area</b>						
	Full Sample		Subsamples			
	Cases	Ratio	NL-L	L-NL	NL-NL	L-L
Contracts	998,940	64.87%	170,048	186,638	38,491	603,763
Intellectual Property	93,853	6.09%	52,371	17,010	10,307	14,165
Finance, Security and Insurance	68,840	4.47%	8,897	9,037	3,025	47,881
Tort Liability	28,145	1.83%	3,458	4,147	4,500	16,040
Property	21,147	1.37%	1,544	1,565	599	17,439
Labor Dispute	10,961	0.71%	1,041	1,374	810	7,736
Miscellaneous	318,119	20.66%	50,052	52,220	19,710	196,137
Total	1,540,005	100.00%	287,411	271,991	77,442	903,161

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

*Table A3. Summary Statistics for Officials and Turnovers*

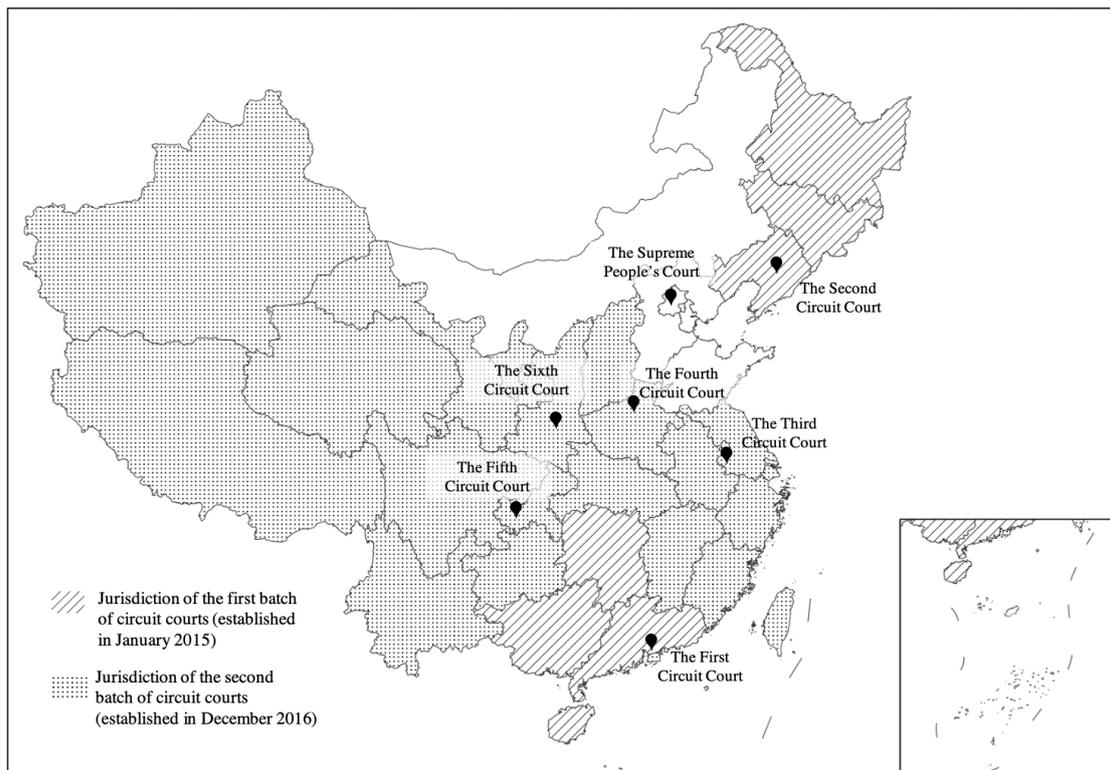
<b>Panel A. Summary Statistics for Officials</b>						
	Full Sample		Party Secretary	Mayor	Judicial Secretary	
	N	Mean	Mean	Mean	Mean	
<b>Basic Information</b>						
Age	2544	51.88	53.08	51.05	51.45	
Male	2544	0.95	0.95	0.94	0.96	
<b>Education</b>						
Bachelor	2544	0.99	0.99	1.00	0.99	
Master	2544	0.79	0.82	0.81	0.71	
PhD	2544	0.18	0.23	0.22	0.06	
<b>Career</b>						
Tenure (month)	2544	25.47	25.16	25.24	26.13	
<b>Panel B. Turnover at City-level from 2014-2019</b>						
<b>Turnovers N<sup>o</sup></b>	0	1	2	3	4	5
Party Secretary	25	118	147	41	5	1
Mayor	21	125	144	41	6	0
Judicial Secretary	77	138	89	30	2	0

*Table A4. Summary Statistics for Connections*

	NL-L cases: Nonlocal plaintiff is connected through the City of			
	Birthplace	Education	Working Experience	All places
Party Secretary	0.014	0.048	0.074	0.103
Mayor	0.019	0.057	0.086	0.120
Judicial Secretary	0.009	0.042	0.028	0.063
Total	0.014	0.049	0.063	0.096
	L-NL cases: Nonlocal defendant is connected through the City of			
	Birthplace	Education	Working Experience	All places
Party Secretary	0.018	0.047	0.086	0.114
Mayor	0.027	0.054	0.092	0.130
Judicial Secretary	0.013	0.043	0.038	0.074
Total	0.020	0.048	0.073	0.107

## D. Additional Tables and Figures

*Figure A2. The Rollout of the Circuit Court System in China*



*Table A5. Different Connection Definition (Nonlocal Plaintiffs versus Local Defendants)*

Panel A. Using Officials' Birthplaces to Proxy Connection			
	Plaintiff's Share of Legal Costs		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)
Connection	-0.0415*** (0.00972)	-0.0127* (0.00671)	-0.0410*** (0.0151)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
Defendant City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes
Observations	261,520	262,098	246,838
R-squared	0.452	0.451	0.458
Panel B. Using the Location of Officials' Higher Education to Proxy Connection			
	Plaintiff's Share of Legal Costs		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)
Connection	-0.0308*** (0.00585)	-0.00699 (0.00692)	-0.0301*** (0.00852)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
Defendant City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes
Observations	261,520	262,098	246,838
R-squared	0.452	0.452	0.458
Panel C. Using Officials' Previous Working Places to Proxy Connection			
	Plaintiff's Share of Legal Costs		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)
Connection	-0.0346*** (0.00631)	-0.00870 (0.00553)	-0.0182** (0.00805)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
Defendant City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes
Observations	261,520	262,098	246,838
R-squared	0.453	0.452	0.459

**Table A6. Connection and Litigation Outcomes (Nonlocal Plaintiffs versus Local Defendants): High v.s. Low Legal Costs**

	Plaintiff's Share of Legal Costs					
	Low Legal Costs			High Legal Costs		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)	Party Secretary (4)	Mayor (5)	Judicial Secretary (6)
Connection	-0.0219*** (0.00730)	-0.00268 (0.00643)	0.0116 (0.00929)	-0.0458*** (0.00539)	-0.00754 (0.00523)	-0.0604*** (0.00758)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	129,563	128,746	119,741	128,200	127,420	118,149
R-squared	0.510	0.511	0.517	0.495	0.495	0.506

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, court level, legal fees (log) to proxy size of the dispute, length of facts (log), length of reasoning(log), 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 and plaintiff city level; \* p<0.1, \*\* p<0.05, \*\*\* p<0.01.

*Table A7. Regression Results for the Event Study Model (Nonlocal Plaintiffs versus Local Defendants)*

	Plaintiff's Share of Legal Costs		
	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)
Connection	-0.0665*** (0.00750)	-0.0325*** (0.00842)	-0.0571*** (0.0110)
Connection × Pre 4 and Before	0.0123 (0.00976)	0.0102 (0.00899)	-0.0225* (0.0121)
Connection × Pre 3	-0.0483 (0.0307)	0.0268 (0.0303)	-0.0168 (0.0299)
Connection × Pre 2	0.0244 (0.0280)	-0.0204 (0.0290)	-0.0329 (0.0282)
Connection × Cur- rent	0.0271 (0.0311)	0.0197 (0.0233)	-0.00758 (0.0372)
Connection × Post 1	0.0128 (0.0269)	-0.00400 (0.0272)	0.0332 (0.0252)
Connection × Post 2	-0.00453 (0.0223)	0.00400 (0.0253)	-0.0158 (0.0261)
Connection × Post 3	0.0431*** (0.0154)	0.0172 (0.0171)	0.0572** (0.0272)
Connection × Post 4	0.0919*** (0.0269)	0.0531* (0.0281)	0.0903** (0.0413)
Connection × Post 5	0.0553** (0.0273)	0.0141 (0.0229)	0.0995*** (0.0367)
Connection × Post 6	0.0832*** (0.0219)	0.0443* (0.0267)	0.0766** (0.0327)
Connection × Post 7	0.0777** (0.0316)	0.0541*** (0.0189)	0.0736*** (0.0233)
Connection × Post 8 and After	0.0584*** (0.00819)	0.0288** (0.0115)	0.0582*** (0.0139)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	261,520	262,098	246,838
R-squared	0.453	0.452	0.459
F-test	70.25	54.54	54.32
Prob(>F)	0.000	0.000	0.000

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, court level, legal fees (log) to proxy size of the dispute, length of facts (log), length of reasoning(log), 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 and plaintiff city level; \* p<0.1, \*\* p<0.05, \*\*\* p<0.01.

Table A8. Batch Selection of Provinces for Circuit Court Reforms: First and Second Waves

	Plaintiff's Share of Legal Costs					
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)	Party Secretary (4)	Mayor (5)	Judicial Secretary (6)
Connection	-0.0810*** (0.0219)	-0.0116 (0.0130)	-0.115*** (0.0298)	-0.0772*** (0.0281)	-0.000433 (0.0213)	-0.140*** (0.0308)
Connection × First Batch	0.0453 (0.0494)	0.00363 (0.0348)	-0.0309 (0.0570)			
Connection × Second Batch				0.00957 (0.0391)	-0.0179 (0.0272)	0.0308 (0.0504)
Controls	Yes	Yes	Yes	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes	Yes	Yes	Yes
Area FE	Yes	Yes	Yes	Yes	Yes	Yes
Observations	12,855	12,748	9,713	12,855	12,748	9,713
R-squared	0.604	0.603	0.617	0.603	0.603	0.617

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, court level, legal fees (log) to proxy size of the dispute, length of facts (log), length of reasoning(log), 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 and plaintiff city level; \* p<0.1, \*\* p<0.05, \*\*\* p<0.01.

*Table A9. The Litigation Composition and the Circuit Court Reform*

	The ratio of cases initiated by connected firms		
	Party Secretary	Mayor	Judicial Secretary
	(1)	(2)	(3)
Circuit	0.00620 (0.0100)	-0.00464 (0.0126)	-0.00392 (0.00937)
Controls	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Court City FE	Yes	Yes	Yes
Observations	39,198	39,563	36,099
R-squared	0.121	0.116	0.168

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

*Table A10. Volume and Size of Litigations Before and After the Circuit Court Reform*

	Volume (1)	Average Legal Fee (2)
Circuit	-1.469 (3.881)	0.0451 (0.0273)
Controls	Yes	Yes
Year-quarter FE	Yes	Yes
Court City FE	Yes	Yes
Observations	65,338	65,338
R-squared	0.076	0.074

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

*Table A11. Impacts of Introducing Circuit Courts: Allowing for Time-varying Shocks*

	Plaintiff's Share of Legal Costs		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)
Connection	-0.0607*** (0.00711)	-0.0130*** (0.00465)	-0.0621*** (0.00814)
Circuit	0.0289 (0.0299)	0.0344 (0.0235)	0.0457 (0.0323)
Connection × Circuit	0.0437*** (0.0108)	0.0122* (0.00691)	0.0614*** (0.0129)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
City × quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	261,520	262,098	246,838
R-squared	0.453	0.452	0.459

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, court level, legal fees (log) to proxy size of the dispute, length of facts (log), length of reasoning(log), 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 and plaintiff city level; \* p<0.1, \*\* p<0.05, \*\*\* p<0.01.

# Online Appendix

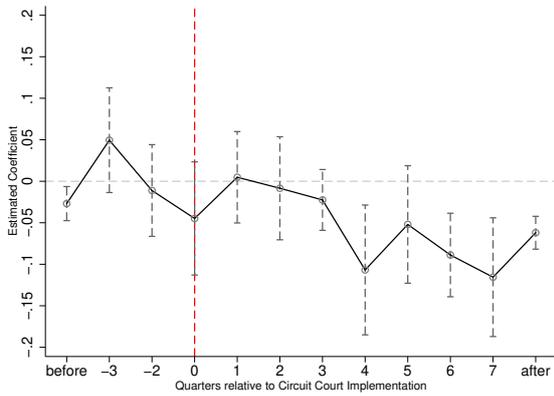
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## OA1. Robustness and Auxiliary Results

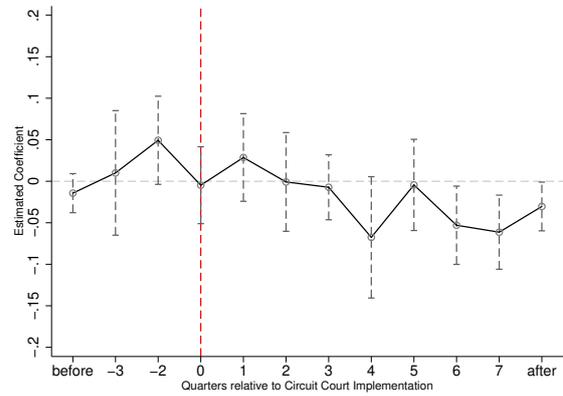
*Table OA1. Connection and Litigation Outcomes (Nonlocal Plaintiffs versus Local Defendants)*

	Plaintiff's Success		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)
Connection	0.0423*** (0.00572)	0.00738 (0.00567)	0.0301*** (0.00775)
Controls	Yes	Yes	Yes
Plaintiff City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	261,520	262,098	246,838
R-squared	0.425	0.425	0.431

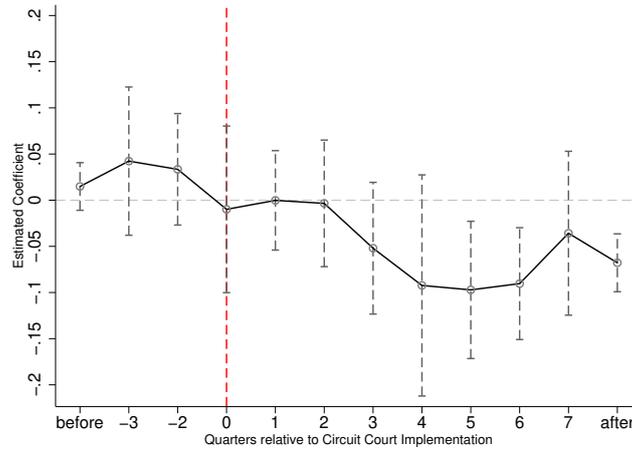
Notes: Case-level control variables include the dummy variable of other connection which takes the value of 1 if the enterprise in dispute is connected to any of the other two officials, court level, legal fees (log) to proxy size of the dispute, length of facts (log), length of reasoning(log), as well 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 and plaintiff city level; \* p<0.1, \*\* p<0.05, \*\*\* p<0.01.



(1) *Municipal Party Secretary*



(2) *Mayor*



(3) *Judicial Secretary*

**Figure OA1.** *Event Study.* These figures illustrate the estimated effect of the reform on connection to three different positions by using the plaintiff's success as the dependent variable. The estimations are over period  $(\tau = -4, -3, \dots, -1, 0, 2, 3, \dots, 8)$ , i.e., from 4 quarters before the introduction of the reform to 8 quarters after the reform with  $\tau = -1$  dropped as the reference point. No pre-trend is found.

## OA2. 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 non-local defendants relative to unconnected non-local defendants to be biased toward zero.

To verify this conjecture, we examine the sample of litigations involving local plaintiffs and non-local defendants and estimate Equation (1). In this specification,  $\omega_1^{reg}$  represents the fixed effects of the defendant's registered location. The results are presented in Table OA2 and Table OA3, using the *plaintiff's share of legal costs* and *plaintiff's success* as dependent variables, respectively.

Columns (1) to (3) of both Table OA2 and OA3 show the estimated results. We find that if a non-local defendant is connected to the incumbent municipal party secretary or judicial secretary of the court city, the plaintiff is less likely to win the case. The effects for cases of local plaintiffs versus non-local defendants are statistically significant, but the magnitude of these effects is smaller than that of their counterparts reported in Table 3 and OA1. Connections to the mayor have no significant impact on litigation outcomes, as shown in column (2) of Table OA2 and Table OA3.

**Table OA2. Connection and Litigation Outcomes (Local Plaintiffs versus Nonlocal Defendants)**

	Plaintiff's Share of Legal Costs		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)
Connection	0.0175*** (0.00486)	0.00236 (0.00528)	0.0136** (0.00594)
Controls	Yes	Yes	Yes
Defendant City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	247,251	248,055	232,431
R-squared	0.495	0.495	0.499

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, court level, legal fees (log) to proxy size of the dispute, length of facts (log), length of reasoning(log), 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 and defendant city level; \* p<0.1, \*\* p<0.05, \*\*\* p<0.01.

*Table OA3. Connection and Litigation Outcomes (Local Plaintiffs versus Nonlocal Defendants)*

	Plaintiff's Success		
	Party Secretary (1)	Mayor (2)	Judicial Secretary (3)
Connection	-0.0160*** (0.00521)	0.000742 (0.00503)	-0.0156** (0.00648)
Controls	Yes	Yes	Yes
Defendant City FE	Yes	Yes	Yes
Year-quarter FE	Yes	Yes	Yes
Tenure FE	Yes	Yes	Yes
Judge FE	Yes	Yes	Yes
Area FE	Yes	Yes	Yes
Observations	247,251	248,055	232,431
R-squared	0.468	0.467	0.472

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, court level, legal fees (log) to proxy size of the dispute, length of facts (log), length of reasoning(log), 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 and defendant city level; \* p<0.1, \*\* p<0.05, \*\*\* p<0.01.