

Businesses benefiting from political connections harm China's economic growth

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Researchers from The University of Manchester and University of

Navarra have examined the value of politically connected firm directors to the Chinese elite, in terms of getting preferential access to resources.

The study found that being connected to the political elite in China brings advantages to firms, despite the launch of the Anti-Corruption Campaign (ACC) by president Xi Jinping in 2012. According to the paper, recently published in the *Journal of Institutional Economics*, [private firms](#) benefit from higher subsidies if at least one director in the boardroom has ties with the ruling Communist Party's Politburo. State-owned enterprises (SOE's) that have at least one connected director also enjoy privileges, such as paying lower interest rates.

The findings differ between private and state owned firms, showing that connections have become more valuable for private firms following the anti-corruption campaign. According to the research, private firms face a more aggressive environment within the Chinese context, and often engage in corrupt practices as a mechanism to survive.

By contrast, corruption in state firms differs in nature, given that state firms already enjoy a privileged status within the Chinese economy and do not need to engage in corruption in order to survive. The value of connections in the state sector did not increase after the ACC, however, political connections remained important.

According to the study, in state owned firms the problem of corruption and [personal connections](#) lies in the politicization of these companies. Whilst SOEs are tied to the Chinese Government, they can be used as a means for political interests. The researchers suggest that reducing connections between politicians and firms and introducing market rules within state companies would increase efficiency.

This research sheds light on a resource allocation mechanism that has become increasingly important in China since 2012, but which,

according to the researchers, harms China's economic growth in the long term.

While the Anti-Corruption Campaign may have had some other positive effects, the researchers argue that improving market institutions in China and providing a more favorable environment for private companies requires deeper reforms.

"We show that the value of connections in the [private sector](#) increased after the Anti-Corruption Campaign because they became a less risky alternative to pecuniary corruption. We also show that connected firms do not perform better than others, despite benefiting from advantages. The Chinese economy as a whole hence suffers due to these political economy mechanisms at play," said Dr. Nuno Palma, from The University of Manchester.

More information: Marta Alonso et al, The value of political connections: evidence from China's anti-corruption campaign, *Journal of Institutional Economics* (2022). [DOI: 10.1017/S1744137422000017](https://doi.org/10.1017/S1744137422000017)

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