

JiaKun Jack Zhang
PhD Candidate, Department of Political Science, UC San Diego

"Powerful Patrons: Taking Stock of Political Connections in China"

Abstract

The qualitative literature and anecdotal evidence suggest that fiscal decentralization has led to the rise of powerful provincial party bosses and that private entrepreneurs must target these individuals for patronage to be successful in China. Yet it is difficult to quantify the impact of these clientalistic ties both because the participants have every incentive to conceal their business dealings and because estimating the economic value of these political connections presents methodological challenges. In this paper, I use an event study approach to measure the impact of the exogenous shock created by the downfall of Bo Xilai on the market valuation of companies associated with him. The event study approach has been used by scholars (Fisman 2001, Faccio & Parsley 2009) to study the impact of sudden deaths of patrons on the market value of politically connected companies but has never been applied to China. I use a few rough proxies (geography and firm ownership) to identify which firms are more likely to be dependent on Bo for patronage. I also plan to create an original dataset using concurrent media appearances of the company or its top executives with Bo to create a more sophisticated proxy for their political connectedness. I examined the daily returns on investment of all A-share firms listed on either the Shanghai or Shenzhen Stock Exchanges over the past two years and measured the market-adjusted cumulative abnormal returns (CARs) around the major developments in the Bo Xilai Incident (2/06/2012-9/28/2012). The data analysis is still ongoing, but my preliminary results suggest that private enterprises were more adversely affected by Bo's fall than state-owned enterprises.

Keywords: Political connections, patronage, China, event study, Bo Xilai