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Connect to Trade

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Abstract

A key foundation of Chinese-style institutions is that governments at different levels control resources and utilize their power to support businesses connected to them. We examine how this institutional feature affects firm exports. We first provide a simple model to demonstrate the underlying mechanisms. In our model, politically connected firms gain a comparative advantage in contract-intensive and financially-dependent sectors. But political connections also have an adverse effect on firm exports because of managerial inefficiency. The overall effect is thus ambiguous and differs across sectors. Employing merged Chinese listed manufacturing firm data and Chinese custom data for the years 2004–2013, we find robust evidence consistent with our model's predictions.

Keywords: political connections, exports, informal institutions, China

JEL classification: F14, H70, P33

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