

Coordinating China's Economic Growth Strategy via Its Government-Controlled Association for Private Firms*

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Abstract

Scholars in economics and political science argue that one major function of government is to overcome coordination failure in economic development, especially during times of rapid environmental changes. But, how and through what means does the state coordinate firms to follow the changing directions of its economic objectives? This paper focuses on the case of a government-controlled business association, namely the All-China Federation of Industry and Commerce (ACFIC), and shows that the ACFIC may be serving, at least partially, as a means of avoiding the kind of coordination failures that are often associated with policy reform programs in authoritarian regimes like China when the government deems it necessary to radically and suddenly change its policy objectives. It does so by comparing the activities of firms that are members of ACFIC with non-members before and after the world financial crisis of 2008-9 which induced a significant change in government objectives. Before that crisis when priority in government objectives were “outward” (to stave off balance of payments crises that had befallen many other developing countries), ACFIC member firms were able to engage in exports and foreign investment to a greater extent than non-member firms, and even than those whose owners are members of the Chinese Congresses or communist party. After viewing the crises in international markets, and government objectives had turned more “inward”, ACFIC members were more likely to focus on domestic sales and investments. In each case, two important mechanisms (information and finance) are identified as means by which the government was able to induce firms to achieve its objectives.

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I. Introduction

In his recent broad re-examination of the relation between the “state and development,” Bardhan (2016) has identified an important puzzle: How and why have some states (especially in East Asia) managed to combine a high degree of political centralization with allocative efficiency in resource use, technological development, with major policy changes over time so as to achieve rapid growth and development in the face of rapidly changing circumstances? As demonstrated below, we believe that, in the case of China since the 1990s, a significant part of the solution to this puzzle has been the role played by the government’s encouragement of the affiliation between private entrepreneurs and government through membership in, among other things, its large government-controlled association for private firms, the All-China Federation of Industry and Commerce (ACFIC). We see the main mechanism behind the ACFIC’s success in this respect to be its important role in informing private firms about the Chinese government’s often rapidly changing priorities and the mechanisms available to help firms adapt to these changes.

This approach would seem to have been crucial in order to offset, at least partially, the earlier, long-standing tendency of the Chinese state to favor the public sector over the private sector by making funding available almost exclusively to state-owned enterprises (Song et al, 2011), which because of their lower efficiency could lower long-term economic growth. As we show below, the ACFIC has also played a crucial role in guiding and assisting China’s private firms in transitioning from adherence to China’s pre-2009 “outward” economic objectives to its more “inward” economic objectives after that.

In calling attention to the aforementioned puzzle, Bardhan stressed the complexity and multidimensionality of all the things that would have to be taken care of to achieve coordination in policy at any point in time, let alone over time. It would be necessary to “facilitate interdependent investment decisions in orchestrated networks of producers and suppliers, establish public development banks and other institutions for long-term industrial finance, and nudge firms to upgrade their technology and move into sectors that fit with a national vision of development goals” (Bardhan 2016). Significant attempts of the state to do this have been identified in East Asian countries such as Japan (Johnson 1982), South Korea (Kohli 2004, Westphal 1990) and, more recently, China (Lin 2012, Xu 2011). Most of this literature has focused on how the central bureaucracy and the various government agencies work together to coordinate the firm activities. What is under-studied (and thereby under-appreciated) is the role played by government-controlled associations of private firms like the ACFIC.

We point to several reasons why business associations may be especially useful in linking firms to the state. One is that alternative mechanisms may be especially lacking, as for example when the firms are small and located in remote areas. A second is that, even when the state is accessible to most firm owners by other means, firm associations may be better able to provide more useful connections between them than the state itself and be better able to coordinate the objectives and policies of the state with firms than would any particular branch of the state. This is often because government is usually under-funded or under-staffed given the tasks it is entrusted with. A business association dedicated to private firms may help rebuild such neglected but useful connections between the state and private firms.

Whereas smaller business networks built up from the grass roots can sometimes induce the state to change its policies, such changes may have adverse consequences on other firms out of this specific network and unlikely to lead to improved coordination between the state and firms as a whole. Therefore, we suggest that government-controlled business associations like the ACFIC may serve as a better bridge between firms and the state than most alternatives. In our view, therefore, this coordination function of the ACFIC in the Chinese context of large and rapid changes in government economic policies and objectives can offer an alternative explanation to both the classical view of co-optation literature (Gandhi and Przeworski 2006 and 2007) and the selectorate theorem (Bueno de Mesquita et al 2005) for why authoritarian states such as China continue to maintain their state-controlled associations as means of coordination between firms and state.

More specifically, in this paper we study the effect of ACFIC on private firms' exports and outward foreign direct investment. In addition to the coordination role of ACFIC, we believe such a determination is also important for understanding the effects of political connections of firms in China. The literature on politically connected firms has discussed how and to what extent the political connections can help firms to obtain contracts from government (Szakonyi 2018), finance (e.g., Haggard and Huang 2008, Feng et al 2013, Guo et al 2014, Li et al 2008, Lei and Nugent 2016, Khwaja and Mian 2005), lower tax rates (e.g., Feng et al, 2013; Nugent and Sukiassyan, 2009), and government subsidies (e.g., Feng et al, 2013; Johnson and Mitton, 2003), to take advantage of the court system (Ang and Jia, 2014), to avoid government regulations or punishments (Fisman and Wang 2015, Della Vigna et al 2016), or more generally to make the firm more profitable or valuable in the stock market (e.g., Acemoglu et al 2016, Braggion and Moore 2013, Cingano and Pinotti 2013, Fisman 2001, Truex 2014). Much less, however, has been said about how government connections can help firms do international business such as exports and foreign investment. To engage in exports and foreign investment, firms are often required to go through tedious bureaucratic and other time-consuming processes to obtain reliable information about foreign partners or government permission for certain trade or investment activities. To the extent that the government is able to provide such information, it is quite plausible that politically connected firms are more likely to export and invest abroad. Yet, because of possible risks that this might make them subject to higher taxation or stiffer regulations, it is by no means certain that political connections alone may help firm owners engage in and expand their international trade and foreign investment. Finding out the net magnitude and direction of this effect, therefore, can be important.

Such a need was very salient in the Chinese case, especially *after* the important economic reforms of the 1980s and 1990s that gave many more opportunities to private firms and government priorities became outward-oriented to avoid the kinds of foreign exchange crises that had triggered periodic sharp slowdowns and crises in many other developing countries. Yet, this would have been true only *before* the 2008 financial crisis which caused China's economic strategy to shift to expanding consumption and investments *within* China. Because of the many advantages that state-owned firms (SOEs) enjoyed relative to private firms in size, access to finance and experience, finding out how private firms' disadvantages could be overcome would seem much more important both before and after 2008. Did political connections established by ACFIC between private firms and state play a role in this process, and if so, why and what were the mechanisms?

What makes the Chinese case especially relevant in this context is that, as suggested above, the goals and priorities of the government changed so sharply and so quickly before and after 2008. The suddenness and magnitude of these changes in China quite naturally made the coordination of firms with changing policy objectives of government especially challenging. While Haggard and Huang (2006) pointed to enormous changes in the way that firm finance was obtained over the 1980s and 1990s for both private and public firms, as we point out below, these changes became even sharper and hence harder to coordinate with the coming of the world financial crisis in 2008-10 and the rising importance of private firms.

To our knowledge, this paper is the first to study the effect of political connections on exports and foreign investment in China. Even of those studies which have studied the effects of political connections in China, most have focused on connections through membership in either the Chinese Communist Party (CCP) or deputyship of the People's Congress (PC) or the People's Political Consultative Conferences (PPCC). Very few studies have examined the possible role in this respect of the aforementioned government-controlled business association for private firms in China, namely the ACFIC. Although it is a business association, as explained in the next section, the ACFIC has a very strong political connection to the Chinese government, making it very different from most business associations. Even though some studies do explore the political connections of the ACFIC, very few have dealt with the case of exports and foreign investment and, even if they have, to our knowledge they have not identified the mechanisms through which political connections work.

Furthermore, our paper also speaks to another under-studied issue in the literature of politically connected firms, that is, how is it that political connection can benefit the government. While a lot has been said about how political connections benefit firms, we know relatively little about why the government should want to form such bilateral relationships. Some recent studies have shown that a firm's connections with certain politicians can help those politicians get more votes by urging its employees to vote for a certain candidate (Hertel-Fernandez 2016, Frye et al 2014) or can provide them with lucrative positions after they retire from politics (Eggers and Hainmueller 2009). Beyond these rent-seeking or corruption perspectives, we attempt to determine the extent to which and how the Chinese state has used the ACFIC as a means of better achieving changing government objectives.

In this paper, we intend to fill these gaps in several ways. First, by using four waves of the Chinese Private Firm Survey (CPFS), namely, those of 2005, 2007, 2009 and 2011¹, we investigate how and why the ACFIC's effect on private firms' exports and outward foreign investment have changed, especially before and after the 2008 financial crisis. Each of these four different waves of the CPFS includes firms that are both members and non-members of the ACFIC, CCP and Congresses and provides key information on firm and owner characteristics, industry, and location and on each of several dimensions of firm performance (production, exports, investment, employment and borrowing). We also make use of several indexes intended to capture the widely varying quality of institutions (product and factor markets, legal system, financial development, etc.) across the different locations in which the various firms have been operating. Second, we compare the ACFIC effects in these respects with those of the other most important linking organizations, the PC and PPCC. Third, we identify some of the specific

¹ The 2011 Survey is the most recent wave of the survey that has been made available.

mechanisms through which the ACFIC manages to help private firms succeed in exports and foreign investment. Fourth and most importantly, we highlight the ACFIC's role in coordinating firm activities by contrasting its effect on the destination of private firms' production and investment, as measured by exports and foreign and domestic investment before and after the 2008 financial crisis.

A key finding of the paper is that, when we compare the effects of ACFIC membership in the four different waves of the CPFS, the effects were positive and highly significant on both exports and foreign investment in 2005 and 2007, but changed radically toward production for the domestic market between 2008 and 2010 when the government adopted its massive Stimulus Program. Indeed, by 2011 we find these effects of ACFIC membership on domestic production and investment to be positive and significant but those on exports to be negative. On the other hand, by way of comparison, with one exception (Table 8 below) we did not find the effects of political connections through PC or PPCC membership on exports or Outward Foreign Direct Investment (OFDI) to be significant either before or after the financial crisis, and indeed in this case the effect of PC/PPCC affiliation on exports in 2011 was positive (not negative as in the case of the ACFIC). This reveals the potential importance and uniqueness of the heretofore neglected role of a business association as a coordinator between firms and government policy objectives.

The remainder of our paper is organized as follows. We begin in Section II by providing a relevant political economy framework as well as some historical and other background information on the Chinese government's policy priorities, on the ACFIC and on the role it could play in the coordination of these policy priorities. Section III provides a description of the data, identification strategy and construction of all the variables employed in the analysis. Section IV presents the baseline results of the 2005 Chinese Private Firm Survey when the policy priority was still on export growth and outward foreign investment. Section V presents the empirical results for a more recent date (2011) by which time the priority in government objectives had shifted radically toward building up the domestic market and technology and shows that the effect of ACFIC membership on firms' exports also had changed rather radically. Section VI contains our conclusions.

II. A Political Economy Framework and Background on Its Components and China's Changing Objectives

1. Political Economy Framework of the ACFIC and Other Links between Private Firms and the State

Figure 1 provides a simple graphical framework that we believe captures the relationships among private firms, the Chinese state, local governments, the ACFIC and alternative means of linking firms with the state such as the party and congresses. It has the central government at the top and private firms and their workers at the bottom with the party branches, congresses, local governments and the government-controlled business association (i.e., ACFIC in China) in between as possible linking mechanisms. Assuming as in the Chinese case that the firm's memberships in the business association and/or in the party or congresses are voluntary, and yet

these linking organizations may have the right to deny membership to a firm, in each such case, the links should reflect mutual incentives which are depicted by the arrows going in both directions. The private firms pay dues and contribute time to the business association activities but in return expect to receive benefits from it, such as important information from the business association about government policies and perhaps also about how to take advantage of financing. The party and congresses may play somewhat similar roles in collecting time and effort from the firm owners but in return may offer incentives to the firms either directly or indirectly through licenses or finance from state agencies or local governments. In the case of a particular local government it is well known in the Chinese context that it can provide incentives to firms through exemptions from certain types of taxes or through access to infrastructure or local finance, but in return the local government can benefit from increased economic activity in the region which is likely to increase its tax base and could justify promotions of its officials to higher positions in regional or central governments.

Next, let us focus on the role played by this government-controlled business association in Figure 1. To begin, we should explain why we say it is a “government-controlled” business association. Unlike traditional business associations formed and managed by firm owners, in China the ACFIC was established and controlled by the government. While its origin dates back to 1953 when it was established to help the newly-born Chinese state unite owners of private companies and persuade them to nationalize their firms, soon thereafter it was closed down since the Chinese government was at that time not yet agreed on allowing the private sector to play an important role in the economy. Yet, when China introduced its first major reforms, the ACFIC was revived in 1979 and its membership grew fairly substantially. In the late 1990s, it became known for its efforts in defense of property rights of private firms. Indeed, it helped get the Chinese government to amend the country’s Constitution to declare that “the State should protect the lawful rights and interests of the private sector” (Asian Development Bank 2003). This led to the phenomenal growth in ACFIC membership so that by the end of 2015, there were over 4,385,000 members.

Yet, quantitative assessments of the impacts of ACFIC membership on different kinds of firm outcomes have been scarce. Haggard and Huang (2008) made use of the 1993 and 2002 rounds of the same survey to examine access of private firms to finance, but did not compare such access between ACFIC members and non-members. Ma et al (2015) did examine membership effects on several outcomes, but not including exports and foreign investment, based on one round (2011) of the CPFS (the same data set used in the present study and described in some detail in Section III), but found these effects to be insignificant or even negative. For these reasons, we believe that the assessment of ACFIC membership effects should be extended to include those on exports and outward foreign direct investment not previously treated.²

Although the ACFIC’s financial budget mainly comes from the membership dues of member firms, its leaders are usually appointed by the government. This shows that such “government-controlled business associations” have to serve two principals, member firms (who contribute most of financial budget) and government (which makes the political appointments of its

² The ACFIC is by no means the only industry association in China. Indeed there are thousands, though only a few of them are more than local in scope, and none of them is solely focused on private firms like the ACFIC (Deng and Kennedy 2010).

leaders). This feature of a government-controlled business association gives it an incentive to work for objectives that may promote benefits for both principals, i.e., member firms and government. We believe that coordination of economic policy is indeed one such objective: if properly done, it can benefit both member firms by leading them to new business opportunities and the government by helping it implement its policies and achieve its goals.

Considering that for any economic policy of the Chinese government to be successful it has to be supported and followed by millions of private firms, we believe that with its millions of members China's ACFIC can be highly important in this respect. It does this both by communicating to the firms the policies and possible means of financing firm activities to help achieve these policies and to the government the types of economic policy that private firms favor. This is what we hereafter call "coordination."

Next, we turn to other organizations with the potential for linking firms to government officials and government economic objectives such as promoting exports in the private sector as discussed above. These are memberships in the Chinese Communist Party (CCP), or party congresses (PC and PPCC), each of which are also included as intermediaries between the state and private firms in Figure 1. Each of these political associations offer firms, both private and public, with means of gaining access to government officials and engage in lobbying, but their memberships are by no means limited to firms and especially to private firms.

Because these other political organizations (1) do not provide the business-oriented services (e.g., circulating information about business opportunities, providing information about government policies, mediating business conflicts, and others) which are at the core of economic policy coordination, (2) rarely if ever depend on private firms for revenue income and, as a result, only have one principal, the government, and (3) are also open to members from fields other than business or private economy, we deem it much less likely that these organizations could serve the aforementioned coordination function as the ACFIC. To reflect this uniqueness of a government-controlled business association like the ACFIC, its relationships with central and local governments are deemed mutually beneficial and depicted in Figure 1 as strong while those between party/congresses and government are depicted as weak.

2. China's Trade and Outward FDI Growth and the Potential Linking to the ACFIC and other Intermediaries

Next, we turn to the rather amazing growth of the Chinese economy over the last several decades that lies behind the aforementioned under-appreciated change in the state's economic objectives before and after the world financial crisis of 2008.

The growth of China's trade, both imports and exports, over the years since the major reforms initiated in the 1980s has been nothing short of sensational. As Li, Qiu and Xue (2016) state in their comprehensive survey of China's foreign trade policy, "before 1980, China was a negligible player in the global market; since 2009, however, the country has become the world's largest exporter of goods and commodities" and by 2013 the second largest merchandise importer. Growth of its imports was especially sensational during the 1990s as China gradually reduced both its tariffs and non-tariff barriers in its effort to be admitted to the WTO (as it was in 2001). Beginning in the early 1990s, even greater priority was given by government to the

promotion of exports so that China would not become vulnerable, as so many other developing countries had, to growth-arresting balance of payments crises. Indeed, China has been extremely successful in this regard, exports growing much faster than imports and thereby generating large and growing current account surpluses and foreign exchange holdings.

China's main means of encouraging exports were by (1) making it virtually mandatory that its state banks provide credit to exporting firms and (2) providing exporting firms with rebates on the Value Added Taxes (VAT) which were a major source of government revenues. These mechanisms were rather easy to implement while almost all the exporting firms were SOEs or other large collective firms. Yet, as China began to pay more attention to its private firms in the late 1990s and yet state commercial banks still discriminated against private firms in their lending, helping private firms to enter and compete in international markets through exporting represented a greater challenge. This was further complicated by the fact that much of the VATs subject to rebate for exporters had been imposed by local governments not simply the central government.

Figure 2 presents annual data on both Net Exports and Gross OFDI outflows of China in billions of US dollars over the period 2003-2014 which includes the period 2005 to 2011 examined in this study. As this figure shows, both Net Exports and OFDI outflows grew rapidly until 2008, but net exports declined from 2008 to 2011, and OFDI outflows leveled off from 2008 to 2010 before growing once again from 2010 to 2014. Similarly, Figure 3 shows that, consistent with the government's economic objectives, the share of Exports in GDP grew rapidly through 2006, but then fell sharply just before and during the global financial crisis of 2008-10, before stabilizing somewhat after that. During the post-2006 period, non-exports, domestic investments and sales within China were growing rapidly, raising the question of how the government may have managed to achieve this change in objectives in the direction of the domestic economy. While none of these data series distinguishes between the shares of the private- and public-sector firms, the share of the private sector in all these activities is known to have been growing over time. This may be less so for OFDI than for the other items, especially considering the especially large size of many of the SOEs engaged in OFDI. Notably, however, some of the most definitive studies on OFDI have indicated that the likelihood that a private firm invests abroad tends to be larger than that of SOEs (Chen, Tian and Yu 2016).³ This indicates that it is by no means improbable that the ACFIC, and through it, private firms could have been contributing to the trends in Net Exports, the share of Exports in GDP and OFDI flows shown in the two figures.

The environmental changes that firms have had to face (e.g., as depicted by the irregular trend in exports in Figure 2) have been unusually large, especially at the level of individual industries. These often abrupt environmental changes have given rise to considerable uncertainty about future conditions and in some cases rapid changes in policy directions taken by the government as highlighted in Haveman et al (2016). As explained above, it was the world financial crisis around the years 2008-9 and the worries that continuation of the strong outward orientation that China had been prioritizing until then could not save those affected exporting firms during the 2008 financial crisis, that induced the Chinese government to make its most important change

³ These authors attribute this in part to the desire of private firms to avoid the discrimination against them within China, but certainly the aforementioned programs of the ACFIC to help private firms address national priorities by investing abroad could also serve to explain this.

from encouraging firms to switch from “outward” to “inward” activities in late 2008. This is what justifies our separate analyses of firm outcomes pre- and post- 2008 below in Sections IV and V, respectively.

From about 2004 priority started to increase in favor of OFDI to allow Chinese firms to take advantage of lower wage rates elsewhere for its more labor-intensive manufacturing activities as Chinese wage rates began to rise, and especially to assure access to energy and other natural resources. This growing priority toward OFDI continued after 2006, though with more emphasis on targets for natural resources and advanced technology, the domain of SOEs instead of private firms. Even more importantly and more sharply, however, the world financial crisis of 2008-2010 induced the Chinese government to increase the size of the domestic market and diversify economic activity toward the western part of the country. In other words, a revolutionary change in priority objectives took place within that short period of time, implying that it would be very important for (a) private firms to be able to gain rather immediate access to information about this change and about how to deal with it and (b) for the Chinese government to gain cooperation from millions of private firms to implement its new economic stimulus program. Indeed, it is in such an environment, that firms want to keep close to the government in large part to help them come to learn of, and then take advantage of, such sudden changes in policies. This is also why we feel that the ACFIC would be especially able to fulfill this role as coordinator between the state and private firms in such circumstances.

III. Data and Identification Strategy

1. Data Sources

To study the questions raised at the beginning of the paper, our main data source is the Chinese Private Firm Survey (CPFS). The CPFS is a cross-sectional data set conducted every two years (although only through 2011) through the collaboration of the ACFIC, the China Society for Private Economy at the Chinese Academy of Social Sciences, and the United Front Work Department of the Central Committee of the CCP. The original purpose of the survey was to help the Chinese government better understand the needs of private firms so that it could provide better services to private entrepreneurs. Hence, the survey includes numerous questions regarding firm owner characteristics (gender, education, previous experience in various organizations such as government and SOEs, etc.), the firm itself, including firm age, initial firm size, the original funding source for the firm, and current information on its revenue, profitability, financing, etc., and the firm owner’s perceptions about some current affairs including his (her) understanding of certain government policies. As we will discuss later, these survey questions constitute a rich source with which to construct both our dependent and control variables.

For this paper, we use the four most recent waves of CPFS data, namely the surveys of 2005, 2007, 2009 and 2011. Our choices are dictated by the following considerations. First, the 2011 CPFS is the latest wave available, and the others were the last three before that. Second, although some CPFS Surveys were carried out in earlier years, they are not included in this study for the following reasons: (1) Because China joined the WTO only in 2001, firms’ international business activities received only very limited attention before that and as a result, no data at all on exports

and OFDI was collected in the surveys before 2001. (2) Although the CPFS Surveys of 2001 and 2003 did have questions on trade and OFDI, they were very different from those used beginning in 2005. (3) Given our intention to examine changes in the effects of ACFIC membership on exports and OFDI over the time in which Chinese economic policy changed most dramatically especially between 2007 and 2010, our attention is confined to the four aforementioned surveys and primarily to those of 2005 and 2011.

For each of the four waves of the CPFS surveys used in this paper, the data collection team managed to include several thousand private firms in the sample. The size of the sample ranges from 3598 firms in 2005 to 4098 firms in 2007, 4614 firms in 2009 and 5073 firms in 2011. Descriptive statistics based on both the pooled data from all four surveys and then from the 2005 wave of the survey alone are presented in Table 1. Because different firms were sampled across different years, one concern for data analysis based on CPFS surveys is that results could be driven by the different sample compositions across years.

However, for each of the following reasons we believe this may not be a huge concern in our case. First, from Table 1, the main variables used in our study seem quite stable across years (i.e., membership of ACFIC, PC/PPCC and CCP). Hence, it is unlikely that the results are driven by an over- or under-sample of, for instance, ACFIC member-firms in a given year. Second, in most of our regressions, we control for year fixed effects, which may capture some (if any) variations in unobserved firm and region characteristics across years. Third, the data collection has been performed by the same team by using the same method across years. To make sure that the sample was representative of the population of private firms in China for a given year, the CPFS data collection team sampled firms from each of the 31 provinces in Mainland China (but excluding Hong Kong, Macao, and Taiwan where the influence of China's economic policies would have been very different). The number of firms surveyed in a given province in each year reflects the share of total number of private firms registered in this province in the whole country.⁴ Hence, more weight in the sample is given to provinces which, in that year at least, had more private firms. After deciding the number of firms to be surveyed in each province, the CPFS data collection team randomly sampled firms from that province with consideration to both its urban and rural components and the representation of each industry.⁵

Moreover, following Li et al (2006 and 2008), we also use the province-level marketization indexes compiled by Fan et al (2010) to further test if market institutions affect the effectiveness

⁴ In columns (1) and (2) of Table A1, we show the number of private firms in China by province followed by the that province's share of all private firms in China in 2005 (on which this paper is focused). These are followed in columns (3) and (4) with the corresponding numbers of firms and shares of firms by province based on the CPFS sample for 2005. By comparing the entries in column (2) with those in column (4), one can see that the proportions of firms sampled in each province in 2005 are quite similar to actual proportions of all private firms in that province, especially in provinces, such as Beijing, Shanghai, Zhejiang and Guangdong, which have more private firms. Although in the interest of space, the corresponding data for each of the other waves of CPFS data is not shown, they do exhibit similar patterns to those shown in Table A1, thereby demonstrating that the sampled firms in CPFS data are indeed quite representative of all private firms in China.

⁵ For example, in 2005 the CPFS data collection team in each province first randomly picked a prefecture with a high level of economic development (usually the capital city of the province) and a prefecture with a low economic development level. For each province the sampled firms come from these two prefectures of different levels of development. In each of these two prefectures, the firms selected for the sample were based on the proportion of firms in each industry. The sample selection procedures for other survey years were the same as those for 2005.

and usefulness of various memberships discussed in this paper. This source provides province-specific scores for each of the following seven different institutional indexes: (1) the proportion of economic resources allocated through the market, (2) the extent of the government's excessive administrative intervention in enterprises, (3) the extent of enterprises' nontax burden, (4) the degree of development of the non-state sector, (5) the degree of development of product markets, (6) the degree of development of factor markets, and (7) the development of market intermediaries and the legal environment.

2. Baseline Identification Strategy

To estimate the effect of the ACFIC on its members' exports and OFDI, our first approach is to estimate the following model:

$$Y_{ijk} = \beta_0 + \beta_1 ACFIC_{ijk} + \mathbf{X}_{ijk}\gamma + \pi_j + \theta_k + \varepsilon_{ijk} \quad (1)$$

where Y_{ijk} is the dependent variable, a measure of either exports or OFDI of a given firm i located in province j and operating in industry k . On the right-hand side, our major explanatory variable is $ACFIC_{ijk}$, which is a dummy variable indicating whether or not the owner of firm i is a member of the ACFIC. Hence, our main concern is with the coefficient β_1 . We also include a vector of firm-specific control variables \mathbf{X}_i , including firm characteristics and firm owner characteristics. To control for the influence of province- and industry-specific influence, we also include province fixed effects π_j (or the aforementioned institutional indexes of the province in which firm i is located) and industry fixed effects θ_k . Because in our baseline regressions, we use only the 2005 data, we do not control for year fixed effects; however, when we use data from all four years, we add year fixed effects to control for year-specific shocks. Finally, β_0 is the constant term and ε_{ijk} is the stochastic error term.

As shown in equation (1), our analysis is mainly driven by cross-sectional variation among firms. More specifically, we compare firms that are ACFIC members with non-ACFIC members from the same province, industry, and year. There are two reasons why we have not introduced firm fixed effects. First, and most obviously, this is because the CPFS are not panel data, making it impossible to control for firm fixed effects. Second, and probably more importantly, we find that there would be very little within-firm variation in ACFIC membership across years. Presumably, once a firm becomes an ACFIC member, it remains a member which is by no means unexpected given our short time window between 2005 and 2011. By matching the detailed firm information for 2007 and 2009, we were able to match 300 firms in the 2007 and 2009 CPFS. Yet, for none of these 300 firms was there a change in in ACFIC membership between these two years. This lack of within-group variation, which is the key to fixed effect models, would make it inappropriate for us to add firm fixed effects to our analysis.

An important challenge to our empirical analysis of the ACFIC and its effects on member firm exports and OFDI is selection bias in membership. As will be demonstrated below, in this paper we make use of several different methods for dealing with this potential source of bias. In this section, we limit our attention in this respect to concerns about other kinds of memberships (i.e., PC, PPCC and CCP), firm location (as reflected in the quality of market-related institutions where the firm is located), and finally, firm and firm owner characteristics, which would affect the interest of firm i to become a member of ACFIC.

First, drawing on the literature on politically connected firms in China, we include dummy variables for two other memberships, CCP if the firm owner is a CCP member, and PC/PPCC if the firm owner is a member of the PC or PPCC. Chen (2015) suggested that, since the PPCC is considered to be a platform to “unite” the social forces outside of the CCP, one might expect CCP members to be less likely to be members of the PPCC and the ACFIC.

Second, since firm owners are more likely to be politically connected if the province in which the firm is located does not provide a good institutional environment for the firm to thrive (Li et al 2006), we include the aforementioned institutional indexes and/or province fixed effects. For example, if the local government does not provide needed institutional infrastructure to protect the private firms, such firms may feel the need to join one or another of these different political networks including of course the ACFIC. Such networks may be able to provide services that may substitute for those provided by the state, for instance, credit from the state-owned commercial bank, property rights protection, cooperation on research and development, and others (Nee and Oppen 2012). Li et al (2006), for instance, have found that firm owners are more likely to join in the PC or PPCC if the firm is in a province where the market institutions are less well developed.

Finally, Chen (2015) and Truex (2014) have observed that political organizations prioritize firms of particular types, especially those deemed to be most influential by inducing such firms to become members. Similarly, Wang (2016) indicates that “older, bigger and state-owned firms are likely to have stronger connections.” Together, these papers have pointed out that the more influential the firm, the more likely its owner will be co-opted by the state. In this paper’s setting, such firm owners will be more likely to be invited to join the ACFIC and other political organizations. To control for these known sources of selection bias, we include memberships in other political organizations (i.e., CCP, PC and PPCC), and firm size among the vector of control variables X_i and province as well as industry fixed effects in our basic regression model (1).

Before turning to the results of the baseline regression based on equation (1), we first test whether these aforementioned factors grounded in the literature survey are indeed affecting firms’ willingness and chances of joining ACFIC. In Table 2, we report the cross-sectional regression results for each year. Not surprisingly, firms which are larger and older are significantly more likely to become ACFIC members in each of the survey years from 2005 to 2011. While neither CCP membership nor province-specific institutional indexes have consistently significant influences on ACFIC membership across the survey years, firms whose owners are PC/PPCC delegates are more likely to be ACFIC members. This could be because as Ma et al (2016) had concluded from their results that the ACFIC serves as a platform for firm owners to enter local congresses. In any case, this suggests that it is appropriate to control for the influence of congress membership when analyzing ACFIC membership’s influence on exports and OFDI.

IV. ACFIC’s Effect on Exports and Outward Foreign Investment as of 2005 (i.e., before the 2008 Financial Crisis)

In this section we present our results for both exports and OFDI of firm i from equation (1) only for 2005 since only up to 2006 is it clear that OFDI private firms in China were not affected by the financial crisis of 2007-2010. Another reason for focusing exclusively on the 2005 data is that the 2005 wave of the CPFS has the questions most similar to those asked in the 2011 CPFS survey, i.e., after the policy changes induced by the global financial crisis of 2007-10.

1. Baseline Regressions for the Effects of ACFIC Membership on Exports and OFDI

We report the baseline results of our regression analysis in Table 3. The first five columns relate to exports and the last one to OFDI. The dependent variable in the first five columns for exports is the log of export values measured in U.S. Dollars.⁶ The specification in column (1) includes only the dummy variable for ACFIC membership which serves to capture the differential effect of ACFIC membership on firm exports. Yet, as indicated above, since ACFIC membership is voluntary, the measure of its positive effect reported in column (1) could well be subject to both endogeneity and omitted variable biases. To mitigate these biases, in column (2) we add various control variables, including firm owner characteristics (e.g., male, age, college degree, previous experience working in the government, and previous experience working in state-owned enterprises), firm characteristics (e.g., firm age, having previously been a state-owned enterprise, firm size, the original funding source of the firm, firm types and research spending). Then, in column (3) we further add province and industry fixed effects. While most of these controls should be useful in limiting omitted variable bias, firm size (measured by the number of employees in the firm in 2005 (in logs)), could be very useful in mitigating endogeneity bias. This is because, as shown in Table 2, the ACFIC leadership (and lying behind that local and national governments) might be especially interested in attracting large private firms because they could be more influential and could have more effect on the realization of the country's economic objectives.⁷ In column (4) we replace province fixed effects by province institutional indexes so as to specifically control for the influence of market institutional environment.

After adding those control variables, we see from columns (2) to (4) that the coefficient of the ACFIC membership, even though much smaller than that in column (1), is still positive and significant at the conventional level. The coefficients of the various control variables in this column all have the expected signs, positive for having a college degree (College) (since better educated firm owners may be better at dealing with foreign buyers and sellers), and positive for both firm age and firm size (serving as measures of the firm's strength and experience). Somewhat more surprising may be the negative coefficient for Previous SOE.⁸

Also included in columns (2) to (4) are dummy variables of the two other powerful political connections, (a) membership in either the People's Congress (PC) or People's Political

⁶ To avoid the problem that firms with either no exports or no OFDI are dropped from the sample after converting these levels to logs, we add 1.0 to their original values. That is, essentially, our dependent variables are $\log(\text{Exports} + 1)$ and $\log(\text{OFDI} + 1)$.

⁷ Noticing the potential problem of the so-called "post-treatment bias" or "bad control variables" (see Angrist and Pischke 2009, chapter 3 for a review), we pick control variables that are either time-invariant (e.g., gender, previous experience in government, firm location, etc.) or are unaffected by the treatment regime (e.g., owner's age, firm age, etc.), that is the ACFIC membership in our case.

⁸ While there could be several alternative explanations for this, we believe it could be because SOEs may be less reform-oriented and prefer domestic markets because of the long-standing preferential benefits they receive from government in domestic markets relative to private firms. See also Chen, Tian and Yu (2016).

Consultative Conferences (PPCC) and (b) membership in Chinese Communist Party (CCP). As mentioned earlier, PC and PPCC are China's two chambers of congress that exist in every level of government. Such memberships are good proxies for the firm's political connections and political capital. Since Ma et al (2015) argued that the ACFIC members are often also PC/PPCC members, we want to exclude the possibility that the positive influence of the ACFIC on the firm's exports is driven by the membership of either PC/PPCC or CCP. Note that, after controlling for the membership of both PC/PPCC and CCP, the coefficient of ACFIC is still positive and significant, whereas the coefficients of PC/PPCC and CCP are not statistically significant at conventional levels.⁹ This shows that the positive effect of ACFIC on export can hardly be attributed to the political connections rendered through these other memberships.

Since not all private firms may be able to export their products, such as in the case of firms producing only non-tradables or firms located in some interior provinces because of high transportation costs to the ports, a more appropriate test for the effect of ACFIC membership on exports may be to limit the sample to firms that produce tradable products or services and are located in places where exporting to a foreign country or investing in foreign countries would seem feasible. To accomplish this we take advantage of a question in the survey asking the firm owner if the firm has either done, or intended to do, the following international activities: cooperate with foreign companies on joint ventures, invest in foreign countries, export products made by the firm, entrust foreign companies to sell its products, bid for business from foreign firms, buy use rights over certain brand names from a foreign company, import technology or patents, and other international business. Assuming that only a firm which had ever undertaken or at least considered at least one of the aforementioned international activities would have the potential to export or invest in foreign countries, we code only such firms as "potential firms". In this way, only about 44.5% of the firms in the full sample for 2005 are coded as firms with export/OFDI potential, or "potential firms". We then rerun the regression with the specification of column (3) for this smaller sample, the results of which are reported in column (5). We see from column (5) that, while the coefficients of most variables are similar to those in column (3), the coefficient of ACFIC is still positive and significant but is now more than twice as large as in the preceding columns, suggesting that the estimates provided in the preceding columns may have been underestimates.

In column (6) of Table 3, we provide results for the determinants of OFDI, using the same specification as in column (3) for exports. As can easily be seen, fewer of the firm and firm owner characteristics on OFDI are as statistically significant as in the case of Exports but that of ACFIC membership itself remains positive and highly significant, though considerably smaller in magnitude. Therefore, it would seem quite clear, from these baseline OLS results at least, that those firms which are members of the ACFIC were in 2005 more likely to both export and engage in OFDI, and to do so in larger amounts, than non-members. Moreover, this finding is robust to adding various control variables, especially political connections measured by PC/PPCC and CCP memberships, and to the use of the possibly more appropriate sample.

Moreover, since the results in the preceding columns could be driven by outliers in the value of exports and OFDI, to avoid this problem in Table A2 of Appendix we report the results for the full sample when the dependent variable is the Any Exports or Any OFDI, a dummy variable

⁹ When PC/PPCC and CCP are entered into the regression separately, the results are similar. The insignificance of PC/PPCC and CCP are not caused by their potential correlation or multi-collinearity.

indicating if the firm had any export or OFDI at all in 2005. Once again, the results show the coefficient for ACFIC membership to be positive and statistically significant at the one percent level in both cases. According to Angrist and Pischke (2009), the results for OLS regressions like we have used should be similar to logit or probit regressions usually used when the dependent variable is a dummy variable.¹⁰ Although not reported here (but available on request) the logit estimates for column (6) are in fact very similar to those presented in Table 3.

However, before concluding this section, we should repeat the qualification that these OLS regressions may produce biased estimates of the treatment effect of ACFIC on exports and OFDI even after we introduce controls aimed at limiting several sources of selection bias. In particular, it is possible that there are unknown selection sources which would imply that any such selection bias could not be controlled for in the OLS regression results presented above. To allay the concern of the unknown or unobserved selection bias, we will later use an instrumental variable suggested by Ma et al (2015) as a further test. However, here we follow Altonji, Elder and Taber (2005) and more recently Oster (2017) to test the stability of the coefficient of ACFIC membership. The results are reported at the bottom of Table 3 and show that the influence of unobservables is not great enough to invalidate our findings. The basic intuition behind this is that, by observing the movement of R^2 after the inclusion of control variables, one can compare the influence of unobservables relative to those of the included control variables. In this method, δ is a measure of the unobservables' influence on coefficient stability compared with included control variables. Intuitively, this δ measures how large the influence of unobservables must be to nullify the identified treatment effect of ACFIC in Table 3. The standard criterion is that δ must be larger than one; that is, the influence of unobservables must be as large as that of the included control variables to nullify the identified treatment effect. We show at the bottom of Table 3 that all our specifications yield values of δ larger than one, showing that the influence of unobservables may not invalidate our findings for either exports or OFDI.

2. Mechanisms: Finance and Policy Knowledge

Next, we seek to identify the micro mechanisms lying behind the ACFIC's positive influence on private firms' exports and OFDI before the 2008 financial crisis. In this part, we examine two possible mechanisms: (1) the ACFIC's help to firm owners in knowing about government policies (Policy Knowledge) and (2) the ACFIC's help to private firms in getting finance from state-controlled commercial banks (Loan Size). The descriptive statistics for these two variables are shown in the bottom rows of Table 1.

Policy knowledge here is measured by a dummy variable reflecting the firm owner's knowledge of the "36-points non-state economy policy" passed by the central government in 2005 (as indicated by a "yes" or "no" answer to that policy as a whole). That policy included 36 specific policy items intended to help private firms get finance and open new businesses. Although not specifically reflecting knowledge about exports (as would have been more desirable), the index

¹⁰ We follow the suggestions given by Angrist and Pischke (2009). Since we care only about the measure of treatment effect, the advantage of using probit or logit regression is not relevant in this case. In fact, when using OLS regression to measure the average treatment effect of the treated, the only assumption we make is the conditional independence assumption (Angrist and Pischke 2009, chapter 3) which is still satisfied when the dependent variable is dichotomous. For a more detailed discussion, see Chapter 3.4.2 "Limited Dependent Variables and Marginal Effects" in Angrist and Pischke (2009).

does provide a comprehensive measure of each firm's knowledge about government policy relevant to the private economy in general.

On the other hand, Loan Size is measured by the amount of credit (in logs) the firm had received from government-controlled banks in 2005.¹¹ This includes the loans obtained from state-owned commercial banks (e.g., Bank of China), policy banks (e.g., China Development Bank), and commercial banks operated by local governments (e.g., Bank of Beijing). As mentioned above, most of these banks in China are state-controlled and favor SOEs over private firms in issuing credit, so most private firms in China are at a disadvantage in getting access to finance (Song et al, 2011). Although these private firms can always turn to informal sources of finance, including inter-firm borrowing, informal loans from underground banks, lending from friends and others, if they can be obtained, loans from state-controlled commercial banks are lower in cost and usually much larger in size than those from more informal sources. In exporting, having low-cost access to sufficient finance is very important so as to ensure that the cash flow is sufficiently stable to continue producing and distributing products. Hence, identifying the ACFIC's role (if any) in helping to get finance from state-controlled banks is another important mechanism for helping private firms in exports and OFDI.

The results for Policy Knowledge and Loan Size are given in columns (1) and (2), respectively, of Table 4. The results show that both mechanisms would seem to be relevant. Notice that to mitigate the problem of omitted variable bias, in both columns owner and firm characteristics have been included as control variables along with the province and industry fixed effects and PC/PPCC and CCP memberships. The regression results are again estimated by cross-sectional regressions with standard errors clustered at the provincial level. The results in both columns show that the ACFIC has positive and significant influences on both policy knowledge and formal finance. The results in column (1) show that ACFIC's effect on Policy Knowledge is larger than those of the PC/PPCC or CCP, whereas in the case of Loan Size in column (2), the reverse is true. In the remaining columns of the table we examine the other part of these linkage mechanisms to see whether these mediators are significantly related to Exports and OFDI.

The results in column (3) show that, indeed, both Policy Knowledge and Loan Size have positive and significant effects on Export size. In the case of OFDI size, however, in column (4) the results show that only Loan Size exerts a positive and significant effect on OFDI size. In all these cases, the estimated effects are those obtained after controlling for owner and firm characteristics, province and industry fixed effects and the memberships in PC/PPCC as well as CCP. While the results in Table 4 should not be interpreted as causal, they are at least highly suggestive that the ACFIC is providing business-related services to firms in the forms of knowledge about government policies and help in obtaining finance from government-controlled banks. Yet, as will be suggested by the results on its coordination function in Section V below, these may, by no means, be the *only* mechanisms through which the ACFIC can serve its private firm members. For instance, as we will discuss in later sections, the ACFIC may coordinate private firms to exploit the business opportunities in national public policies. Evidence on this coordination effect, however, cannot be obtained from the 2005 survey data used in this section due to the lack of the relevant survey questions in the 2005 data.

¹¹ To avoid the missing data problem, we add one to credit amount before taking the log form. That is, we use $\log(\text{credit} + 1)$ as the dependent variable.

V. The ACFIC's Effect on Exports Before and After the 2008 Financial Crisis

1. The Changing Government Priority after the 2008 Financial Crisis

We next turn to the dynamics of the ACFIC's effect on exports and OFDI. In particular, we wish to determine whether or not the ACFIC's role in promoting private firms' exports and OFDI changed after the 2008 financial crisis. During the 2008 crisis, Chinese exporting was subject to a huge shock. From Figure 2 we saw that the net export size had fallen between 2008 and 2011. More concretely, the contribution of net exports to the annual GDP growth rate in China dropped from 10.6% in 2007 to 2.6% in 2008 and to -42.6% in 2009 (data from National Bureau of statistics of China). The contribution of net exports to GDP growth has never returned to what it was before the 2008 crisis (i.e. above 10% level). Meanwhile, within a few months of the 2008 financial crisis, China mobilized a *domestic* investment effort equal to over 10 percent of GDP (Naughton 2017). During the crisis, what did the ACFIC do? Did it help exporting firms to maintain their exports? Or did it help firms transition to other sectors in the domestic market? And, if so, why?

During the 2008 financial crisis, the Chinese government is credited with making a remarkably swift response to it. In the winter of 2008, the Chinese government announced its 4 trillion RMB (or 568 billion USD) stimulus package to minimize the impact of the financial crisis on China. This enormous stimulus package was mainly focused on domestic investment.¹² The Chinese government identified ten fields as its investment priorities, including the construction of government subsidized housing, infrastructure in rural China (e.g., irrigation), transportation infrastructure (e.g., railroad and airport), and the reconstruction of earthquake-hit areas in Sichuan province.¹³

To track the policy priority of the Chinese government, we show in Table 5 the word counts of four keywords of Premier Wen Jiabao's annual report to the National People's Congress. The Chinese Premier's annual report is a formal report of his government's work in the past year and the plan of the coming year's work. The report is to be discussed and approved or denied (though the latter has never happened) by the delegates of the National People's Congress. Hence, the Premier's annual report is a serious summary of the Chinese government's policy priority in that year. As we can see, the total number of words in these ten reports (2004-2013) made by the Chinese Premier is quite stable, mostly around 20,000 words. The only two exceptions are the reports made in 2004, when Premier Wen Jiabao just assumed the office and 2013 when he was going to leave that office. Moreover, since all ten reports were prepared by the same Wen Jiabao government, they should all be comparable to one another. We see from Table 5 that, as a measure of Chinese government's attitudes towards exports and OFDI, the "promoting going-out strategy," a state-led program that facilitates Chinese firms' exports and OFDI, has only been mentioned slightly more frequently in Premier Wen's annual reports after the 2008 financial crisis. By contrast, both "infrastructure investment" and especially "promoting domestic demand" have been mentioned much more frequently after late 2008 when the central government announced the economic stimulus package focusing on the domestic market. This

¹² The official website of the Central Government of China: http://www.gov.cn/2010lh/content_1559842.htm

¹³ Xinhua News agency: http://news.xinhuanet.com/newscenter/2008-11/09/content_10331258_1.htm

shows that promoting domestic consumption and investment became the Chinese government's priority after the 2008 financial crisis.

2. ACFIC as a Coordinating Mechanism

While the evaluation of the 2008 stimulus package by the Chinese government is beyond the scope of this study, we deem it relevant to ask what role the ACFIC played in the design and implementation of the stimulus package. The ACFIC presumably represents the interest of private firm owners in China. Did it pass the message from the businessmen to the policymakers in Beijing, and, after the announcement of stimulus package in late 2008, did the ACFIC push the implementation of the policy? Note that since the ACFIC has branches in every province, prefecture and most counties in China, it should have the organizational capacity to coordinate policy implementation between the government and private firms. If this were the case, we should expect to see ACFIC members switch from exports to domestic investment since that was the focus of the 2008 stimulus package. In the remainder of this section, we test for the validity of this implication.

In Table 6, we show the ACFIC's effect on exports in each of the four survey years: 2005, 2007, 2009 and 2011. Among these four years, 2009 was a crisis year, 2011 a mostly post-crisis year but as noted earlier, 2005 was clearly a pre-crisis year. 2007, on the other hand, was a little in between since most financial institutions were still in fine shape, but exporting firms were already beginning to feel the coming crisis. While it is not clear that the effects of ACFIC and other memberships in 2007 should be similar to those in the pre-crisis year 2005, for now, we treat 2007 as before-crisis, but, as just mentioned, that assumption may not be appropriate.¹⁴

In column (1) of Table 6, we pool all four years data together and test the ACFIC's effect on export volume. In all specifications in Table 6, we again include firm and owner characteristics, province and industry fixed effects, membership of PC/PPCC as well as CCP, and year fixed effects as control variables. Notably, the results in column (1) show the coefficient of ACFIC for the full sample to be close to zero and not significant. We then investigate whether or not the ACFIC's effect on export is different before and after the 2008 financial crisis. In column (2) we include only pre-crisis years (i.e., 2005 and 2007) and in column (3) only the possibly post-crisis years (i.e., 2009 and 2011). In column (2), when we only focus on 2005 and 2007 data, the ACFIC has a positive and significant effect on export (as we have seen before for 2005 alone), while in column (3) it has a negative and significant effect on exports in 2009 and 2011. This finding provides preliminary evidence for our hypothesis that the ACFIC helped export before the financial crisis and yet helped the state to persuade firms to shift from the export sector to domestic market during and after the crisis. One should note that in columns (1) to (3), neither the PC/PPCC nor CCP membership political connection measures matters for private firms' exports. This shows that the ACFIC's business-related services and coordination among firms are the main reasons for its influences on exports, not simply political connections.

In columns (4) and (5), we extend our study of the effects of ACFIC membership on exports by examining its effects on each year separately. The only difference between columns (4) and (5) is the dependent variable. The dependent variable for column (4) (as for columns (1)- (3)) is log of

¹⁴ As a crude piece of evidence, the contribution of net export to GDP growth has dropped from 15.1% in 2006 to 10.6% in 2007, while the GDP growth rate in 2006 and 2007 were similar (11.3% and 11.4% respectively) in China.

export volume whereas in column (5) it is the Any Exports dummy. We introduce interaction terms between ACFIC membership and the year dummies but omit the year dummy for 2005 to limit collinearity. Hence, the coefficients of ACFIC in columns (4) and (5) capture the effect of ACFIC in 2005 (in each case positive and significant). The interaction terms capture the effects of ACFIC in each of the other years relative to the baseline effect of ACFIC on exports in 2005. Note that the interaction terms between ACFIC membership and these other year dummies are all negative and significant. This shows that the effect of ACFIC on exports was decreasing over these years. There may be two reasons for this change. First, it may be that the ACFIC's influence and help on exports no longer mattered much in the deleterious exporting environment just before or during the 2008 financial crisis. That is, the ACFIC was still providing services to its members, helping them know policies, get loans, and understand their foreign counterparts, but these services would no longer be effective in the much less favorable climate for world trade. Second, and quite distinct from the first, is that the ACFIC may have stopped providing services to help firms export, and at the same time started to persuade member firms to focus on domestic market as advocated by the central government. Intuitively, if the first reason dominates, we should see that, although the ACFIC's effect on exports is smaller compared to that in 2005, the ACFIC's effect on exports should remain positive or at worst nil. Yet, if the second reason is dominant, (i.e., the ACFIC coordinates and persuades member firms to focus on domestic market), we should expect the ACFIC's effect on export to be negative and significant.

We test in 2007, 2009 and 2011 which reason can better explain the decrease of the ACFIC's effect on exports. Focusing on the interaction terms between ACFIC and the year dummies in columns (4) and (5), we find that the interaction terms between ACFIC and the post-crisis year dummies (that is 2009 and 2011) are much smaller than the interaction between ACFIC and 2007. To understand the true treatment effect of ACFIC on exports in each year, we add the coefficient of ACFIC and the coefficient of corresponding interaction term between ACFIC and the year dummy, and test if this total effect of ACFIC in that year is significantly different from zero. At the bottom of Table 6, the results show that the total effect of ACFIC on exports in 2007 is positive and significant in columns (4) and (5). The magnitude of this effect, however, is smaller than that in 2005. Yet, the effects of ACFIC on exports in 2009 and 2011 are negative and, in most cases, statistically significant. Hence, the drop of the ACFIC's effect on exports in 2007 is best explained by the worsening international business environment due to the impending financial crisis. Yet, the negative coefficients of ACFIC in 2009 and 2011 suggest that in these post-crisis years, the ACFIC tried to persuade private firms to diminish their export size. These findings corroborate our earlier conjecture. Hence, it would seem that, after the announcement of economic stimulus package in late 2008, the effect of ACFIC on exports quickly changed from positive to negative in 2009 and 2011. Before the announcement of the economic stimulus package, the ACFIC had a consistently positive (although weaker in 2007) effect on exports. While we believe these findings provide preliminary support to our hypothesis, we further test whether the ACFIC coordinated private firms to switch from export to domestic market in a later subsection.

Before that, however, we deem it important to consider the problem of reverse causality. The results in previous sections, for instance Table 3, show that the ACFIC had a positive effect on exports in 2005. Yet, this effect could be incorrect if in fact (as was suggested as a possibility) the ACFIC selectively accepted only those firms with higher export volume to become ACFIC members. This reverse causality problem could threaten the robustness of our results. However,

if this reverse causal relationship were correct, then we would not see in Table 6 that the ACFIC selected firms with smaller export volumes in 2009 and 2011. Why would the ACFIC want to pick firms that were less international and, potentially, weaker in business strength as members? It would seem highly improbable that the ACFIC would have changed its basic rules for selecting members between 2007 and 2009. The ACFIC is a huge organization with branches in each province, prefecture and county. It is not easy for it to communicate and implement the changed rules in selecting members very quickly. Even if the ACFIC quickly changed its prioritization in membership selection toward firms with smaller export size (which is anyway a very unlikely scenario), the new rule should have operated for only two years at most. Hence, these new members selected after 2007 should be small in number relative to old members. Notice that old members, according to the reverse causality argument, were selected because they had larger export size. Why should we see in 2009 and 2011 that the ACFIC members, on average, had smaller exports and a lower probability of Any Exports than non-ACFIC members? Where did those old members with large Export Size go? To conclude: our analysis of the 2007, 2009 and 2011 data show that the positive effect of ACFIC on exports in 2005 were not driven by the reverse causal relationship wherein the ACFIC selected firms with larger export size as members.

Next, in Table 7 we briefly examine the dynamics of the ACFIC's effects on OFDI before and after the 2008 financial crisis. In column (1), we find that, when pooling all four years data together, the ACFIC had no significant effect on OFDI. Then, as we did in Table 6, in columns (2) and (3) we examine the effects of ACFIC on OFDI in 2005 and 2007 (pre-crisis years) and 2009 and 2011 (post-crisis years), respectively. The results confirm that the ACFIC had positive and significant influences on OFDI before the 2008 financial crisis; yet, this effect became slightly negative and not significant at the conventional level in the post-crisis years. Again for the full sample with ACFIC-year interaction terms, the results in columns (4) and (5) confirm that ACFIC membership had a positive and significant effect on OFDI (size or dummy measure) in 2005 but that in later years, i.e. 2007, 2009 and 2011, these effects were all close to zero and not significant at conventional levels. This shows that, similar to the case of exports, that OFDI was no longer a priority of the ACFIC's work during and after the 2008 financial crisis. But unlike exports, the ACFIC did not have a negative effect on OFDI. It seems that the ACFIC did not try to persuade private firms to withdraw their investment abroad and focus on domestic investment. From Figure 1, we see that the Chinese OFDI was quite stable during and after the 2008 financial crisis. It is possible that firms making OFDI did not encounter huge difficulties during the financial crisis, so the ACFIC did not need to persuade them to focus on the domestic market. We will test these explanations further in Table 9 below.

3. Robustness Check: Instrumental Variables

As mentioned earlier, our analysis of ACFIC's effects on exports and OFDI is susceptible to various selection biases. After controlling for observable sources of selection, we are still concerned with any possible unobservable or uncontrolled selection biases that could invalidate our results in Tables 6 and 7. In this subsection, we employ an instrumental variable suggested by Ma et al (2015), which we modified a bit for the purpose of our study, to further test ACFIC's effects before and after the 2008 financial crisis. Our intention is to utilize the technique in the most recent economic analysis of ACFIC (i.e., Ma et al 2015) and show that our results are still robust. To show more clearly the changing effects of ACFIC on exports and OFDI before and

after the 2008 financial crisis, we focus on the year safely before the crisis (i.e., 2005) and the year surely after the implementation of state-led stimulus package of domestic consumption and investment (i.e., 2011). In Appendix Table A4, we replicate the results for two years before 2008 (i.e., 2005 and 2007) and after 2008 (i.e., 2009 and 2011) and get very similar findings.

The instrumental variable used here is the city or prefecture level ACFIC intensity. More precisely, this measure represents the share of firms in the city in which a given firm i is located that are ACFIC members excluding firm i itself. Our use of this instrument follows the lead of Dal Bo et al (2009) for the US and Ma et al (2015) for the study of ACFIC. An important difference in our use of this measure from that of Ma et al (2015) (but not Dal Bo et al (2009)) is that we exclude the firm i itself in calculating the instrumental variable, thereby reducing this possible source of endogeneity or self-selection. In addition, as we will show later, we add province and industry fixed effects as control variables since one might well suspect that such city or prefecture level ACFIC intensity may be correlated with the province- or industry-specific factors which may be correlated with our dependent variables, exports and OFDI. This instrumental variable should capture the city-level variations of ACFIC organizational capacity that will affect the chance of becoming ACFIC in a prefecture. This variation at the prefecture level should not directly affect firm-level exports and OFDI, after controlling for firm and owner characteristics and province and industry fixed effects.

The second instrumental variable is a dummy variable indicating whether or not the firm prefers the ACFIC to serve as advisor to the CCP branch of its company. The company-level CCP branch usually manages the party memberships of the firm's employees and organizes their non-work activities so as to unite the employees. As shown in Table A3, however, the company-level CCP branch plays essentially no role at all in the decision-making of the private firm to which it is attached. Instead its owner, stockholders, board of directors, or executive officers play the primary roles in firm management issues. Hence, while the firm may want the CCP branch at its company to help unite its workers and take care of their party affiliations, any such advice should not directly affect the firm's operations, including decisions with respect to trade and/or investing abroad. It would be essentially impossible for the company's CCP branch to interfere with the firm's management over decisions such as with respect to investment and exports made by the firm's owner, board members and executives. Hence, we believe that this second instrumental variable should also satisfy the exclusion criterion of an instrumental variable.

The use of the instrumental variable allows us to use a two-stage procedure, for ACFIC membership in the first stage and Exports and OFDI in the second stage. Hence, the first stage for the ACFIC membership is estimated by the following equation:

$$ACFIC_{icjk} = \alpha_0 + \alpha_1 Intensity_c + \mathbf{X}_{icjk}\gamma + \pi_j + \theta_k + \varepsilon_{icjk} \quad (2)$$

where firm i 's possibility of joining the ACFIC is predicted by the proportion of ACFIC member firms in city c (i.e., the intensity of ACFIC membership mentioned above). Similar to baseline specification expressed in equation (1), we also control for firm-specific factors \mathbf{X}_{icjk} , province fixed effects π_j , and industry fixed effects θ_k .

The results for this 2SLS approach are reported in Table 8, the first-stage results in Panel B, and those of the second stage in Panel A. Clearly, our instrumental satisfies the first-stage requirement of an IV since the F-statistics of the first stage are also safely larger than 10. Next, if

we move to the Panel A for results in the second stage, we confirm the major findings presented in Tables 6 and 7 that ACFIC membership helped firms export and invest abroad before the 2008 financial crisis, and helped firms switch to domestic market after the crisis so that exports volume become lower for ACFIC members. This coordination function of ACFIC is more evident among member firms that exported than among member firms that invested abroad since the coefficient of ACFIC is only significant at the ten percent level in column (4). As discussed earlier, we believe this is due to fact that only exporting firms experienced substantial difficulties during the crisis that needed external help and support to live through the crisis, while firms conducting OFDI did not experience similar difficulties. This has also been reflected in Figure 2, where we can see that the upward trend in OFDI flows in China has been quite stable even during the crisis (i.e., 2008-2009).

To test the robustness of results in Table 8, we replace the dependent variables by Any Exports or Any OFDI and use the same set of instrumental variables to re-run the 2SLS regressions. We also try including both years before the crisis (i.e., 2005 and 2007) instead of 2005 alone compared with both years after the crisis (i.e., 2009 and 2011) instead of 2011 alone. These two sets of robustness checks are included in Appendix Tables A3 and A4, where we obtain very similar results as shown in Table 8 here.

Meanwhile, in Appendix Table A5, we present the propensity score matching results of ACFIC's effect on exports and OFDI. We show these matching results for two reasons. First, the matching results should be similar to the results of the regressions in Tables 6 and 8 and hence serve as a robustness check. Second, the matching estimator for the ACFIC's effect on exports and OFDI should be less dependent on the functional form of the second stage regression, which should further alleviate the concern that the identification under OLS relies heavily on functional form restrictions for OFDI (Ho et al 2007). In this propensity score matching approach we use the same set of control variables used in the above regressions for the first-stage logit regression. The results show, first, that the ACFIC's effects on both exports and OFDI were positive and significant before 2008 but its effect on exports turned negative in 2011 and its effect on OFDI became near zero and not significant in 2011. These results are very similar to those reported in Table 8.

4. Mechanism: Did the ACFIC Really Coordinate Between Firms and Government?

Finally, we explore whether or not the negative effect of ACFIC on exports after 2008 could be due to the ACFIC's coordination effect wherein the ACFIC persuaded private firms to switch from export to domestic market. Table 9 provides some relevant evidence based on results from the 2011 data set, which was of course well after the time the stimulus package was announced in 2008 and which would have been familiar to private entrepreneurs. We first test if the ACFIC can encourage private firms to focus on the domestic market. We use two variables to measure whether a firm focused on domestic market in 2011. The first is a dummy variable reflecting whether the firm profited from the state's investment project in 2011 (labelled "domestic investment" in Table 9). The other is a dummy variable asking the firm if it profited from a sales increase in domestic market due to the state's consumption stimulus program (labelled "domestic consumption" in Table 9). Both of these questions directly ask if the firm profited from the state's stimulus package, with "Yes" or "No" answers to them. The descriptive statistics of both variables can be found in the last two rows of Table 1. From columns (1) and (2) of Table 9, we find that ACFIC members were more likely to answer "Yes" to both questions. One could worry

that this finding could be because ACFIC members were politically connected and would answer the survey questions in favor of the government. Moreover, since the survey was conducted in collaboration with government agencies, ACFIC members may have been more motivated to answer “Yes” to both of these questions. However, we do not find evidence for this. If politically connected firms were more likely to answer in favor of the Chinese government, we should also expect to find the coefficients of PC/PPCC and CCP to be positive and significant. Indeed, because memberships in both PC/PPCC and CCP are more direct forms of political connection than that of ACFIC, we might expect their effects to be larger than that of the ACFIC. Yet, clearly the results in these columns of Table 9 show that this is not the case.

In the remainder of the table we turn our attention back to the linkage mechanisms and once again to the effects of each of the above linkages on Exports and OFDI. In columns (3) and (4) the results help us examine whether or not either Policy Knowledge or Loan Size still would positively affect ACFIC member firms’ performance after the 2008 financial crisis.¹⁵ Indeed the results show that they did so, just as they had in the results of the 2005 Survey. Then in the remaining columns of Table 9, we test for effects of domestic investment, domestic consumption, loan size and policy knowledge on firms’ exports and OFDI in 2011. First, from column (5), we find that focusing on the domestic market is negatively correlated with export size. This shows that, once the ACFIC persuaded firms to switch to domestic market, that switch has had the effect of crowding out *exports*. However, from column (6) we find no such effects on *OFDI*. We believe that this is a major reason for why the ACFIC’s effect on exports was negative after 2008 while its effect on OFDI was not. In other words, the ACFIC promoted the transition to domestic market after 2008 only for exporting firms that experienced difficulties during the crisis, and the policy change crowded out exports but not OFDI since firms which invested abroad did not encounter similar difficulties as exporting firms (again reflected in Figure 1). From columns (3), (4), (5) and (6) of Table 9, we find evidence that, even after the financial crisis, both exports and OFDI are positively correlated with Loan size and Policy knowledge. This implies that the Loan size and Policy Knowledge mechanisms identified with the 2005 data were still operative in 2011.

VI. Conclusion

This paper addresses two relatively understudied questions relevant to the literature of politically connected firms: (1) How do firms’ political connections influence their exports and foreign investment? and (2) Why does the state need to co-opt firm owners? To answer the first question, this paper uses the Chinese case to determine if and how the political connections of private firms affect their exports and foreign investment. It does so by comparing the activities of firms that are members of the ACFIC, a government-controlled association for private firms, with non-members and with firms which participate in Chinese Congresses (i.e. PC and PPCC). We have found that, most prominently in 2005, the ACFIC helped member firms export products and invest in foreign countries before the 2008 global financial crisis. Moreover, we have identified

¹⁵ The Policy Knowledge variable in 2011 data measures firm owners’ understanding of five different policies passed by the central government of China in the previous year. We assign 0 to “I do not know this policy”, 1 to “I just heard of it”, and 2 to “I know this policy very well” for owner’s self-assessment of the familiarity with each of the five policies. This makes the variable “Policy Knowledge” have the range between 0 and 10. The detailed descriptive statistics of this variable can be found in Table 1.

both the increased policy knowledge obtained by firm owners who are ACFIC members and greater access to formal loans from state-controlled commercial banks as critically important mechanisms for realizing the positive effect of ACFIC on Exports and OFDI before the 2008 global financial crisis.

The ACFIC's positive role in promoting private firms' exports and OFDI is consistent with the Chinese government's policy priority of export-oriented growth and "Chinese firms going out" strategy before the 2008 global financial crisis. As the central government changed its policy to promoting domestic investment and consumption in 2008, the ACFIC, as a government-controlled organization, also changed its role in private firms' exports and foreign investment. When focusing on the 2011 data set of private firms in China, we have found evidence that the ACFIC member firms had smaller export size compared to non-member firms but a higher chance of benefiting from the government stimulus package that had been announced in 2008. Altogether, the ACFIC's role in private firms' exports and OFDI seems to be remarkably consistent with the state's policy priorities, demonstrating that as a government-controlled association for private firms, the ACFIC has been playing a vital role in connecting firms and government. It may well be that this coordination function of the ACFIC is what explains why it has been entrusted by the state with the task of communicating the growth strategy to millions of private firms in China. To the best of our knowledge, this important coordination function of the ACFIC, as well as that of other similar business associations in other parts of the world, has been ignored in relevant literature. We believe it is deserving of further study.

Our work makes several contributions to the literature. First, this is to our knowledge the first attempt to determine whether or not political connections help Exports or OFDI in a developing or transition economy. Because in developing countries exporting is usually very important, improving understanding of whether or not and how political connections overcome such difficulties in trade for private firms is a very meaningful objective. Second, unlike previous studies focusing on whether political connections offer benefits in certain respects, this study identifies three different mechanisms for explaining why and how these political connections can be effective. These mechanisms are tested in the context of China before and after the 2008 financial crisis. We find that it is mainly the business-related services provided by the ACFIC (i.e., increased policy knowledge and access to formal loans in government-controlled banks), not the rent-seeking ability from the more common political connections, that help member firms in their exports and OFDI. Third, and perhaps most importantly, the results presented in this paper identify the coordination mechanism, a previously under-studied function of political connection, to be an especially important one in helping a country to better achieve its economic objectives. The ACFIC provides not only professional business-related services such as organizing seminars, solving economic conflicts, providing investment information and others, but also serves to promote the state growth strategy through its coordination function. As a government-controlled business association, the ACFIC has helped the Chinese state to promote its domestic investment plan after the 2008 financial crisis, at the same time that the ACFIC's influence on exports turned from positive before the crisis to negative after the crisis.

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Figures

Figure 1. Model of How China and Its Business Association ACFIC Solve the Economic Policy Coordination Problem

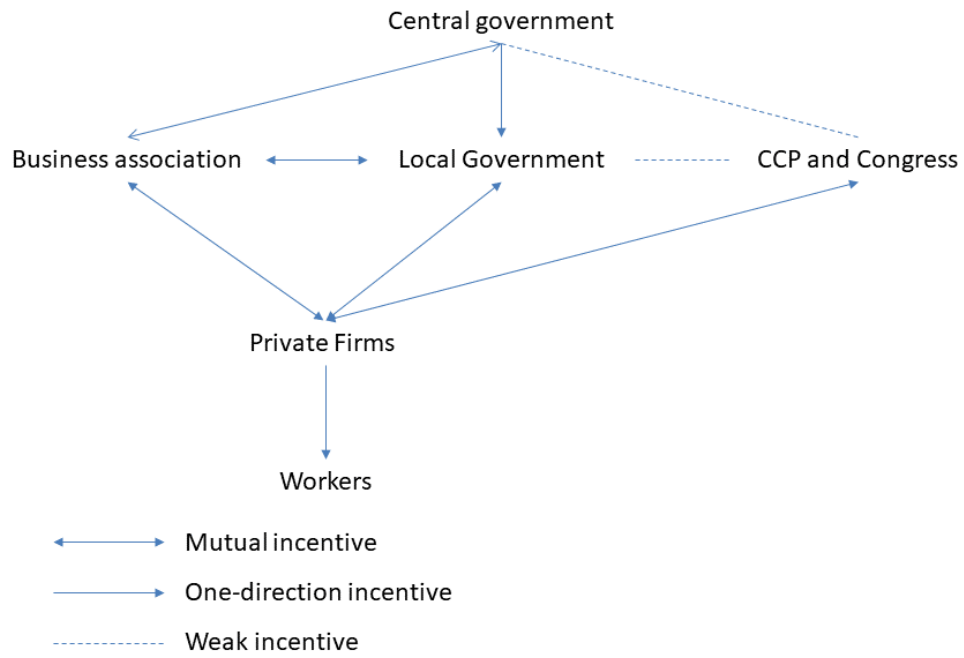
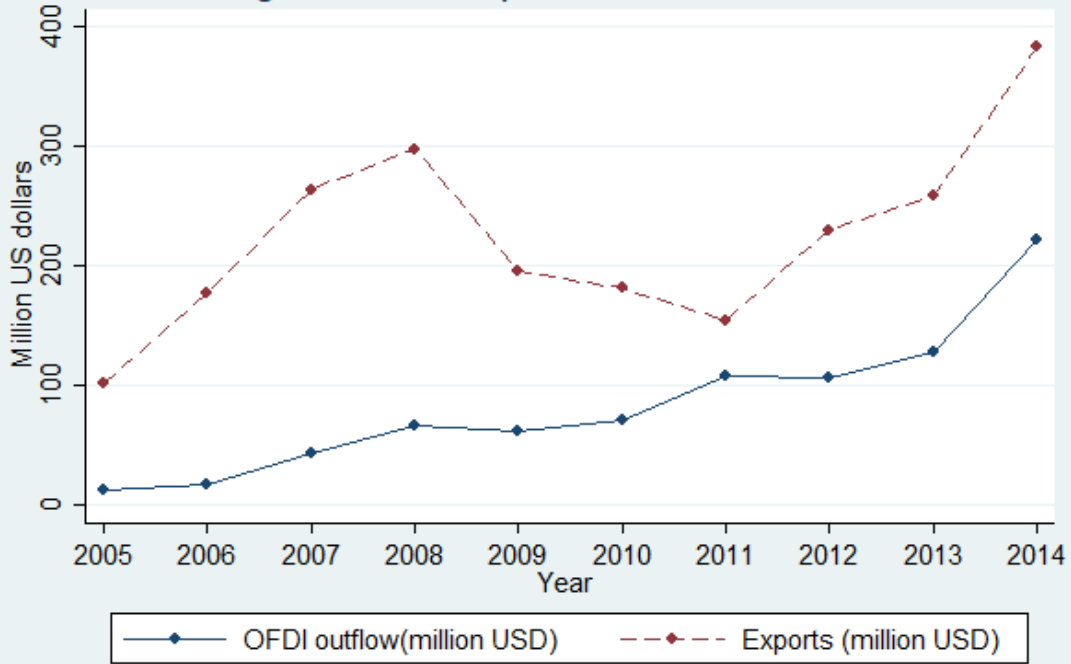


Figure 2. Net Exports and OFDI in China



Source: National Bureau of Statistics

Figure 3. Share of Exports in GDP



Source: World Development Indicators, World Bank

Tables

Table 1. Descriptive Statistics

Variable	Pooling data of 2005-2011					2005 data				
	Obs	Mean	Std. Dev.	Min	Max	Obs	Mean	Std. Dev.	Min	Max
ACFIC	16,273	0.64	0.48	0	1	3,274	0.64	0.48	0	1
PC/PPCC	16,664	0.43	0.50	0	1	3,598	0.38	0.49	0	1
CCP	17,017	0.36	0.48	0	1	3,598	0.36	0.48	0	1
Male	17,328	0.84	0.36	0	1	3,589	0.86	0.34	0	1
Age	17,210	45.28	8.75	16	93	3,570	43.40	8.34	16	79
College	17,169	0.60	0.49	0	1	3,579	0.49	0.50	0	1
Previous cadre	17,383	0.14	0.35	0	1	3,598	0.18	0.38	0	1
Previous SOE manager	17,383	0.39	0.49	0	1	3,598	0.62	0.49	0	1
Firm age	16,695	8.14	5.00	0	30	3,460	6.08	4.47	0	20
Firm types:										
Sole proprietorship	17,032	0.17	0.37	0	1	3,479	0.21	0.41	0	1
Partnership	17,032	0.06	0.23	0	1	3,479	0.07	0.26	0	1
Limited Liability Company	17,032	0.69	0.46	0	1	3,479	0.66	0.47	0	1
Stock company	17,032	0.08	0.27	0	1	3,479	0.06	0.24	0	1
Original fund:										
Personal accumulation	15,946	0.85	0.35	0	1	3,278	0.86	0.34	0	1
Informal loans	15,930	0.23	0.42	0	1	3,277	0.31	0.46	0	1
Formal loans	15,932	0.25	0.44	0	1	3,277	0.32	0.47	0	1
Previous SOEs	16,732	0.14	0.35	0	1	3,381	0.20	0.40	0	1
Firm size (# of employees)	16,684	170.11	762.62	0	53000	3,420	82.09	442.74	1	11500
Institutional indexes										
Market function	17,383	7.92	2.24	-18.32	10.4	3,598	8.30	1.90	-13.88	10.38
Government intervention	17,383	5.42	3.03	-12.95	10	3,598	7.01	2.74	-12.95	10
Nontax burden	17,383	10.39	4.13	3.52	16.03	3,598	14.76	1.08	4.77	15.95

Nonstate economy	17,383	7.39	2.97	-1.23	13.73	3,598	7.64	2.26	0.09	9.94
Product market	17,383	7.79	1.57	-0.16	10.09	3,598	8.30	1.20	1.27	10.09
Factor market	17,383	4.90	2.01	0.99	8	3,598	5.08	1.48	1.09	7.4
Legal environment	17,383	6.41	3.59	1.36	17.14	3,598	7.52	3.05	1.85	12.84
Log exports	15,094	0.65	1.83	0	11.12	3,024	0.70	1.83	0	9.21
Export dummy	15,094	0.13	0.33	0	1	3,024	0.15	0.36	0	1
Log OFDI	14,806	0.05	0.48	0	9.2	2,973	0.05	0.46	0	5.99
OFDI dummy	14,806	0.01	0.11	0	1	2,973	0.02	0.12	0	1
Capital needed for daily operation	-	-	-	-	-	3286	889.89	4734.59	0	150000
Capital needed for business expansion	-	-	-	-	-	3241	448.54	2202.57	0	50000
Policy knowledge (2005)	-	-	-	-	-	3427	0.804	0.400	0	1
Policy knowledge (2011)	-	-	-	-	-	4922	5.364	2.904	0	10
Loan size (2005)	-	-	-	-	-	2987	557.53	3601.90	.	101311
Loan size (2011)	-	-	-	-	-	4459	1778.29	15009.78	0	767345
Domestic investment (2011)	-	-	-	-	-	5073	0.135	0.342	0	1
Domestic consumption (2011)	-	-	-	-	-	5073	0.182	0.386	0	1

Notes: The unit for Capital needed for daily operation, Capital needed for business expansion, Loan size (2005) and Loan size (2011) is 10,000 CNY.

Table 2. Who Become ACFIC Members?

	ACFIC			
	(1) 2005	(2) 2007	(3) 2009	(4) 2011
PC/PPCC	0.239*** (0.027)	0.301*** (0.028)	0.269*** (0.032)	0.319*** (0.029)
CCP	-0.031 (0.020)	0.035* (0.019)	-0.016 (0.015)	0.033* (0.017)
Male	0.030 (0.026)	-0.006 (0.021)	0.052** (0.022)	0.013 (0.017)
Age	0.002** (0.001)	0.003** (0.001)	0.000 (0.001)	0.001 (0.001)
College degree	0.064*** (0.018)	0.005 (0.021)	-0.024 (0.024)	0.025 (0.015)
Previous government official	0.029 (0.026)	-0.016 (0.023)	-0.003 (0.023)	0.046* (0.023)
Previous SOE manager	0.030** (0.014)	0.029 (0.020)	0.009 (0.023)	0.028 (0.019)
Firm age	0.021*** (0.003)	0.011*** (0.002)	0.016*** (0.002)	0.012*** (0.001)
Previous SOE	-0.038* (0.022)	0.007 (0.046)	0.037* (0.019)	0.051* (0.027)
Firm size	0.040*** (0.010)	0.082*** (0.006)	0.079*** (0.007)	0.066*** (0.007)
Firm type:				
Partnership	-0.079* (0.044)	-0.049 (0.046)	-0.040 (0.037)	-0.016 (0.046)
Limited Liability Company	-0.014 (0.032)	-0.065** (0.024)	-0.098** (0.038)	-0.080** (0.035)
Stock company	0.043 (0.033)	0.020 (0.033)	-0.022 (0.036)	-0.066 (0.040)
Start-up funding sources:				
Personal accumulation	0.023 (0.022)	0.064*** (0.019)	-0.010 (0.023)	0.040* (0.021)
Informal loans	0.060*** (0.020)	0.054** (0.021)	0.007 (0.021)	0.046** (0.021)
Formal loans	0.013 (0.020)	0.047** (0.017)	0.024 (0.022)	0.047*** (0.016)
Provincial institutional indexes				
Resource allocation via market	0.027 (0.019)	-0.005 (0.008)	-0.005 (0.006)	0.003 (0.008)
Less government intervention	-0.006 (0.012)	-0.012 (0.009)	0.012 (0.008)	-0.001 (0.006)
Less nontax burden	-0.026 (0.024)	0.019 (0.033)	0.008 (0.009)	-0.003 (0.008)
Development of private economy	0.010 (0.016)	0.012 (0.008)	0.008 (0.012)	-0.005 (0.013)
Development of product market	-0.080*** (0.020)	-0.007 (0.015)	-0.015 (0.012)	-0.015 (0.009)
Development of factor market	0.047 (0.032)	-0.007 (0.014)	0.000 (0.013)	0.014 (0.013)
Legal environment	-0.011 (0.015)	0.014** (0.005)	0.016** (0.007)	0.020* (0.010)
Industry fixed effect	Yes	Yes	Yes	Yes

Constant	0.693** (0.313)	-0.315 (0.538)	0.012 (0.112)	-0.021 (0.104)
<i>N</i>	2598	2881	3022	4124
<i>R</i> ²	0.258	0.375	0.379	0.388

Notes: This table reports which factors may determine a firm's propensity and chances of joining ACFIC. Standard errors clustered at the province level are included in parentheses. Significance level: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table 3. ACFIC Membership, Firm Exports and OFDI

	Exports				OFDI	
	(1)	(2)	(3)	(4)	(5)	(6)
ACFIC	0.592*** (0.111)	0.144* (0.073)	0.278*** (0.090)	0.308*** (0.081)	0.666*** (0.166)	0.055*** (0.019)
PC/PPCC		0.074 (0.152)	0.260 (0.162)	0.234 (0.158)	0.398 (0.323)	0.066* (0.033)
CCP		0.022 (0.085)	-0.064 (0.103)	-0.093 (0.093)	-0.033 (0.261)	0.003 (0.025)
Male		0.041 (0.092)	-0.013 (0.088)	0.008 (0.097)	0.111 (0.242)	0.042*** (0.015)
Age		-0.004 (0.004)	-0.002 (0.003)	-0.004 (0.003)	-0.006 (0.007)	-0.001 (0.001)
College degree		0.083 (0.072)	0.253*** (0.065)	0.211*** (0.070)	0.273 (0.201)	0.026 (0.033)
Previous government official		-0.167 (0.105)	-0.011 (0.103)	-0.004 (0.098)	0.191 (0.225)	-0.013 (0.034)
Previous SOE manager		-0.048 (0.054)	0.044 (0.057)	0.022 (0.056)	0.093 (0.146)	-0.035 (0.024)
Firm age		0.060*** (0.012)	0.034*** (0.008)	0.039*** (0.008)	0.073*** (0.020)	-0.001 (0.003)
Firm size		0.393*** (0.072)	0.296*** (0.050)	0.286*** (0.052)	0.421*** (0.072)	0.009 (0.013)
Previous SOE		-0.197 (0.123)	-0.284*** (0.103)	-0.221** (0.102)	-0.673*** (0.196)	-0.026 (0.030)
Research spending size		-0.008 (0.005)	-0.004 (0.005)	-0.005 (0.006)	-0.114 (0.152)	-0.001 (0.002)
Firm type:						
Partnership		0.261* (0.139)	0.251 (0.157)	0.243 (0.155)	0.262 (0.383)	0.049 (0.093)
Limited Liability Company		0.226 (0.144)	0.202 (0.149)	0.201 (0.139)	0.324 (0.350)	0.009 (0.022)
Stock company		0.358 (0.272)	0.331 (0.243)	0.350 (0.242)	0.359 (0.614)	0.102 (0.064)
Start-up funding sources:						
Personal accumulation		0.119 (0.111)	0.097 (0.095)	0.114 (0.098)	0.174 (0.216)	-0.030 (0.044)
Informal loans		0.088 (0.080)	0.075 (0.072)	0.108 (0.074)	0.133 (0.147)	-0.002 (0.029)
Formal loans		0.028 (0.066)	0.127 (0.076)	0.097 (0.075)	0.103 (0.188)	-0.022 (0.033)
Industry fixed effect			Yes	Yes	Yes	Yes
Province fixed effect			Yes		Yes	Yes
Province institutional scores				Yes		
Sample: only potential firms					Yes	
Constant	0.332*** (0.103)	-1.090*** (0.236)	-1.627*** (0.375)	-3.335** (1.349)	-2.498*** (0.769)	-0.004 (0.089)
<i>N</i>	2833	1938	1938	1938	726	1910
<i>R</i> ²	0.024	0.117	0.281	0.250	0.384	0.040
Coefficient stability test:						
Lower bound of β_{ACFIC}			0.105	0.161	0.334	0.042
δ for $\beta_{ACFIC} = 0$			1.468	1.827	1.704	2.680

Notes: This table shows that ACFIC membership is associated with larger size of firm exports and outward foreign domestic investment (OFDI). The dependent variables are the size of exports (i.e., exports/revenue)

for columns (1)-(5) and the size of OFDI (i.e., OFDI / revenue) for column (6). For control variables “Firm type,” we omit the “sole proprietorship” to avoid multicollinearity. Standard errors clustered at the province level are included in parentheses. Significance level: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table 4. Mechanisms: Policy Knowledge and Access to Loans in 2005

	Policy knowledge	Loan size	Exports	OFDI
	(1)	(2)	(3)	(4)
ACFIC	0.149** (0.024)	0.334** (0.138)		
Policy knowledge			0.176** (0.076)	0.014 (0.023)
Loan size			0.160*** (0.035)	0.022*** (0.005)
PC/PPCC	0.059** (0.022)	0.470*** (0.170)		
CCP	0.001 (0.016)	0.309** (0.117)		
Firm & owner controls	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes
Province fixed effect	Yes	Yes	Yes	Yes
Constant	0.502*** (0.084)	-1.658*** (0.531)	-1.238*** (0.225)	0.085 (0.085)
<i>N</i>	2125	1855	1823	1801
<i>R</i> ²	0.138	0.443	0.295	0.043

Notes: This table shows two possible mechanisms through which ACFIC membership affects firm exports and OFDI – policy knowledge and access to loans. Standard errors clustered at the province level are included in parentheses. Significance level: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table 5. Keywords in Premier Wen Jiabao's Annual Report to National People's Congress

Year	Promoting going-out strategy	Promoting domestic demand	Infrastructure investment	Total
2004	1	3	6	16850
2005	3	1	8	18353
2006	1	1	11	20645
2007	1	1	8	20098
2008	2	1	7	24059
2009	3	11	11	19697
2010	3	8	10	20979
2011	2	6	14	19791
2012	3	5	8	18385
2013	2	5	7	15427

Note: This table shows the word counts of four keywords in Premier Wen Jiabao's annual speech at the National People's Congress.

Table 6. ACFIC membership and firm exports from 2005 to 2011

	Size of exports			Any export	
	(1) Full sample	(2) 05 & 07	(3) 09 & 11	(4) Full sample	(5) Full sample
ACFIC	0.004 (0.037)	0.201*** (0.057)	-0.143** (0.063)	0.394*** (0.087)	0.066*** (0.014)
ACFIC * 2007				-0.296*** (0.096)	-0.035** (0.015)
ACFIC * 2009				-0.549*** (0.144)	-0.073*** (0.023)
ACFIC * 2011				-0.622*** (0.142)	-0.096*** (0.022)
PC/PPCC	0.061 (0.048)	0.100 (0.085)	0.033 (0.037)	0.068 (0.048)	0.007 (0.008)
CCP	-0.007 (0.051)	0.012 (0.073)	-0.002 (0.048)	0.000 (0.050)	0.001 (0.008)
Firm & owner controls	Yes	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes	Yes
Province fixed effect	Yes	Yes	Yes	Yes	Yes
Year fixed effect	Yes	Yes	Yes	Yes	Yes
Constant	-0.882*** (0.153)	-1.155*** (0.222)	-1.040*** (0.233)	-1.144*** (0.180)	-0.161*** (0.024)
<i>N</i>	11451	4873	6578	11451	11451
<i>R</i> ²	0.223	0.248	0.219	0.227	0.213
F-test [p-value in brackets]					
ACFIC + ACFIC * 2007				0.098* [0.084]	0.031*** [0.007]
ACFIC + ACFIC * 2009				-0.155* [0.087]	-0.007 [0.641]
ACFIC + ACFIC * 2011				-0.228*** [0.004]	-0.030** [0.012]

Note: This table shows that ACFIC membership promoted exports in 2005 and 2007, while it reduced the firm exports in 2009 and 2011, namely after the 2008 financial crisis and the announcement of stimulus package by the Chinese government. These results lend credit to our argument that ACFIC helped the Chinese government coordinate firms from the shrinking foreign market and exports to domestic investment and market. Standard errors clustered at the province level are included in parentheses. Significance level: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table 7. ACFIC membership and firm OFDI from 2005 to 2011

	Size of OFDI				Any OFDI
	(1) Full sample	(2) 05 & 07	(3) 09 & 11	(4) Full sample	(5) Full sample
ACFIC	0.009 (0.011)	0.047*** (0.015)	-0.020 (0.012)	0.059*** (0.019)	0.017*** (0.006)
ACFIC * 2007				-0.053* (0.030)	-0.015* (0.008)
ACFIC * 2009				-0.066** (0.026)	-0.015** (0.007)
ACFIC * 2011				-0.072*** (0.019)	-0.017*** (0.006)
PC/PPCC	-0.003 (0.013)	-0.006 (0.019)	0.002 (0.017)	-0.003 (0.013)	-0.000 (0.003)
CCP	0.003 (0.010)	-0.007 (0.016)	0.010 (0.014)	0.004 (0.010)	-0.001 (0.002)
Firm & owner controls	Yes	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes	Yes
Province fixed effect	Yes	Yes	Yes	Yes	Yes
Constant	-0.081*** (0.029)	-0.058 (0.062)	-0.141*** (0.049)	-0.114*** (0.032)	-0.017** (0.007)
<i>N</i>	11243	4826	6417	11243	11243
<i>R</i> ²	0.023	0.021	0.034	0.023	0.022
F-test [p-value in brackets]					
ACFIC + ACFIC * 2007				0.006 [0.773]	0.002 [0.683]
ACFIC + ACFIC * 2009				-0.007 [0.755]	0.002 [0.642]
ACFIC + ACFIC * 2011				-0.013 [0.366]	0.000 [0.937]

Note: This table shows that ACFIC only promoted firm OFDI in 2005. After 2005, the ACFIC's effect on OFDI became to nearly zero. Standard errors clustered at the province level are included in parentheses. Significance level: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table 8. 2SLS Results for ACFIC Membership's Effects on Exports and OFDI

<i>Panel A: Second stage</i>	2005		2011	
	(1) Exports	(2) OFDI	(3) Exports	(4) OFDI
ACFIC	0.578** (0.263)	0.168*** (0.051)	-0.593** (0.235)	-0.087* (0.049)
PC/PPCC	0.213* (0.127)	0.026 (0.039)	0.160** (0.072)	0.042 (0.026)
CCP	-0.040 (0.091)	0.016 (0.025)	0.061 (0.053)	0.010 (0.020)
Firm and owner controls	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes
Province fixed effect	Yes	Yes	Yes	Yes
<i>Panel B: First stage</i>	(5) ACFIC	(6) ACFIC	(7) ACFIC	(8) ACFIC
Prefecture ACFIC intensity	0.658*** (0.040)	0.662*** (0.040)	0.573*** (0.033)	0.577*** (0.035)
Firm and owner controls	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes
Province fixed effect	Yes	Yes	Yes	Yes
<i>N</i>	2243	2208	3794	3701
IV tests:				
First-stage F-Statistic	264.161	270.078	293.892	278.666
[p-value]	[0.000]	[0.000]	[0.000]	[0.000]

Note: This table reports the 2SLS results for ACFIC membership's effects on exports and OFDI and confirms that ACFIC membership has a positive influence on firms' exports and OFDI. Standard errors clustered at the province level are included in parentheses. Significance level: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table 9. Mechanisms: Responsiveness to Government Stimulus Program in 2011

	Domestic inv. (1)	Domestic cons. (2)	Loan size (3)	Policy know. (4)	Exports (5)	OFDI (6)
ACFIC	0.056*** (0.015)	0.055*** (0.019)	0.407*** (0.135)	0.549*** (0.095)		
PC/PPCC	-0.009 (0.015)	-0.001 (0.017)	0.563*** (0.149)	0.617*** (0.069)		
CCP	0.005 (0.012)	-0.004 (0.013)	-0.105 (0.129)	0.211** (0.077)		
Domestic investment					-0.204** (0.089)	-0.005 (0.017)
Domestic consumption					-0.265*** (0.076)	-0.000 (0.020)
Loan size					0.067*** (0.010)	0.008** (0.004)
Policy knowledge					0.010 (0.013)	0.005* (0.003)
Firm & owner controls	Yes	Yes	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Province fixed effect	Yes	Yes	Yes	Yes	Yes	Yes
Constant	0.013 (0.036)	0.068 (0.041)	-2.764*** (0.396)	2.500*** (0.437)	-1.027*** (0.316)	-0.131*** (0.047)
<i>N</i>	4124	4124	3709	4050	3717	3629
<i>R</i> ²	0.042	0.061	0.374	0.186	0.258	0.055

Notes: This table shows that ACFIC membership is associated with higher chances of profiting from domestic investment and consumption stimulus policies, a larger loan size and better understanding of government policies. Standard errors clustered at the province level are included in parentheses. Significance level: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Online Appendix Tables
(Not for Publication)

Table A1. Private Firms and Sampled Private Firms in China in 2005

Province	All firms in each province		Sampled firms	
	(1) # of Firms	(2) Percent	(3) # of Firms	(4) Percent
Beijing	260371	6.0	213	5.9
Tianjin	77320	1.8	34	0.9
Hebei	126801	2.9	152	4.2
Shanxi	71296	1.7	35	1.0
Inner Mongolia	48317	1.1	29	0.8
Liaoning	165217	3.8	177	4.9
Jilin	60007	1.4	28	0.8
Heilongjiang	68200	1.6	131	3.6
Shanghai	473949	11.0	402	11.2
Jiangsu	507378	11.8	413	11.5
Zhejiang	359039	8.3	354	9.8
Anhui	105998	2.5	48	1.3
Fujian	127421	3.0	61	1.7
Jiangxi	71129	1.7	147	4.1
Shandong	315410	7.3	184	5.1
Henan	133535	3.1	66	1.8
Hubei	129029	3.0	178	5.0
Hunan	84553	2.0	116	3.2
Guangdong	449194	10.4	364	10.1
Guangxi	51925	1.2	24	0.7
Hainan	32275	0.8	16	0.4
Chongqing	75684	1.8	38	1.1
Sichuan	178705	4.1	108	3.0
Guizhou	41484	1.0	21	0.6
Yunnan	66008	1.5	33	0.9
Tibet	2631	0.1	11	0.3
Shannxi	98444	2.3	46	1.3
Gansu	38169	0.9	102	2.8
Qinghai	10947	0.3	9	0.3
Ningxia	18778	0.4	13	0.4
Xinjiang	51702	1.2	45	1.3
Total	4300916	100	3598	100

Note: This table shows that the sampled firms in 2005 mimic the distribution of firms across provinces in China.

Table A2. Robustness checks to Table 3

	(1)	(2)	(3)	(4)	(5)
	OFDI size	Exports size	OFDI size	Exports dummy	OFDI dummy
ACFIC	0.161*** (0.053)	0.271** (0.115)	0.059*** (0.021)	0.042** (0.019)	0.015*** (0.005)
Firm & owner controls	Yes	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes	Yes
Province fixed effect	Yes	Yes	Yes	Yes	Yes
Potential firms	Yes				
Constant	0.223 (0.194)	-1.678*** (0.459)	-0.011 (0.094)	-0.264*** (0.067)	-0.002 (0.021)
<i>N</i>	704	1803	1777	1938	1910
<i>R</i> ²	0.083	0.288	0.042	0.265	0.040

Note: This table reports further tests based on the 2005 data. In column (1), we limit the sample only to firms have the potential to engage in exports and OFDI. In columns (2) and (3), we report the results with clustered standard errors at both province and industry levels. In columns (4) and (5), we replace the dependent variable by dichotomous measures of exports and OFDI, i.e., exports dummy and OFDI dummy, indicating whether the firm engaged in exports or OFDI in 2005. Significance level: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A3. 2SLS Results for ACFIC Membership's Effects on Exports and OFDI
(Any Exports and Any OFDI as Dependent Variables)

	2005		2011	
	(1) Exports	(2) OFDI	(3) Exports	(4) OFDI
ACFIC	0.123** (0.052)	0.030** (0.013)	-0.077** (0.037)	-0.011 (0.012)
PC/PPCC	0.014 (0.018)	0.009 (0.011)	0.021* (0.012)	0.005 (0.007)
CCP	0.003 (0.018)	0.001 (0.007)	0.010 (0.008)	0.003 (0.004)
Firm and owner controls	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes
Province fixed effect	Yes	Yes	Yes	Yes
<i>N</i>	2243	2208	3794	3701

Notes: This table reports the 2SLS results for ACFIC membership's effects on exports and OFDI using Any Exports and Any OFDI as dependent variables. We show that ACFIC membership exhibited a strong positive influence on firms' propensity of conducting exports and OFDI in 2005, but a negative impact on firms' exports in 2011. Again, we did not find any evidence for ACFIC lowering firms' OFDI in 2011 as in Table 8. This table confirms that our results established in Table 8 are not driven by outliers or by measurement form of dependent variables. We do not show the first-stage results or any test associated with it, because changing the dependent variable only affects the second-stage results and the first-stage regressions are the same as reported in Table 8. Standard errors clustered at the province level are included in parentheses. Significance level: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A4. 2SLS Results for ACFIC Membership's Effects on Exports and OFDI
(Using All Four Years of Data)

<i>Panel A: Second stage</i>	2005		2011	
	(1) Exports	(2) OFDI	(3) Exports	(4) OFDI
ACFIC	0.293** (0.145)	0.115*** (0.032)	-0.323 (0.209)	-0.134* (0.069)
PC/PPCC	0.095 (0.074)	-0.023 (0.022)	0.086 (0.065)	0.040 (0.029)
CCP	0.015 (0.068)	-0.004 (0.017)	-0.001 (0.048)	0.015 (0.015)
Firm and owner controls	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes
Province fixed effect	Yes	Yes	Yes	Yes
<i>Panel B: First stage</i>	(5) ACFIC	(6) ACFIC	(7) ACFIC	(8) ACFIC
Prefecture ACFIC intensity	0.648*** (0.032)	0.650*** (0.033)	0.585*** (0.027)	0.591*** (0.027)
Firm and owner controls	Yes	Yes	Yes	Yes
Industry fixed effect	Yes	Yes	Yes	Yes
Province fixed effect	Yes	Yes	Yes	Yes
<i>N</i>	4810	4762	6518	6364
IV tests:				
First-stage F-Statistic	402.145	388.754	461.453	483.867
[p-value]	[0.000]	[0.000]	[0.000]	[0.000]

Notes: This table reports the 2SLS results for ACFIC membership's effects on exports and OFDI using all four years of data. The dependent variables are log form of Exports size and OFDI size. In the first two columns we show results based on data sets of 2005 and 2007, while in the other two columns we show results of 2009 and 2011 data sets. We show that ACFIC membership exhibited a strong positive influence on firms' propensity of conducting exports and OFDI in 2005, but a negative impact on firms' exports in 2011. Unlike Tables 8 and A4, we find a significantly negative influence of ACFIC on OFDI in 2011 in Table A5. Standard errors clustered at the province level are included in parentheses. Significance level: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Table A5. Matching Results of ACFIC's Effect on Exports and OFDI in 2005 and 2011

	2005	2011
Any export	0.082*** (0.022)	-0.047*** (0.017)
On support / N	1742/1885	3707/3809
Export size	0.493*** (0.100)	-0.322*** (0.094)
On support / N	1742/1885	3707/3809
Any OFDI	0.133* (0.007)	0.004 (0.004)
On support / N	2048/2205	3610/3714
OFDI size	0.078*** (0.023)	-0.000 (0.021)
On support / N	2048/2205	3610/3714

Notes: The reported are average treatment effect of the treated (ATT). Standard errors are calculated by bootstrap method and are included in parentheses. The number of observations (N) is the total number of observations we attempt to use, but only those on the support have been used in the matching. We use the “Psmatch2” command in Stata to produce the result. Significance level: * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.