

# Political Alignment and the Allocation of Stock Market Resources in China\*

Yishuang Li<sup>†</sup>      Zhenhuan Lei<sup>‡</sup>

**First draft:** September 29, 2018

**This version:** November 13, 2022

Please check the latest version [here](#)

Forthcoming in  
*the Journal of Political Institutions and Political Economy*

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\*We thank Tianyang Xi and Yang Yao for sharing their CCER Official Database, and Bruce Bueno de Mesquita, Ji Yeon Hong, Junyan Jiang, James Kung, Siyao Li, Naijia Liu, Zhaotian Luo, Daniel Mattingly, Xun Pang, Julia Payson, Adam Przeworski, Pablo Querubin, Peter Rosendorff, Arturas Rozenas, Shanker Satyanath, Yiqing Xu, Hye Young You, Congyi Zhou, and Junlong Zhou for valuable comments. The paper also benefits from extremely useful and constructive suggestions from Editor Jeffery A. Jenkins and two anonymous reviewers. We also thank our friends in the financial sector of China, including Yue Hong, Wanzi Fang, and Yuqiao Wu, for helping us find relevant data, information, and policies. Yang Yang and Jialei Zhu have performed excellent research assistance. Earlier drafts of this paper were presented at internal workshops of New York University and Peking University. Support for this research was provided by the University of Wisconsin-Madison, Office of the Vice Chancellor for Research and Graduate Education with funding from the Wisconsin Alumni Research Foundation, and the George Downs Research Grants offered by the Department of Politics, New York University.

<sup>†</sup>Ph.D. Candidate, Department of Politics, New York University, 19 West 4th Street, New York, NY 10012, USA. Email: [yishuang.li@nyu.edu](mailto:yishuang.li@nyu.edu). Personal website: <https://www.yishuang-li.com>.

<sup>‡</sup>Assistant Professor, Department of Political Science and La Follete School of Public Affairs, University of Wisconsin-Madison, 1050 Bascom Mall, Madison, WI 53706, USA; Visiting Scholar, China Center for Economic Research, National School of Development, Peking University, No.5 Yiheyuan Road, Haidian District, Beijing 100871, China. Email: [zhenhuan.lei@wisc.edu](mailto:zhenhuan.lei@wisc.edu). Personal website: <http://www.reedlei.com>.

## Abstract

Earlier research shows that national leaders often distribute public resources to advance their private interests. This line of research often assumes that subnational governments are merely passive receivers of the central government's distributive policies. We question this view by studying how intergovernmental relations between cities and provinces affect the allocation of opportunities for initial public offerings (IPOs) in China. Although the China Securities Regulatory Commission (CSRC) is the only central agency that reviews IPO applications based on efficiency criteria, our analysis of IPO applications between 2004 and 2016 shows that provinces can help politically aligned cities obtain more IPOs. Further results based on a novel dataset on the CSRC's justifications for rejections show that provincial governments influence the CSRC's decision by hiding unfavorable information from the CSRC if the applicant's mayor is politically aligned with the province. These IPO approvals, in return, improve mayors' promotion prospects.

**Keywords:** Bureaucracy, China, Distributive Politics, Initial Public Offering, Political Alignment, Stock Market

# 1 Introduction

The distribution of public resources is at the center of political economy research. Earlier research reports compelling evidence that national leaders who control the allocation of central fiscal programs and other policies often distribute public resources in a way to realize their political ambition (Larcinese et al., 2006; Berry et al., 2010; Brollo and Nannicini, 2012; Migueis, 2013; Ansolabehere and Snyder Jr, 2006; Calvo and Murillo, 2004; Diaz-Cayeros et al., 2012). This line of research, however, often ignores (with the exceptions discussed below) the influence of local political dynamics on the distribution of centrally-controlled public resources, assuming that local governments are merely passive receivers of central distributive policies. The reasoning for this assumption is that local governments lack the formal authority to influence the central government's distributive policies.

Indeed, even among those studies that find a local influence in the centrally controlled distributive goods, local governments manage to exert such influence only because they are entrusted with the power to carry out the distributive program, allowing them to distort the central policy when implementing it (Reinikka and Svensson, 2004; Olken, 2006; Brollo et al., 2013; Mattingly, 2016; Kyle, 2018). Alternatively, some central governments intentionally devolve or decentralize the decision-making power of distributive programs to subnational governments usually as an exchange for their support in national politics (Baldwin, 2014; Eaton, 2004; Boone, 2003; O'neill, 2003). Common in both cases is that local governments need *formal* authority either in decision making or implementation to influence the allocation of centrally controlled public resources.

We depart from this line of research by investigating whether (and how) local governments can influence central distributive policies when local governments do not have any formal authority in deciding or implementing the distribution. More specifically, we focus on the local information that subnational governments choose to share (and not to share) with the central government and the influence of this informational mechanism on the distribution of centrally controlled public resources.

Since a challenge for central government is to acquire local knowledge (Hayek, 1945), central agencies that make distributive policies often still rely on subnational governments for local information. This is especially true in developing countries where the capacity of the central government is still rather limited (Herbst, 2000; Lee, 2019; Koter, 2013; Lee and Schultz, 2012; Iyer, 2010; Ding, 2020). As a result, the central government has no other choice but to solicit valuable local information from local governments, even though such information is sometimes deemed as “imperfect” (Calvert, 1985; Myers, 1998; Patty, 2009).

The central government’s demand for local information, however, gives subnational governments an exceptional opportunity to influence the center’s decision. Even though subnational governments may not have any formal role in designing or implementing the central policy program, the information that they forward to central bureaucrats can indirectly change the distributive decision in a way that benefits themselves and sometimes undermine the goal set out by the central government.

We explore the case of initial public offerings (IPOs) in the Chinese stock market as an example for the logic above. The opportunities for holding IPOs are public resources in a society. Public firms receive more investment, experience more rapid business growth, have more financial flexibility, enjoy easier access to capital, and develop a better business reputation than other firms not listed on the stock market (Pagano et al., 1998; Bancel and Mittoo, 2009). Moreover, public firms also benefit their local governments and residents by creating more jobs, generating more fiscal revenue, and promoting technological innovation (Kenney et al., 2012; Borisov et al., 2021). Given the importance of the stock market to a firm’s success, it is natural to ask which firms are more likely to obtain the valuable opportunity to become listed firms.

The Chinese government has installed a centralized approval-based IPO system to decide which firms can be listed on the stock market (see Subsection 2.1 for details). The China Securities Regulatory Commission (CSRC), a central agency that oversees the stock and bond market, is entrusted with *full* regulatory authority to review firms’ IPO applications

and make the decision. Such a system is designed to avoid local influence and select well-performing firms for IPO based solely on efficiency criteria.

However, provincial governments often have different preferences for which firms should be listed on the stock market. Provincial politicians care about whether their favored firms are awarded valuable stock market resources even though such firms may not be the most efficient ones. One consideration is that provincial leaders may wish to send the opportunities for IPO to the firms located in the prefecture-level cities (“cities” hereafter) governed by a “politically aligned” subordinate (we introduce the definition and measurement for “political alignment” in Section 3). By distributing more resources to politically aligned mayors, the provincial leader helps build up loyal subordinates’ performance and can promote them to more important positions afterwards. As a result, the provincial leader’s power base will become more solid if loyal officials hold more important appointments.

We draw on the data on all IPO applications from 2004 to 2016 to examine whether the political alignment between city and provincial governments influences the decision on IPO applications. Our data analysis reports compelling evidence that applicants from cities governed by a politically aligned mayor are, on average, 7.8 percentage points (which is a 11.4% increase from the mean approval rate) more likely than other firms to obtain approval, controlling for firm characteristics, the city socioeconomic indicators, and industry, city, and applying-year fixed effects. Comparing our findings with earlier economics and finance research on politically connected firms (e.g., [Bao et al. \(2016\)](#); [Liu et al. \(2013\)](#)), we also find that the effect of the political alignment between cities and provinces on IPO approval is as strong as that of firms’ direct political connections with government. Taken together, our analysis shows that political alignment’s influence on IPO approval is both statistically significant and economically meaningful.

Additional analysis also corroborates our proposed mechanism. Since the CSRC relies on provincial governments for such local information as the applicant’s compliance with laws and rules on the transfer of state-owned shares, environmental protections, public safety, tax

payment, and land ownership, we should observe that firms from politically aligned cities were much less likely to be rejected due to these regulatory records shared by provinces. Employing an original dataset on the CSRC's justifications for its rejection decisions, we show that applications from politically aligned cities are almost never rejected due to these provincial regulatory records. In contrast, provincial governments are not as interested in protecting other firms that do not have a politically aligned mayor.

These politically induced IPO approvals, in turn, create further political consequences. Although our analysis fails to detect systematic market distortion following alignment-induced IPO approvals, we find that the number of IPO approvals strongly associates with mayors' promotion prospects. Additional analysis also shows that only those IPO applicants whose mayors are still eligible for promotion would benefit from mayors' political alignment with the provincial superior. In contrast, retiring age-limited mayors cannot help firms obtain IPO approval even if such mayors may also be politically aligned. These findings further confirm that rewarding loyal subordinates with a higher promotion chance explains why the provincial government has the incentives to manipulate the allocation of IPO approvals.

Taken together, our empirical analysis highlights the under-investigated role of the political alignment between subnational/local governments in the distribution of centrally controlled public resources. Such influence often goes unnoticed because subnational governments could use information, rather than formal authority, to affect the decision made by the central government. Before reporting these results, we first delineate our theoretical arguments and offer necessary background information in Section 2. Section 3 introduces the research design and clarifies several concerns with our empirical strategy. Sections 4, 5, and 6 then empirically examine our theoretical arguments, mechanism, and the economic and political consequences of politically induced IPO approvals before we conclude in Section 7.

## 2 Background and Theoretical Arguments

We open this section with a brief introduction to China’s stock market and IPO system in Subsection 2.1. It should be clear from this introduction that the purpose of the approval-based IPO system is to prevent any influence from subnational governments and select firms based solely on efficiency criteria. Subsection 2.2 shows that provincial governments have different preferences from the central government for which firms should be listed on stock exchanges. Throughout our discussion, we highlight that the CSRC must consult provincial governments for opinions and information regarding IPO applicants in their jurisdiction, particularly the applicant’s records of regulatory compliance. It is this informational advantage of provincial governments that empowers their influence in the allocation of IPO approvals.

### 2.1 The Approval-Based IPO System

China has adopted an approval-based IPO system since 2004 to select firms into the stock market. Under this approval-based system, the CSRC is entrusted with the complete authority to review and make decisions on IPO applications. Figure 1 presents the decision procedures in the CSRC. First, firms interested in the IPO send their applications directly to the CSRC and disclose basic financial information to the public. Then, the CSRC appoints an Issuance Examination Committee (IEC) consisting of experienced lawyers, accountants, investment bankers, and CSRC officials to review the application materials and provide feedback within 45 days (Du et al., 2013).

How does the IEC decide which firms should be listed on the stock market? According to *the Rules on IPO and Listing on Stock Exchanges* (“首次公开发行股票并上市管理办法” 中国证券监督管理委员会令第32号), IPO applicants must exhibit satisfactory *financial performance* on such factors as net profit, assets, and cash flow, and demonstrate reasonable social responsibility, good corporate governance, and more importantly, a superb record of legal compliance. We refer to this latter category of requirements as *non-financial*

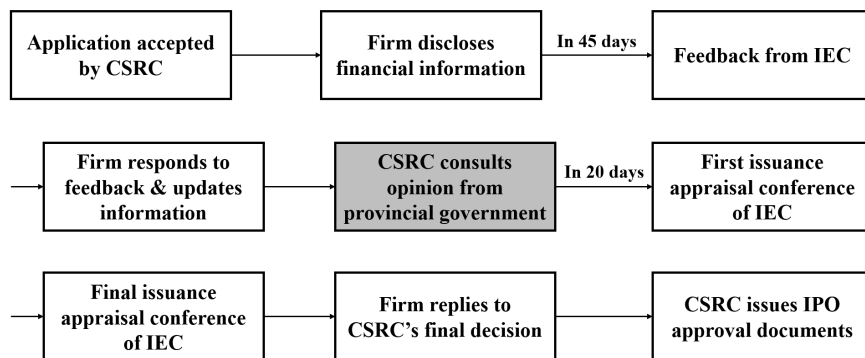


Figure 1: **The Review Process under the Approval-Based IPO system**

requirements. Both financial and non-financial requirements are designed to ensure that only well-performing firms are selected into stock market.

Unlike financial requirements that usually have clear quantitative thresholds, non-financial criteria are difficult to measure and are open to subjective interpretation. In fact, recent research shows that non-financial requirements are the major reason for failed IPO applications (Long and Zhang, 2014). Given the importance and subjectivity of these non-financial criteria, the CSRC promulgated rules that its bureaucrats must follow to ensure fair and unbiased review. One of such procedures is to consult the opinion of the provincial government on IPO applications submitted by firms in its jurisdiction,<sup>1</sup> a step we plot in shaded grey color in Figure 1 and refer to as the “consultation stage” hereafter. This is a step often overlooked by other scholars. This neglect is hardly surprising since provincial governments’ role is merely consultative. The review of IPO applications is always conducted solely by the IEC and the CSRC bureaucrats.

However, the “consultation stage” helps overcome the CSRC’s informational challenge that it does not have the needed capacity to collect all the required information related to the applicant. For instance, Article 25 of the aforementioned *Rules on IPO and Listing on Stock Exchanges* stipulates that an IPO application must be rejected if the applicant has severely

<sup>1</sup>The original text of this clause: 第四十九条中国证监会在初审过程中 将征求发行人注册地省级人民政府是否同意发行人发行股票的意见。



violated the laws and rules on commerce, tax, land property, environmental protection, and foreign trade, and received formal punishment.<sup>2</sup> Hence, the IEC must have a comprehensive report on the applicant's compliance with these regulations before it reviews application materials.

Unfortunately, the CSRC is either unwilling or unable to put together comprehensive reports on the regulatory compliance of all IPO applicants. Although the CSRC has set up provincial branches to regulate the local capital market, the duty of these CSRC provincial offices does not include helping the IEC to review IPO applications or collecting local information, perhaps because overseeing listed firms and other market players has already occupied too many bureaucratic resources.<sup>3</sup> The CSRC is perhaps also unwilling to squander its limited bureaucratic resources on collecting local information since soliciting such information from provincial governments costs much less. Furthermore, since provincial governments are responsible for enforcing several of these laws and regulations in the aforementioned Article 25 of the *Rules on IPO and Listing on Stock Exchanges*, it seems that provincial governments should produce a more accurate report on applicants' record of complying with these laws and rules than the one produced by CSRC's internal investigators.

Perhaps more importantly, the CSRC must respect provinces' opinions also due to historical traditions. Before the adoption of the approval-based IPO system, the CSRC reviewed IPO applications following a quota system before 2004. The quota system assigned the opportunities for holding IPOs to provinces. Provincial governments then selected firms for IPOs based on the quota assigned by the CSRC. Put differently, the earlier quota system gave strong influence to provincial governments by allowing them to determine the winners of IPO applications. Hence, when the central government centralized the IPO review into the hands of the CSRC in 2004, the approval-based system still recognized the provincial influence by

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<sup>2</sup>The original text of this clause: 第二十五条发行人不得有下列情形 . . . . . 二 最近36个月内违反工商、税收、土地、环保、海关以及其他法律、行政法规 受到行政处罚 且情节严重。

<sup>3</sup>For instance, the official website of the CSRC branch in Heilongjiang Province says that its major duties are to issue administrative license and to regulate listed firms and related insurance and auditing institutions in Heilongjiang ([http://www.csrc.gov.cn/heilongjiang/c100539/common\\_zcncr.shtml](http://www.csrc.gov.cn/heilongjiang/c100539/common_zcncr.shtml), accessed on June 19, 2022). Reviewing IPO applications is not part of its duty.

requiring the CSRC to consult provincial governments before making the decision.

However, whether provincial governments are willing to share accurate and unbiased information with the CSRC is another story. In fact, provincial governments' policies often prevent their internal agencies to share unbiased information with the CSRC. For instance, we find provincial policy documents that instruct their internal agencies to hide unfavorable information (Liaoning Province), interpret the records favorably (Ningxia Autonomous Region), or delay the punishment for IPO applicants (Hubei Province) to improve the chances that the CSRC approves the local firms' application for IPO.<sup>4</sup>

In short, the consultation stage gives provincial governments a superb venue to voice their understanding of applicants' record of regulatory compliance. It also seems that provincial officials often downplay the severity of, or even hide, the punishment that some IPO applicants have previously received to improve the chances that the CSRC green-lights their applications.

## 2.2 The Incentives of Provincial Leaders

After understanding how provincial governments influence the IPO review, we move on to explain why provincial governments have the incentives to distort the information in favor of some local firms. For this purpose, we collect the policies enacted by provincial governments that aim at helping local firms obtain IPO approvals and summarize them in Appendix Section B. We find that all 31 provinces in Mainland China have published special policies to encourage IPOs, citing that public firms can help upgrade the industrial structure, stimulate innovation, and promote economic transition among others.

Many provincial governments even set quantitative targets for the number of listed firms in their provinces. In fact, we have found 24 policy documents from 18 provinces (out of 31 mainland provinces) that disclosed the province's target number of public firms (see Appendix Section B).<sup>5</sup> These provincial governments then decompose and assign the target

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<sup>4</sup>Please refer to Appendix Section B for these policy documents in detail.

<sup>5</sup>The other 13 provinces certainly also desire more public firms as reflected by their special policies that

to cities and evaluate city officials annually for their performance in helping local firms go public. For example, provincial governments can include such factors as the number of IPOs and trading volume in the annual assessment of city officials.<sup>6</sup> Appendix Section B shows that at least 17 provinces have adopted such rules to evaluate the performance of city officials.<sup>7</sup> These evaluations will, in turn, influence the career advancement of city officials.

Since IPOs are often closely tied to the career of prefecture-level city officials, it is important to understand how the allocation of IPOs is affected by provincial leaders' political ambitions and the political dynamics between the province and cities. Earlier research on distributive politics studies how partisan or intergovernmental relationships determine the allocation of public resources. These studies provide compelling evidence that government resources such as fiscal transfers, procurement, and subsidies are more likely to be distributed to local governments led by local politicians who are politically aligned with national politicians (Larcinese et al., 2006; Berry et al., 2010; Brollo and Nannicini, 2012; Migueis, 2013; Bracco et al., 2015). The logic behind these results is that politicians allocate public resources in a way that increases the political power of their party or faction at the local level. With strong, loyal subordinates at the local level, politicians can increase their chances of winning national elections.

Hence, by sending government resources to their politically aligned and loyal subordinates, higher-level politicians can achieve two personal goals in China. First, these resources are more likely to be used in a way that pleases superiors since the incentives of the superior and her subordinates are most aligned in such cases (De Kadt and Larreguy, 2018; Jiang, 2018; Hassan, 2020). Second, these resources can help build up the performance of loyal

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aim at promoting IPOs (see Appendix Section B). However, they seem unwilling to set a quantitative goal (at least not to publish it publicly).

<sup>6</sup>For instance, according to *the Rules on the Annual Evaluation of IPOs in Shandong* (山东省企业上市年度考核评价办法 • 鲁办发(2011)9号), the Provincial Government of Shandong includes the number of IPOs, the number of potential public firms, and the financial value of IPOs in the annual assessment of all city and county governments.

<sup>7</sup>Although the public policy documents do not include IPOs into the annual evaluation, we expect that the other 14 provinces may also enact internal rules, which are not disclosed to the public, to evaluate city officials' progress in promoting IPOs. See Appendix Section B for an example.

subordinates, who then can expect to be promoted to more important positions. In the empirical setting studied here, Chinese politicians are more likely to be promoted if they can produce stronger economic performance (Li and Zhou, 2005; Jia et al., 2015; Landry et al., 2018; Lei and Zhou, 2022). These newly-promoted loyal subordinates are then in better positions to obtain more resources to support the policies and programs that their political patron favors.

As a result, provincial governments have stronger incentives to favor IPO applications submitted by firms whose mayor is politically aligned with the provincial leader. Our earlier discussion suggests that the provincial government does so by providing favorable information on non-financial requirements for these IPO applicants to the CSRC. Since IPOs are often written into the annual evaluation of city officials, we should also observe that IPO approvals increase a mayor’s promotion chances. We summarize these expectations below and will bring them to empirical scrutiny in the sections to follow.

- Prediction 1: IPO applications filed by firms whose mayor is politically aligned with the provincial leader are more likely to be approved.
- Prediction 2: Mayor’s political alignment reduces the chance of rejection due to non-financial requirements.
- Prediction 3: Mayors who oversee a larger number of successful IPO applications are more likely to be promoted.

### 3 Research Design

We employ the following specification to test Prediction 1.

$$Y_{ict} = \beta_0 + \beta_1 Alignment_{ct} + \delta X_{it} + \gamma Z_{ct} + \lambda_t + \pi_c + \epsilon_{ict} \tag{1}$$

The unit of analysis is the IPO application submitted by firm  $i$  from city  $c$  and in year  $t$ . Our time-series cross-sectional data include all IPO applications (including both successful

and failed applications) from 2004 to 2016. The key explanatory variable,  $Alignment_{ct}$ , is the political alignment between the mayor of the city  $c$  and his/her primary provincial superior, namely, the provincial party secretary (PPS).

We focus on the PPS because s/he is the most powerful politician in a province, and more importantly, has the strongest influence over the political promotion of mayors. On the side of cities, we study mayors rather than city party secretaries (CPS's) because mayors are responsible for helping firms get listed on the stock market. Cities often establish an inter-departmental coordination office (企业上市工作† 导小组) to help local firms go public. We identify the head of this coordination office as the primary city official responsible for IPO promotion. We collect the city documents that appoint the members of this coordination office in 83 cities and 82 of them appoint mayor (or a deputy mayor) as the head of this coordination office (see Appendix Section A). This is the primary reason why we focus on mayors rather than CPS's. Still, we analyze CPS's in Appendix Table D5 and find similar results.

Prior research on Chinese politics has employed four variables to identify the political alignment between a mayor and a PPS, including whether a mayor and his/her PPS (1) share the same *hometown*, (2) attended the same *college*, (3) previously worked in the same *workplace*, and (4) whether the current PPS promoted the city leader to this position (“patronage connection” hereafter). Following Landry et al. (2018) and Jiang (2018), we use patronage connection as the measure for the political alignment between a mayor and the PPS, since other measures could generate false connections. For instance, having worked in the same place is probably as likely to produce friendship as to create enemies. By contrast, appointing an official as a prefecture-level mayor is a signal that this city mayor is in the “affinity list” or the “winning coalition” of the PPS (Bueno de Mesquita et al., 2003). Hence, our primary explanatory variable,  $Alignment_{ct}$ , is coded as one if, during the year(s) when firm  $i$  waits for the review result, its city mayor is appointed by the current PPS and coded

as zero if otherwise.<sup>8</sup> We obtain this variable from the CCER Official Database (Xi et al., 2018).

The outcome variable,  $Y_{ict}$ , is *IPO success*, a dummy variable coded as one if the IPO application is approved and zero if otherwise. We collect the data on this outcome variable and other features of IPO applications from the Wind Financial Database. This database contains rich and detailed information of *all* IPO applications. We also complement this database with other sources of data that we will detail below. Table 1 reports the data sources and descriptive statistics for all the variables used in our analysis.

Moreover, we control for city and applying year fixed effects,  $\pi_c$  and  $\lambda_t$ , because the CSRC often prioritizes approving IPOs for firms in certain regions or years. One methodological concern is that the Wind Financial Database does not contain the applying year for all applications.<sup>9</sup> We confirm in Appendix Table C2 that the missingness of the data on applying year is not correlated with the political alignment between mayor and PPS, the key explanatory variable we study. This means that the missingness of applying year (and those applications which do not contain this variable) does not pose a severe inference problem for our research design. Still, we impute the applying year by tapping into the information of other characteristics of the applicant.<sup>10</sup> Hence, our main analysis uses the enlarged sample with imputed values for the applying year. Nevertheless, we check the robustness of our results by using the original data (that is, without imputation) in Appendix Table D7 where we find similar results.

Since we cannot employ an experimental design, it becomes even more important to understand whether those firms applying from a politically aligned city are different from IPO applicants in other unaligned cities. Table 2 reports the mean values for key characteristics of

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<sup>8</sup>If during this period there are multiple mayors, we code this variable as one so long as any of these mayors is appointed by the incumbent PPS. One potential problem is that, the longer the waiting period, the larger the chance that the firm will have a new, politically aligned mayor. To correct for this confounding factor, we control for the length of the IPO review.

<sup>9</sup>Other variables we use in the Wind Database do not exhibit a strong missing value problem.

<sup>10</sup>We conduct the imputation with the R package “Mice” (Van Buuren and Groothuis-Oudshoorn, 2011) and with the variables that we have fewer missing values, including the CSRC’s decision over the application, decision year, city, province, founding year, industry, board, and the stock exchange.

Table 1: Summary Statistics

	N	Mean	SD	Min	Max	Data Source
<b><i>IPO Outcome Variable</i></b>						
IPO success	1,969	0.655	0.475	0	1	1
<b><i>City Leaders' Political Connection Variables</i></b>						
Mayor's political alignment	1,969	0.658	0.474	0	1	2
Mayor's connection (hometown)	1,969	0.004	0.060	0	1	2
Mayor's connection (college)	1,969	0.010	0.098	0	1	2
Mayor's connection (workplace)	1,969	0.009	0.093	0	1	2
Party secretary's political alignment	1,965	0.671	0.470	0	1	2
Party secretary's connection (hometown)	1,959	0.008	0.090	0	1	2
Party secretary's connection (college)	1,961	0.010	0.100	0	1	2
Party secretary's connection (workplace)	1,961	0.009	0.093	0	1	2
<b><i>Firm and Application Controls</i></b>						
Return on Assets (ROA)	1,920	15.85	9.988	-14.13	99.90	1
Return on Equity (ROE)	1,963	23.97	14.18	-32.13	120.2	1
(log) Firm size (employment)	1,953	6.892	1.181	0	12.12	1
Firm age	1,969	16.66	5.084	1	59	1
Asset-liability ratio	1,967	41.73	19.27	0	98.20	1
(log) Registered capital (million Yuan)	1,969	5.862	1.163	3.325	9.942	1
State-owned shares	1,969	0.149	0.247	0	1	4,5
PC/ CPPCC member	1,969	0.088	0.283	0	1	1,6
(log) Net cash flow (million Yuan)	1,393	8.926	4.521	0	17.83	1
Tax (% of revenue)	1,967	0.955	1.487	-3.693	29.00	1
Government subsidy (% of revenue)	1,660	1.603	5.140	-1.975	87.89	1
Innovation expenditure (% of revenue)	1,010	4.172	5.785	0	67.47	1
Length of IPO review (years)	1,934	0.900	0.854	0	5	1
<b><i>City Characteristics</i></b>						
(log) Population	1,944	6.142	0.578	2.877	7.244	3
(log) GDP	1,943	17.51	0.999	13.00	19.09	3
(log) GDP per capita (Yuan)	1,942	11.08	0.636	8.389	12.58	3
GDP growth rate (%)	1,943	11.26	7.014	-2.9	109	3
(log) Investment	1,939	16.77	0.905	12.96	18.16	3
(log) Government revenue	1,944	15.07	1.204	10.43	17.26	3
(log) Government expenditure	1,944	15.35	1.014	10.57	17.56	3
Unemployment rate (%)	1,917	0.906	0.598	0.0671	3.881	3

*Notes:* PC= People's Congress. CPPCC=Chinese People's Political Consultative Conference. City characteristics are measured in tens of thousands except for GDP per capita, GDP growth, and unemployment rate. Data Sources: 1. Wind Financial Database. 2. CCER Official Database. 3. China City Statistical Yearbook. 4. China Stock Market & Accounting Research (CSMAR) Firms' Financial Statements Database. 5. Website of Qichacha (企查查) which provides rich data on firms, accessed via: <https://www.qcc.com/>. 6. CSMAR Figure Characteristic Database.

Table 2: Balance Table for Firm Variables

	Political Alignment = 1	Political Alignment = 0	Difference	<i>P-value</i>
Return on Assets (ROA) (%)	16.16	15.26	0.899	0.093
Return on Equity (ROE) (%)	24.16	23.58	0.578	0.451
Firm size	2348.8	2416.2	-67.45	0.903
Firm age	16.49	16.97	-0.479	0.206
Asset-liability ratio (%)	41.37	42.42	-1.044	0.255
Registered capital (million Yuan)	705.4	873.3	-168.0	0.297
Net cashflow (million Yuan)	213.1	95.62	117.44	0.330
PC/ CPPCC	0.096	0.073	0.023	0.314
State-owned shares (%)	0.139	0.168	-0.029	0.092
Tax ratio (%)	0.961	0.945	0.016	0.824
Government subsidy (%)	1.531	1.739	-0.208	0.374

*Notes:* PC=People’s Congress. CPPCC=Chinese People’s Political Consultative Conference.

these two types of IPO applicants and the differences between them at the time of application. From this table, we see that IPO applicants from politically aligned cities look quite similar to their counterparts in unaligned cities on such variables as ROE, firm size (measured by the number of employees), firm age, asset-liability ratio, and registered capital. However, ROA is slightly unbalanced between the two groups.

We then turn to the variables that reflect IPO applicants’ direct political connections to the government. A number of earlier studies, which we summarize in Appendix Table D1, have demonstrated that firms’ various political connections to the government improve the probability of IPO approval. Hence, it is crucial that we also control firms’ political connections. More specifically, following recent research (e.g., [Truex \(2014\)](#), [Lei and Nugent \(2018\)](#), and [Hou \(2019\)](#)), we use the membership of CEO or the Chair of the Board in the Chinese national and local government as well as assemblies – namely, the People’s Congress (PC) or the Chinese People’s Political Consultative Conference (CPPCC) – as our first measure for firms’ direct political connections.<sup>11</sup> Moreover, we also consider the share of state ownership

<sup>11</sup>We restrict this measurement to political connections with the government and legislatures at or above the city level (i.e., the city, province, and national level) since connections with county level officials are very unlikely to influence an IPO application reviewed by the central agency and consulted by provincial governments.



in this firm as a proxy for the close connection to the government. Finally, politically connected firms may pay fewer taxes and receive more government subsidies. Hence, we also use tax and subsidy (measured as the share of revenue) as our third measure for the applicant's direct political connections to government. As shown in Table 2, most measures for political connections are quite balanced. The only exception is state-owned shares in which case the IPO applicants from politically aligned cities are slightly less politically connected.

Taken together, most firm-level attributes are balanced between IPO applicants from politically aligned cities and unaligned cities (with a few exceptions noted above). This means that firm characteristics are less likely to influence our analysis. Nevertheless, we still take two approaches to further control for the influence of any possible imbalances between applications from politically aligned and unaligned cities. First, we control for many of these firm variables, especially those that exhibit unbalances in Table 2, to directly parse out the influence of firm covariates. Furthermore, we also match applications from politically aligned and unaligned cities on firm characteristics using the propensity score matching to further reduce the imbalances between the two types of applications. The balance figure (Appendix Figure D2) and the regression analysis based on this matched sample (Appendix Table D3) show that matching is effective and produces similar results as our main specification.

Furthermore, we control for the board on which the firm applies to be listed. Different boards satisfy the different needs of firms. Since different boards also have different IPO approval rates, controlling for the board fixed effects absorbs such influences. Moreover, we control for underwriter-year fixed effects to parse out the influence of underwriters.

Still, another concern is that cities may be fundamentally different if their mayors are politically aligned with the PPS. For instance, the PPS may appoint loyal mayors to richer cities that are home to promising firms that hold a larger chance of going public. We test this conjecture by examining if any city-level variable is statistically associated with the political alignment between mayors and their PPS. We report the results in Appendix Table C3 and do not find that such variables as the city's GDP growth rate or fiscal revenue correlate with

political alignment. Still, we control for several city covariates ( $Z_{ct}$ ), including population, GDP, GDP per capita, annual GDP growth rate, fixed investment size, government revenue and expenditure, and unemployment rate. The inclusion of these variables, together with city fixed effects, further reduces the concern that political alignment is more likely to exist in certain cities.

Finally, one may be concerned that the sample under study might be endogenous since firms may choose to apply for IPO under the best conditions. More specifically, knowing that politically aligned mayors can help them obtain IPO approval, firms can either wait until a politically aligned mayor is appointed or strategically move to cities whose mayor is politically aligned with the current PPS. As a result, the correlation between political alignment and IPO approvals is only due to the sample selection that firms aspiring for IPO submit their applications when a politically aligned mayor is in office.

To examine this potential sample selection bias, we aggregate our application data to a city-year panel dataset and examine if Political Alignment is correlated with the number of *new* IPO applications in each city (see Panel A of Appendix Table C4). The coefficient of Political Alignment is small and insignificant. This means that there is not a sudden boom in the number of new IPO applications when cities establish political alignment. Additionally, we also examine whether political alignment affects a firm's decision to apply for IPO using a national firm survey, *China Survey on Private Enterprises*, in 2006.<sup>12</sup> The dependent variable, *Decision to apply for IPO*, is coded as one if the firm planned to apply for IPO or was already in the IPO guidance period in 2005, and zero if otherwise. We present the results in Panel B of Appendix Table C4. Again, we do not find that Political Alignment is correlated with a firm's decision to apply for IPO. These tests demonstrate that firms did not strategically select the city or time to apply for IPO, perhaps because firms did not believe that the improved chances for approval justify the costs of waiting or moving the headquarters to another city.

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<sup>12</sup>Although the survey is also available in other years, the survey does not ask firm owner's preferences for IPO in those years.

Table 3: Political Alignment and IPO Approval

	IPO Approval					
	(1)	(2)	(3)	(4)	(5)	(6)
Political Alignment	0.040** (0.017)	0.046* (0.025)	0.043* (0.023)	0.057*** (0.022)	0.075*** (0.022)	0.078*** (0.026)
City Fixed Effects	×	×	×	×	×	×
Applying Year Fixed Effects	×	×	×	×	×	×
Application Controls		×	×	×	×	×
Industry Fixed Effects			×	×	×	×
Firm Controls				×	×	×
City Controls					×	×
Province-Year Trends						×
Outcome Variable Mean	0.655	0.674	0.680	0.686	0.683	0.683
Number of Obs	1898	1576	1551	1495	1457	1457

*Notes:* Control variables: (1) Application controls include the length of IPO review, board fixed effects, and underwriter-year fixed effects; (2) Firm controls include the ROA, ROE, asset-liability ratio, state-owned shares, log registered capital, log employment size, firm age, and direct political connection (i.e., membership in People’s congress, People’s Political Consultative Conference, or prior work experience in government at or above the city-level) at the time of application; (3) City controls include log population size, log GDP, log GDP per capita, annual GDP growth rate, log fixed investment size, log government revenue and expenditure, and unemployment rate. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

## 4 Political Alignment and IPO Approval

Table 3 contains the main results. We present the most parsimonious model in column (1) where we only control for city and applying-year fixed effects. Then in column (2) to column (6), we gradually add control variables for IPO applications, industry, firms, and cities, as well as province-year trends that further absorb the influence of peculiar years in different provinces. Across all columns, the coefficient of Political Alignment remains positive and statistically significant. Moreover, the coefficients are also large in magnitude. Focusing on column (6), IPO applications submitted by firms from politically aligned cities are 7.8 percentage points more likely to receive approval than other applications from unaligned cities. This is an 11.4% increase from the average approval rate.

Another way to understand the significance of our results is to compare them with earlier research on political connections and IPO approval. Appendix Table D1 situates our results (based on column (6) of Table 3) in the empirical literature on the effect of various forms of applicants' direct political connections with the Chinese government on IPO approval. Our focus on Political Alignment differs from these earlier studies in that Political Alignment is unrelated to firms' direct connections with the government. Instead, political Alignment measures the political connections between different tiers of government. Since our outcome variables of interest are the same (i.e., a dummy variable for IPO approval), we can directly compare our results with the earlier research on politically connected firms.

This comparison illuminates another two unique features of our research on IPO approval. First, our data cover the largest number of IPO applications spanning 13 years. Compared to other research that studies IPO applications submitted by a sub-sample of firms and/or in a shorter span of years, our results are less likely to be driven by certain firms or years. Second, and more importantly, our finding is not only statistically and substantively significant, but also stronger than the effect of most forms of firms' direct political connections as summarized in Appendix Table D1.

Furthermore, additional analysis in Appendix Table D2 shows that Political Alignment is particularly useful when the firm is not directly connected to the government or does not have strong financial performance. This finding seems to suggest that the political alignment between cities and provinces may be a substitute for firms' direct political connections.

Finally, we also compare the coefficient of Political Alignment with that of other firm characteristics that may influence IPO approval in Figure 2. We do so by plotting the standardized coefficients on primary firm covariates based on column (6) of Table 3, together with the coefficient on Political Alignment. This figure shows that the influence of Political Alignment is almost as strong as the influence of firm's direct political connections (i.e., PC/CPGCC), and more than twice the effect of standardized firm age and state-owned shares, and 3.5 times the effect of standardized firm size. Taken together, these compar-

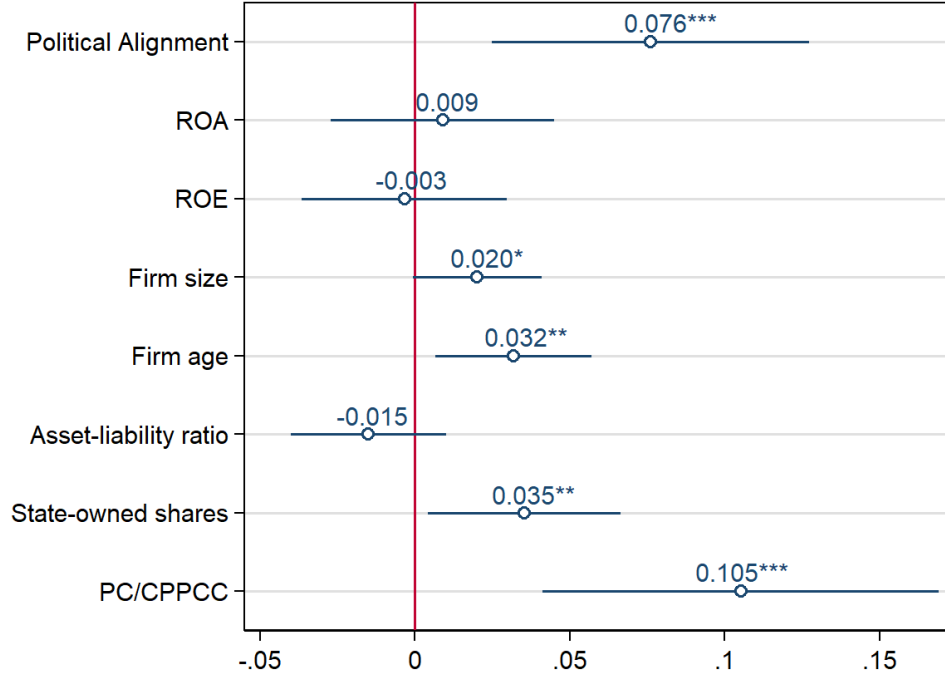


Figure 2: The Effect of Political Alignment Compared to Firm Characteristics

*Notes:* ROA=Return on Assets. ROE=Return on Equity. PC=People’s Congress. CPPCC=Chinese People’s Political Consultative Conference. This figure reports standardized coefficients on primary firm covariates used in the existing literature based on our most preferred specification, column (6) of Table 3. The only exceptions are Political Alignment and PC/CPPCC which are reported as dichotomous indicators. We also control for all other city characteristics, application features, industry, city and applying-year fixed effects, and the province-year trends used in column (6) of Table 3. Please refer to the notes to Table 3 for list of these control variables.

isons demonstrate that political alignment is a prominent, but understudied, factor in the allocation of such valuable distributive goods as the opportunities to hold IPOs.

Moreover, our results are also robust to alternative modeling strategies and samples. First, we replace the measure for the political alignment between the mayor and the PPS by three other commonly-used measures based on the prior hometown, schooling, and work experience of the mayor and the PPS in Appendix Table D4, and with the political alignment between the CPS and the PPS in Appendix Table D5. Furthermore, we investigate whether our results are robust to different sub-samples in the first three columns of Appendix Table D6 by excluding the applications for the start-up board, applicants from the financial sector,

and second-time applications since these applications may have starkly different approval rates (Liu et al., 2013; Du et al., 2013). We also examine the robustness of our results in columns (4) to (6) of Appendix Table D6 by including additional firm attributes that we cannot control for in our main results due to a large number of missing values in these variables. What is more, we also repeat the analysis with the original data without applying the imputation technique in Appendix Table D7. Finally, given that the rejection rate before 2013 is rather high (see Appendix Table C1), we test if our findings are driven by only applications before 2013. To this end, we further restrict our sample to those applications after 2013 and rerun the analysis in Appendix Table D8. Our findings remain robust across all tests.

In addition, we also explore the heterogeneous effect across industry by interacting Political Alignment with industry dummies (based on the CSRC’s industry classification) and report the results in Appendix Table D9. To summarize the results, we do not find a statistically significant moderating effect of most industry dummies.<sup>13</sup> This finding suggests that the influence of Political Alignment does not seem to vary substantially across most industries.

Finally, we apply a generalized difference-in-differences design over city panel-data and test if our findings are robust to this alternative data structure and modelling strategy in Appendix Section E. This additional analysis shows that politically aligned cities receive a greater number of IPO approvals, controlling for the number of IPO applications in queue, city and year fixed effects, and other city and mayor indicators.

## 5 The Provincial Influence through Information

In this section, we test whether the political alignment is most effective in reducing the IPO rejection due to non-financial requirements (Prediction 2). To this end, we first present an

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<sup>13</sup>The only exception is that the effect of Political Alignment is stronger in the health industry and is weaker in entertainment, rental services, and mining.

in-depth case study of an IPO application in Appendix Section F. In this case, the CSRC rejected the firm’s first attempt for IPO because the provincial government reported to the CSRC that the firm violated local safety and environmental regulations in the past. However, the CSRC quickly approved the firm’s second-time application three years later when the city mayor was replaced by a politically aligned official. This case study indicates that provincial governments could influence the result of an IPO application by informing the CSRC of the regulatory punishment that the applicant received in the past. This case also suggests that the political alignment between the firm’s mayor and the province could be a critical factor that determines whether the province will inform the CSRC of the firm’s negative records.

Motivated by this case study, we then examine whether the quantitative analysis of the data on all IPO applications can support our insights from this case. Since the CSRC discloses the reason for rejections (but not approvals), we can identify whether IPOs are rejected due to the non-financial requirements on which provincial government’s opinions have a strong influence. More specifically, we construct a dichotomous variable, *Provincial Influence*, which is equal to one if the rejection is due to the violation of laws and rules related to (1) the transfer of state-owned shares, (2) environmental protection, (3) public safety, (4) tax, and (5) land ownership, and is equal to zero if otherwise. We focus on these five regulatory areas because (a) provincial agencies enforce these regulations and (b) the CSRC must reject an application if the applicant severely violated regulations in these five areas according to Article 25 of the *Rules on IPO and Listing on Stock Exchanges*.

Approximately 10% of IPO rejections from 2004 to 2016 were due to one of these five non-financial requirements.<sup>14</sup> Even some simple descriptive statistics lend support to our argument. While only 5.7% of rejected applications from politically aligned cities were due to these five non-financial requirements, 16.8% of IPO rejections from cities that did not

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<sup>14</sup>However, this group only includes the cases that can be *clearly identified* as rejection due to the “provincial influence.” We may underestimate the cases of “provincial influence” due to several reasons. For instance, the CSRC sometimes does not disclose the reason for rejection and we include such rejections in the “other reasons” group discussed below. Moreover, the CRSC may neglect to disclose other less important reasons for rejection if the primary reasons already justify a rejection.

Table 4: Political Alignment and IPO Rejection

	Provincial Influence			Other Reasons		
	(1)	(2)	(3)	(4)	(5)	(6)
Political Alignment	-0.028*** (0.008)	-0.015** (0.007)	-0.015* (0.008)	0.013 (0.021)	0.017 (0.032)	0.013 (0.044)
Applying Year Fixed Effects	×	×	×	×	×	×
City Fixed Effects	×	×	×	×	×	×
Application Controls		×	×		×	×
Industry Fixed Effects		×	×		×	×
Firm Controls		×	×		×	×
City Controls			×			×
Outcome Variable Mean	0.009	0.004	0.004	0.120	0.089	0.084
Number of Obs	1403	1012	966	1403	1012	966

*Notes:* We use the same set of control variables as in Table 3. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

signal political alignment with the provincial leader were due to the “provincial influence.”

We also construct another dummy variable, *Other Reasons*, that is coded as one if the application is rejected due to other reasons than the five non-financial requirements identified above and as zero if otherwise. These “other reasons” include financial requirements (e.g., low profit rates in the previous year) or other non-financial requirements that provincial governments cannot influence (e.g., the quality of corporate governance).

We then analyze whether Political Alignment protects applications from rejections due to *Provincial Influence* and *Other Reasons*. If our informational mechanism is correct, we should see that Political Alignment only reduces the rejection rates due to *Provincial Influence* and does not affect the rejections due to *Other Reasons* that cannot be influenced by provincial governments. We report the results of these analyses in Table 4. Column (1) contains the most parsimonious model where we control for only application-year and city fixed effects. We further add application and firm controls in column (2) and city control variables in column (3). The coefficient of Political Alignment remains negative and statistically significant across these three columns. By contrast, the coefficient of Political



Alignment is positive and not significant at the conventional levels in columns (4) to (6). Hence, Political Alignment only protects applicants from rejections due to the five regulatory areas over which provincial governments have a particularly strong influence.

## 6 The Consequences of Alignment-Induced IPO Approvals

What are the consequences for the politically induced IPO approvals? One concern is whether political alignment would further distort the resource allocation even after the firms go public. Subsection 6.1 examines this concern with the data on public firms' performance and fails to find evidence for systematic distortion of market resource allocation after the firms are listed on the stock exchange. However, Subsection 6.2 offers evidence that IPO approvals distort the "political market" in the sense that they improve mayors' promotion prospects.

### 6.1 Market Distortion

Since political alignment distorts the approval for IPO, a natural question is whether political alignment produces similar distortions after the IPO. More specifically, would public firms from politically aligned cities continue to receive more favors from government than other listed firms from unaligned cities after going public? To answer this question, we gather the data on public firms' financial performance within three years after the IPO and approach the question from two angles.

First, we investigate the average performance of a listed firm within the first three years after going public and summarize the results in Table 5. We do so by dividing public firms into two groups based on their mayor's political alignment with the PPS when the firm applies for the IPO, the same explanatory variable that we have used throughout this paper. A mean comparison between these two types of public firms shows that none of such financial indicators as ROA, ROE, or profit rate is significantly different between firms in politically

Table 5: Post-IPO Performance

	Political Alignment = 1	Political Alignment = 0	Difference	<i>P-value</i>
<i>ROA</i> (%)	8.187	8.627	-0.439	0.361
<i>ROE</i> (%)	10.54	10.99	-0.443	0.554
<i>Net profits</i> (million Yuan)	1091.0	1082.0	9.000	0.991
<i>Revenue</i> (million Yuan)	8681.3	5414.8	3266.6	0.341
<i>Profit rate</i> (%)	9.236	9.353	-0.117	0.928
<i>Tax rate</i> (%)	0.147	0.171	-0.024	0.680
<i>Government subsidy</i> (%)	1.322	1.124	0.198	0.498

*Notes:* This table reports the mean value of public firms' financial indicators within three years after IPO. Political Alignment is determined in the year when the firm applies for IPO approval. ROA=Return on Assets. ROE=Return on Equity. Profit, tax, and subsidy are all measured as the percentage-points share of firm's revenue.

aligned and unaligned cities after the IPO. Neither do we find that firms from politically aligned cities receive more favorable treatment such as greater tax cuts and more subsidies. These results demonstrate that firms applying from politically aligned cities did not have better (or worse) post-IPO financial performance or receive more (or less) governmental support than other public firms from unaligned cities.

Although it is reassuring to see that the three-year average post-IPO performance and governmental support are similar between public firms from politically aligned and unaligned cities, a cautious reader may still wonder whether firms from politically aligned cities may *grow* faster after the IPO. Since one may speculate that firms from politically aligned cities may have poorer financial performance before IPO and obtain IPO approval thanks to their mayor's political alignment, the similar average post-IPO performance, in fact, means that political alignment has helped the firm grow faster and catch up with other firms from unaligned cities.

Our analysis, again, does not offer evidence to support this claim. At the risk of repetition, our Table 2 shows that primary financial indicators of firms (e.g., profitability, firm size, etc.) from politically aligned cities are not substantially different from those from unaligned cities. In other words, firms from politically aligned cities do not have worse pre-IPO

Table 6: Political Alignment and the Growth of Firms' Financial Indicators

	$\bar{X}_{t+1\sim t+k} - \bar{X}_{t-k\sim t-1}$ ( $k = 1, 2, 3$ )		
	(1)	(2)	(3)
$X$	$k = 1$	$k = 2$	$k = 3$
ROA (%)	0.128 (0.767)	0.458 (0.703)	0.178 (0.641)
N	883	883	881
ROE (%)	0.143 (1.506)	0.481 (1.195)	0.020 (1.129)
N	895	895	892
Net profit (million Yuan)	44.937 (133.299)	-4.420 (183.666)	-55.923 (208.952)
N	902	902	900
Revenue (million Yuan)	1138.887 (1259.764)	1277.792 (1613.950)	1191.229 (1970.551)
N	902	902	900
Profit rate (% of revenue)	3.619 (3.103)	2.031 (2.279)	0.987 (1.840)
N	902	902	900
Tax rate (% of revenue)	0.122 (0.140)	-0.033 (0.167)	-0.041 (0.165)
N	440	423	391
Government subsidy (% of revenue)	0.620 (0.629)	0.486 (0.728)	0.588 (0.787)
N	713	710	695

*Notes:* Control variables: (1) Firm controls include firm size, firm age, asset-liability ratio, state-owned shares, registered capital, and PC/CPPCC membership in the applying year; (2) City controls include population, GDP, GDP per capita, annual GDP growth rate, fixed investment, government revenue and expenditure, and unemployment rate; (3) Fixed effects: IPO approval year, board, industry, and city fixed effects. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

performance than those from unaligned cities.

Furthermore, we also examine whether listed firms from politically aligned cities show greater improvements than those from unaligned cities after they go public.<sup>15</sup> This test directly examines the effect of political alignment on within-firm changes in performance before and after the IPO approval. More specifically, we test whether listed firms from politically aligned cities show greater financial improvements than other firms from unaligned cities between  $k$  years before the IPO and  $k$  years afterwards ( $k = 1, 2, 3$ ).

<sup>15</sup>Again, Political Alignment here refers to mayor's political alignment with the PPS in the years when the firm applies for IPO and awaits the CSRC's decision.

We report the results in Table 6. The first column on the left presents the outcome variables (i.e., public firms’ financial indicators) and the other three columns on the right report the coefficients on the key explanatory variable, namely, Political Alignment. We do not find a significant correlation between firm’s financial indicators or government support and mayor’s political alignment, controlling for firm and city covariates and various fixed effects (see table notes for the variable list). Taken together, although political alignment helps firms receive IPOs, public firms from politically aligned cities neither outperform other firms nor lag behind after going public.

## 6.2 Listed Firms and Mayors’ Career Advancement

This subsection examines whether a greater number of IPO approvals increases mayors’ promotion prospects (Prediction 3). Following Landry et al. (2018) and Lei and Zhou (2022), we code a mayor as promoted if s/he is appointed as the party secretary of a prefecture-level city or to a vice-province-level position (e.g., provincial vice governor). City mayors cannot be promoted directly to province-level or higher positions without first obtaining one of these roles. Hence, the outcome variable of our analysis in this section is *Mayoral Promotion*, a dichotomous variable coded as one if the mayor is promoted in a given year, and zero if otherwise. The primary explanatory variable is the *Total Number of IPO Approvals* in each city and each year. With the city-year panel data, we estimate a two-way fixed effects model that controls for city and year fixed effects together with other time-variant covariates of the mayor and the city. We cluster standard errors at the city level.

We present the results in Table 7. In column (1), we test the effect of the number of IPO approvals on the mayoral promotion in the same year as local firms obtain approvals. The positive and significant coefficient in column (1) suggests that an additional IPO approval, on average, increases the mayor’s promotion rates by 3.7 percentage points after controlling for city and mayor fixed effects, covariates, and the province-year trends.

We then investigate the robustness of our results by replacing the outcome variable with

Table 7: IPO Approvals and the Mayoral Promotion

	Mayoral Promotion Within X year(s)			
	(1) this year	(2) 1 year	(3) 2 years	(4) 3 years
Number of IPO Approvals	0.037** (0.017)	0.033** (0.014)	0.028** (0.014)	0.022* (0.013)
City Fixed Effects	×	×	×	×
Year Fixed Effects	×	×	×	×
City Controls	×	×	×	×
Mayor Controls	×	×	×	×
Province-Year Trends	×	×	×	×
Outcome Variable Mean	0.166	0.301	0.397	0.458
Number of Obs	3533	3533	3533	3533

*Notes:* City controls include population, GDP, GDP per capita, GDP growth, government revenue and expenditure, investment, unemployment rate in the previous year, and the number of IPO applications under review. Mayor controls include age (and its quadratic term), tenure (and its quadratic term), gender, education level, patronage connection, and mayor's first year in office. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

the mayoral promotion within one, two, or three year(s) in columns (2) to (4). We find that the results are generally robust. Appendix Section G reports additional robustness tests for these results. First, we control for the year of provincial party congress and mayor's work experience in the central government in Appendix Table G1 and obtain similar results. We also aggregate the number of IPOs obtained by each mayor during his/her full tenure and find that the analysis based on this cross-sectional dataset with mayor's tenures as observations produces similar results (see Appendix Table G2). Furthermore, Appendix Table G3 reports that the number of IPO *rejections* is negatively correlated with the mayoral promotion. This result shows that those mayors who fail to help firms obtain IPO approval will receive punishment. Finally, we also conduct a placebo test to investigate the reverse causality. Since IPOs should improve mayors' career prospects only after firms go public, we examine the effect of IPO approvals on the mayoral promotions one to three years *before* firms receive IPO approvals. We present the results in Appendix Table G4 and do not find that the

number of IPO approvals is associated with the mayoral promotion before firms are listed.

In addition, our analysis also shows that rewarding politically aligned mayors with higher promotion prospects explains the positive effect of Political Alignment on IPO approval. The Chinese government stipulates that mayors of prefecture-level cities must retire at the age of 60. Hence, those mayors approaching 60 should have a rather slim possibility of promotion due to the age limit. This is especially true for those mayors who are 57 years old or above since this is likely to be their last term in office (the average tenure of a Chinese mayor is roughly 3 years). If the goal of the PPS is to help loyal subordinates build up performance by helping them get more IPO approvals for local firms, this motivation should be much weaker when the mayor is already 57 years old (or above) since even good performance can hardly extend his/her career.

Motivated by this logic, we test if the effect of political alignment on IPO approval decreases as mayors approach their mandatory retirement age. We present the results in Table G5. Consistent with our theoretical account, political alignment does not help retiring age-limited mayors (whose age is at or above 57) increase the number of IPO approvals in their cities.<sup>16</sup> In contrast, Political Alignment still increases the number of IPO approvals for younger mayors who are still eligible for promotion. These results lend further support to our Prediction 3 that provincial leaders use IPO approvals to build the performance of loyal, *younger* mayors, who are still eligible for promotion and, once promoted, can contribute to the power of PPS's political faction in the future.

Moving beyond the political returns from IPO approvals, one may also wonder whether politically aligned mayors reap economic benefits by helping local firms receive IPO approval. Since mayors' rent-seeking activities are tremendously difficult to measure, we present suggestive evidence that political alignment is not correlated with the rent-seeking activities in a city by drawing on four existing measures for cities' corruption (see Appendix Table G7). However, we must acknowledge that our analysis cannot entirely rule out the possibility of

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<sup>16</sup>The results remain robust when we replace the age cutoff with 56 and 58 (see Appendix Table G6).

rent-seeking since a more accurate measure for corruption in the city government is not available. Nevertheless, the potential economic benefits from IPO approvals are not necessarily inconsistent with the primary concern that a greater number of IPO approvals is associated with higher promotion chances for a mayor.

## 7 Conclusion

Although earlier research often assumes that subnational governments are merely passive receivers of the distributive policies set by the central government, we challenge this view by uncovering the crucial informational role of subnational governments. Our empirical analysis based on the dataset on IPO applications from 2004 to 2016 shows that provincial governments help firms whose mayor is politically aligned with the PPS obtain IPO approval. The provincial government does so by offering more favorable consultative opinions to the CSRC regarding the IPO applications filed by these firms. Although these IPO approvals do not seem to further distort the stock market after firms go public, a greater number of IPOs is associated with a higher promotion chance for city mayors because various matrices that measure cities' ability to help firms get listed on stock exchanges are included in mayors' annual performance evaluation.

While our empirical settings pertain to the Chinese stock market, the influence of subnational government does not exist only in this specific setting. More generally, we believe that any settings that satisfy the following scope conditions may have the potential to see the local influence by informational inputs. First, the central government must rely on subnational governments for local information and even implementing the policy. In other words, central agencies are constrained by either fiscal budget or other socioeconomic conditions to solicit local information directly. As a result, subnational governments acquire the *ability* to offer information to central agencies strategically in their favor. Moreover, our theoretical framework also assumes that the preferences of central agencies and subnational governments

are different. This second scope condition delineates subnational governments' *motivation* to influence central decisions through information.

In addition to understanding the local influence in the decision making at the central government, our paper also points to a potential limitation of political centralization. Although recent work shows that political centralization may reduce elite capture and improve political responsiveness under certain conditions (Malesky et al., 2014; Lei and Li, 2021), our work points out one reason why political centralization may not eliminate, or even diminish, the influence of private and local interests. In most cases, the central and local governments need to share power over a policy issue. Hence, when we talk about “centralization,” we risk missing the important truth that power is often still shared between the local and central governments. Our work demonstrates that the provincial government has a strong influence over the allocation of the opportunities to hold IPO even in a centralized, approval-based IPO system. This system allows provincial politicians to use their unnoticed informational power to advance their political ambition without acquiring formal authority.

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# Online Appendix

A	Coordination Office for IPO Promotion . . . . .	A-2
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## A Coordination Office for IPO Promotion

To identify which city leader to study, we need to find out the city leader responsible for helping firms get listed on the stock market. We pinpoint this city leader by studying government documents that appoint the members of the so-called Coordination Office for IPO Promotion (企业上市工作†导小组). We collect these government documents from PKU-Law.com, a website operated by the Law School of Peking University that collects legal and government documents in China. The website also maintains a good collection of documents released by city governments. This allows us to identify in total 83 documents released by city governments to appoint members of a Coordination Office for IPO Promotion. While these are not all the Coordination Offices established in Chinese cities, they should give us some sense for which city leader we should focus on.

In the interest of space, we do not show the data on these 83 documents here (but is available upon request) and only discuss the general pattern we find. Among them, 34 cities appointed mayor, 48 cities appointed a deputy mayor, and one city appointed an assistant mayor as head of this office. However, city party secretary (CPS) is *never* appointed head of this office. This indicates that CPS is unlikely to be the city leader responsible for IPO promotion. The data also show that a good portion of cities have appointed mayor as head of this coordination office, indicating that mayors in many cities are entrusted with the task to help firms obtain IPO.

We also notice that more than half of cities have appointed a deputy/assistant mayor as the head of this coordination office. This alerts us that studying deputy/assistant mayors may also be important. While we generally agree with this statement, the data on deputy/assistant mayors are not available to the best of our knowledge. Moreover, city governments do not disclose as complete information for deputy/assistant mayors as mayors since the public attention usually focuses on mayors (and CPS's). Another problem for studying deputy/vice mayors is that we do not know which deputy/assistant mayor to look at.

## B Province-Level Favorable Policies to Promote the IPOs

This Appendix Section discusses the policies enacted by provincial governments to promote the number of public firms. Table B1 reports these policy documents that we have found from public sources including news reports and PKULaw, a third-party platform that archives the policy documents released by all tiers of Chinese governments.

Table B1 demonstrates that provincial governments share great enthusiasm for helping local firms get listed on the stock market. To summarize, we find that all 31 Provincial Governments in Mainland China have published policy documents to help local firms go public.<sup>17</sup> Many provinces have in fact enacted more than one policies for this purpose. Moreover, since governments may also enact policies that are not disclosed to the public, this list reported in Table B1 serves as only a conservative estimate of the number of provincial favorable policies for IPO applicants.

Furthermore, 17 provinces have included such outcomes as the number of new IPOs into the annual evaluation of city officials (see the “Evaluation” column). The results of these annual evaluations will then affect the career advancement of city mayors. Note that it does not mean that other provinces do not evaluate local officials for the progress of helping firms obtain IPO approvals. Provincial governments may issue separate, internal documents to establish such evaluation rules. Such internal documents, which are not disclosed to the public, are not included in Table B1. For instance, Shandong did not include evaluation rules in its general policies for promoting IPOs in Shandong (2005) and Shandong (2006). However, the Office of Finance in the Provincial Government of Shandong (山东省金融办) later issued separate rules that stipulates the evaluation rules in 2008 and 2011. Such internal rules are usually not disclosed to the public. In fact, Shandong is the only province that publishes the internal rules of evaluating local governments’ progress in promoting IPOs on the website. Hence, we expect that other provinces may enact similar internal rules but

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<sup>17</sup>We cannot find the published policy document for Shanxi Province and Tibet. However, we find news reports for working conferences organized by the Provincial Government of Shanxi and Autonomous Regional Government of Tibet to promote IPOs.

they neglect to disclose these rules.

In addition, these policy documents often instruct the internal agencies of the Provincial Government to be flexible when they provide information regarding the IPO applicants to the CSRC. The final column (“Flexibility”) shows that all provinces other than Gansu and Tibet give such orders to the internal agencies even in policy documents disclosed to the public. To name a few examples, the Provincial Government of Ningxia Autonomous Region asks its internal agencies and cities to interpret the records of legal compliance in favor of IPO applicants when consulted by the CSRC.<sup>18</sup> Moreover, the Provincial Government of Hubei tries to stop its internal departments and cities from punishing IPO applicants especially (and unsurprisingly) in the policy areas identified in the 25th clause.<sup>19</sup> Liaoning Province also instructs its law enforcement agencies to be lenient over IPO applicants and should interpret policies favorably for them.<sup>20</sup>

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<sup>18</sup> 《宁夏回族自治区人民政府关于 励和扶持企业上市工作的若干意见》(宁政办发(2008)180号) 第二十二条: 对拟上市企业在原始积累过程中出现的不规范行为, 在法律、法规允许的范围内, 按照有利于企业发展的原则作妥善处理。

<sup>19</sup> 《湖北省人民政府关于进一步推进企业上市工作的意见》( 政发(2018)17号) 第十和第十一条: 对企业改制上市中涉及的土地、房产、税务、国资、工商、环保和y 目立y 等各y 审批或备案确认, 各职能部门要结合实E, 积极研究灵活的解决办法, 为企业改制上市创造条件。在上市后备企业依法补P 权证工作中, 对{ 进行行政处罚的事y, 可按规定和实E 情况, 依法依规从轻或减轻行政处罚。各级行政执法部门履职过程中, 对“报会”“报辅”和“N 种子”企业进行相关检查时, 应以帮助整改规范为主。如确 对上述企业做出行政处罚决定的, 应在履行事先告知程序之前通报省上市办。

<sup>20</sup> 《辽宁省人民政府办公厅关于进一步支持企业上市发展的意见》(辽政办发(2019)29号)第六和第七 条: .....各级行政执法部门履职过程中, 对“在审”“备案”及上市后备企业进行相关检查时, 在依法合规情况下, 考虑企业处于上市特殊时期, 应以帮助整改规范为主, 尽i 避免对企业上市造成负b 影响。.....对法律、法规、规章、政策没有明确规定的特殊行为, 相关部门要按照尊i 历史、解决i 问题、有利于企业发展、充分保护投资者主体和其他相关主体利益的原则, “一事一议”“一企一策”、妥善处理。



Table B1: Summary of Province-level Policy Documents

Province (Year)	Time	Target	Evaluation	Flexibility
Anhui (2010)	2010-		No	Yes
Beijing (2010)	2010-2017		No	Yes
Beijing (2018)	2018-		No	Yes
Chongqing (2011)	2011-		No	Yes
Fujian (2007)	2007-2010	50 (new)	No	Yes
Fujian (2010)	2010-		Yes	Yes
Gansu (2016)	2016-2018		No	No
Guangdong (2017)	2017-2020	450 (total)	Yes	Yes
Guangxi (2001)	2001-2011		No	No
Guangxi (2012)	2012-2015		No	Yes
Guizhou (1998)	1998-		No	No
Guizhou (2016)	2016-		No	Yes
Hainan (2021)	2021-		No	Yes
Hebei (2019)	2019-		Yes	Yes
Heilongjiang (2010)	2010-2019		Yes	Yes
Heilongjiang (2019)	2019-2022	30 (new)	Yes	Yes
Henan (2000)	2000-2007		No	Yes
Henan (2007)	2007-2010	100 (total)	No	Yes
Henan (2008)	2008	15 (new)	No	Yes
Henan (2019)	2019		Yes	Yes
Henan (2020)	2020-2024	160 (total)	No	Yes
Hubei (2008)	2008-2010	100 (total)	No	Yes
Hubei (2018)	2018-2020	200 (total)	Yes	Yes
Hubei (2021)	2021-		Yes	Yes
Hunan (2008)	2008-2010		No	Yes
Hunan (2019)	2019-2025	200 (total)	Yes	Yes
Inner Mongolia (2018)	2018-2020	4 (new)	No	Yes
Jiangsu (2000)	2000-		No	No
Jiangxi (2018)	2018-2020	120 (total)	Yes	Yes
Jilin (2020)	2020-		Yes	Yes
Liaoning (2008)	2008-2012	240 (new)	Yes	Yes
Liaoning (2019)	2019-		No	Yes
Ningxia (2008)	2008-		Yes	Yes
Ningxia (2019)	2019-2023	26 (total)	No	Yes
Qinghai (2004)	2004-		No	No
Qinghai (2010)	2010-		Yes	Yes
Shaanxi (2019)	2019-2021	30 (new)	Yes	Yes
Shandong (2005)	2005-2007	120 (total)	No	Yes
Shandong (2006)	2006-2010	50 (new)	No	Yes

Continued on next page

**Table B1 – continued from previous page**

<b>Province (Year)</b>	<b>Time</b>	<b>Target</b>	<b>Evaluation</b>	<b>Flexibility</b>
Shandong (2008)	2008-2011		Yes	No
Shandong (2011)	2011-		Yes	No
Shanghai (2010)	2010-		No	Yes
Shanxi (2021)	2021-2025	increase by 100%	Yes	Yes
Sichuan (2014)	2014-2019	150 (total)	No	Yes
Tianjin (2007)	2007-2012		No	Yes
Tianjin (2012)	2012-2015	100 (total)	No	Yes
Tianjin (2015)	2015-2017		No	Yes
Tianjin (2017)	2017-2020		No	Yes
Xinjiang (2008)	2008-2018	70 (total)	No	Yes
Yunnan (2008)	2008-2012	20 (new)	No	Yes
Yunnan (2019)	2019-2021	70 (total)	Yes	Yes
Zhejiang (2008)	2008-2012	150 (new)	No	Yes
Zhejiang (2017)	2017-2020	700 (total)	Yes	Yes

*Notes:* Time=Effective/Valid period of the policy. Target=The total or added number of public firms a province aims to achieve. Evaluation=Whether the promotion of IPO is *explicitly* included as a criterion for mayor's performance evaluation. Flexibility=Whether the province provides flexible policies to help firms meet IPO requirements. This table summaries the publicly available documents for 30 provinces (out of all 31, except Tibet) in China. The full name of documents and additional information from news reports are included in the list below.

## List of Documents or News Reports:

- Anhui (2010): 《安徽省人民政府办公厅转发省政府金融办等部门关于支持皖江城市带承接产业转移示范区企业上市融资实施意见的通知》 皖政办(2010)40号
- Beijing (2010): 《北京市人民政府办公厅关于进一步推动企业上市工作的意见》 京政办发(2010)35号
- Beijing (2018): 《北京市人民政府办公厅关于进一步支持企业上市发展的意见》 京政办发(2018)21号
- Chongqing (2011): 《重庆市人民政府关于进一步加快我市企业改制上市工作的意见》 渝府发(2011)45号
- Fujian (2007): 《福建省人民政府关于加快推进企业上市的意见》 闽政(2007)13号
- Fujian (2010): 《福建省人民政府办公厅关于进一步做好我省企业上市工作的实施意见》 闽政办(2010)21号
- Gansu (2016): 《甘肃省人民政府办公厅关于印发“甘肃省支持企业挂牌上市奖励办法”的通知》 甘政办发(2016)30号
- Guangdong (2017): 《广东省科学技术厅关于印发“广东省促进科技企业挂牌上市专项行动方案”的通知》 粤科规财字(2017)104号
- Guangxi (2001): 《广西壮族自治区人民政府办公厅转发自治区经贸委关于进一步做好我区企业上市工作若干意见的通知》 桂政办发(2001)79号
- Guangxi (2012): 《广西壮族自治区人民政府办公厅转发自治区财政厅关于加大扶持力度推动企业上市若干意见的通知》 桂政办发(2012)305号
- Guizhou (1998): 《贵州省人民政府办公厅转发省证券委关于搞好我省上市公司和进一步加强企业上市工作意见的通知》 黔府办发(1998)3号
- Guizhou (2016): 《贵州省人民政府办公厅关于印发支持我省企业上市发展八条措施的通知》 黔府办函(2016)215号
- Hainan (2021): 《海南省人民政府关于提高上市公司质量 促进资本市场发展的若干意见》 琼府(2021)15号
- Hebei (2015): 《河北省人民政府关于加快推进企业上市工作的实施意见》 冀政发(2015)36号 . A summary of the document can be found here: [http://zhuanqi.hebnews.cn/2016/2016-09/01/content\\_5804966.htm](http://zhuanqi.hebnews.cn/2016/2016-09/01/content_5804966.htm)
- Hebei (2019): 《河北省人民政府办公厅关于加快推进企业挂牌上市工作的通知》 冀政办字(2019)11号
- Heilongjiang (2010): 《黑龙江省人民政府办公厅关于进一步做好企业上市融资工作的通知》 黑政办发(2010)3号

- Heilongjiang (2019): 《黑龙江省人民政府办公厅关于印发黑龙江省加快推进企业上市工作方案的通知》 黑政办规(2019)17号
- Henan (2000): 《河南省人民政府关于加强企业上市工作加快证券市场发展的通知》 豫政(2000)44号
- Henan (2007): 《河南省人民政府办公厅关于加强我省企业上市工作的意见》 豫政办(2007)61号
- Henan (2008): 《河南省人民政府办公厅关于做好2008年企业上市工作的通知》 豫政办(2008)23号
- Henan (2019): 《河南省人民政府办公厅关于印发河南省建立企业上市挂牌“绿色”通道办法 试行的通知》 豫政办(2019)23号
- Henan (2020): 《河南省人民政府办公厅关于加快推进企业上市挂牌工作的意见》 豫政办(2020)22号
- Hubei (2008): 《湖北省人民政府关于推进企业上市的若干意见》 政发(2008)42号
- Hubei (2018): 《湖北省人民政府关于进一步推进企业上市工作的意见》 政发(2018)17号
- Hubei (2021): 《湖北省人民政府办公厅关于印发进一步加快推进企业上市若干措施的通知》 政办发(2021)15号
- Hunan (2008): 《湖南省人民政府办公厅关于 励和扶持企业上市的若干政策意见》 湘政办发(2008)16号
- Hunan (2019): 《湖南省人民政府办公厅关于加快推进企业上市的若干意见》 湘政办发(2019)61号
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## C Additional Information on Research Design and Data

Table C1: An Overview of IPO Application Results (2004-2016)

Year	Num. of IPO Reviews	Approved		Rejected		Others	
		Number	%	Number	%	Number	%
2004	110	73	66.36	37	33.64	0	0.00
2005	3	1	33.33	1	33.33	1	33.33
2006	74	62	83.78	11	14.86	1	1.35
2007	157	117	74.52	35	22.29	5	3.18
2008	116	96	82.76	20	17.24	0	0.00
2009	198	169	85.35	28	14.14	1	0.51
2010	408	342	83.82	61	14.95	5	1.23
2011	339	263	77.58	72	21.24	4	1.18
2012	220	176	80.00	37	16.82	7	3.18
2013	0	0	0.00	0	0.00	0	0.00
2014	188	182	96.81	6	3.19	0	0.00
2015	272	251	92.28	15	5.51	6	2.21
2016	271	247	91.14	18	6.64	6	2.21
Total	2356	1979	84.00	341	14.47	36	1.53

*Notes:* The number of IPO applications is calculated in firm-times. Decisions made by the CSRC other than IPO approval and rejection include suspension of the review process due to insufficient firm information, and postponed voting. There is one major suspension of the IPO review process in 2013 due to reform of the CSRC. No decision was made in that year. Given that the rejection rate before 2013 is rather high, we also test if our findings are driven by only applications before 2013 in Appendix Table D8.

Table C2: The Missing of Applying Year and Political Alignment

	Applying Year is Missing					
	(1)	(2)	(3)	(4)	(5)	(6)
Political Alignment	-0.053 (0.108)	-0.039 (0.158)	-0.013 (0.088)	-0.003 (0.083)	-0.005 (0.073)	-0.017 (0.035)
City Fixed Effects		×	×	×	×	×
Application Controls			×	×	×	×
Industry Fixed Effects				×	×	×
Firm Controls					×	×
City Controls						×
Outcome Variable Mean	0.304	0.303	0.308	0.301	0.318	0.309
Number of Obs	1969	1898	1806	1772	1747	1700

*Notes:* This table shows that the missing of applying year variable is not statistically associated with the Political Alignment, the key explanatory variable used in this paper. Moreover, the magnitude of the coefficient is small compared to the mean of the outcome variable. This is another signal that the missing of Applying Year is likely to be “missing at random.” Outcome variable in this appendix table is a dummy variable indicating whether the applying year of an IPO application is missing in the Wind Financial Database. Control variables: (1) Application controls include board fixed effects, underwriter fixed effects, and the length of IPO review; (2) Firm controls include ROA, ROE, asset-liability ratio, state-owned shares, log registered capital, log employment size, and direct political connection (i.e., membership in People’s congress, People’s Political Consultative Conference, or prior work experience in government at or above the city-level) at the time of applying (even though the applying year may be missing, these variables at the time of applying are generally not missing in the Wind Database); (3) City controls include log population size, log GDP, log GDP per capita, annual GDP growth rate, log fixed investment size, log government revenue and expenditure, and unemployment rate. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .



Table C3: Political Alignment and City-Level Covariates

	Political Alignment							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Population	-0.094 (0.178)							
GDP		-0.183** (0.085)						
GDP Per Capita			-0.123* (0.067)					
GDP Growth				-0.002 (0.002)				
Public Revenue					0.019 (0.051)			
Public Expenditure						-0.077 (0.066)		
Fixed Asset Investment							-0.081* (0.042)	
Unemployment Rate								0.011 (0.021)
City Fixed Effects	×	×	×	×	×	×	×	×
Year Fixed Effects	×	×	×	×	×	×	×	×
Number of Cities	285	285	285	285	285	285	285	285
Number of Obs	3630	3626	3620	3621	3630	3630	3621	3607

*Notes:* The analysis reported in this appendix table investigates the within-city association between city-level economic and fiscal indicators and the political alignment between mayor and PPS. All explanatory variables are lagged by one year. Hence, the substantive interpretation for the set of analysis contained in this table is to understand whether economic and fiscal conditions of a city could predict the political alignment in the next year. This table shows that Political Alignment is not meaningfully associated with most city covariates except for GDP, GDP per capita and fixed asset investment. These results demonstrate that loyal subordinates are not assigned to cities with a more robust economy or stronger fiscal performance. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Table C4: Testing Firms' Self-Selection on IPO Application

	Panel A: City level			Panel B: Firm level		
	Num. of new IPO applications in a year			Firm's decision to apply for IPO		
Political Alignment	0.050 (0.032)	0.058 (0.043)	0.064 (0.051)	0.053 (0.042)	0.034 (0.037)	0.048 (0.039)
City Fixed Effects	×	×	×			
Year Fixed Effects	×	×	×			
City Controls	×	×	×			×
Mayor Controls		×	×			
Province-Year Trends			×			
Province Fixed Effects				×	×	×
Firm Controls					×	×
Outcome Variable Mean	0.372	0.366	0.366	0.117	0.116	0.115
Number of Obs	3585	3541	3541	1326	553	520

*Notes:* This table shows that the strategic adjustment (potential sample selection bias) does not drive our results. Knowing that politically aligned mayors can help them obtain IPO approval, firms can either wait until a politically aligned mayor is appointed or strategically register in cities whose mayor is politically aligned with the current PPS. We exclude this alternative explanation in two ways. In Panel A, we show that political alignment is not associated with a larger number of new IPO applications. Then, in Panel B, we focus on a set of firm-level analysis where we demonstrate that political alignment does not prompt private firms to seek IPO. City controls include population, GDP, GDP per capita, GDP growth, government revenue and expenditure, investment, and unemployment rate in the previous year. Mayor controls include mayor's age (and quadratic term), tenure (and quadratic term), gender, education level, and whether the mayor is in his/her first year in office. Firm controls include profit, firm size, firm age, and the PC/CPPCC member. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

## D Additional Results for Firm-level Analysis

Table D1: Comparing Our Results with Previous Studies on IPO Approval in China

Study	Data sample	Connection variable	Effect size
Bao et al. (2016)	IPO applications for ChiNext Board in 2009-2012	The membership of CEO or directors in NPC	0.160***
Liu et al. (2013)	IPO applications from private firms in 2004-2010	CEO's (former) membership in PC/CPPCC or government	0.0924***
<b>This paper</b>	<b>All applications in 2004-2016</b>	<b>Mayors' political alignment with PPS</b>	<b>0.078***</b>
Du et al. (2013)	All IPO applications in 2006-2010	Firm's connections with the IEC	0.0775***
Liu et al. (2013)	IPO applications from private firms in 2004-2010	Founder's (former) membership in the PC/CPPCC or government	0.0738**
Liu et al. (2013)	IPO applications from private firms in 2004-2010	PE investor's (former) membership in the PC/CPPCC or government	0.0699**
Chen et al. (2017)	All IPO applications in 2006-2011	Underwriter's (former) membership in government or military	0.0553**
Liu et al. (2013)	IPO applications from private firms in 2004-2010	Sponsor's (former) membership in the PC/CPPCC or government	0.0484*
Wang and Wu (2020)	All IPO applications in 2007-2015	Political connections of the VC backing the IPO applicant	0.043**
Bao et al. (2016)	IPO applications for ChiNext Board in 2009-2012	The membership of CEO or directors in the CPPCC	0.03
Yang (2013)	All IPO applications in 2002-2010	Auditing firm's connection to the IEC	0.014**
Bao et al. (2016)	IPO applications for ChiNext Board in 2009-2012	The membership of CEO or directors in local PC	0.01

Notes: The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ . IEC=Issuance Examination Committee. PE=Private Equity. VC=Venture Capital. (N)PC=(National) People's Congress. CPPCC=Chinese People's Political Consultative Conference.

Table D2: IPO Approval and Political Alignment (Heterogeneous Effects by Firm’s Direct Political Connection and Performance)

	IPO Approval			
	(1)	(2)	(3)	(4)
Political Alignment	0.077*** (0.027)	0.093*** (0.028)	0.120** (0.048)	0.143*** (0.045)
Political Alignment × PC/CPPCC	0.025 (0.052)			
Political Alignment × State-Owned Enterprises		-0.166** (0.074)		
Political Alignment × ROA (%)			-0.002 (0.002)	
Political Alignment × ROE (%)				-0.003** (0.001)
City Fixed Effects	×	×	×	×
Applying Year Fixed Effects	×	×	×	×
Application Controls	×	×	×	×
Industry Fixed Effects	×	×	×	×
Firm Controls	×	×	×	×
City Controls	×	×	×	×
Province-Year Trends	×	×	×	×
Outcome Variable Mean	0.676	0.676	0.682	0.677
Number of Obs	1497	1497	1461	1492

*Notes:* In this table, we test whether the effect of political alignment differs by firm’s direct political connection and performance. We find that the effect of mayor’s political alignment is most effective for firms without good financial performance or direct political connection. While for firms with superior financial performance or alternative political ties (such as a politically connected CEO or controlled by the state), political alignment between the mayor and the PPS becomes less important for its IPO approval. Control variables: (1) Application controls include the length of IPO review, board fixed effects, and underwriter-year fixed effects; (2) Firm controls include asset-liability ratio, log registered capital, log employment size, and firm age at the time of application; (3) City controls include log population size, log GDP, log GDP per capita, annual GDP growth rate, log fixed investment size, log government revenue and expenditure, and unemployment rate. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

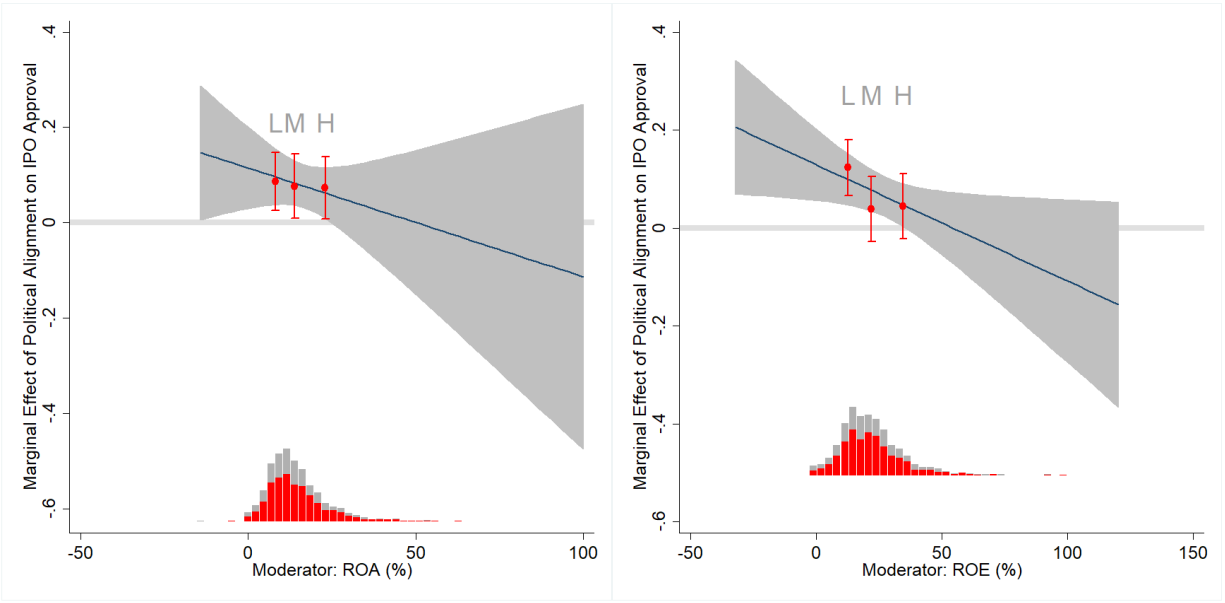


Figure D1: Heterogeneous Effects of Political Alignment by Firm Performance

*Notes:* This figure serves as an additional check on the moderation effect of ROA and ROE in Appendix Table D2. We plot the effects for low, medium, and high level of the moderator based on tertiles using the binning estimator (red dot). The distribution of data is shown below the estimates, where red bars represent observations with political alignment and gray bars represent those without political alignment. These results confirm the implications from Appendix Table D2 that mayor's political alignment with the PPS is most influential for IPO approval when the firm has unsatisfactory financial performance (such as a low ROE).

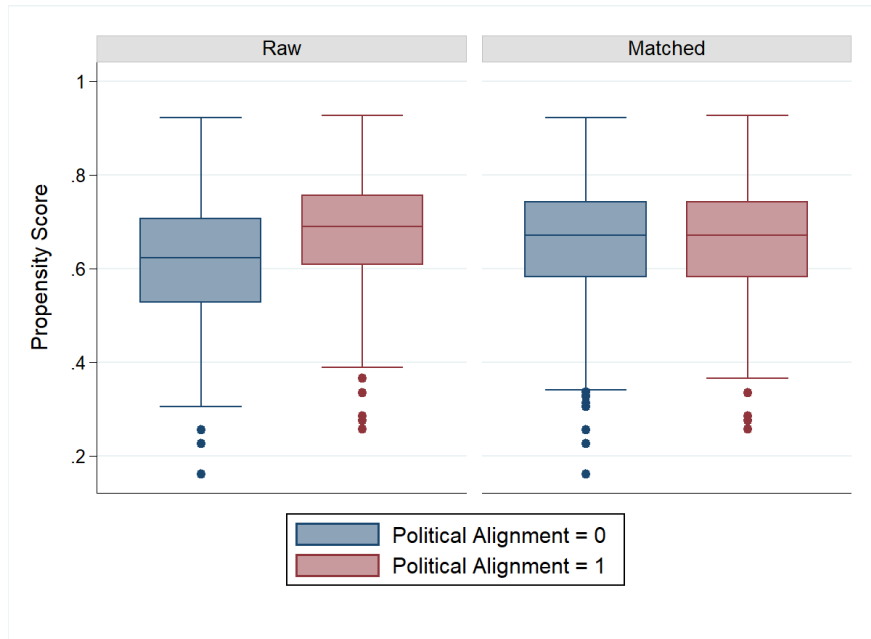


Figure D2: Balance Plot for Raw and Matched Sample

*Notes:* Firm characteristics are used to conduct propensity score matching between observations with and without political alignment. The boxes show the median, 25 percentile, and 75 percentile in propensity score for the treatment (red rectangles) and control (blue rectangles) groups respectively. The bars represent 95% confidence intervals.

Table D3: Political Alignment and IPO Approval (with Propensity Score Matching)

	IPO Approval					
	(1)	(2)	(3)	(4)	(5)	(6)
Political Alignment	0.099*** (0.030)	0.059** (0.028)	0.056** (0.026)	0.058* (0.031)	0.071** (0.029)	0.069** (0.027)
City Fixed Effects	×	×	×	×	×	×
Applying Year Fixed Effects	×	×	×	×	×	×
Application Controls		×	×	×	×	×
Sector Controls			×	×	×	×
Firm Controls				×	×	×
City Controls					×	×
Province-Year Trends						×
Outcome Variable Mean	0.654	0.660	0.660	0.677	0.676	0.676
Number of Obs	1393	1378	1378	1302	1273	1273

*Notes:* Control variables: (1) Application controls include the length of IPO review, board fixed effects, and underwriter-year fixed effects; (2) Firm controls include ROA, ROE, asset-liability ratio, state-owned shares, log registered capital, log employment size, firm age, and direct political connection (i.e., membership in People’s congress, People’s Political Consultative Conference, or prior work experience in government at or above the city-level) at the time of application; (3) City controls include log population size, log GDP, log GDP per capita, annual GDP growth rate, log fixed investment size, log government revenue and expenditure, and unemployment rate. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Table D4: IPO Approval and Political Alignment with Alternative Measures

	IPO Approval					
	(1)	(2)	(3)	(4)	(5)	(6)
Hometown Connection	0.391*** (0.033)	0.568*** (0.135)				
Workplace Connection			0.177*** (0.042)	0.228** (0.108)		
College Connection					-0.093 (0.112)	0.237** (0.102)
City Fixed Effects	×	×	×	×	×	×
Applying Year Fixed Effects	×	×	×	×	×	×
Application Controls		×		×		×
Industry Fixed Effects		×		×		×
Firm Controls		×		×		×
City Controls		×		×		×
Province-Year Trends		×		×		×
Outcome Variable Mean	0.655	0.683	0.655	0.683	0.655	0.683
Number of Obs	1898	1457	1898	1457	1898	1457

*Notes:* This table repeats the analysis in Table 3 with alternative measures for the political alignment between the mayor and PPS. The results reported here demonstrate that political alignment still increases the chance of IPO approval when we employ different measures. We use another three commonly-used measures here, namely, (1) Hometown Connection, a dichotomous variable which is assigned with the value one if the mayor and PPS were born in the same prefecture and with the value zero if otherwise; (2) Workplace Connection which indicates whether the mayor and PPS used to work in the same government agency; (3) College Connection, a dummy variable which equals to one if the mayor and PPS went to the same college, and zero if otherwise. Control variables: (1) Application controls include the length of IPO review, board fixed effects, and underwriter-year fixed effects; (2) Firm controls include ROA, ROE, asset-liability ratio, state-owned shares, log registered capital, log employment size, firm age, and PC/CPPCC membership at the time of application; (3) City controls include log population size, log GDP, log GDP per capita, annual GDP growth rate, log fixed investment size, log government revenue and expenditure, and unemployment rate. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .



Table D5: IPO Approval and the Political Alignment between CPS and PPS

	IPO Approval					
	(1)	(2)	(3)	(4)	(5)	(6)
Political Alignment	0.042 (0.031)	0.079*** (0.029)	0.077** (0.032)	0.066* (0.034)	0.065 (0.041)	0.077* (0.042)
City Fixed Effects	×	×	×	×	×	×
Applying Year Fixed Effects	×	×	×	×	×	×
Application Controls		×	×	×	×	×
Industry Fixed Effects			×	×	×	×
Firm Controls				×	×	×
City Controls					×	×
Province-Year Trends						×
Outcome Variable Mean	0.656	0.676	0.682	0.687	0.685	0.685
Number of Obs	1894	1572	1547	1491	1453	1453

*Notes:* This table repeats the analysis in Table 3 with an alternative measure for the political alignment between city leaders and PPS. We use the political alignment between city party secretary (CPS) and provincial party secretary (PPS) as the main explanatory variable. Control variables: (1) Application controls include the length of IPO review, board fixed effects, and underwriter-year fixed effects; (2) Firm controls include ROA, ROE, asset-liability ratio, state-owned shares, log registered capital, log employment size, firm age, and PC/CPPCC membership at the time of application; (3) City controls include log population size, log GDP, log GDP per capita, annual GDP growth rate, log fixed investment size, log government revenue and expenditure, and unemployment rate. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Table D6: Robustness Check with Sub-samples and Additional Control Variables

	IPO Approval					
	(1) w/o start-up board	(2) w/o financial sector	(3) First application	(4) Control for IEC fixed effects	(5) Control for innovation expenditure	(6) Control for tax, subsidy, cash flow
Political Alignment	0.101*** (0.034)	0.079*** (0.025)	0.066*** (0.023)	0.079*** (0.027)	0.140** (0.065)	0.063* (0.035)
City Fixed Effects	×	×	×	×	×	×
Applying Year Fixed Effects	×	×	×	×	×	×
Application Controls	×	×	×	×	×	×
Industry Fixed Effects	×	×	×	×	×	×
Firm Controls	×	×	×	×	×	×
City Controls	×	×	×	×	×	×
Province-Year Trends	×	×	×	×	×	×
Outcome Variable Mean	0.697	0.682	0.682	0.684	0.469	0.765
Number of Obs	860	1441	1407	1410	737	801

*Notes:* This appendix table shows that the results in Table 3 are robust to the inclusion of additional fixed effects, control variables, and different sub-samples. More specifically, earlier studies have shown that firms which apply on the start-up board, are in the financial sector, and had applied for IPO before are more likely to be approved. Hence, we repeat our analysis by dropping IPO applications for the start-up board in column (1); dropping applications from firms in the financial sector in column (2); and using a sub-sample of only the first IPO application from each firm in column (3). Moreover, we control for the Issuance Examination Committee (IEC) fixed effects in column (4) to absorb the potential influence due to specific IEC meetings. Finally, given that firm characteristics such as innovation expenditure (as share of revenue), tax (as share of revenue), government subsidy (as share of revenue), and net cash flow have much smaller sample size than other variables, we do not control for them in Table 3 to preserve the sample size. These control variables are included in columns (5) and (6) and we still obtain robust results. Control variables: (a) Application controls include the length of IPO review, board fixed effects, and underwriter-year fixed effects; (b) Firm controls include ROA, ROE, asset-liability ratio, state-owned shares, log registered capital, log employment size, firm age, and PC/CPPCC membership at the time of application; (c) City controls include log population size, log GDP, log GDP per capita, annual GDP growth rate, log fixed investment size, log government revenue and expenditure, and unemployment rate. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Table D7: Political Alignment and IPO Approval without Imputation

	IPO Approval					
	(1)	(2)	(3)	(4)	(5)	(6)
Political Alignment	0.032** (0.014)	0.045** (0.021)	0.048* (0.025)	0.073*** (0.022)	0.082*** (0.023)	0.078** (0.030)
City Fixed Effects	×	×	×	×	×	×
Applying Year Fixed Effects	×	×	×	×	×	×
Application Controls		×	×	×	×	×
Industry Fixed Effects			×	×	×	×
Firm Controls				×	×	×
City Controls					×	×
Province-Year Trends						×
Outcome Variable Mean	0.566	0.581	0.585	0.586	0.585	0.585
Number of Obs	1303	1063	1057	1004	990	990

*Notes:* The analysis shown in this appendix table uses the original data without applying the imputation technique. The results are still robust. Control variables: (1) Application controls include the length of IPO review, board fixed effects, and underwriter-year fixed effects; (2) Firm controls include ROA, ROE, asset-liability ratio, state-owned shares, log registered capital, log employment size, firm age, and PC/PPCC membership at the time of application; (3) City controls include log population size, log GDP, log GDP per capita, annual GDP growth rate, log fixed investment size, log government revenue and expenditure, and unemployment rate. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Table D8: Political Alignment and IPO Approval (Sub-sample of Applications after 2013)

	IPO Approval					
	(1)	(2)	(3)	(4)	(5)	(6)
Political Alignment	0.045 (0.027)	0.114*** (0.028)	0.122*** (0.038)	0.127*** (0.039)	0.118*** (0.040)	0.139** (0.066)
City Fixed Effects	×	×	×	×	×	×
Applying Year Fixed Effects	×	×	×	×	×	×
Application Controls		×	×	×	×	×
Industry Fixed Effects			×	×	×	×
Firm Controls				×	×	×
City Controls					×	×
Province-Year Trends						×
Outcome Variable Mean	0.435	0.469	0.470	0.473	0.472	0.472
Number of Obs	909	764	762	734	725	725

*Notes:* This table serves as a robustness check for the results in Table 3. Using a sub-sample of only IPO applications submitted after 2013, the effect of political alignment is still significant and even more salient. Control variables: (1) Application controls include the length of IPO review, board fixed effects, and underwriter-year fixed effects; (2) Firm controls include ROA, ROE, asset-liability ratio, state-owned shares, log registered capital, log employment size, firm age, and PC/CPCC membership at the time of application; (3) City controls include log population size, log GDP, log GDP per capita, annual GDP growth rate, log fixed investment size, log government revenue and expenditure, and unemployment rate. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Table D9: Political Alignment and IPO Approval (Heterogeneous Effects by Industry)

	IPO Approval			
	(1)	(2)	(3)	(4)
Alignment	0.216 (0.158)	0.313** (0.152)	0.319* (0.163)	0.310* (0.166)
Alignment * Catering	-0.213 (0.166)	0.114 (0.175)	0.085 (0.191)	0.160 (0.203)
Alignment * Information	-0.143 (0.163)	-0.276* (0.163)	-0.250 (0.178)	-0.228 (0.182)
Alignment * Agriculture	-0.143 (0.234)	-0.057 (0.276)	-0.052 (0.281)	-0.052 (0.294)
Alignment * Manufacturing	-0.185 (0.161)	-0.277* (0.152)	-0.267 (0.165)	-0.257 (0.168)
Alignment * Health	0.625*** (0.160)	0.616*** (0.191)	0.596*** (0.198)	0.600*** (0.205)
Alignment * Construction	-0.148 (0.167)	-0.196 (0.186)	-0.190 (0.200)	-0.213 (0.199)
Alignment * Real estate	0.032 (0.221)	0.237 (0.212)	0.147 (0.243)	0.014 (0.245)
Alignment * Retail	-0.154 (0.170)	-0.100 (0.179)	-0.082 (0.194)	-0.099 (0.201)
Alignment * Entertainment	-0.176 (0.197)	-0.383* (0.225)	-0.390* (0.233)	-0.381 (0.239)
Alignment * Facilities	-0.141 (0.208)	-0.249 (0.178)	-0.218 (0.187)	-0.154 (0.190)
Alignment * Energy	-0.390* (0.213)	-0.334 (0.241)	-0.312 (0.262)	-0.254 (0.247)
Alignment * R&D	-0.152 (0.219)	-0.201 (0.211)	-0.204 (0.218)	-0.197 (0.230)
Alignment * Rental	-0.291 (0.193)	-0.446** (0.213)	-0.455** (0.229)	-0.438* (0.242)
Alignment * Mining	-0.493** (0.197)	-0.448* (0.233)	-0.491* (0.264)	-0.446 (0.273)
Alignment * Finance	-0.228 (0.161)	-0.23 (0.162)	-0.261 (0.178)	-0.215 (0.180)
Number of Obs	1863	1496	1458	1458
City Fixed Effects	×	×	×	×
Applying Year Fixed Effects	×	×	×	×
Application Controls		×	×	×
Firm Controls		×	×	×
City Controls			×	×
Province-Year Trends				×

Notes: Transportation is used as the reference group, and others (including residential service and maintenance) is dropped due to too few observations. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

## E Longitudinal City-Level Analysis

Although we have included many control variables in Table 3, the research design does not allow us to rule out the influence of unobserved confounding factors. To further alleviate this concern, we adopt a generalized difference-in-differences (DID) design applied to a city panel. To this end, we aggregate IPO approvals to the city level and obtain the number of IPO approvals that each city receives from 2004 to 2016. We then complement these IPO data with other covariates of the city and mayor. Appendix Table E1 reports the data sources and descriptive statistics for the variables used in the city-level analysis.

The following equation describes our generalized DID design.

$$Y_{ct} = \alpha_0 + \alpha_1 \text{Alignment}_{ct} + \delta X_{c,t-1} + \gamma Z_{ct} + \theta_c + \lambda_t + \epsilon_{ct} \quad (2)$$

where  $Y_{ct}$  is the primary outcome variable, namely, the total number of IPO approvals, and  $\text{Alignment}_{ct}$  denotes the political alignment between the mayor and the PPS for city  $c$  in year  $t$ .  $\theta_c$  and  $\lambda_t$  are city and year fixed effects, respectively. We also include a vector of city-level control variables,  $X_{c,t-1}$ , to reduce the omitted variable bias. For instance, we control for the number of IPO applications under review since this sets an upper bound for the number of approvals. Furthermore, we control for the same set of city covariates used in Table 3 and lag them (except the number of IPO applications under review) by one year to reduce the post-treatment bias. Finally, we control for a battery of mayor characteristics,  $Z_{ct}$ , including mayor's age (and its quadratic form), tenure (and its quadratic form), gender, education, and a dummy variable indicating the mayor's first year in office. We cluster standard errors at the city level to deal with the intra-city serial correlation.

Table E2 reports the results for our city-level analysis. Column (1) contains the results for the baseline model that controls for only city and year fixed effects. We then gradually add city controls, mayor controls, and province-year trends in columns (2) to (4). The coefficient of Political Alignment remains positive and statistically significant at the 1% level across all columns. Although the coefficients of Political Alignment are small in magnitude, this is mostly because a city, on average, receives only 0.4 IPO approvals each year. Hence, the results reported in Column (4) mean that Political Alignment helps a city boost the number of IPO approvals by 19.4% above the average.

We also explore the robustness of these results in several ways. First, since not all cities have firms that aspire to go public, we further limit our sample to only those cities that have had at least one firm applying for IPO between 2004 and 2016, and repeat the analysis in Appendix Table E3. Moreover, we further control for the idiosyncratic influence of mayors and PPS's by including their fixed effects separately in Appendix Table E4. In both sets of tests, the results become even stronger.

Finally, we conduct a falsification test for the critical parallel trends assumption required in a DID setup. The test should show that political alignment does not have any effect on the number of IPO approvals *before* the alignment is formed. More specifically, we adopt the following specification.

$$Y_{ct} = \beta_0 + \sum_{k=-3}^{+5, k \neq 1} \delta_k \text{Alignment}_{c,k+t} + \delta X_{c,t-1} + \gamma Z_{ct} + \theta_c + \lambda_t + \epsilon_{ct} \quad (3)$$

where  $\text{Alignment}_{c,k+t}$  is a set of dummy variables indicating that the city will form political alignment in  $k$  years (when  $k > 0$ ) or the city has already formed political alignment for  $k$  years (when  $k \leq 0$ ). We omit the year just before the city establishes political alignment as the baseline year. Hence, all coefficients  $\delta_k$  (where  $k \neq 1$ ) should be interpreted in comparison with  $\delta_1$ , the effect of political alignment on the number of IPO approvals in the year just before a nascent political alignment is established.

Figure E1 presents the results for this exercise. We include the same set of control

Table E1: Summary Statistics of Variables for City-Level Analysis

	N	Mean	SD	Min	Max	Data Source
<b><i>IPO Outcome Variables</i></b>						
IPO approvals	4,643	0.348	1.350	0	31	1
IPOs in waitlist	4,643	0.747	3.462	0	94	1
New IPO applications	4,643	0.295	1.755	0	64	1
<b><i>Mayor Characteristics</i></b>						
Mayor's political alignment	4,584	0.634	0.482	0	1	2
Mayor's promotion	4,581	0.149	0.356	0	1	2
Mayor's age	4,581	50.19	3.969	33	62	2,3
Mayor's gender	4,584	1.940	0.237	1	2	3
Mayor's education	4,497	5.080	1.300	1	7	3
Mayor's tenure	4,643	1.492	1.507	0	11	2,3
Mayor's first year in office	4,643	0.319	0.466	0	1	2,3
<b><i>City Characteristics</i></b>						
(log) Population	3,932	5.835	0.676	2.855	7.244	4
(log) GDP	3,928	15.88	1.031	12.67	19.09	4
(log) GDP per capita (Yuan)	3,921	10.06	0.818	4.605	13.06	4
GDP growth (%)	3,922	12.13	4.734	-19.38	109	4
(log) Investment	3,923	15.34	1.176	12.02	18.24	4
(log) Government Revenue	3,932	13.06	1.248	9.412	17.26	4
(log) Government Expenditure	3,932	13.91	1.032	10.41	17.56	4
Unemployment rate (%)	3,908	0.622	0.539	0	11.54	4
<b><i>Measurements for Corruption</i></b>						
Corrupt mayor	4,643	0.087	0.281	0	1	2,3
Number of bureau-level corrupt officials	1,629	0.373	1.224	0	24	5
Land purchase by princeling firms	3,593	0.482	0.500	0	1	6
Discount in land price (%)	3,540	3.245	5.350	0	35.35	6

*Notes:* City characteristics are measured in tens of thousands except for GDP per capita, GDP growth, and unemployment rate. Data Sources: 1. Wind Financial Database. 2. CCER Official Database. 3. Chinese Political Elite Database (CPED). 4. China City Statistical Yearbook. 5. Data from [Wang and Dickson \(2022\)](#). 6. Data from [Chen and Kung \(2018\)](#).



Table E2: Political Alignment and IPO Approvals with the Generalized DID Design

	Number of IPO Approvals			
	(1)	(2)	(3)	(4)
Political Alignment	0.093*** (0.026)	0.075*** (0.019)	0.071*** (0.027)	0.084*** (0.032)
City Fixed Effects	×	×	×	×
Year Fixed Effects	×	×	×	×
City Controls		×	×	×
Mayor Controls			×	×
Province-Year Trends				×
Outcome Variable Mean	0.377	0.432	0.433	0.433
Number of Cities	332	285	284	284
Number of Obs	4274	3585	3541	3541

*Notes:* City controls include population, GDP, GDP per capita, GDP growth, government revenue and expenditure, investment, unemployment rate in the previous year, and the number of IPO applications under review. Mayor controls include age (and its quadratic term), tenure (and its quadratic term), gender, education level, and mayor’s first year in office. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

variables, fixed effects, and province-year trends as the model presented in column (4) of Table E2. Figure E1 shows that there is no significant difference in the number of IPO approvals before the city forms political alignment (i.e., X-axis with negative numbers). However, we see a significant jump in the number of IPO approvals once political alignment is established (zero on X-axis) and this difference remains at least in the first three years thereafter. Hence, the figure helps clarify that our results are not driven by the selection bias that politically aligned cities have more IPO approvals before their mayors establish the alignment.

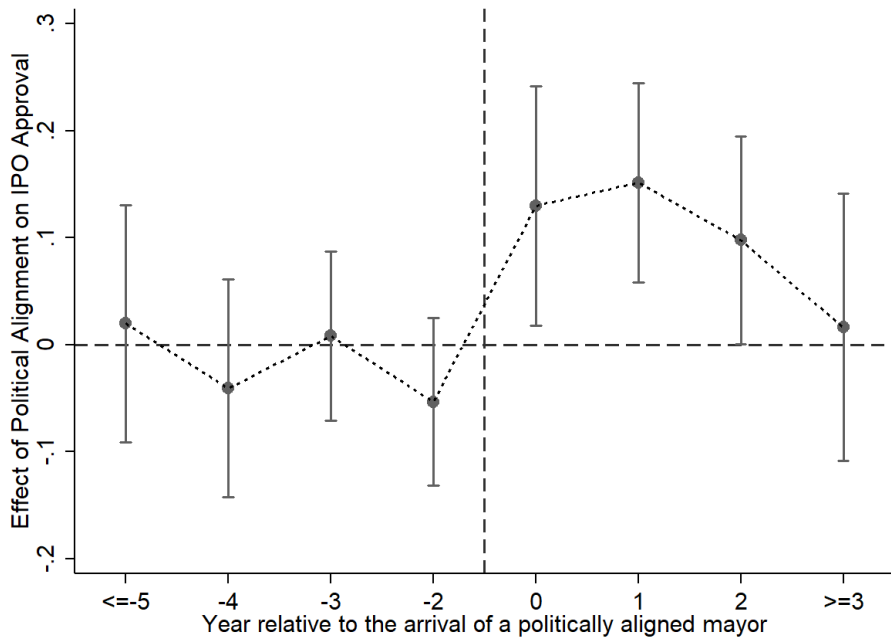


Figure E1: Dynamic Effects of Political Alignment on IPO Approval

*Notes:* Each dot indicates a point estimate and the vertical bars are the 95% confidence intervals. Horizontal axis denotes the year relative to the year when the city establishes a new political alignment between mayor and PPS. Negative numbers on the horizontal axis refer to the years before a city establishes political alignment. Numbers without signs on the horizontal axis indicate the years since the city has formed political alignment. We omit the year before the city forms political alignment as the baseline.

Table E3: Political Alignment and IPO Approvals with a Smaller Sample

	Number of IPO Approvals			
	(1)	(2)	(3)	(4)
Political Alignment	0.158*** (0.040)	0.125*** (0.026)	0.126*** (0.036)	0.142*** (0.044)
City Fixed Effects	×	×	×	×
Year Fixed Effects	×	×	×	×
City Controls		×	×	×
Mayor Controls			×	×
Province-Year Trends				×
Outcome Variable Mean	0.608	0.629	0.630	0.630
Number of Obs	2653	2466	2433	2433

*Notes:* The analysis reported here focuses on cities that have at least one IPO application from 2004 to 2016. In other words, we exclude cities that never have any firm applying for IPO. City controls include population, GDP, GDP per capita, GDP growth, government revenue and expenditure, investment, unemployment rate in the previous year, and the number of IPOs in waitlist. Mayor controls include age (and quadratic term), tenure (and quadratic term), gender, education level, and whether the mayor is in his/her first year in office. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Table E4: Political Alignment and IPO Approvals Controlling for Provincial Party Secretary (PPS) and Mayor Fixed Effects

	Number of IPO Approvals					
	(1)	(2)	(3)	(4)	(5)	(6)
Political Alignment	0.102*** (0.032)	0.099*** (0.032)	0.104** (0.043)	0.165*** (0.063)	0.084* (0.044)	0.098* (0.054)
City Fixed Effects	×	×	×	×	×	×
Year Fixed Effects	×	×	×	×	×	×
PPS Fixed Effects	×	×	×			
Mayor Fixed Effects				×	×	×
City Controls		×	×		×	×
Mayor Controls		×	×			
Province-Year Trends			×			×
Outcome Variable Mean	0.379	0.433	0.433	0.377	0.432	0.432
Number of Obs	4249	3541	3541	4274	3585	3585

*Notes:* The analysis shown in this appendix table provides a robustness check for the results in Table E2 by including additional fixed effects. Columns (1) to (3) further control for the provincial party secretary (PPS) fixed effects. Columns (4) to (6) further control for the mayor fixed effects (and hence, mayor characteristics such as age, gender, education level are not controlled for). City controls include population, GDP, GDP per capita, GDP growth, government revenue and expenditure, investment, unemployment rate in the previous year, and the number of IPOs in waitlist. Mayor controls include age (and quadratic term), tenure (and quadratic term), gender, education level, and whether the mayor is in his/her first year in office. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

## F Additional Evidence for the Mechanism: A Case Study

The Anhui Guangxin Agrochemical Co., Ltd (“Guangxin” hereafter), located in Xuancheng City, Anhui Province, is a firm that produces chemical pesticides. The firm applied for the IPO in 2011. However, the CSRC rejected Guangxin’s application in the same year due to Guangxin’s worrying records of environmental protection and production safety. The CSRC found out this problem because, when consulted by the CSRC about Guangxin, the Provincial Government of Anhui forwarded a report from its Provincial Bureau of Environmental Protection. This report showed that the firm had a severe chemical accident in 2010 that killed three workers, and that another two factories of Guangxin did not take adequate measures to prevent similar chemical accidents.

After its initial failure, Guangxin applied for IPO again in 2014. This time, the CSRC approved its application within a few months. What led to the change in the CSRC’s decision? From 2011 to 2014, there were no significant changes in the CSRC’s review rules for IPO. Moreover, compliance with local environmental regulations remained a crucial criterion that firms needed to satisfy. However, one factor did change between the firm’s two IPO applications. Initially, in 2011, the mayor of Xuancheng City was *not* politically aligned with the PPS of Anhui Province; whereas in 2014 when Guangxin submitted its second application, the new mayor who had taken office in 2013 *was* politically aligned with the PPS. Although we do not know why the CSRC approved the firm’s second IPO application, it is possible that the provincial government hid information unfavorable to the firm, or even helped defend the firm’s worrying pollution records. This case provides an example of how the political alignment between the city and provincial governments may influence the review of IPO applications.

Although the case study is illustrative, it may not represent the general pattern of all IPO applications. Moreover, we are unable to control for many other mechanisms that may account for Guangxin’s second, successful application. For instance, it is possible that, in this specific case, Guangxin has improved its safety and environmental standards by 2014.

To rule out the influence of these concerns, we consider all IPO applications from 2004 to 2016 and perform a quantitative analysis in Section 5.

## G Additional Tests on the Consequences of Alignment-Induced IPO Approval

Table G1: IPO Approvals and the Mayoral Promotion

	Mayoral Promotion Within X year(s)			
	(1) this year	(2) 1 year	(3) 2 years	(4) 3 years
Number of IPO Approvals	0.037** (0.017)	0.032** (0.014)	0.028** (0.014)	0.022* (0.013)
Provincial Party Congress	0.041** (0.020)	0.019 (0.018)	0.018 (0.016)	0.017 (0.015)
Central-level Work Experience	0.010 (0.027)	0.029 (0.043)	0.007 (0.049)	-0.030 (0.051)
City Fixed Effects	×	×	×	×
Year Fixed Effects	×	×	×	×
City Controls	×	×	×	×
Mayor Controls	×	×	×	×
Province-Year Trends	×	×	×	×
Outcome Variable Mean	0.166	0.301	0.397	0.458
Number of Obs	3533	3533	3533	3533

*Notes:* City controls include population, GDP, GDP per capita, GDP growth, government revenue and expenditure, investment, unemployment rate in the previous year, and the number of IPO applications under review. Mayor controls include age (and its quadratic term), tenure (and its quadratic term), gender, education level, patronage connection, and mayor's first year in office. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Table G2: IPO Approvals and the Mayoral Promotion (Aggregate by Mayor's Term)

	Promotion by the End of Mayor's Term			
	(1)	(2)	(3)	(4)
IPO Approvals Per Year	0.024 (0.016)	0.033** (0.017)	0.034* (0.017)	0.036** (0.017)
City Fixed Effects	×	×	×	×
Year Fixed Effects		×	×	×
Mayor Controls			×	×
City Controls				×
Outcome Variable Mean	0.472	0.472	0.477	0.498
Number of Obs	1449	1449	1399	1231

*Notes:* This table serves as a robustness check for the results in Table 7. We aggregate the average number of IPOs per year for each mayor in his/her term, and use promotion at the end of this mayor's term as the outcome variable. The results suggest that the more IPOs a mayor obtains each year, the more likely (s)he will be promoted at the end of his/her term. Mayor controls include the age, gender, education level, patronage connection, first year in office, and the total number of years in office. City controls include the population, GDP, GDP per capita, GDP growth, government revenue and expenditure, investment, and unemployment rate. Both mayor's and city's characteristics are measure in the year the mayor first took office. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .



Table G3: IPO Rejections and the Mayoral Promotion

	Mayoral Promotion Within X year(s)			
	(1) this year	(2) 1 year	(3) 2 years	(4) 3 years
Number of IPO Rejections	-0.037** (0.018)	-0.034** (0.015)	-0.030** (0.015)	-0.025* (0.014)
City Fixed Effects	×	×	×	×
Year Fixed Effects	×	×	×	×
City Controls	×	×	×	×
Mayor Controls	×	×	×	×
Province-Year Trends	×	×	×	×
Outcome Variable Mean	0.166	0.301	0.397	0.458
Number of Obs	3533	3533	3533	3533

*Notes:* This table shows that the number of IPO rejections negatively correlates with the mayoral promotion. City controls include population, GDP, GDP per capita, GDP growth, government revenue and expenditure, investment, unemployment rate in the previous year, and the number of IPO applications under review. Mayor controls include age (and its quadratic term), tenure (and its quadratic term), gender, education level, patronage connection, and mayor's first year in office. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Table G4: IPO Approval and the Mayoral Promotion in Earlier Years

	Mayoral Promotion within		
	Previous 1 Year	Previous 2 Years	Previous 3 Years
No. of IPO approvals	-0.009* (0.005)	-0.007 (0.007)	-0.009 (0.010)
City Fixed Effects	×	×	×
Year Fixed Effects	×	×	×
City Controls	×	×	×
Mayor Controls	×	×	×
Province-Year Trends	×	×	×
Outcome Variable Mean	0.155	0.305	0.445
Number of Obs	3260	2983	2709

*Notes:* The analysis reported here shows that IPO approvals are not positively associated with earlier mayoral promotion. City controls include population, GDP, GDP per capita, GDP growth, government revenue and expenditure, investment, unemployment rate in the previous 1-3 years, and the number of IPOs in waitlist. Mayor controls include mayor's political alignment, age (and quadratic term), tenure (and quadratic term), gender, education level, and whether the mayor is in his/her first year in office. Standard errors clustered at the city level are reported in parentheses. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Table G5: The Moderating Effect of Age Limit for City Mayors

	Number of IPO Approvals			
	(1)	(2)	(3)	(4)
Political Alignment	0.103*** (0.026)	0.087*** (0.020)	0.097*** (0.031)	0.105*** (0.036)
Alignment $\times \mathbb{1}(\text{Age} \geq 57)$	-0.147 (0.143)	-0.410* (0.226)	-0.458* (0.233)	-0.427* (0.230)
Alignment + Alignment $\times \mathbb{1}(\text{Age} \geq 57)$ (F-statistic)	-0.044 [0.10]	-0.323 [2.17]	-0.361 [2.71]	-0.322 [2.18]
City Fixed Effects	×	×	×	×
Year Fixed Effects	×	×	×	×
City Controls		×	×	×
Mayor Controls			×	×
Province-Year Trends				×
Outcome Variable Mean	0.378	0.432	0.433	0.433
Number of Obs	4266	3582	3541	3541

*Notes:* We add the same set of control variables as Table E2. Standard errors clustered at the city level are reported in parentheses. F-statistics are included in brackets. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Table G6: Moderating Effect of Age Limit (Alternative Cutoffs)

	No. of IPO Approvals	
	(1) Age $\geq$ 58	(2) Age $\geq$ 56
Political Alignment	0.103*** (0.035)	0.095** (0.037)
Alignment $\times$ $\mathbb{1}(\text{Age} \geq 58)$	-0.585* (0.316)	
Alignment $\times$ $\mathbb{1}(\text{Age} \geq 56)$		-0.126 (0.164)
Alignment + Alignment $\times$ $\mathbb{1}(\text{Age} \geq 56/58)$ (F-statistic)	-0.482 [2.48]	-0.031 [0.04]
City Fixed Effects	$\times$	$\times$
Year Fixed Effects	$\times$	$\times$
City Controls	$\times$	$\times$
Mayor Controls	$\times$	$\times$
Province-Year Trends	$\times$	$\times$
Outcome Variable Mean	0.433	0.433
Number of Obs	3541	3541

*Notes:* This table checks the robustness of the results in Table G5 by using alternative cutoffs for mayors' last term, namely 56 and 58 years old. City controls include population, GDP, GDP per capita, GDP growth, government revenue, government expenditure, investment, unemployment rate, and the number of IPOs in waitlist. Mayor controls include age (and quadratic term), tenure (and quadratic term), gender, education level, and whether the mayor is in his/her first year in office. Standard errors clustered at the city level are reported in parentheses. F-statistics are included in brackets. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

Table G7: IPO Approvals and Corruption

	Corruption		
	Same Year	After 1 Year	After 2 Years
Panel A			
Corrupt mayor	-0.003 (0.005)	-0.005 (0.005)	-0.006 (0.005)
N	3541	3270	2994
Panel B			
Bureau-level corrupt officials	-0.039 (0.068)	-0.266** (0.114)	0.024 (0.026)
N	1366	1364	1364
Panel C			
Land purchase by princeling	0.008 (0.008)	0.010 (0.017)	-0.005 (0.015)
N	2990	2713	2436
Panel D			
Discount in land price	0.132 (0.119)	0.120 (0.260)	0.172 (0.213)
N	2988	2711	2434

*Notes:* We use four different measurements for corruption as the outcome variable. More specifically, column (1) draws on the Chinese Political Elite Database (CPED) and CCER Official Database (2004-2016) and codes “corrupt mayor” as a dichotomous variable that takes the value one if the mayor has ever been investigated by the Chinese government for corruption and as zero if otherwise. Column (2) utilizes the data from Wang and Dickson (2022) and constructs a continuous variable (“bureau-level corrupt officials”) that counts the number of (deputy) bureau-level officials ((副)厅局级干部) investigated for corruption between 2012 and 2016. Column (3) and (4) draw on the data from Chen and Kung (2018) and construct two variables: a dichotomous variable coded as one if there is land purchased by “princeling” firms (i.e., firms run by close relatives of the Politburo members), and a continuous variable that measures the discount in land price offered to princeling firms. We include the same set of control variables and fixed effects as in our longitudinal study. The significance levels: \*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$ .

## References for the Appendix

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