Judicial Independence, Local Protectionism, and Economic Integration: Evidence from China

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Motivation

- A just and functioning legal system has long been perceived as a key building-block of economic prosperity (Smith, 1776; North, 1986; Besley and Persson, 2011)
 - Ideally, the judiciary should be independent from the government, to prevent improper external influence over the courts (Hamilton, 1788; Hayek, 1960; Buchanan, 1974)
 - In reality, courts are often captured, exercising local protectionism, which could distort economic activities (Cooter, 1996; Hay et al., 1996)
- Rich cross-country evidence on strong correlations between judicial independence and economic activities (Djankov et al., 2003; La Porta et al., 2004&2008)
 - There has been relatively little rigorous evidence on the legal and economic implications of judicial independence (Mehmood, 2022)

This Paper

- Judicial Independence → Judicial Local Protectionism in Commercial Lawsuits → Economic Integration (inter-regional investment flows)
 - Focus on China's high-stakes judicial independence reform, which removes the local governments' personnel and financial controls over local courts
 - Compile novel admin datasets on the universes of Chinese court judgment files (133 million) and business registration records (75 million)
- Exploiting the staggered roll-out of the judicial independence reform since 2014, we:
 - Estimate the judicial and economic impacts of the reform
 - Quantify the economic values of judicial independence

Why study judicial independence in China

Preview of Main Findings

- Judicial independence reform reduced local protectionism in judicial decisions: local defendants' win rates against external plaintiffs dropped by 7.0%
 - Effects especially salient for firms connected to local governments (but not for those connected to provincial and central governments)
 - Results driven by changes in judges' incentives
 - Longer run: smaller external firms more likely to sue large local firms
 - Significant improvements in the quality of judicial decisions
- \bullet Judicial independence reform increased external investment flows toward local firms by 8.4%
 - Driven by non-local firms making new entries to serve local markets, rather than protection-seeking formation of joint ventures
 - $\bullet\,$ Reducing judicial local protectionism nationwide could potentially increase China's GDP by 1.9%

Roadmap



2 Judicial Impacts

3 Economic Impacts



China's Judicial System



- Commercial lawsuits are tried in the defendant's jurisdiction
- First hearing mostly happen at the county/district basic court level, with exceptions of some large cases first heard by the prefectural intermediate courts
- After first verdict, one appeal can be made to the court one level above
- Civil law tradition, no jury or legally-binding precedents, so judges very powerful

Local Protectionism in China's Judiciary



- Local governments used to have great influence over the local courts, because they control personnel and finance
- President of the SPC: "Law was taken by some local officials as a tool to protect parochial interests."
- **68% of judges** see local protectionism as the major cause of unfairness in judicial decisions (SPC, 2014)

Judicial Independence Reform



- The 2014 judicial independence reform moved the control over local courts' personnel and finance from local govts to provincial govts
- Rich qualitative evidence suggests reduced local protectionism in judicial decisions (Zhou, 2017; Chen, 2018; Zhang and Ginsburg, 2019; SPC, 2019)
- Potential limitations:
 - Remaining protectionism in inter-provincial lawsuits?
 - 2 More favoritism towards firms connected to prov and central govts?

Staggered Rollout of the Judicial Independence Reform



- Reform started in 2014 with a few experimentation sites
- By 2020, more than 70% of China's local courts have undergone the reform

Data

- Roll-out information on the judicial reform collected from judicial yearbooks published by provincial high courts
- Universe of court verdicts in China between 2014 and 2021
 - 133 million records from China Judgment Online, run by the SPC
 - Our focus: over 6 million civil cases between firms
 - Variables: court, trial/ruling dates, judge name, plaintiff/defendant name, trial process, claims by plaintiff, rulings, court fee obligations, judicial reasoning, etc.
 - Non-compliance records with court rulings from Credit China
- Universe of business registration records from 1978 to 2021
 - More than 75 million records from Tianyancha, a comprehensive database on Chinese firms, licensed by the People's Bank of China
 - Variables: **location**, year of est., registered capital, industry, employment, shareholders/changes in shareholders, patents, etc.

Roadmap





3 Economic Impacts



Empirical Analysis

We investigate how the judicial independence reform impacted judicial decisions for civil lawsuits between local and non-local firms:

$$Y_{it} = \sum_{T} \beta_{1T} T_{it} + \alpha_t + \lambda_i + \epsilon_{it}$$

- Y_{it} : average win rate for local defendant in court *i* in semi-year *t*
- *T_{it}*:= 1 if, at time t, T semi-years have passed since court i experienced the reform
- α_t : semi-year fixed effects
- λ_i: court fixed effects
- SE clustered at the court level

Event Studies



- After reform, local firms less likely to win in lawsuits against non-local firms
- Account for heterogeneous effects following Sun & Abraham (2021)

Unadjusted event study Other methods Placebo

DiD Estimates

	All Cases	Intra-Province	Inter-Province	
	(1)	(2)	(3)	
Post Reform	-0.031***	-0.044***	-0.023***	
	(0.005)	(0.006)	(0.006)	
Mean of Outcome	0.44	0.40	0.47	
Court FE	Y	Y	Y	
Seimi-year FE	Y	Y	Y	
Observations	46,907	43,472	38,408	
R-Squared	0.212	0.185	0.198	

- After reform, local firms' average win rate dropped by 3.1 percentage points (7.0%) in civil lawsuits against non-local firms
- Local protectionism might still exist in inter-provincial lawsuits
- No evidence for potential side effects of reform:
 - **1** No change in win rates for firms connected to provincial/central govt
 - 2 No change in trial speed
 - O No change in enforcement rate
 - O No evidence for repercussions for judges

e-level analysis

Heterogeneity: Firms w/ Political Connections



- Political connection proxied by winning government contracts before
- Baseline results more salient for firms connected to local govts, no treatment effects for firms connected to prov/central govts
- Similar patterns for private firms vs. local SOEs vs. provincial/central SOEs

Intensive and Extensive Margin Effects

The reform could have both extensive and intensive margin impacts on the judicial process:

- Intensive margin: Conditional on the same composition of cases, decisions made by courts could also change
 - Judges could face less pressure to favor local firms in judicial decisions
- Extensive margin: Non-local firms could change their "bars" for bringing up lawsuits against local firms
 - The composition of firms in civil lawsuits might change

Intensive Margin

	Local Defendant's Win Rate	
	(1)	(2)
Post Reform	-0.071*** (0.017)	-0.080*** (0.021)
Mean of Outcome Court FE Seimi-year FE Judge FE	0.45 Y Y N	0.45 N Y Y
Observations R-Squared	38,875 0.209	32,244 0.495

- Focusing on the subset of cases that were filed within 6 months before the reform, and compare the ones that reached verdicts before vs. after the reform
 - Holding the composition of cases constant, we see a larger treatment effect than baseline
 - Results robust even after controlling for judge fixed effects

No sorting in verdict timing

Extensive Margin



• Non-local firms more willing to sue local firms after reform

Composition of Firms in Civil Lawsuits

	Regis. Cap	ital (Million)	# of Er	# of Employees		Age	
	Plaintiff	Defendant	Plaintiff	Defendant	Plaintiff	Defendant	
	(2)	(3)	(4)	(5)	(6)	(7)	
Post Reform	-8.786***	8.796***	-115.759**	82.697***	-0.954***	0.555***	
	(2.200)	(1.600)	(56.649)	(28.131)	(0.085)	(0.077)	
Mean of Outcome	86.09	79.80	590.95	508.33	9.36	9.97	
Court FE	Y	Y	Y	Y	Y	Y	
Seimi-year FE	Y	Y	Y	Y	Y	Y	
Observations	1,064,215	1,242,824	602,175	758,559	1,255,078	1,534,289	
R-Squared	0.047	0.043	0.066	0.043	0.067	0.068	

- After the reform, smaller non-local firms are more likely to sue larger local firms
- Might bias our baseline estimates downward: consistent with the fact that the intensive margin results are larger than the baseline results

Quality of Judicial Decisions



A. Appeal Rate

B. Evidence Examination

- External plaintiff less likely to appeal
 - No change for local defendant
- More likely to approve external plaintiff's request to examine evidence
 - No change for local defendant

Quality of Judicial Decisions



A. Length of judicial Reasoning

B. Discretionary Codes

- Court verdict provides more detailed judicial reasoning
- Court verdict less likely to cite discretionary codes

No change in court enforcement

Roadmap

Background and Data

- 2 Judicial Impacts
- 3 Economic Impacts



Economic Impacts: Inter-County Investment



A. Number of Investment (log)

B. Amount of Investment (log)

- We identify cross-county investments from changes in business ownership info, and aggregate at the county-year level
- After a county carries out the judicial independence reform, local firms receive more external investments

Substituting industries v.s. Complementary industries



Figure: # of investment (log)



Figure: Amount of Investment (log)

- Consistent with Coase (1937), in the presence of a reduction in transaction costs, the non-local firms:
 - Increase operations in the local markets
 - 2 Decrease mergers with trading partners

Welfare Implications

- We rationalize the investment response using a Melitz-style model of inter-regional investment decisions
- Model suggests that the investment response is a sufficient statistic for changes in total economic surplus
- Back-of-envelope calculation shows the judicial reform increases the flow of cross-county entrepreneurial investments by \$22 billion annually; long-run effect of national roll-out can increase GDP by 1.9%

Model details

Roadmap

Background and Data

- 2 Judicial Impacts
- 3 Economic Impacts



Conclusion

- Judicial independence reduces judicial local protectionism
 - When local courts become more independent from local governments, they rule less favorably toward local firms in inter-regional lawsuits
 - Driven by changes in judges' incentives, particularly salient for politically connected local defendants
 - Encouraging small external firms to sue large local firms
 - Significant improvements in judicial quality
- Reduced judicial local protectionism leads to economic integration
 - Firms in reformed regions receive more investments from outside
 - Reducing judicial local protectionism nationwide could increase economic surplus by more than 1.9% of China's GDP

Implications: authoritarian legalism

Thank You!

Appendix

Judicial Independence in China

China is an important setting to study this question because:

- For the most part of China's reform era, local courts' finance and personnel were both controlled by corresponding local governments
 - President of the Supreme People's Court (SPC): "law was taken by some local officials as a tool to protect parochial interests."
- Since 2014, the SPC has been rolling out a high-stakes judicial independence reform, removing the local governments' personnel and financial controls over local courts
 - The reform "brought China's judicial independence to an unprecedented level" (Zhang and Ginsburg, 2018)
- The size of the Chinese economy means that economic integration (or the lack thereof due to local judicial protectionism) would likely have profound welfare consequences



Contributions to the Literature

- Legal capacity and development (Smith, 1776; Hamilton, 1788; Hayek, 1960; Buchanan, 1974; North, 1986; Glaeser and Shleifer, 2002; La Porta et al., 2004&2008; Besley and Persson, 2011)
 - Existing literature mostly focuses on courts' speed, rather than fairness, in processing cases (Chemin, 2009; Visaria, 2009; Ponticelli and Alencar 2016; Boehm and Oberfield, 2020; Rao, 2021)
 - We study the legal and economic implications of judicial independence (Mehmood, 2022)
- Local protectionism and economic integration (Young, 2000; Nunn, 2007; Donaldson, 2015; Barwick et al., 2021)
 - We add to the literature by documenting judicial capture as an important source of local protectionism and market fragmentation
- Chinese political economic institutions (Montinola et al., 1995; Qian and Weingast, 1997; Xu, 2011)
 - Existing research focuses on the tension between political centralization and economic decentralization, we add judiciaries to the picture



Anecdotal Evidence for Judicial Local Protectionism



- Large Chinese IT companies are known for their notoriously high win rates at their home courts
- Stark contrast with their win rates at away courts

Court Verdict Data Quality Check





Court Verdict Data Quality Check

	Missing Rate	Missing Rate
	(1)	(2)
Post Reform	ost Reform 0.017 (0.026)	
Moon of Outcome	0.01	0.01
Province FE	0.21 Y	0.21 Y
Year FE	Y	Y
Standard Errors	Heteroscedasticity-consistent	Clustered at Province
Observations	217	217
R-Squared	0.817	0.817



Measuring Judicial Outcome

- To measure local protectionism, we need to quantify the extent to which local firms are "winning" in civil lawsuits
- Following the law literature, we proxy for each party's win rate using its obligations of court fees
 - Civil practice rule: the court fees shall be paid by the losing party
 - Applies to both a partial win/lose and a full win/lose
 - If the court supports x% of your standing, then you pays 1-x% of the court fees.

$$\textit{WinRate}_i = 1 - rac{\textit{CourtFee}_i}{\textit{CourtFee}_i + \textit{CourtFee}_j}$$



An Example of Court Judgment



8 / 38

Reform Expansion and Local Defendant's Win Rate



 We calculate the difference in local defendants' win rate between eventually reformed and non-reformed courts, and plot it against reform roll-out



Identifying Inter-Regional Investments



股东信息	Current Sharehold	ers' Information		Amount of Investme	全部比例(4) = 🕹	
序号	服东(发起人)查	「主际控股人〉	持股比例	最终受益股份	认缴出资额 🕐 🛊	认缴出资日期
1	世報 (1997年19月1日) 大阪东 英新 (2014年19月1日) 大阪东 英新 (2014年19月1日)	任职 5 家企业 > 最终受益人	45.21739%	45.21739% 股权链 >	65万人民币	2011-09-30
2	▲▲■ 北京百度网讯科技有限公	司 股权结构〉	40.86956%	40.86956% 服权链 >	58.75万人民币	2013-07-17
历史股东	■■ 东镜像 4 ⑦ Hitorical	Records to Track	Changes in Shareh	6.95652% nolders		▲ 导出数据
	股东	2013-07-17	2012-04-1	2 20	11-12-07	2011-09-30

股东	2013-07-17	2012-04-12	2011-12-07	2011-09-30
黄修源	持股比例:45.21739% 认缴金额:65万元 ↓下降19.78261%	持股比例:65% 认缴金额:65万元	持設比例:65% 认缴金额:65万元 ↓下降35%	首次参股 持股比例:100% 认缴金额:100万元
北京百度网讯科技有限公司	首次参数 持股比例:40.86957% 认缴金额:58.75万元	未披露持股	未披露持設	未披露持股

Reform Expansion and Inter-county Investment



• We calculate the differences in investment inflows between eventually reformed and non-reformed counties, and plot them against reform roll-out



Baseline results



Magnitude : win rate of local firm defendants decreases by 3.1% (around 7% to the mean).

Political Connection

	Non-connected	Connected to Local	Connected to Provincial/Central
	(1)	(2)	(3)
Post Reform	-0.030***	-0.073***	-0.005
	(0.005)	(0.012)	(0.022)
Mean of Outcome	0.43	0.48	0.56
Court FE	Y	Y	Y
Seimi-year FE	Y	Y	Y
Observations	46,615	17,557	8,165
R-Squared	0.211	0.258	0.356

Baseline results - Alternative Estimators



A. Callaway and Sant'anna, 2021



B. Borusyak et al., 2021



Placebo Test: Cases between Two Local Firms



Placebo Test: Cases between Local Firms

	All Cases	Connected	Non-connected
	(1)	(2)	(3)
Post Reform	0.007	-0.018**	0.007
	(0.005)	(0.009)	(0.005)
Mean of Outcome	0.39	0.45	0.38
Court FE	Y	Y	Y
Seimi-year FE	Y	Y	Y
Observations	51,393	25,396	51,076
R-Squared	0.243	0.250	0.242

Distribution of Win Rates



• The reform has inframarginal impacts on the local defendants' win rates

Inter-provincial Cases v.s. Intra-provincial Cases



Figure: Intra-provincial v.s. Inter-provincial Cases



Firms connected to provincial/central govt

	Connected to Provincial/Central	Provincial/Central SOEs
	(1)	(2)
Post Reform	-0.005 (0.022)	0.003 (0.020)
Mean of Outcome Court FE Seimi-year FE	0.56 Y Y	0.54 Y Y
Observations R-Squared	8,165 0.356	9,904 0.338

• No change in win rates for firms connected to provincial/central govt

Back

Side effects



A. Trial Speed



20 / 38

Case-level DiD Estimates

	All Cases	Connected	Non-connected	Intra-Province	Inter-Province
	(1)	(2)	(3)	(4)	(5)
Panel A					
Post Reform Court FE Year-Month FE	-0.040*** (0.008) Y Y	-0.053*** (0.014) Y Y	-0.039*** (0.008) Y Y	-0.058*** (0.010) Y Y	-0.013 (0.011) Y Y
Observations R-Squared	1,191,854 0.080	101,727 0.116	1,089,773 0.083	596,261 0.069	595,498 0.114
Panel B					
Post Reform Judge FE Year-Month FE	-0.031*** (0.006) Y Y	-0.039*** (0.014) Y Y	-0.030*** (0.006) Y Y	-0.049*** (0.008) Y Y	-0.004 (0.010) Y Y
Observations R-Squared	1,166,520 0.258	86,895 0.393	1,064,423 0.267	571,043 0.268	572,419 0.321
Mean of Outcome	0.44	0.49	0.43	0.40	0.47

- After the judicial independence reform, local firms' average win rate dropped by 4% in civil lawsuits against non-local firms
- Panel B: results remain robust after controlling for judges' fixed effects.

Case-level DiD Estimates

	All Cases	Connected	Non-connected	Intra-Province	Inter-Province
	(1)	(2)	(3)	(4)	(5)
Post Reform	-0.030***	-0.037***	-0.030***	-0.049***	-0.015*
	(0.007)	(0.007)	(0.007)	(0.008)	(0.009)
Mean of Outcome	0.44	0.49	0.43	0.40	0.47
Court FE	Y	Y	Y	Y	Y
Seimi-year FE	Y	Y	Y	Y	Y

• Results remain consistent when using semi-parametric DiD estimators proposed by Callaway and Sant'Anna (2021)

Back

Heterogeneity: SOEs v.s. Private Firms



Figure: SOEs vs Private Firms

• SOEs owned by the provincial/central government remain unaffected

Heterogeneity: SOEs

	Non-SOEs	Local SOEs	Provincial/Central SOEs
	(1)	(2)	(3)
Post Reform	-0.030***	-0.031***	0.003
	(0.005)	(0.011)	(0.020)
Mean of Outcome	0.43	0.46	0.54
Court FE	Y	Y	Y
Seimi-year FE	Y	Y	Y
Observations	46,192	20,602	9,904
R-Squared	0.209	0.250	0.338

• SOEs owned by the provincial/central government remain unaffected

Back

No Sorting in Cases

	Regis. Capital (Million CNY)		# of Employees		Age	
	Plaintiff	Defendant	Plaintiff	Defendant	Plaintiff	Defendant
	(1)	(2)	(3)	(4)	(5)	(6)
After Reform	-5.355	-34.526	75.438	-233.305	-0.398	0.295
	(26.597)	(21.765)	(84.187)	(327.923)	(0.331)	(0.282)
Mean of Outcome	246.17	241.14	501.27	677.71	10.74	10.63
Court FE	Y	Y	Y	Y	Y	Y
Seimi-year FE	Y	Y	Y	Y	Y	Y
Observations	24,935	34,163	21,004	22,770	31,981	43,373
R-Squared	0.149	0.126	0.369	0.185	0.140	0.120

Back

Quality of Judicial Enforcement

- What if courts rule less favorably toward local defendants, but also slack in enforcement?
- We obtain data on the universe of non-compliance with court orders from *Credit China*
 - Any party failed to comply with court order will be publicized as a "defaulter"
- Matching the non-compliance information with our case-level data, we can test how non-compliance changes before and after reform





Heterogeneity in Investment Response



Figure: # of investments (log)





Non-controlling v.s. Controlling Shareholding



Figure: # of investments (log)





Heterogeneity in Investment Response

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)			
Panel A											
	Number of Investment (log)										
	Early-reform	Late-reform	New Firms	Existing Firms	Complementary	Substituting	Tradable	Non-tradable			
Post Reform Observations R-Squared	0.035 (0.032) 19,995 0.876	0.107*** (0.019) 34,740 0.862	0.089*** (0.017) 42,417 0.860	0.038** (0.016) 41,265 0.824	-0.045*** (0.017) 42,421 0.857	0.149*** (0.017) 42,396 0.851	0.038** (0.018) 42,212 0.836	0.068*** (0.016) 41,069 0.887			
Panel B											
	Amount of Investment (log)										
	Early-reform	Late-reform	New Firms	Existing Firms	Complementary	Substituting	Tradable	Non-tradable			
Post Reform Observations R-Squared	0.013 (0.031) 19,995 0.817	0.123*** (0.023) 34,740 0.798	0.087*** (0.019) 42,417 0.795	0.037 (0.025) 41,265 0.686	-0.081*** (0.019) 42,421 0.796	0.096*** (0.020) 42,396 0.788	0.047*** (0.017) 40,067 0.821	0.110*** (0.023) 41,069 0.760			
County FE Year FE	Y Y	Y Y	Y Y	Y Y	Y Y	Y Y	Y Y	Y Y			

Investment response is more salient:

- In late-reformed regions
- In new firms
- In substituting/non-tradable sectors



Tradable v.s. Non-tradable Sector



Figure: # of investment (log)





New entries v.s. Existing firms



Figure: # of investment (log)





Substituting industries v.s. Complementary industries



Figure: # of investment (log)





Early reform v.s. Late reform



Figure: # of investment (log)





Spillover Effects



Figure: # of investments (log)



Figure: Amount of Investment (log)

- Mainly driven by investments from other counties within the same prefecture
 - Reform varies at prefecture level, so results cannot be driven by violation of SUTVA
- No increase in inter-prefectural or inter-provincial investments

Back

From DiD Estimates to Welfare Implications

- Judicial reform $\Rightarrow \searrow$ local protection $\Rightarrow \nearrow$ inter-regional investment
- Simple Melitz-style model to map investment response into welfare
- Local consumer's preferences over nonlocal goods and services φ

$$U = \int_{\varphi \in \Phi} u(q(\varphi)) - p(\varphi)q(\varphi) \, \mathrm{d}F(\varphi)$$

• A unit mass of nonlocal firms make sequential decisions:

() draw cost index $\varphi \sim F(\varphi)$ and decide on entry if cost is low $(\varphi < \overline{\varphi})$

$$\Pi \equiv \int_{0}^{1} \max \left\{ \pi \left(\varphi \right) - f, 0 \right\} \mathrm{d}F \left(\varphi \right)$$

2) set price to maximize profits, given cost $au_n arphi$ and demand $q^*\left(p
ight)$

$$\pi\left(\varphi\right) \equiv \max_{p}\left(p - \tau\varphi\right)q^{*}\left(p\right)$$

• Judicial reform: a decline in au, cost of non-local firm operating locally

• microfound: moral hazard (local hires steal, can recover via litigation)

- Judicial reform affects consumer welfare via two channels:
 - lower production costs among existing entrants
 - attracts marginal, higher-cost firms to enter given higher profitability

$$\frac{\mathrm{d}\ln U}{-\mathrm{d}\ln \tau} = \frac{\int_{0}^{\bar{\varphi}} \frac{\mathrm{d}u(\varphi)}{-\mathrm{d}\ln \tau} \,\mathrm{d}F(\varphi)}{\int_{0}^{\bar{\varphi}} u(\varphi) F(\varphi)} + \frac{\frac{\mathrm{d}\int_{0}^{\varphi} u(\varphi) \,\mathrm{d}F(\varphi)}{\mathrm{d}\bar{\varphi}} \frac{\mathrm{d}\bar{\varphi}}{-\mathrm{d}\ln \tau}}{\int_{0}^{\bar{\varphi}} u(\varphi) F(\varphi)}$$

• These effects are modulated by two key elasticities:

- demand elasticity ϵ : $u(q) \propto q^{\frac{\epsilon-1}{\epsilon}} \implies q^*(p) = p^{-\epsilon}$
- tail parameter γ of the cost distribution: $F(\varphi) = \varphi^{\gamma}$ $\frac{\mathrm{d} \ln U}{-\mathrm{d} \ln \tau} = (\epsilon - 1) + (\gamma - \epsilon + 1) = \gamma$

Proposition. In response to a judicial reform, the mass of nonlocal firms serving locally ($\mu \equiv F(\bar{\varphi})$) moves proportionally to the consumer and producer surpluses (U and Π) derived from these firms:

$$\frac{\mathrm{d}\ln\mu}{\mathrm{d}\ln\tau} = \frac{\mathrm{d}\ln U}{\mathrm{d}\ln\tau} = \frac{\mathrm{d}\ln\Pi}{\mathrm{d}\ln\tau}.$$

- Investment response is sufficient stat. for consumer and producer surpluses
- In principle, DiD confounds distributional and aggregate effects
 - entrepreneurs may substitute from nontreated to treated locations
 - or substitute from investing locally to nonlocally
- Empirically, these margins are not relevant; investment response driven by flows across counties within treated prefectures
- Back-of-envelope calculation shows the judicial reform increases the flow of cross-county entrepreneurial investments by \$22 billion annually; long-run effect of national roll-out can increase GDP by 2.3%

Discussion

- In most conceptualizations of the Chinese political economy, courts are viewed as mere subordinates of local governments
 - Conventional wisdom: as an authoritarian regime centralizes its political power, it will naturally turn further against the law (Minzner, 2011, 2015, 2018; Ringen, 2016; Zhang, 2016; Shirk)
- Our findings challenge the conventional wisdom: in the past decade, as the central government of China consolidated power and control to an almost unprecedented extent, the country was simultaneously empowering its legal institutions and turning towards legalism
- This systematic turn towards legalism is an important yet under-appreciated change in China's delicate politico-econ equilibrium
 - Also relevant for other authoritarian regimes recently carried out similar judicial reforms (e.g., Pakistan, Turkey, Russia, etc.)

38 / 38