

Government Procurement Contracts, Government Subsidies, and Covert Financial Flows

Junli Yu

Antai College of Economics & Management
Shanghai Jiao Tong University
Email: jlyuchina@sjtu.edu.cn

Gordon Yuan

UniSA Business,
University of South Australia
Email: gordon.yuan@unisa.edu.au

Ying Zhang

Business School
Central South University
Email: zhangying2023@csu.edu.cn

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Government Procurement and Subsidies: Uncovering Strategic Covert Financial Flows between the State and Firms

Abstract

We draw on a detailed database of Chinese government procurement contracts (GPCs) to examine their effect on subsidies firms receive from the government and the processes behind this link. Our results show that firms with GPCs gain notably larger subsidies from local authorities. These results hold firm through multiple robustness tests. The covert financial streams reveal the intricate ties between government and firms, shedding light on how businesses tap into government aid through GPCs. We also find that overseas operations and foreign subsidiaries weaken the tie between GPCs and subsidies, while state ownership and strong local budgets strengthen it. This work deepens insight into the delicate balance between GPCs and firms' financial approaches, offering useful lessons for policymakers and company leaders.

Keywords: government subsidies; government-business relationships; government procurement contracts

JEL classifications: G38; H20