

Does the U.S. Market Understand China's Political Reform?

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Abstract

This paper investigates the effect of the Chinese president's term limit cancellation, which occurred on February 26, 2018, on the stock performance of Chinese companies listed in both American and Chinese markets. Our empirical analysis reveals strong evidence that this political event had substantial influence on the stock returns of Chinese firms. We find that state-owned companies listed in China as well as companies receiving government subsidies reacted positively to this political event. Conversely, our research suggests that U.S. investors have different beliefs from Chinese investors, as U.S. investors financing Chinese companies listed in the U.S. reacted negatively to this political event. More specifically, by employing a propensity score matching technique, we find that Chinese companies listed in the U.S. significantly underperformed compared to their corresponding U.S. domestic firms. Interestingly, our paper also indicates that politically connected companies in China did not outperform their non-connected counterparts in the period surrounding this event—if anything, they underperformed. This result suggests that Chinese investors believe that President Xi Jinping's anti-corruption campaign successfully attenuates the effectiveness of political connections. Overall, the paper demonstrates the significant impact of the presidential term limit cancellation on the equity markets in both China and the U.S. and likewise showcases how Chinese and U.S. investors have different interpretations of this event.

JEL Classification: G14, G15, G18

Keywords: China, Political Connection, Equity Market

1 Introduction

Although the recent long-term slowdown of China's economic growth rate is one of the biggest anxieties for its international investors, its economy had been growing at an unprecedented pace for last four decades. Such growth has been possible because the country has developed its own effective model of political economy. More specifically, China's achievement of a government-lead economic development plan in the late 1980s has been highly recognized in the global economy. Its economic growth model can be characterized by several key factors, such as the government's leadership within the economic growth plan, a decentralization policy for empowering local governments, subsidies for promising firms, and a marked effort to attract foreign direct investment (FDI). Yang (2018) found that the government's autonomous characteristics as well as its decentralization policy have accounted for China's sustainable economic growth over last few decades. Lin and Shen (2018) analyzed that the leadership of the Communist Party of China (CPC) is one of the pivotal reasons for China's reform and transformation over last four decades. Most recently, in 2015, the government launched the 13th 5-Year Plan, which focuses on innovation-driven, eco-friendly, and balanced industrial development.

Numerous scholars have attempted to clarify the connection between the political relationships of Chinese firms and the economy during the economic growth period. A number of studies provide meaningful evidence that political factors, such as connection to the CPC and subsidy from the government, can influence the performance of individual firms. For instance, Li et al. (2008) and Wu et al. (2012) provide evidence that Chinese firms with political connections outperforms those without these ties. More recently, Sheng et al. (2018) suggest, based on their survey results, that political connection is positively related to firms' performance. This raises the

question of whether foreign investors understand and consider such unique characteristics in their investment behavior. As detailed above, China's political economy system is different from most of the Western countries where these foreign investors are from. Furthermore, China's financial environment and the developed economies have differences in risk preference, equity market regulation, and business culture, which may cause notably different investment behavior. Thus, forecasts for the same firm's equity return may not be the same across Chinese and foreign investors. To investigate this disagreement, we analyze the returns of Chinese firms listed in the U.S. stock exchanges, focusing on NYSE and Nasdaq.

In this paper, we concentrate on the National People's Congress (NPC) in 2018, which is the CPC's largest annual political event held from March 3rd to 20th of the year. The NPC is considered to be a key event for China, as number of pivotal economic policies and legislations are discussed and decided on during the meeting. While the direction of the CPC's economic policy varies year to year and the effects of the congress may vary depend on the types of firms attending, the outcome of the NPC can have a pivotal influence on Chinese companies. More specifically, the 2018 NPC is seen as a historical event for the CPC because of the constitutional amendment that decided the lifetime serving term of President Xi Jinping, which was announced on Feb 26th, one week before 2018 NPC. ALL major media in USA covered this announcement immediately on Feb 26th.

Perspectives on this event differ between China and the U.S.: while China's state-owned media expects that the decision will accelerate President Xi's development plan, including his anti-corruption policy, the majority of U.S. media outlets portray it as a regressive step for both China's society and economy. As a result, American evaluations of the influence of this event on the Chinese economy might differ from those in China, and thus might react differently to the event.

The basis of U.S. investors' concern is the Chinese government-lead economic growth policy, also called the "planned economy" system. As the American political economy environment is not identical to China's, U.S. investors may consider the change as a barrier to the freedom of Chinese firms' business activities; they fear it will increase risks and affect the performance of Chinese firms. One might argue also that this action can jeopardize corporate governance structure of Chinese firms. Our paper then addresses the question of whether these issues jeopardize those firms' equity returns.

There are a number of historical counter-examples for such concerns, as many developed markets have experienced an economic boom using a government-lead economic system. Germany in the 1930s, Japan in the 1950s, Taiwan in the 1950s, and South Korea in the 1960s are all prime examples. While the economic success of these markets can be attributed to several factors, one pivotal factor is the government's motivation for high economic growth. Government enthusiasm created a business-friendly environment for firms, and thus firms were able to be profitable in the market. China's economic growth has shown similar patterns. Moreover, with the recent, growing concern of an economic recession, maintaining a high economic growth rate is one of the CPC's primary goals. Thus, it is expected that the Chinese government will maintain most of its economic growth policies, which may provide comparative advantages for Chinese firms.

Domestically, most of the CPC's economic policies have been successful, and as a result, China's economy has experienced unprecedented high economic growth for last several decades. At the same time, however, government corruption has been a major issue within government institutions. President Xi has recognized the issue and has been executing a strong anti-corruption campaign since his rise to power. Although there might be different interpretations regarding the

goal of this campaign, in terms of business, it may be expected to refine the financial environment of Chinese firms. The stabilization of the regime may be another positive factor which will support the power of China's government-leading economic growth plan. According to research from the Ash Center for Democratic Governance and Innovation at the John F. Kennedy School of Government, President Xi has a domestic confidence indicator of 94.8% and 93.8% regarding his domestic affairs and international affairs, respectively. This overwhelming support for the president reduces the systematic risks that might be caused by regime change or democratization. Consequently, we can infer that the recent NPC decision might not be negative news for the Chinese equity market.

This paper distinguishes itself from current literature in two aspects: (a) instead of investigating the general influence of political factors on the Chinese economy, we implement an event study with a specified political event—the 2018 NPC, focusing on the constitution amendment for President Xi's service term change; and (b) by comparing Chinese firms listed NYSE and Nasdaq, we clarify the rationale behind their investors' behavior in U.S. equity markets. This paper aims to contribute a deeper and broader understanding of the factors influencing Chinese firms' equity returns in foreign equity markets.

The paper is organized as follows. In section 2, we provide a brief review of current literature. In section 3, we provide a description of the data and methodologies used for our tests. Test results and discussions are presented in section 4, and we conclude in section 5.

2 Literature Review and Hypothesis Development

2.1 Literature Review

Existing literature has well noted the significant impact of political events on the stock performance of publicly listed companies. Specifically, several researchers have investigated how

the stock market reacts to the president change in the U.S. Santa-Clara and Valkanov (2003) show that the stock market performs better when a Democratic president is in power compared to a Republican president. Pantzalis, Stangeland, and Turtle (2000) sample 33 countries to demonstrate that strong abnormal positive returns during the two weeks preceding an election are more pronounced in less free countries with the opposition party winning the election. They argue that their finding is in line with the uncertain information hypothesis proposed by Brown et al. (1988), which suggests that stock price increases are the result of uncertainties being resolved. Thus, elections with prior informational asymmetries where uncertainty reduction is more significant correspond to higher stock returns. Oehler, Walker, and Wendt (2013) find that the market reacts negatively before and after the election of Democrats and shows mixed behavior in the case of Republican candidates. Furthermore, the stock market reacts strongly when there is a change in president from Republicans to Democrats or vice versa, in contrast to a re-election or election of president of same party. Authors explain the latter phenomenon by stating that the change in president from another party contains more information pertaining to change in political landscape. A change in president or party also causes a higher probability of change in policy, and thus an increase in policy uncertainty. Wagner, Zeckhauser, and Ziegler (2018) study the effect of the election of Donald J. Trump as the 45th President of the U.S. in 2016. By tracing stock market reactions from the day before the election through President Trump's first hundred days in office, they find that high tax-paying firms and those with high deferred tax liabilities substantially outperformed the market. They also find that investors downgraded companies with significant foreign exposure. They explain that the stock movements stem from investors' expectations of a major corporate tax cut as well as concerns of retaliatory tariffs and trade wars.

In China, even though there are no presidential elections, a string of literature investigates the effect of political events involving changes to leadership and pivotal government policies on the stock market. Bin (2015) examines stock movements during crucial political events among three different markets in the Greater China Region: mainland China, Hongkong, and Taiwan. The results of Bin's research indicate that stock return effects differ across these three markets. Mainland China's stock market does not demonstrate significant gains due to positive political events, but suffers significantly due to negative political events. In Hongkong, it seems that investors are indifferent to either positive or negative political events. Interestingly, Taiwanese investors gain from both positive and negative political events. Bin (2015) attributes the dispersion of stock market reactions in Greater China Region to the different political and economic systems present among the three markets. Mainland China has a political system with concentrated power, and this systematic rigidity tends to cause political outcasts, as well as businessmen with strong political ties, to lose everything. However, Hong Kong is recognized as one of the freest corporate economic systems. As Hong Kong has experienced a long history of British colonial governorship and appointed elite administration, the common public shows very limited interest in politics. Taiwan, on the other hand, employs a Western-style bipartisan system with two major political parties; hence, negative news for one party could be positive news for the other.

Liu, Lin, and Wu (2018) study a pivotal government policy change from 2013. Along with president Xi Jinping's anti-corruption campaign, the Chinese government issued the Opinions on Further Regulation on Party and Political Leaders and Cadres Working Part-Time in Enterprises, also known as the 18th Decree, to regulate government officials' employment by businesses. The 18th Decree is widely perceived by the Chinese public as a policy which limits companies appointing independent directors with political connections. Their empirical analysis suggests that

investors react negatively to companies with politically connected independent directors sitting on the corporate board.

2.2 Hypothesis Development

We believe that the presidential term limit cancellation is closely related to the performance of state-owned enterprises (SOE) in China. Li and Zhou (2015) indicate that since SOEs are owned by the Chinese government, they are implicitly politically connected. Moreover, Schweizer, Walker, and Zhang (2019) illustrate that even though China has been turning into a more market-oriented economy, financial resource allocation and legal systems are ultimately still controlled by the Chinese authorities. Given China's highly concentrated political system and the state's status as a controlling shareholder in SOEs, the Chinese government will want to guarantee their prosperity. Thus, we argue that the presidential term limit cancellation can largely remove the policy uncertainty of the central government. If the government policy becomes more stable, the risks of state-owned companies should be substantially mitigated. In turn, SOE investors should react positively to this political event.

Conversely, as mentioned above, Wagner, Zeckhauser, and Ziegler (2018) show that firms listed in the U.S. with significant foreign exposure underperformed in the period surrounding the election of Donald J. Trump because of investors' worries about trade wars. We expect that the Chinese presidential term limit cancellation will exacerbate investors' concerns of possible trade wars between China and the U.S.; because investors in Chinese firms listed in the U.S. assume that government policies will remain unchanged in the foreseeable future, they likewise believe that a trade war is more likely to happen. Therefore, our first two hypotheses are developed as follows:

Hypothesis 1: The abnormal returns of Chinese firms listed in the U.S. are negative in the period surrounding the event of the presidential term limit cancellation.

Hypothesis 2: *The abnormal returns of state-owned companies are positive in the period surrounding the event of the presidential term limit cancellation.*

In addition, it has been well documented that firms controlled by the government in China tend to receive subsidies from the government. Chen, Lee, and Li (2008) indicate that the government sometimes helps listed firms manage their earnings to circumvent government regulation, and provides them with subsidies to boost their earnings. Wu, Wu, and Rui (2012) investigate the link between the firm value of privately-owned companies (POEs) and political connections in China. Their empirical analysis reveals that political connections increase firm value, as politically connected firms are able to obtain more government subsidies than their non-connected counterparts. Thus, we expect that, after the presidential term limit cancellation, investors will assume that firms receiving government subsidies will continue to benefit from preferential treatment from the Chinese government. Our third hypothesis is established below:

Hypothesis 3: *The abnormal returns of Chinese firms with government subsidies are positive around the event of presidential term limit cancellation.*

It should be noted that many POEs maintain connections to politicians by hiring top managers with political backgrounds in China to receive preferential treatment from the Chinese authorities. Such benefits could be viewed as corruption (Schweizer, Walker, and Zhang, 2019). A string of literature on the effect of President Xi Jinping's anti-corruption campaign suggests that it substantially voided the effectiveness of political connections, specifically in POEs. For instance, Kong, Wang, and Wang (2017) and Lin et al. (2018) show that the anti-corruption endeavor significantly reduces the performance of non-state-owned enterprises. Their findings support that corruption could act as "greasing-the-wheel". Before the anti-corruption, politically-connected

POEs were able to obtain various benefits through collusion with corrupted officials; however, these POEs suffered after the anti-corruption campaign as those benefits would be no longer in place. Similarly, Zhang (2016) reveals that following the anti-corruption campaign, Chinese firms were less likely to commit fraud. The effect is more pronounced in POEs. Therefore, we would not expect investors in politically connected POEs to react positively to the presidential term limit cancellation. Our hypothesis regarding political connections in POEs is shown below:

Hypothesis 4: The abnormal returns of politically connected POEs are not positive in the period surrounding the presidential term limit cancellation.

3 Data and Methodology

The description and sources of all variables used are shown in the Appendix. Stock price variables are from either CRSP or CSMAR, and firm characteristic variables are from either Compustat or CSMAR. We hand-collected “Subsidiaries in China” from EDGAR, on Exhibit 21 of the company’s Form 10-K. Data on government subsidies for Chinese firms is from the iFind database.

In order to observe differences and similarities between investment behaviors in China and the U.S. during the event period, we analyze the performance of Chinese firms listed in the U.S. equity exchanges, following the 2018 NPC. More specifically, we use three methods to calculate abnormal returns (we used eventstudytools: Schimmer, Levchenko, and Müller, 2015): market model, Fama French three factor, and Fama French four factor. All three methods provide similar results, so we will report only the results of Fama French four factor. Due to the difficulty in identifying Chinese firms as part of the US market or the Chinese market, we analyze these firms

using two indices of market returns: CRSP value weighted index and China A-share value weighted index.

In our analysis of Chinese firms listed in the U.S., we use propensity score matching to control the potential selection bias of firms which have certain characteristics. Using this method, we only focus on three characteristics—total asset, return of equity, and equity ratio—as well as an industry dummy, because there is a certain amount of data missing for many other characteristics. Considering more characteristic variables in our matching mode would decrease the sample size significantly.

The regression model for the analysis of Chinese firms listed in the U.S. is as follows:

$$CAR = \beta * CH \text{ listed US} + \gamma * \text{stock price controls} + \mu * \text{characteristic controls} \\ + \text{industry dummy} + \alpha + \varepsilon$$

“CH listed US” is a binary variable which equals 1 if the observation is a Chinese company listed in the U.S. equity market, and equals 0 if the observation is a propensity score matched company. To control the stock price movement, we control the stock price change of the day before last day of the event day (day -2) (Bhattacharya et al. 2009; Ge et al. 2018), the mean returns of previous 9 days (Ge et al. 2018; Gupta et al.2009) and volatility of returns of previous 9 days (Bhattacharya et al. 2009; Ge et al. 2018). We also control the size of the firm (Wagner et al. 2018; Liu et al. 2018; Gupta et al.2009; Fan et al.2007; Huang et al.2018), equity ratio (Liu et al. 2018; Hu et al. 2019; Fan et al.2007; Huang et al.2018) and return of equity (Gupta et al. 2009; Liu et al. 2018; Huang et al.2018).

The regression model for the analysis of Chinese firms listed in China is as follows:

$$CAR = \beta * state_private + \theta * lngs2017 + \gamma * stock\ price\ controls + \mu$$

$$* characteristic\ controls + industry\ dummy + \alpha + \varepsilon$$

“state_private” is a binary variable which equals 1 if the observation is a state-owned company, and equals 0 if it is a private-owned company. “lngs2017” is the natural log of subsidy one company received from the government. The stock price control variables remain the same as in the previous analysis model. Because the sample size is much larger, we consider two additional characteristic control variables: fix asset / total asset, and current ratio. There is not much previous research which controls these two variables, but the results are very similar with or without them. Because the total sample size of this analysis is large, hence a higher possibility of extreme values, we winsorize all continuous characteristic variables.

4 Results

[Insert Table 1 about here]

Table 1 shows the mean cumulative abnormal returns of Chinese firms listed in the U.S.. All abnormal returns are calculated by Fama French four factor mode. Panel A reports the result with returns of the CRSP value weighted index as market returns. We choose day -1 as the beginning of the event period, because the time zone of US stock market is 12 hours later than the time zone of mainland China (when China is in Feb 26th, 2018, the U.S. may still be in Feb 25th, 2018). For at least 9 business days, the mean CAR was significantly negative, which implies that US investors have negative opinions about the event.

Some researchers may wonder if all Chinese companies, whether they are listed in the U.S. or in China, performed worse during the event. In panel B, we use the returns of the China A-share

value weighted index as market returns to test this hypothesis. The results show that for at least 9 business days, the mean CAR was still significantly negative, similar to the results shown in panel A. In total, it seems no matter comparing with other companies listed in U.S. or with Chinese companies listed in mainland China, Chinese firms listed in the U.S. performed much worse during the event, which implies that US investors have different opinions about the event than Chinese investors.

[Insert Table 2 about here]

To further test our hypothesis, we apply the propensity score (PS) matching method and run an OLS regression with the matched samples. Using a total sample of 4575 companies listed in U.S., we match 135 Chinese companies listed in US with 135 other companies listed in US. The variable description and correlation among independent variables are listed in Table 2. The correlation among all independent variables is below 0.4.

[Insert Table 3 about here]

In column 1 of table 3, we can see that before PS matching, the coefficient of companies' size is significantly negative, which implies that Chinese companies listed in US are comparatively smaller. After the matching, this significance disappears.

In panel B, we show the result of the OLS regression with robust errors. The coefficient of “CH listed US” is significantly negative as expected, which implies that for at least 9 days in total, the cumulative abnormal returns of Chinese companies were lower. Not shown in the Panel B are the VIFs of all independent variables—except industry dummy—which were always below 2.

[Insert Table 4 about here]

Because we want to further test whether Chinese companies listed in U.S. performed significantly worse than Chinese companies listed in mainland China, we use propensity score matching again. In a total sample of 2468 Chinese companies, we again match 135 Chinese companies listed in the U.S. with 135 Chinese companies listed in China. To make the matching process more reasonable, we convert all data in U.S. dollars to China Yuan using the exchange rate on the end of 2017. Table 4 shows the variable description and correlation matrix. All correlations are smaller than 0.4.

[Insert Table 5 about here]

According to panel A of Table 5, very significantly, Chinese companies listed in the U.S. have lower book assets and lower equity ratios. After PS matching, the significance almost disappears. The result of the OLS regression with robust errors is shown in panel B; the coefficient of “CH listed US” is significantly negative as expected, which implies that for at least 9 days in total, the cumulative abnormal returns of Chinese companies listed in U.S. were lower than those in mainland China. Not shown in panel B are the VIFs of all independent variables—except industry dummy—which were always below 2.

[Insert Table 6 about here]

We then wonder whether the performance of U.S. companies with Chinese subsidiaries was also worse during the event. We hand-collected the location information of subsidiaries of S&P 500 firms. Due to certain missing values, we have in total 482 observations. The results are shown in Table 6. The variable of interest, “Subsidiaries in China”, equals 1 if one firm has any subsidiaries in China, and equals 0 if otherwise. Since the coefficient of this variable is not significant, this implies that the event did not influence companies with only subsidiaries in China.

[Insert Table 7 about here]

We also want to test how this event influenced the performance of Chinese firms listed in mainland China. The variable description and correlation matrix are shown in Table 7. All correlations are lower than 0.4.

[Insert Table 8 about here]

As Table 8 shows, the coefficient of “state_private” is significantly positive, as expected, which implies that state-owned companies performed better during the event. One possible reason is that cancelling the term limit means that the government will become more stable; therefore, the risk of state-owned companies decreases. The coefficient of “lngs2017_w” is significantly positive, as expected, which implies that companies receiving more subsidy from the government performed better during the event. One possible reason is that as policy certainty increases, firms supported by the government will continue to receive resources from government. Not shown in panel B are the VIFs of all independent variables—except industry dummy—which are always below 2.

[Insert Table 9 about here]

So many researchers talking with us think that political-connected firms would perform better in the event. To test this hypothesis, we use the sample of private-owned companies listed in China. We do not use state-owned companies listed in China because the nature of political connections in state-owned companies is complicated and hard to measure. As the results in Table 9 show, the coefficient of PC variable is not significant. One explanation is that Chairman Xi’s anti-corruption policy is very strict, so the market assumes that canceling his term limit will further reduce the power of political connections for companies in China.

5 Conclusion

As presented above, our findings support the assertion that the term limit cancellation of the Chinese president in 2018 influenced the equity performance of Chinese companies listed in both the U.S. and Chinese markets. We also found that the investors from both economies have different perspectives on the event due to their different political environments; while Chinese state-owned companies and companies with government subsidies reacted positively to the event, U.S. investors tended to accept the event as negative news for the firm's performance, as they believe that the decision is regression of China's political economic system. As China's local investors believe that President Xi's anti-corruption campaign will refine the corporate governance structure and business culture of Chinese firms, their expectations regarding equity performance differ from that of the U.S. investors. One can argue that if both of investor groups have a comprehensive understanding about the country's political economy system, they would have similar expectations regarding the equity returns of Chinese companies during this event. However, our results show that there might be some misunderstandings surrounding the equity of Chinese firms, suggesting an asymmetry of information between investors in China and the U.S..

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7 Tables

Table 1: Mean Cumulative Abnormal Returns

Panel A: Use CRSP Value Weighted Index as Market Returns

Days	N	Mean CAR	Generalized sign Z	P-value
(-1,+1)	135	-3.0%	-6.007	<.0001
(-1,+3)	135	-3.4%	-3.246	0.0006
(-1,+5)	135	-4.2%	-2.211	0.0135
(-1,+7)	135	-4.0%	-2.556	0.0053

Panel B: Use China A Share Value Weighted Index as Market Returns

Days	N	Mean CAR	Generalized sign Z	P-value
(-1,+1)	135	-2.6%	-3.396	0.0003
(-1,+3)	135	-4.1%	-3.741	<0.0001
(-1,+5)	135	-3.1%	-2.188	0.0143
(-1,+7)	135	-3.8%	-2.015	0.0220

*** p<0.01, ** p<0.05, * p<0.1

Table 2: Variable Description and Correlation Matrix for PSM Chinese Companies Listed in the U.S. with Other Companies Listed in the U.S.

Panel A: Variable Description

Variable	Obs	Mean	Std. Dev.	Min	Max	Median
CAR(-1,+1)	270	-0.0165	0.0478	-0.2416	0.1598	-0.0121
CAR(-1,+3)	270	-0.0177	0.0687	-0.254	0.2369	-0.0108
CAR(-1,+5)	270	-0.0185	0.0934	-0.3773	0.5445	-0.0099
CAR(-1,+7)	270	-0.0172	0.1131	-0.5414	0.5327	-0.0075
CH listed US	270	0.5000	0.5009	0.0000	1.0000	0.5000
AR-2	270	-0.0039	0.0316	-0.0972	0.1723	-0.0024
mean9days	270	0.0005	0.0115	-0.0510	0.0585	0.0004
sd9days	270	0.0303	0.0212	0.0026	0.1335	0.0267
lnTA	270	6.3115	2.1806	0.3075	13.6143	6.1237
roe	270	-1.9746	29.9608	-492.00	5.8597	0.0502
equityratio	270	0.4712	0.3900	-2.4832	0.9987	0.5259

Panel B: Correlation Matrix

	CH listed US	AR-2	mean9days	sd9days	lnTA	roe	equityratio
CH listed US	1						
AR-2	-0.1205*	1					
mean9days	0.0353	0.2469*	1				
sd9days	0.2455*	-0.1361*	0.0196	1			
lnTA	0.00750	-0.0394	0.1064*	-0.3930*	1		
roe	0.0654	-0.0141	0.00130	-0.0109	0.1256*	1	
equityratio	0.0366	0.00840	0.0648	0.0759	-0.0200	0.0698	1

* p<0.1

Table 3: Propensity Score Matching Chinese Companies Listed in the U.S. with Other Companies Listed in the U.S.

Panel A: Matching Process

	(1) Before PSM	(2) After PSM
lnTA	-0.039** (0.050)	-0.001 (0.973)
roe	-0.000 (0.796)	0.123 (0.143)
equityratio	0.220 (0.219)	0.123 (0.577)
Industry	Yes	Yes
N	4575	270
pseudo. R-sq	0.052	0.028

Panel B: OLS Regression Using Matched Samples

	Hypothetical Sign	(1) CAR(-1,+1)	(2) CAR(-1,+3)	(3) CAR(-1,+5)	(4) CAR(-1,+7)
CH listed US	-	-0.020*** (0.000)	-0.022*** (0.005)	-0.034*** (0.003)	-0.029** (0.033)
AR-2		-0.233* (0.051)	-0.087 (0.577)	-0.094 (0.626)	-0.090 (0.693)
mean9days		0.280 (0.417)	0.304 (0.503)	1.173* (0.095)	1.927** (0.023)
sd9days		-0.970*** (0.000)	-1.214*** (0.000)	-1.410*** (0.000)	-1.817*** (0.000)
lnTA		-0.002* (0.051)	-0.003 (0.211)	-0.006** (0.017)	-0.008** (0.014)
roe		0.000*** (0.005)	0.000 (0.115)	0.000 (0.336)	0.000 (0.346)
equityratio		0.002 (0.716)	0.003 (0.783)	0.003 (0.825)	-0.000 (0.988)
Industry		Yes	Yes	Yes	Yes
N		270	270	270	270
adj. R-sq		0.195	0.141	0.144	0.139

*** p<0.01, ** p<0.05, * p<0.1

Table 4: Variable Description and Correlation Matrix for PSM Chinese Companies Listed in the U.S. with Other Chinese Companies Listed in China

Panel A: Variable Description

Variable	Obs	Mean	Std. Dev.	Min	Max	Median
CAR(-1,+1)	270	-0.0028	0.0746	-0.6885	0.3409	0.0042
CAR(-1,+3)	270	-0.0071	0.1066	-0.8621	0.3353	0.0089
CAR(-1,+5)	270	0.0006	0.1121	-0.7967	0.2720	0.0169
CAR(-1,+7)	270	-0.0033	0.1305	-0.8760	0.3169	0.0167
CH listed US	270	0.5000	0.5009	0.0000	1.0000	0.5000
AR-2	270	-0.0016	0.0619	-0.3374	0.3537	-0.0037
mean9days	270	0.0056	0.0219	-0.1815	0.1383	0.0058
sd9days	270	0.0396	0.0260	0.0086	0.2252	0.0345
lnTA	270	22.4992	2.3963	15.9958	30.7277	22.1970
roe	270	-0.0472	1.4857	-18.5689	5.8597	0.0635
equityratio	270	0.4414	0.3956	-2.4832	0.9987	0.4703

Panel B: Correlation Matrix

	CH listed US	AR2 226	mean9days	sd9days	lnTA	roe	equity~o
CH listed US	1						
AR-2	-0.0744	1					
mean9days	0.0184	0.1018*	1				
sd9days	0.3989*	-0.2165*	0.2994*	1			
lnTA	-0.2020*	0.0303	-0.1548*	-0.3530*	1		
roe	0.0191	-0.00210	-0.0543	0.0316	0.0134	1	
equityratio	0.1114*	0.0496	0.00110	-0.0168	-0.0142	-0.0842	1

* p<0.1

Table 5: Propensity Score Matching Chinese Companies Listed in the U.S. with Other Chinese Companies Listed in China

Panel A: Matching Process

	(1) Before PSM	(2) After PSM
lnTA	-0.132*** (0.001)	-0.042 (0.279)
roe	0.002 (0.668)	0.037 (0.445)
equityratio	-0.571*** (0.001)	0.374* (0.099)
Industry	Yes	Yes
N	2468	270
adj. R-sq	0.0949	0.0556

Panel B: OLS Regression Using Matched Samples

	Hypothetical Sign	(1) CAR(-1,+1)	(2) CAR(-1,+3)	(3) CAR(-1,+5)	(4) CAR(-1,+7)
CH listed US	-	-0.037*** (0.000)	-0.054*** (0.000)	-0.048*** (0.000)	-0.042*** (0.003)
AR-2		0.004 (0.957)	0.014 (0.887)	0.016 (0.886)	0.109 (0.513)
mean9days		1.987*** (0.000)	2.649*** (0.000)	2.092*** (0.000)	1.752** (0.035)
sd9days		-0.578** (0.011)	-0.910*** (0.002)	-1.020*** (0.004)	-1.562*** (0.002)
lnTA		-0.000 (0.945)	-0.001 (0.833)	-0.002 (0.532)	-0.003 (0.428)
roe		0.004 (0.116)	0.005 (0.105)	0.005 (0.162)	0.006 (0.130)
equityratio		-0.022** (0.023)	-0.028* (0.055)	-0.026 (0.118)	-0.033* (0.087)
Industry		Yes	Yes	Yes	Yes
N		270	270	270	270
adj. R-sq		0.413	0.380	0.235	0.185

*** p<0.01, ** p<0.05, * p<0.1

Table 6: S&P 500 With or Without Subsidiaries in China

	Hypothetical Sign	(1) CAR(-1,+1)	(2) CAR(-1,+3)	(3) CAR(-1,+5)	(4) CAR(-1,+7)
Subsidiaries in China	?	0.003 (0.351)	-0.002 (0.616)	-0.006 (0.290)	-0.002 (0.796)
AR-2		-0.014 (0.884)	-0.003 (0.985)	0.169 (0.301)	0.100 (0.590)
mean9days		0.168 (0.595)	-0.063 (0.883)	0.131 (0.788)	0.342 (0.550)
sd9days		-0.155 (0.416)	-0.092 (0.775)	0.299 (0.347)	0.163 (0.647)
lnTA		0.001 (0.403)	0.001 (0.762)	-0.003 (0.163)	-0.002 (0.354)
roe		0.000 (0.260)	0.001 (0.484)	0.001 (0.482)	0.001 (0.626)
equityratio		-0.003 (0.652)	0.000 (1.000)	0.004 (0.776)	-0.002 (0.923)
Industry		Yes	Yes	Yes	Yes
N		482	482	482	482
adj. R-sq		0.207	0.175	0.275	0.293

*** p<0.01, ** p<0.05, * p<0.1

Table 7: Variable Description and Correlation Matrix for all A-share Chinese Companies Listed in China

Panel A: Variable Description

Variable	Obs	Mean	Std. Dev.	Min	Max	Median
AR-2	2,294	-0.0003	0.0235	-0.1793	0.1401	-0.0023
mean9days	2,294	0.0073	0.0148	-0.1488	0.0949	0.0086
sd9days	2,294	0.0296	0.0125	0.0040	0.0926	0.0278
lnTA_w	2,294	22.4274	1.3440	19.7957	27.4868	22.2947
roe_w	2,294	0.0743	0.0996	-0.4306	0.3777	0.0764
fix_TA_w	2,294	0.2102	0.1649	0.0015	0.6947	0.1712
currentratio_w	2,294	2.2346	1.9011	0.2815	11.7455	1.6524
state_private	2,294	0.4106	0.4921	0.0000	1.0000	0.0000
lngs2017_w	2,294	15.8781	2.9990	0.0000	20.0896	16.3149

Panel B: Correlation Matrix

	AR-2	mean9days	sd9days	lnTA_w	roe_w	fix_TA_w	currentratio_w	state_private	lngs2017_w
AR-2	1								
mean9days	0.2630*	1							
sd9days	0.0639*	-0.00930	1						
lnTA_w	-0.0148	-0.0918*	-0.2967*	1					
roe_w	-0.0520*	-0.1154*	-0.0717*	0.1180*	1				
fix_TA_w	-0.00630	-0.00870	-0.1011*	0.0917*	-0.0435*	1			
currentratio_w	-0.0206	-0.00470	0.1213*	-0.3824*	0.0784*	-0.2458*	1		
state_private	0.0523*	0.000500	-0.1534*	0.3523*	-0.0599*	0.2019*	-0.2064*	1	
lngs2017_w	-0.0271	-0.0243	-0.0871*	0.3426*	0.1482*	0.1454*	-0.1660*	0.0631*	1

* p<0.1

Table 8: OLS Regression for all A-Share Chinese Companies Listed in China

	Hypothetical Sign	(1) CAR01	(2) CAR03	(3) CAR05	(4) CAR07	(5) CAR09
AR-2		0.382*** (0.000)	0.351*** (0.006)	0.190 (0.189)	0.228 (0.140)	0.263 (0.122)
mean9days		0.997*** (0.000)	1.711*** (0.000)	1.692*** (0.000)	1.318*** (0.000)	1.103*** (0.000)
sd9days		0.361*** (0.002)	0.443** (0.012)	0.427** (0.044)	0.472** (0.050)	0.634** (0.019)
lnTA_w		-0.006*** (0.000)	-0.009*** (0.000)	-0.011*** (0.000)	-0.011*** (0.000)	-0.014*** (0.000)
roe_w		-0.018 (0.175)	-0.021 (0.271)	-0.036 (0.104)	-0.039* (0.087)	-0.056** (0.020)
fix_TA_w		0.001 (0.865)	-0.005 (0.683)	-0.012 (0.380)	-0.008 (0.586)	-0.024 (0.132)
currentratio_w		-0.000 (0.724)	-0.000 (0.966)	0.001 (0.681)	0.001 (0.546)	0.001 (0.474)
state_private	+	0.002 (0.294)	0.006** (0.027)	0.010*** (0.003)	0.010*** (0.004)	0.009** (0.026)
lngs2017_w	+	0.001*** (0.001)	0.002*** (0.004)	0.003*** (0.000)	0.002*** (0.001)	0.003*** (0.000)
Industry		Yes	Yes	Yes	Yes	Yes
N		2294	2294	2294	2294	2294
adj. R-sq		0.199	0.224	0.185	0.124	0.141

*** p<0.01, ** p<0.05, * p<0.1

Table 9: OLS Regression for all A-Share Private-Owned Chinese Companies Listed in China

	Hypothetical Sign	(1) CAR01	(2) CAR03	(3) CAR05	(4) CAR07	(5) CAR09
AR-2		0.427*** (0.000)	0.361** (0.030)	0.149 (0.431)	0.191 (0.342)	0.224 (0.313)
mean9days		1.028*** (0.000)	1.767*** (0.000)	1.808*** (0.000)	1.453*** (0.000)	1.243*** (0.000)
sd9days		0.531*** (0.001)	0.660*** (0.006)	0.578** (0.048)	0.634* (0.054)	0.794** (0.030)
lnTA_w		-0.007*** (0.002)	-0.007** (0.022)	-0.010*** (0.009)	-0.010** (0.023)	-0.014*** (0.003)
roe_w		-0.014 (0.515)	-0.016 (0.619)	-0.019 (0.606)	-0.027 (0.492)	-0.050 (0.231)
fix_TA_w		0.014 (0.357)	0.007 (0.756)	-0.001 (0.969)	-0.003 (0.902)	-0.021 (0.477)
currentratio_w		-0.000 (0.681)	-0.000 (0.869)	-0.000 (0.946)	0.001 (0.744)	0.001 (0.573)
lngs2017_w	+	0.001** (0.030)	0.002* (0.100)	0.003** (0.010)	0.003** (0.017)	0.004*** (0.008)
PC	?	-0.001 (0.711)	0.000 (0.922)	0.002 (0.746)	0.001 (0.858)	0.003 (0.668)
N		1352	1352	1352	1352	1352
adj. R-sq		0.164	0.168	0.121	0.076	0.082

*** p<0.01, ** p<0.05, * p<0.1

Definitions and Sources of Variables

Variable	Definition	Source
CAR(n,m)	Cumulative Abnormal Returns from day n to day m, calculated by Fama-French Four Factor Model.	Authors' calculation, CRSP and CSMAR
AR-2	Abnormal return on day -2	Authors' calculation, CRSP and CSMAR
mean9days	The mean abnormal returns of day -10 to day -2	Authors' calculation, CRSP and CSMAR
sd9days	The standard deviation of abnormal returns of day -10 to day -2	Authors' calculation, CRSP and CSMAR
lnTA(_w)	Natural log of total asset--- 2017 fiscal year (winsorised by upper and lower 1 percent)	Compustat and CSMAR
Equityratio(_w)	Total shareholders' equity / total asset--- 2017 fiscal year (winsorised by upper and lower 1 percent)	Compustat and CSMAR
Roe(_w)	Return of equity--- 2017 fiscal year (winsorised by upper and lower 1 percent)	Compustat and CSMAR
fix_TA(_w)	Fixed asset / total asset--- 2017 fiscal year (winsorised by upper and lower 1 percent)	Compustat and CSMAR
CH listed US	1, if it is a Chinese Companies listed in US; 0, otherwise.	Compustat and authors' inspection
currentratio(_w)	Current asset / current liabilities--- 2017 fiscal year (winsorised by upper and lower 1 percent)	Compustat and CSMAR
state_private	1, if state owned company; 0, if private owned company.	CSMAR
lngs2017(_w)	Natural log of government subsidy received in 2017 (winsorised by upper and lower 1 percent)	iFind
PC	1, if having some political connection; 0, otherwise.	CSMAR
Subsidiaries in China	1, if having any subsidiaries in China; 0, otherwise.	EDGAR