Connections and Sanctions Participations

by

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ABSTRACT

Regarding the question "Why do sanctions fail?" the majority of sanctions studies take the perspective of the target countries or the interactions between the dyadic countries involved, but the sender countries' impact on sanctions' effectiveness is largely neglected. This dissertation looks at the domestic economic actors, i.e., enterprises and consumers, of the sender countries. By answering "Who participates in economic sanctions?" this dissertation assesses one factor potentially influencing the sanctions' effectiveness: the sanctions participation and evasion inside the sender countries. More precisely speaking, this dissertation applies the factor of the political connections economic actors have with their governments to explain their participation in or circumvention from sanctions imposed by their own countries.

This dissertation consists of three independent empirical papers, respectively. The first looks at the anti-Japanese consumer boycotts in China 2012, the second at the trade controls by companies inside mainland China targeting Taiwan in 2002, and the third, the Steel and Aluminum Tariffs imposed by the US since 2018. Generally speaking, the papers find that strong political connections in China promote sanctions participation, reflected via the larger transaction reduction by organizational consumers and State-Owned Enterprises, yet facilitate sanctions evasion in the US, reflected by the larger chance for tariff exemptions for companies with more political importance and monetary investment to the governments.

Dissertation findings reveal the effect of connections on sanctions, and at the same time show how divergent institutions make one variable function in the opposite way.

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CHAPTER 1

INTRODUCTION

Economic sanctions as a low-cost substitution to military wars have been popular for decades, leading to the popularity of sanctions related research. One of the topics most studied concerns the effectiveness of sanctions, including such questions as: do sanctions work? And why do sanctions fail? These questions are very important when considering the choice to impose economic sanctions, given their well-known deleterious effects on the economy and human rights (Pond, 2017; Grauvogel, Licht, and Soest, 2014; Allen and Lektzian, 2012; Peksen, 2009; Peksen and Drury, 2010; Wood, 2008; Drury and Li, 2006).

Previous studies have identified a variety of criteria for what constitutes "successful" sanctions (Hufbauer and Schott, 1983; Hufbauer et al., 1990; Dashti-Gibson et al., 1997; Pape, 1997; Pape, 1998; Elliott, 1998). In recent years, more middle-ranged research found more micro-level reasons for the observed effectiveness of sanctions. Some scholars focus on the regime type of the target country to explain the outcome of sanctions, finding that regimes with democratic institutions or higher level of vulnerability to external pressure are more likely to back off when facing sanctions (Bolks and Al-Sowayel, 2000; Brooks, 2002; Kaempfer, Lowenberg, and Mertens, 2004; Marinov, 2005; Escribà-Folch and Wright, 2010; Jeong and Peksen, 2017). Some find the economic harm caused to the target

is useful in explaining sanctions' effectiveness. This includes overall economic pressure brought to the whole target country (Dashti-Gibson et al., 1997; Morgan and Schwebach, 1997; Drury, 1998; Hufbauer et al., 2007), or economic losses inflicted more precisely on the leadership and its supporting interest groups (Brooks, 2002; Cortright and Lopez, 2002; Drezner, 2011; Lektzian and Patterson, 2015). Another group of scholars see economic sanctions as a process of bargaining, thus suggesting the stage of sanctions' imposition and nuanced variations in other factors could change the ultimate equilibrium, as well as the outcome of the sanctions (Drezner 1999, 2003; Miers and Morgan, 2002; Nooruddin, 2002; Lacy and Niou 2004; Drury and Li, 2006). Other studies examine the salience of the issue in dispute (Peterson, 2013; Dorussen and Mo, 2001; Lacy and Niou, 2004;) and the number of sanction senders (Drezner, 2000; Bapat and Morgan, 2009) as predictors of sanctions' effectiveness.

A noticeable weakness in the literature, is that most studies assume the sender countries are doing their best to cause economic harm to the target with their full capacity and resolve, thus the sanctions' effectiveness is more determined by structural features of the target or the dyad itself (Drury et al., 2014; Cox and Drury, 2006; Goenner, 2007; Lektzian and Souva, 2003). As a result, dynamics within the sender countries are relatively less studied. There is research explaining the *origination* of sanctions from the perspective of sender countries, finding that certain types of regimes are more likely to impose sanctions against other countries (Kwon and Whang, 2015; Peksen and Peterson, 2016;

Lektzian and Souva, 2003; McGillivray and Stam, 2004; Hart, 2000), or that countries whose leaders are in urgent need for domestic support are likely to impose sanctions (Drury, 2001; Whang, 2011; Peksen et al., 2014). But only a few studies discuss how the sender countries impact the *outcomes* of sanctions, by showing the issues' salience to the sender countries increases the chance for successful sanctions (Ang and Peksen 2007; Hufbauer et al. 2007).

This dissertation looks at the sender countries' domestic economic actors – customers and enterprises – who restrict their economic transactions, and directly bear the cost of doing so, in the imposition of sanctions. When sanctions are imposed, these economic actors constantly evaluate trade-offs between cutting off their transactions with the target or breaking the government's sanctions law (Morgan and Bapat, 2003; Bapat and Kwon, 2015). Alternatively, the economic actors form their own interest groups, and try to tailor the trade policies according to their business interests (Grossman and Helpman, 1994; Buzard, 2017; Herrmann et al., 2001). For example, McLean and Whang (2014) find that as the scale of the sender country's export-oriented sectors' trade with the target country increases, the scale of sanctions and the chance for export sanctions decreases, so that the market of these sectors gets protected. More generally speaking, "the actual level of sanctions imposed by the sender country is a function of the relative political influence of interest groups within that country" (Kaempfer and Lowenberg, 1988, p. 789). When domestic economic actors manage to influence the sanctions policies made by the sender

country, they are likely to affect the ultimate effectiveness of the sanctions. If a sanctions policy is tailored by an interest group, the overall economic harm caused to the target country might be weakened, as will the chance for a successful policy change due to sanctions.

Given the suggestion in the literature that sender countries' domestic businesses may have an impact on sanctions effectiveness, this disseration asks the question of *who participates in economic sanctions in the sender countries?* The dissertation further explores their sanction behavior embedded within political and economic institutions. Economic actors' participation in the sanctions is assumed to be based on their rational calculation, and that the *connections* these actors have with their governments affects the results of the calculation. A close connection with the government might denote more converged interests or strong monitoring, leading the actors to participate in the sanctions following the government's preference. Or, a close connection with the government might strengthen the lobbying power of the economic actors themselves, facilitating their circumvention of the sanctions. Whether connections facilitate sanctions participation or evasion is a function of the country's political institutions, its economic structure, the form of sanctions imposed, and the type of economic actors involved.

I run separate studies on three sanctions cases of different forms imposed by two divergent regimes: a case of anti-Japanese consumer boycotts in China after a territorial dispute in 2012, a case of trade restrictions by mainland China targeting Taiwan after a

controversial announcement made in 2002, and the Steel and Aluminum Tariffs imposed by the U.S. since 2018. The three cases cover consumers and companies as economic actors and their connections to governments, which are measured according to the respective characteristics of the sanctions and the actors. Specifically, the two cases in China are both informal sanctions, imposed without an official announcement. Here, the sanctioning mechanism is encouraging the loyal consumer or firms to participate in the sanctions implicitly, so connections are measured by the economic actors' dependence on the government – consumers' identity and firms' ownership, as well as their regional affinity with the central government, a unique variation based on China's bureaucratic design. Since sanctions in the US are imposed by formal policies, the type of connections changes the bargaining power of firms who want to get exemptions. In this case, connections are measured by a firm's political importance to the government and their monetary investment made in the decision makers. Using the measurements above, I assess the connections' function in sanctions participation in the two divergent environment.

In Chapter 2, I look at how customers who are highly controlled by their governments participate in patriotic boycotts to show loyalty. By estimating Difference-in-Difference-in-Difference regressions of car sale records of 398 cities in China from 2012 to 2013, I note significant drops in Japanese branded car sales in response to the China-Japan territorial dispute. The drop is moderated by customer identity and regional connections. Specifically, I find organizational customers reduce their purchase of Japanese branded

cars to a greater extent in regions with stronger connections to the central government. Such a pattern does not hold for individual customers who are less controlled than organizations. These results support the existence of loyal boycotts in authoritarian regimes and complete the theory on boycotts' mechanisms.

Chapter 3 addresses the case of Taiwan's "Two Countries" announcement made in August 2002. Using the monthly trade of different types of companies located in mainland China, my Difference-in-Difference estimations show that the announcement's trade deterioration effect is only found in mainland China's imports, and Chinese companies report larger import reduction compared to foreign owned companies. Among all types of companies, state-owned enterprises (SOEs) reduce their imports from Taiwan at the largest magnitude. Most importantly, SOEs located in regions with stronger connections to the central government are more responsive in import reduction than SOEs in other regions. Such a pattern is not found with private Chinese companies. These findings capture the exceptional trade control by companies that have a strong political affinity with the Chinese government, supporting for the existence of informal sanctions against Taiwan.

In Chapter 4 I use the U.S. Steel and Aluminum Tariffs case to test if the exemption results are impacted by electoral factors, diplomatic concerns, and monetary investment from firms. My logit estimations show that in this specific case, midterm election swing states are more likely to get exemptions for their local firms, and such an advantage is larger before the midterm election set to take place. Compared to the swing states in the

Senate, the advantage is more profound for swing states in the House. In terms of international relations, a close bilateral relationship with the U.S. increases a country's chance to get exemptions for its products, but makes the requests made by its companies in America less likely. A firm's lobbying expense in the previous year is positively correlated with its chance for an exemption, but a political donation to Trump in the last presidential election works in the opposite way. This study explains the decision-making process in trade policy from the executive perspective and offers a starting point for people interested in sanctions evasions or the political "swamp" in the Trump era.

The findings in these three papers can be summarized as: connections in China increase sanctions participation, while in the US connections generally facilitate sanctions evasion. This study contributes to the economic sanctions literature in three ways. First, it enriches sanctions studies on the perspective of sender countries. The empirical results illustrate how business-government connections could affect sanctions participation within the sender countries, which may influence sanctions effectiveness. Second, it create a comparative framework for sanctions imposed by the U.S. and China. Both countries are major powers with considerable economic leverage and increased interest in using sanctions, though they vary in their style of imposing sanctions. Figuring out their respective sanctioning mechanisms and domestic participatory features will help understanding the difference in sanctions types and sender countries' institutions. Third, this dissertation finds solid causal evidence for China's informal sanctions in the two cases

of study, which is rarely available in research on China's economic coercion. The method using connections to capture the government's intention could be applied to other countries with similar bureaucratic and market structures as China, where official announcements of sanctions are usually precluded.

The dissertation is composed of five chapters. The first chapter is the Introduction, which provides an overview of the theory and empirical evidence in the substantive chapters. The second chapter examines the anti-Japanese consumer boycotts in China as a case of informal sanctions. The third chapter examines mainland China's trade restrictions against Taiwan as a second case of informal sanctions. Chapter 4 is a case study on the U.S. Steel and Aluminum Tariffs as a case of formal sanctions. The last chapter is Conclusion, which summarizes the findings and directs the reader toward future research implicated by the dissertation.

CHAPTER 2

BOYCOTTS OF LOYALTY:

AUTHORITARIAN SIGNALS AND CONSUMER BOYCOTTS IN CHINA

Informal sanctions refer to the economic pressure placed on foreign countries without the official declaration of sanctions, in order to enhance policy flexibility and minimize diplomatic fallout (Reilly, 2012), and China is often viewed as a sender of such sanctions. From the trade deteriorating impacts of the Dalai Lama's visits (Fuchs and Klann, 2013) to the salmon import deduction due to the controversial Nobel Prize going to the Chinese dissident (Chen and Garcia, 2016), scholars have tried to find evidence or mechanisms of informal sanctions. With the exception of trading companies, ordinary consumers can also impose economic pressure on foreign countries through nationalist boycotts[1]. Existing literature dominantly employs public sentiments in explaining consumer boycotts (Bentzen

[1] See "Chinese demand Carrefour boycott for Tibet 'support'." *Reuters*, April 15, 2008, https://www.reuters.com/article/us-china-tibet-carrefour-idUSPEK24412820080415. "In Philippines, banana growers feel effect of South China Sea dispute." *The Washington Post*, June 10, 2012. https://www.washingtonpost.com/world/asia_pacific/in-philippines-banana-growers-feel-effect-of-south-china-sea-dispute/2012/06/10/gJQA47WVTV_story.html. "KFC Targeted in Protests Over South China Sea." *New York Times*, July 19, 2016. https://www.nytimes.com/2016/07/20/world/asia/south-china-sea-protests-kfc.html. "Chinese children protest against Seoul's THAAD defense system." *Financial Times*, March 19, 2017. https://www.ft.com/content/76759388-0a05-11e7-97d1-5e720a26771b. All accessed on June 17, 2020.

and Smith, 2002; Chavis and Leslie, 2009; Pandya and Venkatesan, 2016; Abosag and Farah, 2014; Sun et al., 2018; Chen and Zhong, 2019), however, boycotts are rarely covered by informal sanctions studies because it is difficult to prove that the bottom-up sentimental expression is strategically permitted or guided by the authoritarian regime (Wallace and Weiss, 2015; Cairns and Carlson, 2016; Zhuang, 2019). There is another group of customers whose behavior can hardly be explained by sentiments alone, and their purchases are a more accurate reflection of the governments' intention. Government procurement, for example, is a kind of purchase with collective decision-making under the constraints of governmental contracts, and its highly institutionalized decision-making process is unlikely sentimentally driven. If boycotts are the result of the governments' intention to sanction informally, the governments' own bureaucratic offices should lead the purchase reductions. Therefore, a study on government procurement and similar organizational purchase can better capture the governments' intention and test for the existence of informal sanctions.

I look at consumer boycotts from the perspective of control, where boycotts can be a gesture of the controlled customers to show loyalty to governments. In an authoritarian country where the state holds more leverage over administration and distribution, the pursuit of resource support and preferential policies makes a good relationship with the government necessary, generating the sensitivity to governments' political signals among certain subordinates. When the state has shown its discontent toward a foreign country, and

when the signals are interpreted as encouraging economic pressure, sensitive customers are more likely to engage in boycotts.

I argue that when boycotts show loyalty, the extent of drop in sales is moderated by customer identity and regional connections to the central government. Compared to individuals, organizational customers are more controlled by local governments. Because they are especially dependent on policy benefits from the local government, and they are smaller in number, organizational customers are more discernable than individuals. Regional governments' connections to the central government is another dimension of control when regions rely on the central government's distribution for local development, thus highly connected regions are more motivated to interpret the center's signals and have locally controlled customers behave accordingly. Taken together, organizational customers are more likely to conduct loyal boycotts, reflected by their purchase drop, varying with regional connections to the central government.

A dispute over the sovereignty of Diaoyu/ Senkaku Islands between China and Japan broke out in 2012, when the prime minister of Japan proposed to nationalize the contested islands. On August 15, 2012, activists from Hong Kong landed on the islands to proclaim China's sovereignty but got detained by Japan. As a result, several anti-Japanese protests and boycotts broke out on August 18 and 19 in major cities across China. Even more protests emerged as the Japanese government formally purchased the islands on September 11, with broader geographical distribution across the country and escalated violence against

Japanese branded products. Not only were Japanese cars parked along streets and Japanese branded car dealers vandalized, but some Japanese joint-ventures with Chinese car factories also had to halt production temporarily due to harassment[2]. One owner of a Japanese branded car was even severely hurt by the protesters[3]. By the end of September, 377 anti-Japanese protests had taken place (Foley, Wallace and Weiss, 2018: 1141). Though the protests soon ended in September[4], the anti-Japanese boycotts caused a stunning plunge in car sales of Japanese brands. Toyota, Honda and Nissan respectively reported a 48.9%, 40.5% and 35% sales drop in September from a year earlier in the Chinese market[5].

[2] "Japanese car sales plunge in China after islands dispute." *The Guardian*, O ctober 9, 2012. https://www.theguardian.com/business/2012/oct/09/japanese-car-sales-china-islands-dispute. Accessed on January 5, 2020.

[3] "Smashed Skull Serves as Grim Symbol of Seething Patriotism." *New York Times*, October 10, 2012. https://www.nytimes.com/2012/10/11/world/asia/xian-beating-becomes-symbol-of-nationalism-gone-awry.html. Accessed on January 5, 2020.

[4] "China clamps down on anti-Japan protests." *Reuters*, September 19, 2012. https://www.reuters.com/article/uk-china-japan/china-clamps-down-on-anti-japan-protests-idUSLNE88I01520120919. Accessed on January 5, 2020.

[5] "Japanese car sales plunge in China after islands dispute." *The Guardian*, October 9, 2012. https://www.theguardian.com/business/2012/oct/09/japanese-car-sales-china-islands-dispute. Accessed on January 5, 2020.

This anti-Japanese event[6] in 2012 makes a good case for testing the loyal boycotts theory. First, occurring in an authoritarian country, these consumer boycotts followed with nationalist protests in China, where demonstrations have to be permitted by local governments (Weiss, 2013). The occurrence of protests can be interpreted as discontent toward Japan, offering the premise of loyal boycotts. Second, the most impacted products are cars that are widely purchased by both individual and organizational customers. While individual customers might be sentimentally aroused by protests and conduct boycotts, organizational customers, who are more controlled by governments, might boycott to show loyalty. By comparing their respective purchasing behavior, I can distinguish the control mechanism from the sentimental mechanism in causing boycotts. Lastly, the nationwide protests and boycotts facilitate my test on the spatial variance in regional connections to the central government, another feature of control that might impact local customers' boycotts.

I apply Difference-in-Difference-in-Difference (DDD) estimations for car sales of 398 cities in China from 2012 to 2013, purchased by organizational and individual customers respectively, covering 28 brands from 6 foreign countries. The results show that organizations in regions with stronger connections to the central government have a sharper purchase reduction than other regions; such a pattern is only found with organizational

[6] The "2012 event" refers to the anti-Japanese protests in 2012 combined with the simultaneous boycotts against Japanese products.

customers, not individual customers. After ruling out the impact from other channels, like the insecurity caused by violent vandalization and local protectionism, I obtain supportive evidence for the existence of the loyal boycotts in the 2012 event.

This is a significant step towards understanding the boycotting behavior of customers. The control mechanism adds an important angle when sentiments alone cannot fully explain the boycotts conducted by customers and completes the story of how the government's attitudes influence the customers' purchasing behavior. While the 2012 event is depicted as "the congruence of a populist boycott of Japanese consumer goods with the state's effort to deploy China's economic might for diplomatic advantage" (Reilly, 2014), my study is the first one showing supportive evidence that top-down political signals affect specific boycotting behavior. The control mechanism notes the exceptional boycotting logic of organizational customers from ordinary individuals, i.e., collect government's signals, interpret government's intention, and behave accordingly to show loyalty to the government. This boycotting logic introduces political implications with consumer boycotts as well. On the one hand, boycotts driven by political signal interpretation may facilitate the government to use economic statecraft implicitly and flexibly. On the other hand, such boycotts may result in unnecessary economic loss if the signals are misinterpreted. Both possible outcomes are important to study in trade politicizations and authoritarian economies.

Existing Literature: Sentimental consumer boycotts by individuals

My study addresses an important gap in existing research on consumer boycotts. Although previous work has considered the mechanism in which consumers changed their purchasing behavior due to political disputes, most research sees individual customers as the unit of analysis but dismisses organizational customers as an important component of consumer boycotts. As a result, the mechanisms found with consumer boycotts are usually about the ideology of individual customers (e.g. Cutright et al., 2011; Khan et al., 2013; Jost et al., 2017) and the opportunities for an expression.

Participating in the boycott fulfills the customers' need for moral self-expression or a share of collective good (John and Klein, 2003; Kozinets and Handelman, 1998) at the cost of the disutility from delaying immediate consumption of the boycotted brands or substituting with less preferred brands (Friedman, 1999). Products from a certain country might be targeted because of economic or political disputes it has with the customers' home country, when the individuals are driven by consumer ethnocentrism (Shimp and Sharma, 1987) or animosity (Klein at al., 1998; Klein 2002). Aside from current disputes, historical memories also contribute to individuals' boycotting behavior because of cultural transmission across generations (Bisin and Verdier, 2011; Anderson et al., 2015; Svob and Brown, 2012), when the memories are reactivated by present conflicts (Schwartz, 1996; Schuman and Rodgers, 2004; Paez and Liu, 2011). For example, after the controversial Muhammad cartoons in the Danish newspaper Jyllands-Posten, the Danish company Arla

Foods' brand image and customer loyalty was damaged in Saudi Arabia, though customers' product judgment was unchanged (Abosag and Farah, 2014). Transgenerational historical memory makes customers living in places invaded by Japan in World War II more likely to participate in boycotting, so regions with traumatic memory of invasion have sharper drops in Japanese car sales in response to the territory dispute (Sun et al., 2018; Chen and Zhong, 2019).

Customers' identity and ideology also determines their level of animosity towards the target country and their boycotting behavior. France's opposition to the 2003 Iraq War arouses animosity among American customers against France and French products. Market sales data in American cities show that not only explicit French products like wines saw a sales drop (Chavis and Leslie, 2009), non-French but French-sounding supermarket brands were also purchased less, which is more significant in markets with a higher proportion of customers who are US citizens (Pandya and Venkatesan, 2016). Media coverage of the anti-Japanese protests and invasion history is likely to incite customers' animosity towards Japan and encourage their participation in boycotts. This is supported by larger anti-Japanese protests in regions with more China-Japan war TV dramas aired in 2012 (Zhuang, 2019), and sharper Japanese car sales drop in regions with more media coverage on anti-Japanese protests (Sun et al., 2018).

While customers have the motivation to express animosity, scholars also notice the role of governments and the social atmosphere in consumer boycotts. In other words, the

customers' expression might be a function of the political opportunity created. After Frances' controversial nuclear tests in 1995, the Danish government and all Danish political parties expressed their discontent about the nuclear tests via protest letters to the French government. As following reactions, nationwide protests occurred in Denmark, and Denmark reduced the import of French wine in the same year (Bentzen and Smith, 2002). Such an unanimity in boycotts participation could be attributed to the voice made by the government in the first place. On the contrary, the absence of boycotting effects in the US in the 2003 Iraq War case is explained by the country's division in interests and attitudes toward punishing France, due to the lack of top-down political opportunities or social unanimity with boycotts (Ashenfelter et al., 2007; Vannerson, 2004).

As supportive evidence of the governments' intervention in boycotts, Wallace and Weiss (2015) find that in the 2012 anti-Japanese event, protests are more likely to take place in cities where local leaders were well established but less expected in cities with a larger share of unemployed graduates and ethnic minorities, who are liable to threaten the basic principle of "maintaining stability" locally. Cairns and Carlson (2016) note the censorship of key words related to the territory incident on *Weibo* (Chinese personal social media) was suddenly less restrictive in mid-August immediately after the Hong Kong activists' landing on the islands, which can be depicted as a safety valve for nationalism. Censorship returned to the usual high rate in September when the central government decided to end the chaos.

While above studies and findings have noted the importance of governments in generating a suitable social atmosphere for, and determining the occurrence, location and timing of consumer boycotts, they all see customers as a unitary unit, mainly focusing on the individual customers. This individuals-only perspective is problematic in two ways. First, because of the features of individuals' decision-making, theories from the individual angle tend to find mainly ideological reasons for the boycotts' occurrence but dismiss organizational customers whose decision-making is hardly sentimentally driven. In the nuclear case, many Danish retailers stopped marketing French products during the boycott. Compared to individuals, their decision-making process of reducing import is institutionalized, constrained by contracts, and concerns the collective interests of larger groups of people. Therefore, attributing the organizations' participation in boycotts to simple nationalist sentiment can be misleading.

Second, the individuals-only perspective makes boycotts studies poorly link with sanctions literature, despite the fact that consumer boycotts are a plausible option for trade politicization. As illustrated by some studies above, political opportunities offered by the government can help to generate large-scale, nationalist consumer boycotts. However, compared to firms or other organizations who can take political orders from governments directly (Chen and Garcia, 2016), it's hard to mobilize individuals efficiently for selective purchase or non-purchase because of their size and dispersion, especially if the government prefers to sanction informally which prohibits the government to declare intentions

explicitly (Reilly, 2012). Therefore, organizational customers should fit better for investigations on consumer boycotts as a subtype of informal sanctions.

It is in the above two ways that I push the research agenda forward. By distinguishing organizational customers from individual customers, I introduce another mechanism of boycotts where boycotts are seen as a gesture to show loyalty in response to the political signals sent by governments. This mechanism is better at explaining the boycotting behavior of organizational customers whose behavior can hardly be driven by sentiments. Furthermore, the study helps to enrich the research on consumer boycotts and informal sanctions. When individuals are less efficient and accountable for informal sanctions, organizational customers' need to show loyalty to governments to make them a better strategic tool. The study on organizational customers can help improve the test for informal sanctions when the governments' intention is implicit.

Loyal Purchase: Boycotts participation in control context

Control is about making the subordinates behave in ways consistent with the whole organization's interest through converging preference and reducing information asymmetry (Wintrobe, 1998; Huang, 2002). Explicitly, top-down rewards or punishment can generate control. Implicitly, bottom-up compliance is generated through converged interests and symmetric information, which is how loyal boycotts function. Customers with strong interests convergence and information symmetry with the government are highly controlled, and are motivated to show loyalty to the government. When the government's

interest is believed to hurt a foreign country's economy through boycotts, these controlled customers tend to be more responsive in participating in the boycotts. In this section I will discuss the existence of control in the case of the 2012 anti-Japanese event, and how it pushes organizational customers for loyal boycotts.

Political signals for boycotts, as is interpreted

In a diplomatic disagreement, the state government's voice delivers its own attitude, as well as its expectation on the public's reaction explicitly or implicitly. Customers may stop buying products from the country in dispute because they are rallied when the government explicitly appeals for a nationalist boycott, or their sentiments get upgraded by the government's rhetoric, or, the customers believe the government wants a boycott and they need to comply. The last scenario denotes the control mechanism.

As argued by Weiss (2013), in international crises, nationalist, antiforeign protests within authoritarian regimes deliver the government's intentions. The tolerance of protests shows the government's resolve and toughened stance in the crises, because protests in authoritarian states risk causing instability (Hassid, 2012; Weiss, 2013). Seeing the risk in this signaling tool, antiforeign protests are permitted conditionally and strategically. Following this argument, the occurrence of organized anti-Japanese protests, as well as temporarily reducing restrictive censorship measures with online discussion (Cairns and Carlson, 2016) denotes the government's allowance for the sentiment expression. With the many precedents of boycotts in diplomatic disputes, customers who echo the public

rhetoric emotionally may follow the boycotting path and reduce purchase again. Customers who are notably politically sensitive tend to interpret the protests as government's signal for another round of boycotts, then change their purchasing behavior accordingly to maintain a good relationship with the government. This is the mechanism of loyal boycotts.

Organizational and individual customers: the identity variation

Mainly consisting of firms, governmental organs or public institutions, organizations make their purchases institutionally, with stricter regulations in processing and more decision-makers involved. They are constrained by contracts and influence the interests of larger groups of people and offices. In relation to individuals, organizational customers' boycotts are hardly sentimentally driven, but are better explained by their concern with the governments' signals, because organizations are more controlled by the governments.

On the one hand, organizational customers have higher converged interests with the government. In China, governmental organs and public institutions[7] such as hospitals and post offices rely on governmental revenue, and their personnel arrangement for institutional leadership must be approved by the local government. The dependence explains why public procurement tends to hold some societal responsibilities like the preference for local brands, and the strategy to foster domestic industry development (Weiss and Thurbon, 2006). Another group of organizations are firms. State-owned firms are controlled by the

[7] Both referred to as public institutions hereinafter.

government in similar ways as public institutions. Governments get noticeable leverage over SOEs behavior through personnel arrangements and preferential economic benefits like favorable taxation, subsidies, and preferential access to financing (DeWenter and Malatesta, 2001; Capobianco and Christiansen, 2011), making SOEs more responsive to foreign relations (Davis et al., 2014). Though private firms are not as highly controlled by the government as SOEs, they also rely on the above government-controlled resources and governmental contracts (Mirrlees, 1997; Cai and Treisman, 2007; Rickard and Kono, 2014), thus the interests and preferences of private firms are converged with the governments, as well. With the interest convergence, it is always crucial for these controlled organizations to keep a good relationship with the government, and safer to boycott accordingly, once they interpret such signals from the government.

On the other hand, there is a higher level of information symmetry between the government and organizational customers than individuals. Organizations are more discernable because of their smaller size, frequent interactions with the government and exposure to the media. More importantly, a specific policy targeting public institutions in 2012 further increased the organizations' exposure. Normally, it is challenging for the central government to collect local information in a big country, and public procurement usually lies in a non-transparent policy area (Rickard and Kono, 2014). In August 2012, the Chinese Ministry of Finance required all public institutions to check their

organizational cars, and to report car specific information by the end of October[8]. Issued prior to the breaking out of protests, this notice is not intentionally made to reduce the public purchase of cars from certain countries, but it offers a chance for the central government to get comprehensive data of publicly purchased cars. The data collection process overlaps with the anti-Japanese protests in time, and it makes the public institutions reluctant to buy Japanese branded cars in this period, for fear that it is against to the government's implicit signals and will affect their economic and career development.

On the contrary, individual customers are much larger in group but have limited interactions with the government, making them more divergent in preference and less detectable for specific behavior. The lower interest convergence and information symmetry with the government make individuals less controlled than organizational customers. Therefore, it is unnecessary for individuals to show loyalty, and their boycotts are better explained by their sentiments against Japan, aroused by historical memories, news reports and community pressure (Sen et al., 2001).

Control across regions: the spatial variation

The control over organizational customers is held by local governments, who are in turn under the control of the central government in a country like China. The central government is authorized to have a voice in diplomatic disputes, within which contains

[8] The official notice is available at http://www.gov.cn/zwgk/2012-08/20/content_2207246.htm. Accessed on January 5, 2020.

political signals to be interpreted by local governments. Just like customers, local governments vary in their sensitivity to the signals. Highly controlled regions are more responsive in delivering the signals downward or conducting specific policies, in this case, allowing for local anti-Japanese protests, which ultimately pushes the controlled organizations to employ loyal boycotts.

Central-local control is mainly generated through interpersonal connections, meaning networks or ties generated in personal life or working experience. In China, the core group of decision-making is from the Politburo of the Party, who makes all the major strategic decisions for the country and appoint the regional governors. With powers in personnel arrangement like appointment, rotation or promotion (Huang, 2002), the Politburo can reward loyal local officials with whom they have good political connections (Dittmer and Wu, 1995; Meyer et al., 2016; Nathan, 1973; Shih et al., 2012). Therefore, a stronger connection not only denotes stronger trust, but also means a stronger top-down control over career development.

Regions with the strongest connections to the central government are those with cross-posting governors. Cross-posting typically means an official simultaneously has a seat on the Politburo and a title as the provincial leader. These provinces generally have noticeable importance strategically or economically[9], thus requiring a stronger control by the central

[9] For example, in the 18th Politburo there are six members with cross-posting. The four municipalities and Guangdong province are crucial in China's long-term development because of their size, economic power or strategic importance. The newly added case is

government. On the one hand, cross-posting better aligns central preferences and local interests, because policies in these provinces are part of the Politburo member's performance evaluation, and the provinces' welfare is in turn dependent on the official's bargaining power at the central government (Pierskalla, 2016). Therefore, responding accordingly to the central preference benefits the officials' political career as well as the provinces' development. On the other hand, the dual seats facilitate information exchange by building direct working ties between the central and local governments, making related regions better in interpreting the central government's implicit intentions and faster in responding to the signals. At the same time, the strong connections make these regions' noncompliance more discernible. Thus, a failure to capture the central government's signals, if there is any, increases the potential loss of the officials and the corresponding provinces.

Connections can also be created through early life or working experience. Being born or raised in a certain province, or having early working experience in a province, is likely to build personnel networks locally for an official (T. Chen and Kung, 2016; Jia et al., 2015; Meyer et al., 2016). When the official is in the Politburo, the networks may also influence his or her decisions in personnel promotion and appointment. However, compared to cross-posting, connections generated by early experience suggests a weaker control, because here

Xinjiang, which was particularly important for China's social stability due to the increasing riotous events locally.

the regions' interests are not directly linked to the performance of central leaders, and it is also harder to symmetrize information between the regions and the central government without the dual seats, leaving less guarantee that concurrent workplace experience or birthplace necessarily strengthen current control (Landry et al., 2017). That said, connections built through early experience are more commonly found with Politburo members. Not all members have dual seats, but they all have hometowns and birthlands of their political careers. Seeing the power of the Politburo, these regions have strong motivation to show loyalty to the Politburo members and to strengthen the connections.

All in all, connections make corresponding provinces better aligned with the central interests, easier to be monitored, and thus strongly motivates officials to comply with the central government. As a result, compared to other provinces, the provinces with stronger connections are more sensitive and responsive to the implicit signals sent by the central government. Reflected by local anti-Japanese protests, the discontent of the central government against Japan gets delivered to local customers, and the organizational customers under the control of local governments see the necessity to boycott. This boycott is not only demonstrating the organizations' loyalty to local governments, but also helping to show the local governments' loyalty to the central government. Taken together, loyal boycotts should be more likely to be found with organizational customers, especially those in regions with stronger connections to the central government.

Hypothesis: Compared to other regions, regions with stronger connections to the central government have larger drops of organizational purchase of Japanese branded cars.

Data

My sample covers all co-produced cars sold in China from 2012 to 2013. Co-produced cars are those made by Chinese car manufacturers using the brands and techniques of foreign car producers. Brand labels on co-produced cars are the combination of the two parties: the Chinese producer name plus the foreign brand name.

The car sales data come from China Car Registration Data Set, gathered by the Department of National Security. The data set contains car registration information which matches statistics about the location and time of the purchase. According to well implemented traffic laws, every car must register at the department to get a license plate, and the registration is usually conducted in the same city where the car is purchased. Car specific information is also included in the data set, like the producer, brand, model, engine capacity, as well as the market suggested retail price. The data set also have information from the customers' end, such as ownership, be it organizations or individuals, and the usage of the car. From this data set, I collect information of the monthly car sales across China from 2012 to 2013, aggregated by city, brand, and ownership, yielding 279,820 city-month-brand-ownership observations containing cars of 28 brands from 6 foreign countries sold in 398 cities.

Car sales before 2012 and after 2013 are not studied, mainly because there are car-sale related policies or events in those years that are likely to cause fluctuations in sales flows and make noise in the results. First, Japan experienced the Tohoku earthquake and tsunami in March 2011, which resulted in the suspension of exporting Japanese cars and parts, influencing the supply of Japanese brand co-produced cars. Second, in July 2014, the Chinese government started a reform with the public institutions' business-use cars, regulating the usage, model, engine capacity and so on. This move is likely to affect the ordinary flow of organizational car purchase, producing noise in the estimations. Third, reports on the accidents caused by the Takata air bag recall in 2014 may produce suspicion among Chinese customers with car quality and safety, which is likely to reduce the market share of Japanese brands.

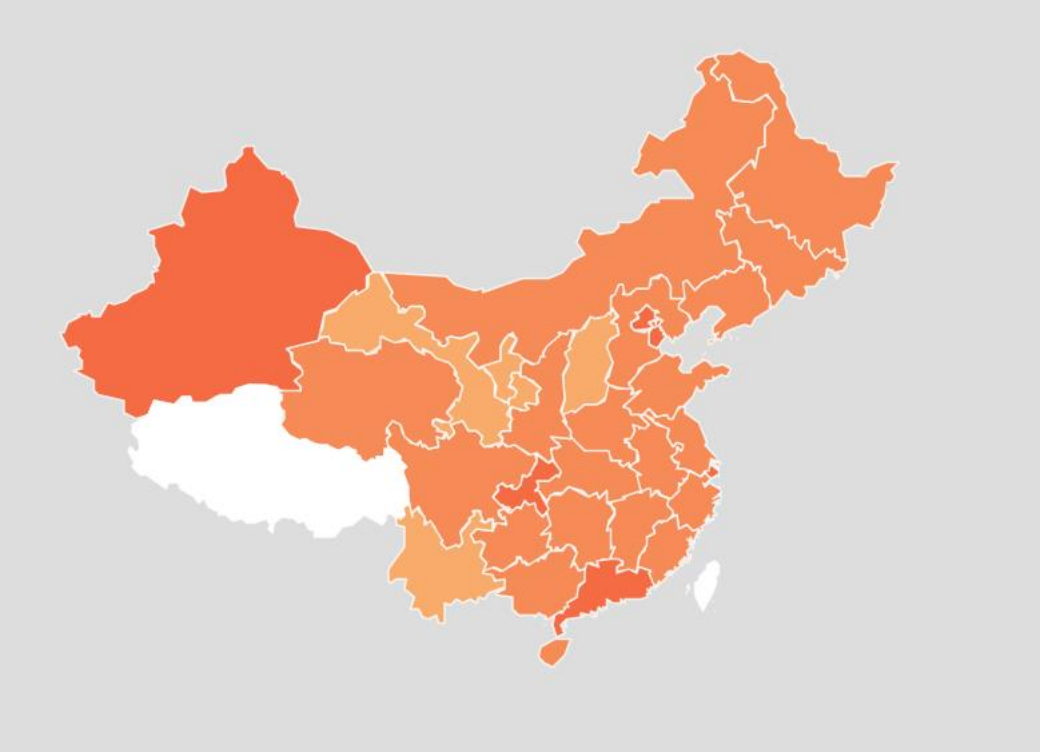
Besides co-producing, China also imports foreign cars directly. However, because of higher price and difficulty in maintenance, the market share of imported cars is quite small. Figure A-1 shows that compared to co-produced cars, imported cars make up less than 10% of annual car sales, and even less with organizational customers. Therefore, including imported car sales into the sample will not help illustrate the purchasing behavior of organizational customers, and dropping them will not influence the overall market analysis considerably.

In order to measure each city's connections to the central government, I code the provincial affinity of the members of the 18th Politburo of Communist Party of China (CPC)

Central Committee. The Politburo is the core of Chinese leadership, who runs the CPC when the plenary of the Central Committee, which usually meets annually, is not in session. The 18th Politburo was newly elected on November 15th, 2012, consisting of 25 members. I track the profile of the members and mark the provinces where the members were born, have prior working experience at the provincial level, and are currently holding administrative positions. Based on the results, I put the provinces into three categories: the group with the strong connections are those who have cross-postings, coded as 1 (6 cases in total); the group with weak connections are those having no members who were born or worked there, coded as 3 (4 cases); the rest of the provinces are coded as 2, indicating medium connections (20 cases). The geographical distribution of connections is visualized in Figure 1.1.

I hypothesize different purchasing behavior of organizational and individual customers, which is caused by the identity of customers. Figure A-2 shows the high similarity in the functional usage and (foreign) brand preference of organizationally and individually purchased cars. As a consequence, the only difference likely to induce divergent purchasing behavior after the protests is the identity of the customers, organizations or individuals, and their respective motivation to participate in the boycott.

Figure 1.1 Provinces' Connections to the Central Government



Notes: The darker the color, the stronger the connections are. Data of blank regions are dropped or not available[10].

Model

I employ a multi-period Difference-in-Difference (DD) estimation with the event-study strategy to capture the protests' impact on the monthly sales of Japanese branded cars. The model I use is as follows:

[10] Observations of Tibet are dropped in this and following sessions on cross-provincial variation, because Tibet is an outlier with purchasing of Japanese brands exceeding other foreign brands after the boycott, when other provinces consistently report recession. See Appendix Figure A-3 for more detail. With only 766 observations in total, dropping observations from Tibet is unlikely to change the results significantly.

$$Amount(ln)_{ijt} = \beta_1 Country_j \times Time_t + \alpha_i + \alpha_j + \alpha_t + \varepsilon_{ijt} \qquad (1)$$

where *i*, *j* and *t* are the indices for city where the purchase is made, origin country, and the month of purchase, respectively. *Amount(ln)* is the amount of cars of country *j* sold to certain kind of customers in city *i* and month *t*, taking the logarithm. *Country* equals to 1 if the origin country of a car is Japan, and 0 if the origin country is in the control group. *Time* is a discrete variable about the distance between the month of purchase to August 2012, the breaking out of protests. Time takes negative values when the month of interest is prior to the event. The month before the breaking out is the base period (time= -1) for comparison. The DD coefficient β_1 captures the percentage of Japanese car sale change relative to the sale of the base period. α_i, α_j and α_t are the city, brand and time fixed effects, respectively controlling for the city-specific and brand-specific variables constant over time, and time-variant factors constant across cities. Standard errors are clustered at brand level. Regressions are run separately by *ownership*, which classifies if the purchase is made by an organization or by an individual.

For each month I compare the car sales of the treatment group and the control group. My treatment group is the 5 Japanese brands, and the control group is 20 other brands from Germany, South Korea, the U.S., the U.K. and France, which are dominating the Chinese market of co-produced cars. Domestic-branded cars are another component in the Chinese car market yet are proven to be the substitutive to the drop in Japanese car sales (Sun et al., 2018). As shown in Figure A-4, cars co-produced with other foreign brands remained

relatively stable during the period or at least reflected a similar pattern in sales when Japanese brands started to drop after August 2012. Nevertheless, domestic-branded cars increased their sales or started to exceed at that time. As a popular option for purchase substitution during the boycott, Chinese brands are not included into the control group.

I run a Difference-in-Difference-in-Difference (DDD) model (equation 2) to test the impact of connections on the drop of Japanese branded cars. *Event* here is a dummy variable, equaling to 1 when the car is purchased after August 2012 and 0 otherwise. Therefore, equation 2 is a two-period DDD model. The provincial *connection* of city *i* is added into equation 1, interacted with *country* and *event*. The coefficient of the interaction term β_2 picks up the differential trends for Japanese branded cars sold in cities with variant connections after the event. Table 1.1 summarizes the numeric variables I use.

$$Amount(ln)_{ijt} = \beta_2 Connection_i \times Country_j \times Event_t + \alpha_i + \alpha_j + \alpha_t + \varepsilon_{ijt} \quad (2)$$

Table 1.1 Summary statistics

Variable	Observations	Mean	Std. Dev.	Min	Max
Amount	279,820	68.01	212.72	1	9680
Amount(ln)	279,820	2.51	1.84	0	9.18
Country	279,820	0.35	0.48	0	1
Time	98,570	5.58	6.86	-6	17
Event	279,820	0.67	0.47	0	1
Connection	279,820	2.01	0.49	1	3

Notes: Reported values are rounded to two significant digits. *Time* has fewer observations because cases in the control group are coded as missing, and act as the counterfactual on which the estimation of impacts is based.

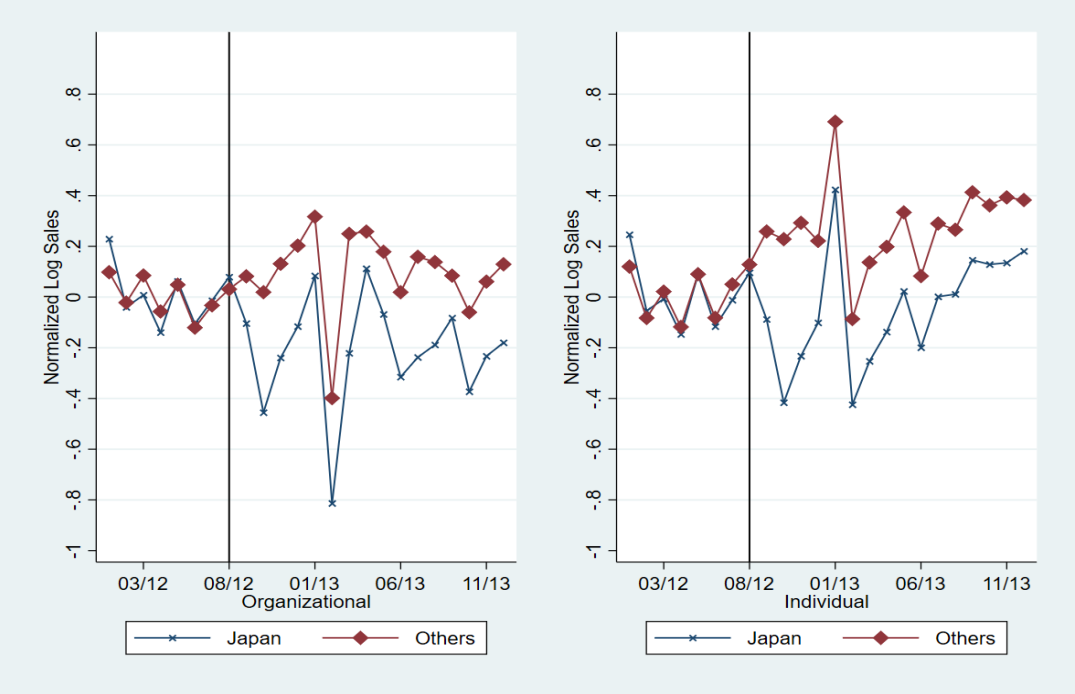
Empirical results

Figure 2 visualizes the normalized car sales of Japanese and other foreign brands. For both organizational and individual customers, parallel trends are found before the breaking out of protests (August 2012, marked by the vertical line), suggesting stable brand preference. After August there is an immediate drop of Japanese brands, while other foreign brands remain at a relatively stable increase. The protests ended in September, but the gap between the treatment and control group continued to exist and enlarged to the maximum

in October. Organizational and individual car purchases reach their peak in January before the sharp drop in February due to the Chinese New Year vacation. Till the end of 2013, the sales of Japanese branded cars are consistently less than other foreign brands.

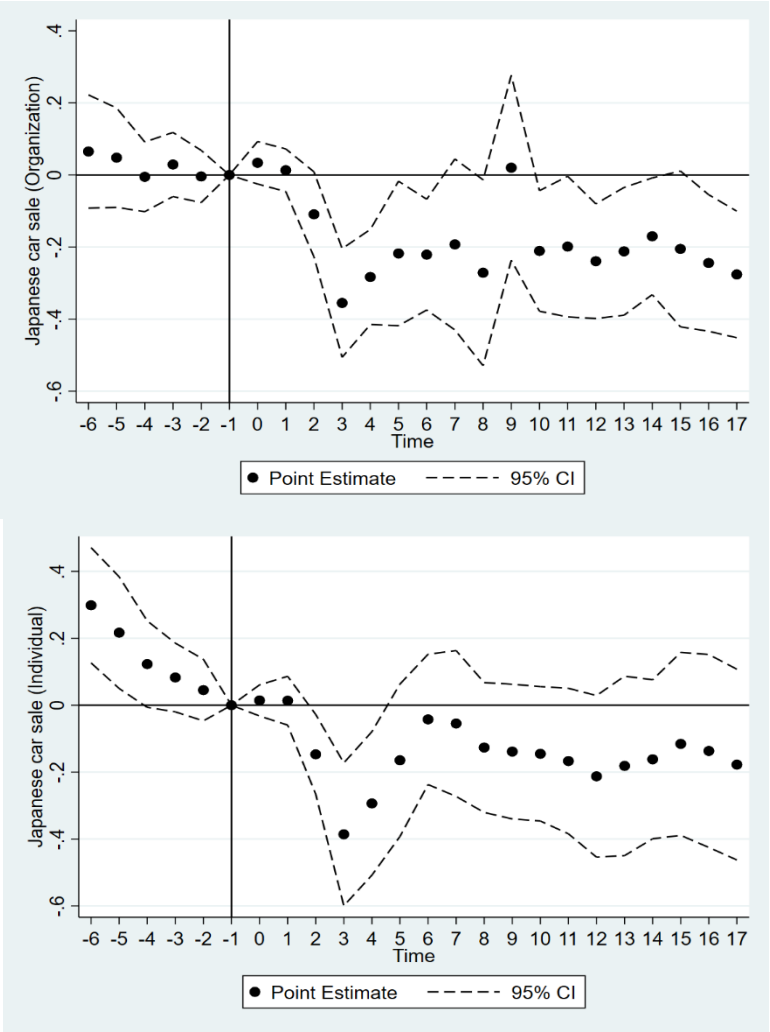
Multi-period DD estimations of organizational and individual purchase respectively are reported in Table A-1 and visualized in Figure 1.3. Compared to July 2012, car sales to organizations in the previous months are slightly higher, but the difference is close to 0 with little variance. While protests firstly occur in August, boycotts do not start until two months afterwards, when the organizational sales significantly drop to about 10% in October. In November the drop is enlarged to 35.5%. For most months after that, Japanese car sales remain at about 22% less than July, with statistical significance at 0.05.

Figure 1.2 Car sales of Japanese brands and other foreign brands



Notes: The graph visualized the normalized car sales (logged) of Japanese brands (x) and foreign brands in the control group (diamonds) from January 2012 to December 2013. The vertical line denotes August 2012, the first breaking out of the anti-Japanese protests.

Figure 1.3 Japanese car sales: Event-study estimates



Notes: This figure plots the Difference-in-Difference estimates of Japanese car sales to organizations and individuals, compared to brands in the control group. The horizonal axis

denotes the temporal distance to August 2012. I use July 2012 (-1) as the base period. The vertical axis shows the change (%) of Japanese cars sales in each month compared to the base period. The solid circles are the estimate points and the dashed lines show the 95% confidence intervals.

Individual customers, on the contrary, have started to see a decreasing trend in car sales before the protests. Cars sold 4 to 6 months prior to the protests are significantly higher than sales in July. Sales in August and September are not much different from July, and the boycotts of individuals also start in October, with a significant drop of about 15%. In the following months of 2012, the drop of Japanese car sales is larger with individual than organizational customers (-14.7% vs -10.9%; -38.6% vs -35.5%; -29.4% vs -28.3%). Notably, most months in 2013 are no longer significantly different from the sales of July 2012, but the drop in sales is noticeable, with the change stabilizing around -20%.

Table 1.2 reports the results of the DDD analysis on the *connection*'s impact on organizational boycotts. The coefficients of DD are always negative and become significant when brand fixed effects are included together with two other fixed effects in Model 3, showing organizational customers buy fewer Japanese branded cars after the event compared to their purchase of other foreign branded cars. Coefficient of the DDD term all report positive values, and the significance at 0.05 level is reached in model 3 again. These coefficients show that as connections increase for a category, the effect of a

country×event on car sales gets weaker. Seeing that the larger number in *connection* category suggests weaker control, the results support the idea that regions more connected to the have a larger drop of organizational purchase of Japanese cars after the event. The hypothesis gets supported.

Table 1.2 Difference-in-Difference-in-Difference: Main results

	Organizational		
	(1)	(2)	(3)
country×event	-0.413	-0.389	-0.456***
	(0.349)	(0.451)	(0.105)
country×event×connection	0.145	0.106	0.110**
	(0.171)	(0.226)	(0.0517)
Time FE	Yes	Yes	Yes
City FE	No	Yes	Yes
Brand FE	No	No	Yes
Observations	107,795	107,795	107,795
R-squared	0.025	0.205	0.648

Notes: This table shows the estimates of organizational purchase. Each model reports the difference-in-difference (country×event) term interacted with the regional connections. Time (month) fixed effects, city fixed effects and brand fixed effects are controlled in succession in Model 1 through Model 3. Standard errors in parentheses are clustered at the brand level. *** significance at 1%, ** significance at 5%, * significance at 10%.

In order to make the results more solid, I run a placebo test using car sales to individual customers. Results in Table 4 show mostly negative coefficients for the DD terms, with 0.05 significance in Model 6. The DDD term reports negative coefficients in all three models, suggesting individuals in regions more connected to the central government tend to reduce their Japanese car purchases less often, though the correlation is not significant at all. One tentative explanation for the impact of connections on individuals is the constrained sentimental expression in these regions. Cities with stronger connections are found more likely to have protests locally[11], but because of the direct control from the central government, these cities might especially prioritize stability, preventing extreme, violent vandalization locally. Therefore, individuals in these cities are less sentimentally aroused, making their purchase drop in Japanese cars smaller. The results show that connections have little impact on individual boycotts, further supporting the idea that loyal

[11] For the relationship between connections and protest occurrence and other factors, see Table A-4.

boycotts motivated by the central-local control are conducted by organizational customers only.

Table 1.3 Difference-in-Difference-in-Difference: Placebo test

	Individual		
	(4)	(5)	(6)
country×event	-0.0639	0.0227	-0.228**
	(0.545)	(0.598)	(0.0886)
country×event×connection	-0.139	-0.210	-0.0199
	(0.252)	(0.285)	(0.0262)
Time FE	Yes	Yes	Yes
City FE	No	Yes	Yes
Brand FE	No	No	Yes
Observations	172,025	172,025	172,025
R-squared	0.019	0.235	0.839

Notes: Estimates of individual purchase are reported. See Notes in Table 3. Standard errors in parentheses are clustered at the brand level. *** p<0.01, ** p<0.05, * p<0.1

For a robustness check, I first change the time window for analysis. The Chinese government launched a new round of fuel efficiency car subsidies in October 2013[12]. The policy is supposed to influence the market by boosting the purchase of certain models, so sale flows of certain types of cars are expected to see fluctuations. Therefore, I dropped the last three months of 2013 and make all months under observation uninterrupted by any policies related to the car sales market. In addition, I change the base period from July 2012 to August 2012. As can be seen from Figure 1.2 and Figure 1.3, car sales continued to increase in August 2012 compared to July, until the breaking out of protests in mid-August. Since the protests got upgraded in September, August 2012 can also be the month prior to the nationwide protests and be used as a base period, and the sales increase from July to August can also be absorbed. The results are generally the same (see Table A-1). To better capture the impact of connections on the instant drop of Japanese branded car sales at the end of 2012, I recode provincial connections to the central government using the profile of the 17th Political Bureau members, who didn't leave their offices until mid-November 2012. The car sales drop concentrated in September through November 2012 is more likely to be influenced by the connections to this group of leaders. The findings still hold (Table A-2 and A-3).

[12] According to the policy, the purchase of cars meeting the criteria can get a deduction of 3000 Yuan (450 USD).

Alternative mechanisms

Except for *connections* to the central government, the spatial variation in the extent of Japanese car sales drop might also be explained by other mechanisms: property insecurity, anti-Japanese sentiments, and local protectionism. If their geographical distribution overlap with the regions' connections to the central government, the channels' impact on the car customers might threaten the explaining power of *connections*. In this section I explore these alternative mechanisms.

Property insecurity

The anti-Japanese boycotts came with wide-spread anti-Japanese protests. The protests, especially those with violent vandalization of Japanese cars that hurt the property rights of the car owners, send out a signal to potential customers that buying or owning a Japanese car might be risky (Chen and Zhong, 2019). As a result, customers after the protests might switch their purchase onto other brands or postpone their purchase. By adding *connections* when replicating the study of Wallace and Weiss (2015) [13], I find a city's connection is positively corelated with the occurrence of protest locally, though insignificant, revealing protests' potential in overlapping spatially with connections and the potential as an alternative mechanism.

[13] Results of the logit model are reported in Table A-4.

Using the city data of 2012 anti-Japanese protests collected by Wallace and Weiss (2015), I create the dummy variable *Protest*, coding cities seeing anti-Japanese protests in August and September 2012 as 1 and others as 0. Some observations are dropped because of the lack of information about the city. I replicate equation 2 and use the interaction of *protest*, time after the *event* and origin *country*. Column 1 and 2 in Table 1.4 presents the impact of the occurrence of protests on the drop pf Japanese car sales locally. For both organizational and individual customers, the triple interactions have negative coefficients, showing that the occurrence of anti-Japanese protests locally enlarges the gap between Japanese branded and other foreign branded car sales. However, such an impact is not significant. Protests and insecurity as an alternative mechanism can be ruled out.

Anti-Japanese sentiments

Customers in provinces invaded or occupied by Japan in World War II tend to behave differently in trade and investment. The traumatic memory of the customers may either damage their attitude toward Japan's role in international and bilateral affairs (Che et al., 2015), or alter their brand preferences in purchases (Chen and Zhong, 2019), which might influence the purchasing behavior when the sentiments are further aroused by the anti-Japanese protests. If this is true, provinces with more traumatic memory with Japan should see larger drops in Japanese branded car sales.

I code if a city was fully occupied by Japan in WWII following Wallace and Weiss (2015) and interact this dummy variable *occupation* with *country* and *event*. Column 3 and

4 in Table 1.4 report the results, that for organizational customers, the city being fully occupied enlarges the drop of Japanese car purchases significantly, but such a significance is not found with individual customers. This pattern is quite similar to *connection*s. However, the coefficients of *connection* and *occupation* in Table A-4 are in opposite directions, suggesting that these two variables work in different directions in regard to the occurrence of protests, which also means that their geographical distributions do not match with each other. Referring to this relation, I rule out occupation as an alternative mechanism.

To better measure anti-Japanese sentiment, I use the data collected by Che et. al (2019) on each provinces' civilian *casualty* due to Japanese invasion. Compared to the measurement by Wallace and Weiss, sentiment in this measurement is aggregated at the provincial level rather than at the city level, but the measurement of casualty is based on more solid empirical records. Notably, in Table A-4 the coefficients of casualty and occupation are in opposite directions, because not all fully occupied cities were equally slaughtered in WWII. Measured by casualty, provinces are categorized into 4 groups from the lowest (group 1) to the highest (group 4) casualty rate[14].

Column 5 and 6 in Table 1.4 show similar patterns for organizational and individual customers, that provinces with higher casualty rates in WWII are significantly more responsive in reducing Japanese branded car sales. These results echo with the findings by

[14] Civilian casualties are expressed in percentage term (%) and is measured by the proportion of regional civilian casualties in the Sino-Japanese War over the total pre-war population in the region.

Sun et al. (2018), that historical memory impacts customers' brand preference. It is noteworthy that the coefficients of *Casualty* are in the same direction with *Connection* in their impact on protest occurrence in Table A-4, suggesting the potential overlap in the two mechanism's spatial distribution and co-function, so it's hard to rule out the sentimental mechanism when it is measured by casualty. That said, the similar results with organizational and individual customers show that sentiment does not work in the same way as *connection*s to which only organizational customers respond accordingly.

Local protectionism

Local protectionism and home bias influence brand preference (Barwick et al. 2017). Co-produced cars are manufactured in China, using local land and workers, contributing considerable tax revenue and employment locally. Therefore, city governments with factories of Japanese branded cars should be less willing to see the sales drop in Japanese brands, which may hurt local economic development and stability. The result in Table A-4 also shows that anti-Japanese protests are less likely to occur in cities with local Japanese car factories, though these results are not statistically significant. As a main source of organizational purchase, local governments may avoid reducing their purchase of Japanese branded cars considerably, while individual customers don't have as much concern.

I collect factory information from the official websites of the Japanese brands with co-branded cars from China for the variable *Factory*, and code cities with Japanese car factories as 1, otherwise as 0. There are, in total, 19 cities with local Japanese car factories,

mainly located in northeastern and mid-southern China[15]. In Table 1.4 organizational and individual customers have negative coefficients in the triple interactions, but neither is significant. These findings show that in cities with local factories producing Japanese branded cars, customers' purchasing behavior is not significantly different from cities without such factories; the negative coefficients further rule out the mechanism of protectionism, because cities with related factories are seeing a slightly larger drop in Japanese branded car purchasing, contrary to the expectation. A tentative explanation for the larger drop is that factories co-producing Japanese branded cars are the target of anti-Japanese harassment, so customers in these cities might have experienced a higher level of insecurity. These cities don't report exceptional frequency of protests compared to other cities, but the harassment experienced by the factories have washed out local protectionism, making local customers feel less secure buying Japanese cars.

In sum, after exploring potential alternative mechanisms, I rule out the threat on *connections* explaining power on the spatial distribution of Japanese branded care sale drops, created by the occurrence of anti-Japanese protests, the existence of local factories, and anti-Japanese sentiment when measured by the city's state of being occupied by Japan in history. When the historical trauma is measured by provincial casualty in WWII, the sentimental mechanism can hardly be ruled out, but it works similarly on organizational

[15] See in Appendix, Figure A-5.

and individual customers, making it distinguishable from the mechanism of connections and control.

Concluding remarks

This paper aims to explore loyal boycotts in authoritarian countries like China, thus showing another mechanism of consumer boycotts, in addition to individuals' sentiments toward a foreign country. Using the case of the 2012 anti-Japanese event in China, I study the purchasing behavior of organizational and individual car customers, respectively. I find that for both groups of customers, their purchase of Japanese branded cars significantly decreases after the event compared to other foreign brands. The purchase drop is enlarged in cities with stronger regional connections to the central government, and such a pattern only holds for organizational customers. These findings support the causal inference of control and organizational customers' boycotts, indicating the existence of loyal boycotts in the 2012 event.

Table 1.4 Difference-in-Difference-in-Difference: alternative mechanisms

Car sale amount (log)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	organizational	individual	organizational	individual	organizational	individual	organizational	individual
country×event	-0.199**	-0.264***	-0.119	-0.284***	-0.202**	-0.278***	-0.263***	-0.284***
	(0.0881)	(0.0805)	(0.0712)	(0.0955)	(0.0863)	(0.0807)	(0.0822)	(0.0773)
×*protests*	-0.0850*	-0.0228						
	(0.0486)	(0.0429)						
×*occupation*			-0.191***	0.00406				
			(0.0569)	(0.0575)				
×*casualty*					-0.0347**	-0.00184		
					(0.0144)	(0.00679)		

Table 1.4 Difference-in-Difference-in-Difference: alternative mechanisms (continued)

Car sale amount (log)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	organizational	individual	organizational	individual	organizational	individual	organizational	individual
×*factory*							-0.0134	0.0431
							(0.0791)	(0.0833)
Time FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Brand FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
City FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	95,920	149,323	95,920	149,323	95,920	149,323	95,920	149,323
R-squared	0.664	0.844	0.663	0.844	0.663	0.843	0.662	0.843

Notes: This table shows the estimates of organizational and individual purchase. Model 1 and 2 report the difference-in-difference (country×event) term interacted with the existence of anti-Japanese protests, Model 3 and 4 report its interaction with whether

the city gets full occupation, Model 5 and 6 report its interaction with the province's casualty in WWII, and Model 7 and 8 reports its interaction with the existence of Japanese car factories in the city. Time (month) fixed effects, city fixed effects and brand fixed effects are controlled. Standard errors in parentheses are clustered at the brand level. *** significance at 1%, ** significance at 5%, * significance at 10%.

My findings demonstrate the top-down influence on foreign boycotts in an authoritarian regime. In addition to arousing the public sentiment by official condemnation, the governments' allowance for protests itself is a signal powerful enough to make actors with political sensitivity perform accordingly. Even in countries where state control is less noticeable, the control mechanism found with this paper can help explain some organizational boycotting behavior. For example, the Danish retailing stores' demarketing French products might be explained by its coordination with the Danish government. While the control mechanism doesn't measure the government's intention directly, it still can help test for informal sanctions where a state punishes a foreign industry economically without openly announcing the economic statecraft.

The segmentation of customers can help better understand boycotts and outcomes. Given the findings with organizational customers in this paper, future studies can dig deeper into the difference between private firms and public institutions: both are organizations but are connected to governments through different channels. Additionally, some puzzling findings in this study still need to be explored, like the unexpectedly long duration of individual boycotts. If sentiments are short-lived, what explains the continued gap in individuals' purchase of Japanese brands and other brands?

In this specific case, the harassment of joint ventures' normal productivity and the cancelation of car purchases hurt the income of dealers and workers, who are all Chinese residence. Ideally, an effective nationalist boycotts should cause economic loss to the

Japanese car industry, and push the Japanese car companies to lobby their government to concede the dispute. In this anti-Japanese boycotts instance, however, China's loss is not less than the cost made to Japan. With implicit signals, it is quite possible for the subordinates to misread the messages from the central government and hurt the domestic economy. Seeing the popularity of nationalist boycotts and informal sanctions, this case reflects an ethical concern with consumer boycotts in the era of globalization.

CHAPTER 3

WHO SHAKES MORE:

POLITICAL AFFINITY AND TRADE DETERIORATION IN INTERNATIONAL DISPUTES

In an article called "China's Unilateral Sanctions," James Reilly uses the term "informal sanctions" to describe the bilateral trade deterioration following China's disputes with foreign countries. By informal sanctions, the Chinese government is argued to coerce the target country economically without openly declaring its intention, thus maintaining its diplomatic flexibility and moral integrity. In the paper, Reilly lists some famous cases of China's unilateral sanctions, like the import control of Norwegian salmon after the controversial Nobel Peace Prize, the rare earth export control after the territory dispute with Japan, the import control of Air Bus from France after the bilateral tension caused by the Tibet issue, and so on. While these events all become well studied cases by scholars in political economy, few of their findings give convincing evidence for the Chinese government's intention. Thus, the trade deterioration found in these cases cannot be proved to be a result of informal sanctions.

To better capture the government's intention, I build a two-dimension measurement of the companies' political affinity to the government, categorize companies based on

political affinity level, and analyze the respective trading behavior of these companies after international disputes. I argue that if an observed trade deterioration is actually a result of informal sanction, companies with stronger political affinity should be more reactive in reducing their trade with the target country. Because the government's intention must be implicit to keep the sanctions informal, and companies with strong affinity are the most loyal and reactive actors, these companies are more likely to capture the government's intention and participate in the sanctions. Political affinity converges interests of the companies and the government, since having a close relationship with the government promises resource privilege in subsidy taxation and government contracts. Further, political affinity means more channels for communication, so the government can send messages faster and more implicitly to these companies. Companies with weak political affinity might be less sensitive to the government's implicit intention, and thus they would not participate in the informal sanctions.

Political affinity is measured by the companies' nationality, or the companies being government-owned or privately-owned (Davis et. al, 2019). I also measure political affinity using the geographical location of a company, and the region's connection to the central government. In a country as big as China, most companies do not speak to the central government directly. Instead they more often interact with local governments. But China is also a unitary state where the regional governments are "under control" of the central government. Therefore, one region's political connections to the central government

determines the local leaders' responsiveness to the center's messages (for informal sanctions), which will in turn impact the leaders' request for local companies (to reduce trade). Taken together, I argue that if the Chinese government is really sanctioning informally, Chinese owned companies should outweigh foreign owned companies in trade deterioration, State-Owned Enterprises (SOEs) should outweigh non-SOEs, and companies in regions with stronger connections should outweigh companies in other regions, others being equal.

To test these arguments, I look at an event occurring in August 2002 when the leader of Taiwan first broke the cross-strait status quo by announcing that Taiwan and mainland China were two countries ("Two Countries" announcement). Chen Shuibian, the leader of the Democratic Progressive Party (DPP) won the election in 2000 after the narrowest triumph over the biggest competitor, Kuomintang (KMT). Compared to KMT, which originated in mainland China, DPP is a new local-born party with a relatively shorter history. It differs from KMT in policy issues including the environment, economic openness, infrastructure construction, and so on. But the biggest difference is in their attitude towards Taiwan's independence. KMT holds a more open attitude for cross strait dialogue, while DPP emphasizes the independent identity of Taiwan. Especially after Chen became president, the pace of independence has increased. In a speech made on August 3rd, 2002, Chen first made the "Two Countries" announcement, declaring "One Country on Each Side" and suggesting Taiwan's independence should be decided by a future

referendum. Such a speech changed cross-strait relations greatly. Both KMT and the United States found the speech had gone too far. Mainland China expressed its discontent regarding the speech, eventually leading it to pass the Anti-Secession Law in 2005, formalizing its long-standing, though never implemented, policy to use "non-peaceful means" against the "Taiwan independence movement."

This event is rarely explored by China sanctions studies, arguably because it occurred prior to the time when informal sanctions as a strategy was not widely discussed, nor was any cross-strait deterioration widely reported in the media. Considering the salience of the Taiwan issue, it should not be a surprise that mainland China employs its economic leverage, when the use of arm force is constrained by the U.S.' intervention in the Taiwan issue. In fact, trade data does report a noticeable drop in mainland China's imports from Taiwan during this period. A report by the RAND Corporation says the Chinese government has "repeatedly attempted to disrupt key aspects of Taiwan's economic infrastructure, including IT systems, communications, and transportation," and pushed Taiwanese businessmen in mainland China to lobby the Taiwanese government against independence.[16] Therefore, the event of the "Two Countries" announcement makes a good case to test for informal economic coercion.

[16] Murray S. Tanner, *Chinese Economic Coercion Against Taiwan, a Tricky Weapon to Use*. RAND Corp., 2007, p. 18.

I run a Difference-in-Difference estimation using the monthly trade data of companies of different types in mainland China, to see if there were informal sanctions against Taiwan. I find that (1) the trade deterioration is only significant in mainland China's imports, but not in exports that are more beneficial for mainland China; (2) Chinese companies reduced their import from Taiwan significantly, but foreign companies did not; (3) SOEs report the largest magnitude of reduction in imports from Taiwan; (4) SOEs in regions with stronger connections to the central government have larger import reduction than SOEs in other regions, but such a pattern is not found with private companies. These findings capture the exceptional response of companies with a strong political affinity with mainland China, supporting the existence of informal sanctions toward Taiwan.

My study contributes to the literature in three ways. Firstly, I find the causal relationship between political affinity of companies in China and their respective behavior in trade reduction, which works as a solid evidence of the Chinese government's informal sanctions. Secondly, the two-dimension measurement of companies' political affinity I build can be applied to other cases, to distinguish informal sanctions from companies' natural reaction to market uncertainty caused by bilateral tensions. Lastly, the logic to link political affinity with economic behavior can be applied to different kinds of economic actors, ranging from companies, consumers, or investors. Then the political leverage behind the many types of economic behaviors, like trade control, patriotic boycotts, and selective investment, could be revealed when an open political declaration is absent.

Literature: Informal sanctions by China

My study addresses an important issue in political economy and China studies—the unilateral economic sanctions conducted by the Chinese government. Quite a few studies have been looking into this topic, yet most of them are built on the observations of bilateral trade deterioration following diplomatic tensions, without showing solid evidence that behind the deteriorated trade is the Chinese government's *intention* to punish the target country.

2008 offers one of the most favored cases to study China's economic statecraft. As a result of the Olympic torch relay's disruption in Paris in April, and then later that year, the French President Sarkozy's decision to meet with the Dalai Lama, the Chinese public boycotted French products, causing French automobile brand sales to fall 25-33% (Hong et. al, 2010). Similarly, other countries whose officials received the Dalai Lama also experienced a trade-deteriorating effect. The effect is correlated to the level of officials involved and if national leaders of the dyads later meet with each other (Fuchs and Klann, 2013). Despite these facts observed, the authors fail to prove if such trade-deterioration is a natural reaction to market tensions, or a strategic move made by the Chinese government intentionally.

One reason for the ambiguity is, unlike a typical unilateral US sanction that is formalized though executive orders or public laws, the Chinese government rarely declares openly the threat or imposition of economic sanctions against other countries, especially

unilateral sanctions. Instead, the Chinese government prefers vague threats, cancellation of high-level visits, selective purchases and non-purchases, and other informal measures (Reilly, 2012). The rationale for informal sanctions might lie in the history of China being sanctioned by other countries, Chinese officials traditionally denouncing sanctions as illegal, and because the consistency in diplomatic rhetoric requires the denial of sanctions imposition. That said, scholars try to find mechanisms to explain the deterioration observed, from which some research finds indirect evidence for the existence of China's unilateral sanctions. Their topics cover China's selective outbound investment[17], consumer boycotts, and trade reduction.

Research on China's outbound investment finds a positive correlation between China's foreign relations and its investment (Cheung at. al, 2012; Li and Liang, 2012; Naim, 2007). Results put is under debate if China invests outbound to increase its political influence (Dreher and Fuchs, 2011), but some scholars have found positive evidence. Dreher et. al (2016) tests if China's foreign aid works as political capture by tracking the geographical distribution of its aid to Africa. They notice the birthplaces of the African incumbent leaders receive more aid from China than other regions in the same country, and such favoritism is not found with the aid offered by the World Bank. The contrast helps illustrate the strategic concern in China's foreign aid.

[17] According to Baldwin (1985), foreign aid and investment belong to positive sanctions, a rewarding form of economic statecraft.

Similarly, for some puzzling investment made by China, scholars find that political reasons work the best. Li and Liang (2012) suggest that China is willing to invest in regions with high political risks, which is against the normal risk-aversion logic. They argue that China invests in these regions because countries in these regions have good political relations with China, and the positive relations help reduce the risk, making investment there safer. However, because foreign investment and foreign aid, by and large, are made by the governments directly. When the government's intention is too explicit to reveal, the findings above do not help much in exploring the government's intention for sanctions.

With consumer boycotts, most studies explore their effect or the working mechanisms. One well-studied case are the boycotts against Japanese products and anti-Japanese protests in 2012, following the territory dispute between China and Japan. In addition to assessing the duration of the boycotts and the loss caused to Japanese product retailers (Heilmann, 2016; Govella and Newland, 2011), scholars find the historical memories (Chen and Zhong, 2019; Che, et. al, 2015) and anti-Japanese animosity of the consumer are the key factors determining their boycotting behavior (Wallace and Weiss, 2015; Cairns and Carlson, 2016; Zhuang, 2019). Despite their findings, the scholars fail to find direct evidence for the Chinese government's hand behind the public sentiments. But some indirect evidence illustrates the government's influence. Wallace and Weiss (2015) find that in the 2012 anti-Japanese event, protests are more likely to take place in cities where local leaders were well established but less in cities with a larger share of unemployed graduates and ethnic

minorities, who are liable to threaten the basic principle of "maintaining stability" locally. Cairns and Carlson (2016) note the censorship of key words related to the territory incident on *Weibo* (Chinese personal social media) plummeted suddenly in mid-August, which facilitates the expression of nationalism. Censorship returned to the usual high rate in September when the central government decided to end the chaos.

Regarding trade, Chen and Garcia (2016) find that after the controversial Nobel Prize, China reduced the import of salmon from Norway in the name of sanitary concern, and the Chinese Customs complicated its importing procedure of Norwegian salmon the related procedures on China border got longer in time. By tracking the Custom's policies and a Difference-in- Difference analysis comparing China with Vietnam, the authors estimate the loss caused to both sides resulting from the control.

Some researchers manage to find the mechanisms to explain *why* companies reduce their trade with the disputed country and *why* it denotes the government's intention. Davis, Fuchs, and Johnson (2019) use the ownership of companies as their measurement. By analyzing bilateral trade of Chinese and Indian companies and dyadic international relations, they find that SOEs' import is more responsive to international relations than non-SOEs. Based on the strong ties SOEs have with governments, the authors' attribute the exceptional behavior of SOEs to their loyalty to the government, thus indirectly proving the governments' intention to use economic statecraft in international disputes.

Fisman et. al (2014) looks at two Sino-Japan disputes in 2005 and 2010 and the market response. They find Japanese firms with high exposure to China suffer relative decline in both cases, as well as symmetric decline for Chinese firms with high exposure to Japan. Interestingly, they find Japanese firms operating in industries dominated by Chinese SOE suffer more pronounced declines, but firms with high Chinese employment have lower declines. These contradictions are argued as the evidence for the Chinese government's intervention, to minimize the risk caused to national profits and stability.

The studies and findings above demonstrate the government's influence and political concerns in the economy. By tracking the geographical distribution of outbound investment, capturing the governments' selective permission for sentimental expression in consumer boycotts, and the exceptional activity of SOEs in bilateral dispute driven trade-deterioration, the scholars are trying to test for the government's strategic intention behind the economic behavior.

Nonetheless, they are not successful in proving the cases to be economic sanctions, mainly because the studies cannot rule out alternative explanations where the government could be innocent. Scholars argue, for example, that consumer boycotts are intentionally aroused because collective protests cannot take place without the Chinese government's permission. But this can still be explained by the "safety valve" theory, that the government temporarily permits sentimental expression to mitigate social instability. The permission is selective in regions or timing because the government wants to minimize its threat to the

social order. Thus, the anti-foreign boycotts are no more than the by-products of the safety valve being opened, still reflecting the public's opinion, not the government's intention.

The same truth holds for studies on trade deterioration, where the actors are companies, not individual customers. The best effort made to reveal the government's intention is to distinguish SOEs and non-SOEs, like Davis et. al (2019) did. But their research is problematic in two ways, as well. First, their argument is based on the correlation between the annual trade data and international relations, measured by UN voting records. It is doubtable how accurately UN voting can capture the diplomatic events they mentioned, like the Nobel Prize dispute. Seeing that UN voting reflects more structural international relations, can the voting pattern be impacted by individual bilateral disputes which usually are short-lived? Second, the authors distinguish only Chinese SOEs and private companies. There is always a pattern to be discovered when only two parties are compared, but it is not enough to argue one of them is exceptional based on such a comparison, especially when SOEs and private companies are systematically different in sector, size and number.

My research gives more solid evidence for informal sanctions in three ways. First, instead of a correlation based on measurements using upper level data (year), I look at a specific event using the monthly data, and test for a causal relation. Second, I include foreign owned companies located in China to complete the sample of the real Chinese market. Only by being compared to all of the rest can certain types of companies be argued as exceptional in any way. That is to say, by comparing to both private and foreign

companies, I can better tell if SOEs are unique in their trade control. Last, I combine company ownership and geographical distribution to make a two-dimensional measurement of the company's political affinity. More strongly it helps to attribute SOEs' exceptional magnitude of trade control to their political affinity to the government, rather than their economic features.

Informal Sanctions or Not: variation in trade reduction

There are two mechanisms to explain bilateral trade reduction found after some diplomatic disputes, when there is no official declaration of economic sanctions. One is that trading companies shrink their transactions after witnessing the tension, as well as the potential loss due to the uncertainty in the market (Pollins, 1989; Morrow, Siverson and Tabares, 1998; Morrow, 1999; Long, 2008). The other mechanism is that companies from at least one party in the dispute intentionally and strategically reduce their trade in hope of causing economic pressure to the other party. This second mechanism is an example of informal economic sanctions.

The core difference between the two mechanisms is companies in the first respond to the market, and in the second respond to political power requesting them to coerce economically. Therefore, the key to distinguish economic sanctions from companies' risk aversions is to see whether trade reduction varies with the government's political strategy. The political strategy to impose informal sanctions includes two concerns: the trading field should be selectively chosen so a reduction there maximizes the loss of the sanction's

sender country; the companies conducting the trade reduction should be easily leveraged so the economic sanctions can be imposed "secretly."

Import-export: variation in trade forms

If the companies reduce their trade with the economy in dispute due to their risk aversion, the drop in trade should be similar with imports and exports. Because both imports and exports face the same bilateral market, and the tension should cause symmetric uncertainty, a similar magnitude of reduction in imports and exports is expected (Glick and Taylor, 2010).

However, when imposing economic sanctions, the sender country may selectively choose the form of trade where it has the advantage to coerce the target country or avoid reducing the trading form where the sender country benefits more. The observation by Hufbauer et. al (2007), for example, found that the United States employed export control more often than import control in its sanctions cases. They attribute this to the U.S.' dominant market position as the supplier of key exports, like military hardware and advanced technology. China, however, may prefer imports control for economic sanctions. On the one hand, unlike the U.S., China does not hold many irreplaceable resources, but it does have the advantage in purchasing power due to the huge size of its economy. So, China's import reduction might cause considerable pain to its trading partners, especially the small economies who rely on the gigantic Chinese market. On the other, as an export-oriented economy, China is making a fortune by exporting manufacturing to the whole

world. As a result, it is in the interest of the Chinese government to protect China's exports even when imposing sanctions. In year 2001, the total import value of mainland China from Taiwan was about 27 billion RMB, and the export value was about 5 billion. If mainland China decides to sanction Taiwan in response to the "Two Countries" announcement, it is likely to conduct import control to hurt Taiwan and protect its exports at the same time to maximize its welfare.

H1: After the event, mainland China is more likely to reduce its imports from Taiwan than its exports to Taiwan.

SOE, private and foreign companies: variation in company ownership

Once the trading form is selected as the "battle ground," the Chinese government should move on to recruit its "warriors." Because the sanctions are conducted informally, it means that the government has to send the signals implicitly, and companies better at receiving these signals and following the orders are more likely to be recruited. They are the companies with strong political affinity.

A strong political affinity converges interests and facilitates communications. The level of political affinity measures a company's closeness with the political power, i.e., the government. The political affinity promises mutual benefits in material and personnel resources, converging the interests of the company and the government. Thus, doing what the government wants serves the interests of the companies. The political affinity facilitates

communications because it makes more channels for communications, some are even secret or informal, so that implicit messages can be delivered.

The first dimension in which I code political affinity is the companies' ownership. Firstly, companies located in China can be broadly grouped as domestic and foreign companies. Compared to foreign companies, domestic companies have extensive channels to receive messages from the Chinese government. For example, they may receive private calls from government offices, directing them to withhold certain transactions with certain economies (Reilly, 2012). Even more implicitly, these domestic companies are better controlled by the governments in many ways. Resources from governments, like subsidies, government procurement and personnel networks, overwhelmingly privilege domestic companies (Li, 1995; Chen and Wu, 1996; McCloughan and Stone, 1998; Shaver, 1995; Mata and Portugal, 2000). In return, these resources also arm the governments with stronger leverage over domestic companies. To maintain a good relationship with the governments and get privileged resources, Chinese companies have to be reactive to the political signals sent to them. Foreign companies, in the end, are left in a relatively "natural" market. Given this, if the Chinese government intends to sanction Taiwan implicitly, domestic companies should be more responsive to such messages than foreign companies.

H2: After the event, Chinese companies are more likely to reduce their trade with Taiwan than the foreign companies in mainland China.

Secondly, Chinese domestic companies can be further grouped into SOEs and private companies, and SOEs are more closely connected to the Chinese government. While SOEs are often argued to have advantages over private firms in favorable taxation, subsidies, and preferential financing (Capobianco and Christiansen, 2011; DeWenter and Malatesta, 2001), being owned by the governments means that SOEs have to ultimately serve the interests of the state. In China, for example, SOEs are required to employ locals, enrich local revenue through taxation, and diversify local sector structure by doing designated business. Other than commercial profits, SOEs also must contribute to community welfare by managing social ventures like schools and hospitals (Steinfeld, 2000).

SOEs take on so much social responsibility in exchange for financial support from the government, and also to gain points for their managers in the top-down personnel evaluation. In China there are 117 SOEs owned by the central government, and their top managers are directly appointed by two central organizations—the Central Organization Department (COD), administrated by a Politburo member, and the State-owned Assets Supervision and Administration Commission (SASAC). Unsurprisingly, the three top leadership positions—CEO, Chairman and Party Secretary—of these 117 SOEs are almost all senior members of the Chinese Communist Party (CCP); sometimes the CEO and Party Secretary are even the same person. Evaluations on these managers are not only based on the SOEs' profit, but also the political and social missions the SOEs completed. Even for

the SOEs owned by local governments, their decisions and operations are deeply influenced by the local SASAC.

The fortified top-down control via financial and personnel arrangement means that SOEs will be the most responsive companies if the Chinese government wants to sanction Taiwan, because the affinity promises messaging channel, interest congruency, as well as implicitly makes informal sanctions possible.

H3: After the event, Chinese SOEs are more likely to reduce their trade with Taiwan than Chinese private companies.

Regional connection: variation in company location

In addition to ownership, the geographical location of a company and the regional connection to the central government defines another dimension of political affinity, which also determines the level of companies' responsiveness to political demands, and this is more about the central-regional relationship.

Networks or ties generated in personal life or working experience are how regional connections are measured. In China, the Politburo of the Party makes all the major strategic decisions for the country and appoints the regional governors, thus acting as the core decision-making group. With powers in personnel arrangement like appointment, rotation, or promotion (Huang 2002), the Politburo can reward loyal local officials with whom they have good political connections (Dittmer & Wu 1995, Meyer et al. 2016, Nathan 1973,

Shih et al. 2012). Therefore, a stronger connection not only strengthens trust, but also solidifies top-down control over career development.

Regions with the strongest connections to the central government are those with cross-posting governors. Cross-posting typically means an official simultaneously has a seat on the Politburo and a title as the provincial leader. These provinces generally have noticeable importance strategically or economically, thus requiring a stronger control by the central government. On the one hand, cross-posting better aligns central preferences and local interests, because policies in these provinces are part of the Politburo member's performance evaluation, and the provinces' welfare is in turn dependent on the official's bargaining power at the central government (Pierskalla 2016). Therefore, responding accordingly to the central preference benefits the officials' political career as well as the provinces' development. On the other hand, the dual seats facilitate information exchange by building direct working ties between the central and local governments, making related regions better in interpreting the central government's implicit intentions and faster in responding to the signals. At the same time, the strong connections make these regions' noncompliance more discernible. Thus, a failure to capture the central government's signals, if there is any, increases the potential loss in the officials' career and the corresponding provinces' budget.

Connections can also be created through early life or working experience. Being born or raised in a certain province, or having early working experience in a province, is likely

to build personnel networks locally for an official (T. Chen & Kung 2016, Jia et al. 2015, Meyer et al. 2016). When the official is in the Politburo, the networks may also influence his or her decisions in personnel promotion and appointment. However, compared to cross-posting, connections generated by early experience suggests a weaker control, because here the regions' interests are not directly linked to the performance of central leaders. It is also harder to symmetrize information between the regions and the central government without the dual seats, leaving less guarantee that concurrent workplace experience or birthplace necessarily strengthen current control (Landry et al. 2017). That said, connections built through early experience are more commonly found with Politburo members. Not all members have dual seats, but they all have hometowns and birthlands of their political careers. Seeing the power of the Politburo, these regions have strong motivation to show loyalty to the Politburo members and to strengthen the connections.

As mentioned above, all levels of governments in China has considerable personnel leverage over SOEs, especially those centrally owned SOEs. Therefore, the central-local connections transfer into a geographical variation in SOEs' response to political messages from the central government.

An exceptional affinity makes corresponding provinces better aligned with the central interests, easier to be monitored, and thus strongly motivates officials to comply with the central government. And the regional officials demand their local SOEs to conduct the center's plan. Because private and foreign-owned companies do not have governmental

ties comparable to SOEs, their variation in trading reduction level should be weakly correlated with regional connections.

H4: After the event, companies in regions with stronger connections to the center are more likely to reduce their trade with Taiwan than companies in other regions, and such a pattern should be stronger with SOEs.

Data and Model

For my analysis of the trading response to the "Two Countries" event, I obtain the trading data of companies located in mainland China from 2002 to 2003. I do not continue to track the data from 2004 because the independent referendum is held in March 2004, which is another big event possibly affecting cross-strait trade and causing noise in the analysis.

The trade information comes from the Chinese Customs Data gathered by the Customs Bureau. The dataset includes the monthly trade transactions made by every company, listing the trading country, ID of the company, the value and quantity of the trading goods and so on. To get the ownership information of the companies, I use the Chinese Industrial Company Dataset, which has the company-specific information like its location, size, sector and ownership. For ownership there are 23 categories in the original dataset, which are very precise. For example, companies owned by the state and companies owned by the central government are in two different categories. To facilitate my

comparison, I group the 23 categories into three larger categories: SOEs, Chinese private companies, and foreign companies. One issue merging the two datasets is that the Chinese Industrial Company Dataset includes only the industrial companies, the agricultural trading records in the Customs Data will be dismissed. The bright side, though, is the trading on agricultural products makes only 3% of the total Customs records, so dismissing this part will not bias the results significantly.

To construct the control group, I compare mainland China's trading pattern with Taiwan and with other main trading partners, including South Korea, the United States, Russia, the EU and the ASEAN[18]. Figure A-1 shows that both Russia and the U.S. have abnormal patterns compared to other countries, so they are not suitable to be in the control group due to the incomparability. The dataset looks at the industrial companies. Mainland China's industrial trading structure with Taiwan is quite similar to South Korea. For example, both Taiwan and South Korea mainly export to China electronic products like laptops and cellphones, so dealers in mainland China may turn to South Korea for substitution if trading with Taiwan is deteriorated by the event. Such a substitution effect might double the trading gap between the two economies and overestimate the trade deterioration, so South Korea is dropped. To this point, the two economies left in the control group are the EU and the ASEAN. Figure A-2 reports the top kinds of products traded with

[18] Because during the time of interest, China had diplomatic disputes with Japan, which were likely to impact bilateral trade, Japan was dismissed from the comparison.

Taiwan and the Control, as well as their respective structure of trading type, be it normal trade or processing trade. The Control group does not report a noticeable difference from Taiwan, so the difference in trading value should only be caused by the country's identity.

I aggregate the import and export value respectively at the firm-month-country level. The data is also balanced by firm-month-country, so the company which didn't trade with Taiwan or the control group in certain month, invisible in the original data, now has a trade value of 0. Ultimately, there are 1,176,540 observations of export and 1,089,934 observations of import.

The basic model I use for analysis is a Difference-in-Difference regression estimation:

$$Value(ln)_{ijt} = \beta Taiwan_j \times Event_t + \alpha_i + \alpha_t + X_{it} + \varepsilon_{ijt} \qquad (1)$$

where *i*, *j* and *t* are the indices for the company who conducts the trade, partner country of the trade, and the month of trade, respectively. $Value(ln)$ is the total value of trade conducted by firm *i* with country *j* in month *t*, taking the logarithm. *Taiwan* equals to 1 if the trading country is Taiwan, and 0 if the country is in the control group. *Event* is a dummy variable denoting occurrence of the "Two Countries" announcement. It equals to 0 when the trading transaction is before August 2002, when the announcement is firstly made, and equals to 1 when the transaction is in the later months. The interaction term of *Taiwan* and *Event* is the DID term, thus β captures the percentage of trading value changes with Taiwan compared to the control group. X_{it} denotes the control variables here, including the size of each company in the year of interest, measured by the total capital and labor of

the company, taking the logarithm. α_i and α_t are the company and time fixed effects respectively, controlling for the company-specific variables constant over time, and time-variant factors constant across companies. Standard errors are clustered at the sector level.

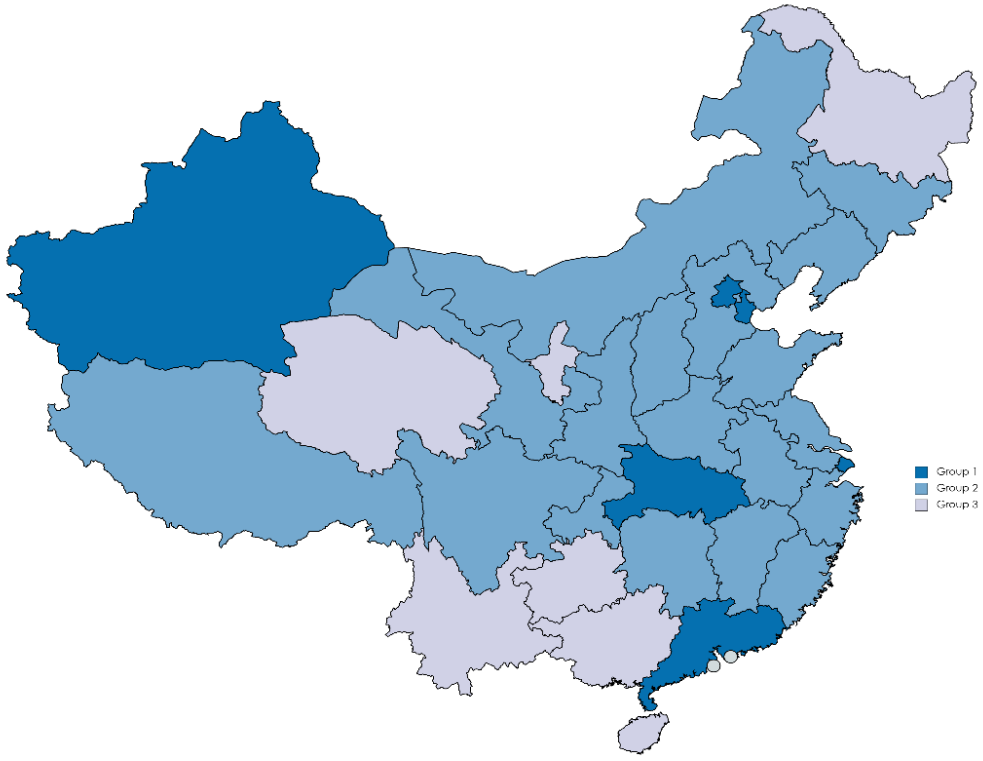
Based on this model, I add the ownership types of the companies into the DID term, creating an ownership Difference-in-Difference-in Difference (DDD) term. I choose one type of ownership as the benchmark, in this case, foreign companies, and interact the other two types of ownership with the DID term respectively. Here β captures the event's impact on the trading of the benchmark companies, and φ captures the impact on the other two ownership types of companies *in relative to* the benchmark impact, and $\beta + \varphi$ captures the ultimate effect of the event on the two types of companies' trading with Taiwan.

$$Value(ln)_{ijt} = \beta Taiwan_j \times Event_t + \varphi Taiwan_j \times Event_t \times Ownership_i + \alpha_i + \alpha_t + X_{it} + \varepsilon_{ijt} \quad (2)$$

Following the same logic, I interact the DID term with the connection of the region where the company is located. *Connection*$_i$ refers to the level of affinity one region has with the central government of China. I measure connection using the profile of the 16th Politburo of the Communist Party of China (CPC) Central Committee. As the center of Chinese leadership, the Politburo runs the CPC when the plenary of the Central Committee is not in session. The 16th Politburo was newly elected on November 15th, 2002, consisting of 22 members. I track the profile of the members and mark the provinces where the members were born, have prior working experience at the provincial level, and are

simultaneously holding administrative positions (cross-postings). Then I put the provinces into three categories: the group with the strong connections are those who have cross-postings, coded as 1 (6 cases in total); the group with weak connections are those having no members who were born or worked there, coded as 3 (7 cases); the rest of the provinces are coded as 2, denoting medium connections (18 cases)[19]. The geographical distribution of connections is visualized in Figure 2.1. And Table 2.1 summarizes the numeric variables I use.

Figure 2.1 Provinces' Connections to the Central Government



[19] Regions of Group 1 are: Beijing, Tianjin, Shanghai, Guangdong, Xinjiang, and Hubei. In Group 3 there are: Yunnan, Guizhou, Qinghai, Ningxia, Guangxi, Hainan, and Heilongjiang. And the rest of the provinces are in Group 2.

Table 2.1 Summary Statistics

	Import					*Export*				
Variable	**Observations**	**Mean**	**Std. Dev.**	**Min**	**Max**	**Observations**	**Mean**	**Std. Dev.**	**Min**	**Max**
Value (ln)	1,089,934	3.73	5.18	0	19.27	1,176,540	3.69	5.15	0	19.58
Taiwan	1,089,934	0.50	0.50	0	1	1,176,540	0.49	0.50	0	1
Event	1,089,934	0.72	0.45	0	1	1,176,540	0.74	0.44	0	1
Connection	1,089,934	1.50	0.54	1	3	1,176,540	1.67	0.52	1	3
Ownership	1,089,934	2.62	0.74	1	3	1,176,540	2.37	0.85	1	3
Labor (ln)	1,089,934	5.61	1.28	0	11.59	1,176,540	5.60	1.23	0	11.59
Capital (ln)	1,089,934	10.98	1.58	0	18.68	1,176,540	10.7	1.23	0	18.30

Notes: Reported values are rounded to two significant digits. *Value(ln)* is in RMB.

Results

To begin with, I use the unmerged trading data from the Customs to estimate the general impact of the event on China's trade. Figure 2.2a and Figure 2.2b report graphically the change in mainland China's imports from and exports to Taiwan vs. the control group. The vertical axis is the monthly average of all companies' trading value (logged). As can be seen from Figure 2.2a, before the event (marked by the vertical line), mainland China's imports from Taiwan and the Control group reflect a general parallel pattern. Afterwards,

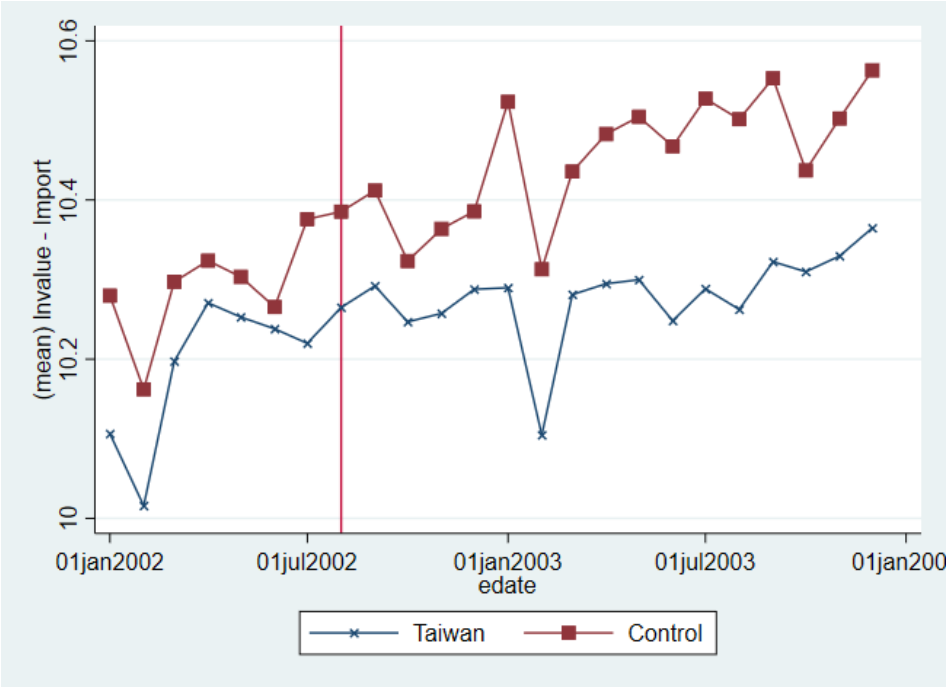
however, a gap between the two trading lines can be noticed, which is enlarging as time passes. The gap suggests the event's impact on imports from Taiwan relative to the control group. Mainland China's exports to Taiwan, nevertheless, are not found to have fluctuated after the "Two Countries" announcement. The two trading lines in Figure 2.3 keep a constant parallel trend, meaning the export trade is not noticeably impacted by the event.

The findings of the event's exclusive impact on imports is further supported by the DID regressions, using the equation 1. Results in Table 2.2 confirm that the DID term is only significant with the import data, but not with the export data. With import trading, the event causes a significant reduction of trading value (logged) by about 8%. And mainland China's exports to Taiwan reduces by about 0.2% after the event, and that does not make a significant change.

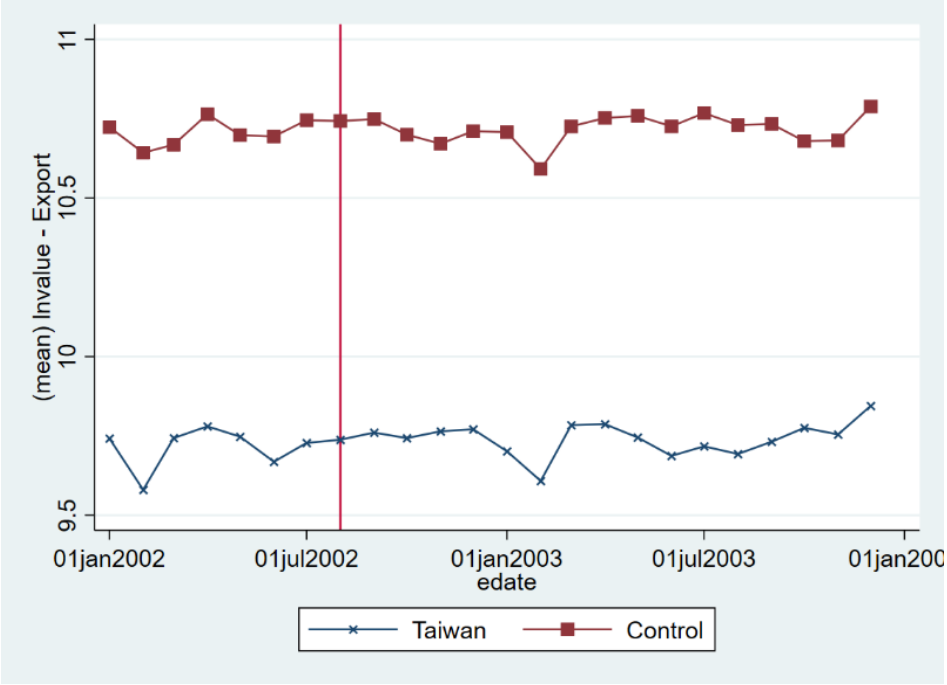
Taken together, these findings show that the "Two Countries" announcement significantly reduces mainland China's trade with Taiwan, but only in imports, not exports. On the one hand, the findings support H1. It suggests that the observed drop in trade is hardly caused by the uncertainty with the cross-strait relationship, but by some strategic selection where exports, the more beneficial trading type for mainland China, is protected. On the other hand, the findings make me focus on the import data in the following analysis about the specific behavior of the companies.

Figure 2.2. The mainland China's trading pattern with Taiwan and the Control Group

(a)



(b)



Note: The vertical axis reflects the monthly mean of all companies' trading value (logged). Panel a is about the importing trade, and panel b is about the exporting trade. The vertical line denotes August 2002, when the event takes place.

Table 2.2 Difference-in-Difference regression results using the Customs Data

VARIABLES	Import	Export
Taiwan	-0.215***	-0.726***
	(0.0791)	(0.0575)
Taiwan*Event	-0.0805***	-0.00206
	(0.0172)	(0.0136)
Firm FE	Y	Y
Time FE	Y	Y
Observations	2,133,351	1,680,120
R-squared	0.266	0.319

Note: Standard errors are clustered at the sector level. *** p<0.01, ** p<0.05, * p<0.1

After seeing the general impact using the customs data, I merge it with the industrial company data that have company-specific information to explore each type of companies'

response to the event, in import trading. I first run separate DID regressions using equation 1 with the three types of companies: SOEs, Chinese private companies, and foreign owned companies located in mainland China. The results are shown in Table 2.3. Model 1 and 2 are about SOEs, with and without the control variables of companies' size. Model 3 and 4 are about private firms, and 5 and 6 are about foreign companies. The DID terms in these models report each type of companies' independent response to the event in import, without comparing to each other. As can be seen, only foreign companies show an insignificant drop in importing from Taiwan compared to the control group. The other two types of Chinese companies both have a significant drop for about 30%. At this point, it is clear that only Chinese companies reduce their imports from Taiwan after the event, but foreign companies do not respond in the same way. This finding supports H2 and is another piece of supportive evidence that the trade reduction is not a unilateral reaction to the market uncertainty.

Table 2.3 DID regressions of the three types of companies' import

	soe		private		Foreign	
VARIABLES	1	2	3	4	5	6
Taiwan*Event	-0.274**	-0.274**	-0.294**	-0.291**	-0.0462	-0.0444
	(0.110)	(0.110)	(0.134)	(0.134)	(0.143)	(0.143)
Taiwan	-2.032***	-2.032***	-0.825***	-0.827***	0.0568	0.0561
	(0.199)	(0.199)	(0.168)	(0.168)	(0.222)	(0.223)
Capital(ln)		0.0212		0.405***		0.467***
		(0.0827)		(0.154)		(0.0454)
Labor(ln)		0.0667		0.173		0.501***
		(0.0730)		(0.158)		(0.0382)
Firm FE	Y	Y	Y	Y	Y	Y
Time FE	Y	Y	Y	Y	Y	Y
Observations	171,225	171,225	64,613	64,613	854,096	854,096
R-squared	0.375	0.375	0.253	0.253	0.384	0.384

Note: Standard errors are clustered at the sector level. *** p<0.01, ** p<0.05, * p<0.1

Since the above three types of companies are analyzed in separate regressions, their βs, or the event's respective impact on their import trade, cannot be directly compared. To solve this issue, I apply equation 2 to pick up the difference in their level of response. The results are listed under Model 4 in Table 2.4. Foreign companies are arbitrarily selected as the benchmark, and their drop in imports is reflected by the DID term. Consistent with the findings in Table 2.3, foreign companies only reduce their imports from Taiwan insignificantly by 3%, in relative to their imports from the control group. Compared to the foreign companies, or the benchmark, SOEs in China reduce more of their imports from Taiwan by about 33%. Especially such a difference from the benchmark is significant at the 95% confidence level. So, SOEs' ultimate response to the event is a drop of 36% (-

0.03-0.33) in imports from Taiwan. Calculated similarly, private companies reduce their imports from Taiwan by 16% (-0.03-0.13). However, private companies' extent of drop is not significant from the benchmark.

Table 2.4 Ownership DDD regression of the import

VARIABLES	4
Taiwan*Event	-0.0342
	(0.143)
Taiwan*Event*SOE	-0.326**
	(0.140)
Taiwan*Event*Private	-0.126
	(0.147)
Taiwan	0.0459
	(0.222)
Capital(ln)	0.245***
	(0.0511)
Labor(ln)	0.350***
	(0.0334)
Firm FE	Y

Table 2.4 Ownership DDD regression of the import (continued)

VARIABLES	4
Time FE	Y
Observations	1,086,699
R-squared	0.394

Note: The Taiwan*Event term, the DID term, denotes the response of foreign companies as the benchmark. Standard errors are clustered at the sector level. *** p<0.01, ** p<0.05, * p<0.1

The comparison across the three types of companies reflects the exceptional magnitude of response from SOEs to the event. It supports the idea that the state-owned companies are more active in pressuring Taiwan by cutting their imports after the dispute, thus supporting H3. Therefore, in the following session, I will focus on SOEs in exploring regional connections' impact on the companies' trading response.

The Connection DDD also uses equation 2, just replacing the ownership type of the companies with the SOEs' provincial connection to the central government. As *Connection* varies from 1 to 3, the DDD term reports the trading response from companies in each level. Model 5 through 7 report the results of Connection DDD regressions, with Time and Firm

fixed effects added in gradually. Across the models, the DID terms consistently report significant negative values while the DDD terms report significant positive values. It means that all SOEs import significantly less from Taiwan in relative to the control group after the event, but SOEs located in regions with stronger connections to the central government tend to reduce their import at a larger magnitude. Because the ultimate effect of connections on import reduction is the sum of β and φ, with β being negative and φ being positive, as connections vary from strong (1) to weak (3), the value of $\beta+\varphi$ is getting closer to 0. More precisely speaking, as regional connections get weaker, the reduction of imports is smaller in magnitude. Given this, H4 is supported, thus SOEs in regions with stronger connections report a larger extent of import reduction.

Table 2.5 Connection DDD regression of SOEs' import

VARIABLES	5	6	7
Taiwan*Event*Connection	0.296**	0.978***	0.281**
	(0.115)	(0.161)	(0.141)
Taiwan*Event	-0.480**	-2.057***	-0.785***
	(0.237)	(0.325)	(0.275)
Taiwan	-0.0456	0.228	-0.802*
	(0.394)	(0.389)	(0.418)
Capital(ln)	0.422***	0.420***	0.0252
	(0.0607)	(0.0576)	(0.0835)
Labor(ln)	-0.0393	-0.0201	0.0656
	(0.0770)	(0.0725)	(0.0730)
Time	0.00116***		
	(0.000245)		
Firm FE			Y
Time FE		Y	Y
Observations	170,635	170,635	170,635

Note: Standard errors are clustered at the sector level. *** p<0.01, ** p<0.05, * p<0.1

To further test the argument about connections, I run placebo tests by looking at the imports of private companies and the exports of SOEs. I rerun the Connection DDD estimations using the import data of private companies, who independently also reduce their imports from Taiwan significantly, to see if SOEs are the only type of companies whose import reduction varies with regional connections. Model 8 in Table 6 supports my hypothesis. The DID and DDD term are both negative in value, but neither reaches significance. This finding suggests that unlike SOEs, Chinese private companies with different regional connections do not show significant differences in import reduction magnitude. Similar results are found in Model 9, the export of SOEs. It means that SOEs' fluctuations in exports to Taiwan do not vary with their regional connections like in the imports. That is to say, the constant variation in SOEs' import reduction with their regional connection is not some natural characteristics of SOEs, but another symbol of the SOEs' exceptional performance in their response to the diplomatic dispute.

Taken together, SOEs', and only SOEs', imports reduction level varying with regional connections shows that the observed trade deterioration could be a strategic response to the "Two Country" announcement. Here, an informal sanction is imposed by the Chinese government, implemented by companies having strong political affinities, and in the field of imports where mainland China has smaller loss economically.

Table 2.6 Placebo Test: Connection DDD regressions of private companies and SOEs

VARIABLES	8	9
Taiwan*Event*Connection	-0.0700	-0.0649
	(0.275)	(0.160)
Taiwan*Event	-0.169	-0.207
	(0.514)	(0.306)
Taiwan	-0.0385	-4.590***
	(0.513)	(0.329)
Capital(ln)	0.403***	0.383***
	(0.154)	(0.0769)
Labor(ln)	0.171	0.301***
	(0.157)	(0.0688)
Firm FE	Y	Y
Time FE	Y	Y
Observations	64,516	283,877
R-squared	0.254	0.478

Note: Standard errors are clustered at the sector level. *** p<0.01, ** p<0.05, * p<0.1

Robustness Check

For the robustness check, I first recode the ownership of companies. The collective companies, for example, have hybrid ownership of both state-owned and private-owned. These kind of hybrid companies are coded as SOEs in the main analysis because the governments are supposed to have more leverage as long as the companies have some share held by the government. Here I categorize these companies into private companies, to see if the main results still hold. The second modification I make for the robustness check is extending the pre-period. Instead looking solely at trading records from 2002 to 2003, I include observations of September through December in 2001, making the pre-period one year in length. With these modifications, I rerun the DID and DDD regressions, and my main results generally hold (See Table B-1 and B-2).

Conclusion

Using the case of the dispute caused by the "Two Countries" announcement, I track the monthly trade data of companies of different types in mainland China, to see if mainland China conducted informal sanctions toward Taiwan. I find that (1) the trade deterioration is only significant in mainland China's imports; (2) Chinese companies reduced their imports from Taiwan significantly, but foreign companies did not; (3) SOEs report the largest magnitude of reduction in imports from Taiwan; (4) SOEs in regions with stronger connections to the central government have larger import reduction than SOEs in other regions, but such a pattern is not found with private companies. These findings

capture the exceptional response of companies with strong political affinity, supporting the existence of informal sanctions toward Taiwan.

This paper addresses an important issue in the political economics studies on China. Even though only one specific case of Taiwan is studied here, the mechanism I use to test for informal sanctions could be widely applied to other cases. Future studies could explore more measurements for political affinity of economic actors and use it to capture the hidden political intention behind. Due to the data limitation, this paper fails to distinguish Taiwanese owned companies, whose trading behavior in this case could also be informative in showing how MNCs behave in sanctions against their own home country. More stories about these economic actors' "dual identity" in economic tension should be told when data is available, so that a more complete story about international sanctions can be pictured.

CHAPTER 4

WHO TO BE EXEMPTED?

A CASE STUDY ON THE US STEEL AND ALUMINUM TARIFFS

Trade politicization, or economic sanctions, as a strategy is increasingly imposed by more countries in the world. As a pioneer of economic sanctions, the US under the Trump administration expands economic coercion aggressively. In addition to formal sanctions programs, trade wars through import tariffs and export control are also imposed. The countries impacted include not only the traditional rivals like China and Russia, but also those long-time allies in Europe. As a result, businesses inside the US are suffering constantly and broadly, struggling to find alternative markets and suppliers, or facing deficit or bankruptcy due to higher costs. Requesting a sanctions exemption license is the last resort for firms to reduce difficulties. However, the opaque process in the US government's exemption decision-making causes firms to be frustrated. Clueless about the *de facto* criteria in the decisions-making, firms must blindly invest a great deal in filing requests but anxiously depend on luck with the final results.

The urgency for a thorough exploration and explanation on the exemption criteria is further magnified by Trump administration policy reforms that are potentially deteriorative to policy transparency. That said, existing findings cannot fit perfectly with this demand.

For one thing, existing studies mainly focus on the contents-making, an *ex ante* process of trade policies implemented. But exemptions are more of an *ex post* process, a supplementary practice made after the trade policy being employed. The procedure and results of exemptions have a lower level of publicity comparatively. Consequently, the factors existing studies find influential in the contents-making process may function differently under the atmosphere of exemptions. In addition, findings so far are based on the analysis of trade policies made by Congress, but the exemption process is managed by the executive. As a non-elected team, the executive's responsibilities might diverge from that of Congress representatives, and factors impacting how Congress votes may work differently than those of executive officers.

To better assess how the sanctions exclusion is impacted by variant factors in the Trump era, I have chosen the Steel and Aluminum Tariffs imposed since March 2018 for my study for three reasons. One, the Steel and Aluminum Tariffs do not target one specific country but cover all countries exporting related products to the US. So, there is considerable variance in the targeted countries' relationship with the US, making it possible to test the impact of international relations on the exemptions. Two, a few months after the tariffs were imposed, the midterm election took place in November 2018. This event offers a good opportunity to assess the electoral factors in the exemptions. Three, Trump's emphasis on imposing sanctions via executive orders boosts the prosperity of the lobbying

industry around him[20], and this is likely to magnify the effect of lobbying in the sanctions policy making, including exemptions. It makes the tariff case under Trump perfect for assessing the impact of lobbying and other forms of monetary investment behind politics.

I collect the decisions over exclusion requests published from April 2018 to April 2020 and run logit estimations to assess the potential factors' impact on the chance of exemption grants. For electoral factors, I find that firms located in midterm election swing states are more likely to get exemptions than firms in other states, and such an advantage is more profound prior to the midterm election. Additionally, I find this advantage is larger with swing states in the House than swing states in the Senate. Regarding international relations, I find products originating from countries with a closer relationship to the U.S. are more likely to get exemptions, but firms whose home countries have closer relations with the U.S. are less likely to get exemptions. In terms of monetary investment, I find a firm's lobbying expense in the previous year positively correlated with its chance to get exemptions. Surprisingly, the firm's donation to Trump in the previous presidential election is negatively correlated to the granting chance.

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[20] *The New York Times,* "Targets of U.S. Sanctions Hire Lobbyists With Trump Ties to Seek Relief", Dec 10, 2018, https://www.nytimes.com/2018/12/10/us/politics/sanctions-lobbyists-usa.html?searchResultPosition=1。*The Washington Post,* "K Street's newest star built business on dubious claims of Trump ties", Nov 1, 2019, https://www.washingtonpost.com/investigations/k-streets-newest-star-built-business-on-dubious-claims-of-trump-ties/2019/11/01/f67de928-f5d9-11e9-829d-87b12c2f85dd_story.html。

My study meets the urgent demand for an exploration of the exemption process under the Trump administration. For this specific case of Steel and Aluminum Tariffs, I find that other than the declared criteria—the product's domestic availability—the exemption decisions are also impacted by additional factors, which might help the requesting firms understand and predict the results of their exclusion requests. Though imperfect, my study completes the understanding of the decision-making process in trade policy, from the perspective of the executive branch. For people interested in sanctions evasions or the political swap under Trump, my findings could offer a starting point.

The Steel and Aluminum Tariffs: the importance of exemptions

Under Section 232 of the Trade Expansion Act, the Trump administration imposed 25% tariffs on imported steel products, and 10% tariffs on aluminum imports, with only a few countries formally exempted[21]. At the same time, it also established exclusion requests for the US importers of related products. Importers who believe the products they need are not available within the US can submit a request, regarding every specific type of product they have to obtain. The Bureau of Industry and Security of the Department of Commerce oversees the review process, deciding whether a request is granted or denied. The criteria of the exemption decision, in principle, is the absence of alternative suppliers of the requested products within the US territory.

[21] Countries exempted from the steel tariffs: Argentina, Australia, Brazil, Canada, Mexico, and South Korea. Countries exempted from the aluminum tariffs: Argentina, Australia, Canada, and Mexico.

Despite the seemingly simple criteria, US importers requesting exclusions are constantly complaining about the "lack of transparency and a lack of consistency" in the decision-making of the exemptions.[22] In its published decisions, the Department of Commerce rarely explains its reasons in granting or rejecting one request, only giving a cursory and brief explanation. As a result, importers are struggling to understand the rationale behind those decisions, which often leaves them to guess blindly and invest aimlessly when preparing for their requests. A similar situation was witnessed in Chinese products import tariffs. Without the knowledge of the *de facto* exclusion criteria, US importers had to hire "outside lawyers to file requests and flexing connections on Capitol Hill,"[23] in hope of increasing their chances to get exemptions. Nonetheless, only a small share of their requests was approved. A report made by the PIIE at the end of year 2019 finds that the United States Trade Representative approved 1/3 of the total requests in the first 18 months, exempting import products worth $12.8 billion. At the tariff rate of 25%, the exemption tickets themselves worth $3.2 billion. That said, 38.2 billion dollars of

[22] *Financial Times*, "Business leaders voice frustrations at tariff hearing". Jul 25, 2018. https://www.ft.com/content/44278d54-8f93-11e8-bb8f-a6a2f7bca546.

[23] *Axios*, "Trump's puzzling tariff exclusion process." Nov 5, 2019. https://www.axios.com/trumps-puzzling-tariff-exclusion-process-3a77f7aa-f95d-4b58-8978-6c9b2a732c41.html.

products still face the tariffs, which will cause about a $10 billion loss to US importers at the 25% tariff rate.[24]

Seeing the giant amount of money at risk with exemption decisions, US importers are more than eager to understand the opaque process. Assuming the firms are certain that their requests meet the declared criteria, why do they still vary in their exemptions results? Are there other factors also impacting decision-making? What can the firms do to increase their chances for exemptions?

Under the Trump administration, knowing the exemption criteria is particularly important. On the one hand, Trump emphasized the use of economic sanctions after becoming the president. For example, his government put about 1,500 people, companies, and entities into the sanctions programs managed by the Treasury in the year of 2018, breaking the record made by the same government in 2017. In addition to increasing the sanctions list, the Trump government imposed major sanctions programs simultaneously. While the Obama administration focused on one or two major sanctions programs at a time, the Trump government pursued first-tier sanctions on Iran, North Korea, and Venezuela, and expanded human rights sanctions on Cuba, Syria, and Russia at the same time.[25]

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[24] *PIIE*, "The USTR Tariff Exclusion Process: Five Things to Know About These Opaque Handouts." Dec 19, 2019. https://www.piie.com/blogs/trade-and-investment-policy-watch/ustr-tariff-exclusion-process-five-things-know-about-these.

[25] *Foreign Policy*, "Trump's Use of Sanctions is Nothing Like Obama's", Oct 5, 2019, https://foreignpolicy.com/2019/10/05/trump-sanctions-iran-venezuela-russia-north-korea-different-obamas/.

Seeing the aggressiveness shown in sanctions imposition, it is not known yet if the Trump administration was also assertive in implementing these sanctions by issuing exemptions unbiasedly.

Exemptions made by the government is an important part of the US' economic sanctions, but there has been a debate about corruption within the decision-making process[26]. Further, the Trump administration is even reforming some policies, making them less transparent. For example, in the Steel and Aluminum Tariffs, the Trump administration introduced the third party into the exempting process. Once the initial decision over a request was posted, other firms could issue objections to the decision, so that the request would be re-reviewed. The two most active objectors were Nucor and United States Steel. They mainly argued that the requested products were available in the US, though the overall amounts of requested products already outweighed the total domestic producing capacity. These objections had an extremely high rate of success, making the objected requests eventually get denials from the Department of Commerce. This policy design, however, has raised concern that steel giants are using objections to consolidate their monopolies in the US market.[27] Another example of reform is in the lobbying market. In

[26] *The New York Times,* "Licenses Granted to U.S. Companies Run the Gamut", https://archive.nytimes.com/www.nytimes.com/interactive/2010/12/24/world/24-sanctions.html?_r=0。

[27] *The New York Times,* "Steel Giants With Ties with Trump Officials Block Tariff Relief for Hundreds of Firms", Aug 5, 2018.

the Obama Administration, lobbyists were not allowed to seek or accept employment with any executive agency that they lobbied in the prior two years. In the Trump administration, however, such a limit was removed[28]. The ethical debate over this reform is that the network between the executive and the lobbying industry might get closer, which would produce more policies benefiting the clients and create bias.

Seeing the lack of transparency in the exemptions' decision making, especially under the Trump administration's reforms mentioned discussed above, existing literature cannot give a clear and straightforward answer to the tariffs exemption criteria. Quite a few studies have found some factors likely shaping decision-making in trade and tariff policies, like electoral (Blonigen and Figlio, 1998; Conconi et al., 2014) and diplomatic concern (Milner and Kuboka, 2005; Kono, 2006; Hatfield and Hauk, 2014), as well as the effect of firms' lobbying (Goldberg and Maggi, 1999; Potters et al., 1997). However, their research mainly focus on the content-making of policies, which makes the findings unable to perfectly predict exemptions -- the evasion from the tariffs (Blanchard and Willmann, 2011, for example). Though the logic seems quite consistent: interest groups try to influence certain

https://www.nytimes.com/2018/08/05/us/politics/nucor-us-steel-tariff-exemptions.html.
The Bridge, "Tariff Exclusion Requests: A One-Year Update", April 11, 2019. https://www.mercatus.org/bridge/commentary/tariff-exclusion-requests-one-year-update.

[28] *Center for American Progress,* "The Favor Factory: President Trump's Interior Department Is Benefiting Past Political Donors and Lobbying Clients", Aug 27, https://www.americanprogress.org/issues/green/reports/2018/08/27/455150/the-favor-factory/.

trade policies based on their own interests, the two processes vary in the level of publicity. The content-making process includes hearing, voting, debating, and other institutional stages attracting the attention from the firms, the media, and the public. The exclusion process, on the contrary, is only managed by one office via online publications, with only the related firms as the audience. As a result, there is less supervision in the exclusion process, thus more room for other factors to bias the ultimate decisions.

Relatedly, another reason for the literature's weakness in explaining power is their focus on the Congress as the decision-maker (Conconi et al., 2014, for example). To begin with, Congress nowadays is holding increasingly less power in trade policymaking. Instead, the president and the executive are the leading actors in deciding and imposing, and also exempting, economic sanctions. Therefore, voting pattern findings in Congress may not be suitable to apply to the executive. For example, the political contributions made to Congressional elections were found correlated to the representatives' votes. But for decisions like exemptions managed by a non-elected office, the monetary investment made by the firms or the interest groups should be measured in a different way, which may not necessarily generate the same findings. Given this, a study on the current case is needed to assess whether those factors can still explain the decision-making in sanctions exemptions, in the era of Trump, when transparency was threatened.

Influencing factors: electoral, diplomatic, and monetary

I argue in the process of reviewing and deciding exclusion requests that the Trump administration, or the Department of Commerce more precisely, did not *only* consider if a steel and aluminum product was available domestically, but traded off its strategies in other aspects as well. The government's interests in the midterm election, international relations, and monetary investment from business (Hermann et al., 2001; Betz, 2019), were all linked to the import tariffs, thus might influence the government's decisions on exclusion requests.

Elections

The preference of politicians in their decision-making is largely determined by the interests of their constituents. As proved by trade policy voting in Congress, representatives are most concerned with the local welfare of their constituents and their personal career prospects (Conconi et al., 2012; Kim and Margalit, 2020). The profit of local firms benefits regional employment and revenue via taxation. If the firms see extra cost caused by tariffs, their loss may eventually transfer to the individual voters' welfare. While the exclusion decisions were made by the executive rather than the local representative, the voters' anger towards the federal administration might push them to vote for Democrats instead of Republicans in the midterm election. Led by a Republican Secretary nominated by the Republican President, the federal executive with partisan concerns may give more grants to the requests made by firms in swing states (Karabay and McLaren, 2004), in order to get more electoral advantage for the Republican.

H1a: All things being equal, firms located in midterm election swing states midterm election are more likely to get exemptions.

When the midterm election was over, however, the value of the swing states was reduced. So was the government's urgency to "please" local firms. As a result, the advantage of the swing state located firms might shrink with the end of the midterm election.

H1b: The swing state located firms' advantage in getting exemptions reduced after the midterm election.

The 2018 midterm election reshuffled all the seats in the House and 35 seats in the Senate. The Trump government faced an easy-to-win race in the Senate. Among the 35 races which took place in 33 states, Democrats had to defend ten states where Trump won in 2016, but Republicans only had to defend one where Trump was not supported. Therefore, even prior to the midterm election, it was known that the chance for a Democratic winning was minimal. The House, on the contrary, was not as promising for Republicans. To win a majority, the Democrats needed to add 23 seats. Research on historical midterm elections showed that the president's party lost 29 seats on average[29]. Such a small margin put concerned Republicans in the House, as they knew that a House controlled by Democrats might cause troubles for the incumbent, like an impeachment of

[29] Rob Oldham and Jacob Smith, "Wave elections (1918-2016)", Ballotpedia, Jun 19, 2018. https://ballotpedia.org/Wave_elections_(1918-2016).

President Trump. Given this, the Trump administration may have paid more attention to House midterm elections and cared about the welfare of firms located in House swing states. Even compared to the Senate swing states, the House swing states may have obtained more of an advantage in local tariff exemptions. Compared to a relatively secure race, the marginal support in a close race could have been more important.

H1c: Firms located in the swing states of the House were more likely to get exemptions than firms in the swing states of the Senate.

The last electoral hypothesis concerned the results of the midterm elections. After Republicans won the Senate, it was possible that the Senate swing states got rewarded for the victories, making their local firms even more likely to have gotten exemptions compared to before. On the contrary, the House swing states were not rewarded, thus their local firms' advantage in exemption grants was lost with the defeat of Republicans.

H1d: Firms located in the swing states of the Senate were more likely to get exemptions after the midterm election compared to before, but firms located in the swing states of the House were less likely to be exempted than before.

International relations

The openness or restriction of trade is closely related to international relations. Democratization, alliance, international agreements and organizations are all found beneficial for lower bilateral tariff rates and more cross-border capital flows (Mayer, 1984; Perorino, 1998; Mansfield et al., 2002; Pandya, 2008; Eichengreen and Leblang, 2008;

Evans, 2009; Ludema and Mayda, 2013; Liu and Ornelas, 2014). Given that the Steel and Aluminum Tariffs have already covered both allies and rivals of the US, the logic above might not explain who would face fewer tariffs, nor predict their chance for exemptions. In other words, whether or not countries having better relations with the US determined if they could get more exemptions for their products and oversea affiliations.

The exclusion requests relate to international relations in two ways. One is the nationality of the firm submitting the requests (Luo, 2001). The firm might be a US-based firm, like the aluminum packaging provider Ball Corporations; or a US branch of a foreign-based company, like the car producer Toyota USA. For foreign companies, the relationship of their home country with the US might impact their chance to get tariff exemptions. Because both the foreign company and its home country benefit from the tariff exemption, it might be against the US' interest if that home country is a rival.

H2a: All things being equal, a firm whose home country has a good relationship with the US is more likely to get exemptions.

The other form of information concerning international relations in the exclusion requests is the origin country of the product applying to be exempted. An exclusion request should include the information of the product to be imported, such as in which countries the product was produced originally. If the US government finds a product originated in a rival country, the chance to grant tariff exemptions should decrease. The rationale is similar as above.

H2b: *All things being equal, products originated from countries having a good relationship with the US are more likely to get exemptions.*

Monetary Investment

The tariff imposition is traditionally depicted as a tool of politicians to profit with local interest groups or obtain financial contributions from lobbies "buying" production (Grossman and Helpman, 1994). Either way, tariff policies are influenced by the monetary investment made by firms who must pay tariffs. By hiring lobbyists or building networks, the firms invest to deliver their preference to the policy makers in hope of tailoring the ultimate policy accordingly (Ludema et al. 2010; Limao and Tovar, 2011; Gawande and Bandyopandhyay, 2000;).

Regarding exclusion requests, firms invest to get a larger chance for grants. The investment is usually measured by the firm's lobbying expense and its political contribution through Political Action Committees (PACs) or individuals (Buzard, 2017). The exemption decisions are made by the executive, whose administrators are not elected but nominated by the president. As agents, the executive's decisions should be impacted by the principal's interests, so I use the firm's contribution to the past presidential election as one measurement. The firm's lobbying expense is also used to measure its monetary investment.

H3a: All things being equal, firms who make more monetary investment are more likely to get exemptions.

While firms can pay for lobbying all the time, they can only donate to presidential elections every four years. That said, political contributions benefit the president more directly. Seeing the president's influence over the executive branch, making connections with the president via campaign donations might increase the efficiency of lobbying afterwards. In other words, the political contribution should magnify the effect of a firm's lobbying expense on exemptions.

H3b: All things being equal, the ameliorative effect of a firm's lobbying expense on exemption granting is magnified by the firm's political contribution.

Data and variables

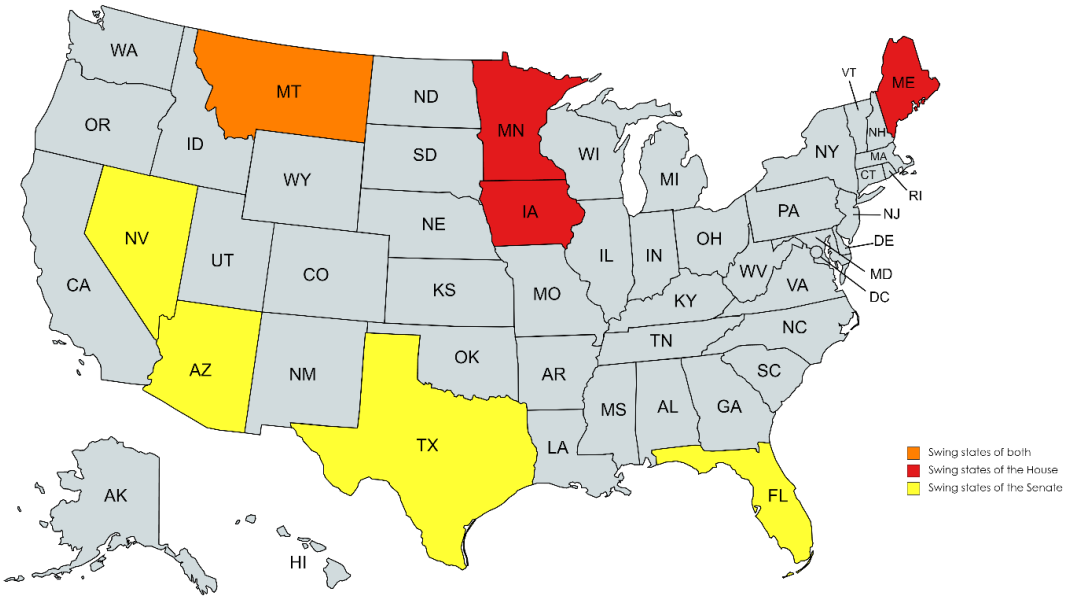
The main data source for this paper is the decisions over the Exclusion Requests regarding the Steel and Aluminum Tariffs, published by the Department of Commerce.[30] I track the 68,248 requests with final decisions (requests in the status of Pending are dropped), published from April 2018 to April 2020, involving 976 firms in total. In the data there enlists the information about the request, the firm making the request, and the product concerned in the request. The request specific information includes the time of request submission, the decision made by the Department of Commerce, and the date the decision is published. Firm specific information includes the name, location, and nationality of the

[30] See https://232app.azurewebsites.net/steelalum. Records prior to June 2019 is available at https://www.regulations.gov/docketBrowser?rpp=25&so=DESC&sb=commentDueDate&po=0&dct=N%2BFR%2BPR%2BO&D=BIS-2018-0006.

firm and its parent company. The product specific information includes the name, size, amount, total value of the products requesting a tariff exemption, as well as the origin countries producing these products. The data of a firm's size, measured by its annual total capital, come from the S&P Capital IQ, merged with the Exclusion Requests data by firm names. The data of a firm's lobbying expense and political contribution is collected by OpenSecrets.

The dependent variable is $Result_{ijt}$, denoting the Department of Commerce's decision over the request made by the firm i at time t, regarding the product j. *Result* is a dummy variable, which equals to 1 when the request is granted, and 0 when denied. The first group of independent variables measure the impact of the midterm election. Swing states are measured based on the 2018 midterm election results. A state is coded as a swing state of the Senate if its Margin of Victory (MOV) is smaller than 0.5, and a swing state of the House if half of its districts have the MOV smaller than 0.5 (Figure 3.1). $Swing_i$ takes the value of 1 if the firm i locates in the swing state of the Senate or the House. $Election_t$ is also a dummy variable, which equals to 1 when an exclusion decision is made before the midterm election, November 2018, and equals to 0 otherwise.

Figure 3.1 Swing states of the 2018 midterm election



Note: Swing states are the colored states on the map, coded using the MOV of the 2018 midterm election results. Data source: House Election Results, 2018. https://www.politico.com/election-results/2018/house/. The results of the Senate are also available on this site.

The second group of independent variables are about the impact of international relations on the exclusion decision. $Foreign_i$ *i*s a dummy variable indicating if a firm *i* is owned by the US (foreign=0) or not (foreign=1). For the firms owned by foreign countries, $Home_i$ measures their home countries, and is categorized into three groups based on the home countries' bilateral relationship with the US. The Department of Commerce makes a

Country Groups chart as guidance for the US' exporters, clarifying which countries may face export control and a special license might be required. Almost all the US' allies and trading partners are in Group A, where little export control is imposed. Countries in Group B and D (Group C is not available) are usually those with political disputes with the US, like China, Russia, Uzbekistan and Georgia[31]. I use the Country Group as an indicator of international relations, and value each group of countries from 1 to 3 for the variable $Home_i$: 1 for countries in Group A, 2 for those in Group B and 3 for Group C. The larger the value, the worse the bilateral relationship.

Another independent variable is $Origin_j$, the origin country who produces the product j concerned in the exclusion request. Because in each request, one product can be enlisted with up to 5 origin countries, I first code the origin countries' bilateral relationship using the Country Group, then I code the $Origin_j$ as 1, 2, and 3 for the products produced by countries in Group A, B and C respectively.[32] Similar as above, the larger the value of $Origin_j$, the worse bilateral relationship the origin country has with the US.

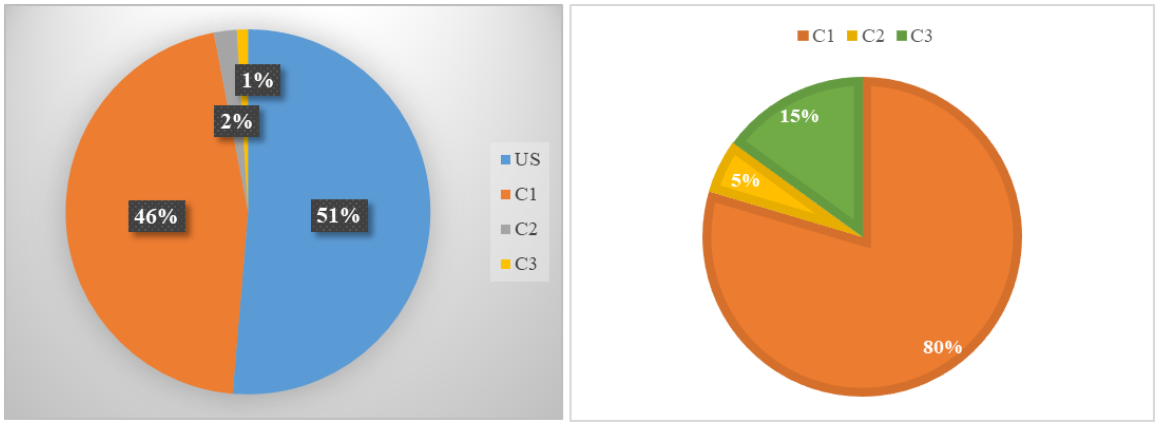
The categorical distribution of firms' home country and the products' origin country is visualized in Figure 2. As shown in the graph on the left, more than half of the requesting

[31] There is also Group E listing the countries being sanctioned by the US, including Iran, North Korea, Cuba, Sudan, and Syria. Exporting to these countries faces the highest level of restriction. However, because these countries are not the home country or the origin country concerned in the tariff requests, this category is dropped from my categorization.

[32] There are products produced by countries across different Country Groups. There are 67 requests in total concerning these products. The requests are dropped, which does not impact the results profoundly because of the small number of them.

firms are US-owned, and 46% of them are owned by countries in Group A (C1), representing a good relationship with the US. Firms owned by Russia and China (C3) consist of only 1% of the total firms in request. Though China and Russia have small shares as home countries, they produce 15% of the products requesting for exemptions, the second largest in all categories of *Origin* (shown in the right graph of Figure 3.2). The countries of C1 still contribute the most (about 80%) steel and aluminum products in request.

Figure 3.2 Distribution of *Home* and *Origin*



Note: The graph on the left is the distribution of the home country of the firms requesting for the tariff exclusion. The graph on the right is the distribution of the origin country of the products requested to be excluded from the import tariff.

The last group of independent variables are about the monetary impact on the exclusion decisions. *Current Lobby*$_{it}$ is the lobbying expense (in US dollar) made by firm

i in the current year of requesting *(t)*, taking the logarithm. *Previous Lobby*$_{it-1}$ is the logged lobbying expense made by the same firm in the previous year of request (t-1). *Contribution*$_i$ is the political contribution (in US dollar) made to Donald Trump in the past presidential election by firm *i*, taking the logarithm.

As control variables, I include two variables. One is the discrete variable $time_t$, denoting the temporal duration of the tariffs when the request is submitted at time *t*. As time passes by, it is possible that the implementing standard of the tariff changes, getting stricter or looser according to the policy atmosphere. Another control variable is the firm $size_{it}$, measured by the firm *i*'s annual capital in year *t*. The size of a firm impacts its lobbying power and its salience in the local economy, which might both make the government care more about the firm's welfare and have it excluded from the tariff.

I run logit models to test the above independent variables' impact on the exclusion decision. I control for the state fixed effect and the time (month) fixed effect. Robust standard errors are reported. The numeric variables I use are summarized in Table 3.1.

Table 3.1 Summary Statistics

Variables	*N*	*Mean*	*Standard Error*	*Min*	*Max*
Result	25,753	0.80	0.40	0	1
Election	25,753	0.71	0.45	0	1
Swing	25,753	0.16	0.37	0	1
Foreign	25,753	0.71	0.45	0	1
Origin	25,753	0.72	0.46	0	3
Home	25,753	1.13	0.48	1	3
Time	25,753	379.58	189.36	0	739
Capital（ln）	25,753	10.35	3.11	-1.69	19.31
Current Lobby（ln）	1,133	12.31	3.69	0	16.29
Previous Lobby（ln）	1,133	11.72	4.51	0	16.25
Contribution（ln）	1,133	5.24	1.95	1.10	10.41

Notes: Reported values are rounded to two significant digits. N here is 25,753 instead of 68,248 because some companies issuing the requests are not covered by the SandP Capital. More observations are lost when merging with the OpenSecret data.

Results

Table 2 reports the estimation results of H1 and H2. H1a is supported in Model 1. The coefficient of *Swing* is positively significant, suggesting that compared to other firms, firms

located in midterm election swing states are more likely to get the tariff exemptions, supporting H1a. Though working as control variables in the model, other variables of interests also report informative coefficients. For example, compared to foreign-owned firms, US-owned firms are not more likely to get exemptions, seeing the term *Foreign* reports insignificant and positive results.

Model 2 gives supportive results for H1b. An interaction term of *Swing* and *Election* is created to capture the Difference in Difference (DID) effect: the exemption granting chance of swing vs. non-swing states before and after the midterm election. State and month fixed effects are controlled in the model. The term *Swing*Election* is positive and significant at the 95% confidence level, which means that swing states are more likely to get exemptions than non-swing states, and such an advantage is larger before the midterm election. H1b thus gets supported.

H1c is supported in Model 3. In this model requests made by firms in non-swing states are dropped, so that only the Senate-swing and the House-swing are compared to each other. $SenateSwing_i$ is a newly generated dummy variable, which equals to 1 if firm i is located in a Senate swing state (the yellow and orange colored states in Figure 1), and equals to 0 if the firm is in a House swing but not a Senate swing (the red colored states in Figure 1). *SenateSwing* gives a negative and is significant, showing that among the swing states of the midterm election, those of the House are more likely to get exemptions for local firms than those of the Senate. H1c gets supported.

H1d is partially rejected and partially supported. Two new dummy variables of $SwingS_i$ and $SwingH_i$ are generated, denoting respectively if firm *i* locates in a swing state of the Senate or in a swing state of the House. Relatedly, two interaction terms are generated, *SwingS*Election* and *SwingH*Election*. They capture the respective DID effect of the Senate swing states and the House swings. As shown in Model 4, both *SwingS*Election* and *SwingH*Election* are significantly positive, showing that firms in both Senate swings and House swings are more likely to get exemptions than firms in other states, and such advantage is consistently larger prior to the midterm election. The findings support the idea that the US government tends to please the firms in swing states before the midterm election, but the Senate swings do not get more exemptions for local firms after the incumbent wins the Senate. Therefore, in H1d only the part concerning the House swings gets supported statistically.

To test H2a, only requests made by the foreign firms are kept. The results testing H2a and H2b are visualized in Figure 3 and reported in Table 3 (Model 5). Figure 3 pictures the marginal effect of *Origin* (panel a) and *Home* (panel b) on the exemption chance as they vary from 1 to 3 respectively, with 95% confidence intervals. Clearly, as bilateral relations get worse, *Origin* varying from 1 to 3, the chance of the product produced in the country to get a tariff exemption significantly decreases. This finding is consistent with the coefficients of *Origin* in the previous models. As for the home country of the firm requesting exemptions, as the country's relationship with the US gets worse, *Home* varying

from 1 to 3, the chance of the exemption significantly increases. More precisely speaking, firms whose have home countries in C2 and C3 are significantly more likely to get granted requests than those owned by countries in C1. When most home countries lie in C1, there are only a few firms in C2 and C3, so the difference between the latter two groups is not significant. The graphical results are consistent with the positive, significant coefficient of *Origin* and the negative, significant coefficient of *Home* in Model 5, Table3. In sum, H2a gets rejected but H2b gets supported.

Table 3.2 Results of the impact from the midterm election

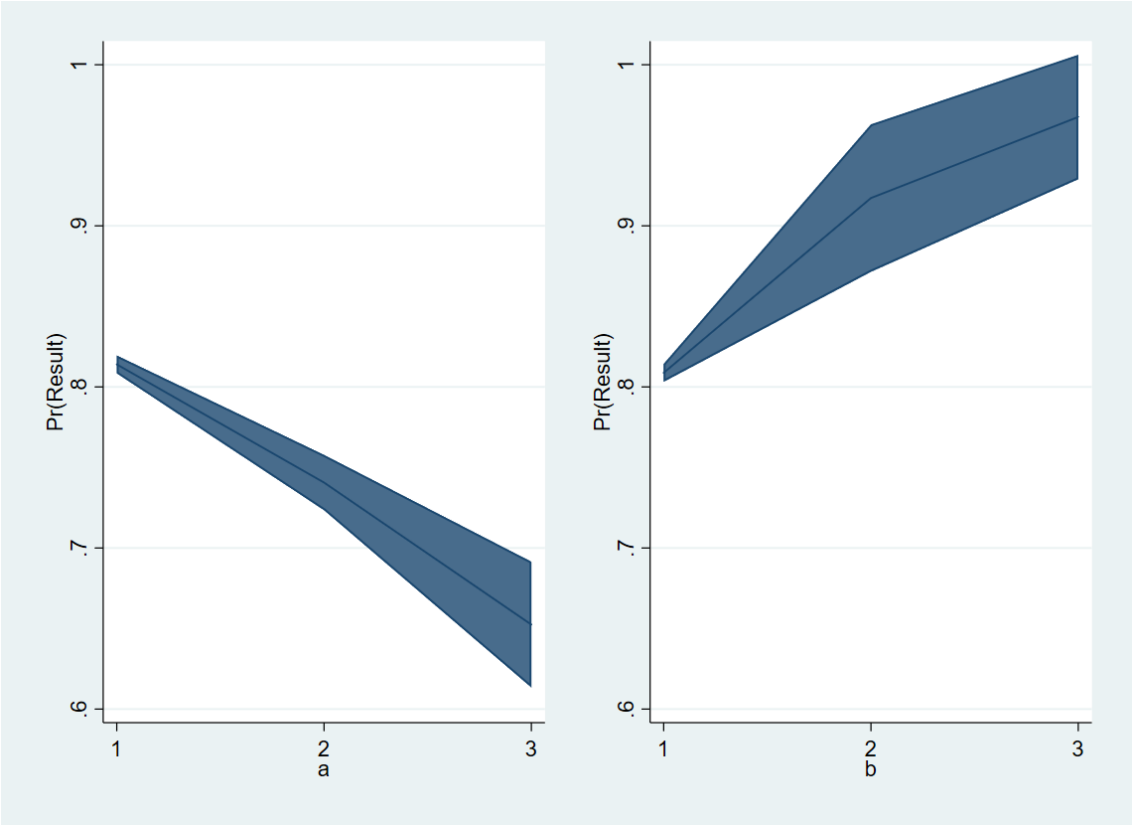
VARIABLES	(1)	(2)	(3)	(4)
Swing	0.177***	0.723***		
	(0.0474)	(0.153)		
Election	-0.716***	-1.030***	-0.148	-1.034***
	(0.0488)	(0.224)	(0.125)	(0.225)
Swing*Election		0.288**		
		(0.127)		
SenateSwing			-3.982***	
			(0.497)	
SwingS				0.772***
				(0.154)
SwingH				2.648***
				(0.497)
SwingS*Election				0.228*
				(0.128)

Table 3.2 Results of the impact from the midterm election (continued)

VARIABLES	(1)	(2)	(3)	(4)
SwingH*Election				15.58***
				(0.483)
Foreign	0.0257	-0.0231	-0.291***	-0.0230
	(0.0374)	(0.0490)	(0.109)	(0.0491)
Origin	-0.395***	-0.521***	-0.686***	-0.523***
	(0.0299)	(0.0389)	(0.0772)	(0.0389)
Time	0.00323***		0.00573***	
	(9.30e-05)		(0.000264)	
Capital (ln)	-0.0380***	-0.00248	0.0453***	-0.00261
	(0.00498)	(0.00681)	(0.0125)	(0.00681)
State FE		Y		Y
Time FE		Y		Y
Observations	25,753	25,753	4,163	25,753

Note: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Figure 3.3 Marginal effect of *Origin* and *Home*



Note: Panel a on the left reports the marginal effect of the origin country of the products in the request, and Panel b on the right reports the marginal effect of the home country of the firm submitting the request. Confidence intervals are of 95%.

Model 6 in Table 3.3 reports the results of H3a and H3b. The coefficient of *Previous Lobby* is positively significant, suggesting a firm's lobbying expense in the previous year increases its chance to get tariff exemptions, holding all else constant. On the contrary, the firm's *Current Lobby* is significantly but negatively related to the exemption chance. This can be possibly explained by the timing of lobbying. A firm might increase its lobbying

expense after its exclusion request gets denied, in hope of getting better luck in its next try. As a result, larger lobbying expense is found with firms' rejection in the same year. On the contrary, the lobbying expense in the previous year can be transferred into a bigger chance of tariff exemption, partially supporting H3a. However, the firm's political *Donation* to Donald Trump in the presidential election is significantly but negatively related to exemptions, partially rejecting H3a. The backfire of a political donation is a surprising finding to which I cannot come up with an explanation.

The interaction terms of *Previous Lobby* and *Current Lobby* with the pollical *Donation* measure the interactive effect of the two ways of monetary investment. *Previous Lobby*Donation* reports a significant coefficient of -0.1. Therefore, as political *Donation* increases by one unit, the marginal effect of *Previous Lobby* (0.76) is decreased by 10% (-0.1) which means that the increase of donation weakens the impact of lobbying expense in the previous year on the exemption chance. This is understandable because the impact of *Previous Lobby* and *Donation* are opposite in coefficient directions. Similarly, the decreasing impact of the *Current Lobby* (-0.895) is also weakened by the increase of donation, giving the positive coefficient of *Previous Lobby*Donation* (0.141). Either way, H3b is not supported. When measured by the previous year expense, lobbying expense and political donation do mutually strengthen the impact of each other, but not in the expected positive way.

Table 3.3 Results of the impact from international relations and monetary investment

VARIABLES	(5)	(6)
Election	-1.042***	0.764*
	(0.0620)	(0.428)
Swing	0.0265	-0.420
	(0.0550)	(0.399)
Foreign		-1.052***
		(0.337)
Home	1.010***	
	(0.319)	
Origin	-0.460***	-1.799***
	(0.0497)	(0.358)
Previous Lobby (ln)		0.763***
		(0.189)
Current Lobby (ln)		-0.895***
		(0.214)

Table 3.3 Results of the impact from international relations and monetary investment (continued)

VARIABLES	(5)	(6)
Donation (ln)		-0.893***
		(0.279)
Previous Lobby * Donation (ln)		-0.101***
		(0.0265)
Current Lobby * Donation (ln)		0.141***
		(0.0369)
Time	0.00223***	0.0107***
	(0.000112)	(0.00137)
Capital (ln)	-0.0496***	-0.0372
	(0.00666)	(0.125)
Observations	18,320	1,133

Note: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Robustness Check

For the robustness check, I change my measurement in two ways. First, I drop the observations of the year 2020, for two reasons. One, President Trump revised the policy of the Steel and Aluminum tariff in 2020, adding four more kinds of products into the tariff list.[33] This might cause additional fluctuations in the exemption decisions. Two, the firms' size in 2020 is only measured by the capital of the first four months of that year, incomparable to the annual-level capital of 2018 and 2019. And this might also skew the results to certain extent. By removing the 2020 data I lose 214 observations, which is minimal in amount and is unlikely to influence the results considerably.

The other modification also concerns the measurement of firm size. In the main result, I use the capital of the current year to measure the firm size. However, based on the results in Model 6 and related discussion, I realize that lobbying in the previous year makes more sense in influencing the request result. Seeing that firm size is correlated with the lobbying capacity, I measure firm size using the total capital from the previous year for the robustness check. The main results of my study remain the same (See Table C-1 and Table C-2).

[33] See PIIE, "Trump's steel and aluminum tariffs are cascading out of control", Feb 4, 2020. https://www.piie.com/blogs/trade-and-investment-policy-watch/trumps-steel-and-aluminum-tariffs-are-cascading-out-control

Conclusion

In this paper I analyze a series of factors possibly affecting the tariff exemption results, using the case of the Steel and Aluminum Tariff. My findings show that in this specific case, the granting chance of the requests is impacted by the midterm election: firms in swing states are more likely to get exemptions, and such an advantage is larger before the election results come out. International relations impact the exemption decision through the products' origin countries' bilateral relation with the US: the closer the relationship, the more likely the product gets exempted. Surprisingly, the rivalry one firm's home country has with the US does not make its requests more likely to get rejected. On the contrary, US domestic firms have the biggest rejection rate. Finally, a firm's lobbying expense in the previous year significantly increases its chance for exemption granting, but its political donation in the last presidential election significantly decreases the chance.

The above findings help to understand the Steel and Aluminum Tariff and its exemptions and provides an example of how sanctions evasions worked under the Trump's administration. In the future I would like to collect more cases of these on-going tariffs, and to compare the granting rate of the Trump presidency and Biden presidency, to see if the incumbent influences all the above factors' on exemption decisions. Another feature of the Steel and Aluminum Tariff is that other firms are allowed to reject the posted grants given to requests, arguably making it possible for a large steel and aluminum company to "veto" exemptions and strengthen their domination in the US market. I will be collecting

the data on the rejections and trying to picture the effect of it. The ultimate question, though, is if the exclusion decisions are really made by considering domestic interests. Given the vagueness of interests, scholars are expected to find better measurements to test for the rationale of exemption decisions in all kinds of economic sanctions, imposed not on the US, but also other countries.

CHAPTER 5

CONCLUSION

The findings of the three empirical papers suggest that business-government connections increase sanction participation in the Chinese cases, but increase sanction evasion in the U.S. case. This shows how one variable, when put in divergent institutional environments, can function in different styles and in opposite directions. It also illustrates the usefulness and possibility of comparing the two economies in sanctions studies. More importantly, the arguments shed light on important contemporary issues in global trade, which should be further explored by future research.

China is increasingly employing formal sanctions, such as blocking Australian mineral imports due to diplomatic tensions, as well as reciprocally sanctioning individuals and entities from the U.S. and the European Union. This stands in stark contrast to China's previous non-use of formal sanctions. China's open use of formal economic sanctions might be explained by the long-term decline of multilateralism in international relations, especially with the rise of unilateralism under the Trump administration. The rules of non-discriminatory trade have been weakened together with the international organizations that manage the rules, as reflected by the stagnated WTO negotiations. Changes in the external

trade environment combined with the leaders' toughness in diplomacy may explain why China is less reluctant to officially announce its use of economic coercion.

That said, it does not mean that informal sanctions will disappear from China's economic statecraft. Findings in this dissertation illustrate how institutions can be self-enforcing. For example, the complicity required by informal sanctions means SOEs with strong connections to the government will be more motivated to participate in restricting their trade with the target, in the hope of maintaining the beneficial affinity they have with the government. However, it is because of the existence of SOEs in large number who are under control of the government, that it feasible for China to impose informal sanctions, so that it can coerce other economies implicitly without hurting its diplomatic flexibility and ethical consistency. This makes the informal sanctions a self-enforcing policy choice, and will continue to be a strategy for China as long as its business-government relations are not reformed.

Given that China is openly imposing economic sanctions today just like the U.S., will political connections continue to promote sanction participation as they have under informal sanctions, or will connections start to facilitate sanction circumvention like in the U.S.? On one hand, features of government-business relations in China should ensure that political connections would continue to promote participation in sanctions. Since Chinese economic actors' dependence on the government is unchanged, neither is their necessity for behaving according to the governments' preferences. In formal sanctions, the central

government's intention is more openly declared, and Chinese customers and firms may be better aware of their responsibility and behave accordingly.

On the other hand, when all economic actors are ordered to participate in sanctions by a formal sanctions law, the mission to economically harm the target is implemented by a larger group of entities compared to informal sanctions. Now the Chinese government has more "recruits" to count on, SOEs and other closely connected economic actors are no longer the only "soldiers" available, thus there is room for these actors to transfer their political connections to lobbying power. Then the U.S. scenario is likely to be seen in China, where economic actors with strong connections find it easier to circumvent sanctions. How these political connections would work in Chinese formal sanctions is therefore a question to be answered in future studies.

Though China has been the only example in the discussion above, informal sanctions and political connections' impact are nothing unique to China. In other words, China is not the only country where economic actors participate in sanctions due to their political concerns. For example, multinational companies (MNCs) that are members of the Better Cotton Initiative (BCI) have recently collectively boycotted cotton produced in Xinjiang, China. It is possible that the MNCs' boycott might be motivated by politics rather than solely by ethical principle. The funding BCI receives from the U.S. Agency for International Development (USAID) might explain member MNCs decision to impose boycotts, thus suggesting the US government also imposes sanctions informally. American

MNCs may be compensated from the U.S. government, if China retaliates with sanctions against the BCI members. A thorough tracing of the political and monetary connections behind this boycott case is needed to test these hypotheses, and thorough studies on cases like this can help assess the political determinants behind the sanctions imposed by NGOs.

The causal relations and solid evidence for informal sanctions in the two Chinese cases show that political connections are a useful tool to capture the sanction senders' intention, albeit indirectly. To improve this tool connections could be measured differently based on the specific case, or direct measurements of governments' intention,. We may then identify more undeclared sanctions, not only in authoritarian countries like China, but also in other "free markets" where business and politics are theoretically separate. Due to the lack of informal sanctions cases, most scholars rely on formal sanctions imposed by the U.S. and other Western major powers for research. The lack of variance in the sample of sender countries and sanctions types could explain why the existing literature is overwhelmingly concerned with formal sanctions that underestimates the impact of the sender countries' domestic political dynamics. When more informal sanctions imposed by different forms of senders are noticed, scholars will be able to make systematic comparisons across sender country types, sanction formats, and their interactions.

The findings of the U.S. chapter are based on a tariff case imposed by President Trump, an arguably outlier observation in the recent history of American leadership. As a consequence, factors found influential in the tariff exemptions – electoral, diplomatic and

monetary – might be unique to this specific case, when the Trump administration unprecedently broadened its sanctions targets and boosted the American lobbying market. Now that the U.S. is under the Biden Administration, whose governing style differs from Trump's, will the above findings still hold? For one thing, when the Biden Administration is busy repairing relations with U.S. allies, will the Steel and Aluminum tariffs be reformed? More precisely speaking, will the allies in Europe eventually be removed from the tariffs list? If they stay, will the allies get a larger chance for tariff exemptions for their companies and products? For another, it is not known yet if the Biden Administration will remain dependent on the American lobbying market, whereby the influence of firms' monetary investment on policy-making might change too.

After all, with the new administration, the U.S.'s policies in sanctions imposition and exemption might both vary, making factors impacting the exemption criteria different as well. But a remaining question is how to capture connections with the executive. The normal measurement of connections is companies' political donations to members of the U.S. Congress, but sanctions are increasingly managed by the executive rather than the Congress. Therefore, a better measurement of business' connections to the executive is required when donations work poorly with the non-elected executive, and an alternative assessment of the monetary or personnel exchange in the executive's decision-making needs to be developed.

The U.S. case links the arguments on sanctions with more general trade policies. Findings in that chapter show that even after trade policies are made, the implementation of the polices are still prone to impacts from various sources. Applying this story to the global trading system helps explain why economic sanctions are still prevalent when international organizations are prohibiting trade protectionism. The original principles and rules made by the international organizations may be paralyzed due to member countries' circumvention. In the global system where there is no higher level of government with which countries could have connections, countries' variance in their circumvention of multilateralism is determined by their own welfare and dependence on global trade. As a result, great powers who are losing in global trade are more likely to be rule breakers in international organizations. And this have been proven by the U.S.'s withdrawal from quite a few multilateral institutions under the Trump administration. Nonetheless, in spite of China's beneficial position in global trade, its own breaking of the WTO rules and employing formal sanctions needs to be explained by additional factors. Just like the Steel and Aluminum tariffs exemptions are impacted by electoral, diplomatic and monetary factors, nation states' breaking free trade norms might be caused by other factors like international relations or the salience of the issue at hand. Ideally, how these factors function collectively could be pictured by formal models developed in future research.

Generally speaking, the research can be further improved in several ways. To begin with, the arguments made in the three substantive chapters are based on the correlation

found between economic actors and some features related to political connections, such as whether SOEs are located in regions with stronger political connections to the central government, or if steel companies are based in a swing state. In fact, there is potential endogeneity between the region's strategic value and the existence of SOEs and the steel industry, which is omitted in the research by taking the fixed effects of the variables. If possible, future studies should take this potential endogeneity into consideration, addressing the issue with additional control variables, so that the more complex interactions across variant mechanism could be illustrated.

Secondly, the two Chinese cases tell a story of *control*, where the controlled economic actors put the governments' implicit intention into action. However, there is an alternative channel to explain the actors' loyal behavior: they have internalized the governments' preference so well that they do not need precise government orders delivered through the control system. It is possible that the observed "loyal" sanctions might be caused by two channels, one top-down control mechanism where the economic actors take orders from the government, and one bottom-up mechanism where the actors voluntarily behave according to the internalized government's will. That said, the two channels are hardly separatable because they both generate the same results to be observed, especially when there is no direct evidence that the government gives direct orders to the economic actors. If future studies can manage to prove the government's intervention in these informal sanctions in any way, then they can precisely capture the working mechanism(s).

Thirdly, the arguments in the research could be better tested using units at the lower level. For example, city level trade data could interact with political connections at the city level. In the Chinese case, cities in China vary in their political connections because a small number of them have special status, like municipalities and the Special Economic Zones. Will these special cities have a different level of sanctions participations than ordinary cities? How will city connections interact with provincial connections? Future studies should address these questions.

Lastly, this dissertation does not directly measure connections' impact on the sanctions' effectiveness. In the U.S. case, the dissertation found that even with an overall approval rate of 80%, the exclusion decisions made in the Steel and Aluminum Tariffs are still significantly affected by various factors, which is likely to bias the effectiveness of the tariffs from the ideal equilibrium. But the dissertation failed to measure the effectiveness of the tariffs because the Trump administration did not make any policy requests to the target countries with the tariffs, so we are unable to tell if the economic pressure is making the target countries change their behavior in any way. Since formal models in existing studies did find that sanctions circumvention changes the equilibrium in sanctions and weakens the ultimate effectiveness, future studies may find a solid causal relationship between connections and sanctions effectiveness by combining formal models and observational data. Then the big question behind this dissertation; who participates in sanctions within sender countries, can truly be answered.

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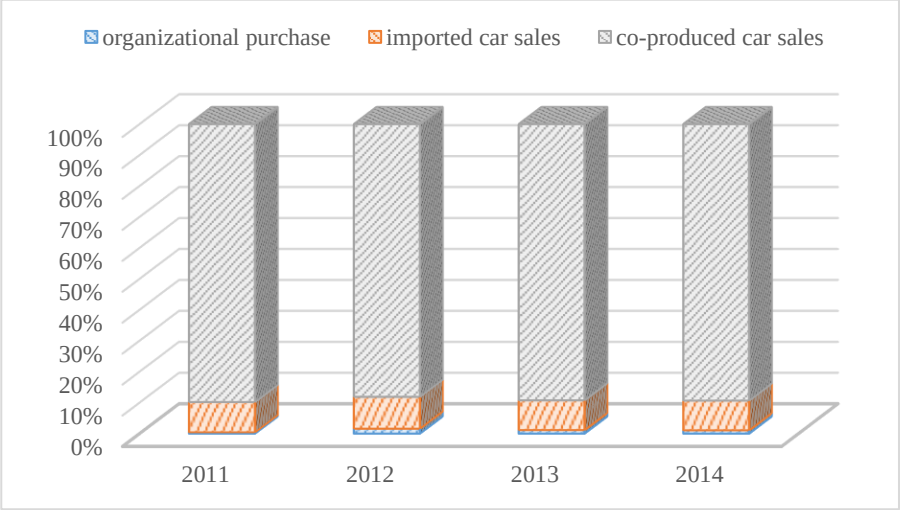
APPENDIX A

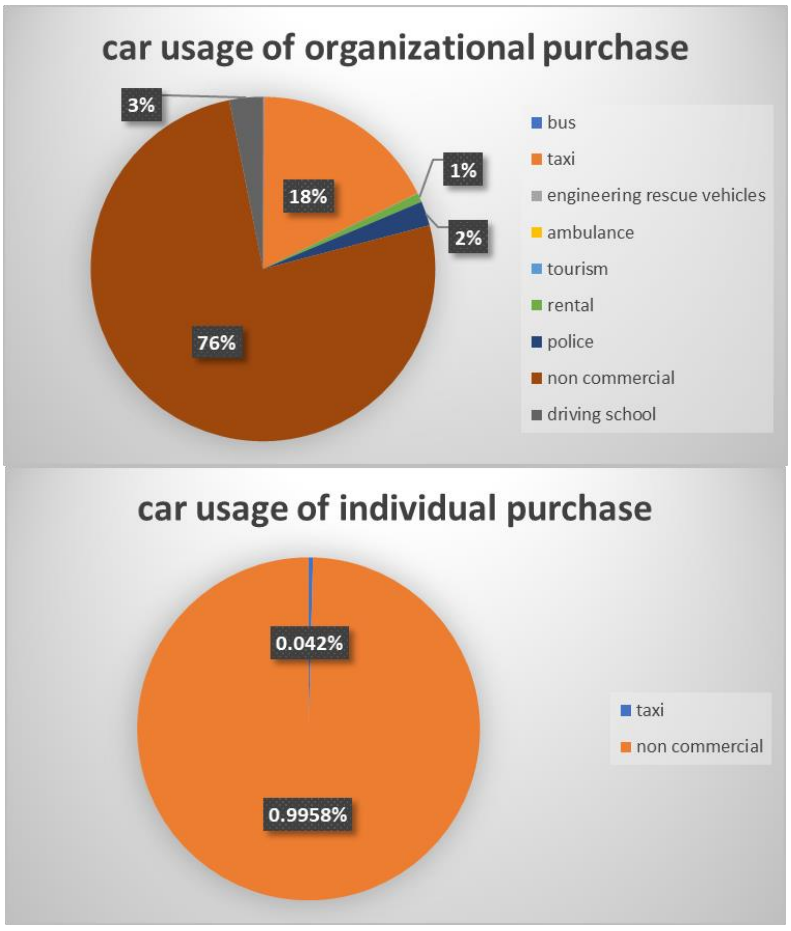
SUPPLEMENTARY MATERIALS FOR CHAPTER 2

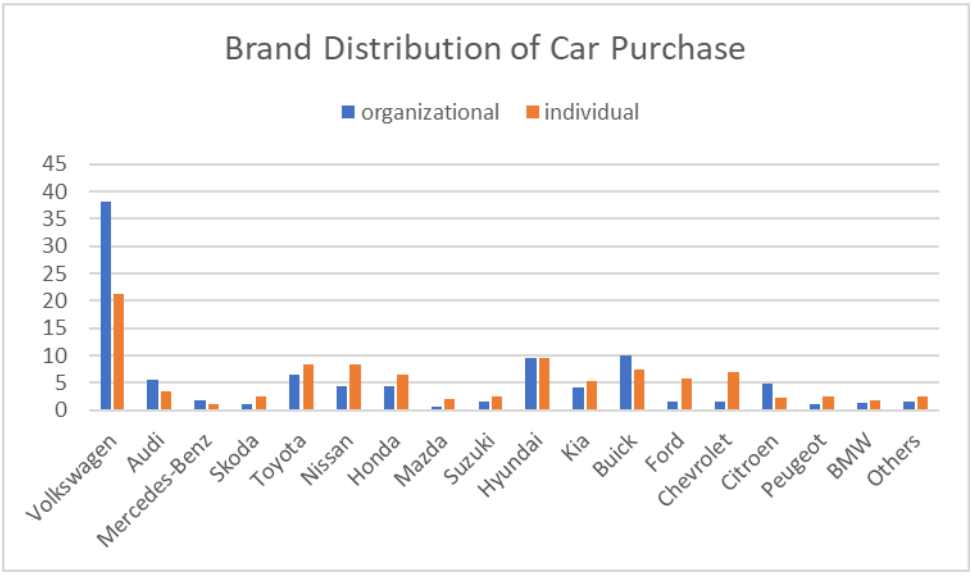
Figure A-1 Organizational purchase of imported cars and annual market share of imported cars



Notes: The figure shows the share of organizational purchased imported cars, and the share of imported cars in the whole Chinese market. The data covers the year from 2011 through 2014 to show the market structure for a longer time period.

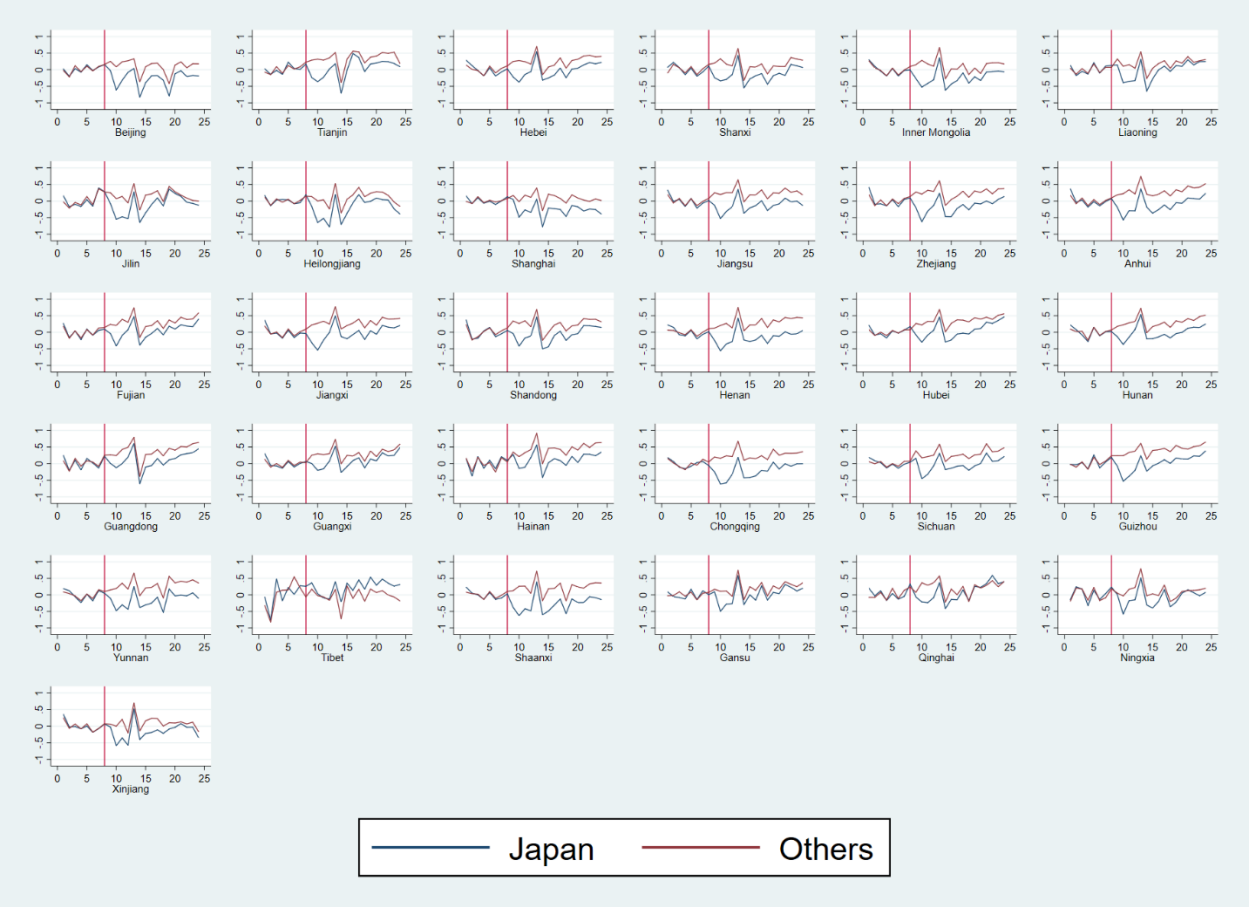
Figure A-2 Organizational and individual car purchase: usage and brands





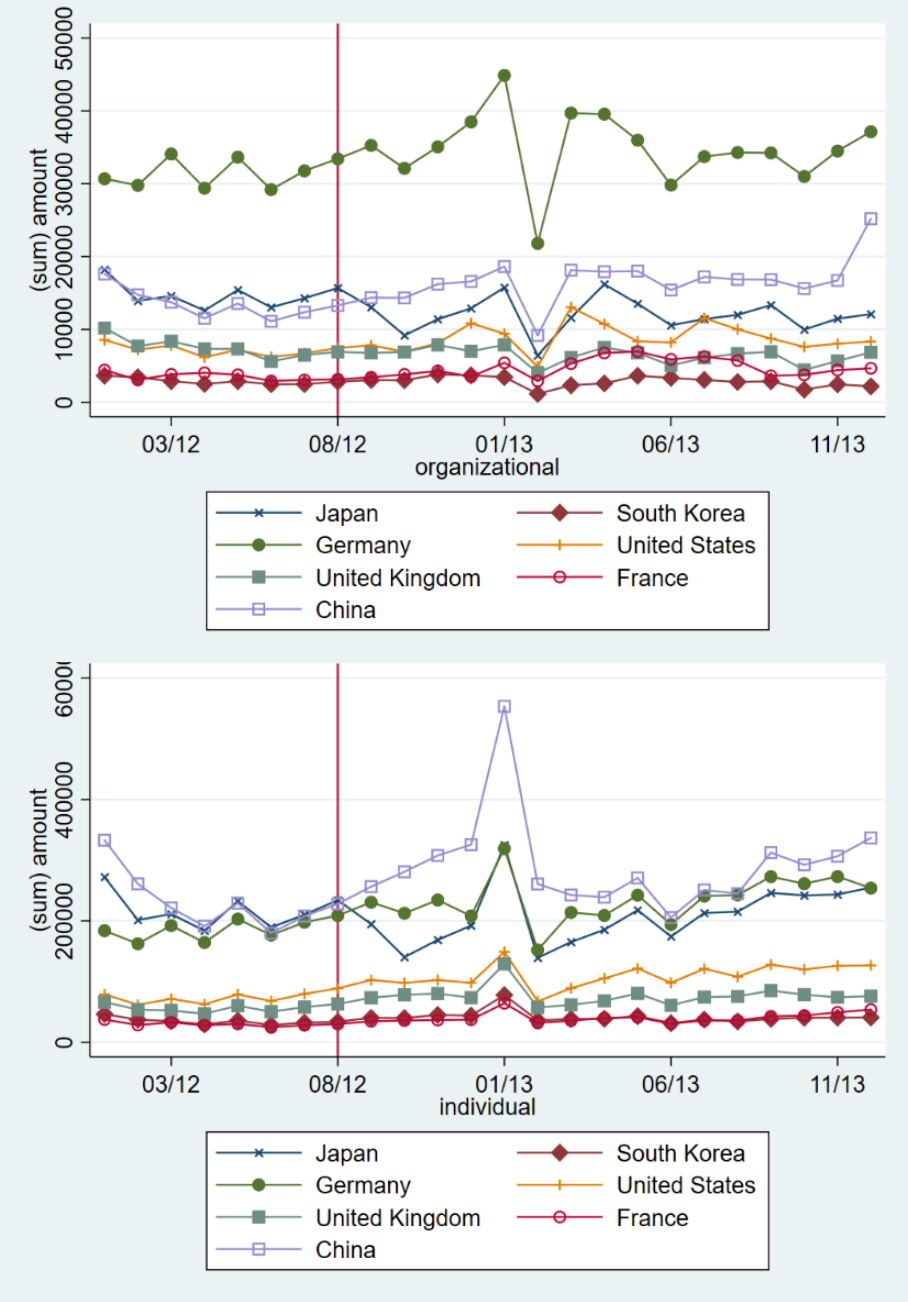
Notes: Graphs are made using the data of 2011-2014 in China. Purchase of domestic brands is not included because of the substitution effect. Brands listed here are the major brands of countries in the control group. There are more brands included in estimations. Relative to functional usage like bus or driver training, the dominant usage of organizationally purchased cars is 'non-commercial', which means the nonprofit carriage of passengers. This is also the usage of almost all individual-purchased cars. Likewise, the distributions of foreign car brands purchased by organizational and individual customers are similar. These similarities suggest the two customer groups share the same car market of passenger cars (9 seats or less) with commonly favored foreign brands.

Figure A-3 Car sales of Japanese brands vs. Other foreign brands by province



Notes: This figure visualizes the car sales of each province in China with data available. Notably, Tibet is the only region where Japanese car sales surpassed the sales of other foreign brands after August 2012.

Figure A-4 Car sales in 2012-2013 by origin country



Notes: Organizational and individual purchase of car brands from each country are shown in this figure. In addition to the foreign brands in the control group, Chinese brands are also included, which shows a substitution effect with an exceptional increase in car sales when other brands remain stable or see drops.

Table A-1 Difference-in-Difference Event Study: Baseline result

	Organizational	Individual
6 months pre protests	0.0651	0.299***
	(0.0771)	(0.0846)
5 months pre protests	0.0480	0.217**
	(0.0676)	(0.0820)
4 months pre protests	-0.00515	0.123*
	(0.0475)	(0.0634)
3 months pre protests	0.0290	0.0829
	(0.0437)	(0.0505)
2 months pre protests	-0.00415	0.0453
	(0.0356)	(0.0452)
Month of protests	0.0338	0.0143
	(0.0289)	(0.0228)
1 month post protests	0.0132	0.0135
	(0.0290)	(0.0358)
2 months post protests	-0.109*	-0.147**
	(0.0579)	(0.0585)

	Organizational	Individual
3 months post protests	-0.355***	-0.386***
	(0.0740)	(0.105)
4 months post protests	-0.283***	-0.294***
	(0.0648)	(0.105)
5 months post protests	-0.218**	-0.165
	(0.0984)	(0.112)
6 months post protests	-0.221***	-0.0423
	(0.0754)	(0.0956)
7 months post protests	-0.193	-0.0546
	(0.116)	(0.107)
8 months post protests	-0.271**	-0.127
	(0.127)	(0.0953)
9 months post protests	0.0201	-0.139
	(0.126)	(0.0988)
10 months post protests	-0.211**	-0.145
	(0.0821)	(0.0986)
11 months post protests	-0.199**	-0.167
	(0.0958)	(0.107)

	Organizational	Individual
12 months post protests	-0.239***	-0.213*
	(0.0781)	(0.119)
13 months post protests	-0.212**	-0.181
	(0.0870)	(0.132)
14 months post protests	-0.170**	-0.162
	(0.0795)	(0.117)
15 months post protests	-0.205*	-0.116
	(0.106)	(0.134)
16 months post protests	-0.244**	-0.137
	(0.0930)	(0.142)
17 months post protests	-0.276***	-0.178
	(0.0862)	(0.140)
Time FE	yes	yes
Brand FE	yes	yes
Province FE	yes	yes
Observations	107,795	172,025
R-squared	0.648	0.838

Notes: This table shows difference-in-difference estimates using the case-study strategy.

Organizational and individual purchase are reported, respectively. Month of protests is August 2012, and the base period, 1 month prior to protests, is omitted from the table of organizational purchase. Time (month) fixed effects, city fixed effects and brand fixed effects are controlled. Standard errors in parentheses are clustered at the brand level. *** significance at 1%, ** significance at 5%, * significance at 10%.

Table A-2 Difference-in-Difference Event Study: Robustness Check

	Organizational	Individual
6 months pre protests	0.0305	0.283***
	(0.0826)	(0.0839)
5 months pre protests	0.0123	0.202**
	(0.0667)	(0.0814)
4 months pre protests	-0.0385	0.108*
	(0.0512)	(0.0616)
3 months pre protests	-0.00758	0.0651
	(0.0536)	(0.0582)
2 months pre protests	-0.0404	0.0312
	(0.0358)	(0.0585)
1 month pre protests	-0.0355	-0.0168
	(0.0282)	(0.0222)
1 month post protests	-0.0215	-0.00113
	(0.0316)	(0.0196)
2 months post protests	-0.139***	-0.157***
	(0.0483)	(0.0439)

	Organizational	Individual
3 months post protests	-0.387***	-0.403***
	(0.0794)	(0.0930)
4 months post protests	-0.320***	-0.310***
	(0.0700)	(0.0912)
5 months post protests	-0.250***	-0.186*
	(0.0905)	(0.101)
6 months post protests	-0.255***	-0.0897
	(0.0664)	(0.0761)
7 months post protests	-0.225*	-0.0954
	(0.114)	(0.0935)
8 months post protests	-0.303**	-0.167**
	(0.117)	(0.0814)
9 months post protests	-0.0149	-0.181**
	(0.140)	(0.0862)
10 months post protests	-0.240**	-0.188**
	(0.0882)	(0.0849)
11 months post protests	-0.225**	-0.208**
	(0.0885)	(0.0966)

	Organizational	Individual
12 months post protests	-0.262***	-0.250**
	(0.0669)	(0.113)
13 months post protests	-0.244***	-0.223*
	(0.0818)	(0.128)
14 months post protests	-0.200**	-0.201*
	(0.0770)	(0.116)
Time FE	yes	yes
Brand FE	yes	yes
Province FE	yes	yes
Observations	95,221	151,112
R-squared	0.653	0.840

Notes: This table shows the robustness check of difference-in-difference estimates. August 2012, the month first seeing protests, but one month prior to the nationwide protests is omitted as the base period. Time (month) fixed effects, city fixed effects and brand fixed effects are controlled. Standard errors in parentheses are clustered at the brand level. *** significance at 1%, ** significance at 5%, * significance at 10%. Compared to the baseline results, the most noticeable difference is with individual purchase of Japanese cars in 2013,

which are significantly different from August 2012. In the baseline model, most of these months are insignificant. The reason for the difference is the sales increase from July to August 2012. These results further show that the duration of individual boycotts last as long as organizations.

Table A-3 Difference-in-Difference-in-Difference: Robustness Check

	organizational			individual		
	(1)	(2)	(3)	(4)	(5)	(6)
country×event	-0.486	-0.436	-0.388***	-0.177	-0.0721	-0.251**
	(0.406)	(0.497)	(0.0622)	(0.622)	(0.652)	(0.105)
country×event×connection	0.144	0.0908	0.0588*	-0.0833	-0.175	-0.0534*
	(0.185)	(0.235)	(0.0309)	(0.275)	(0.296)	(0.0304)
Time FE	Yes	Yes	Yes	Yes	Yes	Yes
City FE	No	Yes	Yes	No	Yes	Yes
Brand FE	No	No	Yes	No	No	Yes
Observations	55,164	55,164	55,164	83,331	83,331	83,331
R-squared	0.025	0.220	0.696	0.016	0.236	0.841

Notes: Standard errors in parentheses are clustered at the brand level. *** significance at 1%, ** significance at 5%, * significance at 10%. Consistent with the main results, all coefficients of the diff-in-diff term are negative and significant when brand fixed effects are included, suggesting all groups of customers buy significantly fewer Japanese branded cars after the 2012 event. Such a pattern is only enlarged by *connection*s when the

customers are organizations, with the significance level decreased from 0.05 to 0.1. Individual customers' DDD coefficient reaches significance in the robustness check, when *connection*s are measured using the 17th members. Yet the direction of impact is still negative, meaning *connection*s make the relative drop of Japanese branded car sales smaller for individual customers, consistent with the main results.

Table A-4 Determinants of anti-Japanese protests

	protest
Japanese car factory	-0.298
	(1.162)
Import dependence	-0.879
	(1.513)
Export dependence	-2.744
	(1.924)
Patriotic base	0.198
	(0.329)
Fully occupied	-0.620
	(0.445)
Casualty	0.192*
	(0.105)
Connection	0.226
	(0.285)
GDP growth rate	-0.0780
	(0.0810)
Employment rate	0.713
	(2.176)
University enrollment	31.39**
	(15.73)
Tenure governor	-0.0265
	(0.240)
Minority share	-0.0215*
	(0.0113)
Migration share	0.0876**
	(0.0382)
GPD pc (ln)	1.198**
	(0.505)
Population (ln)	1.298***
	(0.324)
Observations	280

Notes: I replicate the analysis of Wallace and Weiss (2015) on the determinants of the occurrence of anti-Japanese protests in Chinese cities, adding connections and the existence of local Japanese car factories in, so that the correlations across these mechanisms can be tested. Factors in the original study are put in as control variables, including the city's dependence on import and export with Japan, its GDP per capita (logged) and GDP growth rate, its population (logged), migration and minority share, and local university enrollment rate. And if the city has at least one national patriotic educational base, if it was fully occupied by Japan in the WWII, and if it has tenured governors. Standard errors in parentheses. *** $p<0.01$, ** $p<0.05$, * $p<0.1$

APPENDIX B

SUPPLEMENTARY MATERIAL FOR CHAPTER 3

Figure B-1 China's Import and Export with key trading partners

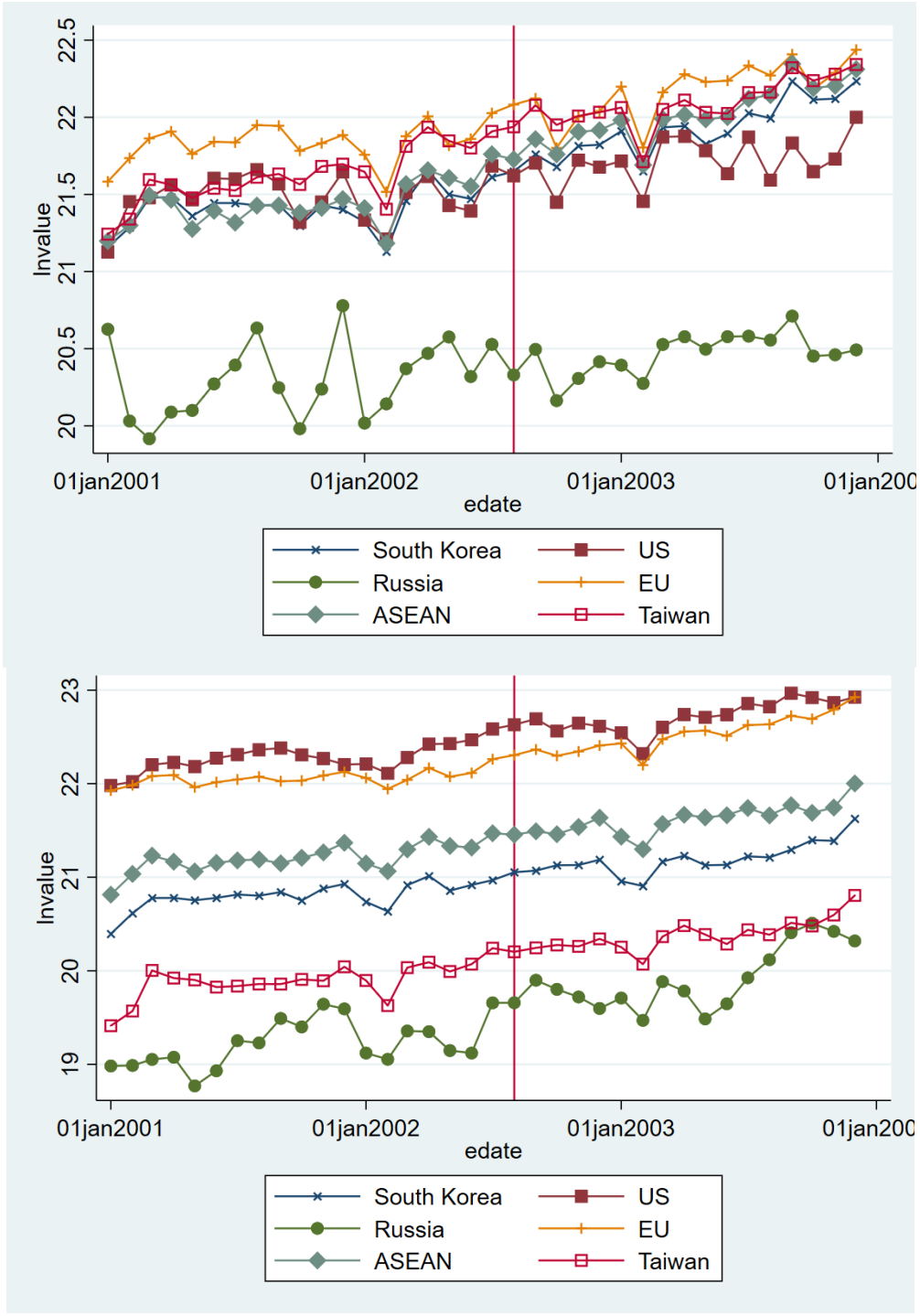


Figure B-2 Distribution: top trading product types of Taiwan and Control

Import		Export	
Taiwan	Control	Taiwan	Control
85	85	85	85
84	84	64	84
39	39	84	**62**
72	**90**	**94**	95
41	72	95	64

Note: Product types are ranked by the total trade value (in RMB). Except for the bolded parts, the top product types are identical.

Import		Export	
Taiwan	Control	Taiwan	Control
85	85	85	85
39	39	39	84
84	84	94	39
48	48	95	95
73	73	84	94

Note: Product types are ranked by the trade frequency. Except for ranking, the top product types are identical.

Percentage of processing trade	Import	Export
Taiwan	12%	25%
Control	22%	8%

Table B-1 Robustness Check: Ownership DDD using import data

	(1)
VARIABLES	lnvalue
Taiwan*event	-0.117***
	(0.0119)
Taiwan*event*SOE	-0.0264
	(0.0445)
Taiwan*event*private	-0.0515
	(0.0347)
Taiwan	0.0609***
	(0.0105)
Capital(ln)	0.164***
	(0.0141)
Labor(ln)	0.207***
	(0.0136)
Firm FE	Y
Time FE	Y
Observations	1,996,960
R-squared	0.421

Note: Here the SOEs and private companies are no longer significantly different from the

benchmark, foreign companies. But the negative coefficients show that SOEs and private companies still have larger trade reduction in importing from Taiwan after the event. The value of the coefficients are quite small (-0.03 vs -0.05). Robust standard errors in parentheses. *** $p<0.01$, ** $p<0.05$, * $p<0.1$

Table B-2 Robustness Check: Connection DDD main results and placebo test

	import		export
VARIABLES	SOE	private	SOE
Taiwan*event	-0.511***	-0.151	0.119
	(0.153)	(0.133)	(0.128)
Taiwan*event*Connection	0.287***	0.00651	0.0231
	(0.0826)	(0.0713)	(0.0682)
Taiwan	-0.0452	-0.971***	-4.961***
	(0.124)	(0.114)	(0.104)
Capital(ln)	-0.127**	0.0690	0.165***
	(0.0517)	(0.0497)	(0.0524)
Labor(ln)	0.191***	0.0314	0.260***
	(0.0734)	(0.0466)	(0.0603)
Firm FE	Y	Y	Y
Time FE	Y	Y	Y
Observations	106,419	199,831	163,928
R-squared	0.448	0.417	0.508

Note: Here the coefficients and significance are similar with the main results, as well as the placebo tests using the private companies' import and SOEs' export. It is shown that even after adjusting the ownership categorization and time window, SOEs are still the only type of companies whose import reduction is significantly caused by their regional connections. Robust standard errors in parentheses. *** $p<0.01$, ** $p<0.05$, * $p<0.1$

APPENDIX C

SUPPLEMENTARY MATERIAL FOR CHAPTER 4

Table C-1 Robustness Check: Results of the impact from the midterm election

VARIABLES	(1)	(2)	(3)	(4)
Swing	0.173***	0.725***		
	(0.0474)	(0.153)		
Election	-0.726***	-1.031***	-0.194	-1.034***
	(0.0490)	(0.224)	(0.125)	(0.225)
Swing*Election		0.285**		
		(0.127)		
SenateSwing			-3.990***	
			(0.498)	
SwingS				0.774***
				(0.154)
SwingH				2.652***
				(0.497)
SwingS*Election				0.225*
				(0.128)

VARIABLES	(1)	(2)	(3)	(4)
SwingH*Election				15.32***
				(0.482)
Foreign	0.0273	-0.0214	-0.252**	-0.0213
	(0.0374)	(0.0491)	(0.111)	(0.0492)
Origin	-0.396***	-0.523***	-0.685***	-0.524***
	(0.0299)	(0.0389)	(0.0776)	(0.0389)
Time	0.00319***		0.170***	
	(9.43e-05)		(0.00810)	
Previous Capital (ln)	-0.0367***	-0.00283	0.0384***	-0.00296
	(0.00496)	(0.00679)	(0.0123)	(0.00679)
State FE		Y		Y
Time FE		Y		Y
Observations	25,539	25,539	4,128	25,539

Note: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1

Table C-2 Robustness Check: Results of the impact from international relations and monetary investment

VARIABLES	(5)	(6)
Election	-1.059***	0.808*
	(0.0622)	(0.440)
Swing	0.0218	-0.451
	(0.0549)	(0.409)
Foreign		-1.123***
		(0.349)
Home	1.016***	
	(0.320)	
Origin	-0.458***	-1.786***
	(0.0497)	(0.355)
Previous Lobby (ln)		0.794***
		(0.210)
VARIABLES	(5)	(6)

Current Lobby (ln)		-0.927***
		(0.231)
Donation (ln)		-0.846***
		(0.277)
Previous Lobby * Donation (ln)		-0.106***
		(0.0292)
Current Lobby * Donation (ln)		0.143***
		(0.0387)
Time	0.00217***	0.0105***
	(0.000114)	(0.001363)
Previous Capital (ln)	-0.0450***	0.0421
	(0.00665)	(0.132)
Observations	18,141	1,125

Note: Robust standard errors in parentheses. *** p<0.01, ** p<0.05, * p<0.1