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# How Do Firms Respond to Political Tensions? The Heterogeneity of the Dalai Lama Effect on Trade

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# The Heterogeneity of the Dalai Lama Effect on Trade

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**Abstract:** Little is known about the firm-level dynamics behind trade responses to political tensions. This article reinvestigates variation in the travel pattern of the 14th Dalai Lama to study how political tensions affect trading decisions of Chinese importers. Using monthly trade data from China Customs covering imports of machinery and transport equipment from 173 countries over the 2000-2006 period, our empirical results show a significant reduction of imports in response to foreign government members' meetings with the Dalai Lama. In line with the idea that Chinese importers face a trade-off between bearing costs from suboptimal trade transactions and costs from not accommodating the government, this 'Dalai Lama Effect' operates at the intensive margin, i.e., via a decrease in the import volume per importer. Examining differential effects across types of firm ownership, we find that the observed effect is driven by state-owned enterprises (and foreign-invested firms) and not by private companies. Moreover, while direct importers temporarily reduce their trade with Dalai Lama-receiving countries, there is some evidence that trade intermediaries even benefit. Overall, we find the effects to be much more short-lived than previously thought.

**JEL classification**: F51, F14, P33

**Key words:** international trade, political tensions, extensive margin, intensive margin, state-owned enterprises, firm ownership, trade intermediation, China, Tibet, Dalai Lama

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## 1. INTRODUCTION

Politics and trade are intertwined. The linkages between bilateral political and commercial relations have received considerable attention in the literature (e.g., Pollins 1989a,b; Gowa and Mansfield 1993; Michaels and Zhi 2010; Berger et al. 2013; Mityakov et al. 2013; Che et al. 2015). While there are arguments as to why political relations should play a smaller role in an increasingly globalized world (Davis and Meunier 2011), the state of political relations appears to remain pivotal in commercial relationships with states that have a relatively high level of state control over economic activities (Davis et al. 2016). There is also growing empirical evidence demonstrating the salience of political consumerism, i.e., consumers changing their decisions as a result of worsening bilateral political relations (Antoniades and Clerides 2015; Heilman 2016; Fouka and Voth 2016; Pandya and Venkatesan 2016). Still, little is known about the firm-level dynamics driving trade reductions during times of heightened political tensions between trade partner countries.[1]

The travel pattern of the 14th Dalai Lama, a religious leader of Tibetan Buddhism and former political leader of Tibetans in exile, presents a particularly suitable case to study importers' response to non-militarized political tensions.[2] His meetings with government members and other foreign dignitaries across the globe are usually accompanied with diplomatic tensions between China and the countries receiving him. The Chinese government interprets receptions of the Dalai Lama by foreign dignitaries as interferences into its internal affairs. Before each visit of the Dalai Lama, China warns the prospective host countries that it will respond to such meetings with a deterioration of bilateral relations and often threatens to weaken trade ties. Fuchs and Klann (2013) study whether these threats are actually carried out: they find that during the 2002-2008 period (1) countries officially receiving the Dalai Lama are punished through a reduction of their exports to China, (2) such a 'Dalai Lama Effect' is primarily driven by the contraction in trade of machinery and transport equipment, (3) the effect is the most significant for meetings at the highest political level, and (4) the effect disappears in the second year after a meeting has taken place.[3] It appears that the Chinese government sanctions Dalai Lama-receiving countries in order to signal resolve to discourage future receptions of the Dalai Lama. However, these findings at the aggregated level appear as a black box: to date, *how* Chinese importing firms respond to such political tensions has not been examined.

This paper unwraps the trade aggregate by examining firm-level data from China's General Administration of Customs, which includes the monthly transactions of all Chinese importers from 173 partner countries (and territories) between January 2000 and December 2006.[4] In contrast to the

[1] See Fisman et al. (2014) for a notable exception.
[2] See Martin et al. (2008), Glick and Taylor (2010), and Gowa and Hicks (2013) as examples for scholarly work on the interrelationship between trade and war.
[3] See also Lee and Meunier (2015) for a similar finding on foreign direct investments.
[4] Data are at the 8-digit Harmonization System (HS) code level for each trading firm. Firm-level data on

yearly data used in Fuchs and Klann (2013), monthly trade data allow us to investigate whether importers respond differently during different stages before and after meetings at even shorter periods of time.[5] We use transaction-level trade data by China Customs rather than data sourced from UN Comtrade or the IMF Directory of Trade Statistics to be able to compute the extensive and intensive trade margins and to disaggregate trade by firm-ownership type and trade mode. Our study focuses on Chinese imports of machinery and transport equipment, the only sector identified by Fuchs and Klann (2013) as robustly suffering from a temporary reduction in trade in the aftermath of foreign dignitaries' official receptions of the Dalai Lama. A thorough investigation of the firm-level dynamics at play will improve our understanding of the politics-trade nexus.

We argue that Chinese importers face a trade-off between bearing the costs from sanctioning firms of Dalai Lama-receiving countries and those from *not* sanctioning such firms. On the one hand, it is obvious that compliant importers face significant costs. They need to substitute their imports with the same or similar products from a domestic company or a foreign supplier based in a country whose government has not recently received the Dalai Lama. Such substitutes are likely to be more costly and/or of inferior quality. Even if this is not the case, the establishment of a new trading relationship itself is costly. Alternatively, the firm may be forced to postpone its imports until the political tensions have been relieved. On the other hand, costs from *not* sanctioning firms from Dalai Lama-receiving countries can be imposed by the Chinese government. For example, the government can cut subsidies to non-compliant firms or disadvantage these firms when awarding government contracts. Moreover, career prospects within the government or the Communist party may incentivize a firm's leadership to carry out sanctions against firms of Dalai Lama-receiving countries. It is important to note that our line of reasoning does not require that the government formally announces measures against or actually imposes costs on not-sanctioning firms; it is sufficient that the firm's leadership believes that it may suffer disadvantages in the future and thus acts preemptively.[6]

This article analyzes whether importers' trade-off between the costs from sanctioning and those from not sanctioning Dalai Lama-receiving countries are reflected in import decisions along three dimensions. First, we relate to the literature on firm heterogeneity and trade (e.g., Bernard et al. 1995 Bernard and Jensen 1999; Melitz 2003; Chaney 2008; Helpman et al. 2008; Lawless 2010). Breaking down imports into the average import value of those Chinese firms that are active as importers

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Chinese trade from China Customs are increasingly used in the economics literature (e.g., Cai and Liu 2009; Ahn et al. 2011; Brandt et al. 2012; Manova and Zhang 2012; Tang and Zhang 2012; Feenstra et al. 2014; Bas and Strauss-Kahn 2015; Fan et al. 2015; Yu 2015).

[5] Du et al. (2014) highlight the importance of analyzing trade data at a higher frequency than the usually employed annual data.

[6] It is also worth adding that the same effect can occur if the firm's leadership believes that they will benefit from carrying out a retaliation promised by the government rather than being punished for not doing it. For example, the company's leadership could believe that it will be more likely receive positions in the government or that the firm will be favored through subsidies or government contracts.

(firm-level intensive margin) and the number of Chinese importers buying in the market (firm-level extensive margin), we expect to observe import reductions caused by Dalai Lama meetings mainly at the intensive margin of trade. Firms that want to accommodate the Chinese government should prefer to adjust imports at the intensive margin to avoid the additional fixed costs they would incur from setting up new trade relations. Establishing new trade relationships would incur search costs (e.g., Besedeš 2008) and these appear avoidable given the expected temporary nature of the tensions.

Second, we expect firms of different ownership types to respond differently to political tensions due to their varying degrees of political proximity to the government (Che 2002; Brandt and Li 2003; Li et al. 2008; Lu 2011; Qin 2012). Davis et al. (2016) find Chinese (and Indian) imports through state-owned enterprises (SOEs) to be more responsive to bilateral political relations compared to those through private firms. When China's administration threatens to sanction trading partners in response to official receptions of the Dalai Lama, we expect that these threats are more likely to be carried out by firms with strong ties to the government, which is the case for SOEs by their very definition, but also foreign-invested firms that are relatively more dependent on the Chinese government than private firms (Huang 2004).

Third, we follow the literature on the importance of different trade modes in China (e.g., Feenstra and Wei 2010). Trade intermediaries are found to show different trade behaviors when compared to direct traders (Ahn et al. 2011; Antràs and Costinot 2011; Lu et al. 2011; Head et al. 2014; Bernard et al. 2015). Following the logic of Ahn et al. (2011), political tensions, such as those caused by Dalai Lama meetings, should show up predominantly as decreases in imports by direct traders as they cannot cope with the additional costs of circumventing the import restrictions imposed by government action.[7] Trade intermediaries in turn should possess the know-how to circumvent such restrictions and may even benefit from firms replacing direct imports with indirect imports sourced through them. By analyzing the differences in direct importers' and trade intermediaries' responses to political tensions caused by the Dalai Lama meetings, we can learn how the firm-level response to political tensions depends on the mode of trade.

Our findings can be summarized as follows. First, the import-dampening effect of Dalai Lama meetings operates at the intensive margin (i.e., a decrease in the import value by importer). Second, we mainly find significant reductions in trade values for SOEs and—to a smaller extent—for foreign-invested firms, but no such relationship for private firms. Third, we find the 'Dalai Lama

[7] Examples for such government action in response to Dalai Lama meetings and similar tensions include border closures (see Reuters article at http://www.friendsoftibet.org/databank/hhdlgeneral/hhdlg36.html, accessed 25 September 2016), a tightening up of custom controls (e.g., Chen and Garcia 2016), or the freezing of economic diplomacy and diplomatic relations more broadly (see Fuchs forthcoming for several cases). In response to the Dalai Lama's 2016 visit to Mongolia, for example, China raised fees on shipments from its neighboring country and border waiting times went up (see Financial Times article at https://www.ft.com/content/8da50a38-b83a-11e6-ba85-95d1533d9a62, accessed 9 December 2016).

Effect' to be driven by reductions of trade through direct importers, while trade intermediaries—if anything—appear to benefit. We also find that the effect predominantly takes place in the second quarter after the meeting and then disappears. As such, the retaliation is much more short-lived than previously thought. These findings are thus in line with the idea that Chinese importers face a trade-off between bearing costs from suboptimal trade transactions and costs from not accommodating the government.

The remainder of the paper is organized as follows. Section 2 describes the estimation method and the data used to analyze how importing firms respond to political tensions. Sections 3-5 present the empirical results and discuss their implications. In Section 6, we provide several tests of robustness and account for the potential endogeneity of meetings with the Dalai Lama using an instrumental-variables strategy based on Fuchs and Klann (2013). Finally, Section 7 summarizes the findings and concludes the paper.

## 2. DATA AND METHOD

### *2.1 Dependent variable*

We obtain monthly trade data from China Customs. This dataset covers the monthly transactions of every Chinese trading firm by partner country together with information on the name of the firm, its ownership type, and trade mode. While it would be desirable to analyze a longer period of time, we are limited to the 2000-2006 period due to data availability. However, our time period shows a big overlap with the "Hu Jintao era" sample (2002-2008) in Fuchs and Klann (2013) for which a significant Dalai Lama effect is observed and should thus be suitable for our purposes. As outlined above, we focus on the imports of machinery and transport equipment as defined in the Standard International Trade Classification (SITC 7).[8]

In order to study the effect of official receptions of the Dalai Lama on the extensive and intensive margins of China's imports from other countries, we compute monthly values of these two margins at the country level. Specifically, the extensive margin is represented by the number of Chinese firms $N_{it}$ importing from partner country $i$ at time $t$. The intensive margin is represented by the average value of imports per importer $\overline{x_{it}} = \frac{X_{it}}{N_{it}}$ from partner country $i$ at time $t$. Therefore, the overall value of imports $X_{it}$ is the product of these two margins, i.e., $X_{it} = \overline{x_{it}} \cdot N_{it}$.

[8] Since data from China Customs follow the Harmonization System (HS) Code, we use a correspondence table to match trade values to SITC 7 (available at http://unstats.un.org/unsd/cr/registry/regot.asp, last accessed 10 June 2015). Our monthly import data covers many country-months for which no bilateral imports of machinery and transport equipment are reported. Missing values could either reflect missing information or zero trade values. We show results when treating these values as missing values and also when replacing these missing values with 0 and adding 1 before taking logarithms to keep these observations in our sample.

Japan, the United States and South Korea are the most important sources in terms of the total import value of machinery and transport equipment. Figure 1 focuses on the intensive margin and plots a world map illustrating the annual average import value of machinery and transport equipment per Chinese importer by partner country over the 2000-2006 period. Russia, the Philippines, and Costa Rica show the largest average Chinese import values in trade of machinery and transport equipment. Figure 2 displays the corresponding map for the extensive margin. The largest numbers of Chinese firms import machinery and transport equipment from Japan, the United States, and Germany.

China Customs collects data on importers' ownership type which allows us to compute both margins of imports separately for state-owned, foreign-invested and private companies.[9] We further construct both margins of imports by trade mode, splitting firms into trade intermediaries and direct traders. Specifically, we follow Ahn et al. (2011) and identify trade intermediaries as those firms whose names contain Chinese characters with the English-equivalent meaning of "importer," "exporter," and/or "trading." Firms typically still follow a pre-reform naming convention when central planners favored descriptive company names (Ahn et al. 2011). By applying this procedure, 14.7 percent of firms can be identified as trade intermediaries. Analogously, we define direct traders as firms whose names do *not* contain Chinese characters with the English-equivalent meaning of "importer," "exporter," and/or "trading."

To illustrate our coding of firms, Table 1 presents the 20 largest Chinese importers of machinery and transport equipment along with their ownership type and major trade mode designation. We also report the most important importing source country by firm. Appendix A1 reports the share of each ownership type in China's imports of machinery and transport equipment, while Appendix A2 provides a breakdown by trade mode.

### *2.2 Variable of interest*

Our variable of interest is as a binary variable $dalai_{it}$ that takes a value of one if a reception of the Dalai Lama takes place in country $i$ at time $t$. Fuchs and Klann (2013) code foreign dignitaries' meetings with the Dalai Lama by political rank of the dignitary met on an annual basis, using

[9] A breakdown by firm ownership type is directly available in the China Customs data. According to the official definition reported in the China Statistical Bureau (available at http://www.stats.gov.cn/tjsj/tjbz/200610/t20061018_8657.html, last accessed 10 June 2015), SOEs include domestic SOEs (code: 110), state-owned joint venture enterprises (141), and state-owned and collective joint venture enterprises (143), but exclude state-owned limited corporations (150). Foreign-invested enterprises (FIEs) include foreign-invested joint-stock corporations (310), foreign-invested joint venture enterprises (320), fully FIEs (330), foreign-invested limited corporations (340), Hong Kong/Macao/Taiwan (H/M/T) joint-stock corporations (210), H/M/T joint venture enterprises (220), fully H/M/T-invested enterprises (230), and H/M/T-invested limited corporations (240). Private firms (170) include fully private enterprises (171), private partnership (172), private limited corporations (173), and private-invested limited corporations (174).

information published by the Office of His Holiness the 14th Dalai Lama as the primary source.[10] Extending their database, we code the event of a dignitary's meeting with the Dalai Lama on a monthly basis rather than on a yearly basis. Following their approach, we take meetings with government members (including presidents and prime ministers) as our baseline definition. Later, we narrow the definition of Dalai Lama meetings to cover presidents and prime ministers only, then broaden the definition to include encounters with other "national officials," i.e., including speakers of parliament, and finally analyze meetings with all dignitaries listed by the Office of the Dalai Lama, including ex-presidents, regional leaders, ambassadors, and scientists.

Table 2 summarizes the resulting travel pattern of the Dalai Lama by receiving country during the 2000-2006 period and Figure 3 presents the corresponding world map. The table also lists the number of visits the Dalai Lama has paid to each country as well as the total length of his stay. As can be seen, the country whose government members have most often received the Tibetan leader during the time period under examination is India (7 times), followed by the United States (5), the Czech Republic, and Italy (both 3). The most important travel destinations of the Dalai Lama have been India (69 visits, corresponding to a total of 593 days),[11] followed by Japan (13, 57), the United States (10, 136), and Germany (10, 40).

### *2.3 Regression model*

In order to estimate the effect of receptions of the Dalai Lama on Chinese imports, we take the augmented gravity model of international trade as our starting point. The gravity model is considered the workhorse for econometric analyses of trade flows. It assumes that bilateral trade is proportional to the product of the trading partners' economic masses, proxied by GDP, and inversely proportional to the geographic distance between them. In order to control for unobserved country heterogeneity, we make use of partner-country fixed effects. The effect of bilateral distance and other time-invariant factors, such as being landlocked, being an island state, sharing a border and sharing an official language with the partner country, are thus captured by these fixed effects. Moreover, we control for time-specific factors by including binary variables for each time period *t*. We run regressions for total imports and the two margins of trade separately. Since we estimate our model in logarithms, the sum of the logged margins equals the log of the aggregate bilateral imports. We run the following three econometric models:

$$ln(X_{it}) = \sum_{s=1}^{4} \beta_s dalai(Q-s)_{it} + \gamma\, ln(GDP_{it}) + \delta\, ln(pop_{it}) + \vartheta_t + \mu_i + \tau_i t + \varepsilon_{it} \qquad (1)$$

[10] Raw data are available at http://www.dalailama.com/biography/dignitaries-met (last accessed: 1 June 2015).

[11] This value includes only visits outside Dharamsala, the center of the Tibetan community in exile, which is in Northern India. We exclude India from our econometric analysis below as India may constitute an outlier as the Dalai Lama has lived in the country since going into exile in 1959.

$$ln(N_{it}) = \sum_{s=1}^{4} \beta_s dalai(Q-s)_{it} + \gamma\, ln(GDP_{it}) + \delta\, ln(pop_{it}) + \vartheta_t + \mu_i + \tau_i t + \varepsilon_{it} \quad (2)$$

$$ln(\overline{x_{it}}) = \sum_{s=1}^{4} \beta_s dalai(Q-s)_{it} + \gamma ln(GDP_{it}) + \delta ln(pop_{it}) + \vartheta_t + \mu_i + \tau_i t + \varepsilon_{it} \quad (3)$$

where $GDP_{it}$ and $pop_{it}$ indicate the partner country's GDP and population size, respectively; $\gamma_t$ and $\delta_i$ are time- and country-fixed effects; $\tau_i t$ are country-specific linear time trends; and $\varepsilon_{it}$ is a stochastic error.[12] We cluster standard errors at the country level.

Our variables of interest $dalai(Q-s)_{it}$ are a series of binary variables that take a value of one if the Dalai Lama was received by a government member in the partner country in the previous four quarters, $Q-4, \ldots, Q-1$, respectively.[13] Appendix A3 provides summary statistics for variables used in our analysis.

In order to investigate the role of firm ownership type, we also estimate Equations (1) and (2) separately for state-owned, privately-owned, and foreign-invested companies. Finally, we show separate results for direct traders and trade intermediaries in order to analyze differences across trade modes.

## 3. MAIN ANALYSIS: MARGINS OF TRADE

Table 3 presents our results when estimating Equations (1) to (3) to test whether official receptions of the Dalai Lama affect the extensive and intensive margin of Chinese imports from Dalai Lama-receiving countries. Starting with our variables of interest, we find a highly significant reduction in imports to China from Dalai Lama-receiving countries in the second quarter after the encounter (column 1). Analyzing the two margins of trade separately, we do not find the extensive margin of Chinese imports to be affected by Dalai Lama meetings (column 2). The corresponding coefficients on all Dalai Lama dummies do not reach statistical significance at conventional levels. The picture looks different for the intensive margin as shown in column 3. The coefficient on the binary variable that takes a value of one if there has been a Dalai Lama meeting two quarters earlier (*Dalai Lama meeting (Q-2)*) is negative as expected and statistically significant at the one-percent level. The Dalai Lama Effect appears to be limited to this quarter as the coefficients on Dalai Lama dummies reflecting

[12] Since GDP and population data are not available at a monthly or quarterly frequency for developing countries, we use annual values for all countries for consistency. Data have been obtained from the CEPII Gravity dataset (Head et al. 2010), which mainly draws on the World Bank's World Development Indicators.

[13] More precisely, we compute the following binary variables: $dalai(Q-1)_{it}$ takes a value of 1 in the case of a Dalai Lama meeting having taken place in the previous month, two months ago, or three months ago (i.e., in the quarter after the meeting), $dalai(Q-2)_{it}$ takes a value of 1 in the case of a Dalai Lama meeting having taken place four months ago, five months ago, or six months ago (i.e., in the 2nd quarter after the meeting), $dalai(Q-3)_{it}$ takes a value of 1 in the case of a Dalai Lama meeting having taken place seven months ago, eight months ago, or nine months ago (i.e., in the 3rd quarter after the meeting), and $dalai(Q-4)_{it}$ takes a value of 1 in the case of a Dalai Lama meeting having taken place ten months ago, eleven months ago, or twelve months ago (i.e., in the 4th quarter after the meeting).

earlier or later meetings do not reach statistical significance at conventional levels. This is in line with evidence in Fuchs and Klann (2013) according to which the Dalai Lama Effect is only temporary in nature, but the time window for trade retaliation appears to be narrower than suggested by their analysis based on annual data.

Interpreting the quantitative size of the effect, the monthly import value of machinery and transport equipment per firm is reduced by 30.0 percent on average during the second quarter following a meeting.[14] Incorporating the coefficients for the other three dummies indicating a Dalai Lama meeting over the last year, we obtain an annual reduction of per-firm import values of 10.8 percent. This is a more reasonable estimate of the annual Dalai Lama Effect in terms of machinery and transport equipment than the 45.4 percent suggested in the results of Fuchs and Klann (2013) based on annual data. Using monthly data, we thus find the effects of political shocks on trade to be smaller and more short-lived compared to those found using annual data. This supports Du et al. (2014) who point out that the use of low-frequency data introduces an aggregation bias since the cycle of such moderate political shocks is much shorter.

Our findings are very similar when we treat missing values as zero trade flows and add a value of 1 to our dependent variable before taking logarithms (see columns 4-6 for comparison). The number of observations roughly doubles to 13,893 and the size of the Dalai Lama Effect at the intensive margin, albeit now only statistically significant at the ten-percent level, increases: the monthly import value of machinery and transport equipment per firm is reduced by 31.8 percent on average during the second quarter following a meeting (column 6).

In columns 7-9, we also add binary variables indicating whether a Dalai Lama meeting will take place in the upcoming two quarters, Q+1 and Q+2, to investigate anticipation effects of official receptions of the Dalai Lama, which mainly serve as a placebo test.[15] In line with expectations, Dalai Lama meetings that will take place in the future do not appear to harm trade as shown by the insignificant coefficients on *Dalai Lama meeting (Q+1)* and *Dalai Lama meeting (Q+2)*. This is expected as meetings are usually only announced at very short notice (Fuchs and Klann 2013).

Turning to the interpretation of the results for the control variables, *GDP* and *population* do not reach statistical significance at conventional levels in most regressions, with two exceptions each. These weak results for these control variables are not surprising in a sample of seven years since most of the variation in these variables should already be captured by the country-fixed effects and the country-specific linear time trend.

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[14] $exp(-.356)-1$.

[15] The variable $dalai(Q+2)_{it}$ takes a value of 1 in the case that a Dalai Lama meeting will occur five months later, four months later, or three months later (i.e., if the meeting is to occur in the next quarter); $dalai(Q+1)_{it}$ takes a value of 1 in the case that a Dalai Lama meeting will take place two months later, one month later, or in the current month (i.e., if the meeting is to occur in the current quarter).

Summing up, our empirical analysis suggests that the trade-reducing impact of Dalai Lama meetings operates at the intensive margin (and not at the extensive margin) and that this effect is visible only in the second quarter after the encounter. The different findings for the two margins of trade suggests that firms follow a strategy that recognizes government interests while protecting their own; trade volume is reduced but the resulting adverse effects are mitigated at the firm level. By adjusting their imports at the intensive margin, firms avoid the fixed costs they would incur from setting up new trade relations, while at the same time accommodating the government to a certain extent. Establishing new trade relationships would cause search costs (e.g., Besedeš 2008) and these appear avoidable given the expected temporary nature of the tensions.

## 4. THE ROLE OF FIRM OWNERSHIP TYPE

Differences in the Chinese government's treatment of firms across ownership types could affect importers' reactions to political tensions with foreign governments. According to Huang (2004), the Chinese government follows a political pecking order. It attaches the highest priority to SOEs, followed by foreign-invested firms, while domestic wholly private firms take the last position in this ranking. This describes the government's treatment of firms depending on their ownership type, which is played out in its economic policies, regulatory practices, and financial support.

With respect to SOEs, Davis et al. (2016) identify three pathways that make these firms more likely to politicize trading decisions than private companies. First, they invoke SOEs' service to their given objective of advancing the goals of the state: profit considerations are of secondary importance. Second, the linkages between the top management of SOEs and the political leadership may lead to a mingling of firm and government interests. This becomes evident as SOEs entertain strong political connections with the government: all SOE managers are nominated by the government. Third, Davis et al. argue that the financial dependence of SOEs on government subsidies make SOEs more obedient to political demands from the government. Several empirical studies present evidence of a bias in bank lending in favor of SOEs (Wei and Wang 1997; Brandt and Li 2003; Lu et al. 2012; Jarreau and Poncet 2014). Similarly, foreign-invested firms in China usually obtain preferential treatment and subsidies, for example, in taxation (e.g., Cheng and Kwan 2000; Huang and Tang 2011). Qin (2012) highlights that it is not only SOEs but also foreign-invested firms that are equipped with priority access to subsidies. The share of central-government subsidies directed to foreign enterprises, for example, increased from less than 15 percent in 2000 to more than 25 percent by 2006 (Qin 2012).

Such dependencies should make firms of different ownership types behave differently according to their political closeness to the government. In line with this reasoning, we argue that firms' responses to political tensions, such as those caused by Dalai Lama meetings, are a function of their closeness to the government. Specifically, we expect SOEs to most closely follow the government's

interests as they are most dependent on the government. SOEs should exhibit the strongest reaction to tensions; they keep pace with government's demands or even proactively take retaliations without explicit government demands. On the contrary, we expect private companies to display the least compliance with government interests during political tensions due to their comparatively weak political connections and relative lack of dependence on the government.[16] Finally, the behavior of foreign-invested firms should be in-between the behavior of private and state-owned companies as their dependence on the government is between the two, i.e., they should reduce their imports by more than private firms but less than SOEs.

Since the baseline results in Table 3 only showed a significant trade reduction at the intensive margin, we focus on Equation 3 in the following.[17] Table 4 reports results at the intensive margin by ownership type. Our results confirm the expectation that political tensions matter more for trade with SOEs (columns 1 and 4) than for trade with private firms (columns 2 and 5). More precisely, the coefficient of the binary variable indicating a Dalai Lama meeting two quarters ago is negative and statistically significant at least at the five-percent level when analyzing imports by SOEs, but does not reach statistical significance for private companies. There is also some evidence that foreign-invested firms enact trade retaliations after Dalai Lama meetings (column 3), but this finding is not robust to the treatment of missing trade flows as zero trade (column 6). Interpreting the quantitative size of the effects, the import value per firm is reduced by 24.9 percent for SOEs (column 1) and 19.0 percent for foreign-invested firms (column 3) during the second quarter following the reception.

The finding that China's threat to sanction countries for receiving the Dalai Lama are subsequently carried out by SOEs thus appears to reflect their close political links with the government (see also Davis et al. 2016). Indeed this variability in commitment to enacting trade sanctions at the behest of the Chinese government and the concomitant variability in dependence on the Chinese government indicates that political considerations are what drives this behavior. Adopting a proverb on the Roman Empire, one could summarize this result for foreign companies as follows: when in China, do as the Chinese do.

[16] Our argument is a relative one. Of course, Chinese private enterprises are also dependent on the government—but to a smaller extent. Unfortunately, we are not able to separate the trade response of private companies led by members of the Communist Party of China from those companies led by party outsiders. Research has found membership in the Communist party to be beneficial for the performance of private firms (e.g., Li et al. 2008).

[17] The interested reader will find the corresponding regression tables for total trade (Equation 1) in Appendix A4 and for the extensive margin (Equation 2) in Appendix A5. Note that the Dalai Lama Effect becomes negative and statistically significant at the five-percent level for private firms in the second and third quarter after the meeting according to column 5 of Appendix A5. However, this finding is not robust to changes in the treatment of missing values in our dependent variable (see column 2).

## 5. THE ROLE OF TRADE MODES

We also expect differences in countries' responsiveness to political tensions between direct importers and pure traders. In the framework of Ahn et al. (2011), firms choose whether to trade directly or through trade intermediaries. If they opt for the latter, they only incur a global fixed costs rather than fixed costs specific to each trade partner. As a result, trade intermediaries operate in markets that are relatively difficult to penetrate. Anecdotal evidence suggests that countries face formal or informal restrictions on their exports in the aftermath of their dignitaries' meetings with the Dalai Lama. From the perspective of the importing firm, such tensions may lead to an increase in both fixed and variable costs of importing. The associated fixed costs may include costs of information gathering on how to circumvent these restrictions (see also Feenstra and Hanson 2004 for a similar logic), and costs for additional import documents required by the customs authorities; variable costs may cover higher financial burden through worse access to trade credit and bribes to process imports despite restrictions at customs. In the logic of Ahn et al. (2011), firms facing these additional costs are less likely to import directly and more likely to go through intermediaries. Consequently, political tensions, such as those caused by Dalai Lama meetings, should show up predominantly in declining imports by direct traders as they cannot cope with the additional costs to circumvent the import restrictions imposed by government action. Trade intermediaries in turn possess more experience in circumventing such restrictions. As such, they may benefit from firms replacing their direct imports with the indirect imports they supply. This substitution of trade modes may even lead to an inverse Dalai Lama Effect, i.e., increased trade flows through intermediaries after Dalai Lama meetings. Summing up, we expect to observe a detrimental effect of meetings with the Dalai Lama on Chinese imports via direct traders and stable or growing imports via trade intermediaries.

Table 5 reports the results for the intensive margin of Chinese imports by trade mode. We find that direct importers drive the trade-value-deteriorating Dalai Lama Effect, while we do not find a statistically significant effect for trade intermediaries. The coefficient on the binary variable indicating an official reception of the Dalai Lama two quarters earlier is statistically significant at conventional levels for direct importers (columns 1 and 3). Quantifying the effects, each month in the second quarter after the Dalai Lama meeting, direct importers decrease the monthly import value per firm by around 22.0 percent or 27.3 percent, respectively. Moreover, we find some evidence indicating trade deviation from direct imports to trade intermediaries. The coefficient on *Dalai Lama meeting (Q-3)* is positive and statistically significant at the ten-percent level in column 2, which is in line with the expected inverse Dalai Lama Effect on trade intermediaries. These findings are in line with the intuition in Ahn et al. (2011), who argue that trade intermediaries handle markets that are more difficult to access. The increase in country-specific trade costs caused by formal or informal trade restrictions imposed after Dalai Lama meetings makes it less likely that less productive firms can cover the costs of direct importing and thus cease or decrease importing or operate through

intermediaries instead.

For completeness, we also examine again the extensive margin of trade. In line with our results in Table 3, we do not find significant effects of Dalai Lama meetings on the extensive margin of trade when we split import transactions by trade mode, while the results for total trade largely reflect our findings at the intensive margin (see Appendices A6 and A7 for full regression results).

## 6. ROBUSTNESS CHECKS

We take several steps to test the robustness of our baseline results (reprinted in column 1 of Table 6 for comparison). First, when adding India to our analysis, we still find a statistically significant and negative coefficient on *Dalai Lama meeting (Q-2)* (see column 2). The coefficient on the binary variable indicating a Dalai Lama meeting two quarters earlier is slightly smaller and only reaches statistical significance at the five-percent level. We had excluded India from our main regressions as it has been the host country of the Dalai Lama since he went into exile in 1959 and thus a likely outlier.

Second, following Fuchs and Klann (2013), we also provide results for a sample restricted to the more homogenous group of European countries (excluding the Commonwealth of Independent States), which accounts for more than half of all Dalai Lama receptions (column 3). We again find evidence for a Dalai Lama Effect in the second quarter after the meeting. Chinese per-firm imports from Europe decrease by 20.1 percent per month in the second quarter following the encounter, which is smaller than the benchmark results of 30.0 percent.[18]

Third, we restrict the sample to the 2002-2006 period, i.e., we exclude the years prior to which Hu Jintao assumed the leadership of China. By doing so, we account for the fact that Fuchs and Klann (2013) did not observe a significant Dalai Lama Effect during the Jiang Zemin presidency. Moreover, it allows us to disregard the years prior to China's WTO accession which may have altered the trade responsiveness to political tensions. As can be seen from column 4 of Table 6, our results are similar when we reduce the sample as described.

Fourth, we employ a Two-Stage-Least-Squares (2SLS) model to account for the potential endogeneity of Dalai Lama meetings using the same instruments as Fuchs and Klann (2013). An official reception of the Dalai Lama is not randomly assigned and countries receiving the Dalai Lama may intentionally choose a time based on the state of their trade ties with China. We use a binary variable indicating a visit of the Dalai Lama to a partner country, the number of days that the Tibetan leader spends in a partner country, and the number of Tibet Support Groups (TSG) in a partner country

[18] Note, however, that the Dalai Lama variable does not reach statistical significance at conventional levels in the European sample when we treat missing values as zeros, i.e., use $ln(\overline{x_{it}} + 1)$ as the dependent variable (results available upon request).

as instruments: the likelihood that a government member meets the Dalai Lama is expected to be larger when the Dalai Lama is present in the country, the longer his visit lasts as this increases the amount of media attention he receives, and the more Tibet Support Groups that are active in the partner country and this increases their ability to lobby for a Dalai Lama meeting.[19]

Column 5 of Table 6 presents the results of our 2SLS approach. The Angrist–Pischke test of excluded instruments underlines the relevance of the instruments selected in the first stage. The corresponding F statistic is above the critical rule of thumb value of 10 (Staiger and Stock 1997). Tests for overidentification (Hansen J) and underidentification (Kleinbergen Paap LM test) also provide evidence in favor of our instruments. The coefficient on *Dalai Lama meeting (Q-2)* is negative as expected but fails to reach statistical significance at the ten-percent level (p-value: 0.160). However, this is not worrisome for our conclusions as these should be drawn from the results of the most efficient estimators. The test for endogeneity does not reject the null hypothesis of exogeneity of the Dalai Lama dummies. Note that 2SLS is less efficient if the variable of interest is not endogenous (Wooldridge 2002). Since this is the case with the Dalai Lama dummy, we treat the OLS fixed-effects results reported above as our preferred specification.

Fifth, we account for the different ranks of dignitaries who meet with the Dalai Lama. To this end, Table 7 shows the results from regressions where we include four binary variables covering an increasingly broader group of dignitaries meeting with the Tibetan leader (columns 1-4). Furthermore, we include a binary variable that takes a value of 1 if the Dalai Lama traveled to the country regardless of whether he was received by any dignitary (column 5). In line with Fuchs and Klann (2013), we find that trade deteriorations caused by Dalai Lama meetings are associated with the rank of the dignitary that receives the Tibetan leader: the higher the dignitary's level, the larger the effect of Dalai Lama meetings on the intensive margin of Chinese imports in the second quarter following the meeting. We find that meetings between the Dalai Lama and political leaders, defined as the heads of state or government, have the greatest negative effect on the intensive margin of Chinese imports. Dalai Lama meetings at the highest political level reduce the import value per importer by 33.2 percent each month during the second quarter following the meeting. Smaller, but still significant, effects are found when the definition of our variable of interest is extended to include government members (our baseline specification), national officials, and all dignitaries listed by the Office of the Dalai Lama respectively. The coefficient on the binary variable indicating the mere presence of the Dalai Lama in the country—irrespective of whether he was received by a dignitary—is close to zero and does not reach statistical significance at conventional levels.

Finally, we rerun the analysis with monthly rather than quarterly indicators of Dalai Lama meetings, which had been previously used to reduce clutter. The results are in line with our previous

[19] See Fuchs and Klann (2013) for a detailed discussion of instrument relevance and excludability.

finding of a temporally limited effect of Dalai Lama meetings on imports to China at the intensive margins of trade. Specifically, we find significant reductions in average trade values three, four, and six months after the encounter but no statistically significant effects thereafter (see Appendix A8 for details). The results thus largely reflect what we have found using quarterly Dalai Lama dummies.

## 7. CONCLUSIONS

How do firms respond to political tensions? This article used the travel pattern of the Dalai Lama to anatomize the effect of political tensions on import decisions by investigating the underlying mechanisms at the firm level. This novel application of firm-level trade data from China Customs sheds light on the parties responsible for carrying out trade sanctions threatened by the Chinese government against non-compliant countries. Our empirical results rely on fixed-effects regressions using monthly transaction data of Chinese importing firms trading with 173 partner countries over the 2000-2006 period. Our results confirm a reduction of imports of machinery and transportation equipment into China by 10.8 percent on average within the year following a reception of the Dalai Lama by a government member.

Our contribution to the literature is fourfold. First, using monthly trade information, we enhanced the understanding of the timing of importer response to non-militarized political tensions. We found that the temporary reduction of Chinese imports takes place mainly during the second quarter following a country's government member's official reception of the Dalai Lama. Second, we analyzed whether the trade-dampening effect works through a decrease in the number of importers (*extensive margin*) or via a fall in the trade volume per importer (*intensive margin*). Our results showed that the import-dampening effect operates predominantly at the intensive margin, suggesting that firms avoid disrupting their trade relations but want to accommodate the Chinese government to a certain extent. Third, we investigated differences between state-owned, private, and foreign-invested firms. Our results showed that the effect operates mainly through SOEs and to a lesser extent through foreign-invested firms, which are both more dependent on the government than private entities. Fourth, we examined differences between direct importers and trade intermediaries. While import decisions of direct importers appeared to be adversely affected, we found—if anything—a positive effect on trade intermediaries. The latter seem to benefit from such tensions as they are better placed to cope with and even capitalize on adverse circumstances. Our results hold when we restricted the sample to European Union countries, included the Dalai Lama's host country India, and varied the definition of an official reception.

Our findings highlight that political tensions do not uniformly affect trade relationships. Whether and to what degree political tension translates into trade losses depends on the firm type. Firms face a trade-off between bearing the costs from sanctioning firms of Dalai Lama-receiving countries, which

are caused by economically inferior trade transactions, and those from not sanctioning such firms, which are imposed by the government. Our study thus also speaks to the literature on why autocracies trade less (Mansfield et al. 2000; Aidt and Gassebner 2010), by analyzing why and how an autocratic government creates trade-distorting red tape. Beyond the academic interest in achieving a better understanding of the politics-trade nexus, our results also contain important policy implications for trading firms. Importers may heed these results and seek to mitigate the costs of any anticipated bilateral tension by increasing their stock holdings. Additionally, a better understanding of the potential trade consequences of provoking the Chinese government is also key for many governments around the globe as China, already the 'workbench of the world,' strives to become the world's economic and political center.

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**Table 1:** List of the 20 most largest Chinese importers of machinery and transport equipment

| Chinese Name | English Name | Ownership | Trade mode | Most important importing source |
|---|---|---|---|---|
| 鸿福锦精密工业(深圳)有限公司 | Hong Fujin Precision Industrial (Shenzhen) Co., Ltd | Foreign-invested | Direct trade | United Kingdom |
| 深圳富泰宏精密工业有限公司 | Shenzhen Futaihong Precision Industrial Co., Ltd. | Foreign-invested | Direct trade | Finland |
| 名硕电脑(苏州)有限公司 | Maintek Computer (Suzhou) Co.Ltd. | Foreign-invested | Direct trade | Iraq |
| 伯灵顿物流(上海)有限公司 | Burlington logistics (Shanghai) Co. Ltd | Foreign-invested | Direct trade | Singapore |
| 天津叶水福物流有限公司 | Tianjin YCH Logistics Co., Ltd. | Foreign-invested | Direct trade | France |
| 东莞市对外贸易加工装配服务公司 | Dongguan Foreign Trade Processing & Assembling Service Corporation | State-owned | Trade intermediary | Australia |
| 综合信兴仓运(深圳)有限公司 | Integrated warehouse and transportation (Shenzhen) Co., Ltd. | Foreign-invested | Direct trade | Norway |
| 摩托罗拉(中国)电子有限公司 | Motorola (China) Electronics Co., Ltd. | Foreign-invested | Direct trade | Belgium |
| 达功(上海)电脑有限公司 | Dagong (Shanghai) Computer Co., Ltd | Foreign-invested | Direct trade | United Kingdom |
| 三星电子(苏州)半导体有限公司 | Samsung Electronics (Suzhou) Semiconductor Co., Ltd | Foreign-invested | Direct trade | Thailand |
| 英特尔产品(上海)有限公司 | Intel products (Shanghai) Co., Ltd. | Foreign-invested | Direct trade | Taiwan |
| 深圳市宝安外贸发展有限公司 | Shenzhen Baoan Foreign Trade Development Co., Ltd. | State-owned | Trade intermediary | Denmark |
| 达丰(上海)计算机有限公司 | Dafeng (Shanghai) Computer Co., Ltd. | Foreign-invested | Direct trade | Thailand |
| 英顺达科技有限公司 | Yingshunda Science and Technology Co Ltd | Foreign-invested | Direct trade | Vietnam |
| 伟创力实业(珠海)有限公司 | Flextronics Industrial (Zhuhai) Co., Ltd. | Foreign-invested | Direct trade | Hong Kong |
| 天津三星通信技术有限公司 | Tianjin Samsung Communication Technology Co.,Ltd | Foreign-invested | Direct trade | South Korea |
| 北京首信诺基亚通信有限公司 | Beijing NOKIA Capitel Communication Co., Ltd. | Foreign-invested | Direct trade | Thailand |
| 一汽大众汽车有限公司 | Faw-Volkswagen | Foreign-invested | Direct trade | Japan |
| 希捷国际科技（无锡）有限公司 | Seagate International Technology (Wuxi) Co., Ltd. | Foreign-invested | Direct trade | United States |
| 华为技术有限公司 | Huawei Technologies CO., LTD; | Private | Direct trade | Switzerland |

**Table 2:** Travel pattern of the Dalai Lama (2000-2006)

| Country | Meetings with government members | Meetings with all dignitaries | Number of visits | Number of days stayed |
|---|---|---|---|---|
| Argentina | 0 | 1 | 2 | 4 |
| Austria | 2 | 2 | 2 | 17 |
| Australia | 0 | 0 | 1 | 10 |
| Belgium | 1 | 1 | 2 | 9 |
| Brazil | 1 | 1 | 1 | 5 |
| Bulgaria | 1 | 1 | 0 | 0 |
| Canada | 2 | 3 | 3 | 25 |
| Chile | 1 | 1 | 1 | 5 |
| Columbia | 0 | 1 | 1 | 3 |
| Costa Rica | 1 | 2 | 1 | 4 |
| Croatia | 1 | 1 | 1 | 4 |
| Czech Rep. | 3 | 3 | 5 | 17 |
| Denmark | 2 | 2 | 2 | 11 |
| El Salvador | 1 | 1 | 2 | 3 |
| Estonia | 1 | 1 | 1 | 3 |
| Finland | 0 | 0 | 2 | 4 |
| France | 0 | 1 | 4 | 28 |
| Germany | 2 | 3 | 10 | 40 |
| Guatemala | 1 | 1 | 1 | 3 |
| Hungary | 1 | 1 | 1 | 4 |
| India | 7 | 7 | 69 | 593 |
| Ireland | 1 | 1 | 0 | 0 |
| Israel | 0 | 1 | 1 | 5 |
| Italy | 3 | 4 | 10 | 33 |
| Japan | 0 | 0 | 13 | 57 |
| Jordan | 2 | 3 | 2 | 10 |
| Latvia | 1 | 1 | 1 | 3 |
| Lithuania | 1 | 1 | 1 | 5 |
| Luxembourg | 0 | 0 | 1 | 2 |
| Mexico | 1 | 1 | 1 | 6 |
| Mongolia | 1 | 1 | 2 | 13 |
| New Zealand | 1 | 1 | 1 | 5 |
| Norway | 2 | 2 | 3 | 13 |
| Peru | 1 | 2 | 1 | 4 |
| Poland | 1 | 1 | 1 | 4 |
| Portugal | 1 | 1 | 1 | 6 |
| Puerto Rico | 0 | 1 | 1 | 3 |
| Russia | 0 | 1 | 2 | 3 |
| The Netherlands | 0 | 0 | 1 | 2 |
| Slovakia | 0 | 0 | 1 | 3 |
| Slovenia | 1 | 1 | 1 | 3 |
| Spain | 0 | 0 | 1 | 4 |
| South Africa | 0 | 2 | 1 | 7 |
| Sweden | 1 | 2 | 3 | 11 |
| Switzerland | 2 | 2 | 3 | 18 |
| UK | 1 | 1 | 4 | 20 |
| USA | 5 | 9 | 10 | 136 |

Note: "Meetings with government members" lists the number of official receptions of the Dalai Lama by political leaders or government members. "Meetings with all dignitaries" lists the number of receptions by any dignitary covered by the database. "Number of visits" is the total number of visits of the Dalai Lama to each country. "Number of days" denotes the total number of days stayed during all visits in each country.

**Table 3:** The Dalai Lama Effect at the extensive margin and intensive margin

| | (1) $ln(X_{it})$ | (2) $ln(N_{it})$ | (3) $ln(\overline{x_{it}})$ | (4) $ln(X_{it}+1)$ | (5) $ln(N_{it}+1)$ | (6) $ln(\overline{x_{it}}+1)$ | (7) $ln(X_{it})$ | (8) $ln(N_{it})$ | (9) $ln(\overline{x_{it}})$ |
|---|---|---|---|---|---|---|---|---|---|
| Dalai Lama meeting (Q+2) | | | | | | | -0.083 | 0.038 | -0.121 |
| | | | | | | | (0.102) | (0.036) | (0.090) |
| Dalai Lama meeting (Q+1) | | | | | | | 0.057 | 0.017 | 0.040 |
| | | | | | | | (0.124) | (0.038) | (0.114) |
| Dalai Lama meeting (Q-1) | 0.034 | 0.020 | 0.014 | 0.034 | 0.003 | 0.031 | 0.031 | 0.027 | 0.004 |
| | (0.077) | (0.020) | (0.068) | (0.149) | (0.023) | (0.132) | (0.082) | (0.026) | (0.068) |
| Dalai Lama meeting (Q-2) | -0.394*** | -0.038 | -0.356*** | -0.428* | -0.046 | -0.382** | -0.394*** | -0.032 | -0.362*** |
| | (0.142) | (0.030) | (0.124) | (0.219) | (0.034) | (0.190) | (0.142) | (0.033) | (0.126) |
| Dalai Lama meeting (Q-3) | -0.069 | 0.012 | -0.081 | -0.003 | 0.003 | -0.007 | -0.071 | 0.017 | -0.089 |
| | (0.090) | (0.022) | (0.085) | (0.113) | (0.019) | (0.106) | (0.097) | (0.024) | (0.089) |
| Dalai Lama meeting (Q-4) | -0.070 | 0.002 | -0.072 | 0.122 | 0.016 | 0.106 | -0.073 | 0.006 | -0.079 |
| | (0.090) | (0.025) | (0.079) | (0.136) | (0.017) | (0.128) | (0.097) | (0.028) | (0.084) |
| Log(GDP) | -0.458 | 0.031 | -0.489* | -0.069 | 0.042 | -0.110 | -0.460 | 0.033 | -0.493* |
| | (0.339) | (0.117) | (0.280) | (0.446) | (0.063) | (0.396) | (0.339) | (0.117) | (0.279) |
| Log(Population) | 7.004 | 3.335** | 3.669 | -5.435 | 0.777 | -6.213 | 6.922 | 3.388** | 3.534 |
| | (7.581) | (1.635) | (6.580) | (5.968) | (0.881) | (5.316) | (7.602) | (1.639) | (6.600) |
| Country effect | yes | yes | yes | yes | yes | yes | yes | yes | yes |
| Month effect | yes | yes | yes | yes | yes | yes | yes | yes | yes |
| Country-specific time trend | yes | yes | yes | yes | yes | yes | yes | yes | yes |
| Within R-squared | 0.286 | 0.715 | 0.151 | 0.208 | 0.622 | 0.168 | 0.286 | 0.715 | 0.151 |
| Number of observations | 6,926 | 6,926 | 6,926 | 13,893 | 13,893 | 13,893 | 6,926 | 6,926 | 6,926 |
| Number of countries | 165 | 165 | 165 | 175 | 175 | 175 | 165 | 165 | 165 |

Notes: Standard errors are clustered at the country level (in parentheses). * (**, ***) indicates statistical significance at the ten-percent (five-percent, one-percent) level.

**Table 4:** The Dalai Lama Effect at the intensive margin by ownership type

| | (1) $ln(\overline{x_{it}})$ State owned | (2) $ln(\overline{x_{it}})$ Privately owned | (3) $ln(\overline{x_{it}})$ Foreign owned | (4) $ln(\overline{x_{it}}+1)$ State owned | (5) $ln(\overline{x_{it}}+1)$ Privately owned | (6) $ln(\overline{x_{it}}+1)$ Foreign owned |
|---|---|---|---|---|---|---|
| Dalai Lama meeting (Q-1) | -0.114 | -0.095 | 0.040 | -0.100 | -0.069 | 0.158 |
| | (0.094) | (0.130) | (0.070) | (0.155) | (0.146) | (0.128) |
| Dalai Lama meeting (Q-2) | -0.286*** | 0.180 | -0.211** | -0.456** | -0.066 | -0.145 |
| | (0.110) | (0.143) | (0.106) | (0.213) | (0.249) | (0.112) |
| Dalai Lama meeting (Q-3) | -0.001 | 0.016 | -0.008 | -0.159 | 0.060 | 0.144 |
| | (0.099) | (0.133) | (0.059) | (0.177) | (0.217) | (0.155) |
| Dalai Lama meeting (Q-4) | 0.006 | -0.244 | -0.082 | -0.026 | 0.229 | 0.013 |
| | (0.094) | (0.158) | (0.082) | (0.098) | (0.224) | (0.119) |
| Log(GDP) | -1.049*** | 1.336* | -0.015 | -0.774* | 0.386 | 0.064 |
| | (0.407) | (0.711) | (0.375) | (0.403) | (0.399) | (0.337) |
| Log(Population) | -3.637 | 13.411* | 10.762 | -5.718 | 4.642 | -3.281 |
| | (9.249) | (7.992) | (7.431) | (6.147) | (4.457) | (4.319) |
| Country effect | yes | yes | yes | yes | yes | yes |
| Month effect | yes | yes | yes | yes | yes | yes |
| Country-specific #time trend | yes | yes | yes | yes | yes | yes |
| Within R-squared | 0.182 | 0.241 | 0.185 | 0.143 | 0.399 | 0.175 |
| Number of observations | 5,594 | 4,618 | 5,804 | 13,893 | 13,893 | 13,893 |
| Number of countries | 133 | 117 | 152 | 175 | 175 | 175 |

Notes: Standard errors are clustered at the country level (in parentheses). * (**, ***) indicates statistical significance at the ten-percent (five-percent, one-percent) level.

**Table 5:** The Dalai Lama Effect at the intensive margin by trade mode

| | (1) $ln(\overline{x_{it}})$ Direct importers | (2) $ln(\overline{x_{it}})$ Trade intermediaries | (3) $ln(\overline{x_{it}}+1)$ Direct importers | (4) $ln(\overline{x_{it}}+1)$ Trade intermediaries |
|---|---|---|---|---|
| Dalai Lama meeting (Q-1) | 0.074 | 0.028 | 0.112 | 0.006 |
| | (0.082) | (0.074) | (0.125) | (0.178) |
| Dalai Lama meeting (Q-2) | -0.249** | 0.056 | -0.319* | 0.155 |
| | (0.110) | (0.071) | (0.180) | (0.182) |
| Dalai Lama meeting (Q-3) | -0.089 | 0.177** | -0.049 | 0.135 |
| | (0.075) | (0.088) | (0.111) | (0.204) |
| Dalai Lama meeting (Q-4) | -0.026 | 0.098 | 0.096 | 0.253 |
| | (0.081) | (0.083) | (0.125) | (0.164) |
| Log(GDP) | -0.208 | 0.152 | 0.212 | 0.041 |
| | (0.327) | (0.492) | (0.354) | (0.300) |
| Log(Population) | -1.596 | 18.036*** | -8.379 | -1.243 |
| | (8.354) | (5.564) | (5.095) | (4.659) |
| Country effect | yes | yes | yes | yes |
| Month effect | yes | yes | yes | yes |
| Country-specific time trend | yes | yes | yes | yes |
| Within R-squared | 0.149 | 0.309 | 0.165 | 0.224 |
| Number of observations | 6,426 | 4,988 | 13,893 | 13,893 |
| Number of countries | 160 | 134 | 175 | 175 |

Notes: Standard errors are clustered at the country level (in parentheses). * (**, ***) indicates statistical significance at the ten-percent (five-percent, one-percent) level.

**Table 6:** The Dalai Lama Effect at the intensive margin (robustness checks)

| | (1) $ln(\overline{x_{it}})$ Baseline | (2) $ln(\overline{x_{it}})$ Including India | (3) $ln(\overline{x_{it}})$ European countries | (4) $ln(\overline{x_{it}})$ 2002-2006 | (5) $ln(\overline{x_{it}})$ 2SLS |
|---|---|---|---|---|---|
| Dalai Lama meeting (Q-1) | 0.014 | -0.012 | 0.028 | -0.022 | 0.096 |
| | (0.068) | (0.064) | (0.077) | (0.067) | (0.101) |
| Dalai Lama meeting (Q-2) | -0.356*** | -0.293** | -0.224* | -0.337** | -0.182 |
| | (0.124) | (0.120) | (0.119) | (0.163) | (0.129) |
| Dalai Lama meeting (Q-3) | -0.081 | -0.067 | -0.062 | -0.062 | 0.016 |
| | (0.085) | (0.078) | (0.077) | (0.122) | (0.092) |
| Dalai Lama meeting (Q-4) | -0.072 | -0.083 | -0.057 | -0.147 | 0.009 |
| | (0.079) | (0.073) | (0.082) | (0.108) | (0.106) |
| Log(GDP) | -0.489 | -0.487 | -1.866* | 0.243 | -0.492 |
| | (0.305) | (0.305) | (1.088) | (0.566) | (0.306) |
| Log(Population) | 3.669 | 3.705 | 13.082 | 8.748 | 3.755 |
| | (6.705) | (6.662) | (12.104) | (8.312) | (6.703) |
| Country effect | yes | yes | yes | yes | yes |
| Month effect | yes | yes | yes | yes | yes |
| Country-specific time trend | yes | yes | yes | yes | yes |
| Number of instruments used | | | | | 11 |
| Cragg-Donald Wald F stat | | | | | 499.08 |
| Kleibergen-Paap Wald F stat | | | | | 19.62 |
| Underidentification test (p) | | | | | 0.000 |
| Overidentification test (p) | | | | | 0.555 |
| Endogeneity test (p) | | | | | 0.627 |
| Within R-squared | 0.151 | 0.151 | 0.156 | 0.159 | 0.002 |
| Number of observations | 6,926 | 7,008 | 2,612 | 5,257 | 6,926 |
| Number of countries | 165 | 166 | 36 | 164 | 165 |

Notes: Standard errors are clustered at the country level (in parentheses). * (**, ***) indicates statistical significance at the ten-percent (five-percent, one-percent) level. Column 5 uses nine instrumental variables: binary variables that take a value of one if the Dalai Lama was traveling to a partner country in the previous four quarters, Q-4,...,Q-1, respectively, the number of days that the Tibetan leader spends in a partner country in the previous four quarters, Q-4,...,Q-1, respectively, and the number of Tibet Support Groups (TSG) in a partner country.

**Table 7:** The Dalai Lama Effect at the intensive margin by political rank of the receiving dignitary

| | (1) $ln(\overline{x_{it}})$ Political leader | (2) $ln(\overline{x_{it}})$ Government member | (3) $ln(\overline{x_{it}})$ National official | (4) $ln(\overline{x_{it}})$ Other dignitaries | (5) $ln(\overline{x_{it}})$ Travel |
|---|---|---|---|---|---|
| Dalai Lama meeting (Q-1) | -0.026 | 0.014 | 0.005 | 0.033 | 0.060 |
| | (0.083) | (0.068) | (0.063) | (0.076) | (0.052) |
| Dalai Lama meeting (Q-2) | -0.404*** | -0.356*** | -0.336*** | -0.243** | -0.088 |
| | (0.144) | (0.124) | (0.117) | (0.100) | (0.069) |
| Dalai Lama meeting (Q-3) | -0.118 | -0.081 | -0.071 | -0.062 | 0.006 |
| | (0.114) | (0.085) | (0.080) | (0.069) | (0.044) |
| Dalai Lama meeting (Q-4) | -0.108 | -0.072 | -0.056 | -0.044 | -0.011 |
| | (0.100) | (0.079) | (0.075) | (0.069) | (0.051) |
| Log(GDP) | -0.507* | -0.489 | -0.484 | -0.481 | -0.491 |
| | (0.304) | (0.305) | (0.305) | (0.303) | (0.304) |
| Log(Population) | 3.864 | 3.669 | 3.733 | 3.628 | 3.637 |
| | (6.696) | (6.705) | (6.703) | (6.704) | (6.696) |
| Country effect | yes | yes | yes | yes | yes |
| Month effect | yes | yes | yes | yes | yes |
| Country-specific time trend | yes | yes | yes | yes | yes |
| Within R-squared | 0.151 | 0.151 | 0.151 | 0.151 | 0.150 |
| Number of observations | 6,926 | 6,926 | 6,926 | 6,926 | 6,926 |
| Number of countries | 165 | 165 | 165 | 165 | 165 |

Notes: Standard errors are clustered at the country level (in parentheses). * (**, ***) indicates statistical significance at the ten-percent (five-percent, one-percent) level.

**Figure 1:** Average import value of machinery and transport equipment per Chinese importer by partner country (annual average 2000-2006)

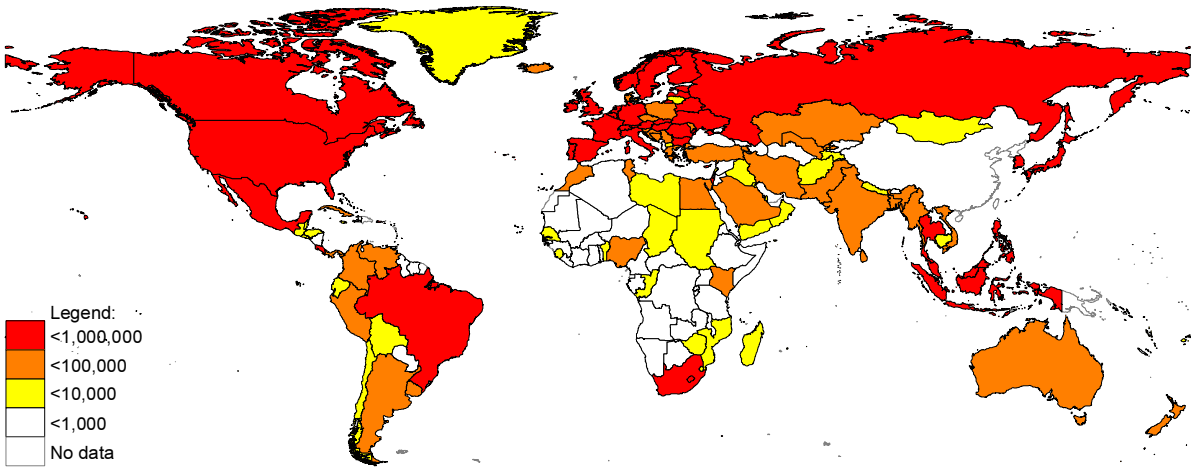



**Figure 2:** Number of Chinese importers of machinery and transport equipment by partner country (annual average 2000-2006)

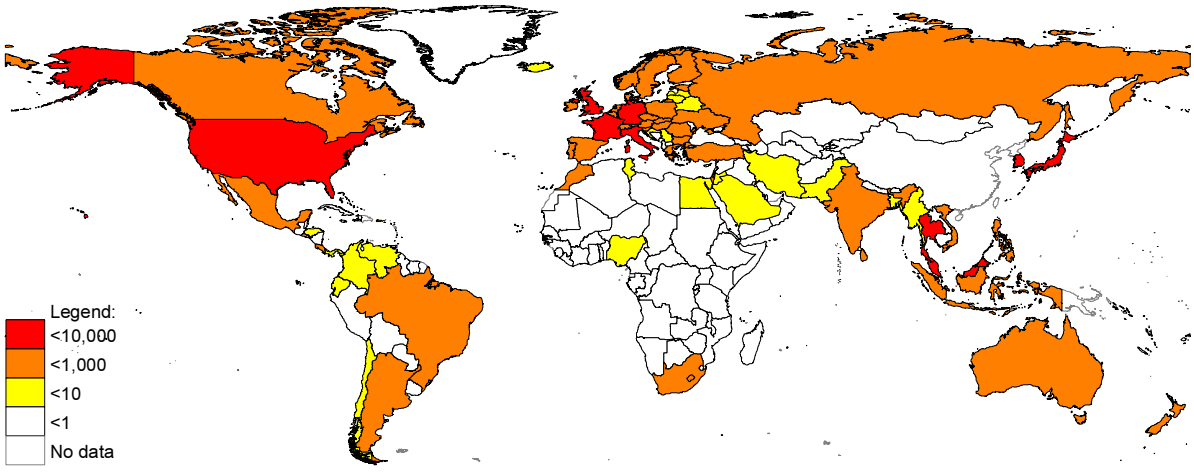
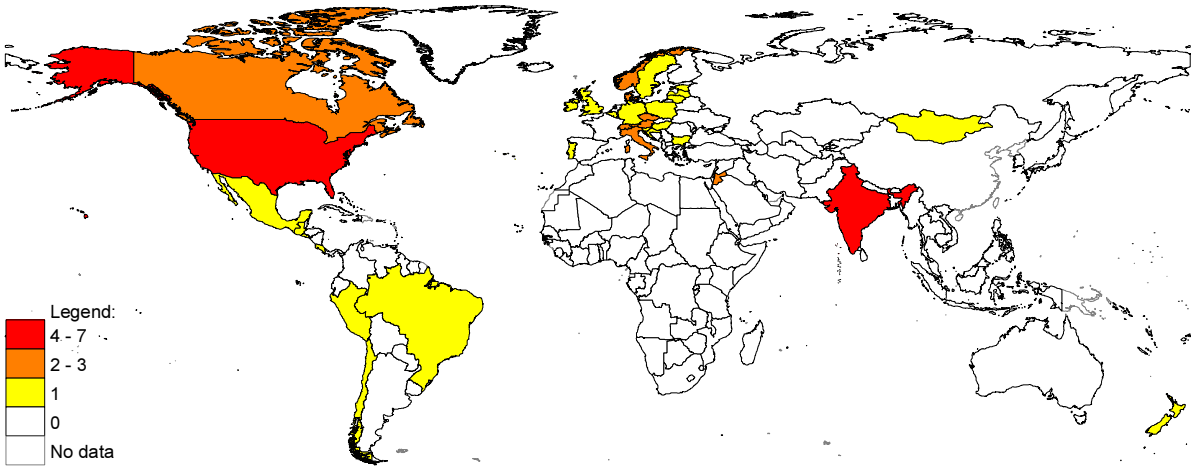



**Figure 3:** Number of months in which a partner country's government member received the Dalai Lama (2000-2006)



## ONLINE APPENDIX

**Appendix A1:** Import shares in machinery and equipment by ownership type (in percent)

| | State owned | Privately owned | Foreign owned |
|---|---|---|---|
| 2000 | 33.4 | 11.5 | 55.1 |
| 2001 | 35.1 | 12.5 | 52.4 |
| 2002 | 30.9 | 14.6 | 54.5 |
| 2003 | 25.6 | 16.4 | 58.0 |
| 2004 | 20.0 | 16.8 | 63.2 |
| 2005 | 17.7 | 17.1 | 65.2 |
| 2006 | 17.3 | 17.4 | 65.3 |
| Average | 24.5 | 19.6 | 55.9 |

**Appendix A2:** Import share in machinery and equipment by trade mode (in percent)

| | Direct importers | Trade intermediaries |
|---|---|---|
| 2000 | 86.3 | 13.7 |
| 2001 | 86.2 | 13.8 |
| 2002 | 85.8 | 14.2 |
| 2003 | 85.4 | 14.7 |
| 2004 | 84.7 | 15.3 |
| 2005 | 84.1 | 16.0 |
| 2006 | 84.8 | 15.2 |
| Average | 37.0 | 63.0 |

**Appendix A3:** Descriptive statistics

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| $ln(X_{it})$ | 7,564 | 13.30 | 4.87 | 0.00 | 23.03 |
| $ln(N_{it})$ | 7,564 | 3.23 | 2.68 | 0.00 | 9.63 |
| $ln(N_{it}+1)$ | 15,744 | 1.65 | 2.42 | 0.00 | 9.63 |
| $ln(\overline{x_{it}})$ | 7,564 | 10.07 | 2.60 | 0.00 | 15.95 |
| $ln(\overline{x_{it}}+1)$ | 15,744 | 4.84 | 5.35 | 0.00 | 15.95 |
| log(GDP) | 14,045 | 9.56 | 2.34 | 4.71 | 16.40 |
| log(Population) | 14,854 | 8.60 | 2.00 | 3.33 | 13.92 |
| DL meets political leader | 15,744 | 0.01 | 0.08 | 0.00 | 1.00 |
| DL meets government member | 15,744 | 0.01 | 0.10 | 0.00 | 1.00 |
| DL meets national official | 15,744 | 0.01 | 0.10 | 0.00 | 1.00 |
| DL meets any dignitary | 15,744 | 0.01 | 0.11 | 0.00 | 1.00 |
| DL visit | 15,744 | 0.02 | 0.15 | 0.00 | 1.00 |
| Duration of DL visit | 15,744 | 0.85 | 6.58 | 0.00 | 135.00 |
| Tibet Support Groups | 15,744 | 0.10 | 0.29 | 0.00 | 1.00 |

**Appendix A4:** The Dalai Lama Effect of total trade by ownership type

| | (1) $ln(X_{it})$ State owned | (2) $ln(X_{it})$ Privately owned | (3) $ln(X_{it})$ Foreign owned | (4) $ln(X_{it}+1)$ State owned | (5) $ln(X_{it}+1)$ Privately owned | (6) $ln(X_{it}+1)$ Foreign owned |
|---|---|---|---|---|---|---|
| Dalai Lama meeting (Q-1) | -0.088 | -0.134 | 0.065 | -0.097 | -0.126 | 0.171 |
| | (0.097) | (0.144) | (0.073) | (0.166) | (0.167) | (0.138) |
| Dalai Lama meeting (Q-2) | -0.293** | 0.128 | -0.201* | -0.499** | -0.162 | -0.143 |
| | (0.118) | (0.144) | (0.112) | (0.237) | (0.260) | (0.125) |
| Dalai Lama meeting (Q-3) | 0.026 | -0.065 | 0.012 | -0.187 | -0.024 | 0.157 |
| | (0.101) | (0.166) | (0.062) | (0.191) | (0.236) | (0.166) |
| Dalai Lama meeting (Q-4) | -0.008 | -0.285* | -0.080 | -0.052 | 0.215 | 0.016 |
| | (0.097) | (0.164) | (0.089) | (0.104) | (0.238) | (0.130) |
| Log(GDP) | -1.092** | 1.634** | 0.063 | -0.795* | 0.600 | 0.131 |
| | (0.430) | (0.819) | (0.431) | (0.438) | (0.454) | (0.378) |
| Log(Population) | -1.130 | 12.563 | 14.210 | -4.836 | 6.364 | -2.342 |
| | (10.386) | (8.052) | (8.971) | (6.886) | (4.771) | (4.929) |
| Country effect | yes | yes | yes | yes | yes | yes |
| Month effect | yes | yes | yes | yes | yes | yes |
| Country-specific time trend | yes | yes | yes | yes | yes | yes |
| Within R-squared | 0.249 | 0.554 | 0.367 | 0.165 | 0.470 | 0.223 |
| Number of observations | 5,594 | 4,618 | 5,804 | 13,893 | 13,893 | 13,893 |
| Number of countries | 133 | 117 | 152 | 175 | 175 | 175 |

Notes: Standard errors are clustered at the country level (in parentheses). * (**, ***) indicates statistical significance at the ten-percent (five-percent, one-percent) level.

**Appendix A5:** The Dalai Lama Effect at the extensive margin by ownership type

| | (1) $ln(N_{it})$ State owned | (2) $ln(N_{it})$ Privately owned | (3) $ln(N_{it})$ Foreign owned | (4) $ln(N_{it}+1)$ State owned | (5) $ln(N_{it}+1)$ Privately owned | (6) $ln(N_{it}+1)$ Foreign owned |
|---|---|---|---|---|---|---|
| Dalai Lama meeting (Q-1) | 0.026 | -0.039 | 0.025 | 0.003 | -0.057 | 0.014 |
| | (0.021) | (0.048) | (0.021) | (0.021) | (0.036) | (0.020) |
| Dalai Lama meeting (Q-2) | -0.007 | -0.053 | 0.010 | -0.043 | -0.096** | 0.001 |
| | (0.023) | (0.052) | (0.022) | (0.029) | (0.038) | (0.025) |
| Dalai Lama meeting (Q-3) | 0.026 | -0.081 | 0.020 | -0.028 | -0.085** | 0.013 |
| | (0.020) | (0.055) | (0.021) | (0.025) | (0.038) | (0.022) |
| Dalai Lama meeting (Q-4) | -0.014 | -0.042 | 0.002 | -0.026 | -0.014 | 0.002 |
| | (0.024) | (0.034) | (0.019) | (0.021) | (0.030) | (0.018) |
| Log(GDP) | -0.043 | 0.297 | 0.078 | -0.021 | 0.213** | 0.068 |
| | (0.090) | (0.255) | (0.104) | (0.052) | (0.083) | (0.052) |
| Log(Population) | 2.507 | -0.848 | 3.448 | 0.882 | 1.722** | 0.939 |
| | (1.978) | (2.875) | (2.636) | (0.849) | (0.728) | (0.819) |
| Country effect | yes | yes | yes | yes | yes | yes |
| Month effect | yes | yes | yes | yes | yes | yes |
| Country-specific time trend | yes | yes | yes | yes | yes | yes |
| Within R-squared | 0.490 | 0.883 | 0.802 | 0.361 | 0.824 | 0.689 |
| Number of observations | 5,594 | 4,618 | 5,804 | 13,893 | 13,893 | 13,893 |
| Number of countries | 133 | 117 | 152 | 175 | 175 | 175 |

Notes: Standard errors are clustered at the country level (in parentheses). * (**, ***) indicates statistical significance at the ten-percent (five-percent, one-percent) level.

**Appendix A6:** The Dalai Lama Effect of total trade by trade mode

| | (1) $ln(X_{it})$ Direct importers | (2) $ln(X_{it})$ Trade intermediaries | (3) $ln(X_{it}+1)$ Direct importers | (4) $ln(X_{it}+1)$ Trade intermediaries |
|---|---|---|---|---|
| Dalai Lama meeting (Q-1) | 0.087 | 0.040 | 0.115 | -0.007 |
| | (0.089) | (0.081) | (0.138) | (0.192) |
| Dalai Lama meeting (Q-2) | -0.250** | 0.055 | -0.341* | 0.152 |
| | (0.117) | (0.071) | (0.204) | (0.194) |
| Dalai Lama meeting (Q-3) | -0.070 | 0.191** | -0.044 | 0.128 |
| | (0.079) | (0.090) | (0.118) | (0.219) |
| Dalai Lama meeting (Q-4) | -0.012 | 0.118 | 0.113 | 0.277 |
| | (0.090) | (0.093) | (0.134) | (0.178) |
| Log(GDP) | -0.087 | 0.296 | 0.310 | 0.104 |
| | (0.384) | (0.561) | (0.402) | (0.339) |
| Log(Population) | -0.374 | 22.711*** | -8.072 | -0.349 |
| | (9.682) | (6.549) | (5.610) | (5.174) |
| Country effect | yes | yes | yes | yes |
| Month effect | yes | yes | yes | yes |
| Country-specific time trend | yes | yes | yes | yes |
| Within R-squared | 0.303 | 0.478 | 0.209 | 0.275 |
| Number of observations | 6,426 | 4,988 | 13,893 | 13,893 |
| Number of countries | 160 | 134 | 175 | 175 |

Notes: Standard errors are clustered at the country level (in parentheses). * (**, ***) indicates statistical significance at the ten-percent (five-percent, one-percent) level.

**Appendix A7:** The Dalai Lama Effect at the extensive margin by trade mode

| | (1) $ln(N_{it})$ Direct importers | (2) $ln(N_{it})$ Trade intermediaries | (3) $ln(N_{it}+1)$ Direct importers | (3) $ln(N_{it}+1)$ Direct importers |
|---|---|---|---|---|
| Dalai Lama meeting (Q-1) | 0.014 | 0.012 | 0.003 | -0.013 |
| | (0.021) | (0.027) | (0.020) | (0.025) |
| Dalai Lama meeting (Q-2) | -0.002 | -0.001 | -0.022 | -0.003 |
| | (0.027) | (0.034) | (0.032) | (0.028) |
| Dalai Lama meeting (Q-3) | 0.019 | 0.014 | 0.005 | -0.007 |
| | (0.020) | (0.024) | (0.018) | (0.024) |
| Dalai Lama meeting (Q-4) | 0.014 | 0.020 | 0.017 | 0.024 |
| | (0.022) | (0.028) | (0.017) | (0.023) |
| Log(GDP) | 0.121 | 0.144 | 0.098* | 0.063 |
| | (0.114) | (0.165) | (0.059) | (0.051) |
| Log(Population) | 1.222 | 4.675** | 0.307 | 0.894 |
| | (1.919) | (1.943) | (0.704) | (0.651) |
| Country effect | yes | yes | yes | yes |
| Month effect | yes | yes | yes | yes |
| Country-specific time trend | yes | yes | yes | yes |
| Within R-squared | 0.751 | 0.771 | 0.646 | 0.681 |
| Number of observations | 6,426 | 4,988 | 13,893 | 13,893 |
| Number of countries | 160 | 134 | 175 | 175 |

Notes: Standard errors are clustered at the country level (in parentheses). * (**, ***) indicates statistical significance at the ten-percent (five-percent, one-percent) level.

**Appendix A8:** The Dalai Lama Effect at the intensive margin (monthly breakdown)

| | (1) $ln(X_{it})$ | (1) $ln(N_{it})$ | (2) $ln(\overline{x_{it}})$ |
|---|---|---|---|
| Dalai Lama meeting (M-1) | 0.071 | 0.006 | 0.066 |
| | (0.105) | (0.030) | (0.105) |
| Dalai Lama meeting (M-2) | 0.125 | 0.022 | 0.102 |
| | (0.130) | (0.032) | (0.113) |
| Dalai Lama meeting (M-3) | -0.121 | 0.032 | -0.153** |
| | (0.083) | (0.031) | (0.076) |
| Dalai Lama meeting (M-4) | -0.423* | -0.070 | -0.352* |
| | (0.218) | (0.049) | (0.181) |
| Dalai Lama meeting (M-5) | -0.180 | -0.008 | -0.172 |
| | (0.132) | (0.031) | (0.118) |
| Dalai Lama meeting (M-6) | -0.524** | -0.029 | -0.495** |
| | (0.258) | (0.046) | (0.220) |
| Dalai Lama meeting (M-7) | -0.009 | 0.020 | -0.029 |
| | (0.136) | (0.025) | (0.124) |
| Dalai Lama meeting (M-8) | -0.153 | -0.006 | -0.146 |
| | (0.139) | (0.031) | (0.129) |
| Dalai Lama meeting (M-9) | -0.029 | 0.023 | -0.052 |
| | (0.078) | (0.027) | (0.085) |
| Dalai Lama meeting (M-10) | -0.124 | 0.018 | -0.142 |
| | (0.173) | (0.034) | (0.153) |
| Dalai Lama meeting (M-11) | -0.066 | -0.022 | -0.044 |
| | (0.123) | (0.029) | (0.115) |
| Dalai Lama meeting (M-12) | -0.005 | 0.013 | -0.018 |
| | (0.106) | (0.033) | (0.111) |
| Log(GDP) | -0.456 | 0.031 | -0.487 |
| | (0.356) | (0.105) | (0.305) |
| Log(Population) | 6.899 | 3.336** | 3.562 |
| | (7.542) | (1.687) | (6.712) |
| Country effect | yes | yes | yes |
| Month effect | yes | yes | yes |
| Country-specific time trend | yes | yes | yes |
| Within R-squared | 0.286 | 0.715 | 0.151 |
| Number of observations | 6,926 | 6,926 | 6,926 |
| Number of countries | 165 | 165 | 165 |

Notes: Standard errors are clustered at the country level (in parentheses). * (**, ***) indicates statistical significance at the ten-percent (five-percent, one-percent) level.