How Do Firms Respond to Political Tensions?

The Heterogeneity of the Dalai Lama Effect on Trade

Faqin Lin [a], Cui Hu [a], Andreas Fuchs [b,*]

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[a] *Central University of Finance and Economics (CUFE), School of International Trade and Economics, 39 South College Road, Haidian District, Beijing 100081, P.R. China*

[b] *Heidelberg University, Alfred-Weber-Institute for Economics and Research Center for Distributional Conflict and Globalization, Bergheimer Strasse 58, 69115 Heidelberg, Germany*

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 (and territories) 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 that 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 this 'Dalai Lama Effect' to be driven by state-owned enterprises (and foreign-invested firms) but 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 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. 2014). 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; Pandya and Venkatesan 2016). Still, little is known about the firm-level dynamics driving trade reductions during 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 decrease 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] However, these findings at the aggregated level appear as a black box: to date, it has not been examined *how* Chinese importing firms respond to such political tensions.

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 Chinese trade from China Customs are increasingly used in the economics literature (e.g., Cai and Liu 2009; Manova and Zhang 2010; Ahn et al. 2011; Brandt et al. 2012; Tang and Zhang 2012; Feenstra et al. 2014; Bas

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 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. A thorough investigation of the firm-level dynamics at play will improve our understanding of politics-trade nexus.

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. Specifically, we study how political tensions caused by foreign dignitaries' meetings with the Dalai Lama affect import decisions along three dimensions. First, we relate to the literature on firm heterogeneity and trade (e.g., Bernard and Jensen 1995, 1999, 2004; Eaton and Kortum 2002; Melitz 2003; Chaney 2008; Helpman et al. 2008; Lawless 2010; Dutt et al. 2013). In order to incorporate such firm-level heterogeneity into the study of the politics-trade nexus, we decompose trade reductions caused by Dalai Lama meetings into a decrease in the average import value of those Chinese firms that are active as importers (firm-level intensive margin) and a decrease in the number of Chinese importers buying in the market (firm-level extensive margin). We expect to observe effects mainly at the intensive margin of trade. It appears that firms that want to accommodate the Chinese government prefer to adjust imports at the intensive margin as to avoid the additional fixed costs they would incur from setting up new trade relations. Establishing new trade relationships would cause 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 closeness to the government (Che 2002; Brandt and Li 2003; Li et al. 2008; Lu 2011; Qin 2012). Davis et al. (2014) find Chinese (and Indian) imports through state-owned enterprises (SOEs) to be more responsive to bilateral political relations compared to 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 its very definition, but also foreign-invested firms 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; Yu 2015). Trade intermediaries are found to show different trade behaviors when compared to direct traders (Bernard et al. 2010; Ahn et al. 2011; Antràs and Costinot 2011; Lu et al.

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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.

2011; Blanchard et al. 2013; Head et al. 2014; Manova and Yu 2015). Following the logic of Ahn et al. (2011), 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 should possess of the know-how how to circumvent such restrictions and may even benefit from firms replacing their direct imports with indirect imports through trade intermediaries. By analyzing differences in the response to political tensions caused by 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 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. We also account for the potential endogeneity of meetings with the Dalai Lama using an instrumental-variables strategy based on Fuchs and Klann (2013).

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. 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 covered by the Standard International Trade Classification (SITC 7).[6]

[6] 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

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., $X_{it} = \overline{x_{it}} \cdot N_{it}$.

Japan, the United States and South Korea are the most important destinations 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. The underlying data shows that China shows the largest average import values in their trade of machinery and transport equipment with Russia, the Philippines, and Costa Rica. Figure 2 displays the corresponding map for the extensive margin. The largest number of Chinese firms imports machinery and transport equipment from the 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.[7] 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 Yu (forthcoming) and identify trade intermediaries as those processing 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, 87 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 1a presents the 20 largest Chinese importers of machinery

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.

[7] 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).

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 information published by the Office of His Holiness the 14th Dalai Lama as primary source.[8] 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 enlarge 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 1b 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 that time period 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),[9] 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

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

[9] 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.

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:

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

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

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

where GDP_{it} and pop_{it} indicate the partner country's GDP and population size, respectively; γ_t and δ_i are time- and country-fixed effects; $\tau_i t$ are country-specific linear time trends; and ε_{it} is a stochastic error.[10] Error terms may be correlated at both the country and time level, which is why we allow for two-way clustering on both dimensions.

Our variables of interest $dalai_{it}$ 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.[11] 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 2 presents our results when estimating Equations (1) to (3) to test whether official receptions of

[10] Since GDP and population data are not available at 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.

[11] 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., one 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., two quarters 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., three quarters 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., four quarters after the meeting).

the Dalai Lama affect the extensive and intensive margin of Chinese imports from Dalai Lama-receiving countries. Starting with the interpretation of the results for the control variables, *GDP* does not reach statistical significance at conventional levels, while *population* is only statistically significant at the five-percent level in one of nine specifications (with the expected positive sign). 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.

Turning to 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 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.[12] 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 10.6 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 political shocks to be smaller and more short-lived compared to 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 five-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

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

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.[13] 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).

Summing up, our empirical analysis suggests that the trade-reducing impact of Dalai Lama meetings operates on the intensive margin (and not on 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 is suggestive evidence that firms follow a strategy that recognizes government interests as trade is reduced but mitigates the adverse effects 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 finds expression in the government's treatment of firms of different ownership type as reflected in economic policies, regulatory practices, and financial support.

With respect to SOEs, Davis et al. (2014) 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 to advance the goals of the state. Profit considerations are pushed into the background. 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, and 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

[13] 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., two quarters before a meeting); $dalai(Q+1)_{it}$ 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., one quarter before a meeting),.

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) highlight that not only SOEs but also foreign-invested firms are equipped with priority access to subsidies. The share of central-government subsidies directed to foreign enterprises, for example, has 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 type behave differently according to their political closeness to the government. In line with this reasoning, we argue that firms' response 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 least compliance with government interests during political tensions for private companies due to their comparatively weak political connections and dependence on the government.[14] 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 in between the two. As such, we expect the trade-reducing effect of Dalai Lama meetings to be greater than for private firms and smaller than for SOEs.

Since the baseline results in Table 2 only showed a significant trade reduction at the intensive margin, we focus on Equation (3) in the following.[15] Table 3 reports results at the intensive margin by type of ownership. 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 on the binary variable indicating a Dalai Lama meeting two quarters ago is negative and statistically significant 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 trade retaliations after Dalai Lama meetings occur for foreign-invested firms (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.

[14] Our argument is a relative one. Of course, Chinese private enterprises are also dependent on the government. Also, research has found membership in the Communist party to be beneficial for the performance of private firms (e.g., Li et al. 2008). 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.

[15] The interested reader will find the corresponding regression tables for the total trade (Equation 1) in Appendix A4 and for the extensive margin (Equation 2) in Appendix A5.

The finding that China's threat to sanction countries for the 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. 2014). The finding for foreign-invested firms—albeit smaller in size than for SOEs—similarly hints at their considerable political connections with the Chinese government. Adopting a proverb on the Roman Empire, one could summarize this result as follows: when in China, do as the Chinese do.

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 of more experience in how to circumvent such restrictions. They may even benefit from firms replacing their direct imports with indirect imports through trade intermediaries. This substitution of trade modes may even lead to an inverse Dalai Lama Effect, i.e., increased trade flows 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 growing imports of trade intermediaries.

Table 4 reports 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 pure importers. 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, ordinary (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 pure importers. 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 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 cease importing or operate through intermediaries instead.

For completeness, we also examine again the extensive margin of trade. In line with our results in Table 2, we also 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 5 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 a bit smaller and only reaches statistical significance at the five-percent level. We had excluded India from our main regressions as it is 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 (54 percent) 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 20.9 percent per month in the second quarter following the encounter, which is smaller than the benchmark results of 30.0 percent.[16]

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 5, our results are similar when we reduce the sample as described.

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

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 may not be randomly assigned and countries receiving the Dalai Lama may intentionally choose a time based on its trade ties with China. We use a binary variable indicating a visit of the Dalai Lama in 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 as instruments: the likelihood that a government member meets the Dalai Lama is expected to larger when the Dalai Lama is present in the country, the longer his visit takes as he receives more media attention, and the more Tibet Support Groups are active in the partner country that can lobby for a Dalai Lama meeting.[17]

Column 5 of Table 5 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: 0.122). 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 6 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 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

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

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 finding of a temporarily 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 shed light on how China carries out its threats to sanction non-compliant trading partners. Our empirical results rely on fixed-effects regressions using monthly transaction data of Chinese importing firms trading with 173 partner countries (and territories) over the 2000-2006 period. Our results confirm a reduction of imports of machinery and transportation equipment into China by 10.6 percent on average within a year after 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 after a country's government members have officially received 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 at all—a positive effect on trade intermediaries. The latter seem to benefit from such tensions as they are better in coping with adverse environments. Our results hold when we restricted the sample to European Union countries, included

the Dalai Lama's host country India, varied the definition of an official reception.

Our findings highlight that political tensions do not uniformly affect trade relationships. Whether and to what degree politics translates into trade losses depends on the firm type. Our study thus also speaks to the literature on why autocracies trade less (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 entail important policy implications for trading firms. To the extent that importers can estimate the likelihood of bilateral tensions, they will be able to implement precautionary measures such as increased stock keepings. 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 'work bench of the world,' strives to become the world's economic and political center.

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Table 1a: 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
东莞市对外加工装配服务公司	Dongguan Foreign Processing & Assembling Service Corporation	State-owned	Direct trade	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
深圳市宝安外经发展有限公司	Shenzhen Baoan Foreign Economic 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 1b: 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 2: 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) $ln(X_{it}+1)$	(8) $ln(N_{it}+1)$	(9) $ln(\overline{x_{it}+1})$
Dalai Lama meeting (Q+2)							-0.170	-0.001	-0.169
							(0.150)	(0.028)	(0.138)
Dalai Lama meeting (Q+1)							-0.051	-0.008	-0.043
							(0.204)	(0.034)	(0.189)
Dalai Lama meeting (Q-1)	0.034	0.020	0.014	0.034	0.003	0.031	0.008	0.003	0.005
	(0.078)	(0.022)	(0.068)	(0.146)	(0.024)	(0.129)	(0.141)	(0.026)	(0.123)
Dalai Lama meeting (Q-2)	-0.394***	-0.038	-0.356***	-0.428**	-0.046	-0.382**	-0.451**	-0.047	-0.404**
	(0.143)	(0.028)	(0.127)	(0.213)	(0.033)	(0.185)	(0.220)	(0.034)	(0.192)
Dalai Lama meeting (Q-3)	-0.069	0.012	-0.081	-0.003	0.003	-0.007	-0.021	0.003	-0.023
	(0.084)	(0.023)	(0.080)	(0.068)	(0.017)	(0.069)	(0.068)	(0.018)	(0.069)
Dalai Lama meeting (Q-4)	-0.070	0.002	-0.072	0.122	0.016	0.106	0.105	0.015	0.090
	(0.089)	(0.022)	(0.084)	(0.136)	(0.016)	(0.131)	(0.125)	(0.019)	(0.120)
Log(GDP)	-0.458	0.031	-0.489*	-0.069	0.042	-0.110	-0.072	0.042	-0.114
	(0.339)	(0.117)	(0.280)	(0.446)	(0.063)	(0.396)	(0.446)	(0.063)	(0.396)
Log(Population)	7.004	3.335**	3.669	-5.435	0.777	-6.213	-5.563	0.776	-6.339
	(7.581)	(1.635)	(6.580)	(5.968)	(0.881)	(5.316)	(5.978)	(0.881)	(5.330)
Country effect	yes	yes	yes	yes	yes	yes	yes	yes	yes
Month effect	yes	yes	yes	yes	yes	yes	yes	yes	yes
Country-specific linear time trend	yes	yes	yes	yes	yes	yes	yes	yes	yes
Number of observations	6,926	6,926	6,926	13,893	13,893	13,893	13,893	13,893	13,893
Number of countries	165	165	165	175	175	175	175	175	175
Within R-squared	0.286	0.715	0.151	0.208	0.622	0.168	0.208	0.622	0.168

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

Table 3: 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	-0.0945	0.0402	-0.101	-0.0619	0.159
	(0.0963)	(0.133)	(0.0722)	(0.157)	(0.150)	(0.130)
Dalai Lama meeting (Q-2)	-0.286**	0.180	-0.211*	-0.448**	-0.0612	-0.144
	(0.112)	(0.147)	(0.109)	(0.217)	(0.251)	(0.114)
Dalai Lama meeting (Q-3)	-0.000812	0.0161	-0.00809	-0.154	0.0700	0.146
	(0.101)	(0.137)	(0.0604)	(0.180)	(0.219)	(0.157)
Dalai Lama meeting (Q-4)	0.00595	-0.244	-0.0821	-0.0331	0.222	0.0130
	(0.0959)	(0.162)	(0.0837)	(0.102)	(0.227)	(0.120)
Log(GDP)	-1.049**	1.336*	-0.0151	-0.838*	0.470	0.0733
	(0.416)	(0.730)	(0.384)	(0.447)	(0.487)	(0.352)
Log(Population)	-3.637	13.41	10.76	-8.030	7.562	-3.381
	(9.467)	(8.204)	(7.611)	(8.288)	(7.393)	(4.723)
Country effect	yes	yes	yes	yes	yes	yes
Month effect	yes	yes	yes	yes	yes	yes
Country-specific linear time trend	yes	yes	yes	yes	yes	yes
Number of observations	5609	4632	5817	13893	13893	13893
Number of countries	148	131	165	175	175	175
Within R-squared	0.182	0.241	0.185	0.145	0.401	0.176

Notes: Standard errors are clustered at both the partner-country and year 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 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
	(0.078)	(0.063)	(0.140)	(0.184)
Dalai Lama meeting (Q-2)	-0.249**	0.056	-0.319*	0.158
	(0.109)	(0.072)	(0.170)	(0.182)
Dalai Lama meeting (Q-3)	-0.089	0.177**	-0.049	0.137
	(0.073)	(0.084)	(0.103)	(0.198)
Dalai Lama meeting (Q-4)	-0.026	0.098	0.096	0.255
	(0.090)	(0.078)	(0.136)	(0.157)
Log(GDP)	-0.208	0.152	0.218	0.046
	(0.304)	(0.489)	(0.362)	(0.328)
Log(Population)	-1.596	18.036***	-8.853*	-1.814
	(8.103)	(5.741)	(5.317)	(5.187)
Country effect	yes	yes	yes	yes
Month effect	yes	yes	yes	yes
Country-specific linear time trend	yes	yes	yes	yes
Number of observations	6,426	4,988	13,729	12,335
Number of countries	160	134	173	155
Within R-squared	0.149	0.309	0.166	0.225

Notes: Standard errors are clustered at both the partner-country and year 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 (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	(4) $ln(\overline{x_{it}})$ 2SLS
Dalai Lama meeting (Q-1)	0.014	-0.012	0.027	-0.022	0.096
	(0.068)	(0.065)	(0.076)	(0.068)	(0.108)
Dalai Lama meeting (Q-2)	-0.356***	-0.293**	-0.235*	-0.337**	-0.182
	(0.127)	(0.122)	(0.137)	(0.161)	(0.118)
Dalai Lama meeting (Q-3)	-0.081	-0.067	-0.068	-0.062	0.016
	(0.080)	(0.073)	(0.074)	(0.114)	(0.086)
Dalai Lama meeting (Q-4)	-0.072	-0.083	-0.047	-0.147	0.009
	(0.084)	(0.075)	(0.090)	(0.101)	(0.106)
Log(GDP)	-0.489*	-0.487*	-1.150	0.243	-0.492*
	(0.280)	(0.280)	(1.367)	(0.547)	(0.281)
Log(Population)	3.669	3.705	14.149	8.748	3.755
	(6.580)	(6.551)	(9.648)	(8.533)	(6.575)
Country effect	yes	yes	yes	yes	yes
Month effect	yes	yes	yes	yes	yes
Country-specific linear time trend	yes	yes	yes	yes	yes
Number of instruments used					11
Cragg-Donald Wald F stat					499.08
Kleibergen-Paap Wald F stat					18.94
Underidentification test (p)					0.002
Overidentification test (p)					0.540
Endogeneity test (p)					0.664
Number of observations	6,926	7,008	2,581	5,257	6,926
Number of countries	165	166	35	164	165
Within R-squared	0.151	0.151	0.183	0.159	0.002

Notes: Standard errors are clustered at both the partner-country and year 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 by political rank of the 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
	(0.088)	(0.068)	(0.063)	(0.084)	(0.056)
Dalai Lama meeting (Q-2)	-0.404***	-0.356***	-0.336***	-0.243***	-0.088
	(0.154)	(0.127)	(0.120)	(0.093)	(0.063)
Dalai Lama meeting (Q-3)	-0.118	-0.081	-0.071	-0.062	0.006
	(0.108)	(0.080)	(0.075)	(0.065)	(0.041)
Dalai Lama meeting (Q-4)	-0.108	-0.072	-0.056	-0.044	-0.011
	(0.108)	(0.084)	(0.079)	(0.073)	(0.052)
Log(GDP)	-0.507*	-0.489*	-0.484*	-0.481*	-0.491*
	(0.280)	(0.280)	(0.280)	(0.278)	(0.279)
Log(Population)	3.864	3.669	3.733	3.628	3.637
	(6.580)	(6.580)	(6.577)	(6.572)	(6.574)
Country effect	yes	yes	yes	yes	yes
Month effect	yes	yes	yes	yes	yes
Country-specific linear time trend	yes	yes	yes	yes	yes
Number of observations	6,926	6,926	6,926	6,926	6,926
Number of countries	165	165	165	165	165
Within R-squared	0.151	0.151	0.151	0.151	0.150

Notes: Standard errors are clustered at both the partner-country and year 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)

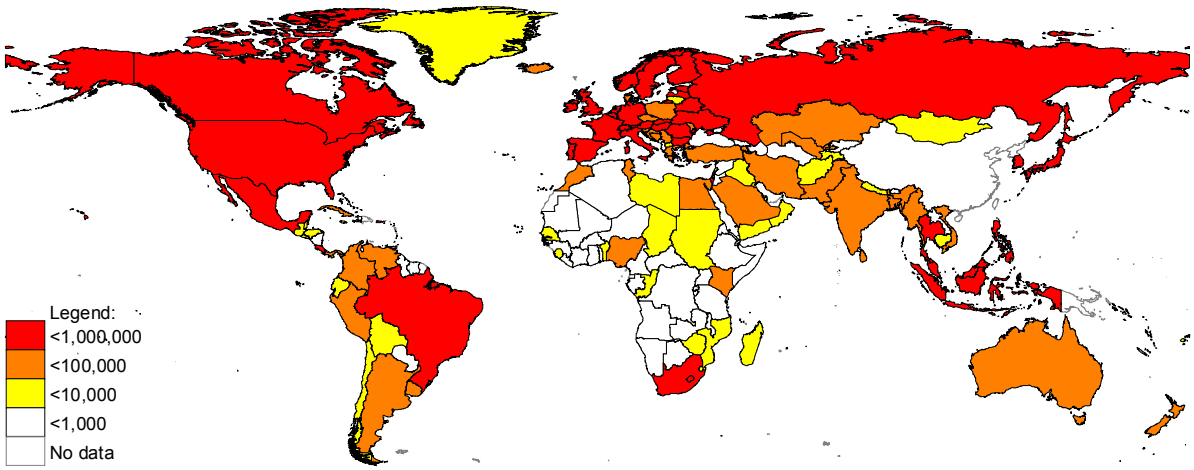


Figure 2: Number of Chinese importers of machinery and transport equipment by partner country (annual average 2000-2006)

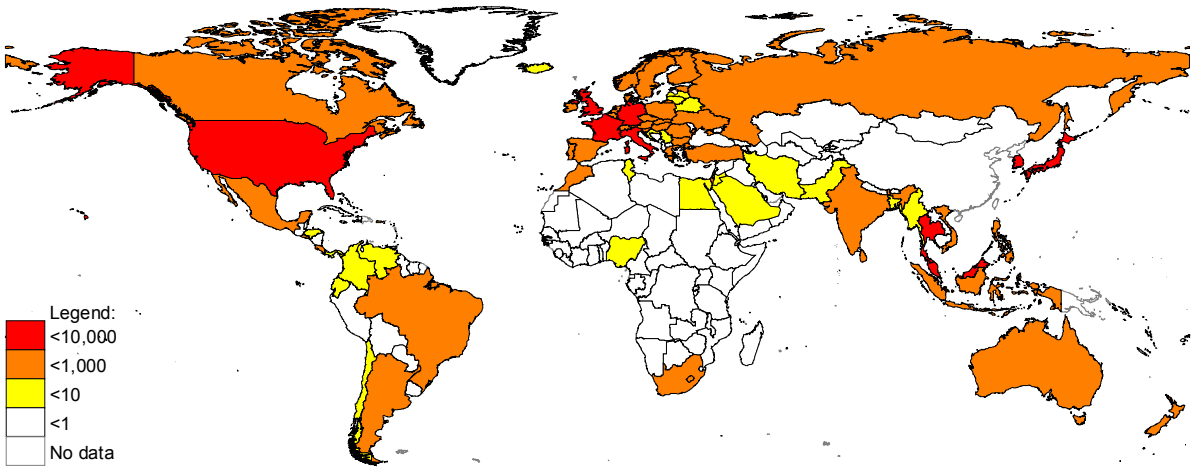
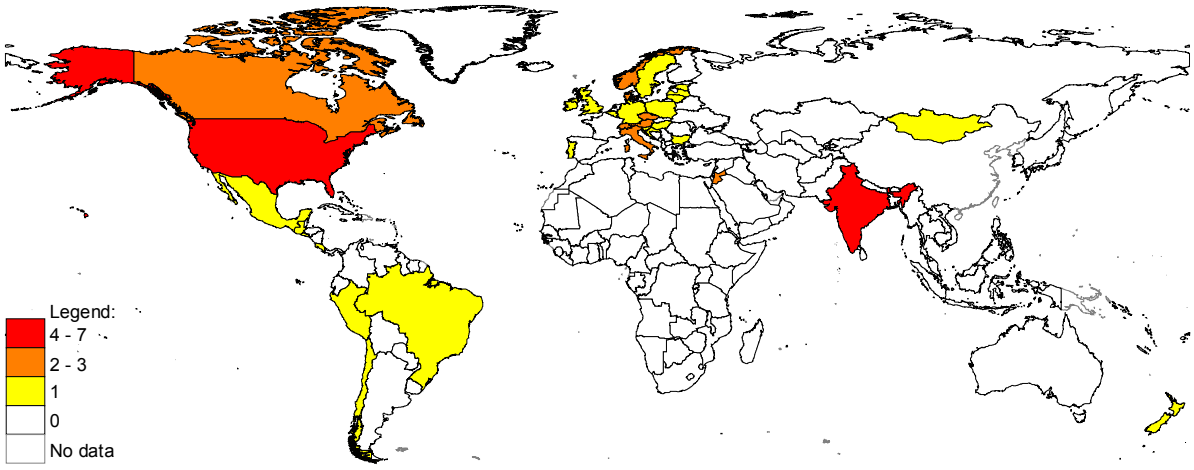


Figure 3: Number of months in which a partner country's government member received the Dalai Lama (2000-2006)



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
2007	21.8	28.9	49.3
2008	20.6	30.4	49.0
2009	22.9	30.6	46.5
Average	24.5	19.6	55.9

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

	Direct (ordinary) importers	Trade intermediaries (processing)
2000	39.3	60.7
2001	43.5	56.5
2002	37.7	62.3
2003	38.4	61.6
2004	32.9	67.1
2005	27.7	72.4
2006	27.4	72.6
2007	37.3	62.7
2008	39.4	60.6
2009	46.7	53.3
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	-0.098	-0.114	0.174
	(0.104)	(0.143)	(0.067)	(0.157)	(0.174)	(0.142)
Dalai Lama meeting (Q-2)	-0.293**	0.128	-0.201*	-0.489**	-0.154	-0.142
	(0.125)	(0.131)	(0.105)	(0.244)	(0.270)	(0.117)
Dalai Lama meeting (Q-3)	0.026	-0.065	0.012	-0.180	-0.012	0.160
	(0.100)	(0.154)	(0.059)	(0.150)	(0.232)	(0.150)
Dalai Lama meeting (Q-4)	-0.008	-0.285**	-0.080	-0.060	0.207	0.015
	(0.093)	(0.144)	(0.095)	(.)	(0.228)	(0.144)
Log(GDP)	-1.092**	1.634**	0.063	-0.855*	0.730	0.148
	(0.451)	(0.802)	(0.458)	(0.477)	(0.560)	(0.393)
Log(Population)	-1.130	12.563	14.210	-7.009	10.254	-2.345
	(10.680)	(8.380)	(8.970)	(9.384)	(7.746)	(4.886)
Country effect	yes	yes	yes	yes	yes	yes
Month effect	yes	yes	yes	yes	yes	yes
Country-specific linear time trend	yes	yes	yes	yes	yes	yes
Number of observations	5,594	4,618	5,804	11,866	10,789	13,237
Number of countries	133	117	152	149	136	167
Within R-squared	0.249	0.554	0.367	0.167	0.472	0.223

Notes: Standard errors are clustered at both the partner-country and year 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	-0.053	0.014
	(0.020)	(0.047)	(0.023)	(0.020)	(0.035)	(0.021)
Dalai Lama meeting (Q-2)	-0.007	-0.053	0.010	-0.041	-0.093**	0.001
	(0.022)	(0.052)	(0.021)	(0.030)	(0.038)	(0.024)
Dalai Lama meeting (Q-3)	0.026	-0.081	0.020	-0.026	-0.082**	0.014
	(0.023)	(0.051)	(0.023)	(0.025)	(0.034)	(0.021)
Dalai Lama meeting (Q-4)	-0.014	-0.042	0.002	-0.027	-0.015	0.002
	(0.026)	(0.031)	(0.018)	(0.023)	(0.028)	(0.017)
Log(GDP)	-0.043	0.297	0.078	-0.017	0.260**	0.075
	(0.092)	(0.258)	(0.106)	(0.059)	(0.110)	(0.057)
Log(Population)	2.507	-0.848	3.448	1.021	2.693**	1.036
	(2.034)	(2.898)	(2.638)	(1.354)	(1.250)	(0.955)
Country effect	yes	yes	yes	yes	yes	yes
Month effect	yes	yes	yes	yes	yes	yes
Country-specific linear time trend	yes	yes	yes	yes	yes	yes
Number of observations	5,594	4,618	5,804	11,866	10,789	13,237
Number of countries	133	117	152	149	136	167
Within R-squared	0.490	0.883	0.802	0.369	0.827	0.689

Notes: Standard errors are clustered at both the partner-country and year 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	-0.006
	(0.085)	(0.069)	(0.152)	(0.198)
Dalai Lama meeting (Q-2)	-0.250**	0.055	-0.340*	0.155
	(0.113)	(0.072)	(0.190)	(0.191)
Dalai Lama meeting (Q-3)	-0.070	0.191**	-0.044	0.131
	(0.076)	(0.086)	(0.107)	(0.210)
Dalai Lama meeting (Q-4)	-0.012	0.118	0.113	0.279
	(0.096)	(0.089)	(0.143)	(0.172)
Log(GDP)	-0.087	0.296	0.317	0.115
	(0.361)	(0.555)	(0.410)	(0.370)
Log(Population)	-0.374	22.711***	-8.571	-0.778
	(9.563)	(6.749)	(5.915)	(5.752)
Country effect	yes	yes	yes	yes
Month effect	yes	yes	yes	yes
Country-specific linear time trend	yes	yes	yes	yes
Number of observations	6,426	4,988	13,729	12,335
Number of countries	160	134	173	155
Within R-squared	0.303	0.478	0.209	0.276

Notes: Standard errors are clustered at both the partner-country and year 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	-0.012
	(0.022)	(0.027)	(0.021)	(0.023)
Dalai Lama meeting (Q-2)	-0.002	-0.001	-0.022	-0.002
	(0.026)	(0.035)	(0.029)	(0.026)
Dalai Lama meeting (Q-3)	0.019	0.014	0.005	-0.007
	(0.022)	(0.026)	(0.018)	(0.022)
Dalai Lama meeting (Q-4)	0.014	0.020	0.017	0.024
	(0.020)	(0.027)	(0.016)	(0.024)
Log(GDP)	0.121	0.144	0.099	0.069
	(0.121)	(0.172)	(0.063)	(0.058)
Log(Population)	1.222	4.675**	0.282	1.036
	(1.832)	(2.033)	(0.843)	(0.814)
Country effect	yes	yes	yes	yes
Month effect	yes	yes	yes	yes
Country-specific time trend	yes	yes	yes	yes
Number of observations	6,426	4,988	13,729	12,335
Number of countries	160	134	173	155
Within R-squared	0.751	0.771	0.646	0.683

Notes: Standard errors are clustered at both the partner-country and year 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) $ln(N_{it})$	(2) $ln(\overline{x_{it}})$
Dalai Lama meeting (M-1)	0.006	0.066
	(0.029)	(0.107)
Dalai Lama meeting (M-2)	0.022	0.102
	(0.035)	(0.117)
Dalai Lama meeting (M-3)	0.032	-0.153**
	(0.028)	(0.072)
Dalai Lama meeting (M-4)	-0.070	-0.352*
	(0.046)	(0.185)
Dalai Lama meeting (M-5)	-0.008	-0.172
	(0.031)	(0.110)
Dalai Lama meeting (M-6)	-0.029	-0.495**
	(0.042)	(0.224)
Dalai Lama meeting (M-7)	0.020	-0.029
	(0.025)	(0.116)
Dalai Lama meeting (M-8)	-0.006	-0.146
	(0.031)	(0.130)
Dalai Lama meeting (M-9)	0.023	-0.052
	(0.032)	(0.070)
Dalai Lama meeting (M-10)	0.018	-0.142
	(0.026)	(0.120)
Dalai Lama meeting (M-11)	-0.022	-0.044
	(0.028)	(0.131)
Dalai Lama meeting (M-12)	0.013	-0.018
	(0.024)	(0.146)
Log(GDP)	0.031	-0.487*
	(0.117)	(0.279)
Log(Population)	3.336**	3.562
	(1.635)	(6.595)
Country effect	yes	yes
Month effect	yes	yes
Country-specific linear time trend	yes	yes
Number of observations	6,926	6,926
Number of countries	165	165
Within R-squared	0.715	0.151

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