False Hopes:

The Impact of National Leaders' Corporate Visits on Industry Peers

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Abstract

I study how politicians' activities affect the stock market and firm performance. Using hand-collected data on China's national leaders' corporate visits, I investigate the industry-wide implications of these visits. I find that over the five days surrounding a visit, an average industry peer's value increases by 4% of its total assets. This result reflects investors' favourable reactions to leaders' indications of more government support for the industry. However, the industry peer's profitability plummets by more than 10% in the following two years. Further analysis reveals that after the visits, industry peers increase their investments, presumably in anticipation of additional government subsidies and credits. However, these resources are never delivered, and the profitability of these firms falls. My findings suggest that national leaders' visits do not help boost the targeted industries, and firms should carefully interpret the politicians' activities.

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1 Introduction

Politicians perform various activities, such as giving speeches, travelling domestically and internationally to meet citizens and other politicians, and tweeting. Anecdotal evidence shows that these activities have profound impacts on the corporate sector.[1] Surprisingly, the extensive literature examining the politics-business nexus (e.g., Bertrand et al., 2018; Brogaard et al., 2021; Faccio, 2006; Fisman, 2001; Liu et al., 2022) has paid little attention to these activities' impacts.[2] I fill this gap by investigating how Chinese leaders' firm visits affect the entire industry in the short- and long run.

Chinese leaders visit firms frequently, and the hosting firms' stock prices react positively to these visits (Schuler et al., 2017; Wang et al., 2019). However, these visits are likely to have broader impacts, as leaders typically use firm visits to emphasize the country's priority industries (Cai and Hou, 2019; Schuler et al., 2017). During these visits, leaders often express the government's intention to support the visited industry further. For instance, Wen Jiabo visited Fiberhome Communication Technology in 2006. He underlined that the government must provide more assistance to the electronics industry. When visiting Dalian Heavy Industry in 2015, Li Keqiang mentioned that it is crucial to help the equipment manufacturing industry to achieve scientific transformation and obtain global competitiveness.

[1] For example, all three major indices in the US surged after Biden's speech about rejecting the proposal to exclude Russia from SWIFT (White, 2022); the stock price of GEM jumped in the afternoon of Xi Jinping's company tour (Yan, 2013); and the plan to end the COVID relief plan negotiations caused a 1.5% drop in all three major US indices (Santoreneos, 2020).

[2] Exceptions are Maligkris (2017), who studies the stock market reactions to politicians' speeches, Aleksanyan et al. (2021), who document that diplomatic visits stimulate cross-border mergers, and Schuler et al. (2017) and Wang et al. (2019), who find that Chinese politicians' firm visits increases hosting firms' values and performances.

How do investors and industry peers interpret these statements? Are these visits successful in boosting the targeted industries? Answering these questions can enrich our knowledge of how and to what extent politicians can actively influence the corporate sector. To achieve this, I manually collect data on firm visits made by China's top two leaders, the General Secretary of the Chinese Communist Party and the Premier of the State Council, between 2007 and 2017 and investigate how these visits affect industry peers.

Although national leaders in other countries also visit their firms to highlight contemporaneous policy focus and strategic plans,[3] China provides a more suitable empirical laboratory for three reasons. First, the destination and timing of the visits are top-down decisions, and it is implausible that special interest groups can influence which industry the leaders will visit. This institutional feature minimizes endogeneity concerns. Second, most Chinese people only learn about a leader's visit after it happens. This fact precludes the anticipation effect when studying a visit's industry-wide implication on the stock market. Third, Chinese leaders visit firms more frequently than western leaders, allowing richer data for inference.

I document strong evidence of positive intra-industry return spillover following leaders' visits. Five days after the visit, an average same-industry firm enjoys a 1% cumulative abnormal return, equivalent to an increase of more than 120 million RMB Yuan (or 19 million USD at the 2012 exchange rate). This increase in value is about 4%

[3]For example, in February 2021, US President Joe Biden visited Pfizer's Michigan facility amid the COVID pandemic, expressing the government's support for vaccine and medicine development. In May of the same year, Australian Prime Minister Scott Morrison toured the innovation commercialisation company Planet Innovation, emphasising the government's desire to promote related activities.

of the firm's total assets. The effect is slightly larger for non-state-owned firms (non-SOEs) than for state-owned firms (SOEs). These results indicate that stock market participants consider these visits positive news for the non-visited industry peers. Moreover, following the visit, stock market analysts start to pay more attention to the same industry firms, especially the non-state-owned ones.

I then investigate whether this increase in the firm value portends improved financial performance. Employing Callaway and Sant'Anna (2021)'s difference-in-differences (DiD) framework to account for multiple treatment timing and heterogeneous treatment effect, I find that the average same-industry firm suffers a more than 10% decline in profitability during the two years following the visit. Sub-sample analysis reveals that these drops are concentrated in the same industry non-SOEs, whereas their state-owned counterparts' profitability remains unaffected.

Why do firms' performances suffer after a national leader visits their industry peers? To answer this question, I examine how firms respond to a visit in their industry and whether they receive additional resources as indicated by the visited leader. I find that same industry non-SOEs expand their operations by increasing physical and R&D investments but receive no additional loans or government subsidies. On the other hand, same-industry SOEs do not scale up their operations but receive incremental short-term loans.

These results suggest that politicians' activities might mislead firms to make value-destroying decisions. The same industry non-SOEs increase their investments after observing a leader's visit to their industry peer–presumably expecting to receive ad-

ditional government subsidies and bank loans. However, these extra resources are never delivered. Consequently, these firms' profitability suffers. On the other hand, same industry SOEs' inaction, possibly because they possess more information regarding the resource distribution, saves them from performance declines.

I use various methods to ensure the validity of my results. First, I use parametric and non-parametric test statistics for the event study. Both types of tests indicate statistically significant cumulative abnormal returns. Second, I test the market reactions of firms from different industries as the visited firms. The stock prices of these firms do not respond to the visits. Third, I use 12 months before the actual visit dates as the placebo event dates. I do not find same industry firms' stock prices react to these pseudo-events.

I also conduct a falsification test for the difference-in-differences analysis by using the date two years before an actual visit date as the placebo treatment time. I choose a two-year gap to avoid including the actual post-visiting period in calculating the falsification treatment effect. I find no evidence of these pseudo-events affecting the same industry firms' performance.

This paper contributes to various strands of literature. First, I enrich the work on the political economy of finance, especially the literature investigating politicians' influences on the corporate sector. I find that in addition to channels such as ownership structure (Alok and Ayyagari, 2020; Borisova et al., 2015) and personal connections (Bertrand et al., 2018; Brogaard et al., 2021; Faccio, 2006; Fisman, 2001), politicians' physical activities can also profoundly affect firm value and performance. Moreover,

I present evidence that politicians' influences can go beyond the focal firm and reach the entire industry.

Second, I add to the studies on spillover effects in financial markets. This literature has documented the spillover of various corporate activities, including IPOs (Hsu et al., 2010; Li and Zhang, 2021), share repurchases (Massa et al., 2007), M&As (Albuquerque et al., 2019; Song and Walkling, 2000), bankruptcies (Boone and Ivanov, 2012; Lang and Stulz, 1992), and innovation (Matray, 2021), among others. My paper shows that the politics-business nexus can also propagate to other firms.

Third, my paper contributes to the growing literature studying China's industrial policy. Extant work fails to identify conclusive evidence on the effectiveness of these policies (Aghion et al., 2015; Chen et al., 2020; Liu et al., 2022) and finds that lack of policy persistence harms the corporate sector (Deloof et al., 2022; Wu et al., 2019). I add to these studies by showing that national leaders' presences and promises do not constitute a remedy for policy ineffectiveness.

The rest of the paper is organized as follows. Section 2 provides background on Chinese leaders' corporate visits and lays out the hypotheses. Section 3 describes the data and methodology. Section 4 investigates how leaders' visits affect the market value of non-visited industry peers. Section 5 studies how these visits affect same industry firms' financial performances. Robustness checks are discussed in Section 6. Section 7 concludes.

2 Institutional Background and Hypotheses

National leaders' domestic inspection tours in China can be traced back to imperial times. During the Han dynasty (202 B.C. to 220 A.D.), a system under which the Emperor routinely sent out delegates to tour the country on his behalf was already institutionalized (Hucker, 1951). The ruling class used these tours to oversee the sub-national administrations and demonstrate that they cared about the grassroots (de Crespigny, 1981).

The leaders of the People's Republic of China inherited this tradition and regularly travel across the country to meet with the local community. The official purposes of these visits are disclosed in the substantial media coverage they receive. Textual analysis of these news articles reveals that there are three main objectives, to emphasize recent policy focus, to promote economic development, and to ensure continuous improvement of social welfare (Figure A1).

During many of these inspection tours, the leaders would stop by firms in the hosting cities. These firms view receiving a leader's visit as a tremendous honour and would post relevant news and images about the visit on their websites. Many firms repeatedly refer to the visits in subsequent annual reports. These visits garner substantial public attention (Figure A2), and stock prices of the hosting firms react positively to the visits (Schuler et al., 2017).

Although it is not apparent to outsiders how leaders select particular firms to visit, studies reveal that praising the hosting firms is not the primary purpose of

these visits (Cai and Hou, 2019). In fact, the hosting firms are typically exemplars of China's contemporaneous industry policy priorities (Schuler et al., 2017). For example, Hu Jintao visited Sinotruck in 2009 to highlight the national policy of promoting the vehicle manufacturing industry. During his visit to the China Railway Engineering Equipment Co. in 2014, Xi Jinping pointed out that developing the engineering equipment industry is paramount to the country. Moreover, national leaders often express the government's intention to further support the visited industry.

These visits thus indicate that the government is planning to promote the visited industries, and firms in these industries might be able to access additional resources such as credits, government subsidies, and relaxed regulations (Schuler et al., 2017). Realizing the nature of these visits, investors interpret them as positive news for firms in the visited industries. Based on this argument, I hypothesize that stock prices of firms in the same industries as the visited firms increase following the visits.

In the longer run, however, it is less obvious how these visits will affect industry peers. On the one hand, if the same industry firms receive additional resources from the government, their performance is likely to increase. On the other hand, if leaders' visits do not translate into additional resources, the same industry firms' performances are unlikely to increase. Therefore, whether leaders' visits enhance the same industry firms' long-run performances is *a priori* unclear and merits empirical exploration.

3 Data, Sample, and Methodology

3.1 Leader Visits

I manually collect the data of corporate visits made by the Party General Secretary and the Premier from *People's Daily*, the largest newspaper agency in China and the official newspaper of the Chinese Communist Party (CCP). I focus on the period between 2007 and 2017, spanning two administrations, namely Secretary Hu Jintao and Premier Wen Jiabao from October 2007 to November 2012, and Secretary Xi Jinping and Premier Li Keqiang from November 2012 to October 2017.

I start by recording all domestic tours made by these leaders. Then, for each tour, I search for whether there are firms listed on Shanghai or Shenzhen Stock Exchange that hosted the leaders. I define a visit as an incident of a listed firm being visited by a leader. I cross validate this information from a wide range of sources, including *Baidu Encyclopedia*, firms' websites, and local newspapers. I exclude all visits to the financial firms, utility firms, and central government-owned firms.[4] I also exclude visits made for disaster relief. The final sample includes 66 visits. Figure 1 plots the distribution of visits and firms visited each year.

[4]The financial and utility industries are highly regulated in China. Central government owned firms typically also operate in "strategically important industries to the national security". These firms have very few industry peers and these peers are typically owned by the same shareholder, the central government.

3.2 Firm Information

I obtain firm information from the China Stock Market and Accounting Research (CSMAR) database. For each visited firm, I identify its industry based on the three-digit classification of the China Securities Regulatory Commission (CSRC). I exclude all firms without sufficient stock market and financial information. The final sample includes 102 visited firms. Panel A of Table 1 shows their characteristics measured at the year-end before the visiting year.

A firms is considered to be a same industry firm if it shares the same three-digit CSRC code as the visited firm. The requirement to have sufficient information generates a sample of 3,555 same industry firms. I show their baseline characteristics in Table 1 panel B. To facilitate comparison, for each same-industry firm, I match a firm from industries that have not experienced a visit yet. The match is based on size, book-to-market ratio, and state-owned status observed at the beginning of the visiting year. Table 1 panel C presents the information of these matched firms.

3.3 Event Study for Stock Market Reactions

I examine the stock market reactions to the visiting events using the standard event study method (Brown and Warner, 1985). The event date is defined as the visiting date. I adopt a 252-trading day estimation window that ends 46 days before the event date to estimate the market model:

$$R_{it} = \alpha_i + \beta_i R_{mt} + \varepsilon_i \tag{1}$$

where R_{it} is the daily return of firm i and R_{mt} the daily return of the value-weighted market index. Next, I compute for each firm the abnormal return:

$$AR_{it} = R_{it} - \hat{\alpha}_i - \hat{\beta}_i R_{mt} \tag{2}$$

and the cumulative abnormal return (CAR):

$$CAR_i^{t,t+T} = \sum_{t}^{t+T} AR_{it} \tag{3}$$

where T is the number of trading days in the event window. I consider various event windows surrounding the event date (day 0), including 2-day (0 to 1), 4-day (0 to +3), and 6-day (0 to +5). I also conduct falsification tests using 10-day (-10 to -1) and 5-day (-5 to -1) pre-event date windows. For inference, I include both parametric and non-parametric test statistics.

I complement this study of initial market reactions by examining the market dynamics beyond the initial reactions. Specifically, I estimate the 30-day buy-and-hold abnormal returns (BHAR) following the visiting event:

$$BHAR_{0,30} = \frac{1}{N} \sum_{j=1}^{N} \Big(\prod_{t=0}^{30} (1 + R_{j,t}) - \prod_{t=0}^{30} (1 + a_{j,t}) \Big) \tag{4}$$

where $R_{j,t}$ is the return of stock j at time t, and $a_{j,t}$ is the market adjusted return for stock j at t. N is the number of firms. However, I recognize the challenges embedded in generalizing event study methodology for longer horizon (see e.g., Kothari and

Warner, 2007; MacKinlay, 1997), and thus do not perform statistical inference for this analysis.

3.4 DiD Framework for Real Outcomes

I adopt a difference-in-differences (DiD) framework to investigate whether leaders' visits have long-run impacts on same industry firms. The recent literature highlights that a setting with staggered treatment timing and heterogeneous treatment effects will introduce bias to the DiD estimator (Athey and Imbens, 2022; de Chaisemartin and D'Haultfœuille, 2020; Goodman-Bacon, 2021). To alleviate this concern, I utilize the group-time DiD estimator proposed by Callaway and Sant'Anna (2021).

In my context, the treatment is the visit, and the treated firms are firms in the same industries as those hosting the visits. I define treatment year (year 0) as the year of the visit if the visit happens during the first half of a year, or the year after the visit if the visit happens during the second half of a year. To avoid confounding factors introduced by repeated visits, I include a visiting event if there is no event in the same industry during the surrounding two years. For each event, the control group consists of firms from industries that never received a visit during my sample period, and firms from industries that have not been visited yet. I estimate the average treatment effect on the treated during the two-year window (i.e., year 0 and year 1) following the treatment, both without and with covariates. I report the p-value from the chi-squared test of the hypothesis that all pre-treatment treatment effects are zero (i.e., parallel trend assumption).

4 Stock Market Reactions

4.1 Price Reactions to Same Industry Visits

Figure 3 presents the first evidence of a positive intra-industry spillover effects of leaders' visits. Panels (a) and (b) display the average CARs across all same industry firms over 21-day ([-10, +10]) and 16-day ([-5,+10]) windows around a visiting event. There is an immediate positive abnormal return on the visit date (day 0), and the CAR continuous to increase and stays statistically significant (as indicated by the 95% confidence interval plotted) throughout the event window. A closer investigation reveals that non-state owned enterprises enjoy a larger abnormal return (see panels (c) and (d)).

I conduct formal statistical tests in Table 3. Panel A shows that for an average same industry firm, the two-day abnormal return following the visit is 0.43%. This figure further rises to almost 1% five days after the visit. To put this in perspective, Figure 2 plots the stock market reactions to the visited firms, with formal statistical tests provided in Table 2. On average, a firm hosting leader's visit enjoy 2.4% of abnormal return 5 days after the visit.[5]

Same industry firm abnormal returns are roughly 17% to 42% of the visited firms CAR and are robust to both parametric and non-parametric tests. In market value terms, these results suggest that a leader's visit in an industry increases an average (median) non-visited firm's value by 122.55 (52.18) million RMB in five days. As a

[5]There is also evidence of a return premium prior to the visit, possibly due to information leakage and informed trading on the visited firms.

falsification test, there is no evidence of non-zero abnormal returns before the event day.

In panel B, I further control for confounding factors that might affect CARs. For each same industry firm, I utilize the propensity score matching to select a firm from the control industries based on size, book-to-market ratio, and state-ownership status. Then I regress CARs over various windows on the same industry dummy and control variables. I also incorporate visit fixed effects in the regression and cluster standard errors at the visit level to account for visit-specific heterogeneity.

The regression results confirm the observations from the event study. The coefficients of same industry are all positive and statistically significant, suggesting a pronounced price impact from the visit to the same industry firms. For example, conditioning on a wide range of firm characteristics, an average same industry firm earns a 0.5% higher return than its matched other-industry firm in the five days following a visit. Comparing to the 0.35% round-trip transaction cost of China's stock market (Li and Zhang, 2021), this additional return of same industry firm is economically meaningful.

4.2 Analyst Coverage after Same Industry Visits

If a visit indeed conveys information about the industry, the non-visited firms in the same industry will receive more attention after a visit. I test this conjecture by investigating whether there are increases in analyst coverage for these firms following a visit. I adopt the Callaway and Sant'Anna (2021) framework and estimate the average

treatment effect (incremental coverage) on the treated (same industry firms) over a two-year window following the visit (i.e., visited year and the following year). The results are reported in Table 4.

I find that an average same industry firm experiences a more than 80% increase in the number of analysts covering it. The effect is statistically significant after conditioning on a set of pre-treatment covariates, including size, age, sales growth, and the book-to-market ratio. The pre-trend p-value suggests that after conditioning on the covariates, there is no evidence of violation of the parallel trend assumption. This result implies that leaders' visits indeed have intra-industry spillover effects, as these events induce analysts to pay more attention to the firms from the same industry.

I then split firms into state-owned and non-state-owned ones and re-run the DiD analysis separately. The results show that after a visit, the number of analysts following same industry non-SOEs almost tripled. However, there is no evidence of same industry SOEs attracting additional analyst attention.

5 Financial Performance

5.1 Performance of Same Industry Firms

Does the intra-industry spillover reflect better future performances of the same industry firms? I examine this question using the Callaway and Sant'Anna (2021) DiD framework outlined above. I investigate three profitability measures, return-on-asset (ROA), return-on-equity (ROE), and net income per employee (Labor Efficiency). I

also study leader visits' impact on same industry firms' productivity using the total factor productivity (TFP) measure of Olley and Pakes (1996).

Table 5 reports the results. I find that, for an average same industry firm, ROA declines 11% to 15%, ROE declines 10.8% to 12.8%, and labor efficiency declines 10% to 11%, depending on whether the covariates are included.[6] However, I do not find a significant effect on productivity. There is no evidence that the parallel trend assumption is violated.

Sub-sample analyses show these profitability drops are driven by non-SOEs. Although the point estimates for SOEs are also negative, all of them are much smaller in magnitudes and none of them are statistically significant. On the other hand, conditional on covariates, non-SOEs suffer an average drop of 13% in ROA, 14% in ROE, and 35% in labor efficiency. Although statistically insignificant, non-SOEs also have more negative point estimates of productivity.

Leader visits' negative impact on same industry firms' profitability is surprising, especially when compared to the significantly positive stock market reaction (i.e., Figure 3 and Table 3). To reconcile these findings, I look beyond the initial market reaction by calculating the 30-day buy-and-hold abnormal return of the same industry firms. Figure 4 plots the BHAR averaged across all firms (left panel) and by ownership (right panel). Although statistical inference is less reliable, BHAR can still provide valuable information regarding stock market dynamics.

The BHAR plot shows a gradual diminishing of the initial abnormal return over

[6] An average same industry firm has ROA of 4.2%, ROE of 7.1%, and labor efficiency of 0.127.

the 30-day period. Heterogeneous analysis shows that the abnormal return reverts to 0 after 30 days for SOEs, whereas for non-SOEs, the abnormal return becomes negative during the same period. This longer-run return pattern is consistent with the profitability decline in non-SOEs, but not SOEs. However, it remains unclear why these visits, during which the leaders usually hint on the importance of the visited industries, would harm the non-SOEs from these industries.

5.2 Explaining the Performance Discount

5.2.1 Do Same Industry Firms Expand Businesses?

A firm may interpret a leader's visit to its industry peer as a signal that the government will support the development of this industry and tilt resources towards it. As a result, it may expand its operation in the hope of reaping the benefits of this prospect. I examine this possibility using the same DiD framework as above. I investigate three measures: capital investment, R&D investment (both scaled by the start-of-year assets), and the natural logarithm of employees. Table 6 reports the DiD results. There is no evidence that the parallel trend assumption is violated in these specifications, especially after conditioning on covariates.

Overall, I do not find a leader's visit results in the expansion of an average industry peer. However, a closer examination reveals different patterns for SOEs and non-SOEs. I find that in the two years following a visit, non-SOE industry peers significant increased their capital and R&D investments. Moreover, their labour forces,

albeit not statistically significant, also become larger. On the other hand, SOEs do not respond to a visit in their industry by scaling up their operations.

There might be different explanations to SOEs' inaction. For example, compared to non-SOEs, SOEs may possess more accurate information on whether they will receive more resources from the government or banks (Jiang and Kim, 2020). Alternatively, due to their hierarchical structure, they may suffer from ineffectiveness in decision-making (Lin et al., 2020). However, it is difficult to identify the exact reason behind it.

5.2.2 Do Same Industry Firms Obtain Extra Resources?

I apply the same DiD framework to investigate whether same industry firms indeed receive additional resources following the visit. I focus on three outcome variables. The first one is the amount of government subsidy scaled by start of year assets. Chinese listed firms are mandated to disclose in their financial statements the monetary subsidy they receive from the governments. This variable is informative about the direct support a firm receives from the government. I also look at new short-term (maturing within a year) and long-term bank loans (both scaled by the start of year assets) a firm obtains each year following the visit. Since the vast majority of banks in China are state owned, these two variables are also popular indicators of the resources a firm receives from the government in China's context (Liu et al., 2022; Ru, 2018).[7]

[7]Ideally, it is helpful to focus solely on loans from state-owned banks. Unfortunately, I do not have the information on the banks issuing the loans. However, as most banks in China are state-owned (Ru,

Table 7 reports the results. First, I find no evidence that the average same industry firm receives additional government subsidies during the two years following a visit. The same is true in terms of additional long-term loans. However, I do find in the two years following the visit, the average same industry firm receive 7% (=0.925/13.1, without covariates) to 9.5% (=1.238/13.1, with covariates) more newly issued short-term loans every year.[8] This effect is driven by the additional loans received by same industry SOEs (about 12% more). On the other hand, there is no evidence that non-SOEs are granted extra short-term loans. The pre-trend p-values indicate that most of the time, there is no evidence of the violation of the parallel trend assumption.

These results suggest leaders' visits to a firm only bring very limited additional resources to the firms in the same industry, and these resources are only allocated to state owned firms. Thus the visiting events are not effective tools to stimulate industrial development.

5.2.3 Summary: Why do non-SOEs Suffer?

The results from the above analysis can explain why non-SOEs do not perform well following a leader's visit to their industry peer. These firms increase their investments in anticipation of receiving more resources from the government, as indicated by the leaders during their visits. However, it is the sub-national government officials and bank managers, not the national leaders, who decide on resource distribution. These

2018), the aggregated loan level used here is still informative.

[8]The average newly obtained short-term loan scaled by total asset of same industry firms is 13.1%

officials and managers may face other economic or career constraints[9] and choose not to grant additional resources. Consequently, these non-SOEs' profitability and efficiency suffer.

6 Robustness Checks

6.1 Event Study

First, I plot the CARs of non-visited industry firms over the event window and juxtapose them with CARs of the same industry firms in Figure A4. For both 21-day ([-10, +20]) and 16-day ([-5, +20]) windows, other industry firms do not react to the visiting events in the same way as the same industry firm. I conduct a similar exercise after dividing the sample into Hu (2007-2012) and Xi (2012-2017) administrations. Figure A6 shows for both administrations, the return premium of same industry firms are large in magnitude.

I also conduct a placebo test by moving the event date to 12 months before the actual visit date. Figure A5 shows that same industry firms do not react to this placebo event, further validating that the market reactions observed in the main analyses should indeed be attributed to the visits.

[9]For example, a sub-national politician is evaluated for promotion based on her economic performance (Jia et al., 2015; Li and Zhou, 2005). If diverting resources to visited industries will not yield an immediate outcome, she will have little incentive to do so.

6.2 DiD Analyses

For the DiD analyses, I conduct robustness tests in which I move the event date to two years prior to the actual visiting date. I calculate the ATT over the two-year period following the event, and use a placebo date two years in advance to allow me to avoid including the actual post-visit years into calculating the placebo ATT.

Table A2 reports the placebo ATTs of analysts coverage, additional resources, and operation expansion. All specifications include the pre-treatment covariates. None of the coefficients are statistically significant.

I further estimate the placebo ATTs of profitability and productivity, the results are reported in Table A3. For each outcome variables, I report the ATTs of the overall sample and the non-SOE sample. There is no statistically significant ATTs of either sample, ensuring that the profitability drops observed in Section 5 are indeed aftermath of leaders' visits to their industry peers.

7 Conclusion

National leaders frequently visit firms in their countries. I investigate how these visits generate market-wide ramifications by examining their effects on firms operating in the same industries as the visited firms. Leaders' visits have a positive short-run return impact but a negative long-run performance impact on the same industry firms. Furthermore, while the return premium is similar for SOEs and non-SOEs, the performance drop concentrates on non-SOEs.

My results indicate that leaders' visits are not necessarily positive news to the firms in the same industry, even though the initial goals of the visits were to promote industrial growth. More generally, my study shows that politicians' activities can significantly impact the corporate sector in both the short- and long run. Since these impacts are not always positive, firms and stock market participants should be cautious in interpreting these activities.

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Figures

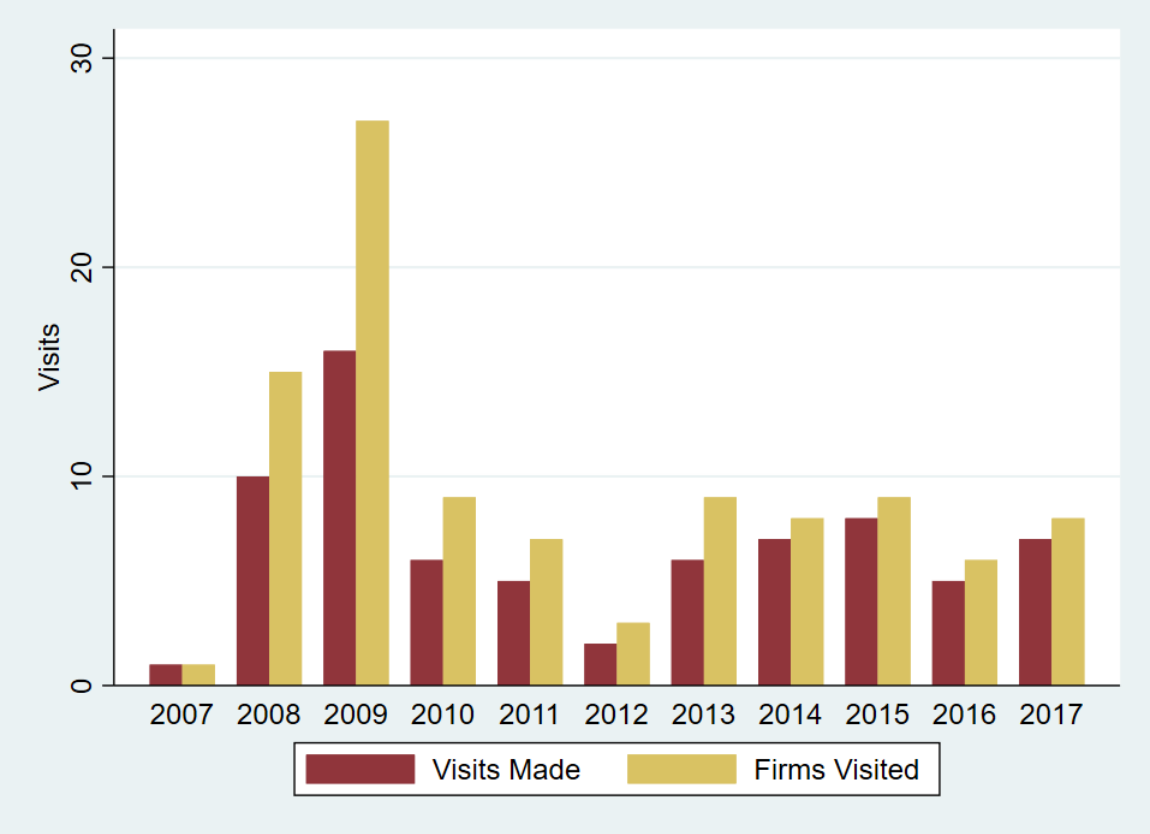
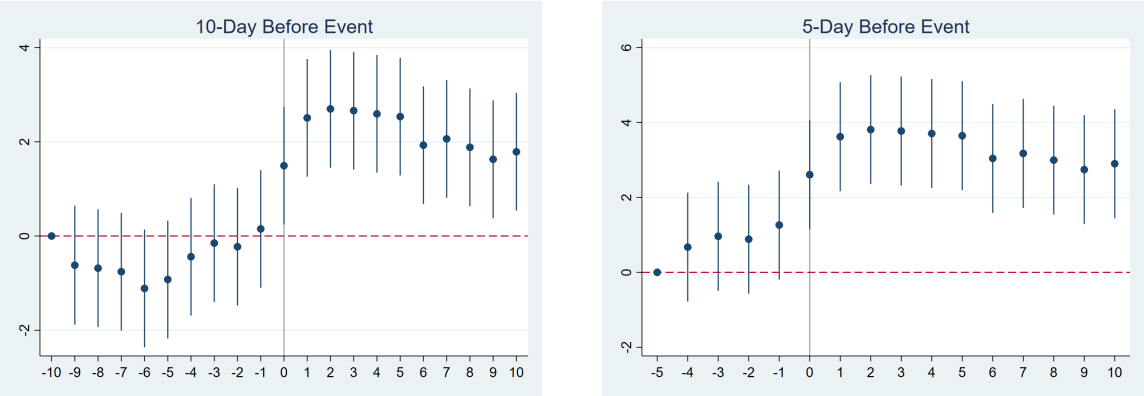
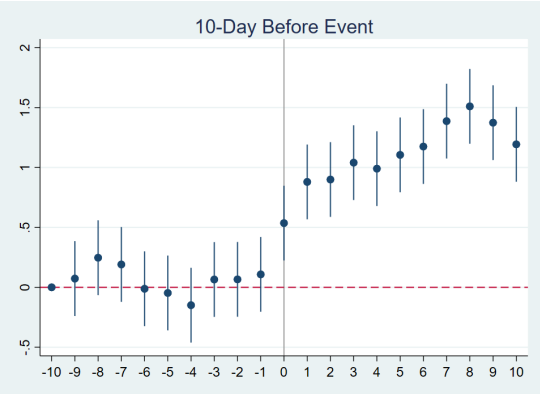


Figure 1: Distribution of Visits. This figure plots the annual distribution of China's national leaders' visits to firms during 2007 to 2017. The red bar shows the number of visits and the yellow bar shows the number of firms visited.

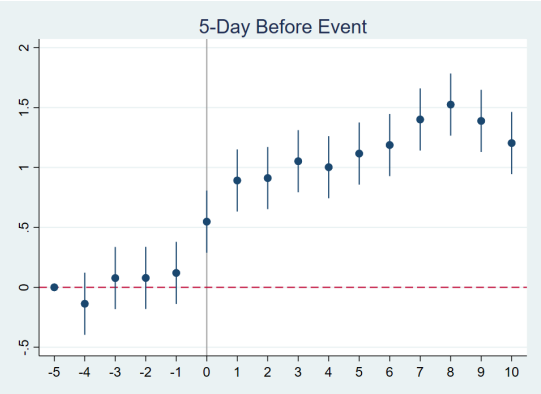


(a) 21-Day Window **(b)** 16-Day Window

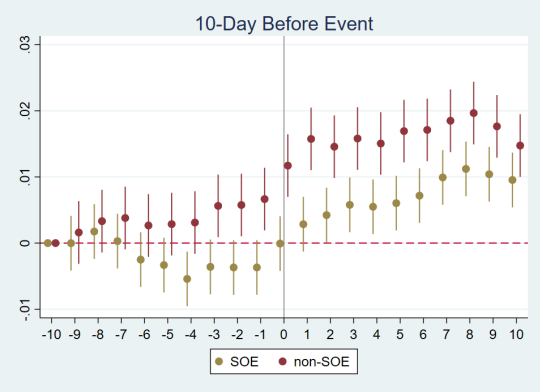
Figure 2: Market Reactions to Event Firms. This figure plots the market reactions (average CARs (%) with the corresponding 95% confidence intervals) to firms visited by the Party General Secretary and the Premier. Day 0 is the visiting date. The left panel plots the 21-day event window whereas the right panel the 16-day event window.



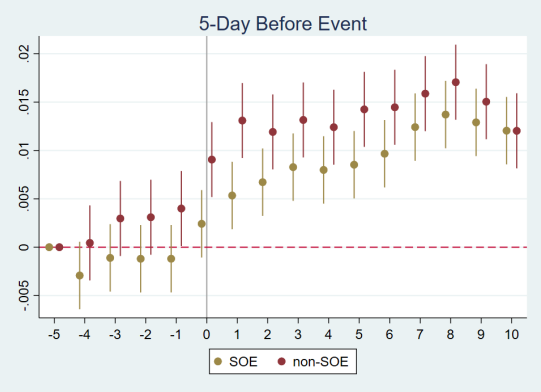
(a) 10-Day CAR All Firms



(b) 5-Day CAR All Firms

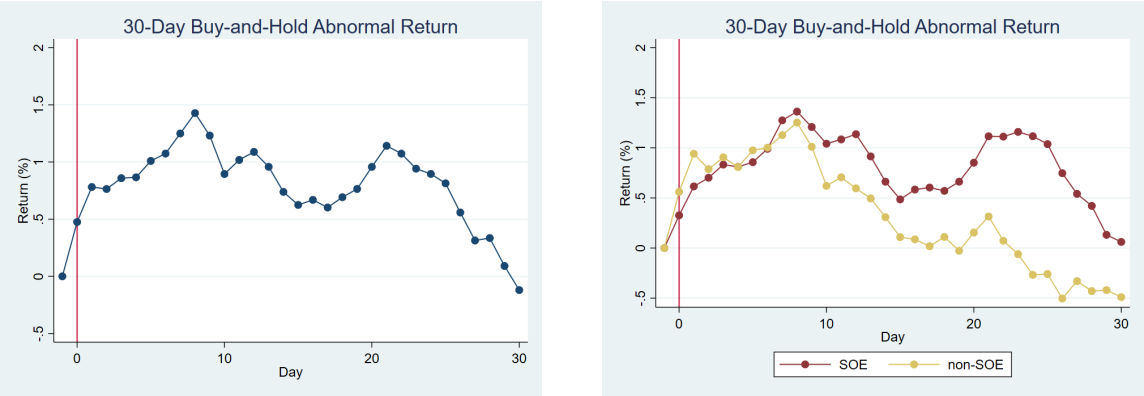


(c) 10-Day CAR Different Ownership



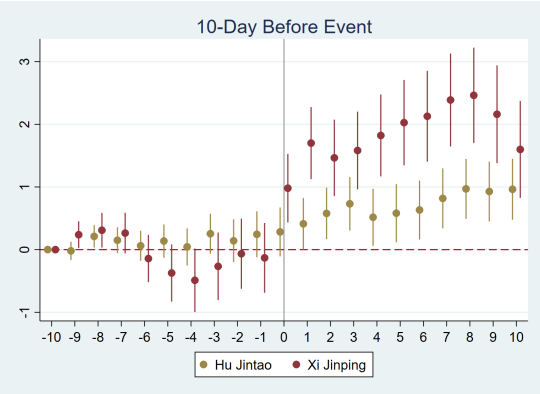
(d) 5-Day CAR Different Ownership

Figure 3: Market Reactions to Same Industry Firms. This figure plots the market reactions (average CARs (%) with 95% confidence intervals) to firms from the same industries as the visited firms. Day 0 indicates the visiting date. The top panel aggregates all firms, whereas the bottom panel breaks down the reactions to SOEs (yellow) and non-SOEs (red).

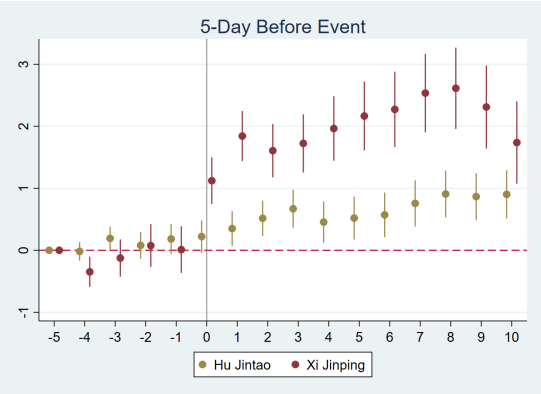


(a) All Firms **(b)** SOE versus non-SOE

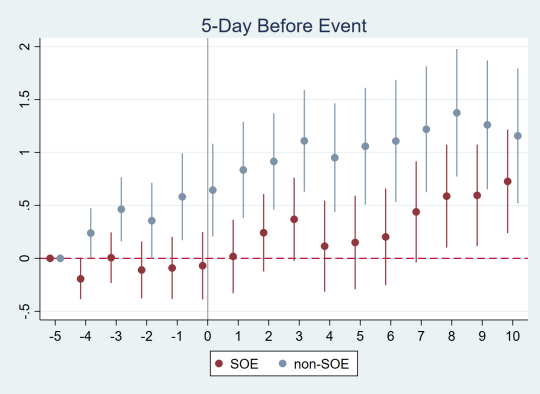
Figure 4: Longer-term Market Reactions to Same Industry Firms. This figure plots the 30-day buy-and-hold abnormal returns (BHAR, %) averaged across all same industry firms as the event firms. Day 0 is the visiting date. The left panel plots the average of all firms whereas the right panel breaks down the reactions of SOEs (red) and non-SOEs (yellow).



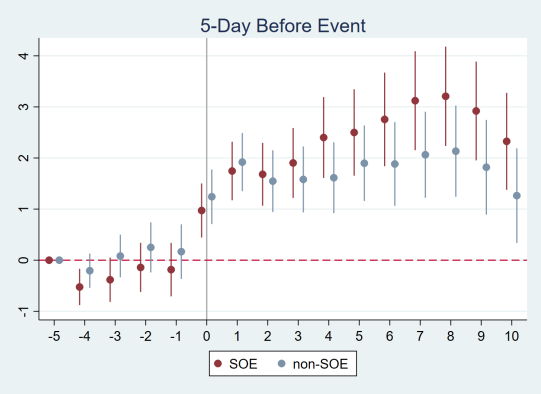
(a) 10-Day CAR All Firms



(b) 5-Day CAR All Firms



(c) 5-Day CAR Different Ownership (Hu Jintao)



(d) 5-Day CAR Different Ownership (Xi Jinping)

Figure 5: Intra-Industry Price Spillover under Different Administrations. This figure plots the market reactions (average CARs (%) with 95% confidence intervals) to firms from the same industries as the visited firms under different administrations. Day 0 indicates the visiting date. The top panel aggregates all firms by administration (yellow for Hu Jintao and red for Xi Jinping) and plots 21-day (left) and 16-day (right) windows. The bottom panel shows 16-day window market reactions to firms with different ownership (blue for SOE and red for non-SOE) under both Hu Jintao (left) and Xi Jinping administration (right).

Tables

Table 1: Summary Statistics

This table presents the characteristics of the visited firms (panel A), same-industry firms (panel B), and other industry firms matched to the same-industry firms based on size, book-to-market ratio, and state ownership (panel C). All variables are measured at the year-end before the visiting year. Size is the natural logarithm of total asset. Sale is the natural logarithm of sales revenue. Leverage is the ratio of total liability to total asset. ROA is the ratio of net income to total asset. Book-to-Market is the ratio of book value of equity to the market value of equity. SOE is a dummy variable indicating the firm is a state-owned enterprise. Connection is a dummy variable indicating the firm has at least one director who worked/works for the government/military.

Panel A: Visited Firms

	Obs	Mean	SD	Min	Max
Size	102	23.417	1.622	20.418	27.346
Sale	102	23.012	1.709	19.433	27.057
Leverage	102	0.557	0.188	0.081	0.957
ROA	102	0.048	0.051	-0.067	0.220
Book-to-Market	102	0.726	0.235	0.254	1.053
SOE	102	0.706	0.458	0	1
Connection	102	0.471	0.502	0	1

Panel B: Same Industry Firms

	Obs	Mean	SD	Min	Max
Size	3,555	21.880	1.242	17.757	27.809
Sale	3,555	21.424	1.425	17.113	28.004
Leverage	3,555	0.456	0.190	0.087	0.806
ROA	3,555	0.042	0.057	-0.817	0.284
Book-to-Market	3,555	0.619	0.229	0.010	1.318
SOE	3,555	0.548	0.498	0	1
Connection	3,555	0.409	0.492	0	1

Panel C: Matched Other Industry Firms

	Obs	Mean	SD	Min	Max
Size	3,555	21.882	1.312	18.468	29.800
Sale	3,555	21.314	1.424	15.148	28.689
Leverage	3,555	0.452	0.193	0.087	0.806
ROA	3,555	0.043	0.058	-0.817	0.390
Book-to-Market	3,555	0.619	0.241	0.021	1.430
SOE	3,555	0.545	0.498	0	1
Connection	3,555	0.406	0.491	0	1

Table 2: Market Reactions to Visited Firms

This table presents the CARs (%) of firms hosting the visits around the visiting date (Day 0) with various test statistics. Panel A shows the average CARs (%) of the same industry firms around the visiting date (Day 0), with both parametric and non-parametric test statistics. Panel B shows the results of the regression analysis. The control firms are selected based on book-to-market ratio, size, and state-owned status. Columns (2), (4) and (6) control for visit fixed effects. Standard errors are clustered at the visit level and reported in parentheses. *, **, and *** denote statistical significance at 10%, 5%, and 1% levels.

Panel A: Event Study

Event Window		Parametric Tests	Non-parametric Tests
	CAAR (%)	T	GSIGN
-10:-1	0.198	0.31	0.49
-5:-1	1.264	2.03**	0.29
0,1	2.356	5.34***	4.39***
0:3	2.510	3.80***	3.42***
0:5	2.384	2.94***	2.05**

Panel B: OLS

	(1)	(2)	(3)	(4)	(5)	(6)
	$(0,1)$	$(0,1)$	$(0,3)$	$(0,3)$	$(0,5)$	$(0,5)$
Size	-0.003	-0.004	-0.005	-0.012	-0.002	-0.012
	(0.004)	(0.007)	(0.006)	(0.012)	(0.008)	(0.014)
ROA	-0.133	-0.223	-0.182	-0.044	-0.330	-0.284
	(0.136)	(0.206)	(0.209)	(0.351)	(0.255)	(0.427)
Leverage	0.025	0.029	0.012	0.000	0.046	-0.012
	(0.033)	(0.054)	(0.050)	(0.093)	(0.061)	(0.113)
Connection	0.002	-0.004	-0.007	-0.010	-0.013	-0.022
	(0.009)	(0.016)	(0.014)	(0.027)	(0.018)	(0.032)
SOE	-0.007	0.039	0.003	0.008	0.013	0.072
	(0.012)	(0.023)	(0.018)	(0.040)	(0.022)	(0.048)
BtoM	-0.017	-0.105	-0.020	-0.012	-0.082	-0.163
	(0.029)	(0.062)	(0.045)	(0.107)	(0.055)	(0.130)
Analysts	-0.000	0.001	-0.001	0.001	-0.001	0.001
	(0.000)	(0.001)	(0.001)	(0.001)	(0.001)	(0.002)
Age	-0.001	-0.002	-0.001	0.001	-0.002	0.000
	(0.001)	(0.002)	(0.001)	(0.003)	(0.002)	(0.004)
Visit FE	No	Yes	No	Yes	No	Yes
Obs	96	96	96	96	96	96
Adj R^2	0.067	0.724	0.062	0.659	0.075	0.665

Table 3: Market Reactions to Same Industry Firms

This table reports the market reactions to firms operating in the same industry as the visited firms. Panel A shows the average CARs (%) around the visiting date (Day 0), with both parametric and non-parametric test statistics. Panel B shows the results of the regression analysis. The control firms are matched based on book-to-market ratio, size, and state-owned status. All regressions control for visit fixed effects. Standard errors are clustered at the visit level and reported in parentheses. *, **, and *** denote statistical significance at 10%, 5%, and 1% levels.

Panel A: Event Study

Event Window		Parametric Tests	Non-parametric Tests
-10:-1	0.108	0.13	-1.07
-5:-1	0.120	0.26	0.97
0,1	0.428	1.95*	2.19**
0:3	0.932	2.83***	3.08***
0:5	0.995	2.22**	1.74*

Panel B: OLS

	(1)	(2)	(3)	(4)	(5)	(6)
	(0,1)	(0,1)	(0,3)	(0,3)	(0,5)	(0,5)
Same Industry	0.156*	0.221**	0.367***	0.480***	0.274*	0.499***
	(0.089)	(0.101)	(0.124)	(0.139)	(0.151)	(0.171)
Size		-0.130*		-0.137		-0.127
		(0.070)		(0.097)		(0.119)
ROA		-1.780*		-2.279		-3.094*
		(1.067)		(1.476)		(1.806)
Leverage		0.155		0.454		0.470
		(0.346)		(0.478)		(0.585)
Connection		-0.082		0.019		0.033
		(0.104)		(0.143)		(0.176)
SOE		-0.338***		-0.280*		-0.259
		(0.119)		(0.165)		(0.202)
BtoM		-0.285		-0.338		-0.431
		(0.358)		(0.495)		(0.606)
Analysts		-0.003		-0.010		-0.021*
		(0.007)		(0.010)		(0.012)
Age		0.020*		0.025*		0.008
		(0.011)		(0.015)		(0.019)
Visit FE	Yes	Yes	Yes	Yes	Yes	Yes
Obs	7,110	5,568	7,110	5,568	7,110	5,568
Adj R^2	0.252	0.247	0.173	0.172	0.206	0.205

Table 4: Analysts Coverage

This table presents the Callaway and Sant'Anna (2021) DID analysis of whether firms in the same industries as those hosting the leaders' visits from 2007 to 2017 experienced an increase in analyst coverage (panel A) and research reports (panel B) after the visits. *ATT* is the average treatment effect on the treated (same industry) firms within two years of the visits. The outcome variable is the change in the number of analysts scaled by the begin-of-year number of analysts. Covariates include firm size, firm age, sales growth, and book-to-market ratio (all lagged one year). Pre-trend p-value corresponds to the null hypothesis that all pre-treatment ATT within a two-year window is 0. Standard errors are clustered at the firm level and reported in the parentheses. *, **, and *** indicate statistical significance at 10%, 5%, and 1% levels.

Panel A: Analysts Coverage

	All		SOE		non-SOE	
	(1)	(2)	(3)	(4)	(5)	(6)
ATT	0.843	0.803**	0.188	0.010	1.684***	2.218***
	(0.389)	(0.390)	(0.202)	(0.196)	(0.362)	(0.508)
Covariates	N	Y	N	Y	N	Y
Pre-trend p-value	0.08	0.28	0.05	0.11	0.23	0.11
Observations	12,395	10,024	6,489	5,721	5,858	4,254

Table 5: Operating Performances of Industry Peers

This table presents the Callaway and Sant'Anna (2021) DID analysis of operating performances of firms from the same industries as those hosting the leaders' visits from 2007 to 2017. *ATT* is the average treatment effect on the treated (same industry) firms within two years of the visits. Four panels correspond to four outcome variables: return-on-asset, return-on-equity, total factor productivity, and labour efficiency. Covariates include firm size, firm age, sales growth, and book-to-market ratio (all lagged one year). Pre-trend p-value corresponds to the null hypothesis that all pre-treatment ATT within a two-year window is 0. Standard errors are clustered at the firm level and reported in the parentheses. *, **, and *** indicate statistical significance at 10%, 5%, and 1% levels.

Panel A: Return-on-Asset

	All		SOE		non-SOE	
	(1)	(2)	(3)	(4)	(5)	(6)
ATT	-0.623***	-0.470**	-0.252	-0.359	-0.860***	-0.711**
	(0.180)	(0.199)	(0.262)	(0.264)	(0.251)	(0.304)
Covariates	N	Y	N	Y	N	Y
Pre-trend p-value	0.09	0.42	0.08	0.31	0.44	0.43
Observations	25,716	18,427	13,741	12,134	11,825	9,240

Panel B: Return-on-Equity

	All		SOE		non-SOE	
	(1)	(2)	(3)	(4)	(5)	(6)
ATT	-0.906***	-0.774*	-0.594	-0.711	-1.085**	-1.083*
	(0.353)	(0.405)	(0.535)	(0.546)	(0.459)	(0.582)
Covariates	N	Y	N	Y	N	Y
Pre-trend p-value	0.21	0.11	0.26	0.09	0.20	0.42
Observations	25,716	21,511	13,741	12,134	11,825	9,240

(*continued*)

Panel C: Labor Efficiency

	All		SOE		non-SOE	
	(1)	(2)	(3)	(4)	(5)	(6)
ATT	-0.014**	-0.013**	-0.003	-0.008	-0.024***	-0.027**
	(0.006)	(0.006)	(0.008)	(0.008)	(0.009)	(0.011)
Covariates	N	Y	N	Y	N	Y
Pre-trend p-value	0.02	0.72	0.02	0.43	0.91	0.54
Observations	25,313	16,847	13,570	11,972	11,599	9,073

Panel D: Total Factor Productivity

	All		SOE		non-SOE	
	(1)	(2)	(3)	(4)	(5)	(6)
ATT	0.007	-0.010	-0.008	-0.020	-0.023	-0.036
	(0.024)	(0.029)	(0.033)	(0.036)	(0.038)	(0.048)
Covariates	N	Y	N	Y	N	Y
Pre-trend p-value	0.00	0.17	0.00	0.02	0.14	0.71
Observations	25,145	21,043	13,435	11,867	11,566	9,045

Table 6: Operational Decisions of Industry Peers

This table presents the DID analysis of whether firms operating in the same industries as the firms hosting the leaders' visits from 2007 to 2017 expanded their operations after the visits, following Callaway and Sant'Anna (2021). *ATT* is the average treatment effect on the treated (same industry) firms within two years of the visits. Three panels correspond to three outcome variables, capital investment scaled by total assets, R&D expense scaled by total assets, and the natural logarithm of the number of employees. Covariates include firm size, firm age, sales growth, Tobin's Q, and book-to-market ratio (all lagged one year). Pre-trend p-value corresponds to the null hypothesis that all pre-treatment ATT within a two-year window is 0. Standard errors are clustered at firm level and reported in the parentheses. *, **, and *** indicate statistical significance at 10%, 5%, and 1% levels.

Panel A: Capital Investment

	All		SOE		non-SOE	
	(1)	(2)	(3)	(4)	(5)	(6)
ATT	0.005	0.006	0.004	0.003	0.012	0.024**
	(0.007)	(0.007)	(0.008)	(0.007)	(0.008)	(0.011)
Covariates	N	Y	N	Y	N	Y
Pre-trend p-value	0.61	0.25	0.77	0.72	0.01	0.01
Observations	17,629	17,622	10,594	10,593	9,428	6,906

Panel B: R&D Investment

	All		SOE		non-SOE	
	(1)	(2)	(3)	(4)	(5)	(6)
ATT	0.027	0.028	0.026	0.021	0.037	0.052*
	(0.017)	(0.018)	(0.022)	(0.023)	(0.027)	(0.030)
Covariates	N	Y	N	Y	N	Y
Pre-trend p-value	0.00	0.16	0.00	0.30	0.03	0.26
Observations	10,881	8,440	6,501	5,135	3,879	2,996

Panel C: Employment

	All		SOE		non-SOE	
	(1)	(2)	(3)	(4)	(5)	(6)
ATT	0.020	0.014	-0.021	-0.015	0.060	0.068
	(0.032)	(0.038)	(0.044)	(0.047)	(0.050)	(0.067)
Covariates	N	Y	N	Y	N	Y
Pre-trend p-value	0.01	0.13	0.22	0.34	0.00	0.15
Observations	25,313	21,176	13,570	11,972	11,599	9,073

Table 7: Extra Resources of Industry Peers

This table presents the Callaway and Sant'Anna (2021) DID analysis of whether firms in the same industries as those hosting the leaders' visits from 2007 to 2017 receive extra resources after the visits. *ATT* is the average treatment effect on the treated (same industry) firms within two years of the visits. Three panels correspond to three outcome variables, government subsidy, new short-term loan, and new long-term loan, all scaled by total assets. Covariates include firm size, firm age, sales growth, and book-to-market ratio (all lagged one year). Pre-trend p-value corresponds to the null hypothesis that all pre-treatment ATT within a two-year window is 0. Standard errors are clustered at firm level and reported in the parentheses. *, **, and *** indicate statistical significance at 10%, 5%, and 1% levels.

Panel A: Government Subsidy

	All		SOE		non-SOE	
	(1)	(2)	(3)	(4)	(5)	(6)
ATT	0.047	0.045	0.053	0.059	0.044	0.011
	(0.049)	(0.055)	(0.058)	(0.063)	(0.093)	(0.104)
Covariates	N	Y	N	Y	N	Y
Pre-trend p-value	0.23	0.16	0.10	0.20	0.12	0.12
Observations	22,440	17,608	12,875	10,573	9,428	6,906

Panel B: New Short-Term Loan

	All		SOE		non-SOE	
	(1)	(2)	(3)	(4)	(5)	(6)
ATT	1.238***	0.925*	1.582***	1.462**	0.155	-0.259
	(0.429)	(0.501)	(0.584)	(0.609)	(0.635)	(0.865)
Covariates	N	Y	N	Y	N	Y
Pre-trend p-value	0.03	0.31	0.05	0.18	0.14	0.17
Observations	20,762	14,570	11,890	9,194	8,753	5,507

Panel C: New Long-Term Loan

	All		SOE		non-SOE	
	(1)	(2)	(3)	(4)	(5)	(6)
ATT	0.495	0.133	0.475	0.264	0.186	0.246
	(0.315)	(0.229)	(0.452)	(0.325)	(0.379)	(0.272)
Covariates	N	Y	N	Y	N	Y
Pre-trend p-value	0.18	0.12	0.40	0.27	0.40	0.31
Observations	20,762	14,570	11,890	8,753	3,347	5,405

A Appendix

A.1 Appendix Tables

Table A1: Definition of Variables

Variable	Definition
Same Industry	Firms in the same industries as the visited firms
CAR	Cumulative abnormal return
CAAR	Average cumulative abnormal return
BHAR	Buy-and-hold abnormal return
Size	Natural logarithm of annual assets
Sale	Natural logarithm of annual sales
Age	Years since a firm's establishment
ROA	Return-on-asset, net income scaled by start of year asset
ROE	Return-on-equity, net income scaled by start of year equity
Leverage	Ratio of total liability to total asset
Book-to-Market	Book value of equity to market value of equity
Subsidy	Government subsidy received by the firm
Short-Term Loan	New short-term loan received by the firm
Long-Term Loan	New long-term loan received by the firm
Capital Investment	Capital expenditure
R&D Investment	R&D expenditure plus R&D investment
Employment	Number of employees
SOE	Dummy indicating state-owned status of a firm
Connection	Dummy indicating whether a firm has at least one director that was/is a government/military official
Analysts	Number of analysts following a firm
TFP	Total factor productivity calculated following Olley and Pakes (1996)
Labor Efficiency	Net income (in million RMB) scaled by number of employees

Table A2: Reactions to Placebo Visits

This table presents the Callaway and Sant'Anna (2021) DID analyses of same industry firm reaction to the visit using two-year before the visit date as the placebo date. *ATT* is average treatment effect on the treated (same industry) firms within two years of the visits. Covariates include firm size, firm age, sales growth, and book-to-market ratio, all lagged one year. Standard errors are clustered at firm level and reported in the parentheses. *, **, and *** indicate statistical significance at 10%, 5%, and 1% levels.

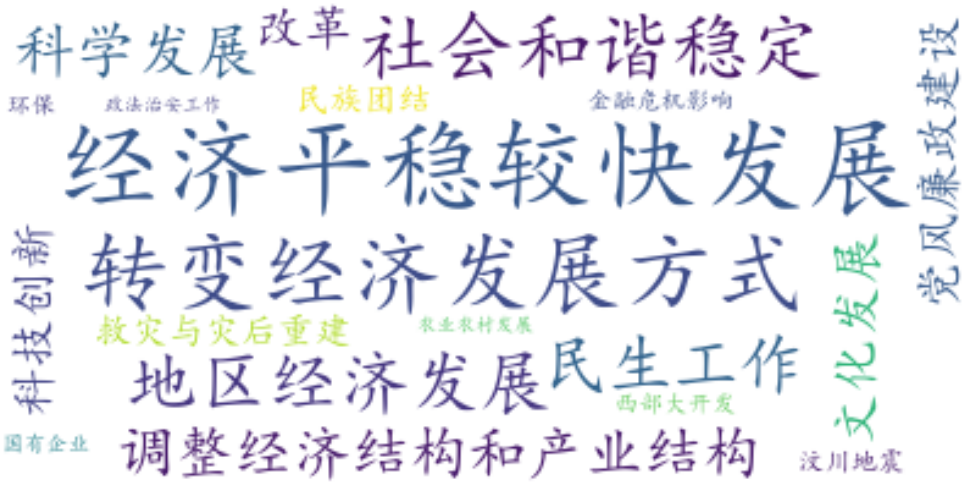
	(1) Analysts	(2) Subsidy	(3) ST Loan	(4) LT Loan	(5) Invest	(6) R&D	(7) Employ
ATT	-0.114	-0.080	0.215	-0.002	0.004	0.014	0.024
	(0.091)	(0.463)	(0.328)	(0.303)	(0.005)	(0.029)	(0.026)
Covariates	Y	Y	Y	Y	Y	Y	Y
Observations	7,070	13,282	10,815	10,815	12,943	12,948	12,717

Table A3: Performance to Placebo Events

This table presents the Callaway and Sant'Anna (2021) DID analyses of same industry firm performance using two-year before the visit date as the placebo date. *ATT* is average treatment effect on the treated (same industry) firms within two years of the placebo visits. Covariates include firm size, firm age, sales growth, and book-to-market ratio, all lagged one year. Standard errors are clustered at firm level and reported in the parentheses. *, **, and *** indicate statistical significance at 10%, 5%, and 1% levels.

	ROA		ROE		Labor		TFP	
	(1) All	(2) non-SOE	(3) All	(4) non-SOE	(5) All	(6) non-SOE	(7) All	(8) non-SOE
ATT	-0.011	-0.188	0.095	-0.187	0.001	-0.009	0.008	0.026
	(0.197)	(0.371)	(0.401)	(0.693)	(0.006)	(0.010)	(0.019)	(0.031)
Covariates	Y	Y	Y	Y	Y	Y	Y	Y
Obs	12,925	4,545	12,925	4,545	12,717	4,469	12,712	4,469

A.2 Appendix Figures



(a) Word Cloud of Visiting Purposes

(b) Frequency of Purposes Mentioned

Figure A1: Purposes of Leader Visits. This figure illustrates the purposes of Chinese national leaders' visits. Panel (a) is the word cloud (in Chinese) of the stated visiting purposes, and panel (b) plots the distribution of the fifteen most mentioned purposes.

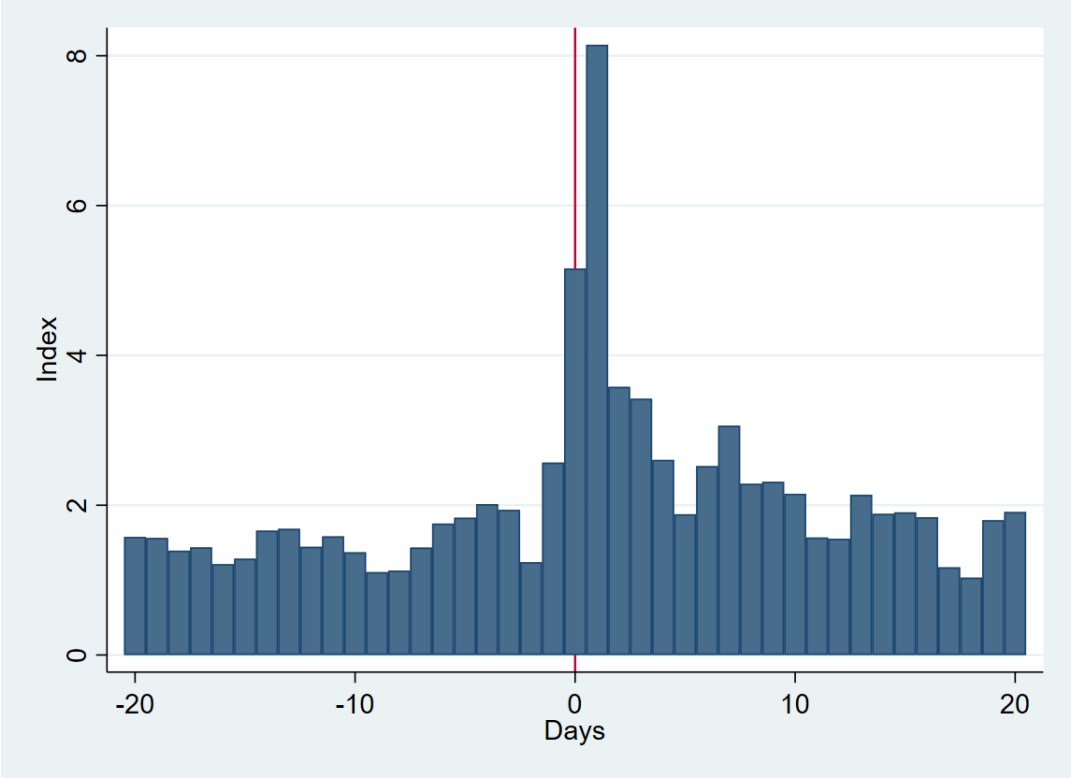


Figure A2: Public Attention to the Visited Firms. This figure plots the public attention to the visited firms surrounding the visits (Day 0). For each visit, I obtain the *Baidu Index* for the visited firm 20 days before and after the event. Then I scale these daily indexes by the 52-week average index before the visit. Next, I average the scaled indexes across firms and plot them.


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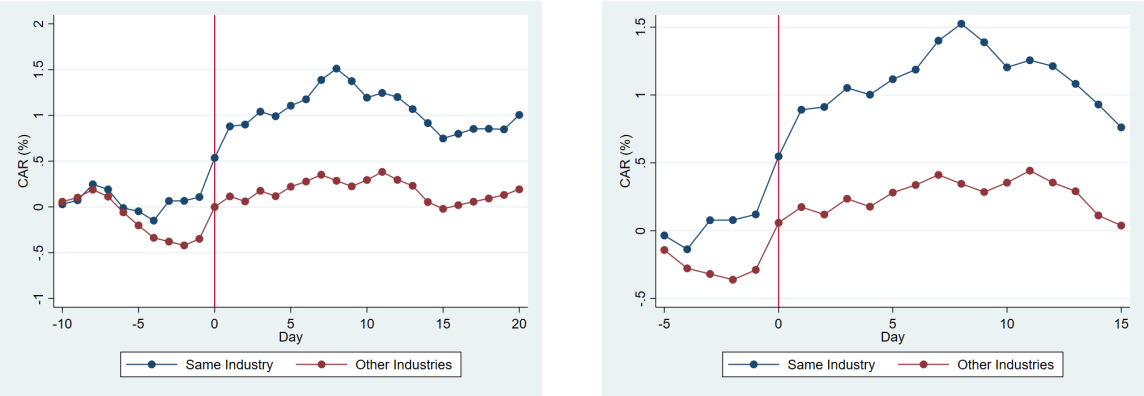
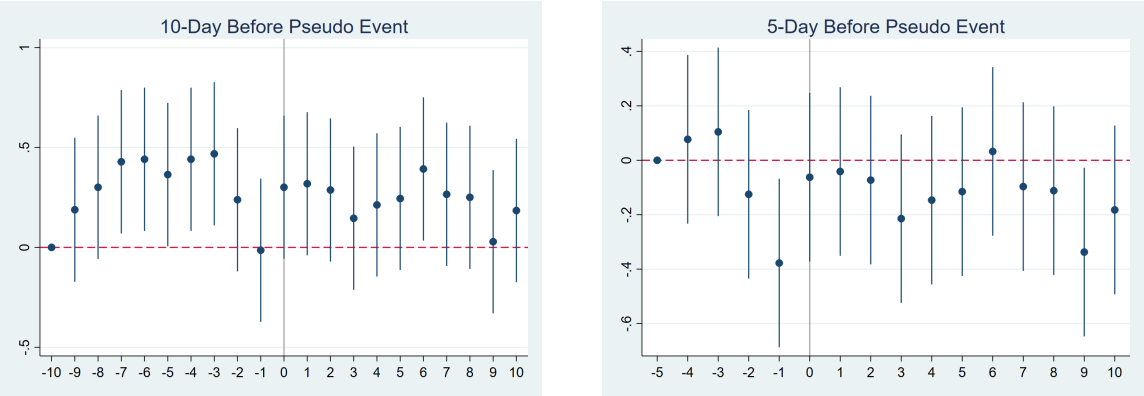
Figure A3: Example Report of Leader's Visit from People's Daily



(a) 21-Day Window **(b)** 16-Day Window

Figure A4: Market Reactions to Same versus Other Industry Firms

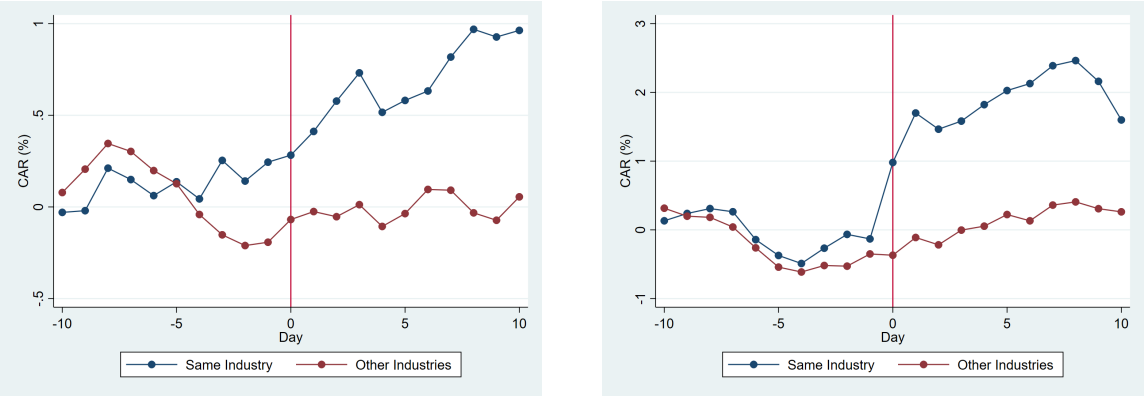
This figure plots the market reactions (average CARs) to firms from the same industries and the different industries of the visited firms. Day 0 indicates the visiting date. The left panel plots the 31-day event window whereas the right panel the 21-day event window.



(a) All Firms **(b)** SOE versus non-SOE

Figure A5: Placebo Market Reactions to Same Industry Firms

This figure plots the market reactions (average CARs (%) with the corresponding 95% confidence intervals) to firms from the same industries as the visited firms, using 12-month before the event date as the placebo visiting date (Day 0). The left panel plots the 21-day event window whereas the right panel the 16-day event window.



(a) Hu Jintao Administration **(b)** Xi Jinping Administration

Figure A6: Market Reactions to Same versus Other Industry by Administration

This figure plots the 21-window CARs for same industry (blue) and different industry firms (red) under different administrations. The left panel shows Hu Jintao Administration and the right panel the Xi Jinping Administration.

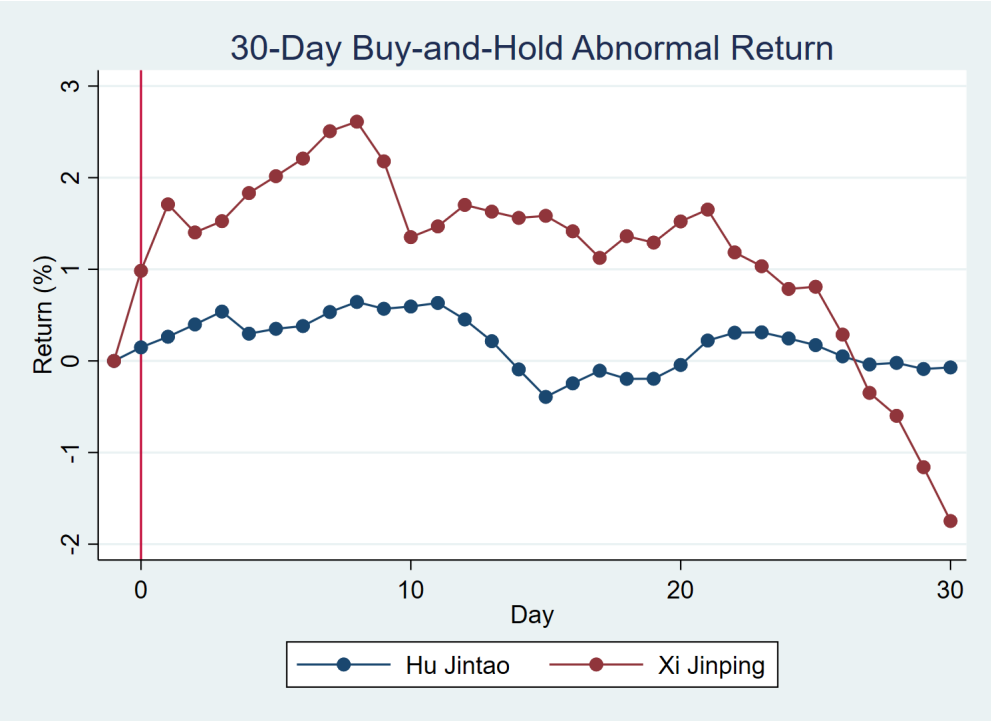


Figure A7: Longer-term Market Reactions by Administration

This figure plots the 30-day buy-and-hold abnormal returns (BHAR) averaged across all same industry firms under different administrations. Day 0 indicates the visiting date. The blue line is the Hu Jintao administration and the red line is the Xi Jinping administration.