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WHO BENEFITS FROM TRADE WARS?

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ABSTRACT

Using both the onset of the US-China trade war in 2018 and the most recent Russia-Ukraine War and associated trade tensions, we show a counterintuitive pattern in global international trade. Namely, while the average firm trading with these nations significantly decreases their trade with these jurisdictions following sanctions, government-linked firms show a marked contrast. In particular, government-linked firms actually significantly increase their importing activity following the onset of formal sanctions. The increase is large - roughly 30% (t=4.23), following the shock. We find no increase broadly for government-supplying firms to other countries (even countries in the same regions) at the same time, nor of these same firms in these same regions at other times. In terms of mechanism, government-linked supplier firms are nearly twice as likely to receive tariff exemptions as equivalent firms doing trade in the region who are not government suppliers. More broadly, these effects are increasing in the level of government connection. Using micro-level data, we find that government-supplying firms that recruit more employees with past government work experience also increase their importing activity more – particularly when the past employee worked in a government-contracting role. Lastly, we find evidence that this results in sizable accrued benefits in terms of firm-level profitability, market share gains, and outsized stock returns.

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1. Introduction

In the prototypical Cobb-Douglas production function, firm output depends on the factors of production – typically, labor and capital – along with technology and productivity components. While this is a sensible static model of output, it ignores the fact that as industries progress, not only will relative elasticities of production change, the fundamental components of the individual factors *themselves* will as well. In this paper, we document precisely this occurring in global production. Namely, one large and important shift in the global production function has been the shift of all countries toward a more integrated world economy. Foreign trade as a percentage of Global GDP has grown from less than 25% in 1970 to well over 50% in 2020 (The World Bank, 2022). This has meant that countries rely on each other, and globally interconnected supply chains, more than ever before. With this reliance has also come the increasing exposure of global supply and production to trade disruptions driven by foreign political tensions and frictions (orthogonal to fundamental economic supply shocks themselves).

In this paper, we document a subtle but surprisingly powerful way that firms have used to hedge these shocks relative to competitors. Namely, ties to the government itself have proven strong, significant, and robust inoculators to the exact trade friction barriers put in place by these governments. Moreover, the closer the ties to the government, the more insulated the firms have been at times of political friction. These connections have had real economic impacts on the firms, in terms of firm growth, profitability, and even potential survival.

We examine firms having similar operations, operating in the same industries, and even utilizing the same supply chains in production: the difference being that one set of these firms has a channel of outside connection through having the government as one of its role of customers. We find that this results in very different realizations and firm-outcomes following the common supply-chain shock.

To concretize this, one of the primary cases – and shocks – that we utilize is the US-China Trade War beginning in 2018. We begin by considering all firms importing from China and exploring how they respond surrounding this tension and imposition of import tariffs. Unsurprisingly, we find that, on average, importing firms reduce their quantity and value of imports from China following the tariffs. However, this masks stark variation between the behavior of two types of firms. In particular, when we separate firms into those that are government suppliers versus those that are not, we see one group in fact *increase* their imports following the start of the trade war. The group that increases, though, is perhaps counterintuitively those firms tied to the government (the agents responsible for instituting and enforcing the trade tariffs and barriers).

Given this somewhat counterintuitive finding—for instance, those firms supplying to the government are mandated to have stricter minimum wage policies and other worker

requirements, and so one might have thought more strict enforcement of this barrier as well—we explore its robustness in sample, a number of placebo tests, out-of-sample validations, and potential driving mechanisms.

To illustrate this, consider a firm in our sample - Honeywell International Inc. Honeywell is a multinational corporation headquartered in Charlotte, North Carolina, focusing on aerospace, building technologies, performance materials and technologies, and safety and productivity solutions. It is a government supplier and an importer from China throughout our sample period. Figure A4 of Appendix C shows that Honeywell's imports from China increased substantially in terms of both the number of transactions and the product quantity after the outbreak of the US-China Trade War in the third quarter of 2018. Figure A4 of Appendix C suggests that the pattern based on dollar terms also holds for the percentage of imports from China in total imports from all countries.

Honeywell's increasing imports from China during the US-China Trade War are partially attributable to its superior ability in obtaining tariff exemptions. Honeywell applied for 25 tariff exemptions in all four rounds of tariffs on Chinese goods and got 6 of them approved. This implies an approval rate of 24%, while the average approval rate for all applicants was only roughly half of that, 12.9%. One contributor to Honeywell's success in applying for tariff exemptions could have been its ample supply of former government contracting officers. In particular, Honeywell recruits many ex-government officials, including former purchasing agents and contracting officers who specialize in government procurement (more examples are provided in Part II of Appendix C).

Moreover, the impact of the success in gaining outsized tariff exemptions is eventually reflected in Honeywell's financial and operating performance. Honeywell raised its sales and earnings guidance three times in 2018; at the same time, tariffs concurrently took their toll on most other US manufacturing companies.[1]

We find that these Honeywell patterns hold true more broadly across the universe of firms. In particular, connections to the government provide a substantial strategic benefit to connected firms particularly at times of political tension, empirically dominating and more than offsetting (on average), any countervailing effects. For instance, using a diff-in-diff framework, we begin by exploring the changes in the behavior of government supplier firms versus non-supplier firms around the onset of the trade frictions related to the 2018 trade war with China. On average, as mentioned, government suppliers actually significantly increase import activity (in terms of product value) from China by 4.5 percentage points (t=4.23) relative to non-suppliers. This represents a 30.41% jump from the sample mean – a sizable magnitude response. Moreover, we find that none of this

[1] https://www.ft.com/content/5d71a824-8c07-11e8-bf9e-8771d5404543

comes before the trade war begins (no pre-trend), with 100% of it occurring in the quarters following.

We then explore a number of aspects of this effect. First, in order to rule out that it had something to do with trade from a specific region of the world or trade route, we explore trade behaviors to countries exploiting identical trade routes. In particular, using the same diff-in-diff framework, we examine trade patterns to Japan, South Korea, and Taiwan. We see no identifiable change in behavior between government suppliers and non-supplier firms that trade to these other similar trade-route countries at this exact same time. Second, we conduct an out-of-sample test for the external validity of the dynamics we see in the case of the trade tensions of the US-China trade conflict. In particular, we examine responses of firms importing from Russia surrounding the onset of the Russia-Ukraine Conflict and the resulting trade sanctions imposed by the US. Nearly identically to the case of the US-China trade war, government suppliers have markedly different reactions following the sanctions, significantly increasing import activity vis-à-vis otherwise equivalent non-government supplier firms doing trade with Russia. This provides external validity regarding the generalizability of the dynamics and patterns we document. Third, we carry out another out-of-sample test when trade disruptions are triggered by natural disasters instead of political tensions. In a setting of the 2011 Tohoku Earthquake and Tsunami in Japan, we find that both US government suppliers and non-suppliers reduce imports from Japan and the changes in the imports from Japan between the two groups of firms exhibit no significant difference around the earthquake. This suggests that ties with the government play a hedging role only when trade disruptions are associated with political tensions.

Once establishing these facts, we then turn to explore the mechanisms in more depth, where we test whether connections to the government allow firms to have an advantage particularly at this time of supply-chain shock. We find that the pattern in the baseline results, i.e., government suppliers significantly increase imports from China while other firms reduce their purchases from China after the outbreak of the US-China Trade War, exists for both products on the tariff lists and those that are not. For government suppliers producing products on the tariff lists, one large and tangible benefit would be the ability to avoid these tariffs, in the form of tariff exemptions, that were given sparingly upon request by the federal government. We find that, after controlling for all other firm, industry, and time characteristics, government suppliers were over twice as likely (t=3.17) to receive these tariff exemptions as otherwise equivalent non-supplier firms.

For products not on the tariff lists, there could be a complementarity between goods on and off the list, along with firms' connections with the government potentially allowing them to acquire or interpret policy-related information more efficiently than their peers, thus avoiding having to reduce imports ex-ante to "hedge" policy uncertainty (i.e.,

information advantage). Consistent with this view, we find a stronger baseline pattern among firms whose products (not yet on the tariff lists) are *similar* to those on the tariff lists, i.e., where uninformed firms with no government connections are likely to reduce imports from China under the concern that these products may be likely to be included in the tariff lists soon.

If the empirical patterns and economic mechanisms we find are related to government connections, then the more connected a firm is, the more we might expect to see the behaviors in the data. To establish direct measures of government connections, we collect micro-level evidence by examining the backgrounds of executives and employees at the firms in our sample. In doing so, we find that our results are stronger in firms with more direct ties to the government. For instance, firms that have a number of former government employees have especially large responses, which become even larger if the firm has former government employees *specifically* who specialized in contract allocation during their time at the government.[2]

Lastly, we turn to the value implications of the behavior that we observe – and in particular the relative value differences between government suppliers and non-suppliers. We find that government suppliers accrue significant relative value precisely at the time of the increased importing activity differences. In particular, we observe statistically and economically significant rises in the government-connected firms' performance, profitability, and market share relative to non-government-connected firms. Moreover, they also significantly outperform with regard to their equity returns after the implementation of tariffs–both in average abnormal returns and earnings announcement returns, suggesting that the market does not fully realize the positive fundamental impact, and only does so with a delayed updating.

The paper proceeds as follows: Section 2 discusses related literature, while Section 3 discusses the data, presents sample characteristics, and provides institutional background. Section 4 explores the behaviors of government suppliers versus non-suppliers, and establishes the main dynamics of their trade behavior. In addition, it runs a number of placebo tests, and establishes out-of-sample evidence, along with exploring the mechanism in more depth. Section 5 discusses the real economic outcomes from the perspectives of firms, governments, and market participants. Section 6 concludes.

2. Related Literature

Our study contributes to three strands of literature in economics and finance. First, our paper is closely related to previous studies on the value of political connections, as a

[2] Our results also hold for indirect measures of government connections, such as geographic distance between firms and government agencies.

part of a much larger literature on the value of social ties (e.g., Cohen, Frazzini, and Malloy, 2008; 2010; Cohen and Malloy, 2014; Cohen, Gurun, and Malloy, 2017). Faccio (2006), Fisman (2001), and Godman, Rocholl, and So (2009) show that corporate political connections, through corporate owners, managers, or board members, are associated with an increase in firm value. Since politically connected firms are more likely to be bailed out by the government (Faccio, Masulis, and McConnell, 2006), the value of political connections is higher during a time of crisis and uncertainty (Acemoglu, Johnson, Kermani, and Kwak, 2016). Following-up studies extend this literature in two directions. On the one hand, a few studies introduce exogenous shocks of political connections, such as the sudden deaths of politicians (Faccio and Parsley, 2009) and close election outcomes (Akey, 2015), to quantify the causal effect of political connections on firm value. On the other hand, researchers have identified various economic channels of rent-seeking as the sources of incremental firm value. For example, relative to other firms, politically connected firms enjoy a lower cost of external financing (Claessens, Feijen, and Laeven, 2008; Houston, Jiang, Lin, and Ma, 2014) and a lower likelihood of being involved in SEC enforcement (Correia, 2014). Our paper contributes to this literature by exploring the value of political connections through government contracts. We show that, under trade policy uncertainty, government suppliers are more likely to enjoy tariff exemption and information advantage, and this effect is stronger when managers, board members, or employees of government suppliers have personal connections with government agencies that offer contracts.

Our paper is also related to the literature examining the economic impacts of government spending (e.g., Chodorow-Reich, Feiveson, Liscow, and Woolston, 2012; Ramey, 2011; Shoag, 2010; Wilson, 2012). Among all types of government spending, government procurement accounts for a great proportion of the overall government budget (Liebman and Mahoney, 2017). Particularly related to our paper, Goldman, Rocholl, and So (2013), Brogaard, Denes, and Duchin (2021), and Duchin and Sosyura (2012) find that firms connected with powerful politicians are awarded more federal contracts and can negotiate with government agencies for better contract terms. A more recent debate in the literature focuses on whether and how government spending affects firm value, i.e., government contracts can generate both positive and negative economic consequences. For example, Cohen and Malloy (2016) find that firms relying on government contracts invest less in physical and intellectual properties and, consequently, generate lower sales growth. However, during economic downturns, government contracts generate a stabilizing effect. Goldman (2020) finds that firms with government contracts make higher capital expenditures and receive more bank credit during the subprime crisis. Our study provides an international trade perspective on whether and how contractual relationships with the government generate value for shareholders, especially during a period of high policy uncertainty.

This paper also joins a growing literature examining the real economic consequences of the US-China trade war. Studies in this literature have made a great effort to quantify the effects of the trade war on both the US and Chinese economies. For example, Amiti, Redding, and Weinstein (2019) and Fajgelbaum, Goldberg, Kennedy, and Khandelwal (2020) find that import and retaliatory tariffs lead to large declines in imports and exports, a drastic increase in the average price of manufacturing goods, and a significant reduction in the varieties of products available in the US market. For Chinese firms, Benguria, Choi, Swenson, and Xu (2022) show that the trade policy uncertainty triggered by the trade war leads to significant impairments in operation, as exhibited by significant declines in corporate investment, R&D expenditure, and operating profits. These negative impacts are also reflected in the capital market. For example, Huang, Lin, Liu, and Tang (2023) finds that tariff announcements generate significant price drops among both US and Chinese firms with direct or indirect exposure to the US-China trade. More recent studies in this literature focus on the debate of whether the US-China trade war will generate a permanent restructuring of the global supply chain. Fajgelbaum, Goldberg, Kennedy, Khandelwal, and Taglioni (2024) find that, after the trade war, other countries decreased exports to China and increased exports to the US where exports from most other countries complement the US and substitute Chinese goods. Charoenwong, Han, and Wu (2023) suggest whether the US firms offshore or re-shore after the US-China trade war depends on the location of their customer base. Our paper contributes to this literature by providing a surprising contrast in the imports from China between the US government suppliers and other firms without government contracts, i.e., while firms that do not sell to the US government cut their imports from China after the outbreak of the trade war, government suppliers increase their purchases from Chinese firms significantly.

3. Data Sources, Sample Characteristics, and Institutional Background

3.1. Data Sources

We gather data from several sources covering a sample period from the first quarter of 2016 to the last quarter of 2019. The international trade data are retrieved from the S&P Panjiva database, which compiles information from bills of lading with the original source from government customs agencies. The compiled dataset provides detailed information on US firms' sea-import transactions, including the names and addresses of the sellers (suppliers) and the buyers (customers), as well as the value, quantity, and weight of goods imported. The dataset also provides eight-digit Harmonized System (HS) Product Codes for goods imported.

We obtain the federal government contract data from the USAspending.gov website maintained by the Bureau of the Fiscal Service (i.e., a bureau of the U.S. Department of the Treasury). The dataset includes all contracts and contract indefinite delivery vehicles

(IDVs) offered by the US federal government. The dataset provides all information related to federal procurement contracts, including their value, duration, the number of bidders, awarding agency, product, services code (PSC), and pricing type. We use computer algorithms to match the contract recipients in the federal contract dataset to publicly listed firms in Compustat based on corporate names and manually verify the accuracy of these matches.

We collect tariff information from the United States Trade Representative (USTR) website. USTR compiles a list of HS codes covered by additional tariffs on products imported from China. In our sample period, there are six batches of Chinese goods subject to additional tariffs. Most of these batches became effective since the third quarter of 2018 (See Section 3.3.1 for a detailed discussion). US importers can apply for tariff exemption by submitting exclusion requests to USTR and USTR reviews them case by case to determine whether a tariff exclusion is appropriate. Once approved, the tariff exclusion is valid for one year. Joe, McDaniel, and Parks (2019) compile all four tariff exclusion tranches, which cover over 50 thousand tariff exclusion requests. This dataset includes the names of importers, the HS code of the goods, request submitted dates, and whether the requests are approved or denied.

For tests reported in Section 4.2, we construct measures for the connection between firms and government agencies based on whether corporate managers, board members, or employees have past career experience in government agencies. For the managers and board members, we obtain their career histories from BoardEx. Profile information of other employees is retrieved from the Revelio Labs database.

3.2. Sample Characteristics

We focus on publicly traded firms that import from suppliers in other countries. Therefore, our main sample is the intersection of Compustat and Panjiva databases. We match the import data to public firms in Compustat by using "conpanjivaid", which serves as the firm unique identifier in Panjiva. We then link them to Global Company Keys (GVKEYs) in the Compustat database. 946 US unique public firms have import data from Panjiva in our sample period. Based on Compustat Segment Customer File, we define firms that report the US government as their major customers following SFAS 131 in a specific year as "government suppliers" and other firms as "non-suppliers".[3] Panel A of Table I reports the summary statistics for US public importers in our sample and Panel B provides a comparison between government suppliers and non-suppliers.

[Insert Table 1 Here]

Statistics in Panel A show that the *China Import Ratios*, i.e., the percentage of imports

[3] "Non-suppliers" refer to firms that are not dependent suppliers of the US federal and state governments.

from China in total imports from all countries, for US public importers range from 14.8% to 16.5% as measured by value, the number of transactions, and product quantity. China has been the top import country of the United States since 2007, with an import ratio of 16.86% measured by value.[4] The import ratio gradually increased to 21.42% in 2017 and declined to 18.40% in 2019. Public firms in our sample have lower *China Import Ratios* than private US importers. The difference is possibly driven by the fact that public firms are more capable of diversifying their international supply chains and importing more from other countries.

In Panel B, we show that, on average, government suppliers import less from China relative to non-suppliers. The differences in *China Import Ratios* range from 4.9% to 5.6% and are statistically significant. These gaps are likely driven by the differences in firm characteristics. For example, government suppliers have larger firm sizes, lower book-to-market ratios, and lower profitability relative to non-suppliers. In our empirical tests, we include these firm characteristics as controls (together with firm fixed effects that control for time-invariant firm characteristics) while investigating corporate decisions of importing from China around the US-China Trade War.

3.3. Institutional Background

3.3.1 The US-China Trade War

The ongoing US-China Trade War is the largest bilateral trade conflict since the US-Japan Trade War in the 1980s. This trade war originates from a prolonged and large US trade deficit in goods with China. The US government, in multiple formal declarations to the World Trade Organization (WTO) since the entry of China into the WTO, has asserted that the trade deficit to China is due in part to unfair trade policies (e.g., subsidizing exporting firms in strategically important industries), exchange rate manipulation, and intellectual property theft.[5]

Donald Trump, when running his presidential campaign in 2016 and 2017, promised to reduce the US trade deficit with China and re-domesticate manufacturing jobs. In January 2018, President Trump approved tariffs on imported washing machines and solar panels.[6] While justifying the tariffs on solar panels, the United States Trade Representative (USTR) highlighted China as the world's largest solar panel manufacturing and exporting nation, whose heavy subsidies on solar firms caused serious negative impacts on US manufacturers. In March 2018, the US further investigated application of tariffs on US$50-

[4] https://wits.worldbank.org/CountryProfile/en/Country/USA/Year/2007/SummaryText

[5] Details can be found in the "2018 Report to Congress on China's WTO Compliance" issued by the US Trade Representative (https://ustr.gov/sites/default/files/2018-USTR-Report-to-Congress-on-China%27s-WTO-Compliance.pdf).

[6] https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/january/president-trump-approves-relief-us

60 billion worth of Chinese goods, where over 1,300 categories of Chinese imports were included in this investigation. The White House, after several rounds of unsuccessful negotiations with the Chinese government, imposed tariffs on US$34 billion worth of Chinese goods on July 6, 2018, prompting immediate response from the Chinese government. The trade war escalated in the second half of 2018 and the entire year of 2019, e.g., five additional rounds of Chinese good categories were added to the US tariff lists during this period. We provide a detailed timeline of major events in the US-China Trade War in Appendix Table A1 and a time trend of the US tariff rates imposed on Chinese goods in Appendix Figure A1. As the first batch of significant trade actions against China happened in January and March of 2018, we define the first quarter of 2018 as the beginning of the US-China Trade War.[7] Accordingly, the dummy variable, *Post Trade War*, is set to one for sample periods after (including) Q1 of 2018.

Bilateral trade conflicts have occurred frequently since the 18th century.[8] We focus on the US-China Trade War as our research setting for the following reasons. First, the economic magnitude of this trade war is unprecedented. By the end of 2019, the US had imposed tariffs on more than US$350 billion worth of Chinese goods; China, in its retaliation, imposed tariffs on US exports worth more than US$100 billion. Figure A1 shows that the average US tariff rate reached 19.3% by the end of 2019, while the average rate for the rest of the world was only around 3%. Second, the US-China Trade War affects a large scope of products. By the end of 2019, 66.4% of Chinese exports to the US were subject to US tariffs while the Chinese retaliatory tariffs were extended to 58.3% of all US exports to China, covering almost all strategically important industries from agriculture to information technology. Third, the trade war between the two largest economies in the world generates significant economic consequences. For example, in the United States, consumer price indices (CPI) of all nine categories of tariffed goods shapely increased in 2019 while those of other categories declined.[9] The trade war was also recognized as the main reason for China's sluggish GDP growth of 5.9% in 2019 and 2.3% in 2020, the lowest one since 1990. Finally, the impact of the trade war has extended to social and geopolitical areas. Many researchers (e.g., Rothwell and Diego-Rosell, 2016; Lau, 2019; Schoenbaum and Chow, 2019) argue that Trump launched the trade war against China to

[7] Our definition for the starting point of the US-China Trade War corresponds to the initial safeguard tariffs imposed on January 22, 2018 (Bown and Kolb (2023)).

[8] For example, the Boston Tea Party between American colonists and Britain in the 1770s, the Opium War between China and Britain in the 1840s, the Smoot-Hawley Act in the 1930s (between US, Canada, and European countries), the Chicken Tariff War in the 1960s, the US-Japan Trade War in the 1980s, and the Banana Wars in the 1990s.

[9] See "This chart from Goldman Sachs shows tariff are raising prices for consumers and it could get worse" (May 13, 2019), CNBC

defend the economic and geopolitical dominance of the United States, which contributed to a significant rise in nationalism and deepened the confrontation between the two nations.

3.3.2 The Cost of Being Government Suppliers

While this study mainly focuses on a few important benefits of being a government contractor, it is important to outline its costs to support a comparative static analysis of two equilibriums around an exogenous macroeconomic shock, i.e., the US-China Trade War. We discuss a few major (not necessarily exhaustive) costs of being government suppliers/contractors below.

The first and also the most important cost arises from a higher minimum wage for government contractors/suppliers, relative to the one that other firms need to comply with. Since Obama signed Executive Order 13658 in 2015, the minimum wage for federal contractors has increased significantly (we provide a time series of these increases in Table A2 in the appendix). Today, the minimum wage for federal contractors is $15/hour while the minimum wage for other US firms is $7.25/hour (remaining unchanged since 2009).

Second, in addition to facing a significantly higher minimum wage than other firms, government contractors have to bear other regulatory compliance costs. Most rules that a federal government contractor has to follow are outlined in the Federal Acquisition Regulation (FAR).[10] FAR requires that contractors must make "an affirmative determination of responsibility", including 1) having adequate financial resources to perform contracts; 2) complying with required delivery or performance schedule; 3) demonstrating necessary organization, experience, accounting control, and technical skills; 4) having necessary production, construction, and technical equipment; and 5) completing all requisite certifications and representations (depending on the product/service in the contract) before contracts start (e.g., small business program representation; cost accounting standards notices and certifications; certificates of independent price determination, etc.).

Third, government contractors have to exert great effort in dealing with the bureaucracies in the procurement process and the payment system. For example, the bidding requires that a company register with the System for Award Management (SAM). The bidding firm needs to apply for a NAICS code and a DUNS code. After those steps, the firm has to write up a request for quote (RFQ) and a request for proposal (RFP). While the bidding process is inefficient, it is equally slow to receive payments. In many cases, the government only pays when the entire work is done.

[10] Different government departments also have their own regulation supplements, such as Defense Federal Acquisition Regulation Supplement (DRARS) and General Service Acquisition Regulation Supplement (GSARS). When firms work with state governments, firms also have to comply with addition requirements set by the state-level regulations.

In addition to these major costs mentioned above, government contractors also bear the responsibility and cost to screen and monitor subcontractors, including but not limited to 1) history of non-competitive procurements, 2) product quality, 3) unusual agents' commissions, and 4) business ethics of subcontractors. Further, in fixed-price contracts, government contractors bear all risks driven by the fluctuation of input prices.

4. Empirical Results

4.1. Imports from China: Government Suppliers vs. Non-Suppliers

4.1.1 Baseline Test

In our baseline test, we examine whether government suppliers behaved differently from other firms (i.e., non-suppliers) when they imported from China during the US-China Trade War between 2016 and 2019. The dataset is organized at the firm-quarter-product (HSCODE 8-digit) level and the main test specification is outlined in Equation (1) below:

$$\begin{aligned} China\ Import\ Ratio_{i,p,t} &= \beta_0 + \beta_1 Gov\ Supplier_{i,t} \times Post\ Trade\ War_t + \beta_2 Gov\ Supplier_{i,t} + Firm\ Controls \\ &+ Firm\ FE + Product\ FE + Industry \times Year\ Quarter\ FE + \varepsilon_{i,p,t} \end{aligned} \quad (1)$$

where i denotes a firm, p denotes a product category at the HSCODE8 (i.e., 8-digit HSCODE) level, and t denotes a year-quarter. The dependent variable, *China Import Ratio*$_{i,p,t}$, is the percentage of import from China in total imports from all countries for a firm i in product category p at quarter t. We construct *China Import Ratio* based on estimated product value, the number of transactions, and product quantity.[11] *Gov Supplier*$_{i,t}$ is a dummy variable that is equal to 1 if the firm i discloses at least one government principal customer for year-quarter t. *Post Trade War*$_t$ is a dummy variable that is equal to one for periods after (and including) the first quarter of 2018 (see Section 3.3.1 for a detailed discussion about the starting point of the trade war). In addition to the key independent variables mentioned above, we also include book-to-market ratio (B/M), firm size ($Log(MV)$), return on assets (ROA), and the percentage of total revenue from the U.S. market (*%Revenue from US Market*) as firm-level controls.

We include firm and product fixed effects to control for time-invariant unobservable firm and product characteristics that may affect a firm's decisions of importing from China. Changes in the imports from China could also arise from a time-varying industry-specific or market-wide shock, e.g., the outbreak of the COVID pandemic in 2020 significantly increased the import of non-woven fabric (i.e., an essential

[11] As one-third of the import value are missing, following Jain et al. (2014), we impute the missing import value by using the average per-unit import value at the import country-HS code-quarter level, which is calculated by import value divided by import weight.

input of making masks) from China. We thus include the Industry×Year Quarter fixed effects, which control for all macroeconomic or industry shocks and allow us to compare the imports from China between government suppliers and non-suppliers within the same industry-quarter. In a standard diff-in-diff setting, β_2 in Equation (1) captures the difference in *China Import Ratios* between government suppliers and non-suppliers before the US-China Trade War. β_1 captures the difference-in-difference effect, i.e., the difference of changes in *China Import Ratios* between the two groups around the trade war, which is the focus of our paper.

Before presenting empirical results for our baseline tests, we start by evaluating a few important assumptions for the validity of our difference-in-difference approach. First, the US-China trade war is an exogenous and market-wide event for individual firms. Although we do show in a later test that more firms started to bid for federal contracts after the launch of the trade war, the status of government suppliers (i.e., having government organizations or agencies as principal customers) is unlikely affected by the trade war before the end of our sample period since it takes time to establish relationships and obtain contracts from the U.S. government (see Section 3.3.2 for a detailed discussion about the cost of being a government supplier). Second, we plot the time series of the standardized *China Import Ratios* (based on its value of quarter *t-8*) in Figure 1, to have a visual assessment of the Parallel Trend Assumption (PTA). Figure 1 exhibits a sharp difference after the tariffs were implemented, spiking considerably following the ramp-up in the third quarter of 2018 (quarter *t+2* in Figure 1): *China Import Ratios* of government suppliers drastically increased while those of non-suppliers gradually declined. Finally, although government suppliers and non-government suppliers might be competitors, a systematic spillover of import decisions between the two groups is unlikely either before or after the trade war and, therefore, the Stable Unit Treatment Value Assumption (SUTVA) generally holds for our setting.

[Insert Table 2 Here]

The empirical results of our baseline test are reported in Table 2 and we discuss the main patterns below. First, after controlling for the firm-fixed effects, β_2, the coefficients of *Gov Supplier*, are insignificantly different from zero. This suggests that the gaps in *China Import Ratios* between government suppliers and non-suppliers can be fully explained by the differences in some time-invariant firm characteristics. Second, β_1, the coefficients of *Gov Supplier*×*Post* Trade War, are positive and statistically significant at the 1% level in all test specifications. This effect is also economically meaningful. For example, β_1 in column (2) of Table 2 suggests that, around the launch of the trade war, the change in *China Import Ratio* (in terms of estimated value) of government suppliers is 4.5 percentage points higher than that of other firms, which can be translated to 30.41% of the sample mean. Third, the two patterns mentioned above are robust to alternative *China Import Ratios*,

irrespective of whether they are measured by estimated value, the number of transactions, or product quantity. Overall, consistent with the visual assessment of Figure 1, our baseline results suggest that, after the launch of the trade war, the percentage import from China of government suppliers increased while that of other firms declined.

One potential concern is that *China Import Ratio* can be affected by the changes in its numerator or denominator. For example, an increase in *China Import Ratio* can be driven by the increase in the imports from China, the decrease in the total imports from all countries, or both of them. To rule out the possibility that our baseline results are driven by the change in the total imports from all countries, we carry out a set of robustness tests based on the import *levels* from China, proxied by the natural logarithm of import value, the number of transactions, and product quantity. We repeat the baseline tests based on the import level variables in Online Appendix Table O1 and find similar results. Our results suggest that the patterns we have identified are indeed driven by the change in the numerator of *China Import Ratios*.

4.1.2. Placebo Tests: Imports from Japan, Korea, and Taiwan (JKT) during the US-China Trade War

Another internal validity concern related to the baseline test is whether the main empirical pattern is indeed driven by government suppliers' advantage under the economic and political tension between the US and China during the trade war. For example, one may argue that the baseline pattern might also exist in trade relationships between the US and other countries in East Asia if economic factors associated with geographic location (e.g., shipping logistics to East Asia) drive the main results in our baseline test.

We address this internal validity concern with a placebo test. In this placebo test, we maintain the baseline test specification identical as discussed in Section 4.1.1 but investigate the US imports from Japan, South Korea, and Taiwan (JKT). We choose JKT for the following reasons. First, like China, JKT are important trade partners of the United States. In 2021, while China was still the top trade partner where the US imported from, Japan, South Korea, and Taiwan were ranked 5th, 7th, and 8th based on the total trade value in US imports. Second, JKT, similar to China, are located in East Asia. If the main results in Table 3 are driven by economic or geopolitical factors associated with geographic locations, we should observe similar patterns when analyzing US imports from JKT. Third, JKT are traditionally US allies. The economic and political tension between US and China during the US-China Trade War, in terms of its nature or magnitude, did not exist between US and JKT in our sample period. For these reasons mentioned above, we aggregate US imports from JKT together as a placebo for Imports from China in the same baseline test specification. Specifically, the main dependent variables in the placebo test, *Japan-Korea-Taiwan (JKT) Import Ratios* are computed as the percentage of imports from JKT (in aggregate) among imports from all countries/regions for a firm *i* in product category *p* at

quarter *t*, in terms of estimated product value, the number of transactions, and product quantity.

We first plot the time series of *JKT Import Ratios* around the US-China Trade War in Appendix Figure A2. We observe no obvious structural changes in the standardized *JKT Import Ratios* for either government suppliers or non-suppliers around the outbreak of the trade war. In Appendix Table A3, we formally perform the placebo test using the baseline specification. The insignificant coefficients of all interaction terms confirm the visual pattern observed in Appendix Figure A2. Overall, we do not observe that government suppliers and non-suppliers behave differently in the US imports from other East Asian countries/regions around the US-China Trade War and, therefore, our baseline results are unlikely driven by economic or geopolitical factors associated with geographic locations.

4.1.3. Timing of the Baseline Effect

In this subsection, we examine the timing of the baseline effect. In this test, we have two goals in mind. First, since our research design relies on one major event, we want to verify that the change in imports from China indeed happened around the launch of the US-China Trade War. Second, since the trade war escalated in the second half of 2018 and throughout the entire year of 2019, we would like to investigate whether the baseline effect also becomes stronger when both the tariff rates and the scope of products covered by tariffs increase in both countries.

To test the time-series dynamics of the difference in imports from China between government suppliers and non-suppliers, we replace the interaction term *Gov Supplier×Post Trade War* in Equaltion (1) with ten interaction terms from *Gov Supplier×Before Tradewar Quarter -4* to *Gov Supplier×Post Tradewar>4*, where *Before (Post) Tradewar Quarter -X (+Y)* is a dummy variable that is equal to 1 for a period that is *X* (*Y*) quarters before (after) the launch of the trade war. Under this new test specification, the benchmark is the sample period at least 4 quarters before the trade war, which is captured by the coefficient of *Gov Supplier*. In addition to this change in test specification, all other controls, including the fixed effects, remain the same as those in Equation (1).

[Insert Table 3 Here]

Results for the timing of the baseline effect are reported in Table 3. We also plot all coefficients, from the one for *Gov Supplier×Before Tradewar Quarter -4* to the one for *Gov Supplier×Post Tradewar>4*, together with their 95 percent confidence intervals, in Appendix Figure A3. Patterns in both Table 3 and Appendix Figure A3 suggest that, relative to the benchmark period (i.e., the period before Quarter *-4*), government suppliers and non-suppliers exhibit no significant difference in the change of imports from China after controlling for their firm characteristics from Quarter *-4* to Quarter *-1*. The difference started to emerge in Quarter *0*. Both the economic magnitude and statistical significance

of the difference between government suppliers and non-suppliers increased in Quarter *+2*, upon tariff ramp-up and implementation in July 2018. This difference kept increasing in the remaining parts of 2018 and the first half of 2019 as the trade war escalated. Overall, our results suggest that the patterns we observe in the baseline results are closely associated with the evolution of the US-China Trade War. More importantly, the difference-in-difference of imports from China between government suppliers and non-suppliers increases when the trade war escalates.

4.1.4 External Validity Tests

As discussed in Section 3.3, we explore the US-China Trade War as our main research setting because this trade war, between the two most powerful countries in the world today, has created profound impacts on the economic, social, and political aspects. While this setting has many good features for researchers, one major concern of exclusively relying on this setting is its external validity, i.e., under which conditions can we generalize the main results of this paper in other settings? Specifically, we examine two dimensions of external validity in this section. First, are all empirical patterns documented in this paper specific to the US-China Trade War setting, or can they be generalized under other trade wars triggered by political and economic tensions? Second, are all empirical patterns documented in this paper specific to trade frictions associated with political risks, or are they generalizable under all types of trade frictions, e.g., trade disruptions caused by natural disasters?

4.1.4.1. US-Russia Trade Conflicts under Ukraine-Russia War

The data availability does not allow us to repeat all tests for earlier trade wars in history to answer the first question. However, we can present results based on another recent political uncertainty that affects international trade between two major countries, i.e., the trade between the US and Russia under the ongoing Ukraine-Russia War. After Putin had launched a "special military operation" in Eastern Ukraine on February 24, 2022, G7 countries stripped Russia of its "most favored nation" status and imposed punitive tariffs on Russian products, to further isolate Moscow from obtaining financial resources to continue the war. For example, the White House vowed to implement higher tariff rates on more than 570 groups of Russian products worth approximately $2.3 billion (USD).[12] Although neither the coverage of products nor the magnitude of this tariff increase is comparable to the one in the US-China trade war, this "hot" war between Ukraine and Russia has generated significant impacts on the trade relationship between the U.S. and Russia.

[12] https://www.whitehouse.gov/briefing-room/statements-releases/2022/06/27/fact-sheet-the-united-states-and-g7-to-take-further-action-to-support-ukraine-and-hold-the-russian-federation-accountable/

We repeat our baseline tests in the Ukraine-Russia War setting. In this test, the cut-off point is set as November 2021, when the U.S. intelligence first reported unusual military movements of Russian troops. Since this war was launched recently and we do not have many post-war quarters, we organize our sample at the firm-product-month level (instead of the firm-product-quarter level that we use in the main test). We first plot the time trend of US imports from Russia in Figure 2. The figure shows that government suppliers and non-suppliers exhibit similar behaviors in importing from Russia (in terms of the comovement of their imports) before the cut-off point. After abnormal military movements of Russian troops had been reported, government suppliers significantly increased imports from Russia while non-suppliers kept their imports from Russia at the pre-war level.

[Insert Table 4 Here]

We repeat the baseline specification in Equation (1) for the Ukraine-Russia War setting and the results are reported in Table 4. We find very similar patterns to those reported in Table 2. After controlling for the firm, product, and industry×month fixed effects, we show that government suppliers imported less from Russia than non-suppliers before the war started. Consistent with the figure, government suppliers increased their imports from Russia much faster than non-suppliers after the outbreak of the Ukraine-Russia War. When we compare the results between Tables 2 and 4, one major difference is the economic magnitude. Relative to our finding in Table 4, the baseline effect is much stronger under the US-China Trade War setting. This difference is not surprising given the relative interdependence between the US and China and the relative importance of these two countries in international trade relationships.

4.1.4.2 US-Japan Trade Frictions Around the 2011 Tohoku Earthquake and Tsunami

Another important dimension of external validity is whether our main finding is specific to trade conflicts associated with political and economic tensions or it can be generalized to any trade disruptions. Answers to this question directly speak to whether contractual relationships with the US government allow firms to hedge against political risks specifically or all general disruptions in international trades.

We explore the 2011 Tohoku Earthquake and Tsunami (which occurred on March 11, 2011) as the research setting for this question. The trade disruptions between the US and Japan in this setting are triggered by an unexpected natural disaster. This earthquake and tsunami, killing almost 20,000 people, caused the Fukushima nuclear leakage that led to a permanent relocation of more than 220,000 people and paralyzed the industrial production of the entire Tohoku region. Carvalho, Nirei, Saito, and Tahbaz-Saleihi (2021) find that the 2011 Tohoku Earthquake and Tsunami generated supply-chain disruptions propagated and amplified along economic and trade links and resulted in a 0.47 percent decline in Japan's real GDP growth.

[Insert Table 5 Here]

We repeat the baseline specification in Equation (1) for the 2011 Tohoku Earthquake setting for the US imports from Japan and the results are tabulated in Table 5. We find that government suppliers and non-suppliers exhibit similar behaviors in importing from Japan around the earthquake and the differences in their importing behaviors, as suggested by the coefficients of all interaction terms in Table 5, are statistically indifferent from zero. Consistent with this finding, Figure 3 shows that imports from Japan slightly declined for both US government suppliers and non-suppliers after the earthquake and the changes in imports from Japan in the two groups are paralleling each other. Results in Table 5 and Figure 3 are consistent with the notion that contractual relationships with the US government agencies help US firms hedge trade conflicts triggered by political tensions but generate no effect in trade disruptions driven by non-political reasons, e.g., natural disasters.

4.2. Economic Mechanisms

After we have established results on different importing behaviors of government suppliers vs. non-suppliers around the US-China Trade War, we now discuss potential economic channels of these differences in this section. The main economic channel that we propose in this paper is the personal connection between government suppliers and government agencies, which is found to play a significant role in many economic transactions (Fisman, 2001; Goldman, Rocholl, and So, 2013). This economic channel is broadly related to the social network literature as informal ties in economic transactions (Cohen, Frazzini, and Malloy, 2008). Different from studies relying on indirect connection measures (e.g., geographical distance), we focus on direct political connections based on past government careers of corporate executives, board members, and employees.[13]

4.2.1. Direct Measures of Connections: Past Government Careers

Our analysis is built upon direct measures of connections with government agencies. Faccio (2006) finds economic benefits when controlling shareholders and top managers have a government background. We use the profile information of corporate managers

[13] In this section, we mainly focus on the US importing firms' direct political connections to the US government. One may question whether our baseline results can also be driven by the US importing firms' ties with China, in the form of either political or business connections. We address this concern by augmenting the baseline test with an additional interaction term with *China Subsidiaries*, a dummy variable that is equal to 1 when a US firm has any subsidiaries located in China, under the assumption that US firms with subsidiaries in China are likely to have stronger ties with China than other US firms. The results are reported in Table O2 of our Online Appendix. We find no evidence suggesting that our baseline effect differs significantly when US firms have subsidiaries in China, indicating that our findings are not likely to be explained by the US importing firms' ties with China.

and board members from the BoardEx database and the profile information of employees from Revelio Labs, to identify those with past career experience with government agencies.

[Insert Table 6 Here]

In Panel A of Table 6, we first focus on the past government career experience of corporate managers and board members. The dummy variable, *Former Government 1*, is set to one if a firm has at least one corporate manager or board member with past government experience in year *t*, and zero otherwise. For all three dependent variables, the coefficients of *Former Government 1* are positive and statistically significant, while the coefficients of Gov *Supplier*×*Former Government 1* are statistically insignificant. This suggests that before the trade war, companies with ex-government employees serving as corporate executives or board members imported more from China than companies without those executives, regardless of whether the company was a government supplier or not. The triple interaction term, our primary subject of interest, is positive and statistically significant, suggesting that the difference-in-difference in imports from China between government suppliers with former government employees as executive managers and board members and non-suppliers is larger than that between government suppliers with no former government employees and non-suppliers around the trade war.

Vidal, Draca, and Fons-Rosen (2012) show that ex-government employees, after taking corporate jobs, benefit from the connections acquired during their public service. Therefore, besides the former government experience of corporate managers and board members, we also investigate whether the former government experience of corporate employees supports the connection as a significant economic channel.

BoardEx does not specify which government agencies a board member or a corporate manager previously worked for. The advantage of using personal profile data is that we can search whether any current employee of the firm worked for the government agencies that are currently offering contracts to the firm. This will allow us to identify the pairs of connected parties in the contracting process of government procurement. By extracting the current and past titles of employees, we can also tell whether employees with past government experience are specialized in contracting or procurement. This will allow us to speak to the relevance of the connected employees in our story.

In tests reported in Panel B of Table 6, we search firm-agency pairs in the Revelio Labs US Profiling database and identify the number of current employees who previously worked for the government agencies offering contracts to the firm. In Panel B, we form a *Former Government 2* dummy that is equal to one if a firm has at least one former government employee. We repeat similar tests as those in Panel A using this new *Former Government 2* dummy and we find similar results. The difference-in-difference in the baseline test becomes stronger when firms have more employees who previously worked for government agencies that offer contracts to the firms right now.

In tests reported in Panel C of Table 6, we directly speak to the relevance of connected employees in our main story. If a connected employee can help government suppliers obtain tariff exemptions and purchase more from China, this is more likely to happen when the connected employee specializes in contracting and procurement. In this spirit, the dummy variable, *Former Government 3*, is set to one, if a firm has at least one connected employee specializing in contracting and procurement, as indicated by her previous title in government or existing title in the firm. Specially, we search the following set of keywords in job titles and descriptions to identify employees specialized in contracting and procurement: contract (including "contracting"), procur (including "procure" and "procurement"), purchas (including "purchase" and "purchasing"), supply (including "supply" and "supply chain"), inventory, customer, import, export, sourcing, and trade.

In Panel C, we repeat similar tests as those in Panel A using this new *Former Government 3* dummy and we find similar results. The difference-in-difference in the baseline test becomes stronger when government suppliers have connected employees who specialize in contracting and procurement. Overall, the results in Table 6 suggest that the direct connection between government suppliers and government agencies offering contracts through connected corporate managers, board members, and employees is one of the major economic channels explaining the main pattern in our baseline tests.[14]

4.2.2 Products on the Tariff List vs. Not on the List

Government connections generate strategic advantages for connected firms primarily in two ways. First, connected firms are favored when the government exercises discretion in selective or competitive resource allocation (the "favor" mechanism). Second, connected firms, relative to others, are able to collect policy-related information more efficiently and interpret it more accurately (the "information" mechanism) than their peer firms. To test whether both mechanisms can explain our baseline effect, we examine whether connections with the government only affect firms that produce products on the tariff list. We first carry out a cross-sectional partition based on whether products have ever been included in the tariff lists during the US-China Trade War. We then run our baseline tests separately within the two subsamples and the results are tabulated in Table 7.

[Insert Table 7 Here]

Results in Table 7 show two clear patterns. First, irrespective of whether a product is ever included in the tariff list during the Trade War, government suppliers' changes in the imports from China (in terms of value, number of transactions, and product quantity) are higher than those of non-suppliers, i.e., the baseline results hold for both subsamples irrespective of a product is on the tariff list or not. Second, while the differences are

[14] We repeat similar tests using an indirect political connection measure based on geographical distance. Results in Online Appendix Table O3 suggest that the main pattern in Table 6 still holds.

statistically insignificant, the baseline effect is slightly stronger for products that are not on the tariff list. These two patterns hint that both "favor" and "information" mechanisms are involved in explaining our baseline effect. In the following subsections, we examine and discuss both mechanisms in detail.

4.2.2.1. Mechanisms for Products on the Tariff List: Tariff Exclusion

The "favor" mechanism of political connections and its impact on firm values are widely documented in the literature. For example, Faccio, Masulis, and McConnell (2006) show that politically connected firms are significantly more likely to be bailed out than similar non-connected firms in challenging times, as such connections influence the allocation of public resources. Brown and Huang (2020) find that firms with connections with federal government officials are more likely to receive regulatory relief. To identify the "favor" mechanism in our Trade War setting, we examine whether government suppliers have advantages in applying for tariff exemption.

Our dependent variable, *Approved*, is constructed as a dummy variable equal to one if the firm's application for tariff exclusion gets approved and zero if the application is rejected. We construct three related independent variables. *Federal Contractor* is a dummy variable equal to 1 if the firm applying for tariff exemptions holds contracts offered by the federal government in 2018; *Gov Supplier* is a dummy variable equal to 1 if the firm applying for tariff exemptions discloses the US government as its principal customer in 2018.[15] *Government Procurement* is a dummy variable equal to 1 if the product involved in the tariff exemption application was procured by the government in 2018.

[Insert Table 8 Here]

We run a linear probability model to estimate the likelihood of approval in tariff exclusion applications during the 2018 US-China Trade War, conditional on whether the applicants are US government suppliers or not. The results are presented in Panel A of Table 8. In column (1), we include all applicants who have submitted tariff exemption applications, regardless of their public status. Note that we do not include any other firm attributes in this model due to the lack of such information for private firms. Hence, we only include the application round and product HS code (8-digit) fixed effects in this model. The coefficient of *Federal Contractor* (0.032) is positive and statistically significant, suggesting that being a federal contractor in 2018 increases the probability of obtaining tariff exemptions by 3.2 percentage points (relative to those who are not federal contractors). This effect is economically large given that the unconditional likelihood of obtaining tariff exemption is only 12.9%.

In columns (2)-(4) of Panel A, we only include publicly listed applicants, including their subsidiaries. In column (2), we observe a similar result that the government supplier

[15] Regulation S-K only requires firms with public securities to disclose major customers in SEC filings.

status increases the likelihood of a successful application to the tariff exemption list. If a firm discloses government agencies as its major customers, we see an incremental effect in the probability of obtaining tariff exemption. The coefficient for *Gov Supplier* is about five times larger than that for *Federal Contractor*, suggesting that being a government-dependent supplier further increases the probability of obtaining tariff exemption by 19.8% (*t=3.17*). Considering the unconditional likelihood of getting tariff exemption (12.9%), government-dependent suppliers' probability of getting tariff exemption is more than doubled relative to an average firm in the sample. In terms of the results on control variables, we see the chance of obtaining tariff exemption is higher for larger firms, as they may have more resources to gain government support.

In column (3) of Panel A, we replace the government supplier status variables with *Government Procurement*, an independent variable derived from product characteristics. Our results suggest that if the application involves a product that was procured by the federal government in the previous year, the likelihood of obtaining approval increases by 8.1 percentage points. This pattern might be driven by government's economic incentive of saving procurement costs, i.e., if the government imposes tariffs on imported goods that they eventually procure from US firms, the tariff, entirely or partially, will be reflected in the procurement costs. When we include *Government Procurement* together with *Federal Contractor* and *Gov Supplier* in column (4), *Federal Contractor* loses its statistical significance while *Gov Supplier* and *Government Procurement* are still important predictors for the likelihood of obtaining tariff exemptions. This result suggests that both product characteristics and government connections at the firm level matter in obtaining tariff exemption. However, after controlling for product characteristics, the government supplier status at the firm level matters only when the status is built upon long-term and large-scale procurement from the government.

In Panel B, we augment the test specification for column (2) of Panel A by interacting the government supplier status with all direct connection measures in Sections 4.2.1. We find that the coefficients of interaction terms between *Gov Supplier* and all direction connection measures (i.e., *Former Government 1, 2 & 3*) are positive and statistically significant at the 1% level, suggesting that government suppliers that employ ex-government officials enjoy incremental favorable treatment in tariff exemption applications.

4.2.2.2. Mechanisms for Products Not on the Tariff List: Information Advantage

For products not on the tariff list, we argue that government suppliers are able to acquire and interpret information more efficiently so that they can avoid excessive reduction of imports from China under policy uncertainty. This argument can be illustrated in the following example: when one product is included in a tariff list during the Trade War, firms importing similar products from China are worried since they would

speculate that their imports from China are likely to be included in the next tariff list. If they are uninformed, they would rationally reduce their imports from China anyway to hedge against the potential supply-chain risks that can be triggered by the next tariff list. However, connected government suppliers might face a different situation. Their connections to the government may allow them to obtain and interpret information more efficiently, which leads to more accurate predictions about which products will (or will not) be included in the future tariff list. Therefore, we expect that, even for products that are not on the tariff list, the change in imports from China around the US-China Trade War is still higher for government suppliers relative to non-supplier firms, especially when the imported products are similar to those that have already been included in the tariff lists.

For the subsample of products that have never been included in tariff lists during the Trade War, we test our conjecture above by augmenting the baseline specification with a triple interaction term, *Gov Supplier*×*Post Trade War*×*Similar Product* (together with all necessary double interaction terms). Here, *Similar Product* is a dummy variable if a product shares the same 6-digit HSCODE (i.e., product category code) with products that have already been included in the tariff list. Our argument is built upon an assumption that uninformed firms are more likely to be worried and reduce imports from China ex-ante when their products imported from China are similar to those that have already been included in the tariff list. Results are presented in Table 9.

[Insert Table 9 Here]

The coefficients of triple interaction terms for all three dependent variables in columns (1)-(3) are positive and statistically significant at the 10% level. While the triple interaction term captures the difference between the baseline effects for products similar to those on the tariff lists vs. products that are not (i.e., the difference between the two diff-in-diffs), our results suggest a much stronger baseline effect within the former group. Overall, for firms whose importing goods are not on the tariff lists, our results support the conjecture that connections to the government generate information advantages under policy uncertainties.

Overall, results in this section suggest that political connections generate strategic advantages for firms through different channels for products on the tariff list and those that are not on the list. For goods on the tariff list, political connects change the likelihood of obtaining tariff exemption through the "favor" mechanism. For goods not on the list, political connections generate information advantages for connected firms.

5. Economic Outcomes

In the previous subsection, we show that, unlike other firms reducing purchases from China, government suppliers increased their imports from China during the US-China Trade War because their connections with the government offer them strategic advantages

in obtaining tariff exemptions and accurate information under policy uncertainties. In this subsection, we investigate the economic outcomes of government suppliers' advantages from the perspectives of companies, government agencies, and participants in the product and capital markets.

5.1. Corporate Perspectives

We first focus on how the advantages of government suppliers during the trade war affect relative corporate operating performance. Government suppliers' advantages in obtaining tariff exemption and identifying product categories that will not be included in the tariff list will generate cost reductions and make them more competitive in the product market. These advantages will eventually be reflected in corporate operating performance. In this test, we measure corporate operating performance by three widely used measures: return on assets (*ROA*) is defined as the operating income scaled by total assets, return on equity (*ROE*) is defined as the net income scaled by the book value of shareholder's equity, market share is the percentage sales within the main industry of a firm, and inventory ratio is the inventory scaled by the total assets. The test specification is similar to the baseline while the measures capturing imports from China in the baseline are now replaced by operating performance measures. Since dependent variables are different, we update control variables following Patatoukas (2012), including firm size (market value in logarithm), sales growth rate, book leverage, and book-to-market ratio. We also include firm and industry-quarter fixed effects to remove the impacts from time-invariant firm characteristics and industry-wide common shocks.

[Insert Table 10 Here]

Results are presented in Table 10. The coefficients of *Gov Supplier* suggest that government suppliers did not perform better than non-suppliers before the US-China Trade War. The coefficient in column (1) of Table 10 suggests the opposite: in terms of *ROA*, government suppliers underperformed non-suppliers by 0.005 before the trade war and this difference is statistically significant at the 5% level. This result is consistent with our earlier discussion on the costs of being US government suppliers.

The key result from columns (1)-(2) in Table 10 is that coefficients of the interaction term, *Gov Supplier* × *Post Trade War*, are positive and statistically significant. This suggests that, in terms of operating performance measures (*ROA* and *ROE*), government suppliers experienced higher improvements than non-suppliers after the outbreak of the US-China Trade War. The differences in these improvements between the two groups can offset government suppliers' disadvantage in *ROA* before the trade war and even put them in a leading position in terms of *ROE*. We further examine the market share and inventory ratio of government suppliers and non-suppliers in columns (3) and (4). We find that the improved performance of government suppliers after the US-China Trade War can be partially attributable to the relative increase in market share and decrease in inventory.

Overall, results based on corporate operating performance are consistent with our conjecture that government suppliers take advantage of their connections with the US government during the trade war, which allows them to catch up or even outperform non-suppliers after the trade war starts.

When the operating performance of government suppliers, relative to that of non-suppliers, improves during the trade war, we expect more firms to participate in the bidding of government contracts. In Appendix Table A4, we formally test this conjecture. The dataset for this test is retrieved from USAspending.com, covering all new federal government contracts (excluding contract renewals) issued between 2016Q1 and 2019Q4. While the dataset is organized at the contract level, we control for the government agency, product category, and industry fixed effects to remove the impact from time-invariant factors driven by the requirements of issuing agencies, product/service characteristics, and industry features. We also control for the quarter fixed effects to remove the seasonality driven by the cycle of the federal budget in each fiscal year.

In column (1) of Appendix Table A4, the dependent variable is the natural logarithm of the number of bidders. We use this variable in its logarithm form since the number of bidders is extremely skewed in our sample (skewness=7.03). Results in column (1) suggest that the number of bidders for federal contracts indeed increases after the outbreak of the US-China Trade War. However, the economic magnitude for the full sample is small: after controlling for all fixed effects, the number of bidders increases by 5.5% after the trade war starts. We replace the dependent variable with *Single Bidder*, a dummy variable that is equal to 1 when a contract has only one bidder, in column (2) and run a linear probability model using this dependent variable. We find similar patterns as those shown in column (1). This result confirms that the empirical pattern identified in column (1) is not driven by the skewness in the number of bidders and is robust to alternative dependent variables that capture the competitiveness in the government procurement bidding process.

We next examine whether government suppliers are more likely to recruit near government agencies after the Trade War. The dataset for this test is organized at the firm-year level. The dependent variable is the ratio of employees working within the Washington Metropolitan Area (WMA) to all employees, which is constructed by using employment data from NETS at the plant level. *WMA* in column (1) of Appendix Table A5 is defined by four areas or states, including Washington, DC, Virginia, Maryland, and Vest Virginia. The coefficient of the interaction term *Gov Supplier*×*Post Trade War* is 0.003 (statistically significant at the 10% level), suggesting that government suppliers' employment within the WMA area increased 0.3 percentage points faster than non-suppliers around the US-China Trade War. This difference is economically meaningful given the mean of the dependent variable is 5.23%.

In columns (2) and (3) of Appendix Table A5, we define WMA differently. In column (2), *WMA* is equal to 1 if a plant is within 25 miles of Washington DC. In column (3), *WMA* is equal to 1 if a plant is located within 50 miles of Washington, D.C. Our results are robust to different definitions of WMA. Our results in Appendix Table A5 suggest that government suppliers increased their employment in areas near government agencies relative to non-suppliers after the outbreak of the US-China Trade War.

5.2. Government Perspectives

Next, we examine the economic outcomes from the perspective of government agencies. In the previous subsection, we show that the number of firms bidding for government contracts increases after the trade war starts. A natural question related to the government perspective is whether the decisions of contract renewals are affected by government suppliers' imports from China (assuming there is no violation of government regulations), especially after the trade war starts. To address this question, we retrieve all federal contracts that were completed between 2016Q1 and 2019Q4. The dependent variable, *Renewal*, is set to one if a contract is renewed (same product/service and offered by the same government agency) within six months after its completion. We partition the entire sample into "before trade war" and "after trade war" sub-periods and the results are tabulated in Appendix Table A6. We find no evidence that importing from China, no matter before or after the outbreak of the US-China Trade War, affects the likelihood of contract renewals.

5.3. Product Market Perspectives

When the US imposes tariffs on imports from China, the demand for Chinese goods decreases. While government suppliers experience a high likelihood of tariff exemptions, we predict that they also enjoy a lower price from Chinese sellers in the product market, which partially contributes to their increase in imports from China.[16]

In Appendix Table A7, we test whether government suppliers, relative to non-suppliers, experience a larger reduction in costs/prices while they import from China during the US-China Trade War. The dataset for this test is organized at the firm-quarter-hscode8-country level. S&P Panjiva does not provide unit prices and we estimate the unit prices by using the ratio between total import value and quantity, i.e., the dependent variable is the logarithm of import value divided by import quantity.[17] *Gov Supplier* and *Post Trade War* are defined identically in earlier tests. *Import from China* is a dummy variable that is equal to 1 if a product is imported from China.

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[16] One possibility is that government suppliers enjoy lower prices with tariff exemptions and resell to other US companies.

[17] Even for the value of import goods, the information is only available for around 10% of observations. The results presented in this subsection is based on a limited sample where the values of import goods are available.

The key result is captured by the negative and statistically significant coefficient of the triple interaction term *Gov Supplier×Post Trade War×Import from China*. This result suggests that, relative to non-suppliers, government suppliers experience a larger price reduction for products imported from China, when compared with a similar diff-in-diff for products imported from other countries.

5.4. Capital Market Perspectives

In Section 5.1, we show that government suppliers outperform non-suppliers in operating performance by taking advantage of their connections with the government during the trade war. In this subsection, we examine whether analysts and investors fully understand this pattern or whether they exhibit a delayed updating to the advantages of government suppliers only in subsequent periods. While the difference between government suppliers and non-suppliers under the US-China Trade War - as we discussed earlier in this paper - is more subtle than the general impact of tariffs, it is reasonable to believe that analysts and investors who specialize in these firms would understand these differences.

We rely on three measures to test whether analysts and investors underreact to the advantages of government suppliers during the trade war. We first focus on the cumulative abnormal returns around the earnings announcement since underreaction is partially corrected in subsequent earnings surprises as the positive real impacts are revealed in markets (e.g., Shane and Brous, 2001). Specifically, CAR[-2,2] is the cumulative abnormal return from two trading days before to two trading days after the quarterly earnings announcement.[18] Further, if analysts' earnings forecasts and market prices appear to underreact to information, we expect subsequent analyst forecast revisions and market price corrections when information is gradually realized with delay. Therefore, we also examine monthly forecast revisions (i.e., the difference between consensus forecasts of this month and that of the previous month, scaled by the price at the end of the previous month) and DGTW adjusted monthly returns (i.e., the monthly abnormal returns computed following Daniel, Grinblatt, Titman, and Wermers (1997)).

We regress these three dependent variables on *Gov Supplier* dummy for three sample periods: (1) the period before 2018 when there was no trade war between the US and China, (2) Q1 and Q2 of 2018 when the market started to form expectations of the trade war but the impact of tariffs on corporate earnings had not been realized, and (3) the period after Q3 of 2018 when the tariffs had been implemented and the impact of tariffs on corporate earnings had been gradually observed. All test specifications include year-quarter fixed effects to remove market-wide common shocks. The coefficients of *Gov Supplier* capture

[18] We use the market model to estimate cumulative abnormal returns with an estimation period [-120, -20]. Our results are robust to other models, such as the Fama-French three-factor model.

the differences in three dependent variables between government suppliers and non-suppliers during these three periods. Results are reported in Table 11.

[Insert Table 11 Here]

Results in Table 11 suggest that, after controlling for year-quarter fixed effects, government suppliers and non-suppliers exhibited no difference in earnings announcement effect, monthly forecast revisions, or monthly abnormal returns before the trade war or during the first two quarters of the trade war. The differences in these three dimensions became statistically and economically significant after Q3 of 2018, when the implementation of tariffs generated impacts on corporate earnings. The insignificant difference for the period before the trade war is perhaps not surprising and serves as a good benchmark for the other two periods. The null results in Q1 and Q2 of 2018 and the gradually emerging differences in earnings announcement effect, monthly forecast revisions, and monthly abnormal returns after Q3 of 2018 are consistent with our conjecture that market participants underreact to the advantage of government suppliers during the trade war. Analysts revise their forecasts and investors correct mispricing in subsequent earnings announcements and non-earnings information arrivals. For investors, these differences are economically meaningful and can be translated to significant profits in trading. For example, our results suggest that government suppliers start to outperform non-suppliers by 80 basis points per month (or 240 basis points per quarter) in abnormal risk-adjusted returns post-Q3 of 2018.

When combined with the capital market implications driven by the underreaction to government suppliers' advantages during the trade war, our main argument also predicts that the abnormal returns of government suppliers, relative to those of non-suppliers, have a higher sensitivity to the change of trade policy uncertainty. Specifically, when trade policy uncertainty increases, government suppliers' benefits from their government connections outweigh the costs and, therefore, are likely to experience a higher level of abnormal returns relative to non-suppliers.

We obtain two trade policy uncertainty measures, *TPU1* and *TPU2*, from Baker, Bloom, and Davis (2016) and Rogers, Sun, and Sun (2024). We construct five different measures of abnormal returns, including the excess returns (raw returns minus risk-free returns), alpha based on CAPM, alpha based on Fama-French Three-Factor Model (Fama & French, 1993), alpha based on Fama-French and Carhart Four-Factor Model (Carhart, 1997), and alpha based on Fama-French Five-Factor Model (Fama & French, 2015). For each firm in our sample period, we regress each abnormal return measure on the percentage change in each TPU measure. The means of coefficients for two subgroups, i.e., government suppliers and non-suppliers, are reported in Appendix Table A8. We also compute the statistical significance of the differences in coefficients between the two groups. Consistent with our conjecture, we find that the abnormal returns of government

suppliers, relative to those of non-suppliers, have a higher sensitivity to the change of trade policy uncertainty over time. This pattern is robust to alternative measures of abnormal returns and trade policy uncertainty.

6. Conclusion

Using the two largest geopolitical shocks to international trade in recent decades, we show a counterintuitive pattern in global international trade. Namely, while the average firm trading with nations on whom sanctions have been imposed significantly decreases their trade with these jurisdictions following sanctions, government-linked firms in fact significantly *increase* their trade. These increases can be quite large in economic magnitude, as we find, for instance, importing activities (in terms of product value) of government suppliers spiking 30.41% (t=4.23) following the onset of formal sanctions.

These relative increases in the activity of government suppliers are concentrated solely in the sanctioned countries – with no commensurate increases to other countries at the same time (even close countries in the same regions) - nor these same countries at other times. The mechanism appears to act strongly through the degree and intensity of closeness of government connection, with firms who have hired more former government employees (particularly those with past government contracting experience), accruing the most benefits. These benefits are substantive: in the form of significantly higher firm-level profitability, market share gains, and outsized stock returns.

The sum of our results suggests that the human capital these former government employees possess – in terms of knowledge, expertise, and networks – is important for firm value at the firms to which they are employed. This value is realized particularly at times of stress to international value and supply chains. As geopolitical disruptions and tensions continue to evolve, and as these disruptions represent increasingly larger shocks to the percentage of firm value – these "hedges" in terms of human capital become increasingly valuable assets and insurance contracts for firms to possess.

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Figure 1 China Import Ratios: US Government Suppliers vs Other Firms around the US-China Trade War

China Import Ratio (Based on Product Value)

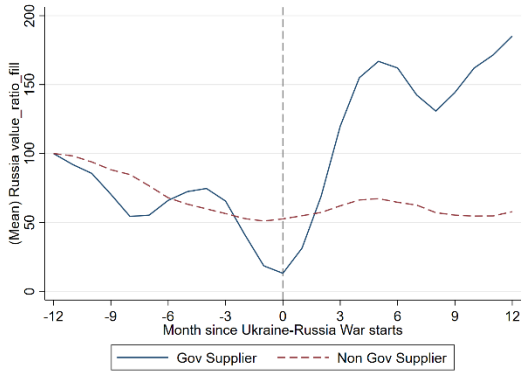
China Import Ratio (Based on Product Quantity)

China Import Ratio (Based on the Number of Transactions)

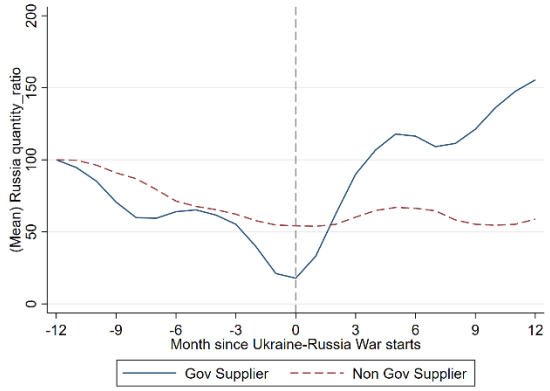
China Import Ratio is the percentage of imports from China in imports from all countries for each firm-quarter-hscode8. The three *China Import Ratios* computed above are based on product value, product quantity, and the number of transactions, respectively. *China Import Ratio* is standardized based on its value at quarter *t-8*, which serves as the benchmark quarter with a base value of 100.

Figure 2 Russia Import Ratios: US Government Suppliers vs Other Firms around the Ukraine-Russia War

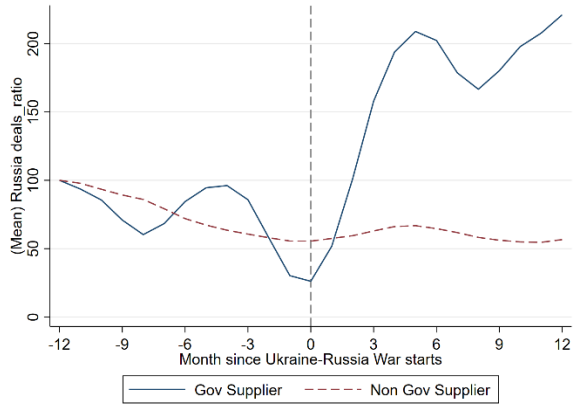
Russia Import Ratio (Based on Product Value)



Russia Import Ratio (Based on Product Quantity)



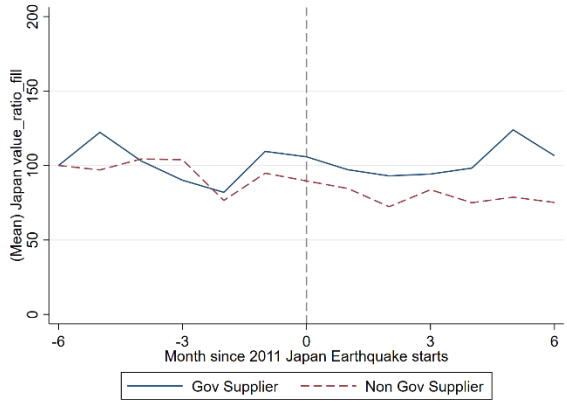
Russia Import Ratio (Based on the Number of Transactions)



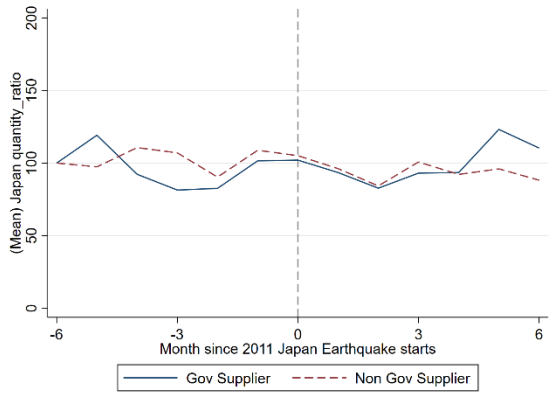
Russia Import Ratio is the percentage of imports from Russia in imports from all countries for each firm-quarter-hscode8. The three *Russia Import Ratios* above are based on product value, product quantity, and the number of transactions, respectively. *Russia Import Ratio* in this figure is standardized based on its value at month *t-12*, which serves as the benchmark month with a base value of 100.

Figure 3 Japan Import Ratios: US Government Suppliers vs Other Firms around the 2011 Tohuku Earthquake and Tsunami

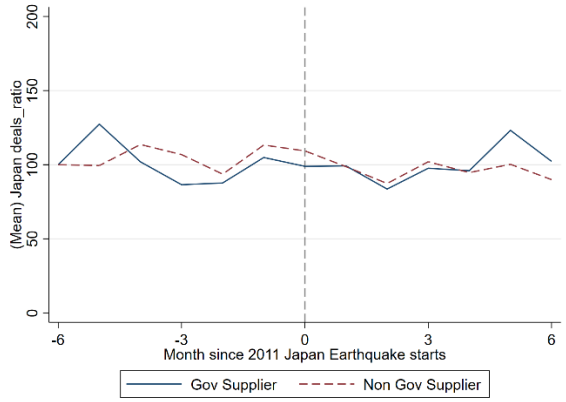
Japan Import Ratio (Based on Product Value)



Japan Import Ratio (Based on Product Quantity)



Japan Import Ratio (Based on the Number of Transactions)



Japan Import Ratio is the percentage of imports from Japan in imports from all countries for each firm-quarter-hscode8. The three *Japan Import Ratios* computed above are based on product value, product quantity, and the number of transactions, respectively. *Japan Import Ratio* in this figure is standardized based on its value at month *t-6*, which serves as the benchmark month with a base value of 100.

Table 1 Summary Statistic

This table provides the summary statistics of dependent and independent variables used in the main tests of this paper. The sample period is from 2016Q1 to 2019Q4. Panel A provides the summary statistics for the full sample. Panel B provides a comparison between government suppliers and non-suppliers. Detailed definitions of these variables are provided in Appendix I.

Panel A: Full Sample

Variable	N	Mean	STD	P25	Median	P75	Min	Max
China Import Ratio (Product Value)	160,698	0.148	0.347	0.000	0.000	0.000	0.000	1.000
China Import Ratio (Number of Transactions)	160,698	0.163	0.360	0.000	0.000	0.000	0.000	1.000
China Import Ratio (Product Quantity)	160,698	0.165	0.366	0.000	0.000	0.000	0.000	1.000
B/M	127,910	0.442	0.436	0.201	0.354	0.543	0.004	3.041
Log(MV)	127,913	9.307	1.719	8.127	9.366	10.510	4.436	12.590
ROA	159,863	0.057	0.060	0.029	0.056	0.090	-0.154	0.204
%Revenue from US Market	159,948	0.464	0.217	0.274	0.451	0.610	0.000	1.000

Panel B: Government Suppliers vs. Non-Suppliers

	Non-Suppliers		Government Suppliers		
Variable	N	Mean	N	Mean	Difference
China Import Ratio Product Value	153,337	0.150	7,361	0.102	0.049***
China Import Ratio Number of Transactions	153,337	0.165	7,361	0.111	0.055***
China Import Ratio Product Quantity	153,337	0.168	7,361	0.112	0.056***
B/M	120,642	0.446	7,268	0.366	0.080***
Log(MV)	120,645	9.259	7,268	10.095	-0.836***
ROA	152,506	0.058	7,357	0.038	0.020***
%Revenue from US Market	152,857	0.459	7,091	0.562	-0.103***

Table 2: China Import Ratios: US Government Suppliers vs. Other Firms around the US-China Trade War

This table compares *China Import Ratio* between US government suppliers and other firms around the 2018 US-China Trade War. The dataset for this table is organized at the firm-quarter-hscode8 level. The sample period is from 2016Q1 to 2019Q4. The dependent variable for columns (1) and (2) is *China Import Ratio* in terms of product value; the dependent variable for columns (3) and (4) is *China Import Ratio* in terms of the number of transactions; the dependent variable for columns (5) and (6) is *China Import Ratio* in terms of product quantity. Among independent variables, *Gov Supplier* is a dummy variable that is equal to 1 when a firm discloses the US government as its principal customer for the fiscal year t. *Post Trade War* is a dummy variable that is equal to 1 for periods after (including) 2018Q1. Other independent variables include lagged total assets (in logarithm), book-to-market ratios, return on assets, and the ratio of domestic sales to total sales. We include the firm, industry×year quarter, and product HSCODE (8-digit) fixed effects in all test specifications. Standard errors are clustered at the product HSCODE (8-digit) level. *T*-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	China Import Ratio		China Import Ratio		China Import Ratio	
VARIABLES	Product Value		Number of Transactions		Product Quantity	
Gov Supplier×Post Trade War	0.040***	0.045***	0.048***	0.053***	0.044***	0.050***
	(4.63)	(4.23)	(5.04)	(4.67)	(4.60)	(4.52)
Gov Supplier	0.004	-0.005	0.011	0.002	0.015	0.008
	(0.17)	(-0.19)	(0.43)	(0.10)	(0.62)	(0.31)
B/M		-0.008		-0.012		-0.010
		(-0.95)		(-1.47)		(-1.29)
Log(MV)		0.002		-0.002		0.002
		(0.37)		(-0.33)		(0.35)
ROA		-0.073**		-0.046		-0.052*
		(-2.41)		(-1.54)		(-1.70)
%Revenue from US Market		0.046*		0.063**		0.063**
		(1.93)		(2.56)		(2.50)
Firm FE	Y	Y	Y	Y	Y	Y
Hscode8 FE	Y	Y	Y	Y	Y	Y
Ind x Year Quarter FE	Y	Y	Y	Y	Y	Y
Observations	159,023	125,802	159,023	125,802	159,023	125,802
R-squared	0.485	0.489	0.534	0.540	0.531	0.536

Table 3: The Timing of Changes in China Import Ratios: US Government Suppliers vs. Non-Suppliers around the Trade War

This table reports the timing of changes in *China Import Ratio* between US government suppliers and other firms around the 2018 US-China Trade War. The dataset for this table is organized at the firm-quarter-hscode8 level. The sample period is from 2016Q1 to 2019Q4. The dependent variable for columns (1) and (2) is *China Import Ratio* in terms of product value; the dependent variable for columns (3) and (4) is *China Import Ratio* in terms of the number of transactions; the dependent variable for columns (5) and (6) is *China Import Ratio* in terms of product quantity. Among independent variables, *Gov Supplier* is a dummy variable that is equal to 1 when a firm discloses the US government as its principal customer for the fiscal year *t*. *Before Tradewar Quarter -T* is a dummy variable that is equal to 1 for the period t quarters before the outbreak of the US-China trade war (Quarter 0 is 2018Q1). Similarly, *Post Tradewar Quarter T* is a dummy variable that is equal to 1 for the period t quarters after the outbreak of the US-China trade war. Other independent variables include lagged total assets (in logarithm), book-to-market ratios, return on assets, and the ratio of domestic sales to total sales. We include the firm, industry×year quarter, and product HSCODE (8-digit) fixed effects in all test specifications. Standard errors are clustered at the product HSCODE (8-digit) level. *T*-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

VARIABLES	(1) China Import Ratio Product Value	(2) China Import Ratio Number of Transactions	(3) China Import Ratio Product Quantity
Gov Supplier	-0.009	-0.003	0.003
	(-0.39)	(-0.12)	(0.11)
Gov Supplier×Before Tradewar Quarter -4	0.001	0.001	0.001
	(0.12)	(0.08)	(0.04)
Gov Supplier×Before Tradewar Quarter -3	0.001	0.006	0.005
	(0.05)	(0.37)	(0.35)
Gov Supplier×Before Tradewar Quarter -2	0.005	-0.004	-0.007
	(0.36)	(-0.29)	(-0.53)
Gov Supplier×Before Tradewar Quarter -1	0.000	0.008	0.004
	(0.03)	(0.43)	(0.21)
Gov Supplier×Post Tradewar Quarter 0	0.021	0.026	0.020
	(1.08)	(1.27)	(1.02)
Gov Supplier×Post Tradewar Quarter +1	0.029	0.026	0.018
	(1.51)	(1.41)	(0.93)
Gov Supplier×Post Tradewar Quarter +2	0.039**	0.051**	0.047**
	(2.07)	(2.56)	(2.41)
Gov Supplier×Post Tradewar Quarter +3	0.048**	0.064***	0.058***
	(2.47)	(3.38)	(3.07)
Gov Supplier×Post Tradewar Quarter +4	0.064***	0.070***	0.070***
	(3.14)	(3.52)	(3.49)
Gov Supplier×Post Tradewar Quarter >4	0.057***	0.066***	0.065***
	(3.43)	(4.12)	(4.01)
Other Controls	Y	Y	Y
Firm FE	Y	Y	Y
Ind x Year Quarter FE	Y	Y	Y
Hscode FE	Y	Y	Y
Observations	125,802	125,802	125,802
R-squared	0.489	0.540	0.536

Table 4 Out of Sample (External Validity) Test: Imports from Russia around the Ukraine-Russia Conflict

This table compares the total imports from Russia between US government suppliers and other firms around the 2022 Ukraine-Russia Trade War. The dataset for this table is organized at the firm-month level. The sample period is from January 2020 to May 2022. The dependent variable for column (1) is *Russia Import Ratio* in terms of product value; the dependent variable for column (2) is *Russia Import Ratio* in terms of the number of transactions, and the dependent variable for column (3) is *Russia Import Ratio* in terms of product quantity. *Gov Supplier* is a dummy variable that is equal to 1 when a firm discloses the US government as its principal customer for the fiscal year t. *Post War* is a dummy variable that is equal to 1 for periods since November 2021. Other independent variables include lagged total assets (in logarithm), book-to-market ratios, and return on assets. We include the firm, industry×year quarter, and product HSCODE (8-digit) fixed effects in all test specifications. *T*-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)
	Russia Import Ratio	Russia Import Ratio	Russia Import Ratio
VARIABLES	Product Value	Number of Transactions	Product Quantity
Gov Supplier×Post War	0.005***	0.005***	0.004***
	(3.36)	(3.38)	(3.363)
Gov Supplier	-0.009***	-0.008***	-0.009***
	(-2.77)	(-2.76)	(-2.754)
B/M	-0.001	-0.000	-0.000
	(-1.47)	(-0.99)	(-0.863)
Log(MV)	-0.000	-0.000	-0.000
	(-1.15)	(-1.51)	(-1.358)
ROA	-0.028***	-0.026***	-0.026***
	(-4.75)	(-4.80)	(-4.716)
Firm FE	Y	Y	Y
Hscode8 FE	Y	Y	Y
Ind x Year Month FE	Y	Y	Y
Observations	385,353	402,713	402,690
R-squared	0.139	0.145	0.141

Table 5 Out of Sample (External Validity) Test: Imports from Japan around the 2011 Tohoku Earthquake and Tsunami

This table compares the Japan Import Ratio between US government suppliers and other firms around the 2011 Tohoku Earthquake and Tsunami. The dataset for this table is organized at the firm-month-hscode8 level. The sample period is from six months before and after the earthquake and includes goods categories severely impacted by the earthquake. The dependent variable for columns (1) and (2) is *Japan Import Ratio* in terms of product value; the dependent variable for columns (3) and (4) is *Japan Import Ratio* in terms of the number of transactions; the dependent variable for columns (5) and (6) is *Japan Import Ratio* in terms of product quantity. Among independent variables, *Gov Supplier* is a dummy variable that is equal to 1 when a firm discloses the US government as its principal customer for the fiscal year *t*. *Post Earthquake* is a dummy variable that is equal to 1 for periods from March 2011 to May 2011. Other independent variables include lagged total assets (in logarithm), book-to-market ratios, return on assets, and the ratio of domestic sales to total sales. We include the firm, industry×year quarter, and product HSCODE (8-digit) fixed effects in all test specifications. Standard errors are clustered at the product HSCODE (8-digit) level. T-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Japan Import Ratio		Japan Import Ratio		Japan Import Ratio	
VARIABLES	Product Value		Number of Transactions		Product Quantity	
Gov Supplier×Post Earthquake	0.009	0.008	0.006	0.005	0.007	0.006
	(1.55)	(1.38)	(1.02)	(0.85)	(1.17)	(0.99)
Gov Supplier	-0.006	-0.007	-0.004	-0.006	-0.004	-0.006
	(-0.83)	(-1.04)	(-0.64)	(-0.90)	(-0.63)	(-0.90)
B/M		0.013***		0.013***		0.014***
		(3.90)		(4.28)		(4.39)
Log(MV)		-0.001		-0.001		-0.001
		(-0.17)		(-0.17)		(-0.28)
ROA		0.001		0.011		0.012
		(0.04)		(0.57)		(0.63)
Firm FE	Y	Y	Y	Y	Y	Y
Hscode8 FE	Y	Y	Y	Y	Y	Y
Ind x Year Month FE	Y	Y	Y	Y	Y	Y
Observations	143,799	141,805	154,124	152,020	154,124	152,020
R-squared	0.285	0.287	0.272	0.274	0.269	0.271

Table 6. Connections with Government: Direct Measures based on Past Government Careers of Corporate Managers, Board Members, and Employees

This table compares *China Import Ratio* between US government suppliers and other firms around the 2018 US-China Trade War, conditional on whether a firm has former government employees. The dataset for this table is organized at the firm-quarter-hscode8 level. The sample period is from 2016Q1 to 2019Q4. The dependent variable for column (1) is *China Import Ratio* in terms of product value; the dependent variable for column (2) is *China Import Ratio* in terms of the number of transactions; the dependent variable for column (3) is *China Import Ratio* in terms of product quantity. *Gov Supplier* is a dummy variable that is equal to 1 when a firm discloses the US government as its principal customer for the fiscal year t. *Post Trade War* is a dummy variable that is equal to 1 for periods after (including) 2018Q1. In Panel A, *Former Government 1* is a dummy variable that is equal to 1 if a firm has executive officers or board members with former government experience. In Panel B, *Former Government 2* is a dummy variable that is equal to 1 if a firm has former government employees. In Panel C, *Former Government 3* is a dummy variable that is equal to 1 if a firm has former government employees specialized in contracting and procurement. Other firm-level control variables include lagged total assets (in logarithm), book-to-market ratios, return on assets, and the ratio of domestic sales to total sales. We include the firm, industry×quarter, and product HSCODE (8-digit) fixed effects in all test specifications. Standard errors are clustered at the product HSCODE (8-digit) level. T-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Past Government Careers of Corporate Managers and Board Members

	(1)	(2)	(3)
	China Import Ratio	China Import Ratio	China Import Ratio
VARIABLES	Product Value	Number of Transactions	Product Quantity
Gov Supplier×Post Trade War	0.003	0.003	-0.001
	(0.10)	(0.10)	(-0.02)
Gov Supplier×Post Trade War×Former Government 1	0.054*	0.063**	0.064**
	(1.73)	(2.11)	(2.16)
Gov Supplier	0.006	0.006	0.012
	(0.15)	(0.18)	(0.35)
Former Government 1	0.031***	0.034***	0.036***
	(3.83)	(4.44)	(4.69)
Gov Supplier×Former Government 1	-0.012	-0.005	-0.006
	(-0.40)	(-0.17)	(-0.20)
Post Trade War×Former Government 1	-0.007	-0.005	-0.002
	(-1.15)	(-0.81)	(-0.36)
Firm Controls	Y	Y	Y
Firm FE	Y	Y	Y
Hscode8 FE	Y	Y	Y
Ind × Year Quarter FE	Y	Y	Y
Observations	125,802	125,802	125,802
R-squared	0.490	0.540	0.537

Panel B: Past Government Careers of Non-Executive Employees

VARIABLES	(1) China Import Ratio Product Value	(2) China Import Ratio Number of Transactions	(3) China Import Ratio Product Quantity
Gov Supplier×Post Trade War	0.028**	0.031**	0.029**
	(2.05)	(2.20)	(2.07)
Gov Supplier×Post Trade War×Former Government 2	0.071***	0.086***	0.084***
	(2.69)	(3.10)	(2.98)
Gov Supplier	0.003	0.011	0.017
	(0.11)	(0.45)	(0.69)
Former Government 2	0.023*	0.028*	0.029*
	(1.70)	(1.92)	(1.87)
Gov Supplier×Former Government 2	-0.059**	-0.051**	-0.054**
	(-2.33)	(-2.00)	(-2.02)
Post Trade War×Former Government 2	-0.035***	-0.042***	-0.039***
	(-5.34)	(-6.11)	(-5.49)
Firm Controls	Y	Y	Y
Firm FE	Y	Y	Y
Hscode8 FE	Y	Y	Y
Ind × Year Quarter FE	Y	Y	Y
Observations	125,802	125,802	125,802
R-squared	0.490	0.540	0.537

Panel C: Past Government Contracting Expertise of Employees

VARIABLES	(1) China Import Ratio Product Value	(2) China Import Ratio Number of Transactions	(3) China Import Ratio Product Quantity
Gov Supplier×Post Trade War	0.029**	0.037***	0.035**
	(2.15)	(2.61)	(2.51)
Gov Supplier×Post Trade War×Former Government 3	0.065**	0.063*	0.059*
	(1.99)	(1.81)	(1.67)
Gov Supplier	0.003	0.010	0.015
	(0.11)	(0.40)	(0.60)
Former Government 3	0.023***	0.024***	0.023***
	(3.13)	(3.03)	(2.86)
Gov Supplier×Former Government 3	-0.024	-0.007	-0.004
	(-0.99)	(-0.24)	(-0.15)
Post Trade War×Former Government 3	-0.015	-0.014	-0.012
	(-1.45)	(-1.34)	(-1.07)
Firm Controls	Y	Y	Y
Firm FE	Y	Y	Y
Hscode8 FE	Y	Y	Y
Ind × Year Quarter FE	Y	Y	Y
Observations	125,802	125,802	125,802
R-squared	0.490	0.540	0.537

Table 7. China Import Ratios: Products on Tariff List vs Not on Tariff List

This table compares *China Import Ratio* between US government suppliers and other firms around the 2018 US-China Trade War, conditional on whether the products are on the tariff lists or not. The dataset for this table is organized at the firm-quarter-hscode8 level. "On List" indicates that the imported products have been on the tariff list during the sample period. "Not on List" indicates that the imported products have never been on the tariff list in the sample period. The sample period is from 2016Q1 to 2019Q4. The dependent variable for columns (1) and (2) is *China Import Ratio* in terms of product value; the dependent variable for columns (3) and (4) is *China Import Ratio* in terms of the number of transactions; the dependent variable for columns (5) and (6) is *China Import Ratio* in terms of product quantity. Among independent variables, *Gov Supplier* is a dummy variable that is equal to 1 when a firm discloses the US government as its principal customer for the fiscal year t. *Post Trade War* is a dummy variable that is equal to 1 for periods after (including) 2018Q1. Other independent variables include lagged total assets (in logarithm), book-to-market ratios, return on assets, and the ratio of domestic sales to total sales. We include the firm, industry×year quarter, and product HSCODE (8-digit) fixed effects in all test specifications. Standard errors are clustered at the product HSCODE (8-digit) level. T-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	China Import Ratio		China Import Ratio		China Import Ratio	
VARIABLES	Product Value		Number of Transactions		Product Quantity	
	On List	Not on List	On List	Not on List	On List	Not on List
Gov Supplier×Post Trade War	0.024	0.057***	0.041**	0.059***	0.039**	0.056***
	(1.42)	(4.28)	(2.32)	(4.18)	(2.21)	(4.08)
Gov Supplier	0.025	-0.030	0.033	-0.027	0.039	-0.023
	(0.77)	(-0.91)	(1.03)	(-0.86)	(1.16)	(-0.72)
B/M	-0.005	-0.009	-0.014	-0.011	-0.013	-0.009
	(-0.45)	(-0.82)	(-1.21)	(-1.00)	(-1.08)	(-0.86)
Log (MV)	-0.005	0.007	-0.009	0.003	-0.009	0.009
	(-0.60)	(0.93)	(-1.07)	(0.32)	(-1.01)	(1.10)
ROA	-0.061	-0.058	-0.020	-0.037	-0.019	-0.047
	(-1.31)	(-1.47)	(-0.44)	(-0.95)	(-0.43)	(-1.18)
%Revenue from US Market	0.077**	0.033	0.107***	0.045	0.110***	0.046
	(2.21)	(1.06)	(2.95)	(1.38)	(3.03)	(1.34)
Firm FE	Y	Y	Y	Y	Y	Y
Hscode8 FE	Y	Y	Y	Y	Y	Y
Ind x Year Quarter FE	Y	Y	Y	Y	Y	Y
Observations	50,236	75,369	50,236	75,369	50,236	75,369
R-squared	0.528	0.477	0.600	0.512	0.599	0.506

Table 8. Government Suppliers and Outcomes of Tariff Exclusion Applications

This table reports the likelihood of approval in tariff exclusion applications during the 2018 US-China Trade War, conditional on whether the applicants are US government suppliers or not. The dataset is organized at the tariff exclusion application level following Joe, McDaniel, and Parks (2019). The dependent variable, *Approved*, is a dummy variable that is equal to one if an application gets approved, and zero if the application is rejected. *Federal Contractor* is a dummy variable that is equal to one if a firm holds contracts offered by the federal government in 2018; *Gov Supplier* is a dummy variable that is equal to 1 when a firm discloses the US government as its principal customer in 2018. *Government Procurement* is a dummy variable that is set to 1 if the federal government procured a product from a firm before the Trade War and then the firm applied tariff exemption for this product during the Trade War. In column (1) of Panel A, we include all applicants, including public and private firms; in columns (2)-(4) of Panel A, we only include publicly listed applicants, including their subsidiaries. Other independent variables in column (2) include lagged market capitalization (in logarithm), returns on assets, and book-to-market ratios. In Panel B, we interact *Gov Supplier* with all direct connection measures, including *Former Government 1* (a dummy variable that is equal to 1 if a firm has executive officers or board members with former government experience), *Former Government 2* (a dummy variable that is equal to 1 if a firm has former government employees), and *Former Government 3* (a dummy variable that is equal to 1 if a firm has former government employees specialized in contracting and procurement). We include the application round and product HSCODE (8-digit) fixed effects in all test specifications. *T*-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Government Suppliers and Tariff Exclusion Application Approval Rate

	Public & Private Firms	Public Firms (Including Subsidiaries)		
	(1)	(2)	(3)	(4)
VARIABLES	Approved	Approved	Approved	Approved
Federal Contractor	0.032***	0.038**		-0.005
	(5.70)	(2.33)		(-0.30)
Gov Suppliers		0.198***		0.170***
		(3.17)		(2.73)
Government Procurement			0.081***	0.109***
			(5.63)	(6.73)
Log(MV)		0.015***	0.009**	0.008*
		(3.38)	(2.15)	(1.84)
ROA		-0.282***	-0.243***	-0.251***
		(-3.67)	(-3.31)	(-3.29)
B/M		-0.077***	-0.094***	-0.094***
		(-3.32)	(-4.15)	(-4.08)
Round FE	Y	Y	Y	Y
Hscode FE	Y	Y	Y	Y
Observations	52,752	4,015	4,015	4,015
R-squared	0.484	0.576	0.572	0.581

Panel B: Interactions with Government Connection Measures

	(1)	(2)	(3)
		Approve	
Federal Contractor	0.056***	0.053***	0.046***
	(3.70)	(3.51)	(3.02)
Gov Supplier	-0.318	0.336***	0.353***
	(-1.01)	(6.75)	(7.07)
Former Government1	-0.022		
	(-1.46)		
Gov Supplier×Former Government1	0.741**		
	(2.32)		
Former Government2		-0.133***	
		(-5.33)	
Gov Supplier×Former Government2		0.656***	
		(4.63)	
Former Government3			-0.060
			(-1.15)
Gov Supplier×Former Government3			0.581***
			(3.89)
Log(MV)	0.012***	0.017***	0.011***
	(2.64)	(3.82)	(2.62)
ROA	-0.306***	-0.318***	-0.294***
	(-4.03)	(-4.23)	(-3.89)
B/M	-0.044*	-0.042*	-0.046**
	(-1.92)	(-1.87)	(-2.00)
Round FE	Y	Y	Y
Hscode FE	Y	Y	Y
Observations	4,015	4,015	4,015
R-squared	0.375	0.381	0.376

Table 9. Products Not on Tariff List: Imports of Similar Products

This table compares *China Import Ratio* between US government suppliers and other firms around the 2018 US-China Trade War for products not on the tariff list. *Similar Products* is a dummy variable that equals one if the products not on the list have the same HSCODE6 as products on the tariff list after the product on the list is subject to additional tariffs. The dataset for this table is organized at the firm-quarter-hscode8 level. The sample period is from 2016Q1 to 2019Q4. The dependent variable for column (1) is *China Import Ratio* in terms of product value; the dependent variable for column (2) is *China Import Ratio* in terms of the number of transactions; the dependent variable for column (3) is *China Import Ratio* in terms of product quantity. Among independent variables, *Gov Supplier* is a dummy variable that is equal to 1 when a firm discloses the US government as its principal customer for the fiscal year *t*. *Post Trade War* is a dummy variable that is equal to 1 for periods after (including) 2018Q1. Other independent variables include lagged total assets (in logarithm), book-to-market ratios, return on assets, and the ratio of domestic sales to total sales. We include the firm, industry×quarter, and product HSCODE (8-digit) fixed effects in all test specifications. Standard errors are clustered at the product HSCODE (8-digit) level. T-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)
	China Import Ratio	China Import Ratio	China Import Ratio
VARIABLES	Product Value	Number of Transactions	Product Quantity
Gov Supplier×Post Trade War	-0.003	-0.021	-0.021
	(-0.13)	(-0.85)	(-0.87)
Gov Supplier×Post Trade War×Similar Products	0.073***	0.097***	0.094***
	(2.77)	(3.64)	(3.51)
Gov Supplier	0.003	0.010	0.013
	(0.07)	(0.26)	(0.36)
Gov Supplier× Similar Products	-0.039*	-0.044*	-0.043*
	(-1.70)	(-1.84)	(-1.81)
Post Trade War× Similar Products	-0.005	-0.006	-0.005
	(-0.86)	(-1.08)	(-0.92)
B/M	-0.009	-0.011	-0.009
	(-0.79)	(-0.97)	(-0.83)
Log (MV)	0.007	0.002	0.009
	(0.92)	(0.31)	(1.09)
ROA	-0.057	-0.035	-0.046
	(-1.45)	(-0.92)	(-1.15)
%Revenue from US Market	0.033	0.044	0.045
	(1.04)	(1.35)	(1.32)
Firm FE	Y	Y	Y
Hscode8 FE	Y	Y	Y
Ind x Year Quarter FE	Y	Y	Y
Observations	75,369	75,369	75,369
R-squared	0.477	0.512	0.506

Table 10 Operating Performance of US Government Suppliers vs Other Firms around the US-China Trade War

This table reports the operating performance of government suppliers and other firms around the 2018 US-China Trade War. The sample period is from 2016Q1 to 2019Q4. The dependent variables in columns (1)-(3) are ROA (operating income scaled by total assets), ROE (net income scaled by the book value of shareholders' equity), market share (percentage sales within the industry), and inventory ratio (inventory scaled by total assets), respectively. Among independent variables, *Gov Supplier* is a dummy variable that is equal to 1 when a firm discloses the US government as its principal customer for the fiscal year *t*. *Post Trade War* is a dummy variable that is equal to 1 for periods after (including) 2018Q1. All other control variables, including market value in logarithm (*Log(MV)*), leverage (*Leverage*), and book-to-market value (*B/M*), reflect information at the previous fiscal year-end. We include firm fixed effects and industry-year-quarter fixed effects in test specifications. T-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)
VARIABLES	ROA	ROE	Market Share	Inventory Ratio
Gov Supplier	-0.005**	0.000	0.000	0.007**
	(-2.08)	(0.02)	(0.01)	(2.23)
Gov Supplier×Post Trade War	0.003***	0.013*	0.014**	-0.016***
	(2.85)	(1.79)	(2.17)	(-7.84)
B/M	-0.005***	-0.038***	0.000	-0.013***
	(-4.22)	(-3.91)	(0.01)	(-5.80)
Log(MV)	0.000	0.004	0.002	-0.013***
	(0.48)	(0.58)	(0.51)	(-8.34)
Leverage	-0.014***	-0.088**	-0.006	0.001
	(-3.75)	(-2.39)	(-0.51)	(0.12)
Firm FE	Y	Y	Y	Y
Ind x Year Quarter FE	Y	Y	Y	Y
Observations	7,163	7,244	7,304	7,260
R-squared	0.693	0.489	0.823	0.959

Table 11 Capital Market Responses: Earnings Announcement Effects, Analyst Forecast Revisions, and Abnormal Stock Returns

This table reports the capital market responses to the advantages gained by government suppliers (relative to non-suppliers) during the US-China Trade War. The sample period is from 2016Q1 to 2019Q4. In Panel A, the dependent variable, *CAR[-2,2]*, is the cumulative abnormal returns around the earnings announcement, i.e., 2 trading days before to 2 trading days after the earnings announcement, based on the market model adjustment. In Panel B, the dependent variable, *Monthly Forecast Revision*, is defined as the difference between consensus forecasts (i.e., one-year-ahead EPS forecasts) of this month and that of the previous month, scaled by the price at the end of the previous month. We multiply *Monthly Forecast Revision* by 100 for legibility. In Panel C, the dependent variable, *DGTW Adjusted Monthly Returns*, is the monthly abnormal returns after the benchmark adjustment following Daniel, Grinblatt, Titman, and Wermers (1997). The key independent variable, *Gov Supplier*, is a dummy variable that is equal to 1 when a firm discloses the US government as its principal customer for the fiscal year *t*. We regress each dependent variable on *Gov Supplier* for three sample periods: (1) the period before 2018, (2) Q1 and Q2 of 2018 when the market formed expectations of the trade war, and (3) the period after (including) Q3 of 2018 when the implementation of tariffs generated real impacts on corporate earnings. We include year-quarter fixed effects in all test specifications. T-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Earnings Announcement Effects

	(1)	(2)	(3)
		CAR[-2,2]	
VARIABLES	Before 2018	2018Q1&Q2	After 2018Q3
Gov Supplier	0.001	-0.002	0.015***
	(0.17)	(-0.29)	(2.71)
Year-Quarter Fixed Effect	Yes	Yes	Yes
Observations	3,999	940	2,815
Adjusted R-squared	0.010	0.003	0.002

Panel B: Monthly Forecast Revisions

	(1)	(2)	(3)
		Monthly Forecast Revisions	
VARIABLES	Before 2018	2018Q1&Q2	After 2018Q3
Gov Supplier	-0.013	0.017	0.071**
	(-0.59)	(0.68)	(2.05)
Year-Quarter Fixed Effect	Yes	Yes	Yes
Observations	10,488	2,351	7,708
Adjusted R-squared	0.001	0.001	0.007

Panel C: DGTW Adjusted Monthly Returns

	(1)	(2)	(3)
		DGTW Adjusted Monthly Returns	
VARIABLES	Before 2018	2018Q1&Q2	After 2018Q3
Gov Supplier	0.002	-0.006	0.008***
	(0.92)	(-1.24)	(2.64)
Year-Month Fixed Effect	Yes	Yes	Yes
Observations	12,828	3,045	9,191
Adjusted R-squared	0.007	0.001	0.020

Internet Appendix:
Who Benefits from Trade Wars?

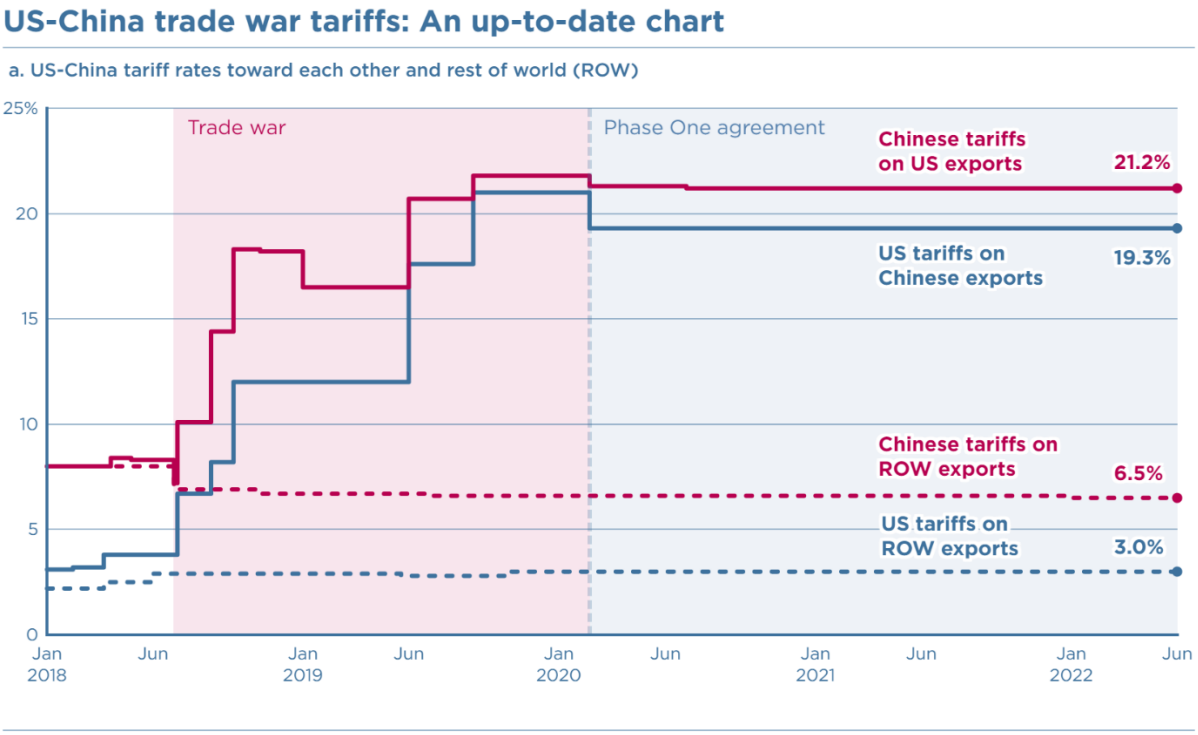
Appendix I: Detailed Definitions of Variables

VARIABLES	DEFINITION
Main Variables	
China Import Ratio	The percentage of imports from China in total imports from all countries for a firm *i* in product category *p* at quarter *t*; we construct *China Import Ratio* based on estimated product value, the number of transactions, and product quantity.
Gov Supplier	A dummy variable that is equal to 1 when a firm discloses the US government as its principal customer for the fiscal year *t*.
Post Trade War	A dummy variable that is equal to 1 for periods after (including) 2018Q1.
Before Tradewar Quarter -T	A dummy variable that is equal to 1 for the period *t* quarters before the outbreak of the US-China trade war (Quarter 0 is 2018Q1).
Post Tradewar Quarter T	A dummy variable that is equal to 1 for the period *t* quarters after the outbreak of the US-China trade war.
Government Connections	
Former Government 1	*Former Government 1* is a dummy variable that is equal to 1 if a firm has executive officers or board members with former government experience.
Former Government 2	*Former Government 2* is a dummy variable that is equal to 1 if a firm has former government employees.
Former Government 3	*Former Government 3* is a dummy variable that is equal to 1 if a firm has former government employees specialized in contracting and procurement.
Firm Characteristics	
Federal Contractor	A dummy variable that is equal to one if a firm holds contracts offered by the federal government in 2018.
B/M	The ratio of firm's book value to its market value.
Log(MV)	The logarithm of the market capitalization.
ROA	Operating income scaled by total assets.
ROE	Net income scaled by the book value of shareholders' equity.
%Revenue from US Market	The ratio of domestic sales to total sales.
market share	Percentage sales within the industry.
Sale Growth	The change in sales over last quarter.
Leverage	The ratio of total debt to total asset.
CAR[-2,2]	The cumulative abnormal returns around the earnings announcement, i.e., 2 trading days before to 2 trading days after the earnings announcement, based on the market model adjustment.
Monthly Forecast Revision	The difference between consensus forecasts (i.e., one-year-ahead EPS forecasts) of this month and that of the previous month, scaled by the price at the end of the previous month.
DGTW Adjusted Monthly Returns	The monthly abnormal returns after the benchmark adjustment following Daniel, Grinblatt, Titman, and Wermers (1997).
Contract Terms	
Log(number of bidders)	The natural logarithm of the number of bidders.
Single Bidder	A dummy variable that is equal to one if a federal government contract has only one bidder.
Others	
Russia Import Ratio	The percentage of imports from Russia in total imports from all countries for a firm *i* in product category *p* at month *t*; we construct *Russia Import Ratio* based on estimated product value, the number of transactions, and product quantity.

Japan Import Ratio	The percentage of imports from Japan in total imports from all countries for a firm *i* in product category *p* at month *t*; we construct *Japan Import Ratio* based on estimated product value, the number of transactions, and product quantity.
Post War	A dummy variable that is equal to 1 for periods since November 2021.
Post Earthquake	A dummy variable that is equal to 1 for periods from March 2011 to May 2011.
Approved	A dummy variable that is equal to one if an application gets approved, and zero if the application is rejected.

Appendix A: Figures

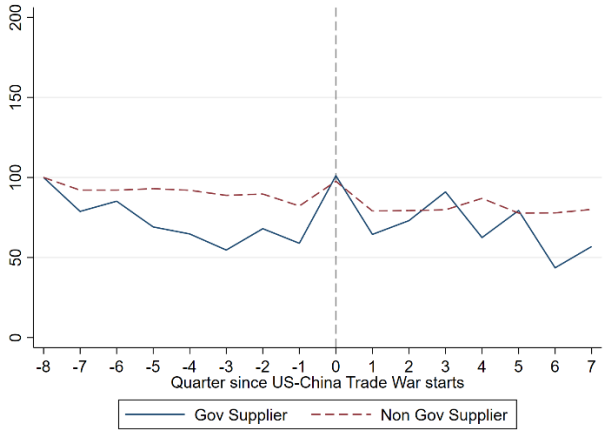
Figure A1 Time Trend of Tariff Rates in the US-China Trade War



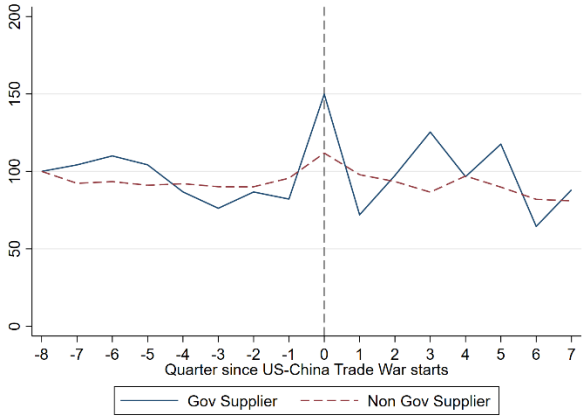
(Source: This diagram is obtained from the PIIE website: https://www.piie.com/research/piie-charts/us-china-trade-war-tariffs-date-chart)

Figure A2 Japan-Korea-Taiwan (JKT) Import Ratios: US Government Suppliers vs Other Firms around the US-China Trade War

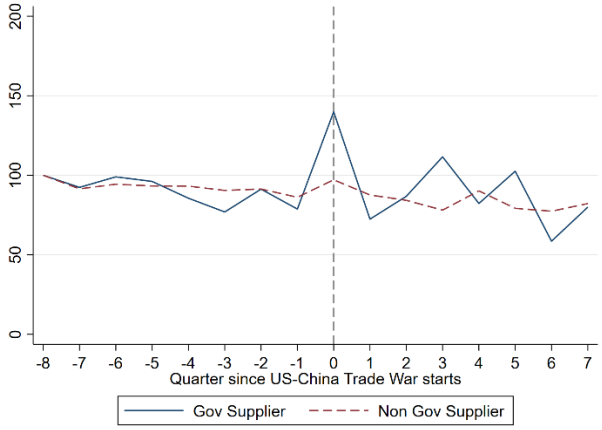
JKT Import Ratio (Based on Product Value)



JKT Import Ratio (Based on Product Quantity)

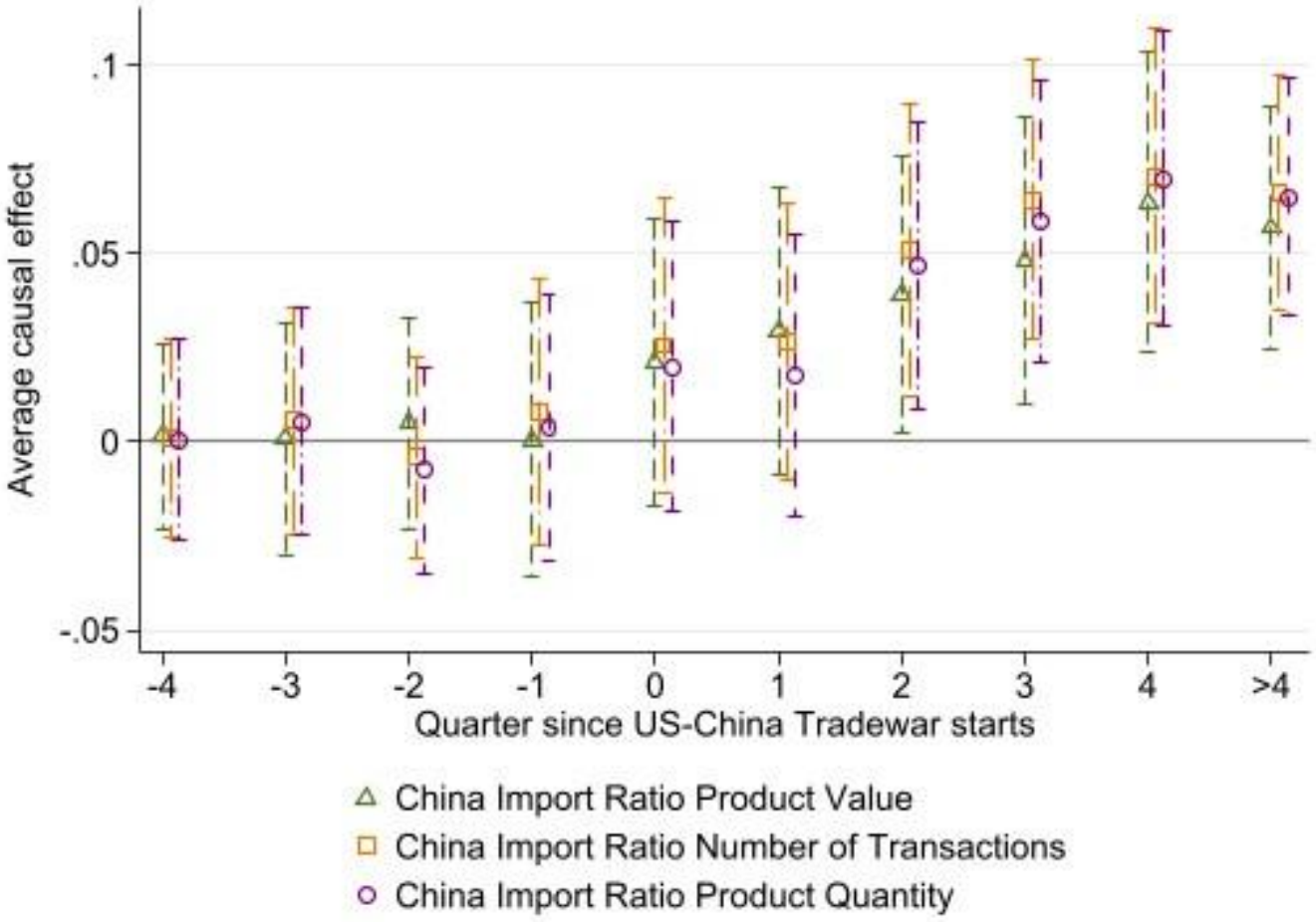


JKT Import Ratio (Based on the Number of Transactions)



Japan-Korea-Taiwan (JKT) Import Ratio is the percentage of imports from Japan, South Korea, and Taiwan in imports from all countries/regions for a US firm for each firm-quarter-hscode8. Three *JKT Import Ratios* computed below are based on product value, product quantity, and the number of transactions, respectively. *JKT Import Ratio* is standardized based on its value at quarter *t-8*, which serves as the benchmark quarter with a base value of 100.

Figure A3 Coefficients and Their 95% Confidence Intervals for "The Timing of Changes in China Import Ratios" (Table 3)



Appendix B: Tables

Table A1: Major Events in the Timeline of the US-China Trade War before 2020

Date (DD/MM/YYYY)	Major Events
2016 presidential election	Donald Trump promises to reduce the US trade deficit with China, which he attributes to unfair trade practices.
22/01/2018	Donald Trump announces tariffs on solar panels and washing machines. 8% of American solar panel imports came from China.
22/03/2018	Donald Trump asks the USTR to investigate applying tariffs on US$50-60 billion worth of Chinese goods
04/04/2018	China's Customs Tariff Commission of the State Council decides to retaliate with additional tariffs of 25% on 106 items imported from the US
29/05/2018	The White House announces that it would impose a 25% tariff on US$ 50 billion of Chinese goods
15/06/2018	Donald Trump announces that the 25% tariff on US$ 50 billion of Chinese goods will start on July 6, 2018
06/07/2018	US-China trade war begins as US imposes 25% tariffs on US$34 billion worth of Chinese imports
06/07/2018	China retaliates by imposing 25% tariffs on 545 goods originating from the US worth US$34 billion
23/08/2018	US imposes 25% tariffs on a further US$16 billion worth of Chinese goods
23/08/2018	China responds by applying 25% tariffs on US$16 billion worth of US goods
24/09/2018	US places 10% tariffs on US$200 billion worth of Chinese imports
24/09/2018	China responds by placing customs duties on US$60 billion worth of US goods
01/12/2018	Xi Jinping and Donald Trump call a truce in the trade war at the G20 summit in Argentina
10/05/2019	US increases tariffs on US$200 billion worth of Chinese goods, from 10% to 25%
15/05/2019	US Department of Commerce announces the addition of Huawei to its "entity list"
31/05/2019	China announces plans to establish its own "unreliable entity list"
01/06/2019	China increases tariffs on US$60 billion worth of US products
29/06/2019	Xi Jinping and Donald Trump again agree to a trade war truce, this time at the G20 summit in Japan
05/08/2019	The US designates China as a "currency manipulator"
13/08/2019	US delays or removes various planned levies on US$455 billion worth of Chinese products
23/08/2019	China announces planned tariffs of 5% and 10% on US$75 billion worth of US goods
01/09/2019	US tariffs on more than US$125 billion worth of Chinese imports begin as expected
11/09/2019	US agrees to delay new tariffs on US$250 billion worth of Chinese goods
11/10/2019	US delays a planned tariff increase of 25% to 30% on US$250 billion worth of Chinese goods
15/01/2020	China and the US sign the phase-one trade deal

Table A2: Minimum Wage of Federal Contractors

Since	Hourly Rate	Source
1/1/2015	$10.10	https://www.federalregister.gov/documents/2014/02/20/2014-03805/establishing-a-minimum-wage-for-contractors
1/1/2016	$10.15	https://www.federalregister.gov/documents/2015/09/16/2015-23235/establishing-a-minimum-wage-for-contractors-notice-of-rate-change-in-effect-as-of-january-1-2016
1/1/2017	$10.20	https://www.federalregister.gov/documents/2016/09/20/2016-22515/establishing-a-minimum-wage-for-contractors-notice-of-rate-change-in-effect-as-of-january-1-2017
1/1/2018	$10.35	https://www.federalregister.gov/documents/2017/09/15/2017-19668/establishing-a-minimum-wage-for-contractors-notice-of-rate-change-in-effect-as-of-january-1-2018
1/1/2019	$10.60	https://www.federalregister.gov/documents/2018/09/04/2018-19166/establishing-a-minimum-wage-for-contractors-notice-of-rate-change-in-effect-as-of-january-1-2019
1/1/2020	$10.80	https://www.federalregister.gov/documents/2019/09/19/2019-19673/establishing-a-minimum-wage-for-contractors-notice-of-rate-change-in-effect-as-of-january-1-2020
1/1/2021	$10.95	https://www.federalregister.gov/documents/2020/08/31/2020-19037/establishing-a-minimum-wage-for-contractors-notice-of-rate-change-in-effect-as-of-january-1-2021
1/1/2022	$11.25	https://www.federalregister.gov/documents/2021/09/16/2021-19995/minimum-wage-for-federal-contracts-covered-by-executive-order-13658-notice-of-rate-change-in-effect
1/30/2022	$15.00	https://www.federalregister.gov/documents/2021/04/30/2021-09263/increasing-the-minimum-wage-for-federal-contractors

Table A3: Japan-Korea-Taiwan (JKT) Import Ratios: US Government Suppliers vs. Other Firms around the US-China Trade War

This table compares the Japan-Korea-Taiwan (JKT) Import Ratio between US government suppliers and other firms around the 2018 US-China Trade War. The dataset for this table is organized at the firm-quarter-hscode8 level. The sample period is from 2016Q1 to 2019Q4. The dependent variable for columns (1) and (2) is *JKT Import Ratio* in terms of product value; the dependent variable for columns (3) and (4) is *JKT Import Ratio* in terms of the number of transactions; the dependent variable for columns (5) and (6) is *JKT Import Ratio* in terms of product quantity. Among independent variables, *Gov Supplier* is a dummy variable that is equal to 1 when a firm discloses the US government as its principal customer for the fiscal year t. *Post Trade War* is a dummy variable that is equal to 1 for periods after (including) 2018Q1. Other independent variables include lagged total assets (in logarithm), book-to-market ratios, return on assets, and the ratio of domestic sales to total sales. We include the firm, industry×year quarter, and product HSCODE (8-digit) fixed effects in all test specifications. Standard errors are clustered at the product HSCODE (8-digit) level. *T*-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	JKT Import Ratio		JKT Import Ratio		JKT Import Ratio	
VARIABLES	Product Value		Number of Transactions		Product Quantity	
Gov Supplier×Post Trade War	0.003	0.009	-0.001	0.011	-0.010	0.009
	(0.52)	(1.30)	(-0.23)	(1.58)	(-1.65)	(1.19)
Gov Supplier	-0.023**	0.034*	-0.022**	0.022	-0.017*	0.030
	(-2.44)	(1.76)	(-2.24)	(1.31)	(-1.69)	(1.54)
B/M		0.010		0.015**		0.015*
		(1.28)		(1.97)		(1.89)
Log(MV)		0.014**		0.014**		0.014**
		(2.31)		(2.39)		(2.27)
ROA		0.022		0.033		0.035
		(0.88)		(1.37)		(1.33)
%Revenue from US Market		0.016		0.031		0.034
		(0.82)		(1.57)		(1.61)
Firm FE	Y	Y	Y	Y	Y	Y
Hscode8 FE	Y	Y	Y	Y	Y	Y
Ind x Year Quarter FE	Y	Y	Y	Y	Y	Y
Observations	159,023	125,463	159,023	125,463	159,023	125,463
R-squared	0.480	0.271	0.490	0.279	0.446	0.263

Table A4 Number of Bidders of Federal Government Contracts around the Trade War

This table reports the change in the number of bidders in competing federal contracts around the 2018 US-China Trade War. The dataset is organized at the federal contract level. The sample period is from 2016Q1 to 2019Q4. The dependent variable in column (1) is the natural logarithm of the number of bidders. The dependent variable in column (2) is a dummy variable that is equal to one if a federal government contract has only one bidder. *Post Trade War* is a dummy variable that is equal to 1 for periods after (including) 2018Q1. We have included offering agency, product, industry, and quarter fixed effects. T-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(4)
	Log(Number of Bidders)	Single Bidder Dummy
Post Trade War	0.055**	-0.020**
	(2.88)	(-2.52)
Agency FE	Y	Y
Product/Services FE	Y	Y
Industry FE	Y	Y
Quarter FE	Y	Y
Observations	2,448,718	2,448,718
R-squared	0.721	0.549

Table A5 Employment

This table compares firm-level employment between U.S. government suppliers and other firms around the 2018 US-China Trade War. The dataset for this table is organized at the firm-year level. The sample period is from 2016 to 2019. The dependent variable is the ratio of employees working within the Washington Metropolitan Area (WMA) to all employees constructed by using NETS. *Gov Supplier* is a dummy variable equal to 1 when a firm discloses the U.S. government as its principal customer for the fiscal year t. *Post Trade War* is a dummy variable equal to 1 for years after (including) 2018. In column (1), *WMA* is defined as the following four areas or states, Washington, DC, Virginia, Maryland, and Vest Virginia. In column (2), *WMA* equals 1 if the plant is within 25 miles of Washington DC. In column (3), *WMA* equals 1 if the plant is located within 50 miles of Washington, D.C. We include the firm, industry×year fixed effects in all test specifications. Standard errors are clustered at the firm level. T-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)
VARIABLES	Emp Ratio= Emp within WMA/All Emp		
	DC-VA-MD-WV	Within 25 Miles of DC	Within 50 Miles of DC
Gov Supplier×Post Trade War	0.003*	0.002**	0.003**
	(1.75)	(2.05)	(2.08)
Gov Supplier	0.001	0.000	0.000
	(0.38)	(0.18)	(0.02)
Firm FE	Y	Y	Y
Ind x Year FE	Y	Y	Y
Observations	13,192	13,192	13,192
R-squared	0.984	0.979	0.983

Table A6 Import from China and Federal Contract Renewal

This table reports the impact of imports from China on the likelihood of renewals of federal contracts. The dependent variable, Renewal, is an indicator variable that is equal to one if a contract is renewed (defined by receiving another contract of the same HSCODE from the same government department) within 6 months after its completion. Key independent variables are *China Import Ratios* (in terms of product value, number of transactions, and product quantity). We also include the firm size (*Log(MV)*), sales growth (*Sale Growth*), book leverage (*Leverage*), and book-to-market ratio (*B/M*) as additional control variables. The tests are carried out in two subsamples: 2016Q1-2017Q4 (before the trade war) and 2018Q1 – 2019Q4 (after the trade war). We include year-quarter fixed effects in all test specifications. T-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	2016Q1-2017Q4			2018Q1-2019Q4		
China Import Ratio – Product Value	0.013			-0.028		
	(0.54)			(-0.68)		
China Import Ratio - Number of Transactions		-0.010			-0.014	
		(-0.69)			(-0.80)	
China Import Ratio – Product Quantity			-0.013			-0.016
			(-0.84)			(-0.83)
Log(MV)	0.004	0.016*	0.016*	0.009	0.013*	0.013*
	(0.42)	(1.78)	(1.78)	(1.33)	(1.73)	(1.72)
Sale Growth	-0.138	-0.013	-0.014	0.287***	0.267***	0.268***
	(-1.03)	(-0.12)	(-0.12)	(3.80)	(3.50)	(3.51)
Leverage	0.014	0.002	0.002	-0.072*	-0.103**	-0.102**
	(0.21)	(0.02)	(0.02)	(-1.68)	(-2.00)	(-1.98)
B/M	0.047	0.033	0.033	-0.030	-0.033	-0.033
	(0.89)	(0.64)	(0.65)	(-0.55)	(-0.66)	(-0.66)
Year Quarter Fixed Effects	Yes	Yes	Yes	Yes	Yes	Yes
Observations	73,301	218,028	218,028	57,879	175,934	175,934
Adjusted R-squared	0.020	0.022	0.022	0.023	0.020	0.020

Table A7 Import Unit Price

This table compares the import unit price from China between US government suppliers and other firms around the 2018 US-China Trade War. The dataset for this table is organized at the firm-quarter-hscode8-country level. The dependent variable is the logarithm of the implied import unit price (i.e., the import value divided by the import quantity). *Gov Supplier* is a dummy variable that is equal to 1 when a firm discloses the US government as its principal customer in 2018. *Post Trade War* is a dummy variable that is equal to 1 for periods after (including) 2018Q1. *Import from China* is a dummy variable that is equal to 1 when the product is imported from China. T-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)
VARIABLES	Log (Import Value/Import Quantity)
Gov Supplier	0.365
	(1.23)
Gov Supplier×Post Trade War	0.163
	(0.85)
Gov Supplier×Import from China	-0.161
	(-0.66)
Gov Supplier×Post Trade War×Import from China	-0.330*
	(-1.93)
Year FE	Y
Ind x Quarter FE	Y
HSCODE x Quarter FE	Y
Country x Quarter FE	Y
Observations	68,615
R-squared	0.601

Table A8: Abnormal Return Sensitivity to the Change of Trade Policy Uncertainty: Government Suppliers vs. Non-Suppliers

This table reports the coefficients when we regress abnormal returns of each stock on the percentage change of Trade Policy Uncertainty (*PctChgTPU*). *PctChgTPU* is calculated the following: $PctChgTPU_t = \frac{TPU_t}{TPU_{t-1}} - 1$. Two TPU measures, *TPU1* and *TPU2*, are obtained from Baker, Bloom, and Davis (2016) and Rogers, Sun, and Sun (2024). We use five different measures of abnormal returns, including the excess returns (raw returns minus risk-free returns), alpha based on CAPM, alpha based on Fama-French Three-Factor Model (Fama and French, 1993), alpha based on Fama-French and Carhart Four-Factor Model (Carhart, 1997), alpha based on Fama-French Five-Factor Model (Fama and French, 2015). Means of the coefficients for *PctChgTPU1* and *PctChgTPU2* are reported for two subgroups of government suppliers and non-suppliers separately. We also compare the differences in these coefficients between the two subgroups with t-tests.

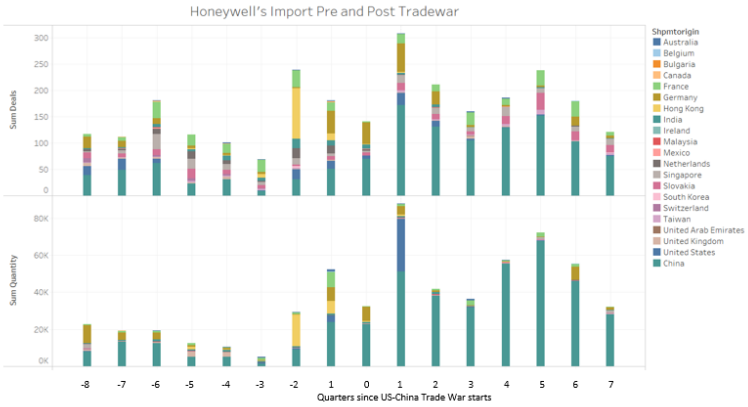
Sensitivity	$\beta_{i,\%chgTPU}$	Government Suppliers	Non-Suppliers	Difference	T-stat
PctChgTPU1	Excess Return	-0.0024	-0.0046	0.0022	3.24
	CAPM Alpha	-0.0015	-0.0030	0.0015	2.32
	FF3 Alpha	0.0016	0.0000	0.0016	2.60
	FF4 Alpha	0.0013	-0.0006	0.0018	3.02
	FF5 Alpha	0.0017	-0.0002	0.0019	3.15
	Number of Firms	1,279	17,049		
PctChgTPU2	Excess Return	-0.0031	-0.0046	0.0015	2.12
	CAPM Alpha	-0.0005	-0.0014	0.0009	1.44
	FF3 Alpha	0.0014	-0.0004	0.0018	2.84
	FF4 Alpha	0.0010	-0.0007	0.0017	2.73
	FF5 Alpha	0.0013	-0.0004	0.0017	2.81
	Number of Firms	1,034	16,041		

Appendix C: Illustrative Example - Honeywell's during the US-China Trade War

Part I Import

Figure A4 depicts Honeywell's import trend before and after the US-China Trade war. Similar to the patterns exhibited in Figure 1, in terms of both the number of import deals and the number of import goods, Honeywell increased the imports from China right after the start of the US-China Trade war. Honeywell imports more from China after the US-China Trade War in terms of both absolute magnitude and relative amount. Figure A4 shows the ratio of goods imported from China to the overall goods imported from all countries significantly increased after the trade war.

Figure A4 Import Level



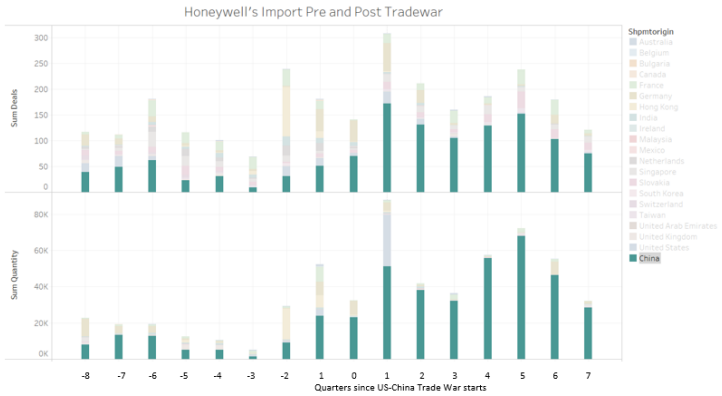
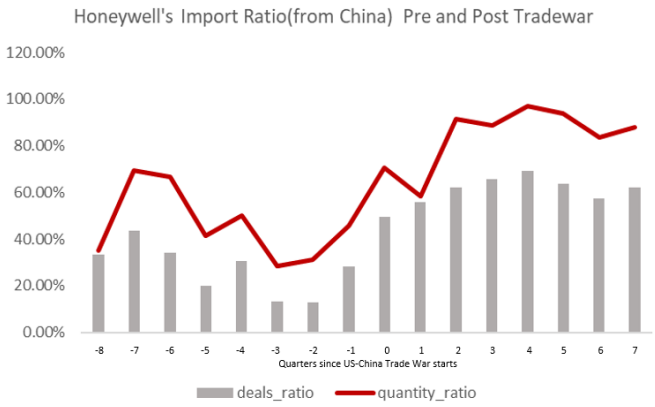


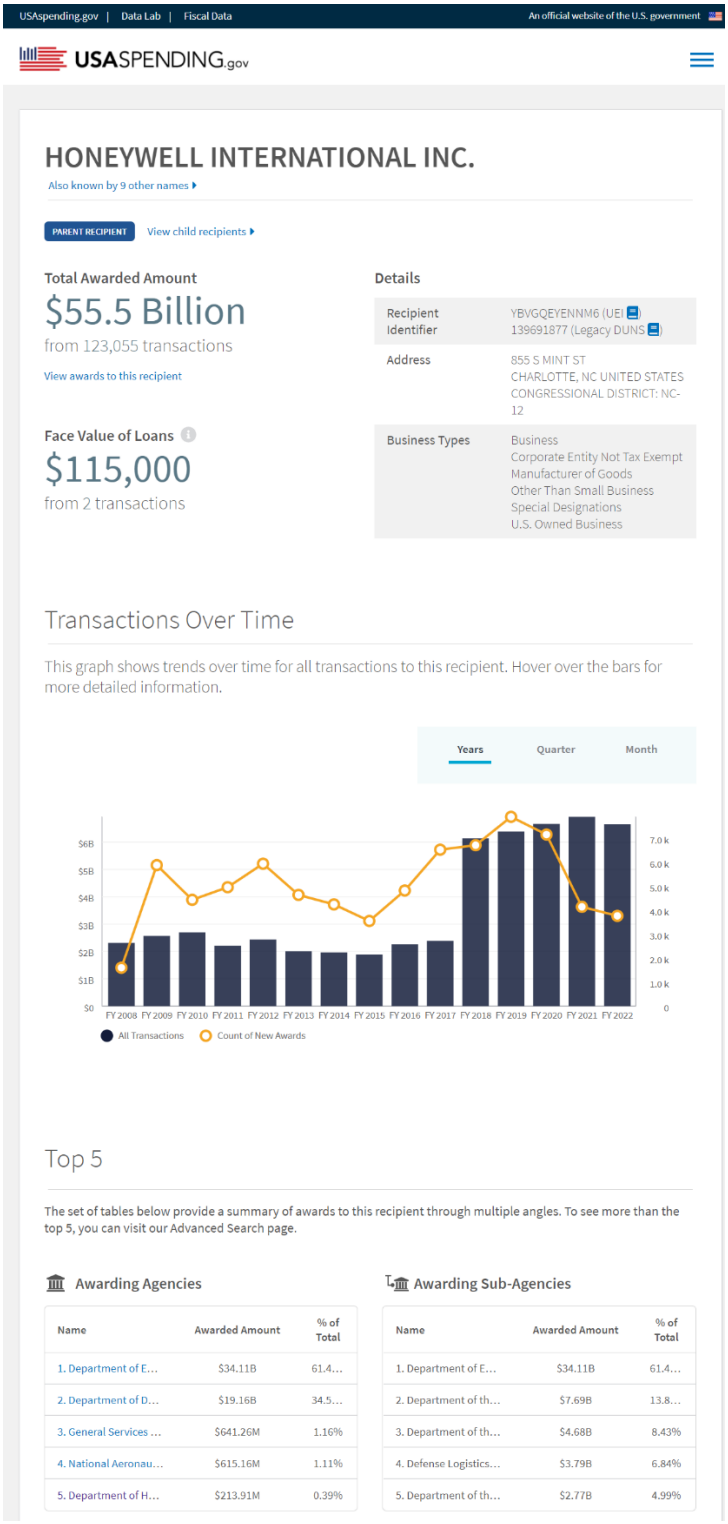
Figure A4 Import Ratio



Part II Business with the US Government and The Recruitment of Former Government Officials

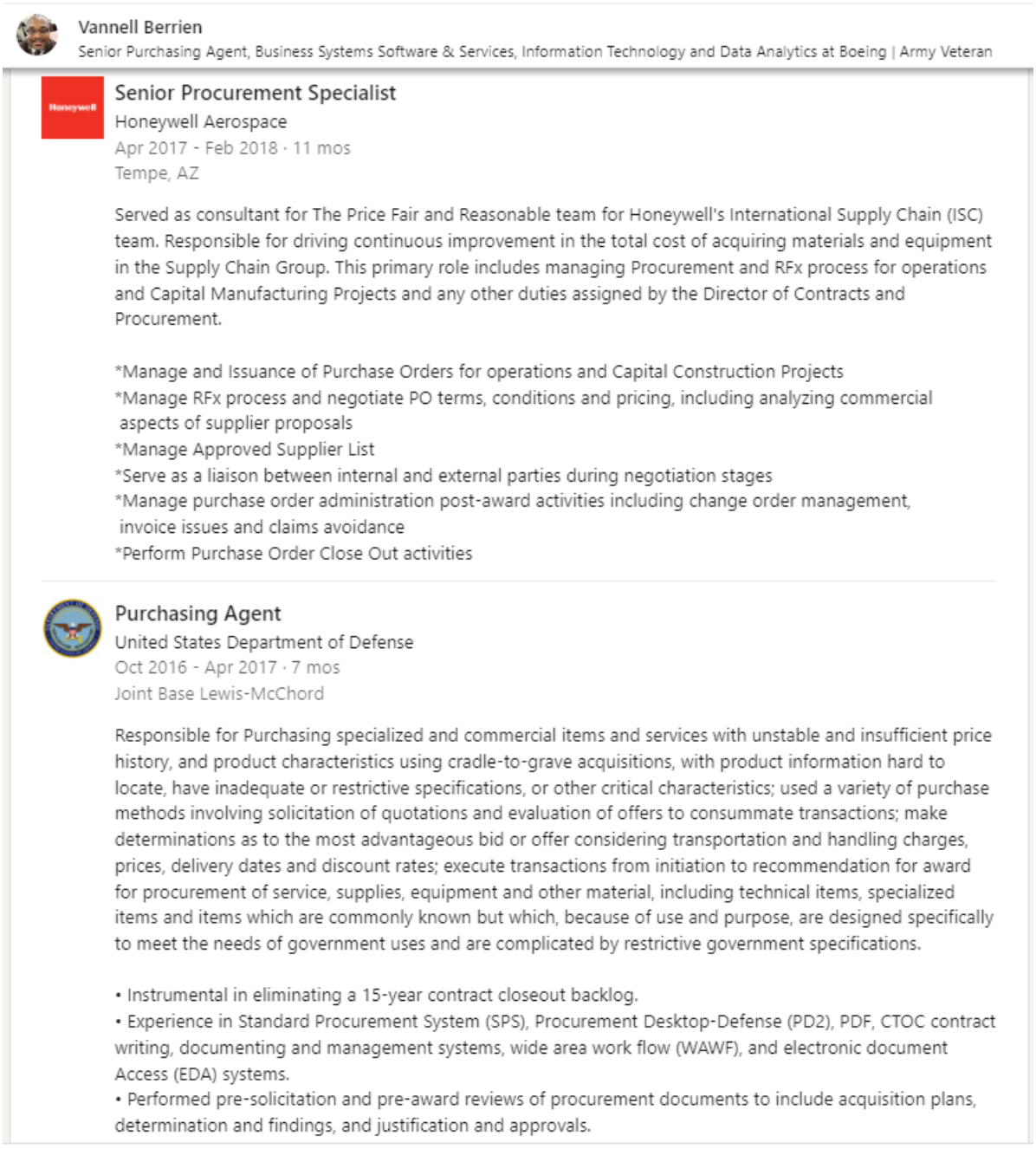
Honeywell does business with various federal government agencies. Below is the trend since the fiscal year 2008.

https://www.usaspending.gov/recipient/7633e6a7-b265-9555-210b-c3443cb6d529-P/all



Honeywell has recruited many former government employees. Below, we provide six employees' profiles, all of which are publicly available on LinkedIn. These employees worked for the government before joining Honeywell. Most of them are specifically related to government contracts.

Example A1: https://www.linkedin.com/in/vannellberrien/details/experience/



Vannell Berrien

Senior Purchasing Agent, Business Systems Software & Services, Information Technology and Data Analytics at Boeing | Army Veteran

Senior Procurement Specialist

Honeywell Aerospace

Apr 2017 - Feb 2018 · 11 mos

Tempe, AZ

Served as consultant for The Price Fair and Reasonable team for Honeywell's International Supply Chain (ISC) team. Responsible for driving continuous improvement in the total cost of acquiring materials and equipment in the Supply Chain Group. This primary role includes managing Procurement and RFx process for operations and Capital Manufacturing Projects and any other duties assigned by the Director of Contracts and Procurement.

*Manage and Issuance of Purchase Orders for operations and Capital Construction Projects
*Manage RFx process and negotiate PO terms, conditions and pricing, including analyzing commercial aspects of supplier proposals
*Manage Approved Supplier List
*Serve as a liaison between internal and external parties during negotiation stages
*Manage purchase order administration post-award activities including change order management, invoice issues and claims avoidance
*Perform Purchase Order Close Out activities

Purchasing Agent

United States Department of Defense

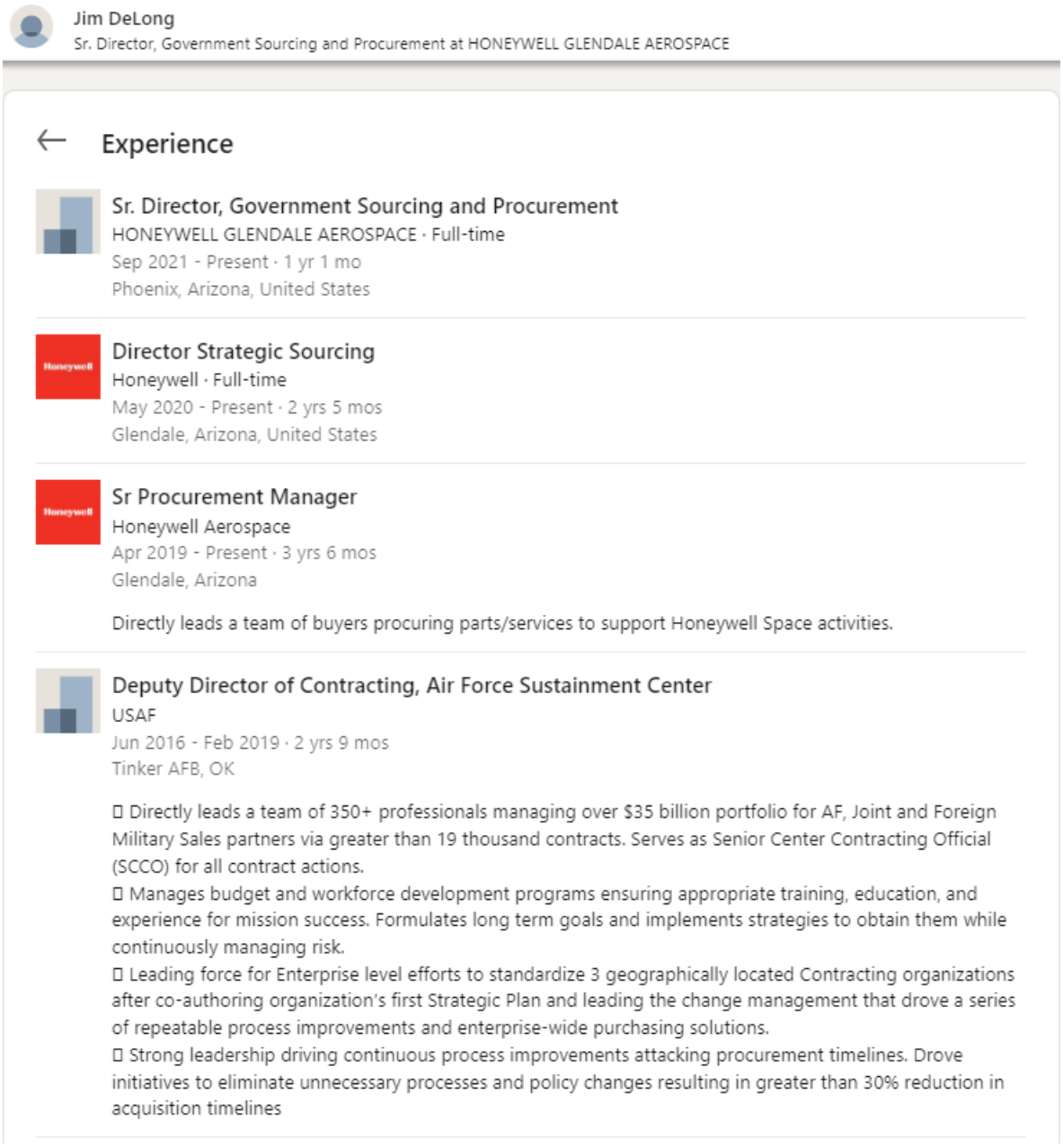
Oct 2016 - Apr 2017 · 7 mos

Joint Base Lewis-McChord

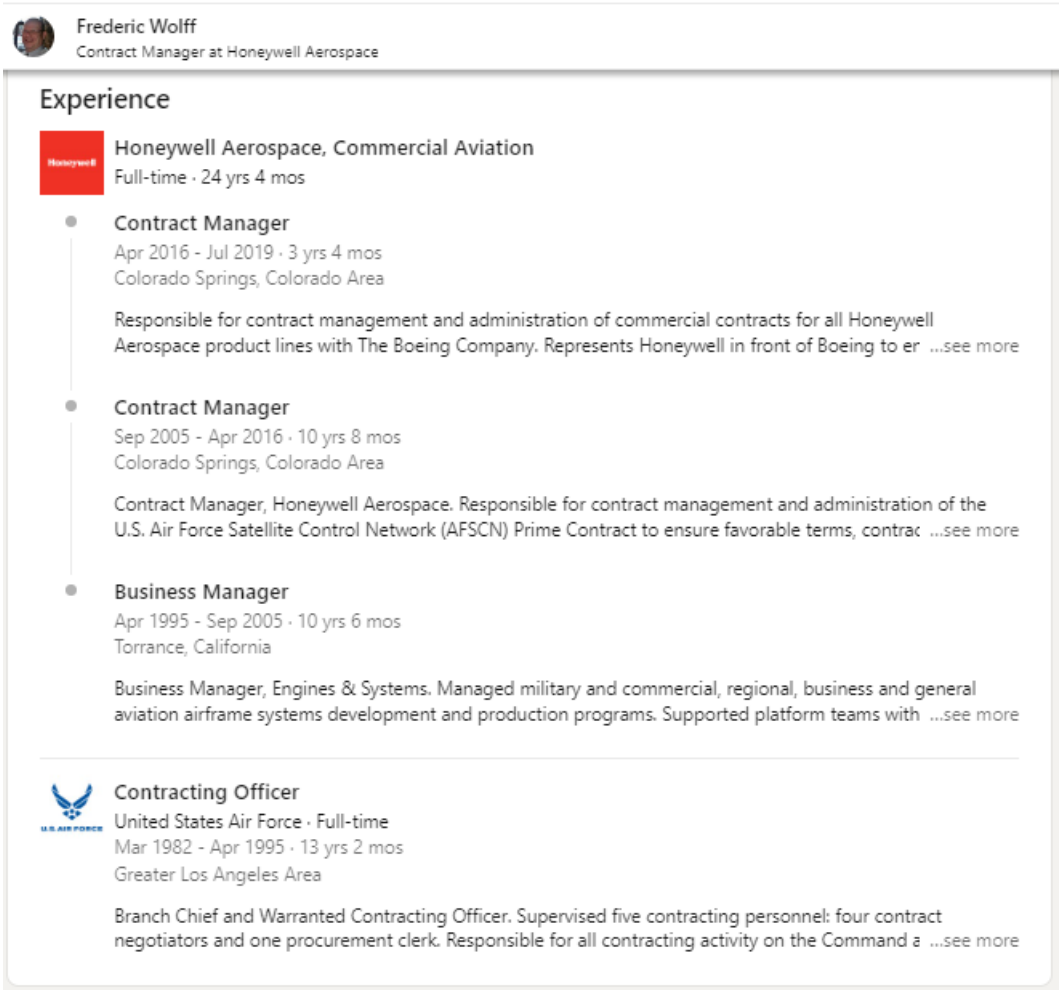
Responsible for Purchasing specialized and commercial items and services with unstable and insufficient price history, and product characteristics using cradle-to-grave acquisitions, with product information hard to locate, have inadequate or restrictive specifications, or other critical characteristics; used a variety of purchase methods involving solicitation of quotations and evaluation of offers to consummate transactions; make determinations as to the most advantageous bid or offer considering transportation and handling charges, prices, delivery dates and discount rates; execute transactions from initiation to recommendation for award for procurement of service, supplies, equipment and other material, including technical items, specialized items and items which are commonly known but which, because of use and purpose, are designed specifically to meet the needs of government uses and are complicated by restrictive government specifications.

• Instrumental in eliminating a 15-year contract closeout backlog.
• Experience in Standard Procurement System (SPS), Procurement Desktop-Defense (PD2), PDF, CTOC contract writing, documenting and management systems, wide area work flow (WAWF), and electronic document Access (EDA) systems.
• Performed pre-solicitation and pre-award reviews of procurement documents to include acquisition plans, determination and findings, and justification and approvals.

Example A2:https://www.linkedin.com/in/jim-delong-2019/details/experience/



Example A3: https://www.linkedin.com/in/frederic-wolff-9ba531a0/



Frederic Wolff
Contract Manager at Honeywell Aerospace

Experience

Honeywell Aerospace, Commercial Aviation
Full-time · 24 yrs 4 mos

Contract Manager
Apr 2016 - Jul 2019 · 3 yrs 4 mos
Colorado Springs, Colorado Area

Responsible for contract management and administration of commercial contracts for all Honeywell Aerospace product lines with The Boeing Company. Represents Honeywell in front of Boeing to er ...see more

Contract Manager
Sep 2005 - Apr 2016 · 10 yrs 8 mos
Colorado Springs, Colorado Area

Contract Manager, Honeywell Aerospace. Responsible for contract management and administration of the U.S. Air Force Satellite Control Network (AFSCN) Prime Contract to ensure favorable terms, contrac ...see more

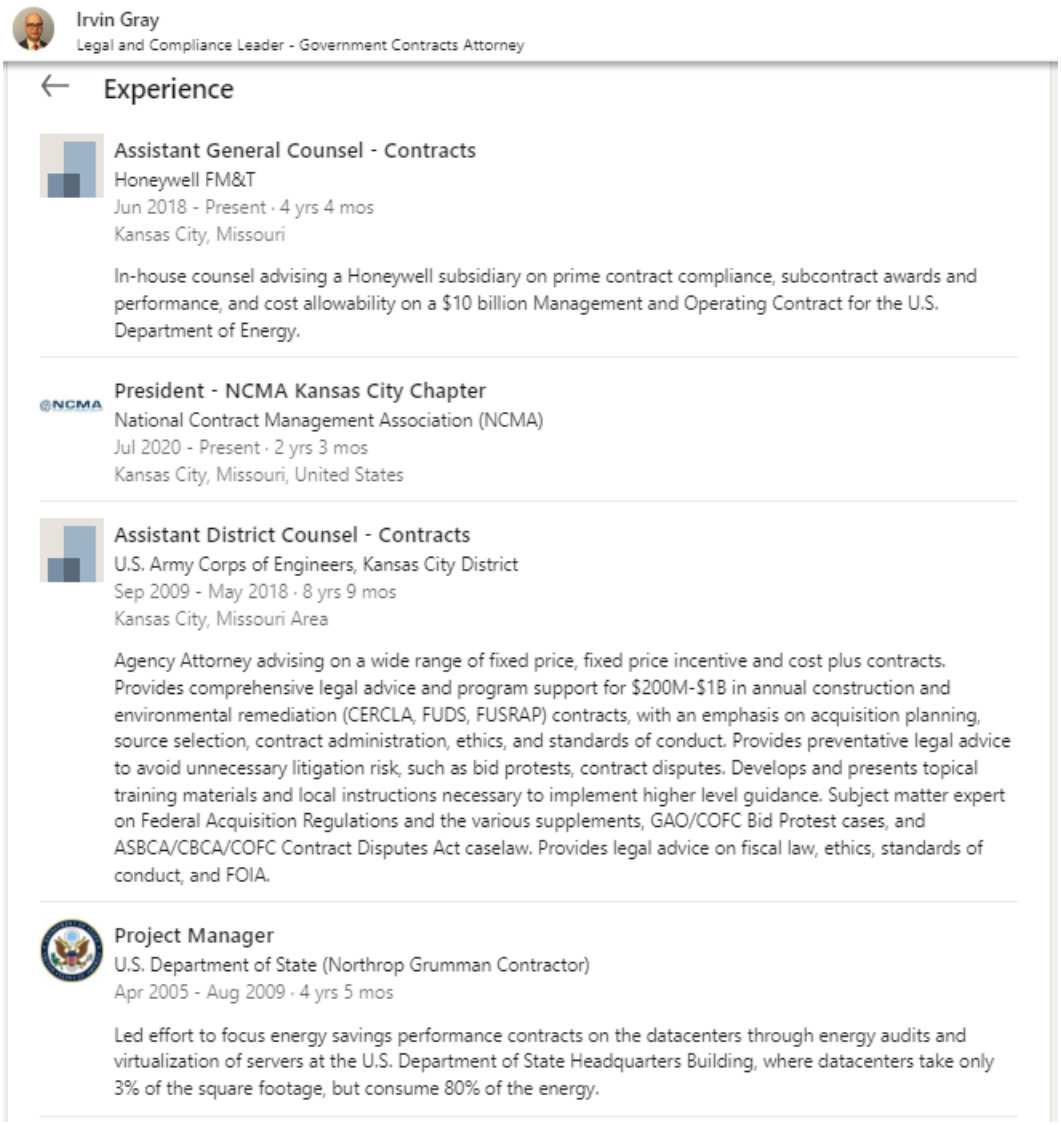
Business Manager
Apr 1995 - Sep 2005 · 10 yrs 6 mos
Torrance, California

Business Manager, Engines & Systems. Managed military and commercial, regional, business and general aviation airframe systems development and production programs. Supported platform teams with ...see more

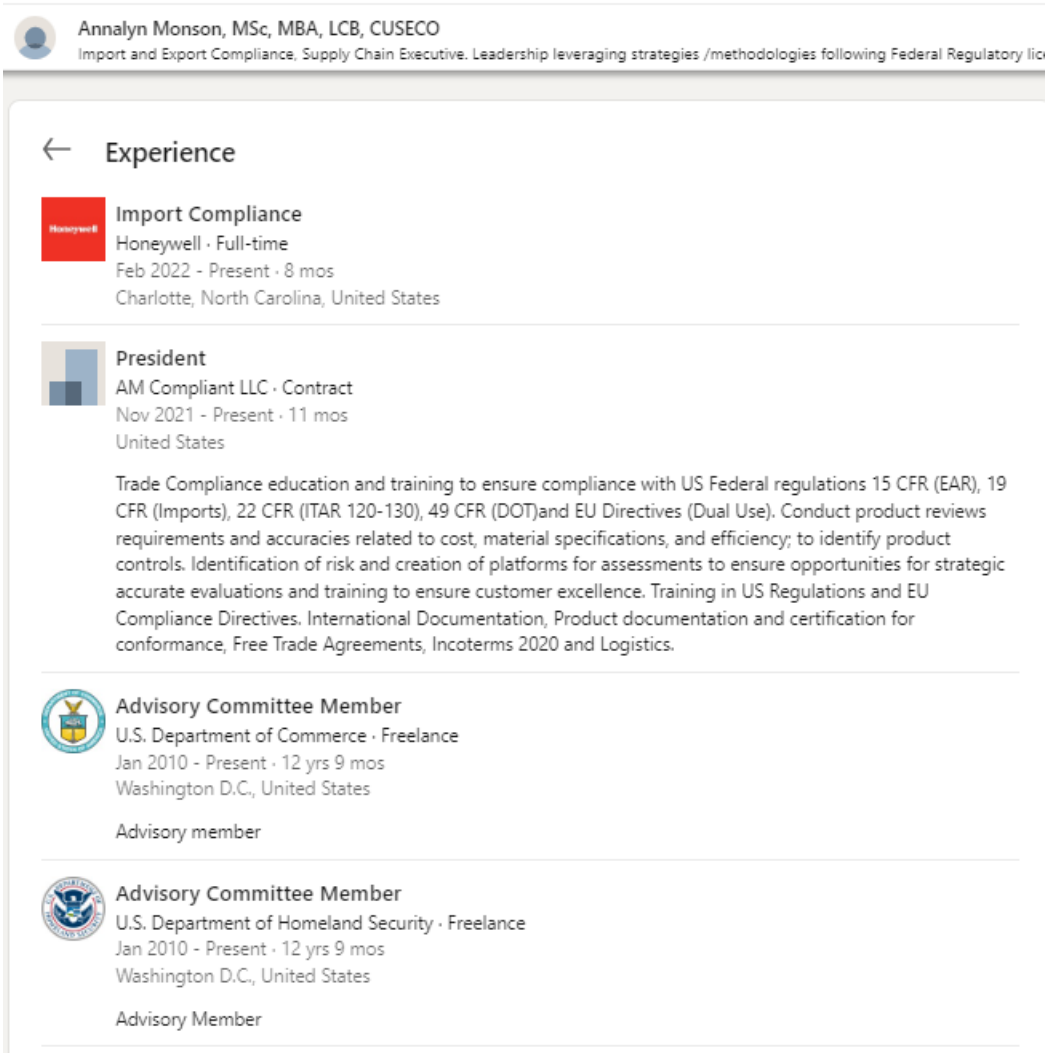
Contracting Officer
United States Air Force · Full-time
Mar 1982 - Apr 1995 · 13 yrs 2 mos
Greater Los Angeles Area

Branch Chief and Warranted Contracting Officer. Supervised five contracting personnel: four contract negotiators and one procurement clerk. Responsible for all contracting activity on the Command a ...see more

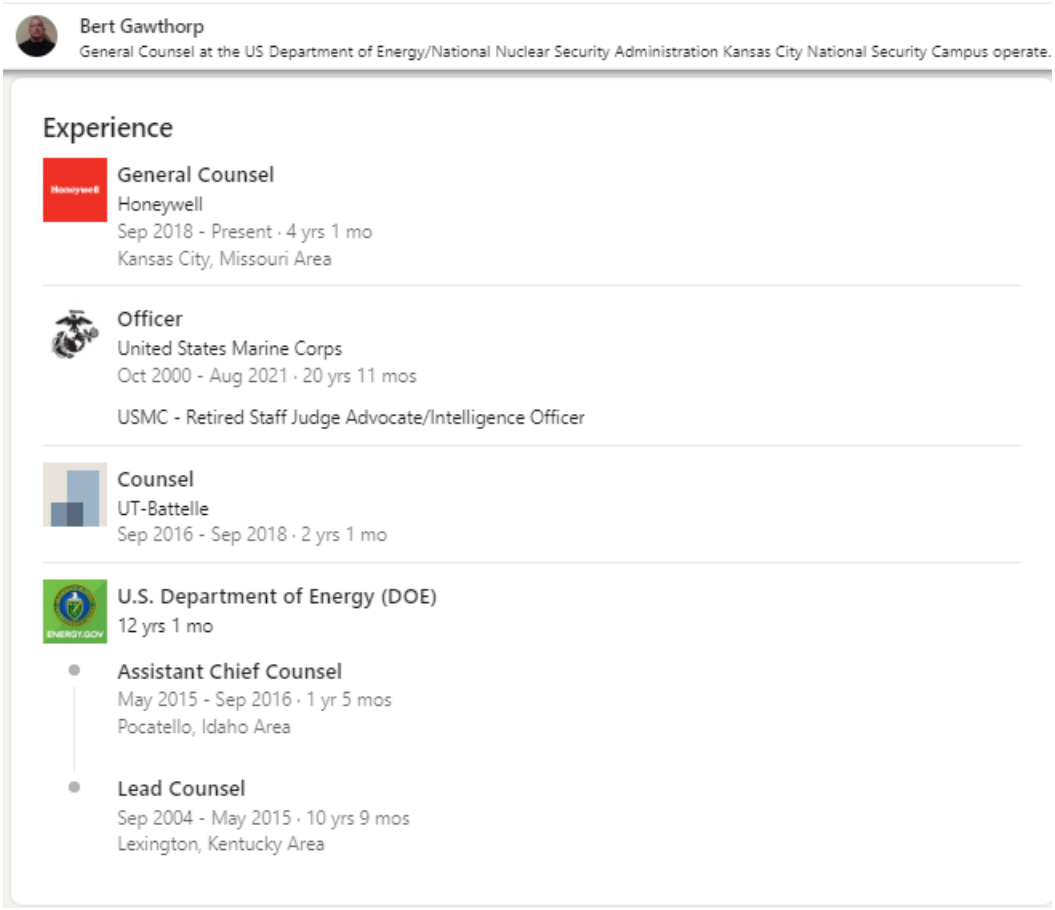
Example A4: https://www.linkedin.com/in/irvgray/details/experience/



Example A5: https://www.linkedin.com/in/annalyn-monson-msc-mba-lcb-cuseco-7629456/details/experience/



Example A6: https://www.linkedin.com/in/bert-gawthorp-b48919155/



Part III Tariff Exemption

In total, Honeywell filled 25 tariff exemption applications in all four rounds and got 6 approved, implying an approval rate of 24%. The average approval rate for all applications is 12.9%. Although the approval rate varies from round to round, Honeywell significantly outperformed the average firm in applying for tariff exemption.

Part IV News Report/CEO Interview

https://www.ft.com/content/5d71a824-8c07-11e8-bf9e-8771d5404543

US industrial conglomerate Honeywell raised its full-year sales and earnings guidance for the third time this year, as strong growth across all segments of its businesses eclipsed uncertainties around US trade policies.

https://fortune.com/2019/05/15/honeywell-ceo-china-tariffs/

Honeywell CEO Darius Adamczyk says the company has already been moving critical supplies from North America to China and he has also been analyzing pricing options to "moderate the impact of the tariffs."

Part V The Other Side of the Story: Connection with China

https://www.wsj.com/articles/honeywells-formula-for-success-in-china-11634911201

Building personal relations with local officials was important to shielding Honeywell from the choppy U.S.-China politics of the past few years, he said."

https://www.defensenews.com/industry/2021/05/04/honeywell-fined-13-million-for-defense-export-violations/

The U.S. State Department announced it reached a $13 million settlement with American defense firm Honeywell over allegations it exported technical drawings of parts for the F-35 fighters and other weapons platforms to China and other foreign countries.

https://www.scmp.com/news/world/united-states-canada/article/3192051/pentagon-says-banned-china-made-alloy-all-f-35-jets

The component – a magnet used in an aircraft-powering device supplied by Honeywell International Inc. – has been used in the plane since 2003, the Pentagon's F-35 programme office said.

Online Appendix Tables

Table O1 Imports from China: US Government Suppliers vs Other Firms around the US-China Trade War

This table compares the total imports from China between US government suppliers and other firms around the 2018 US-China Trade War. The dataset for this table is organized at the firm-quarter-hscode8 level. The sample period is from 2016Q1 to 2019Q4. The dependent variable for columns (1) and (2) is the natural logarithm of total imports from China in terms of product value; the dependent variable for columns (3) and (4) is the natural logarithm of total imports from China in terms of the number of transactions; the dependent variable for columns (5) and (6) is the natural logarithm of total imports from China in terms of the number of items. *Gov Supplier* is a dummy variable that is equal to 1 when a firm discloses the US government as its principal customer for the fiscal year t. *Post Trade War* is a dummy variable that is equal to 1 for periods since 2018Q1. Other independent variables include lagged total assets (in logarithm), book-to-market ratios, return on assets, and the ratio of domestic sales to total sales. We include the firm, industry×year quarter, and product HSCODE (8-digit) fixed effects in all test specifications. Standard errors are clustered at the product HSCODE (8-digit) level. *T*-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	Log(China Import Value)		Log(China Import Num of Transactions)		Log(China Import Num of Items)	
VARIABLES						
Gov Supplier×Post Trade War	0.135***	0.131**	0.069***	0.053**	0.026***	0.020**
	(2.67)	(2.32)	(2.77)	(1.97)	(2.93)	(2.08)
Gov Supplier	-0.059	-0.101	-0.024	-0.016	-0.008	-0.006
	(-0.70)	(-1.10)	(-0.58)	(-0.37)	(-0.57)	(-0.35)
B/M		0.005		0.002		0.001
		(0.50)		(0.48)		(0.75)
Log(MV)		-0.010		0.004		0.004
		(-0.59)		(0.54)		(1.29)
ROA		0.010		0.001		-0.000
		(0.31)		(0.09)		(-0.09)
%Revenue from US Market		0.089		0.137**		0.025
		(0.76)		(2.48)		(1.23)
Firm FE	Y	Y	Y	Y	Y	Y
Hscode8 FE	Y	Y	Y	Y	Y	Y
Ind x Quarter FE	Y	Y	Y	Y	Y	Y
Observations	47,318	39,406	47,318	39,406	47,318	39,406
R-squared	0.732	0.734	0.895	0.900	0.923	0.922

Table O2 US Firms with Subsidiaries in China

This table compares *China Import Ratio* between US firms with subsidiaries in China and other US firms around the 2018 US-China Trade War. The dataset for this table is organized at the firm-quarter-hscode8 level. The sample period is from 2016Q1 to 2019Q4. The dependent variable for column (1) and (2) is *China Import Ratio* in terms of product value; the dependent variable for column (3) and (4) is *China Import Ratio* in terms of the number of transactions; the dependent variable for column (5) and (6) is *China Import Ratio* in terms of product quantity. *Gov Supplier* is a dummy variable that is equal to 1 when a firm discloses the US government as its principal customer for the fiscal year *t*. *Post Trade War* is a dummy variable that is equal to 1 for periods after (including) 2018Q1. *China Subsidiaries* is a dummy variable that is equal to 1 if a firm has any subsidiaries located in China. Other firm-level control variables include lagged total assets (in logarithm), book-to-market ratios, return on assets, and the ratio of domestic sales to total sales. We include the firm, industry×quarter, and product HSCODE (8-digit) fixed effects in all test specifications. Standard errors are clustered at the product HSCODE (8-digit) level. T-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	China Import Ratio		China Import Ratio		China Import Ratio	
VARIABLES	Product Value		Number of Transactions		Product Quantity	
Gov Supplier×Post Trade War	0.062***	0.071***	0.073***			
	(3.66)	(4.18)	(4.33)			
Gov Supplier×Post Trade War×China Subsidiaries	-0.028	-0.024	-0.032			
	(-1.18)	(-0.94)	(-1.28)			
Gov Supplier	-0.019	-0.012	-0.008			
	(-0.61)	(-0.39)	(-0.26)			
China Subsidiaries	-0.013**	-0.012**	-0.014***	-0.009*	-0.008	-0.010*
	(-2.41)	(-2.31)	(-2.63)	(-1.67)	(-1.48)	(-1.76)
Gov Supplier×China Subsidiaries	0.021	0.021	0.021			
	(0.89)	(0.86)	(0.82)			
Post Trade War×China Subsidiaries	0.008	0.006	0.007	0.004	0.001	0.002
	(1.52)	(1.06)	(1.26)	(0.70)	(0.19)	(0.29)
Firm FE	Y	Y	Y	Y	Y	Y
Hscode8 FE	Y	Y	Y	Y	Y	Y
Ind x Year Quarter FE	Y	Y	Y	Y	Y	Y
Observations	125,802	125,802	125,802	125,802	125,802	125,802
R-squared	0.489	0.540	0.536	0.489	0.540	0.536

Table O3: Connections with Government: An Indirect Measure based on Geographical Distance

This table compares *China Import Ratio* between US government suppliers and other firms around the 2018 US-China Trade War conditional on the connection with the federal government. Corporate connection with the federal government is measured by the geographic distance from a firm to the office address of its awarding government agency (or Washington D.C.) in miles divided by 1000. The dataset for this table is organized at the firm-quarter-hscode8 level. The sample period is from 2016Q1 to 2019Q4. The dependent variable for column (1) is the *China Import Ratio* in terms of product value; the dependent variable for column (2) is the *China Import Ratio* in terms of the number of transactions; the dependent variable for column (3) is the *China Import Ratio* in terms of product quantity. *Gov Supplier* is a dummy variable that is equal to 1 when a firm discloses the US government as its principal customer for the fiscal year *t*. *Post Trade War* is a dummy variable that is equal to 1 for periods after (including) 2018Q1. Other independent variables include lagged total assets (in logarithm), book-to-market ratios, return on assets, and the ratio of domestic sales to total sales. All test specifications include the firm, industry×quarter, and product HSCODE (8-digit) fixed effects. Standard errors are clustered at the product HSCODE (8-digit) level. T-statistics are provided in parentheses. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

VARIABLES	(1) China Import Ratio Product Value	(2) China Import Ratio Number of Transactions	(3) China Import Ratio Product Quantity
Gov Supplier×Post Trade War	0.069***	0.078***	0.075***
	(4.14)	(4.64)	(4.44)
Gov Supplier×Post Trade War×Distance	-0.035***	-0.039***	-0.039***
	(-2.59)	(-3.02)	(-2.98)
Gov Supplier	-0.050	-0.037	-0.026
	(-1.19)	(-0.84)	(-0.59)
Distance	0.015**	0.019**	0.018**
	(1.98)	(2.55)	(2.39)
Gov Supplier×Distance	0.036	0.031	0.027
	(1.57)	(1.30)	(1.13)
Post Trade War×Distance	-0.019***	-0.020***	-0.021***
	(-3.95)	(-4.28)	(-4.30)
B/M	-0.004	-0.009	-0.007
	(-0.37)	(-0.88)	(-0.66)
Log(MV)	0.004	-0.000	0.005
	(0.50)	(-0.02)	(0.63)
ROA	-0.054	-0.027	-0.033
	(-1.58)	(-0.80)	(-0.97)
%Revenue from US Market	0.060**	0.073***	0.076***
	(2.37)	(2.85)	(2.88)
Firm FE	Y	Y	Y
Hscode8 FE	Y	Y	Y
Ind × Year Quarter FE	Y	Y	Y
Observations	113,515	113,515	113,515
R-squared	0.506	0.558	0.555