



# Motivation

- The benefits and costs of political network
  - Benefits: Better firm performance (Faccio 2006; Cooper, Gulen, and Ovtchinnikov 2010), lower cost of capital (Francis, Hasan, and Zhu 2014), greater gov't investment and preferable policy (Goldman, Rocholl, and So 2009; Cohen, Coval, and Malloy 2011), etc.
  - Costs: political contribution and lobbying, to use corporate resources to enhance politicians' agendas (Faccio, 2006; Bertrand et al., 2018)
- The situation can be more prominent yet subtle in China due to the void of political campaign and explicit political contribution
  - The manager-politician partnership in China relies on the long-term cultivation and reciprocity
  - Benefits and costs of political network in the context of insider trading









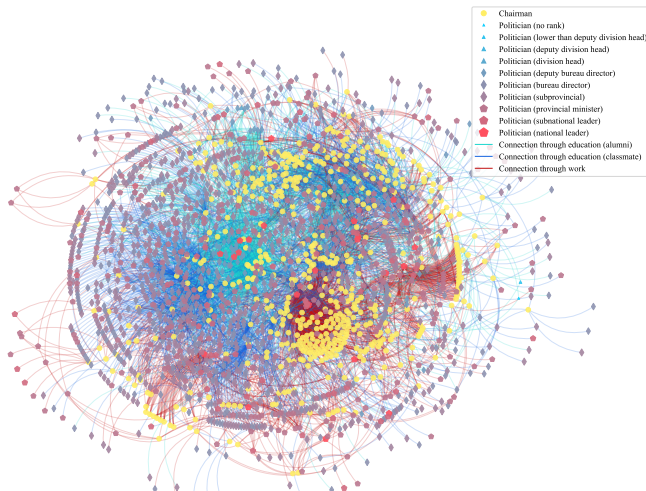








## Chairman's political network



## Summary statistics

Variable	Mean	STD	Min	Max
<b><i>Insider trading</i></b>				
Trading shares (thousands)	2,181.52	12,531.91	0	588,512.35
Trading amount (k RMB)	26,165.00	134,498.01	0	5,354,282.30
Trading permille (‰)	4.401	20.951	0	1,350.04
Log trading shares (thousands)	2.556	3.344	0	13.285
Log trading amount (k RMB)	3.725	4.416	0	15.493
Log trading permille (‰)	0.53	1.084	0	7.209
<b><i>Firm characteristics</i></b>				
Central SOE	0.134	0.34	0	1
Local SOE	0.24	0.427	0	1
Total asset	21,095.18	315,282.52	0.05	19,570,060
Firm size (Log total assets)	8.09	1.346	0.05	16.79
Net cash flow	0.082	0.153	-0.401	0.573
EBITDA	0.078	0.05	0.008	0.355
Leverage	0.438	0.22	0.034	1
Stock volatility	0.034	0.021	0	0.728
Herfindahl-Hirschman index	0.493	0.228	0.101	1
Annual market returns	0.085	0.388	-0.921	0.813

*Note:* The number of observations is 18,547.

Variable	Mean	STD	Min	Max
<b><i>Firm network</i></b>				
Education link	36.14	139.731	0	2,367
Work link	21.491	66.137	1	937
Network link	57.631	163.917	1	2,417
Network link (long)	55.167	156.895	0	2,258
Network link (short)	2.464	15.862	0	289
Network link (high)	50.322	151.363	0	2,103
Network link (low)	7.309	20.5	0	390
Alumni link	34.751	138.178	0	2,366
School friends link	1.389	6.19	0	306
<b><i>Chairman characteristics</i></b>				
List 985	0.077	0.267	0	1
Education abroad	0.015	0.12	0	1
Work abroad	0.039	0.193	0	1
Female	0.043	0.203	0	1
Age	51.974	7.091	23	85
Foreign citizenship	0.022	0.146	0	1
Educational level	2.502	0.857	1	4

central SOE / local SOEs vs. non-SOEs

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- One-standard-deviation increase in total network link (or being connected to 164 more politicians) is associated with 21.8 percent decrease in trading shares

Dep. Var.	Log trading shares			Log trading amount			Log trading permille		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Log educ link	-0.0462** (0.0200)			-0.0781*** (0.0268)			-0.0201*** (0.00597)		
Log work link		-0.0611** (0.0261)			-0.0735** (0.0361)			-0.0245*** (0.00757)	
Log network link			-0.0765*** (0.0223)			-0.118*** (0.0301)			-0.0298*** (0.00682)
Central SOE	-1.641*** (0.118)	-1.578*** (0.125)	-1.566*** (0.121)	-1.955*** (0.163)	-1.894*** (0.172)	-1.845*** (0.168)	-0.426*** (0.0314)	-0.402*** (0.0330)	-0.399*** (0.0321)
Local SOE	-1.497*** (0.0963)	-1.461*** (0.0969)	-1.463*** (0.0967)	-1.844*** (0.131)	-1.802*** (0.132)	-1.792*** (0.132)	-0.421*** (0.0269)	-0.407*** (0.0271)	-0.408*** (0.0269)
Obs.	18,547	18,547	18,547	18,547	18,547	18,547	18,547	18,547	18,547
adj. R-sq	0.182	0.182	0.183	0.190	0.189	0.190	0.156	0.156	0.156

Cons./Firm Controls/Chairman Controls/Industry FE/Province FE/Year FE: YES

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long-standing, connections to high-level politicians, and financial regulatory connections

- One-standard-deviation increase in *Network link (long)* or *Network link (high)* is associated with 22.2% or 23.2% decrease in trading shares

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- Weighted measure: Squared value of **politician's position rank** multiplied by the **length (in years) of the connection** between chairman and politician as weights
- One-standard-deviation increase in the *Network link (weighted)* is associated with **16.6%** decrease in trading shares

Dep. Var.	Log trading shares			Log trading amount			Log trading permille		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Log educ link (weighted)	-0.0254** (0.0103)			-0.0411*** (0.0137)			-0.0109*** (0.00309)		
Log work link (weighted)		-0.0455*** (0.0167)			-0.0528** (0.0226)			-0.0167*** (0.00518)	
Log network link (weighted)			-0.0595*** (0.0173)			-0.0847*** (0.0231)			-0.0219*** (0.00546)
Central SOE	-1.642*** (0.118)	-1.546*** (0.127)	-1.539*** (0.124)	-1.960*** (0.163)	-1.860*** (0.174)	-1.819*** (0.171)	-0.427*** (0.0314)	-0.394*** (0.0341)	-0.391*** (0.0329)
Local SOE	-1.499*** (0.0962)	-1.431*** (0.0984)	-1.432*** (0.0974)	-1.847*** (0.131)	-1.768*** (0.134)	-1.752*** (0.133)	-0.422*** (0.0269)	-0.397*** (0.0276)	-0.398*** (0.0272)
Obs.	18,547	18,547	18,547	18,547	18,547	18,547	18,547	18,547	18,547
adj. R-sq	0.182	0.182	0.183	0.190	0.189	0.190	0.156	0.156	0.156

Cons./Firm Controls/Chairman Controls/Industry FE/Province FE/Year FE: YES

# Heterogeneity: state ownership

- The effect of political network on insider trading is mitigated for central and local SOEs.

Dep. Var.	Log trading shares			Log trading amount			Log trading permille		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Log educ link	-0.0572** (0.0291)			-0.0955** (0.0383)			-0.0283*** (0.00935)		
Log work link		-0.128*** (0.0402)			-0.156*** (0.0532)			-0.0469*** (0.0128)	
Log network link			-0.108*** (0.0311)			-0.164*** (0.0407)			-0.0436*** (0.0100)
Central SOE	-1.751*** (0.141)	-1.812*** (0.201)	-1.879*** (0.222)	-2.143*** (0.200)	-2.235*** (0.279)	-2.391*** (0.320)	-0.485*** (0.0383)	-0.511*** (0.0520)	-0.572*** (0.0581)
Local SOE	-1.500*** (0.116)	-1.743*** (0.150)	-1.657*** (0.160)	-1.842*** (0.157)	-2.115*** (0.207)	-2.029*** (0.218)	-0.434*** (0.0331)	-0.481*** (0.0408)	-0.475*** (0.0457)
Link×Central SOE (edu/work/network)	0.0550 (0.0478)	0.115* (0.0611)	0.0950* (0.0550)	0.0930 (0.0660)	0.160* (0.0852)	0.163** (0.0784)	0.0298** (0.0127)	0.0488*** (0.0170)	0.0513*** (0.0148)
Link×Local SOE (edu/work/network)	0.00437 (0.0401)	0.161*** (0.0599)	0.0770* (0.0462)	0.00263 (0.0555)	0.181** (0.0851)	0.0965 (0.0643)	0.0104 (0.0114)	0.0441*** (0.0163)	0.0275** (0.0130)
Obs.	18,547	18,547	18,547	18,547	18,547	18,547	18,547	18,547	18,547
adj. R-sq	0.182	0.183	0.183	0.190	0.190	0.191	0.156	0.156	0.157

- Cons./Firm Controls/Chairman Controls/Industry FE/Province FE/Year FE: YES

- Columns of the SOE interaction: (1) (4) (7) for education link, (2) (5) (8) for work link, (3) (6) (9) for network link

# Insider trading when there is *private* information

- Firm-related private information: M&A
- Macro-level private information: “*Four-trillion*” Stimulus in 2008

# Political network, insider trading and M&As

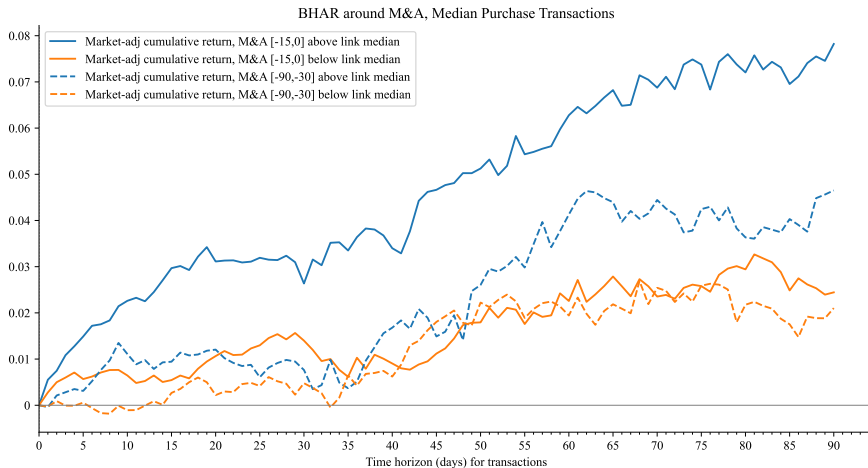
- *M&A* is defined as one if within 15 days before M&A announcements, and zero if within 30-90 days before M&A announcements.

Dep. Var.	Log trading shares		Log trading amount		Log trading permille	
	(1)	(2)	(3)	(4)	(5)	(6)
Log network link	0.042 (0.0331)	0.029 (0.042)	0.0192 (0.0441)	0.00145 (0.0554)	0.0157 (0.0114)	-0.00123 (0.0148)
<b>M&amp;A</b>	<b>1.762***</b> (0.138)	<b>1.999***</b> (0.156)	<b>2.026***</b> (0.178)	<b>2.296***</b> (0.2)	<b>0.807***</b> (0.0532)	<b>0.882***</b> (0.0619)
Log network link×M&A	-0.244*** (0.0469)	-0.221*** (0.0608)	-0.300*** (0.0615)	-0.255*** (0.0781)	-0.101*** (0.0169)	-0.0790*** (0.0229)
Central SOE		-0.812** (0.367)		-0.913* (0.517)		-0.341*** (0.109)
Local SOE		-0.382 (0.24)		-0.334 (0.335)		-0.192** (0.0754)
Log network link×M&A×Central SOE		0.242* (0.144)		0.208 (0.198)		0.0975** (0.0407)
Log network link×M&A×Local SOE		0.244** (0.114)		0.265* (0.158)		0.0472 (0.033)
Obs.	10,778	10,778	10,778	10,778	10,778	10,778
adj. R-sq	0.0728	0.077	0.0655	0.0695	0.112	0.118

- Cons./Firm Controls/Chairman Controls/Industry FE/Province FE: YES; Year FE: NO

- The coefficients of the two-way interaction terms are not presented in this table

# Buy-and-hold abnormal return for M&As



# “Four-trillion” stimulus in 2008 in China

- Timeline:
  - November 8, 2008: announcement of the Stimulus Plan, in response to the GFC
  - Mid-November 2008: it was revealed that the central government would only provide 1.2 trillion RMB funds, with the rest reallocated by provincial and city local governments
  - March 2009: a revision of the stimulus and published a breakdown of how the funds would be distributed, announced by National Development Reform Commission (NDRC)
- Outcome: majority of the loans flowed to and supported SOEs (Cong, et al. 2019)

# The “Four-trillion” Stimulus in 2008

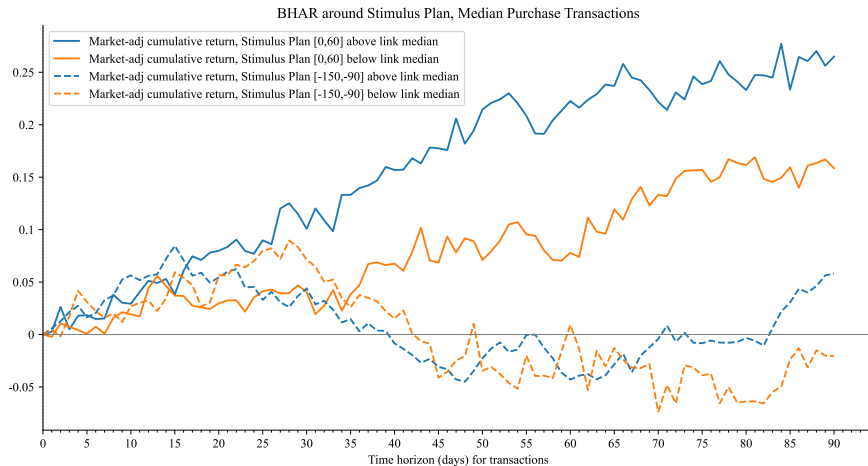
- *Stimulus* is defined as one for 60 days (i.e. [0,60]) after November 8, 2008 and zero for the 90 to 150 days before that (i.e. [-150, -90]).

Dep. Var.	Log trading shares		Log trading amount		Log trading permille	
	(1)	(2)	(3)	(4)	(5)	(6)
Log network link	0.125 (0.146)	0.203 (0.237)	0.0565 (0.186)	0.0387 (0.294)	0.0738 (0.0529)	0.0933 (0.084)
<b>Stimulus</b>	<b>2.236***</b> <b>(0.692)</b>	<b>2.876***</b> <b>(0.898)</b>	<b>2.541***</b> <b>(0.849)</b>	<b>3.213***</b> <b>(1.072)</b>	<b>0.769***</b> <b>(0.23)</b>	<b>0.973***</b> <b>(0.319)</b>
Log network link×Stimulus	-0.332 (0.212)	-0.648* (0.335)	-0.314 (0.247)	-0.608 (0.382)	-0.140** (0.0612)	-0.221** (0.103)
Central SOE		-0.325 (1.637)		-1.035 (2.318)		-0.273 (0.37)
Local SOE		-1.37 (0.974)		-2.11 (1.311)		-0.461 (0.316)
<b>Log network link×Stimulus×Central SOE</b>		<b>1.095*</b> <b>(0.607)</b>		<b>1.198</b> <b>(0.768)</b>		<b>0.300**</b> <b>(0.122)</b>
Log network link×Stimulus×Local SOE		0.531 (0.459)		0.453 (0.566)		0.166 (0.122)
Obs.	300	300	300	300	300	300
adj. R-sq	0.0729	0.0626	0.0706	0.0587	0.0952	0.0793

- Cons./Firm Controls/Chairman Controls/Industry FE/Province FE: YES; Year FE: NO

- The coefficients of the two-way interaction terms are not presented in this table

# Buy-and-hold abnormal return for the Stimulus Plan





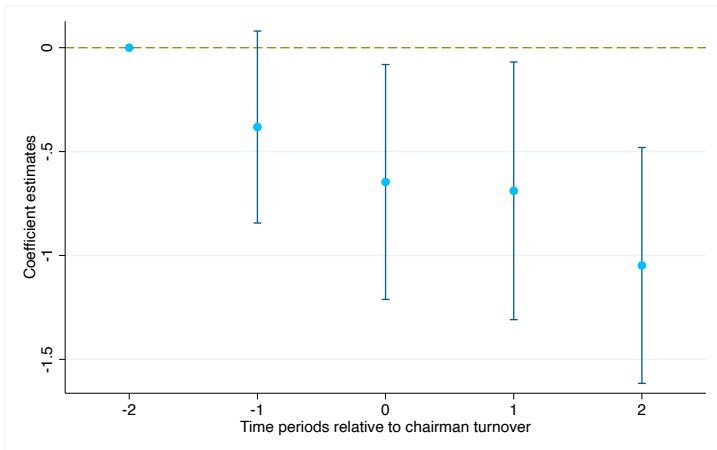
# Identification 1: Chairman's turnover

- *Link increase*: = 1 for a firm's turnover when the mean values of the chairman's high-level work connections in the two years after a turnover is higher than those in the two years before the turnover, = 0 otherwise
- *Turnover* is a time indicator, = 1 for the two years after the chairman turnover, = 0 for the two years before

Dep. Var.	Log trading shares		Log trading amount		Log trading permille	
	(1)	(2)	(3)	(4)	(5)	(6)
Link increase	0.108 (0.26)	-0.217 (0.378)	0.06 (0.349)	-0.259 (0.518)	0.0502 (0.0721)	0.0462 (0.105)
Turnover	0.0384 (0.148)	0.367** (0.151)	-0.0215 (0.196)	0.336* (0.201)	-0.0382 (0.0445)	0.056 (0.0453)
Link increase×Turnover	-0.670** (0.28)	-0.543* (0.282)	-0.906** (0.375)	-0.758** (0.358)	-0.137* (0.0771)	-0.093 (0.0746)
Firm FE	NO	YES	NO	YES	NO	YES
Industry FE	YES	NO	YES	NO	YES	NO
Province FE	YES	NO	YES	NO	YES	NO
Obs.	2,879	2,879	2,879	2,879	2,879	2,879
adj. R-sq	0.163	0.0359	0.165	0.0454	0.127	0.0155

Cons./Firm Controls/Chairman Controls/Year FE: YES

# Dynamic effects of political network on insider trading around chairman turnover



## Identification 2: Increases of high-level political network

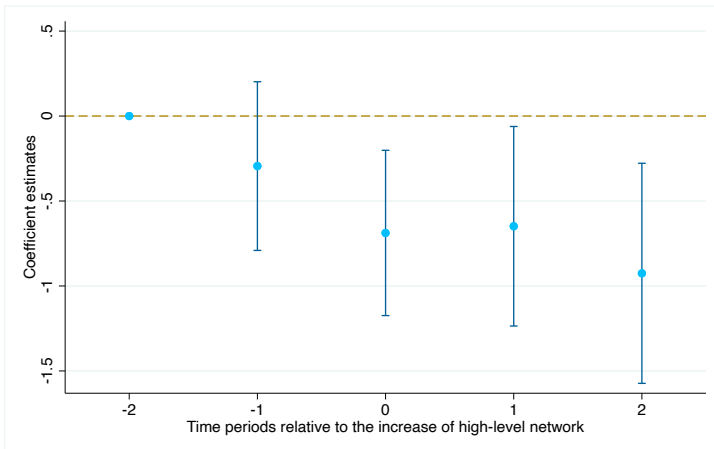
- Increases of high-level political network
  - When there is a promotion for the connected politicians to a high-level rank position
  - When there is a new high-level political connection created
- *Treated\_chairman*: = 1 for the chairmen whose high-level network increased in the sample, = 0 otherwise
- Define control group of chairmen: one-to-one propensity score matching with the caliper of 0.015 based on chairman and firm characteristics

## Identification 2: Increases of high-level political network (*continued*)

- Post high-level increase*: time indicator = 1 for the two years after the increase of high-level political network, = 0 for the two years before

Dep. Var.	Log trading shares	Log trading amount	Log trading permille
	(1)	(2)	(3)
Treated_chairman	0.0206 (0.193)	-0.109 (0.262)	0.00885 (0.0569)
Post high-level increase	0.260 (0.199)	0.155 (0.266)	0.0732 (0.0619)
Treated_chairman×Post high-level increase	-0.576** (0.244)	-0.543* (0.329)	-0.151** (0.0736)
Obs.	1,878	1,878	1,878
adj. R-sq	0.182	0.176	0.165
Cons./Firm Controls/Chairman Controls/Industry FE/Province FE/Year FE: YES			

# Dynamic effects of increased high-level political network within a chairman's tenure on insider trading



## Identification 3: Provincial leader turnovers

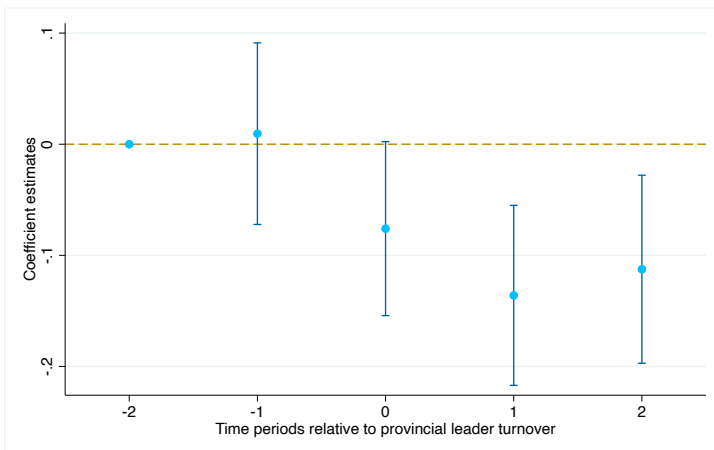
- Turnover of political leadership is less likely driven by a firm's political network; and can bring political uncertainty a firm's network
- In our sample, there are 102 turnovers of local provincial leaders (governors and party secretaries) in 28 provinces
- Firm, especially those with strong network before turnovers are likely to be more cautious in opportunistic behaviors (including their insider trading) in the first few years following the turnover

## Identification 3: Provincial leader turnovers (*continued*)

- *P\_Turnover*: a time indicator, defined as one for the two years after the turnovers of provincial governors or party secretaries, or zero for the two years before

Dep. Var.	Log trading shares	Log trading amount	Log trading permille
	(1)	(2)	(3)
Log network link	-0.0278 (0.0295)	-0.0702* (0.041)	-0.00371 (0.00933)
P_Turnover	0.383*** (0.117)	0.409*** (0.154)	0.142*** (0.0396)
Log network link×P_Turnover	-0.120*** (0.0323)	-0.125*** (0.0432)	-0.0458*** (0.0105)
Obs.	11,045	11,045	11,045
adj. R-sq	0.177	0.183	0.153
Cons./Firm Controls/Chairman Controls/Industry FE/Province FE/Year FE: YES			

# Dynamic effects of political network on insider trading around provincial leader turnover





# Mechanisms: “Carrot” and “Stick”

- Reward channel
  - Insiders might trade less to preserve the firm’s political connections, especially when political connections are not strong
- Disciplining channel
  - Chinese SOEs have a two-parallel personnel system, the regular corporate management system and the party system (Lin and Milhaupt, 2013)
  - The disciplinary role of the double systems can have stronger negative effect on opportunistic behavior for insiders in SOEs than those in non-SOEs, which can lead to less insider trading

## “Carrot” - Preferable support

- *Future gov't subsidy* is the amount of government subsidy that the firm receives in year  $t+1$ , scaled by firms' total assets

Dep. Var.	Log trading shares			
	(1)	(2)	(3)	(4)
Log network link	-0.107*** (0.0248)	-0.135*** (0.0355)	-0.0632*** (0.023)	-0.0876*** (0.0323)
Future gov't subsidy			2.382*** (0.695)	2.931*** (1.034)
Log network link×Future gov't subsidy			-0.402*** (0.153)	-0.508** (0.214)
Log network link×Future gov't subsidy×Central SOE				0.689 (0.576)
Log network link×Future gov't subsidy×Local SOE				0.116 (0.31)
Obs.	17,324	17,324	18,547	18,547
adj. R-sq	0.206	0.221	0.184	0.184

- Cons./Firm Controls/Chairman Controls/Industry FE/Province FE/Year FE: YES

- The coefficients of other two-way interaction terms are not presented in this table

## “Stick” - Disciplining effect

- Marketization*, is an index for market versus government force, from Wang et al. (2021). *Law institutions* = 1 if the number of law institutions in a province is at the top 33% of the sample, = 0 if at the bottom 33%

Dep. Var.	Log trading shares			
	(1)	(2)	(3)	(4)
Log network link	-0.0686 (0.0745)	-0.310*** (0.112)	-0.0992*** (0.0325)	-0.191*** (0.0485)
Marketization	0.177*** (0.0361)	0.153*** (0.0469)		
Log network link×Marketization	-0.00583 (0.00956)	0.0241* (0.0141)		
Law institutions			0.502*** (0.163)	0.294 (0.209)
Log network link×Law institutions			-0.0197 (0.0498)	0.134* (0.0736)
Log network link×Marketization×Central SOE		-0.0185 (0.0252)		
Log network link×Marketization×Local SOE		-0.0601*** (0.0206)		
Log network link×Law institutions×Central SOE				-0.210 (0.129)
Log network link×Law institutions×Local SOE				-0.275** (0.113)
Obs.	14,807	14,807	12,038	12,038
adj. R-sq	0.127	0.129	0.135	0.137

- Cons./Firm Controls/Chairman Controls/Industry FE: YES; Province FE/Year FE: NO

- The coefficients of other two-way interaction terms are not presented in this table

## Additional tests: The network of CEO/CFO and insider trading

- The information of CEOs and CFOs are also collected, with 4,952 CEOs and 4,361 CFOs in our sample
- Constructing the network following the same methodology

Dep. Var.	Log trading shares			Log trading amount			Log trading permille		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Log educ link (CEO)	-0.0293 (0.0787)			-0.108 (0.106)			-0.00215 (0.0238)		
Log work link (CEO)		-0.0300* (0.0171)			-0.0422* (0.0226)			-0.0045 (0.00537)	
Log network link (CEO)			-0.0295* (0.0172)			-0.0420* (0.0227)			-0.00415 (0.00537)
Central SOE	-1.627*** (0.118)	-1.620*** (0.118)	-1.620*** (0.118)	-1.959*** (0.163)	-1.953*** (0.163)	-1.953*** (0.163)	-0.425*** (0.0311)	-0.423*** (0.0312)	-0.423*** (0.0312)
Local SOE	-1.503*** (0.0954)	-1.500*** (0.0955)	-1.500*** (0.0955)	-1.851*** (0.13)	-1.848*** (0.13)	-1.848*** (0.13)	-0.419*** (0.0266)	-0.418*** (0.0266)	-0.418*** (0.0266)
Obs.	19,170	19,170	19,170	19,170	19,170	19,170	19,170	19,170	19,170
adj. R-sq	0.176	0.176	0.176	0.182	0.182	0.182	0.149	0.149	0.149

Cons./Firm Controls/CEO Controls/Industry FE/Province FE/Year FE: YES



## Additional tests: Managers' work experience in public sectors

- *Chairman\_Pol* is defined as one for chairmen who have worked in public sectors at the county, city, provincial, or higher levels, or zero otherwise
- We also control for the work experience for CEOs/CFOs in public sectors, and the results are similar

Dep. Var.	Log trading shares			Log trading amount			Log trading permille		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Central SOE	-1.669*** (0.118)		-1.571*** (0.122)	-2.004*** (0.163)		-1.852*** (0.168)	-0.439*** (0.0314)		-0.400*** (0.0322)
Local SOE	-1.500*** (0.0964)		-1.461*** (0.0967)	-1.849*** (0.131)		-1.789*** (0.132)	-0.423*** (0.027)		-0.408*** (0.0269)
Chairman_Pol		0.127 (0.251)	0.193 (0.252)		0.218 (0.321)	0.289 (0.327)		0.0511 (0.0625)	0.0636 (0.0617)
Log network link			-0.0765*** (0.0223)			-0.118*** (0.0301)			-0.0297*** (0.00681)
Obs.	18,547	18,547	18,547	18,547	18,547	18,547	18,547	18,547	18,547
adj. R-sq	0.182	0.145	0.183	0.189	0.158	0.19	0.155	0.129	0.156

Cons./Firm Controls/CEO&CFO Controls/Industry FE/Province FE/Year FE: YES

