State Control and the Effects of Foreign Relations on Bilateral Trade

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16 October 2016

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October 16, 2016

Abstract

Can governments still use trade to reward and punish partner countries? While WTO rules and the pressures of globalization restrict states' capacity to manipulate trade policies, politicization of trade is likely to occur where governments intervene in markets. We examine state ownership of firms as one tool of government control. Taking China and India as examples, we use new data on imports disaggregated by firm ownership type, as well as measures of political relations based on bilateral events and UN voting data to estimate the effect of political relations on import flows since the early 1990s. Our results support the hypothesis that imports controlled by state-owned enterprises (SOEs) are more responsive to political relations than imports controlled by private enterprises. This finding suggests that politicized trade will increase as countries with partially state-controlled economies gain strength in the global economy.

Powerful states have a long tradition of economic statecraft. Trade relations form a means of influence (Hirschman, [1945] 1980; Lake, 2009; Flores-Macías and Kreps, 2013), and alliances support favorable economic agreements (Mansfield and Bronson, 1997; Long and Leeds, 2006). During the Cold War, trade patterns closely reflected political relations (e.g. Pollins, 1989; Gowa, 1994; Mansfield and Bronson, 1997; Keshk, Reuveny and Pollins, 2004; Kastner, 2007; Berger et al., 2013). Governments today, however, have less leeway for using trade as carrot and stick in foreign policy. Global trade rules restrict the ability of governments to discriminate among trading partners, and transnational production further complicates efforts to link trade to foreign policy (Gowa and Mansfield, 2004; Brooks, 2007; Davis and Meunier, 2011; Carnegie, 2014). What are the channels by which governments induce trade patterns to follow foreign policy interests in today's global economy? This paper revisits the question of whether trade follows the flag and highlights state ownership of firms as a key means for politicization of trade. Where previous studies examine aggregate trade at cross-national level, we bring new data on trade flows based on firm ownership.

Anecdotal evidence suggests that governments continue to manipulate trade in response to political disputes. In 2014, for example, the United States and the EU announced a range of economic penalties to punish Russian intervention in Ukraine, and Russia retaliated with its own boycotts of agricultural products from Europe. Politically-motivated trade disruptions, however, are not limited to formal sanctions. In 2012, Telam, Argentina's official news outlet, reported that ministry officials had asked some 20 companies to cease importing materials from the UK in response to diplomatic tensions over the Falkland (Malvinas) Islands.[1] In Vietnam, the government encouraged manufacturing firms to diversify their imports away from China partly in response to tensions in the South China Sea.[2]

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[1] "Falklands dispute: Argentina 'urges UK import ban,'" *BBC News*, February 28, 2012.

[2] "Rigged: Comradely relations go from bad to worse," *The Economist*, June 14, 2014.

We argue that government influence over firms makes trade flows more responsive to foreign relations. State-owned firms align their behavior with state interests because of dependence at the level of personnel and finances. Where private firms trade on the basis of business interests, state-owned firms also pursue government interests. As a result, we expect the impact of political relations on trade to be a function of state control. To test this argument, we compare the responsiveness to political tensions of bilateral import flows through state-owned enterprises (SOEs) and private firms. By examining how imports between the same pair of countries are impacted by political tensions conditional on ownership type of the importing firms, our research design allows a direct test of state control as the mechanism by which governments influence trade patterns. This is the first study to analyze the impact of state ownership on bilateral patterns of trade.

Our paper challenges the view that market expectations and business lobbying alone shape commercial relations. Liberal theories emphasize the constraints that arise from the economic interests of social actors within the state. A large body of research has argued that interdependence encourages cooperative relations between states under commercial liberalism because governments respond to private economic interests (Polachek, 1980; Russett and Oneal, 2001; Li and Sacko, 2002; Gartzke, 2007; Lee and Mitchell, 2012). Instead, we demonstrate the ongoing role of the state in trade discrimination. Economic patriotism has been shown to motivate selective liberalization as well as protection (Levy, 2006; Clift and Woll, 2012; Rickard and Kono, 2014). Berger et al. (2013) find that the positive impact of CIA interventions on US imports by a country is conditional on the government's share of the economy. These studies have begun to highlight the role of the state in politicizing trade, but do not specify the channel through which governments generate this effect. Our paper finds that states manipulate imports as a tool of foreign policy through their influence over state-owned firms. State ownership of firms explains how some states escape the constraints of trade rules and global markets to remain users of economic state-

craft. This represents a starkly different logic about economic interdependence in which governments shape rather than respond to economic interests.

The distinction between SOEs and non-SOEs is increasingly significant to the study of trade politics. After the widespread privatizations of the 1980s and 1990s, the governments of a number of emerging countries—China, Brazil, Indonesia, Russia, South Africa, and Venezuela among them—have reversed course and taken steps to preserve or expand the presence of state-owned enterprises in key sectors (World Bank, 2014). SOEs now occupy the ranks of the largest firms. The world's thirteen largest oil companies, largest bank, and largest natural gas company are all state-owned or state-supported.[3] Over ten percent of the Forbes Global 2000 list of the largest publicly-traded companies are majority-owned SOEs, the combined sales of which, at US$3.6 trillion, amount to more than the Gross National Income (GNI) of Germany and total almost six percent of world GDP (Kowalski et al., 2013, p.20).[4] As governments in a number of emerging countries have actively supported the expansion of SOEs abroad in recent years and taken steps to foster national "champions," concerns about financial and political advantages to state-owned and state-supported firms have featured prominently in trade and investment dialogues—recently as a major obstacle in negotiations over the Trans-Pacific Partnership Agreement.

We focus our analysis on two important cases: China and India. Both are global players with active foreign policy agendas whose economies rank among the largest in the world.[5] The potential for China

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[3] See "The Visible Hand," *The Economist*, January 21, 2012.

[4] Figures are from 2010/2011 and count only majority government-owned enterprises as SOEs.

[5] In 2013, China was the world's second largest economy and India the tenth, as determined by GDP. Together, these countries accounted for 13.0 percent of world exports and 12.7 percent of world imports in 2012, see `http://www.wto.org/english/res_e/statis_e/its2013_e/its2013_e.pdf`.

to wield its growing economic power as tool of foreign policy is readily apparent (Flores-Macías and Kreps, 2013; Kastner, forthcoming). China made waves in 2010 when it cut off exports of rare earths minerals to Japan in response to a territorial dispute over the Diaoyu/Senkaku Islands,[6] and again when it halted fresh salmon imports from Norway after the Nobel Committee awarded its Peace Prize to Chinese human rights activist Liu Xiaobo. Fuchs and Klann (2013) find that countries whose leadership receives the Dalai Lama suffer a temporary reduction of exports to China. India offers a useful comparison with China to test the argument within a different context of domestic institutions and geopolitical relations. Critical for our study is the fact that both retain high levels of state ownership in some sectors alongside other sectors with little state involvement. Chinese and Indian firms comprised the largest numbers of SOEs on the Forbes Global 2000 list in 2013, and they also have vibrant private-sector economies and leading private firms.[7] We leverage this variation within each country to conduct parallel analysis for China and India that compares the responsiveness of imports to political relations between SOEs and privately-owned firms.

Whereas much of the literature on conflict and interdependence focuses on militarized disputes (Pollins, 1989; Morrow, Siverson and Tabares, 1998; Morrow, 1999; Long, 2008; Gowa and Hicks, 2016), we also examine lower-level frictions such as threats, complaints, and diplomatic spats. Issues that fall well short of war and even appear minor in isolation may have a larger cumulative effect on

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[6] In line with our argument, Fisman, Hamao and Wang (2014) find that at the time of the incident, Chinese sectors with high SOE intensity reduced their trade with Japanese firms more than sectors dominated by private firms.

[7] SOEs comprise the majority of firms on the list for both China (90 of 136 firms) and India (31 of 56 firms). Included in the SOE count for China are subsidiaries with SOE parents. See `http://www.forbes.com/global2000/list/` and Naazneen Karmali, "India faces reality check in latest Global 2000," *Forbes Business*, April 27, 2013. Figure for China by authors' calculation.

interstate relations. We measure political relations by negative political events and voting alignment in the United Nations General Assembly (UNGA). Across these different measures of relations, we expect more negative political relations to correspond with lower imports, with the most pronounced effect in import flows through SOEs.

Our statistical analysis of annual imports by China and India from the early 1990s through 2012 demonstrates that negative bilateral events correspond with a reduction in imports. The relationship is stronger for imports by firms in the state-owned sector of the economy relative to privately-owned firms. The strength and statistical significance of the findings varies across the different measures of political relations, but is generally robust to alternative specifications.

Our analysis of economic statecraft in emerging markets and our use of new trade data disaggregated by firm ownership make an original contribution to the literature. Our research indicates that economic statecraft remains relevant in the current era of globalization, and examines state ownership as a mechanism that has not been previously studied in the literature on economic interdependence. Trade patterns respond to political relations in areas where governments maintain the capacity to manipulate trade.

1 State Control and Non-commercial Interests in Trade

The exercise of economic statecraft has distributional consequences both at home and abroad. The objective is to punish or reward another state for its policy position. Denying key resources or market opportunities harms the target state, while preferential access offers benefits. Using economic policy to achieve foreign policy goals, however, can produce negative externalities for the domestic market as firms are forced to move away from the market equilibrium. Indeed, the domestic costs of intervention in trade enhances the credibility of economic sanctions and underlies theories that portray economic

interdependence as a tool for states to signal resolve in conflict bargaining (Martin, 1992; Gartzke, Li and Boehmer, 2001; Reed, 2003). Despite possible foreign policy gains, economic decisions dictated by geopolitical interests may not coincide with the best economic outcomes.

Several studies find that harm to economic actors at home limits the use of economic statecraft (Skalnes, 2000; Davis, 2008/9). Even when retaliation occurs in the context of WTO-authorized enforcement against a violation by a trade partner, the decision to raise tariffs encounters opposition from home industries that would suffer from the actions. As the United States and European governments debated sanctions against Russia for its actions in Ukraine in 2014, the harm to business interests loomed as a major concern.[8] State ownership of enterprises addresses this problem by lowering domestic opposition to letting foreign policy influence business decisions. Close integration with the state in terms of personnel, funding and goals hard-wires business actors to follow government interests. Market competition pushes for decisions on a commercial basis, but state intervention introduces additional decision criteria that call on economic actors to incorporate non-commercial goals.[9]

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[8] Alison Smale and Danny Hakim, "European Firms Seek to Minimize Russia Sanctions," *New York Times*, April 26, 2014.

[9] WTO rules reflect this tendency, admonishing that state-trading enterprises must make purchases "solely in accordance with commercial considerations" (Article XVII of the General Agreement, available at `http://www.wto.org/english/docs_e/legal_e/gatt47_e.pdf`). While the manipulation of economic policies to serve political interests clearly challenges the non-discrimination rules of the WTO, the explicit statement highlights that state-controlled enterprises are most subject to interference and in need of monitoring.

1.1 State Ownership as Mechanism for Politicization of Trade

How does state ownership facilitate the politicization of trade? We highlight three pathways by which state ownership influences firm behavior: firm mission, personnel, and financing. First and most fundamentally, the purpose of state-owned enterprises is to advance the goals of the state. While SOEs can and increasingly do operate with commercial considerations, they serve primarily as conduits through which the government may intervene in the economy to serve particular social, industrial, or political objectives in the national (or narrow government) interest. SOEs were historically established to fulfill socioeconomic policy objectives, such as infrastructure building, energy and food provision, and health care, and they remain tasked today with providing public services. SOEs also may serve as tools to promote industrial policies when governments support SOEs in sectors the government deems "strategic" for infant industry development. Given that fulfilling political imperatives is one of the primary *raisons d'être* of these firms, we should expect them to pose less resistance to political demands than private firms.

Second, close ties between the state and state-owned enterprises are clearly visible in corporate governance structures. Unlike in private firms, where managers generally report to an independent board of directors, in the case of SOEs, directors are regularly determined by political appointment (Vagliasindi, 2008). Blurring the lines between business and politics further, top SOE managers are often themselves political insiders; their performance as corporate leaders impacts not only their position with the firm but also their position in the political hierarchy. Business managers in state-owned enterprises thus often view their responsibilities as two-fold—to advance the interests of the firm and the state—and may suffer consequences for failing to do so.

Third, financial support also provides leverage over SOEs. These firms do not, and in many cases could not, operate without the financial sponsorship of the state. In some cases, the subsidies are stag-

gering. For example, subsidy payments to just three SOEs in Malaysia averaged four percent of GDP between 2003 and 2006 (World Bank, 2014, p.11). Much scholarly and policy research has documented the inefficiencies of state-backed firms, especially relative to private firms (e.g. Boardman and Vining, 1989; World Bank, 1995) but also the range of advantages they enjoy over private firms, including favorable taxation, subsidies, and preferential access to financing (DeWenter and Malatesta, 2001; Capobianco and Christiansen, 2011). Government bailouts of financially under-performing SOEs are commonplace in many countries. Even where state-owned firms achieve competitiveness, they owe much of their success to privileged access to capital and other regulatory benefits.

The interactions between SOEs and policymakers represent mutual dependence. Just as the bureaucratic channels linking SOEs directly to the state enhance government oversight, they also provide avenues for managers to bargain for compensation when state policy adversely impacts firm profits or operations. Indeed, SOEs enjoy higher levels of policy influence than private firms (Aisbett and McAusland, 2013; Baccini, Impullitti and Malesky, 2013). But the political influence of SOEs that may win them special deals is unlikely to be used in opposition to government directives. Given their subsidized operations and ability to negotiate for compensation, SOEs are less sensitive than non-SOEs to distributional costs arising from the manipulation of economic policies. They have less need to object to state influence that injects non-commercial criteria for business. Instead, dependence on the state requires responsiveness to government requests.

The cooperation of firms is important for two means of politicizing trade. Most directly, the firms can act as the agent of the state to shift import sourcing or cancel export contracts in response to bilateral tensions. Indirect support is also important—often governments may intervene through the actions of customs agents to delay or block import and export shipments. Such actions would normally provoke opposition from the respective domestic trading firms who suffer costs waiting for shipments. To the

extent that SOEs tolerate such inconveniences, they support the politicization of trade policy.

1.2   State-Owned Enterprises in China and India

Turning to our countries of focus—China and India—we see ample evidence of the three primary mechanisms posited to link state ownership of firms with the politicization of trade: service to policy objectives, government influence over personnel decisions, and access to state-sponsored subsidies.

In both China and India, most SOEs derive their origins from state-sponsored efforts to manage the economy and enhance social welfare. In China, SOEs were tasked with rebuilding the country's infrastructure following the Civil War and served to a large extent as the sole providers of goods, services, and jobs for the next three decades. In support of the government's effort to mitigate social unrest, SOEs were forced to maintain burdensome employment levels and offer social welfare services like schools and hospitals—requirements that persist to a more limited degree even today (Steinfeld, 2000). In India, the state-owned Food Corporation of India (FCI), for example, was established in 1965 to ensure price supports for farmers and implement the distribution and stock-piling of grains for national food security. The Indian government describes the role of state-owned enterprises (known as "public sector undertakings" (PSUs)) on its official portal as the following: "PSUs provide leverage to the Government (their controlling shareholder) to intervene in the economy directly or indirectly to achieve the desired socio-economic objectives and maximize long-term goals."[10]

SOE management is subject to close government oversight. In China, the State-Owned Assets Supervision and Administration Commission (SASAC) is charged with the appointment of the leadership of the 121 central SOEs, but the actual power to appoint managers at the largest 53 SOEs lies with the

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[10] See `http://www.india.gov.in/spotlight/spotlight_archive.php?id=78`; accessed August 20, 2012.

Central Organization Department (COD), the head of which is a member of the Politburo (Brø dsgaard, 2012). In almost all centrally-managed Chinese SOEs, senior members of the Chinese Communist Party (CCP) occupy the three top leadership positions—CEO, Chairman and Party Secretary (Pei, 2006). In a number of cases, the CEO and Party Secretary are the same person. Such close ties have led observers at the meetings of the World Economic Forum in Davos to note that "Chinese delegates from both [government and business] tend to have the same point of view, and even the same patriotic talking-points."[11] Below the central level, local equivalents of the COD and SASAC have similar influence over leadership appointments of locally-owned SOEs. Since local leaders care about promotions, they face incentives to abide by the political demands of the central government and influence the decision-making of local SOEs accordingly.[12] In India, the responsibility for managing SOEs falls with the relevant ministries, determined by industry, and the Department of Public Undertakings (DPU). The government has recently taken steps to allow some SOEs more independence in corporate decision-making, but ministries continue to control major decisions such as the appointment and removal of the CEO. Even where Boards of Directors are empowered to make strategic decisions, board members are beholden to strict guidelines set by the DPU and are frequently political insiders themselves (World Bank, 2014, p.183-184).

In both countries, SOEs are heavily subsidized by the state and receive favorable access to credit. In China, the government spent an estimated US$300 billion (in nominal dollars) on the biggest SOEs between 1985 and 2005 in the form of direct payments, cheap financing, and subsidized inputs. Between 2001 and 2011, US$28 billion flowed to the auto parts industry alone, with another US$10.9 billion promised by 2020 (Haley and Haley, 2013). Over 75 percent of the country's capital, largely provided

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[11]"The Rise of State Capitalism," *The Economist*, January 21, 2012.

[12]Shih, Adolph and Liu (2012) have shown that promotion systems are dominated by the immediate needs of the regime and its leaders rather than regional economic growth.

by state-owned banks, flows to SOEs.[13] Previous research provides direct and indirect empirical support for a bias in bank lending behavior in favor of SOEs (e.g. Wei and Wang, 1997; Lu, Zhu and Zhang, 2012; Jarreau and Poncet, 2014). In India, the government approved in 2012 an expensive bailout plan for 46 SOEs it deems "sick" (severely underperforming), which account for about 20 percent of all centrally-owned SOEs.[14] For these firms, refusing to comply with political demands could mean a reduction in financial benefits.

We hypothesize that economic statecraft is contingent on government capacity to control economic actors. Completely free markets are unlikely to show much correlation between political relations and import decisions. In free-market economies, states must adopt explicit policies to constrain markets, such as imposing legal restrictions on trade to force compliance by private actors. In contrast, where the state maintains more control over firms, politicizing imports can be a quick and informal process. For the reasons outlined above, firms owned by the state are the most likely to be responsive to government preferences. Looking within China and India, we expect to observe a stronger correlation between political relations and imports in the state-owned sector of the economy compared to the private sector.

2 Measuring State Control and Political Relations

2.1 Imports by Ownership Type: State-Owned Versus Private Enterprises

To analyze the effect of political relations on import flows as a function of state control over economic activity, we need separate data on the trading activities of the state-controlled and private sectors of the economy. For our analysis of Chinese imports, we obtained data on trade by enterprise ownership

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[13] John Lee, "China's Corporate Leninism," *The American Standard*, May/June 2012.

[14] Purba Das, "Rs 40,650 cr for sick PSUs," *The Sunday Guardian*, August 19, 2012.

type from the General Administration of Customs through Customs Info, a government-owned company licensed to distribute official customs data (`http://www.customs-info.com/`). The data include the annual value of bilateral imports by ownership category.[15] For our purposes, the relevant categories are private enterprises and SOEs. SOEs are defined as enterprises in which the government holds the majority equity share and include both centrally- and locally-owned enterprises. We are thus able to directly measure the annual value of China's imports from a partner country through state-owned firms versus private firms.

For India, we combine Prowess firm-level data from the Centre for Monitoring the Indian Economy, an Indian think-tank, and import data from UN Comtrade.[16] The Prowess database includes data on total assets, sector, and ownership type for 27,000 companies, which together comprise 75 percent of all corporate tax revenue. We define as SOEs those enterprises categorized as "Central Government," "State Government," or "Central and State Government" in Prowess.[17] Unfortunately, statistics on bilateral trade by firm ownership type are not available in Prowess. We therefore construct variables that proxy

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[15] The nine ownership categories are as follows: state-owned enterprise, sino-foreign contractual joint venture, sino-foreign equity joint venture, foreign-owned enterprise, collective enterprise, private enterprise, privately or individually-owned business, enterprise with customs declaration authority but without permission to trade, and "other." Importantly, an enterprise categorized as "private" may have the government as a minority shareholder.

[16] Trade data are accessed using the World Bank's World Integrated Trade Solution (WITS) software (`http://wits.worldbank.org`; accessed 28 October 2013; ISIC Rev. 3 classification). For details on the Prowess database, see `http://prowess.cmie.com/`; accessed April/May 2012 and November 2013.

[17] We also include in this category enterprises classified as "State and Private Sector" and "Joint Enterprises," a class of enterprises in which the state is typically the majority shareholder.

for imports through state-owned and private enterprises using the following procedure: we first calculate the share of assets held by SOEs in each sector; we then multiply the sector share by the value of imports for the sector (from UN Comtrade) for a particular bilateral trade relationship; finally, we sum the resulting values across sectors to get an estimate of the annual value of imports flowing through SOEs for the dyad. We repeat the procedure for each partner country. Private-enterprise import flows are calculated by the same method.[18]

Our procedure for the India data assumes that SOE shares in total assets are equivalent to SOE shares in trade, which is unlikely to be true in reality. The potential for over- or under-estimating trade will not affect our estimation results, however, as long as there are not systematic differences across trade partners. Moreover, we do not face this concern for the China analysis where we were able to obtain official data on bilateral trade flows disaggregated by firm ownership.

Figure 1 demonstrates the contribution of SOEs and private enterprises to Chinese and Indian imports over the sample period. The share of China's imports comprised by SOEs has fallen over the last decade with privatization, while the private sector share of trade has risen correspondingly. The decline in SOE shares has leveled off recently, and they remain substantial at about 30 percent of imports. The pattern for India has been more stable over time, and about 40 percent of imports are estimated to have been

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[18] To understand how we construct our proxies, consider imports to India from Poland. In 2000, India imported US$ 16.5 million worth of electrical machinery and apparatus from Poland (ISIC Rev.3, division 31). In this sector and year, SOEs held 12.1 percent and private enterprises held 77.4 percent of total assets. Multiplying the trade values by the asset shares, we estimate that US$2.0 million worth of imports from Poland entered India through SOEs and US$12.7 million through private enterprises. We repeat this procedure for all ISIC divisions covered and sum across sectors to obtain values for SOE and private enterprise imports.

through SOEs.[19]
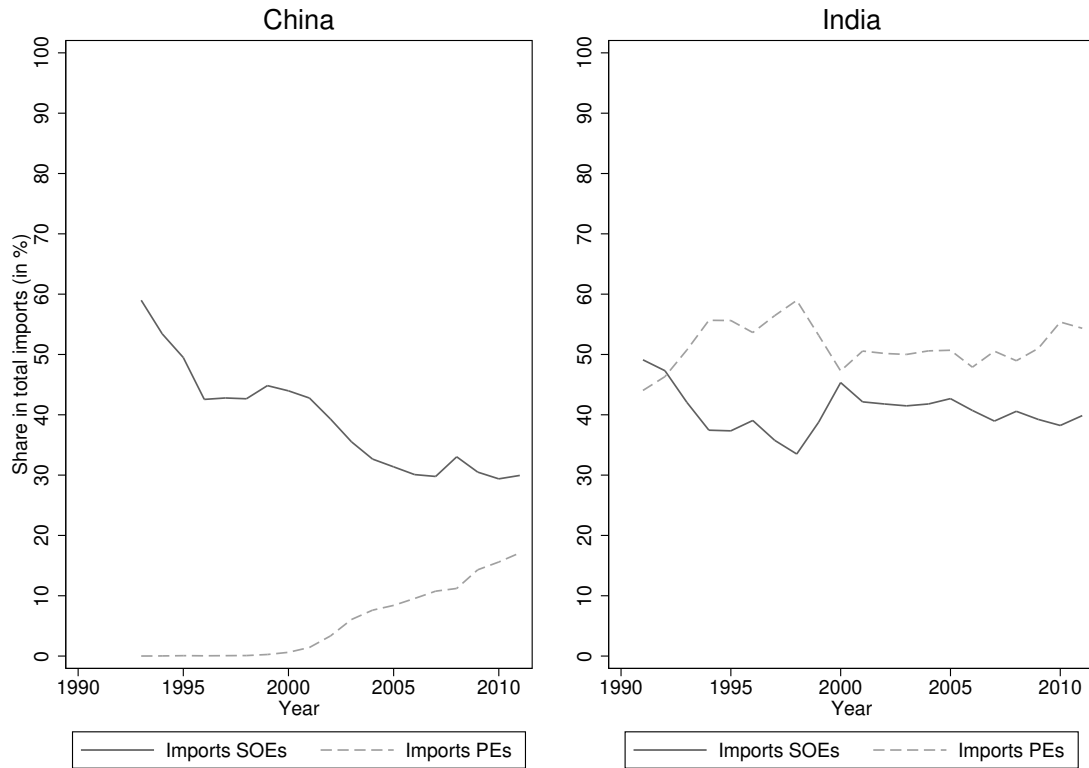
Figure 1: *Trade by Enterprise Ownership Type*: Imports of SOEs and private enterprises as a share of total imports (1991-2012; data for China begin in 1993; data for India are estimates).

One challenge to making inferences about state ownership is the strategic nature of government decisions that determine state ownership; SOE intensity is not randomly allocated across sectors. Energy and resource sectors experience the highest levels of state ownership because of their importance to both economic growth and security. The decisions about ownership reflect state priorities toward the sector in general. This mitigates the endogeneity problem for our research question because we leverage the variation in political relations with specific trading partners, which is largely independent of ownership decisions for different sectors.

[19]SOE and private-sector shares do not sum to 100 given presence of other enterprise types.

2.2 Political Relations

While bilateral trade is objectively quantifiable, political relations between countries are difficult to measure. We build on indicators common in the literature—negative political events and voting alignment in the United Nations General Assembly (UNGA)—for both China and India.[20]

Our first two measures quantify the tensions between China, India, and their trading partners using bilateral events data. We use the Global Data on Events, Location and Tone (GDELT) data from Leetaru and Schrodt (2013). The dataset, considered the most comprehensive of its kind, uses a machine coding system to classify daily reports of events from eleven global news outlets into categories of the actors involved in the event.[21] Each event is weighted by the corresponding "Goldstein score," a value between -10 and 10 that measures the expected severity, based on its type (Goldstein, 1992). For example, a use of military force would be weighted more heavily than an expulsion of another country's diplomats, but expelling diplomats would be weighted more heavily than a verbal condemnation of another country's actions. We sum the severity-weighted number of negative events to create a single annual observation and take the log to smooth the distribution.

In contrast to previous research using negative event counts (e.g. Davis and Meunier, 2011; Li and

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[20] In the robustness check section below, we also introduce a unique "China-specific" measure.

[21] The data is produced from Textual Analysis by Augmented Replacement Instructions (TABARI) system for machine coding based on pattern recognition. It has been found to be as accurate as human coders. See, for example, Best, Carpino and Crescenzi (2013). The data base has been criticized for listing events without naming actors and for its reliance on English-language media sources (Weller and McCubbins, 2014). To address the former, we exclude events with missing actors. The latter concern is mitigated by the use of country-fixed effects in our empirical analysis. We also show results with a China-specific measure of political relations in the extensions subsection.

Liang, N.d), we do not simply use the total number of events. We restrict our negative event counts to actions performed by a partner country upon China and India, respectively. This approach allows us to mitigate endogeneity concerns as these events are arguably more exogenous than actions where China (or India) itself is the sender. Specifially, our first indicator captures events involving a government (non-military) actor of a country that trades with China (or India), while the second captures events involving a military actor to determine whether militarized disputes provoke a stronger reaction than diplomatic events. This comes with the advantage that, by only using negative events that involve a government (or military) actor, we discard pure business events, such as business meetings or mergers and acquisitions, which are not exogenous to our import measure. Moreover, a second advantage is that, with this approach, we also discard negative events with a country's opposition or non-state actors such as NGOs as main actor as such events should lead to substantially smaller (or no) reactions from governments. The correlation between our two measures is 71.5 percent.[22]

Figure 2 plots the weighted number of negative events that occurred after 1990 between China (first and third panel) and India (second and fourth panel) with three major partners—the United States (left), Japan (center) and Russia (right). The events measure here is shown in its unlogged form in units of 1,000 events, and the range of the plots has been adjusted to match the observed variance by country. Prominent events that have caused bilateral tensions are visible in the data. For example, the US bombing of the Chinese embassy in Belgrade and the Hainan Island incident, during which the Chinese government detained the crew of a US Navy Intelligence plane, are reflected in the spikes in negative events in 1999

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[22]The correlation of these measures with the total event count that includes all actors is 90.8 and 81.7 percent, respectively. The correlation of this total event count based on GDELT with a total event count based on the widely-used King and Lowe (2003) data is 75.1 percent. We do not use the King and Lowe (2003) dataset because it ends in 2004 whereas GDELT extends to 2012 and is continuously updated.

and 2001 respectively. Similarly, the Japanese government's 2010 detention of a Chinese fishing vessel and its captain near the disputed Diaoyu/Senkaku Islands mentioned in the introduction is reflected in the data. Turning to India, the spikes in both government and military tensions with the U.S. in 1998, for example, correspond to the events surrounding India's nuclear weapon tests in Pokhran.

Our third relations variable measures the distance in foreign policy orientation between China or India and each partner country. Bailey, Strezhnev and Voeten (forthcoming) use UNGA voting data to construct an annual measure of each country's ideal point along a single dimension that captures its position *vis-à-vis* a "US-led liberal order." The resulting scores are differenced to obtain dyadic measures of the distance between a pair of states in terms of their foreign policy preferences. The measure uses resolutions that were identical over time to "bridge observations," allowing researchers to separate out shifts in state preferences from changes in the UN agenda and make more meaningful comparisons of state preferences over time. Measuring the gap in preferences between pairs of states by the difference in their ideal points rather than by the difference in their voting records helps to eliminate noise and facilitate better comparisons of states' relative foreign policy orientations.

Figure 2 also plots the ideal point distances between China (fifth panel) and India (sixth panel) and the U.S., Japan, and Russia. Mirroring divisions between the United States and its allies on one hand, and the rising powers on the other (see Voeten, 2000), China's and India's distance to the three partner countries looks similar at first sight. Still, there are some striking differences. For example, while the distances between China and the U.S. and China and Japan remained relatively stable from the mid-1990s through 2010, India bridged some of its distance with these countries between the mid-1990s and early 2000s. The plots also reflect the increasing proximity of both China and India with Russia. By 2010, both countries were closer to Russia than to either the U.S. or Japan.

Table 1 compares the measures of political relations by ranking the states with the most negative

relationships. China's relations are worst with the United States according to all three measures. Taiwan occupies the second spot for China in terms of both negative government events and military events but fails to appear in UNGA voting because it is not recognized as a sovereign country by the United Nations. Japan, South Korea, and Russia feature prominently on both events lists for China, while Pakistan, the U.S., Sri Lanka and China are among the countries that experienced the most negative events with India. Not surprisingly, the countries that experience the fewest events with either China or India are small, geographically distant countries that would be unlikely to have strong engagement with either country diplomatically or militarily. Thirty-nine countries were engaged in no government or military events with China over the sample period, and ninety-seven did not experience any events with India. Moving to UNGA voting, the patterns for China and India are quite similar; the same ten coutries comprise the list for both countries with slight differences in order. After the U.S., the countries with which both China and India are most distant are Israel (average score of 3.1 for China and 3.0 for India) and the UK (2.6 for China and 2.5 for India). On the flip side, China is most closely aligned with Pakistan (.20) and Nigeria (.22), while India is closest to East Timor (.19), Uganda (.19), and Ghana (.19).
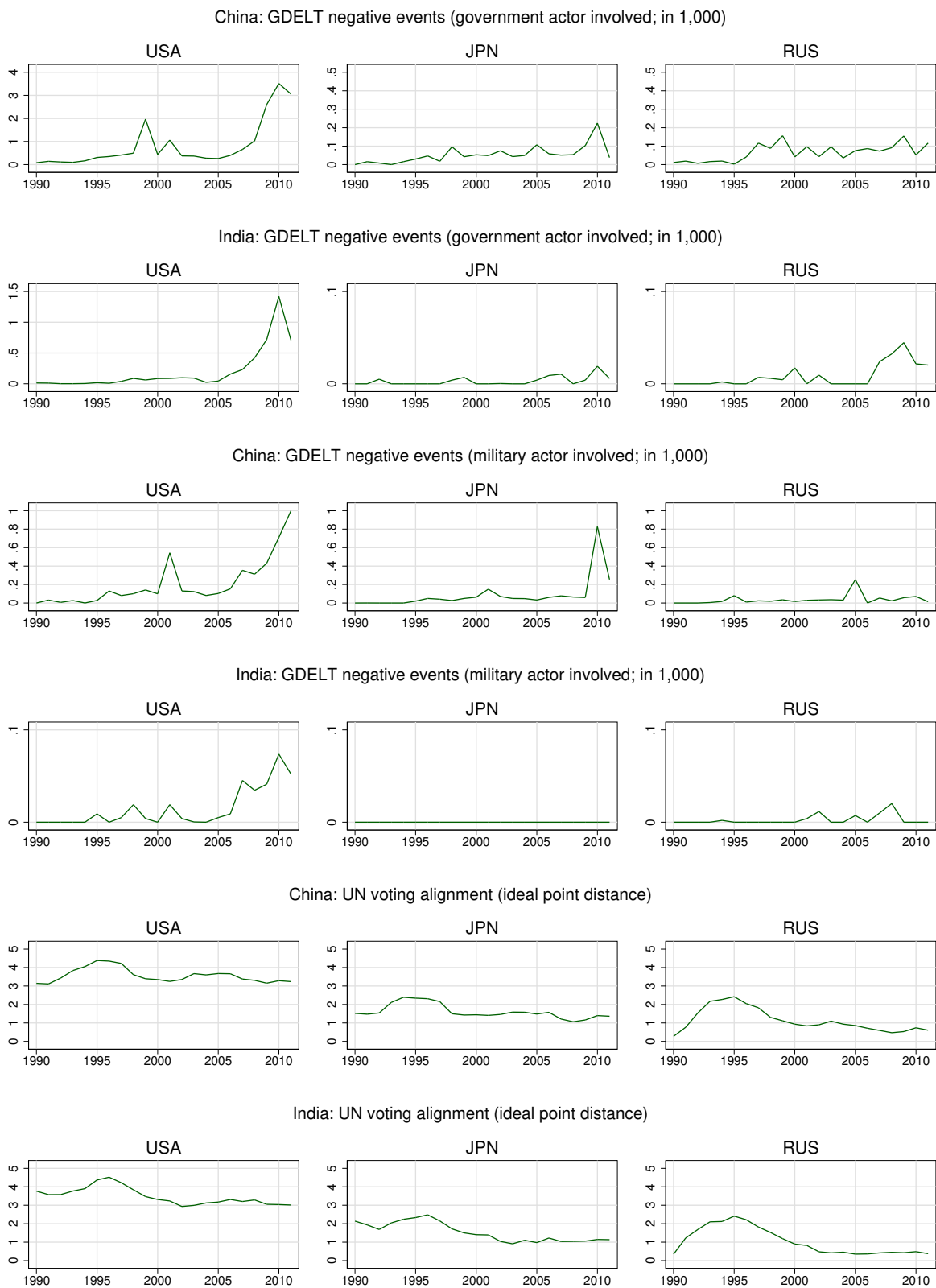
Figure 2: *Diplomatic Tensions*: Measures of political relations (1990-2011).

China: Negative events (government)		China: Negative events (military)		China: UNGA voting (ideal point distance)	
1	United States of America	1	United States of America	1	United States of America
2	Taiwan (China)	2	Taiwan (China)	2	Israel
3	Papua New Guinea	3	Japan	3	United Kingdom
4	United Kingdom	4	South Korea	4	Palau
5	Australia	5	Russia	5	Micronesia Fed States
6	South Korea	6	Philippines	6	France
7	Russia	7	Vietnam	7	Canada
8	France	8	Pakistan	8	Marshall Islands
9	India	9	Myanmar	9	Belgium
10	Philippines	10	United Kingdom	10	Netherlands

India: Negative events (government)		India: Negative events (military)		India: UNGA voting (ideal point distance)	
1	Pakistan	1	Pakistan	1	United States of America
2	United States of America	2	Sri Lanka	2	Israel
3	China	3	United States of America	3	United Kingdom
4	Venezuela	4	China	4	France
5	Sri Lanka	5	Myanmar	5	Micronesia Fed States
6	Afghanistan	6	American Samoa	6	Palau
7	United Kingdom	7	Bangladesh	7	Canada
8	Bangladesh	8	Russia	8	Marshall Islands
9	Nepal	9	Israel	9	Belgium
10	Saudi Arabia	10	United Arab Emirates	10	Netherlands

Table 1: *Bad Relations*: List of countries with the worst relations with China and India by measure of political relations (1990-2012). Note that we do not observe UN voting alignment with Taiwan (China) because it is not a member of the United Nations.

3   Empirical Analysis

To test our hypothesis, we build on the gravity model of trade, the "workhorse" of the empirical trade literature (e.g. Tinbergen, 1962; Anderson and van Wincoop, 2003). Trade flows are expected to increase with both the exporter's supply and the importer's demand of goods, proxied by exporter and importer GDP respectively, and to decrease with trade costs. Geographic distance is used as a proxy for trade costs, and additional variables, such as common language, measure friction. We model import flows controlled by state-owned enterprises (SOEs) and those controlled by private enterprises using seemingly unrelated estimations.[23]   This approach facilitates our comparison of the relationship between political relations and imports across the two categories of firm ownership.

Specifically, we estimate the following system of equations:

$$imports_{SOE,ijt} = \beta_0 + \beta_1 relations_{ijt-1} + \beta_2 GDP_{ijt-1} + \beta_3 X_{ijt-1} + \nu_j + \tau_t + \varepsilon_{ijt} \qquad (1)$$

$$imports_{private,ijt} = \tilde{\beta}_0 + \tilde{\beta}_1 relations_{ijt-1} + \tilde{\beta}_2 GDP_{ijt-1} + \tilde{\beta}_3 X_{ijt-1} + \tilde{\nu}_j + \tilde{\tau}_t + \tilde{\varepsilon}_{ijt} \qquad (2)$$

where *imports*$_{SOE}$ and *imports*$_{private}$ represent (logged) import flows between country i (China or India) and its trading partner j that are under the control of SOEs or private enterprises, *relations* represents each of our three measures of political relations, *GDP* denotes the (logged) product of exporter and importer GDP in constant 2005 US\$, X represents a vector of control variables, ν represents a set of partner-country dummies, τ represents a set of year dummies, and ε is the error term. Standard errors are clustered on partner country. To test our hypothesis, we include each measure of *relations* separately. All measures are logged.

Note that our specification is identical to an estimation of OLS equation-by-equation since both

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[23] We use the STATA command "suest" to combine estimation results.

equations use the same set of regressors. Seemingly unrelated estimations enable us to test whether the coefficients on our political relations variables differ between SOE and private-enterprise trade. We expect that political relations play a larger role in trade controlled by SOEs than in trade controlled by private enterprises. Since larger values correspond with more negative relations, our formal expectation is $\beta_1 < \tilde{\beta}_1$.

We include *GDP* from the standard gravity model with data from World Development Indicators (WDI). Because we employ partner-country fixed effects, we exclude geographic distance and other time-invariant determinants of bilateral trade flows. Within our set of control variables *X*, we first include market potential, which we proxy as the (logged) product of exporter and importer population size, with data from WDI. We also add a dummy variable that takes a value of 1 if both countries are members of the WTO for the majority of a given year (data from the WTO website). Because trade relations have been found to depend on regime type (see, for example, Mansfield, Milner and Rosendorff, 2000; Aidt and Gassebner, 2010; Manger and Pickup, 2016), we include the polity2 variable from the Polity IV Project (Marshall, Gurr and Jaggers, 2013). Polity is a 21-point index, where the largest value refers to a fully institutionalized democracy.

Finally, to mitigate endogeneity concerns, we lag all covariates by one year. Our analysis begins in 1993 for China, the first year for which Customs Info provides data by ownership type and 1991 for India, when the country entered its period of economic liberalization. All estimations extend through 2012, which is the limit of our data on trade flows by firm ownership. Table 4 in Online Appendix A lists all variables, their definitions, and their sources. Descriptive statistics appear in Table 5.

3.1 Results for Chinese Imports

Table 2 presents our results for imports to China. Each column shows the results for one of our three measures of political relations. The upper half of the table displays the results for SOE trade; the lower half shows the corresponding results for private-enterprise trade.

Beginning with column 1, the coefficient for negative government events between China and its trade partner has a significant effect to lower SOE imports. There is no significant effect on private-enterprise trade, and a Wald test (final row of Table 2) shows that the observed difference in the political relations coefficients for SOE and private trade is statistically significant at the one-percent level. Moreover, the substantive effects are large; a one-percent increase in our government events index decreases SOE imports by 0.12 percent. To give an example, Japan's retention of a Chinese fishing vessel near the Diaoyu/Senkaku Islands in 2010 registered an increase in negative events of 218 percent; our model would predict a corresponding 26.2 percent drop in SOE imports from Japan between 2010 and 2011.

In column 2, we see that negative military events produce similar adverse impact on SOE imports. A one-percent increase in military events decreases SOE imports by 0.16 percent. The coefficient on negative events is again insignificant for private enterprises. However, the corresponding Wald test does not show a statistically significant difference between SOEs and private enterprises for military events. Turning to UN voting (column 3), we again find the effect of political relations on imports to be limited to SOEs and a statistically significant difference between state and private enterprises, as shown by the Wald test. A one-percent increase in the ideal point distance between China and a given trade partner reduces SOE imports by 0.43 percent. Summing up, we find statistically significant effects of political tensions only on SOE imports. Our findings support the hypothesis that diplomatic tensions have a larger impact on imports in the state-owned sector of the economy than on private enterprises.

Turning to the control variables, a partner's population size is positive and significant at conventional

	(1)	(2)	(3)
	Imports	**Imports**	**Imports**
	Negative events	Negative events	UNGA voting
	(government)	(military)	(ideal point distance)
SOE trade			
(log) Political relations	-0.1201***	-0.1554***	-0.4294***
	(0.0400)	(0.0360)	(0.1089)
(log) GDP	1.6200*	1.6353*	1.2317
	(0.8330)	(0.8399)	(0.8718)
(log) Population	5.0671**	4.9591**	4.6810**
	(2.0410)	(2.0350)	(1.9455)
Both in WTO	0.6942	0.7260	0.6527
	(0.5784)	(0.5768)	(0.6028)
Polity	0.0285	0.0303	0.0477
	(0.0541)	(0.0541)	(0.0552)
Private enterprise trade			
(log) Political relations	0.0593	-0.1278	-0.1124
	(0.0575)	(0.0944)	(0.1344)
(log) GDP	2.0588**	2.0289**	2.3234**
	(1.0250)	(1.0273)	(1.1232)
(log) Population	3.6541**	3.6425**	3.3153*
	(1.7701)	(1.7531)	(1.7218)
Both in WTO	0.6147	0.5992	1.0065
	(1.1017)	(1.0986)	(1.1302)
Polity	-0.0589	-0.0622	-0.0683
	(0.0572)	(0.0571)	(0.0579)
Number of observations	3003	3003	2973
Wald test (p-value)	0.004	0.759	0.034

Table 2: *Imports to China (1993-2012)*: Results of a gravity model estimating the (logged) import value between China and its trading partners with partner-country and year fixed effects. Standard errors are clustered on partner country. Regressions for SOE and private-sector trade are run as seemingly unrelated estimations. *** significant at 1%; ** significant at 5%; * significant at 10%.

levels in all equations. Partner-country GDP is a robust predictor of trade through private enterprises. Polity and WTO membership do not achieve statistical significance at conventional levels in any of the models.

3.2   Results for Indian Imports

Columns 1-3 of Table 3 present our results for Indian imports. We find that negative events have a significant impact to reduce imports for both SOE and private-enterprise trade, which is significant at the one-percent level for events initiated by government and those initiated by military actors. In line with our hypothesis, the coefficients on negative events are more pronounced for SOE imports. A one-percent increase in negative government events produces a 0.41 percent decrease in imports for SOEs, while the comparable effect for negative military events is 0.54 percent. The Wald tests indicate a significant difference between SOE and private-enterprise imports for military events but not for government events. For the alternative measures of political relations, we observe a negative effect of UN ideal point distance for SOEs. In support of our hypothesis, the Wald test shows the difference in the coefficients to be statistically significant at the five-percent level. Overall, the state-owned sector of the economy appears to be more responsive to bad political relations than private companies.

Turning to the control variables, the effect of GDP is positive and significant at least at the five-percent level for both SOEs and private trade in all models. Population is also positive in all models but only achieves statistical significance in one SOE specification and only at the ten-percent level. The coefficients on WTO and polity are positive across all models for both SOEs and private enterprises but never achieve significance at conventional levels.[24]

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[24] Contrary to the fixed-effects results, the OLS models excluding country-fixed effects presented in Table 10 suggest that Indian private companies import more from WTO members.

	(1)	(2)	(3)
	Imports	**Imports**	**Imports**
	Negative events	Negative events	UNGA voting
	(government)	(military)	(ideal point distance)
SOE trade			
(log) Political relations	-0.4058***	-0.5383***	-0.2529**
	(0.0645)	(0.0859)	(0.1245)
(log) GDP	2.7808**	3.0373***	2.8118**
	(1.1265)	(1.1289)	(1.3232)
(log) Population	4.5555*	4.3917	4.2704
	(2.6542)	(2.6919)	(2.6816)
Both in WTO	0.4088	0.5317	0.6146
	(0.5797)	(0.5843)	(0.5786)
Polity	0.0302	0.0293	0.0293
	(0.0746)	(0.0761)	(0.0780)
Private enterprise trade			
(log) Political relations	-0.3906***	-0.4657***	-0.1520
	(0.0556)	(0.0865)	(0.1241)
(log) GDP	2.8516**	3.0897***	2.7590**
	(1.1743)	(1.1707)	(1.3468)
(log) Population	2.4070	2.2528	2.1433
	(2.1974)	(2.2433)	(2.2379)
Both in WTO	0.6177	0.7318	0.8827
	(0.5695)	(0.5720)	(0.5552)
Polity	0.0243	0.0245	0.0386
	(0.0718)	(0.0732)	(0.0754)
Number of observations	3179	3179	3144
Wald test (p-value)	0.623	0.014	0.046

Table 3: *Imports to India (1991-2012)*: Results of a gravity model estimating the (logged) value of imports into India from its trading partners with partner-country and year fixed effects. Standard errors are clustered on partner country. Regressions for SOE and private-sector trade are run as seemingly unrelated estimations. *** significant at 1%; ** significant at 5%; * significant at 10%.

3.3 Robustness Tests and Extensions

In this subsection, we study the robustness of our findings and discuss extensions of our analysis. Specifically, we examine the sensitivity of our results to the set of countries and years covered, analyze differences between oil states and non-oil states, introduce a Chinese measure of political relations for comparison, remove country-fixed effects, and discuss whether our findings for imports also hold for export flows.

First, we test whether our findings are driven by single countries. Removing the United States, Japan, and Pakistan—countries with which China and/or India experience a large number of negative events—as trade partners does not qualitatively change the results on Chinese and Indian imports, nor does removing any other single trade partner. Second, we test the robustness of our results with respect to the time period under analysis. The results demonstrating the impact of both negative events variables on imports are generally robust to the removal of any particular year. With respect to UN ideal point distance, the China results are only sensitive to the removal of 1995 (the Wald test does not show a significant difference between SOE versus private enterprises at conventional levels of significanc, p-value: 0.126); similarly, the impact of ideal point distance on Indian imports falls below conventional levels of significance if we remove 1994, 1999 or 2000 (p-values: 0.125, 0.142 and 0.106). Full regression results are available upon request.

Third, we explore whether political relations have differential effects on imports for oil states and non-oil states. We define oil states as those countries that show gross revenues from net oil exports that exceed ten percent of GDP in 2000 (Colgan, 2010). Including a separate coefficient for political relations with oil states allows the model to estimate distinct effects of political relations on imports conditional on whether the partner is an oil state. For China we find some evidence that SOE imports from non-oil states are more responsive to bad political relations than imports from oil states (see Table 6 for details). This

conforms to the expectation that oil-dependent economies have little choice but to continue importing from an oil-exporting country regardless of any bilateral conflicts that may arise with the state (e.g. Polachek, 1980). For India the picture is mixed and we do not observe a clear pattern for whether oil interests shape whether India is more responsive to bad political relations (Table 7). In both cases, our findings are not systematically driven by oil resources.

Fourth, for our China analysis, we employ an additional measure that captures the overall level of relations between China and twelve states from a Chinese perspective.[25] Developed by Chinese scholar Yan Xuetong and colleagues, this conflict-cooperation index is based on reports of bilateral political events from Chinese newspapers (Yan, 2010). Events—both positive and negative—are tallied on a monthly basis and weighted by the severity of the event and the overall level of relations in the previous month.[26] The final relations score is bounded between -9 and 9, and we would expect a positive effect given that larger values for this measure correspond with better political relations.[27] As can be seen from the results in Table 8 in the Online Appendix, we find a statistically significant positive effect of political relations on imports through SOEs but not through private enterprises. The insignificant

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[25] The twelve countries included in the data are Australia, France, Germany, India, Indonesia, Japan, Korea, Pakistan, Russia, US, UK, and Vietnam.

[26] The rationale behind this weighting scheme is that the effect of events should be conditional on the existing level of relations. For example, a verbal criticism probably affects the overall level of relations less between two countries already at war than between two countries with cooperative relations. The change from the previous month is added to the previous month's overall relations score to form the new overall relations score.

[27] According to the average score on Yan's scale, Pakistan was the country with the best relations in the 1990-2011 period (average score of 6.7), followed by Russia (6.3) and Germany (4.4). In line with our three measures in the main analysis, China's relations are worst with the United States (0.4).

coefficient for private imports is large, however, and the corresponding Wald test does not suggest a significant difference between state-owned and private enterprises. However, this should be interpreted with caution given that the Yan measure covers only twelve countries and small number of observations.

Fifth, we estimate models without partner-country fixed effects to analyze both the within and between variation across pooled observations. In these specifications, we add several of the standard variables usually included in gravity trade models on pooled sample of countries: (logged) bilateral distance, contiguity, common language, and landlocked (data from (Mayer and Zignago, 2011)). We address the argument that structural patterns of trade follow alliance blocs (Gowa, 1994), with an indicator for trading partners that share an alliance with the United States; given that India does not have any formal alliances of its own, and China has few, US allies proxy for where one could expect a negative security externality to suppress bilateral trade.[28]

Table 9 and Table 10 in the Online Appendix show the results of the regressions excluding partner-country fixed effects. Overall, the results are similar to those obtained using the stricter fixed-effects specifications. In most models, we find the effect of bad political relations on Chinese or Indian imports to be significantly more negative in the state-controlled sector of the economy compared to the private sector.

Finally, we examine the effects of political relations on Chinese and Indian exports rather than imports. In the mercantilist framework of most governments, limiting or seeking other sources of imports will be preferred to restricting exports. Nevertheless, we recognize that there may be some circumstances under which states would focus on exports as a tool of statecraft. For example, Russia's manipulation of

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[28] Alliance data are from the Alliance Treaty Obligations and Provisions (ATOP) project (Leeds et al., 2002). The data end in 2003; we carry forward the 2003 value to the end of our dataset under the assumption that a country's alliance portfolio does not vary much over time.

gas exports in 2006 and 2009 amidst long-standing disputes with Ukraine, China's restrictions on rare earth exports, and the West's blockade of certain technology exports for the Russian energy sector during the Ukraine crisis represent high-profile cases where dominant market position over strategic goods allowed the use of export restrictions as a tool of statecraft.

Table 11 presents our results for estimating Chinese exports with each of our four measures of political relations. We do not observe a significant effect of government events on either SOE or private-enterprise exports (column 1). Military events (column 2) and policy distance measured by UN voting (column 3) produce a negative and significant effect on both SOE and private exports. However, the impact of military events and policy distance is larger for private enterprises, which differs from our expectations. From a mercantilist perspective, the Chinese government may be more inclined to impose pressure on SOE importers than on its SOE export champions which are at the forefront of export-led development. Kastner (2007) argues that political tensions do harm trade if domestic actors that gain from trade are strong politically. Given the described linkages between SOEs and the Chinese government, this obviously holds for SOEs.

Turning to India in Table 12, we find support for the hypothesis that negative political events harm exports; the coefficients on both measures of events are negative for both SOEs and private enterprises and statistically significant at the one-percent level (columns 4 and 5). The Wald test indicates a significantly larger trade response to military tensions in the state-owned sector. This effect does not extend to ideal point distance, however (column 6). The coefficient on ideal point distance is negative, as expected, but never achieves significance for either SOEs or private enterprises. Overall, the coefficients on political relations for exports are much smaller than for imports. In sum, political relations affect India's trading patterns; the effect is more pronounced for SOEs than for private enterprises and stronger for imports.

4   Conclusion

Does globalization render economic statecraft obsolete? Our research suggests that the answer is no. Governments still aspire to use economic tools to influence international politics. Deregulation of markets, transnational production, and international trade rules have simply narrowed their capacity for action. We trace the politicization of trade directly to the role of government in the economy. The literature on interdependence, which aggregates the incentives of private actors and state intervention, has been unable to explain how the linkage between trade and foreign policy arises. We identify state control as the mechanism to explain why import decisions correlate with political relations and bring original data to test the relationship.

Where governments maintain control over the economy, trade continues to follow the flag. We argue that this is most likely to occur when the government holds an ownership stake in firms sufficient to influence their operations. We show that negative political events with a trade partner reduce imports by China and India respectively, and that the magnitude of the change is greater in the state-controlled sector of the economy compared to the private sector. More general indicators of political "closeness" between states, as measured by their UNGA voting alignment, follow a similar pattern. By showing that the relationship between foreign policy and imports is conditional on state ownership of firms, our study offers a new perspective on the debate about economic interdependence and cooperation.

The paper also addresses the political economy of state ownership. It is not surprising that state control over economic actors would shift their behavior. Yet the literature has paid insufficient attention to how state interests shape trade patterns as a function of state control. Even as market-based economic policies are the norm, many states continue to exercise (or even expand) control over selected sectors. With China's emergence as the world's second largest economy, state influence over economic actors becomes an even more important avenue of inquiry. Our findings also extend to India, suggesting that

the phenomenon is neither "China-specific" nor driven by regime type. Understanding the role of state ownership is increasingly important as the governments of a number of other emerging countries—Brazil, Indonesia, Russia, South Africa, and Venezuela among them—have reversed course and taken steps to preserve or expand the presence of state-owned enterprises in key sectors (World Bank, 2014).

Future research should address the effectiveness of these strategies. From both theoretical and policy perspectives, it is important to know whether states modify their behavior to avoid negative effects on trade flows. New studies highlight evidence that China's commercial relations enhance its foreign policy influence (Flores-Macías and Kreps, 2013; Kastner, forthcoming). At the same time, scholars have been unable to draw strong inferences about the causal effect between political relations and trade given the challenge to identify exogenous sources of variation in political relations. We circumvent this problem by comparing import flows across sectors within the same country. Outside of our proposed mechanism, improved relations would have a similar effect across sectors. In addition, since China and India have only emerged in the past decade as economic powers with markets large enough to sway other countries, there is less concern about entrenched patterns of endogenous sanctioning and cooperation. Over time, partners who trade heavily in the sectors with large shares of state ownership may experience trade punishment sufficiently often that they will begin to modify their behavior.

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A   Supporting Information (for online publication only)

Variable	Description	Source
Trade data		
(log) Imports (SOE)	(log) Imports under control of state-owned enterprises (in constant 2005 US$)	Own construction (see text)
(log) Imports (private)	(log) Imports under control of private enterprises (in constant 2005 US$)	Own construction (see text)
(log) Exports (SOE)	(log) Exports under control of state-owned enterprises (in constant 2005 US$)	Own construction (see text)
(log) Exports (private)	(log) Exports under control of private enterprises (in constant 2005 US$)	Own construction (see text)
Variables of interest		
(log) Negative events (government)	(log) Sum of the negative events weighted by Goldstein scores (government actors, in thousands), lag	GDELT (Leetaru and Schrodt, 2013)
(log) Negative events (military)	(log) Sum of the negative events weighted by Goldstein scores (military actors, in thousands), lag	GDELT (Leetaru and Schrodt, 2013)
(log) UNGA voting (ideal point distance)	(log) Distance between a pair of states' foreign policy preferences based on UNGA voting, lag	Bailey, Strezhnev and Voeten (forthcoming)
Yan index	Diplomatic relations score (+9: best relations, -9: worst relations), lag	Yan (2010)
Control variables		
(log) GDP	(log product) GDP (constant 2005 US$), lag	WDI 2013 (`data.worldbank.org`)
(log) Population	(log product) Population size, lag	WDI 2012 (`data.worldbank.org`)
Both in WTO	1 if both countries are WTO members in most of the year, lag	WTO (`www.wto.org`)
Polity	Revised Combined Polity Score (+10 (strongly democratic) to -10 (strongly autocratic), lag	Marshall, Gurr and Jaggers (2013)
(log) Distance	(log) Distance (between major cities, population-weighted, in km)	CEPII (Mayer and Zignago, 2011)
Neighbor	1 if both countries share a common border	CEPII (Mayer and Zignago, 2011)
Common language	1 if both countries share a language (>9% of the population)	CEPII (Mayer and Zignago, 2011)
Landlocked	1 if partner country is landlocked	CEPII (Mayer and Zignago, 2011)
US ally	1 if the partner country and the United States share an alliance, lag	ATOP (`atop.rice.edu`)

Table 4: *Variables and Sources*: The table lists all variables employed in the empirical analysis, their definitions and sources. Before taking logarithms, we add 0.1 events to our measures of negative event counts and 0.01 US$ to all trade values.

Variable	Obs.	Mean	Std.Dev.	Min.	Max.
Trade data					
(log) Imports (SOE)	8899	11.56	8.96	−4.61	24.39
(log) Imports (private)	8899	9.30	10.01	−4.61	24.14
(log) Exports (SOE)	8899	15.32	5.03	−4.61	24.17
(log) Exports (private)	8899	13.34	7.99	−4.61	25.14
Variables of interest					
(log) GDELT negative events (government)	8454	−8.22	2.05	−9.21	1.26
(log) GDELT negative events (military)	8454	−8.92	1.19	−9.21	−0.00
(log) UNGA voting (ideal point distance)	7766	−0.71	1.29	−10.29	1.51
Yan index	228	3.90	2.32	−2.32	8.10
Control variables					
(log) GDP	7721	51.00	2.54	43.17	59.28
(log) Population	8390	36.05	2.24	29.69	41.94
Both in WTO	9616	0.40	0.49	0.00	1.00
Polity	6657	13.02	6.66	0.00	20.00
(log) Distance	9075	8.94	0.57	7.02	9.86
Neighbor	9227	0.05	0.22	0.00	1.00
Common language	9227	0.19	0.40	0.00	1.00
Landlocked	9249	0.17	0.37	0.00	1.00
US ally	9616	0.36	0.48	0.00	1.00

Table 5: *Descriptive Statistics*: The table presents the number of observations (Obs.), the average value (Mean), the standard deviation (Std.Dev.), the minimum (Min.) and maximum (Max.) of all variables employed in the empirical analysis for the entire dataset (1991-2012).

	(1)	(2)	(3)
	Imports	**Imports**	**Imports**
	Negative events	Negative events	UNGA voting
	(government)	(military)	(ideal point distance)
SOE trade			
(log) Political relations [non-oil states]	-0.1599***	-0.1756***	-0.4163***
	(0.0419)	(0.0390)	(0.1373)
(log) Political relations [oil states]	-0.0258	-0.1057	-0.3162**
	(0.0594)	(0.0975)	(0.1594)
(log) GDP	1.7650**	1.7883**	1.4198*
	(0.8186)	(0.8261)	(0.8629)
(log) Population	5.2359**	5.1985**	4.8843**
	(2.1297)	(2.1099)	(2.0119)
Both in WTO	0.4971	0.4960	0.3853
	(0.5815)	(0.5810)	(0.6023)
Polity	0.0561	0.0571	0.0754
	(0.0492)	(0.0491)	(0.0499)
Private enterprise trade			
(log) Political relations [non-oil states]	0.0373	-0.1484	0.0079
	(0.0620)	(0.1076)	(0.1425)
(log) Political relations [oil states]	0.0104	-0.0833	-0.3393
	(0.1358)	(0.1054)	(0.2497)
(log) GDP	2.5300**	2.5134**	2.8324**
	(1.0515)	(1.0545)	(1.1375)
(log) Population	3.6225*	3.5544*	3.3762*
	(1.8535)	(1.8261)	(1.7810)
Both in WTO	-0.1670	-0.1548	0.2206
	(1.0600)	(1.0463)	(1.0785)
Polity	-0.0368	-0.0387	-0.0400
	(0.0593)	(0.0594)	(0.0607)
Wald test (p-value) [non-oil states]	0.004	0.792	0.013
Wald test (p-value) [oil states]	0.786	0.869	0.935
Number of observations	2888	2888	2858

Table 6: *Imports to China and oil states (1993-2012)*: Results of a gravity model estimating the (logged) import value between China and its trading partners with partner-country and year fixed effects. Standard errors are clustered on partner country. Regressions for SOE and private-sector trade are run as seemingly unrelated estimations. *** significant at 1%; ** significant at 5%; * significant at 10%.

	(1)	(2)	(3)
	Imports	**Imports**	**Imports**
	Negative events	Negative events	UNGA voting
	(government)	(military)	(ideal point distance)
SOE trade			
(log) Political relations [non-oil states]	-0.4377***	-0.5252***	-0.1325
	(0.0687)	(0.0862)	(0.1348)
(log) Political relations [oil states]	-0.2972*	-0.5600**	-0.9894***
	(0.1591)	(0.2834)	(0.3602)
(log) GDP	2.9344***	3.1667***	2.7271**
	(1.1113)	(1.1119)	(1.2653)
(log) Population	5.1791*	5.1401*	5.3508*
	(2.8256)	(2.8332)	(2.8599)
Both in WTO	0.1805	0.2921	0.3492
	(0.5907)	(0.5933)	(0.5808)
Polity	0.0589	0.0583	0.0621
	(0.0772)	(0.0786)	(0.0795)
Private enterprise trade			
(log) Political relations [non-oil states]	-0.4323***	-0.4745***	-0.0651
	(0.0563)	(0.0906)	(0.1414)
(log) Political relations [oil states]	-0.2337**	-0.3173	-0.6767**
	(0.1099)	(0.1978)	(0.3034)
(log) GDP	2.9935***	3.2056***	2.7178**
	(1.1597)	(1.1578)	(1.3187)
(log) Population	2.8546	2.8530	3.0115
	(2.3390)	(2.3630)	(2.3972)
Both in WTO	0.4012	0.4990	0.6336
	(0.5862)	(0.5851)	(0.5622)
Polity	0.0539	0.0535	0.0711
	(0.0739)	(0.0751)	(0.0764)
Wald test (p-value) [non-oil states]	0.884	0.082	0.196
Wald test (p-value) [oil states]	0.453	0.025	0.066
Number of observations	3062	3062	3027

Table 7: *Imports to India and oil states (1991-2012)*: Results of a gravity model estimating the (logged) value of imports into India from its trading partners with partner-country and year fixed effects. Standard errors are clustered on partner country. Regressions for SOE and private-sector trade are run as seemingly unrelated estimations. *** significant at 1%; ** significant at 5%; * significant at 10%.

	(1)
	Imports
	Yan index
SOE trade	
Political relations	0.0585**
	(0.0290)
(log) GDP	0.5319
	(0.5566)
(log) Population	3.2498**
	(1.5526)
Both in WTO	-0.3265**
	(0.1500)
Polity	-0.0030
	(0.0236)
Private enterprise trade	
Political relations	0.1150
	(0.2058)
(log) GDP	-0.3436
	(2.9933)
(log) Population	45.2565***
	(5.7960)
Both in WTO	-3.1196***
	(0.7269)
Polity	-0.3100***
	(0.0746)
Number of observations	240
Wald test (p-value)	0.778

Table 8: *Imports to China (1993-2012)*: Results of a gravity model estimating the (logged) import value between China and its trading partners with partner-country and year fixed effects. Standard errors are clustered on partner country. Regressions for SOE and private-sector trade are run as seemingly unrelated estimations. *** significant at 1%; ** significant at 5%; * significant at 10%.

	(1)	(2)	(3)
	Imports	**Imports**	**Imports**
	Negative events	Negative events	UNGA voting
	(government)	(military)	(ideal point distance)
SOE trade			
(log) Political relations	-0.0513	-0.2260**	-0.2272*
	(0.0783)	(0.1029)	(0.1359)
(log) Distance	-0.8266	-0.9161*	-0.8155*
	(0.5049)	(0.5022)	(0.4925)
(log) GDP	1.8235***	1.8314***	1.8773***
	(0.1714)	(0.1637)	(0.1699)
(log) Population	0.1396	0.1689	0.0781
	(0.2479)	(0.2510)	(0.2587)
Neighbor	1.3325	1.4912	1.1070
	(1.2640)	(1.2698)	(1.2484)
Common language	1.7455***	1.5924***	1.4744***
	(0.5148)	(0.5024)	(0.5093)
Landlocked	-0.4783	-0.5508	-0.3131
	(0.6061)	(0.6013)	(0.5990)
Both in WTO	1.7330*	1.7548*	1.6565
	(1.0320)	(1.0309)	(1.0486)
Polity	-0.1361***	-0.1338***	-0.1283**
	(0.0516)	(0.0509)	(0.0533)
US ally	0.0734	0.0503	0.1442
	(0.6247)	(0.6127)	(0.6147)
Private enterprise trade			
(log) Political relations	0.2160***	0.0755	0.0015
	(0.0644)	(0.0950)	(0.1514)
(log) Distance	-1.5605***	-1.7325***	-1.8372***
	(0.4269)	(0.4526)	(0.4450)
(log) GDP	1.6417***	1.7087***	1.7044***
	(0.1505)	(0.1528)	(0.1551)
(log) Population	-0.0538	-0.0102	0.0437
	(0.2118)	(0.2160)	(0.2193)
Neighbor	0.9967	1.1082	1.0548
	(1.0751)	(1.0871)	(1.0917)
Common language	4.9890***	5.1277***	4.9925***
	(0.6003)	(0.5984)	(0.5883)
Landlocked	-0.6018	-0.6217	-0.7088
	(0.4614)	(0.4676)	(0.4637)
Both in WTO	1.5708	1.5369	1.6438
	(0.9961)	(1.0038)	(1.0037)
Polity	-0.0018	0.0056	-0.0008
	(0.0425)	(0.0425)	(0.0430)
US ally	0.3419	0.2655	0.1964
	(0.5269)	(0.5368)	(0.5185)
Number of observations	2997	2997	2967
Wald test (p-value)	0.000	0.000	0.082

Table 9: *Pooled Analysis of Imports to China (1993-2012)*: Results of a gravity model estimating the (logged) import value between China and its trading partners with year dummies only (excluding partner FE). Regressions for SOE and private-sector trade are run as seemingly unrelated estimations. *** significant at 1%; ** significant at 5%; * significant at 10%.

	(1) **Imports** Negative events (government)	(2) **Imports** Negative events (military)	(3) **Imports** UNGA voting (ideal point distance)
SOE trade			
(log) Political relations	-0.3124***	-0.7332***	-0.3644***
	(0.0861)	(0.1518)	(0.1285)
(log) Distance	-2.1191***	-2.1423***	-2.1172***
	(0.4205)	(0.4077)	(0.4148)
(log) GDP	1.9710***	1.9251***	2.0155***
	(0.1546)	(0.1460)	(0.1572)
(log) Population	-0.1224	-0.1101	-0.2638
	(0.2002)	(0.1934)	(0.2065)
Neighbor	1.2005	1.5267	0.0452
	(1.7985)	(1.7303)	(1.8107)
Common language	0.4188	0.3872	0.1186
	(0.5892)	(0.5706)	(0.5569)
Landlocked	-1.0997*	-1.1189*	-1.0500*
	(0.6462)	(0.6359)	(0.6317)
Both in WTO	0.7083	0.8218	0.8030
	(0.6215)	(0.6077)	(0.5997)
Polity	-0.0197	-0.0204	-0.0163
	(0.0400)	(0.0391)	(0.0405)
US ally	-1.1381**	-1.0401*	-0.9979*
	(0.5737)	(0.5474)	(0.5683)
Private enterprise trade			
(log) Political relations	-0.2744***	-0.6005***	-0.2642*
	(0.0797)	(0.1485)	(0.1355)
(log) Distance	-1.9628***	-1.9770***	-1.9511***
	(0.4376)	(0.4284)	(0.4239)
(log) GDP	1.5877***	1.5465***	1.5994***
	(0.1566)	(0.1489)	(0.1652)
(log) Population	0.0528	0.0606	-0.0506
	(0.2134)	(0.2083)	(0.2183)
Neighbor	1.5514	1.7687	0.5730
	(1.7669)	(1.7265)	(1.7654)
Common language	0.4809	0.4467	0.2334
	(0.6041)	(0.5872)	(0.5826)
Landlocked	-1.3495**	-1.3597**	-1.3164**
	(0.6728)	(0.6656)	(0.6581)
Both in WTO	1.1868*	1.2819**	1.2857**
	(0.6384)	(0.6292)	(0.6244)
Polity	0.0178	0.0171	0.0192
	(0.0442)	(0.0436)	(0.0446)
US ally	-1.1435*	-1.0567*	-1.0183*
	(0.6055)	(0.5908)	(0.6089)
Number of observations	3179	3179	3144
Wald test (p-value)	0.163	0.000	0.032

Table 10: *Pooled Analysis of Trade with India (1991-2012)*: Results of a gravity model estimating the (logged) import or export value between India and its trading partners with year dummies only (excluding partner FE). Regressions for SOE and private-sector trade are run as seemingly unrelated estimations. *** significant at 1%; ** significant at 5%; * significant at 10%.

	(1)	(2)	(3)
	Exports	**Exports**	**Exports**
	Negative events	Negative events	UNGA voting
	(government)	(military)	(ideal point distance)
SOE trade			
(log) Political relations	-0.0103	-0.0354***	-0.0443*
	(0.0071)	(0.0108)	(0.0240)
(log) GDP	1.0195***	1.0184***	1.0667***
	(0.2186)	(0.2166)	(0.2321)
(log) Population	0.1954	0.1791	0.0869
	(0.4324)	(0.4286)	(0.4245)
Both in WTO	-0.3890**	-0.3862**	-0.3474*
	(0.1740)	(0.1734)	(0.1778)
Polity	0.0106	0.0105	0.0101
	(0.0107)	(0.0106)	(0.0108)
Private enterprise trade			
(log) Political relations	-0.0400	-0.1844**	-0.2447**
	(0.0501)	(0.0817)	(0.1137)
(log) GDP	2.1234***	2.1141***	2.7092***
	(0.7630)	(0.7603)	(0.7332)
(log) Population	1.2481	1.1700	0.6763
	(2.0114)	(1.9815)	(1.9133)
Both in WTO	-2.3934***	-2.3826***	-2.3171***
	(0.4802)	(0.4814)	(0.4737)
Polity	0.0983*	0.0972*	0.1026**
	(0.0531)	(0.0522)	(0.0503)
Number of observations	3003	3003	2973
Wald test (p-value)	0.544	0.054	0.061

Table 11: *Exports from China (1993-2012)*: Results of a gravity model estimating the (logged) export value between China and its trading partners with partner-country and year fixed effects. Standard errors are clustered on partner country. Regressions for SOE and private-sector trade are run as seemingly unrelated estimations. *** significant at 1%; ** significant at 5%; * significant at 10%.

	(1)	(2)	(3)
	Exports	**Exports**	**Exports**
	Negative events	Negative events	UNGA voting
	(government)	(military)	(ideal point distance)
SOE trade			
(log) Political relations	-0.1194***	-0.1420***	-0.0098
	(0.0174)	(0.0309)	(0.0247)
(log) GDP	0.8716***	0.9443***	1.0125***
	(0.2179)	(0.2191)	(0.2632)
(log) Population	-0.1993	-0.2464	-0.3271
	(0.4723)	(0.4806)	(0.4878)
Both in WTO	0.0632	0.0980	0.0712
	(0.1143)	(0.1188)	(0.1182)
Polity	-0.0058	-0.0058	-0.0019
	(0.0122)	(0.0126)	(0.0130)
Private enterprise trade			
(log) Political relations	-0.1163***	-0.1105***	-0.0000
	(0.0172)	(0.0315)	(0.0222)
(log) GDP	0.9498***	1.0160***	1.0713***
	(0.2275)	(0.2287)	(0.2743)
(log) Population	-0.2182	-0.2623	-0.3292
	(0.4692)	(0.4838)	(0.4868)
Both in WTO	0.0024	0.0341	0.0078
	(0.1104)	(0.1150)	(0.1165)
Polity	0.0008	0.0014	0.0042
	(0.0122)	(0.0128)	(0.0130)
Number of observations	3179	3179	3144
Wald test (p-value)	0.709	0.051	0.472

Table 12: *Exports from India (1991-2012)*: Results of a gravity model estimating the (logged) value of exports from India to its trading partners with partner-country and year fixed effects. Standard errors are clustered on partner country. Regressions for SOE and private-sector trade are run as seemingly unrelated estimations. *** significant at 1%; ** significant at 5%; * significant at 10%.