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Information asymmetry, east–west cultural differences, and divergence in investor reactions

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Abstract

This paper investigates the divergence in investor behaviour between the United States and China following the abolition of the Chinese presidential term limit in 2018, which may, in part, have reflected the heterogeneous opinions expressed in public online media regarding this event. Compared with Chinese investors, the sentiment among US investors was considerably more pessimistic. Accordingly, we find that Chinese companies listed in the United

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States significantly underperformed relative to a sample of propensity score-matched firms listed in China. Additionally, we find that the political connectedness of firms to the Chinese government strongly influenced the stock prices of US-listed Chinese firms.

KEYWORDS
China, equity market, political connections, presidential term limit abolition, United States

JEL CLASSIFICATION
G14, G15, G18

1 | INTRODUCTION

Because social media sites give us information that tends to confirm our view of the world—what Pariser calls 'an endless you-loop'—people live in increasingly narrow content silos and correspondingly smaller walled gardens of thought.

– Michiko Kakutani, *The Death of Truth: Notes on Falsehood in the Age of Trump*

Over the last decade, online media and social network services (SNS) have emerged as the primary channels of information distribution, rapidly replacing traditional news sources. According to a Pew Research Center (2021) survey, the proportion of Americans who obtain news from social media platforms has been increasing for a number of years, and in 2019, 55% of Americans 'often' or 'sometimes' obtained their news from social media. It is undeniable that this change has contributed to the efficiency of financial markets by allowing information-sharing to become faster and more targeted. However, there may also be disadvantages, as the use of social media as a news source can cause bias and information distortion when users over-rely on these sources (Shearer & Grieco, 2019). According to Qin et al. (2017), because of the application of customized algorithms, social media tends to tailor news feeds to each individual service user and 'locks' individuals in a loop that aligns with and reinforces their views. The use of SNS as a source of news is also a common trend in China (Xiao & Chen, 2020). Microblogging in SNS, through Weibo for example, allows news and information to be distributed at remarkable speed and with great efficiency, albeit with disadvantages similar to those described above.[1]

Therefore, views on key political events tend to differ among Chinese and US citizens, not only due to patriotism but also as a result of the information asymmetry that arises from differing media coverage of such events. Given that the social and political environment of

[1]We acknowledge the potential bias among media posts due to media censorship. Nonetheless, prior literature shows that the performance of publicly listed firms has indeed followed media sentiments (see, e.g., Piotroski et al., 2015, 2017; Wu & Tian, 2021).

China is different from that of the United States, Chinese and American perceptions of certain issues can differ significantly, particularly when there is not enough communication between the people of these two countries. Currently, the majority of US-based multinational SNS services are not available in China; at the same time, users of Chinese SNS providers are predominantly Chinese speakers, hindering access of non-Chinese speakers to Chinese SNS.

Moreover, the political rift between the United States and China has widened in recent years, as a result of the presidential term limit abolition in China and the subsequent US–Chinese trade war. Reflecting these heightened tensions, a survey from the Pew Research Center (2021) reports that the proportion of the US public with favourable views toward China decreased from 44% in 2017 to 38% in 2018, with a further decline to 26% in 2019 (see e.g., Bloomberg, 2020). Given the ongoing tensions between the two countries, our research is of timely importance. First, the findings of this study will improve our understanding of the attitudes of citizens and investors in the two countries regarding the abolition of the presidential term limit in China. This is important because the event is viewed by many as the catalyst for the increased tensions between the United States and China. Second, an improved understanding of investor reactions to controversial political events is particularly important in the current era of increased geopolitical uncertainty around the world.

We pose the following question: Do differences in political views result in different behaviours among investors in China and the United States? Specifically, we examine whether the equity market performance of Chinese firms listed in the two countries follows the predominant sentiments in those countries regarding the 2018 abolishment of the presidential term limit in China. To achieve this, we identify the predominant view in each country regarding the term limit abolition, as reflected in online SNS platforms. We then investigate how those views influenced equity market returns.

Our second research question asks whether the political connectedness of Chinese firms influences the behaviour of US investors. Specifically, for the subsample of Chinese firms listed on US stock exchanges, we examine the association between political connectedness and postevent firm performance. This allows us to determine whether events that entrench the political power of a party are viewed by foreign investors as value-enhancing for firms that are politically connected to that party. It is plausible that, in general, US investors recognize the value of political connectedness in China, and that they consider the benefits of political connections to be enhanced by the removal of the presidential term limit (and the associated increase in the economic and political power of the current president). On the other hand, given the ongoing concern over the Sino–American trade war, it is plausible that US investors take a more negative stance toward Chinese firms that have political ties to the Chinese authorities following the term limit abolition.

We address the above questions using a propensity score matching (PSM) routine and a difference-in-differences (DID) analysis. We reveal a clear association between investor reactions and opinions expressed on social media in the respective countries. Following the announcement of the removal of China's presidential term limit, the 135 Chinese firms listed on American stock exchanges significantly underperformed their PSM-matched domestically listed counterparts, reflecting a higher level of pessimism among US (as opposed to Chinese) investors towards the event. Furthermore, our results reveal that the underperformance of Chinese stocks in the US market largely stems from the poor performance of non-state-owned enterprises (NSOEs) in China without political connections, whereas politically connected Chinese firms listed in the United States did not underperform their matched counterparts in the Chinese equity market following the political event.

The contribution of this paper to the existing literature on corporate finance is threefold. First, our research enhances knowledge of investor behaviour in response to Chinese political changes by means of a cross-country comparison of the performance of Chinese firms listed in the United States and in China. In so doing, the analysis allows us to explore whether equity investors from countries with vastly different political, ideological, and economic regimes interpret a political event in the same fashion. There is a body of research that examines whether differences in investors' political ideologies affect investment decisions in the United States (see e.g., Bolton et al., 2020; Carney et al., 2008; Hong & Kostovetsky, 2012). However, these studies focus on partisan differences in relation to conservatism versus liberalism. Our study is the first to examine the effects of differences in ideology that stem from two vastly different political regimes: capitalism versus socialism. Second, our study contributes to an emerging strand of the literature focused on contemporary political events involving a nation's president or the executive branch of its government (see e.g., Acemoglu et al., 2018; Brown & Huang, 2020; Child et al., 2021; Wagner et al., 2018).[2] Third, our research relates to prior studies on the effects of cultural difference and investor sentiment on corporate finance (see, e.g., Altanlar et al., 2019; Dang et al., 2019; Knyazeva et al., 2018; Ucar, 2019; Cathcart et al., 2020; Cumming et al., 2022; Gao et al., 2021; Karampatsas et al., 2022).

The remainder of this paper is organized as follows: Section 2 provides political and economic context, while Section 3 describes our methodological approach, provides variable definitions, and outlines our analytical procedures. Section 4 presents the results and some initial interpretations. Section 5 provides a more extensive discussion, while Section 6 concludes.

2 | POLITICAL AND ECONOMIC CONTEXT

A recent political event that received considerable attention from the public in both China and the United States was the change made by the National People's Congress of China to the Chinese Constitution in 2018. The National People's Congress amended the Constitution of China to eliminate the presidential term limit. The proposal was announced on February 26, a week before the official opening of the congress. The event was remarkable, as the term limit provision had been maintained since it was legislated in 1982.

As China is the most significant trading partner of the United States, the constitutional change attracted tremendous media attention in the United States and triggered considerable public debate. According to search statistics provided by Google Trends, the number of search inquiries for keywords such as ‘term limit China’ and ‘president term China’ increased enormously around the day of the term limit abolition announcement (see Figure 1). Public

[2]Child et al. (2021) show that US firms with personal ties to former US President Trump, but without political ties, are associated with significantly higher abnormal returns around Trump's surprise victory in the 2016 US presidential election, compared to firms without such connections. Similarly, Brown and Huang (2020) provide empirical evidence that the US firms that visited former US President Obama in the White House between 2009 and 2015 are associated with higher firm value than firms that did not visit the White House during Obama's administration. In addition, Wagner et al. (2018) present empirical evidence that high-tax, as well as domestically focused firms, reacted more favourably during Trump's surprise victory in 2016 than low-tax and international-oriented firms. Furthermore, Acemoglu et al. (2018) investigate the impact of an Egyptian political event, the Arab Spring movement in 2011, and find that firms connected to the former Egyptian president, Hosni Mubarak, experienced significantly lower stock performance than nonconnected firms during the period when street protests that ousted Mubarak were taking place.

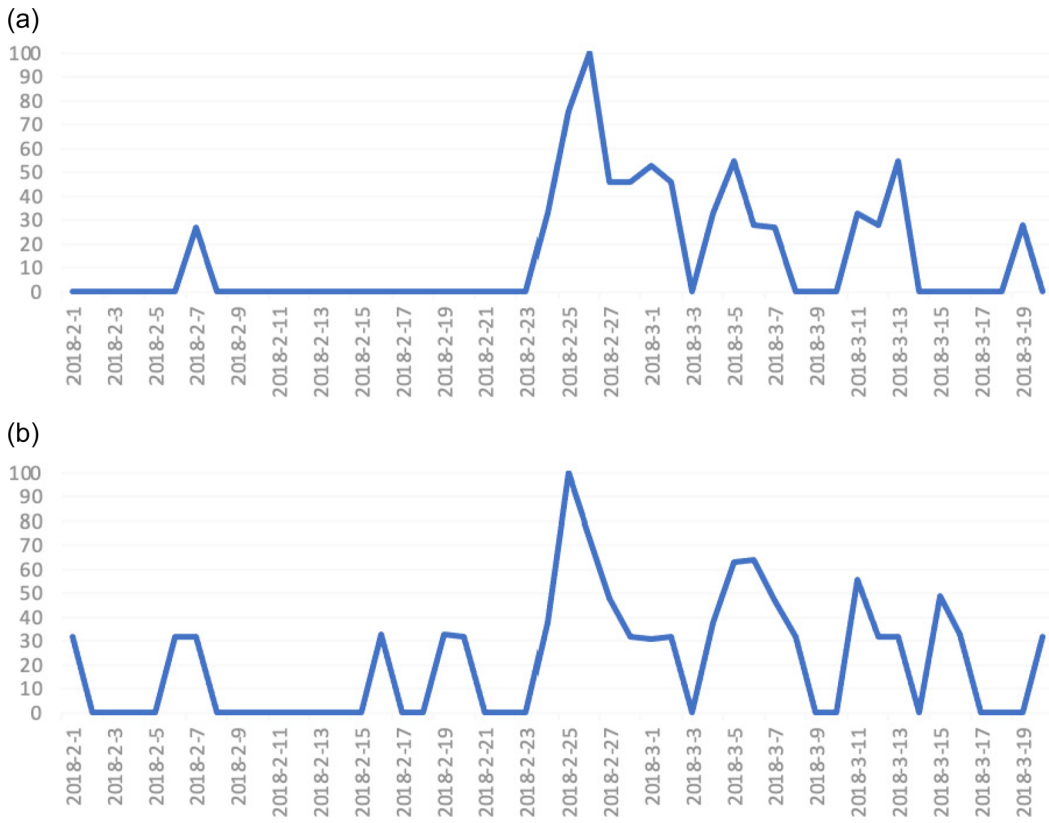

FIGURE 1 Google Trends analysis for searches related to the term limit cancellation in China. The dynamic behaviour of Google Trends (Google's analysis of the popularity of top search queries in Google Search) in the United States with regard to the presidential term limit cancellation in China between 1 February and 20 March 2018. In Panel A, we employ the key words 'term limit China' in our Google Trends analysis. In Panel B, we use the key words 'president term China'. The numbers on the *y*-axis reflect percentages relative to the highest level of daily search requests (which is indicated by the 100% peak level in both graphs).

expressions of opinion about the event differed considerably between China and the United States: China's state-owned media argued that the decision would accelerate President Xi's economic development plan, including his anticorruption policy, while major media outlets in the United States portrayed the move as a regressive step for both China's society and its economy.

US investors' concerns about China and its economy existed long before the term limit abolition. In particular, the trade war with China, initiated by the Trump administration in 2017 to mitigate the record-high trade deficit ($375 billion), dramatically increased diplomatic tensions between the two nations.[3] China's presidential term limit abolition further entrenched the negative impression of the US public about China's political system, and the divergence in political stance between the two countries subsequently increased, as demonstrated by the

[3]US Census Bureau. *Foreign Trade—US Trade with China*. Retrieved 1 August 2021, from https://www.census.gov/foreign-trade/balance/c5700.html

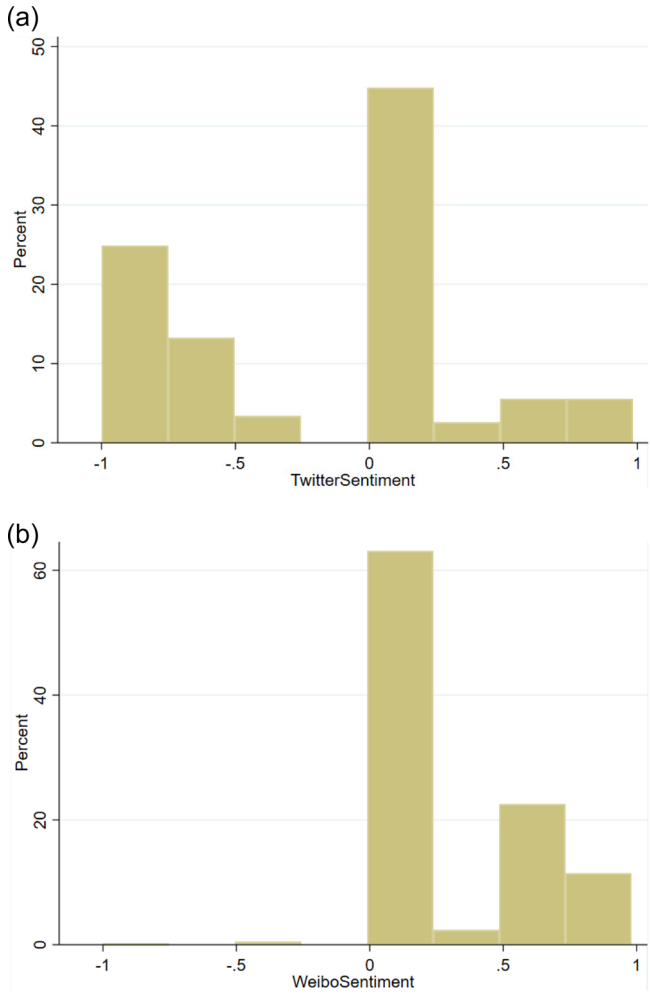

FIGURE 2 Social media sentiments in the United States and China following the term limit cancellation. The distribution of social media sentiments in the United States and China following the presidential term limit cancellation. Social media sentiments are based on the Twitter posts (tweets) of American Twitter users in the United States and social media posts on Sina Weibo (a major social media platform in China) by users in China. We collected posts from February 26 (the day of the announcement) to 20 March 2018 using the search function of each platform. The list of key words used to search included (in both English and Chinese): President Xi, Chairman Xi, term limit, China, Xi, Jinping, constitution, and constitution change, as well as combinations of these terms. We manually eliminated unrelated posts and replies that were yielded by the search engine. We then ranked the posts and replies based on the number of retweets, and kept the top 2000 items. Sentiment scores were calculated using a machine learning-based tool, the IBM natural language API (application programming interface). These scores range from −1 to 1, where a higher positive score indicates greater optimism, and negative scores denote pessimism. A score of zero is assigned if the API is unable to judge the sentiment of the post.

following analysis. We examined individual user postings at the time of the announcement in representative social media networks in the United States (Twitter) and in China (Sina Weibo, a Twitter-like Chinese SNS platform). Figure 2 presents a comparison of individuals' views about the abolition of the Chinese presidential term limit in the two countries. The bar charts for

Weibo show that almost no one expressed a pessimistic view toward China's political reform, while the Twitter data reveal that a large percentage of people viewed the event negatively.[4]

As mentioned, previous studies addressing the relationship between political events and the performance of the stock market have been largely confined to the United States (Santa-Clara & Valkanov, 2003) and have shown that, on average, the stock market performs better when a Democratic rather than a Republican president is in power. However, Oehler et al. (2013) find that the market reacts negatively both before and after the election of a Democratic government while showing mixed reactions to the election of Republican candidates. In addition, the stock market exhibits a stronger correction when there is a change in the presidency (either from a Republican to a Democratic president or vice versa) than when there is re-election or election of a president from the same party. Oehler et al. (2013) explain the latter phenomenon by arguing that a change to a president from a different party increases the likelihood of policy changes, and thus increases policy uncertainty. Goodell and Vähämaa (2013) investigate equity market uncertainty during US presidential election periods. They show that the VIX index increases in line with the probability of the eventual victory of the winner, suggesting that US presidential elections provoke anxiety in the equity market. More recently, Wagner et al. (2018) study the effect on investors of the election of Donald J. Trump as the 45th president of the United States in 2016. By tracing stock market reactions from the day before the election through President Trump's first 100 days in office, the authors find that firms that paid high taxes and those with high deferred tax liabilities outperformed the market. They further report that investors tended to downgrade companies with significant foreign exposure. The authors argue that these stock movements stem from investors' expectations of a major corporate tax cut as well as concerns about a 'trade war'. Similarly, Brown and Huang (2020) examine the impact of the 2016 US presidential election on publicly traded US firms, and find that firms with ties to the Obama administration experienced significantly poorer stock performance than other US public firms following the unexpected Trump victory.

The impact of domestic political events has also been examined for China's financial markets, using an analytical approach tailored to China's political system. Several studies have investigated the effect on the stock market of events such as changes in leadership and pivotal changes in government policies. Bin (2015) examines stock movements during crucial political events, such as the elections in Hong Kong and Taiwan, and the significant economic policy changes in China. The effects of these events are examined for three different markets in the Greater China Region: mainland China, Hong Kong, and Taiwan, each of which shows a different trend. Mainland China's stock market does not demonstrate significant gains in response to political events that are generally regarded as positive, while it suffers substantially in response to political events that generate negative public sentiment. In Hong Kong, investors appear indifferent to both negatively and positively viewed political events. Interestingly, Taiwanese investors appear to gain from all political events, irrespective of whether they are deemed positive or negative. Bin (2015) attributes these varying stock market reactions to the different political and economic systems in the three markets.

In addition to these efforts to measure the effects of political events on the Chinese equity market, numerous researchers have examined the influence of political connections

[4]It is worth noting that some of the observations indicating that American users expressed positive views are likely to have been misclassifications, due to the inability of the AI tool, IBM natural language API, to detect sarcasm.

on the performance of Chinese firms (see, e.g., Chen et al., 2008; Li et al., 2008; Schweizer et al., 2019; Sheng et al., 2018; Wu et al., 2012). However, these studies do not indicate whether foreign investors consider the political connectedness of domestically listed Chinese firms as a factor that is likely to influence equity returns, which would have an impact on their own investment decisions.[5]

In summary, previous research on the relationship between political events and market performance has been mainly confined to scenarios in which domestic investors respond to events in their own countries. Similarly, studies that examine the influence of political connectedness on the domestic performance of Chinese firms have not extended this analysis to foreign investors. Thus our study adopts a different approach and undertakes a cross-country comparison of shareholders of Chinese firms in the United States and China—countries with vastly different political and economic systems.

3 | DATA AND METHODOLOGY

Table A1 presents descriptions and sources of all variables used in our analysis. We retrieve stock price information from either the Center for Research in Security Price (CRSP) or the China Stock Market & Accounting Research (CSMAR) database. The firm-specific variables are collected from either Compustat or CSMAR.

To compare domestic and US investor trading in Chinese firms in response to the event, we analyze the stock-price performance of firms listed on the countries' respective stock exchanges in the period following the 2018 National People's Congress of China. We use three methods to calculate abnormal returns (see, e.g., Schimmer et al. 2014): a market model, the Fama French three-factor model, and the Carhart four-factor model. Since all three methods provide similar results, we report only the results for the Carhart four-factor model. We employ two proxies for market returns: the CRSP value-weighted index (for US-listed firms) and the China A-share value-weighted index (for Chinese-listed firms).

We use a PSM approach to control for the potential selection bias of firms that have specific characteristics and to allow for an 'apple-to-apple' comparison. PSM is performed on a vector of firm-specific characteristics, including equity ratio, firm size, and return on equity. We categorize our sample into four different groups of Chinese firms: Group 1 includes nonpolitically connected (NPC) firms listed on US stock exchanges; Group 2 consists of NPC firms listed on Chinese stock exchanges; Group 3 includes politically connected (PC) firms listed in the US equity market; and Group 4 comprises PC firms listed in China. After PSM, all treatment and control groups are balanced with respect to the relevant covariates.

We apply a number of regression models (described below) to the propensity score (PS) matched data to investigate differences between the abnormal returns of the identified groups. Tables 1–3 present descriptive statistics for the various treatment and control groups after performing PSM, together with the results of a series of statistical tests for differences in the dependent variable. Specifically, Table 1 compares the 135 Chinese firms listed in the United

[5]Unpublished work by Jiang et al. (2018) investigates political connectedness as an influential factor in excess returns during the political event of the Chinese presidential term limit abolition. However, their empirical analysis does not extend to online SNS as a news source, nor does it examine cross-country differences in attitude towards the event. Rather, Jiang et al. (2018) examine the different market reactions to the political event across various industries and for three different markets: mainland China, Hong Kong, and the United States.

TABLE 1 Summary statistics for all Chinese firms listed in the United States and matched firms listed in China

This table reports summary statistics and univariate analysis for our main variable of interest. We compare 135 Chinese companies listed in the United States with 135 PS-matched Chinese companies listed in China. Panel A reports aggregate statistics for the combined sample. Panel B presents the pairwise differences in means (*t* test) and medians (Wilcoxon test) for our main variable of interest: the daily cumulative abnormal returns measured over various time horizons. Panel C reports the pairwise differences in means (*t* test) and medians (Wilcoxon test) for politically connected companies, and Panel D shows the same information for nonpolitically connected companies. Table A1 provides variable definitions. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Summary statistics for the combined sample (Chinese firms listed in the United States and in China)

Variable	Mean	Median	SD	Min	Max	N
CAR (0, 0)	−0.0094	−0.0045	0.0295	−0.1600	0.0763	270
CAR (0, 2)	−0.0393	−0.0313	0.0685	−0.5655	0.1786	270
CAR (0, 4)	−0.0487	−0.0281	0.1544	−1.7898	0.2172	270
CAR (0, 6)	−0.0546	−0.0253	0.2592	−3.0783	0.6221	270
Firm size	22.4992	22.1970	2.3963	15.9958	30.7277	270
ROE	−0.0472	0.0635	1.4857	−18.5689	5.8597	270
Equity ratio	0.4414	0.4703	0.3956	−2.4832	0.9987	270

Panel B: Equality tests for the main variable of interest (abnormal returns)—135 Chinese firms listed in the United States and their PS-matched counterparts listed in China

Variable	Treatment (United States)	Control (China)	Diff. in means	Diff. in medians	*N*
CAR (0, 0)	−0.019	0.000	−0.019***	−0.010***	270
CAR (0, 2)	−0.061	−0.017	−0.044***	−0.026***	270
CAR (0, 4)	−0.074	−0.022	−0.052***	−0.016**	270
CAR (0, 6)	−0.087	−0.021	−0.066**	−0.015**	270

Panel C: Equality tests for the main variable of interest (abnormal returns)—42 politically connected Chinese firms listed in the United States and their politically connected PS-matched counterparts listed in China

Variable	PC in the United States	PC in China	Diff. in means	Diff. in medians	*N*
CAR (0, 0)	−0.006	0.004	−0.009*	−0.005*	84
CAR (0, 2)	−0.04	−0.013	−0.027***	−0.019	84
CAR (0, 4)	−0.036	−0.013	−0.022	−0.024	84
CAR (0, 6)	−0.028	−0.011	−0.016	−0.025	84

Panel D: Equality tests for the main variable of interest (abnormal returns)—93 nonpolitically connected Chinese firms listed in the United States and their nonpolitically connected PS-matched counterparts listed in China

Variable	NPC in the United States	NPC in China	Diff. in means	Diff. in medians	*N*
CAR (0, 0)	−0.024	−0.001	−0.023***	−0.018***	186
CAR (0, 2)	−0.07	−0.019	−0.052***	−0.036***	186

(Continues)

TABLE 1 (Continued)

Panel D: Equality tests for the main variable of interest (abnormal returns)—93 nonpolitically connected Chinese firms listed in the United States and their nonpolitically connected PS-matched counterparts listed in China					
Variable	**NPC in the United States**	**NPC in China**	**Diff. in means**	**Diff. in medians**	***N***
CAR (0, 4)	−0.091	−0.026	−0.065**	−0.012**	186
CAR (0, 6)	−0.114	−0.025	−0.089**	−0.012***	186

TABLE 2 Summary statistics for Chinese firms listed in the United States

This table reports the summary statistics and univariate analyses for firms listed in the United States only. We analyze 42 PC companies and 42 PS-matched NPC counterparts. Panel A reports summary statistics for the combined sample, while Panel B presents the pairwise differences in means (*t* test) and medians (Wilcoxon test) for our main variable of interest (the daily cumulative abnormal returns) between the treatment and control groups. Table A1 provides variable definitions. ***, **, and * indicate statistical significance at the 1%, 5%, and 10% levels, respectively.

Panel A: Summary statistics for the combined sample (PC and NPC firms listed in the United States)						
Variable	**Mean**	**Median**	**SD**	**Min**	**Max**	***N***
CAR (0, 0)	−0.0168	−0.0124	0.0320	−0.1019	0.0913	84
CAR (0, 2)	−0.0195	−0.0127	0.0444	−0.1662	0.0919	84
CAR (0, 4)	−0.0218	−0.0074	0.0945	−0.6152	0.1216	84
CAR (0, 6)	−0.0267	−0.0171	0.1005	−0.5654	0.1641	84
Firm size	7.4476	7.1867	1.9285	3.6266	13.0066	84
ROE	0.0276	0.0660	0.2601	−1.2652	0.4619	84
Panel B: Equality tests for the main variable of interest (abnormal returns) – 42 politically connected Chinese firms and their nonpolitically connected PS-matched counterparts, all listed in the United States						
Variable	**Treatment (PC)**	**Control (NPC)**	**Diff. in means**	**Diff. in medians**	***N***	
CAR (0, 0)	−0.012	−0.021	0.009	0.006	84	
CAR (0, 2)	−0.01	−0.029	0.018*	0.014**	84	
CAR (0, 4)	−0.002	−0.041	0.039*	0.001	84	
CAR (0, 6)	−0.008	−0.045	0.037*	0.029	84	

States with 135 matched firms listed in China (with separate panels for the 42 PC firms and the 93 NPC firms), Table 2 compares 42 politically connected firms listed in the United States with 42 matched NPC counterparts, and Table 3 compares 827 PC companies with 827 matched NPC companies, all listed in China.

TABLE 3 Cross-country analysis for the cumulative abnormal returns around the presidential term limit cancellation

This table reports the cross-country OLS regression analyses of the cumulative abnormal returns (CARs) following the announcement of the presidential term limit cancellation. The sample consists of 135 Chinese firms listed in the United States and 135 PS-matched Chinese firms listed in China. We use one-to-one nearest neighbour propensity score matching on a vector of firm-specific characteristics, without replacement, to identify matched domestically listed Chinese firms. In Panel A, the dependent variable is calculated across four different event windows: (0, 0), (0, 2), (0, 4), and (0, 6), all relative to the event date (Day 0). In Panel B, the dependent variable is the abnormal return (AR) of every day, for time ranges of (−20, 0), (−20, 2), (−20, 4), and (−20, 6). Table A1 provides definitions of all independent variables. Columns (1)–(4) present the results for the full postmatching sample. Columns (5)–(8) report the results for 84 PC firms (42 PC firms listed in the United States and 42 matched PC firms listed in China). Columns (9)–(12) provide the results for 186 NPC firms (93 NPC firms listed in the United States and 93 NPC firms listed in China). Panel A presents the cross-sectional analysis and includes industry-fixed effects, while Panel B reports the PSM-DID analysis and includes day- and firm-fixed effects. *p* values based on robust standard errors are provided in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Post-matching cross-sectional analysis

	United States listed versus China listed				**PC in the United States versus PC in China**				**NPC in the United States versus NPC in China**			
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**	**(10)**	**(11)**	**(12)**
	CAR (0, 0)	**CAR (0, 2)**	**CAR (0, 4)**	**CAR (0, 6)**	**CAR (0, 0)**	**CAR (0, 2)**	**CAR (0, 4)**	**CAR (0, 6)**	**CAR (0, 0)**	**CAR (0, 2)**	**CAR (0, 4)**	**CAR (0, 6)**
CHN_US	−0.018***	−0.044***	−0.052***	−0.065**	−0.010*	−0.031***	−0.021	−0.009	−0.023***	−0.051***	−0.065**	−0.088*
	(0.000)	(0.000)	(0.007)	(0.042)	(0.084)	(0.004)	(0.199)	(0.700)	(0.000)	(0.000)	(0.014)	(0.051)
Firm size	0.001	0.002	0.004	0.005	0.001	0.002	0.001	−0.004	−0.001	0.000	0.000	0.001
	(0.238)	(0.259)	(0.392)	(0.559)	(0.602)	(0.415)	(0.888)	(0.490)	(0.712)	(0.905)	(0.994)	(0.950)
ROE	0.004*	0.006	0.003	0.011	−0.017	−0.038	−0.035	−0.038	0.004*	0.007	0.004	0.011
	(0.054)	(0.191)	(0.763)	(0.580)	(0.215)	(0.130)	(0.375)	(0.503)	(0.053)	(0.211)	(0.786)	(0.635)
Equity ratio	−0.003	−0.003	−0.008	−0.013	0.002	0.043	0.062	0.109*	−0.002	−0.005	−0.007	−0.016
	(0.531)	(0.788)	(0.778)	(0.773)	(0.910)	(0.106)	(0.141)	(0.069)	(0.759)	(0.727)	(0.833)	(0.774)
Constant	−0.030	−0.064	−0.091	−0.101	−0.029	−0.092	−0.093	−0.075	0.015	−0.009	0.018	0.026
	(0.116)	(0.145)	(0.383)	(0.564)	(0.343)	(0.101)	(0.304)	(0.567)	(0.620)	(0.905)	(0.923)	(0.937)

(Continues)

TABLE 3 (Continued)

Panel A: Post-matching cross-sectional analysis												
	United States listed versus China listed				PC in the United States versus PC in China				NPC in the United States versus NPC in China			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	CAR (0, 0)	CAR (0, 2)	CAR (0, 4)	CAR (0, 6)	CAR (0, 0)	CAR (0, 2)	CAR (0, 4)	CAR (0, 6)	CAR (0, 0)	CAR (0, 2)	CAR (0, 4)	CAR (0, 6)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	270	270	270	270	84	84	84	84	186	186	186	186
Adjusted R^2	0.108	0.098	0.014	0.002	0.012	0.099	0.000	−0.010	0.141	0.106	0.013	0.002
Panel B: PSM-DID analysis												
	United States listed versus China listed				PC in the United States versus PC in China				NPC in the United States versus NPC in China			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	AR (D0)	AR (~D2)	AR (~D4)	AR (~D6)	AR (D0)	AR (~D2)	AR (~D4)	AR (~D6)	AR (D0)	AR (~D2)	AR (~D4)	AR (~D6)
CHN_US × Post	−0.014***	−0.010***	−0.005*	−0.004	−0.005	−0.005	0.000	0.002	−0.018***	−0.012***	−0.008*	−0.008
	(0.000)	(0.000)	(0.100)	(0.263)	(0.421)	(0.194)	(0.974)	(0.486)	(0.000)	(0.000)	(0.080)	(0.176)
Constant	−0.002***	−0.002***	−0.002***	−0.003***	−0.003***	−0.003***	−0.003***	−0.003***	−0.003***	−0.003***	−0.003***	−0.003***
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.001)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Day FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	5390	5930	6468	7008	1677	1845	2013	2181	3713	4085	4455	4827
Adjusted R^2	0.061	0.080	0.101	0.128	0.079	0.095	0.095	0.103	0.057	0.076	0.102	0.132

Our models employ three control variables: the size of the firm, the equity ratio, and the return on equity, in line with the approach of Fan et al. (2007), Gupta et al. (2009), Huang et al. (2018), and Liu et al. (2018). Accordingly, our first regression model, to examine the difference in performance between firms listed in the United States and firms listed in China following the term limit abolition, is specified as follows:

$$CAR(0, n) = \alpha + \beta * CHN\_US + \gamma * Firm\_Size + \delta * Equity\_Ratio + \mu * ROE + \varepsilon \quad (1)$$

where $CAR(0, n)$ refers to the cumulative abnormal return over the event window, defined as the period from Day 0 to Day n (where the variable n takes on different values depending on the model specification). *CHN_US* is a dummy variable that equals 1 for Chinese companies listed in the US equity markets, and 0 otherwise. We include industry-fixed effects in all models to eliminate potential unobserved industry-specific factors. Having demonstrated that US sentiments towards the political event were more pessimistic than Chinese sentiments, we expect the coefficient β to be negative.

The purpose of the second regression model is to examine the association between political connections and abnormal returns. We conduct the following cross-sectional analysis:

$$CAR(0, n) = \alpha + \beta * PC + \gamma * Firm\_Size + \delta * Equity\_Ratio + \mu * ROE + \varepsilon \quad (2)$$

where *PC* represents the political connectedness dummy, which equals 1 if the firm is either an SOE[6] or a non-SOE but with a chairperson who is currently working (or has worked) in a central or local government department, the military, the People's Congress (PC), the People's Court and Procuratorate, or the Chinese People's Political Consultative Conference (CPPCC) (Fan et al., 2007; Jiang & Kim, 2020); otherwise *PC* is set to 0. The control variables are identical to those specified in the previous model. We run this regression model for Chinese firms listed in the United States only. As explained in Section 1, we do not have any prior expectations for the sign of coefficient β, as it is possible to construct arguments for both a positive and a negative effect of political connections on abnormal returns after the term limit abolition in the eyes of foreign investors.

Although the above PSM-based analyses should provide meaningful insights, they may neglect unobservable fixed characteristics of the data (e.g., time), a well-known limitation of the PSM approach. To address this issue and exploit the time dimension of the data, we also implement two propensity score matching difference-in-difference (PSM-DID) routines, each of which includes an interaction term between the main variable of interest (either *CHN_US* or *PC*) and time. The time dummy variable, *Post*, equals 1 for all observations after the event and 0 otherwise. We employ both firm- and date-fixed effects in these models, which are specified as follows:

$$AR(-20, n) = \alpha + \beta * CHN\_US * Post + \varepsilon, \quad (3)$$

$$AR(-20, n) = \alpha + \beta * PC * Post + \varepsilon. \quad (4)$$

The dependent variable in both models is the abnormal return from 20 days before the announcement day to n days after the event. *Post* is a dummy variable that equals 1 for the

[6]In a recent survey paper, Jiang and Kim (2020) note that SOEs in China are naturally politically connected, regardless of the background of their top managers.

postevent days and 0 otherwise. We expect the coefficient for the interaction term in specification (3) to be negative, which would imply that the performance of US-listed firms (when expressed relative to the performance of Chinese-listed firms) decreases after the term limit abolition. In specification (4), which is implemented on the subset of US-listed firms only, we expect the coefficient for the interaction term to be significantly different from zero (either positive or negative), implying that, for US investors, the effect of political connectedness on abnormal returns changes as a result of the event.

4 | RESULTS

Before performing our regression analysis based on the PS-matched data, we plot the daily cumulative average abnormal returns (CAARs) for each group in a period straddling the day of the event (Figure 3).

As shown in these graphs, the trend in CAARs after the date of the presidential term limit abolition is different for each group. Equity prices for firms listed in Chinese markets do not change appreciably after the announcement of the term limit cancellation. However, for companies listed in the US market, we observe a marked drop in CAARs for firms without political connections, but little or no change for those with political connections (see Panels A, B, and C). This result implies that, for the US market, political connections play an important role in substantially reducing the perceived risk caused by this particular political reform in China.

Table 1 presents the relevant summary statistics for the performance differences between matched Chinese- and US-listed firms. The associated univariate tests provide statistically significant support (generally at the 1% level) for the differences illustrated in Figure 4, namely: (i) Chinese-listed firms, as a whole, outperform matched US-listed firms across all event windows (see Panel B); (ii) the differences between Chinese- and US-listed firms are particularly marked for firms without political connections (compare Panel C with Panel D); and (iii) for politically connected firms, the United States-Chinese differences are modest and only significant in one event window (see Panel C).

Table 2 (Panel B) compares the performance of the 42 PC firms listed in the United States with 42 matched, US-listed NPC firms.[7] In line with the trends shown in Figure 3, the 42 PC firms perform better than the 42 NPC firms in terms of their abnormal returns after the event. However, the mean differences are only significant at the 10% level and only for three of the four selected event windows.

Table 3 provides a cross-country regression analysis of the cumulative abnormal returns (CARs) during different time windows following the date of the presidential term limit cancellation. Panel A, which corresponds to the cross-sectional analysis in regression model (1), shows the results for three different samples. In the combined (full) sample, the equity market dummy, *CHN_US*, has a significant negative coefficient for all four event windows (Columns (1)–(4)). It also has a significant negative effect for NPC firms across all event windows (Columns (9)–(12)). However, the dummy variable plays a largely unremarkable role for PC firms; here, it achieves clear statistical significance in only one of the four event windows

[7]The 42 US-listed NPC firms are selected from the larger sample of 93 NPC firms. The selection process follows our previous PSM routine, that is, we match the 42 US-listed PC firms with 42 NPC firms on the same vector of firm-specific characteristics.

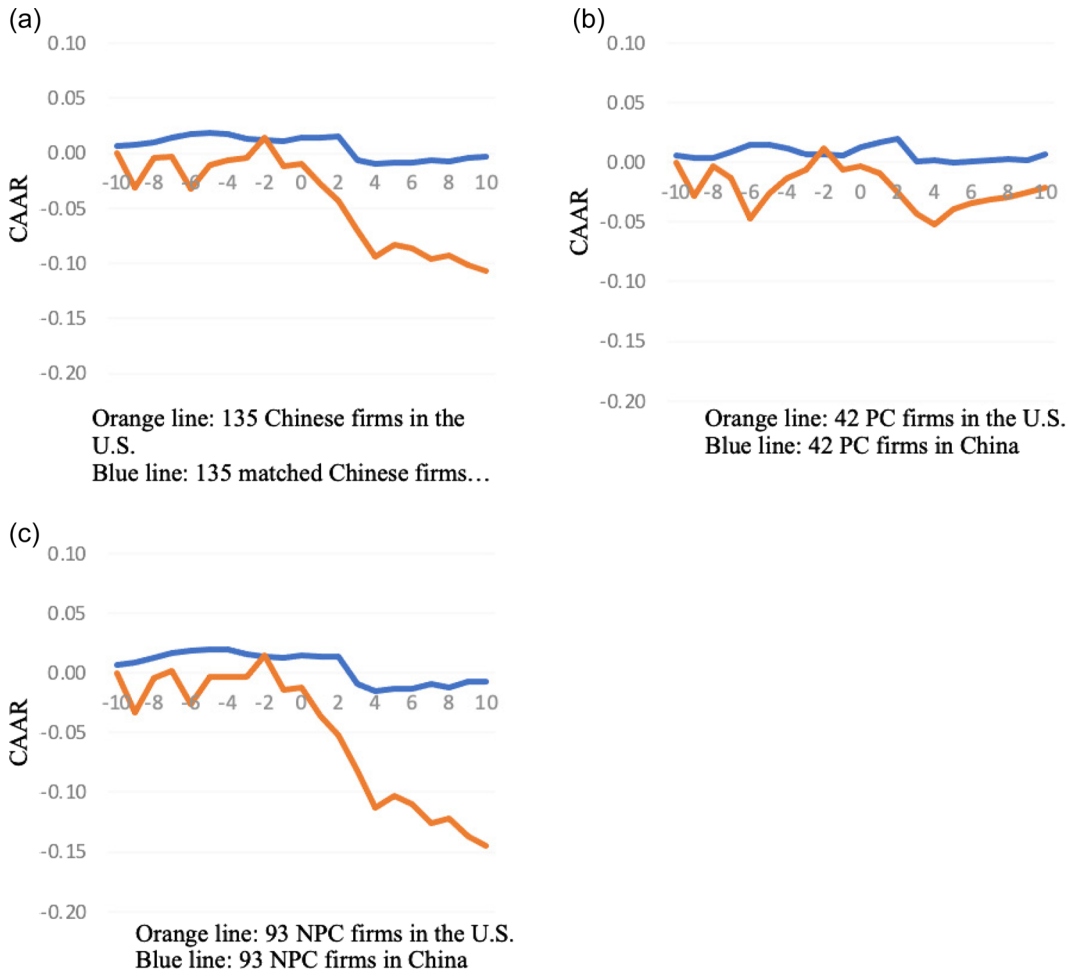

FIGURE 3 Average daily cumulative abnormal returns around the announcement date. Average daily cumulative abnormal returns in the 10 days before and after the announcement of the presidential term limit cancellation. Panel A compares 135 Chinese firms listed in the United States with 135 PS-matched Chinese firms listed in China. Panel B compares 42 politically connected firms listed on American stock exchanges with 42 PC firms listed on Chinese stock exchanges. Panel C compares 93 nonpolitically connected firms listed in the United States with 93 PS-matched NPC firms listed in China.

(Columns (5)–(8)). Therefore, while, in general, US-listed Chinese firms underperform their matched Chinese-listed counterparts following the abolition of the presidential term limit, this trend appears to be less marked for politically connected firms. Outcomes from the PSM-DID analysis (Panel B) are consistent with this pattern. The interaction term ($CHN\_US \times Post$) is negative for the full sample, implying that the negative effect of the equity market dummy observed in Panel A persists when taking account of cross-country differences that existed before the event. However, the interaction for the subsample of PC companies has a nonsignificant coefficient for all event windows (Columns (5)–(8)). This implies that the difference in performance between US-listed and Chinese-listed PC firms does not change significantly between the pre- and post-announcement periods. In other words, there is no

	Level of Interaction	
Controlled by	Low	High
Individuals	Blogs, microblogs	Social networking sites
Collective	Content communities	Wikis

Source: Table 3. Razmerita et al. (2014)

FIGURE 4 Levels of interaction and control in social media. Source: Table 3. Razmerita et al. (2014).

evidence to suggest that the abolition of the presidential term limit affected the gap between Chinese and American abnormal returns in the case of politically connected firms.

Table 4 illustrates, for the subsample of US-listed firms, the main effect of political connectedness on abnormal returns as well as the effect of the interaction between *PC* and the *Post* dummy variable. These findings were obtained using regression models (2) and (4), respectively. Panel A shows that, for CARs calculated over the event windows (0, 2), (0, 4), and (0, 6), the political connections variable is positive and significant at the 10% level. Therefore, there is some evidence to suggest that connected firms outperform unconnected firms on US stock exchanges following the term limit abolition. The PSM-DID results (Panel B) yield one significant DID estimator, corresponding to the model in which the postevent abnormal returns are calculated for the (0, 4) window. This confirms the result observed graphically in Figure 3, namely that among US-listed firms, there is a greater stock price decline following the term limit abolition for NPC firms than for PC firms.

5 | DISCUSSION

5.1 | Alternative channels through which political events may affect the equity market

Our empirical results provide firm-level evidence of a significant association between the location of the listing of Chinese firms and equity returns after the announcement of the Chinese presidential term limit cancellation. These cross-country differences in firm performance match the evidence that we gathered concerning public sentiments towards the term limit abolition expressed in online media postings within each country. That is, greater pessimism on the part of US (relative to Chinese) investors appears to be reflected in poorer performance of US-listed firms. However, the analysis presented thus far does not allow us to ascertain whether the underperformance of US-listed Chinese firms is driven by greater pessimism on the part of individual investors, institutional investors, or both. To address this issue, we investigate whether the underperformance of US-listed Chinese firms, in comparison to matched domestically listed Chinese firms, is also observed for institutional investors. This is achieved using the following model:

$$\Delta MF = \alpha + \beta_1 * CHN\_US + \varepsilon, \tag{5}$$

where ΔMF refers to changes in mutual fund shareholdings in the target companies in the first quarter of 2018 (note that the abolition announcement took place on February 26). A negative value for coefficient β_1 in Equation (5) would lend support to the notion that the underperformance of US-listed (relative to Chinese-listed) firms observed in the main analysis is partially driven by institutional investors' pessimism toward this political event.

TABLE 4 Analysis of the effect of political connections on cumulative abnormal returns (CARs) for US-listed Chinese firms

This table reports the OLS regression analyses for the CARs around the presidential term limit cancellation for a sample of 84 US-listed firms (42 PC firms and 42 matched NPC firms). To identify the 42 matched NPC firms, we use one-to-one nearest neighbour propensity score matching on a vector of firm-specific characteristics, without replacement. In Panel A, the dependent variable is calculated across four different event windows: (0, 0), (0, 2), (0, 4), and (0, 6), all relative to the event date (day 0). In Panel B, the dependent variable is the abnormal return (AR) of every day, for time ranges of (−20, 0), (−20, 2), (−20, 4), and (−20, 6). Table A1 provides definitions of all independent variables. Panel A presents the postmatching cross-sectional analysis and includes industry-fixed effects, while Panel B reports the PSM-DID analysis and includes day- and firm-fixed effects. *p* values based on robust standard errors are provided in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Postmatching cross-sectional analysis				
	(1)	**(2)**	**(3)**	**(4)**
	CAR (0, 0)	**CAR (0, 2)**	**CAR (0, 4)**	**CAR (0, 6)**
PC	0.009	0.018*	0.037*	0.039*
	(0.207)	(0.076)	(0.089)	(0.094)
Firm size	0.001	0.003	0.002	0.001
	(0.527)	(0.325)	(0.752)	(0.834)
ROE	−0.019	-0.022	−0.022	−0.035
	(0.172)	(0.263)	(0.605)	(0.431)
Equity ratio	0.018	0.030	0.001	0.033
	(0.310)	(0.221)	(0.980)	(0.560)
Constant	−0.040**	−0.064**	−0.054	−0.072
	(0.043)	(0.019)	(0.348)	(0.242)
Industry FE	Yes	Yes	Yes	Yes
N	84	84	84	84
Adjusted R^2	0.004	0.028	-0.003	−0.003
Panel B: PSM-DID analysis				
	(1)	**(2)**	**(3)**	**(4)**
	AR (~D0)	**AR (~D2)**	**AR (~D4)**	**AR (~D6)**
PC × Post	0.006	0.005	0.009**	0.004
	(0.438)	(0.120)	(0.016)	(0.180)
Constant	−0.002***	−0.002***	−0.002***	−0.002***
	(0.000)	(0.000)	(0.000)	(0.000)
Firm FE	Yes	Yes	Yes	Yes
Day FE	Yes	Yes	Yes	Yes
N	1628	1796	1964	2132
Adjusted R^2	0.050	0.060	0.069	0.070

Table 5 shows that mutual funds in the United States dispose of a significantly greater number of shares in Chinese firms than do Chinese mutual funds around the time of the term limit abolition (Column 1). However, the cross-country difference in mutual fund trading during the period under consideration is not statistically significant for Chinese firms with political connections, showing that US mutual funds have greater confidence in these firms.

5.2 | Possible influence of cultural difference

Razmerita et al. (2014) point out that one of the key functions of online social media is to leverage personal and collective knowledge processes by exploiting interactions and knowledge sharing via online platforms. The authors see the management of personal knowledge as an integral part of collective knowledge management, and regard the use of social media as a knowledge process controlled by both individuals and collectives. Figure 4 shows the classification of social media according to different types of control and different levels of interaction.

According to the analysis of Razmerita et al. (2014), online social media posts acting as news sources may involve either lower or higher levels of individual or collective interactions. For example, Wikipedia is a storehouse of collective knowledge created by the participation of multiple individuals. However, depending on the extent to which the sources have been verified and the content has been subjected to systematic fact-checking, the information

TABLE 5 Cross-country comparison of mutual fund flows around the presidential term limit cancellation

This table reports the OLS regression analyses of mutual fund flows around the presidential term limit cancellation. The sample consists of 135 Chinese firms listed in the United States and 135 PS-matched firms listed in China. We use one-to-one nearest neighbour propensity score matching on a vector of firm-specific characteristics, without replacement, to identify matched domestically-listed Chinese firms. The dependent variable is the change in mutual fund shareholdings in the target companies in the first quarter of 2018. Table A1 provides definitions of all independent variables. Column (1) presents the results for the full post-matching sample. Column (2) reports the results for 84 politically connected firms (42 PC firms listed in the United States and 42 matched PC firms listed in China). Column (3) provides the results for 186 nonpolitically connected firms (93 NPC firms listed in the United States and 93 NPC firms listed in China). Industry-fixed effects are included in all specifications. p-values based on robust standard errors are provided in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1) All Firms	(2) PC Firms	(3) NPC Firms
CHN_US	−0.123**	−0.153	−0.102**
	(0.023)	(0.291)	(0.046)
Constant	−0.014	0.325	−0.127
	(0.966)	(0.723)	(0.732)
Controls	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
N	270	84	186
Adjusted R^2	0.004	−0.048	0.005

provided by Wikipedia may be biased or distorted (see History News Network, 2016 for more details).

The classification of online news platforms shown in Figure 4 allows us to infer that the position of the dominant culture along the individualist-collectivist spectrum may play a significant role in the process of generating the aggregate knowledge of a society. This, in turn, implies that cultural differences between the United States and China might be influential in creating differences in investor behaviour. In this context, Hofstede's (1991) cultural dimension scores offer some insight into the cultural differences between the two countries (see Figure 5). Since there is evidence that some of the cultural characteristics on which China and the United States differ (e.g., individualism vs. collectivism) can significantly affect investor behaviour (Lee et al., 2019), it follows that forecasts for the equity returns of a given firm may also differ between Chinese and US investors.

5.3 | Robustness checks

In this section, we perform several robustness checks. First, we address the possibility that the underperformance of Chinese firms listed in the United States after the term limit cancellation stems from an unrelated negative performance of the US stock market during the period under consideration. If this were indeed the case, we would not expect to observe a significant difference in stock performance between Chinese firms and comparable US firms. To examine this possibility, we compare our sample of Chinese firms listed in the United States with a PS-matched sample of domestically listed US firms. We use specifications analogous to Models (1), (3), and (5). In addition, we compare US mutual fund flows in American-listed Chinese firms and domestically listed US firms. If the negative performance of Chinese firms in the United States were caused by an overall negative shock, we would not observe significant differences between the mutual fund holdings in US-listed Chinese firms and domestically listed US firms.

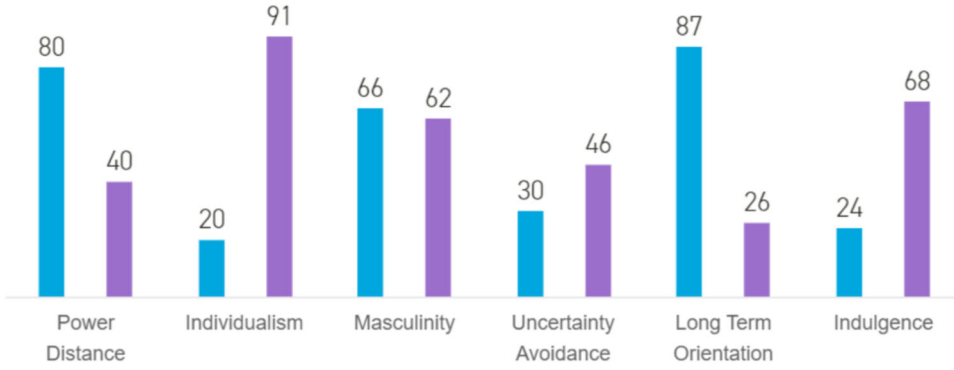

FIGURE 5 Hofstede's cultural dimension comparison: The United States vs China. This figure characterizes cultural differences between the United States (purple bars) and China (blue bars) based on the cultural dimensions proposed by Hofstede (1991). Higher scores represent a higher alignment with a given cultural characteristic. The research on cultural dimensions has been extended and updated continuously, and 76 countries were covered in the Hofstede Insights publication in 2010 (Hofstede et al., 2010). *Source*: Hofstede Insights (https://www.hofstede-insights.com/product/compare-countries/, accessed on 14 August 2021.

The results in Table 6 show that US-listed Chinese firms underperform compared to a sample of matched US firms, suggesting that the poor performance is unlikely to be caused by overall negative performance in US equity markets. In addition, Table 7 reveals that US mutual funds significantly decrease their shares in US-listed Chinese firms, compared to US mutual fund holdings in matched domestically listed US firms. Overall, we conclude that the results are robust and are unlikely to have been driven by a negative shock in the US market.

TABLE 6 CAR analysis of US-listed Chinese firms relative to domestically listed US firms

This table reports the cross-country OLS regression analysis of the cumulative abnormal returns (CARs) around the announcement of the presidential-term limit cancellation for a sample consisting of 135 Chinese firms listed in the United States and 135 PS-matched domestically listed US firms. To identify the 135 matched American firms, we use one-to-one nearest neighbour propensity score matching on a vector of firm-specific characteristics, without replacement. Table A1 provides definitions of all independent variables. Panel A presents the results of a post-matching cross-sectional analysis, and includes industry-fixed effects. Panel B reports the results of PSM-DID analysis and includes day- and firm-fixed effects. *p* Values based on robust standard errors are provided in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Post-matching cross-sectional analysis				
	(1)	**(2)**	**(3)**	**(4)**
	CAR (0, 0)	**CAR (0, 2)**	**CAR (0, 4)**	**CAR (0, 6)**
CHN_US	−0.020***	−0.020***	−0.028**	−0.039***
	(0.000)	(0.009)	(0.015)	(0.003)
Constant	0.034	−0.002	0.007	−0.000
	(0.140)	(0.957)	(0.905)	(0.998)
Controls	Yes	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes	Yes
N	270	270	270	270
Adjusted R^2	0.058	0.011	0.036	0.029
Panel B: PSM-DID analysis				
	(1)	**(2)**	**(3)**	**(4)**
	AR (~D0)	**AR (~D2)**	**AR (~D4)**	**AR (~D6)**
CHN_US × Post	−0.018***	−0.005*	−0.004*	−0.004**
	(0.000)	(0.073)	(0.059)	(0.037)
Constant	−0.001***	−0.001**	−0.001**	−0.001**
	(0.005)	(0.015)	(0.015)	(0.015)
Firm FE	Yes	Yes	Yes	Yes
Day FE	Yes	Yes	Yes	Yes
N	5396	5936	6475	7015
Adjusted R^2	0.006	0.010	0.021	0.018

TABLE 7 Mutual fund flows in US-listed Chinese firms relative to domestically listed US firms

This table reports the OLS regression analysis of mutual fund flows around the presidential term limit cancellation for a sample of 135 US-listed Chinese firms and 135 PS-matched domestically-listed US firms. To identify the 135 matched domestically listed US firms, we use one-to-one nearest neighbour propensity score matching on a vector of firm-specific characteristics, without replacement. The dependent variable is the change in mutual fund shareholdings in the first quarter of 2018. Table A1 provides definitions of all independent variables. Industry-fixed effects are included. p-values based on robust standard errors are provided in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)
CHN_US	−14.36***
	(0.002)
Constant	−141.78***
	(0.000)
Controls	Yes
Industry FE	Yes
N	270
Adjusted R^2	0.147

Next, we address the questions of (a) how long the divergence in investor reactions between the United States and China persisted following the term limit abolition and (b) whether investors anticipated the event and reacted before the announcement. To answer the above questions, we rerun the main regression analysis using alternative, longer event windows, and we report the results in Panel A of Table 8. First, we use an event window of (0, 60), which covers 2 months after the announcement date. The results in Columns (1), (4), and (7) demonstrate the long-term underperformance of Chinese firms listed in the United States following the announcement of the presidential term limit abolition. In addition, we perform placebo tests using two 'fake' event dates of 2 months before and 2 months after the true event date (i.e., December 26, 2017 and April 26, 2018, respectively). The purpose of using these 'fake' event dates is to determine whether the divergence in behaviour between the United States and Chinese investors can indeed be pinpointed to the term limit abolition and not to some other event that occurred at around the same time. Furthermore, by examining a fake event date before the true event date, allows us to determine whether investors anticipated the political event. To simulate the case of the early fake event date, we re-run the main model using a window of (−60, 0), where day 0 is the true event date (February 26, 2018). Similarly, the analysis of the late fake event date is performed by selecting an event window of (60, 120). The results of these placebo tests (see Panel A, Table 8) demonstrate that there are no statistically significant differences between the performance of US-listed and Chinese-listed firms, suggesting that investors did not react before the political event and that the divergence was not likely to be driven by other events.

Additionally, we perform PSM-DID estimation for these long event windows. The results are reported in Panel B of Table 8. Columns (1), (4) and (7) address the question of whether the divergence in investor reactions persisted for a prolonged period. The dependent variable is the abnormal return (AR) of every day using a time range of (−60, 60). Our main interest is the

TABLE 8 Cross-country analysis for the cumulative abnormal returns around the presidential term limit cancellation (long event windows)

This table reports the results of cross-country OLS regression analyses of the cumulative abnormal returns (CARs) before and following the announcement of the presidential term limit cancellation over relatively long event windows. The sample consists of 135 Chinese firms listed in the United States and 135 PS-matched Chinese firms listed in China. We use one-to-one nearest neighbour propensity score matching on a vector of firm-specific characteristics, without replacement, to identify matched domestically-listed Chinese firms. In Panel A, the dependent variable is calculated across three different event windows: (0, 60), (60, 120) and (−60, 0), all relative to the event date (Day 0). In Panel B, Columns (1), (4) and (7) represent models in which the dependent variable is the abnormal return (AR) of every day with a time range (−60, 60). The remaining columns report the results of placebo tests conducted using the PSM-DID model for time ranges of (0, 120) and (−120, 0). Table A1 provides definitions for all independent variables. Columns (1)–(3) present the results for the full post-matching sample. Columns (4)–(6) report the results for 84 PC firms (42 PC firms listed in the United States and 42 matched PC firms listed in China). Columns (7)–(9) provide the results for 186 NPC firms (93 NPC firms listed in the U.S. and 93 NPC firms listed in China). Panel A presents the cross-sectional analysis and includes industry-fixed effects, while Panel B reports the PSM-DID analysis and includes day- and firm-fixed effects. *p* values based on robust standard errors are provided in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Post-matching cross-sectional analysis

	US listed vs. China listed			**PC in the United States vs. PC in China**			**NPC in the United States vs. NPC in China**		
	(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**	**(7)**	**(8)**	**(9)**
	CAR (0, 60)	**CAR (60, 120)**	**CAR (−60, 0)**	**CAR (0, 60)**	**CAR (60, 120)**	**CAR (−60, 0)**	**CAR (0, 60)**	**CAR (60, 120)**	**CAR (−60, 0)**
CHN_US	−1.448**	−0.034	−0.029	−0.491	0.033	−0.012	−1.836**	−0.062	−0.033
	(0.028)	(0.396)	(0.504)	(0.231)	(0.490)	(0.725)	(0.050)	(0.255)	(0.588)
Firm size	0.222	0.010	−0.002	0.074	−0.001	−0.007	0.156	0.017	−0.010
	(0.209)	(0.367)	(0.835)	(0.465)	(0.941)	(0.430)	(0.621)	(0.350)	(0.634)
ROE	−0.302	−0.022	0.017	1.249	0.136	0.119	−0.300	−0.041	0.022
	(0.746)	(0.697)	(0.778)	(0.234)	(0.268)	(0.182)	(0.801)	(0.547)	(0.774)
Equity ratio	0.335	−0.005	−0.006	−0.573	−0.125	0.059	0.344	−0.003	−0.007
	(0.397)	(0.839)	(0.821)	(0.560)	(0.278)	(0.483)	(0.465)	(0.917)	(0.808)

TABLE 8 (Continued)

Panel A: Post-matching cross-sectional analysis									
	US listed vs. China listed			PC in the United States vs. PC in China			NPC in the United States vs. NPC in China		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	CAR (0, 60)	CAR (60, 120)	CAR (−60, 0)	CAR (0, 60)	CAR (60, 120)	CAR (−60, 0)	CAR (0, 60)	CAR (60, 120)	CAR (−60, 0)
Constant	−6.127	−0.307	0.005	−1.796	−0.060	0.165	−5.047	−0.462	0.129
	(0.129)	(0.211)	(0.985)	(0.485)	(0.841)	(0.453)	(0.461)	(0.244)	(0.772)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	270	270	270	84	84	84	186	186	186
Adjusted R^2	0.020	−0.001	−0.013	−0.014	−0.019	−0.031	0.022	0.010	−0.011
Panel B: PSM-DID analysis									
	U.S. listed versus China listed			PC in the U.S. versus PC in China			NPC in the U.S. versus NPC in China		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	AR (−60, 60)	AR (0, 120)	AR (−120, 0)	AR (−60, 60)	AR (0, 120)	AR (−120, 0)	AR (−60, 60)	AR (0, 120)	AR (−120, 0)
CHN_US × Post	−0.006*	0.006*	−0.001	−0.001	0.004	−0.001	−0.008*	0.007	-0.001
	(0.086)	(0.092)	(0.765)	(0.644)	(0.143)	(0.614)	(0.097)	(0.160)	(0.834)
Constant	−0.001	−0.004***	0.000	0.000	−0.001**	0.000	−0.001	−0.005***	0.000
	(0.563)	(0.000)	(0.562)	(0.764)	(0.036)	(0.619)	(0.507)	(0.000)	(0.620)
Firm FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Day FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	20,717	20,695	20,712	6,427	6,445	6,500	14,290	14,250	14,212
Adjusted R^2	0.087	0.181	−0.003	0.083	0.084	0.023	0.088	0.195	−0.004

coefficient of the interaction variable (*CHN_US* x *Post*) where *Post* is an indicator variable that takes on a value of one for Day 0 onwards and zero otherwise. The remaining columns show the results of performing PSM-DID analysis using the two 'fake' event dates stated above. These placebo tests are performed by selecting time ranges of (−120, 0) and (0, 120) to simulate the early and late fake event dates, respectively. For the (−120, 0) event window, *Post* is a dummy variable that equals one from Day −60 to Day 0 (Day −60 corresponds to the fake event date of 26 December 2017) and zero otherwise. Similarly, for the (0, 120) event window, *Post* is a dummy variable that equals one from Day 60 to Day 120 (Day 60 corresponds to the fake event date of 26 April 2018). Overall, the results of PSM-DID analysis are largely consistent with those of cross-sectional analysis, offering additional support for our hypothesis that the divergence in investor reactions between the United States and China is indeed a direct consequence of the presidential term limit abolition.

6 | CONCLUSION

The power of online media has increased dramatically as SNS platforms have become a primary source of public news. In this paper, we investigate how heterogeneous public sentiments in online media with regard to the abolition of the term limit of the Chinese president in 2018 were reflected in investor behaviour. By analyzing the performance of Chinese firms listed in both American and Chinese equity markets, we find that the term limit abolition had significantly different effects on the equity returns of Chinese firms listed in the two countries. Our findings lend support to the conjecture that news and information released through online social media platforms exert a notable influence on investor behaviour. This is likely to be the case irrespective of whether that information is factual or distorted.

Specifically, we find that US-listed Chinese firms underperformed relative to their matched Chinese-listed counterparts in the period following the abolition of the presidential term limit, suggesting that US investors adopted a more pessimistic view of the event. Such differences in perspective may reflect cultural, political, and economic dissimilarities between the equity markets of the two countries and financial communities.

In addition, our findings demonstrate that political connectedness helped mitigate possible losses for Chinese firms listed in the United States following the abolishment. Thus, US investors considered the benefits of political connections to have been enhanced by the removal of the presidential term limit, presumably due to the perceived increase in the economic and political power of the existing regime. The alternative hypothesis, that escalating tensions between the United States and China in recent years might have placed politically connected Chinese firms at a disadvantage following the reform, is not borne out by our results.

The outcomes of this study should be of considerable interest to Chinese equity investors, both in the United States and in China. More specifically, by highlighting the consequences of heterogeneous public sentiments in online news sources, this study may help mitigate some of the information asymmetry related to the term limit abolition in the global financial markets, which may have been caused by the distortion of information through online SNS platforms.

DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the corresponding authors upon reasonable request.

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APPENDIX 1

TABLE A1 Definitions and sources of variables

Variable	Definition	Source
CAR (a, b)	Cumulative abnormal return from day a to day b, calculated based on the Carhart Four Factor Model	CRSP; CSMAR: China Stock Market Research Database
CHN_US	Indicator variable that equals 1 for Chinese companies listed in the United States, and 0 otherwise	COMPUSTAT
Equity ratio	Total shareholders' equity/total assets	COMPUSTAT; CSMAR: China Stock Market Financial Statements Database
Firm size	Natural logarithm of the total assets of a firm	COMPUSTAT; CSMAR: China Stock Market Financial Statements Database
ROE	Net income scaled by total shareholders' equity	COMPUSTAT; CSMAR: China Stock Market Financial Statements Database
PC	Dummy variable that equals 1 if the Chinese firm is a state-owned enterprise (SOE) or if a non-SOE firm has a chairperson or CEO who is currently working (or has worked) in a central or local government department, the military, the People's Congress (PC), the People's Court and Procuratorate, or the Chinese People's Political Consultative Conference (CPPCC). In all other cases, the variable is set to 0.	Manually collected