The Political Economy of Tariff Exemption Grants

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Abstract

We investigate whether firm-level political connections affect the allocation of exemptions from tariffs imposed on $550 billion of Chinese goods imported to the United States annually beginning in 2018. Evidence points to politicians not only rewarding supporters, but also punishing opponents: past campaign contributions to the party controlling (in opposition to) the executive branch increase (decrease) approval likelihood. Our findings point to *quid pro quo* arrangements between politicians and firms, as opposed to the "information" channel linking political access to regulatory outcomes.

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I. Introduction

A common dictum in political science is that "free trade is often preached but rarely practiced." The theoretical work by Grossman and Helpman (1994) and the subsequent related empirical tests (Goldberg and Maggi (1999)) have shown this disconnect is largely due to the fact that governments shape trade policy not only on the basis of economic concerns, whether ideological or expressed by the general electorate, but also in reaction to pressure applied by special interest groups—just as they do in many other areas of government-business interactions (Kang (2016), Schoenherr (2019), and Brogaard, Denes, and Duchin (2021)). We empirically test whether political connections affect one specific aspect of trade policy: the granting of trade-tariff exemptions. Our findings reveal that politicians not only use exemptions to reward their supporters but also to withhold exemptions to punish supporters of their opponents. The novelty of our study lies both in documenting distortions in the largest-ever tariff exemptions program—that covering the tariffs imposed on Chinese imports beginning in 2018—but also in documenting entirely novel "retaliatory" political behavior.

Starting in July 2018, President Trump's Office of U.S. Trade Representative (USTR) began unilaterally imposing tariffs on an ever-expanding set of Chinese imported goods, which by September 2019 had grown to cover almost all $550 billion worth of annual merchandise imports under tariff at an average rate of about 20%, theoretically yielding record tariff proceeds of $110 billion annually.[1] Simultaneously with imposing the new tariffs on Chinese imports, the USTR also established a *de novo* process through which importers could apply for exemptions

[1] De Barros and Zumbrun (2019) show that far less than this, about $34 billion, was raised in the first year of the tariff regime.

from tariffs on individual products. Unlike the exemption granting process established earlier in 2018 for the steel and aluminum tariffs imposed by President Trump (Crooks and Fei (2018)), which were administered by the U.S. Department of Commerce and overseen by an Inspector General, the Chinese tariff exemption grant process was not subject to effective legislative or regulatory oversight (Rice (2019)).[2] We examine whether political connections played a significant role in the design of the tariff regime and, especially, the awarding of tariff exemptions. We document that this process worked—at least partly—as a very effective spoils system allowing the administration of the day to reward its political friends and punish its enemies.

The tariff exemption process was initiated with the stated goal "to prevent harm to American interests." As explained in Lighthizer (2018), exemption grants would be more likely if (1) implementing the tariff on a product would impose significant harm on American interests; (2) substitute products are not available in the United States or from third countries besides China; or (3) the products are not deemed to be strategically important to China. We examine empirically whether actual exemption grants are based on these stated criteria or on political connections, or both.

We manually assemble a unique dataset by merging raw data sources and correcting reporting mistakes whenever possible. Companies are defined as being politically connected if they made political action committee (PAC) contributions in the 2016 election cycle, if they

[2] We examine the 2018 steel and aluminum tariff exemption adjudication process and confirm that political contributions are unrelated to the approval rates for that tariff program. We discuss results of that analysis in section 5.C.

reported lobbying expenditures during the same timeframe, or if they hired as lobbyists individuals who, previously or subsequently, worked in the Trump administration. We use political contributions data and lobbying expenditures linked to the 2016 electoral cycle to minimize endogeneity-related issues by focusing on political connections that were in place at least two years prior to the imposition of trade tariffs on Chinese products. This reduces the impact of reverse causality between tariffs and political connections or spurious results due to omitted-variable biases (our own empirical analysis suggests that the exact nature of the tariffs was not anticipated).

Univariate analysis reveals patterns consistent with the main hypothesis that political connections affect the likelihood of tariff exemption approval. The 1,022 eventually accepted proposals in our sample originate from firms with greater campaign contributions and with greater lobbying expenditures, compared to the 5,993 eventually rejected applications. During the period we study, the executive branch is controlled by a Republican administration. Accordingly, we hypothesize that, while campaign contributions to the Republican party might increase the likelihood of approval, campaign contributions to the Democratic party might have the opposite effect. Consistent with our hypotheses, we find that accepted applications are associated with greater campaign contributions to Republican politicians and with smaller contributions to Democrats. Spending relatively more, as a fraction of firm assets, on lobbying also significantly increases the likelihood of an exemption being granted. On the other hand, we also find that applications meeting the USTR's stated criteria are more likely to receive tariff exemption grants, indicating the system, while suffering from allocative distortions, was not completely politicized.

Our main empirical tool is regression analysis. In a first specification, we use probit

models for the outcome (acceptance or rejection) of each exemption application as a function of the size of campaign contributions and lobbying expenditures of the filing firm, both scaled by the firm's total assets. We find a significant and positive association between lobbying expenditures and the likelihood of approval, suggesting that political connections do indeed increase the chance of approval. This mirrors similar findings in other lobbying studies, including Bertrand, Bombardini, and Trebbi (2014), Akey (2015), Borisov, Goldman, and Gupta (2016), and Kang (2016), but contradicts results presented in Goldberg and Maggi (1999), Ansolabehere, Figueredo, and Snyder (2003), and Ludema, Mayda, and Mishra (2018), who find that lobbying has little or no impact on actual policy-making, particularly trade policy.

The findings also confirm our hypotheses also in respect to campaign contributions: while contributions to Republican candidates increase the chance of approval, contributions to Democratic candidates reduce approval likelihood. While other studies—including Claessens, Feijen, and Laeven (2008), Cooper, Gulen, and Ovtchinnikov (2010), Akey (2015), Babenko, Fedaseyeu, and Zhang (2020)—similarly document that campaign contributions yield positive stock returns when a favored candidate wins, we are the first (to our knowledge) to document that politicians can and do punish companies for contributing to their political opponents. The economic impact is meaningful: we estimate that a one standard deviation increase in contributions to Republican (Democrat) candidates increases (decreases) the probability of approval by 3.94 (by 3.40) percentage points. Also, a one standard deviation increase in lobbying expenditures increases the probability of approval by 2.15 percentage points. These are sizeable effects, especially when considering that the unconditional probability of approval in our sample of filers is 14.6%.

To further buttress our findings, we investigate whether contributions to "influential"

politicians have a stronger impact on the likelihood of approval than contributions to the "average" politician. To that end, we identify politicians who are Senators, or, in more stringent tests, who are Senators sitting on influential committees having direct oversight of the exclusion process—the Senate Finance Committee and the Leadership Committee. The magnitude of the estimated coefficients of interest is in all cases greater than what we obtain in the "base" case, giving support to the idea that contributions to influential politicians have a stronger impact.

We recognize that political contributions are not random. Accordingly, in a series of robustness tests, we investigate possible alternative explanations for our findings, and rule those out. First, we recognize that exemptions could be driven by state-level factors, such as a desire to protect firms located in Republican-leaning states from retaliatory Chinese tariffs, or pro-trade ideology of state-level politicians. Accordingly, in a series of robustness tests, we exclude tariff exemption applications originating from the relevant states and confirm our main results. Second, we recognize that industry-level factors could play a role in tariff exemption allocations—for example, politicians might want to protect specific industries. We accordingly verify the robustness of our findings by excluding specific, relevant industries from our sample. In addition, recognizing that firms more exposed to trade tariffs might spend more on political connections and confound our main findings, we exclude "top-donor" industries from our findings, documenting robust results. Finally, recognizing that politicians might want to protect firms creating a large number of jobs, we offer a series of robustness tests controlling for the number of jobs linked to exemption applications.[3]

[3] In additional robustness tests, we show that our results are robust to (1) not scaling political expenditures by assets, (2) looking only at "concentrated" donors to mitigate collinearity

In additional analysis, we test whether ties to the Trump administration specifically, as opposed to general ties to the Republican party, have an impact on the likelihood of approval. We do so by identifying firms that hired lobbyists who are previously or subsequently employed by the Trump administration in an official government role, in the spirit of research on "revolving doors" (Blanes i Vidal, Draca, and Fons-Rosen (2012)). Our evidence supports our hypotheses, as we find that firms hiring "connected" lobbyists are indeed more likely to obtain exemptions.

We further quantify the value of an accepted tariff exemption application by analyzing the impact a grant announcement has on the valuation of the firm that filed the application. Using an event-study methodology, we find that approvals are associated with an abnormal return of approximately 55 basis points over the five-day window surrounding the announcement. That is approximately a USD 51 million increase in a median firm's market capitalization.

The analysis of abnormal stock price reactions to announcements of tariff exemption decisions allows us to further investigate whether markets correctly "price in" the higher likelihood of approval for firms with the "right" political connections. We construct our empirical test as a two-stage regression analysis. In the first stage, we estimate the *ex-ante* probability of a particular firm receiving approval, considering its campaign contributions and lobbying expenditures as well as whether it meets the stated USTR exemption criteria. In the second stage, we estimate a regression of the abnormal stock-price returns around the decision

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between campaign contributions to different parties, (3) excluding products with exemption applications submitted by multiple firms, and (4) focusing on "inconsistent" decisions when multiple companies submit exemption applications for the same product codes but obtain different outcomes.

date on this fitted probability estimate. We observe a weaker market reaction (smaller abnormal return) for firms with a higher *ex-ante* probability of approval. In subsample analysis, for a subset of approved application with an ex-ante low probability of acceptance, we find a sizable market reaction—we estimate an average abnormal return of approximately 2% over the five-day event window surrounding the approval announcement (and the estimate is highly statistically significant). In contrast, for the subsample with ex-ante high probability of acceptance, we observe a slightly negative, but not statistically significant, abnormal return estimate. In other words, the impact of political connections on the probability of approval is partially predicted by market participants.

Our findings indicate that political connections, in the form of campaign contributions and lobbying expenditures, have an impact on the likelihood of firms being approved for trade-tariff exemptions. Our analysis is novel in two main aspects. First, to our knowledge, we conduct the first empirical analysis of this novel process for awarding trade-tariff exemptions. If we take the event-study estimate of $51 million of value accruing to the median firm in our sample as representative, and considering that 1,022 applications in our sample were accepted, this constitutes an increment of approximately $57 billion to the aggregate market capitalization of applying firms.[4] Given the scale of the program, and the novel and opaque nature of its

[4] Although other studies also document a rise in stock prices for connected firms after a key personnel appointment (Acemoglu, Johnson, Kermani, Kwok, and Minton (2010)) or election of a politician with whom a company is connected politically (Knight (2007), Snowberg, Wolfers, and Zitewitz (2007), Ferguson and Voth (2008) and Child, Massoud, Schabus, and Zhou (2021)), this $57 billion aggregate market value increase is by far the largest yet documented.

implementation, we believe it is important to document whether it is being used to allocate benefits to politically connected parties. The distortions we document are sizable. In our sample, we observe 1,024 approved filings; we estimate that, in absence of political connections, the total number would have been approximately 10 percent lower, at around 930. The aggregate effects mask bigger underlying distortions, as the additional 94 approvals are a "net" figure, the difference between the number of approvals granted due to political expenditures minus the number of approvals denied due to political expenditures.

Second, we document not only that a supposedly arm's length government adjudication process has been at least partly co-opted to reward supporters, but also that this same process is being employed to punish supporters of the opposition. To our knowledge, this evidence of political retaliation is entirely novel—yet, it is increasingly relevant, given the documented rise of political polarization among US firms (Fos, Kempf, and Tsoutsoura (2021)). Accordingly, our tests offer sharp identification of political favoritism by focusing on the treatment of opposition supporters.

The resulting findings carry powerful implications for the literature on political connections and firm value. In general, a link between connections and corporate value is consistent with two channels: an "information" channel, wherein firms benefit from better regulatory outcomes because their connections lead to lower information asymmetry, and a "*quid pro quo*" channel, through which firms benefit because politicians reward them with benefits exceeding the cost of the connections they cultivate. While our findings linking lobbying expenditures with a higher probability of approval are consistent with both channels, our findings linking contributions to the party in power to a higher chance of approval, and contributions to the opposition to a lower chance, are strongly indicative of *quid pro quo* arrangements.

We further contribute to the literature on political connections by documenting that the *quid pro quo* arrangement between politicians and firms is not hidden or otherwise disguised. Market participants correctly anticipate the higher probability of approval for firms with the "correct" political connections. Regarding the large literature arguing that transparency is the best weapon against corruption, our evidence shows that the selling of political favors within the US federal government can take place in the open.

We offer an additional contribution to the literature on political contributions, which has long faced a fundamental puzzle: given the large documented returns to political connections, why do firms not invest even more to develop political connections? The fact that politicians might retaliate against supporters of the opposition highlights a risk element (backing the wrong political party might have adverse consequences for firms—and the issue is compounded by the uncertainty linked to electoral outcomes), which might justify a lower equilibrium level of political expenditures than previously understood. Finally, the threat of retaliation can also contribute to explaining the somehow puzzling finding that firms tend to contribute to both parties. This is consistent with "political hedging," as documented by Christensen et al. (2022).

II. Literature Review

A. Political connections

While there is scant research on the intersection of corporate finance and trade-tariff exemptions, our work fits within the larger literature on the financial economics of political connections. Corporate executives create political connections principally by making campaign contributions to aspiring or incumbent politicians (Cooper, Gulen, and Ovtchinnikov (2010), Akey (2015), and Brogaard et al. (2021)), by investing in lobbying activities (Yu and Yu (2011) and Borisov, Goldman, and Gupta (2016)) and by hiring former government officials or

appointing politically connected people to corporate boards (Faccio (2006), Goldman, Rocholl, and So (2009, 2013), Coates (2012), and Akey (2015)). Politicians reciprocate by funneling lucrative procurement contracts to connected firms (Borisov, Goldman, and Yuan (2016), Schoenherr (2019), Brown and Huang (2020), Brogaard et al. (2021), and Child et al. (2021)), by tilting legislation to favor connected firms' interests (Johnson and Minton (2003) and Ovtchinnikov and Pantaleoni (2012)), by channeling capital to connected firms on preferential terms (Khwaja and Mian (2005), Claessens, Feijen, and Laeven (2008), Duchin and Sosyura (2012), and Duchin and Hackney (2021)), by intervening in regulatory processes to benefit or shield companies from enforcement actions (Yu and Yu (2011), Correia (2014), Akey (2015), and Liu, Cheong, and Zurbruegg (2020)), by providing preferential access to information about upcoming regulation or other government actions (Ovtchinnikov, Reza, and Wu (2020)), by facilitating bail outs of troubled, favored companies (Faccio, Masulis, and McConnell (2006) and Duchin and Sosyura (2012)), and even by directing support of stock prices via state-owned investment vehicles and public pension funds (Bradley, Pantzalis, and Yuan (2016)). Our study is most similar in spirit to Schoenherr (2019), who similarly documents that a newly elected (Korean) president very effectively channeled state resources to politically connected firms by appointing members of his two networks as CEOs of state-owned enterprises, which then proceeded to award contracts to corporate network members on non-commercial terms. He estimates the total costs of the resulting misallocation of contracts to be 0.41% of Korea's GDP.

Recent academic research documents the global pervasiveness and economic significance of political connections, in developed and developing countries alike (Fisman (2001), Faccio (2006), and Claessens et al. (2008), Faccio and Parsley (2009), Cooper et al. (2010), and Schoenherr (2019)). Yet, the channel linking connections to firm valuations remains a point of

contention. Political connections can effectively operate through two channels. First, connected firms may be able to lower information asymmetries by sharing information with regulators (Crawford and Sobel (1982), Austen-Smith (1995), Chakraborty and Harbaugh (2010), and Bertrand, Bombardini, and Trebbi (2014)). This "information channel" is, after all, the main regulatory rationale for allowing lobbying in the first place. A second channel of impact, dubbed the "political capital hypothesis" by Akey (2015), suggests the presence of a *quid pro quo* between politicians and firms: firm value is enhanced because politicians dispense favors to connected firms in excess of the cost of maintaining such connections. Much of the literature on political connections focuses on these *quid pro quo* arrangements—yet, isolating the information channel is a persistent challenge. We investigate connections that firms create via two mechanisms: lobbying expenditures and campaign contributions. While lobbying might lead to either greater information or *quid pro quo* arrangements, regulatory outcomes swayed by campaign contributions are generally interpreted as evidence of *quid pro quo* arrangements. While a link between lobbying expenditures and the probability of exemption approval is consistent with both channels, it is difficult to explain evidence of strategic withholding of approvals within an information framework.

B. Trade-tariff exclusions

The theoretical work of Grossman and Helpman (1994) offers a model in which special-interest groups make political contributions to obtain protection from foreign competition through trade policies. Goldberg and Maggi (1999) confirm the predictions of this model within the context of nontariff barriers for the United States in 1983. A series of papers focused on the political determinants of trade protectionism includes Ray (1981), Marvel and Ray (1983), Baldwin (1989), Trefler (1993), Rodrik (1995), and Lee and Swagel (1997).

More closely related to our work, Pinsky and Tower (1995) discuss the Temporary Duty Suspension (TDS) program, which was previously used to provide tax breaks for companies by eliminating specific tariffs on a temporary basis. They point out that the process lacked transparency and lent itself to rent-seeking. Gokcekus and Barth (2007) empirically confirm their predictions. Ludema et al. (2019) focus on a legislative bargaining model in which firms influence trade policy by both verbal messages and lobbying expenditures. They document that the probability of tariff suspensions being granted decreases when other firms voice opposition, especially since the Miscellaneous Trade Bills (MTB) currently used by Congress to grant tariff exemptions or reductions for hundreds of individual products must be passed by "unanimous consent" (without a single dissenting vote). They document over 1,400 MTBs being introduced over 1999-2006, covering tariffs worth $1.6 billion.

Our work differs on several dimensions. First, the process we focus on is bespoke and does not involve any legislative votes. The differences between the processes are significant. Under either the old TDS system or the new MTB program, virtually all duty suspension applications were filed by individual firms, which were then grouped into "omnibus bills" and were voted on an aggregate basis. These Congressional votes required some degree of bipartisan support and across-the-aisle bargaining, making explicit dispensation of political favors less likely—or, at least, more difficult to identify.

The China tariff exemption process created in 2018 and entirely controlled by the executive branch, in contrast, allows for both rewarding political supporters and punishing opponents. The sheer magnitude and scale of trade-tariff exemptions has also changed. Gokcekus and Barth (2007) report that, over the six years they investigate, potential total tax savings were just over USD 1 billion—that is one-hundred times lower than the potential benefits adjudicated

within a year in connection with four rounds of tariffs on imports from China. The process we investigate is not only larger in scope, less transparent, and more prone to partisan manipulation, it also allows for sharper identification. While the MTB group applications are voted on as aggregate packages, the China tariff exemption process is at a firm-product level, leading to sharper inference.

C. The 2018 China trade tariffs

A recent stream of papers investigates the impact of the tariffs imposed by the US in 2018 and 2019 and the consequent retaliatory foreign tariffs. Amiti, Redding, and Weinstein (2019) document aggregate losses in US real income of $1.4 billion per month in 2018, driven by the negative impact on domestic consumers and importers. Fajgelbaum, Goldberg, Kennedy, and Khandelwal (2020) find that import and retaliatory tariffs caused large declines in imports and exports, ultimately resulting in losses to US consumers and importers, but gains to domestic producers; they find that the net effect is negative, with a real income loss of $7.2 billion. Importantly, they find that heavily Republican counties are the most negatively affected due to retaliatory tariffs. Consistently, Fetzer and Schwarz (2021) provide evidence that retaliatory tariffs are politically targeted. In robustness tests, we aim to show that our findings are not driven by the targeting of retaliatory tariffs, nor by the administration's attempts to protect firms from retaliatory foreign tariffs.

III. Tariffs and Exemptions

A. Trade-tariff timeline and exemption process

The combined value of merchandise trade between China and the United States reached $660 billion in 2018, by far the largest bilateral trading relationship in history. Donald Trump's election as US president in 2016 foreshadowed a dramatic change in the rules governing Sino-

American trade. Shortly after assuming office, in August 2017, President Trump officially asked the Office of the US Trade Representative (USTR) to open an "Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation Under Section 301 of the Trade Act of 1974" to determine whether China's mercantilist trade policies unfairly harmed American business interests (United States Trade Representative (2018)). The investigation's report was delivered on March 22, 2018 and concluded that Chinese policies were harming U.S. interests. This finding legally authorized the president to take retaliatory measures against Chinese companies.[5] On July 10, 2018, the Trump administration announced plans to impose "Section 301" tariffs on $34 billion of goods imported from China, with an initial average tariff rate of 25%. Three subsequent expansions of the Chinese tariff regime over the next 14 months brought imports worth $550 billion in 2018 under tariff at an average rate of about 20%, theoretically yielding tariff proceeds of $110 billion annually for as long as they remain in place. As the Chinese government retaliated with tariffs on US merchandise exports to China, within three years the USTR tariffs and the Chinese reciprocal

[5] The US executive branch has increasingly expanded its interpretation of powers delegated to it by Congress regarding trade. Presidents from both parties have used the Trade Expansion Act of 1972, the Trade Act of 1974, and other "national security" legislation to levy tariffs and to impose non-tariff entry barriers, arguing that such actions are necessary to ensure the country's security. These laws, and the powers they grant to the president, are described in Sharma (2018), Hillman (2019), and Morrison (2019). The *Economist* (March 8, 2018) notes that Article XXI of the WTO treaty explicitly allows a member nation to unilaterally impose tariffs on "national security" grounds, but no country had ever done so (through to judicial conclusion) before 2018.

tariffs had directly impacted bilateral trade worth about $2 trillion.[6]

In order to "prevent harm to American interests," US trade authorities initiated the parallel tariff exemption process described earlier. Exemption grants would be more likely if (1) implementing the tariff on a product would impose significant harm on American interests; (2) substitute products are not available in the United States or from third countries besides China; or (3) the products are not deemed to be strategically important to China (Lighthizer, 2018). The USTR identified products as "strategically important" if they are covered under the "Made in China 2025" (henceforth, "China 2025") industrial policy adopted by China in 2013, as described in Liu, Megginson and Xia (2022).[7]

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[6] While the actual impact of these tariffs is beyond the scope of our analysis, we note that recent reporting (Davis and Wei, 2022), suggests that both the US and Chinese economy were negatively affected—with the economic damage to China being three times as large as to America. The real beneficiaries have been third-party countries such as Vietnam, to which US-bound manufacturing exports were shifted.

[7] "Made in China 2025" is the Chinese government's ten-year plan to refocus China's manufacturing towards high-tech industries, with the stated goal of making China dominant in global high-tech manufacturing. The program itself utilizes government subsidies and relies heavily on state-owned enterprises. The targeted industrial sectors are vaguely defined as focusing on electric cars and other new energy vehicles, information technology and telecommunication, robotics and artificial intelligence, agricultural technology, aerospace engineering, new synthetic materials, electrical equipment, biomedicine, rail infrastructure, and maritime engineering. The program encountered increasingly strident international

While allowing firms to apply for trade exclusions is not novel, the process was implemented in a novel manner. Rather than relying on bills voted on by Congress, as has been the norm in the past, the White House implemented a review under the supervision of the USTR. Companies file requests to exclude products from tariffs. A company must submit a separate request for each product for which it is seeking an exclusion; other companies may also submit requests for the same product. Individual applications for exclusion are adjudicated solely by the USTR. If an exemption is granted, all firms importing the same product are exempt from tariffs. Exemptions are retroactive to the date the tariff was imposed and last for one year, with the possibility of then being renewed (Hufbauer and Lu (2019)).

Despite an official set of criteria for adjudication, suggesting an "arm's length" process, anecdotal evidence of political interference abounds. Brown (2019) notes that Meco, a Tennessee-based manufacturer of grills and furniture, received multiple approvals on its exemption requests after, per public filings, having spent $40,000 lobbying "the USTR on trade matters related to 'domestic charcoal grill manufacturers'." Notably, Meco's requests were approved despite the fact that the parts it was importing fell under the China 2025 program, in contrast with the stated criteria of the exclusion program. In an opinion piece published on December 28, 2020, the Editorial Board of *The Wall Street Journal* concluded that, "Some of these exclusions were granted, and many weren't. It's difficult to know if lobbying by Congress

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condemnation almost from the date it was adopted, and in 2020 the Chinese authorities changed the program's name to "Dual Currency," though its tools and goals remained largely unchanged (Ip, 2021).

made a difference, since the Trump Administration's approval process is a black box." [8]

B. Investor reactions to tariff announcements

Our empirical investigation is based on the unstated assumptions that the tariffs were material (they had an impact on firms) and not anticipated—so that firms did not build political connections in the prior years (note that our metrics of political contributions and lobbying relate to the 2016 cycle) with the intention of avoiding these tariffs. To test the validity of our assumptions, we rely on event-study methodology and test whether the stock prices of firms likely to be affected by the tariffs are affected by various announcements related to the tariff regime. If tariffs are material and unanticipated, they should impact the market value of affected firms, as the increase in costs due to import tariffs would reduce profitability and lead to lower valuations. In other words—we expect negative abnormal stock price reactions at the announcement of these tariffs.

[8] The press also reported interference by politicians lobbying on behalf of specific firms. Interventions on behalf of applicants includes those by Missouri Senator Josh Hawley (on behalf of SM Products, a textile manufacturer), White House Chief of Staff Mark Meadows (Fairfield Chair), Arizona Representative Andy Biggs (Unique Home Designs), Senator Lindsey Graham (multiple firms, including Electrolux and Z-Man), Congressman Bob Latta (Campbell Soup), Kentucky Representative Thomas Massie (Iofina Chemical), Representative Steny Hoyer (on behalf of the Congressional Fire Services Caucus, lobbying for smoke alarm exclusions), North Carolina Senator Thom Tillis (Honda's lawn mower parts), Senator Sheldon Whitehouse (BedJet), Congressman Doug Collins (Home Depot lobbying for light fixture exclusions) and Senator Patty Murray (lobbying for the exclusion of empty coffee K-cup pods).

We describe the related empirical tests and results in detail in Internet Appendix IA. Overall, our findings indicate that the tariff announcements induced a significant decline in the market capitalization of affected firms. In other words, the tariffs were material and largely unanticipated. We use 1% as a conservative estimate of the reaction at the announcement of tariffs on steel and aluminum, and list 2, 3, and 4 tariffs on China, based on the seven- and eleven-day event windows allowing for the impact of pre-announcement rumors and news leaks. Back-of-the envelope estimates indicate that, with the average market capitalization of a US publicly traded firm hovering around $7 billion, a 1% loss of market capitalization leads to a loss of $70 million for the average company.

IV. Data and descriptive statistics

We collect data on trade-tariff exclusion applications from the website of the USTR and from Regulations.gov.[9] A sample application form associated with list 1 exclusion requests is

[9] We collect data from four lists of trade tariff exemption applications:

1. List 1, covering exemption applications filed between 8/23/2018 and 11/23/2018. This lists tariffs covering $34 billion of imported goods. The total number of requests is 10,814.
2. List 2, covering exemption applications filed between 11/8/2018 to 12/26/2018. This lists tariffs covering $16 billion of imported goods. The total number of requests is 2,869.
3. List 3, covering exemption applications filed between 6/30/2019 to 8/16/2019. This lists tariffs covering $200 billion of imported goods. The total number of requests is 30,283.
4. List 4, covering exemption applications filed between 10/31/2019 to 1/31/2020. This lists tariffs covering $300 billion of imported goods. The total number of requests is 8,781.

included as Appendix Figure A1; the forms associated with subsequent lists contained essentially the same fields, with some format adjustments. We also include a sample decision letter as Appendix Figure A2. From the filed application forms, we obtain the ten-digit Harmonized Tariff Schedule (HTS) product code,[10] the name of the filer (virtually always a company), binary variables identifying the availability of substitutes in the US and the availability of substitutes in third-party countries (non-US, non-China), a binary variable identifying finished products (as opposed to raw materials, parts, and components), the date of filing, the date of decision, and the eventual decision ("accept" or "reject").

We further extract data identifying products included in the China 2025 strategic initiative, yet we note that this information is often missing, incorrect, or accompanied by notes indicating that the filer is incapable of determining whether the product falls under this designation. The application forms ask applicants whether the product itself was included in the "China 2025" program. Virtually none of the applicants answered in the affirmative, while a substantial number omitted a reply, especially for list 1 and 2 applications.[11] Given that the set of products covered by "China 2025" is loosely defined and controversial, we do not find it

[10] A Harmonized Tariff Schedule product code is a 10-digit code used to classify traded products, generally for the purpose of assessing duties and taxes, identifying products covered by trade restrictions, and for the reporting of trade statistics. It is administered by the Word Customs Organization and updated every five years.

[11] In list 1 and 2, the form asked to indicate inclusion in the China 2025 program within an open text field; in lists 3 and 4, the form was redesigned to include a checkbox with a binary choice for this item.

surprising that many firms were unable to answer. Our concerns are amplified by the fact that a free-text note field (allowing filers to add comments to this item on the form) we examined for a subset of the data revealed that many of the replies indicated that the filer either was not familiar with the China 2025 program itself or misunderstood the question. Accordingly, we chose to rely instead on a list of products that are identified as being included in the China 2025 program, published by *The Guardian.* That is, we construct a binary variable, *China 2025*, set equal to one if the product is included in the list published by the Guardian.[12] Given the lack of clarity and the absence of an official list of products covered by China 2025, in untabulated robustness tests we rely on an additional list of products we obtain from *Business Insider* and obtain similar results—that is, whether we define the *China 2025* dummy variable on the basis of the Guardian or Business Insider lists does not significantly affect the magnitude or significance levels of the main coefficients of interest in Tables 3, 4, and 5.[13]

For exemption applications in lists 1 and 2, we obtain the forms filled out by the filers in PDF format, and then extract data manually. For lists 3 and 4, the data is accessed via HTML forms available via the website Regulations.gov. The total number of applications across all four lists is 52,747. We manually match filer names from the USTR data to firm names in Compustat. We only keep applications with complete sponsor-level data; accordingly, our empirical analysis is restricted to applications by publicly traded firms (or by their subsidiaries) that appear in Compustat.

[12] https://www.theguardian.com/world/2018/apr/04/made-in-china-policy-at-centre-of-tariff-war-with-us

[13] https://www.businessinsider.com/trump-china-tariff-full-list-of-goods-products-2018-6

Our data on lobbying expenditures and campaign contributions originate from Opensecrets.org. We use data related to the latest national electoral cycle preceding the tariff exemption application, to minimize reverse causality between tariffs and political expenditures, so all our metrics of contributions and lobbying expenses are for the 2016 election cycle. Corporations do not directly contribute to the electoral campaigns of politicians; rather, they act as sponsors for political action committees (PACs), which coordinate and channel contributions by their own employees and other affiliates to candidates. We offer more detail on electoral cycles and PACs and how those relate to our sample in Appendix B.

We manually match committees to corporations by name. When the companies applying for a tariff exclusion do not have a PAC, we search for PACs for the parent of the applying firm. We find PACs associated with approximately a third of the filers in our sample; no firm in our sample is associated with more than one PAC. Of the filers with PACs, two-thirds, approximately, contribute to both parties, but more firms contribute to Republicans only and, on an average, corporate-sponsored-PAC-level contributions to Republican politicians are approximately four times larger than those to Democrat politicians. While contributions to politicians can be for either state or federal elections, the overwhelming majority of contributions we observe in our sample (97.4% of contributions to Republican politicians and 86.6% of contributions to Democrat politicians) are at the federal level. In Table 1 and in subsequent analysis, we report the value of political expenditures for every million dollars of firm assets. Accordingly, we find that firms in our sample, on an average, contribute approximately $2.0 to Republican politicians and $0.5 to Democrat politicians, for every $1 million of assets on their

books, during the 2016 electoral cycle.[14]

For firm-level lobbying expenditures, we rely on a dataset Professor Reza Houston kindly shared with us.[15] Financial data come from Compustat and CRSP daily returns and benchmark index values for the event study analyses come from Wharton Research Data Services (WRDS). Firms in our sample spend approximately $5 in lobbying activities over the 2016 cycle, for every $1 million of assets. Full variable definitions are data sources are summarized in Appendix C.

As reported in Table 1, our final sample spans 7,015 applications with complete data. Of those, 14.6% were approved. Applications for "final products" account for 36.8% of the sample. About a fifth of applications (21.0%) indicated that substitute products were available in the USA or in third-party countries (non-China). Finally, applications for China 2025 products represent 38.6% of the sample.

[14] All political expenditures (lobbying and campaign contributions) are scaled by firms' total assets, as is common in this stream of empirical studies (Duchin and Sosyura (2012), Di Giuli and Kostovetsky (2014), Belo, Gala, and Li (2013), Davis, Guenther, Krull, and Williams (2016), Bayazitova and Shivdasani, (2012), Hill, Kelly, Lockhart, and Van Ness (2013). This scaling is, primarily, to minimize the risk of firm size leading to spurious findings—large firms tend to be associated with larger political expenditures. If politicians prioritize larger firms, due to their impact on employment markets, we could observe a spurious correlation between political expenditures and likelihood of approval, driven by firm size. In robustness tests we discuss later on, we find that our core results are robust when not scaling political expenditures.

[15] For more details on Professor Houston's dataset, please refer to Ferris, Houston, and Javakhadze (2016), Ferris and Houston (2019), and Houston, Maslar, and Pukthuanthong (2018).

***** Insert Table 1 Here *****

V. Empirical analysis

We expect that political connections enhance the likelihood of obtaining approval on a trade tariff exemption application. Our proxies for political connections are lobbying expenditures and campaign contributions by the applying firm. Accordingly, we expect both lobbying expenditures and aggregate campaign contributions to be positively related to the likelihood of obtaining tariff exemptions. Further, we hypothesize that politicians reward supporters of their party, while penalizing supporters of the opposition. Given that the Republican party controls the executive branch during the period of interest, we expect that campaign contributions to Republican (Democratic) politicians will increase (decrease) the likelihood of obtaining an exemption. We first investigate these hypotheses in simple univariate tests, then move on to regression-based models.

A. Univariate analysis

Our first set of tests relies on univariate comparisons of means between the subset of applications that were eventually rejected and those that were approved. Sub-sample means for "Approved" versus "Rejected" applications and related *p*-values from two sample *t*-tests are presented in Table 2. Accepted applications are associated with higher levels of lobbying and higher levels of contributions, as per our hypotheses. Yet, when we disaggregate campaign contributions by the party affiliation of the receiving politician, we find more nuanced results. While contributions to Republicans are higher in the "approved" sub-sample than in the "rejected" one, the opposite is true for contributions to Democrats. This is consistent with our hypotheses.

***** Insert Table 2 Here *****

B. Regression analysis

1. The impact of contributions and lobbying on approval

Our main empirical analysis relies on regression analysis. Our main model is a probit, as show below:

$$Approved_{i,j} = \beta_0 + \beta_1\ Republican\ contributions_j/AT_j + \beta_2\ Democrat\ contributions_j/AT_j + \beta_3\ Lobbying_j/AT_j + \beta_4\ Dual\ donor_j + \beta_5\ PAC_j + \beta_6\ Size_j + \beta_7\ ROA_j + \beta_8\ R\&D_j/AT_j + \beta_9\ Capex_j/AT_j + \gamma\ FE + \varepsilon_{ij}, \quad (1)$$

The subscripts refer to application *i* filed by firm *j*. The response (*Approved*) is a binary variable, set equal to one for approved exemption applications and zero for rejected ones. Our two main explanatory variables are the total amount of contributions to electoral campaigns of Republican and Democrat politicians, captured by separate variables and scaled by the book value of total assets (*Republican contributions/AT* and *Democrat contributions/AT*), and the total lobbying expenditure, also scaled by total assets (*Lobbying/AT*). In addition, we add binary variables identifying firms that donate to both parties (*Dual donor*) and firms sponsoring PACs (*PAC*).

In the reported regressions, we control for the following firm characteristics: *Size* (the natural log of total assets), *ROA* (return on assets), *R&D/AT* (research and development expense scaled by total assets), and *Capex/AT* (capital expenditures scaled by total assets). We also include a set of fixed effects (*FE*, with a coefficient vector γ), including list (list 1, list 2, list 3, and list 4, respectively referring to the four different stages at which exemption applications were collected and processed), product (2-digit HTS code), and industry fixed effects (based on the Fama and French 17-industry classification scheme).[16] All firm-level control variables are taken

[16] http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/data_library/det_17_ind_port.html .

as of December 31st of the year prior to the filing of the relevant extension request (that is, the latest available yearly operating performance metrics). Firm-level characteristics are winsorized at the 1st and 99th percentiles. We estimate probit models; coefficient estimates (not marginal effects) are reported in Table 3. Standard errors are clustered by firm and application list.

Results are reported in model (1) of Table 3. We find that contributions to Republican politicians are positively related to the probability of exemption approval. In contrast, contributions to Democrat politicians are negatively related to the probability of exemption approval. In all cases, coefficient estimates are statistically significant at the 1% level. Lobbying expenditures are associated with a significant positive coefficient, offering the first indication that politically active firms are more likely to receive exemptions. Estimates are statistically significant at the 5% level.

***** Insert Table 3 Here *****

In Appendix Table IB1, we present results linked to similar regressions, but estimated with linear probability models. We find that our results are robust to this methodological choice.

Firm political contributions are correlated, as firms more frequently make contributions in support of politicians affiliated with both parties, rather than to just one: of the 2,114 observations associated with firms who contribute, 1,610 (or 76.2%) are associated with "dual-party donors"—firms who contribute to politicians from both parties. We note that the regression models presented so far include a *Dual donor* dummy variable; coefficient estimates associated with it are not statistically significant at conventional levels. We are nevertheless mindful of this correlation and so, to test for robustness of the findings, we re-estimate the models presented in Table 3 by introducing contributions variables of interest "one-at-a-time." Findings, presented in Internet Appendix Table IB2, reveal that coefficient estimates are fairly stable, suggesting that

multicollinearity is not leading to spurious findings. We also note that, for the average firm in our "dual-party donor" subset, the increase in the probability of approval associated with contributions to Republican politicians outweighs the decrease associated with contributions to Democrats—that is, the average net effect of campaign contributions for "dual donors" is an increase in the probability of approval. Yet, of course, that is an average effect and does not necessarily hold true for each firm in the sample.

As additional robustness tests, we construct a metric equal to the ratio of contributions to Republican politicians over contributions to Democrat politicians (the exact ratio is equal to one plus the dollar value of contributions to all Republican politicians divided by one plus the dollar value of contributions to all Democrat politicians, by the same firm, over the 2016 cycle).[17] We call this metric the *Contribution Ratio*. We add this variable as a predictor in our model, while removing the metrics measuring contribution to individual parties. Results are presented in the second column of Table 3. As expected, the coefficient estimate associated with the ratio is positive and statistically significant, indicating that a higher proportion of contributions going to Republican (rather than Democrat) politicians is associated with a higher likelihood of obtaining exemption approval, as per our prediction. Additional tests addressing the correlation of contributions are presented and discussed in Internet Appendix IC and support the finding that contributions to Democrat and Republican politicians have distinct effects, with opposite signs.

USTR guidelines indicate that the approval process should focus on three criteria: strategic importance to China, likelihood of causing harm to American interests, and availability of substitutes. Accordingly, we add three control variables in an additional set of regression tests.

[17] We thank our editor for suggesting this variable construction.

As a proxy for strategic importance to China, we add a binary variable equal to one if the product is included in the "China 2025" list, and equal to zero otherwise. Our prior is that products that are strategically important to China are less likely to obtain approval for exemptions. To account for the availability of substitutes, we add a binary variable equal to one if the application for exclusion indicates that substitutes are available either in the USA or in third-party countries. We expect products with substitutes to be less likely to obtain approval. Finally, to account for the likelihood of causing harm to American interests, we add a binary variable identifying "final products." The rationale behind the inclusion of this variable is that parts and otherwise unfinished products require subsequent processing which sustains jobs in the USA. Accordingly, we expect final products to be less likely to receive approval for exemptions.

Our findings are presented in model (3) of Table 3 and they fully support our predictions. Exemption applications for products that are strategically important to China are less likely to obtain exemptions. Products with non-Chinese substitutes are less likely to obtain exemptions. Finally, coefficient estimates associated with the binary variable identifying "final products" are negative, suggesting that final products are less likely to obtain exemptions, although they are not statistically significant at conventional levels. Most importantly, even after controlling for these stated criteria, our core results prove robust. The likelihood of exemption approval is positively related to campaign contributions to Republicans and to lobbying expenditures, and negatively related to campaign contributions to Democrats. Overall, our findings indicate that the process is distorted by the political connections of the applicant, but political pressures do not completely over-ride the stated criteria of the process. To test the robustness of our estimates, we estimate model (4) with the inclusion of the same variables added in model (3), but with the *Contribution ratio* replacing disaggregated, party-level contributions. Our findings remain

robust.

The political connections we measure are only some of the possible channels through which firms cultivate links to politicians. We accordingly attempt to measure, and control for, different types of connections, to ensure the robustness of our findings.[18] To this end, we construct a new set of variables. *Gov experience* is a binary variable, set equal to one if any of the directors at the firm worked in the federal government (including agencies of the federal government) in the past and zero otherwise. Such directors may have unique insights as to the inner workings of government agencies and/or may have connections to people who work in government. To capture government experience of directors, we went to proxy statements of each firm in our sample and read through the biographies of all directors. *Executive rep contributions* and *Executive dem contributions* are, respectively, the natural logarithm of one plus the sum of dollar contributions of executives to, respectively, Republican and Democrat politicians. To find personal political contributions of executives, we first collect the names of the top 5 executives by reading proxy statements of the firms in our sample.[19] Next we roughly follow Duchin, Farroukh, Harford, and Patel (2023) to collect donations by these individual executives. Specifically, we obtain the individual political contribution dataset from the Database on Ideology, Money in Politics and Elections (DIME) database: Public version 3.1.[20] Next, we match the "employer" information in the individual political contribution dataset to the company

[18] We thank the editor for encouraging us to investigate these additional connection types.

[19] We do not use Execucomp to identify executives because many of our firms do not appear in Execucomp.

[20] Available at https://data.stanford.edu/dime.

names in Compustat using fuzzy string match algorithms as a first stage and then verify these matches by hand in a second stage. Next, within specific companies in our sample, we again perform a fuzzy match of the executive names with the donor names in the individual political contributions file. We verify by hand each of the matches. We finally add the total contributions to republican and democrat candidates separately. Executive donations are not particularly larger for executives who work in larger firms and so we do not scale such donations by firm size.

Next, we re-estimate the base model, with the inclusion of the above additional executive contribution variables. Our findings are reported in model (5) in Table 3. We find that executive contributions to Republican (Democrat) politicians are positively (negatively) related to the probability of approval, in line with our expectations and firm-level findings. We do not, however, find evidence of any statistically significant association between prior government experience by executives and the likelihood of approval. Most importantly, the coefficients associated with our main variables of interest and their levels of significance appear largely unaffected by the addition of these added control variables, suggesting that our models are robust to the omission of these political connection metrics.

Probit coefficients are not straight-forward to interpret. To that end, we compute marginal effects associated with model (3) and find that a one standard deviation increase in contributions to Republican (Democrat) candidates increases the probability of approval by 3.94 (decreases the probability of approval by 3.40) percentage points. A one standard deviation increase in lobbying expenditures increases the probability of approval by 2.15 percentage points. These are economically sizeable increases, especially when considering that the unconditional probability of approval in our sample of filers is 14.6%. It is difficult to compare those to the impact of the qualitative criteria, as those are binary variables. We note that products

with non-Chinese substitutes are 3.3 percentage points less likely to be approved for exemptions than those which do not have substitutes available. Final products are 1.71 percentage points less likely to be approved for exemptions than parts and components. But the variable with the strongest economic impact is the one measuring strategic importance to China – items on the China 2025 list are 67.3 percentage points less likely to obtain approval than items that are not on the list, based on our estimates.[21] Overall, we note that the most important determinant of the process is one of its stated criterions (strategic importance to China).

We next quantify distortions caused by political contributions by estimating the net increase or decrease due to political expenditures by firms. To do so, we compute the "mean impact" of contributions by multiplying the marginal effect estimates from column 2 in Table 4. Adding up the mean predicted effects for Republican contributions, Democrat contributions and lobbying, we find that the average aggregate impact of political expenditures is to increase the probability of approval by 1.34 percentage points, per application filed. In our sample of 7,015 filed exemption applications, this translated into 94 additional approvals (or 1.34%, the increase in the probability of approval, times the number of exemption applications). That is, in our sample, we are observing 1,024 approved filings; in the absence of political variables, we estimate that number would have been 930. Thus, political connections lead to economically meaningful distortions in this process.

2. Influential politicians

We hypothesize that contributions to "influential" politicians might have a stronger

[21] This near-implausibly large estimate of impact is driven by the fact that "China 2025" applications are virtually never approved.

impact, as influential politicians are, by definition, more able to affect policies and outcomes. At the same time, we hypothesize that politicians in power might be more inclined to "punish" contributions to influential opponents, as those pose a bigger threat.[22]

In order to test this conjecture, we identify contributions going to politicians (1) who are Senators, (2) who sit on the Senate Finance Committee, and (3) who sit on the Senate Leadership Committee—as these committees are likely to have influence and exercise oversight over the tariff exemptions process. Our findings are presented in Table 4. The findings support our hypotheses. In all cases, the magnitude of the estimated coefficients is larger than in the "base" model (contributions to all politicians). This indicates that, for each dollar of contributions to Republican (Democrat) politicians, the likelihood of obtaining (not obtaining) an exemption is larger if the politician receiving the contribution is a Senator, or a Senator sitting on a relevant committee.

Most importantly, the fact that the degree of influence of the contribution-receiving politicians affects the likelihood of obtaining an exemption strongly indicates that political considerations are indeed first-order determinants of the tariff exemption allocation process.

***** Insert Table 4 Here *****

3. Additional robustness tests

We conduct a battery of additional robustness tests and show that our results are robust to (1) not scaling political expenditures by assets, (2) looking only at "concentrated" donors to mitigate collinearity between campaign contributions to different parties, (3) excluding products with exemption applications submitted by multiple firms, and (4) focusing on "inconsistent"

[22] We thank an anonymous reviewer for suggesting this line of inquiry.

decisions when multiple companies submit exemption applications for the same product codes but obtain different outcomes. These robustness tests are presented and discussed in Internet Appendices IC and ID.

4. Testing alternative explanations

We recognize that there are legitimate concerns about the non-random nature and timing of political contributions. Accordingly, we attempt to rule out potential alternative explanations for our results in a set of additional tests.

First, we question whether our findings could be driven by the government's desire to protect firms targeted by Chinese retaliatory tariffs. As Fajgelbaum et al. (2020) and Fetzer and Schwarz (2021) document, Chinese tariffs specifically targeted firms located in Republican-leaning districts and states. To ensure that an attempt to protect firms based in those locales from retaliation is not driving our results, we first identify states as "red states" if both of the state's Senators are Republican since the year 2000. We present results in model (1) of Table 5. Excluding red states leads to a loss of observations—in this test, the sample shrinks to 6,187 observations. Nevertheless, our main findings remain robust, indicating that our results are not driven by an attempt by the administration to protect firms located in red states.[23]

A second possible alternative explanation for our findings lies in the ideology of political candidates. If Republican candidates are ideologically more likely to favor "free trade," then firms connected to Republican politicians might be more likely to receive exemptions not because of their political expenditures, but because Republican politicians might be *ex-ante* more

[23] In robustness tests presented in Appendix Table IE1, we present robustness tests with alternative definitions of "red states."

likely to look favorably upon such requests. We test whether pro-trade sentiment is driving our findings. We accordingly identify "pro-trade" states as those states in which both senators voted, on January 16, 2020, in favor of the United States-Mexico-Canada Agreement Implementation Act (USMCA); we identify all other states as "anti-trade."[24] We then construct a binary variable equal to one for all firms from "anti-trade" states and zero otherwise and include it in our base model. Results are reported in model (2) of Table 5. We find that firms based in pro-trade states are more likely to obtain exemptions, compared to those based in anti-trade states. More importantly, even after controlling for trade ideology of the state, our main findings remain robust and our inferences do not change. As an additional test, we also replicate our analysis while excluding anti-trade states—we confirm that our results are robust and present our findings in Internet Appendix Table IE1.

Third, to ensure that possible omitted state-level variables are not driving our findings, we replicate our base model with the inclusion of state-level fixed effects. Our findings, presented in model (3)—still excluding anti-trade states—indicate that our main findings regarding contributions are robust to including state fixed effects in our regressions (subsequent models in models (4) to (7) also include state-level fixed effects). However, the coefficient estimate associated with lobbying expenditures, while still positive, is not statistically significant. We replicate the same model, without excluding anti-trade state, confirm that our results are robust, and present results in Internet Appendix Table IE1.

Fourth, we recognize that there could be selection biases in the decision of firms to spend

[24] We obtain data on voting records from the United States Senate website at: https://www.senate.gov/legislative/LIS/roll_call_votes/vote1162/vote_116_2_00014.htm#state.

funds on political connections. If firms most affected by political decisions are donating the most funds, and if those same firms are more likely to obtain exemptions because they are "more vulnerable" to trade policy, we could obtain spurious findings. We accordingly add a variable measuring firm-level exposure to political risk to the base model.[25] Our findings are presented in model (4) of Table 5. Even after controlling for firm-level political risk, our main findings are similarly robust, with the caveat of the coefficient associated with lobbying not being statistically significant at conventional levels.

Fifth, we recognize that firms in certain industries might be more likely to donate to Republican candidates—say, for example, oil and energy firms, or firms in agricultural sectors. Our tests presented so far include industry fixed effects, which should mitigate these concerns. Yet, to further exclude the possibility that Republican politicians might be favoring industries that are traditionally more aligned with the party, we identify industries that tend to donate the most to Republicans.[26] We present our findings in model (6) of Table 5. Our main findings remain robust.

Sixth, we recognize that politicians might be attempting to shield firms that provide a large number of jobs from tariffs. If employment levels correlate with political expenditures—perhaps larger firms tend to spend more on contributions and employ more workers—we could

[25] We obtain the variable from: https://www.firmlevelrisk.com/ The variable itself, its construction, interpretation, and validity are extensively discussed in Hassan, Hollander, Van Lent, and Tahoun (2019).

[26] We obtain a ranking of industries based on contributions to Republicans during the 2016 cycle from: https://www.opensecrets.org/elections-overview/most-partisan-industries?cycle=2016.

obtain spurious findings. Accordingly, we attempt to control for the level of job provision by adding a variable measuring employment count scaled by assets. We present our findings in model (7) of Table 5. The coefficient on the first metric, the number of employees scaled by assets is negative, but not statistically significant at conventional levels. Importantly, our main findings remain robust, but the coefficient estimate associated with lobbying expenditures, while still positive, is not statistically significant. In a final model, we use a different employment metric—the number of employees of the firm scaled by the state population—which leads to equivalent findings. Additional robustness tests are included in Appendix Table IE1.

***** Insert Table 5 Here *****

The fixed effects in the regressions in the manuscript (Table 3 and related) include industry fixed effects based on the Fama and French 17-industry classification scheme. In Internet Appendix Table IF1, we tabulate robustness tests using, alternatively, fixed effects based on the Fama and French 30-industry and 12-industry classification schemes, findings robust results.

5. Links to President Trump's administration

Most of the extant literature on political connections focuses on connections to the legislative branch of the government. This is largely due to traditional limitations with data—most empirical analyses rely on campaign contributions and lobbying expenditures aimed at politicians either having a seat on the legislative branch or vying for one. In contrast, the process we document is in the hands of the executive branch of the government, even though anecdotal evidence points to strong interference by legislators. In additional tests, we accordingly investigate whether direct connections to the executive branch of the government have an impact above and beyond what we have so far observed for connections to the two main parties.

We report the full details of the empirical design and findings in Internet Appendix G. In short, we find that firms which hire lobbyists linked to the Trump administration have a higher chance of obtaining exemptions (consistent with the "revolving door" documented by Blanes i Vidal, Draca, and Fons-Rosen, 2012). In contrast, in untabulated tests, we do not find evidence of higher exemption approval rates among firms which contribute to President Trump's inauguration.

C. Steel and aluminum tariffs – counterfactual test

We conduct a falsification test, with a dataset related to tariff exemption requests not administered under the novel USTR-led system. In March of 2018, shortly before enacting the Section 301 tariffs that are the subject of our investigation, the Trump administration imposed tariffs on steel (at a rate of 25%) and aluminum (10%) products for a large number of countries; in July 2018, the list of countries was expanded to include the European Union, Canada, and Mexico, thus covering the overwhelming majority of steel and aluminum imports. These tariffs were affected by an ad-hoc exemption process. Companies utilizing any of the affected products could apply for an exemption; those exemption applications were publicly posted and the public was invited to comment. The exemption applications and comments were reviewed by the Department of Commerce "in collaboration with various federal agencies"—most notably, the process was overseen by an Inspector General. Given the higher level of oversight and transparency with this process, we are not expecting to observe the same type of political distortions in the allocation of exemptions that we observe with the China tariff exemption approval process.

A report by the US Government Accountability Office released in September 2020 indicates that approximately 106,000 exemption requests were submitted.[27] Circa 19,000 were rejected as incomplete or containing erroneous information. Of the remaining requests, we are able to match 14,671 to publicly traded firms "with complete data." The approval rate is high, just shy of 89%. We include descriptive statistics of the relevant sample in Internet Appendix Table IH1.

We model the decision (acceptance/rejection) in a model including the same set of explanatory variables as our base model in Table 3. We do, however, replace variables that are "process specific." In this analysis, we exclude the variables *Substitute*, *Final product*, and *China 2025* and include, instead, a variable capturing the number of objections posted on Regulations.gov, a binary variable identifying the availability of substitute products manufactured in the United States (both reflecting the stated criteria of the adjudication process) and "metal type" fixed effects. We tabulate our findings in Internet Appendix Table IH2. We find that political expenditures (campaign contributions, aggregated or disaggregated by party, and lobbying expenditures) are not related to the probability of approval. The decision appears to be entirely based on the stated criteria (the related variables are highly significant, both economically and statistically). In other words, the political distortions we document in the USTR-led process do not manifest under the previous exemption adjudication system, as per our hypotheses.

D. Valuation effects

In this section, we investigate the impact of a tariff exemption grant on firm value. We

[27] https://www.gao.gov/products/gao-20-517

hypothesize that accepted exemption applications lead to an increase in firm value, as they remove a tariff that effectively inflates the cost of goods sold (for finished products) or the cost of inputs in the production process (for parts and components). These cost savings should reflect into higher future profitability for the affected firms. Assuming stock markets incorporate this valuation effect at announcement of the trade-tariff application acceptance, we expect the announcement of a tariff exemption application acceptance to cause positive abnormal stock price returns for the applying firm. We compute the value of an accepted exemption by using event-study techniques. In particular, we estimate the market reaction at the announcement of the decision (approval or rejection). We compute cumulative abnormal returns using a four-factor (Fama-French three factors plus momentum) model estimated over one-hundred trading days ending ten days prior to the event. To account for possible leakage of information or delayed reactions, we test various windows around the decision date (day 0). We present our findings in Table 6, for various windows, ranging from two days (0, +1) to five days (-2, +2). For brevity, we mainly discuss the results for the five-day window and highlight the shorter horizons only when results are inconsistent.

In Panel A, we present our overall event study results around the announcement of the decision, noting that some decisions are favorable (acceptances) and some unfavorable (rejections). Given the mixed nature of the news, the estimated mean abnormal returns are close to zero. Nonetheless, the standard deviation of the abnormal reactions is quite large at 3.3%. This suggests that there is significant cross-sectional variation in the reactions to application decisions. This is important because it suggests that the stock market does not fully anticipate eventual approval or rejection.

In Panel B, we compare the market reaction to approved exemption applications to the

reaction to rejected exemption applications. For approved exemption applications, we observe positive abnormal returns, equal to 0.51% for the five-day window. In contrast, rejected exemption applications are associated with negative abnormal returns over all event windows, but we note that, over the five-day window, the magnitude of the abnormal return is tiny, at -0.10%. We note that the unconditional probability that an exemption application is approved is low (14.6%). Therefore, the market likely anticipates that most exemption applications are rejected. This could explain why we do not observe very strong negative reactions following rejections of tariff exemption applications—while accepted exemption applications are associated with a positive abnormal return, signifying a true "surprise," rejected exemption applications are associated with much weaker responses, negative in sign, but small in magnitude. The difference between abnormal returns on accepted exemption applications and those on rejected exemption applications is positive and highly statistically significant over all event windows, and equal to 0.61% over the five-day window. Back-of-the-envelope calculations suggest that exemption approval leads to an approximately USD 51 million increase in market capitalization for the median firm in our sample. The median market capitalization for sample firms is about $10 billion.

Finally, we explore whether market participants are able to anticipate the higher likelihood of acceptance for firms with the "right" set of political connections, resulting in lower (higher) abnormal returns at acceptance of a proposal by a firm with high levels of lobbying expenditures and high levels of contributions to the Republican (Democratic) party. We test the above hypothesis in panel C of Table 6. As many firms contribute to both parties, we subset firms on the basis of the difference between contributions to Republicans and contributions to Democrats—we label as "high probability" ("low probability") firms for which this difference is

above (below) median. Over all event windows, the market reactions to low probability approved exemption applications is greater than the market reaction to high probability approved exemption applications—consistent with the hypothesis that markets correctly anticipate the higher probability of approval and incorporate its expected value into the stock price prior to the actual decision. The magnitude of the difference is significant, both economically (at 2.99%) and statistically (at the 0.1% level).

In Panel D of Table 6 we replicate the same type of analysis for rejected exemption applications. The logic behind this test is similar to that of the prior test: given a higher probability of approval, firms donating to Republicans should experience a weaker reaction (i.e., a negative reaction of greater magnitude) because that rejection, effectively, constitutes a "bigger surprise." The overall test is inconclusive. The difference in abnormal returns is of the predicted sign but is statistically significant only for the shortest, two-day, event window. The other three event windows reveal insignificant differences in abnormal returns. Overall, we interpret these tests as inconclusive.

***** Insert Table 6 Here *****

E. Abnormal return regressions

In order to more formally investigate whether markets anticipate the higher likelihood of approval for politically connected firms, we employ a more rigorous test in a multivariate regression framework. First, we estimate the predicted probability of approval, based on the model presented in Table 3. We then estimate regressions of abnormal returns around the decision date on a binary variable identifying approved exemption applications and the fitted probability of approval (*Predicted approval*). If markets correctly anticipate the higher likelihood of approval of connected firms, we should find a positive market reaction to approvals, but

weaker for those firms whose ex-ante probability of approval is higher. We add control variables accounting for firm characteristics to this model, as those are related to abnormal returns.

Our results are presented in Table 7. Consistent with our prior findings, we observe that approved exemption applications are associated with positive and statistically significant coefficients, while the predicted probability of approval is associated with a negative and statistically significant coefficient. In other words, the positive market reaction associated with approvals is mitigated by an *ex-ante* higher likelihood of approval.

In a set of robustness tests, we report a different model specification.[28] We decompose the *Approved* binary variable into a *Predicted approval* component and a *Surprise* component, estimated as the difference between *Approved* and *Predicted approval*. We then regress abnormal returns on these two variables, while including the same set of controls as in the prior tests. Our findings are presented in Table 7. The coefficient associated with *Predicted approval* is still negative and statistically significant, with magnitudes that are slightly smaller than those estimated with the previous model. Most importantly, the coefficient on the *Surprise* component is positively and significantly related to the abnormal return, supporting the idea that markets are indeed reacting more forcefully when a "less likely" application is approved.

In similar untabulated tests, we estimate regressions of abnormal returns at approval against variables identifying the size of campaign contributions to Republicans and to Democrats, and against a variable identifying lobbying expenditures by the applicant. We expect abnormal returns to be negatively related to factors that increase the probability of approval (lobbying expenditures and contributions to Republicans) and positively related to factors that

[28] We thank an anonymous reviewer for recommending this line of inquiry.

lower approval likelihood (contributions to Democrats). We find consistent results for the coefficients associated with campaign contributions, negative for Republicans and positive for Democrats, but statistical significance is inconsistent across event windows.

Overall, our findings indicate that markets react more forcefully to the approval of exemption applications from firms that are, *ex-ante*, less likely to obtain approval. Importantly, this seems to indicate that market participants are aware of the importance of political connections, and of the related distortions in the exclusion approval process.

***** Insert Table 7 Here *****

VI. Discussion and conclusions

A. Economic impact

To contextualize the economic significance of our findings, we compare the magnitude of the economic effects we document to extant literature. Goldman, Rocholl, and So (2013) investigate political distortions in the allocation of procurement contracts and find that "the estimated average increase to firms connected to the winning party is $270 million, whereas the loss of contracts to firms connected to the losing party is $77 million relative to the sample average of all other firms." In contrast, we estimate the value of an approval at about $51million. Given that the average filer in our sample files approximately 20 (the exact number is 19.44) exemption applications, if all of those were approved, we would expect an impact on firm value in excess of $1 billion. Of course, donating to Republican politicians does not guarantee approval of the exemption—and we do not have a comparable binary variable in our setting. But we have estimated the impact of a one-standard deviation increase in contributions to Republican politicians at 3.94 percentage points—translating into an expected increase in firm value of $39 million (approximately 3.94% of $1 billion). Similarly, a one-standard deviation increase in

contributions to Democrats will lead to an expected loss in firm value of $34 million.

Schoenherr (2019) finds that "private firms connected to the new president's networks experience a significant increase in their annual public procurement contract volume, equal to 3% of the firms' assets." In contrast, we estimate the value of an approval at about $51 million. Considering that total assets of our firms are approximately $7.3 billion, then the documented effect is approximately 0.70% of firm's assets. That effect is at the application level. Given that the average filer in our sample files 19.44 exemption applications, if all of those were approved, we would expect an impact on firm value equal to 14% of firm assets. Yet, as above, we do know that contributions to Republican politicians do not guarantee exemption approval—nor do contributions to Democratic politicians guarantee rejection. We find fairly symmetric results: a one-standard deviation increase in contributions to Republican (Democrat) politicians leads to an expected increase (decrease) in firm value equal to approximately 0.5% of a firm's assets.

B. Limitations and extensions

Since the 2010 "Citizen United" decision has greatly increased the ability of firms to contribute to political campaigns, a debate on whether firms' political expenditures increase welfare—via signaling and by reducing information asymmetry between politicians and the business environment—or lead to rent-seeking behavior by politicians receiving "legal bribes" in exchange for legislation, regulations, and contracts rewarding supporters has intensified. We contribute to this debate by documenting that the process of allocating exemptions on trade tariffs on Chinese imports worth over USD 550 billion annually is subject to political distortions. The probability of approval of the exemption application is positively related to past lobbying expenditures of the filing firm, which suggests that lobbying has either a role in conveying information (presumably, about the harm to American interest imposed by the tariffs) or in laying

the foundation for *quid pro quo* arrangements between firms and politicians. Yet, the evidence related to campaign contribution points more clearly to the latter channel. Past contributions to the electoral campaigns of politicians affiliated with the party in control of the executive branch and the adjudicating body, the USTR, increase the likelihood of approval, while past contributions to opposition politicians lower the likelihood of approval.

Our evidence on campaign contributions strongly suggests that politicians are effectively using exemptions to reward supporters and withholding exemptions to punish supporters of their opposition. This points to a perverse incentive—an administration controlling the executive branch of the US government can create roadblocks to firms, generally in the form of tariff exemptions, and then create benefits by strategically removing such roadblocks for their donors, while preventing exemptions from being granted to supporters of the opposition. The evidence we offer of such retaliatory behavior is novel in the literature linking political connections to corporate finance.

In event-study analyses, we quantify the value of an exemption for the median firm in our sample at approximately USD 51 million. We also find that markets react more forcefully (larger positive abnormal returns) to the acceptance of exemption applications from firms that are less likely to obtain approval. The implications are meaningful: the dispensing of "favors" to connected firms and the "punishment" of firms connected to the opposition is not hidden—the *quid pro quo* is out in the open, for market participants to observe and price into firm valuations. This can also create incentives for firms not supporting the current administration to reconsider how they make political contributions in the future.

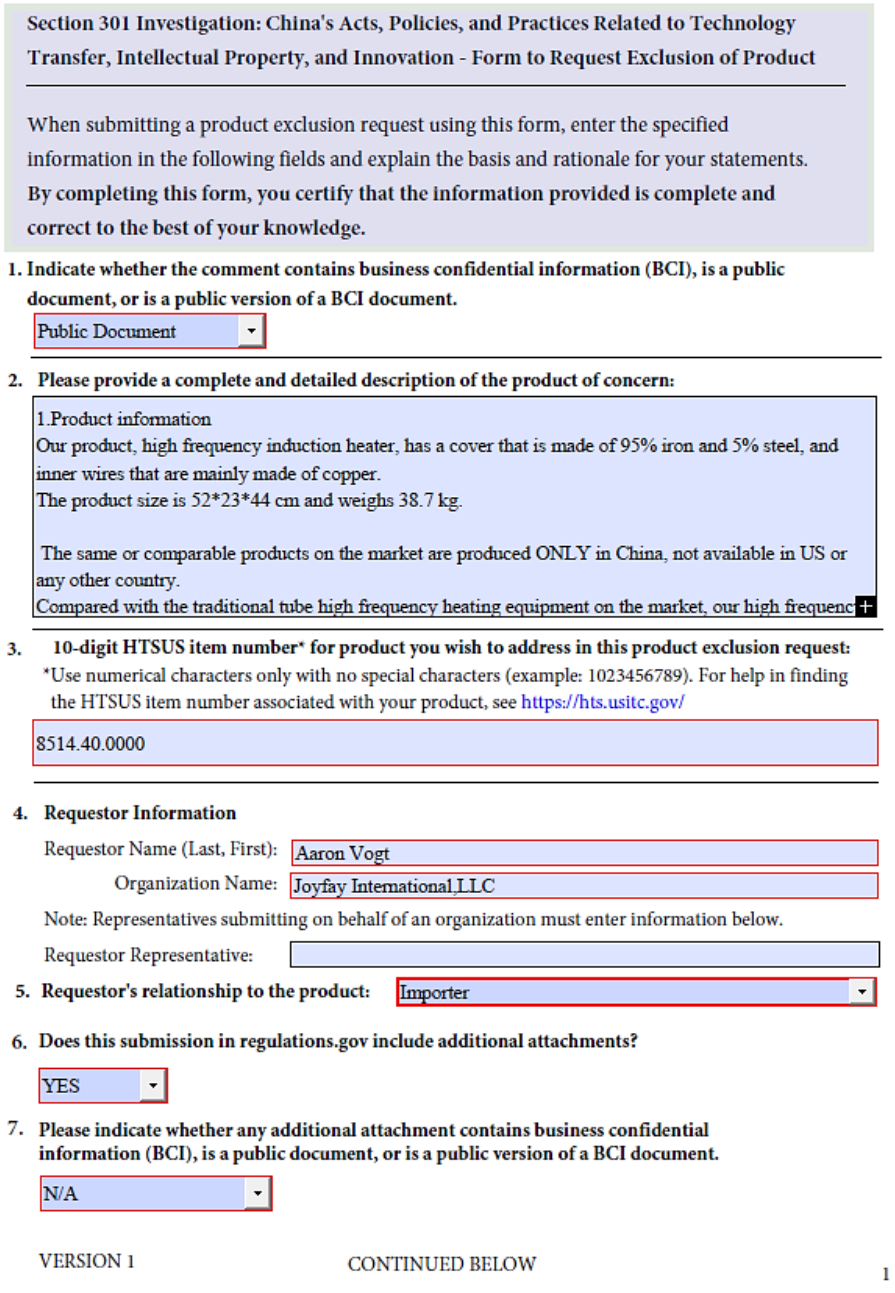
Our empirical analysis suffers from two main limitations. First, we are unable to observe all forms of connections between firms and politicians. All parties involved have incentives to

keep such connections secret, so we rely on imperfect proxies: campaign contributions and lobbying expenditures. We nevertheless note that our inability to identify all connections likely lowers the power of our tests, leading to conservative estimates of the impact of connections on tariff exemption approvals. Second, our data is specific to a single administration—whether the tendency to reward supporters and punish opponents via strategic allocation of tariff exemptions extends to other administrations, to other parties, or to other countries, and whether such effect persists over time, are matters for future analysis. We however note that, while we have documented that a single administration has chosen to design, implement, and administer a trade exemption process in the manner we describe, the potential or possibility of such behavior is ever-present. In other words, our findings do not necessarily extend to other administrations in terms of intent—we cannot say whether other administrations would or would not be willing to engage in similar behavior—but our findings certainly highlight that other administrations could engage in such behavior, if they so desired. Or, in other words, while our findings might not generalize to other administrations, they do generalize in terms of the federal political apparatus. The checks and balances in place allow for this to happen, in the open, with market participants at least partially anticipating the economic impact of this *quid pro quo* between firms and politicians—that is an important feature of the finance-politics nexus that indeed generalizes past a single administration.

Appendix A– Sample Forms

Appendix Figure A1 – Application Form Sample

We report here an example of an application form used for applying for exemptions from "List 1" tariffs. These forms are available, in pdf format, from the website of the Office of the United States Trade Representative (https://ustr.gov).



Section 301 Investigation: China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation - Form to Request Exclusion of Product

When submitting a product exclusion request using this form, enter the specified information in the following fields and explain the basis and rationale for your statements. **By completing this form, you certify that the information provided is complete and correct to the best of your knowledge.**

1. **Indicate whether the comment contains business confidential information (BCI), is a public document, or is a public version of a BCI document.**

   Public Document

2. **Please provide a complete and detailed description of the product of concern:**

   1.Product information
   Our product, high frequency induction heater, has a cover that is made of 95% iron and 5% steel, and inner wires that are mainly made of copper.
   The product size is 52*23*44 cm and weighs 38.7 kg.

   The same or comparable products on the market are produced ONLY in China, not available in US or any other country.
   Compared with the traditional tube high frequency heating equipment on the market, our high frequenc

3. **10-digit HTSUS item number* for product you wish to address in this product exclusion request:**
   *Use numerical characters only with no special characters (example: 1023456789). For help in finding the HTSUS item number associated with your product, see https://hts.usitc.gov/

   8514.40.0000

4. **Requestor Information**

   Requestor Name (Last, First): Aaron Vogt
   Organization Name: Joyfay International,LLC
   Note: Representatives submitting on behalf of an organization must enter information below.
   Requestor Representative:

5. **Requestor's relationship to the product:** Importer

6. **Does this submission in regulations.gov include additional attachments?**

   YES

7. **Please indicate whether any additional attachment contains business confidential information (BCI), is a public document, or is a public version of a BCI document.**

   N/A

VERSION 1 CONTINUED BELOW 1

Appendix Figure A1 – Application Form Sample, Continued

8. Is this product, or a comparable product, available from sources in the United States?:

NO

9. Is this product, or a comparable product, available from sources in third countries?:

NO

10. Please provide the value and quantity (with units) of the Chinese-origin product of concern that you purchased for each calendar year specified. Limit this figure to the products purchased by your firm (or by members of your trade association) alone. Please provide estimates if precise figures are unavailable.

2017 Value:	77,842 USD	2017 Quantity:	148
2016 Value:	42,602.75 USD	2016 Quantity:	81
2015 Value:	14,726.88 USD	2015 Quantity:	28

11. Please provide information in support your request, taking account of the instructions provided in Section B of the Federal Register notice (note: text entered below can extend beyond the apparent size of this box).

Our company, Joyfay International LLC, was founded in 2010 by four PhD students with extensive experience in spectroscopy techniques but also mechanical and chemical engineering. We came to a conclusion that today's market is saturated with questionable quality, high cost and above all expensive laboratory equipment. In our own research (Spectroelectrochemistry, Femtosecond-laser spectroscopy, Photochemistry and Biophysics) we've encountered a series of overly expensive equipment that haven't satisfied the demands put up to by modern research. After careful and serious investigation, we imported some excellent equipment with high quality but lower costs from China to help many US customers to reduce research and production costs and received good feedback.

VERSION 1 END 2

Appendix Figure A2 – Decision Letter Sample

We report here an example of a decision letter posted in response to an exemption request from "List 1" tariffs. Decision letters are available, in pdf format, from the website of the Office of the United States Trade Representative (https://ustr.gov).

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

September 25, 2018

RE: Product Exclusion Request Number: USTR-2018-0025-0005

Joyfay International, LLC:

The purpose of this letter is to inform you that the product exclusion request referenced above has been denied. As you are aware, USTR published a *Federal Register* notice (83 FR 28710) on June 20, 2018, that announced the Trade Representative's determination to impose an additional duty of 25 percent on certain products from China. On July 11, 2018, the Trade Representative published a *Federal Register* notice (83 FR 3218|1) which announced that a process had been established under which interested persons could request that products falling within a covered HTSUS subheading be excluded from the additional duties announced on June 20.

Your request was reviewed in accordance with the factors and procedures set forth in Section B(1) of the July 11 notice. Based on that review, and after careful consideration, your request was denied because the request failed to show that the imposition of additional duties on the particular product would cause severe economic harm to you or other U.S. interests.

Because USTR will grant exclusion requests on a product specific basis, you may still benefit from a product exclusion if a similar product is granted an exclusion. Products for which an exclusion has been granted will be periodically announced on the USTR website. Product exclusions will become legally effective once published in the Federal Register.

Sincerely,

Stephen P. Vaughn

Appendix B – Background on Political Action Committees and Campaign Contributions

Firms can contribute in support of politicians in two ways—via either "Political Action Committees" or "Super Political Action Committees."

Political Action Committees (PACs) are usually setup as "separate segregated funds" (SSFs)—or, in the language of the Federal Election Committee, as "traditional" PACs. These are also called "connected PACs" or "corporate PACs" in common parlance. These PACs are established and administered by either a corporation, a labor union, a membership organization, or a trade association. They are allowed to solicit contributions from individuals who are associated with the sponsor and may receive up to $5,000 from any one individual per calendar year. Accordingly, with traditional PACs, firms are acting as sponsors—which means that firms pay for overhead costs and staff time and might provide physical space for the PAC to operate; funds are raised from managers, employers, shareholders, and other corporate affiliates. Corporations cannot directly contribute to traditional PACs. But, aside from covering overhead costs and staff time, they can spend treasury funds to create incentives for employees to fund the PAC itself (for example, while directly compensating employees for their contributions would not be allowed, offering prizes in a raffle to encourage participation is common practice). "Traditional" PACs can give $5,000 to a candidate committee per federal election (primary, general or special). They can also give up to $15,000 annually to any national party committee, and $5,000 annually to any other PAC. The contributions we include are to candidate committees; contributions to other PACs are excluded from our dataset. At the state level, legislation differs in terms of contribution limits. As per the National Conference of State Legislatures, "Seven states allow PACs to contribute unlimited amounts of money to state campaigns. The remaining 43 states either impose the same limitations as those for individuals or provide a separate contribution limit."[29]

[29] For a complete description of state-level PAC contribution limits, please refer to:

https://www.ncsl.org/elections-and-campaigns/state-limits-on-contributions-to-candidates

For the 2016 cycle, specifically:

https://documents.ncsl.org/wwwncsl/Elections/Contribution-Limits/2015-2016.pdf

To provide a sense of the variation across states for the current cycle, the National Conference of State Legislatures offers an interesting summary table:

	Governor	State Senate	State House
National Average	$6,645	$3,062	$2,708
National Median	$4,240	$2,250	$1,900
Highest Limit	$47,100 (New York)	$13,704 (Ohio)	$13,704 (Ohio)
Lowest Limit	$625 (Colorado)	$180 (Montana)	$180 (Montana)

The second way in which firms may be also be involved in contributing via Super PACs. These are not included in our dataset, due to difficulties in both tracking donors and expenditures. As described by OpenSecret (the self-described "nation's premier research group tracking money in U.S. politics and its effect on elections and public policy"):[30]

"Super PACs are a relatively new type of committee that arose following the July 2010 federal court decision in a case known as SpeechNow.org v. Federal Election Commission. Technically known as independent expenditure-only committees, super PACs may raise unlimited sums of money from corporations, unions, associations and individuals, then spend unlimited sums to overtly advocate for or against political candidates. Unlike traditional PACs, super PACs are prohibited from donating money directly to political candidates, and their spending must not be coordinated with that of the candidates they benefit. Super PACs are required to report their donors to the Federal Election Commission on a monthly or semiannual basis — the super PAC's choice — in off-years, and monthly in the year of an election. As of June 04, 2023, 2,476 groups organized as super PACs have reported total receipts of $2,737,855,088 and total independent expenditures of $1,365,427,889 in the 2021-2022 cycle."

[30] https://www.opensecrets.org/political-action-committees-pacs/super-pacs/2022

In reality, while Super PACs are required to disclose the names of donors, they can effectively hide the true identity of donors by accepting money from incorporated entities that, in turn, do not have to disclose the source of their funding public.[31]

Our main data is for the 2016 electoral cycle. We follow the way the Federal Elections Commission and Opensecrets.org (our two main sources of data) organize and report expenditures. They do so not by year, but by "electoral cycle." According to the Federal Elections Commission, "An election cycle begins the day after the previous general election for a given federal office and ends on the date of the general election for that office. The number of years in an election cycle differs according to the federal office sought. The election cycle spans two years for House of Representatives candidates, four years for presidential candidates, and six years for Senate candidates."[32] For the 2024 cycle, dates are as follows:[33]

Election cycle	Dates
2024 House of Representatives	11/09/2022 - 11/05/2024
2026 House of Representatives	11/06/2024 - 11/03/2026
2024 Senate	11/07/2018 - 11/05/2024
2026 Senate	11/04/2020 - 11/03/2026
2028 Senate	11/09/2022 - 11/07/2028
2024 Presidential	11/04/2020 - 11/05/2024

[31] https://sunlightfoundation.com/2012/01/31/nine-things-you-need-know-about-super-pacs/

[32] https://www.fec.gov/help-candidates-and-committees/filing-reports/election-cycle-aggregation/#:~:text=An%20election%20cycle%20begins%20the,to%20the%20federal%20office%20sought.

[33] https://www.fec.gov/help-candidates-and-committees/filing-reports/election-cycle-aggregation/#:~:text=An%20election%20cycle%20begins%20the,to%20the%20federal%20office%20sought.

For state-level elections, contributions are organized on a bi-annual cycle. The cycle relevant to our investigation in this manuscript is 2015-2016. The raw data we obtain is already organized by electoral cycle.

Appendix C – Variable Definitions

Appendix Table C1 – Variable Definitions

Appendix Table D1 contains a list of the key variables employed in empirical analysis, their definition, and the source of the raw data used to construct the variables.

Variable	Definition	Source (raw data)
Approved	Binary variable, set equal to one if the trade tariff exemption application is approved, and zero otherwise	Regulations.gov
Rep contributions / AT	Dollar value of campaign contributions to Republican politicians during the 2016 electoral cycle, scaled by total assets measured in USD million	Opensecrets.org
Dem contributions / AT	Dollar value of campaign contributions to Democrat politicians during the 2016 electoral cycle, scaled by total assets measured in USD million	Opensecrets.org
Total contributions / AT	Dollar value of campaign contributions to all politicians during the 2016 electoral cycle, scaled by total assets measured in USD million	Opensecrets.org
Lobbying / AT	Dollar value of lobbying expenditures, scaled by total assets measured in USD million	Opensecrets.org
Dual donor	Binary variable, set equal to one if the firm contributes to both Republican and Democrat politicians during the 2016 electoral cycle	Opensecrets.org
PAC	Binary variable, set equal to one if the firm has a Political Action Committee (PAC)	Opensecrets.org
Final product	Binary variable, set equal to one if the item is a "final product" (as opposed to raw materials, parts, or components), equal to zero otherwise	Regulations.gov
Substitute	Binary variable, set equal to one if substitute products are available outside of China, equal to zero otherwise	Regulations.gov
China 2025	Binary variable, set equal to one if the product is included in the China 2025 list, equal to zero otherwise	Business Insider
Size	The natural log of total assets in USD million	Compustat
ROA	Return on assets	Compustat
R&D/AT	Expenditure on research and development, scaled by total assets	Compustat
Capex/AT	Capital expenditures, scaled by total assets	Compustat
Antitrade	Equals 1 if the firm is in a state where at least one senator voted against the USMCA	Senate.gov
Political risk	The degree of political risk in a firm as of 2016	Firmlevelrisk.com
Employees/Revenues	Number of employees, scaled by revenues	Compustat
Employees/Assets	Number of employees, scaled by total assets	Compustat
Ln (1 + Employees)	The natural logarithm of one plus the number of employees	Compustat

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Table 1. Descriptive Statistics

Table 1 reports mean, median, 10th and 90th percentile, and standard deviation of the key variables of interest in our sample. Variables are defined in Appendix Table C1. Political expenditures (both contributions and lobbying expenditures) are scaled by "millions of total assets."

Variable	N. Obs	Mean	Std. Dev	10th pctile	Median	90th pctile
Approved	7015	0.146	0.353	0	0	1
Rep contributions / AT	7015	2.007	5.966	0	0	5.327
Dem contributions / AT	7015	0.530	1.751	0	0	1.396
Total contributions / AT	7015	2.538	7.141	0	0	6.548
Lobbying / AT	7015	5.023	10.254	0	0	28.728
Log (1 + Rep contributions)	7015	3.266	5.052	0	0	11.651
Log (1 + Dem contributions)	7015	2.353	4.372	0	0	10.342
Log (1 + Lobbying)	7015	2.879	5.625	0	0	13.517
Dual donor	7015	0.230	0.421	0	0	1
PAC	7015	0.372	0.484	0	0	1
Final product	7015	0.368	0.482	0	0	1
Substitute	6716	0.210	0.408	0	0	1
China 2025	7015	0.386	0.487	0	0	1
Size (natural log of AT)	7015	8.898	2.109	6.018	9.077	11.971
ROA	7015	0.049	0.080	-0.041	0.054	0.138
R&D/AT	7015	0.026	0.035	0.000	0.015	0.066
Capex/AT	7015	0.036	0.029	0.011	0.026	0.087

Table 2. Univariate Analysis

Table 2 reports the number of observations and means for the main variables of interest for two sub-samples, including, respectively, only exemption applications that are eventually approved, and only rejected ones. In addition, the table includes differences in means between the sub-samples, and *p*-values from two-sided *t*-tests for differences in means. Variables are defined in Appendix Table C1.

	Approved			Rejected	
Variable	N. Obs	Mean	*p*-value	N. Obs	Mean
Rep contributions / AT	1022	3.797	<0.001	5993	1.702
Dem contributions / AT	1022	0.312	<0.001	5993	0.568
Total contributions / AT	1022	4.109	<0.001	5993	2.270
Lobbying / AT	1022	6.764	<0.001	5993	4.726
Log (1 + Rep contributions)	1022	3.440	0.242	5993	3.236
Log (1 + Dem contributions)	1022	2.065	0.016	5993	2.402
Log (1 + Total contributions)	1022	3.535	0.264	5993	2.767
Log (1 + Lobbying)	1022	3.797	<0.001	5993	1.702
Dual donor	1022	0.207	0.062	5993	0.233
PAC	1022	0.387	0.287	5993	0.370
Final product	1022	0.163	<0.001	5993	0.403
Substitute	964	0.204	0.625	5752	0.211
China 2025	1022	0.622	<0.001	5993	0.346
Size (natural log of AT)	1022	9.036	0.007	5993	8.875
ROA	1022	0.046	0.156	5993	0.050
R&D/ AT	1022	0.027	0.157	5993	0.026
CAPX / AT	1022	0.031	<0.001	5993	0.037

Table 3. Exemption Approval Determinants

This table presents coefficient estimates (not marginal effects) from probit models to test the effect of campaign contributions by party on the probability of receiving tariff exemptions. The response variable is *Approved* (a binary variable set equal to one if the exemption application is approved). Complete variable definitions are in Appendix Table C1. *Contribution ratio* is computes as "one plus the dollar value of aggregate contributions by the firm to Republican politicians during the 2016 cycle, divided by one plus the dollar value of aggregate contributions by the firm to Democrat politicians during the 2016 cycle." *Gov experience* is a binary variable, set equal to one if any of the directors or executives at the firm has prior experience working in the government. *Executive rep contributions* and *Executive dem contributions* are the natural logarithm of one plus the sum of dollar contributions of executives to, respectively, Republican and Democrat politicians. Firm-level characteristics are winsorized at the 1st and 99th percentiles. Standard errors are adjusted for firm and list level clustering. Two-sided *z*-statistics are reported in parenthesis. ***, **, and * represent 1%, 5%, and 10% statistical significance levels, respectively.

	(1)	(2)	(3)	(4)	(5)
Variable	*Approved*	*Approved*	*Approved*	*Approved*	*Approved*
Rep contributions / AT	0.0576		0.0548		0.0555
	(3.02)***		(14.17)***		(13.94)***
Dem contributions / AT	-0.1811		-0.1613		-0.1718
	(-5.17)***		(-6.98)***		(-5.82)***
Contribution ratio		0.0544		0.0645	
		(3.63)***		(7.32)***	
Lobbying / AT	0.0109	0.0122	0.0171	0.0164	0.0173
	(2.47)**	(2.84)***	(2.89)***	(3.35)***	(2.07)**
Dual donor	0.0043	-0.1768	0.1156	0.0572	0.1225
	(0.01)	(-0.41)	(0.67)	(0.22)	(0.66)
PAC	-0.3551	-0.2197	-0.4666	-0.5025	-0.4518
	(-0.96)	(-0.55)	(-3.02)***	(-2.72)***	(-3.34)***
Substitute			-0.3147	-0.3324	-0.3092
			(-5.56)***	(-5.17)***	(-5.62)***
Final product			-0.1466	-0.1616	-0.1192
			(-2.50)**	(-2.77)***	(-1.28)
China 2025			-4.387	-4.3785	-4.3494
			(-12.60)***	(-13.86)***	(-10.96)***
Gov experience					-0.1858
					(-0.94)
Executive Rep contributions					0.0323
					(2.36)**
Executive Dem contributions					-0.0024
					(-0.07)

Table 3. Exemption Approval Determinants – Continued

Variable	(1) *Approved*	(2) *Approved*	(3) *Approved*	(4) *Approved*	(5) *Approved*
Size	0.0365	0.1036	0.0036	0.0100	-0.0128
	(1.94)*	(0.95)	(0.18)	(0.37)	(-0.66)
ROA	-0.8726	-7.5313	-1.541	-1.5645	-1.4297
	(-0.82)	(-4.49)***	(-0.88)	(-0.90)	(-0.88)
R&D/AT	-0.8307	-7.5216	-2.3632	-2.4862	-2.0243
	(-0.82)	(-0.98)	(-4.91)***	(-4.65)***	(-3.65)***
Capex/AT	-8.3015	-6.3653	-8.0582	-8.5294	-7.26
	(-4.01)***	(-1.17)	(-2.52)**	(-2.87)***	(-2.37)**
Constant	-2.4965	-2.8219	-1.6113	-1.6848	-1.6388
	(-6.03)***	(-2.57)**	(-3.60)***	(-3.24)***	(-3.08)***
List fixed effects	YES	YES	YES	YES	YES
Product code fixed effects	YES	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES	YES
Observations	7,015	1,335	6,716	6,716	6,716
Pseudo R^2	0.232	0.216	0.245	0.246	0.25

Table 4. Exemption Approval Determinants and Influential Politicians

This table presents coefficient estimates (not marginal effects from probit models to test the effect of campaign contributions by party on the probability of receiving tariff exemptions after controlling for USTR-provided tariff-exemption criteria. In Model (1) we only consider contributions to senators. In Model (2) only contributions to Senators on the Finance Committee. In Model (3) only contributions to Senators on the Leadership Committee. The response variable is *Approved* (a binary variable set equal to one if the exemption application is approved). Complete variable definitions are in Appendix Table C1. Firm-level characteristics are winsorized at the 1st and 99th percentiles. Standard errors are adjusted for firm and list level clustering. Two-sided *z*-statistics are reported in parenthesis. ***, **, and * represent 1%, 5%, and 10% statistical significance levels, respectively.

	(1)	(2)	(3)
	All Senators	Finance Comm.	Leadership Comm.
Variable	*Approved*	*Approved*	*Approved*
Rep contributions / AT	0.1194	0.1509	1.3573
	(2.77)***	(1.00)	(2.35)**
Dem contributions / AT	-1.4099	-0.4526	-0.0239
	(-3.84)***	(-2.49)**	(-0.15)
Lobbying / AT	0.0214	0.0199	0.0176
	(4.92)***	(5.47)***	(5.81)***
Dual donor	0.0597	-0.2905	-0.3660
	(0.82)	(-55.29)***	(-4.94)***
PAC	-0.2403	-0.1985	-0.1729
	(-1.99)**	(-1.89)*	(-1.49)
Substitute	-0.1920	-0.2490	-0.2174
	(-3.33)***	(-4.05)***	(-2.72)***
Final product	-0.1827	-0.2097	-0.1710
	(-2.79)***	(-3.82)***	(-2.34)**
China 2025	-4.3348	-4.4420	-4.4267
	(-18.54)***	(-11.58)***	(-13.32)***
Size	-0.0167	0.0119	0.0076
	(-0.54)	(0.72)	(0.31)
ROA	-1.7992	-1.7537	-1.6652
	(-0.94)	(-0.96)	(-0.89)
R&D/AT	-2.4925	-0.8736	-1.4558
	(-3.98)***	(-2.10)**	(-4.10)***
Capex/AT	-7.6972	-5.3467	-6.3153
	(-1.57)	(-1.49)	(-1.93)*
Constant	-0.7640	-0.7794	-1.8539
	(-2.01)**	(-2.47)**	(-2.79)***
List fixed effects	YES	YES	YES
Product code fixed effects	YES	YES	YES
Industry fixed effects	YES	YES	YES
Observations	6,716	6,716	6,716
Pseudo R2	0.24	0.234	0.235

Table 5. Alternative Explanations

This table presents coefficient estimates (not marginal effects) from probit models to test the effect of campaign contributions by party on the probability of receiving tariff exemptions. The response variable is *Approved* (a binary variable set equal to one if the exemption application is approved). Firm-level control variables (*Dual donor*, *PAC*, *Size*, *ROA*, *R&D/TA*, *Capex/TA*) are included but suppressed for brevity. Complete variable definitions are in Appendix Table C1. Model (1) excludes red states, identified as states that had two Republican senators since 2000 (AL, AZ, ID, KS, KY, MS, OK, TN, TX, UT, WY). Model (2) controls for anti-trade states (i.e. states where at least one senator voted against the USMCA: CA, HI, MA, NJ, NY, OK, PA, RI, VT). Model (3) includes state fixed effects. Model (4) controls for political risk. Model (5) excludes industries that donate the most to Republicans: poultry and eggs (sic 0252 and 0259), trucking (sic 4212 and 4213), building materials (sic 5212), mining (sic between 1000 and 1499), oil & gas (sic between 1310 and 1329), home builders (sic between 1520 and 1529), livestock (sic 5154), automotive (sic 5512, 5521, 5531, 5561, 5571, 7532, 7534, and sic between 7536 and 7539), crop production (0019), agricultural services (sic between 0700 and 0799), food and beverage (sic 5812 and 5813), steel (sic 3441), miscellaneous manufacturing (sic between 2000 and 2999), chemicals (sic 2899), and forest products (sic between 0830 and 0839). Models (6) and (7) control for firm-level employment. *Employee*/*Assets* is the number of employees of the firm scaled by total assets. *Employee*/*State population* is the same, scaled by the number of residents of the state in which the firm is headquartered. Firm-level characteristics are winsorized at the 1% and 99%. Standard errors are adjusted for firm and list level clustering. Two-sided *z*-statistics are reported in parenthesis. ***, **, and * represent 1%, 5%, and 10% statistical significance levels respectively.

Table 5. Alternative Explanations – Continued

	No "red" states			No "top donor" industries			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
VARIABLES	*Approved*	*Approved*	*Approved*	*Approved*	*Approved*	*Approved*	*Approved*
Republican contributions / AT	0.0626	0.0541	0.0539	0.0576	0.0492	0.0572	0.0569
	(7.36)***	(18.19)***	(6.34)***	(12.20)***	(5.78)***	(6.06)***	(6.23)***
Democratic contributions / AT	-0.1648	-0.1591	-0.148	-0.1509	-0.1536	-0.1704	-0.1759
	(-8.50)***	(-6.39)***	(-8.90)***	(-8.73)***	(-2.32)**	(-9.63)***	(-17.35)***
Lobbying / AT	0.0203	0.017	0.0207	0.0213	0.021	0.0219	0.021
	(3.88)***	(2.95)***	(1.06)	(1.04)	(1.08)	(1.07)	(0.97)
Antitrade		-0.0854					
		(-4.16)***					
Political risk				-0.001			
				(-1.42)			
Employees/Assets						-0.0084	
						(-0.28)	
Employees/State population							-0.0044
							(-0.72)
Constant	-1.3472	-1.6842	-1.3992	-1.4152	-0.8334	-1.3483	-1.5684
	(-3.77)***	(-3.84)***	(-3.27)***	(-3.12)***	(-1.41)	(-2.70)***	(-6.18)***
Firm-level controls	YES	YES	YES	YES	YES	YES	YES
List fixed effects	YES	YES	YES	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES	YES	YES	YES
State fixed effects	NO	NO	YES	YES	YES	YES	YES
Pseudo R^2	0.263	0.246	0.286	0.287	0.29	0.293	0.293
Observations	6,187	6,716	6,716	6,716	5,652	6,504	6,504

Table 6. Event Study Results

This table presents cumulative abnormal returns (CARs) around the announcement of decisions (accept vs. reject) regarding trade tariff exemption applications. Day 0 is the day on which the decision is announced. Event windows are labelled accordingly. Panel A includes the number of observations, mean, median, standard deviation, and 10^{th} and 90^{th} percentiles of the distribution of CARs. Panel B includes the number of observations, mean, and standard deviation for data subsets focusing on accepted and rejected exemption applications. Further, the table includes the difference in means between the two subsets and *p*-values from a two-sided *t*-test for significance of the difference in means. Panel C and Panel D mirror Panel B in construction, respectively for accepted and rejected exemption applications. In each panel, mean abnormal returns for "high probability" exemption applications are compared to mean abnormal returns for "low probability" exemption applications. "Low probability" ("High probability") exemption applications are those for which the difference between campaign contributions to Republican politicians and Democrat politicians are below (above) the median of the sample distribution; only firms with at least one non-zero contribution are included. ***, **, and * represent 1%, 5%, and 10% statistical significance levels, respectively.

Panel A. All exemption applications

Window	N Obs	Mean	Median	St Dev	p10	p90
(0,+1)	5756	-0.139%	-0.075%	1.968%	-2.663%	2.068%
(0,+2)	5756	-0.007%	0.189%	2.411%	-3.261%	2.820%
(-1,+1)	5756	-0.237%	-0.035%	2.544%	-3.981%	2.762%
(-2,+2)	5756	-0.043%	0.253%	3.320%	-4.329%	3.744%

Panel B. Difference of means

	Approved					Rejected	
Window	N Obs	Mean	Difference		P-value	N Obs	Mean
(0,+1)	890	0.24%	0.45%	***	<0.001	4434	-0.21%
(0,+2)	890	0.65%	0.72%	***	<0.001	4434	-0.08%
(-1,+1)	890	0.02%	0.27%	***	0.003	4434	-0.25%
(-2,+2)	890	0.51%	0.61%	***	<0.001	4434	-0.10%

Table 6. Event Study Results - Continued

This table presents cumulative abnormal returns (CARs) around the announcement of decisions (accept vs. reject) regarding trade tariff exemption applications. Day 0 is the day on which the decision is announced. Event windows are labelled accordingly. CARs are computed using a four-factor (Fama-French three factors plus momentum) model estimated over one-hundred trading days ending ten days prior to the event. Panel A includes the number of observations, mean, median, standard deviation, and 10^{th} and 90^{th} percentiles of the distribution of CARs. Panel B includes the number of observations, mean, and standard deviation for data subsets focusing on accepted and rejected exemption applications. Further, the table includes the difference in means between the two subsets and *p*-values from a two-sided *t*-test for significance of the difference in means. Panels C and Panel D mirror Panel B in construction, respectively for accepted and rejected exemption applications. In each panel, mean abnormal returns for "high probability" exemption applications are compared to mean abnormal returns for "low probability" exemption applications. "Low probability" ("High probability") exemption applications are those for which the difference between campaign contributions to Republican politicians and Democratic politicians are below (above) the median of the sample distribution; only firms with at least one non-zero contribution are included. ***, **, and * represent 1%, 5%, and 10% statistical significance levels, respectively.

Panel C – Approved exemption applications only

Low probability of acceptance							High probability of acceptance			
Window	N Obs	Mean	St Dev	Difference		*p*-value	Window	N Obs	Mean	St Dev
(0,+1)	85	1.34%	1.34%	1.11%	***	<0.001	(0,+1)	169	0.23%	0.45%
(0,+2)	85	1.74%	1.42%	1.52%	***	<0.001	(0,+2)	169	0.22%	0.09%
(-1,+1)	85	0.87%	1.96%	1.38%	***	<0.001	(-1,+1)	169	-0.51%	-0.63%
(-2,+2)	85	2.18%	2.29%	2.99%	***	<0.001	(-2,+2)	169	-0.81%	-1.35%

Panel D – Rejected exemption applications only

Low probability of acceptance							High probability of acceptance			
Window	N Obs	Mean	St Dev	Difference		*p*-value	Window	N Obs	Mean	St Dev
(0,+1)	658	0.20%	0.25%	0.40%	***	<0.001	(0,+1)	632	-0.20%	-0.58%
(0,+2)	658	0.17%	0.37%	0.03%		0.391	(0,+2)	632	0.14%	0.04%
(-1,+1)	658	0.21%	0.05%	-0.05%		0.6732	(-1,+1)	632	0.27%	-0.17%
(-2,+2)	658	0.26%	0.21%	-0.39%		0.999	(-2,+2)	632	0.64%	0.25%

Table 7. Event Study Regressions

This table presents results from OLS regressions of the stock price reaction to tariff exemption decisions by the United States Trade Representative (USTR). The response variable is the cumulative abnormal return for the stock price of the filing firm, over an event window around the announcement of the adjudication decision (approval or rejection) for trade-tariff exemption applications, estimated as described in Table 6. Complete variable definitions are in Appendix Table C1. *Predicted approval* is the fitted probability of approval estimated on the basis of the model presented in column (3) of Table 5. *Surprise* is the difference between *Approved* and *Predicted approval*. Firm-level characteristics are winsorized at the 1st and 99th percentiles. Standard errors are adjusted for firm and list level clustering. Two-sided *t*-statistics are reported in parenthesis. ***, **, and * represent 1%, 5%, and 10% statistical significance levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VARIABLES	*CAR (0,+1)*	*CAR (0,+2)*	*CAR(-1,+1)*	*(CAR-2,+2)*	*CAR (0,+1)*	*CAR (0,+2)*	*CAR(-1,+1)*	*(CAR-2,+2)*
Approved	0.0056	0.0082	0.0044	0.0079				
	(2.76)***	(4.14)***	(2.23)**	(2.33)**				
Predicted approval	-0.0188	-0.0360	-0.0387	-0.0589	-0.0132	-0.0278	-0.0342	-0.0510
	(-4.54)***	(-3.69)***	(-5.03)***	(-4.28)***	(-5.69)***	(-3.46)***	(-5.54)***	(-4.17)***
Surprise					0.0056	0.0082	0.0044	0.0079
					(2.76)***	(4.14)***	(2.23)**	(2.33)**
Size	0.0001	-0.0003	0.0008	0.0008	0.0001	-0.0003	0.0008	0.0008
	(0.12)	(-0.43)	(2.03)**	(1.24)	(0.12)	(-0.43)	(2.03)**	(1.24)
ROA	0.0023	0.0020	-0.0045	0.0128	0.0023	0.0020	-0.0045	0.0128
	(0.15)	(0.07)	(-0.22)	(0.26)	(0.15)	(0.07)	(-0.22)	(0.26)
R&D/TA	0.0112	-0.0041	-0.0510	-0.0665	0.0112	-0.0041	-0.0510	-0.0665
	(0.30)	(-0.07)	(-0.83)	(-1.40)	(0.30)	(-0.07)	(-0.83)	(-1.40)
Capex/TA	0.0061	0.0040	-0.0112	0.0070	0.0061	0.0040	-0.0112	0.0070
	(0.29)	(0.25)	(-0.19)	(0.12)	(0.29)	(0.25)	(-0.19)	(0.12)
Constant	-0.0098	-0.0036	-0.0155	-0.0157	-0.0098	-0.0036	-0.0155	-0.0157
	(-1.33)	(-0.51)	(-4.29)***	(-4.71)***	(-1.33)	(-0.51)	(-4.29)***	(-4.71)***
Observations	5,127	5,127	5,127	5,127	5,127	5,127	5,127	5,127
Industry FE	YES	YES	YES	YES	YES	YES	YES	YES
Product FE	YES	YES	YES	YES	YES	YES	YES	YES
List FE	YES	YES	YES	YES	YES	YES	YES	YES
R-squared	0.108	0.096	0.120	0.111	0.108	0.096	0.120	0.111

Internet Appendix IA – Event Studies at Tariff Announcement
The Political Economy of Tariff Exemption Grants
July 29, 2024

We aim to investigate the impact of trade tariffs on the valuation of affected firms. The event dates we use for our test cover the announcement of the first set of steel and aluminum tariffs (January 22, 2018); the resignation of Gary Cohn (March 6, 2018) who, until then, was the White House's chief economic advisor and was widely seen as opposing tariffs and whose departure was interpreted in the media as a precursor for a more stringent tariff regime; the announcements of the four lists of tariffs on Chinese goods (respectively on March 3, August 23, September 24, in 2018, and May 20, 2019); the threat to impose additional tariffs on over $500 billion of goods from China (articulated by then President Trump on September 7, 2018), and finally the January 15, 2020 agreement between China and the USA which prohibited further tariff impositions or increases—but did not remove existing tariffs as had been expected.

Defining a sample of companies that would be subject to prospective tariffs before the scale and scope of these were even specified is a challenge. As a rough proxy, we define as "treated" all US publicly traded firms in manufacturing sectors (industry codes 1, 2, 3, and 6 in the Fama-French 12-industry classification); all other US publicly traded firms (with the exclusion of industry code 9, which we cannot confidently code as either manufacturing or not-manufacturing) are part of the control group. We compute cumulative abnormal returns (CARs) over various short-term event windows (three, seven, and eleven days) around the day of the announcement (day *t*), using the Fama-French three-factor model for the estimation period (ranging days *t*-115 to *t*-15). We compute the difference between CARs for treated and untreated firms over the different event days and windows; we present our findings in Appendix Table IA1.

Based on the short (three-day) event window, we find that announcements are mostly met

with negative reactions (estimated abnormal returns are negative in all cases, except for dates "2" and "7" – the resignation of Gary Cohn and the threat of additional tariffs in September 2018). Statistical significance, however, is inconsistent, as we find that only the market reaction to Steel and Aluminum tariffs and "list 3" tariffs are statistically significant. The longer, eleven-day event window, leads to estimates that are larger in magnitude and, in general, higher levels of statistical significance. Given the large amount of rumors and speculation in the days leading to the actual announcements, and the clarifying statements issued in subsequent days, we believe that a focus on the longer event windows is appropriate. For the announcement of steel and aluminum tariffs, the resignation of Gary Cohn, and at the announcement of list 2, 3, and 4 tariffs, we find statistically significant negative abnormal CARs ranging from -1.1% to -1.8%. The announcement of list 4 tariffs and the January 15, 2020 agreement both lead to negative but not statistically significant CARs. The announcement of list 1 goods is similarly associated with an insignificant market reaction. Given the much smaller aggregate value of goods covered by list 1, compared to subsequent lists, we believe the weaker market reaction is not surprising.

For robustness, we replicate the same analysis using a different set of firms. We use firms that apply for tariff exemptions as our set of "treated" firms and all other US based, publicly traded, non-manufacturing firms as controls. The findings, presented in Appendix Table IA2, are mostly equivalent, but the estimated abnormal returns are somewhat larger in magnitude. The exception is the announcement of the first list of tariffs, which produces inconsistent results across different event windows.

Overall, our findings indicate that the tariff announcements induced a significant decline in the market capitalization of affected firms. In other words, the tariffs were material and unanticipated.

Appendix Table IA1: Event Studies at Tariff Announcement

This table presents cumulative abnormal returns (CARs) for treated firms minus CARs for control firms around key trade related announcements. Treated firms are those in manufacturing (industries 1, 2, 3, and 6 in the Fama French-12 industry classification) whereas control firms are the rest. We exclude industry 9 in the Fama French-12 industry classification. The estimation period as t-115 to t-15 where day t is the key event date. We use the Fama French 3-factor model for the estimation period. CARs are presented in Panel A and the key dates are described in Panel B. ***, **, and * represent 1%, 5%, and 10% statistical significance levels (for the hypothesis test that the CARs are equal to zero), respectively.

Panel A.

	Event study windows		
Key Dates	**t-1 to t+1**	**t-3 to t+3**	**t-5 to t+5**
Date 1	-0.8027% ***	-0.192%	0.273%
Date 2	0.0893%	-1.776% **	-2.047% **
Date 3	-0.2698%	0.284%	1.592% ***
Date 4	-0.2496%	-0.132%	-1.475% ***
Date 5	-1.2881% ***	-1.653% ***	-2.522% ***
Date 6	-0.2496%	-1.124% ***	-2.732% ***
Date 7	0.5780% ***	0.106%	-0.029%
Agreement date	-0.4925% ***	-0.225%	-0.824%

Panel B.

Name	**Date**	**Description of announcement**
Date 1	1/22/18	Steel and Aluminum tariffs
Date 2	3/6/18	Resignation of Gary Cohn
Date 3	3/22/18	Tariffs on $34 billion of goods (list 1)
Date 4	8/23/18	Tariffs on $50 billion of goods (list 2)
Date 5	9/24/18	Tariffs on $200 billion of goods (list 3)
Date 6	5/10/19	Tariffs on $250 billion of goods (list 4)
Date 7	9/7/18	President Trump threatens to impose tariffs on up to $517 billion
Agreement date	1/15/20	China and US agreement (without removal of tariffs to products from China)

Appendix Table IA2: Event Studies at Tariff Announcement

This table presents cumulative abnormal returns (CARs) for treated firms minus CARs for control firms around key trade related announcements. Treated firms are those that applied for tariff exemptions from China tariffs. Control firms are those not in manufacturing (industries 4, 5, 7, 8, 10, 11, and 12 in the Fama French-12 industry classification. The estimation period as t-115 to t-15 where day t is the key event date. We use the Fama French 3-factor model for the estimation period. CARs are presented in Panel A and the key dates are described in Panel B. ***, **, and * represent 1%, 5%, and 10% statistical significance levels (for the hypothesis test that the CARs are equal to zero), respectively.

Panel A.

	Event study windows		
Key Dates	**t-1 to t+1**	**t-3 to t+3**	**t-5 to t+5**
Date 1	-1.019% ***	-1.063% ***	-1.096% ***
Date 2	0.004%	-1.315% ***	-1.247% ***
Date 3	-0.053%	0.341%	1.037%
Date 4	-0.003%	-0.045%	-1.155% **
Date 5	-0.886% **	-1.461% ***	-1.608% ***
Date 6	-0.366% **	-0.636% ***	-1.832% ***
Date 7	0.376%	-0.210%	-0.088%
Agreement date	0.219%	-0.265%	-0.438%

Panel B.

Name	**Date**	**Description of announcement**
Date 1	1/22/18	Steel and Aluminum tariffs
Date 2	3/6/18	Resignation of Gary Cohn
Date 3	3/22/18	Tariffs on $34 billion of goods (list 1)
Date 4	8/23/18	Tariffs on $50 billion of goods (list 2)
Date 5	9/24/18	Tariffs on $200 billion of goods (list 3)
Date 6	5/10/19	Tariffs on $250 billion of goods (list 4)
Date 7	9/7/18	President Trump threatens to impose tariffs on up to $517 billion
Agreement date	1/15/20	China and US agreement (without removal of tariffs to products from China)

Internet Appendix IB – Additional Robustness Tests

Appendix Table IB1. Linear Probability Models

This table presents coefficient estimates from OLS models to test the effect of campaign contributions by party on the probability of receiving tariff exemptions. The response variable is *Approved* (a binary variable set equal to one if the exemption application is approved). Complete variable definitions are in Appendix Table C1. Firm-level characteristics are winsorized at the 1st and 99th percentiles. Standard errors are adjusted for firm and list level clustering. Two-sided *z*-statistics are reported in parenthesis. ***, **, and * represent 1%, 5%, and 10% statistical significance levels, respectively.

VARIABLES	(1) Approved	(2) Approved
Rep contributions / AT	0.0127	0.0142
	(5.69)**	(13.59)***
Dem contributions / AT	-0.0358	-0.0366
	(-6.04)**	(-5.25)**
Contribution Ratio		
Lobbying / AT	0.0031	0.0034
	(2.27)	(1.84)
Dual donor	0.0103	0.0335
	(0.17)	(1.25)
PAC	-0.0622	-0.0925
	(-1.14)	(-3.26)*
Substitute		-0.0603
		(-2.24)
Final product		-0.0179
		(-0.92)
China 2025		-0.1194
		(-2.00)
Size	0.0008	0.0005
	(0.17)	(0.11)
ROA	-0.2635	-0.2324
	(-0.81)	(-0.70)
R&D/AT	-0.4775	-0.4592
	(-3.07)*	(-3.11)*
Capex/AT	-1.3326	-1.3604
	(-2.19)	(-2.20)
Constant	0.1251	0.1578
	(2.42)	(3.13)*
List fixed effects	YES	YES
Product code fixed effects	YES	YES
Industry fixed effects	YES	YES
Observations	7,015	6,716
Adjusted R^2	0.184	0.193

Appendix Table IB2. Exemption Approval Determinants, Robustness Tests, Multicollinearity

This table presents coefficient estimates (not marginal effects) from probit models to test the effect of campaign contributions by party on the probability of receiving tariff exemptions. The response variable is *Approved* (a binary variable set equal to one if the exemption application is approved). Complete variable definitions are in Appendix Table C1. Firm-level characteristics are winsorized at the 1st and 99th percentiles. Standard errors are adjusted for firm and list level clustering. Two-sided *z*-statistics are reported in parenthesis. ***, **, and * represent 1%, 5%, and 10% statistical significance levels, respectively.

	(1)	(2)	(3)	(4)	(5)
Variable	*Approved*	*Approved*	*Approved*	*Approved*	*Approved*
Rep contributions / AT		0.0363		0.0292	
		(1.94)*		(5.75)***	
Dem contributions / AT			-0.0794		-0.0623
			(-1.93)*		(-1.44)
Lobbying / AT	0.0161	0.0105	0.0217	0.0168	0.0219
	(3.97)***	(2.60)***	-1.53	(3.44)***	(8.17)***
Dual donor	-0.423	-0.4611	-0.2762	-0.2699	-0.1502
	(-1.82)*	(-2.34)**	(-2.62)***	(-1.87)*	(-2.12)**
PAC	-0.0045	-0.1827	-0.0692	-0.3173	-0.2153
	(-0.02)	(-0.70)	(-0.39)	(-2.32)**	(-1.99)**
Substitute				-0.3029	-0.2092
				(-3.53)***	(-3.46)***
Final product				-0.1522	-0.1322
				(-2.36)**	(-2.14)**
China 2025				-4.402	-4.5423
				(-13.06)***	(-13.05)***
Size	0.0047	0.0549	0.008	0.0182	-0.0098
	(0.24)	(2.92)***	(0.35)	(0.72)	(-0.48)
ROA	-1.8619	-1.0909	-0.7949	-1.6692	-1.747
	(-1.12)	(-1.26)	(-0.72)	(-0.99)	(-0.97)
R&D/AT	-1.7733	0.357	1.0676	-1.8738	-1.7158
	(-2.91)***	(0.46)	(1.46)	(-3.88)***	(-6.68)***
Capex/AT	-6.4705	-8.5032	-6.659	-7.0035	-6.476
	(-1.97)**	(-3.95)***	(-2.81)***	(-2.44)**	(-1.78)*
Constant	-2.0483	-2.6597	-2.3762	-1.8172	-1.6539
	(-4.02)***	(-6.89)***	(-5.70)***	(-3.11)***	(-3.15)***
List fixed effects	YES	YES	YES	YES	YES
Product code fixed effects	YES	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES	YES
Observations	7,015	7,015	7,015	6,716	6,716
Pseudo R^2	0.221	0.224	0.224	0.236	0.232

Internet Appendix IC – Contributions to Both Parties, Politically Active Firms, and Unscaled Contributions

For additional robustness tests aimed at the correlation of contribution variables, we construct a new variable, measuring the difference between contributions to Republican and contributions to Democratic politicians (scaled by total assets). We use this variable in model (1) of Table IC1; our prior is that this variable will directly relate to the probability of subsequent approval. Our findings are consistent: the difference between contributions to Republican and Democratic candidates is associated with a statistically significant and positive coefficient. As a second robustness test, we replicate the same model, but we exclude the *Dual donor* binary variable; our findings, presented under model (2) are robust.

As a third robustness test, we focus on firms that tend to donate predominantly to one, or to the other, party. We identify such "concentrated donors" if over 66% of their contributions are to politicians from one specific party. We replicate our analysis in this smaller sample, spanning 1,217 trade tariff exemption applications. We present our findings in model (3) of Table IC1. The probability of approval is positively related to the size of the lobbying expenditures, and positively (negatively) related to the size of contributions to Republican (Democratic) politicians. Compared to our baseline analysis, the magnitude of the estimated coefficients is larger. This is not surprising, given that we are effectively identifying the firms with the strongest links to one of the parties.

In addition, to ensure that our results are not driven by the distinction between "politically active" and "politically inactive" firms, in additional tests, we restrict our analysis to firms that make a non-zero campaign contribution. In this sample in model (4) of Table IC1, spanning 1,928 trade tariff exemption applications, we once more find consistent results. The probability of approval is positively related to the size of the lobbying expenditures, and positively (negatively)

related to the size of contributions to Republican (Democrat) politicians.

In the analysis presented so far, all political expenditures (lobbying and campaign contributions) are scaled by firms' total assets. In additional analyses, we substitute the natural logarithm of the dollar value of political expenditures for the scaled variables used in previous analyses. Our findings are presented in models (5)-(7) of Table IC1. For brevity, we simply note here that the results indicate that our main inferences are robust, regardless of scaling political expenditures; the statistical significance of our findings is however weaker, in this specification.

As additional robustness tests, we construct alternative "ratio" metrics to replace the Contribution Ratio presented in Table 3 of the main manuscript. We construct a second metric, *Contribution Ratio B*, as the simple ratio of the dollar value of contributions to all Republican politicians divided by the dollar value of contributions to all Democrat politicians, by the same firm, over the 2016 cycle). Finally, we construct *Contribution Ratio C* just as we compute *Contribution Ratio* , but we set *Contribution Ratio C* to be equal to zero if contributions to Democrat politicians add to zero. We add these ratios, one at the time, in lieu of contributions variable to our models. Results are presented in Appendix Table IC2. In all cases, as expected, the coefficient estimates associated with these ratios are positive and statistically significant, indicating that a higher proportion of contributions going to Republican (rather than Democrat) politicians is associated with a higher likelihood of obtaining exemptions, as per our priors.

Appendix Table IC1. Additional Robustness Tests – Contributions to Both Parties and Unscaled Contributions

This table presents coefficient estimates (not marginal effects) from probit models of robustness tests of the effect of campaign contributions by party on the probability of receiving tariff exemptions. The response variable is *Approved* (a binary variable set equal to one if the exemption application is approved). Model (3) is restricted to firms whose political contributions are at least 66% focused on republican or democrat candidates. Model (4) is restricted to the sample of firms that make political contributions. Complete variable definitions are in Appendix Table C1. Firm-level characteristics are winsorized at the 1st and 99th percentiles. Standard errors are adjusted for firm and list level clustering. Two-sided *z*-statistics are reported in parenthesis. ***, **, and * represent 1%, 5%, and 10% statistical significance levels, respectively.

			Only concentrated donors	Only donor firms			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Variable	*Approved*	*Approved*	*Approved*	*Approved*	*Approved*	*Approved*	*Approved*
Rep contributions / AT			0.1090	0.0594			
			(15.95)***	(4.88)***			
Dem contributions / AT			-0.3663	-0.1877			
			(-6.62)***	(-8.68)***			
Lobbying / AT	0.0158	0.0158	0.0065	0.0094			
	(1.87)*	(1.77)*	(0.61)	(1.57)			
(Republican minus Democrat contributions) / AT	0.0439	0.0460					
	(5.61)***	(6.51)***					
Log (1 + Rep contributions)					0.0578		0.0756
					(1.70)*		(1.73)*
Log (1 + Dem contributions)						-0.1683	-0.2327
						(-1.93)*	(-1.86)*
Log (1 + Lobbying)					0.0409	0.0469	0.0435
					(5.29)***	(6.93)***	(6.64)***
Dual donor	-0.1507		0.9842	0.4525	-0.7387	1.2646	1.5461
	(-1.32)		(3.33)***	(1.82)*	(-2.00)**	(1.70)*	(1.60)
Includes control variables	YES	YES	YES	YES	YES	YES	YES
List fixed effects	YES	YES	YES	YES	YES	YES	YES
Product code fixed effects	YES	YES	YES	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES	YES	YES	YES
Observations	6,716	6,716	1,217	1,928	6,716	6,716	6,716
Pseudo R^2	0.240	0.240	0.366	0.243	0.214	0.212	0.220

Appendix Table IC2. Exemption Approval Determinants, Robustness Tests

This table presents coefficient estimates (not marginal effects) from probit models to test the effect of campaign contributions by party on the probability of receiving tariff exemptions. The response variable is *Approved* (a binary variable set equal to one if the exemption application is approved). *Contribution ratio B* is the ratio of the dollar value of total contributions to Republican politicians divided by the dollar value of total contributions to Democrat politicians, by firm. *Contribution ratio C* is identical to *Contribution ratio B*, but is set equal to zero if the firm is making no contributions to Democrat politicians. Other variable definitions are in Appendix Table C1. Firm-level characteristics are winsorized at the 1st and 99th percentiles. Standard errors are adjusted for firm and list level clustering. Two-sided *z*-statistics are reported in parenthesis. ***, **, and * represent 1%, 5%, and 10% statistical significance levels, respectively.

	(1)	(2)	(3)	(4)
Variable	*Approved*	*Approved*	*Approved*	*Approved*
Contribution ratio B	0.0469	0.0485		
	(2.10)**	(2.19)**		
Contribution ratio C			0.0457	0.0396
			(3.38)***	(2.39)**
Lobbying / AT	-0.0065	-0.0053	0.0243	0.0285
	(-0.43)	(-0.40)	(2.32)**	(4.06)***
Dual donor			-0.6552	-0.5216
			(-3.49)***	(-3.66)***
PAC			0.0185	-0.1533
			(0.07)	(-1.86)*
Substitute		-0.5379		-0.1637
		(-1.07)		(-1.27)
Final product		0.9707		-0.1811
		(1.42)		(-3.15)***
China 2025		-5.1309		-4.5123
		(-15.89)***		(-21.30)***
Size	0.1036	0.0988	-0.0053	-0.0092
	(0.95)	(1.36)	(-0.28)	(-0.38)
ROA	-7.5313	-9.2160	-1.4309	-1.4119
	(-4.49)***	(-10.92)***	(-0.74)	(-0.73)
R&D/AT	-7.5216	-4.6783	-0.4670	-0.3687
	(-0.98)	(-0.61)	(-7.70)***	(-4.95)***
Capex/AT	-6.3653	-11.8774	-5.8130	-5.7619
	(-1.17)	(-1.63)	(-1.57)	(-1.61)
Constant	-2.8219	-3.2241	-1.0891	-0.7471
	(-2.57)**	(-2.54)**	(-2.74)***	(-1.84)*
List fixed effects	YES	YES	YES	YES
Product code fixed effects	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES
Observations	1,335	1,296	7,015	6,716
Pseudo R^2	0.216	0.237	0.213	0.222

Internet Appendix D. Multiple Applications, Same Product Code

In the data that are made publicly available, USTR identifies products on the basis of ten-digit Harmonized Tariff Schedule (HTS) product codes—and applicants are asked to identify the relevant HTS product code on the application forms. In reality, adjudicators might identify products at more granular levels of detail, based on "A comprehensive physical description of the product, including (but not limited to) its form, dimensions, weight, constituent material(s), and any unique physical features that can assist in distinguishing the product."[1] Accordingly, we might see in the sample multiple applications, for different products, carrying the same ten-digit product code. In addition, multiple applications for the same product, or with the same product code, might be submitted by different firms. To ensure that our empirical analysis is robust to multiple applications carrying the same product code, and that our results are not affected by the lack of granular product identifiers, we implement an additional series of robustness tests.

First, we exclude all applications with overlapping product codes. This greatly reduces our usable sample in regression analysis, to 1,746 observations. Our findings are presented in model (1) of Table ID1. As in the base analysis, we find that contributions to Republicans (Democrats) are positively (negatively) related to the likelihood of approval. In this reduced sample, we do not find evidence of a link between lobbying expenditures and likelihood of approval.

Given that this first robustness test greatly reduces the size of the sample, which might affect the power of our tests, we attempt a second robustness test. In this second model, we include all applications, but identify those with overlapping product codes with a binary variable, *Multiple applications*, equal to one for all applications with a product code that appears in at least one other application. We present our findings in model (2) of Table ID1. As before, we find that contributions to Republicans are positively related to the likelihood of approval, while contributions to Democrats are negatively related. In this specification, we find statistically significant evidence of lobbying expenditures being positively linked to the probability of approval.

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[1] For more detail, see the USTR provided "Filing Guidelines for Product-Specific Exclusion Requests":https://ustr.gov/sites/default/files/enforcement/301Investigations/Section%20301%20Exclusion%20Request%20Guidelines.pdf.

Applications with the same product code offer sharp identification—by comparing applications for the same product code, we can effectively construct a difference-in-difference test. We do so in regression format, by keeping only applications for multiple products by different firms sharing the same product code. Our regression results, including product-code fixed effects, are presented in model (3) of Table ID1. Once more, we confirm our main results.

Internet Table ID1. Multiple Applications – Robustness Tests

This table presents coefficient estimates (not marginal effects) from probit models to test the effect of campaign contributions by party on the probability of receiving tariff exemptions after controlling for multiple applications by firms. The response variable is *Approved* (a binary variable set equal to one if the exemption application is approved). Complete variable definitions are in Appendix Table C1. Firm-level characteristics are winsorized at the 1st and 99th percentiles. Standard errors are adjusted for firm and list level clustering. Two-sided *z*-statistics are reported in parenthesis. ***, **, and * represent 1%, 5%, and 10% statistical significance levels, respectively.

	Excluding applications submitted by multiple companies for the same product codes	Instead of dropping applications, a dummy variable (*Multiple applications*) is added	Applications for the same product codes submitted by multiple companies with different decisions
	(1)	(2)	(3)
Variable	*Approved*	*Approved*	*Approved*
Rep contributions / AT	0.1511	0.0519	0.0425
	(1.95)*	(3.61)***	(1.83)*
Dem contributions / AT	-0.2318	-0.1319	-0.3697
	(-1.67)*	(-2.25)**	(-2.78)***
Lobbying / AT	-0.0010	0.0038	0.0028
	(-0.52)	(2.57)**	(1.70)*
Dual donor	-0.2161	0.0983	0.5098
	(-0.43)	(0.33)	(0.91)
PAC	-0.4776	-0.5025	-0.1984
	(-1.40)	(-1.79)*	(-0.42)
Substitute	-0.1376	-0.3312	-0.3728
	(-0.54)	(-1.85)*	(-1.36)
Final product	0.3329	-0.1678	-0.6773
	(1.34)	(-1.04)	(-2.83)***
China 2025	-4.0933	-4.2322	0.1903
	(-8.73)***	(-13.82)***	(0.30)
Size	0.1281	0.0324	-0.0564
	(1.60)	(0.56)	(-0.74)
ROA	0.0449	-0.8266	2.0351
	(0.03)	(-0.72)	(1.27)
R&D/AT	2.3166	-1.1873	3.0038
	(1.05)	(-0.61)	(0.91)
CAPEX/AT	-14.0800	-9.5958	-5.2531
	(-3.01)***	(-2.32)**	(-1.09)
Multiple applications		-0.0717	
		(-0.57)	
Constant	-3.0786	-2.1838	1.0732
	(-5.04)***	(-3.62)***	(0.82)
List fixed effects	YES	YES	YES
Product code fixed effects	YES	YES	YES
Observations	1,754	6,716	1,836
Pseudo R^2	0.2626	0.2285	0.1490

Internet Appendix E – Alternative Explanations – Robustness Tests

Table IE1. Alternative Explanations – Robustness Tests

This table presents coefficient estimates (not marginal effects) from probit models to test the effect of campaign contributions by party on the probability of receiving tariff exemptions. The response variable is *Approved* (a binary variable set equal to one if the exemption application is approved). Firm-level control variables (*Dual donor*, *PAC*, *Size*, *ROA*, *R&D/TA*, *Capex/TA*) are included but suppressed for brevity. Complete variable definitions are in Appendix Table C1. Model (1) and (2) exclude red states, identified as (1) states that are consistently Republican states in presidential elections since 2000 (AK, AL, AR, AZ, GA, ID, KS, KY, LA, MO, MS, MT, ND, NE, OK, SC, SD, TN, TX, UT, WV, WY) and (2) as states that had two Republican senators in 2016 (AK, AL, AZ, AR, ID, IA, GA, KS, KY, LA, MS, NE, NC, OK, SC, SD, TN, TX, UT, WY). Model (3) includes state fixed effects and excludes anti-trade states (i.e. states where at least one senator voted against the USMCA: CA, HI, MA, NJ, NY, OK, PA, RI, VT). Models (4) and (5) control for firm-level employment. *Employee/Revenue* is the number of employees of the firm scaled by the firm's revenue. Standard errors are adjusted for firm and list level clustering. Two-sided *z*-statistics are reported in parenthesis. ***, **, and * represent 1%, 5%, and 10% statistical significance levels respectively.

	(1)	(2)	(3)	(4)	(5)
VARIABLES	*Approved*	*Approved*	*Approved*	*Approved*	*Approved*
Republican contributions / AT	0.0648	0.0645	0.0608	0.0581	0.0587
	(8.89)***	(7.34)***	(5.34)***	(5.51)***	(7.16)***
Democratic contributions / AT	-0.168	-0.1735	-0.1995	-0.174	-0.1778
	(-5.84)***	(-4.97)***	(-5.33)***	(-14.97)***	(-10.09)***
Lobbying / AT	0.0201	0.0199	0.016	0.0216	0.0217
	(4.32)***	(3.92)***	(2.86)***	(1.04)	(1.06)
Employees/Revenues				0.0121	
				(1.84)*	
Ln (1+ Employees)					0.1033
					(0.96)
Constant	-1.3757	-1.4025	-1.4776	-1.4702	-1.0386
	(-3.97)***	(-3.91)***	(-2.05)**	(-4.02)***	(-3.04)***
Firm-level controls	YES	YES	YES	YES	YES
List fixed effects	YES	YES	YES	YES	YES
Industry fixed effects	YES	YES	YES	YES	YES
State fixed effects	NO	NO	YES	YES	YES
Pseudo R^2	0.252	0.249	0.263	0.293	0.293
Observations	5,732	5,669	5,117	6,504	6,504

Internet Appendix IF – Industry Fixed Effects Robustness Tests

The fixed effects in the regressions in the manuscript (Table 3 and related) include industry fixed effects based on the Fama and French 17-industry classification scheme. In Internet Appendix Table IF1, we tabulate robustness tests using, alternatively, fixed effects based on the Fama and French 30-industry and 12-industry classification schemes, findings robust results.

We further exclude, in turn, specific industries ("consumer durables," "manufacturing," and "business equipment"), to ensure robustness of our findings (as mentioned above, the Trump administration might have shielded certain industries, especially manufacturing sectors, following campaign promises). In all cases, our core results remain unaffected.

Internet Table IF1. Robustness of Industry FE Specifications

This table presents coefficient estimates (not marginal effects) from probit models to test the effect of campaign contributions by party on the probability of receiving tariff exemptions. The response variable is *Approved* (a binary variable set equal to one if the exemption application is approved). Model (1) includes F&F 30 fixed effects; (2) includes F&F 12 fixed effects; (3) includes F&F 12 fixed effects but we restrict the analysis to consumer durables, manufacturing, and business equipment (F&F 12 industries 2, 3, and 6 respectively); (4) includes F&F 12 fixed effects but we restrict the analysis to manufacturing, and business equipment (F&F 12 industries 3, and 6 respectively); (5) includes F&F 12 fixed effects and we eliminate all manufacturing firms (F&F 12 industry #3); (6) includes F&F 12 fixed effects and we eliminate all consumer durables and business equipment firms (F&F 12 industry #2 and #6). Complete variable definitions are in Appendix Table D1. Firm-level characteristics are winsorized at the 1st and 99th percentiles. Standard errors are adjusted for firm and list level clustering. Two-sided *z*-statistics are reported in parenthesis. ***, **, and * represent 1%, 5%, and 10% statistical significance levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
VARIABLES	*Approved*	*Approved*	*Approved*	*Approved*	*Approved*	*Approved*
Rep contributions / AT	0.0730	0.0689	0.0737	0.0866	0.0461	0.0814
	(6.30)***	(20.57)***	(10.37)***	(5.44)***	(2.75)***	(33.34)***
Dem contributions / AT	-0.2099	-0.2043	-0.2438	-0.1708	-0.2380	-0.1370
	(-6.25)***	(-5.86)***	(-2.48)**	(-4.38)***	(-6.67)***	(-3.90)***
Lobbying / AT	0.0095	0.0132	0.0113	0.0104	0.0163	0.0064
	(1.63)	(3.75)***	(1.64)	(1.39)	(23.73)***	(2.22)**
Substitute	-0.3291	-0.3504	-0.4096	-0.4801	-0.2942	-0.4090
	(-4.85)***	(-3.61)***	(-6.17)***	(-4.19)***	(-2.03)**	(-3.16)***
Final product	-0.0694	-0.1046	-0.1542	-0.1710	0.1065	-0.2167
	(-1.79)*	(-1.74)*	(-2.11)**	(-2.03)**	(1.35)	(-2.14)**
China 2025	-4.4844	-4.1597	-4.0695	-3.8224	-4.1989	-3.7667
	(-10.87)***	(-17.09)***	(-19.16)***	(-15.74)***	(-9.01)***	(-18.91)***
Size	0.0159	0.0340	0.0278	0.1079	0.0553	0.0636
	(0.66)	(0.90)	(0.59)	(4.34)***	(1.18)	(0.62)
ROA	-0.6789	-0.9719	-1.2181	-1.4896	-0.4191	-1.6104
	(-0.48)	(-0.58)	(-0.43)	(-0.48)	(-0.84)	(-0.79)
R&D/AT	-1.7255	-1.0133	-2.0472	-5.3087	2.2444	-5.0176
	(-0.89)	(-0.52)	(-1.76)*	(-2.56)**	(0.83)	(-2.54)**
Capex/AT	-5.8212	-10.1249	-9.8482	-5.3092	-12.4196	-6.6794
	(-1.67)*	(-2.39)**	(-2.07)**	(-1.37)	(-6.36)***	(-0.99)
Dual donor	0.3464	0.2411	0.5846	0.4509	0.1423	-0.0937
	(2.06)**	(10.36)***	(5.04)***	(1.20)	(0.75)	(-0.31)
PAC	-0.5457	-0.5906	-0.5739	-0.8491	-0.6113	-0.5076
	(-3.94)***	(-10.26)***	(-5.37)***	(-2.75)***	(-11.20)***	(-3.95)***
Constant	-6.9817	-2.4313	-2.8912	-3.4288	-2.6936	-2.4079
	(-12.87)***	(-2.33)**	(-4.28)***	(-5.86)***	(-4.21)***	(-1.59)
Observations	6,716	6,716	4,542	3,130	4,515	4,211
Includes F&F 30 FE	YES	NO	NO	NO	NO	NO
Includes F&F 12 FE	NO	YES	YES	YES	YES	YES
Includes product FE	YES	YES	YES	YES	YES	YES
Includes list FE	YES	YES	YES	YES	YES	YES
Pseudo R^2	0.264	0.236	0.222	0.241	0.218	0.273

Internet Appendix G – Firm Direct Links to the Trump Administration

To test connections to the executive branch, we identify firms which hire lobbyists linked to the Trump administration. We note that individuals are barred from lobbying activity while serving as part of the administration, and in some cases even for a period of time following their service. Accordingly, we identify firms that hire lobbyists who subsequently serve in the Trump administration (with the implicit assumption that the "ties" to these lobbyists persist) or after their service has ended. This "revolving door" phenomenon, of lobbyists moving between the executive branch and the private sector, has been identified as an important source of political connections in extant literature (Blanes i Vidal, Draca, and Fons-Rosen (2012)).[2] We test whether such connections increase the likelihood of approval by adding the relevant variable to the model disaggregating contributions by party estimated in Table 3 of the manuscript. Whilst lobbying connections might be correlated with lobbying spending, in a first model we omit controlling for lobbying expenditures, to avoid spurious findings due to multicollinearity. Our findings are presented in Appendix Table IG1. We find that connected lobbyists are associated with positive, statistically significant coefficients, indicating that firms with lobbyists connected to the executive branch are more likely to obtain tariff exemptions. In a second model, controlling for lobbying expenditures, we find consistent results.

In an additional set of tests, we identify firms which have contributed to President Trump's

[2] President Trump initially signed a rule imposing a five-year lobbying ban for administration official and a lifetime ban on lobbying for foreign governments, but subsequently revoked the same rule; anecdotal evidence of violation of lobbying-related restrictions and disclosure rules abounds.

inaugural committee following the 2016 election. We try various model specifications with different sets of control variables (including and excluding contributions, disaggregated contributions, and lobbying expenditures), to examine the robustness of our findings to multicollinearity. In all cases, we fail to find evidence that contributions to an electoral campaign increase the likelihood of approval (and some of the estimated coefficients are negative, contrary to our priors, but significance is not robust across alternative specifications). For brevity, we do not tabulate these results.

Internet Table IG1. Lobbyists Connected to the Administration

This table presents coefficient estimates (not marginal effects) from probit models to test the effect of firm lobbyists in the Trump administration on the probability of receiving tariff exemptions. The response variable is *Approved* (a binary variable set equal to one if the exemption application is approved). *Lobby connection* is a binary variable set equal to one if the filing firm has hired a lobbyist employed, currently or in the past, by the Trump administration. Complete variable definitions are in Appendix Table C1. Firm-level characteristics are winsorized at the 1st and 99th percentiles. Standard errors are adjusted for firm and list level clustering. Two-sided *z*-statistics are reported in parenthesis. ***, **, and * represent 1%, 5%, and 10% statistical significance levels, respectively.

	(1)	(2)
Variable	*Approved*	*Approved*
Lobby connection	0.2725	0.2251
	(1.97)**	(2.12)**
Republican contributions/AT	0.0630	0.0573
	(13.11)***	(18.74)***
Democratic contributions/AT	-0.1620	-0.1642
	(-7.34)***	(-7.16)***
Lobbying/AT		0.0161
		(3.01)***
Dual donor	0.0158	0.0375
	(0.05)	(0.17)
PAC	-0.2543	-0.4507
	(-0.92)	(-2.58)***
Substitute	-0.3130	-0.3177
	(-5.70)***	(-5.92)***
Final product	-0.1365	-0.1423
	(-2.28)**	(-2.42)**
China 2025	-4.3331	-4.3892
	(-17.11)***	(-13.03)***
Size	-0.0040	-0.0062
	(-0.23)	(-0.35)
ROA	-1.7811	-1.5415
	(-0.94)	(-0.90)
R&D/AT	-2.5442	-2.5215
	(-4.96)***	(-5.40)***
Capex/AT	-6.9322	-8.0743
	(-2.67)***	(-2.53)**
Constant	-1.7010	-1.5590
	(-3.34)***	(-3.48)***
List fixed effects	YES	YES
Product code fixed effects	YES	YES
Industry fixed effects	YES	YES
Observations	6,716	6,716
Pseudo R^2	0.242	0.246

Internet Appendix IH – Steel and Aluminum Tariffs

Internet Table IH1 – Steel and Aluminum Tariffs – Descriptive

This table reports mean, median, 10th and 90th percentile, and standard deviation of the key variables of interest in the sample of applications for exemptions against "Section 301 Steel and Aluminum Tariffs." Variables are defined in Appendix Table C1. *N Objections* is the number of objections filed on Regulations.gov against an application for exemption. *No US Production* is a binary variable set equal to one if the item is not available for purchase in the United States, as per the exemption application. Political expenditures (both contributions and lobbying expenditures) are scaled by "millions of total assets."

Variable	N	Mean	SD	p10	p50	p90
Approved	14671	0.8884	0.3149	0.0000	1.0000	1.0000
Total contributions / AT	14671	0.2177	0.4440	0.0000	0.0000	0.5562
Rep contributions / AT	14671	0.1425	0.3035	0.0000	0.0000	0.3156
Dem contributions / AT	14671	0.0892	0.2022	0.0000	0.0000	0.2407
Lobbying / AT	14671	2.6234	10.0040	0.0000	0.0000	0.0000
Size	14671	9.4914	2.0583	7.3610	9.2745	13.0684
ROA	14671	0.0414	0.0275	0.0168	0.0411	0.0784
R&D/AT	14671	0.0133	0.0138	0.0000	0.0059	0.0329
Capex/AT	14671	0.0399	0.0184	0.0180	0.0342	0.0715
N Objections	14671	0.2036	0.5217	0.0000	0.0000	1.0000
No US Production	14671	0.5968	0.4906	0.0000	1.0000	1.0000
PAC	14671	0.2789	0.4485	0.0000	0.0000	1.0000
Dual donor	14671	0.2541	0.4354	0.0000	0.0000	1.0000

Internet Table IH2 – Steel and Aluminum Tariffs – Regression Analysis

This table presents results (not marginal coefficients) from probit models to test the effect of lobbying expenditures and campaign contributions on the probability of receiving tariff exemptions from "Section 301 Steel and Aluminum Tariffs." The response variable is *Approved* (a binary variable set equal to one if the exemption application is approved). Complete variable definitions are in Appendix Table C1. *N Objections* is the number of objections filed on Regulations.gov against an application for exemption. *No US Production* is a binary variable set equal to one if the item is not available for purchase in the United States, as per the exemption application. Firm-level characteristics are winsorized at the 1st and 99th percentiles. Standard errors are adjusted for firm and list level clustering. Two-sided *z*-statistics are reported in parenthesis. ***, **, and * represent 1%, 5%, and 10% statistical significance levels, respectively.

	(1)	(1)
Variable	*Approved*	*Approved*
Total contributions / AT	-0.0322	
	(-0.10)	
Rep contributions / AT		0.0636
		(0.19)
Dem contributions / AT		-0.2565
		(-1.22)
Lobbying / AT	-0.0129	-0.0127
	(-0.84)	(-0.82)
Dual donor	-0.2804	-0.1607
	(-0.77)	(-0.35)
PAC	-0.1234	-0.2151
	(-0.16)	(-0.28)
N Objections	-2.8481	-2.8464
	(-5.13)***	(-5.10)***
No US Production	0.8762	0.8768
	(4.29)***	(4.30)***
Size	0.1585	0.1584
	(1.50)	(1.51)
ROA	-4.7628	-4.9128
	(-1.09)	(-1.14)
R&D/AT	-12.6066	-13.0008
	(-1.19)	(-1.26)
Capex/AT	-1.0767	-1.0319
	(-0.38)	(-0.37)
Constant	6.2893	6.0388
	(11.86)***	(10.48)***
Includes metal type fixed effects	YES	YES
Includes industry fixed effects	YES	YES
Includes year fixed effects	YES	YES
Includes state fixed effects	YES	YES
Observations	14,671	14,671
Pseudo R^2	0.733	0.733