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Political Uncertainty and Corporate Investment: Evidence from China[☆]

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Abstract

Using hand-collected data on changes of government officials in 277 Chinese cities, we examine how political turnover affects corporate investment in a transitional economy. We find that political turnover leads firms to significantly reduce corporate investment, particularly when the new official is an outsider appointed by a higher level government. The effect of political turnover on corporate investment is stronger for state-owned enterprises, capital intensive firms, and firms deemed locally important. Overall, the volatility of corporate investment increases with political turnover. Finally, the investment decline due to political turnover has significantly negative impact on the profitability of private firms, but not state-owned firms.

Keywords: Political turnover, Corporate investment, Local government officials, Chinese market, Transition economy

JEL classification: G32, G38, G18, G15

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