

# The impact of diplomatic visits on China's international trade

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## **Abstract**

Diplomatic visits accompanied by business delegations between China and another country always hit the headlines of the world. The countries visited by Chinese leaders become attracting places to Chinese domestic firms for trade and investment as they are well covered in China's media. At the same time, one of the main purposes for foreign state leaders visit China is trying to improve the political and economic cooperation between these two countries. State leaders and government leaders travel extensively and frequently to shape the bilateral and multilateral trade as they wished.

The literature related on the role of diplomatic relations in promoting trade can be roughly divided into three branches. The early attempts are to value the impacts of trade agreements and membership of trade organization on trade. The second branch is to find the influence of physical government officials, such as trade promotion agencies, embassies and consulates, on bilateral trade. The third part is to note the trade missions, trade shows and merely diplomatic visits leading to either positive or negative result in international trade.

Based on Gravity Model, this is the first paper to examine the impacts of two-way multiple-level diplomatic visits on China's exports and imports during the period 2000-2012. We have 1621 detailed records of multi-level Chinese leaders OUT visits (772 records) and multi-level foreign country leaders IN visits (849 records) in the scenario of more than 180 countries bilateral trade over 13 years, which allow us to conduct four parallel groups of estimations: the impact of Chinese leaders overseas visits on China's exports, the impact of Chinese leaders overseas visits on China's imports, the impact of foreign leaders visits on China's exports and the impact of foreign leaders visits on China's imports. Chinese leader visits can be divided into two levels: president and premier visits and minister-above level leader visits (except for president and premier). Similarly, the foreign leader visits can also be divided as the first level leader visits, which is the made by the state and government leaders such as president, prime minister, chairman, king and so on, and minister-above level leaders which include all the ministers, the vice president, vice chairman, deputy premier and so on. Thus we can examine difference between leader visits impacts on the bilateral trade.

In each group we start with conventional Gravity model and then add time-varying country fixed effect, lagged dependent variables and country pair fixed effect to get the preferred specification which is supported by the strict exogeneity test results.

Since there are cases that Chinese president, premier or ministers have paid multiple visits to one particular country at the same year or the same country state leaders or ministers visited China in the same year for multiple times, we generate two kinds of diplomatic visits as treatment variables. One is regarding the visit treatment variable as dummy variable which equals to one if the visit happened otherwise equals to zero, the other is considering the multiple visits impact into account and putting the real count number visits as treatment variable.

In our preferred specification, incorporating pair fixed effect specification, the overall impact of three dummy treatment variables: state head visits, minister visits and their intersection, has small, negative, mostly insignificant impact on China's international trade in our four groups. However, if we compare state and government head leaders' visits with ministers' visits, we could find that both the Chinese and foreign ministers visits have the same sign with corresponding state and government head leaders' visits but with larger magnitude.

The real count number visits specification results show that Chinese president and premier overseas visits have small, negative, and insignificant impact on China's exports, however Chinese minister overseas visits have small, positive and mostly insignificant impact on China's exports. Both Chinese president and premier overseas visits and Chinese minister overseas visits have small, negative and insignificant impact on China's imports. While foreign state head leader visits have small, positive and insignificant impact on China's exports, foreign minister visits have small, negative and insignificant impact on China's exports. Both foreign state leader visits and minister visits have small, negative and insignificant impact on China's imports. These results do not support the common government statements or social comments on fruits reached by diplomatic visits on China's international trade.