U.S.-China Trade War: Announcement Effects of Trump Tariff Cancellations on China's Financial Firms

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The U.S.-China trade war was escalated in 2018 when the Trump administration announced a series of tariffs on Chinese products and services. In January 2018, President Trump imposed 30 percent and 20 percent tariffs on solar panels and washing machines. President Trump continued to impose more tariffs throughout 2018 and 2019. The Trump administration finally reversed course by announcing two Trump tariff cancellations in October 2019 and December 2019; thereby signaling a de-escalation in the U.S.-China trade war. We use an event study methodology to examine the announcement effects of those two Trump tariff cancellations on China's publicly traded financial firms, including banks, insurance companies, and securities firms. We find the announcement effects are positive for China's financial firms which experience a tremendous 5.60% cumulative abnormal return. In dollar terms, the mean market capitalization increase was $1.36 billion, cumulatively, the twenty-four financial firms in our sample gained $32.61 billion. These results clearly show that China's financial firms welcomed the Trump tariff cancellations.

INTRODUCTION

As China is growing rapidly and tremendously in its economic power in the world for the past four decades, there has been increasing trade tensions between China and the United States (Noland, 2018; Steinbock, 2018; Hearn and Myers, 2015). For example, the United States and 11 Pacific Rim economies proposed the Trans-Pacific Partnership (TPP) to exclude China as an effort to rebalance the Asia-Pacific region. In 2012, the United States filed a case against China at the World Trade Organization over its cap in exporting rare metals. The U.S.-China trade war escalated during the Trump Administration. 2018 President Trump hit China with numerous tariffs on billions of goods. China retaliated with its own tariffs on hundreds of U.S. products.

Previous studies show that the imposition of tariffs is hurtful for both the U.S. and China. The International Monetary Fund indicates in 2017 that the trade war with the United States would damage China. When the U.S. announces tariffs on Chinese goods, the Chinese government could retaliate in various ways, such as imposing tariffs on specific sectors from the U.S., and directing its state-owned enterprises (SOEs) to stop buying American goods and services. Felbermayr and Steininger (2019) estimated that the tariffs and counter-tariffs announced by both countries at that time would cost the U.S. 2.6 billion euros in GDP and China 5.9 billion euros. In a full-blown U.S.-China trade war with increased tariffs, that scenario would have decreased the GDP of China by 30.4 billion euros and the U.S. by 9.5 billion euros. It is obvious that it would be a lose-lose war between China and the U.S.

Fortunately, the trade war between China and the U.S. was not as full-blown as initially expected and at the end of 2019 there were two announcements of *Trump tariff cancellations*. The first announcement was on October 11, 2019, when the Trump administration canceled the scheduled October 15 tariff increase on U.S. imports from China. President Trump states a Phase One deal with China is forthcoming. The second announcement is on December 13, 2019 where the Trump administration canceled the scheduled December 15 tariff increase on U.S. imports from China and President Trump announces his administration and China have agreed on an 86-page Phase One trade deal.

In this research article, we focus on these two announcements of *Trump tariff cancellations* and investigate how these two announcements impact China's financial firms. The de-escalation of the tariff imposition is widely considered to be positive news for the global economy and both countries. However, the immediate reaction from the financial industry in China exhibits some complications given the underlying impacts of these cancellations. On the one hand, these tariff cancelations would directly increase international trade between the U.S. and China, and thus increase the demand for financial services in supporting trade activities, such as banking and insurance services (Antras and Foley, 2015). This brings positive news to the financial sector. On the other hand, the new Phase One trade deal would require China to open its financial services market, leading to more competition for China's banks, insurance companies, and securities firms (Brown, 2021). This brings negative news to the financial sector. Therefore, it is unclear whether the financial sector in China will respond to these cancelations positively or negatively. This paper aims to provide insights on the market perception of these complications, which contributes to understanding the U.S.-China trade war and trade relations, particularly in the financial sector. We also examine the finance industry as Shiller (2013) shows the importance of financial firms to the economy and society. Allen (2001) suggests that the financial firms matter for asset pricing and liquidity provision. Yuan, Xiao, Milonas, and Zou (2009) show that the involvement of financial firms could enhance the corporate governance among Chinese listed companies.

We find the publicly-listed Chinese financial firm react positively to the announcements of *Trump tariff cancellations* which signal a de-escalation of the U.S.-China trade war. Our results show that, for the Chinese firms in our study, this de-escalation reduces economic uncertainties, lowers cost of capital in the financial markets, and makes it easier to export goods and services.

The remainder of the paper is organized as follows: Section 2 reviews the related literature. Section 3 discusses the research design and develops the hypotheses. Section 4 describes the data and methodology. Section 5 shows the main empirical results, and Section 6 concludes.

RELATED LITERATURE ON THE IMPACTS OF THE TRUMP TRADE WAR WITH CHINA

Even before President Trump won the election in 2016, Moody's Analytics (2016) simulated different scenarios detailing the impact of his proposed trade policies during his presidential campaign. It finds that a large increase in tariffs on Chinese and Mexican imports may exacerbate inflation pressure. Hypothetically, a 45% tariff on Chinese goods and 35% on non-petroleum Mexican imports would increase the price of goods import by 15%. This in turn may increase the U.S. Consumer Price index by almost 3%.

Since the trade tension between China and the U.S. intensifies in 2018, many studies focus on the economic impacts of the trade war between the Trump administration and China. A well-documented conclusion is that the trade war between China and the U.S. hurt both countries and the overall global

economy. IMF (2017) suggests that if the U.S. imposes a 10 percent tariff on Chinese products and China allows its real exchange rate to adjust, the real GDP in China would fall by about 1 percentage point in the first year. If China retaliates with similar tariffs on the U.S. imports, its GDP may shrink even further. Guo, et al. (2018) shows that, if both countries impose 45 percent tariffs on each other, this trade war may collapse U.S.-China bilateral trade. The United States will experience large social welfare losses, whereas China may lose or gain depending on the trade balance. Globally, many other countries may endure collateral damage because of the trade war. Lai (2019) points out that Hong Kong can be a victim of the trade war if many industries leave China because of the tariff imposition.

Fajgelbaum and Khandewal (2022) review and summarize a series of scholarly works on the topic of the economic impacts of the U.S.-China trade war. Using the standard trade model, they estimate that the importers lost 0.58% of their GDP in aggregate relative to the pre-trade war scenario. Fajgelbaum et al. (2020) estimate losses of 0.04% of GDP from only the 2018 tariffs. Chang et al. (2021) find an aggregate welfare loss in China of 0.29% on the 2018-2019 tariffs.

In terms of firm value and the financial markets, Huang et al. (2023) find that U.S. firms that depend more on exports to and imports from China have lower stock and bond returns but higher default risks in the short run. Their paper focuses on the announcement date of March 22, 2018, when President Trump releases the plan to impose tariffs on $50 billion of Chinese imports. They also show that the U.S. firms' indirect exposure to the trade war between China and the U.S. affected their stock return responses to the announcement. Huang et al. (2023) focus on a three-day event study surrounding the March 22, 2018, announcement. The stock market declined by 4.3% cumulatively using a sample of U.S. non-financial firms with sales in China or trade with China. Amiti et al. (2021) use 11 tariff announcements between 2018 and 2019 and show that the stock market dropped by 12.9% cumulatively during a three-day event window surrounding those announcements.

This paper aims to offer insights into the market's perception of the *Trump tariff cancellations,* which present challenges and opportunities to China's financial firms. Our study contributes to understanding the U.S.-China trade war and trade relations, particularly within the financial sector. We also take a different angle from existing literature by studying the market reaction to the *Trump tariff cancellations* in contrast to the enacted tariffs (Egger and Zhu, 2020; Lu and Zhou, 2023). This paper adds new evidence to the literature on U.S.-China trade war (Ding et al, 2022; Wang et al., 2021).

RESEARCH DESIGN AND HYPOTHESIS DEVELOPMENT

We use an event study methodology to examine the immediate stock market impacts of the *Trump tariff cancellations* on publicly listed Chinese financial firms. An event study is one of the most frequently used methods to evaluate stock market reactions surrounding major economic or financial events (Brown and Warner, 1985; Peterson, 1989; Schweitzer, 1989; Armitage, 1995; MacKinlay, 1997; Wells, 2004; Corrado, 2011; and El Ghoul et al., 2023). Following the efficient-markets theory, the event study methodology assumes the stock market efficiently absorbs new information from an event announcement and the new information will immediately impact investors' perception of future profits and the uncertainty of those profits (Fama, 1965, 1970).

The event study methodology has been used extensively to evaluate the announcement of new legislation, joint ventures, dividend changes, and tariffs. Chen et al. (2009) use an event study to examine the announcement effect of cash dividend changes on listed A-share firms in China and find dividend changes significantly influence stock prices. Egger and Zhu (2020) use an event study to examine the impact of the U.S.-China trade war and found the protectionist tariffs appear to have done the opposite of what was expected as the tariffs hurt domestic firms of the acting country. Lu and Zhou (2023) use an event study to examine the impact of the U.S.-China trade war and found Chinese firms with spatial proximity to the product market (firms in the targeted industries) and geographic market (firms exporting to the U.S.) experienced significant losses.

Using the event study methodology, we separate the stock return of a financial firm into two unique components. The first component is the normal return, which is the change in stock return that occurs from

the overall stock market movement and represents the return earned had there been no *Trump tariff cancellations*. The second component is the abnormal return, which is the change in stock return attributed to the *Trump tariff cancellations*. In this paper, we examine those abnormal returns.

Event Windows

The event windows for the announcements of the two *Trump tariff cancellations* are shown in Table 1 and detail the event timelines for both announcements. These two announcements were sudden and new to the markets without anticipation. This explains the necessity of our investigation and the validity of an event study design. We also combine the two events to determine the total impact of the *Trump tariff cancellations*. As there is a time difference between China and the U.S., we adjust for the time zone difference. Specifically, both the two event announcements were made on Fridays in U.S. time and on Saturdays in China time. Thus, we adjust the announcement dates to be Mondays in China, which are the nearest trading days. Stock returns are calculated based upon China time.

TABLE 1
EVENT WINDOWS FOR THE TRUMP TARIFF CANCELLATIONS IN OCTOBER AND DECEMBER 2019

October Event	Friday, October 11, 2019 - President Trump announces the cancellation of the scheduled October 15 tariff increases and states a phase one deal with China is forthcoming.
December Event	Friday, December 13, 2019 - President Trump announces the cancellation of the scheduled December 15 tariff increases and states his administration and China have agreed to an 86-page deal.

Event Day (China Time)	-1	0	+1	+2
	|------------------|----------------|------------------|		
October Event	10/11/2019	10/14/2019	10/15/2019	10/16/2019
December Event	12/13/2019	12/16/2019	12/17/2019	12/18/2019

Note: This table defines the two events and respective event days. In China time, the announcement dates would be on Saturday, so we adjust the announcement dates to be Mondays (day 0) which are the nearest trading days.

October Effect

The first event is October 11, 2019, when President Trump announces cancelling the scheduled October 15 tariff increases. President Trump states that the U.S. and China have a tentative agreement for a Phase One trade deal. This new deal will include China accepting more financial services from U.S. financial firms, thereby introducing more competition for China's banks, insurance companies, and securities firms. With an adjustment to China time, the four-day event window runs from October 11, 2019 to October 16, 2019.

December Effect

The second event is December 13, 2019, when President Trump announces cancelling the scheduled December 15 tariff increases. At this time, the Trump administration and China have reached a historical 86-page Phase One trade deal which will give U.S. banks, insurance companies, and securities firms more access to China's financial services market. This deal introduces more competition for China's banks, insurance companies, and securities firms. With an adjustment to China time, the four-day event window runs from December 13, 2019 to December 18, 2019.

Combined Effect

The combined effect includes both the October Effect and December Effect and illustrates the overall impact of the *Trump tariff cancellations* on China's financial firms. The *Trump tariff cancellations* might be considered favorable news for China's financial firms as a new Phase One trade deal signals a de-escalation of the U.S.-China trade war. Conversely, the *Trump tariff cancellations* might be considered unfavorable news for China's financial firms as the new Phase One trade deal will introduce significant competition for China's banks, insurance companies, and securities firms. The combine effect offers additional insights on the overall market perception and economic effect of the two *Trump tariff cancellations* (e.g., Noe Cross and Kunkel, 2012).

Data

The sample is composed of China's publicly traded financial firms collected from CSMAR (China Stock Market & Accounting Research Database). To isolate the stock price reaction due only to the tariff cancellation announcements, financial firms mustn't have any major news announcements around the event windows. When other major announcements affect the firms surrounding the event windows, the impacts of the tariff cancellations cannot be isolated. Thus, such observation is deleted from our data sample. In the end, we have a total of 24 of China's publicly traded financial firms in our final sample.

Table 2 describes the sample of the Chinese financial firms in our analysis. On average, the Chinese financial firms in our sample have a mean revenue of $11.321 billion, and mean assets of over $175 billion. The average market capitalization is almost $20 billion. However, the data sample is skewed as the median revenue and assets are $340 million and $9.353 billion, respectively. We also categorize the firms into four different sectors based on their main financial functions in the market. There are seven banks, four insurance companies, seven securities firms, and six other firms in our sample.

TABLE 2
CHINESE FINANCIAL FIRMS: COMPANY NAME, TICKER, SECTOR, REVENUE, ASSETS, MARKET CAPITALIZATION (MC). ALL FIGURES IN U.S. DOLLARS (MILLIONS)

	Company Name	Ticker	Sector	Revenue	Assets	MC
1	Bank of Hangzhou	600926	Banking	$1,769	$137,181	$6,350
2	Bank of Nanjing	601009	Banking	$2,756	$186,554	$10,929
3	Bank of Xi'an	600928	Banking	$648	$37,127	$4,818
4	China Merchants Bank	600036	Banking	$26,917	$1,022,036	$107,046
5	Hua Xia Bank	600015	Banking	$8,499	$422,711	$16,702
6	Jiangsu Financial Leasing	600901	Banking	$311	$9,296	$2,526
7	Ping An Bank	000001	Banking	$13,173	$518,673	$44,714
8	China Life Insurance Company	601628	Insurance	$67,959	$504,879	$85,893
9	China Pacific Insurance (Group)	601601	Insurance	$36,102	$208,910	$32,578
10	Inner Mongolia Xishui Strong Year	600291	Insurance	$1,379	$9,967	$1,453
11	Ping An Insurance Company of China	601318	Insurance	$109,598	$1,089,330	$138,323
12	GI Technologies Group	300309	Securities	$106	$1,089	$666
13	Industrial Securities	601377	Securities	$1,051	$22,127	$5,966
14	Shanghai Chinafortune	600621	Securities	$98	$3,045	$2,035
15	Shanghai Greencourt Investment Group	600695	Securities	$5	$124	$305
16	Sinolink Securities	600109	Securities	$295	$7,025	$3,726
17	Southwest Securities	600369	Securities	$133	$9,410	$3,669
18	Western Securities	002673	Securities	$223	$6,938	$4,453
19	Anhui Xinli Finance	600318	Other	$53	$779	$542

	Company Name	Ticker	Sector	Revenue	Assets	MC
20	Bode Energy Equipment	300023	Other	$17	$549	$359
21	Hainan Haide Industry	000567	Other	$41	$766	$822
22	Kunwu Jiuding Investment Holdings	600053	Other	$80	$632	$1,356
23	Shaanxi International Trust	000563	Other	$125	$1,798	$2,431
24	Shanghai AJ Group	600643	Other	$368	$4,015	$2,081
	Mean			$11,321	$175,207	$19,989
	Median			$340	$9,353	$3,698

Notes: This table reports the sample firms in the study, including company name, ticker, sector, revenue, assents, and market capitalization (MC). Revenue and assets are calculated as of December 31, 2019. MC is calculated as the average market capitalization during the first event window (China time). All companies are Co., Ltd. or limited liability company.

Research Question and Hypotheses

Our research question focuses on how the Chinese financial firms react to the two 2019 *Trump tariff cancellation* announcements. Whereas Egger and Zhu (2020) and Lu and Zhou (2023) evaluate the impact of enacted tariffs, our study examines canceled tariffs. The *Trump tariff cancellations* might be considered favorable news (signaling the de-escalation of the U.S.-China trade war) or unfavorable news (introducing significant competition for China's financial firms). To answer this question, we develop the following hypotheses in the alternative form:

H_{a1}: *The stock returns (cumulative abnormal returns) of the Chinese financial firms attributed to the October 2019 Trump tariff cancellation are different from zero.*

H_{a2}: *The percentage of positive stock returns (cumulative abnormal returns) of the Chinese financial firms attributed to the October 2019 Trump tariff cancellation are different from fifty percent.*

H_{a3}: *The stock returns (cumulative abnormal returns) of the Chinese financial firms attributed to the December 2019 Trump tariff cancellation are different from zero.*

H_{a4}: *The percentage of positive stock returns (cumulative abnormal returns) of the Chinese financial firms attributed to the December 2019 Trump tariff cancellation are different from fifty percent.*

H_{a5}: *The stock returns (cumulative abnormal returns) of the Chinese financial firms attributed to the combined October and December 2019 Trump tariff cancellations are different from zero.*

H_{a6}: *The percentage of positive stock returns (cumulative abnormal returns) of the Chinese financial firms attributed to the combined October and December 2019 Trump tariff cancellations are different from fifty percent.*

A parametric t-test and a non-parametric Wilcoxon signed rank test are employed to test the odd numbered hypotheses, that the cumulative abnormal returns are different from zero. Non-parametric sign tests are used to test the even-numbered hypotheses, that the number of positive and negative cumulative abnormal returns are not equal to fifty percent. Non-parametric tests address issues related to small samples and potential violations of the assumption that the data are normally distributed.

METHODOLOGY

We follow prior literature and employ a market-adjusted return model for our investigation considering data availability (Tong & Kunkel, 2022; Larcker et al., 2011; MacKinlay, 1997). The normal return is

calculated for each day in the event window for each firm. The normal return is what one would expect if there were no announcements on the *Trump tariff cancellations*. As the return on the stock market index is commonly utilized as the normal return, we employ the daily market return of the Chinese CSI 300 Index as our benchmark return, consistent with prior studies (e.g., Tong and Kunkel, 2022). Comprising China's top 300 stocks traded on the Shanghai and Shenzhen stock exchanges, the CSI 300 Index is regarded as the blue-chip index for Chinese stocks, making it an excellent proxy for the overall stock market return. The abnormal return is calculated for each financial firm daily over the four-day event window (i.e., t-1 to t+2). The abnormal return represents the return not predicted by the stock market index, and is an estimate of the change in the stock price on that day due to the tariff announcements by the Trump Administration. The abnormal return, AR_{it}, for each financial firm i on day t is defined as:

$$AR_{it} = R_{it} - R_{mt} \tag{1}$$

where R_{it} is the stock return of financial firm i on day t, and R_{mt} is the return of the CSI 300 index on day t.

The cumulative abnormal return is calculated for each financial firm because in many cases, the market reaction to the announcement of an event may linger for days. The stock market may continue to make stock price adjustments over several days. Thus, the cumulative abnormal return estimates the stock return caused by the event over the four-day event window. The cumulative abnormal return, CAR$_i$, for each firm for the four-day event window beginning with day -1 through day +2 is defined as:

$$CAR_i = \sum_{t=-1}^{+2} AR_{it} \tag{2}$$

where AR_{it} is the abnormal return of financial firm i on day t.

Lastly, the mean and median cumulative abnormal returns are calculated for the financial firms in the sample. The mean cumulative abnormal return can be viewed as a diversified portfolio, eliminating unique individual stock returns by offsetting random positive stock returns with random negative ones. If the *Trump tariff cancellations* did not impact the Chinese financial firms, the mean cumulative abnormal return should not be significantly different from zero. Likewise, the median cumulative abnormal return should not significantly differ from zero. Lastly, we examine the percentage of cumulative abnormal returns that are positive. Suppose the Trump tariff cancellations did not impact the future profits of China's financial firms. In that case, he percentage of cumulative abnormal returns that are positive should not be significantly different than fifty percent.

We employ t-tests and Wilcoxon signed rank tests to determine whether the cumulative abnormal returns are significantly different from zero. The t-tests examine the mean return, and the Wilcoxon signed rank tests examine the difference in median returns and do not assume normally distributed data. Binomial z-statistics tests are used to determine whether the proportion of positive cumulative abnormal returns is significantly greater than fifty percent under the assumption of no reaction to the event. The binomial z-statistic is appropriate for small samples with non-normal distributions because it requires neither normally distributed data nor symmetric population. Under the efficient market hypothesis, the likelihood of a rise or fall in stock price should be an average flip of the coin.

EMPIRICAL RESULTS

Below we discuss the results for the October Effect, December Effect, and the Combined Effect. We also discuss the results for the Sector Effect and the Size Effect.

October Effect

We evaluate the October Effect, when President Trump canceled tariffs in October 2019. We find China's financial firms experienced tremendous gains. As shown in Table 3, the Chinese financial firms' mean and median cumulative abnormal returns (CAR) are 1.4% and 1.1%, respectively, are significantly

positive. Additionally, 79% of the Chinese financial firms show significantly positive abnormal returns during the October event window. These results are consistent with our expectation that the *Trump tariff cancellation* is widely considered a positive shock to the financial market in China as it reduces future uncertainty of the cash flows and earnings of businesses. Financial firms benefit from such positive shock as the cost of capital provided by them is reduced and the risk of the borrowers is decreased.

TABLE 3
**IMPACT OF TRUMP TARIFF CANCELLATIONS ON CHINA'S FINANCIAL FIRMS:
CUMULATIVE ABNORMAL RETURNS (CAR) FOR OCTOBER EFFECT,
DECEMBER EFFECT, AND COMBINED EFFECT**

Financial Firms (n=24)	October Effect	December Effect	Combined Effect
Mean CAR	1.4%***	4.2%***	5.6%***
t-statistic	*3.21*	*2.82*	*3.54*
(p-value)	*(0.004)*	*(0.010)*	*(0.002)*
Median CAR	1.1%***	3.1%***	4.2%***
Wilcoxon signed rank test	*105*	*133*	*143*
(p-value)	*(0.001)*	*(<0.001)*	*(<0.001)*
Percent positive CARs	79%***	83%***	88%***
Sign test	*2.86*	*3.27*	*3.67*
(p-value)	*(0.004)*	*(0.001)*	*(<0.001)*
Shapiro-Wilk test for normality	Not Normal*	Not Normal***	Not Normal***
(p-value)	*(0.068)*	*(<0.001)*	*(<0.001)*

Note: This table reports the mean CAR, median CAR, percentage positive CARs, and Shapiro-Wilk test for normality by event. Related statistics are also reported in the table. ***, **, and * denote one, five, and ten percent significance levels, respectively.

December Effect

Next, we evaluate the December Effect, when President Trump canceled tariffs in December 2019. For the December *Trump tariff cancellation*, we find even stronger results. China's financial firms experience a mean CAR of 4.2%, and a median CAR of 3.1% during the four-day event window. Furthermore, 83% of the data sample show significant positive reactions to the news. The even more significantly positive impact of the December *Trump tariff cancellation* can be interpreted as the optimistic sentiment shown by investors in the Chinese stock market towards the ease of the trade tensions between the U.S. and China. Financial firms in China welcome the potential long-term trade partnership as such a relationship makes it easier for Chinese firms to do business with the U.S. and increase future productions while reducing future risks.

Interestingly, the December Effect appears to have a greater effect on the mean and median return than the October Effect. This might be because the new Phase One deal was reached and written during the December event, which reduced uncertainty and conveyed stronger information to the market.

Combined Effect

The Combined Effect is the cumulative results of the October and December Effect. When we add the second cancellation announcement, we get a compounding effect where China's financial firms benefit from both events. When the Combined Effect is evaluated, we find the shareholders of China's financial firms experienced tremendous gains from the *Trump tariff cancellations*. As shown in Table 3, the Chinese financial firms' mean and median CAR for the Combined Effect are 5.6% and 4.2%, respectively. We also find that 88% of the Chinese financial firms experience a positive CAR for the Combined Effect. When we

calculate the absolute dollar impact on the Chinese financial firms, we find the mean and median market capitalization gains to be $1.36 billion and $293 million, respectively. Cumulatively, the 24 financial firms gained $32.61 billion in market capitalization. This supports the de-escalation in the U.S.-China trade war is very favorable for China's financial firms and outweighs the unfavorable news of more competition from U.S. banks, insurance companies, and securities firms. All three of our test results are statistically significant and clearly show that shareholders of China's financial firms benefitted financially from the *Trump tariff cancellations* in October and December of 2019.

We also examine alternative event windows for the October, December, and Combined Effect. The results show that a five-day [-2, +2], four-day [-1, +2], three-day [-1, +1], two-day [-1, +1], and one-day [0] window produce consistent results. This is strong evidence that our results are valid and informative.

Sector Effect

Next, we proceed with tests regarding the Sector Effect. Among the Chinese financial firms in our sample, we categorize the firms into four sectors: banking sector, insurance sector, securities sector, and other sector. As these sectors may serve different functions in the financial market, we examine if there is any difference in the stock return reactions to the *Trump tariff cancellations*. Table 4 presents the results.

TABLE 4
IMPACT OF TRUMP TARIFF CANCELLATIONS ON CHINA'S FINANCIAL FIRM SECTORS: CUMULATIVE ABNORMAL RETURNS (CAR) FOR THE OCTOBER EFFECT, DECEMBER EFFECT, AND COMBINED EFFECT

Panel A: October Effect	Bank Sector	Insurance Sector	Securities Sector	Other Sector
Financial Firms (N=24)	N=7	N=4	N=7	N=6
Mean CAR	2.3%***	2.5%*	-0.2%	2.3%*
t-statistic	*3.98*	*2.93*	*-0.16*	*2.32*
(p-value)	*(0.007)*	*(0.061)*	*(0.876)*	*(0.068)*
Median CAR	2.2%**	2.3%	-0.1%	1.2%*
Wilcoxon signed rank test	*14*	*5*	*-1*	*10*
(p-value)	*(0.016)*	*(0.125)*	*(0.938)*	*(0.063)*
Percent positive CARs	100%***	100%**	43%	83%
Sign test	*2.65*	*2.00*	*-0.38*	*1.63*
(p-value)	*(0.008)*	*(0.046)*	*(0.705)*	*(0.102)*
Shapiro-Wilk test for normality	Not Normal	Not Normal	Not Normal	Not Normal
(p-value)	*(0.114)*	*(0.223)*	*(0.442)*	*(0.219)*

Panel B: December Effect	Bank Sector	Insurance Sector	Securities Sector	Other Sector
Financial Firms (N=24)	N=7	N=4	N=7	N=6
Mean CAR	1.1%	0.9%	9.9%*	3.6%***
t-statistic	*1.52*	*0.88*	*2.18*	*5.03*
(p-value)	*(0.180)*	*(0.446)*	*(0.072)*	*(0.004)*
Median CAR	0.7%	0.8%	5.2%**	3.7%**
Wilcoxon signed rank test	*9*	*2*	*14*	*11*
(p-value)	*(0.156)*	*(0.625)*	*(0.016)*	*(0.031)*
Percent positive CARs	71%	50%	100%***	100%**
Sign test	*1.13*	*0.00*	*2.65*	*2.45*
(p-value)	*(0.257)*	*(1.000)*	*(0.008)*	*(0.014)*
Shapiro-Wilk test for normality	Not Normal	Not Normal	Not Normal***	Not Normal
(p-value)	*(0.372)*	*(0.676)*	*(<0.001)*	*(0.960)*

Panel C: Combined Effect	Bank Sector	Insurance Sector	Securities Sector	Other Sector
Financial Firms (N=24)	N=7	N=4	N=7	N=6
Mean CAR	3.4%**	3.4%	9.7%	4.8%***
t-statistic	*2.95*	*2.12*	*1.90*	*5.79*
(p-value)	*(0.026)*	*(0.125)*	*(0.107)*	*(0.002)*
Median CAR	4.0%**	3.1%	5.2%**	5.3%**
Wilcoxon signed rank test	*13*	*4*	*13*	*11*
(p-value)	*(0.031)*	*(0.250)*	*(0.031)*	*(0.031)*
Percent positive CARs	86%*	75%	86%*	100%**
Sign test	*1.89*	*1.00*	*1.89*	*2.45*
(p-value)	*(0.059)*	*(0.317)*	*(0.059)*	*(0.014)*
Shapiro-Wilk test for normality	Not Normal	Not Normal	Not Normal***	Not Normal
(p-value)	*(0.431)*	*(0.637)*	*(0.006)*	*(0.675)*

Note: This table reports the mean CAR, median CAR, percentage positive CARs, and Shapiro-Wilk test for normality by event and sector. Related statistics are also reported in the table. ***, **, and * denote one, five, and ten percent significance levels, respectively.

Panels A and B show the CARs for the October Effect and December Effect. Regarding the October Effect, the banking sector shows the most significant abnormal returns during the event window, followed by the insurance and other firms sectors. Regarding the December Effect, the securities sector exhibits the highest CAR followed by the other firms sector.

Panel C show the CARs for the Combined Effect of the October and December *Trump tariff cancellations*. All four sectors experience tremendous gains from the *Trump tariff cancellations* with all three tests. The de-escalation of the U.S.-China trade war is favorable news for every sector: banking, insurance, securities, and other. The favorable news outweighs the unfavorable news that the new Phase One trade deal will increase the demand for financial services for facilitating trade and open China's financial services markets to U.S. financial firms. Different sectors are impacted differently as the market must evaluate the sector-specific information from the *Trump tariff cancellations*, as both announcements present challenges (e.g., increased competition) and opportunities (e.g., increased demand) to China's financial firms. Our empirical results help evaluate the overall effect of these events. We find the securities sector benefited the most, followed by the other firms sector. The insurance sector and banking sector experienced similar gains.

Size Effect

Additionally, we perform tests on the Size Effect because firms of different sizes may react differently to the *Trump tariff cancellations*. For instance, big firms and small firms may face different levels of competition once the new Phase One deal is signed. This test offers insights into the sensitivity of the Chinese financial firms of different sizes to the *Trump tariff cancellations*. We select the biggest twelve financial firms in term of market capitalization among the twenty-four financial firms in our sample as big financial firms. Similarly, we select the smallest twelve financial firms as small financial firms. This is because firms of different sizes may react differently to the *Trump tariff cancellations*. Table 5 reports the results.

TABLE 5
IMPACT OF TRUMP TARIFF CANCELLATIONS ON CHINA'S FINANCIAL FIRM SIZES: CUMULATIVE ABNORMAL RETURNS (CAR) FOR OCTOBER EFFECT, DECEMBER EFFECT, AND COMBINED EFFECT

Panel A: Big Financial Firms (N=12)	October Effect	December Effect	Combined Effect
Mean CAR	1.6%**	1.6%**	3.2%***
t-statistic	*3.05*	*2.44*	*4.4*
(p-value)	*(0.011)*	*(0.033)*	*(0.001)*
Median CAR	1.1%**	1.3%*	3.1%***
Wilcoxon signed rank test	*29*	*25*	*36*
(p-value)	*(0.021)*	*(0.052)*	*(0.002)*
Percent positive CARs	75%*	67%	83%**
Sign test	*1.73*	*1.15*	*2.31*
(p-value)	*(0.083)*	*(0.248)*	*(0.021)*
Shapiro-Wilk test for normality	Not Normal	Not Normal	Not Normal
(p-value)	*(0.387)*	*(0.311)*	*(0.248)*
Panel B: Small Financial Firms (N=12)	**October Effect**	**December Effect**	**Combined Effect**
Mean CAR	1.1%	6.9%**	8.0%**
t-statistic	*1.65*	*2.46*	*2.68*
(p-value)	*(0.128)*	*(0.032)*	*(0.022)*
Median CAR	1.2%**	3.8%***	6.0%***
Wilcoxon signed rank test	*26*	*39*	*38*
(p-value)	*(0.042)*	*(<0.001)*	*(0.001)*
Percent positive CARs	83%**	100%***	92%***
Sign test	*2.31*	*3.46*	*2.89*
(p-value)	*(0.021)*	*(0.001)*	*(0.004)*
Shapiro-Wilk test for normality	Not Normal	Not Normal***	Not Normal***
(p-value)	*(0.133)*	*(<0.001)*	*(<0.001)*

Note: This table reports the mean CAR, median CAR, percentage positive CARs, and Shapiro-Wilk test for normality by event and firm size. Related statistics are also reported in the table. ***, **, and * denote one, five, and ten percent significance levels, respectively.

The results show that the big and small financial firms gained significantly during the *Trump tariff cancellations*. It appears that the big financial firms gained more significantly than the small financial firms under the October Effect, whereas the small financial firms gained higher returns under the December Effect than the big financial firms.

While both Trump tariff cancellations introduced favorable news in China's financial markets, the Size Effect analysis further indicates that the Trump tariff cancellations in October 2019 and December 2019

contained more favorable news to the big and small financial firms, respectively. Overall, the Size Effect analysis suggests that the de-escalation of the U.S.-China trade war benefitted the big and small financial firms in China's financial sector. This might be due to the expectation that small financial firms can better adapt themselves to the future competition with U.S. financial firms.

CONCLUSION

The escalation of U.S.-China trade war by the Trump administration in 2018 concerned global economic growth as these two countries represent the two largest economies ever. In 2018, the International Monetary Fund warned that a U.S.-China trade war could cost the global economy over $430 billion by 2020. Since the Trump administration announced a series of tariff levies on the Chinese products and business in 2018, the GDP forecasts for China in 2019 and 2020 were greatly dimmed. Thus, the financial markets welcomed the announcement of Trump tariff cancellations in October 2019 and December 2019 as they signaled a de-escalation of the U.S.-China trade war.

The finance industry is widely considered the linchpin to the economy's health as financial firms provide pivotal services and investment capital to businesses which facilitates growth. Thus, we employ an event study to evaluate how China's financial firms react to the announcement of *Trump tariff cancellations*. We find the twenty-four financial firms in our sample benefitted tremendously from the announcement of the *Trump tariff cancellations*, whereby the shareholders of the financial firms experienced a mean and median gain in market capitalization of $1.36 billion and $293 million, respectively. Cumulatively, the shareholders of these twenty-four financial firms gained over $32.61 billion in market capitalization. This is to be expected as the two announcements of *Trump tariff cancellations* signal a de-escalation of the U.S.-China trade war which was greatly welcomed by the financial markets and China's financial firms.

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APPENDIX: DETAILED STATISTICS ON OCTOBER EFFECT, DECEMBER EFFECT, AND COMBINED EFFECT

	Company Name	October Effect		December Effect		Combined Effect	
		CAR	ΔMC	CAR	ΔMC	CAR Combined	ΔMC Combined
1	Bank of Hangzhou	0.73%	$118	-0.14%	$197	0.59%	$315
2	Bank of Nanjing	3.90%	$530	0.44%	$365	4.30%	$895
3	Bank of Xi'an	4.10%	$241	4.90%	$355	9.00%	$596
4	China Merchants Bank	3.60%	$4,865	0.72%	$4,191	4.30%	$9,056
5	Hua Xia Bank	1.00%	$356	-1.20%	$320	-0.18%	$676
6	Jiangsu Financial Leasing	0.66%	$44	1.20%	$112	1.90%	$156
7	Ping An Bank	2.20%	$1,431	1.80%	$2,126	4.00%	$3,557
8	China Life Insurance Company	3.40%	$3,841	-0.32%	$2,691	3.10%	$6,532
9	China Pacific Insurance	1.00%	$702	2.00%	$1,674	3.00%	$2,376
10	Inner Mongolia Xishui Strong Year	4.40%	$76	3.20%	$85	7.70%	$161
11	Ping An Insurance Company	1.10%	$3,071	-1.30%	$2,404	-0.17%	$5,475
12	GI Technologies Group	-4.80%	-$26	3.80%	$39	-1.00%	$13
13	Industrial Securities	-0.08%	$62	5.20%	$517	5.20%	$579
14	Shanghai Chinafortune	2.80%	$78	6.60%	$197	9.40%	$275
15	Shanghai Greencourt Investment	2.60%	$11	37.00%	$125	39.00%	$136
16	Sinolink Securities	-1.40%	-$11	4.30%	$277	2.90%	$266
17	Southwest Securities	0.09%	$45	9.60%	$467	9.70%	$512
18	Western Securities	-0.33%	$36	3.00%	$275	2.70%	$311
19	Anhui Xinli Finance	1.20%	$12	3.50%	$32	4.70%	$44
20	Bode Energy Equipment	0.21%	$5	1.20%	$14	1.40%	$19
21	Hainan Haide Industry	3.70%	$38	2.10%	$39	5.80%	$77
22	Kunwu Jiuding Investment Holdings	-0.08%	$14	3.90%	$85	3.80%	$99
23	Shaanxi International Trust	1.20%	$54	5.90%	$210	7.10%	$264
24	Shanghai AJ Group	1.50%	$53	4.80%	$164	6.20%	$217

TIMELINE OF U.S.-CHINA TRADE WAR

Date	Signature Events
January 22, 2018	President Trump imposes safeguard tariffs on $8.5 billion in imports of solar panels and $1.8 billion of washing machines.
March 1, 2018	President Trump announces tariffs on all trading partners of 25 percent on steel and 10 percent on aluminum.
April 2, 2018	China retaliates on aluminum waste and scrap, pork, fruits and nuts, and other U.S. products worth $2.4 billion in export.
April 3, 2018	The Trump administration releases $50 billion list of 1333 Chinese products under consideration for 25 percent tariffs.
April 4, 2018	China publishes its list of 106 products subject to the retaliatory tariffs.
April 5, 2018	U.S. considers an additional $100 billion tariffs
April 17, 2018	China imposes preliminary antidumping duties of 178.6 percent on imports of sorghum from the U.S.
June 15, 2018	U.S. revises the list of products. China issues its revised list of products for the 25 percent tariffs.
July 6, 2018	Both the U.S. and China impose the first stage of June 15 tariffs.
July 10, 2018	U.S. releases a list of $200 billion tariffs on China.
July 20, 2018	President Trump threatens tariffs on all imports from China.
August 3, 2018	China threatens $60 billion tariffs on U.S. goods.
August 23, 2018	U.S. and China impose the second stage of the June 15 tariffs.
September 17, 2018	President Trump releases the finalized list of the $200 billion tariffs.
September 18, 2018	China issues the list of the U.S. goods for the $60 billion tariffs.
December 1, 2018	Following the G-20 meeting, Presidents Trump and Xi announce a deal to halt the escalation of the trade war between two countries.
May 5, 2019	President Trump tweets that the U.S. will increase the 10 percent tariff on $200 billion of imports from China to 25 percent on May 10, 2019.
May 10, 2019	U.S. increases the tariff percentages on the previous list.
June 1, 2019	China hikes the rate on tariffs in retaliation.
August 1, 2019	U.S. announces tariffs on almost all remaining imports from China.
August 13, 2019	The Trump administration announces the new 10 percent tariffs on $112 billion in ports from China, and then $160 billion on December 15.
August 23, 2019	China releases its plan to retaliate on $75 billion of U.S. exports. The U.S. announces more tariffs starting October 1, 2019.
September 11, 2019	President Trump changes the October 1 date to October 15; China excludes 16 products from its list.
October 11, 2019	President Trump announces the cancellation of the scheduled October 15 tariff increases; a stage one deal with China is forthcoming.
December 13, 2019	President Trump announces the cancellation of the scheduled December 15 tariff increases; U.S. and China have agreed on a deal.

Note: This table reports a timeline of the U.S.-China trade war. The source of the timeline is Bown and Kolb (2023).