

Multinational Firms' Influence in International Private Regimes: International Standardization Through Subsidiary Networks

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MNC's influence in international private standardization

- International business increasingly influenced by regulations and standards
- Corporate interest in regulations \rightsquigarrow Domestic lobbying and information sharing
(Gulotty 2020; Kennard 2020; Perlman 2020)

How do firms influence **international standardization**?

Through their foreign subsidiary networks.

This paper shows:

Inward FDI \rightsquigarrow host country's **increased participation** at the International Organization for Standardization (ISO)

Contributions

- Theory: *How* MNCs exert influence in international standardization

Institutional design (one-country-one-vote) of the ISO motivates MNCs to influence host countries' participation and votes

- Empirics: Panel data of **country-project level participation** at the ISO

Countries participate more in standardization of FDI-related products/services

International standards affect business

ISO standards are *private and voluntary*, but have economic consequences:

- Technical barriers to trade (TBT) — WTO members “strongly encouraged” to base their national standards on international ones (otherwise notify the WTO)

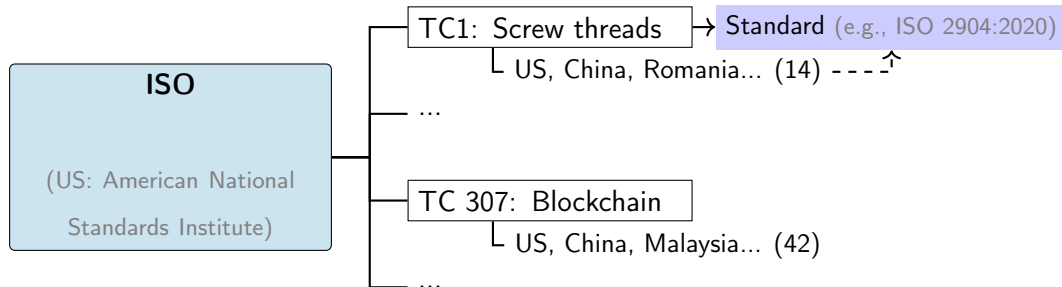
The EU against Indonesia at the WTO TBT Committee:

*“concerned that... (Indonesia’s standard) was **not in line with ISO standards** and would imply significant costs.” (G/TBT/M/61)*

- Many governments incorporate ISO standards in domestic regulations (e.g. The National Technology Transfer and Advancement Act (1996))

Design of International Organization for Standardization (ISO)

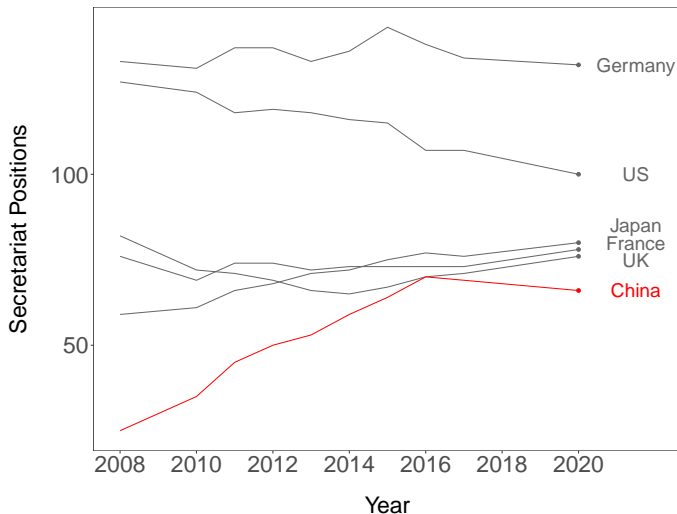
≈ 800 Technical Committees (TCs)



- ISO: the most comprehensive international standard setting body (private)
- One domestic standard-developing body per country
- Members can participate in any of the Technical (sub)Committees
- One country, one vote among members in each committee
- ↪ Needs 2/3 approval from voting members to publish a standard

Changing composition of leadership roles at the ISO

China more than doubled its leadership positions (TC Secretariat) in less than a decade



Increased participation by more diverse countries

Number of TC Participation as Voting Members

Country	2008	2022
UK	692	705
Germany	668	708
France	628	636
China	603	742
Japan	599	647
USA	572	563
India	267	498
Brazil	190	255
Turkey	70	134
Mexico	46	66
Ethiopia	3	41
Uganda	0	77

Theory

MNCs influence country-level participation

- MNCs have incentives to collect votes to reach 2/3 approval
- MNCs offer support to domestic standardization bodies by providing necessary skills, information, and financial resources
- ↪ Countries that receive FDI start actively participating (i.e., become voting members) in standardization of related products

Hypotheses

At the country-standard area level,

H1 New greenfield FDI \rightsquigarrow more voting membership in TCs

H2 New greenfield FDI in **developing countries** \rightsquigarrow more voting membership in TCs
[information and resources valued more]

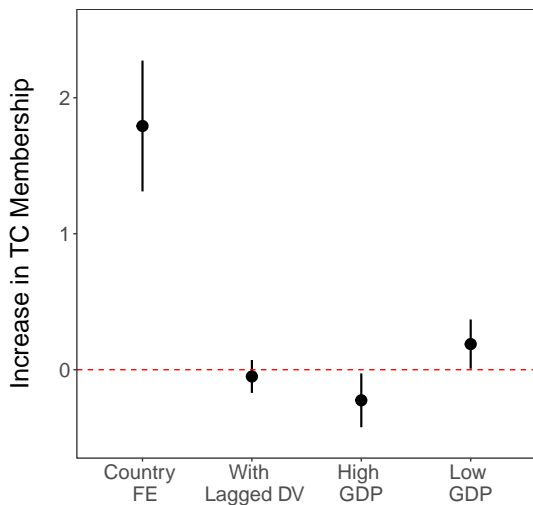
H3 New greenfield FDI \rightsquigarrow more voting membership in TCs with a **smaller number of membership** [additional vote valued more]

Data and design

- DV: Technical Committee voting membership, 2008-2017 (Wayback Machine)
(165 member countries \times 10 years \times 750 TC)
- IV: New greenfield FDI cases reported between 2004-2017 (fdimarkets.com)
- Analyses at the country (i) - HS product (p) - year (t) level
 - TC working area (ICS code) mapped to HS product (using WTO TBT notifications)

$$\underbrace{Y_{ipt}}_{\substack{\# \text{ of committees} \\ \text{associated with product } p \\ \text{that } i \text{ participates in } t}} = +\beta \underbrace{X_{ip,t-n}}_{\substack{\text{New FDI in } p \\ \text{into } i \text{ at } t-n}} + \gamma Y_{ip,t-n} + \underbrace{\delta \mathbf{W}_{i,t-n} + \eta \mathbf{Z}_{ip,t-n}}_{\substack{\text{covariates (GDP, export volume, etc.)}}}} + \tau_t + \omega_{q[p]} + \epsilon_{ipt}$$

Greenfield FDI \rightsquigarrow TC participation (H1) in developing countries (H2)



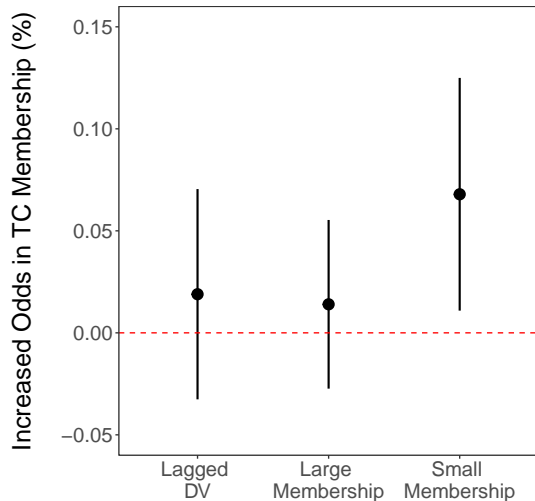
H1 FDI \rightsquigarrow TC membership \uparrow

H2 FDI \rightsquigarrow TC membership \uparrow in developing countries

Substantively significant:
0.2 new membership
(baseline is 6 TC per country-product-year)

► Table (H1,2)

Greenfield FDI \rightsquigarrow participation in smaller TCs (H3)



H3 FDI \rightsquigarrow membership in smaller TCs \uparrow

Substantively: 25% \rightarrow 27%
(changes are rare events)

► Table (H3)

Conclusion

- Inward FDI leads to country representative's participation in ISO standardization
- MNCs have incentives and capabilities to influence host-country representatives, due to the **institutional design of international private regimes**
- Increased participation by developing countries **may not necessarily mean diverse representation**

For any questions or comments, please email

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