Foreign Agents: MNCs and WTO Disputes

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Abstract

Foreign firms play an important role in lobbying the US government for free trade. Their importance has risen along with foreign investment in the United States, which increases their stakes in US policies, and along with the rise in the number of foreign firms in the top ranks of multinationals. They lobby Congress and the White House in addition to USTR, the State Department, the Commerce Department, and a variety of other agencies, and they lobby about trade as well as many other policies. Foreign firms face a liability of foreignness that reduces their incentives to lobby, and firms reduce their lobbying when their home countries align themselves in diplomatic opposition to the United States. Lobbying responds as trade disputes increase or decrease its expected payoff: Lobbying surges in the years that precede the official announcement of a US WTO dispute against a firm's home country, and firms reduce their US lobbying when their home countries pursue disputes against the United States. These effects are magnified by diplomatic alignment, which likewise scales the expected return to lobbying. A parallel analysis of US firms' lobbying serves as a placebo test, and we find no similar patterns for US firms.

KEYWORDS Lobbying, Foreign Direct Investment, Trade Disputes, WTO

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Introduction

Concern about foreign influence on the eve of the Second World War spurred Congress to pass the Foreign Agents Registration Act (FARA) in 1938, and during the Cold War FARA was amended and revised to address concerns about Communist influence activities. FARA imposes obligations on anyone acting as an "agent of a foreign principal." The expansion of the number and significance of multinational firms in recent decades has created a new class of foreign agents who are deeply engaged in political activity in the United States. Foreign business firms are permitted to register under the less-onerous Lobbying Disclosure Act (LDA) rather than FARA, and we use these disclosures to analyze the extent of their activities. The openness of the US political system and the "weak state" characteristic of a competitive pluralistic democracy provide numerous access points for foreign corporations to play important roles in shaping public policy.

We focus on trade, although the LDA data indicate that foreign corporations lobby actively on foreign relations, taxation, finance, and even defense. Foreign firms, particularly those that have made direct investments in the United States, have substantial stakes in US trade policy, and with few exceptions, they prefer the US market to be open to trade. Foreign multinationals generally import finished goods or components from their home countries, often sourcing components in other countries as well, and US trade barriers increase their operating costs. In addition, they share with business firms generally a preference for a stable and predictable policy environment that reduces transaction costs. We argue that these preferences are reflected in changes in their lobbying behavior around the announcement of World Trade Organization (WTO) disputes.

In particular, foreign firms are expected to increase their political activity in anticipation of US WTO disputes directed against their home countries and decrease their lobbying in anticipation of home-country disputes directed against the United States. Foreign firms are interested in lowering US trade barriers, obtaining beneficial treatment under US laws and regulations, and forestalling US retaliation against their home countries that might raise their costs of doing business. From these points of view, the stakes of influencing US policy are maximized when the United States is contemplating launching a WTO dispute. Depending upon how the dispute is framed, it might force the home country to make concessions that are harmful to its firms operating abroad; and depending upon how it is resolved, it might expose those firms to US retaliation. On the other hand, anticipated disputes initiated by home governments serve the firms' interests, and are generally initiated at their request. Concessions in these disputes are likely to improve their business conditions, and home-country retaliation is unlikely to affect them. When these disputes are pending, firms are likely to reduce their political activity in the United States because they free-ride on their home governments' efforts and they shift their political activity to their home capitals, where it is likely to be most effective.

Political activity is costly and firms seek to maximize their profits, so variations in the intensity of lobbying can be read as indicating variations in the expected payoff of political activity.[1] Foreign firms operate at a political disadvantage relative to domestic firms. Although they are important employers, taxpayers, and partners in public policy endeavors, they are never as fully invested in the US market as domestic firms, and they are never quite as reliably loyal to domestic law. Consequently, they invest less in the political influence game than similarly-positioned domestic firms, because the expected payoff of playing is lower. This is a version of the liability of foreignness (Zaheer 1995).

The payoff of political activity depends on the degree to which the political authorities internalize one's interests (regard the interests of BMW or Toyota, for example, as reflecting the interests of US workers and taxpayers) and how they regard the credibility of the messages that one is able to send. Much of political activity is cheap talk signaling, and the credibility of cheap talk signals depends on the degree of alignment of interests between the sender and the receiver (Crawford and Sobel 1982). So long as Congressmen and officials in Executive agencies believe there is a degree of alignment between their preferences and those of a lobbyist, they willingly listen to the lobbyist's arguments and update their beliefs. If their perspectives become

[1] This is subject to the well-known paradox that lobbying activity is under-supplied in the sense that the value of the policies at stake greatly exceeds the cost of the efforts expended, which reflects the fact that political markets are imperfect.

too incongruent, on the other hand, lobbying fails to convey any meaningful information, and the incentive to invest in lobbying disappears. In the case of foreign firms, the degree of interest alignment depends in part on the closeness of diplomatic relations between the home country and the United States. Firms from closely aligned countries can afford to behave more like domestic firms, because they will be treated more like domestic firms. Firms from countries that have strained relations with the United States are subject to more skepticism when they seek to influence policy, so the effort has a lower expected payoff.

Variations in incentives to lobby due to the quality of diplomatic relations interact with variations in incentives due to the agenda of trade politics, because the expected payoff to lobbying depends on the product of two probabilities: the probability of lobbying effectively (which depends on firm nationality) and the probability of lobbying at an opportune time (which depends on the timing of trade disputes). Consequently, we estimate interactive models. In what follows, we use a series of staggered difference-in-difference estimations with firm and year fixed effects to demonstrate that firms from countries with strong diplomatic relations with the United States engage in more lobbying; lobbying increases in expectation of a US-led WTO dispute against the home country and decreases in expectation of a home-led WTO dispute against the United States; and these effects are strengthened when bilateral relations are strong.

Lobbying over Trade Disputes

Foreign firms are interested in lobbying the United States to reduce trade barriers and to minimize trade retaliation against their home countries. WTO disputes launched by the United States represent a threat to their interests and increase the incentives to lobby. On the other hand, they view WTO disputes launched by their home countries as opportunities to obtain their preferred policies without the need to lobby in the United States. When these disputes are pending, they face incentives to free-ride on their home governments' efforts or to shift their political activity from the United States to their home capitals.

Foreign firms operate at a political disadvantage vis-a-vis domestic firms in the US political system, but firms from close allies come closest to parity. Foreign firms from countries with strained relations with the United States have weak incentives to lobby the US government because US officials treat their messages with skepticism. Poor diplomatic relations make it less likely that US politicians and officials internalize their interests. Because US decision makers perceive that these firms have divergent interests, furthermore, they are less likely to credit the information that these firms provide; and even when these firms are able to send informative signals, the signals have to be coarse if they are to be believed at all (Crawford and Sobel 1982). Consequently, we expect foreign firms to participate most actively when US diplomatic relations with their home countries are strong.

***Hypothesis* 1.** *Foreign firms lobby the US government most intensively when their home countries' diplomatic relations with the United States improve, and reduce their lobbying efforts when relations deteriorate.*

The payoff to political participation depends on the stakes of trade policy, which shift depending on the quality of the bilateral trade relationship. When the US domestic politics of trade exacerbate bilateral trade tensions, the risk increases that the United States will destabilize the trade policy environment by launching a WTO dispute. WTO dispute resolution is useful to firms because it resolves trade tensions without resort to *ad hoc* measures that might lead to trade wars, but WTO disputes still expose firms to policy risk. When the United States launches a dispute, foreign firms from the target country have to be concerned that their home country might make concessions that limit their profits, or that the United States might retaliate in ways that increase their costs. The payoff to political engagement increases because policy is in flux. The incentive to participate is maximized before the dispute is officially declared, however. USTR may gather information and submit reports to Congress about the trade concerns of US firms in National Trade Estimates for years before formally filing a complaint. During the period of diplomatic maneuvering and bilateral consultations that precedes the official filing of a dispute there is an opportunity to provide information to US officials that may influence the scope or objectives of the dispute. Sometimes it may be possible to provide evidence that the claims of US firms are unjustified and convince the US authorities to desist from pursuing weak cases. Once a dispute has been filed, however, the opportunity to exert influence is largely past. Consequently, we expect to see a surge of political activity that precedes the launch of WTO disputes by the United States.

***Hypothesis* 2.** *Foreign firms lobby more intensively when the United States threatens to initiate a WTO dispute against their home countries.*

On the other hand, foreign firms have multiple ways of pursuing their trade objectives, and they can exert political influence in Washington or at home. When their objectives are to liberalize US markets, influence US regulation or prevent US retaliation, such as US anti-dumping actions, it may be more effective to lobby at home. When a WTO dispute launched by their home country is imminent, firms have incentives to economize on political activity in the United States and concentrate instead on lobbying their own governments. Their specialized knowledge of the US market and policy environment is at a premium in their home capitals. It is particularly useful to convey this information during the phase that precedes a formal dispute filing, when it can do the most to tailor the framing of the dispute to advance their own interests and to improve the odds of success. Consequently, we expect to see a decline in foreign firm lobbying preceding disputes launched by their home countries.

***Hypothesis* 3.** *Foreign firms reduce lobbying when their home countries threaten to initiate a WTO dispute against the United States.*

The expected payoff for a foreign firm of investing in political activity depends on both the quality of diplomatic ties between its home country and the United States and on the varying incentives created over time by the trade disputes being considered by both sides. All else equal, it is always more valuable to invest in political activity if bilateral ties are strong. However, there is an interaction effect between diplomatic relations and trade relations, because the expected payoff depends on a product of probabilities: the probability of lobbying effectively (which depends on firm nationality) and the probability of influencing policy at an opportune time (which depends on pending disputes).

***Hypothesis* 4.** *The effects of trade disputes on lobbying are magnified when diplomatic relations are strong.*

Research Design

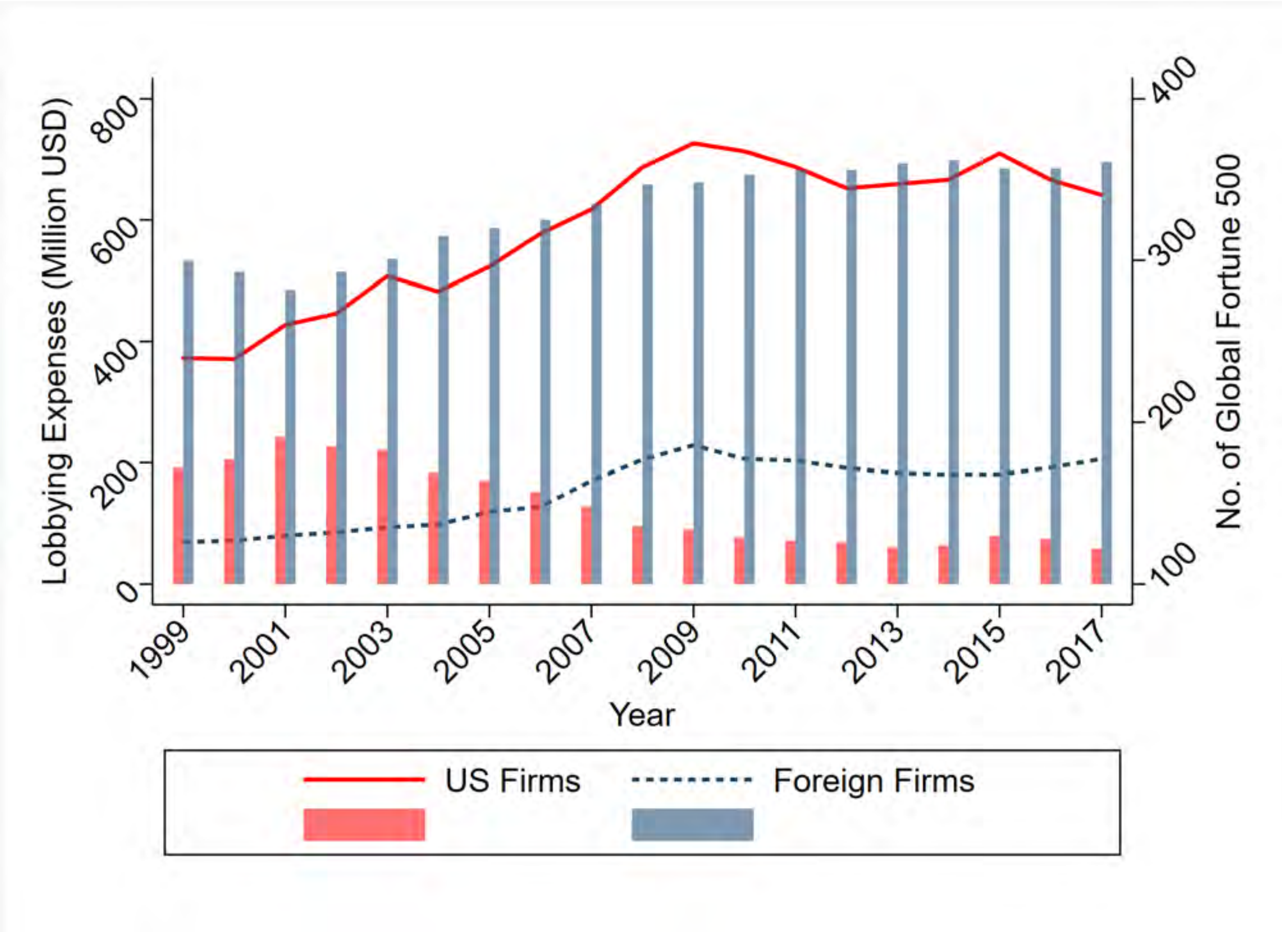
Data and Model

To assess the effect of WTO disputes on the pattern of corporate lobbying, we use a firm-year level lobbying dataset of 1,352 Global Fortune 500 companies between 1999 and 2017. Based on the list of Global Fortune 500 firms that have ever been ranked between 1992 and 2018, we match firm names with the name of client in the lobbying data from LobbyView.org(Kim 2018). The data include lobbying information for each firm during the report year including the number of lobbying filings[2], the number of filings that report lobbying of each government agency and on each lobbying issue, and the annual dollar amount of lobbying expenditure.

Bar graphs in Figure 1 show the number of US and foreign firms that are ranked in the Global Fortune 500 in each year and line graphs indicate the dollar amount of those firms' lobbying expenditures in the corresponding year. The share of American firms in the Global Fortune 500 reached a maximum in 2001 and has been decreasing since 2002. Nevertheless, the amount of lobbying expenditure by the decreasing number of American firms in the top set remains much greater than that of the foreign firms, which reflects stronger lobbying incentives for US firms. The time trends for the two groups are similar.

[2]Under the *Lobbying Disclosure Act* of 1995, lobbying reports were filed biannually. Yet, after the *Honest Leadership and Open Government Act* of 2007 was implemented, reports have been filed quarterly. This change makes the number of lobbying filings since 2008 systematically greater than that before 2008. To address this issue, we include year fixed effect in the analysis.

Figure 1: Lobbying Expenses of Global Fortune 500 Firms



Our data include all of the firms that have ever been ranked between 1992 and 2018 in the Global Fortune 500. To investigate the pattern of corporate lobbying, we use five measures of lobbying activities: (1) lobbying expenses, and the number of filings reporting lobbying of (2) trade branches, (3) the US Congress, (4) the US President, and (5) the US Trade Representative in year t. The maximum amount of lobbying expenses in the dataset is 50 million dollars spent by General Electric in 2010, followed by 46.2 million spent by Pacific Gas and Electric Company (PG&E) in 2010. The average amount is 788 thousand dollars.[3] Among foreign

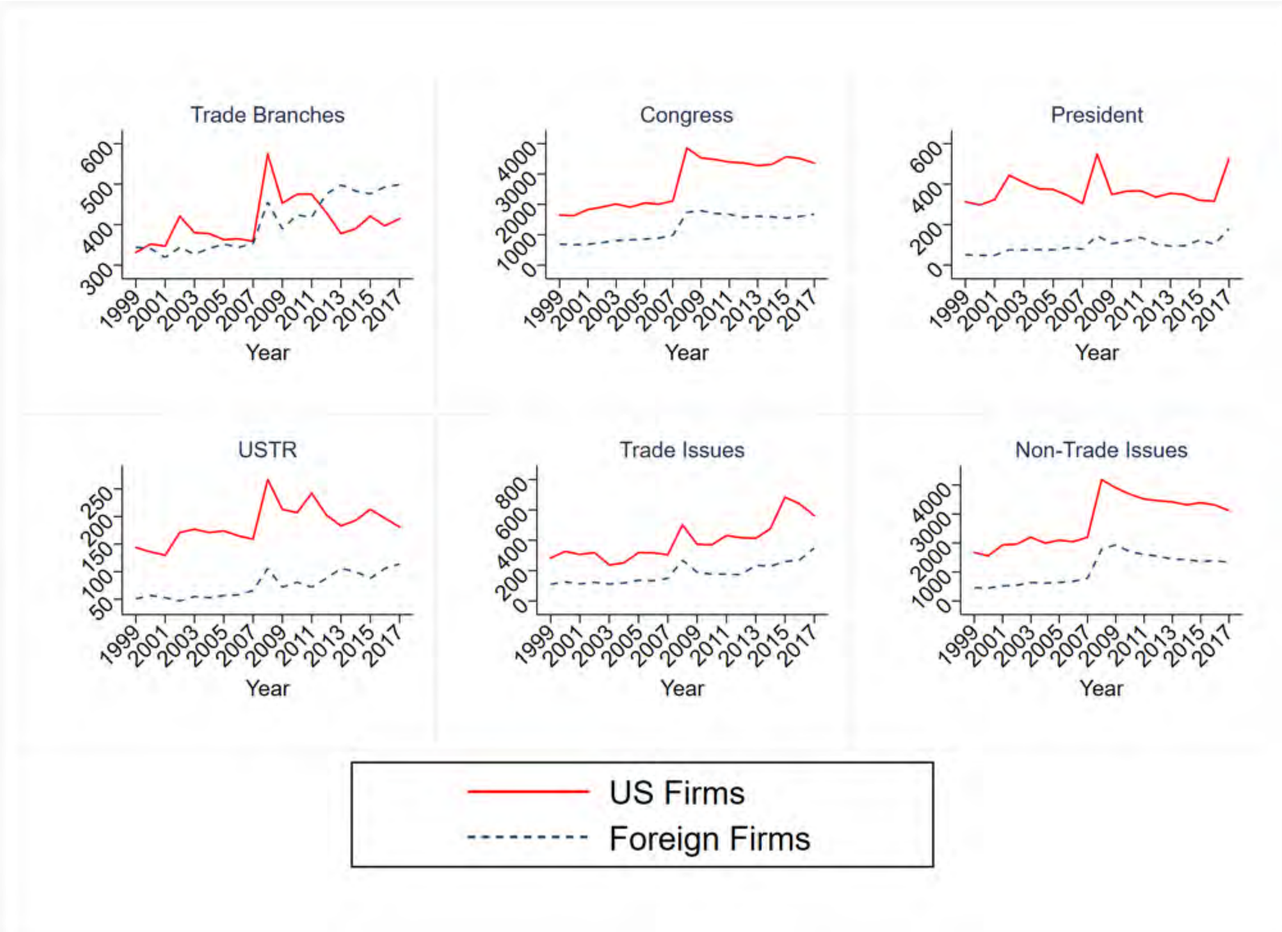
[3]Among 122,700 lobbying reports filed by Global Fortune 500 firms that have ever been ranked between 1992 and 2018, 24,044 reports do not have lobbying expenditure information. This occurs because the *Lobbying Disclosure Act* of 1995 mandates firms to report lobbying activities when they spend more than $20,000 for a half-year. This rule was amended under *Honest Leadership and Open Government Act* of 2007, which changes the threshold to $10,000 for each quarterly reporting period. Therefore, we code $20,000 for any missing values in lobbying expenses before 2008 and $10,000 for missing values after 2008. We also estimate the main model when treating the missing as zero. Figure 7 and Figure 8 in Appendix present the results which are consistent

firms, British Petroleum (BP) spent the largest lobbying expenses, 17.27 million dollars in 2009, followed by Royal Dutch Shell and Merck. The trade branches that we use include Department of Commerce (DOC), Department of State (DOS), US Trade Representative (USTR), Federal Trade Commission (FTC), US International Trade Commission (USITC), US Export–Import Bank (US EXIM Bank), National Economic Council (NEC), International Trade Administration (ITA), and Council of Economic Advisers (CEA). In 2004, AT&T filed 31 lobbying reports that indicate that the firm lobbied trade-related government agencies. This is the maximum number in our dataset. The second largest lobbying firm to trade branches is Pfizer, with 23 lobbying records in 2009 and 2011; the average number of reports of trade-branch lobbying is 1.33. Anheuser-Busch InBev is the top foreign lobbying firm to trade branches followed by Sony, Royal Dutch Shell, Toshiba, and Samsung. Verizon filed more than 200 reports indicating that it approaches to the US Congress in 2008, 2009, and 2010 followed by Comcast, Federal Home Loan Mortgage, and General Electric, which filed more than 150 reports per year; the average is 4.9. Sanofi, Anheuser-Busch InBev, and BAE Systems are the top three foreign lobbying firms to the US Congress. AT&T is the top lobbying firm to the US President, 32 in 2004, followed by Lockheed Martin's 26 records in 1999. Sanofi, SAP software, Royal Dutch Shell, Sony, Fresenius Medical Care, and Daimler filed more than 10 lobbying reports per year indicating that they lobbied the US President. Chevron made the largest lobbying records to the USTR, 20 in 2008, closely followed by Aflac, Monsanto, and Pfizer. Chubb and Sony filed more than 10 reports that they lobbied to the USTR, followed by Samsung and Novartis.

Figure 2 shows the pattern of lobbying activities of Global Fortune 500 firms that are ranked in the given year across different government agencies and issues. In general, American Global Fortune 500 firms more actively engage in lobbying process than foreign Global Fortune 500 companies despite a fact that there are fewer number of American firms in Global Fortune 500. Interestingly, however, foreign firms have made greater efforts on lobbying trade-related branches than American companies since 2012. Although this may reflect the decrease in the number of

with the findings of the main model.

Figure 2: Lobbying Activities of Global Fortune 500 Firms



US firms in Global Fortune 500, the result also indicates that many foreign firms in the list are interested in lobbying trade branches.

Our main focus is on the subset of foreign firms to see how WTO disputes between the United States and firms' home countries shape the pattern of corporate lobbying. There are two types of WTO disputes between the home and the US. One is initiated by the US against firms' home countries, and the other is the case when the home country initiates a dispute against the US. We measure the number of ongoing disputes in year t based on WTO Trade Dispute Histories Data collected by Kucik and Pelc (2016)[4]. Since our hypotheses posit that the effect of WTO disputes between the home and the US would vary depending upon the level of diplomatic alignment between two countries, the statistical models include interactions

[4]Available at https://www.wtodisputedata.com/

between those two types of disputes and the alignment variable lagged by one year. We measure diplomatic alignment using the UN vote similarity index collected by Voeten, Strezhnev and Bailey (2009), which ranges from 0 to 1, where the larger value indicates greater agreement between the home country and the United States in the UN General Assembly voting. We use the following specification:

$$\begin{aligned}
\text{Lobbying}_{i,t} \ &= \beta_0 + \beta_1 \text{ Disputes[US}\rightarrow\text{Home]}_{i,t} + \beta_2 \text{ Disputes[Home}\rightarrow\text{US]}_{i,t} + \beta_3 \text{ Closeness}_{i,t-1} \\
&\quad + \beta_4 \text{ Disputes[US}\rightarrow\text{Home]}_{i,t} \times \text{Closeness}_{i,t-1} \\
&\quad + \beta_5 \text{ Disputes[Home}\rightarrow\text{US]}_{i,t} \times \text{Closeness}_{i,t-1} \\
&\quad + \beta_6 \ W_{i,t} + \gamma_i + \delta_t + u_i
\end{aligned} \tag{1}$$

γ_i is the firm fixed effect and δ_t is the year fixed effect. The standard errors are clustered at the firm (i) level. $W_{i,t}$ is the vector of covariates that could potentially explain the pattern of corporate lobbying. It includes the amount of cross-national M&A of a firm i in year $t-1$, the number of reports missing the amount of lobbying expenses in year t, and two variables for the weighted volume of imports from host countries of a firm i to the US in year t. The lagged amount of M&A variable is collected from the Bloomberg M&A data by counting the number of M&A deals in each year. This variable does not include M&A deals in the US. The number of reports missing lobbying spending variable is included to control for the effect of small lobbying in the data. The import volume variables are collected from the USITC DataWeb.[5] These variables are weighted by each host country (j)'s number of disputes with the US. Since there are two types of disputes between host countries and the US: disputes initiated by the US against host countries and disputes filed by host countries against the US, each import volume variable is weighted by the number of each type of disputes as follow:

[5] Available at dataweb.usitc.gov.

$$
\begin{aligned}
\text{Import[US}\rightarrow\text{Host]}_{i,t} &= \sum_{j \in J_i} \left(\text{Import[Host-US]}_{j,t-1} \frac{\text{Disputes[US}\rightarrow\text{Host]}_j}{\text{Total Disputes[US}\rightarrow\text{Host]}_i} \right) \\
\text{Import[Host}\rightarrow\text{US]}_{i,t} &= \sum_{j \in J_i} \left(\text{Import[Host-US]}_{j,t-1} \frac{\text{Disputes[Host}\rightarrow\text{US]}_j}{\text{Total Disputes[Host}\rightarrow\text{US]}_i} \right)
\end{aligned} \tag{2}
$$

Findings

The result for the foreign firms sample using lobbying expenses in million US dollars as a dependent variable is presented in Table 1. Model 1 estimates the model with the full sample of foreign firms; Model 2 uses foreign firms with US affiliates; and Model 3 uses foreign firms without US affiliates. The results show that the lobbying of foreign Global Fortune 500 firms without US subsidiaries is not affected by WTO disputes between their home countries and the US, while firms with US affiliates respond to such disputes. Because firms without US affiliates do not have substantial access or incentive to lobby the US government, we focus on the results of Model 2.

The results of Model 2 indicate that firms with US affiliates engage in lobbying more actively if they are based in countries with close diplomatic alignment with the United States. The estimated direct effect of the United States suing the home country is to decrease lobbying, while the interactive effect with UN voting alignment increases lobbying. Figure 3 visualizes the marginal effect of dispute on lobbying expenses across different values of UN voting alignment. The horizontal axis indicates the level of voting alignment between firms' home country and the United States. The histogram summarizes the distribution of this UN vote agreement in our dataset. In the dataset, the minimum alignment level is 0.140 and the maximum is 0.952, while the average and standard deviation are 0.484 and 0.156, respectively. The marginal effects plots indicate that the net effects are to significantly increase lobbying in cases where the home country is aligned with the United States; the estimated effects of the United States suing the home country are insignificant in countries that are not aligned with the United States.

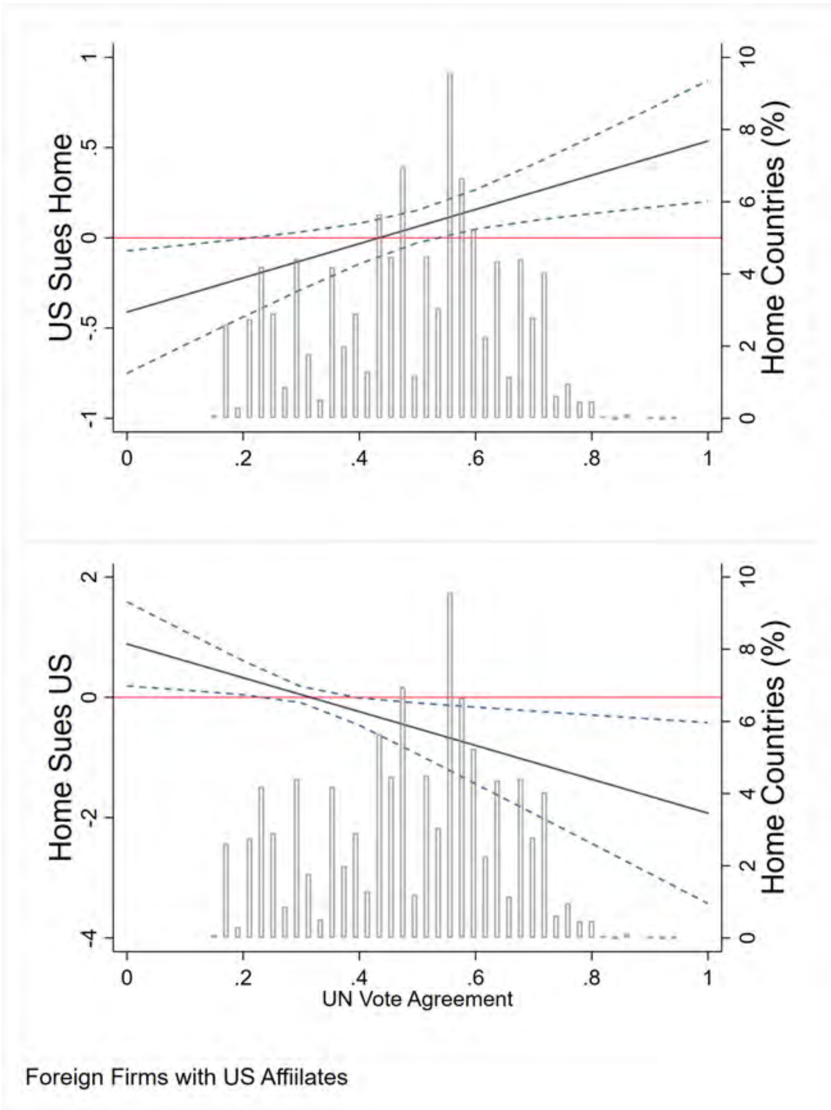
Table 1: WTO Disputes and Foreign Firms' Lobbying

	Model 1	Model 2	Model 3
	Full Foreign Sample	US Affiliates	No US Affiliates
Disputes[US→Home]$_{i,t}$	-0.275*	-0.411**	0.008
	(0.143)	(0.173)	(0.023)
Disputes[Home→US]$_{i,t}$	0.219	0.888**	-0.009
	(0.158)	(0.356)	(0.027)
Closeness$_{i,t-1}$	0.195	1.676*	0.005
	(0.143)	(0.901)	(0.034)
Closeness$_{i,t}$ × Disputes[US→Home]$_{i,t}$	0.612**	0.947***	-0.026
	(0.299)	(0.330)	(0.061)
Closeness$_{i,t}$ × Disputes[Home→US]$_{i,t}$	-0.632*	-2.810**	0.028
	(0.362)	(1.112)	(0.067)
M&A$_{i,t-1}$	0.004**	0.002	0.001*
	(0.002)	(0.002)	(0.000)
Expenses Missing$_i, t$	0.094***	0.093***	0.058***
	(0.018)	(0.020)	(0.014)
Import[US→Host]$_i, t$	0.000	0.000	-0.000
	(0.000)	(0.000)	(0.000)
Import[Host→US]$_i, t$	-0.000	-0.000	0.000*
	(0.000)	(0.000)	(0.000)
Constant	0.705***	0.262	-0.010
	(0.100)	(0.287)	(0.021)
Observations	17931	6580	11351
Adjusted R^2	0.803	0.805	0.816
Firm and Year FE	Yes	Yes	Yes

Note: Entries in parentheses are standard errors clustered at firm (i) level.
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

The estimated effects are reversed when the home country sues the United States. The estimated direct effect of the home country suing the United States is positive, while the interaction with UN voting alignment is negative. The marginal effects plots again indicate that the interactive effect predominates, so firms from countries that are aligned with the United States decrease lobbying significantly when their home countries initiate WTO disputes against the United States. The estimated effects of WTO disputes are much smaller in scale, but still significantly negative, for firms from countries that are not aligned with the United States.

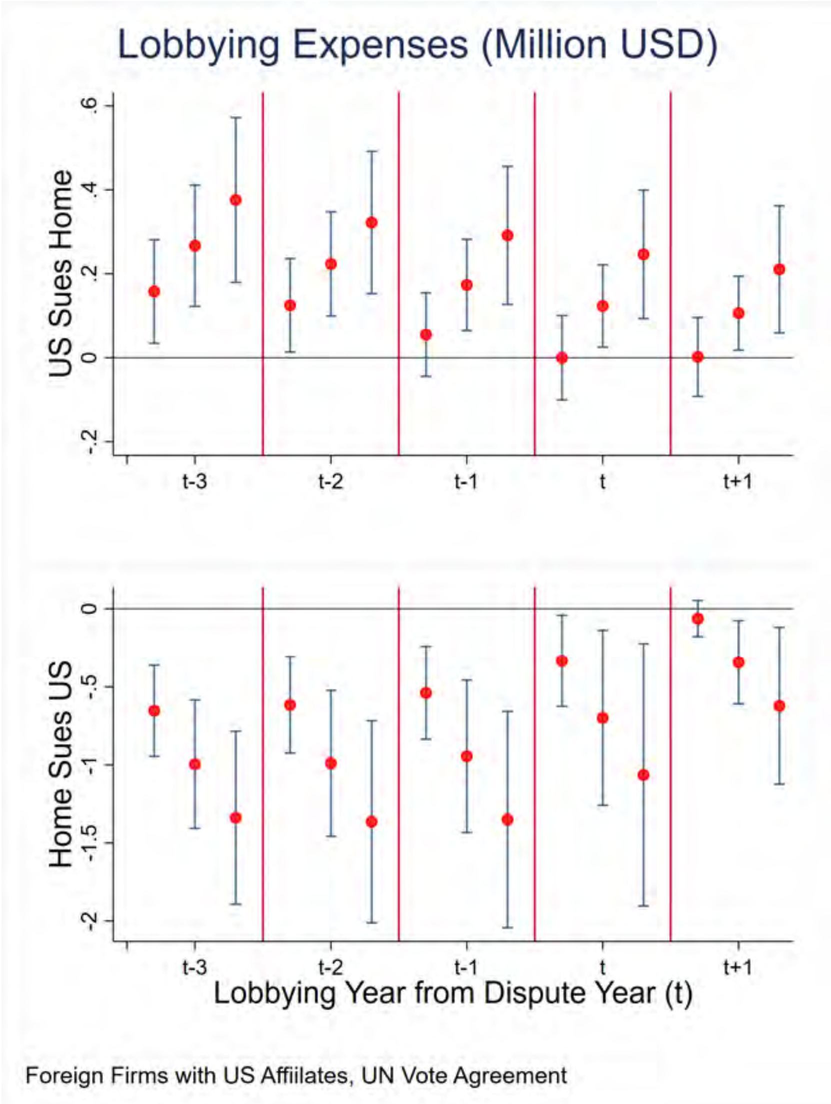
Figure 3: The Marginal Effect of Disputes on Lobbying Expenses (Model 2)



Timing of disputes

We further investigate the mechanisms that drive these effects by exploring their timing and the patterns of agencies. Do firms respond to disputes in the year in which they are filed, in the subsequent year, or in previous years while they are anticipated? If the objectives of foreign

Figure 4: Marginal Effects of Disputes on Lobbying Expenses (Model 2 with Varying Timing)



firms are primarily to affect the bargaining stage of WTO dispute resolution, the effects should set in after the formal dispute is filed. On the other hand, if the objectives are to forestall a dispute or frame its terms of reference, the window of opportunity closes when the complaint is formally filed. To answer this question, we re-estimate Model 2 using various assumptions about the timing with which disputes might affect lobbying, ranging from three years before a dispute until the year following. The results are summarized in Figure 4. The horizontal axis indicates years relative to the year of the dispute, t. In each period, the central estimate indicates the marginal effect of disputes on lobbying and its 95% confidence interval when home countries have the mean level of UN voting alignment. The markers on the left and the right indicate the marginal effects when the home country's diplomatic alignment is one standard deviation below and above the mean, respectively.

The results indicate that the strongest and most significant effects occur before disputes between the US and the home country start. Marginal effects of disputes initiated by the US that are expected in two and three years are significant and positive for the firms from all three types of home countries, while firms from less closely aligned countries do not increase their lobbying in year t or $t+1$. Similarly, firms reduce their lobbying most sharply two or three years before their home countries initiate disputes against the United States. The effects are strongest for firms from countries that are closely aligned with the United States, and are insignificant for firms from the countries furthest from the United States by year t and $t+1$.

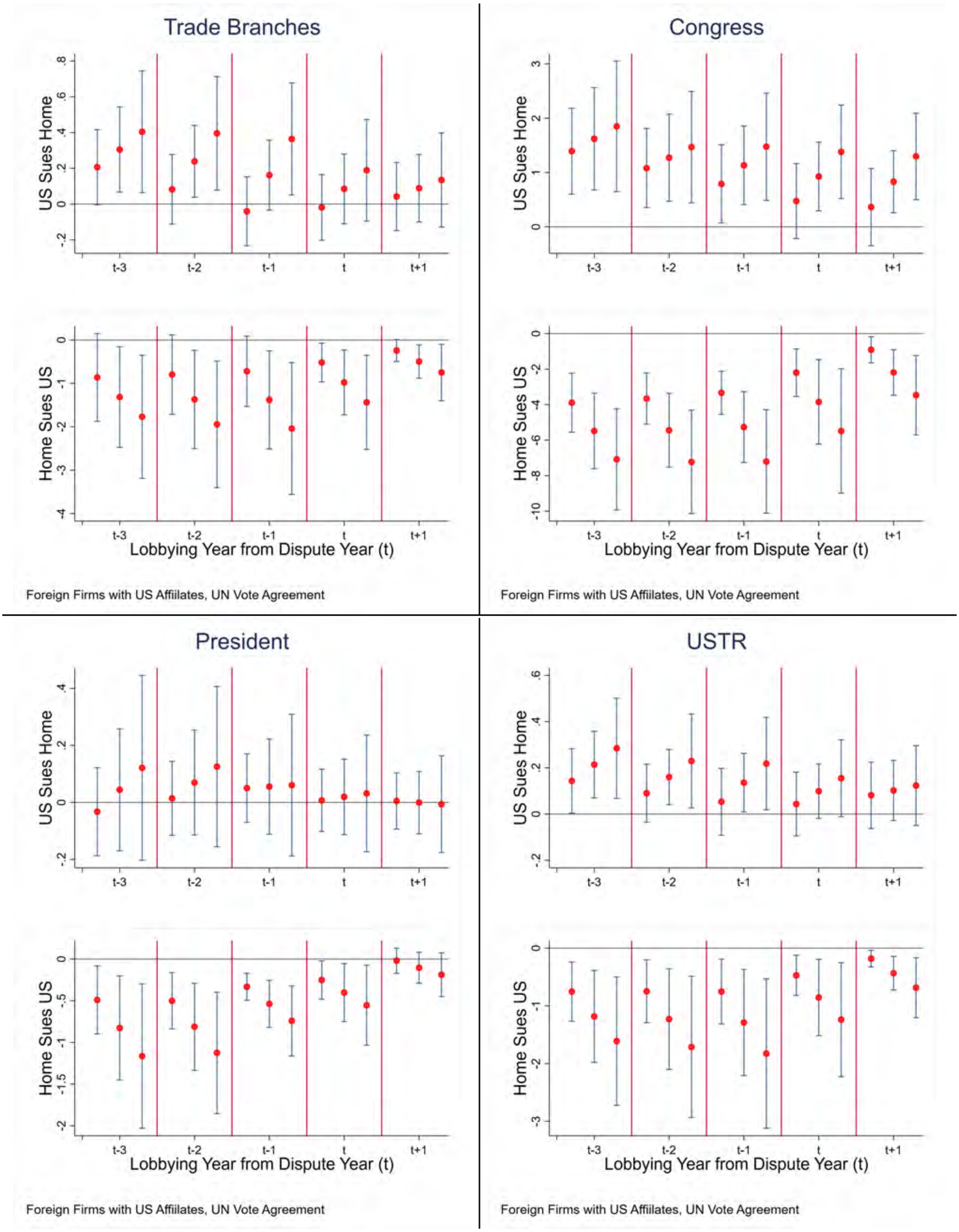
These results indicate that we do not have a clean difference-in-difference estimate of the effect of WTO disputes in period t, because the parallel trends assumption for that estimate clearly does not hold. We do not expect the relevant treatment to occur when the dispute is formally filed, however. WTO disputes are in the works for years before they are officially registered at the WTO, and the grounds for the disputes are well known to the affected firms even before they come to the attention of national trade officials. Complaints by firms form the basis for the USTR's National Trade Estimates, and firms are invited to comment on them. Some of these disputes arise as a result of anti-dumping actions by the trade partner, where firms lobbied to have the anti-dumping measures applied in the first place, and the firms that were targeted for dumping had an opportunity to submit exculpatory evidence. In some cases these disputes have been simmering below the surface for a number of years before they rise to the level of WTO disputes.

Informational Lobbying Vs. Quid Pro Quo Lobbying

A strength of the LDA data is that it contains information about the agencies that were lobbied and some of the topics that were discussed. This makes it possible to investigate questions about details of corporate lobbying strategies. This information may provide clues about whether corporate lobbying is better characterized as informational or *quid pro quo* lobbying. Informational lobbying is most consistent with contacting trade-related federal agencies, while contacting members of Congress would be necessary if the strategy is to offer campaign contributions as a *quid pro quo* for policy concessions. In the analysis that follows, we analyze the timing and targets of lobbying to link dispute timing to the pattern of lobbying specific government agencies. Firms that have valuable information to provide should increase their lobbying before disputes are initiated, while firms that have no information advantage but seek to secure their business interests from disputes would only be able to contact government agencies after disputes have started.

Figure 5 summarizes the marginal effects of disputes according to timing, target agency and type of initiator. The results are consistent with both hypotheses, but firms appear to contact different agencies for different purposes. Trade-related branches are most likely to be lobbied before disputes occur. In cases where the US files disputes against firms' home countries, firms from countries that are politically aligned with the US increase their contacts to the US government, while those aligned against the United States do not. This is true as well for cases where their home country sues the US. When the United States initiates a dispute against the home country, the effect is observable only before disputes start; when the home country initiates, lobbying reductions continue after the disputes have occurred. The same pattern holds for lobbying that specifically targets USTR. These patterns are consistent with informational lobbying. The agencies being contacted are in a position to make technical decisions that reflect private information held by firms. The contacts occur before the WTO dispute has been filed, when only well-informed agents have an opportunity to intervene. The effects are strongest for firms from countries aligned with the United States, which are in the position to send the most credible signals.

Figure 5: Marginal Effects of Disputes on Lobbying across Government Agencies (Model 2)



The pattern is different when we turn to lobbying of Congress. When the United States initiates a dispute against a firm's home country, firms increase their lobbying of Congress even if their home country is aligned against the United States. Foreign firms appear to believe that they can get a sympathetic hearing in Congress. Congress has oversight over USTR and other trade-related agencies, so firms may hope to convince members of Congress to use their discretion to influence US trade policy. This seems to be consistent with *quid pro quo* lobbying, since some firms increase their lobbying of Congress but not of the agencies they ultimately hope to influence. These firms may expect to get a more favorable hearing in Congress than in the bureaucracy because they have US affiliates with important footholds in particular Congressional districts, or that are substantial donors to political campaigns.

It is revealing that foreign firms do not increase their lobbying of the White House under these circumstances, which is consistent with the view that there are special features of Congress that make it more likely for them to receive a favorable hearing there. Foreign firms divert their lobbying efforts away from Congress and the White House when their home countries initiate disputes against the United States, which is consistent with the interpretation that at least some of their lobbying in normal times is trade related, and the efforts their home countries make on their behalf through the WTO displace some of that effort.

The Pattern of US Firms' Lobbying

The theory we have proposed to explain the effects of diplomatic alignment relies on the liability of foreignness, so if our interpretation is correct, they should not apply to the incentives that affect lobbying by US firms. Consequently, we repeat our analysis using lobbying by US firms as a placebo test. We use the following model specification:

$$
\begin{aligned}
\text{Lobbying}_{i,t} \;&= \beta_0 + \beta_1 \text{ Closeness[US}\rightarrow\text{Host]}_{i,t-1} + \beta_2 \text{ Closeness[Host}\rightarrow\text{US]}_{i,t-1} \\
&+ \beta_3 \text{ Av. Disputes[US}\rightarrow\text{Host]}_{i,t} + \beta_4 \text{ Av. Disputes[Host}\rightarrow\text{US]}_{i,t} \\
&+ \beta_5\, W'_{i,t} + \gamma_i + \delta_t + u_i
\end{aligned} \tag{3}
$$

The data structure is not the same for the US sample, and this requires us to adapt our approach. Unlike foreign firms, the home country of American firms is the US while they have located their subsidiaries in many different host countries. This implies that we have to measure diplomatic alignment between the United States and multiple host countries. To account for this issue, this model uses the sum of closeness between each host country j and the US after weighting each closeness with the number of disputes between j and the US, as follows:

$$
\begin{aligned}
\text{Closeness[US}\rightarrow\text{Host]}_{i,t} &= \sum_{j \in J_i} \left(\text{Closeness[Host-US]}_{j,t-1} \frac{\text{Disputes[US}\rightarrow\text{Host]}_j}{\text{Total Disputes[US}\rightarrow\text{Host]}_i} \right) \\
\text{Closeness[Host}\rightarrow\text{US]}_{i,t} &= \sum_{j \in J_i} \left(\text{Closeness[Host-US]}_{j,t-1} \frac{\text{Disputes[Host}\rightarrow\text{US]}_j}{\text{Total Disputes[Host}\rightarrow\text{US]}_i} \right)
\end{aligned} \tag{4}
$$

This model also controls for $W'_{i,t}$ which contains all the covariates in $W_{i,t}$ except for the number of reports missing the amount of lobbying expenses in year t. Firm fixed effects and year fixed effects are controlled, and the standard errors are also clustered at the firm (i) level.

Figure 6 visualizes the change in the coefficient for the weighted closeness variables across different timings and governmental agencies. The plots depict the estimated coefficients for disputes and their average levels of diplomatic alignment from a series of models that allow for various timings with which the effects might occur. The top eight plots use the entire US firms sample. Since US firms without foreign affiliates may affect these results, we reproduce the same models with the sample of US firms with foreign subsidiaries, which produce the eight plots on the bottom. As expected, we find null results. There is no significant evidence that the

Figure 6: The Effect of Disputes on Lobbying across Government Agencies

diplomatic alignment of the countries with which the United States has trade disputes affects the incentives of US firms to lobby about trade policy. This is unsurprising, since US firms do not face the skepticism that foreign firms face; they do not have to justify to politicians or trade officials why their interests should be taken into account. We emphasize that these results do not indicate that US firms do not lobby about trade or respond to trade disputes–they certainly do–but rather that their incentives to do so are not affected by diplomatic tensions or alignment with the countries in which they invest.

Conclusion

Foreign firms play an increasingly important role in the US political system as they become stronger organizationally and extend their investments more deeply into the US economy, so it is important to understand what their objectives are and how they influence US policy making. We find that foreign firms lobby less actively than similarly-situated US firms, and that firms from countries that are not closely aligned with US diplomacy are handicapped when they attempt to influence US politics. Nevertheless, numerous foreign firms play an active role in lobbying US executive agencies and Congress.

Foreign firms prefer that the US economy remain open, and they engage actively to forestall protectionism or trade retaliation against their home countries that might increase their costs. In particular, we find that when the United States launches a WTO dispute against a foreign firm's home country, the firm increases its lobbying effort. The effort increases across the board, targeting executive agencies that control trade policy before the dispute is officially launched to try to divert or shape the case, and lobbying Congress to mitigate the policy follow-through.

On the other hand, foreign firms reduce their lobbying efforts when their home countries initiate disputes against the United States. The disputes pursued by their national authorities support their objectives of increasing access to the US market and securing favorable regulatory treatment, and they were often initiated at the instigation of the multinational firms. Disputes initiated by the home country represent an opportunity to secure the firms' objectives at minimal cost, and firms are inclined to free-ride on their governments' efforts or redirect their lobbying to the home government, where it receives a more favorable reception.

Each of these effects is magnified when firms come from countries that are more closely aligned with US diplomacy. Firms from closely-aligned countries can lobby more effectively, so they increase their efforts most when the threat of a US-initiated trade dispute against the home country arises. Because the payoff to lobbying is higher, they do it more intensively, so they also reduce their lobbying more sharply when the home country launches a dispute against the United States.

Appendix

Figure 7: Marginal Effects of Disputes on Lobbying Expenses
(Expenses missing = 0)

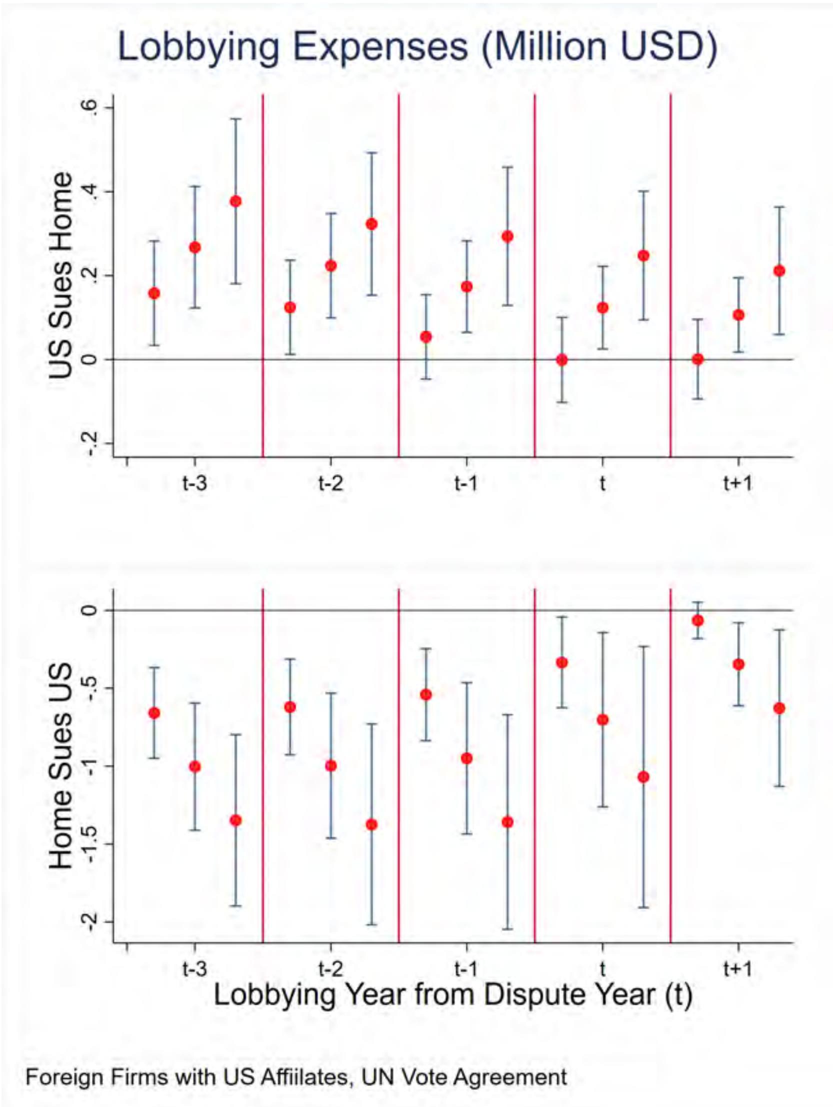
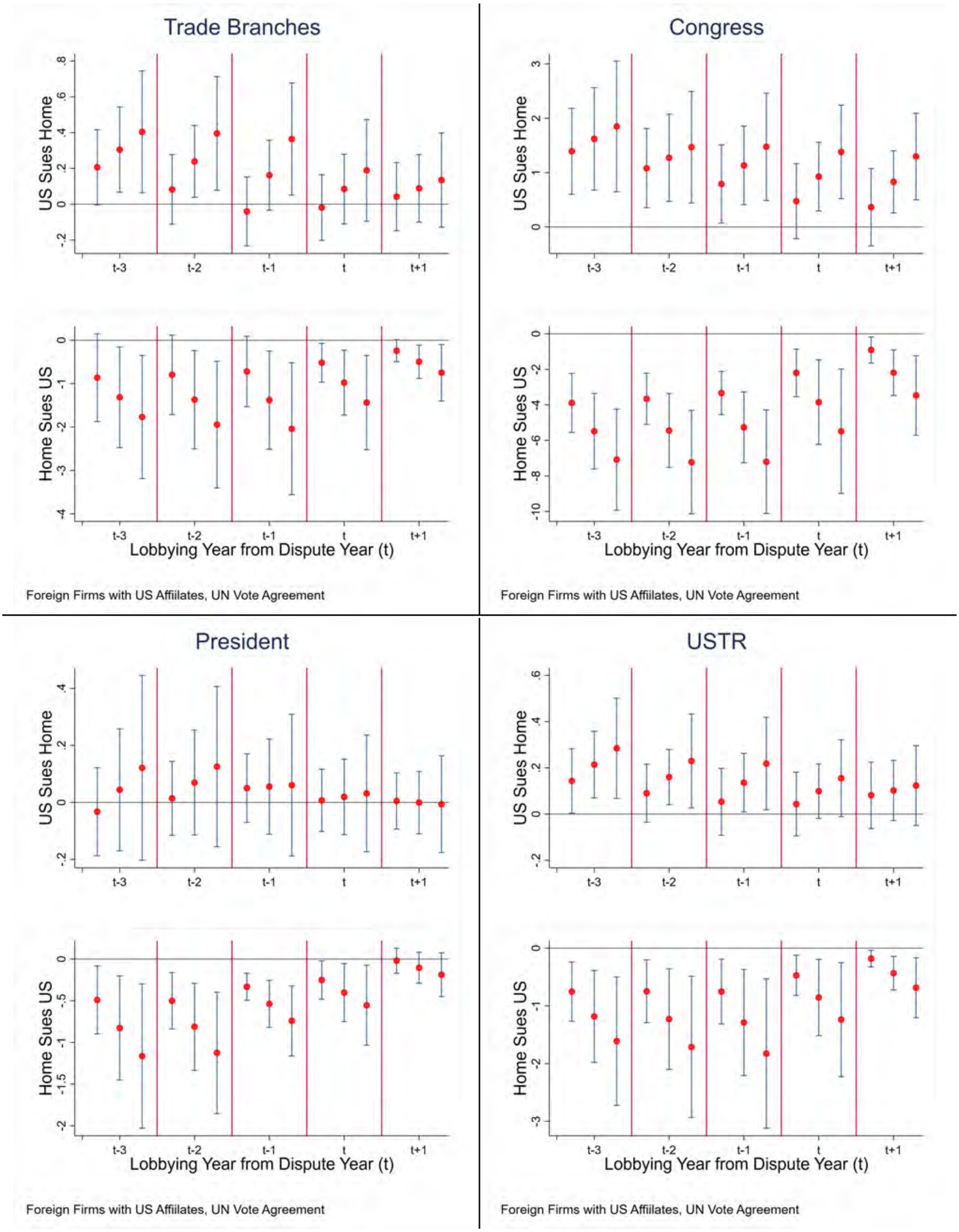


Figure 8: Marginal Effects of Disputes on Lobbying across Government Agencies
(Expenses missing = 0)



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