

# The **Foreign Agents:** MNCs and WTO Disputes

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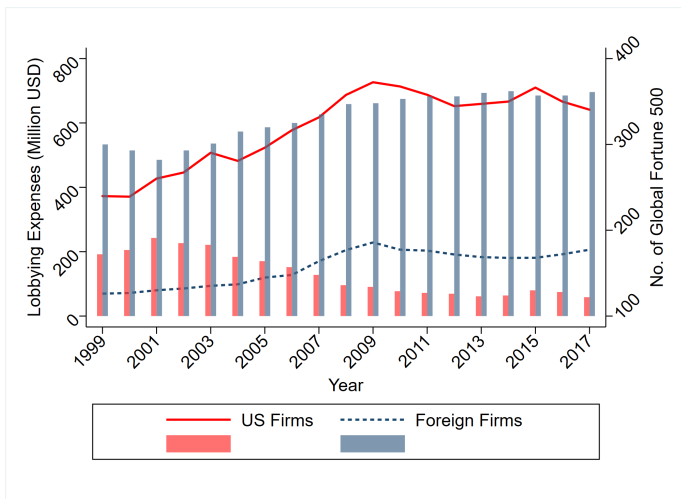
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# Foreign Lobbying



Source: Ben Freeman (2011), the Project On Government Oversight

# Lobbying Activities of Global Fortune 500 Firms



# Racket Players



Source: Ingram Pinn (2011), Financial Times

# Diplomatic Relations between the US and Home

- ▶ Reducing trade barriers and minimizing trade retaliation against their home countries.
- ▶ Foreign firms operate at a political disadvantage relative to domestic firms (Liability of Foreignness, Zaheer 1995)
- ▶ Firms from close allies vs. Firms from countries with poor diplomatic relations  
(Alignment of Interests, Crawford & Sobel 1982)

# Diplomatic Ties between US and Home

H1 Foreign firms lobby the US government most when their home countries' diplomatic ties improve

# US-led Dispute

- ▶ Stakes of trade policy
- ▶ US-led WTO Dispute can (1) limit foreign firms' profits (2) increase costs through retaliation
- ▶ Incentives to lobby maximized when US-led Dispute is immediate.

# US-led Dispute

H2 Lobbying increases when the United States threatens to initiate a WTO dispute.



# Home-led Dispute

- ▶ Liberalizing US Markets
- ▶ Home-led WTO Dispute can be a solution
- ▶ Substitution Effect

# Home-led Dispute

H3 Lobbying decreases when the home country threatens to initiate a WTO dispute.

# Interaction between Dispute and Diplomatic Ties

- ▶ Invest in political activity and Quality of diplomatic ties
- ▶ (1) Effectiveness of lobbying
  - (2) Influencing policy at an opportune time

H4 The effects of trade disputes on lobbying are magnified when diplomatic relations are strong.

# Data

- ▶ 1,352 Global Fortune 500 companies (1999 - 2017)
- ▶ LobbyView.org (Kim 2018), Bloomberg Terminal
- ▶ (1) Lobbying expenses  
No. of lobbying filings of (2) trade branches  
(DOC, DOS, USTR, FTC, USITC, EXIM, NEC, ITA, CEA)  
(3) US Congress, (4) US President, and (5) USTR

# Model Specification

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

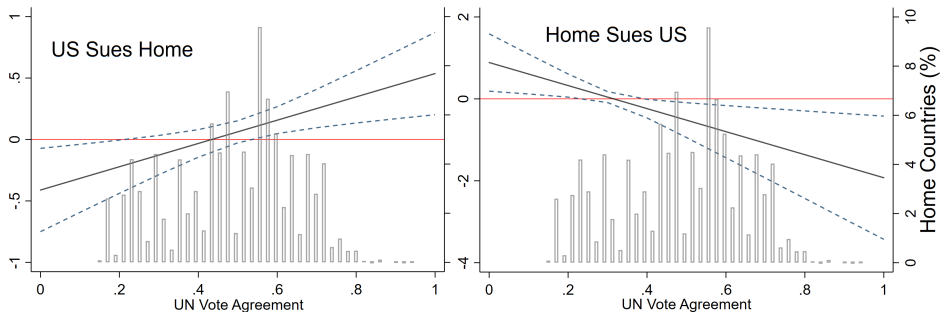
- ▶  $\text{Closeness}_{i,t-1}$ : UN Vote Similarity (Voeten & Strezhnev & Bailey 2009)
- ▶  $\gamma_i$  (Firm FE) and  $\delta_t$  (year FE)
- ▶  $W_{i,t}$ : Cross-national M&A outside US, Reports Missing Expenses, Imports from hosts to US weighted by US-led Disputes against Hosts and Host-led Dispute against US
- ▶ Standard errors are clustered at facility ( $i$ ).

	Model 1	Model 2	Model 3
	Full Foreign Sample	US Affiliates	No US Affiliates
Disputes[US→Home] <sub><i>i,t</i></sub>	-0.275* (0.143)	-0.411** (0.173)	0.008 (0.023)
Disputes[Home→US] <sub><i>i,t</i></sub>	0.219 (0.158)	0.888** (0.356)	-0.009 (0.027)
Closeness <sub><i>i,t-1</i></sub>	0.195 (0.143)	1.676* (0.901)	0.005 (0.034)
Closeness <sub><i>i,t</i></sub> × Disputes[US→Home] <sub><i>i,t</i></sub>	0.612** (0.299)	0.947*** (0.330)	-0.026 (0.061)
Closeness <sub><i>i,t</i></sub> × Disputes[Home→US] <sub><i>i,t</i></sub>	-0.632* (0.362)	-2.810** (1.112)	0.028 (0.067)
Constant	0.705*** (0.100)	0.262 (0.287)	-0.010 (0.021)
Observations	17931	6580	11351
Adjusted R <sup>2</sup>	0.803	0.805	0.816
Firm and Year FE	Yes	Yes	Yes
Controls	Yes	Yes	Yes

*Note:* Entries in parentheses are standard errors clustered at firm (*i*) level.

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

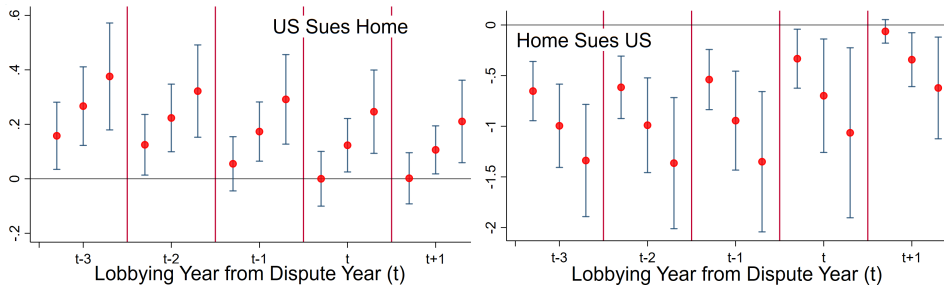
# Effect of Disputes on Lobbying Expenses (M2)



\*Note: the mean level of UN voting agreement is 0.564; the std. dev. is 0.13.



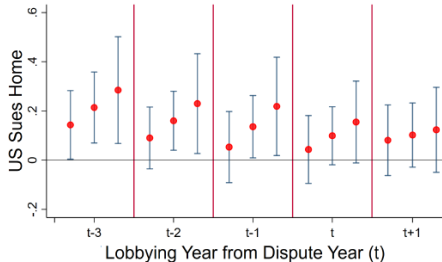
## Timing of Disputes (M2)



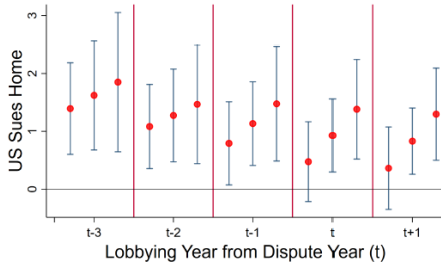
\*Note: the mean level of UN voting agreement is 0.564; the std. dev. is 0.13.

# Informational Lobbying vs. Quid Pro Quo

## USTR

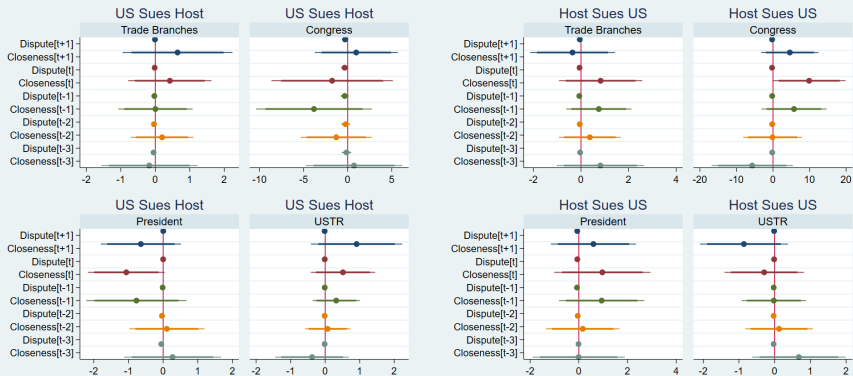


## Congress



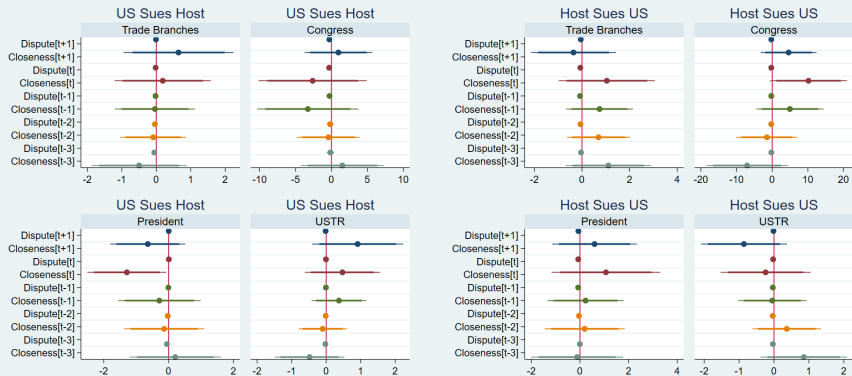
# US Firms (Full Sample)

## Full US Sample



# US Firms (with Foreign Affiliates)

## US with Foreign Subs. Sample



# Conclusion

- ▶ Foreign firms lobby less actively than US firms.
- ▶ Firms from countries less closely aligned with US are handicapped when they attempt to influence US politics.
- ▶ Firms increase (decrease) lobbying in the face of US-led (Home-led) dispute.
- ▶ Targeting executive agencies that control trade policy before the dispute is officially launched, and lobbying Congress to mitigate the policy follow-through.
- ▶ Effect of dispute is conditional on diplomatic ties between home and US

# Thank You