

# Foreign Direct Investment in Political Influence

Jieun Lee

## **Abstract**

Do foreign interests influence US politics? While statutorily forbidden from directly giving campaign money, foreign multinationals may influence domestic politics through their US subsidiaries. Supporting this idea, I show that US subsidiaries of foreign multinationals, compared to domestic firms of similar size and economic interests, are more likely to give campaign contributions to US federal candidates, give contributions that are larger, and locate significantly closer to Capitol Hill. Despite contributing 5% to US GDP, majority foreign-owned firms account for more than 11% of all corporate US campaign contributions. I argue and demonstrate that this greater intensity of political activity is driven primarily by the desire of subsidiaries to represent the political interests of their much larger foreign parents that have strong incentives to hedge against political risk in a host country. Further, I rule out alternative explanations such as a 'foreignness premium' and political inexperience. Finally, I show that foreign parents of the politically active US subsidiaries frequently lobby US policymakers. The foreign parents' strong interests in political access provide additional support for a theory that US subsidiaries serve as a gateway to US politics for foreign investors, and that foreign direct investment in the US partly serves as an investment in political influence.