Foreign Direct Investment in Political Influence

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Abstract

Do foreign firms engage in domestic politics, and if so, why? I argue that foreign firms impacted by the externalities of domestic politics in other countries may seek to forward their global agendas through "political foreign investment" in those markets. In the US, foreign firms can gain access to federal campaigns through their local subsidiaries, and I find US subsidiaries of foreign firms to be more politically active than similarly sized American firms. They have a greater likelihood to sponsor a PAC and they donate in greater amounts. Further, I demonstrate that this greater political intensity is driven by the desire of the foreign parents to gain political leverage in domestic politics, rather than the local subsidiaries' need to protect investment against political risk in a host country. Foreign direct investment therefore partly serves as an investment in political influence.

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International trade and investment have dramatically changed how government policies impact firms both in and out of a country. The distributional implications of globalization and heightened competition have led to contentious political debates domestically; the literature has well documented how industries and firms, either benefiting from or harmed by openness, are mobilizing to protect their interests (Grossman and Helpman, 1994; Goldberg and Maggi, 1999; Drope and Hansen, 2004; Bombardini, 2008; Drutman, 2015; Kim, 2017; Osgood et al., 2017). What has been overlooked is how the global businesses of foreign firms might be impacted by domestic politics and how those firms find ways to exert influence. While foreign political participation in domestic politics has become a salient issue with Russia's interference in the 2016 US presidential elections, I focus on an important way in which foreign firms may influence national politics from within domestic political institutions.

How actively do foreign firms engage in domestic politics of other countries and what are their interests? The primary argument of this paper is that foreign direct investment (FDI) partly serves as an investment in political influence. Foreign firms are impacted by externalities of the national politics of other countries, and in countries like the US, where domestically incorporated foreign firms can engage in federal campaigns just like native firms, I theorize that foreign firms create and/or utilize existing subsidiaries as their local political agents. I call this "political foreign investment" by the foreign firms. Subsidiaries of the foreign firms then engage in federal elections and build connections so that they can influence national politics in ways that facilitate the foreign principals' global operations. Since the local subsidiaries represent the interests of their much larger foreign parents in a host country, I expect the observed political intensity of these subsidiaries to be significantly greater than that of native firms of similar size.

This paper also considers – and ultimately rules out – another theory to explain the greater political intensity of local subsidiaries of foreign firms – that they are more vulnerable to host country politics. It is possible that local subsidiaries of foreign firms face greater political risks than native firms, because they are not only exposed to policies that impact all domestically incorporated firms, but also to those specific to foreign multinationals. To determine which theory is more accurate, I analyze the political engagement patterns of the subsidiaries to determine whether they resonate with the characteristics and interests of the foreign parents, supporting the theory of "political foreign investment," or that of the local subsidiaries, suggestive of a theory of vulnerable local subsidiaries of foreign multinationals.

To study these subsidiaries' political engagement, I analyze the political campaign giving of foreign-originating firms in the US. In order to examine the pattern of their giving and test my suggested theory, I compile an original dataset. I collect and merge political contributions data (total amount of campaign contributions, a breakdown of giving to each Party and Chamber, location of the PAC, etc.) of all corporate PACs reported to be active during the 2013-2014 and 2015-2016 election cycles along with financial data (operating revenue, number of employees, industry sector, ownership structure, headquarters size, etc.) of their connected organizations. The connected organization of each corporate PAC is uniquely identified based on individual PAC Statements of Organization reported to the Federal Election Commission (FEC). From these Statements, I also gather information about when the PAC was first established and whether or not the PAC is a lobbyist/registrant PAC, which is a committee that a lobbyist/registrant established and/or controls.

In order to understand how actively local subsidiaries of foreign firms engage in federal elections, I first test how the political activities of US subsidiaries of foreign firms compare to those of American firms in the past two election cycles. In contrast to findings of earlier work that study corporate giving of native and foreign firms based on a small sample of Fortune 500 firms during the 1987 election cycle (Walke and Huckabee, 1989; Mitchell, Hansen and Jepsen, 1997; Hansen and Mitchell, 2000), I demonstrate that US subsidiaries of foreign firms have a *greater likelihood* to sponsor a PAC compared to similarly sized American firms, and to also give *greater amounts* of campaign contributions when sponsoring a PAC. Both patterns hold even when controlling for the industry sector and location of the sponsoring firm. Then, I run a series of empirical tests to disambiguate whether the findings support a theory of "political foreign investment" or a theory of vulnerable local subsidiaries of foreign multinationals.

Overall, I find strong support for a theory of "political foreign investment." The total amount of campaign contributions that US subsidiaries of foreign firms direct to federal candidates reflects the size of the much larger foreign parents, rather than the size of the local subsidiaries. Furthermore, the local subsidiaries tend to give in greater amounts the more their foreign parents engage in international businesses or trade with the US, and are thus likely to be exposed to policy externalities of the US. Meanwhile, foreign-connected PACs are more likely to be lobbyist/registrant PACs, and give more evenly to both Parties and Chambers relative to domestic PACS, which might maximize political capture for the foreign firms. Finally, I rule out the possibility that the greater political intensity of the US subsidiaries is due to a 'foreignness premium' to overcompensate the liability of foreignness or their political naivete.

The investigation connects to the political science literature in several ways. First, I build on the rich groundwork of interest group politics (Morton and Cameron, 1992; Smith, 1995; Austen-Smith, 1996; McConnell, 1966; Goldstein, 1999; Hall and Deardorff, 2006) by highlighting how 'domestic' firms embody not only native firms but also a significant amount of domestically incorporated foreign firms. By distinguishing firms by global ultimate ownership, I demonstrate how domestic political institutions (in the US and elsewhere) may actually allow foreign intervention in their legal political processes through the growing presence of domestically incorporated foreign agents. I also contribute to the growing body of firm-level theories of international political economy (Bombardini, 2008; Kim, 2017; Osgood et al., 2017) by investigating how domestic politics impact foreign businesses through policy externalities, and studying how foreign firms may engage in "political foreign investment" and gain returns on the political investment made through their local subsidiaries. Finally, I connect to the literature on corporate political activities (Useem, 1986; Hillman, Keim and Schuler, 2004; Lux, Crook and Woehr, 2011) by systematically comparing the political activities of native and foreign-originating firms in the US based on the population of corporate givers during the most recent election cycles.

Foreign Firms' Engagement in Domestic Politics

Corporate attempts to shape government policy in ways favorable to the firm are pervasive in Washington, DC, and in capitals across the globe (Hillman, Keim and Schuler, 2004). In the US, the reported lobbying expenditures by corporations outweigh the amount taxpayers spend to fund the

House and Senate (Drutman, 2015). Political messages or requests from top managers and supervisors to employees on behalf of the corporation have become a common practice (Hertel-Fernandez, 2017). Meanwhile, real world examples demonstrate that firms may evolve as influential political entities *beyond* their national borders. As old as the East India Company in the 1600s in the British Empire in India, to more recently, United Fruit's dominance in Central America and Exxon Mobil with its own "private empire" with a global reach (Coll, 2012), examples of globally influential firms span the centuries and the globe.

The extent to which foreign firms are interested in influencing domestic politics in external markets depends on the extent to which countries allow foreign firms to engage in elections and policy making. For instance, Canada, France, Israel, Mexico, and Brazil ban legal entities including corporations from any political donations, and this applies to both domestic and foreign firms. In contrast, South Africa has no restrictions on political campaigns; Italy has no limitation on foreign donations. Germany and Russia allow corporate giving until firms are majority foreign-owned. Australia recently experienced movements to ban foreign contributions with the recent influx of Chinese donations. Meanwhile, Japan started to legalize foreign corporate contributions following deregulation and financial squeeze in the government.

In the US, the amount of political donations made by majority foreign-owned firms over the past twenty years has more than quadrupled, growing twice as fast as those made by American firms as shown in Figure 1. In recent election cycles, more than 11% of all corporate donations to US federal candidates were made by these majority foreign-owned US subsidiaries.

Legal Framework for Corporate Political Participation in the US

The US Federal Election Campaign Act (FECA) was designed to protect the independent sovereignty of US elections and to ensure that the US government is most accountable to US citizens. The law (Section 2 U.S.C. §441e) prohibits any "foreign nationals" from contributing, donating, or spending funds in connection with any federal, state, or local elections, either directly or indirectly. And yet, the FECA allows US subsidiaries of foreign firms full and equal participation in US election cam-

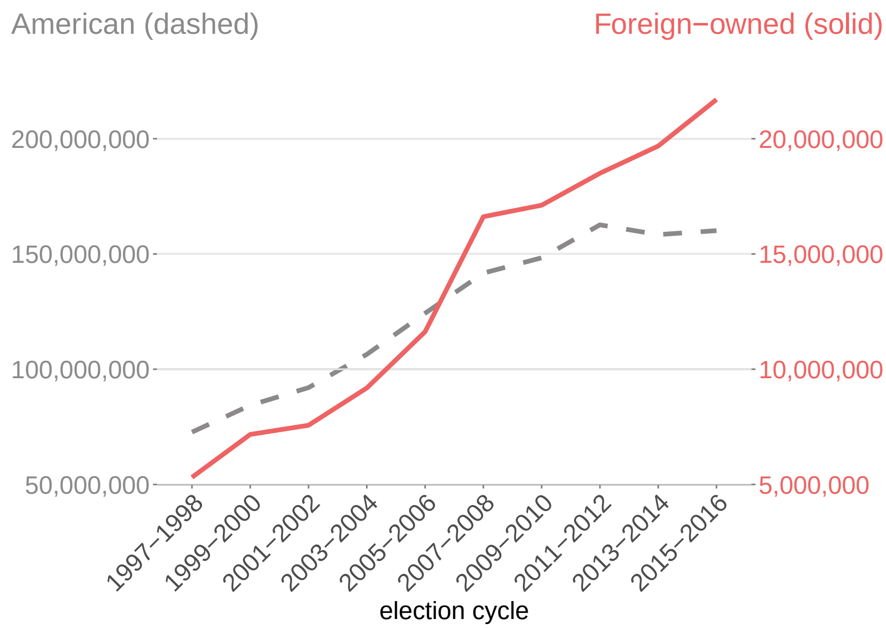


Figure 1: Dollar amount of campaign contributions by American and foreign-owned firms

paigns. As domestically incorporated companies, these subsidiaries can establish PACs through a Separate Segregated Fund (SSF), and participate in this country's privately financed election system just like American firms. Such a "foreign-connected PAC" must use only the funds generated by its US operations to cover any political expenses, and be financed by voluntary contributions from executives and shareholders of the firm who are US citizens or permanent residents (Durbin, 1987).

The FEC has justified the corporate activities of these subsidiaries by claiming that the PACs are actually "instruments of the US employees of foreign-owned companies" and that prohibiting the establishment of these PACs "would deprive United States citizens of their right to make company-based contributions to political candidates."[1] However, this view has not been universally shared. Even within the FEC, some members have firmly believed that the subsidiaries' decisions to allocate their funds are likely to reflect the overseas corporate and political interests of the parent companies.[2] In the 1980s, when Japanese firms were actively acquiring US firms and property,

[1] See "U.S. Elections Got More Foreign Cash," *New York Times* (May 24, 1987), by Martin Tolchin.

[2] For instance, Thomas E. Harris, former chairman of the FEC and a consistent dissenter in FEC opinions

Senator Lloyd Bentsen warned that allowing subsidiaries of foreign firms to participate in US elections is "open[ing] the door to foreign influence in our elections."[3]

Recently, there have been multiple attempts to regulate foreign participation in US elections. In quick response to the *Citizens United* case, Democrats pushed for the DISCLOSE Act (of 2010), which would have required more disclosure of political donors and tightened restrictions on the political activities of US subsidiaries of foreign firms. However, the bill was twice filibustered by Republicans in the Senate and was essentially defeated.[4] Obama called the Senate's inaction "a victory for special interests and U.S. corporations – including foreign-controlled ones."[5] As fears of foreign money spiked following Russia's 2016 election interference, the DISCLOSE Act (of 2018) was reintroduced on June 28, 2018.[6]

in this area, said that "the PAC is always controlled by the top management of the corporation" and that "the PACs of foreign-owned domestic companies therefore circumvented the Congressional intent to bar foreign nationals from influencing American elections."

[3] Senator Bentsen sponsored the provision in the FECA (1974) that barred foreigners from making contributions in American elections. But according to him, foreigners "found a loophole around it, and they've formed a political action committee, a PAC, and make their contributions to it."

[4] Democracy Is Strengthened by Casting Light On Spending in Elections Act, was a bill introduced in the US House of Representatives by Chris Van Hollen (D-Maryland) on April 29, 2010 and in the US Senate by Charles Schumer (D-New York) on July 21, 2010. The aim of the Act included amending the FECA of 1971 to prohibit foreign influence in federal elections and to establish additional disclosure requirements with respect to spending in elections. Eventually, it failed twice to pass in the Senate (July 27, 2010 and September 23, 2010). Meanwhile, reports show that US subsidiaries of foreign firms lobbied against Democratic efforts to limit campaign spending in early 2010. For instance, see "Foreign Spending on Politics Fought," *The Wall Street Journal* (January 9, 2010), by Jess Bravin and Brody Mullins.

[5] Besides the DISCLOSE act, there have been multiple attempts to restrict political participation of US subsidiaries. E.g., the Ethics in Foreign Lobbying Act, H.R. 3859, 111th Cong. §2 (2009) proposed to extend the ban on foreign contributions and expenditures to the PACs of corporations in which foreign nationals hold fifty percent or more of the ownership interests; the Prevent Foreign Influence in our Elections Act, H.R. 4540, 111th Cong. §2 (2010) also proposed to amend the language of Section 2 U.S.C. §441e (contribution and expenditure ban applied to foreign nationals) to include corporations that have fifty percent or more of their outstanding shares controlled directly or owned indirectly by foreign nationals. For an example of legal suggestions made to fight foreign corporate influence, see Rott (2015).

[6] Senator Sheldon Whitehouse (D-RI) and Congressman David Cicilline (D-RI) introduced the bicameral legislation which would prohibit domestic corporations with significant foreign control, ownership, or direction from spending money in US elections. Meanwhile, the Department of Treasury has issued a new policy on July 16, 2018 that could make it more difficult for the government to prevent foreign entities from secretly funding political activity in the US. For instance, see "New IRS Rules Could Protect Foreign Dark Money in U.S. Elections", *Sludge* (July 16, 2018), by Donald Shaw.

Theory of Subsidiaries as Political Agents of Foreign Firms

Local subsidiaries of foreign firms are an interesting blend. They are domestically incorporated in a host country, but subordinate to a foreign parent. When they engage in domestic politics, as they quite frequently do in the US, do they represent primarily the interests of the foreign parents or of their local operations? As stated previously in this paper, I argue for the former, and I call this phenomenon "political foreign investment," which I define as the political interests of a foreign firm motivating it to initiate foreign investment or to utilize extant investment for political purposes. Thus, according to this theory, the foreign firms are the principal and the local subsidiaries are the avenue for political access as well as local agents of the foreign parents. And yet, there is also a possibility that the political engagement of local subsidiaries is motivated by the characteristics and interests of the local subsidiaries themselves. I compare the two theories below.

"Political Foreign Investment"

Domestic politics in one country impacts businesses in another through what I will call 'policy externalities,' that is government policies in one country affecting parties across borders. This creates a strong incentive for global firms to engage in political activities in countries that may be the source of such externalities that affect them, even if the firms have no other reason to operate there. In fact, policy externalities created by the US, the world's largest consumer market and dominant player in international economic institutions, is critical for any foreign firm that wants to expand its operations worldwide.

For instance, executive orders to expand "Buy American" pose a serious threat to foreign firms' access to US government procurement opportunities.[7] Meanwhile, the US federal antitrust laws have applied to "commerce with foreign nations" since their inception, and foreign anticompetitive conducts have increasingly been subject to investigation with the expansion of international trade. The US has also been advocating for stricter intellectual property rights, labor and environmental

[7] The GAO (published Feb 9, 2017) looked at foreign access to the US procurement market and found that the US reported $837 billion in the World Trade Organization (WTO) Agreement on Government Procurement (GPA) covered procurement. This amount is about twice as large as the $381 billion reported by the next five largest GPA parties combined – the European Union, Japan, South Korea, Norway, and Canada. President Trump signed the Buy American and Hire American Executive Order on April 18, 2017.

standards, along with compliance with these stronger standards in bilateral and multilateral trade agreements. Traditional tariff and non-tariff barriers continue to affect foreign businesses trading with the US. More recently, foreign sellers and buyers engage heavily in e-commerce with the US, and their profits are impacted by challenges to cross-border shipping, security restrictions, taxes, and complex federal and state regulations.

Policy externalities thus motivate foreign firms to engage in US politics. Such political interests may initiate FDI; or for foreign firms already with local presence, mobilizing their local subsidiaries politically can be an awesome bonus for the firms that are heavily integrated with the US market. As explained earlier, foreign firms are banned from participating in federal campaigns in the US. However, the FECA applies 'national treatment' to domestically incorporated foreign firms. Moreover, the administrative requirements to establish a PAC in the US are quite minimal for any firm. These involve several simple tasks of having the corporation's Board approve the creation of a PAC, opening a separate checking account for the PAC, and filing a Statement of Organization with the FEC within ten days of formally creating the PAC. At that point, the PAC may begin its fundraising efforts.

Together, the political interests of foreign firms (principal) to gain domestic political influence and the legal conditions in the US, allowing domestic subsidiaries (agent) to engage in federal campaigns and elections, encourage "political foreign investment" to be made by foreign firms. Moreover, among firms that engage in political activities in the US, I hypothesize that local subsidiaries of foreign firms could be more politically invested than native firms sharing economic characteristics. This is because the US subsidiaries of the foreign firms are established at least in part to play a political role on behalf of their much larger foreign parents that seek leverage in the US with global agendas.

Vulnerable Local Subsidiaries of Foreign Multinationals

Multinational enterprises have increased worldwide, and the US continues to be the most popular investment destination. Consequently, a significant proportion of US-based firms are now partially and wholly foreign-owned. Domestically incorporated foreign firms are not only legally recognized as US corporate entities, but moreover, these firms also have equal rights to legally participate in political campaigns in the US. Accordingly, US subsidiaries of foreign firms may situate themselves as any other US business and actively engage in the domestic political processes, especially when their fortune can depend on that engagement (Organization for International Investment, 2013).

The literature on multinational enterprises and political risk demonstrates how the risk deters optimal investment levels (Vernon, 1971; Gilpin et al., 1975; Kobrin, 1987; Grosse and Behrman, 1992; Eden, Lenway and Schuler, 2005; Jensen, 2008). Mainly, foreign firms are vulnerable to host country politics once they are domestically incorporated. However, the literature has been been relatively silent about the fact that foreign multinationals may attempt to manage political risks once they decide to establish a subsidiary in a host country. Building on the literature, I argue that there are reasons to believe that foreign-originating firms are disproportionately impacted by political risks from government or policy change than comparable native firms.

Here are some various ways how foreign multinationals and their subsidiaries might be uniquely impacted by domestic policy changes. Recently, the Foreign Investment Risk Review Modernization Act of 2018 passed through both houses of Congress. It will broaden and strengthen the jurisdiction of the Committee on Foreign Investment in the United States (CFIUS), and foreign investors will be subject to heightened disclosure requirements and greater restrictions. Meanwhile, subsidiaries tend to rely more on foreign personnel, especially those from their home country. Consequently, changes in immigration laws become a significant concern to these firms. For instance, the recent "Hire American" executive order aims to strengthen control of entry into the US of workers from abroad. Transfer pricing of foreign multinationals is subject to aggressive US transfer pricing rules and their intrafirm trade behavior is impacted by US tax regulations and susceptible to exchange rate risks. Since the recent financial crisis, the Federal Reserve Board (in accordance with the Dodd-Frank Act) has approved rules to strengthen the regulation of foreign banks that wish to maintain a banking presence in the US.

Furthermore, as domestically incorporated firms, US subsidiaries share the impact of government change or regulatory reforms that apply to all US-based firms. Therefore, compared to American firms, US subsidiaries of foreign firms may be disproportionately impacted by domestic politics. Given the equal opportunity to participate in federal elections, and in order to manage this greater political risk, I therefore expect local subsidiaries of foreign firms to engage in political activities more intensively than comparable native firms.

Empirical Implications

In order to examine the patterns of political engagement of local subsidiaries, I first compare the likelihood of sponsoring a PAC between American firms and domestically incorporated foreign firms in the US. Next, I compare the amount of political donations made to federal candidates between American PACs and foreign-connected PACs. I expect US subsidiaries of foreign firms to sponsor a PAC more often and to donate in greater amounts than native firms, controlling for firm characteristics such as size, industry sector, and geography. Then, in order to determine which theory – "political foreign investment" or vulnerable local subsidiaries of foreign multinationals – drives such pattern, I propose a series of empirical tests below.

"Political Foreign Investment"

If a foreign firm wishes to gain political influence through its local subsidiary, the intensity of political foreign investment should scale with the size of the foreign parent (principal) rather than with the size of its US subsidiary (agent). In the literature of corporate political activities, firm size reflects political resources and the firm's policy interests. Therefore, if the US subsidiaries serve the political interests of their parents, the resources devoted in total dollar contributions should be correlated with the size of the parent, rather than the size of the subsidiary.

Among the US subsidiaries of foreign firms, those that face greater policy externalities should give significantly more to federal candidates. In order to proxy for foreign firms' exposure and sensitivity to US policies, I adopted measures of firm globalness and trade with the US and test whether those are associated with the amount of political giving. A positive association lends support to the idea that US subsidiaries engage in political activities to facilitate the global businesses of their foreign parents.

If the US subsidiaries were to serve a political role in the US, I do not expect their activities to be bound to federal campaigns. Rather, I expect the subsidiaries to actively build connections in order to influence policymakers on Capitol Hill . Therefore, I expect the foreign-connected PACs to be lobbyist/registrant PACs – those established or controlled by lobbyists/registrants – significantly more often than domestic PACs.

Finally, as the US subsidiaries engage in federal campaigns on behalf of their foreign parents, I expect them to engage in a strategic giving behavior that maximizes political capture. Rather than following certain ideological lines, I expect the US subsidiaries to give more equally to both Parties and Chambers so that their favors are easily adopted across ideological lines and bodies of governments.

Vulnerable Local Subsidiaries of Foreign Multinationals

In contrast, if local subsidiaries of foreign firms engage in federal campaigns in order to protect extant investment against political risk in the host country, the intensity of political engagement may scale with the size of the local subsidiary, but not with the size of its foreign headquarters. In fact, as long as the local operations in host countries are the primary concern, there is no reason for the subsequent political investment to reflect the size of the much larger foreign headquarters (Helpman, Melitz and Yeaple, 2004; Girma, Görg and Strobl, 2004).

In general, firms in industries that are subject to a greater amount of government regulations (and exposed to greater political risk) are expected to give more than those in less restrictive industries. But if foreign-originating firms were to be disproportionately impacted by regulatory restrictions, the relationship between regulatory restrictiveness of a firm's industry and the total amount of giving should differ between US subsidiaries of foreign firms and American firms.

Unless the goal of political engagement is to buy political influence for the foreign parents beyond protecting their extant investment, I do not expect foreign-connected PACs to be controlled by lobbyists significantly more than comparable domestic PACs. Similarly, I do not expect to find a significant difference in the allocation of political giving between foreign-connected PACs and American PACs of similar size and economic interests.

Table 1: Expectations across two theoretical perspectives on political donations by US subsidiaries of foreign firms

Theory of political giving:	*"Political foreign investment"*	*Vulnerable Local Subsidiaries of Foreign Multinationals*
	political engagement to serve global interests of the foreign parents	political engagement to serve local interests of the US subsidiaries
Patterns of political giving:		
Likelihood of political giving	US subsidiaries of foreign firms are more likely to sponsor a PAC than comparable native firms.	
Level of political giving	Foreign-connected PACs give more than comparable American PACs.	
Strategies to disambiguate the theories:		
Political intensity reflected by the size of firm	The amount of political giving should scale with the size of the foreign parent.	The amount of political giving should scale with the size of the US subsidiary.
Political intensity reflected by policy externalities or political risk	The amount of political giving should scale with the degree to which the foreign parents are impacted by policy externalities.	Foreign ownership should impact the association between the amount of political giving and regulatory restrictiveness.
Lobbyist/Registrant PAC	Foreign-connected PACs should consist more of lobbyist PACs than American PACs.	Not necessarily expected after controlling for firm characteristics.
Balanced giving behavior	Foreign-connected PACs should give more equally to both Parties and Chambers than American PACs.	Not necessarily expected after controlling for firm characteristics.

The Data

I created an original dataset of all corporate PACs that were active during the 2013-2014 and 2015-2016 election years. I first downloaded the population of 1,768 active 'Corporation' type PACs from the FEC data catalogue for the 2014 election cycle, and another 1,771 active 'Corporation' type PACs for the 2016 election cycle, along with information about their committee names and IDs, street addresses, and itemized election expenditures.[8] Then, for each committee, I hand collected contributions data – the total amount of contributions from the PAC to federal candidates during each election year, by Party and by Chamber, based on summary data from the Center for Responsive Politics. I used committee names, if not committee IDs, to search contributions data for all corporate PACs of interest.[9] Eventually, among the total 3,539 committee-election cycle pairs, 328 were dropped: those included in the FEC data catalog but no longer existing, the non-SSFs, a group of non-producers such as unions, non-governmental organizations, some ideological interest groups, and committees neglected by the Center for Responsive Politics. The remaining 3,211 corporate PACs were sponsored by 1,644 unique firms.

Then, I matched the political data described so far with financial data of the connected organization for each corporate PAC.[10] Since firm-level financial data is often scarce (especially for smaller and private firms), I used both Orbis and Dun & Bradstreet Hoovers as complementary sources to construct a measure of firm size using operating revenues. After verifying that the operating revenue data from the two datasets were highly correlated (ρ=.97), I used information from either source when a single revenue number was available, and took the average of the two revenues if both sources provided information.[11] I also collected the number of employees as an alternative

[8] Data retrieved from the FEC website (`http://classic.fec.gov/data/CommitteeSummary`). The 2014 election cycle data were retrieved in May 2017; the 2016 election cycle data were retrieved in December 2017. 1,643 committees were active across both election cycles.

[9] I was able to reconstruct data on contributions to federal candidates for 96.83% of all corporate PACs active during the 2014 election cycle and 96.05% of all corporate PACs active during the 2016 election cycle. Some committees reported to be active during the election years in FEC were either missing or reported not to exist during those years according to the Center for Responsive Politics.

[10] I primarily used the names and street addresses of the PACs to identify the sponsoring firm. When there were mismatches, I used financial data of the domestic headquarters, for both foreign-owned and domestic firms.

[11] Orbis had firm revenue data for 74.6% of the sponsoring firms; D&B Hoovers had firm revenue data for 83.6% of the data; and together, I was able to assemble financial data for 92.6% of the firms of my interest.

measure of firm size, which I use as a robustness check for the main models in the Appendix. 6-digit NAICS industry codes of the sponsoring firms were collected, and regrouped into sector level indicators.[12]

Additionally, I created several geographical variables to control for the characteristics of firms that are sponsoring the PACs. Using their street addresses, state variables were created for the sponsoring firms and PACs. This allows me to control for any state specific differences that systematically alter the behavior of firms based on where they are located. Examples may be certain state regulations, business environment, or characteristics of the state legislatures that affect the chances and level of corporate giving.

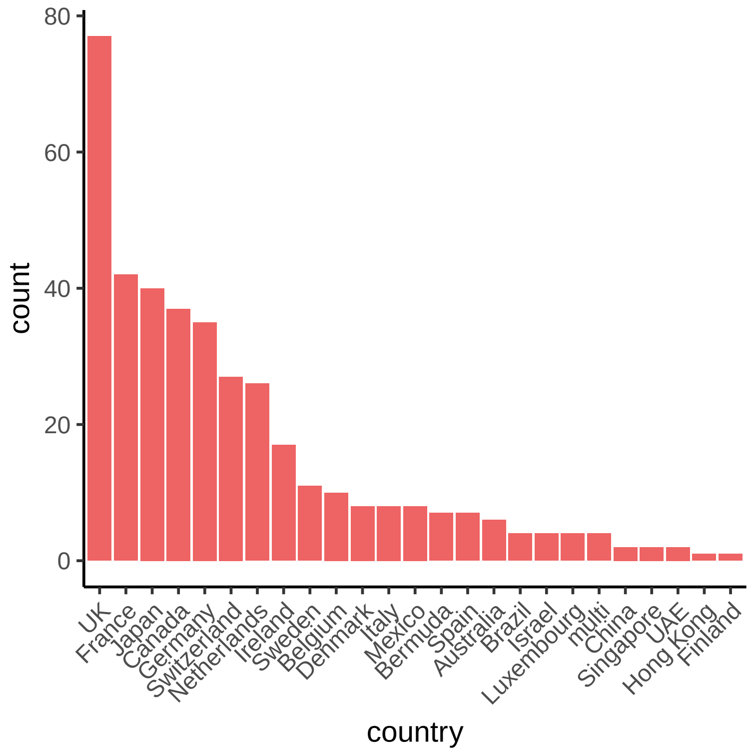
Probably one of the most important pieces of information collected for this study was a measure of foreign ownership for the sponsoring firms, and subsequently the connected PACs, during the election years. Based on firm ownership structure information provided by Orbis, and verifying this information with internet resources on recent M&A transactions, I collected data on the country of ultimate ownership of each sponsoring firm from 2013 to 2016. Then, I constructed a "foreign ownership" indicator variable for corporate PACs controlled by majority foreign-owned firms during the 2014 and 2016 election cycles.

Among the corporate PACs that made nonzero contributions from 2013 to 2016, 13.78% were foreign-connected, managed and controlled by US subsidiaries originating from more than twenty countries in Figure 2. About twenty percent of the foreign-connected PACs were sponsored by British corporations. Following, many of the foreign-connected PACs were sponsored by foreign firms based in other parts of Europe, Canada, and Japan.[13] Notably, Russian firms had no corporate PACs established in the US. Similarly, there was only one corporate PAC sponsored by a Chinese firm which engaged in political activities in both election cycles.[14]

[12] For instance, I used the 2-digit NAICS to represent sectors. For the manufacturing sector, I kept NAICS 31, 32, and 33 separately; meanwhile, I bundled NAICS 44-45 (Retail Trade) and 48-49 (Transportation and Warehousing) together. For the analyses, I exclude the public administration sector, NAICS 92.

[13] The top 10 investor countries (in stock) by ultimate beneficial owner in 2016 were: the UK, Canada, Japan, Germany, Ireland, France, Switzerland, Netherlands, Singapore, and Spain. See Cortez (2017) for further information.

[14] In the 2016 election year, Chinese Shineway Group gave $93,650 to candidates through its subsidiary, Smithfield Foods. Chinese Haier Group, the world's largest appliances producers, newly established a



Note: the three 'multi' cases include Shire Regenerative and Shire Viropharma Inc, both owned by Shire PLC which is a Jersey-registered, Irish-headquartered company originating in the UK with an operational base in the US; the other is MDBA with 37.5% ownership by Airbus Defence, 37.5% ownership by BAE Systems, and 25% ownership by Leonardo as of 2017.

Figure 2: Home countries of the US subsidiaries of foreign firms that gave to federal elections in the past two election cycles ('14 & '16)

To the best of my knowledge, this paper is the first to look at the universe of all corporate contributors, rather than sampling from a group of large firms and subgrouping domestic and foreign-owned firms. The data collection took place from May 2017 to January 2018. Data described here are used for the main empirical analyses of this paper. Any other data collected are explained throughout the paper.

PAC through its Haier US Appliance Solutions, but did not make any contributions.

Empirical Tests and Results

Here, I compare the political participation of US subsidiaries of foreign firms and American firms at two different levels: 1) the *likelihood* of political giving by US-based firms, and 2) the *level* of political giving among the established PACs. I begin with a section on the firms' likelihood of political participation – the extensive margin – below.

Extensive Margin: The Likelihood of Political Giving

Testing the firms' likelihood of political mobilization requires constructing a representative sample of US firms from its population. Among all active firms located in the US identified by Orbis, I first constructed a random sample of 399,322 US-based firms.[15] Then, I merged this sample with the 1,644 unique firms that sponsored a PAC during the 2013-2014 and/or 2015-2016 election years. After dropping the 248 firms that overlap with the random sample that I constructed, I had a final sample size of 400,718.[16] For each firm in my final sample, I downloaded firm size data (operating revenue and number of employees), industry sector, location, ultimate global owner, and country codes of the parent. I again created a "foreign ownership" variable for the firms. As for the binary outcome variable of political participation, I assigned 1 to all firms that sponsored PACs during the 2014 and/or 2016 election cycle. The remaining firms were assigned a 0 since they did not have connected-PACs and were politically inactive during the election cycles.

Regression Analysis for the Likelihood of Political Giving

I test the likelihood of political mobilization by US-based firms depending on whether the firms sponsored a PAC during the 2014 and/or the 2016 election cycle. Since most firms with PACs during the 2014 election cycle continued to make donations through those PACs in the following elec-

[15] I randomly sampled about 100,000 firms from the "very large," "large," and "medium" firm size categories, and another 100,000 "small" firms from the manufacturing and agriculture sectors (NAICS 11, 21, 31-33) and services sectors (NAICS 22, 23, 42-81). Then I weighted each firm in the sample by the number of actual firms in the population of each size group, so that one firm in my sample data would represent multiple firms in the population by a relevant weight.

[16] The sample data were reweighted after dropping the 248 firms that overlap between the constructed sample and the population of corporate givers. Also note that I focus on majority ownership (minimum of 50.01% of control) from known or unknown shareholders.

tion cycle, I focus my analysis on all *unique* firms that were politically mobilized in either election cycle. My main interest is whether the foreign ownership variable remains statistically significant or not throughout different model specifications, and its direction. A significant positive foreign ownership coefficient will lend support to both theories introduced earlier.

Table 2 presents the results of the extensive margin analysis. I start with a baseline logistic regression model between an outcome variable of political participation and my main variables of interest, which are foreign ownership and firm size. Starting from the second model, I allow for the relationship between firm size and political participation to be moderated by foreign ownership. In other specifications, I control for the industry sector and the state in which the sponsoring firm is located. Not surprisingly, firm size has a strong positive relationship with the likelihood of political participation throughout all model specifications. The foreign ownership predictor is also positive and statistically significant through all specifications, even when controlling for industry sector and firm location.[17] This finding corroborates the theoretical prediction that US subsidiaries of foreign firms will be more politically active than native firms in terms of their propensity to mobilize.

Table 2: Extensive margin of political participation

	Binary outcome of political participation			
	(1)	(2)	(3)	(4)
foreign ownership	2.035^{***}	7.920^{***}	7.179^{***}	8.493^{***}
	(0.090)	(0.735)	(0.770)	(0.762)
log revenue	2.395^{***}	2.420^{***}	2.414^{***}	2.550^{***}
	(0.019)	(0.019)	(0.022)	(0.024)
foreign ownership·log revenue		-0.671^{***}	-0.619^{***}	-0.780^{***}
		(0.085)	(0.089)	(0.089)
AIC	15,149	15,101	14,054	13,278
Observations	347,618	347,618	346,704	345,852
Industry Sector FE	No	No	Yes	Yes
State FE	No	No	No	Yes
Note:				*p<0.05; **p<0.01; ***p<0.001

[17] Here, I control for industry sector and location as fixed effects, assuming that these variables affect other covariates in the models. As presented in Appendix B1, an alternative mixed model with industry and location random effects produces similar results.

In models including an interaction term, the interaction coefficient is roughly -0.7 (the difference in the change in log odds yielded by a tenfold increase in firm size among US subsidiaries of foreign firms and American firms), suggesting an odds ratio (foreign over domestic) of roughly 0.5 ($e^{-0.7}$).[18] In other words, the effect of firm size on US subsidiaries' political participation is about half the impact of firm size on American firms. This relationship is graphically presented in Figure 3: the likelihood of political participation increases as firm size increases for both American and majority foreign-owned firms; but once firms are large enough to mobilize, US subsidiaries engage in political giving at a smaller firm threshold compared to American firms. Meanwhile, the gap between the political participation of the two groups varies over firm size. Generally, the impact of foreign ownership on increased chances of political participation is reduced as firm size increases.

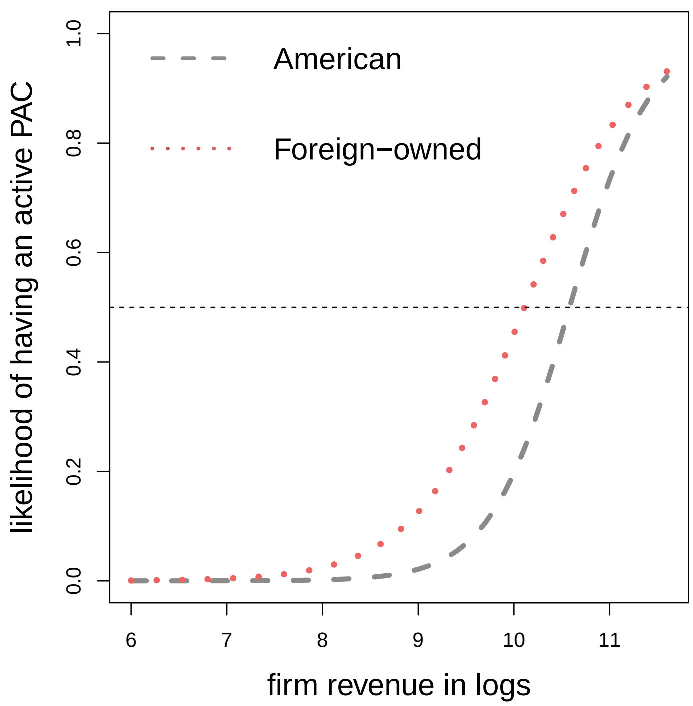


Figure 3: Likelihood of corporate political activity

[18] Note that I use common logs to transform the size of firms. Thus, a one unit increase in 'logrev' corresponds to an tenfold increase in operating revenue.

Intensive Margin: The Level of Political Giving

Here I discuss firms' political participation at the intensive margin – the amount of campaign contributions directed to federal candidates once a firm is politically mobilized. Note that the unit of analysis changes from the sponsoring firms to their connected-PACs which actually raise and deliver funds. I focus on 2,830 committee-election cycle pairs, after dropping 381 active PACs that did not give to federal candidates from January 2013 to December 2016.

Regression Analysis for the Total Amount of Contributions

The main objective is to understand how the amount of total campaign contributions is associated with foreign ownership and firm size. As summarized in Table 3, I start with a linear regression model between an outcome variable of the level of political giving, measured in the (log transformed) dollar amount of total campaign contributions to federal candidates by a PAC during an election cycle, and my main variables of interest – foreign ownership and firm size. Again, firm size is measured in (log transformed) operating revenue of the most recent year available. Starting from the second model, an interaction term is introduced to capture how foreign ownership moderates the relationship between the level of political giving and firm size. Progressively, industry sector and the location of the firm are included as control variables. Election cycle fixed effects are used in all models.[19]

The fact that I find foreign ownership to have a positive and statistically significant association with corporate political activities at both the extensive and intensive margins is striking. The extant literature on the political activities of US subsidiaries of foreign firms find them to be constrained in their political behavior, if not indistinguishable from native firms (Mitchell, Hansen and Jepsen, 1997; Hansen and Mitchell, 2000).[20] Rather, I demonstrate foreign ownership to be associated with

[19] While the unit of analysis is at the PAC-election cycle level, the data are not in a panel form. While the contribution amounts vary by election cycle for the committees reappearing, firm size data of their sponsoring firms is fixed. In order to address the issue of data dependency, I alternatively run a mixed model controlling for committee IDs. The results are presented in Appendix B2.

[20] See Averyt (1990); Mitchell (1995); Rehbein (1995) for more studies of US subsidiaries of foreign firms that engage in US federal campaigns. They tend to suggest that US subsidiaries parallel native firms and are likely to adapt to host country business practices. However, they do not empirically address whether the subsidiaries are more or less politically active than native firms.

Table 3: Intensive margin of political participation

	Total contributions in logs			
	(1)	(2)	(3)	(4)
foreign ownership	0.124***	1.900***	1.906***	1.669***
	(0.041)	(0.323)	(0.324)	(0.328)
log revenue	0.273***	0.296***	0.300***	0.309***
	(0.012)	(0.012)	(0.013)	(0.013)
foreign ownership·log revenue		−0.201***	−0.203***	−0.181***
		(0.036)	(0.036)	(0.037)
Adjusted R^2	0.176	0.185	0.197	0.229
Observations	2,620	2,620	2,605	2,601
Election Cycle FE	Yes	Yes	Yes	Yes
Industry Sector FE	No	No	Yes	Yes
State FE	No	No	No	Yes
Note:				*p<0.05; **p<0.01; ***p<0.001

a *greater likelihood and level* of political giving. The negative interaction term in the models suggests that the size of the sponsoring firm has a smaller impact on the level of political donation for foreign-connected PACs compared to American PACs. For instance, increasing the size of a sponsoring firm from its 1st quartile to the 3rd quartile, logged contributions by American PACs would increase by 8.9% (or 147% in total amount) while the increase for foreign-connected PACs would be 2.6% (or 31% in total amount).

This moderating role of foreign ownership is worth highlighting. Extant literature fails to capture this effect entirely by sampling its data from Fortune 500. However, the firm size of Fortune 500 companies in terms of the 2014 or 2016 year-end revenues far surpasses the point where the trend lines of domestic and foreign owned firms intersect in Figure 4. Consequently, earlier work analyzes the association between foreign ownership and corporate political activities for only a very small fraction of firms (analogous to 26% of all firms that gave during the past two election cycles!).[21] Using data of the population of corporate givers, I demonstrate that the true relationship

[21] The two revenue curves intersect where firm size measured in logged revenue equals 9.45. This corresponds to a firm size of roughly 2.84 billion USD in annual operating revenue. Meanwhile, the smallest Fortune 500 company in 2015 (based on the year end revenue of 2014), was McGraw Hill Financial, at 5.19 billion USD; similarly, the smallest Fortune 500 in 2017 (based on the year end revenue of 2016), was ABM Industries, at 5.15 billion USD. Using the Fortune 500 in 2015 (or 2017) as a threshold, only 741 (or 744) firms in the data would qualify. When I keep firms equivalent to or greater in size than the Fortune 500

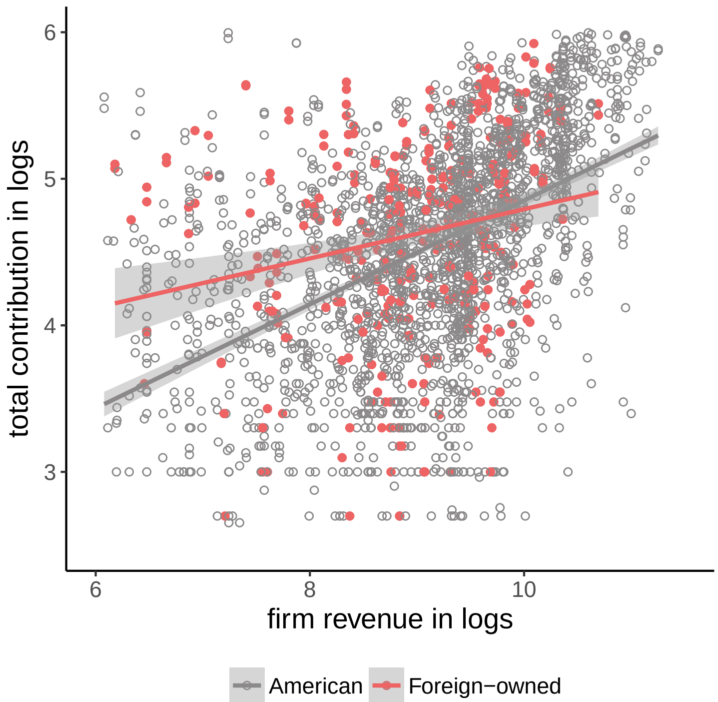


Figure 4: Firm size and total contributions

between foreign ownership and corporate political activities in the US has been misrepresented to date. Foreign ownership has no significant impact on corporate political activities – only when considering the largest firms (e.g., Fortune 500). However, most firms that politically mobilize are not that big; more importantly, many of the US subsidiaries of foreign firms make a disproportionate amount of donations to federal elections relative to the size of their US establishments.

Regression Analysis for a Normalized Measure of Political Giving

Here I verify the intensive political activities of US subsidiaries of foreign firms using an alternative measure of political giving. I first divide the amount of total contributions made by all corporate PACs by the size of their sponsoring firms. I then rank this amount of political giving relative to the size of the sponsoring firm for each committee from the smallest to the largest. Finally, I normalize the rank of this relative giving of each committee from zero to one. Effectively, the corporate PAC that gives the most out of proportion to the size of its sponsoring firm was ranked

only, I again find a positive relationship between foreign ownership and political giving. However, the foreign ownership coefficient is no longer statistically significant.

one, and the committee that gave the least compared to its size was ranked close to zero.

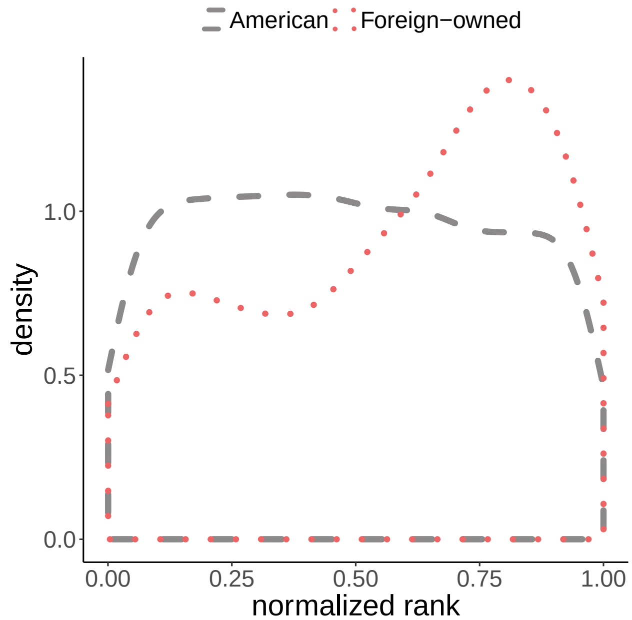


Figure 5: Density of the normalized ranks of relative campaign contributions

Table 4: Total campaign contributions relative to firm size

	Normalized rank		
	(1)	(2)	(3)
foreign ownership	0.088***	0.110***	0.101***
	(0.017)	(0.016)	(0.017)
Adjusted R^2	0.010	0.112	0.150
Observations	2,620	2,605	2,601
Election Cycle FE	Yes	Yes	Yes
Industry Sector FE	No	Yes	Yes
State FE	No	No	Yes
Note:			*p<0.05; **p<0.01; ***p<0.001

As shown in Figure 5, US subsidiaries of foreign firms are concentrated at higher ranks. Relatively, American firms are evenly distributed across all ranks, but more towards the lower ranks. The distribution of the normalized ranks suggests that US subsidiaries, compared to American firms, tend to give more out-of-proportion to their sponsoring firm size. Table 4 formally summarizes this pattern. Changing from American to foreign-owned, the normalized rank of relative political giving of a corporate PAC will increase by at least nine percentage points (1.09).

Strategies to Disambiguate the Theories

Here, I examine a series of empirical tests that help disambiguate which theory (if not both) – "political foreign investment" or vulnerable local subsidiaries of foreign multinationals – corroborates the relationship between foreign ownership and political participation established above.

Political intensity reflected by the size of firm

The first evidence I find in support of the "political foreign investment" theory is that the amount of political giving is better explained by the size of the foreign parents. If US subsidiaries are politically mobilized on behalf of their foreign principals, the level of campaign contributions should scale with the size of their headquarters more so than that of the local agents actually sponsoring the foreign-connected PACs in the US. On the other hand, if US subsidiaries seek representation for themselves, the amount of giving should scale with the size of the local subsidiaries.

Table 5: Political intensity explained by firm size

	Total contributions in logs				*norm. contributions*
	(1)	(2)	(3)	(4)	(5)
log revenue (subsidiary)	0.094**	0.084*	0.083*	0.086*	
	(0.034)	(0.034)	(0.034)	(0.035)	
log revenue (parent)			0.165***	0.153***	
			(0.045)	(0.046)	
norm. revenue (subsidiary)					0.155*
					(0.062)
norm. revenue (parent)					0.301***
					(0.090)
Adjusted R^2	0.019	0.084	0.051	0.125	0.125
Observations	332	332	316	316	316
Election Cycle FE	Yes	Yes	Yes	Yes	Yes
Industry Sector FE	No	Yes	No	Yes	Yes
Note:					*p<0.05; **p<0.01; ***p<0.001

In Table 5, I present models of political giving of foreign-connected PACs explained by the sizes of the US subsidiaries and their foreign parents. In the last model, I normalize the firm sizes of the US subsidiaries and foreign parents as well as the amount of total political giving by the subsidiaries from 0 to 1. As shown, both the coefficients and the statistical significance of the normalized size of the foreign parent is much greater than that of the US subsidiary. This result gives support to my theory that the political engagement of local subsidiaries represents the interests of the foreign parents rather than that of the subsidiaries in host countries. In addition, I show in Appendix C1 that the the size of the headquarters significantly mediates the relationship between foreign ownership and the total amount of political giving by the subsidiaries.

Political intensity reflected by policy externalities or political risk

Is the excessive giving by local subsidiaries of foreign firms associated with the policy externalities of domestic politics that affect their foreign parents? If foreign firms make "political foreign investment" in order to manage policy externalities from the US, I argue that the more global the foreign parents are, or the more the foreign parents trade heavily with the US, the more US subsidiaries are expected to give to federal elections on behalf of their foreign parents. In order to test this theory, I collected the total number of subsidiaries of the global ultimate owners (GUOs) from Orbis as a measure of the foreign parents' globalness; I also gathered the revealed comparative advantages of the foreign parents' products against domestic products from 2013 to 2016 from the the World Bank Group's World Integrated Trade Solution.

The results are reported in Table 6. The first two models test the association between the total amount of giving and a measure of globalization through the number of total subsidiaries of the GUOs. As shown, the total number of global subsidiaries is positively and significantly associated with the amount of giving by the US subsidiaries.[22] Alternatively, a measure of revealed comparative advantage of foreign firms against American firms also has a positive and significant association with the total amount of political contributions made by the US subsidiaries. Note that I lose much of the sample because the comparative advantage measures exclude the services sector. Overall, I find much support for the theory that foreign firms engage in political giving in the US in order to manage policy externalities.

[22] I also find a positive association ($p<0.01$) between the number of the GUO's subsidiaries in US FTA partners and the amount of giving using same model specifications. Unfortunately both measures I used to proxy the impact of US policy externalities have a relatively high correlation with the size of the headquarters, which is an important explanatory variable associated with the amount of firm giving.

Table 6: Political intensity explained by policy externalities

	Total contributions in logs			
	(1)	(2)	(3)	(4)
log revenue (subsidiary)	0.086*	0.077*	0.092*	0.100*
	(0.034)	(0.035)	(0.043)	(0.046)
log no. of global subsidiaries	0.214***	0.170**		
	(0.056)	(0.060)		
log revealed comparative advantage			0.330*	0.317*
			(0.127)	(0.131)
Adjusted R^2	0.059	0.119	0.050	0.072
Observations	315	315	171	171
Election Cycle FE	Yes	Yes	Yes	Yes
Industry Sector FE	No	Yes	No	Yes
Note:				*p<0.05; **p<0.01; ***p<0.001

Alternatively, is the political giving by local subsidiaries of foreign firms reflective of how they respond to political risks once they are based in a host country? Presumably all US-based firms are exposed to significant political risks from changes in domestic regulations. What I test here is whether US subsidiaries of foreign firms give more in response to industry-specific regulatory restrictions due to greater vulnerability. In order to test the idea, I take the ratio of word counts of regulatory restrictions in a 6-digit NAICS industry against the total regulatory word counts of the same industry for the years of 2013 to 2016. The word counts are based on RegData US 3.0 Annual of QuantGov (McLaughlin and Sherouse, 2017). For the 2014 election cycle, I use the average regulatory restriction ratios in 2013 and 2014; for the 2016 election cycle, I take the average regulatory restriction ratios in 2015 and 2016.

I show in Table 7 that regulatory restrictiveness has a positive and significant association with the amount of total political contributions throughout all models. Foreign ownership also has a positive association with the amount of giving. However, as shown in the last two models, the relationship between regulatory restrictiveness and the level of political giving is not impacted by foreign ownership. Thus, it is difficult to conclude that US subsidiaries of foreign firms give more than comparable American firms in response to how they are disproportionately impacted by industry specific regulatory restrictions or political risk.

Table 7: Political intensity explained by political risk

	Total contributions in logs			
	(1)	(2)	(3)	(4)
foreign ownership	1.583***	1.619***	1.112	1.049
	(0.408)	(0.413)	(0.915)	(0.920)
log revenue	0.290***	0.294***	0.289***	0.294***
	(0.016)	(0.016)	(0.016)	(0.016)
foreign ownership·log revenue	−0.159***	−0.165***	−0.162***	−0.169***
	(0.046)	(0.046)	(0.046)	(0.047)
log regulatory restrictiveness	0.614***	0.672***	0.645***	0.710***
	(0.142)	(0.144)	(0.151)	(0.154)
foreign ownership·log regulatory restrictiveness			−0.247	−0.297
			(0.430)	(0.429)
Adjusted R^2	0.189	0.218	0.189	0.218
Observations	1,633	1,629	1,633	1,629
Election Cycle FE	Yes	Yes	Yes	Yes
Industry Sector FE	Yes	Yes	Yes	Yes
State FE	No	Yes	No	Yes
Note:			*p<0.05; **p<0.01; ***p<0.001	

Lobbyist /Registrant PAC

If foreign investment is politically motivated, foreign-connected PACs probably would not limit their political engagement to federal campaigns. For instance, local subsidiaries of foreign firms may employ in-house lobbyists that represent their interests exclusively, or hire contract lobbyists which may represent multiple interests. Companies with in-house lobbyists tend to be the most politically active firms, often equipped with government affairs teams based in Washington, DC (Drutman, 2015). Firms that employ in-house lobbyists, by definition, are controlled by a registrant, and are thus included within the FEC's ambit of "lobbyist/registrant PACs" (Lenhard, 2007). Therefore, I use this as a measure of strong policy interests and test whether foreign-connected PACs are more likely to be a lobbyist/registrant PAC than comparable American committees. I documented whether each corporate PAC in my data is a lobbyist/registrant PAC or not from their Statements of Organization.[23]

[23] Since the Honest Leadership and Open Government Act of 2007, any lobbyist/registrant PAC must indicate its status through the Statement of Organization. Lobbyists of these PACs often establish the PAC and are responsible for all of the committees' expenditures and designates where the money goes, as opposed to

Supporting my idea, I find that the likelihood of being a lobbyist PAC is positively and significantly associated with foreign ownership across all model specifications presented in Table 8. When included, the interaction term between foreign ownership and firm size is significant and negative. This suggests that the difference between the likelihood of being a lobbyist PAC between foreign-connected and American PACs is again generally lessened as firm size increases. While not exclusive to the theory of "political foreign investment," this result is suggestive of US subsidiaries of foreign firms having strong interests in buying domestic political influence.

Table 8: Likelihood of being a lobbyist/registrant PAC

	Binary outcome of being a lobbyist/registrant PAC			
	(1)	(2)	(3)	(4)
foreign ownership	0.244***	1.212***	1.235***	0.939***
	(0.028)	(0.218)	(0.217)	(0.213)
log revenue	0.130***	0.143***	0.151***	0.155***
	(0.008)	(0.008)	(0.009)	(0.009)
foreign ownership·log revenue		−0.110***	−0.114***	−0.086***
		(0.025)	(0.024)	(0.024)
AIC	3,326	3,308	3,231	3,031
Observations	2,512	2,512	2,497	2,493
Election Cycle FE	Yes	Yes	Yes	Yes
Industry Sector FE	No	No	Yes	Yes
State FE	No	No	No	Yes
Note:				*p<0.05; **p<0.01; ***p<0.001

Strategic giving behavior

Finally, US subsidiaries of foreign firms with strong motives to influence domestic politics are likely to engage in a strategic giving pattern that maximizes political capture. I suspect US subsidiaries to give to both Parties in a relatively balanced manner so that their favors are well-delivered to both sides, rather than follow certain ideological lines. The US subsidiaries may also give relatively equally to both Chambers so that when the foreign parents demand action, bills can move more quickly through Congress. In the following, I test whether foreign-connected PACs give in a more balanced manner compared to comparable American firms. I create two dependent

merely providing legal or compliance services.

variables: relative amount of giving to the Republican Party, and relative amount of giving to the House, both compared to the total amount of campaign contributions.[24]

Overall, both foreign-connected and American corporate PACs have a tendency to direct their campaign contributions more towards the Republican (vs. Democratic) Party and the House (vs. Senate). However, as presented in Table 9, foreign ownership is negatively associated with both measures, indicating that foreign-connected PACs engage in a more balanced giving behavior compared to American PACs. The result provides additional support to the theory of politically motivated US subsidiaries of foreign firms. In Appendix C3, I demonstrate how this balanced giving behavior actually mediates the relationship between foreign ownership and the total amount of political giving.

Table 9: Relative giving to each Party and Chamber

	Republican/Total		House/Total	
	(1)	(2)	(3)	(4)
foreign ownership	-0.056^{***}	-0.019	-0.012	-0.026^{**}
	(0.015)	(0.014)	(0.012)	(0.012)
log revenue	-0.004	-0.004	0.007^{*}	0.004
	(0.005)	(0.004)	(0.004)	(0.004)
Adjusted R^2	0.055	0.233	0.019	0.071
Observations	2,585	2,582	2,589	2,585
Election Cycle FE	Yes	Yes	Yes	Yes
Industry Sector FE	Yes	Yes	Yes	Yes
State FE	No	Yes	No	Yes
Note:				*p<0.1; **p<0.05; ***p<0.01

Ruling Out Alternative Mechanisms

One might imagine that foreign-originating firms must overcompensate politicians for the same marginal returns from political investment as native firms. Below, I demonstrate why I rule out the possibility that such a 'foreignness premium' might lead to greater political intensity by the US subsidiaries of foreign firms.

[24] For a few cases in which negative contributions were made (PACs received refunds from federal candidates), I changed the amount to zero for simplicity of the analysis.

Liability of foreignness

US subsidiaries of foreign firms may face a liability due to their foreignness in political participation (Zaheer, 1995; Moeller et al., 2013). Representatives may fear their reputation would be tarnished when partnering with foreign-connected agents, meaning that US subsidiaries might have to pay a premium to be represented. If this were the case, subsidiaries originating from countries perceived to be less friendly to the US relative to those politically closer are expected to pay a greater premium. Therefore, I test among the US subsidiaries, whether firms originating from places that Americans say are enemies give more than those from places that Americans say are allies. I use data from the YouGov survey responses conducted between August 2013 and May 2014, where each country in its sample was ranked from strongest ally (1st) to strongest enemy (144th).[25]

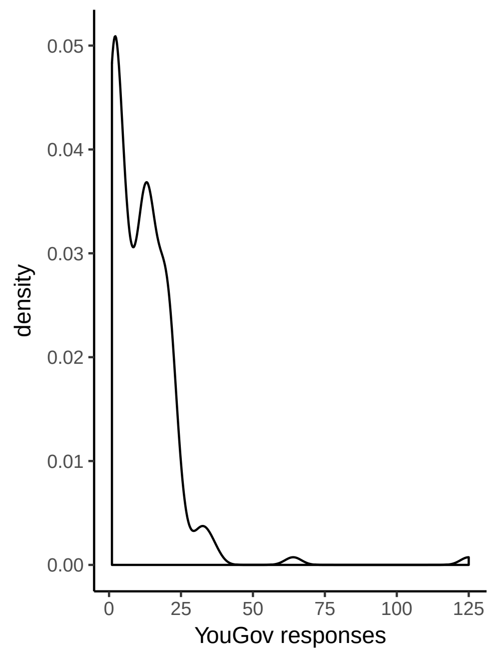


Figure 6: Density of America's allies and enemies among foreign-connected givers

First, as shown in Figure 6, the bulk of corporate donations by foreign firms come from places Americans consider as allies to start with. Moreover, the (log transformed) YouGov ally rankings

[25] One of YouGov's surveys of 1,000 American adults asked "Do you consider the countries listed below to be a friend or an enemy of the United States?" Respondents could answer "Ally of U.S.," "Friendly," "Unfriendly," "Enemy of the U.S." or "Not Sure" for each country listed. The sample accounts for the majority of non-island countries in each continent and the vast majority of the world's population. Unfortunately, the selection of 144 countries does not include Bermuda, Singapore, and Hong Kong – of which firms participated in US federal campaigns during the test period.

Table 10: Political intensity and perceived closeness of home country

	Total contributions in logs			
	(1)	(2)	(3)	(4)
log revenue (subsidiary)	0.095**	0.086*	0.079*	0.083*
	(0.035)	(0.035)	(0.036)	(0.036)
log revenue (parent)			0.166***	0.158**
			(0.049)	(0.050)
alliance score	−0.021	−0.051	−0.012	−0.060
	(0.092)	(0.098)	(0.095)	(0.101)
Adjusted R^2	0.016	0.094	0.043	0.125
Observations	319	319	306	306
Election Cycle FE	Yes	Yes	Yes	Yes
Industry Sector FE	No	Yes	No	Yes
Note:			*p<0.05; **p<0.01; ***p<0.001	

does not have a statistically significant association with the total amount of giving, as shown in Table 10. In fact, the direction of the relationship does not support the hypothesis that countries perceived to be less friendly should give more than closer countries in order to compensate for their foreignness. This finding conflicts with the robust pattern of US subsidiaries of foreign firms giving more than American firms.

Political naivete

Meanwhile, US subsidiaries of foreign firms that are relatively new to the US political system may try to outbid native firms for representation. If so, newer foreign-connected PACs should give more relative to older ones. Similarly, foreign-connected PACs that are established by US subsidiaries from the beginning should give more than those succeeding pre-existing domestic PACs acquired through global M&A. To test these ideas, I recorded information about when the foreign-connected PACs were first established and when ownership change happened if relevant. I relied on the Statements of Organization to the FEC and online research for the data collection.

In Table 11, I present the relationship between the age of the foreign-connected PACs and the total amount of political giving. While the relationship is statistically significant, the direction is opposite of what the political naivete argument would predict. In fact, the older the PAC, the more foreign-owned firms gave to federal elections. Meanwhile, having acquired a pre-existing domestic

Table 11: Political intensity and political naivete

	Total contributions in logs			
	(1)	(2)	(3)	(4)
log revenue (subsidiary)	0.073*	0.065	0.067*	0.071*
	(0.033)	(0.033)	(0.033)	(0.034)
log revenue (parent)			0.117**	0.106*
			(0.045)	(0.046)
committee age	0.018***	0.018***	0.016***	0.016***
	(0.003)	(0.003)	(0.003)	(0.004)
Adjusted R^2	0.102	0.156	0.109	0.176
Observations	332	332	316	316
Election Cycle FE	Yes	Yes	Yes	Yes
Industry Sector FE	No	Yes	No	Yes
Note:			*p<0.05; **p<0.01; ***p<0.001	

PAC through M&A did not have a significant impact on the amount of political contributions. Thus, inexperience does not seem to explain foreign-connected PACs' intensive political participation.

Foreign Parents' Political Interests

So far, I have demonstrated empirical evidence for a theory that local subsidiaries of foreign firms partly serve as a means for political capture in the US. Here, I demonstrate that foreign parents are indeed interested in American politics. If foreign firms are politically motivated as I theorize, I expect to find them to engage in other possible means of political influence in the US such as lobbying activities (Gawande, Krishna and Robbins, 2006). Moreover, I expect them to lobby on issues that are of interest to their global operations, and not constrained to the interests of their US subsidiaries. This would provide additional evidence of foreign firms managing externalities from US policies.

To do so, I documented the lobbying activities of all foreign firms that ultimately owned an US subsidiary used for this study from 1998 to present.[26] I examine whether the foreign parents of the US subsidiaries that gave political donations during the past two election cycles ever engaged

[26] Note that the Center for Responsive Politics reports lobbying activities since 1998 based on the original lobbying reports to the Clerk of the House of Representatives and the Secretary of the Senate. The data was retrieved during the last week of March 2018.

in lobbying activities. I also recorded the issue areas of their interests if they ever lobbied. In particular, I documented whether they lobbied on issue areas that may clearly expand the operations of the foreign firms such as trade, tariffs, and foreign relations, and immigration.

I first find that most (97%) of the foreign ultimate owners of the local subsidiaries that made political contributions engaged in lobbying activities before. If foreign firms seek issue-specific access to US policymakers so frequently, they presumably benefit from having a longer term US-based operation that closely monitors politics and builds relationships in Capitol Hill. Then, it is likely that the US subsidiaries that make donations and the foreign parents that lobby are coordinated – otherwise, the political efforts of the US subsidiaries would be wasteful/inefficient and even counter-productive. In fact, there seems to be a pattern of foreign firms outsourcing lobbying efforts to the local subsidiaries that control PACs in the US. Generally, once foreign firms gained local presence through these subsidiaries, lobbying activities were reported, and expenditures were concentrated at the subordinate level rather than at the parent level.[27]

Next, I find the foreign parents to actively lobby on issues that would help expand their global businesses, beyond facilitating their US operations. For instance, across all industries, about 60% of the foreign firms reported at least one lobbying activity concerning trade issues. Specific examples include lobbying efforts to support US trade agreements and greater market access to third countries, and those debating trade remedy actions and intellectual property measures that would affect the foreign firms' global sales. Meanwhile, about one-third of all foreign parents reported lobby activity concerning foreign relations, such as monitoring bilateral diplomatic/trade relations. Immigration related issues such as temporary visits and visa reforms, and temporary tariff reductions were also popularly lobbied for. I also found that foreign firms lobbied against legislative reforms that would restrict the political giving by US subsidiaries.

Thus, the pattern and content of the lobbying activities of the foreign firms demonstrate that US subsidiaries are not isolated in their political efforts. Rather, local subsidiaries are an important gateway and facilitator of the foreign firms' political influence in the US.

[27] One caveat in understanding this trend is that while the policy of the Lobbying Disclosure Act is to promote disclosure of real parties – the parent or subordinates – in interest, the Act does not make any express provision for consolidated or combined filings.

Conclusion

This study contributes to the literature on domestic politics and special interest groups by recognizing domestically incorporated foreign firms as a distinctive interest group. By examining the universe of recent corporate political activities – native and foreign-owned, large and small, and across all sectors and geographical locations – I demonstrate that foreign ownership is in fact associated with greater political intensity. Among firms of similar size and parallel business interests, US subsidiaries of foreign firms are significantly more likely to sponsor a PAC, and they give vastly larger amounts of campaign contributions than American firms. Indeed, majority foreign-owned firms accounted for more than 11% of all corporate campaign contributions while contributing only 5% to private sector GDP in 2015.

Moreover, I extend the literature on international political economy by theorizing global firms' political interests and political engagement in other countries. I argue that foreign firms may engage in "political foreign investment" so that they can manage policy externalities of domestic politics in other markets and foster their global businesses. This contrasts with the view that subsidiaries of foreign firms engage in domestic political activities to protect their local businesses vulnerable to significant political risks in a host country. Employing a variety of methods, I demonstrate that the greater political intensity of US subsidiaries of foreign firms is driven primarily by the desire of the subsidiaries to engage in domestic politics as local agents of the foreign principals. Finally, I rule out explanations for the greater intensity of foreign political participation in the US, such as 'foreign premium' due to liability of foreignness or political naivete. Overall, the empirical findings suggest that foreign direct investment partly serves as an investment in political influence in other countries.

The main point of this paper is to highlight that foreign participation in domestic politics is happening, and in fact more than what was previously thought of. This raises many questions that are beyond the scope of the current paper. The presence of foreign multinationals are growing in corporate America and corporate interest groups elsewhere. Given the trend, should we be concerned about their political participation? Does it change policy outcomes, and if so, in what ways? What are the implications for other countries with different degrees of openness to foreign corporate giving? Without answers to these questions, it would be imprudent for policymakers to make it more difficult for foreign firms to engage in domestic politics, especially when economic integration is inevitably merging interests cross-borders.

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SUPPORTING INFORMATION

The following additional materials are available in the online appendices:

Appendix A: Summary Statistics.

Appendix B: Additional Models.

Appendix C: Mediation Analyses.

Appendix D: Artifact of FECA Rule?

Appendix A: Summary Statistics

Sample Characteristics of US Firms

The majority of the constructed sample of US firms were "small" (50.15%) as classified by Orbis, followed by "medium-sized" (40.50%), "large" (7.93%), and "very large" (1.42%).[28] Overall, 1.41% of the firms (5,612) had foreign ultimate owners, and were mostly wholly-owned by the foreign firms.[29] Not surprisingly, the firms that were politically active were very distinctive in their characteristics. Firms that participated in US elections by establishing and sponsoring PACs were mainly "very large" (62.41%), and among these, 13.46% (220) were majority foreign-owned.

In the final sample (aggregating the constructed sample and the population of corporate donors after accounting for overlaps), firm size was highly skewed with a few very large firms among both domestic and majority foreign-owned firms. This is why I log transform (using common logarithm) firm size for the analyses in the paper. On average, US subsidiaries of foreign firms were larger in size than average American firms, but still much smaller than their headquarters abroad. In terms of industry characteristics, both American and foreign-owned firms were heavily concentrated in the manufacturing sector (NAICS 31-33). Construction (NAICS 23) and Agriculture, Forestry, Fishing and Hunting (NAICS 11) were two other popular industry sectors for the domestic firms in the final sample. Comparatively, foreign-owned firms were heavily engaged in Mining, Quarrying, and Gas Extraction (NAICS 21) and Finance and Insurance (NAICS 52) besides the manufacturing sector. The top locations of the politically active firms were California, Texas, Florida, New York, and Illinois for both domestic and foreign-owned firms.

Population Characteristics of US-Based Firms that Make Political Donations

Among corporate PACs that made nonzero contributions during the 2014 and/or 2016 election cycles, I find a huge skew in both the donation amounts and firm size. Again, this is why I log transform both the total amount of campaign contributions and firm size in the empirical analyses. While dollar contributions by American firms are larger on average than those made by majority foreign-owned firms, this comparison is driven by a few large outliers.[30] In fact, the median size of donation directed from foreign-connected PACs ($52,500) to federal candidates over the two

[28] Orbis classifies firms to be very large/large/medium-sized when they meet one of the following criteria: 1) operating revenue ≥ $130/13/1.3 million; 2) total assets ≥ $260/26/2 million; 3) number of employees ≥ 1000/150/15. Meanwhile, Orbis classifies firms as small when they are not included in the above categories, and this includes firms with no financial information.

[29] In the constructed sample, 96.11% (383,802) of the firms were domestic; 2.48% (9,908) had no firm ownership information. Top home countries of the majority foreign-owned firms were Japan, Germany, the United Kingdom, and France in decreasing order.

[30] Honeywell International PAC ($2,985,103 in 2014; $2,861,364 in 2016) was the top domestic corporate giver in both election years; UBS America ($1,478,750 in 2014; $1,455,490 in 2016) gave the most among foreign-connected PACS.

election cycles is significantly greater than that made by domestic PACs ($41,450). Meanwhile, the sizes of domestic firms that were sponsoring corporate PACs were about three times greater on average than that of the US subsidiaries sponsoring the foreign-connected PACS.

Foreign-owned firms that participated in campaigns came mostly from the Manufacturing (predominantly NAICS 325412, Pharmaceutical Preparation Manufacturing). While the Manufacturing sector (predominantly NAICS 325412) also led among domestic corporate contributors, some industries within the Finance and Insurance sector (e.g., NAICS 522110 Commercial Banking, NAICS 524113 Direct Life Insurance Carriers, 524126 Direct Property and Casualty Insurance Carriers) or the Professional, Scientific, and Technical Services sector (e.g., NAICS 541199 All Other Legal Services, NAICS 541330 Engineering Services) had more givers than any NAICS-6 digit level industry in the Manufacturing sector. Texas, California, New York, and Pennsylvania were popular sites of the firms that sponsored PACs, both domestic and foreign-owned. Meanwhile, Washington DC was a popular location for the corporate PACs, but in much greater magnitude for foreign-connected PACs (30%) compared to domestic PACs (11%).

Here I provide summary statistics of the size of firms used for the empirical tests of the extensive margin of corporate political participation. The variation in the distribution of firm sizes between American and foreign-owned firms are substantially reduced after log transformation.

Table A1: Constructed sample of US-based firms (N=399,322)

Firm Size:	min	mean	median	max	sd
Operating Revenue (USD)					
American	-18,000,000	23,139,292	750,000	115,337,000,000	772,246,590
Foreign-owend	0	281,119,363	7,500,000	36,866,000,000	1,806,923,971
Number of Employees					
American	0	80	7	443,000	1,934
Foreign-owned	1	869	35	154,000	6,333

Table A2: Population of corporate contributors (N=1,644)

Firm Size:	min	mean	median	max	sd
Operating Revenue (USD)					
American	44,000	7,972,002,435	1,514,000,000	476,294,000,000	24,318,244,825
Foreign-owned	28,000	2,760,871,384	858,554,000	49,439,462,000	5,026,700,312
Number of Employees					
American	1	20,969	3,500	2,200,000	79,244
Foreign-owned	1	70,686	3,475	3,027,265	427,041

Table A3: Final sample (N=400,718)

Firm Size:	min	mean	median	max	sd
Operating Revenue (USD)					
American	-18,000,000	46,836,751	750,000	476,294,000,000	1,665,105,788
Foreign-owned	0	526,775,201	17,500,000	49,439,462,000	2,281,757,018
Number of Employees					
American	0	136	7	2,200,000	4,952
Foreign-owned	1	3,615	35	3,027,265	88,406

Notes: The 248 firms among the constructed sample which overlap with the population of corporate contributors were dropped for the final sample.

Below I provide summary statistics of the amount of corporate donations used for the test of the intensive margin of corporate political participation. The variation in the distribution of the amount of corporate donations between American and foreign-owned firms are substantially reduced after log transformation.

Table A4: Population of nonzero corporate contributors, 2013-2014 (N=1,422 PACs)

Political Giving (2014 cycle):	min	mean	median	max	sd
Domestic	50	134,066	40,000	2,985,103	283,844
Foreign-owned	500	107,380	47,000	1,478,750	165,913

Notes: The 368 PACs that did not give to federal candidates during the 2014 election cycle, among the 1,768 active PACs were dropped for the analysis.

Table A5: Population of nonzero corporate contributors, 2015-2016 (N=1,408 PACs)

Political Giving (2016 cycle):	min	mean	median	max	sd
Domestic	100	141,787	43,312	2,861,364	289,816
Foreign-owned	500	112,674	56,200	1,455,490	168,727

Notes: The 363 PACs that did not give to federal candidates during the 2016 election cycle, among the 1,771 active PACs were dropped for the analysis.

Table A6: List of top corporate sponsors (2014 election cycle)

American	Foreign-owned
Honeywell International	UBS Americas (Switzerland)
AT&T	BAE Systems (UK)
Northrop Grumman	Zeneca (UK)
Lockheed Martin	Anheuser-Busch (Belgium)
The Boeing Company	BP Corporation North America (UK)
Comcast	Experian North America (UK)
Verizon Communications	Sanofi US Services (France)
United Parcel Service	Glaxosmithkline LLC (UK)
Raytheon Company	Accenture (Ireland)
General Electric	Credit Suisse Securities (Switzerland)
The Home Depot	Novo Nordisk (Denmark)
Koch Industries	BASF (Germany)
United Technologies	T-Mobile (Germany)
Exxon Mobil	Compass Bancshares (Spain)
CSX Corp	DRS Technologies (Italy)
BNSF Railway	Oldcastle Materials (Ireland)
Union Pacific Corp	Novartis (Switzerland)
AFLAC	Bayer (Germany)
Wal-Mart Stores	Genentech (Switzerland)
General Dynamics	Sprint Communications (Japan)

Table A7: List of top corporate sponsors (2016 election cycle)

American	Foreign-owned
Honeywell International	UBS Americas (Switzerland)
AT&T	BASF (Germany)
Lockheed Martin	BAE Systems (UK)
Comcast	Toyota Motor North America (Japan)
The Boeing Company	Anheuser-Busch (Belgium)
Northrop Grumman	Experian North America (UK)
United Parcel Service	Sanofi US Services (France)
The Home Depot	Zeneca (UK)
General Electric	Bayer (Germany)
Verizon Communications	Novo Nordisk (Denmark)
Raytheon Company	Glaxosmithkline LLC (UK)
BNSF Railway	T-Mobile (Germany)
Koch Industries	BP Corporation North America (UK)
Union Pacific Corp	Farmers Group (Switzerland)
Google	Genetech (Switzerland)
Exxon Mobil	Credit Suisse Securities (Switzerland)
CSX Corp	Novartis (Switzerland)
AFLAC	Aegon USA (Netherlands)
United Technologies	Accenture (Ireland)
General Motors	Cemex (Mexico)

Appendix B: Additional Models

How robust are the claims presented in the main text?

First, I relax the assumption that industry sectors and the location of firms are correlated with other covariates in the regression analyses – e.g., average firm size is determined by industry-specific characteristics and its location; and some industry sectors and states attract more foreign investment than others. Running a mixed model with industry sector and state random effects, and now assuming them to be independent of firm size and foreign ownership, I again find patterns identical to the main text. Foreign ownership and firm size have a statistically significant positive association with political participation, both at the extensive and intensive margins. Foreign ownership moderates the relationship between firm size and political participation. The mixed model regressions are presented in the following Appendixes B1 (extensive margin) and B2 (intensive margin).

Next, I replicate the empirical section using the (log transformed) number of employees as an alternative proxy for firm size. Note that the correlation between firm revenue and number of employees was 0.48. Presented in Appendixes B3 and B4, employing the alternative specification produced patterns identical to the main text as operating revenue does. One notable difference is that foreign ownership loses statistical significance in a baseline model where I do not allow it to moderate the relationship between firm size and the level of political contributions. However, as shown in the following models, including an interaction term between firm size and foreign ownership fits the data better.

In terms of the usage of data, I present the most comprehensive picture of recent corporate political donations in this paper by using data of all firms that had an active PAC during the 2013-2014 election cycle and/or the 2015-2016 election cycle. In the main text (Table 3), I use data from both election cycles and include an election cycle fixed effect. In the alternative mixed model (Appendix B2) above, I include all data with a committee ID random effect to account for the dependency among re-occurring PACs. However, analyzing each election cycle separately did not change the results. Despite the differences between between the two election cycles, including the fact that one included a Presidential election and the other did not, the identical observed patterns are suggestive that the main findings presented in this paper are stable features of US corporate corporate activities across different election cycles.

Finally, with respect to the firm level empirical analyses on the extensive margin, excluding PACs that were active but chose not to give contributions to federal candidates in either election year, and subsequently their sponsoring firms from the data, did not alter the empirical results.

Table B1: Alternative test of the extensive margin of political participation using a mixed model

	Binary outcome of political participation	
	(1)	(2)
foreign ownership	7.208***	8.426***
	(0.476)	(0.685)
log revenue	2.418***	2.545***
	(0.020)	(0.024)
foreign ownership·log revenue	−0.621***	−0.771***
	(0.056)	(0.080)
AIC	14,279	13,542
Observations	346,704	345,852
Industry Sector RE	Yes	Yes
State RE	No	Yes
Note:		*p<0.05; **p<0.01; ***p<0.001

Table B2: Alternative test of the intensive margin of political participation using a mixed model

	Total dollar contributions in logs	
	(1)	(2)
foreign ownership	1.716***	1.640***
	(0.401)	(0.399)
log revenue	0.298***	0.306***
	(0.017)	(0.017)
foreign ownership·log revenue	−0.183***	−0.176***
	(0.045)	(0.045)
AIC	4,034	4,015
Observations	2,605	2,601
Committee RE	Yes	Yes
Industry Sector RE	Yes	Yes
State RE	No	Yes
Note:		*p<0.05; **p<0.01; ***p<0.001

Table B3: Alternative test of the extensive margin of political participation using the number of employees as a measure of firm size

	Binary outcome of political participation			
	(1)	(2)	(3)	(4)
foreign ownership	1.612***	3.725***	3.420***	3.569***
	(0.157)	(0.457)	(0.466)	(0.479)
log employees	2.325***	2.335***	2.412***	2.521***
	(0.020)	(0.020)	(0.024)	(0.027)
foreign ownership·log employees		−0.629***	−0.793***	−0.885***
		(0.138)	(0.143)	(0.148)
AIC	13,428	13,414	11,953	11,680
Observations	323,131	323,131	322,205	321,801
Industry Sector FE	No	No	Yes	Yes
State FE	No	No	No	Yes
Note:				*p<0.05; **p<0.01; ***p<0.001

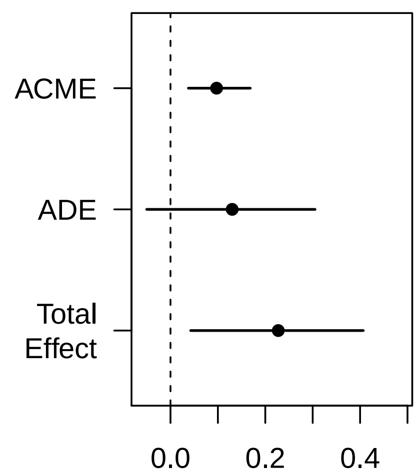
Table B4: Alternative test of the intensive margin of political participation using the number of employees as a measure of firm size

	Total dollar contributions in logs			
	(1)	(2)	(3)	(4)
foreign ownership	0.016	1.113***	1.201***	1.127***
	(0.075)	(0.202)	(0.201)	(0.201)
log employees	0.340***	0.363***	0.379***	0.385***
	(0.015)	(0.015)	(0.016)	(0.017)
foreign ownership·log employees		−0.328***	−0.353***	−0.352***
		(0.056)	(0.056)	(0.056)
Adjusted R^2	0.217	0.230	0.251	0.275
Observations	1,974	1,974	1,970	1,970
Election Cycle FE	Yes	Yes	Yes	Yes
Industry Sector FE	No	No	Yes	Yes
State FE	No	No	No	Yes
Note:				*p<0.05; **p<0.01; ***p<0.001

Appendix C: Mediation Analyses

Size of Global Ultimate Owner

Here I demonstrate that the size of the global ultimate owner (GUO) actually mediates the intensive political giving by US subsidiaries of foreign firms. I compare among all US-based firms that are sub-units of either American or foreign GUOs, and focus on the political donations made during the 2016 election cycle. Following Tingley et al. (2014), I test the Average Causal Mediation Effect (ACME) of the size of the sponsoring firm's GUO, and then examine its robustness to the violation of sequential ignorability due to unobserved pre-treatment cofounders of the mediator and outcome (Imai, Keele and Yamamoto, 2010). I test the following – Mediator model: GUO size $\sim$ foreign ownership + log revenue + industry sector; outcome model: log total contributions $\sim$ GUO size + foreign ownership + log revenue + industry sector. Both the quasi-Bayesian Monte Carlo method and the nonparametric bootstrap simulations (1,000) were used to estimate the ACME and Average Direct Effect (ADE).



Note: ACME stands for the Average Causal Mediation Effect, also called the indirect effect. ADE stands for the Average Direct Effect. Together, they consist the total effect of foreign ownership on the amount of total giving.

Figure C1: Size of GUO

Figure C1 presents the estimated ACME under the sequential ignorability assumption, along with its 95% confidence interval. The differences in the size of the foreign and American GUOs, measured in log transformed revenue of the headquarters, were positively associated with the firms' level of political donations, also in logs, by 0.10 on average (with a 95% confidence interval of [0.04, 0.17]). This suggests that about 44% of the total effect of foreign ownership on the level of political activities was transmitted through the size of the GUO.

The sensitivity analysis, presented in Figure C2, suggests that the positive mediation effect of the size of GUO for explaining the effect of foreign ownership on the level of political donation is moderately robust to possible unobserved pre-treatment confounding. Collectively, the findings suggest that US subsidiaries give in disproportionately large amounts, as they ultimately represent the political interests of their much larger foreign parents.

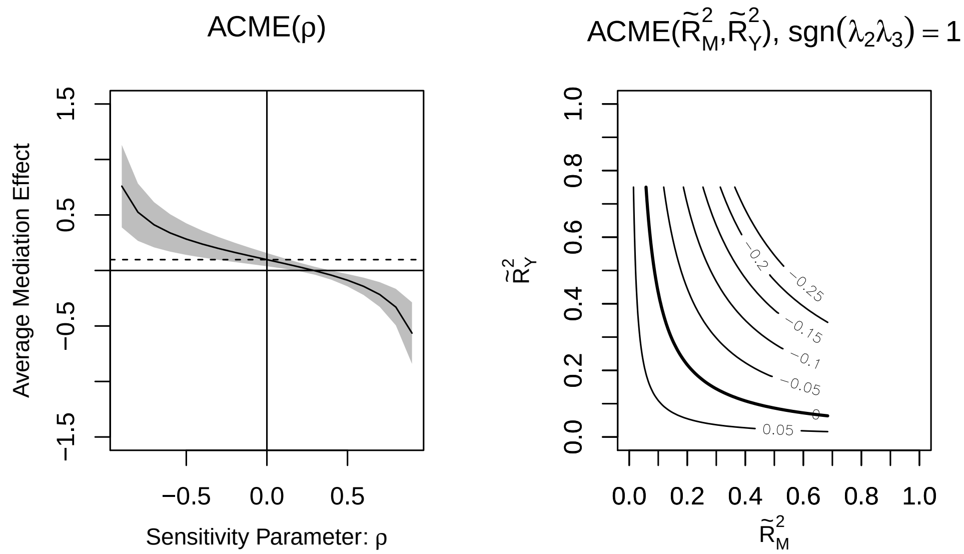
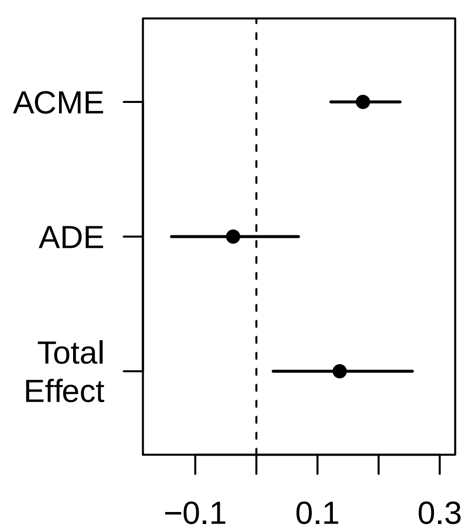


Figure C2: Sensitivity analysis for using size of GUO as mediator
Note: The panels on the top row show the estimated true values of ACMEs as functions of the sensitivity parameter ρ, which represents the correlation between error terms in the mediation and outcome models. The thick lines and gray bands represent the point estimates of the ACME and their 95% confidence intervals, respectively. The bottom panels show the same sensitivity analyses, except that the ACME estimates are plotted against ($\widetilde{R_Y^2}$, $\widetilde{R_M^2}$), the proportions of the total variance in the outcome and mediator variables, respectively, that will be explained by a hypothetical unobserved pre-treatment confounder.

Balanced Giving

In order to supplement my argument that US subsidiaries of foreign firms give campaign contributions to each Party in a more balanced way than American firms, I took the squared differences of the ratio of relative giving to the Republican Party from 0.5 – perfectly balanced giving – in order to get a measure of balanced giving to each Party. Smaller squared differences indicate a more balanced giving behavior. I then test whether this measure of balanced giving mediates the relationship between foreign ownership and the total amount of political giving. Based on political giving behavior in the 2016 election cycle, I test the following – Mediator model: Balanced giving $\sim$ foreign ownership + log revenue + industry sector; outcome model: log total contributions $\sim$ Balanced giving + foreign ownership + log revenue + industry sector. Both the quasi-Bayesian Monte Carlo method and the nonparametric bootstrap simulations (1,000) were used to estimate the ACME and Average Direct Effect (ADE). Similar to above, I first estimate the ACME and then examine its robustness to the violation of sequential ignorability.



Note: ACME stands for the Average Causal Mediation Effect, also called the indirect effect. ADE stands for the Average Direct Effect. Together, they consist the total effect of foreign ownership on the amount of total giving.

Figure C3: Balanced giving to the Republican and Democratic Parties

Figure C3 presents the ACME of balanced giving behavior, with an average effect of 0.17. Because the average ACME is not only significantly greater than zero (p<0.001), but greater in magnitude compared to the total effect of 0.13, the result suggests that foreign firms' strategic giving behavior fully mediates the relationship between foreign ownership and the total amount of political contributions. Meanwhile, balanced giving between the House and Senate was also found to mediate the relationship between foreign ownership and political giving, but at a lower statistical significance level (p<0.1).

The sensitivity analysis, presented in Figure C4, suggests that the positive mediation effect of the balanced giving to both Parties for the effect of foreign ownership on the level of political donation is more robust to possible unobserved pre-treatment confounding than the size of GUO mediator above. These findings suggest that foreign ownership is associated with a greater degree to which firms give in a balanced way, which ultimately leads to a greater amount of political donations. This difference in political giving behavior also lends support to a theory that foreign firms aim for political influence in the US.

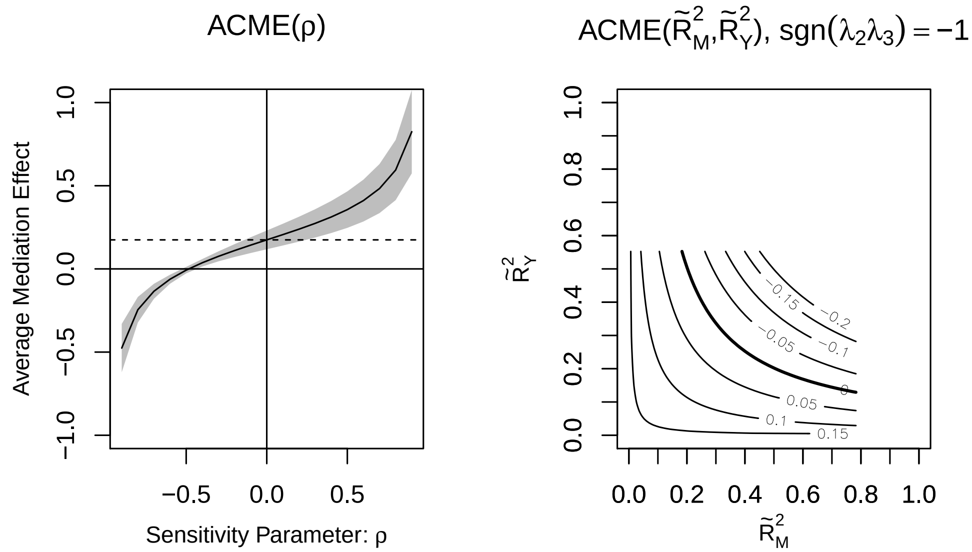


Figure C4: Sensitivity analysis for using size of GUO as mediator
Note: The panels on the top row show the estimated true values of ACMEs as functions of the sensitivity parameter ρ, which represents the correlation between error terms in the mediation and outcome models. The thick lines and gray bands represent the point estimates of the ACME and their 95% confidence intervals, respectively. The bottom panels show the same sensitivity analyses, except that the ACME estimates are plotted against ($\widetilde{R_Y^2}$, $\widetilde{R_M^2}$), the proportions of the total variance in the outcome and mediator variables, respectively, that will be explained by a hypothetical unobserved pre-treatment confounder.

Appendix D: Artifact of the FECA Rule?

FECA law on affiliated organizations

As opposed to American firms, which may establish and sponsor a PAC at both the parent and subsidiary levels (e.g., Blue Cross Blue Shield headquarters and its state branches, or Berkshire Hathaway and its sub-units) simultaneously, the FECA only allow US subsidiaries of foreign firms to participate in federal campaigns. Meanwhile, under the FECA, a PAC established by a parent firm is "affiliated" with a PAC established by its subsidiary, and they share a single limit on the contributions they can make. Therefore, one must caution against any dichotomous comparison of political giving at the individual PAC level, treating all foreign-connected and American PACs separately.

The political concentration of foreign-connected PACs may be an artifact of the FECA law if the political activities of American PACs tend to be diverted by multiple affiliated PACs and a 'substitution bias' arises (e.g., a foreign-connected PAC giving \$10,000 a year would appear to be more politically intensive on average than a native firm which gives \$15,000 through its headquarters and \$2,000 through its subsidiary). To address this, I run alternative tests by aggregating political giving and firm size by global ultimate ownership (e.g., \$10,000 vs. \$15,000 + \$2,000 = \$17,000 in the example above) and then comparing the political intensity of foreign-originating vs. American firms (model 1); alternatively I drop all American firms that give through both headquarters and subsidiaries from the analysis (model 2).

In Table D1, firms that give at both levels or only through the subsidiaries are found to give more than the reference group (GUOs that give only through their headquarters PAC). Meanwhile, the general relationship between foreign ownership and the total amount of giving, and its moderating effect on firm size to political giving, remains consistent with the main analyses in Table 3 in the main text. Also note that only for 2.5% of the entire data, firms gave through both headquarters PACs and subsidiary PACs. Thus, even after dropping all cases in which substitution effect might arise among affiliated committees (model 2), the patterns remain largely identical, even when controlling for the number of subsidiary PACs giving. Therefore, I confidently reject the speculation that the political intensity of foreign-connected PACs is an artifact of the FECA rule.

Table D1: FECA treatment of affiliated organizations

	Total contributions in logs	
	(1)	(2)
foreign ownership	1.527***	1.487***
	(0.368)	(0.370)
log revenue (aggregated by GUO)	0.328***	0.321***
	(0.014)	(0.014)
both parent & subsidiary give	0.456***	
	(0.091)	
only subsidiary gives	0.152**	
	(0.054)	
foreign ownership·log revenue	−0.171***	−0.166***
	(0.041)	(0.041)
Adjusted R^2	0.241	0.223
Observations	2,408	2,348
Election Cycle FE	Yes	Yes
Industry Sector FE	Yes	Yes
No. Subsidiary FE	No	Yes
Note:	*p<0.05; **p<0.01; ***p<0.001	