

Overseas Operation, Regulatory Lobbying, and Exit Threat of US Firms

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Carrier Company in Mexico since 1945



Question: how does overseas production affect a firm's domestic lobbying?

Theory: firm-level regulatory arbitrage.

Descriptive Evidence: what firms say (public statements)

Main Analysis: what firms do (federal lobbying)

Theory

Mechanisms of international pressure for domestic regulatory change:

Government competition.

IO conditionalities.

Superpower coercion.

... other national level explanations

Individual firm lobbying.

(Carruthers and Lamoureux 2016: no systematic research yet.)

Those with the Exit Option Have Bigger Voice

MNCs Paid Fixed Cost of Offshoring
(Antras and Helpman 2004, Rodriguez-Lopez 2014).

#

Have Greater Exit Option

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Credible Exit Threat in Lobbying

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Are More Active in Lobbying

What Firms Say

Regulatory Arbitrage Statements in Media

*"There is significant global competition for these R&D jobs, however, and companies have an **array of choices** on where to locate such jobs and where to invest research dollars—**here in the U.S. or abroad**. In fact, many **other countries** offer both lower corporate tax rates and more attractive R&D incentives." –Intel, 2015*

*"American business leaders are rightly concerned about their competitiveness in the global marketplace if Congress doesn't act now. Failure to extend these provisions in the near term would result in a large tax increase and possibly lead to **a shift of even more jobs and business activities overseas**." - United Technologies, 2008*

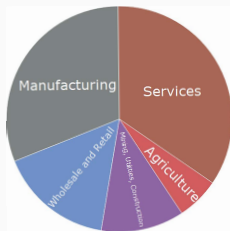
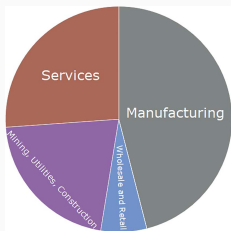
Repository: 118,367 reports with bill-level statements from Maplight.

What Kind of Firms Make Such Statements?

Firms Making the Arbitrage Statement



All US Firms



What Firms Do

Hypothesis: having overseas operation leads to more lobbying.

Predictor: *offshoring_{it}* (harder)

DV: *lobbying_{it}* (easier)

Controls

Source: ownership structure of 208,096,202 entities in Orbis Worldwide.

To match the arbitrage theory, a foreign subsidiary of a US parent firm

Must be in **active production**.

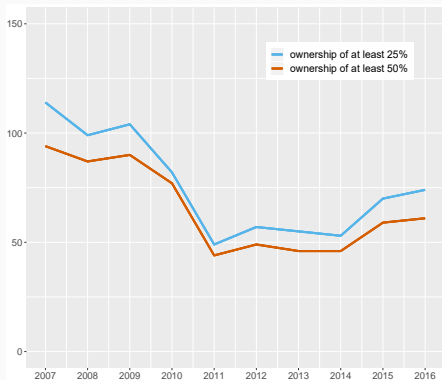
– tease out "shell companies", and track M&A changes each year

Must be in the **same sector** as the US parent firm.

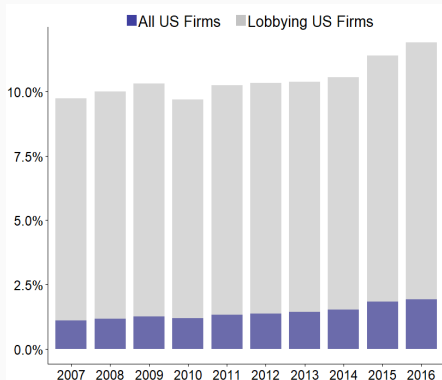
– direct threat to US jobs in the US parent firm

Offshoring Panel 2007-2016

Ford Motor No. Subsidiary



Percentage of Firms that Offshore



Hypothesis: having overseas operation leads to more lobbying.

Predictor: *offshoring_{it}*

DVs: *lobbying_{it}* on taxation, labor, and all domestic regulations.

Firm size is the most important confounder.

Firm and year FE to account for confounder (industry is time-invariant).

Having Overseas Operation in the Same Sector / More Lobbying

Table 4. Firms with Overseas Operation in the Same Sectors Are More Active in Lobbying

<i>DV: Firm lobbying on:</i>	Taxation log(frequency) (1)	Labor log(frequency) (2)	All Regulations log(frequency) (3)	All Regulations log(expenditure) (4)
Overseas Operation	0.091*** (0.000)	0.046*** (0.000)	0.115*** (0.000)	0.192* (0.013)
log(revenue)	-0.001*** (0.000)	0.001** (0.001)	0.015*** (0.000)	0.110*** (0.000)
Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
R squared	0.849	0.804	0.863	0.791
N	270,671	270,671	270,671	270,671
<i>Note:</i>	*p<0.05; **p<0.01; ***p<0.001			

Operating in More Foreign Countries / More Lobbying

Table 7. Firm's Lobbying Activity Increases with the Number of Foreign Countries Where It Has Subsidiaries

<i>DV: Firm lobbying on:</i>	Taxation	Labor	All Regulations	All Regulations
	log(frequency)	log(frequency)	log(frequency)	log(expenditure)
	(1)	(2)	(3)	(4)
log(No. Host Countries)	0.067** (0.002)	0.055*** (0.000)	0.116*** (0.000)	0.304*** (0.000)
log(revenue)	0.000 (0.066)	0.001*** (0.000)	0.015*** (0.000)	0.112*** (0.000)
Year FE	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes
R squared	0.851	0.805	0.864	0.792
N	270,671	270,671	270,671	270,671
<i>Note:</i>	*p<0.05; **p<0.01; ***p<0.001			

Offshoring firms lobby on **domestic regulations** because they have the **leverage**.

Existing IPE literature on firm lobbying:

Trading firms lobby on **trade policy** because they **need** free trade.
(e.g. Bonbardini 2008, Weymouth 2012, Kim 2017, Osgood 2018)

Thank you!

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US Policies since 2017:

trade protectionism "

(e.g. Bonbardini 2008, Weymouth 2012, Kim 2017, Osgood 2018)

domestic deregulation #

(this paper)

tear down global offshoring network #

(this paper)

overall higher policy uncertainty "

(Engau & Hoffmann 2009; Buzard & Saiegh 2016; Hassan et al. 2017)

MYTHS vs FACTS

"Carrier is the only HVAC company with operations in Mexico."

A significant percentage of the components that Carrier and others in the HVAC industry use are now sourced from Northern Mexico. Other HVAC companies, including Lennox, Norpak, York, Dakin, Rheem and Trane, make product in Mexico as well, and suppliers have relocated operations there, creating a strong local supply base.

"Carrier can't be relied upon for quality and service once Indianapolis manufacturing shifts to Mexico."

Carrier's global manufacturing facilities are held to the same high standards regardless of location. Its existing manufacturing operation in Monterrey, established in 1969, is world class and has consistently delivered proven quality products and service. Carrier will continue its long track record of producing high-quality gas furnaces and fan-coils to meet customers' needs, including introducing new products with the latest in technology and innovation.

"Carrier's plan to move its Indianapolis manufacturing operations to Monterrey, Mexico, is strictly about access to cheap labor."

No, many factors were involved in Carrier's decision to relocate its manufacturing operations to a region where it already has a world class manufacturing footprint and existing infrastructure.

The HVAC industry has become more competitive and is facing cost and pricing pressures that are being driven, in part, by new regulatory requirements. This plan will allow us to **protect our collective businesses** and help keep Carrier distributors, dealers and business partners strong and competitive.

In addition, a significant percentage of the components that Carrier and others in the HVAC industry use are now sourced from Northern Mexico. As a significant number of HVAC competitors and suppliers have relocated operations there, it has created a **strong local supply base**. Carrier has existing infrastructure in this region and relocating the Indianapolis manufacturing operations there will allow the company to operate more cost-effectively, so that it can continue to produce high-quality products that are competitively-positioned and meet customer needs.

