The Foreign Agents: MNCs and WTO Disputes

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October 23, 2021
Foreign Lobbying

Source: Ben Freeman (2011), the Project On Government Oversight
Lobbying Activities of Global Fortune 500 Firms
Racket Players

Source: Ingram Pinn (2011), Financial Times
Diplomatic Relations between the US and Home

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

H1 Foreign firms lobby the US government most when their home countries’ diplomatic ties improve
US-led Dispute

- Stakes of trade policy

- US-led WTO Dispute can (1) limit foreign firms’ profits (2) increase costs through retaliation

- Incentives to lobby maximized when US-led Dispute is immediate.
US-led Dispute

H2 Lobbying increases when the United States threatens to initiate a WTO dispute.
Home-led Dispute

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

H3 Lobbying decreases when the home country threatens to initiate a WTO dispute.
Interaction between Dispute and Diplomatic Ties

- Invest in political activity and Quality of diplomatic ties
- (1) Effectiveness of lobbying
  (2) Influencing policy at an opportune time
H4 The effects of trade disputes on lobbying are magnified when diplomatic relations are strong.
Data

► 1,352 Global Fortune 500 companies (1999 - 2017)

► LobbyView.org (Kim 2018), Bloomberg Terminal

► (1) Lobbying expenses
   No. of lobbying filings of (2) trade branches
   (DOC, DOS, USTR, FTC, USITC, EXIM, NEC, ITA, CEA)
   (3) US Congress, (4) US President, and (5) USTR
Model Specification

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

- **Closeness}_{i,t-1}: UN Vote Similarity**  
  (Voeten & Strezhnev & Bailey 2009)

- **\(\gamma_i\) (Firm FE) and \(\delta_t\) (year FE)**

- **\(W_{i,t}\): Cross-national M&A outside US, Reports Missing Expenses, Imports from hosts to US weighted by US-led Disputes against Hosts and Host-led Dispute against US**

- Standard errors are clustered at facility (i).
<table>
<thead>
<tr>
<th></th>
<th>Model 1 Full Foreign Sample</th>
<th>Model 2 US Affiliates</th>
<th>Model 3 No US Affiliates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disputes[US→Home]_{i,t}</td>
<td>-0.275*</td>
<td>-0.411**</td>
<td>0.008</td>
</tr>
<tr>
<td></td>
<td>(0.143)</td>
<td>(0.173)</td>
<td>(0.023)</td>
</tr>
<tr>
<td>Disputes[Home→US]_{i,t}</td>
<td>0.219</td>
<td>0.888**</td>
<td>-0.009</td>
</tr>
<tr>
<td></td>
<td>(0.158)</td>
<td>(0.356)</td>
<td>(0.027)</td>
</tr>
<tr>
<td>Closeness_{i,t-1}</td>
<td>0.195</td>
<td>1.676*</td>
<td>0.005</td>
</tr>
<tr>
<td></td>
<td>(0.143)</td>
<td>(0.901)</td>
<td>(0.034)</td>
</tr>
<tr>
<td>Closeness_{i,t} × Disputes[US→Home]_{i,t}</td>
<td>0.612**</td>
<td>0.947***</td>
<td>-0.026</td>
</tr>
<tr>
<td></td>
<td>(0.299)</td>
<td>(0.330)</td>
<td>(0.061)</td>
</tr>
<tr>
<td>Closeness_{i,t} × Disputes[Home→US]_{i,t}</td>
<td>-0.632*</td>
<td>-2.810**</td>
<td>0.028</td>
</tr>
<tr>
<td></td>
<td>(0.362)</td>
<td>(1.112)</td>
<td>(0.067)</td>
</tr>
<tr>
<td>Constant</td>
<td>0.705***</td>
<td>0.262</td>
<td>-0.010</td>
</tr>
<tr>
<td></td>
<td>(0.100)</td>
<td>(0.287)</td>
<td>(0.021)</td>
</tr>
<tr>
<td>Observations</td>
<td>17931</td>
<td>6580</td>
<td>11351</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>0.803</td>
<td>0.805</td>
<td>0.816</td>
</tr>
<tr>
<td>Firm and Year FE</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Controls</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

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

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$
Effect of Disputes on Lobbying Expenses (M2)

*Note: the mean level of UN voting agreement is 0.564; the std. dev. is 0.13.
Timing of Disputes (M2)

*Note: the mean level of UN voting agreement is 0.564; the std. dev. is 0.13.
Informational Lobbying vs. Quid Pro Quo

USTR

Congress

Lobbying Year from Dispute Year (t)

US Sues Home
US Firms (Full Sample)

Full US Sample

- US Sues Host
  - Trade Branches
  - Congress
- Host Sues US
  - Trade Branches
  - Congress

- US Sues Host
  - President
  - USTR
- Host Sues US
  - President
  - USTR
US Firms (with Foreign Affiliates)
Conclusion

- Foreign firms lobby less actively than US firms.

- Firms from countries less closely aligned with US are handicapped when they attempt to influence US politics.

- Firms increase (decrease) lobbying in the face of US-led (Home-led) dispute.

- Targeting executive agencies that control trade policy before the dispute is officially launched, and lobbying Congress to mitigate the policy follow-through.

- Effect of dispute is conditional on diplomatic ties between home and US
Thank You