

# Strange Bedfellows: When Foreign Firms Participate in Standards Setting in Host Countries

Haosen Ge  
Princeton University

Jian Xu  
Yale-NUS College

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# An Industry Standard in China

ICS 29.060.20  
K 13  
备案号: 49612-2015

# NB

## 中华人民共和国能源行业标准

NB/T 42051 — 2015

额定电压 0.6/1kV 铝合金导体  
交联聚乙烯绝缘电缆

Cross-linked polyethylene insulated cables with aluminum alloy conductor  
for rated voltage of 0.6/1kV

- Labels many Chinese manufacturers as low-quality
- Heavily influenced by General Cable, a U.S. firm
- Why?

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- Drafted during a wave of SOE-led industry integration

# Theory: An Unlikely Alliance

## **We argue:**

Foreign firms are *more likely* to participate in regulation drafting in host countries when domestic interest groups benefit from industry concentration

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- A theory of political collusion between domestic and foreign firms
- Existing studies focus on the political competition (e.g., Grossman and Helpman (1994))
- An understudied mechanism by which foreign firms acquire policy influence

## Theory: An Unlikely Alliance

### **Politically connected firms benefit from a higher regulatory barrier:**

- Regulation imposes different cost on different firms
- Small firms bear the cost of regulation
- Connected firms have more means to offset cost
- To curtail competition, connected firms may prefer stringent regulation

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### **Why collude with foreign firms:**

- Foreign firms, which are usually more productive, have more scientific knowledge and legitimacy to draft stringent regulation than their domestic counterparts
- Governments approval more likely

# Empirical Studies

## Study 1: Analyses of Chinese National Standards

- **Finding 1:** Connected domestic firms with poorer financial performance are more likely to draft national standards with foreign firms

## Study 2: An Original Survey of Foreign Firms Employees in China

- **Finding 2:** Regulation drafted by foreign firms is more stringent
- **Finding 3:** State-owned enterprises collude with foreign firms to erect higher regulatory barrier

## Study 3: Case Studies

- **Finding 4:** The power cable industry
- **Finding 5:** The steel industry



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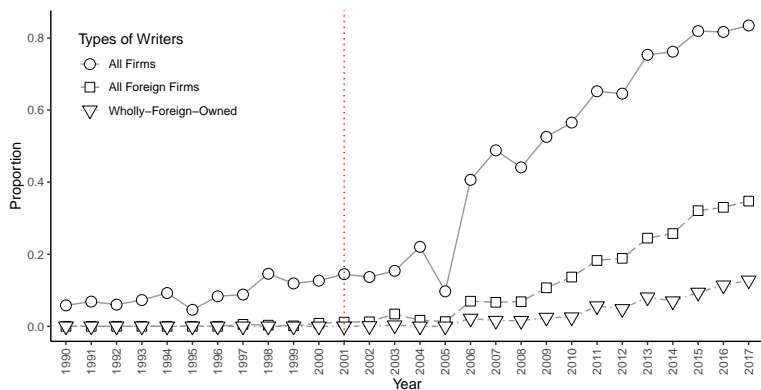
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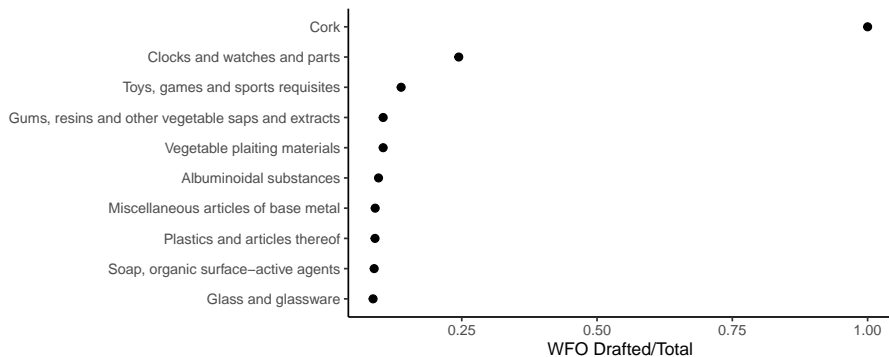
# Chinese National Standards

<b>Title</b>	<b>Year</b>
Countersunk head screws: the shape of the head and its measurement	1985
Pulps; Determination of acid-insoluble ash	1987
Data interchange on 130mm flexible disk cartridges	1993
Safety specification for nickel smelt production	2015
Plugs and socket-outlets for household and similar purposes	2017

# Drafting Parties over Time



# Industry Distribution (HS2)

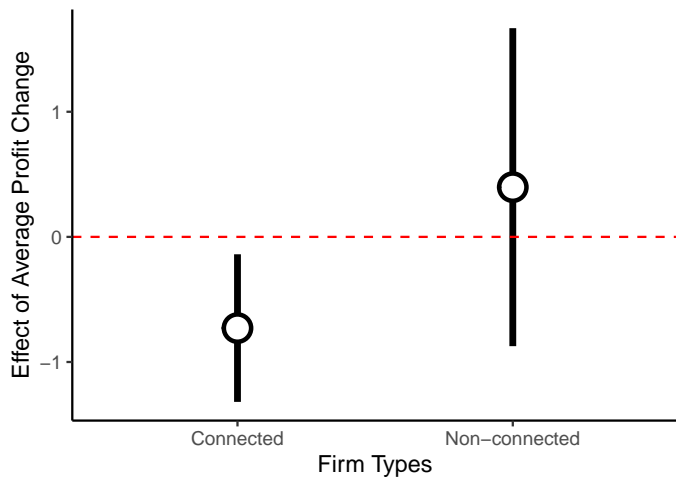


# Study 1: Analyses of Chinese National Standards

**H1:** Connected domestic firms with poorer financial performance are more likely to draft regulation with foreign firms

- **Sample:** Public Firms in China
- **Political Connection:** Board Member Resumes in 2012 (Wang [2016](#))
- **DV:** Drafting national standards with foreign firms after 2012
- **IV:** Average Profit Change from 2010 to 2012

# Marginal Effect of Political Connection



# Conclusions

- Foreign firms sometimes benefit from competing domestic interest groups gaining political power.
- It is a quite common for foreign firms to participate in the policy making process in host countries, even in developing countries without institutional “access points”.