Multinational Firms’ Influence in International Private Regimes: International Standardization Through Subsidiary Networks

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MNC’s influence in international private standardization

- International business increasingly influenced by regulations and standards

- Corporate interest in regulations $\leadsto$ Domestic lobbying and information sharing
  (Gulotty 2020; Kennard 2020; Perlman 2020)

How do firms influence international standardization?

Through their foreign subsidiary networks.

This paper shows:

Inward FDI $\leadsto$ host country’s increased participation at the International Organization for Standardization (ISO)
Contributions

- **Theory:** *How* MNCs exert influence in international standardization

  **Institutional design (one-country-one-vote) of the ISO** motivates MNCs to influence host countries’ participation and votes

- **Empirics:** Panel data of *country-project level participation* at the ISO

  Countries participate more in standardization of FDI-related products/services
International standards affect business

ISO standards are *private and voluntary*, but have economic consequences:

- Technical barriers to trade (TBT) — WTO members “strongly encouraged” to base their national standards on international ones (otherwise notify the WTO)

  The EU against Indonesia at the WTO TBT Committee:
  "concerned that... (Indonesia’s standard) was *not in line with ISO standards* and would imply significant costs." (G/TBT/M/61)

- Many governments incorporate ISO standards in domestic regulations

  (e.g. The National Technology Transfer and Advancement Act (1996))
Design of International Organization for Standardization (ISO)

- ISO: the most comprehensive international standard setting body (private)
- One domestic standard-developing body per country
- Members can participate in any of the Technical (sub)Committees
- One country, one vote among members in each committee
  \[\leadsto\] Needs 2/3 approval from voting members to publish a standard

≈ 800 Technical Committees (TCs)

TC1: Screw threads → Standard (e.g., ISO 2904:2020)

US, China, Romania... (14)

TC 307: Blockchain

US, China, Malaysia... (42)

(US: American National Standards Institute)
Changing composition of leadership roles at the ISO

China more than doubled its leadership positions (TC Secretariat) in less than a decade
Increased participation by more diverse countries

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<th>Country</th>
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<th>2022</th>
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MNCs influence country-level participation

- MNCs have incentives to collect votes to reach 2/3 approval

- MNCs offer support to domestic standardization bodies by providing necessary skills, information, and financial resources

Countries that receive FDI start actively participating (i.e., become voting members) in standardization of related products
Hypotheses

At the country-standard area level,

**H1** New greenfield FDI \( \Rightarrow \) more voting membership in TCs

**H2** New greenfield FDI in *developing countries* \( \Rightarrow \) more voting membership in TCs
[information and resources valued more]

**H3** New greenfield FDI \( \Rightarrow \) more voting membership in TCs with a *smaller number of membership* [additional vote valued more]
Data and design

- **DV**: Technical Committee voting membership, 2008-2017 ([Wayback Machine](https://web.archive.org/web/))
  (165 member countries $\times$ 10 years $\times$ 750 TC)

- **IV**: New greenfield FDI cases reported between 2004-2017 ([fdimarkets.com](https://fdimarkets.com))

- Analyses at the country (i) - HS product (p) - year (t) level
  - TC working area (ICS code) mapped to HS product (using WTO TBT notifications)

\[
Y_{ipt} = +\beta \underbrace{X_{ip,t-n}}_{\text{# of committees associated with product } p \text{ that } i \text{ participates in } t} + \gamma \underbrace{Y_{ip,t-n}}_{\text{New FDI in } p \text{ into } i \text{ at } t-n} + \delta \underbrace{W_{i,t-n}}_{\text{covariates (GDP, export volume, etc.)}} + \eta \underbrace{Z_{ip,t-n}}_{\text{covariates (GDP, export volume, etc.)}} + \tau_t + \omega_{q[p]} + \epsilon_{ipt}
\]
Greenfield FDI $\rightsquigarrow$ TC participation (H1) in developing countries (H2)

H1  FDI $\rightsquigarrow$ TC membership $\uparrow$

H2  FDI $\rightsquigarrow$ TC membership $\uparrow$ in developing countries

Substantively significant:
0.2 new membership
(baseline is 6 TC per country-product-year)

Table (H1,2)
Greenfield FDI $\leadsto$ participation in smaller TCs (H3)

H3  FDI $\leadsto$ membership in smaller TCs $\uparrow$

Substantively: 25% $\rightarrow$ 27%
(changes are rare events)

$\Rightarrow$ Table (H3)
Conclusion

- Inward FDI leads to country representative’s participation in ISO standardization

- MNCs have incentives and capabilities to influence host-country representatives, due to the institutional design of international private regimes

- Increased participation by developing countries may not necessarily mean diverse representation
For any questions or comments, please email

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