Political Activities of Foreign Multinational Corporations in the United States

by

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Dedication

To my parents and brother, for their unfailing love and support

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Abstract

The aim of this dissertation is to understand the political interests and activities of foreign multinational corporations (MNCs) in the United States. Foreign firms have strong incentives to influence US policies, as these policies heavily impact the firms' existing or potential sales and investment. While certain US laws restrict foreign participation in political activities, domestically incorporated foreign firms have equal standing with American firms under US federal election and lobbying laws. Therefore, I argue that foreign firms may create new subsidiaries in the US or utilize existing subsidiaries as their domestic political agents, as a way to access and influence US policymakers. I call this phenomenon 'political foreign investment.'

In the following chapters, I provide evidence in support of this theory. For instance, in "Foreign Direct Investment in Political Influence," I demonstrate that majority foreign-owned subsidiaries, relative to American firms, are more likely to sponsor Political Action Committees and give a greater amount of campaign contributions to federal candidates. In "Foreign Lobbying through Domestic Subsidiaries," I similarly find that majority foreign-owned firms tend to lobby more often and spend more on lobbying than American firms. The positive association between foreign ownership and political activity in the two papers holds after controlling for firm size, industry, state, and the extent of global integration. Moreover, I demonstrate that features of the foreign parent MNCs explain the outsized political activities of the domestic subsidiaries.

Finally, in "Political FDI through Cross-border M&A" I conduct within-firm panel analyses showing that foreign acquisition of domestic firms increase their PAC and lobbying activities.

Collectively, this dissertation highlights the political role of foreign direct investment, and sheds light on an understudied mechanism of foreign influence in the US. Also, the disproportionate political activities of the domestic subsidiaries raise normative questions on whether loopholes in US laws are circumvented by foreign interests.

Chapter 1

Foreign MNCs and US Politics

Multinational corporations (MNCs) have exerted political influence for as long as they have existed. However, our understanding of their influence is largely limited to a specific model of how Western firms engage in, and often dominate, the politics of developing countries in which they invest. Such an approach, while important, largely ignores the growing influence of foreign firms on US politics.

Over the past few decades, multinational corporations have emerged from all corners of the world, and have become important political actors shaping the global economy. To many of these firms, the US is an important marketplace for growing their business and political influence. This is because the US has one of the largest consumer markets in the world and attracts the largest amount of foreign direct investment.

Foreign MNCs are therefore heavily impacted by US policies. For instance, US policies on tariff and non-tariff barriers, exchange rates, currency policy, and government procurement directly affect foreign sales. Similarly, US regulations on foreign direct investment and foreign banking determine foreign entry into the US. Meanwhile, global standards on e-commerce, consumer safety, intellectual property rights, labor rights, etc., weigh heavily on US regulatory decisions.

Consequently, foreign MNCs are motivated to influence public policies in the US. Specifically, they need to devise political strategies to safeguard existing foreign sales and investment, or to create and secure future growth opportunities. However, extant theories do not explain this phenomenon due to earlier attention given to Western MNC activities elsewhere, and the MNC's political influence in home countries.

This dissertation extends the current knowledge and theoretical understanding of the relationship between foreign direct investment and domestic political power. Through a combination of theoretical and empirical work, I analyze some of the most important and pressing questions in this area. How do firms define their political interests in a highly integrated global economy? How do foreign firms gain footholds in US politics? And what are the normative implications of their political influence on national politics and the general public?

Foreign firms with significant policy interests in the US have strong incentives to engage in political activities in the US. However, US laws restrict foreign political activities while allowing US subsidiaries of foreign firms to engage in federal elections and lobbying just like American firms. This legal environment, compounded with the attractiveness of the US market, encourages foreign firms to gain local presence in the US through investing. Therefore, I argue that foreign firms, impacted by externalities of US policies, create new subsidiaries or use existing subsidiaries to have their political interests represented in the US. I call this phenomenon *political foreign investment*.

I examine this argument in the following chapters. In Chapter 2, "Foreign Direct Investment in Political Influence," I test whether foreign firms engage in US federal elections through their domestically incorporated subsidiaries. This question is particularly important because the US Federal Election Campaign Act (FECA) prohibits foreign participation in federal campaigns. To test the political foreign investment theory in the context of federal elections, I collected original data identifying the Political Action Committee (PAC) activities of majority foreign-owned subsidiaries in the US.

I find that these US subsidiaries of foreign firms are significantly more politically active than comparable American firms. Controlling for firm characteristics such as size, industry, location, and engagement in global markets, US subsidiaries of foreign firms are more likely to sponsor a PAC and donate in greater amounts. I explore a variety of explanations for this outsized political activity, and demonstrate that it is primarily driven by the foreign parents' desire to gain political influence in the US.

In Chapter 3, "Foreign Lobbying Through Domestic Subsidiaries," I examine the federal lobbying practices of domestic subsidiaries of foreign firms in the US. Unlike under the FECA, foreign firms can lobby the US government as long as they disclose their activities under either the Foreign Agents Registration Act (FARA) or the domestic Lobbying Disclosure Act (LDA). For the first time, I identified all foreign-connected lobbying under the LDA. With these data, I show that the US subsidiaries' lobbying activities also corroborate my political foreign investment theory.

First, I show that 90% of the foreign corporate clients are US subsidiaries of foreign firms, rather than the parent firms. In addition, I show that these subsidiaries lobby significantly more often and spend more on lobbying activities than comparable American firms. Moreover, I find that US subsidiaries of foreign firms lobby on a greater variety of issues, which suggests that they represent interests of both the subsidiaries and the foreign parents. I also show that they lobby extensively on issue areas which can have large negative effects on parent companies, in other words, with large externalities. These include trade and tariff policy, rules governing intellectual property rights, and industry-specific regulation which may serve to block foreign direct investment.

In Chapter 4, "Political FDI Through Cross-border M&A," I build a stronger causal case for the political foreign investment theory by exploiting changes in majority ownership of US firms over time. I assemble unique panel datasets of all US-based firms that sponsored corporate PACs or disclosed their lobbying activities under the LDA, and that also experienced a change in majority ownership through mergers and acquisitions (M&A),

from 1997 to 2018. Then I conduct within-firm analyses to test whether foreign-ownership through cross-border M&A changes domestic firms' political activities in ways suggested in Chapters 2 and 3.

I find that domestic firms tend to give more to federal candidates when they become majority foreign-owned. Similarly, the dollar amount of total and issue-specific lobbying spending tend to increase once firms are majority foreign-owned. In contrast, no significant changes are observed when a domestic firm is consolidated into another domestic firm. I also find that domestic firms change their lobbying focus to issue areas of interest to their foreign parents following cross-border M&A. Collectively, these findings suggest that the acquired subsidiaries serve a political role in accessing and influencing policymakers in the US.

Taken together, these chapters highlight the *political role* of foreign direct investment in the US – a largely overlooked area in previous research. They reveal that foreign participation in domestic politics is occurring more than what was previously thought. In fact, I find that majority foreign-owned subsidiaries in the US accounted for more than 11% of total corporate political giving and over 17% of corporate lobbying during the 2016 election cycle, despite contributing only 5% to the private sector economy. This dissertation raises normative and legal questions regarding loopholes in US laws and possible amendments that could bolster government protection of American interests.

Chapter 2

Foreign Direct Investment in Political Influence

Abstract

Do foreign firms engage in domestic politics, and if so, why? I argue that foreign firms, impacted by US policies, employ subsidiaries in the US to represent their political interests in federal elections. Using original data collected for the population of corporate givers during recent election cycles, I find US subsidiaries of foreign firms to be significantly more politically active than similarly sized American firms located in the same industry. These subsidiaries are much more likely to sponsor a Political Action Committee and donate in greater amounts. I explore a variety of explanations for this outsized political activity, and demonstrate that it is driven in part by the foreign parent firms' desire to gain a political foothold in the United States. Foreign direct investment therefore serves as an investment in political influence.

2.1 Introduction

Foreign influence on domestic politics has become a salient issue. The American public is alarmed by foreign countries' ability to influence domestic elections from afar; however, not much attention has been given to a critical channel of foreign influence embedded in the domestic political system. Although foreign firms are categorically banned from participating in federal elections by the Federal Election Campaign Act of 1971, their domestically incorporated subsidiaries may engage in federal campaigns just like American firms. For example, the American subsidiary of UBS (a financial services company headquartered in Switzerland), UBS Americas Inc., has cut checks to federal candidates on both sides of the aisle through its Political Action Committee (PAC), totaling around $1.45 million per election cycle in recent years. Overall, majority foreign-owned US subsidiaries accounted for more than 11% of total corporate PAC giving to federal candidates during the 2016 election cycle.

In this paper, I investigate the patterns of PAC giving by US subsidiaries of foreign firms to understand their motive for this political action. The primary argument of this paper is that foreign direct investment partly serves as an investment in political influence. Because firms engaged in global markets are heavily impacted by the national policies of other countries, they have strong incentives to engage in the domestic politics of countries that may be the source of such externalities. I theorize that foreign firms create new domestic subsidiaries or utilize existing domestic subsidiaries as their local political agents in these markets, actions that I call political foreign investment by foreign firms. In this way, domestic subsidiaries can legally build political allies in a host country as a way to influence national politics in ways aligned with the interests of their foreign principals. If US subsidiaries of foreign firms engage in federal elections on behalf of their foreign parents, I expect the observed political engagement of these subsidiaries to be significantly greater than those of similarly sized American firms, which do not need to necessarily represent a broader range of stakes of an entire corporate network. I also expect the patterns of PAC giving by domestic subsidiaries to reflect the interests and characteristics of their foreign parents.

To examine these theoretical expectations, I compiled an original dataset that identifies PAC giving patterns by the US subsidiaries of foreign firms. I collected and merged political data (e.g., total amount of campaign contributions, a breakdown of giving to each Party and Chamber) of all corporate PACs in the US reported to be active during the 2013-2014 and 2015-2016 election years along with firm data (e.g., operating revenue, number of employees, industry classification, ownership structure) of their sponsoring firms. For the compilation, I identified the sponsoring firm of each corporate PAC based on the name and street address of its connected organization reported in individual PAC Statements of Organization filed to the Federal Election Commission. From these Statements, I also gathered information about when the corporate PAC was first established and whether or not the PAC is a lobbyist/registrant PAC, which is a committee that a lobbyist establishes and/or controls. Finally I identified all US subsidiaries of foreign firms based on information about their Global Ultimate Owners.

With this dataset, I analyze patterns of corporate PAC giving in the United States. I first demonstrate that foreign ownership has a positive and significant association with the likelihood of a firm to sponsor a corporate PAC. I also show that among the sponsored PACs, foreign ownership has a positive and significant association with the level of campaign contributions directed to federal candidates. Both patterns hold when controlling for industry and location of the sponsoring firms, and also when analyzed among multinational firms only. These findings are contrary to those of earlier studies which analyze PAC giving based on a sample of Fortune 500 firms during the 1987 election cycle (Walke and Huckabee, 1989; Mitchell, Hansen and Jepsen, 1997; Hansen and Mitchell, 2000). However, this sampling method leaves out the majority of domestic subsidiaries, that are smaller than 500 of the largest US firms but owned by very large foreign multinationals, from the analyses. Therefore, the current study provides a more comprehensive demonstration of foreign corporate giving in the United States.

I then conduct empirical tests to explain this greater political intensity of US subsidiaries of foreign firms through the lens of the proposed political foreign investment theory. For instance, the size of a firm can be used as a measure of its policy interests and resources. When I compare the association between the level of campaign contributions and firm sizes of the domestic subsidiaries and their foreign parents, the latter in fact has a larger and stronger association. I also demonstrate that domestic subsidiaries tend to give larger amount of donations when their parents have strong trade interests with the US. Finally, I present a series of evidence that foreign parents of domestic subsidiaries have strong policy interests in the US, and that the foreign-connected PACs give strategically under close supervision of lobbyists. Collectively, these findings lend support to the theory of political foreign investment.

It is conceivable that the foreign-connected PACs' greater political intensity may be a result of 'foreignness premium.' For example, US subsidiaries of foreign firms might be compelled to compensate legislators for representing a group toward which domestic constituents feel unsympathetic; or the subsidiaries may need to compensate for their political inexperience in the US. I rule out these alternative mechanisms by showing that public attitude toward the foreign-connected PACs' countries of origin has no impact on the level of political giving; also, foreign-connected PACs that are older, and so have more experience, tend to give more, and not less.

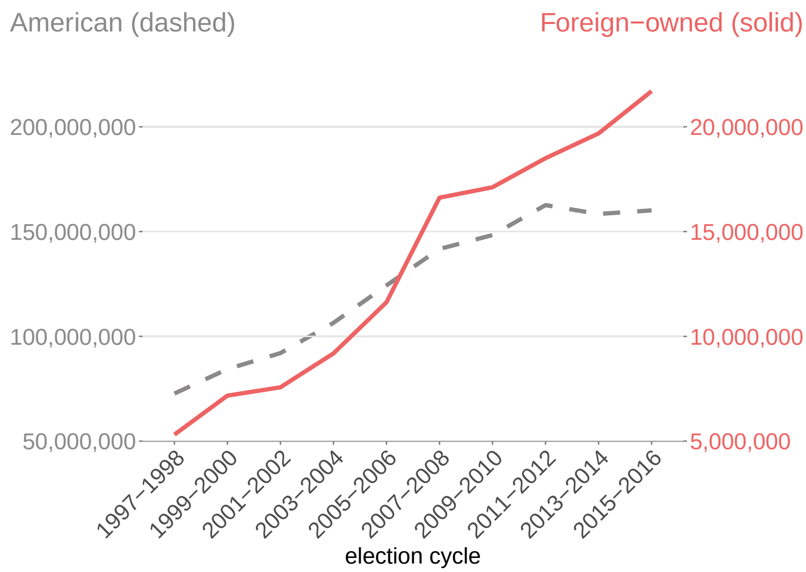
This investigation connects to the political science literature in several ways. I build on the interest group politics literature by highlighting how domestic firms include native firms and a significant number of domestically incorporated foreign firms. By distinguishing these firms by global ultimate ownership, I demonstrate how political institutions in the US actually allow foreign intervention in their legal political processes. I also contribute to the growing body of firm-level theories of international political economy (Bombardini, 2008; Weymouth, 2012; Kim, 2017; Osgood et al., 2017) by providing a theoretical framework that explains the political activities of foreign multinationals in the US. In particular, this study expands our understanding of the politics of foreign direct investment, which has been largely limited to the bargaining between Western multinationals and developing host countries (Vernon, 1971; Kobrin, 1987; Jensen, 2008; Wellhausen, 2014). 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 PAC activities of native and foreign-originating firms in the US based on newly collected data.

2.2 Foreign Corporate Engagement in Federal Elections

While the US federal election law *appears* to categorically ban foreign participation, it is relatively open to this in practice. In fact, the amount of PAC 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 2.1. In recent election cycles, more than 11% of all corporate PAC donations to US federal candidates was made by these majority foreign-owned US subsidiaries.

The Federal Election Campaign Act (FECA) of 1971 was designed to ensure that the US government is most accountable to its citizens, and to protect elections from foreign influence. The law prohibits any foreign nationals from contributing, donating, or spending funds in connection with any federal, state, or local elections, either directly or indirectly. However, US firms that are owned/controlled by a foreign national is not itself a foreign national so long as the corporation is organized under domestic laws and has its "principal place of business" within the US. Therefore, subsidiaries of foreign firms can legally form a "foreign-connected PAC" and participate in this country's privately financed election system just like American firms.

Figure 2.1: Dollar amount of political giving by corporate PACs (1997-2016)



Note: I use two different scales to emphasize the growth of campaign contributions by foreign-connected PACs.

Political activities of these foreign-connected PACs have been justified as "instruments of the US employees of foreign-owned companies" and the FEC has stated 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, even some members of the FEC 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, 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."

There have been multiple attempts to regulate foreign participation in US elections.

[1] See "U.S. Elections Got More Foreign Cash," *New York Times* (May 24, 1987), by Martin Tolchin. FEC regulations require any funds the PAC uses to affect elections to be raised voluntarily by US citizens or permanent resident aliens, and require them only to participate in spending or contributions decisions.

[2] Thomas E. Harris, former chairman of the FEC, said "the PAC is always controlled by the top management of the corporation" and "PACs of foreign-owned domestic companies therefore circumvented the Congressional intent to bar foreign nationals from influencing American elections."

In quick response to *Citizens United*, 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 filibustered and blocked by Senate Republicans. Obama called the Senate outcome "a victory for special interests and U.S. corporations – including foreign-controlled ones." As fears of foreign money spiked following Russia's alleged interference in US elections, the DISCLOSE Act (of 2018) was reintroduced on June 28, 2018.[3]

Note that there is a rich literature on corporate lobbying. But we have limited knowledge of *foreign corporate* lobbying, as studies on foreign lobbying has focused on the Foreign Agents Registration Act (FARA) reports (Gawande, Krishna and Robbins, 2006). While foreign governments and parties disclose their activities under FARA, a largely overlooked practice is how most foreign corporate clients disclose their activities under the domestic Lobbying Disclosure Act of 1995 through domestic subsidiaries.[4] Unlike under the federal election law, foreign firms based abroad and those incorporated in the US can both engage in lobbying activities. In this paper, I focus on federal elections only to highlight the political role of domestic subsidiaries of foreign firms.

2.3 Theory of Political Foreign Investment

Government policies in the US affect businesses across borders. For instance, tariff and non-tariff barriers affect foreign firms trading with the US from abroad. Increasingly, for-

[3] Senator Sheldon Whitehouse (D-RI) and Congressman David Cicilline (D-RI) introduced the bicameral legislation which would prohibit domestic corporations with significant foreign control 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.

[4] In Chapter 3, I analyze the LDA reports and find most of foreign corporate lobbying to be done through domestic subsidiaries of foreign firms.

eign sellers and buyers engage heavily in e-commerce with the US, and their profits are impacted by policies relating to cross-border shipping, security restrictions, taxes, and complex federal and state regulations. Meanwhile, US decisions on regulatory matters heavily influence global standards on drugs, consumer safety, intellectual property rights, labor, environment, etc., to which foreign firms must comply. Since their inception, the US federal antitrust laws have applied to "commerce with foreign nations"; and foreign anti-competitive conduct has increasingly been subject to investigation with the expansion of international trade. Recent executive orders to expand "Buy American" posed a serious threat to foreign firms' access to US government procurement opportunities.

In addition, foreign firms' opportunities to invest in the US and fortunes of their extant investment are inherently impacted by US policies. For instance, the Foreign Investment Risk Review Modernization Act of 2018 expanded the jurisdiction and powers of the Committee on Foreign Investment in the United States (CFIUS) to scrutinize and potentially reject foreign investment. Changes in immigration laws can be a significant burden for foreign multinationals as US subsidiaries tend to rely heavily on foreign personnel from their home country. Recently, policies in accordance with the "Hire American" executive order strengthened control of entry and inspection of foreign workers, making it easier for immigration officials to reject visa applications and more difficult to extend them. Following the 2008 financial crisis, the Federal Reserve Board (in accordance with the Dodd-Frank Act) strengthened the regulation of foreign banks that wish to maintain a banking presence in the US. In addition, foreign multinationals are subject to aggressive US transfer pricing rules; and their intrafirm trade behavior is impacted by US tax regulations and is susceptible to exchange rate risks.

Therefore, foreign firms, whether they have operations in the US or not, are heavily impacted by US government policies. In fact, the external effects of policies created by the US, the world's largest consumer market and dominant player in international economic institutions, are critical for any foreign firm that wants to expand its operations and influence worldwide. This creates a strong incentive for foreign firms to engage in domestic political activities in the US. Meanwhile, as explained earlier, the FECA applies 'national treatment' to domestically incorporated foreign firms. While foreign firms cannot engage in federal elections, they can gain access to federal campaigns through their domestically incorporated subsidiaries. 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 can begin its fundraising efforts.

Together, foreign firms' desire to engage in US policymaking processes and politics more generally, and the domestic legal environment that allows domestically incorporated foreign firms to equally participate in federal elections, encourage foreign firms to engage in US elections through domestic subsidiaries. Thus, foreign firms may initiate foreign direct investment and create new subsidiaries in the US as a channel to connect with federal candidates; or for those already with local presence, being able to utilize the subsidiaries as a way to have the foreign firms' policy interests represented in the US can be a useful bonus for foreign firms. I call this 'political foreign investment' by foreign firms. Consequently, domestic subsidiaries of these firms act as political agents of their foreign parents, gaining access to federal elections and policymaking in the US.

Empirical Implications

The political foreign investment theory suggests that domestic subsidiaries of foreign firms would represent the complete set of policy interests of their (usually much larger) parent firms abroad. Therefore, I expect the political engagement of domestic subsidiaries of foreign firms to be disproportionate to their economic presence in the US. Then, the observed political engagement of foreign-connected PACs sponsored by these subsidiaries is expected to be more active than that of PACs sponsored by American firms that are otherwise comparable to the US subsidiaries. Therefore, controlling for firm characteristics such as size, industry, and location, I expect foreign ownership of a sponsoring firm to be positively associated with a connected PAC's observed political engagement in US federal campaigns.

I test two patterns of PAC giving among foreign-owned and American firms. First, I test the likelihood of firms based in the US to sponsor a corporate PAC. Next, I examine the dollar amount of campaign contributions made to federal candidates by the American and foreign-connected corporate PACs. Relative to American firms, I expect US subsidiaries of foreign firms to sponsor a corporate PAC more often, and their connected PACs to donate in greater dollar amounts.

I also conduct a series of empirical tests, as summarized in Table 2.1, in order to understand how the characteristics and interests of the foreign parent firms contribute to explaining the patterns of PAC giving by the US subsidiaries. In the literature of corporate political activities, firm size reflects the amount of political resources and the breadth of a firm's policy interests (Chong and Gradstein, 2010; Weymouth, 2012). Meanwhile, the foreign parents of US subsidiaries are very large (Helpman, Melitz and Yeaple, 2004). If domestic subsidiaries engage in federal elections only to defend their own interests in the US, the size of their foreign parents should be orthogonal to the domestic subsidiaries' political engagement. However, if the subsidiaries represent their foreign parents' interests, I expect the amount of campaign contributions by the subsidiaries to scale with the size of the much larger foreign parents.

Meanwhile, if the external impact of US policies to the foreign parent firms trigger the PAC giving by domestic subsidiaries, those with foreign parents that are heavily impacted by US policies are expected to give the most to federal candidates. One policy area that

Table 2.1: Empirical implications of the political foreign investment theory

Theory:	*Political Foreign Investment*
Patterns of PAC giving	
Likelihood of PAC giving:	US subsidiaries of foreign firms (vs. comparable American firms) are more likely to sponsor a PAC.
Level of PAC giving:	Foreign-connected PACs (vs. comparable American PACs) are expected to give in greater amounts.
Explaining the outsized PAC giving by US subsidiaries	
PAC giving scales with:	the size of foreign parent firm
PAC giving reflects:	exposure of foreign parent firm to US policies
Coordination with parent firm:	foreign parent firm engages in lobbying activities
Coordination with lobbyists:	foreign-connected PACs established or controlled by lobbyists
Strategic giving behavior:	foreign-connected PACs give to both Parties and Chambers

heavily impacts foreign firms is international trade. I use measures of the revealed comparative advantage of the foreign firms against the US (proxy for exports to the US), and the number of foreign firms' operations in US FTA partners (proxy for trade with the US), to infer whether foreign-connected PACs controlled by foreign parent firms that are susceptible to US trade policy decisions tend to give more than those with less trade interests.

Finally, if the foreign parent firms of the domestic subsidiaries have strong policy interests in the US, I expect other political channels at the foreign firms' disposal to be actively utilized. Since foreign firms can lobby from abroad, I expect the foreign parents of the domestic subsidiaries with connected PACs to engage in lobbying activities. In addition, if their domestic subsidiaries play a political role in the US on behalf of them, I expect a tight coordination between foreign-connected PACs and lobbyists, suggesting that connections are built to leverage decision making on Capitol Hill. Relatedly, I expect foreign-connected PACs to engage in a strategic giving behavior that maximizes political capture (Barber, 2016). Rather than following certain ideological lines, I expect the PACs to give more equally to both Parties and Chambers so that their favors are easily adopted across ideological lines and bodies of government.

2.4 The Data

I created an original dataset that identifies the PAC giving by American and foreign-owned firms in the US 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 their committee IDs and names. Using these identifiers, I hand collected political data – the total amount of campaign contributions from the corporate PAC to federal candidates during each election cycle, by Party and by Chamber – for each committee based on summary data from the Center for Responsive Politics (CRP). Eventually, among the total 3,539 corporate PAC-election cycle pairs, 328 were dropped: those included in the FEC data catalog but no longer existing or neglected by the CRP, the non-connected PACs, and a group of non-producers such as unions and ideological interest groups.

By pulling up individual Statements of Organization reported to the FEC, I identified the connected organization of each corporate PAC along with its street address. The 3,211 corporate PAC-election cycle pairs were sponsored by 1,636 unique firms over the two election cycles. I matched the political data collected for the corporate PAC-election cycle pairs with firm data of the connected organizations. Since firm-level financial data are 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. After verifying that the operating revenue data from the two datasets were highly correlated (ρ=.97), I took the average of the two revenues if both sources provided information; if not, I used information from either source.[5] I also collected the number of employees as an alternative measure of firm size, which I use as a robustness check in the Appendix for the main models. 6-digit NAICS industry codes of the sponsoring firms were collected and regrouped into sector level controls.[6]

Additionally, I created state controls for the sponsoring firms from their street addresses. This allows me to control for any state specific differences that systematically alter the political behavior of firms based on where they are located. Examples include differences in state regulations, business environment, or characteristics of the state legislatures that affect the likelihood and level of corporate PAC giving.

One of the most important pieces of information collected for this study is a measure of foreign ownership for the sponsoring firms, and subsequently the connected PACs, during each election cycle. 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' binary indicator variable for all corporate PACs, depending on whether a firm was majority American or foreign-owned during the 2014 and 2016 election cycles.

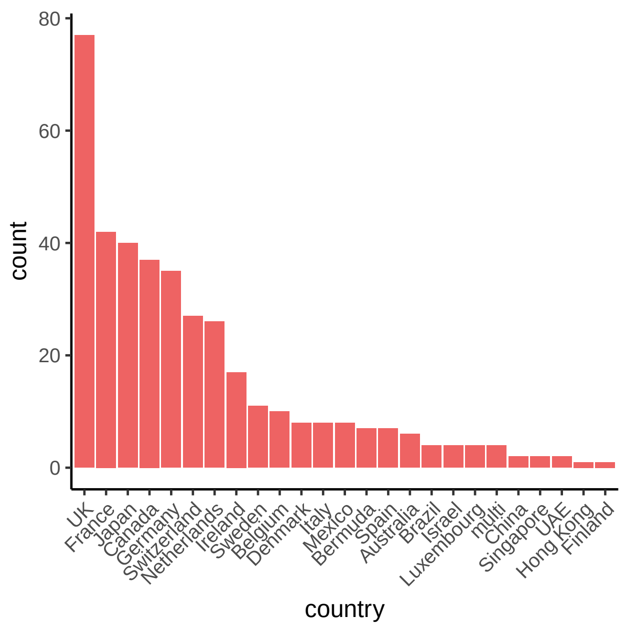
Figure 2.2 presents the top home countries of the foreign-connected PACs. About twenty percent of the foreign-connected PACs are sponsored by British corporations; many are sponsored by firms based in other parts of Europe, Canada, and Japan.[7] Notably, there were no Russian firms with an active corporate PAC during the period. Similarly, there

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

[6] I use the 2-digit NAICS to represent sectors. For the manufacturing sectors, I kept NAICS 31, 32, and 33 separately; NAICS 44-45 (Retail Trade) and 48-49 (Transportation and Warehousing) are bundled together. I exclude NAICS 92 (Public Administration) from the analyses.

[7] 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 2.2: Home countries of US subsidiaries that engaged in federal elections (2014 & 2016 election cycles)



was one corporate PAC sponsored by a Chinese firm which engaged in political giving in both election cycles.[8]

To the best of my knowledge, this paper is the first to propose a theory that explains the motivation for political engagement by US subsidiaries of foreign firms. It is also the first to empirically examine the universe of corporate contributors in the US.

2.5 Empirical Tests and Results

I analyze the PAC giving of US subsidiaries of foreign firms and American firms at two different levels: 1) the *likelihood* of PAC giving by firms and 2) the *level* of campaign contri-

[8] During the 2016 election cycle, Chinese Shineway Group (now WH Group) gave $93,650 to candidates through its US subsidiary, Smithfield Foods. Chinese Haier Group newly established a PAC through its Haier US Appliance Solutions in 2016, but it did not make any contributions during the election cycle. Note that I focus on corporate political giving through corporate PACs only in this paper, arguably the most visible and legal form of political participation by firms in US federal elections. Funds delivered to super PACs or trade associations and gifts made by individuals outside of corporate PACs are not included here. Informal channels are not discussed as well. In that sense, this paper captures the minimum level of foreign-connected political engagement in US federal elections.

butions among corporate sponsored PACs. I begin with a section on firms' likelihood of PAC giving – the extensive margin – below.

2.5.1 Extensive Margin: The Likelihood of PAC Giving

Testing firms' likelihood of political mobilization in the US requires constructing a representative sample of US-based firms from its population. Among all active firms located in the US identified by Orbis, I first constructed a stratified sample of 200,000 US-based firms.[9] Then, I merged this sample with the 1,636 *unique* firms that sponsored a corporate PAC over the two election cycles. Note that I focus my analysis on unique firms since most firms with connected-PACs during the 2014 election cycle continued to make donations through those PACs in the 2016 election cycle. After dropping the 115 firms that overlap with the random sample that I constructed, I had a final sample size of 201,521. For all firms in my final sample, I downloaded measures of their firm size, industry, and street address. Based on the ultimate global owner, I again created a foreign ownership variable for all firms; about 1.5% of the sample were majority foreign-owned.

Regression analysis for the likelihood of PAC giving

I infer the likelihood of PAC giving for the final sample of firms using a conditional logistic regression model. For the binary outcome variable of political giving, I assigned the value 1 to the 1,636 firms that sponsored a corporate PAC during the 2014 and/or 2016 election cycle. The remaining firms were assigned a value 0 since they did not have connected PACs during the period. The likelihood that a firm sponsors a PAC is explained by

[9] I randomly sampled 50,000 firms from the "very large," "large," and "medium" Orbis firm size categories, and another 50,000 "small" firms from each the manufacturing and agriculture sectors (NAICS 11, 21, 31-33) and services sectors (NAICS 22, 23, 42-81). For the regression analyses, I weighted each firm in the sample by the number of firms in the population of each size-sector group divided by the number of total draws accounting for the overlaps (200,000-115=199,885), so that a single firm in my sample would represent multiple firms in the population by a relevant weight that restores the size-sector proportion to the population.

sponsoring firm size (measured in common log transformed operating revenue), foreign ownership, and an interaction term of these two variables.

Since the political foreign investment theory suggests that domestic subsidiaries represent policy interests of their foreign parent firms in the US, I do not expect the PAC giving patterns by domestic subsidiaries to be determined by the sponsoring firm size in the US so much as that of American firms. To reflect this idea, I include an interaction term that allows foreign ownership to moderate the relationship between sponsoring firm size in the US and PAC giving. Finally, I stratify the sample by industry sectors and the states in which firms are located so that I test whether domestic subsidiaries are disproportionately politically active among comparable US-based firms.[10]

Table 2.2 summarizes the result of the conditional logistic regression model. The foreign ownership variable is positive and statistically significant; and this finding corroborates the theoretical prediction that US subsidiaries of foreign firms are expected to be more politically active than similarly sized American firms in terms of their propensity to mobilize. The size of the sponsoring firm in the US has a general positive association with the likelihood of a firm to engage in political giving. The interaction coefficient, however, is roughly -0.9 (the difference in the change in log odds yielded by a tenfold increase in size among US subsidiaries of foreign firms and American firms), suggesting an ratio of odds ratio (foreign over American) of roughly 0.4 ($e^{-0.9}$). In other words, the size of the sponsoring firm in the US has less than half the impact on that firm's likelihood of sponsoring a PAC for US subsidiaries of foreign firms, relative to that of America firms. This relationship is graphically presented in Figure 2.3 with 95% confidence intervals.

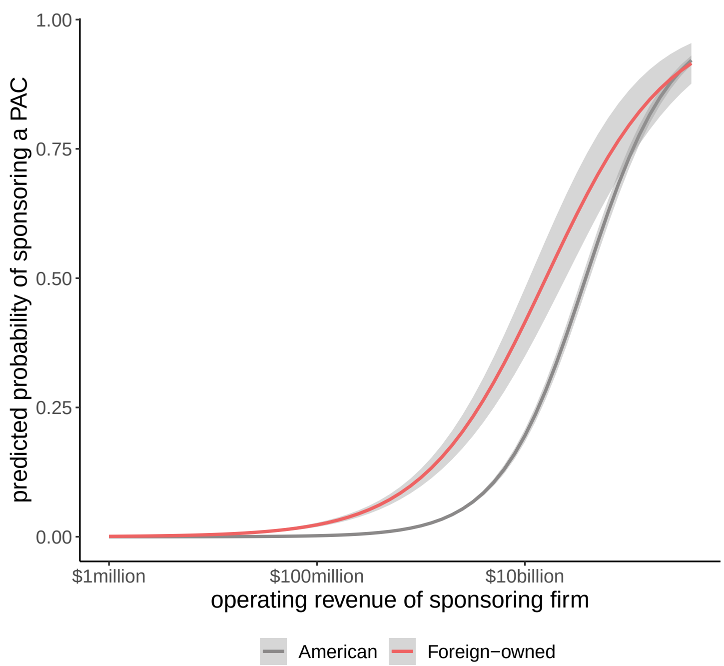
The likelihood of sponsoring a corporate PAC increases with firm size for both Ameri-

[10] In the conditional logistic regression model, the total number of success is fixed with each strata, here the unique combinations of state and industry sector. Note that the strata variables do not contribute to the degrees of freedom. The estimate I get for foreign ownership is an average 'within' effect, as the estimate entirely controls for any tendencies for particular states and industry sectors to have more or less foreign ownership by always comparing the odds of contribution within these strata.

Table 2.2: Extensive margin of political giving

	binary outcome of political giving
foreign ownership	10.03^{***}
	(0.67)
log revenue	2.60^{***}
	(0.03)
foreign ownership·log revenue	-0.93^{***}
	(0.08)
Observations	174,097
Max. Possible R^2	0.15
Note: stratified by industry and state.	$^{*}p<0.05$; $^{**}p<0.01$; $^{***}p<0.001$

Figure 2.3: Predicted probability of political giving by firm size and ownership



can and majority foreign-owned firms. Once large enough to politically mobilize, majority foreign-owned firms have a greater likelihood of sponsoring a corporate PAC for all firm sizes in the sample; however, once firm size is large enough that there is a majority chance of political mobilization, foreign ownership of a firm does not seem to matter as much.

In Appendix A2.8, I present alternative models including a regular logistic regression model with statistical fixed effects and random effects for industry sectors and states. In Appendix A2.9, I present models using the number of employees as an alternative measure of firm size. The relationship between political mobilization, firm size, and foreign ownership are consistent across the alternative model specifications. Overall, foreign ownership of a firm has a positive and statistically significant association with the likelihood of PAC giving in the US.

2.5.2 Intensive Margin: The Level of PAC Giving

Now I discuss firms' PAC giving at the intensive margin – the dollar amount of campaign contributions directed to federal candidates through their corporate sponsored PACs. Note that the unit of analysis changes from unique firms to corporate PAC-election cycle pairs, as it is the PACs that actually raise and deliver funds in each election cycle.[11] I analyze 2,830 corporate PAC-election cycle pairs, after dropping 381 pairs that made zero contributions over the two election cycles.[12]

Regression analysis for the level of PAC giving

I test the dollar amount of campaign contributions for the PAC-election cycle pairs using an ordinary least square regression model. The total amount of (common log transformed) campaign contributions made by a PAC in an election cycle is explained by the size of its sponsoring firm (measured in common log transformed operating revenue), foreign ownership, and an interaction term of the two variables, which allow foreign ownership

[11] Analyzing political giving at the individual PAC level might be a concern if firms tend to divert their political giving through multiple affiliated PACs that share a single limit of campaign contributions. See Appendix A2.15 for a further discussion on why the design of the FECA rule might have been a concern, but actually is not.

[12] Here I drop these PACs from the analysis to focus on non-zero contributions. However, including or excluding the 381 pairs does not change the results. In a two-step hurdle model linking the extensive and intensive margin analyses in Appendix A2.12, I add $1 dollar to the firms that made zero contributions during the 2014 or 2016 election cycles in order to distinguish them from firms that are not connected to any PACs at all. The same relationship holds among variables.

to moderate the relationship between firm size and the level of PAC giving as above. I also include controls for election cycle, industry sector, and state.[13]

Table 2.3 summarizes the results – models (1) and (2) test the relationship among all corporate PAC-election cycle pairs in the data; in models (3) and (4), I conduct sub-sample analyses among corporate PAC-election cycle pairs whose sponsoring firm has at least one global operation, and is thus a multinational firm. The goal of the sub-sample analyses is to make the reference American group even more comparable to the foreign-connected group, in terms of their multinational characteristics.

Again, the foreign ownership variable is positive and statistically significant across all models, corroborating the theoretical prediction that US subsidiaries of foreign firms will engage more intensively in federal elections than comparable American firms. Similar to above, the size of the sponsoring firm in the US has a general positive relationship with the level of PAC giving, but with a negative interaction term. This relationship is visualized in Figure 2.4: the trend lines, representing the relationship between a sponsoring firm's operating revenue and the total amount of campaign contributions by its corporate sponsored PAC in an election cycle, is flatter for foreign-connected PACs compared to that of American PACs.

Finding foreign ownership to have a positive and statistically significant association with corporate political giving at both the extensive and intensive margins is striking. In fact, earlier empirical studies on this topic sample firms from Fortune 500 companies to study the 1987 election cycle, and find foreign-originating firms to be constrained in their political behavior, if not indistinguishable from American firms (Mitchell, Hansen and Jepsen, 1997; Hansen and Mitchell, 2000).[14] However, this sampling method induces an

[13] Note that the operating revenue of sponsoring firms is fixed over the two election cycles. Thus, the data are not strictly in a panel form. In order to address the issue of data dependency, I alternatively run a mixed model controlling for committee IDs in Appendix A2.10. The results are largely identical.

[14] See Averyt (1990), Mitchell (1995), and Rehbein (1995) for more studies on the political engagement of US subsidiaries of foreign firms.

Table 2.3: Intensive margin of political giving

	total contributions in logs			
	(1)	(2)	(3)	(4)
foreign ownership	1.96***	1.73***	2.22***	1.88***
	(0.32)	(0.33)	(0.35)	(0.36)
log revenue	0.30***	0.31***	0.33***	0.33***
	(0.01)	(0.01)	(0.02)	(0.02)
foreign ownership·log revenue	−0.21***	−0.19***	−0.25***	−0.21***
	(0.04)	(0.04)	(0.04)	(0.04)
Election Cycle FE	Yes	Yes	Yes	Yes
Industry Sector FE	Yes	Yes	Yes	Yes
State FE	No	Yes	No	Yes
Observations	2,608	2,604	1,603	1,603
Adjusted R^2	0.20	0.23	0.17	0.20
Note:				*p<0.05; **p<0.01; ***p<0.001

Figure 2.4: Dollar amount of political giving by firm size and ownership

important bias because Fortune 500 companies in the US will capture the largest American firms and domestically incorporated foreign firms, but not the majority of subsidiaries that have a smaller presence in the US but are owned by very large foreign multinationals as big as Fortune 500.[15]

In fact, Fortune 500 companies in terms of the 2014 or 2016 year-end revenues far surpass the point where the trend lines of American and foreign-owned firms intersect in Figure 2.4. Consequently, if I were to simulate earlier work to analyze the association between foreign ownership and corporate political activities, I would be considering only 26% of all corporate givers at the very right end.[16] Instead, using population data of all corporate givers, I uncover two important findings. First, the majority of firms that politically mobilize are not always very large in the US – whether American or foreign-owned. In addition, data suggests that many of the US subsidiaries of foreign firms make outsized political donations to federal elections relative to American firms.

In Appendix A2.12, I aggregate the connected PACs' political giving over two election cycles and assign the sum to each unique sponsoring firm in order to conduct a two-step hurdle model that links the extensive and intensive margin analyses at the firm level. The first step of the model tests firms' likelihood of sponsoring a PAC (using binomial logistic regression) based on the constructed sample, and the second step tests the total amount of campaign contributions made by these firms over the two election cycles (using a Poisson count model). I test this model to address any concerns that the population of firms that sponsor PACs might be systematically different from the representative sample of US firms, and thus, bias the intensive margin analysis. However, the patterns of political giving at both the extensive and intensive margin remain the same in a two-step hurdle model; the intensive margin analysis does not appear to suffer from selection.

[15] For instance, US subsidiaries of Airbus, Nestle, Bayer, Mitsubishi, etc. will all be neglected in the analysis when sampling only among largest firms based in the US.

[16] The two revenue curves intersect where firm size measured in common 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 (year end revenue of 2014), was McGraw Hill Financial, at a much larger operating revenue of 5.19 billion USD; the smallest Fortune 500 in 2017 (year end revenue of 2016), was ABM Industries, at 5.15 billion USD.

2.5.3 Explaining the Outsized Political Giving by US Subsidiaries

Here, I conduct a series of empirical tests that collectively explain the outsized PAC giving by US subsidiaries of foreign firms. I demonstrate that firm characteristics and interests of the foreign parent firms are associated with the pattern of PAC giving by the subsidiaries. I also provide evidence that foreign parents of the subsidiaries in fact have strong interests US policies, and that the domestic subsidiaries give in ways that supposedly maximize political influence in Capitol Hill. These findings lend support for the political foreign investment theory.

Political intensity scales with the size of foreign parent firm

The literature suggests firm size to be a measure of firms' policy interests and their capacity to engage in political activities. Earlier, I have established the association between the dollar amount of campaign contributions by foreign-connected PACs and the size of the sponsoring US subsidiaries, which was in a smaller magnitude than the association between political giving by American PACs and the size of their sponsoring American firms. If domestic subsidiaries of foreign firms engage politically only to represent interests of their operations in the US, the size of the foreign parent should be orthogonal to foreign-connected PAC giving. However, if the subsidiaries represent the policy interests of their foreign parent firms, the size of the foreign parent should be associated with foreign-connected PAC giving.

In Table 2.4, I present models explaining the total amount of PAC giving by foreign-connected PACs with measures of sizes of the sponsoring domestic subsidiaries and their foreign parents. Both firm sizes are associated with the amount of foreign-connected PAC giving. In the last model, I normalize both the dollar amount of campaign contributions as well as firm sizes from 0 to 1, so that I can compare the effect sizes of the subsidiaries and parents.

Table 2.4: Political giving intensity explained by firm size

	total contributions in logs		norm.contributions
	(1)	(2)	(3)
subsidiary log revenue	0.09^{*}	0.10^{*}	
	(0.04)	(0.04)	
parent log revenue		0.17^{***}	
		(0.05)	
subsidiary norm.revenue			0.17^{*}
			(0.07)
parent norm.revenue			0.33^{***}
			(0.09)
Election Cycle FE	Yes	Yes	Yes
Industry Sector FE	Yes	Yes	Yes
State FE	Yes	Yes	Yes
Observations	335	319	319
Adjusted R^2	0.27	0.30	0.30
Note:			$^{*}p<0.05$; $^{**}p<0.01$; $^{***}p<0.001$

As shown, the coefficient size of the normalized revenue of the foreign parent is about twice as big than that of the US subsidiary; the statistical significance is also much stronger. In other words, firm size of the foreign parents is a better explanatory variable of the political giving by foreign-connected PACs than firm size of the US subsidiaries. This is consistent with the political foreign investment theory, suggesting that the subsidiaries may go beyond representing their interests in a host country, and represent policy interests of the foreign parent firms.[17]

Political intensity reflected by foreign parent firms' exposure to US policies

Is the outsized PAC giving by domestic subsidiaries of foreign firms associated with US policies that affect their foreign parent firms? Presumably, foreign parents with strong trade interests are heavily impacted by US decisions on various trade-related measures

[17] In addition, I show in Appendix A2.1 that the size of the headquarters significantly mediates the relationship between foreign ownership and the total amount of political giving by US subsidiaries.

and policies. Therefore, if domestic subsidiaries engage in federal elections on behalf of their foreign parent firms, I expect the subsidiaries representing foreign parents with strong trade interests in the US to give in greater amounts than those with less interests.

In order to test this idea, I collect information about the revealed comparative advantages of the foreign parents' products against the US from 2013 to 2016, from the the World Bank Group's World Integrated Trade Solution, as a proxy for the foreign parents' exports to the US. I also collect the total number of subsidiaries the foreign parents have in US FTA partners, as another measure of the firms' trade interests with the US.

Models (1) and (2) of Table 2.5 test the association between the total amount of foreign-connected PAC giving and revealed comparative advantage of the foreign parents among the non-services sectors. The more foreign parents have a relative comparative advantage against American firms, and thus have a greater chance of exporting to the US, the dollar amount of campaign contributions made by foreign-connected PACs tend to increase. Model (3) shows that the amount of PAC giving scales with the number of global subsidiaries foreign parents have in US FTA partners.[18] Overall, the findings confirm that domestic subsidiaries of foreign parent firms that are impacted by US policies are the ones that give more to federal candidates.

More evidence in support of the political foreign investment theory

The political foreign investment theory argues that domestic subsidiaries of foreign firms play an important political role on behalf of their foreign parents that cannot themselves participate in US federal elections. Here I present several pieces of additional evidence that collectively strengthen the theory. I first examine whether the foreign parent firms actually have strong interests in domestic politics and what those might be; I also

[18] I exclude parent firm size from the model because the number of subsidiaries in FTA partners has a relatively high correlation with the size of the foreign parent. The coefficient of the number of subsidiaries is no longer significant ($p>0.05$) once I include the measure of parent firm size.

Table 2.5: Political giving intensity explained by exposure to US policies

	total contributions in logs		
	(1)	(2)	(3)
subsidiary log revenue	0.16**	0.14**	0.08*
	(0.05)	(0.05)	(0.04)
parent log revenue		0.27***	
		(0.08)	
relative comparative advantage	0.38**	0.28*	
	(0.13)	(0.12)	
subsidiaries in FTA partners			0.19***
			(0.06)
Election Cycle FE	Yes	Yes	Yes
Industry Sector FE	Yes	Yes	Yes
State FE	Yes	Yes	Yes
Observations	171	169	333
Adjusted R^2	0.33	0.40	0.29
Note:			*p<0.05; **p<0.01; ***p<0.001

gather evidence that the US subsidiaries make political donations with a strong intention to influence policy making.

If foreign firms have strong political interests in the US as I theorize, I expect to find them actively engage in other means of political influence at their disposal. I gather information on whether the subsidiaries in this paper or their foreign parents ever lobbied since 1998, and if so, what issue areas they have lobbied on. I find that more than 97% of the foreign firms lobbied the US government, actively on issue areas such as trade/tariff and foreign relations.[19] Given the frequency of foreign firms seeking issue-specific access to US policymakers, it seems reasonable for the parents to have a longer term US-based operation that can play a political role on their behalf. Most likely, political giving by

[19] Across all industries, about 60% of the foreign firms reported at least one lobbying activity concerning trade issues (e.g., support for US trade agreements, market access to third countries, trade remedy actions, intellectual property). Meanwhile, about 30% of all foreign firms reported to have lobbied on foreign relations, such as monitoring bilateral diplomatic/trade relations. I also found foreign firms lobbying against legislative reforms that might restrict political giving by US subsidiaries of foreign firms.

foreign-connected PACs and lobbying activities of the foreign firms are coordinated – otherwise, the political efforts of the US subsidiaries would be counter-productive.[20]

I also collect evidence that the foreign-connected PACs coordinate their activities with lobbyists. Since the Honest Leadership and Open Government Act of 2007, any lobbyist/registrant PAC – a PAC established or controlled by a lobbyist/registrant – must indicate its status through its Statement of Organization. The lobbyist of such PAC is responsible for all of the committee's expenditures and designates where the money goes, as opposed to providing basic legal and compliance services. Based on the idea that firms with in-house lobbyists will be the most politically engaged (Lenhard, 2007; Drutman, 2015), I test how the likelihood of foreign-connected PACs compare to that of American PACs in being lobbyist/registrant PACs. As presented in Appendix Table A2.13, the likelihood of being a lobbyist/registrant PAC in fact has a positive and statistically significant association with foreign ownership. This result is suggestive of US subsidiaries of foreign firms having strong interests in domestic policy making.

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 expect the subsidiaries to give to both Parties in a relatively balanced manner so that their favors are well-delivered to both sides, rather than following certain ideological lines. The US subsidiaries would also give relatively equally to both Chambers so that bills can move quickly through Congress when the foreign parent firms demand action. I create two dependent variables to test the idea: 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. 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 Appendix Table A2.14,

[20] See Chapter 3 for a detailed analysis of the lobbying activities of foreign multinationals in the US.

foreign ownership is negatively associated with both measures, indicating that foreign-connected PACs engage in an even more balanced giving behavior compared to American PACs. These results collectively provide additional support to the political foreign investment theory that suggests domestic subsidiaries serve as local political agents of their foreign parents.

2.5.4 Ruling Out Alternative Mechanisms

One might imagine that foreign-connected firms must compensate 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.

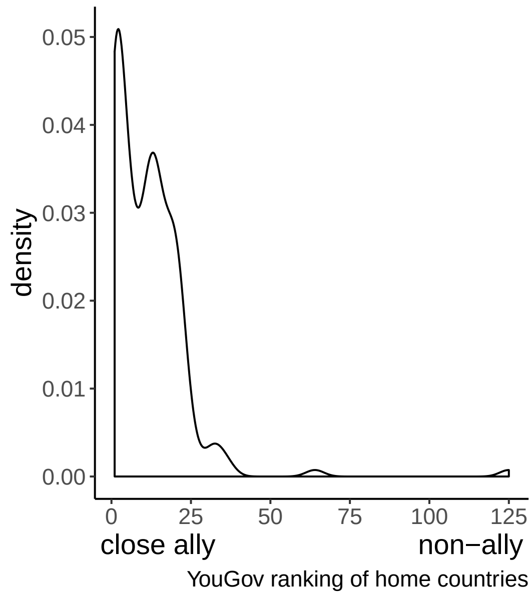
Liability of foreignness

US subsidiaries of foreign firms may face a liability due to their foreignness in political participation (Zaheer, 1995; Moeller et al., 2013). Legislators might be wary about accepting campaign contributions from foreign-connected firms in fear that this would tarnish their reputation. Then, domestic subsidiaries might have to pay a premium to be represented. If this were the case, this premium should be highest when firms are from non-allies of the US. 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). [21]

When I plot the home countries of the foreign corporate givers in my data, in Figure

[21] 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.

Figure 2.5: Density of America's allies and non-allies among foreign-connected givers



2.5, I find that the bulk of domestic subsidiaries that give campaign contributions through corporate PACs originate from close allies to start with. This means that the patterns I find in the main analyses are not driven by non-allies; rather, most of the foreign corporate giving in the US originate from close allies. Consistent with this, the (common log transformed) YouGov ally ranking does not have a statistically significant association with the total amount of giving, as shown in Table 2.6. In fact, the direction of the relationship does not support the hypothesis that countries perceived to be less friendly give more than closer countries in order to compensate for their foreignness. This finding conflicts with the robust pattern of foreign ownership of a US-based firm having a positive association with PAC giving.

Political naivete

Domestic subsidiaries of foreign firms may try to outbid native firms for representation because they are relatively new to the US political system and are expected to pay some

Table 2.6: Political giving intensity & perceived closeness of home country

	total contributions in logs	
	(1)	(2)
subsidiary log revenue	0.08^{*}	0.09^{*}
	(0.04)	(0.04)
parent log revenue	0.15^{**}	0.15^{**}
	(0.05)	(0.05)
alliance score	-0.03	-0.04
	(0.08)	(0.08)
Election Cycle FE	Yes	Yes
Industry Sector FE	Yes	Yes
State FE	No	Yes
Observations	308	308
Adjusted R^2	0.11	0.31
Note:	*p<0.05; **p<0.01; ***p<0.001	

sort of entry fee to be acquainted with politicians. If so, this premium should go down as experience is accrued; and newer foreign-connected PACs should give more relative to older ones. To test this idea, I recorded when the foreign-connected PACs were first established, as a measure of experience. I retrieved this information by finding the initial year that foreign-connected PACs reported a Statement of Organization to the FEC. I also collected the number of years that the current US subsidiary of a foreign firm has been controlling the PAC, since some of the subsidiaries succeeded existing PACs as a result of cross-border M&A, and have been owners of the PAC for only part of its history.

In Table 2.7, 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 more experienced foreign-connected PACs tend to give more to federal candidates. I find similar results when I regress the amount of contributions against the number of years that US subsidiaries have controlled the corporate PACs. Thus, the lack of experience does not explain foreign-connected PACs' intensive political giving.

Table 2.7: Political giving intensity & political naivete

	total contributions in logs	
	(1)	(2)
subsidiary log revenue	0.07	0.08^{*}
	(0.03)	(0.04)
parent log revenue	0.10^{*}	0.12^{*}
	(0.05)	(0.05)
PAC age	0.02^{***}	0.02^{***}
	(0.00)	(0.00)
Election Cycle FE	Yes	Yes
Industry Sector FE	Yes	Yes
State FE	No	Yes
Observations	318	318
Adjusted R^2	0.18	0.36
Note:	$^{*}p<0.05$; $^{**}p<0.01$; $^{***}p<0.001$	

2.6 Conclusion

There has been a misconception that domestically incorporated foreign firms are indistinguishable from American firms. Based on extensive data collection that allowed me to distinguish the two groups based on ultimate firm ownership, I analyze the universe of recent corporate PAC giving – by American and foreign-owned, large and small firms – and find US subsidiaries of foreign firms to be a distinctive interest group. In fact, US subsidiaries of foreign firms tend to engage in federal elections more extensively and intensively. Among firms of similar size and parallel business interests, US subsidiaries of foreign firms are significantly more likely to sponsor a corporate PAC, and they tend to give a vastly larger amount of campaign contributions than American firms. Indeed, majority foreign-owned firms in the US accounted for more than 11% of total corporate campaign contributions while contributing only 5% to private sector GDP in 2015.

I propose a theoretical framework that explains the patterns and motives of political giving by these US subsidiaries of foreign firms. Foreign firms have strong policy interests in the US because they must ensure that domestic policies are aligned in ways that promote (and not interfere with) their global operations, and if relevant, help facilitate businesses of their domestic subsidiaries.[22] Since domestically incorporated foreign firms have the equal opportunity to engage in federal elections, foreign firms may create or utilize existing domestic subsidiaries so that their interests are represented in the US through the subsidiaries. The observed outsized political giving by US subsidiaries of foreign firms, and a variety of supporting evidence illustrated in the paper, corroborate this political foreign investment theory.

Meanwhile, I rule out alternative explanations for the greater intensity of foreign political participation in the US, such as a 'foreignness premium' due to a liability of foreignness or political naivete. Overall, the empirical findings suggest that foreign direct investment in the US in part serves as an investment in political influence. It is notable that the US is particularly an important site for global businesses, weighing the relevance of the political foreign investment theory. Nevertheless, whether the theoretical framework generalizes to other countries is worth exploring.

The main point of this paper is to highlight that foreign participation in domestic politics is occurring, and in fact more than what was previously thought. This raises many questions that are beyond the scope of the current paper. The presence of foreign multinationals is 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 ques-

[22] A natural extension of this work is to examine lobbying activities of these foreign firms and to understand how they allocate resources on international issues (presumably concerning mainly the global operations of a foreign firm) vs. domestic issues (concerning mainly the domestic subsidiaries) depending on firm characteristics.

tions, 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 across borders.

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2.7 Appendix: Summary Statistics

Here I provide summary statistics for measures of firm size (operating revenue in the main text; number of employees in the Appendix for robustness checks) used for the empirical tests. In the analyses, I use log transformed measures, which significantly reduces the variation in the distribution of firm sizes between American and foreign-owned firms.

Table A2.1: Constructed sample of US-based firms (N=200,000)

firm size:	min	mean	median	max	sd
Operating revenue (USD)					
American	0	21,564,768	750,000	109,699,000,000	677,070,397
Foreign-owned	0	234,722,902	7,500,000	30,000,000,000	1,525,330,330
Operating revenue (USD) in common logs					
American	0	6.16	5.88	11.04	0.65
Foreign-owend	0	7.03	6.88	10.48	1.11
Number of employees					
American	0	78	7	323,000	1,766
Foreign-owned	1	822	35	125,000	5,716

Table A2.2: Population of corporate contributors (N=1,636)

firm size:	min	mean	median	max	sd
Operating Revenue (USD)					
American	44,000	8,846,434,186	1,728,722,000	476,294,000,000	25,566,522,787
Foreign-owned	28,000	2,875,246,770	880,672,000	49,439,462,000	5,136,492,731
Operating Revenue (USD) in common logs					
American	4.64	8.96	9.24	11.68	1.23
Foreign-owned	4.45	8.77	8.94	10.69	1.11
Number of employees					
American	1	22,926	3,500	2,200,000	82,032
Foreign-owned	1	72,229	3,500	3,027,265	429,110

Table A2.3: Final sample (N=201,521)

firm size:	min	mean	median	max	sd
Operating Revenue (USD)					
American	0	76, 367, 864	750, 000	476, 294, 000, 000	2, 278, 734, 758
Foreign-owned	0	790, 860, 560	17, 500, 000	49, 439, 462, 000	2, 912, 438, 812
Operating Revenue (USD) in common logs					
American	0	6.18	5.88	11.68	0.69
Foreign-owned	0	7.42	7.24	10.69	1.32
Number of Employees					
American	0	207	7	2, 200, 000	6, 884
Foreign-owned	1	6, 509	75	3, 027, 265	122, 866

Notes: The 115 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 campaign contributions of all corporate PACs in the 2014 and 2016 election cycles. Again, I use log transformed measures in the main analyses, which significantly reduces the variation in the distribution of firm sizes between American and foreign-owned firms.

Table A2.4: Population of corporate contributors, 2013-2014 (N=1,422 PACs)

2014 campaign contributions:	min	mean	median	max	sd
Political giving (USD)					
Domestic	50	134,066	40,000	2,985,103	283,844
Foreign-owned	500	107,380	47,000	1,478,750	165,913
Political giving (USD) in common logs					
Domestic	1.71	4.54	4.60	6.47	0.79
Foreign-owned	2.70	4.60	4.67	6.17	0.69

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 A2.5: Population of corporate contributors, 2015-2016 (N=1,408 PACs)

2016 campaign contributions:	min	mean	median	max	sd
Political giving (USD)					
Domestic	100	141,671	43,156	2,861,364	289,725
Foreign-owned	500	112,207	56,100	1,455,490	168,426
Political giving (USD) in common logs					
Domestic	2.00	4.57	4.64	6.46	0.79
Foreign-owned	2.70	4.64	4.75	6.16	0.68

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 A2.6: 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 A2.7: 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)

2.8 Appendix: Additional Models

Table A2.8: Alternative tests of the extensive margin of political giving

	firm sponsors a PAC or not (0/1)			
	logistic		*generalized linear mixed-effects*	
	(1)	(2)	(3)	(4)
foreign ownership	7.41^{***}	8.79^{***}	7.43^{***}	8.70^{***}
	(0.79)	(0.78)	(0.52)	(0.66)
log revenue	2.41^{***}	2.58^{***}	2.42^{***}	2.57^{***}
	(0.02)	(0.03)	(0.02)	(0.02)
foreign ownership·log revenue	-0.65^{***}	-0.82^{***}	-0.65^{***}	-0.81^{***}
	(0.09)	(0.09)	(0.06)	(0.08)
Industry Sector FE	Yes	Yes		
Industry Sector RE			Yes	Yes
State FE	No	Yes		
State RE			No	Yes
Observations	174,504	174,097	174,504	174,097
AIC	14,191	13,333	14,263	13,452
Note:			*p<0.05; **p<0.01; ***p<0.001	

Table A2.9: Extensive margin of political giving (number of employees as measure of firm size)

	firm sponsors a PAC or not (0/1)			
	logistic		*generalized linear mixed-effects*	
	(1)	(2)	(3)	(4)
foreign ownership	3.98^{***}	4.04^{***}	3.98^{***}	4.02^{***}
	(0.44)	(0.45)	(0.45)	(0.42)
log employees	2.45^{***}	2.60^{***}	2.45^{***}	2.58^{***}
	(0.03)	(0.03)	(0.03)	(0.03)
foreign ownership·log employees	-1.01^{***}	-1.06^{***}	-1.00^{***}	-1.05^{***}
	(0.13)	(0.14)	(0.14)	(0.13)
Industry Sector FE	Yes	Yes		
Industry Sector RE			Yes	Yes
State FE	No	Yes		
State RE			No	Yes
Observations	162,048	161,857	162,048	161,857
AIC	12,019	11,669	12,101	11,813
Note:				*p<0.05; **p<0.01; ***p<0.001

Table A2.10: Alternative tests of the intensive margin of political giving

	log amount of contributions by PAC ($)			
	all givers		*multinationals only*	
	(1)	(2)	(3)	(4)
foreign ownership	1.76^{***}	1.69^{***}	2.00^{***}	1.98^{***}
	(0.40)	(0.40)	(0.44)	(0.44)
log revenue	0.30^{***}	0.31^{***}	0.33^{***}	0.33^{***}
	(0.02)	(0.02)	(0.03)	(0.03)
foreign ownership·log revenue	-0.19^{***}	-0.18^{***}	-0.22^{***}	-0.22^{***}
	(0.05)	(0.05)	(0.05)	(0.05)
Committee RE	Yes	Yes	Yes	Yes
Industry Sector RE	Yes	Yes	Yes	Yes
State RE	No	Yes	No	Yes
Observations	2,608	2,604	1,603	1,603
AIC	4,041	4,022	2,397	2,395

Note: $^{*}p<0.05$; $^{**}p<0.01$; $^{***}p<0.001$

Table A2.11: Intensive margin of political giving (number of employees as measure of firm size)

	log amount of contributions by PAC ($)			
	all givers		*multinationals only*	
	(1)	(2)	(3)	(4)
foreign ownership	1.34***	1.27***	1.68***	1.83***
	(0.20)	(0.20)	(0.21)	(0.22)
log employees	0.38***	0.38***	0.49***	0.49***
	(0.02)	(0.02)	(0.03)	(0.03)
foreign ownership·log employees	−0.38***	−0.38***	−0.49***	−0.54***
	(0.06)	(0.06)	(0.06)	(0.06)
Industry Sector FE	Yes	Yes	Yes	Yes
State FE	No	Yes	No	Yes
Observations	1,972	1,972	1,201	1,201
Adjusted R^2	0.25	0.27	0.24	0.26
Note:				*p<0.05; **p<0.01; ***p<0.001

Table A2.12: Two-step hurdle model for political giving

	total dollar contributions	I(total dollar contributions >0)
	hurdle (second-step)	*logistic (first-step)*
	(1)	(2)
foreign ownership	7.30^{***}	7.41^{***}
	(0.00)	(0.79)
log revenue	0.42^{***}	1.05^{***}
	(0.00)	(0.01)
foreign ownership·log revenue	-0.34^{***}	-0.28^{***}
	(0.00)	(0.04)
Industry Sector FE	Yes	Yes
Observations	174,504	174,504
Note:		*p<0.05; **p<0.01; ***p<0.001

Here I log transform operating revenue using natural logs (cf. common logs in the rest of the paper) since the 'pscl' hurdle model R package log transforms the dependent variable using natural logs.

Table A2.13: Likelihood of being a lobbyist/registrant PAC

	binary outcome of being a lobbyist/registrant PAC			
	(1)	(2)	(3)	(4)
foreign ownership	1.26^{***}	0.96^{***}	1.46^{***}	1.19^{***}
	(0.22)	(0.21)	(0.25)	(0.25)
log revenue	0.15^{***}	0.16^{***}	0.17^{***}	0.17^{***}
	(0.01)	(0.01)	(0.02)	(0.01)
foreign ownership·log revenue	-0.12^{***}	-0.09^{***}	-0.14^{***}	-0.12^{***}
	(0.02)	(0.02)	(0.03)	(0.03)
Election Cycle FE	Yes	Yes	Yes	Yes
Industry Sector FE	Yes	Yes	Yes	Yes
State FE	No	Yes	No	Yes
Observations	2,500	2,496	1,554	1,554
AIC	3,236	3,034	2,087	1,997
Note:				*p<0.05; **p<0.01; ***p<0.001

Table A2.14: Relative giving to each Party and Chamber

	Republican/Total		House/Total	
	(1)	(2)	(3)	(4)
foreign ownership	-0.06^{***}	-0.02	-0.01	-0.03^{**}
	(0.02)	(0.01)	(0.01)	(0.01)
logrev revenue	-0.00	-0.00	0.01^{*}	0.00
	(0.01)	(0.00)	(0.00)	(0.00)
Election Cycle FE	Yes	Yes	Yes	Yes
Industry Sector FE	Yes	Yes	Yes	Yes
State FE	No	Yes	No	Yes
Observations	2,588	2,585	2,592	2,588
Adjusted R^2	0.06	0.23	0.02	0.07
Note:		*p<0.1; **p<0.05; ***p<0.01		

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.

2.9 Appendix: Artifact of the FECA Rule?

As opposed to American firms, which can establish/sponsor a corporate 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, a PAC established by a parent firm is "affiliated" with a corporate PAC established by its subsidiary, and they share a single limit on the contributions they can make. Thus, 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 might 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 A2.15, 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 the interaction term remains consistent with the main analyses in Table 2.3 in the main text. Also note that only for 2.5% of the entire data, firms gave through both headquarters PACs and subsidiary PACs.

Table A2.15: FECA treatment of affiliated organizations

	total contributions in logs	
	(1)	(2)
foreign ownership	1.59***	1.58***
	(0.37)	(0.37)
log revenue (aggregated by GUO)	0.33***	0.32***
	(0.01)	(0.01)
foreign ownership·log revenue	−0.18***	−0.18***
	(0.04)	(0.04)
both parent and subsidiary gives	0.46***	
	(0.09)	
only subsidiary gives	0.15**	
	(0.05)	
Election Cycle FE	Yes	Yes
Industry Sector FE	Yes	Yes
No. Subsidiary FE	No	Yes
Observations	2,410	2,350
Adjusted R^2	0.24	0.22
Note:	*p<0.05; **p<0.01; ***p<0.001	

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 that engage in political giving. Therefore, I confidently reject the speculation that the political intensity of foreign-connected PACs might be an artifact of the FECA rule.

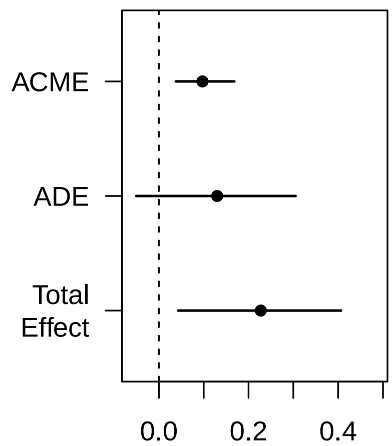
2.10 Appendix: Mediation Analysis

Here I demonstrate that the size of the Global Ultimate Owner 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 analyze 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 subsidiary'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: size of GUO $\sim$ foreign ownership + size of subsidiary + industry sector; outcome model: total contributions $\sim$ size of GUO+ foreign ownership + size of subsidiary + 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).

Figure A2.1 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 parents, measured in (common log transformed) operating revenue of the headquarters, is positively associated with the firms' level of (common log transformed) political donations, 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 giving was transmitted through the size of the GUO.

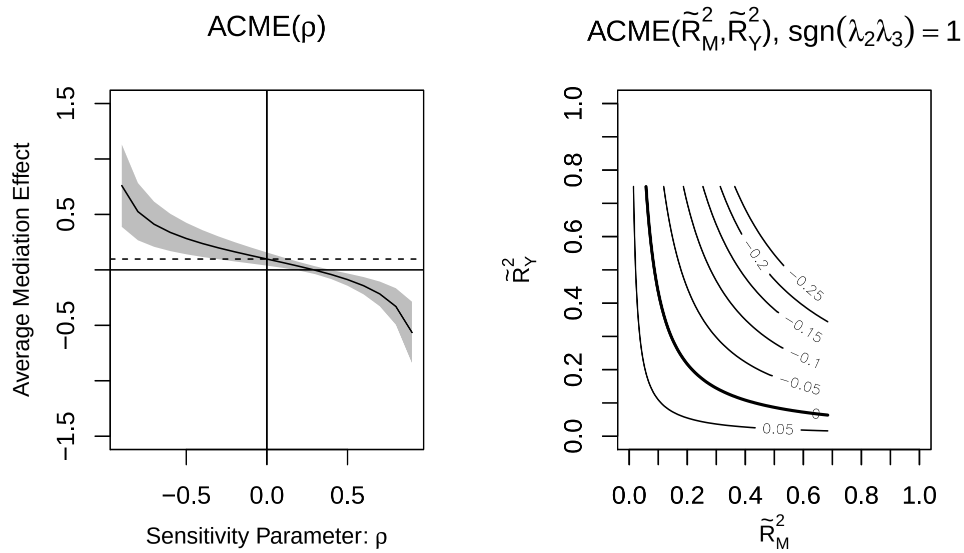
The sensitivity analysis, presented in Figure A2.2, suggests that the positive mediation effect of the size of GUO for explaining the effect of foreign ownership on the level of political donation is moderately robust to possible unobserved pre-treatment confounding. The findings suggest that foreign ownership is associated with a greater GUO size, leading to more political donations.

Figure A2.1: Estimated ACME using the size of GUO as mediator



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 by US-based subsidiaries.

Figure A2.2: Sensitivity analysis for using the 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 $(\widetilde{R^2_Y}, \widetilde{R^2_M})$, the proportions of the total variance in the outcome and mediator variables, respectively, that will be explained by a hypothetical unobserved pre-treatment confounder.

Chapter 3

Foreign Lobbying Through Domestic Subsidiaries

Abstract

Do foreign firms shape US public policy? I examine this question by documenting foreign lobbying through US-based subsidiaries. I identify ownership of all firms that filed with the domestic Lobbying Disclosure Act, and find that about 20% of US corporate lobbying spending represented foreign clients in 2015-2016. 90% of these clients were US subsidiaries with majority foreign ownership. Supporting the idea that these subsidiaries act as domestic political agents for their foreign based headquarters, I find foreign-owned firms to be significantly associated with more lobbying than American multinationals, controlling for size, industry, and other means of political influence. These subsidiaries also focus their lobbying efforts on issue areas that critically impact their foreign parents. The findings suggest that the Foreign Agents Registration Act captures only part of foreign lobbying influence, and that foreign direct investment serves as a means to buy political influence in America.

3.1 Introduction

> Because Hogan Lovell's lobbying was done through ZTE's American entity, its lobbyists were only required to file disclosures with Congress that revealed relatively little about their activities. By contrast, companies representing foreign clients are required to complete more detailed filings with the Justice Department under the Foreign Agents Registration Act. ("Faced with Crippling Sanctions, ZTE Loaded Up on Lobbyists," The New York Times, 2018)

Corporate attempts to shape government policy in ways favorable to the firm are pervasive in America (Hillman, Keim and Schuler, 2004). In fact, the reported amount of money firms spend on lobbying outweighs the amount taxpayers spend to fund all congressional staff in the House and Senate together (Drutman, 2015). However, despite the rich literature on corporate America and its lobbying,[1] little is known about foreign firm lobbying in the US. Part of the reason is that the literature on foreign lobbying so far has mainly focused on the Foreign Agents Registration Act (FARA),[2] when in fact the foreign private sector can lobby through the domestic lobbying law, the Lobbying Disclosure Act (LDA). Not only has foreign lobbying under the LDA been overlooked, but such activities were further obscured because connection to foreign entities is rarely disclosed under the LDA. Despite high-profile examples of foreign companies influencing US lawmakers (e.g., Chinese telecommunications companies ZTE or Huawei) through their US entities, and those practices' evident threat to American democracy, there has been no systematic studies of foreign-connected lobbying under the LDA.

This paper answers some of the fundamental questions relating to foreign lobbying

[1] See, e.g., Goldstein (1999); Hall and Deardorff (2006); LaPira, Thomas and Baumgartner (2014); Kang (2016); Kim (2017); Hertel-Fernandez (2017); Bombardini and Trebbi (2019).

[2] See, e.g., Jobst (2002); Gawande, Krishna and Robbins (2006); Kee, Olarreaga and Silva (2007); Gawande, Maloney and Montes Rojas (2009); Montes-Rojas (2018).

in the US. How much of corporate lobbying filed with the LDA is actually representing foreign clients? More specifically, to what extent are foreign firms seeking to influence US policymaking through their US subsidiaries and what are their interests?

One way to view domestic subsidiaries of foreign firms is to see them just like any other American firm. Their principal place of business is the US and their interests are as 'American' as other domestic firms. This is indeed how domestic subsidiaries of foreign firms are treated under the LDA. Another approach, however, would be to acknowledge that domestic subsidiaries are potentially useful political assets for their foreign parents. US subsidiaries of foreign firms can categorically avoid the onerous FARA and (whether intended or not) obscure foreign ownership under the LDA. This provides strong incentives for foreign firms to lobby through their US subsidiaries under the LDA.

This latter approach leads to the following empirical implications. I first expect to identify much foreign-connected lobbying under the LDA through US subsidiaries. Further, I expect the subsidiaries to engage in lobbying activities disproportionate to their economic presence in the US market. This is because the domestic subsidiaries may be representing the complete set of policy interests (and thus the greater need for lobbying) of their much larger foreign parents. Therefore, relative to comparable American firms, and among those that are multinational, I expect domestic subsidiaries of foreign firms to lobby more often and spend more on lobbying in the US. In addition, I expect these subsidiaries to lobby on a wider array of issue areas and to focus their lobbying efforts on issue areas of critical importance to their foreign parents.

To examine these predictions, I assembled an original dataset merging the federal lobbying activities of all producing firms that lobbied under the LDA during 2015-2016 matched with firm features such as size, industry, location, and global ultimate ownership. I used LobbyView (Kim, 2018) as the basis for identifying firms that lobbied during the period and their activities. Then, I used Orbis to identify the country codes of the firms'

Global Ultimate Owners (with 50.01% or more ownership), which allowed me to separate American clients from foreign-connected clients based on majority ownership. Perhaps the central contribution of this work is to use original registration reports to identify the principal place of business of the foreign clients, and to further distinguish foreign clients incorporated in the US from those located abroad. Through this process, I identified all majority foreign-owned domestic subsidiaries filing with the LDA. I also incorporated data on whether the firms sponsored a Political Action Committee (PAC) during the 2016 election cycle, using previous research on campaign contributions (Chapter 2).

From the data, I first find that US subsidiaries of foreign firms in fact account for 90% of all foreign-connected lobbying spending reported under the LDA. Only 10% of foreign commercial lobbying represents foreign firms based abroad – whether they have subsidiaries in the US or not. This suggests that much of the lobbying by US subsidiaries is likely to represent interests of the many foreign multinational corporations with high stakes in US policies. To better understand their behavior, I analyze two patterns of lobbying by the US subsidiaries of foreign multinationals: the decision to lobby and intensity of lobbying. Using similarly sized American firms as a reference group, I find foreign-ownership of domestic firms to have a positive and significant association with both the likelihood of engaging in lobbying activities and the amount of spending. This holds true among a sub-sample of multinational firms, and controlling for industry, location, and other means of political influence (PAC activities). Overall, majority foreign-owned domestic subsidiaries account for about 17% of total corporate lobbying spending in the US (and nearly 22% of corporate lobbying spending by multinational firms in the US), disproportionate to their contributions to the US private sector GDP, close to 5%.

I find multiple evidence points for the most plausible explanation for this relatively intensive lobbying by the US subsidiaries – that they represent the interests of their foreign multinational parents. First, I demonstrate that US subsidiaries of foreign firms generally lobby on a broader array of issue areas than comparable American multinationals. I also find that the subsidiaries spend disproportionately on issue areas of interest to their foreign parents – collectively as a group and also at the firm level. For instance, domestic subsidiaries of foreign firms spend 8% of their total lobbying expenses on trade issues, compared to American firms, which spend 5%. Likewise, foreign ownership of US-based firms has a positive and significant association with both the amount of lobbying spending and the count of lobbying reports filed regarding trade/tariff and foreign relations issues after controlling for firm characteristics. Also, US subsidiaries of foreign firms lobby intensively on industry-specific issue codes where a lot of foreign investment into the US is concentrated, and where scrutiny for investment is high. Examples include the pharmaceutical, telecommunications, transportation, and defense industries.

This paper therefore contributes to the growing body of firm-level theories of international political economy (Bombardini, 2008; Kim, 2017; Osgood et al., 2017) by investigating how foreign firms engage in US policy making processes in an integrated global economy. For the first time, I systematically identify and analyze foreign-connected lobbying under the LDA, contributing to the literature on corporate political activities (Hillman, Keim and Schuler, 2004; Lux, Crook and Woehr, 2011; Bombardini and Trebbi, 2019), and foreign lobbying specifically. I also build on the literature on interest group politics more generally and demonstrate how current policymaking processes in the US may actually allow foreign intervention through the growing presence of domestically incorporated foreign firms.

3.2 Theory of Foreign Lobbying through Domestic Subsidiaries

Lobbying is an integral part of lawmaking process in the United States. Firms, as active participants, communicate their corporate priorities to policymakers through lobbyists that facilitate information flows between the private and public sectors (Hall and Deardorff, 2006). Since the enactment of the Lobbying Disclosure Act, which aimed to bring increased accountability to federal lobbying practices in the US, corporate lobbying has been relatively well documented and studied. However, a big unresolved question is to what extent foreign-connected lobbying takes place under the LDA, and how lobbying by foreign-connected firms compare to that of American firms.

In the following, I explain the general framework for foreign lobbying in the US and point to gaps in the literature that suggest that foreign corporate lobbying in the US has been only partially understood. This calls for a need to redirect our focus to foreign lobbying through domestic subsidiaries under the LDA.

3.2.1 Foreign Corporate Lobbying in the US

Foreign principals – a foreign government or foreign political party; a foreign person; or a combination of persons organized under the law or having its principal place of business in a foreign country – can legally hire 'foreign agents' to influence the US government as long as these agents register under the Foreign Agents Registration Act. With the enactment of the Lobbying Disclosure Act in 1995, FARA was amended to exempt foreign *commercial* entities from registering and disclosing their activities under FARA. Under this exemption, lobbyists for foreign firms, whose US advocacy is not directed or conducted on behalf of a foreign government, were allowed to disclose their work in the same manner as domestic firms under the LDA. This reform was significant for foreign firms and lobbyists representing them, because it is prudent for them to avail themselves of this exemption to the FARA registration, which is an onerous and stigmatized process.[3] The LDA has been

[3] The financial disclosure requirements are considerably more extensive under FARA than under the LDA. Under the LDA , a lobbyist only has to file a semi-annual report that contains his/her name, a short description of the general issue area on behalf of the firm for which they are lobbying, and a good faith estimate of the total amount of income received and expenses on behalf of the client. FARA, on the other

preferred to the extent that foreign firms would voluntarily register under the LDA rather than take the risk of subjecting themselves to FARA, even though firms are not required to disclose their activities if they do not meet a minimum expenditure threshold.

And yet, the literature on foreign lobbying (Jobst, 2002; Gawande, Krishna and Robbins, 2006; Kee, Olarreaga and Silva, 2007; Gawande, Maloney and Montes Rojas, 2009; Montes-Rojas, 2018) and related data collection efforts (e.g., Foreign Lobby Watch by the Center for Responsive Politics and the Foreign Lobbyist Influence Tracker, a joint project of ProPublica and the Sunlight Foundation) so far have been overwhelmingly focused on FARA. As a result, our understanding of foreign *corporate* lobbying has been inadequate and partial. Moreover, the practice of foreign lobbying through domestic subsidiaries has been completely overlooked, as even before the LDA, domestic subsidiaries of foreign firms never fell under the purview of FARA, because they are "organized under or created by the laws of the United States or of any State or other place subject to the jurisdiction of the United States" (U.S.C. §611(b)(2)).

With the intense attention drawn to FARA as part of Mueller's investigation into Russian interference in the 2016 election, there has been Congressional movement to revise the statute significantly, including reversing the 1995 decision to remove the private sector from FARA and place it instead under the LDA.[4] More than ever it is important to understand foreign lobbying under domestic laws. In this paper, I examine all lobbying reports filed under the LDA in 2015-2016 and identify corporate clients with majority foreign ownership. I further distinguish whether the clients are domestically incorporated

hand, requires disclosure of more than just lobbying, including advisory services and public relations, regular updates of activities to the Department of Justice, detailed lists of activities, an itemized account of expenditures, and copies of all oral or written agreements. Further, violations of the LDA for failure to file or for fraudulent filings are punishable by civil penalties as opposed to FARA's criminal penalties.

[4] See , e.g., "Manafort case puts new scrutiny on foreign lobbying law's shortcomings" (LaFraniere, 2018) or "How Mueller revived a law that protects us all against foreign money" (Teachout, 2019). Senator Grassley (R-IA) has been pushing for repeal of the LDA exemption. Explicitly, US subsidiaries of foreign headquartered businesses would no longer be able to register under the LDA.

foreign firms with majority foreign ownership or foreign firms based abroad. The paper thus sheds light on how much of foreign lobbying has been underestimated by overlooking the LDA channel, and highlights the political role that US subsidiaries of foreign firms may play under the current system.

3.2.2 Lobbying by Domestic Subsidiaries of Foreign Firms

Recall that all foreign commercial entities can lobby and disclose their activities under the domestic Lobbying Disclosure Act since 1995.[5] This includes domestic subsidiaries of foreign multinationals (that were already exempted from FARA) but also the foreign parents themselves based abroad. Therefore, US subsidiaries of foreign multinationals always have a choice of hiring lobbyists to represent either their own interests or the collective interests of the entire corporate group. For instance, Texas-incorporated ZTE USA, a wholly owned subsidiary of Shenzen-based Chinese ZTE Corp, could lobby on issue areas that affect them as a domestic entity (knowing that the parent ZTE Corp could hire separate lobbyists if it wanted to), or ZTE USA could seek advocacy on issue areas that affect both its US operations and those of its Chinese parent. Therefore, there are two ways to view the lobbying activities of domestic subsidiaries of foreign firms. The first view captures the premise of the LDA regarding domestic subsidiaries of foreign firms; the latter is unique to the argument of this paper.

Theory 1: Subsidiaries represent their own interests

One theory is that domestic subsidiaries engage in lobbying activities on their own behalf (only). Their principal place of business is the US and their interests are as 'American' as any domestic firms. Then the subsidiaries' lobbying patterns are expected to be determined by ordinary features documented in the corporate political activities literature con-

[5] Compare this with the Federal Election Campaign Act that bans foreign firms from making political donations, unless they are domestically incorporated (Powell, 1996).

cerning domestic firms such as size, government regulations, sales to the government, and location (Wright, 1989; Mitchell, Hansen and Jepsen, 1997; Ansolabehere, De Figueiredo and Snyder Jr., 2003; Drope and Hansen, 2006). Controlling for these determinants, foreign ownership should not be a factor that distinguishes the lobbying activities of US subsidiaries from the rest of corporate America. Moreover, the lobbying patterns of US subsidiaries of foreign firms should not be significantly different from those of American multinational corporations.

Theory 2: Subsidiaries represent their parents' interests

Another theory is that foreign multinationals lobby *through* their domestic subsidiaries in the US, and therefore, domestic subsidiaries lobby on behalf of their US operations and foreign parents. Then the US subsidiaries' lobbying patterns are no longer expected to be indistinguishable from American firms. Now the US subsidiaries represent interests of their *much larger* parent firms, which are also *multinational*. Recent studies find that multinational corporations are both economically and politically the most influential firms in today's global economy (Rodrik, 2018; Kim and Milner, 2019). With their concentrated economic resources, multinationals can easily lobby for their preferred policies and are capable of internalizing the benefits of successful political action (Johns, Pelc and Wellhausen, 2019). Domestic subsidiaries are thus expected to feature distinct patterns of lobbying, which are characteristic of their multinational, and much larger foreign parents.

The two competing views lead to different empirical implications for the impact of foreign ownership on firms' quantity (decision to lobby and intensity of lobbying) and quality (scope and issue selection) of lobbying as below.

Decision to lobby & intensity of lobbying The literature finds firm size to be an important determinant of corporate political engagement. Large firms tend to have more policy interests and the ability to engage in political activities. Therefore, if domestic subsidiaries lobby on behalf of the policy interests of their US operations only (Theory 1), their lobbying activities will tend to increase proportionate to the size of their US establishments. Importantly, this tendency would be in par with other American firms. Similarly sized American firms and US subsidiaries of foreign firms should show similar lobbying patterns, controlling for other determinants of firm lobbying such as industry and location. However, if very large foreign multinationals lobby through their domestic subsidiaries (Theory 2), the subsidiaries must lobby on behalf of the complete set of policy interests of their US and global operations. Then the lobbying patterns of domestic subsidiaries are not necessarily determined by the size of the US establishments. In fact, some subsidiaries might be among the firms that lobby the most, even though they do not necessarily have the largest presence in the US.

In order to test these theoretical expectations, I test two patterns of corporate lobbying – at the extensive margin, the likelihood of a firm to engage in lobbying, and at the intensive margin, how much a firm spends on lobbying once they engage in lobbying. Since I am interested in the role of foreign-ownership of domestic firms, I limit my analysis to corporate clients located in the US. If consistent with Theory 1, there shouldn't be a significant difference between foreign-owned and American firms in their decision to lobby and intensity of lobbying. The relationship between firm size and these lobbying patterns should also be indistinguishable between the two groups of firms. On the other hand, if consistent with Theory 2, I expect majority foreign-owned domestic subsidiaries to be associated with a greater likelihood of lobbying, and also greater spending than similarly sized American firms (in general and among multinational firms). Foreign-ownership is therefore expected to moderate the relationship between firms' size in the US and their quantity of lobbying.

Scope of lobbying & issue selection of lobbying Another way to analyze the lobbying pattern of the two groups is to look at the subject matter that they lobby on. In lobbying reports, registrants select (as many as necessary) categories from a list of 79 issue codes to reflect all actual and anticipated lobbying activities. I therefore kept track of the issue codes that were lobbied on behalf of the US subsidiaries of foreign firms and compared them with the reported issue codes for American clients at the firm level. If foreign-ownership does not distinguish domestic subsidiaries from American firms (Theory 1), those located in the same industry and location should lobby alike in terms of the issue codes that they care about. The scope of lobbying should be similar and as well as the focus of lobbying among the two group of firms. However, if domestic subsidiaries of foreign firms represent the complete set of policy interests of the US and foreign operations (Theory 2), I expect the subsidiaries to lobby on a greater variety of issue codes than comparable American firms and to lobby on issue areas that clearly benefit the foreign parents.

For instance, multinational firms are known to be the strongest supporters of trade liberalization, due to the concentrated gains from trade (Osgood et al., 2017; Huneeus and Kim, 2018). Therefore the US subsidiaries are expected to lobby intensively on trade issues, and foreign relations, more generally, so that the foreign parents' businesses with the US (or third countries through the US) are good.[6] Meanwhile, America's robust intellectual property (IP) laws have often put strain on US relations with trading partners; and the foreign multinationals' IP must be separately registered in the US for protection in the domestic market. Therefore the difficulties faced by foreign firms in creating regulatory coherency may cause the subsidiaries to lobby intensively on copyright/patent/trademark issues (Smith, 2001; Faunce, 2006). Finally, if domestic subsidiaries were to represent their

[6] Unfortunately, the typology of the general issue codes makes it difficult to make predictions on which codes might be more relevant to subsidiaries vs. parents or even domestic vs. international firms. For instance TRD (trade) encompasses both "domestic & foreign trade" issues; there are separate codes for GOV (government issues) and FOR (foreign relations); meanwhile, there are separate codes for MAN (manufacturing), CHM (chemicals/chemicals industry), and PHA (pharmacy) even though one could argue that chemicals fall under the manufacturing sector and pharmaceutical manufacturing falls under chemicals. However, it is safe to assume that TRD (trade) or TAR (miscellaneous tariff bill) would be a critical issue code for domestic subsidiaries that represent their foreign multinationals.

foreign parents' interests, their lobbying efforts would be focused on issue areas which affect foreign investment in the US. Specifically, I expect to find concentrated lobbying on industry-specific issue codes where a lot of foreign investment occurs (e.g., pharmacy, transportation), or where foreign investment is highly regulated by the Committee on Foreign Investment in the United States (e.g., telecommunications, defense).[7]

3.3 The Data

I assembled a dataset merging the lobbying activities of all firms that lobbied during 2015-2016 (2016 election cycle) matched with firm and industry characteristics. As the basis of corporate lobbying data, I used LobbyView (Kim, 2018), a firm-level lobbying & congressional bills database based on original lobbying reports.[8] In order to investigate firm lobbying by issue areas, I first queried lobbying data at the report level that contains the name of the represented client and its registrant, the total lobbying income/expenses, and issue codes reflecting the general issue areas in which the registrant engaged in lobbying on behalf of the client. I divided the total lobbying spending in each report by the number of general issue codes indicated in it to derive how much was spent on each issue area. Then, I aggregated the lobbying amount for all issue codes over the two years for each client, so as to change the unit of analysis to the firm level.

One of the biggest advantages of using LobbyView was its readily available Orbis firm identifiers, Bureau Van Dijik IDs (Bvd IDs), assigned to each client. Using this as my basis, I made substantial improvements to the Bvd IDs in ways suitable for this paper. For instance, here it is critical to distinguish foreign clients based abroad from foreign-connected

[7] See recent developments surrounding the Foreign Investment Risk Review Modernization Act (FIRRMA) to expand jurisdiction of the CFIUS to conduct national security reviews of a wide-range of transactions involving foreign investment in US technology, infrastructure and data businesses.

[8] The data were downloaded in March 2020 using LobbyView's application program interface (API).

clients based in the US. Therefore, I revisited all the Bvd IDs with foreign country codes by reading through original registration reports made on behalf of the clients. Based on the reported street address of the 'principal place of business' of each of these clients, I updated the Bvd IDs for cases in which the US establishments of foreign owners engaged in lobbying. I ended up changing 36% of the foreign clients' Bvd IDs. In addition, I substantially updated the LobbyView Bvd IDs that were outdated. For the empirical tests, I eliminated a large amount of non-firm producers – government districts and agencies, associations, nonprofit organizations included in LobbyView – based on names and industry classifications.

Using the updated Bvd IDs of the clients, I then downloaded and matched measures of firm and industry features with firms' lobbying data. These include firm size (operating revenue), 4-digit core NAICS codes, location, and Global Ultimate Owner (GUO; with at least 50.01% ownership).[9] I used the country code of the identified GUOs to create my main variable of interest – foreign ownership, with 1 standing for majority foreign-owned domestic firms and 0 for American firms. Since firm ownership could vary over time, I used secondary ownership information based on internet research and foreign ownership information (when available) in the lobbying registration reports around 2015-2016 to make sure that the foreign ownership variable is accurate. In a sub-sample analysis, I check whether American firms (themselves or their GUOs) have at least one subsidiary outside of the US to identify American multinationals as a closer reference group to the US subsidiaries of foreign firms.

Finally, I merge the above with original data on corporate Political Action Committee (PAC) sponsorship and the amount of campaign contributions given by these PACs to federal candidates during the 2016 election cycle (Chapter 2). This information serves two

[9] For the measure of firm size, I use the average operating revenue of firms in 2015 and 2016, and impute the latest year value available if missing. However, Orbis still lacks financial data for a lot of the smaller or private firms. Thus, I used a secondary resource, D&B Hoovers, to collect firm revenue for these firms.

purposes. First, this controls for an alternative means of political influence by all firms – helping eliminate the possibility of substitution between lobbying and campaign finance. Secondly, in another sub-sample analysis, using only US subsidiaries of foreign firms, I compare the magnitude of lobbying activities between domestic subsidiaries with foreign-connected PACs and those without, to highlight the political role of domestic subsidiaries in the US.

Overall, the various interests of 5768 firms were disclosed during 2015-2016 under the Lobbying Disclosure Act. Among these firms, 5148 were located in the US, consisting of 4657 American and 491 majority foreign-owned firms, which are the focus of this study.[10] The US subsidiaries of foreign firms, while consisting only 9.5% in number of all firms that lobbied in the US, accounted for about 17% ($750 million over the two years) of the total corporate lobbying spending by 'US' clients. This amount is greater than eight times the spending by foreign firms located abroad. In fact, most of the foreign-connected lobbying activities (nearly 90%) under the LDA are practiced in the US and not from overseas.

3.4 Empirical Tests and Results

In order to understand how actively US subsidiaries of foreign firms engage in lobbying activities in the US, I use American firms with similar features – size, industry, location – as a reference group and test their political engagement at two different levels: 1) the *likelihood* of engaging in lobbying activities, and 2) the *level* of income/expenses relating to their lobbying activities in 2015 and 2016.

[10] 588 foreign-based firms and 31 foreign firms with US ultimate owners are excluded from the analysis.

3.4.1 Extensive Margin: The Likelihood of Lobbying

Testing the firms' likelihood of lobbying requires constructing a representative sample of US firms from its population. I use Orbis to draw a random sample of 100,000 goods-producing firms (2-digit NAICS 11, 21, 31-33) and of 100,000 services firms (2-digit NAICS 22, 23, 42-81).[11] The 5148 US-based clients were added to this sample. After dropping the 347 firms that overlap with the random sample that I constructed, I had a final sample of 204,802 firms. For all firms in the final sample, I downloaded firm and industry information from Orbis. Again, a foreign ownership variable was created for all firms based on the country codes of their GUO.

Regression Analysis for the Likelihood of Corporate Lobbying

I infer the likelihood of corporate lobbying for the final sample of firms using a conditional logistic regression model.[12] For the binary outcome variable of corporate lobbying, I assigned 1 to all firms that lobbied in 2015-2016 and 0 to the remaining. The likelihood that a firm engages in lobbying activities is explained by the size of its US operation (measured in common log transformed operating revenue), foreign ownership, and an interaction term of these two variables. The interaction term represents the idea that US subsidiaries of foreign firms are less likely to reflect the size of the US establishment, as they are expected to lobby on behalf of their foreign parent firms as well. Finally I stratify the sample by industry sectors and the states in which the firms are located. This allows me to control for other determinants of lobbying, while testing whether foreign-owned firms engage in lobbying activities disproportionate to similarly sized American firms.

[11] This sample was drawn in March 2020, and is original to this paper. Half of the firms are drawn from the 'very large,' 'large,' and 'medium' firm size categories, and the other half are drawn from 'small' firms.

[12] In the analysis, I weighted each firm in the sample by the number of actual firms in the population of each subgroup. The value 1 was assigned to all firms that engaged in lobbying activities. Meanwhile, the actual number of firms in the different categories (goods-producing vs. services and small vs. non-small) was divided by the number of draws incorporating the overlaps, and assigned to the other firms.

Table 3.1: Extensive margin of lobbying

	binary outcome of lobbying	
	(1)	(2)
foreign ownership	7.88^{***}	7.86^{***}
	(0.30)	(0.32)
log revenue	2.10^{***}	2.01^{***}
	(0.01)	(0.01)
foreign ownership·log revenue	-0.75^{***}	-0.76^{***}
	(0.04)	(0.04)
Industry strata	Yes	Yes
State strata	Yes	Yes
PAC strata	No	Yes
Observations	203,759	203,759
Max. Possible R^2	0.40	0.36
Note:	*p<0.05; **p<0.01; ***p<0.001	

Table 3.1 summarizes the result of the conditional logistic regression model. The foreign ownership variable is positive and statistically significant. Firm size also has a general positive association with the likelihood of corporate lobbying for both American and foreign-owned firms. However, as indicated by the negative interaction term, US subsidiaries of foreign firms' chance of lobbying has a smaller association with firm size in the US. As the foreign ownership coefficient is much larger than the interaction coefficient, the models suggest that majority foreign-owned firms in the US are more likely to engage in lobbying compared to similarly sized American firms.

This relationship is presented in Figure 3.1 where I plot the predicted probability of lobbying with 95% confidence intervals. For most firm sizes, the predicted probability of lobbying is significantly greater for foreign-owned firms. At the 25th quantile of firm size, foreign-owned firms are predicted to have a fortyfold greater likelihood of lobbying than American firms; by thirtyfold at the 50th quantile (at about $1 million in operating revenue); and by twentyfold at the 75th quantile. Note that 99.7% of firms in the sample generate less than $186 million in annual operating revenue; and the largest foreign-owned firm

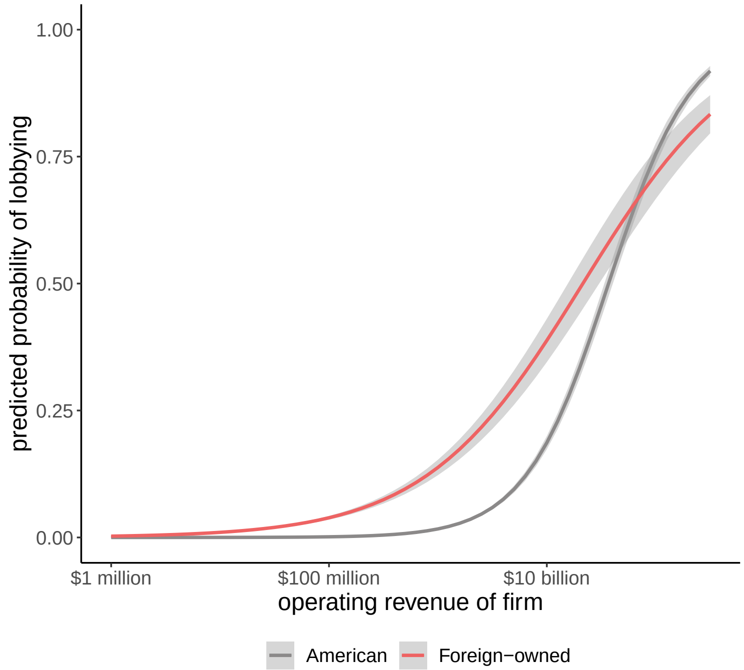


Figure 3.1: Predicted probability of lobbying by firm size and ownership

in the sample ($56 billion in operating revenue) is smaller than the hypothetical threshold ($80 billion in operating revenue) by which American firms start having a significantly greater chance of lobbying.

In model (2) of Table 3.1, I further stratify the sample based on whether firms in the sample sponsored a corporate PAC during the 2016 election cycle or not. As shown, the relationship between the likelihood of corporate lobbying, firm size, and foreign ownership remains the same even after controlling for the firm's engagement in alternative means of political activities. This rules out an alternative explanation that the the greater likelihood of lobbying may be due to lacking other means of influencing policies.[13]

[13] Rather, firms that sponsored a PAC during the election cycle actually were associated with a greater likelihood of lobbying in those years. See Appendix Table A3.1 for an alternative conditional logistic regression model which includes an indicator variable for PAC giving in the model rather than stratifying the sample based on it.

3.4.2 Intensive Margin: The Level of Lobbying Spending

Here I examine the dollar amount of spending relating to corporate lobbying activities during 2015-2016. I use 'lobbying spending' either to refer to the lobbying *income* that outside registrants make from their corporate clients or to the lobbying *expenses* accrued to the clients from paying in-house lobbyists. Having established that foreign-owned firms in the US are generally more likely to lobby than comparable American firms, I now test among the firms that lobbied – at the intensive margin – whether foreign ownership is associated with more lobbying spending.

Regression Analysis for the Total Amount of Corporate Lobbying Spending

I test the dollar amount of lobbying spending using an ordinary least square regression model with fixed effects. The total amount of (common log transformed) lobbying spending is again regressed against the size of the firm (measured in common log transformed operating revenue), foreign ownership, and an interaction term of the two, which allows foreign ownership to moderate the relationship between corporate lobbying spending and firm size as before. Similar to above, I include industry sector and state fixed effects.

Models (1) to (2) of Table 3.2 examine the relationship between corporate lobbying spending, foreign ownership, and firm size among all firms that lobbied in 2015-2016. Foreign ownership is again positive and statistically significant across all models. The size of the US-based firms also has a strong positive association with the amount of lobbying spending, but less so in degree for the US subsidiaries of foreign firms. These patterns are visualized in Figure 3.2 which show the significantly different slopes that American and foreign-owned firms have for firm size and lobbying spending. The red line that summarizes the relationship for foreign-owned firms is significantly flatter and higher than the grey line representing American firms. Overall, US subsidiaries of foreign firms tend to spend more on lobbying than similarly sized American firms. For instance, at the

Table 3.2: Intensive margin of lobbying

	total lobbying spending in logs			
	all firms		multinational firms	
	(1)	(2)	(3)	(4)
foreign ownership	2.35***	2.17***	1.84**	1.28*
	(0.62)	(0.60)	(0.65)	(0.62)
log revenue	0.49***	0.35***	0.48***	0.27***
	(0.02)	(0.02)	(0.04)	(0.04)
foreign ownership·log revenue	−0.24**	−0.23**	−0.21**	−0.15*
	(0.08)	(0.07)	(0.08)	(0.07)
log PAC contributions		0.27***		0.27***
		(0.02)		(0.02)
Industry FE	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes
Observations	4,932	4,932	1,577	1,577
Adjusted R^2	0.13	0.16	0.12	0.21
Note:			*p<0.05; **p<0.01; ***p<0.001	

25th quantile of firm size, foreign-owned firms are predicted to spend about 9 times more than American firms; 3.5 times more at the 50th quantile (at about $20 million in operating revenue); and 83% more at the 75th quantile.

In models (3) and (4) of Table 3.2, I conduct a sub-sample analysis among multinational firms only, including all US subsidiaries of foreign firms and American firms that are either multinational themselves or are owned by another American multinational corporation. The purpose is to make the reference American group even more similar to the US subsidiaries of foreign firms and thus rule out the possibility that the findings in (1) and (2) are simply due to the multinational characteristics of the domestic subsidiaries. As shown, among multinational corporations, foreign-ownership still has a positive and significant association with lobbying spending. This finding strongly suggests that the US subsidiaries, unlike American firms, may lobby on behalf of their parents.

Finally, note that the above relationships hold when controlling for PAC activities. In models (2) and (4) I include the (common log transformed) dollar amount of PAC contri-

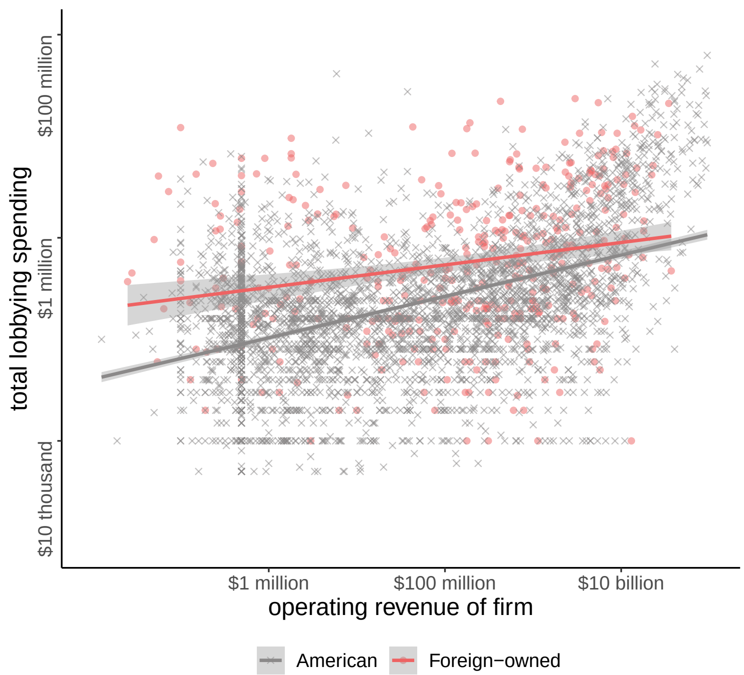


Figure 3.2: Dollar amount of lobbying spending by firm size and ownership

bution made by the firms. As shown, firms that gave more to federal candidates through their corporate PACs during the period were also associated with a greater amount of lobbying spending.

In Appendix A3.2, I conduct a two-step hurdle model that links the extensive and intensive margin analyses. The first zero-count process of the model examines firms' likelihood of lobbying (using a binary logistic regression model) based on the final sample used in this paper; the second positive-count process examines the amount of lobbying spending made by these firms (using a negative binomial model). The results of the two-step model are consistent with those in Tables 3.1 and 3.2. This rules out the odds that the intensive margin results are biased, driven by the possibility that firms that chose to engage in lobbying are significantly different from others in the final sample.

Table 3.3: Variety of lobbying issue areas

	Unique issue areas lobbied			
	all firms		multinational firms	
	(1)	(2)	(3)	(4)
foreign ownership	0.25^{**}	0.21^{**}	0.53^{***}	0.42^{***}
	(0.08)	(0.07)	(0.10)	(0.10)
log revenue	0.08^{***}	0.05^{***}	0.12^{***}	0.07^{***}
	(0.00)	(0.00)	(0.01)	(0.01)
foreign ownership·log revenue	-0.02^{*}	-0.02^{*}	-0.06^{***}	-0.05^{***}
	(0.01)	(0.01)	(0.01)	(0.01)
log PAC contributions		0.05^{***}		0.05^{***}
		(0.00)		(0.00)
Industry FE	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes
Observations	4,932	4,932	1,577	1,577
Adjusted R^2	0.18	0.25	0.21	0.34
Note:		$^{*}p<0.05$; $^{**}p<0.01$; $^{***}p<0.001$		

3.4.3 Lobbying Issue Areas

Earlier I posited that the scope of lobbying by US subsidiaries of foreign firms may be larger than that of American firms, as the subsidiaries may need to represent the interests of their own operations in the US and also interests of their foreign parents. In Table 3.3, I find evidence that foreign ownership of a US-based firm has a significant positive association with the total number of unique issue codes it lobbied on in 2015-2016. This is true among similarly sized multinational firms located in the same industry and state, as shown in models (3) and (4). It is plausible that US subsidiaries lobby on a significantly greater number of unique issue areas, relative to comparable American firms, due to their need to lobby on behalf of the broad policy interests of their foreign multinational parents.

Now which issue areas are the US subsidiaries particularly interested in, and how does their lobbying focus differ from American firms? If foreign multinationals lobby through their domestic subsidiaries, I expect that the US subsidiaries as a group lobby intensively on international issue codes such as trade/tariff and foreign relations; I also expect the subsidiaries to lobby intensively on certain industry-specific issue codes where FDI into the US is particularly concentrated or regulated. As a first step for understanding these questions, I computed how much American and foreign-owned firms spent on all 79 issue codes in 2015-2016.[14]

Figures 3.3 and 3.4 represent word clouds based on the total amount of lobbying spending by American and foreign-owned firms on each issue code. Effectively, the issue code text sizes are determined based on the dollar spending on each issue code relative to all others. This way, I can compare the importance of each issue code among American and foreign-owned firms in a normalized way. For both American firms and foreign-owned firms, TAX (taxation/internal revenue code) is the issue code with highest lobbying spending. Meanwhile, TRD (trade), HCR (health issues), TEC (telecommunications) are some issue codes where US subsidiaries of foreign firms noticeably concentrate on, compared to American firms. In Appendix Figures A3.1 and A3.2, I present parallel word clouds of American multinational firms and the US subsidiaries of foreign firms. The differences in the emphasis on certain issue codes between this sub-group of American multinationals and US subsidiaries of foreign firms appear to be even greater.

I highlight the comparison in Figure 3.5 where I present the differences in percentage spending on issue codes by the two firm groups (foreign-owned vs. American). The figure lists the top 10 issue codes on which foreign-owned firms report higher percentage spending than American firms. The dumbbell corresponding to each lobbying issue code indicates the percentage spending by all US subsidiaries of foreign firms (on the right end) and American firms (on the left end).

As expected, trade is the issue area where the percentage spending difference is the greatest between US subsidiaries of foreign firms and American firms – US subsidiaries

[14] See Appendix Table A3.5 for the complete list of lobbying issue codes filed under the LDA.

Figure 3.3: Word cloud of American firms

Figure 3.4: Word cloud of foreign-owned firms

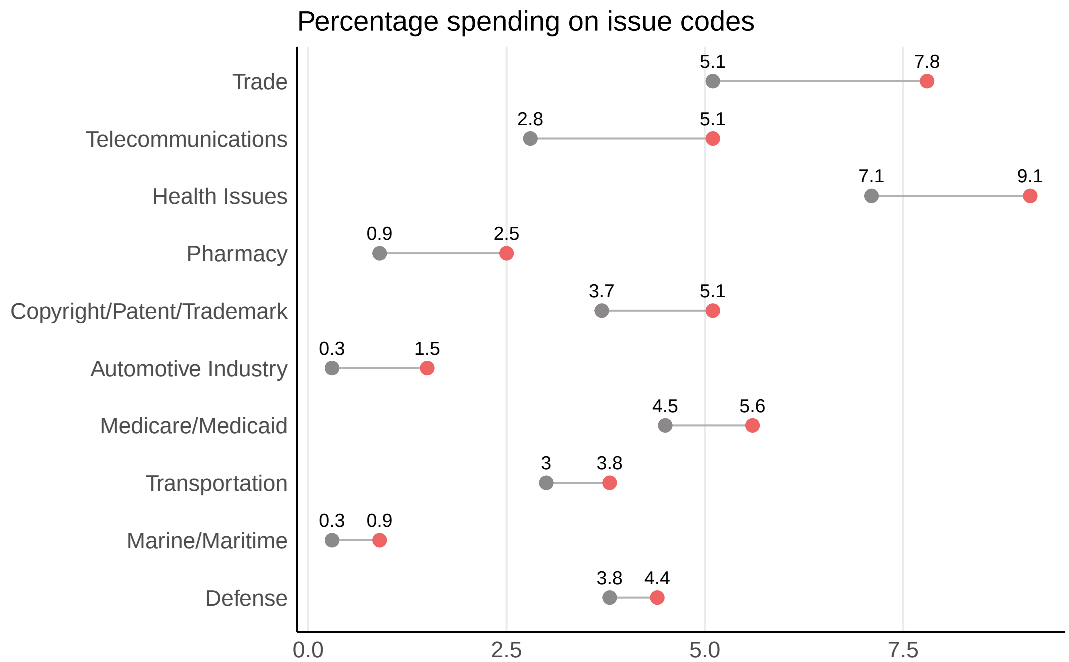


Figure 3.5: Top 10 issue codes on which foreign-owned firms report higher percentage spending

devoted about 8% of their total lobbying spending on trade issues compared to 5% by American firms.[15] This finding also holds at the individual firm level. In Appendix Table A3.3, I show that foreign ownership of US-based multinational firms has a positive significant association with both firm lobbying spending and the count of lobbying reports on trade and tariff issues.

Meanwhile, I do not find foreign relations to be an issue code where US subsidiaries of foreign firms, as a group, particularly concentrate their efforts under the LDA. Both US subsidiaries of foreign firms and American firms allocated about 1% of their total lobbying spending on the foreign relations issue code. It is also expected that foreign clients' foreign relations concerns would be filed with the FARA through non-commercial foreign agents like government agencies and parties. However at the firm level, controlling for size and other characteristics, I do find foreign-ownership to have a positive significant relationship

[15] Similarly, US subsidiaries of foreign firms spent 0.6% on TAR (miscellaneous tariff bill) whereas American firms spent 0.2%.

with the amount of lobbying spending on foreign relations issues and the count of reports regarding them (see Appendix Table A3.4) among US-based multinationals.

Among industry-specific issue codes, health issues, pharmacy, and Medicaid/Medicare are where US subsidiaries focus much of their lobbying efforts. These are the exact areas where foreign direct investment in the US (FDIUS) is concentrated. According to the Bureau of Economic Analysis, the single 4-digit NAICS industry code with the largest amount of FDI into the US (14.2% of all FDIUS, 78% of FDIUS in chemicals, and 35% of FDIUS in the manufacturing sector in 2016) is 3254, pharmaceutical and medicine manufacturing. Rich anecdotal evidence talks to how the multinational pharmaceutical companies' pricing and sales are significantly impacted by domestic policy and regulations, and the foreign multinationals' need for lobbying.[16] Meanwhile, NAICS codes with the second largest FDI into the US are motor vehicle manufacturing (3361), motor vehicle body and trailer manufacturing (3362), and motor vehicle parts manufacturing (3363), together consisting 78% of investment in transportation equipment. Percentage lobbying spending in these areas (automotive industry and transportation each ranked 6th and 8th in Figure 3.5) are also greater among US subsidiaries of foreign firms.

The domestic subsidiaries' lobbying emphasis on telecommunications is not a surprise considering the strengthened Committee on Foreign Investment in the United States (CFIUS) laws targeting "critical" technology and infrastructure. As the CFIUS's security concerns about the telecommunications sector grew, President Trump recently issued an executive order to establish the "Committee for the Assessment of Foreign Participation in the United States Telecommunications Services Sector." More traditionally, CFIUS regu-

[16] For instance, Novartis, producing flu vaccine, lobbied on bills designed to ensure that the government has a sufficient stockpile of influenza vaccine in case of an outbreak, and that the government helps pay for vaccines for seniors and children. Novo Nordisk Inc. lobbied on legislation opposing proposals for the government to negotiate prices paid for drugs for seniors under the Medicare program. Sanofi-Aventis US Inc., producer of multiple cancer drugs, insulin pens and injections, lobbied on issues related to cancer and diabetes awareness.

lated FDI in the defense industry, another issue area where US subsidiaries of foreign firms spend disproportionately more compared to American firms. Copyright/patent/trademark is another popular issue code lobbied by domestic subsidiaries, reflecting the difficulties faced by foreign firms in creating regulatory coherency and establishing their intellectual property rights in the US (Burgunder, 2010). Meanwhile, US subsidiaries of foreign firms focus less on issue areas with relatively little policy impact on the foreign parents such as in budget/appropriations and clean air & water.

3.5 Role of Foreign-connected PACs

Earlier findings that both the likelihood and level of corporate lobbying have a positive and significant association with PAC activities suggest that the two means of political influence are complementary rather than substitutes (Hojnacki and Kimball, 2001; Tripathi, Ansolabehere and Snyder, 2002; Lake, 2015; Kalla and Broockman, 2016). In my earlier research (Chapter 2), I argue and show that foreign firms establish and utilize domestic subsidiaries as a means to gain access to US politicians, an act I call 'political foreign investment.' Only domestically incorporated foreign firms can participate in federal elections. Therefore, foreign firms that want to sponsor Political Action Committees need to do so through their domestic subsidiaries. Generally, establishing and sponsoring a corporate PAC is considered more visible than other forms of influencing the government such as lobbying through registrants, giving to charity, or making donations through other (non corporate) PACs. Thus the question becomes: are US subsidiaries of foreign firms that sponsor foreign-connected PACs more politically motivated than those without PACs?

In fact, I find strong evidence that US subsidiaries of foreign firms with foreign-connected PACs are among the most politically motivated and active firms. For instance, by comparing the means using t-tests, I find that US subsidiaries of foreign firms that sponsor foreign-connected PACs spend about 6 times more ($p<0.001$) in total lobbying on average than those without connected PACs. While only a little more than one third in number, the subsidiaries with connected PACs contributed to 76% of all lobbying spending by US subsidiaries of foreign firms. Also, those with connected PACs spent about 5 times more ($p<0.001$) on trade/tariff issues. Collectively, these results provide additional support for the idea that foreign direct investment in the US partly serves as a means to gain political access and influence. US subsidiaries with PAC establishments tend to be the most active in their lobbying efforts, suggesting that the foreign-connected PACs' political donations are probably made with an intention to impact US policy in ways that serve the interests of the foreign multinationals that control them.

3.6 Conclusion

This study demonstrates that a significant amount of foreign-connected lobbying has been ongoing under the Lobbying Disclosure Act. In fact, the dollar amount of lobbying spending by these foreign-connected clients under the LDA is comparable to 70% of the entire FARA spending.[17] And yet, foreign lobbying influence has been only partially understood through the FARA channel. Moreover, I find that most of the foreign-connected clients under the LDA are in fact domestic subsidiaries of foreign firms. This finding suggests that the political role of domestically incorporated foreign firms is substantial, and yet has been largely overlooked.

I find multiple points of evidence to support the theory that foreign firms lobby through

[17] According to the Foreign Lobby Watch of the Center for Responsive Politics, $1,884,634,663 has been spent by all foreign governments, foreign political parties, non-US citizens not residing in the US, and organizations with principal place of business in a foreign country, under FARA, from January 1, 2017 to present (as of April 7, 2020). On average, the entire FARA spending over the 3.25 years was $580 million per year. Meanwhile, under the LDA, about $722 million by majority foreign-owned US subsidiaries and another $92 million by foreign-based firms were reported in 2015-2016 (resulting in an average of $407 million spending per year). A crude comparison of the averages (in different periods) gives 407/580=0.7.

these domestic subsidiaries. If US subsidiaries lobby to advocate both their interests and those of their foreign parents, their observed lobbying behavior would be disproportionate to their presence in the US. Supporting this idea, I find foreign ownership of domestic firms to be associated with a greater chance of lobbying and a larger amount of spending on lobbying. In terms of issue areas, I find domestic subsidiaries to lobby on a greater variety of issues than comparable American firms. In the aggregate, and at the individual firm level, US subsidiaries lobby more intensively than American firms on trade/tariff issues, which is unambiguously an important issue area for foreign multinationals. Lobbying efforts by domestic subsidiaries are also concentrated in industry-specific issue codes where much foreign direct investment occurs and which are likely to face challenges from changes in US government regulation and policy.

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3.7 Appendix: Additional Models

Table A3.1: Extensive margin of lobbying with PAC indicator variable

	binary outcome of lobbying	
	(1)	(2)
foreign ownership	5.23***	5.26***
	(0.31)	(0.31)
log revenue	0.98***	0.88***
	(0.01)	(0.01)
foreign ownership·log revenue	−0.48***	−0.49***
	(0.04)	(0.04)
sponsored a PAC		0.83***
		(0.06)
Industry strata	Yes	Yes
State strata	Yes	Yes
Observations	203,759	203,759
Max. Possible R^2	0.23	0.23
Note: unweighted.	*p<0.05; **p<0.01; ***p<0.001	

Table A3.2: Two-step hurdle model for lobbying

	lobbying expenses *hurdle (second-step)*	I(lobbying expenses >0) *logistic (first-step)*
	(1)	(2)
foreign ownership	2.91^{***}	8.27^{***}
	(0.33)	(0.35)
log revenue	0.51^{***}	2.28^{***}
	(0.01)	(0.01)
foreign ownership·log revenue	-0.28^{***}	-0.80^{***}
	(0.04)	(0.04)
Industry FE	Yes	Yes
State FE	Yes	Yes
Observations	203,759	203,759
Note:		*p<0.05; **p<0.01; ***p<0.001

Table A3.3: Lobbying interests in TRD/TAR (trade/tariffs) issues

	log spending		log count of reports	
	(1)	(2)	(3)	(4)
foreign ownership	2.25**	1.68*	0.47***	0.37**
	(0.74)	(0.71)	(0.14)	(0.14)
log revenue	0.56***	0.34***	0.11***	0.07***
	(0.05)	(0.05)	(0.01)	(0.01)
foreign ownership·log revenue	−0.23**	−0.17*	−0.05**	−0.04*
	(0.09)	(0.08)	(0.02)	(0.02)
log PAC contributions		0.28***		0.05***
		(0.03)		(0.01)
Industry FE	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes
Observations	1,577	1,577	1,577	1,577
Adjusted R^2	0.15	0.22	0.16	0.22
Note:			*p<0.05; **p<0.01; ***p<0.001	

Table A3.4: Lobbying interests in FOR (foreign relations) issues

	log spending		log count of reports	
	(1)	(2)	(3)	(4)
foreign ownership	0.90*	0.77	0.15*	0.13
	(0.41)	(0.41)	(0.07)	(0.07)
log revenue	0.14***	0.10***	0.02***	0.02***
	(0.03)	(0.03)	(0.00)	(0.10)
foreign ownership·log revenue	−0.11*	−0.09	−0.02*	−0.02*
	(0.05)	(0.05)	(0.01)	(0.01)
log PAC contributions		0.06***		0.01***
		(0.01)		(0.00)
Industry FE	Yes	Yes	Yes	Yes
State FE	Yes	Yes	Yes	Yes
Observations	1,577	1,577	1,577	1,577
Adjusted R^2	0.04	0.05	0.04	0.05
Note:			*p<0.05; **p<0.01; ***p<0.001	

3.8 Appendix: Lobbying Issue Codes

Table A3.5: Description of lobbying issue codes

Code	Description	Code	Description
ACC	Accounting	HOM	Homeland Security
ADV	Advertising	HOU	Housing
AER	Aerospace	IMM	Immigration
AGR	Agriculture	IND	Indian/Native American Affairs
ALC	Alcohol & Drug Abuse	INS	Insurance
ANI	Animals	LBR	Labor Issues/Antitrust/Workplace
APP	Apparel/Clothing Industry/Textiles	INT	Intelligence and Surveillance
ART	Arts/Entertainment	LAW	Law Enforcement/Crime/Criminal Justice
AUT	Automotive Industry	MAN	Manufacturing
AVI	Aviation/Aircraft/Airlines	MAR	Marine/Maritime/Boating/Fisheries
BAN	Banking	MED	Medical/Disease Research/Clinical Labs
BNK	Bankruptcy	MIA	Media (Information/Publishing)
BEV	Beverage Industry	MMM	Medicare/Medicaid
BUD	Budget/Appropriations	MON	Minting/Money/Gold Standard
CAW	Clean Air & Water (Quality)	NAT	Natural Resources
CDT	Commodities (Big Ticket)	PHA	Pharmacy
CHM	Chemicals/Chemical Industry	POS	Postal
CIV	Civil Rights/Civil Liberties	RRR	Railroads
COM	Communications/Broadcasting/Radio/TV	RES	Real Estate/Land Use/Conservation
CPI	Computer Industry	REL	Religion
CSP	Consumer Issues/Safety/Protection	RET	Retirement
CON	Constitution	ROD	Roads/Highway
CPT	Copyright/Patent/Trademark	SCI	Science/Technology
DEF	Defense	SMB	Small Business
DOC	District of Columbia	SPO	Sports/Athletics
DIS	Disaster Planning/Emergencies	TAR	Miscellaneous Tariff Bills
ECN	Economics/Economic Development	TAX	Taxation/Internal Revenue Code
EDU	Education	TEC	Telecommunications
ENG	Energy/Nuclear	TOB	Tobacco
ENV	Environmental/Superfund	TOR	Torts
FAM	Family Issues/Abortion/Adoption	TRD	Trade (Domestic & Foreign)
FIR	Firearms/Guns/Ammunition	TRA	Transportation
FIN	Financial Institutions/Investments/Securities	TOU	Travel/Tourism
FOO	Food Industry (Safety, Labeling, etc.)	TRU	Trucking/Shipping
FOR	Foreign Relations	URB	Urban Development/Municipalities
FUE	Fuel/Gas/Oil	UNM	Unemployment
GAM	Gaming/Gambling/Casino	UTI	Utilities
GOV	Government Issues	VET	Veterans
HCR	Health Issues	WAS	Waste (hazardous/solid/interstate/nuclear)
		WEL	Welfare

Figure A3.1: Word cloud of American MNCs

Figure A3.2: Word cloud of foreign MNCs in the US

Chapter 4

Political FDI Through Cross-border M&A

Abstract

Can foreign firms gain political influence in the US through foreign direct investment? I investigate this question by examining changes in domestic firms' political activities after cross-border M&A. I assemble panel data (1997-2018) of all US-based firms that sponsored PACs or disclosed their lobbying activities, and also experienced M&A deals that resulted in majority ownership change during the period of political engagement. I find that domestic firms tend to increase the dollar amount of campaign contributions and lobbying spending when they become foreign-owned. In contrast, no significant changes are observed when a domestic firm is consolidated into another domestic firm. I also find that domestic firms change their lobbying focus to issue areas of interest to foreign multinationals following cross-border M&A. Collectively, these findings suggest that acquired subsidiaries serve a political role in accessing and influencing policymakers in the US, and thus FDI can be political.

4.1 Introduction

In prior studies (Chapters 2 and 3), I find strong cross-sectional evidence for a positive association between foreign ownership of a US firm and its corporate political activities.

Among a representative sample of domestic firms, majority foreign-owned firms (compared to American-owned firms) are associated with a greater likelihood of sponsoring a corporate Political Action Committee (PAC) and a greater likelihood of lobbying. Then among firms that choose to engage in these political activities, foreign ownership is associated with a greater dollar amount of campaign contributions and a greater dollar amount of lobbying spending. These patterns continue to hold after controlling for firm characteristics such as size, industry, location, and the extent of global integration.

Together, these findings (along with other evidence documented in Chapters 2 and 3) support a theory that foreign firms gain a foothold in US politics through their domestically incorporated subsidiaries. Foreign firms that trade with and invest in the US have strong incentives to influence US public policy in ways that help them safeguard existing sales and investment or create future opportunities for growth. However, US laws restrict foreign political activities while allowing US subsidiaries of foreign firms to engage in federal elections and lobbying just like American-owned firms. This legal environment (compounded with the attractiveness of the US market) encourages foreign firms to gain local presence in the US by investing. US subsidiaries formed through this 'political foreign investment' consequently give campaign contributions to federal candidates and lobby policymakers on behalf of their much larger, multinational foreign parent firms.

In this paper, I build a stronger causal case for the aforementioned theory and positive association between foreign ownership and corporate political activities in the US. I do this by exploiting changes in majority ownership of firms over time. In fact, the dominant entry mode of foreign direct investment in the US is cross-border mergers & acquisition (M&A). If political foreign investment occurs through cross-border M&A, the target domestic firm becomes a US subsidiary of a foreign multinational corporation (MNC), and it is then expected to serve the political interests of the foreign MNC. If so, I expect patterns of political activities by the newly acquired subsidiary to change significantly from pre-M&A. In particular, I expect the firms to give more campaign contributions, to spend more on lobbying, and to change their lobbying focus to issue areas important to their new foreign parents.

I therefore conduct panel analyses of firm political activities across different ownership states – 'pre-M&A,' 'post-foreign M&A' (when a domestic firm becomes majority foreign-owned), and 'post-domestic M&A' (when a domestic firm is consolidated into another domestic firm by more than a majority share). By including firm fixed effects, I examine changes in political activities within the same firm based on its ownership state. By including 'post-domestic M&A' cases, I am able to compare between subsidiaries with foreign vs. domestic Global Ultimate Owners. Comparing among these subsidiaries that have the potential of representing interests of their parents, I am able to attribute potential differences between 'post-foreign M&A' and 'post-domestic M&A' to characteristics unique to foreign-ownership. For instance, US subsidiaries of domestic firms may not have to represent interests of their domestic parents, because both domestic parents and subsidiaries already have equal standing under the US federal election and lobbying laws. Meanwhile, any temporal changes or M&A-specific features that might affect corporate political activities post-M&A should affect domestic-owned and foreign-owned firms equally.

In order to test these ideas, I first assembled original panel data, from 1997 to 2018, that identify all US-based firms that engaged in either PAC or lobbying activities. Among these firms, I further identified firms that have also experienced a majority ownership change during the period they were politically active. The data were collected from multiple sources – Zephyr M&A, Federal Election Committee, Center for Responsive Politics, LobbyView (Kim, 2018), and Orbis – and merged based on unique firm identifiers (Bureau van Dijk identifiers), which I again collected and updated through different processes which I explain later in the paper. Ultimately, I trace the PAC activities of 244 firms that went through M&A resulting in majority ownership change while their corporate PACs were registered with the FEC, and the lobbying activities of 566 firms that experienced ownership change within the years they have filed lobbying reports under the Lobbying Disclosure Act.

From these data I find that foreign M&A is indeed associated with a greater intensity of political activities. Corporate PACs tend to increase their dollar amount of campaign contributions once their corporate sponsors become majority foreign-owned. Similarly, firms tend to increase their lobbying spending post-foreign M&A. Importantly, these changes are significant only for foreign M&A cases, and not for domestic M&A cases. In terms of lobbying contents, when domestic firms become foreign-owned, they start focusing more on issue codes such as trade, copyright/patent/trademark, taxation, and banking, which are critical to foreign MNCs. Meanwhile, post-foreign M&A, there is a drastic increase in aggregate percentage lobbying spending on telecommunications, an industry in which FDI into the US is highly regulated. These results strongly suggest that domestic subsidiaries can be of much political value to foreign investors, adding support to the idea of political foreign investment in the US.

This study builds on latest research on the political role of multinational corporations in the global economy (Kim and Milner, 2019; Johns, Pelc and Wellhausen, 2019). I highlight the political role that domestic subsidiaries of MNCs can play in accessing and influencing policymakers in their host countries, and I suggest that FDI itself may be politically motivated (Chapters 2 and 3). I also create and examine unique panel datasets of corporate engagement in federal elections and lobbying in the US, contributing to the broader literature on corporate political activities (Hillman, Keim and Schuler, 2004; Lux, Crook and Woehr, 2011). Notably, through these data I again confirm a positive association between foreign ownership of a US firm and its corporate political activities (Chapters 2 and 3), in contrast to empirical findings from earlier studies on foreign multinationals in the US (Mitchell, Hansen and Jepsen, 1997; Hansen and Mitchell, 2000).

4.2 Theory of Cross-border M&A and Political Activities

Globally integrated firms are a powerful interest group. For these firms, the US is an important marketplace for growing businesses and political leverage. However, US laws impose limitations on foreign political engagement. This motivates foreign firms to have local presence in the US through foreign direct investment. US subsidiaries acquired through cross-border M&A can serve as domestic political agents of their foreign owners. Politically motivated cross-border M&A deals are expected to change patterns of political activities of the acquired domestic firms.

Globally integrated firms and their political strategies

Through trade and foreign direct investment, firms can expand their businesses internationally (Helpman, Melitz and Yeaple, 2004; Pandya, 2016). In today's integrated global economy, firms that successfully engage with international markets grow rapidly in size and profitability. The McKinsey Global Institute finds that the world's largest firms (top 1% of firms with annual revenue greater than $1 billion) generate more than 42% of total sales from outside their home country (Manyika et al., 2018). Meanwhile, multinational corporations, those that own or control value-adding activities in more than one country, account for half of global exports, almost one-third of world GDP, and about one-fourth of global employment (OECD, 2018).

Despite the prospects for concentrated economic gains, doing business internationally also means those firms to become subject to new political and regulatory environments. For instance, government policies on taxation, trade, foreign investment, exchange rates, intellectual property, etc. elsewhere have large implications for the profitability of firms that have commercial interests in another counties.[1] This exposure to government policies

[1] See Chapter 2 for a further discussion on how firms trading with or investing in other countries are im-

outside of their own country creates strong incentives for globally integrated firms to influence public policies in external markets of their interest. Consequently, firms are likely to devise political strategies to safeguard existing foreign sales and investment and/or to create future opportunities for growth.

Not surprisingly, large, multinational firms are more active in political activities (Drope and Hansen, 2006; Huneeus and Kim, 2018; Kim and Milner, 2019). In particular, MNCs have been the main proponents of preferential trade agreements and bilateral investment treaties, in which they have tried to liberalize services and include provisions of investment protection and intellectual property rights (Manger, 2009; Dür, Baccini and Elsig, 2014; Blanchard and Matschke, 2015; Kim, 2015; Rodrik, 2018; Baccini, 2019; Osgood, 2019). Lately, with the growing political discontent towards globalization, these firms have mobilized to defend global economic integration through lobbying and campaign contributions, public hearings, and public notice and comment (Lee and Osgood, 2019, forthcoming). However, most studies document the political engagement of global firms in their own countries. This paper focuses on political strategies that global firms employ in external markets.

Political foreign investment in the US through cross-border M&A

The United States is a unique economic and political marketplace for firms with a global reach. The US has one of the largest consumer bases in the world, attracts the largest amount of inward FDI, and frequently sets the global standards (technical and regulatory) for goods and services. Meanwhile, US federal laws on corporate political engagement provide an (unintended) advantage for foreign firms with local presence. For instance, the Federal Election Campaign Act bans foreign participation in US elections. However, the US subsidiaries of foreign firms can engage in federal campaigns, as they have a 'prin-

pacted by public policy in those countries.

cipal place of business' within the US. In addition, foreign firms are allowed to lobby the US government as long as they disclose their activities under either the Foreign Agents Registration Act or the domestic Lobbying Disclosure Act. However, as US subsidiaries of foreign firms undoubtedly fall under the purview of the LDA, the majority of foreign firm lobbying is reported on behalf of these subsidiaries.[2]

The economic significance of the US market combined with legal advantages of gaining local presence encourages foreign firms to invest in the US as part of their political calculation. I call this act 'political foreign investment.' Foreign firms with political agendas are thus expected to rely upon their US subsidiaries to formulate and implement political activities. Effectively, the domestic subsidiaries of these foreign firms act as political agents of their parent firms in the US.

Foreign direct investment can either take the form of building a new establishment (i.e., greenfield investment) or acquiring a domestic firm (i.e., cross-border mergers & acquisitions). FDI in the US primarily takes the form of cross-border M&A. In fact, the US Bureau of Economic Analysis suggests that M&A accounted for an average of 96% of FDI expenditures from 2014 to 2018, using a definition of inward FDI as "when a foreign investor owns at least 10 percent of a U.S. business" (Bureau of Economic Analysis, 2019).

Economic reasons for this preference may be multifaceted (Nocke and Yeaple, 2007; Qiu and Wang, 2011). However, one notable advantage of cross-border M&A to the foreign buyer is how the parent can increase its knowledge base. The foreign MNC buys an "operating local management familiar with the national market environment," and as a result, "a stock of valuable information" from the acquired firm is transferred to the new owner (Caves, 1996; Nocke and Yeaple, 2007). Conventionally, these statements refer to the economic environment of the host country market and related information. However,

[2] See Chapter 3 for a detailed discussion on how foreign firms lobby through domestic subsidiaries in the US.

for foreign investors acquiring domestic firms, political expertise and experience can also be a valuable asset that they are purchasing or inheriting. In contrast, foreign investment through greenfield investment cannot deliver these benefits.

Empirical implications for ownership change and corporate political activities

When a cross-border M&A occurs, the acquired domestic firm becomes foreign-affiliated to the extent that the foreign acquirer holds ownership or control of the firm. In this paper I focus on M&A deals that result in majority (50.01% or more) ownership change.[3] Specifically, I consider M&A deals that result in majority foreign-ownership as 'foreign M&A' deals. In contrast, when a domestic firm is consolidated into another domestic firm by more than a majority share, I call it 'domestic M&A.'

When a foreign M&A occurs, the target domestic firm becomes a US subsidiary of the Global Ultimate Owner which is now a foreign multinational corporation (if it was not before). As discussed above, MNCs have abundant economic resources that can be invested in ways to influence public policies favorable to them. If this newly acquired subsidiary were to serve the political interests of the foreign MNC, I expect the firm's political engagement to change significantly post-foreign M&A. However, I expect this change to differ from how a domestic firm might change its political engagement after merging with or being acquired by another domestic firm (post-domestic M&A). Effectively, the expected different pathways of domestic firms post-foreign acquisition and post-domestic acquisition are attributable to whether they engage in political activities on behalf of their (foreign vs. domestic) parent firms or not. I expect changes in firm engagement in campaign finance and lobbying post-foreign M&A as below.

Foreign M&A increases PAC giving Recall that foreign firms cannot sponsor Political Action Committees and engage in federal elections. However, US-incorporated subsidiaries

[3] I do not include M&A deals that result in less than 50% ownership.

of foreign firms can create/control PACs and give campaign contributions to federal candidates, same as any other domestic firm. If foreign firms use domestic subsidiaries as a way to gain access to federal candidates, it is expected that the newly foreign-controlled domestic firms will actively engage in PAC activities. Furthermore, these domestic subsidiaries will now represent policy interests of their parent foreign multinationals in the US as local political agents. In Chapter 2 I show that US subsidiaries of foreign MNCs tend to give more than American-owned firms. In fact, the amount of contributions made by US subsidiaries had a stronger association with the size of foreign MNCs than the subsidiaries, suggesting that they engage in federal elections on behalf of the parents. Similarly, as domestic firms become foreign-owned, and represent the policy interests of their much larger foreign MNCs, the observed dollar amount of campaign contributions from their sponsored PACs to federal candidates is expected to increase post-foreign M&A.

Foreign M&A increases lobbying Meanwhile, if foreign MNCs lobby through their domestic subsidiaries, the newly acquired firms are expected to lobby on behalf of both their US operations and their foreign parents. In Chapter 3 I show that US subsidiaries of foreign MNCs tend to spend more on lobbying than American-owned firms, as the subsidiaries represent policy interests of both the domestic operations and foreign headquarters. Similarly, I expect here that domestic firms will increase the amount of lobbying spending post-foreign M&A in order to meet the greater policy demands of foreign MNCs.

Foreign M&A changes lobbying content In terms of the lobbying content, domestic firms post-foreign M&A are expected to feature distinct patterns of lobbying that are characteristic of foreign MNCs. Most MNCs export and/or import and are deeply integrated into global value chains (Bernard et al., 2007; Yeaple, 2009). Therefore, domestic subsidiaries representing foreign MNCs are likely to lobby intensively on trade issues. Also, MNCs account for at least 50% of R&D spending worldwide and create and own intellectual property (IP) in a variety of important technologies (Keller, 2010; Zeile, 2014). As each country has its own laws governing IP, and governments are concerned about guaranteeing access to those technologies at a reasonable cost, the subsidiaries of foreign firms are expected to concentrate their lobbying efforts on copyright/patent/trademark issues on behalf of IP developed within the entire corporate group.[4] MNC's worldwide tax planning and high level of global integration necessitate cross-country and intra-firm transfers (Desai, Foley and Hines Jr., 2006, 2007). The foreign MNCs' attention to securing favorable tax regulations and free movement of capital is expected to increase lobbying on taxation and banking issues by their domestic subsidiaries. In addition, I expect to find increased lobbying in industry-specific issue codes where most foreign direct investment in the US is concentrated (e.g., pharmacy, transportation), and where inward FDI is highly regulated by the Committee on Foreign Investment in the US (e.g., telecommunications, defense).

4.3 The Data

I assembled original panel data that identifies all US-based firms that either engaged in federal elections or federal lobbying from 1997 to 2018 and *also* went through at least one majority ownership change during the period. This dataset is a product of multiple data sources which I have updated and modified for purposes of this paper. The first data source is Zephyr, from which I exported all completed (confirmed and assumed) acquisition and merger type deals targeting firms with primary addresses in the United States. I focused on M&A deals that resulted in a change in majority ownership from 1998 to present.[5] Based on country code information regarding the Global Ultimate Owners

[4] According a BEA study, majority foreign-owned US subsidiaries account for about 15% of US industrial R&D, triple their share of production or employment by all US businesses (Zeile, 2013).

[5] The data were collected on February 16th, 2020. There were 114,500 deals in total that fit the initial conditions. Cases were further reduced through the process of verifying assumed cases – only the confirmed cases were considered. I also dropped M&A deals that result in rebranding or restructuring such as records of name change, privatization, or going public, etc.

(GUOs) of the target and acquiror companies, I distinguished foreign M&A cases from domestic M&A cases. For instance, US-based firms that merge with or are acquired by other US-based firms that are in fact majority owned by foreign firms were considered as foreign M&A rather than domestic M&A. Note that many firms experienced more than one M&A deal during the period. Based on the year of acquisition and the nationality of the GUO of the acquiror, I created an indicator variable distinguishing the ownership status of firms: 'pre-M&A,' 'post-domestic M&A,' and 'post-foreign M&A.'

To collect information on corporate engagement in federal elections, I first downloaded committee master files that contain information of committees registered with the Federal Election Committees in each election cycle (1979-1980 to 2019-2020) from the FEC website. From the bulk data I assembled a dataset with unique committee identifiers, committee names, the names of their connected organizations and street addresses of these connected organizations, and the first and last election cycles that they were registered with the FEC for all (5,784) 'corporate' type Political Action Committees. Then, using the street addresses and names of the identified connected organizations, I individually matched each corporate PAC with the unique firm identifier (Bureau van Dijk identifier, BvD ID) of its sponsoring firm. These identifiers were used to merge the PAC information with the M&A data (matched with the BvD ID of the target firms). In total, there were 384 corporate sponsors with corporate PACs that ever registered with the FEC, that also went through at least one majority ownership change in between the 1998 and 2018 election cycles. However, these firms include those that sponsored a PAC only before or after a M&A deal. Therefore, I focused on 244 firms that experienced an ownership change when their corporate PACs were registered with the FEC. For these sponsoring firms, I web-scraped the total dollar amount of contributions made by each sponsored corporate PAC to federal candidates from the 1998 to 2018 election cycles from the Center for Responsive Politics. This became the basis of the PAC contributions panel data used in this paper.

Table 4.1: Number of firms in dataset

		Step result	Total result
Firm Ownership Change			
1.	Deal type: Acquisition, Merger	735,667	735,667
2.	Current deal Status: Completed (confirmed and assumed)	1,714,067	584,077
3.	Country (primary address) of target: USA	402,726	114,500
	1 and 2 and 3 (as of 02/16/2020)		114,500
Firm Engagement in Political Activities			
4.	Target (acquired) firms' corporate PAC is active (1998-2018 election cycle)		
5.	Target (acquired) firm files lobbying reports (1999-2017)		
	1 and 2 and 3 and 4 (years may not overlap)		384
	1 and 2 and 3 happen during 4		244
	1 and 2 and 3 and 5 (years may not overlap)		1,124
	1 and 2 and 3 happen during 5		566

I also collected information on corporate engagement in federal lobbying. As the basis, I downloaded all lobbying reports filed on behalf of corporate clients from 1999 to 2017 using the LobbyView (Kim, 2018) application programming interface. I queried the data in a way that disaggregates information in each lobbying report by the client name and matched BvD ID, report type, registrant name, year, reported lobbying income or expenses, and issue codes reflecting the general issue areas in which the registrant engaged in lobbying on behalf of the client.[6] I divided the total lobbying spending in each report by the number of general issue codes indicated as a proxy for how much was spent on each issue area. I further updated the BvD IDs for the corporate clients, and using the new BvD IDs, I merged the M&A data with the lobbying data (again matched with the BvD ID of the target firms). In total, I found 1124 unique firms that lobbied the federal government at some point during the years and also experienced at least one M&A deal. Among these

[6] Note that in each lobbying report, registrants disclose the dollar amount of income or expenses relating to lobbying activities for the relevant reporting period only if the amount is greater than a certain threshold. This threshold was $10,000 prior to 2008 and $5,000 from 2008 on. For lobbying spending below these values, registrants simply mark a box indicating that the income/expense is less than those values. For the empirical analyses in the main text, I imputed the middle value of $5,000 and $2,500 for missing values when a lobbying report was filed but without lobbying amounts (unless they are a report type that does not require amount reporting such as Registration or Registration Amendment). In Appendix Tables A4.4 and A4.5, I replicate the main analyses (Table 4.3) by imputing the maximum threshold values of $10,000 or $5,000 and the minimum value of zero.

firms, I focus on the 566 firms that have experienced ownership change within the years that the firm filed lobbying reports. For these firms, I aggregated the lobbying spending by each year.

4.4 Empirical Tests and Results

In order to test whether foreign ownership of a US firm influences its political behavior, I conduct panel studies of corporate engagement in US federal elections and federal lobbying. Specifically, I test whether there are meaningful changes in the dollar amount of campaign contributions or lobbying spending among firms that went through a majority ownership change as a result of M&A. While the focus of my study is on foreign M&A cases, I include domestic M&A cases in my analyses so that I have a comparison group that shares temporal or any M&A-specific characteristics that might be attributable to differences in the political behavior pre- and post- new ownership.

4.4.1 Change in Campaign Finance

First I test whether domestic firms' engagement in campaign finance changes post-M&A, and if so, how. I analyze how much corporate PACs give to federal candidates from 1997-1998 to 2017-2018, along the three possible ownership states of pre-M&A, post-domestic M&A, and post-foreign M&A. The PAC-cycle pairs included in the 'all PACs' analyses are all (244) corporate PACs that are sponsored by firms that have gone through a majority ownership change during the period the PAC was registered with the FEC. In many cases, corporate PACs are terminated once its sponsoring firm is merged with or acquired by another firm. I thus identify the subgroup of (139) corporate PACs that continue to remain active and make contributions post-acquisition for at least one cycle and call this subgroup 'continuing PACs.'

Table 4.2: Total campaign contributions (1998-2018 election cycles)

	total campaign contributions (PAC-cycle)			
	all PACs		continuing PACs	
	(1)	(2)	(3)	(4)
post-domestic M&A	$14,580$	$-11,818$	$28,307^{*}$	$-5,901$
	$(8,524)$	$(6,706)$	$(11,023)$	$(9,168)$
post-foreign M&A	$18,836$	$24,537^{**}$	$21,761$	$30,737^{**}$
	$(10,285)$	$(9,294)$	$(12,027)$	$(10,760)$
Firm FE	No	Yes	No	Yes
Observations	1,575	1,575	1,065	1,065
Adjusted R^2	0.002	0.575	0.005	0.559
Note:				*p<0.05; **p<0.01; ***p<0.001

In Table 4.2 I regress the dollar amount of campaign contributions delivered to federal candidates by corporate PACs in each election cycle by the three possible ownership states of their sponsoring firms using an ordinary least square regression model. Models (1) and (3) capture the general correlation between the level of campaign contributions and the three ownership states (pre-M&A is used as the reference group); and models (2) and (4), which include firm fixed effects, demonstrates any amount changes within the PACs.

In models (1) and (3) without firm fixed effects, the dollar amount of campaign contributions and the two post-M&A states of the sponsoring firms (vs. pre-M&A) appear to have a positive association. But only the domestic M&A state among continuing PACs is statistically significant. Within each PAC (models (2) and (4) with fixed effects), however, it is clear that a greater amount of campaign contribution is associated with the post-M&A state, only when the PAC's sponsoring firm is newly owned by a foreign firm. In fact, the same corporate PAC is associated with $24,500-$30,700 more political giving in an election cycle when foreign-owned than when American-owned.[7]

Two additional points are worth noting. First, the amount of campaign contributions

[7] For the main analysis, I code a PAC to be in a post-M&A state starting with the election cycle that the year of M&A falls under. I find similar patterns if I code the post-M&A state starting with the consecutive election cycle. See Appendix Table A4.1 for the replication results.

post-foreign M&A and post-domestic M&A is significantly different within a firm. In fact, Appendix Table A4.2 shows that post-foreign M&A amounts tend to be significantly greater than post-domestic M&A amounts. One might suspect that the reason why campaign contributions tend to increase post-M&A only for foreign M&A cases is because the acquired domestic firms automatically become part of a MNC. In order to rule out this possibility, I run a separate sub-sample analysis only among cases in which domestic firms become part of a MNC – either through foreign M&A or a domestic M&A deal in which the acquiror is a domestic MNC.[8] As shown in Appendix Table A4.3, only M&A deals with foreign MNCs are associated with a greater amount of campaign contributions. This finding gives further support to the idea that foreign M&A is associated with more political giving because the newly acquired firm is representing policy interests of the parent, rather than becoming part of a MNC.

4.4.2 Change in Lobbying Spending

Does a merger or acquisition also impact firms' lobbying activities? In the following I examine whether corporate lobbying spending is impacted by majority ownership change, and how it is impacted. I examine the patterns of firms' overall lobbying spending – lobbying *income* that outside registrants make from their corporate clients or lobbying *expenses* accrued to the clients from paying in-house lobbyists – and their relative spending on general issue areas.

I start with observing how much firms spend on lobbying from 1999 to 2017, again along the three ownership states of pre-M&A, post-domestic M&A, and post-foreign M&A. The firm-year pairs included in the 'all firms' analyses are all (566) firms that have gone through a majority ownership change during the period they engaged in lobbying activi-

[8] In order to identify domestic MNCs, I look at whether the acquiring firm has at least one subsidiary outside of the US.

Table 4.3: Total lobbying spending (1999-2017)

	total lobbying spending (firm-year) in logs			
	all firms		continuing firms	
	(1)	(2)	(3)	(4)
post-domestic M&A	-0.48^{***}	-0.08	-0.34^{*}	0.18
	(0.13)	(0.13)	(0.15)	(0.14)
post-foreign M&A	-0.13	0.35^{*}	-0.08	0.40^{*}
	(0.16)	(0.17)	(0.17)	(0.18)
Firm FE	No	Yes	No	Yes
Observations	5,808	5,808	4,112	4,112
Adjusted R^2	0.002	0.444	0.001	0.462
Note:		*p<0.05; **p<0.01; ***p<0.001		

ties. As before, many firms discontinue their lobbying activities once an ownership change occurs. I separately treat the (396) firms that continue to lobby post-M&A for at least one year as 'continuing firms.'

Table 4.3 presents the relationship between (natural log transformed) annual lobbying spending and the indicator variables representing change in ownership using an ordinary least square regression model. Similar to above, models (1) and (3) summarize the general correlation between the level of lobbying spending and the three ownership states (pre-M&A is used as the reference group); models (2) and (4) include firm fixed effects to capture changes in lobbying within firms.

The results suggest that ownership change of a firm can alter its lobbying spending behavior, in a way that depends on the nationality of the new owner. Without including firm fixed effects, the post-domestic M&A state is associated with significantly less lobbying spending than the pre-M&A state; in contrast, the post-foreign M&A state does not show significant differences from the reference group. However, once firm fixed effects are included in models (2) and (4), a new pattern emerges – within the same firm, foreign-M&A is associated with significantly higher lobbying spending, whereas there are

Table 4.4: Issue-specific lobbying spending (1999-2017)

	lobbying spending per issue code (firm-year) in logs			
	all firms		continuing firms	
	(1)	(2)	(3)	(4)
post-domestic M&A	-0.08	-0.04	0.02	0.13
	(0.06)	(0.06)	(0.07)	(0.07)
post-foreign M&A	0.16^{*}	0.25^{**}	0.21^{**}	0.32^{***}
	(0.07)	(0.08)	(0.08)	(0.08)
Firm FE	No	Yes	No	Yes
Observations	4,973	4,973	3,503	3,503
Adjusted R^2	0.001	0.431	0.002	0.436
Note:		*p<0.05; **p<0.01; ***p<0.001		

no significant changes in the case of a domestic M&A. Overall, foreign-acquisition of an domestic firm is associated with a 42-50% increase (corresponding to the 0.35 and 0.49 log changes in the Table) in annual lobbying spending.

Now is this increased total lobbying spending simply a numeric outcome due to a (potentially) greater variety of lobbying issue areas post-M&A? To answer this question, I re-examine the relationship between ownership change of a firm and lobbying spending in Table 4.4, using an alternative measure of lobbying intensity – (natural log transformed) lobbying spending per unique issue code. Here I divide the total dollar amount of annual lobbying spending by the number of unique issue codes that firms lobbied on that year. Note that the number of observations has decreased due to original lobbying reports with lobbying spending information but no indication of the general issue codes. As shown, the positive association between foreign-M&A of a domestic firm and lobbying spending continues to hold using this alternative measure of lobbying intensity. Overall, firms spend 28-38% more annually per issue area once they become majority foreign-owned.

Similar to the changes in campaign finance demonstrated above, I find a significant difference in both total lobbying spending and issue-specific lobbying spending between the post-foreign M&A state and post-domestic M&A state within firms.[9] Also, among a sub-sample of domestic firms that experience M&A with multinational firms, I find the same patterns in Table 4.3 and Table 4.4: the total lobbying spending and issue-specific lobbying spending is significantly greater than pre-M&A only for foreign M&A deals.[10] Importantly, this suggests that firms do not simply increase their lobbying intensity post-foreign M&A because they are now multinational, but because US subsidiaries of foreign firms uniquely play a role of representing their parents' interests.

So far I have demonstrated changes in firms' lobbying spending post-M&A. How does the lobbying content compare between firms pre-M&A and post-M&A? In particular, how do firms change their lobbying focus based on the nationality of their new parent firms? To answer these questions, I refer to 21,868 entries of disaggregated lobbying data on how much each firm spent on a unique general issue code in each year.[11] Using the same ownership categories of pre-M&A, post-domestic M&A, and post-foreign-M&A, I aggregated the total amount of lobbying spending by issue code for each of the three groups. Then, for each issue code, I calculated the proportion of group spending in that particular issue code relative to the total group lobbying spending, and repeated this process for all three ownership categories. This process produces a measure of relative spending on each lobbying issue code which is comparable among the three groups.

For instance, Figure 4.1 presents the top 10 issue codes where firms spend more (as a group) post-foreign M&A than pre-M&A. The dumbell figure for each issue code indicates the percentage spending by all American firms pre-acquisition (depicted by a gray star), the percentage spending by all American firms post-domestic acquisition (depicted by a gray circle), and the percentage spending post-foreign acquisition (depicted by a red

[9] See Appendix Table A4.6 and Table A4.7.
[10] See Appendix Table A4.8 and Table A4.9.
[11] These data are created by aggregating 92,408 itemized reports of clients' name, year, name of registrant, report type, and issue codes.

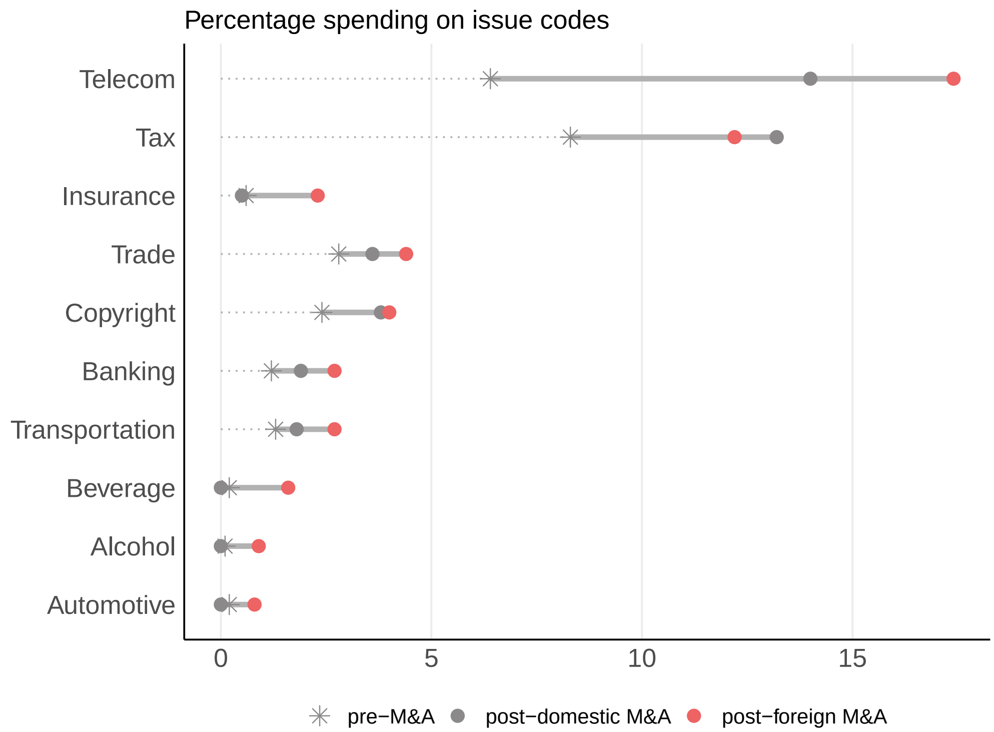

Figure 4.1: Top 10 issue codes with higher percentage spending post-foreign M&A

circle). The longer the dumbells, the greater is the increase in percentage spending once American firms are acquired by foreign firms.

As the political foreign investment theory predicts, the foreign M&A group focuses its lobbying on issue areas that MNCs are primarily concerned about. For instance, there is an increase in percentage spending in issue codes such as trade, copyright/patent/trademark, taxation, and banking. Moreover, Figure 4.2 that compares issue-specific percentage spending only among firms that become part of a MNC show that the lobbying emphasis on these issues are particularly pronounced in the case of M&A with foreign firms. Meanwhile, there is a substantial increase in percentage spending on telecommunications, a highly regulated industry for inward FDI. Note that these are the exact issue codes where foreign-owned firms tend to focus their lobbying efforts compared to domestic firms in a cross-sectional analysis (as demonstrated in Chapter 3).[12]

[12] In Appendix Figure A4.1 I present the top 10 issue codes with largest differences between foreign- and

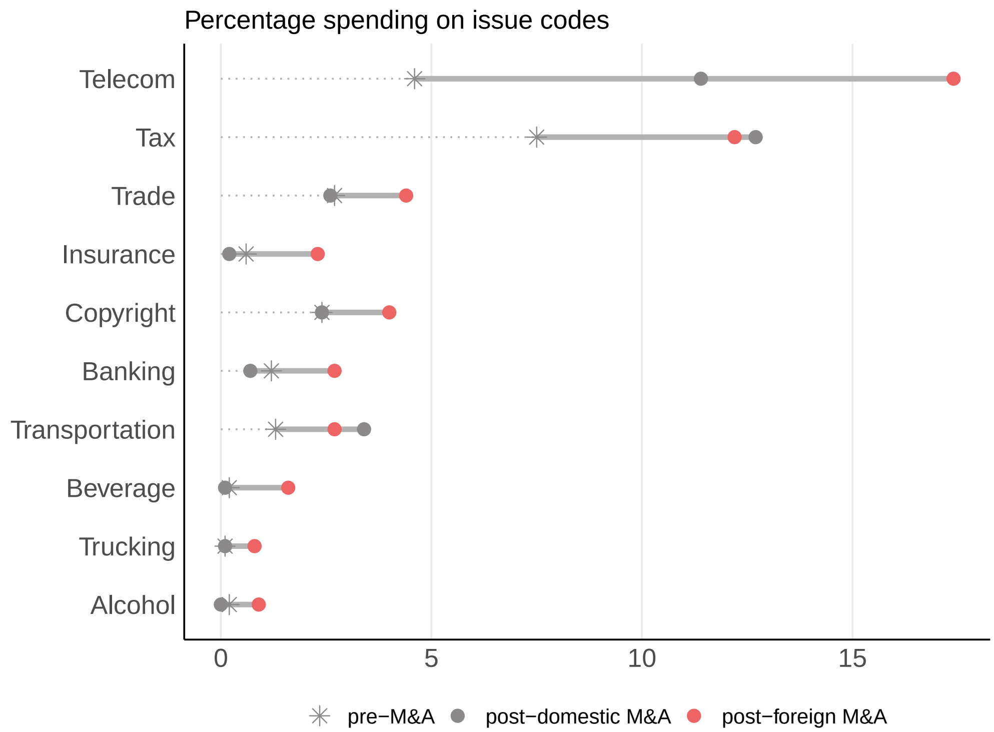

Figure 4.2: Replication of Figure 4.1 among M&A deals with MNCs only

4.5 Conclusion

Globally integrated firms are often among the most powerful interest groups worldwide. However, little is known about how these firms manage to navigate through new political and regulatory environments as they expand businesses across borders. I argue that gaining political influence in external markets is crucial for these firms to protect foreign sales and investment, if not create future opportunities for growth. However political activities are often limited to domestic agents only. How then do global firms influence public policy outside of their home countries?

Here and elsewhere (Chapters 2 and 3) I propose a theory that foreign firms may engage in political foreign investment, by which foreign firms gain local presence and influ-

American-acquired firms.

ence public policy through the political activities of their domestic subsidiaries. In this paper, I create and examine panel data on US-based firms' engagement in federal elections and federal lobbying as they go through M&A deals that result in majority ownership change. By comparing firms' political activities pre- and post-M&A, and by analyzing differences between firms that become majority foreign-owned (post-foreign M&A) and those consolidated into different domestic firms (post-domestic M&A), I find several pieces of evidence suggesting that inward FDI through M&A serves political purposes beyond those economic.

Specifically, I find that domestic firms tend to give more to federal candidates once they become majority foreign-owned. Similarly, the dollar amount of total and and issue-specific lobbying spending tend to increase post-foreign M&A. In contrast, there is no significant change in the amount of campaign contributions or lobbying spending among domestic M&A cases. I also find notable changes in the issue focus of lobbying among firms that go through foreign M&A. Aggregate percentage spending in issue areas that are likely to affect foreign parent firms, including trade, copyright/patent/trademark, taxation, banking, and telecommunications is higher than pre-M&A. Together, these results provide strong evidence for the idea that the newly acquired subsidiaries are representing policy interests of their foreign owners. Therefore, it is plausible that foreign firms are gaining footholds in US politics through political foreign investment.

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4.6 Appendix: Additional Campaign Finance Models

Table A4.1: Total campaign contributions (alternative ownership indicator)

	total campaign contributions (PAC-cycle)			
	all PACs		continuing PACs	
	(1)	(2)	(3)	(4)
post-domestic M&A	$28,553^{**}$	$-21,983^{*}$	$36,708^{**}$	$-14,346$
	$(10,149)$	$(8,585)$	$(12,225)$	$(10,568)$
post-foreign M&A	$28,922^{*}$	$24,402^{*}$	$24,829$	$26,840^{*}$
	$(11,569)$	$(10,136)$	$(12,971)$	$(11,206)$
Firm FE	No	Yes	No	Yes
Observations	1,575	1,575	1,065	1,065
Adjusted R^2	0.007	0.576	0.008	0.559

Note: $^{*}p<0.05$; $^{**}p<0.01$; $^{***}p<0.001$

Table A4.2: Total campaign contributions ('post-domestic M&A' as reference group)

	total campaign contributions (PAC-cycle)			
	all PACs		continuing PACs	
	(1)	(2)	(3)	(4)
pre-acquisition	$-14,580$	$11,818$	$-28,307^{*}$	$5,901$
	$(8,524)$	$(6,706)$	$(11,023)$	$(9,168)$
post-foreign M&A	$4,256$	$36,355^{**}$	$-6,547$	$36,638^{**}$
	$(11,547)$	$(11,344)$	$(13,593)$	$(13,932)$
Firm FE	No	Yes	No	Yes
Observations	1,575	1,575	1,065	1,065
Adjusted R^2	0.002	0.575	0.005	0.559

Note: $^{*}p<0.05$; $^{**}p<0.01$; $^{***}p<0.001$

Table A4.3: Total campaign contributions only among MNCs

	total campaign contributions (PAC-cycle)			
	all PACs		continuing PACs	
	(1)	(2)	(3)	(4)
post-domestic M&A	$8,261$	$-16,533$	$23,104$	$-9,806$
	$(10,677)$	$(8,750)$	$(14,037)$	$(12,086)$
post-foreign M&A	$12,523$	$24,398^{*}$	$15,999$	$30,603^{**}$
	$(10,907)$	$(9,804)$	$(12,856)$	$(11,196)$
Firm FE	No	Yes	No	Yes
Observations	1,185	1,185	804	804
Adjusted R^2	0.000	0.546	0.002	0.539
Note:		$^{*}p<0.05$; $^{**}p<0.01$; $^{***}p<0.001$		

4.7 Appendix: Additional Lobbying Models

Table A4.4: Total lobbying spending (10,000 or 5,000 imputed for reports with unspecified amount)

	total lobbying spending (firm-year) in logs			
	all firms		continuing firms	
	(1)	(2)	(3)	(4)
post-domestic M&A	-0.43^{***}	-0.03	-0.30^{*}	0.23
	(0.13)	(0.12)	(0.14)	(0.14)
post-foreign M&A	-0.12	0.36^{*}	-0.09	0.41^{*}
	(0.15)	(0.17)	(0.17)	(0.18)
Firm FE	No	Yes	No	Yes
Observations	5,808	5,808	4,112	4,112
Adjusted R^2	0.002	0.431	0.001	0.450
Note:		*p<0.05; **p<0.01; ***p<0.001		

Table A4.5: Total lobbying spending (0 imputed for reports with unspecified amount)

	total lobbying spending (firm-year) in logs			
	all firms		continuing firms	
	(1)	(2)	(3)	(4)
post-domestic M&A	-1.11^{***}	-0.70^{***}	-0.71^{***}	0.41^{*}
	(0.17)	(0.16)	(0.19)	(0.19)
post-foreign M&A	-0.17	0.26	-0.08	0.78^{***}
	(0.21)	(0.21)	(0.22)	(0.23)
Firm FE	No	Yes	No	Yes
Observations	5,808	5,808	3,589	3,589
Adjusted R^2	0.007	0.496	0.003	0.449
Note:		*p<0.05; **p<0.01; ***p<0.001		

Table A4.6: Total lobbying spending ('post-domestic M&A' as reference group)

	total lobbying spending (firm-year) in logs			
	all firms		continuing firms	
	(1)	(2)	(3)	(4)
pre-M&A	0.48^{***}	0.08	0.34^{*}	−0.18
	(0.13)	(0.12)	(0.15)	(0.14)
post-foreign M&A	0.35^{*}	0.43^{*}	0.26	0.22
	(0.18)	(0.21)	(0.19)	(0.22)
Firm FE	No	Yes	No	Yes
Observations	5,808	5,808	4,112	4,112
Adjusted R^2	0.002	0.444	0.001	0.462
Note:	*p<0.05; **p<0.01; ***p<0.001			

Table A4.7: Issue-specific lobbying spending ('post-domestic M&A' as reference group)

	lobbying spending per issue code (firm-year) in logs			
	all firms		continuing firms	
	(1)	(2)	(3)	(4)
pre-M&A	0.08	0.04	−0.02	−0.13
	(0.06)	(0.06)	(0.07)	(0.07)
post-foreign M&A	0.24^{**}	0.29^{**}	0.19^{*}	0.20
	(0.08)	(0.10)	(0.09)	(0.10)
Firm FE	No	Yes	No	Yes
Observations	4,973	4,973	3,503	3,503
Adjusted R^2	0.001	0.431	0.002	0.436
Note:	*p<0.05; **p<0.01; ***p<0.001			

Table A4.8: Total lobbying spending only among MNCs

	total lobbying spending (firm-year) in logs			
	all firms		continuing firms	
	(1)	(2)	(3)	(4)
post-domestic M&A	-0.81^{***}	-0.44^{**}	-0.81^{***}	-0.26
	(0.17)	(0.16)	(0.19)	(0.19)
post-foreign M&A	-0.23	0.34^{*}	-0.28	0.39^{*}
	(0.16)	(0.17)	(0.18)	(0.18)
Firm FE	No	Yes	No	Yes
Observations	4,365	4,365	2,922	2,922
Adjusted R^2	0.005	0.441	0.005	0.460
Note:		*p<0.05; **p<0.01; ***p<0.001		

Table A4.9: Issue-specific lobbying spending only among MNCs

	total lobbying spending (firm-year) in logs			
	all firms		continuing firms	
	(1)	(2)	(3)	(4)
post-domestic M&A	-0.23^{**}	-0.22^{**}	-0.14	-0.08
	(0.08)	(0.08)	(0.09)	(0.09)
post-foreign M&A	0.12	0.25^{**}	0.16^{*}	0.31^{***}
	(0.07)	(0.08)	(0.08)	(0.08)
Firm FE	No	Yes	No	Yes
Observations	3,752	3,752	2,509	2,509
Adjusted R^2	0.003	0.421	0.003	0.425
Note:		*p<0.05; **p<0.01; ***p<0.001		

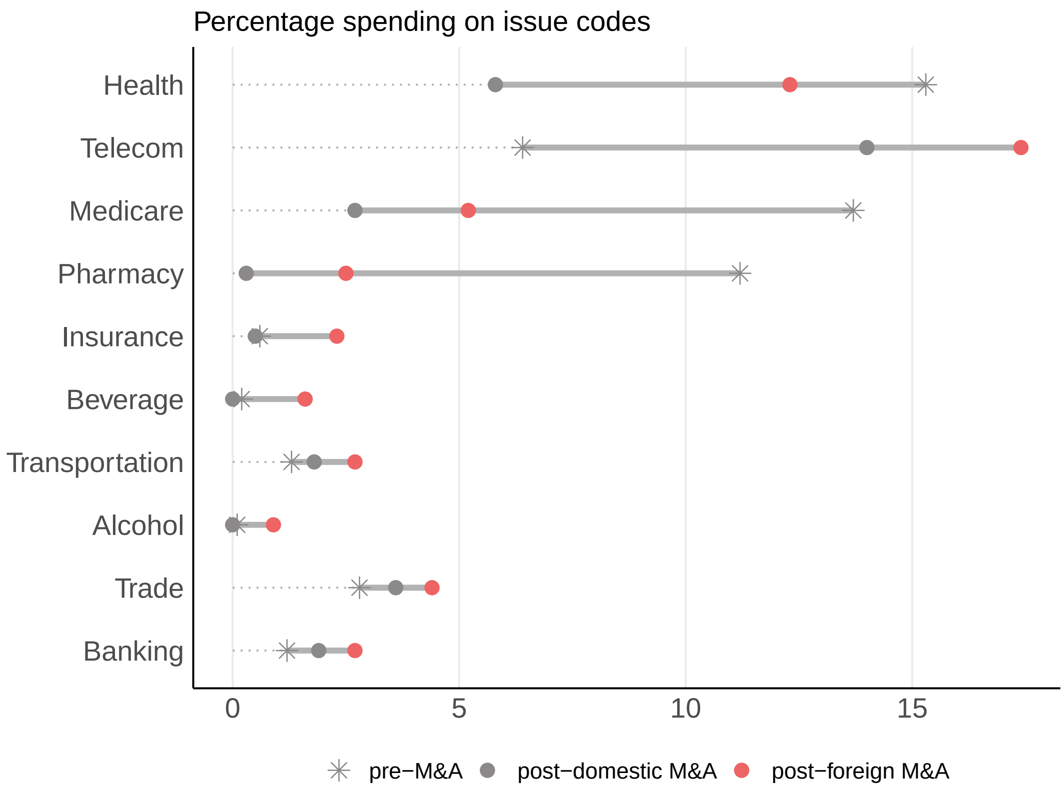

Figure A4.1: Top 10 issue codes with largest differences between foreign- and American-acquired firms

Chapter 5

Discussion

In light of much scrutiny on Capitol Hill regarding whether and how to regulate foreign interference in US politics, this dissertation provides a timely investigation of an understudied mechanism of foreign influence in the US. The political foreign investment theory proposed here suggests that foreign direct investment can be politically driven. Foreign firms have strong interests in US politics, as US policies have large implications for the profitability of their global businesses. Meanwhile, legal restrictions on foreign firms' political engagement in the US motivate the firms to gain local presence in the US by investing, an action that would grant their domestic subsidiaries equal standing to American firms under US federal election and lobbying laws.

In Chapters 2 to 4, I provide empirical evidence that suggests that domestic subsidiaries of foreign firms play a substantial political role in the US. In Chapter 2, I identify and examine the patterns of PAC giving by majority foreign-owned domestic subsidiaries. Through this I find that US subsidiaries of foreign firms engage in federal elections disproportionately to their economic presence in the US, and I demonstrate that this outsized political engagement is primarily driven by the foreign parents' desire to gain influence over federal elections in the US. Notably, these findings are not consistent with findings from earlier literature that viewed the political engagement of domestic subsidiaries as merely an act to gain legitimacy in the US, and suggested that the subsidiaries are less politically active than their American peers. However, these earlier studies were based on unrepresentative data on foreign multinationals in the US, and I refute those findings by studying the population of politically active domestic subsidiaries in the US.

While most studies on foreign lobbying have examined the Foreign Agents Registration Act, the political foreign investment theory led me to investigate how much of foreign-connected lobbying has been ongoing under the domestic lobbying law. As shown in Chapter 3, foreign-connected lobbying under the Lobbying Disclosure Act is roughly 70% the amount of entire FARA spending by all foreign governments, foreign political parties, and foreign-based organizations and non-US citizens. Moreover, I find that most of the foreign-connected clients under the LDA are in fact domestic subsidiaries of foreign firms. These subsidiaries, again, engage in lobbying activities more extensively than American firms, controlling for firm size, industry, location, the extent of global integration, and even their engagement in federal elections. This further suggests that the political role of domestic subsidiaries is significant, and yet has been largely overlooked.

Finally, in Chapter 4 I study within-firm changes in political activities to build a causal case for the political foreign investment theory. Specifically, I examine firms that experienced majority ownership changes through cross-border M&A, the dominant form of foreign direct investment into the US. Findings here are consistent with results from the earlier Chapters. Domestic firms become more politically active when they become foreign-owned: the same firm tends to increase spending on PAC activities and lobbying activities post-foreign M&A, and changes in lobbying focus suggest that the newly acquired firms now lobby on behalf of their foreign parents. Meanwhile, such changes do not occur for M&A deals between domestic firms.

Circling back to the beginning of this dissertation, the growing influence of foreign firms on US politics has been largely ignored. Part of the reason has been that earlier work focused on the political dominance of Western firms. But another important reason may be the naïve assumption that the 'principal place of business' of a firm determines its political interests, even in a globally integrated economy. In this vein, this dissertation broadens our theoretical understanding of how globally integrated firms define their interests across borders, which motivate them to engage in the politics of countries outside of their own. The studies also point to what kind of legal loopholes might enable multinational firms to grow their political influence in host countries.