Foreign Lobbying Through Domestic Subsidiaries

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Jieun Lee†

Abstract

How much of lobbying activities disclosed under the Lobbying Disclosure Act (LDA) actually represent foreign clients? What are their interests? By identifying the global ultimate owners of all corporate clients filing with the LDA, I find that majority-owned subsidiaries of foreign MNCs account for nearly 20% of corporate lobbying spending in 2015-2016. This amount is comparable to the entire foreign lobbying spending reported under the Foreign Agents Registration Act (FARA). Domestic subsidiaries of foreign MNCs are also found to lobby more frequently and spend more lobbying than American multinationals, after controlling for firm size, industry, and PAC contributions. These subsidiaries actively lobby on issue areas that clearly benefit their foreign parents. The findings suggest that foreign MNCs may actively influence U.S. policies through their domestic subsidiaries, and that the FARA captures only part of foreign lobbying in the United States.

†Assistant Professor, Department of Political Science, University at Buffalo, SUNY. 503 Park Hall, Buffalo, NY 14260; jlee286@buffalo.edu. I thank Iain Osgood, Alan Deardorff, Richard Hall, James Morrow, Andrew Kerner, In Song Kim, Jan Stuckatz, Felipe Munoz, and Peter Courtney for their many valuable comments.

Foreign lobbying occurs when foreign principals try to influence the legislative and executive decision-making of other countries. Studies show that foreign lobbying influences foreign policies of the U.S. in favor of foreign governments and businesses, especially in the areas of trade and investment.[1] The key to foreign lobbying is that foreign principals cannot lobby the American government directly, and must hire an agent based in the United States. So far, the literature on foreign lobbying has focused mostly on the Foreign Agents Registration Act of 1938 (FARA), which provides the legal channel for an "agent of foreign principal" to engage in political activities on behalf of a foreign principal within the United States. However, what has been largely overlooked is that some foreign principals may lobby under the *domestic* lobbying law.

Since the enactment of the Lobbying Disclosure Act of 1995 (LDA), private and nonpolitical foreign principals were categorically excluded from the FARA under a "commercial exemption." This exempted foreign firms from completing detailed filings with the Justice Department under the FARA, and required them only to file disclosures with Congress revealing relatively little about their activities. Moreover, foreign firms incorporated in the U.S. are considered domestic. As such, domestic subsidiaries of foreign multinational corporations (MNCs) never fell under the purview of the FARA. Therefore, not accounting for *foreign-connected* lobbying under the LDA paints an incomplete picture about potential foreign influence in the United States.

And yet, LDA lobbying, by default, has been assumed to represent domestic, but not foreign, interests.[2] As a result, there has been no systematic work on whether lobbying under the LDA represents foreign principals and to what extent. However, when ZTE, one of the Chinese telecommunications companies banned from doing business with the

[1] Gawande, Krishna and Robbins (2006); Gawande, Maloney and Montes-Rojas (2009); Kee, Olarreaga and Silva (2007); Montes-Rojas (2018).

[2] Courtney and Lee (2020).

U.S. was left off the hook after its American subsidiary spent millions lobbying, it is suggestive that foreign lobbying actually does occur through the LDA, and through domestic subsidiaries of foreign MNCs.

I argue that U.S.-based subsidiaries function as domestic agents of foreign MNCs in their efforts to exert influence on U.S. governmental policies. It is well known that domestic corporations play an important role in influencing American foreign policy.[3] Among these are the many foreign-owned, but domestically incorporated subsidiaries of foreign MNCs. A growing body of research suggests that these subsidiaries play a strategic role in serving the foreign headquarters' interests in host countries.[4] For instance, global firms may indirectly gain access to investment treaties or tax privileges bestowed on a host state through their domestic subsidiaries. In terms of lobbying, foreign MNCs' U.S.-based subsidiaries are granted a *domestic* status, allowing foreign principals to disclose their activities with the LDA under much less scrutiny than that of the FARA.

If foreign MNCs lobby through their domestic subsidiaries, a substantial amount of foreign lobbying is expected to occur under the LDA, separate from the FARA. Furthermore, the LDA lobbying patterns of domestic subsidiaries are likely to reflect characteristics of their large and multinational foreign headquarters. This leads to several empirical expectations – the subsidiaries are expected to engage in lobbying activities under the LDA disproportionate to their economic presence in the United States. This is because the domestic subsidiaries will be representing the complete set of policy interests, and thus a greater need for lobbying, of their much larger foreign headquarters. Similarly, these subsidiaries are expected to lobby on a wider array of issue areas than American firms, even American MNCs, as they represent interests of their U.S.-based and foreign-based operations. Meanwhile, the subsidiaries are expected to focus on lobbying issue areas of

[3] Milner and Tingley (2015); Skonieczny (2017); Kim and Milner (2019).

[4] Betz, Pond and Yin (2020); Thrall (2021); Lee (Forthcoming).

critical importance to foreign MNCs.

I assembled an original dataset merging LobbyView and Orbis data at the firm-level. From LobbyView, I downloaded all lobbying reports in 2015-2016 and reconstructed lobbying spending and issue codes by unique corporate client.[5] Then, based on original lobbying registration reports, I distinguished clients incorporated in the U.S. from those located abroad, using their reported principal place of business. After identifying all of these firms in Orbis, and linking them with their global ultimate owners, I further distinguished majority foreign-owned firms located in the U.S. from American firms. From Orbis, I also downloaded information on other potential determinants of lobbying such as firm size and industry classification. In order to control for other means of political influence, I collected and merged data on whether the firms sponsored a Political Action Committee (PAC) during the 2016 election cycle and how much they contributed to federal candidates (Lee, Forthcoming).

From these data, I find multiple evidence that domestic subsidiaries play a significant role of representing foreign MNCs in the United States. First, a substantial amount of foreign-connected lobbying occurs under the LDA. In fact, this amount is comparable to the entire foreign lobbying spending disclosed with the FARA by all types of foreign principals. It is also worth emphasizing that 90% of this foreign-connected LDA spending is disclosed on behalf of domestically incorporated foreign MNCs (the subsidiaries), and not foreign-based commercial entities. Meanwhile, using similarly sized American firms as a reference group, I find that domestic subsidiaries of foreign MNCs tend to lobby more often and spend more lobbying than American firms. This pattern holds true among a sub-sample of multinational firms, and after controlling for industry, location, and PAC activities. In the aggregate, domestic subsidiaries account for about 17% of the entire corporate LDA spending and nearly 22% of lobbying spending by all MNCs in the United

[5] Kim (2018).

States. This magnitude of political spending in the U.S. is substantial considering that the subsidiaries contribute only about 5% to the private sector GDP.

Additional findings from this paper corroborate the perspective that domestic subsidiaries may represent the policy interests of foreign MNCs. The U.S. subsidiaries of foreign MNCs tend to lobby on a broader array of issue areas than comparable American MNCs. Additionally, subsidiaries spend disproportionately on issue areas of interest to their foreign parents. For instance, domestic subsidiaries of foreign MNCs spend about 8% of their total lobbying expenses on trade issues, compared to American firms, which spend 5%. Likewise, foreign ownership of a U.S.-based firm has a positive and significant association with the amount of lobbying spending and the count of lobbying reports filed regarding trade/tariff, foreign relations, and immigration issues after controlling for firm characteristics. Also, U.S. subsidiaries of foreign MNCs lobby intensively on industry-specific issue codes on which much foreign investment into the U.S. is concentrated, and where scrutiny for investment is high. Examples include the pharmaceutical, telecommunications, transportation, and defense industries. In contrast, U.S. subsidiaries lobby less on issue areas with little policy implications to foreign MNCs.

This paper offers the most comprehensive information on the lobbying activities by U.S. subsidiaries of foreign MNCs yet presented in the literature. I identify all foreign-connected lobbying under the LDA, and show that foreign lobbying is grossly underestimated when neglecting this channel. Hence I contribute to expanding the boundaries of foreign lobbying which has been narrowly focused on the FARA.[6] Moreover, I provide descriptive and inferential evidence that U.S.-based subsidiaries act as domestic agents for foreign MNCs in their efforts to influence U.S. governmental policies. By this, I build on the growing body of research investigating the strategic role of domestic subsidiaries in

[6] Gawande, Krishna and Robbins (2006); Kee, Olarreaga and Silva (2007); Montes-Rojas (2018); Lee (2020).

advancing political agendas of their foreign headquarters.[7] Finally, I connect with the literature on interest group politics more generally, and demonstrate how the current lobbying law may actually allow foreign intervention through the growing presence of domestically incorporated foreign firms.

Theory of Foreign Lobbying through Domestic Subsidiaries

Lobbying is an integral part of the U.S. legislative and executive decision-making process. Foreign principals, too, can legally influence U.S. government policies. Historically, foreign lobbies have been separately categorized and regulated under the Foreign Agents Registration Act of 1938 (FARA).[8] However, there are two important developments since the enactment of the FARA that requires our attention to understanding foreign-connected lobbying more holistically. The first is the FARA's "commercial" exemption mandated with the enactment of the domestic Lobbying Disclosure Act of 1995 (LDA).[9] The second is the remarkable growth of foreign multinational corporations (MNCs) in the U.S., and their subsidiaries' domestic status that makes them indistinguishable from American corporate clients under the LDA.

Foreign Lobbying in the United States

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 U.S. government as long as these agents register under the FARA. However, with the enactment of the LDA in

[7] Betz, Pond and Yin (2020); Thrall (2021); Lee (Forthcoming).

[8] Foreign Agents Registration Act of 1938, as amended, 22 U.S.C. §661 *et seq*.

[9] Lobbying Disclosure Act of 1995, as amended, 2 U.S.C. §1601 *et seq*.

1995, the FARA was amended to exempt foreign commercial entities from registering and disclosing their activities under the FARA. Under this "commercial" exemption, lobbyists for foreign firms, whose U.S. advocacy is not directed or conducted on behalf of a foreign government or political party, were allowed to disclose their work under the LDA in the same manner as for domestic firms.[10]

This reform was significant for foreign firms and agents representing them. Since the FARA registration is an onerous and stigmatized process, it is prudent for them to avail themselves of the "commercial" exemption. For instance, the financial disclosure requirements are considerably more extensive under the FARA than under the LDA. Under the LDA, a lobbyist only has to file a semi-annual report with 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 or expenses made on behalf of the client. The FARA, on the other 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, including failure to file or fraudulent filings, are punishable by civil penalties as opposed to FARA's criminal penalties. Confirming this view, You (2020) reported a significant drop in the FARA lobbying fees by foreign business entities around the time the LDA was enacted.

And yet, the literature on foreign lobbying (Gawande, Krishna and Robbins, 2006; Gawande, Maloney and Montes-Rojas, 2009; Kee, Olarreaga and Silva, 2007; Montes-Rojas, 2018; Lee, 2020) and related data collection efforts (e.g., OpenSecrets' Foreign Lobby Watch; Foreign Lobbyist Influence Tracker, a joint project of ProPublica and the Sunlight Founda-

[10]Note that the exemption is also available to registrants who represent foreign state-owned enterprises provided that the registrants' political activities are in furtherance of the bona fide commercial, industrial or financial operations of the foreign parent.

tion; Lee (2020)'s Foreign Lobbying Dataset) so far have overwhelmingly focused on the FARA. In this process, the lobbying activities of domestically incorporated foreign MNCs have been completely neglected in the literature. This is because domestic subsidiaries 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" (22 U.S.C. §611(b)(2)), and thus never fell under the purview of the FARA. Meanwhile, most studies on the LDA view it as domestic, and do not distinguish corporate clients by country of origin.

Therefore, an important knowledge gap in the lobbying literature involves understanding the degree to which foreign-connected lobbying takes place under the LDA, and whether those activities are reflective of foreign MNCs' interests. With the intense attention drawn to the FARA as part of Robert 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 the FARA.[11] More than ever it is important to understand foreign-connected lobbying under the domestic law. Thus, the primary objective of this paper is to provide comprehensive information on the lobbying interests of domestic subsidiaries of foreign MNCs.

U.S. Subsidiaries as Domestic Agents of Foreign Lobbying

The lobbying literature based on the LDA recognizes that corporations play a significant role in forming American foreign policy (Milner and Tingley, 2015; Skonieczny, 2017; Kim and Milner, 2019). By default, most studies view LDA lobbying to represent domestic interests, and not foreign interests. However, among the corporate clients that lobby under

[11]See , e.g., "Manafort case puts new scrutiny on foreign lobbying law's shortcomings," *New York Times* (Lafraniere, 2018) or "How Mueller revived a law that protects us all against foreign money," *The Washington Post* (Teachout, 2019). Senator Grassley (R-IA) has been pushing for a repeal of the LDA exemption to U.S. subsidiaries of foreign headquartered businesses.

the domestic lobbying law are the many domestic subsidiaries of foreign MNCs. According to the Bureau of Economic Analysis, the year-end Foreign Direct Investment (FDI) position in the U.S. was about 3.4 billion dollars in 1950 (latest historic data available), which grew to 0.5 trillion dollars in 1995, and then 4.5 trillion dollars in 2019. Based on the latest report available, there are 8,005 affiliates of foreign MNCs in the U.S., of which 80% is wholly-owned and 91% majority-owned.[12]

Despite the growth of foreign MNCs in the U.S., the political implications of disaggregated ownership shares across countries remain a largely unexplored topic in existing theories of FDI and global value chains. One reason for this is the difficulty of systematically collecting global ownership information which is required to identify subsidiaries of foreign MNCs. Earlier studies like Mitchell (1995) and Hansen and Mitchell (2000) sampled from the largest subsidiaries listed in *Forbes* (1989) in their efforts to document the political activities of foreign firms in the United States. These studies, however, did not utilize actual lobbying information from the LDA reports. Rather, they used an indirect measure of the potential for lobbying based on the number of representatives, consultants, or counsel offices retained by the corporation in Washington, D.C. Their conceptualization is that domestic subsidiaries of foreign MNCs are limited in political participation due to legitimacy and focused only on protecting the investment made in the host country.[13]

However, it would be naive to conclude that LDA lobbying by the subsidiaries is limited to securing extant investment in the host country. For instance, studies find that MNCs have become quite adept at functioning politically within host countries(Dunning, 1998;

[12]The 2018 preliminary report was released on November 13, 2020. Note that this count includes the universe of affiliates with total assets/sales/net income (or loss) of more than $20 million. Among the affiliates, 7,287 were majority-owned and 6,452 were 100%-owned by foreign MNCs.

[13]In Appendix C, I present an analysis inconsistent with the view that domestic subsidiaries are constrained in their political activities due to legitimacy concerns.

Eden, Lenway and Schuler, 2005; Wint, 2005). MNCs would actively engage with governments as if they were another factor of production (Kindleberger, 1970) or set of agents (Mitnick, 1993) that international firms "need in the management of their chain of economic value-adding activities that cross borders" (Boddewyn and Brewer, 1994). This is because government officials can provide essential "political intermediate products" such as permission to trade and invest, protection against political risk, and competitive advantages against rivals (e.g., government contracts, subsidies, protection).

I argue that domestic subsidiaries of foreign MNCs may represent interests of their global ultimate owners in the U.S., and thus serve as domestic agents of foreign lobbying. This idea is in line with recent studies in political science that recognize that MNCs may strategically locate their subsidiaries across countries with political considerations. For instance, firms can indirectly gain access to international investment and tax treaties through their subsidiaries incorporated in signatory countries (Betz, Pond and Yin, 2020; Thrall, 2021). In this context, subsidiaries of foreign MNCs can categorically avoid the onerous FARA and (whether intended or not) obscure foreign ownership under the LDA. This provides strong incentives for foreign MNCs to lobby through their domestically incorporated subsidiaries. Moreover, as Mathias (1980) stated in his study of ethnic groups and foreign policy, the "real powerhouses of foreign influence are homegrown" and "groups lacking strong indigenous support acquire only limited or transient influence." What better powerhouse for a foreign MNC than its own subsidiary that is homegrown and proactively partnering with the U.S. government? Hence, another important objective of this paper is to shed light on the political role that U.S. subsidiaries can play on behalf of foreign MNCs under the current legal system.

Empirical implications

If foreign MNCs lobby through their domestic subsidiaries, the subsidiaries will effectively represent interests of their *much larger* parent firms based abroad, which are also *multinational*. Recent studies find that MNCs 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, MNCs can easily lobby for their preferred policies and are capable of internalizing the benefits of successful political action (Huneeus and Kim, 2018; Johns, Pelc and Wellhausen, 2019). Thus, domestic subsidiaries of foreign MNCs are expected to feature distinct patterns of lobbying from the rest of corporate America, which are not necessarily multinational or representing a much larger corporation with greater resources. Specifically, foreign ownership of a domestic firm is expected to distinguish the lobbying activities of U.S. subsidiaries of foreign MNCs from those of American firms, after controlling for ordinary features that predict corporate lobbying.

For instance, one of the strongest determinants of corporate political activities in the U.S. is the size of a firm. Large firms have diverse and complex interests and high stakes in the policy process, while resource-poor policymakers have incentives to be receptive to the needs of these large firms with resources dedicated to influencing the process (Epstein, 1969; Drope and Hansen, 2006; Weymouth, 2012). Firm size is also a proxy for public visibility, perceived legitimacy, and the degree of countermobilization (Mitchell, Hansen and Jepsen, 1997). Other determinants of lobbying include industry and location, indicative of concentration and relations with the government (e.g., sales or regulations) (Wright, 1989; Mitchell, Hansen and Jepsen, 1997). Therefore, I examine the effect of foreign ownership on U.S.-based firms' quantity (decision to lobby and intensity of lobbying) and quality (scope and issue selection) of lobbying after controlling for their size, industry, and location. The specific expectations are discussed in the following:

Decision to lobby & intensity of lobbying If very large foreign MNCs lobby through their domestic subsidiaries, the subsidiaries' LDA lobbying should represent the complete set of policy interests of the foreign headquarters' global operations. For instance, ZTE's American subsidiary is likely to lobby on behalf of the ZTE headquarters in Shenzhen, China. According to this argument, in contrast to extant research showing that political involvement is a function of a firm's size, i.e., lobbying activities are proportional to the economic size of a firm, the participation and scale of LDA lobbying by domestic subsidiaries are expected to be disproportionate to their economic presence in the United States. In other words, the lobbying of domestic subsidiaries of foreign MNCs may surpass the level that could be expected for a domestic firm of a given size, especially after controlling for industry and location. If so, some smaller subsidiaries, of a size not generally expected to engage in lobbying at all in the U.S., may engage in lobbying in order to represent a much larger foreign parent. Similarly, subsidiaries may spend at much higher levels than expected from a comparable domestic firm, if the foreign MNC's local presence is merely a tip of the iceberg of the entire corporate structure.

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 once engaged in lobbying. Because I am interested in the role of domestic subsidiaries in LDA lobbying, I limit my analysis to corporate clients located in the United States. If consistent with the prediction that foreign lobbying occurs through subsidiaries, I expect the domestic subsidiaries to be associated with a greater likelihood of lobbying, and also a greater amount of spending than similarly sized American firms. In other words, foreign ownership of a firm is expected to moderate the relationship between their size in the U.S. and quantity of lobbying.

Scope of lobbying & issue selection of lobbying As an effort to document the political agendas of foreign MNCs, I analyze the subject matter that domestic subsidiaries lobby on, in comparison to those of American firms. In the LDA reports, registrants select (as many as necessary) categories from a list of 79 issue codes to reflect all actual and anticipated lobbying activities. I kept track of the lobbying issue codes that were reported on behalf of the U.S. subsidiaries of foreign MNCs, and compared them with the reported issue codes for American clients at the firm-level. Note that earlier research conceptualized U.S. subsidiaries as engaging in lobbying to mainly protect the profitability of the U.S. investment (Hansen and Mitchell, 2000; Mitchell, 1995). Instead, if domestic subsidiaries engage in lobbying also to represent interests of their foreign headquarters, beyond the U.S. market, I expect the subsidiaries to lobby on a greater variety of issue codes than comparable American firms. For instance, they might lobby on a larger number of unique issue codes than similarly-sized domestic firms incorporated in the same state, in the same 3-digit NAICS industry sector. If so, the finding will be suggestive that the scope of lobbying activities by the subsidiaries extend beyond that of their U.S. operations.

Although it would be ideal to pull apart subsidiaries' lobbying that focuses on representing the interests of their parents' global operations from the interests of their U.S. operations, this is nearly impossible for at least several reasons. First of all, the parent company naturally benefits from the financial successes of its subsidiary. This makes it difficult to determine whether lobbying efforts made in the U.S. are primarily benefiting the subsidiary or its parent. Second, lobbying disclosure reports are imperfect sources of information regarding clients' political agendas. There is a huge variation in lobbyists' reporting of specific lobbying issue areas, and their classification of these issue areas into designated lobbying issue codes.[14] Meanwhile, the typology of these lobbying issue codes does not correspond to common industry classifications, and does not clearly distinguish domestic and international issue codes.[15]

[14]For instance, some lobbyists add lengthy descriptions on specific issue areas while others do not include any description. Meanwhile, it is up to the lobbyist to categorize, e.g., "the importance of foreign direct investment" under a related industry category like MAN (manufacturing), or TRD (trade) / ECN (economic development) / FOR (foreign relations).

[15]For instance, there are separate codes for MAN (manufacturing), CHM (chemicals) and PHA (pharmacy) under the LDA. Meanwhile, under the NAICS classification, chemicals fall under

Albeit an indirect test, we may infer whether U.S. subsidiaries put weight on their parents' desires by focusing on several lobbying issue codes – e.g., trade, tariffs, immigration, intellectual property rights – that are clearly relevant to foreign MNCs. For instance, MNCs 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). Thus, U.S. subsidiaries are expected to lobby intensively on trade and foreign relations, so that the foreign parents' businesses with the U.S. (or third countries through the U.S.) are strong. Foreign MNCs want flexible immigration policies as to transfer workers within the organization to where they are needed most (Liao, 2021; Kerr, Lincoln and Mishra, 2014). Meanwhile, America's robust intellectual property (IP) laws have often put strain on U.S. trade relations; and foreign MNCs' IP must be separately registered in the U.S. for protection. The difficulties faced by MNCs in creating regulatory coherency are expected to encourage subsidiaries to lobby intensively on copyright/patent/trademark issues (Mansfield, 1994; Smith, 2001; Faunce, 2006; De Faria and Sofka, 2010). Finally, if U.S. subsidiaries represent foreign MNCs' interests, their LDA lobbying efforts would focus more on issue areas that impact the parents' foreign investment. Therefore, I expect to observe intensive lobbying on industry-specific issue codes where FDI is concentrated (e.g., pharmacy, transportation) and regulated by the Committee on Foreign Investment in the United States (e.g., telecommunications, defense).[16]

the manufacturing sector, and then pharmaceutical manufacturing falls under the chemicals industry. Also, TRD (trade) under the LDA encompasses both "domestic & foreign trade" while there are separate codes for GOV (government issues) and FOR (foreign relations).

[16]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 U.S. technology, infrastructure and data businesses.

Data

I assembled a novel dataset of the lobbying activities of all corporate clients that reported with the LDA during 2015-2016 (2016 election cycle) matched with their global ultimate owners.[17] As the basis, I downloaded lobbying information from LobbyView (Kim, 2018), a firm-level lobbying & congressional bills database based on original LDA lobbying reports. I queried LobbyView data at the report-level to collect the names of corporate clients and their registrants, total lobbying spending, and issue codes reflecting the general issue areas in which the registrants engaged in lobbying on behalf of their clients.[18] I further divided the total lobbying spending in each report by the number of general issue codes to approximate how much was spent on each issue code. These 143,374 entries were used as the basis for understanding issue-specific lobbying by U.S. subsidiaries of foreign MNCs vs. American firms.

One of the biggest advantages of using LobbyView is its readily available Orbis firm identifiers, Bureau Van Dijik IDs (Bvd IDs), assigned to each client. I made substantial improvements to the LobbyView Bvd IDs in ways suitable for this paper. For instance, a key empirical objective of this paper is to identify all foreign-owned corporate clients reporting with the LDA. 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 client, I updated the Bvd IDs for cases in which the U.S. subsidiaries, rather than the foreign-based headquarters, engaged in lobbying. I ended up revising 36% of the foreign clients' Bvd IDs. In addition, I substantially updated the LobbyView Bvd IDs that were outdated. Finally, I eliminated a large amount of non-firm producers – government districts and agencies,

[17] Huneeus and Kim (2018) shows that lobbying activities are sticky over time at both the extensive and intensive margins.

[18] The data were downloaded in March 2020 using LobbyView's application program interface.

associations, nonprofit organizations – included in LobbyView based on client names and industry classifications.

The main unit of analysis used in this paper is at the firm-election cycle level. For each client, I aggregated the issue-specific lobbying spending over the two years. Then, using the updated Bvd IDs of the clients, I downloaded and matched measures of firm and industry features with firms' lobbying data. These include annual operating revenue, 4-digit core NAICS codes, location, and global ultimate owner (GUO; with at least 50.01% ownership).[19] Based on the country code of the identified GUOs, I created the main variable of interest – foreign ownership, with 1 standing for majority foreign-owned domestic firms and 0 for American firms.[20] In a sub-sample analysis, I identify American MNCs, based on whether American corporate clients (themselves or their GUOs) have at least one subsidiary outside of the U.S., as a closer reference group to domestic subsidiaries of foreign MNCs. Lastly, I merged the above with newly collected 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 (Lee, Forthcoming). Note that I aggregated the lobbying spending over 2015-2016 in order to match the test period with the 2016 election cycle. This way, I am able to eliminate the possibility of substitution between lobbying and campaign finance.

[19] For a measure of firm size, I used the average operating revenue of firms in 2015 and 2016, and imputed the revenue of the latest year value available when missing. As a secondary resource, I used D&B Hoovers, which specializes in collecting financial data for small and private firms.

[20] Recall that more than 90% of U.S. affiliates of foreign MNCs are majority-owned. In order to improve data accuracy, I relied on internet search and any indication of foreign ownership in the the lobbying registration reports around 2015-2016.

Results

Overall, the various interests of 5,767 unique corporate clients were disclosed during 2015-2016 under the LDA. Among these firms, 5,148 were located in the U.S., consisting of 4,657 American and 491 majority foreign-owned firms, which are the focus of this study.[21] As shown in Table 1, the U.S. subsidiaries of foreign MNCs consist less than 10% of all firms that lobbied under the LDA. However, these subsidiaries accounted for nearly 17%, roughly $750 million, of the total corporate lobbying spending by domestic clients over the two years. Importantly, this amount is greater than eight times the lobbying spending reported on behalf of foreign firms located abroad.[22] In fact, most of the foreign-connected lobbying activities (nearly 90%) under the LDA are reported on behalf of domestic entities, the domestic subsidiaries of foreign MNCs. The overwhelming political representation by domestic subsidiaries is suggestive that foreign headquartered firms find merit in having their homegrown subsidiaries carry out the lobbying function on behalf of them. Also note that the mean and median of lobbying spending under the LDA are much larger among U.S. subsidiaries of foreign MNCs, compared to those of American firms, as shown in Table 2.

Table 1: LDA reporting by U.S.-based firms, 2015-2016 aggregate

	count	%. count	amount	%. amount
American	4,657	90.5	$3,736,987,620	83.3
Majority foreign-owned	491	9.5	749,285,749	16.7
Total	5,148	100.0	$4,486,273,369	100.0

[21]There were also 588 foreign firms and 31 foreign subsidiaries of American multinationals reporting with the LDA during the period.

[22]Foreign-based firms spent $92,562,264 during 2015-2016 under the LDA.

Table 2: LDA spending by U.S.-based firms, 2015-2016 aggregate

	min	max	mean	median	s.d.
American	0	62,574,000	802,445	120,000	3,264,908
Majority foreign-owned	0	23,460,000	1,526,040	320,000	3,071,344

Foreign-connected LDA Spending vs. FARA Spending

It is important to understand foreign MNCs' political engagement under the LDA in a broader perspective. Given that there is a designated channel for foreign advocacy, the FARA, how significant is foreign-connected lobbying disclosed under the LDA by foreign commercial principals?

To answer this question, I requested data from OpenSecrets' Foreign Lobby Watch to compare the degrees of foreign lobbying spending under the FARA and the LDA. Through email, I have received the latest version of their FARA spending dataset, disaggregated by year, country, and client, from an investigative researcher overseeing the Foreign Lobby Watch project on March 12, 2021. The Foreign Lobby Watch database documents all FARA spending since 2016 based on semi-annual reports that foreign agents are required to file with the Department of Justice on behalf of their foreign clients. I compare the total FARA spending in 2016 calculated by the Foreign Lobby Watch with foreign-connected LDA spending in 2016 collected for this paper. To the best of my knowledge, this is the first attempt to compare the aggregate amount of foreign-connected LDA spending and the FARA spending for a given year.

Through this I uncover two important findings. First, according to the Foreign Lobby Watch data, 249 foreign clients reported a total spending of $381,709,576 under the FARA in 2016. During the same period, under the LDA, 420 majority foreign-owned firms reported to have spent $354,899,736. When including foreign-based firms in 2016, the foreign-connected LDA spending increases to $395,094,366, which is even greater than the entire

FARA spending by *all* types of foreign principals – foreign governments, political parties, firms, other entities, and individuals outside the United States. This finding highlights the degree to which foreign lobbying is ongoing (and so far undetected) under the domestic lobbying law.

Second, the degree of foreign *corporate* lobbying can only be fully captured when analyzing the LDA with global ultimate ownership information. After categorizing the foreign principals in the Foreign Lobby Watch database by type (e.g., government entities, associations, ideology groups, private and public corporations), I find that the number of foreign corporate principals under the FARA is rather small. Given how foreign corporate clients are incentivized to disclose their lobbying under the LDA, as discussed earlier, this is rather unsurprising. Still, there were only 35 corporate type clients reporting with the FARA, mostly state-owned or public.[23] Only 13 of them would be considered private producing companies, which spent $4,905,736 in total.[24] This amount is merely 1% of all foreign-connected spending captured under the LDA during the same period.

The results strongly suggest that focusing only on the FARA spending when studying foreign lobbying is simply incomplete. In fact, the LDA turns out to be *the* major channel of foreign corporate lobbying in the United States. In particular, foreign MNCs lobby actively through their domestically incorporated subsidiaries.

Next, in order to understand how U.S. subsidiaries of foreign MNCs engage in lobbying activities under the LDA, 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 spending relating to their lobbying activities in 2015 and 2016.

[23]Meanwhile, there were two foreign state-owned enterprises, Etihad Airways (UAE) and Standard Aero (UAE), that disclosed their lobbying activities under the LDA during this period.

[24]I provide a list of these firms in the Appendix Table E1.

Extensive Margin: The Likelihood of Lobbying

Testing a corporate client's likelihood of lobbying requires constructing a representative sample of U.S. 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).[25] The 5,148 U.S.-based clients were added to this sample. After dropping the 346 firms that overlap with the random sample, 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 weighted conditional logistic regression model.[26] 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 U.S. operation (measured in common log transformed operating revenue), foreign ownership, and an interaction term of these two variables. I stratify the sample by the (3-digit NAICS) in-

[25]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.

[26]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; for the rest of the firms, the actual number of firms in different categories (goods-producing vs. services, small vs. non-small) was divided by the number of draws incorporating the number of overlaps (50,000-346), and assigned to them. This way, a single firm in the final sample would represent multiple firms in the population by a relevant weight that restores the size-sector proportion to the population.

Table 3: Extensive margin of lobbying

	Binary outcome of lobbying	
	Model 1	Model 2
foreign ownership	7.99***	8.17***
	(0.36)	(0.32)
log revenue	2.03***	1.99***
	(0.01)	(0.01)
foreign ownership:log revenue	−0.79***	−0.79***
	(0.05)	(0.04)
PAC contributions indicator		1.23***
		(0.06)
Num.Obs.	203 759	203 759
r.squared.max	0.32	0.36
Industry strata	✓	✓
State strata	✓	✓
PAC strata	✓	

Robust SEs in parentheses. $+$ p<0.1, $*$ p<0.05, $**$ p<0.01, $***$ p<0.001

dustry and state in which the firms are located. I also incorporate a measure of whether firms in the sample sponsored a corporate PAC during the 2016 election cycle or not. These measures collectively allow me to control for other determinants of lobbying, while testing whether foreign-owned firms engage in lobbying activities disproportionate to similarly sized American firms.[27] The interaction term represents the idea that the lobbying patterns by U.S. subsidiaries of foreign MNCs may not be solely determined by the size of their U.S. operations.

[27]Due to inherent difficulties in assigning industry characteristics that influence lobbying (e.g., concentration ratio or the level of regulations) to firms, I rather control for them in the analysis and focus on the relationship between corporate political behavior and the three main explanatory variables at the firm-level. In addition to industry characteristics, I control for the state in which firms are located, which might systematically alter political behavior due to differences in state regulations, business environment, or even the attitude towards foreign direct investment.

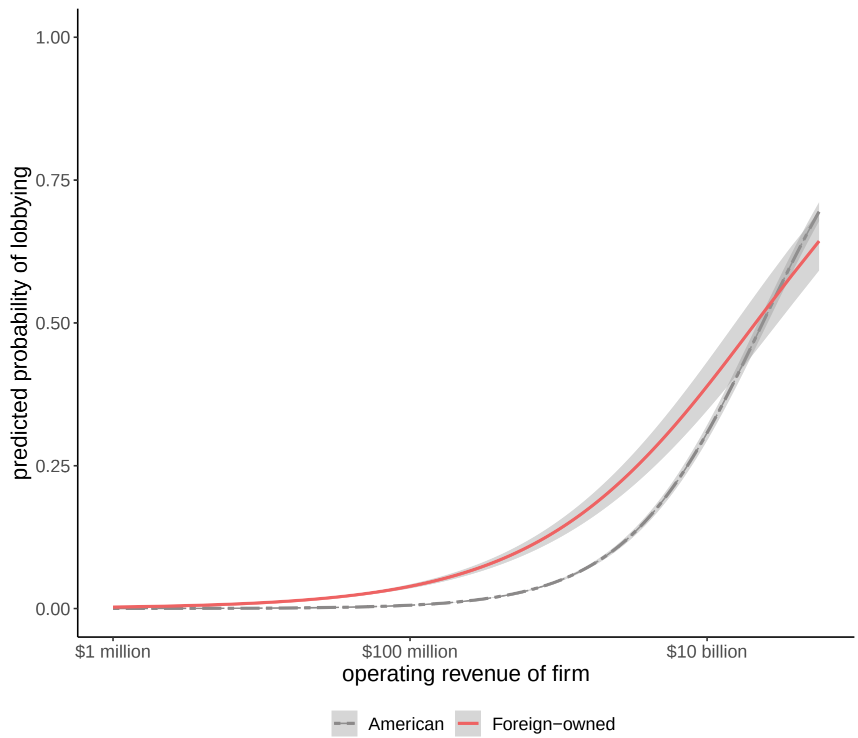

Figure 1: Predicted probability of lobbying by firm size and ownership

Table 3 summarizes the results. As shown, the foreign ownership coefficient is positive and statistically significant. This suggests that majority foreign-owned firms in the U.S. are more likely to engage in LDA lobbying compared to similarly sized American firms. In line with earlier studies, firm size generally has a positive association with the likelihood of corporate lobbying for both American and foreign-owned firms (Mitchell, Hansen and Jepsen, 1997; Drope and Hansen, 2006). However, the impact of firm revenue on lobbying is much larger for domestic firms. As suggested by the significant negative interaction term, foreign-owned U.S. subsidiaries' chances of lobbying have a significantly smaller association with the size of their U.S. presence.

This relationship is also presented in Figure 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 domestic subsidiaries of foreign MNCs.[28] In fact, at the

[28]Note that 99.7% of firms in the sample generate less than $186 million in annual operating rev-

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. In Appendix Figure A3, I show that this trend holds across all industry sectors. In addition, Appendix Figure A1 presents boxplots of the predicted probability of lobbying among American and foreign-owned firms across different firm size groups. The box plots corroborate the relationship between the likelihood of lobbying and firm size by ownership in Figure 1.

Finally, I stratify the sample based on whether firms sponsored a corporate PAC during the 2016 election cycle in model 1 of Table 3; in model 2, I include an indicator variable of PAC giving directly into the model rather than stratifying the sample based on it. In both cases, the relationship between the likelihood of corporate lobbying, firm size, and foreign ownership remains the same even after controlling for this alternative means of political activities. This rules out an alternative explanation that the the foreign-owned firms' greater likelihood of lobbying may be due to lacking other means of influencing policies. Rather, firms that sponsored a PAC during the 2016 election cycle actually had a positive association with the likelihood of lobbying in 2015-2016. This result is consistent with earlier research that find lobbying and campaign finance to be complementary means of political influence (Tripathi, Ansolabehere and Snyder, 2002; Lake, 2015; Kalla and Broockman, 2016; Kim, Stuckatz and Wolters, 2020).

Intensive Margin: The Level of Lobbying Spending

Next I examine the total dollar amount of LDA lobbying spending during 2015-2016 by each corporate client. I use 'lobbying spending' either to refer to the lobbying *income* that

enue; and the largest foreign-owned firm 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.

outside registrants make from their corporate clients or the lobbying *expenses* accrued to the clients from paying in-house lobbyists. Having established that the U.S. subsidiaries of foreign MNCs 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 (3-digit NAICS) industry and state fixed effects and control for the (common log transformed) amount of PAC contributions.

Models 1 and 2 of Table 4 examine the relationship between corporate lobbying spending, foreign ownership, and firm size among all firms that lobbied in 2015-2016. As expected, the foreign ownership coefficient is again positive and statistically significant. The size of the U.S.-based firms also has a positive association with the amount of lobbying spending. But this positive association between firm size and lobbying spending is significantly smaller for U.S. subsidiaries of foreign MNCs.

These patterns are visualized in Figure 2. The solid line summarizes the relationship between the size of foreign-owned firms in the U.S. and their lobbying spending, while the dashed line represents the relationship between the size of American firms and their lobbying spending. First, note that the difference in the height of the trend lines suggest that U.S. subsidiaries of foreign MNCs tend to spend more on lobbying than American firms across all firm sizes. In terms of their slopes, the solid line is significantly flatter

Table 4: Intensive margin of lobbying

	Dollar amount of giving, Logged			
	Model 1	Model 2	Model 3	Model 4
foreign ownership	2.39***	2.19***	1.88***	1.40**
	(0.54)	(0.45)	(0.48)	(0.47)
log revenue	0.49***	0.35***	0.48***	0.28***
	(0.02)	(0.02)	(0.03)	(0.04)
foreign ownership:log revenue	−0.25***	−0.24***	−0.22***	−0.17**
	(0.06)	(0.05)	(0.06)	(0.05)
log PAC contributions		0.27***		0.27***
		(0.02)		(0.02)
Num.Obs.	4932	4932	1577	1577
R2	0.158	0.187	0.208	0.280
R2 Adj.	0.133	0.162	0.137	0.216
Industry FEs	✓	✓	✓	✓
State FEs	✓	✓	✓	✓

Robust SEs in parentheses. + $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

than the dashed one, suggesting that the amount of lobbying spending of U.S. subsidiaries scales less with their firm size relative to how American firms do. This trend is particularly noticeable when disaggregating data by industry sector as presented in Appendix Figure A4, especially in the manufacturing, finance, and business services sectors.

Still, larger establishments in the U.S. are generally associated with more lobbying, and the spending gap between foreign-owned and American firms decreases as firm size increases. For instance, at the 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. Presumably, the larger the domestic subsidiaries' size in the U.S., the more important the U.S. market is (relative to others) to foreign MNCs. Once the U.S. market is prioritized, it is expected that the economic and political needs of foreign and American firms are less distinguishable. This likely explains the smaller gap in lobbying spending between the two groups as firm

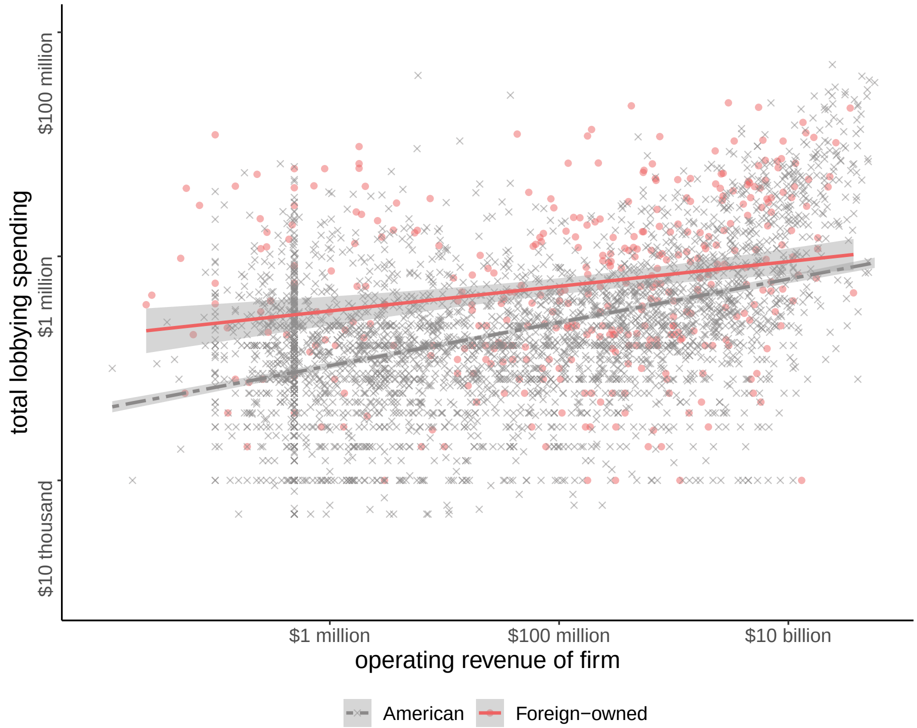

Figure 2: Dollar amount of lobbying spending by firm size and ownership

size increases in the United States.[29] Boxplots of lobbying spending by American and foreign-owned firms in Appendix Figure A2 confirm this pattern. Foreign ownership has a significant positive association with lobbying spending, but less so when firm size in the U.S. is extremely large.

In models 3 and 4 of Table 4, I conduct a sub-sample analysis among multinational firms only, including all U.S. subsidiaries of foreign MNCs and American MNCs that are either subsidiaries or parents. The purpose is to make the reference American group even

[29]In Appendix Table B3, I add a measure of U.S. market focus (vs. global focus) to Table 4: logarithm of 100 times the operating revenue generated by subsidiaries in the U.S. divided by operating revenue of their global ultimate owners. This U.S. market focus measure, in fact, has a negative association with lobbying spending. In other words, firms with more global focus and less U.S. market focus (including MNCs) tend to lobby more actively. This finding is consistent with the disproportionate foreign-connected LDA spending.

more similar to the U.S. subsidiaries of foreign MNCs, and thus rule out the possibility that the findings in models 1 and 2 are simply driven by multinational characteristics of domestic subsidiaries. As shown, among multinational corporations, foreign ownership still has a positive and significant association with LDA lobbying spending. This finding strongly suggests that the U.S. subsidiaries, unlike American firms, may represent the complete set of policy interests of their entire corporate network.

In models 2 and 4 of Table 4, I include the (common log transformed) dollar amount of PAC contributions made by firms. As shown, the amount of lobbying spending by firms has a positive association with the amount of corporate PAC contributions made by them during the period. More importantly, the main relationships between firm lobbying and foreign ownership, firm size, and their interaction hold even after taking into account another means of political influence.

In Appendix Table B1, 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 hurdle model are consistent with those of model 2 in Tables 3 and 4. This rules out the odds that the intensive margin results are biased, due to any differences between firms that engage in lobbying from the rest of the firms in the final sample. Additionally, in Appendix Table B2, I compare results of the intensive margin analysis using a Heckman selection framework and the OLS framework. The coefficients of the main variables and their significance levels are largely identical across the two specifications. Also note that the estimated inverse Mills ratio was insignificant (p-value = 0.639), suggesting that the data is consistent with no selection.[30] Lastly, it is worth mentioning that both the extensive

[30]Note that the two-step hurdle model and the Heckman framework make different assumptions

and intensive margin analyses are not subject to specific country of origins. For instance, dropping observations from a specific foreign country, one at a time, did not significantly alter any of the main results.

Lobbying Issue Areas

It is likely that domestic subsidiaries of foreign MNCs would lobby on behalf of the broad policy interests of the foreign headquarters' U.S. and global operations. As the subsidiaries represent a policy scope beyond their domestic operations, they are expected to lobby on a significantly greater number of unique issue areas relative to comparable American firms. Supporting this idea, Table 5 shows that foreign ownership of a U.S.-based firm has a significant positive association with the total number of unique issue codes it has lobbied on in 2015-2016. Foreign ownership particularly has a strong positive association with the scope of lobbying among multinational corporations with a similar size in the U.S., located in the same industry and state, as shown in models 3 and 4.[31]

Now which issue areas are foreign MNCs particularly interested in, and how does their lobbying focus differ from American firms? If foreign MNCs lobby through their domestic

about the 0s in the extensive margin analysis. The hurdle model assumes that the 0s are valid values. Based on the rich literature suggesting that only a few (and certainly not all!) firms lobby, it is reasonable to make this assumption. The Heckman framework instead assumes that all firms are expected to lobby, but lobbying by some firms is censored because of a selection process. The 0s are considered as missing in this case. Despite differing assumptions, either test suggests that the intensive margin of lobbying is not subject to selection.

[31]Note that the U.S. subsidiaries' intensive lobbying spending is not simply driven by this greater number of unique issue codes that they lobby on. As shown in Appendix Table B4, issue-specific lobbying spending by a U.S.-based firm (total amount of lobbying spending divided by the total number of unique issue codes) is also positively associated with foreign ownership.

Table 5: Variety of lobbying issue areas

	No. unique issue areas lobbied, Logged			
	Model 1	Model 2	Model 3	Model 4
foreign ownership	0.26*	0.22*	0.52**	0.43**
	(0.11)	(0.10)	(0.17)	(0.16)
log revenue	0.08***	0.05***	0.11***	0.07***
	(0.01)	(0.01)	(0.01)	(0.01)
foreign ownership:log revenue	−0.02+	−0.02+	−0.06**	−0.05*
	(0.01)	(0.01)	(0.02)	(0.02)
log PAC contributions		0.05***		0.05***
		(0.00)		(0.00)
Num.Obs.	4932	4932	1577	1577
R2	0.210	0.272	0.290	0.396
R2 Adj.	0.186	0.250	0.227	0.342
Industry FEs	✓	✓	✓	✓
State FEs	✓	✓	✓	✓

Robust SEs in parentheses. + $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

subsidiaries, it is expected that the subsidiaries concentrate their lobbying efforts on international issue codes most relevant to their parents such as trade/tariff, foreign relations, intellectual property rights, and immigration. Also, in order to influence U.S. policies in ways that protect and promote the interests of the foreign MNCs, subsidiaries are expected to lobby intensively on industry-specific issue codes where FDI into the U.S. is particularly concentrated or regulated. To test these ideas, I computed how much American and foreign-owned firms spent on all 79 issue codes in 2015-2016.[32]

In Figures 3 and 4, I present the issue code-specific percentage spending by foreign-owned and American firm groups along with their differences in dumbbells.[33] Both figures are ordered by the absolute difference in percentage spending by the two groups.

[32]See Appendix Table D1 for the complete list of lobbying issue codes filed under the LDA.

[33]Appendix Figures A1 and A2 present word clouds of issue codes lobbied on behalf of the two groups. The size of the texts is proportionate to spending.

Figure 3 presents the lobbying issue codes in which foreign-owned firms spend a greater proportion in the aggregate. As expected, trade is an issue area where the percentage spending difference is the greatest between U.S. subsidiaries of foreign MNCs and American firms. Domestic subsidiaries devoted about 8% of their total lobbying spending on trade issues compared to 5% by American firms. For instance, French-owned Pernod Ricard USA, domestic subsidiary of the world's 2nd largest wine and spirits company, reported to have lobbied on TRD (trade) in all of its quarterly reports during 2015-2016. Specific lobbying issues included "S. 491, Freedom to Export to Cuba Act of 2015," "U.S. Policy Toward Cuba,""Trade Facilitation and Trade Enforcement Act of 2015," "general trade issues," "Trans Pacific Partnership Negotiations," and "Country of Origin Labeling."[34] Such emphasis on TRD by the subsidiaries is also observed at the individual firm-level. In Appendix Table B5, I show that foreign ownership of a U.S.-based MNC has a positive significant association with both LDA spending and the count of lobbying reports mentioning TRD and TAR (tariff) issue codes after controlling for firm and industry characteristics used in the main analyses.

Meanwhile, I do not find FOR (foreign relations) to be an issue code that U.S. subsidiaries of foreign MNCs, in the aggregate, particularly concentrate on under the LDA. Both U.S. subsidiaries of foreign MNCs and American firms allocated about 1% of their total lobbying spending on this code. It is also expected that foreign firms' foreign relations concerns would be filed with the FARA through non-commercial foreign clients like government agencies and parties. However at the individual firm-level, I do find for-

[34]In 1993, Pernod Ricard and the government of Cuba created a state-run 50:50 joint venture. They export Cuban Havana Club, No. 3 rum in the world, without access to the U.S. market due to the trade embargo imposed in 1962. Clearly, this is a case in which lobbying the U.S. government would benefit the French headquarters and their operations in Cuba, rather than increasing the subsidiaries' sales in America.

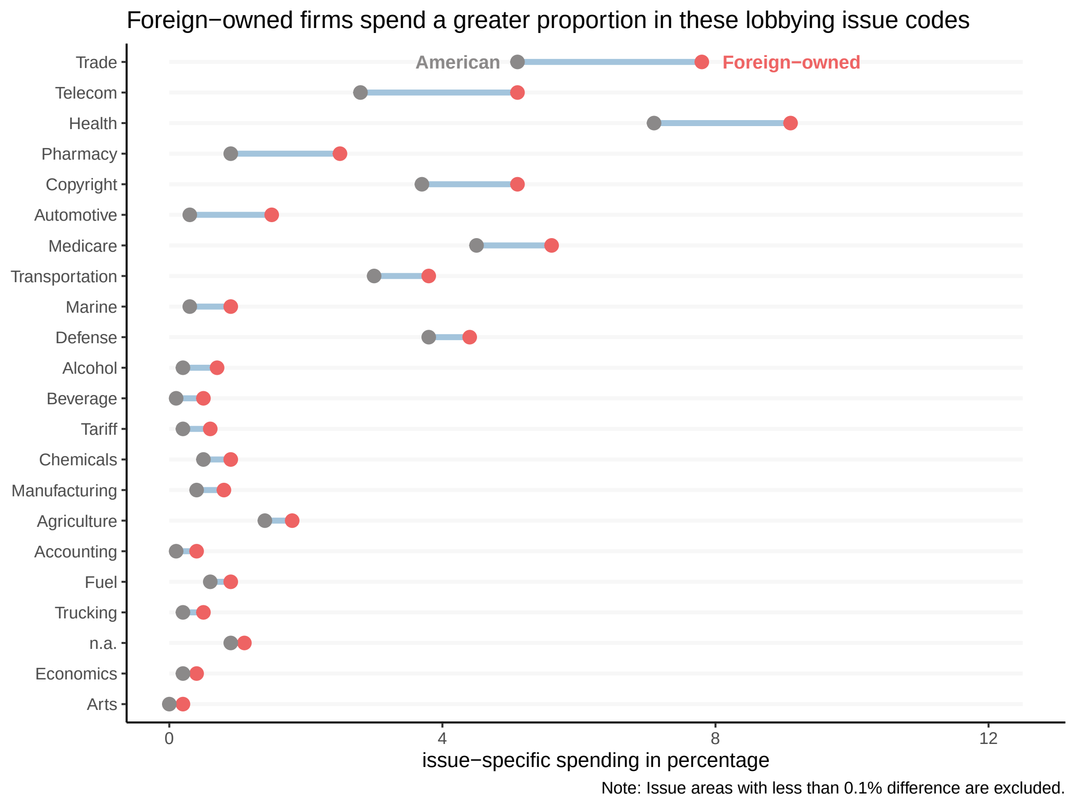

Figure 3: Percentage lobbying spending led by foreign-owned firms, ordered by differences

eign ownership to have a positive significant relationship with the amount of lobbying spending on foreign relations issues and the count of reports regarding them (see Appendix Table B6). Similarly, foreign ownership has a positive significant relationship with the lobbying spending and count on IMM (immigration) issues at the firm-level (see Appendix Table B7). In the aggregate, however, American firms spent 1.2% on immigration issues whereas foreign MNCs spent 0.6%. It is worth noting that foreign MNCs care about a specific subset of immigration issues such as nonimmigrant visas (e.g., L1 and H1B that allow foreign nationals to live and work in the U.S.), whereas American firms tend to hold a more general approach toward immigration issues or openness to trade and investment (Peters, 2014). In terms of intellectual property rights, U.S. subsidiaries spent 5.1% of their aggregate lobbying expenses on the CPT (copyright/patent/trademark) issue code whereas American firms spent 3.7%. But at the individual firm-level, after controlling for size, industry, and state, there was no significant difference between the amount and count of lobbying on this issue code among U.S.-based multinationals (See Appendix Table B8).

Among industry-specific issue codes, HCR (health issues), PHA (pharmacy), and MMM (Medicaid/Medicare) are where U.S. subsidiaries focus much of their lobbying efforts. These are the exact areas where foreign direct investment in the U.S. (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 U.S. (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 indicates how global pharmaceutical companies' pricing and sales are significantly impacted by U.S. policies and regulations.[35] Meanwhile, NAICS codes with the second largest FDI into the U.S. are motor vehicle manufacturing (3361), motor vehicle body and trailer manufacturing (3362), and motor vehicle parts manufacturing (3363), together consisting of 78% of investment in transportation equipment. Percentage lobbying spending in AUT (automotive industry) and TRA (transportation), each ranked 6th and 8th in Figure 3, is also greater among U.S. subsidiaries of foreign MNCs.[36]

[35]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.

[36]For instance, FCA US LLC lobbied on "2017-2025 Corporate Average Fuel Economy Standards," "Midterm Review," and "vehicles and government procurement" under AUT along with "Rail issues and other issues relating to transportation" under TRA. The reports also indicate that "As parent entities of FCA US LLC, FCA North America Holdings LLC and Fiat Chrysler Automobiles N.V. have a generalized interest in the issues above." Meanwhile, Rolls-Royce North America and its affiliates reported to have lobbied on "U.S. Treasury Section 385 rulemaking (issues related to

The domestic subsidiaries' lobbying emphasis on TEC (telecommunications) is not a surprise considering the strengthened Committee on Foreign Investment in the United States (CFIUS) laws targeting critical technology and infrastructure.[37] As the CFIUS's security concerns about the telecommunications sector grew, President Trump issued an executive order to establish the "Committee for the Assessment of Foreign Participation in the United States Telecommunications Services Sector." More traditionally, CFIUS regulated FDI in the defense industry, another issue area where U.S. subsidiaries of foreign MNCs spend disproportionately more compared to American firms.

Meanwhile, Figure 4 presents the lobbying issue codes in which American firms, as a group, spend a greater proportion than U.S. subsidiaries of foreign MNCs. TAX (tax), BUD (budget/appropriations), and ENG (energy/nuclear) are the top three issue codes that American firms disproportionately focus on. FIN (financial institutions/securities), COM (communications/broadcasting/radio/TV), HOM (homeland security), and CAW (clean air & water) are other areas in which the difference between American firms and U.S. subsidiaries are the largest. Other notable issue codes include LAW (law enforcement/crime/criminal justice), TOR (torts), WAS (hazardous/interstate/nuclear waste), VET (veterans), IND (indian/native American affairs) with little policy impact on foreign MNCs. Collectively, the findings support the idea that domestic subsidiaries of foreign MNCs generally lobby on a broader scope of issue areas than American firms, but also lobby disproportionately on issue areas with strong policy implications to foreign MNCs.

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foreign direct investment)" and the "Importance of Foreign Direct Investment in the US" under MAN (manufacturing). The reports also indicate that"Rolls-Royce PLC is the parent company of Rolls-Royce North America and benefits from the financial success thereof."

[37]For instance, Ericsson Inc., wholly-owned by Swedish Telefonaktiebolaget LM Ericsson, lobbied on "Spectrum auction," "Telecommunication issues in general," and "Cybersecurity" under TEC and the "review by the Committee on Foreign Investment in the United States" under TRD.

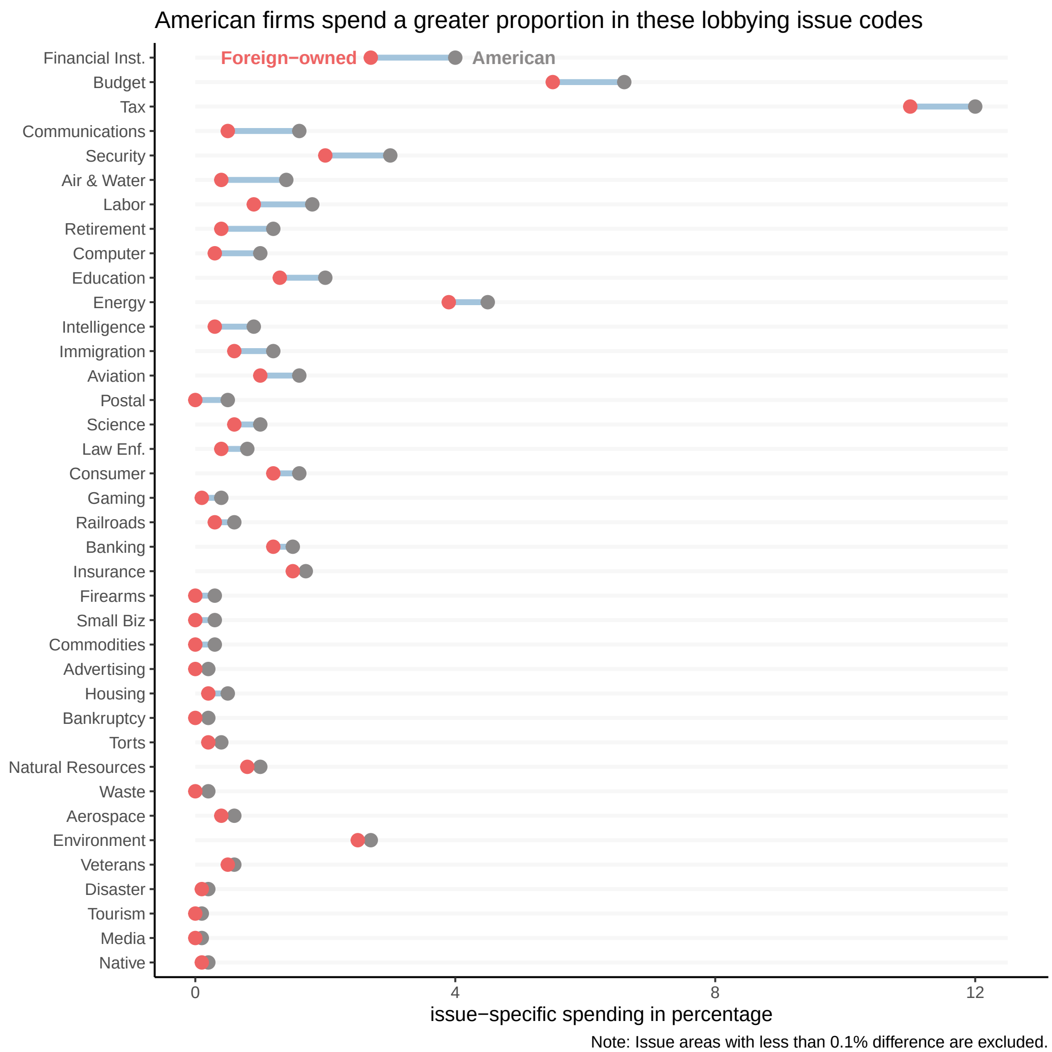

Figure 4: Percentage lobbying spending led by American firms, ordered by differences

Conclusion

U.S. subsidiaries of foreign MNCs can influence public policy as any other American firm would under the domestic lobbying law. In this study, I show that a significant amount of foreign-connected lobbying has been occurring under the domestic Lobbying Disclosure Act. In fact, the dollar amount of lobbying spending by foreign-connected clients under the LDA is comparable to the entire FARA spending by all types of foreign principals. And yet, foreign lobbying influence on American politics 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 majority-owned domestic subsidiaries of foreign MNCs. This finding suggests that the political role of domestically incorporated foreign MNCs may be substantial – a perspective that has been overlooked in the FDI and lobbying literature.

Several findings from this paper suggest that the U.S. subsidiaries engage in lobbying activities to advocate policy interests of their much larger, multinational, foreign headquartered parents. First, I find that foreign ownership of domestic firms is associated with a greater chance of LDA lobbying and a larger amount of spending on lobbying after controlling for size, industry, state, and other means of political influence such as donating campaign contributions. Second, I find domestic subsidiaries to lobby on a greater variety of issues than comparable American firms. Third, the U.S. subsidiaries lobby more intensively than American firms on trade/tariff issues, unambiguously important for foreign MNCs. Finally, lobbying efforts made by the subsidiaries are concentrated in industry-specific issue codes where the U.S. receives much foreign direct investment, making foreign MNCs vulnerable to changes in U.S. government regulation and policy.

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Online Appendix

Foreign Lobbying Through Domestic Subsidiaries

ONLINE APPENDIX

Contents

Appendix A: Additional Figures

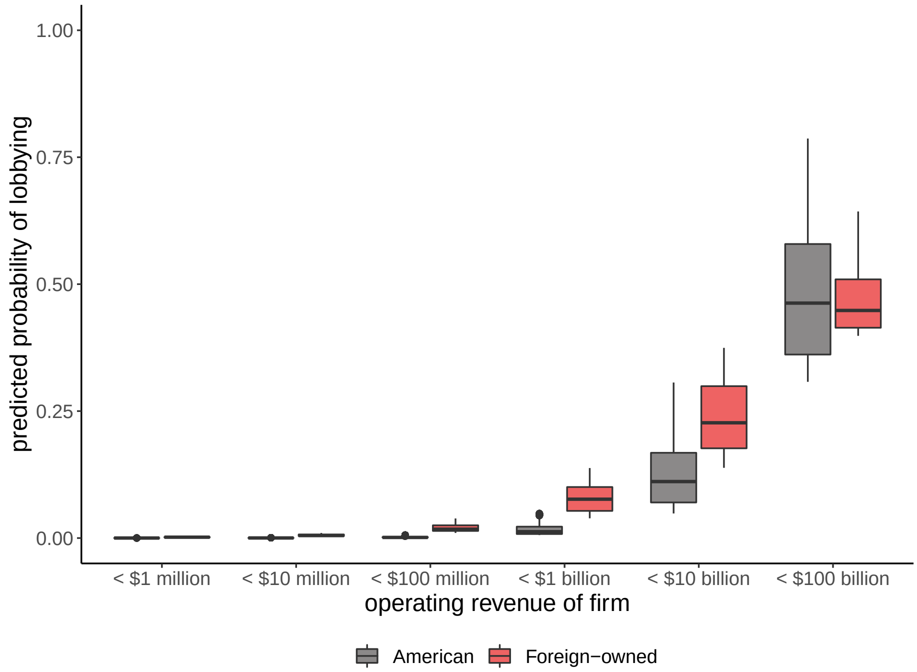

Figure A1: Boxplots of the predicted probability of lobbying by firm size and ownership

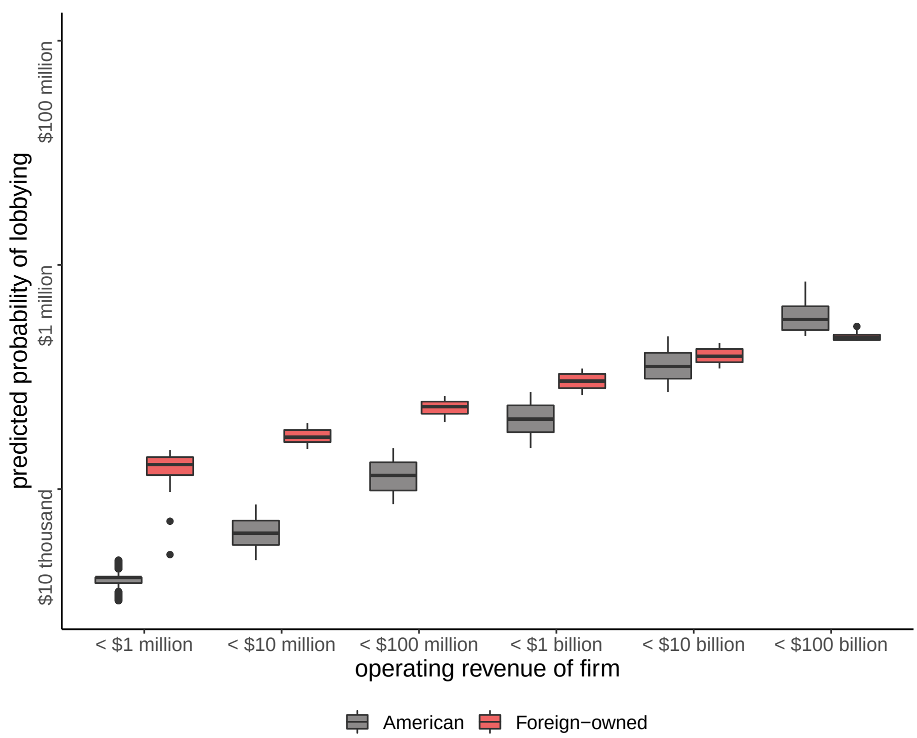

Figure A2: Boxplots of the dollar amount of lobbying spending by firm size and ownership

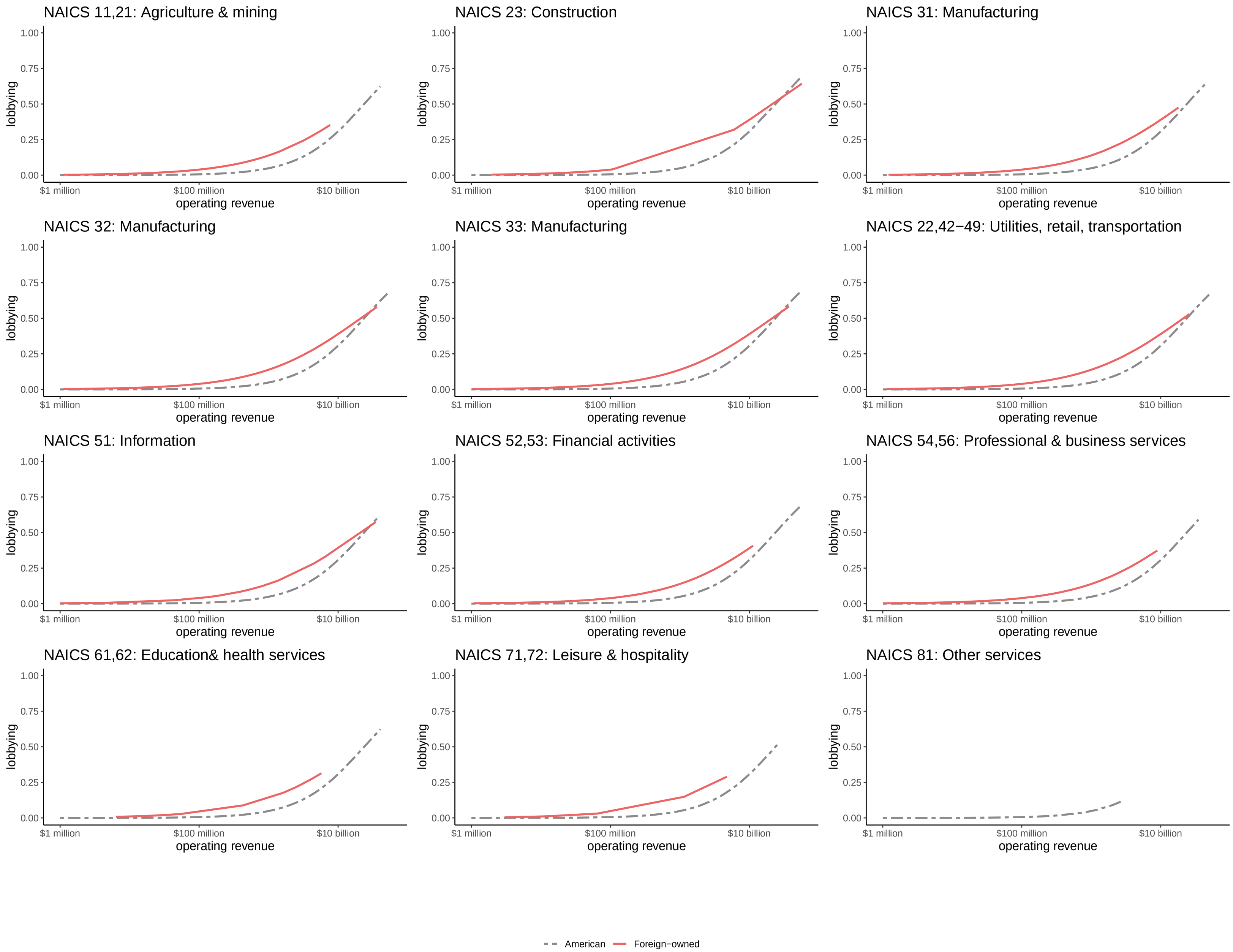

Figure A3: Predicted probability of lobbying spending by firm size and ownership by industry sector

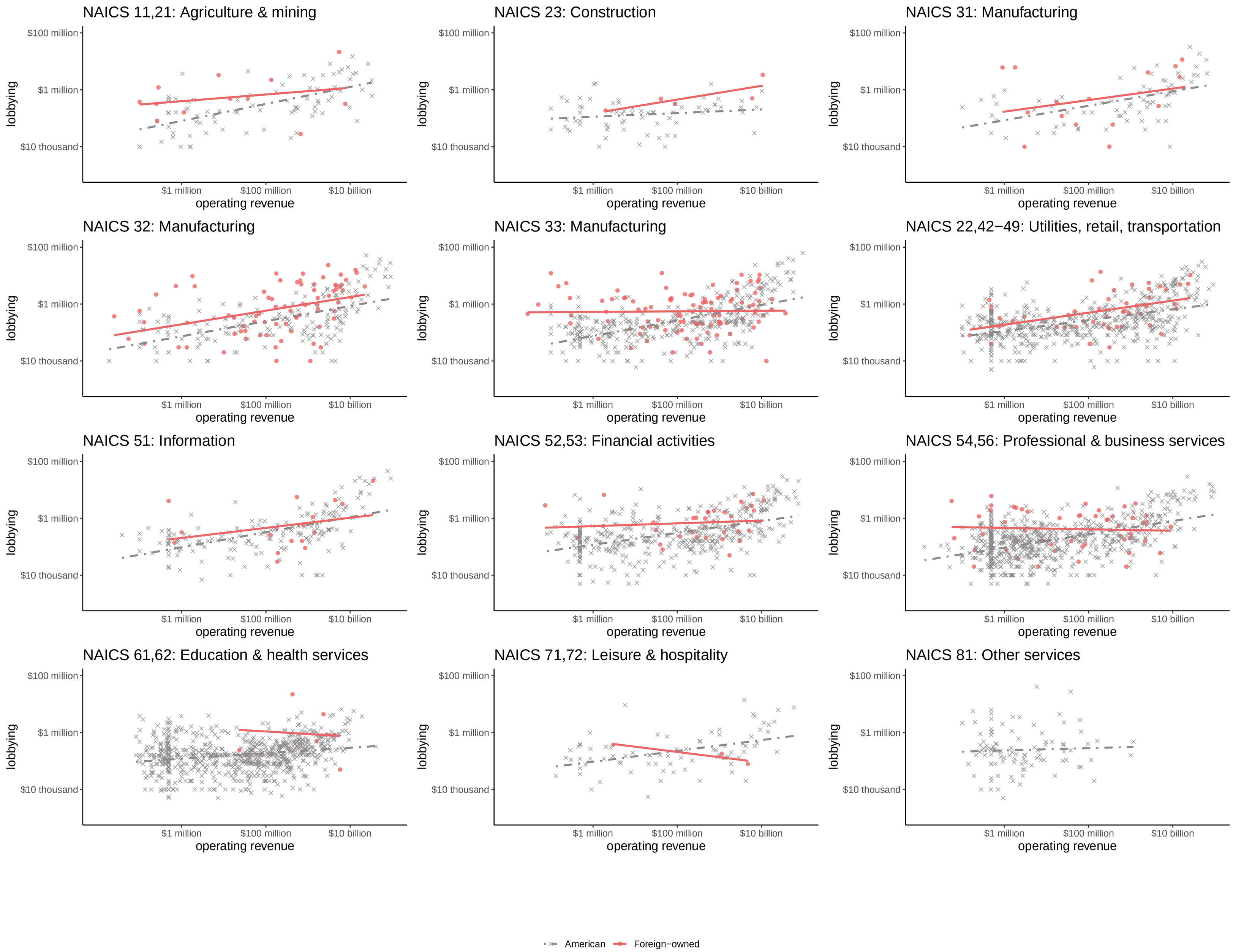

Figure A4: Dollar amount of lobbying spending by firm size and ownership by industry sector

Figure A5: Lobbying issue code word cloud of American firms

Figure A6: Lobbying issue code word cloud of foreign-owned firms

Figure A7: Lobbying issue code word cloud of American MNCs

Figure A8: Lobbying issue code word cloud of foreign MNCs in the US

Appendix B: Additional Models

Table B1: Two-step hurdle model for lobbying

	I(lobbying expenses >0)	lobbying expenses
	logistic (*first-step*)	*hurdle* (*second-step*)
	(1)	(2)
foreign ownership	8.38***	2.24***
	(0.36)	(0.31)
log revenue	2.11***	0.29***
	(0.02)	(0.01)
foreign ownership·log revenue	−0.82***	−0.22***
	(0.05)	(0.04)
PAC contributions indicator	3.38***	
	(0.08)	
log PAC contributions		0.30***
		(0.01)
Sector FE	Yes	Yes
State FE	Yes	Yes
Observations	203,759	203,759
Note:		*p<0.05; **p<0.01; ***p<0.001

Table B2: Heckman vs. OLS model for lobbying

	Dollar amount of giving, logged	
	Heckman outcome	*OLS in Table 4 model 2*
	(1)	(2)
foreign ownership	2.28***	2.19***
	(0.66)	(0.45)
log revenue	0.37***	0.35***
	(0.06)	(0.02)
foreign ownership·log revenue	−0.24***	−0.24***
	(0.08)	(0.05)
log PAC contributions	0.28***	0.27***
	(0.03)	(0.02)
Sector FE	Yes	Yes
State/Industry FE	Yes	Yes
Observations	203,759	4,932
Note:		*p<0.05; **p<0.01; ***p<0.001

Table B3: Intensive margin with U.S. market focus

	Dollar amount of giving, Logged			
	Model 1	Model 2	Model 3	Model 4
foreign ownership	3.08***	2.38**	2.60***	1.45*
	(0.82)	(0.73)	(0.64)	(0.67)
log revenue	0.61***	0.43***	0.54***	0.29***
	(0.03)	(0.04)	(0.06)	(0.06)
foreign ownership:log revenue	−0.35***	−0.28**	−0.31***	−0.18*
	(0.09)	(0.08)	(0.07)	(0.07)
log PAC contributions		0.26***		0.27***
		(0.02)		(0.02)
log %-age US focus	−0.12+	−0.11+	0.04	0.00
	(0.07)	(0.06)	(0.12)	(0.11)
Num.Obs.	3188	3188	1337	1337
R2	0.183	0.217	0.228	0.303
R2 Adj.	0.144	0.180	0.146	0.227
Industry FEs	✓	✓	✓	✓
State FEs	✓	✓	✓	✓

Robust SEs in parentheses. + $p < 0.1$, $*$ $p < 0.05$, $**$ $p < 0.01$, $***$ $p < 0.001$

Table B4: Lobbying spending per unique issue area

	Lobbying per unique issue area, Logged			
	Model 1	Model 2	Model 3	Model 4
foreign ownership	2.15***	1.98***	1.42**	0.96*
	(0.51)	(0.44)	(0.45)	(0.45)
log revenue	0.40***	0.30***	0.36***	0.20***
	(0.02)	(0.02)	(0.03)	(0.03)
foreign ownership:log revenue	−0.22***	−0.21***	−0.17**	−0.12*
	(0.06)	(0.05)	(0.05)	(0.05)
log PAC contributions		0.20***		0.20***
		(0.02)		(0.01)
Num.Obs.	4860	4860	1558	1558
R2	0.137	0.156	0.184	0.234
R2 Adj.	0.110	0.130	0.110	0.165
Industry FEs	✓	✓	✓	✓
State FEs	✓	✓	✓	✓

Robust SEs in parentheses. + $p < 0.1$, $*$ $p < 0.05$, $**$ $p < 0.01$, $***$ $p < 0.001$

Table B5: Lobbying interests in TRD/TAR (trade/tariffs) issues

	Spending, Logged		**Count, Logged**	
	Model 1	Model 2	Model 3	Model 4
foreign ownership	2.28*	1.76+	0.49*	0.40*
	(1.05)	(0.88)	(0.22)	(0.18)
log revenue	0.57***	0.36***	0.11***	0.08***
	(0.08)	(0.06)	(0.02)	(0.01)
foreign ownership:log revenue	−0.24+	−0.18+	−0.05*	−0.04+
	(0.12)	(0.10)	(0.02)	(0.02)
log PAC contributions		0.28***		0.05***
		(0.05)		(0.01)
Num.Obs.	1577	1577	1577	1577
R2	0.223	0.285	0.239	0.293
R2 Adj.	0.154	0.220	0.171	0.229
Industry FEs	✓	✓	✓	✓
State FEs	✓	✓	✓	✓

Robust SEs in parentheses. + $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table B6: Lobbying interests in FOR (foreign relations) issues

	Spending, Logged		**Count, Logged**	
	Model 1	Model 2	Model 3	Model 4
foreign ownership	0.94**	0.83**	0.16**	0.14**
	(0.34)	(0.30)	(0.06)	(0.05)
log revenue	0.14***	0.10***	0.02***	0.02***
	(0.03)	(0.02)	(0.00)	(0.00)
foreign ownership:log revenue	−0.11*	−0.10*	−0.02**	−0.02**
	(0.05)	(0.04)	(0.01)	(0.01)
log PAC contributions		0.06***		0.01***
		(0.01)		(0.00)
Num.Obs.	1577	1577	1577	1577
R2	0.138	0.149	0.133	0.144
R2 Adj.	0.061	0.072	0.056	0.067
Industry FEs	✓	✓	✓	✓
State FEs	✓	✓	✓	✓

Robust SEs in parentheses. $+$ p<0.1, $*$ p<0.05, $**$ p<0.01, $***$ p<0.001

Table B7: Lobbying interests in IMM (immigration) issues

	Spending, Logged		**Count, Logged**	
	Model 1	Model 2	Model 3	Model 4
foreign ownership	1.01*	0.88+	0.20*	0.17+
	(0.48)	(0.45)	(0.09)	(0.09)
log revenue	0.19***	0.13**	0.03**	0.02**
	(0.05)	(0.04)	(0.01)	(0.01)
foreign ownership:log revenue	−0.12+	−0.11+	−0.02+	−0.02+
	(0.06)	(0.06)	(0.01)	(0.01)
log PAC contributions		0.08***		0.01**
		(0.02)		(0.00)
Num.Obs.	1577	1577	1577	1577
R2	0.133	0.149	0.124	0.138
R2 Adj.	0.056	0.072	0.046	0.061
Industry FEs	✓	✓	✓	✓
State FEs	✓	✓	✓	✓

Robust SEs in parentheses. + $p < 0.1$, $* \; p < 0.05$, $** \; p < 0.01$, $*** \; p < 0.001$

Table B8: Lobbying interests in IPR (copyright/patent/trademark) issues

	Spending, Logged		**Count, Logged**	
	Model 1	Model 2	Model 3	Model 4
foreign ownership	0.90	0.62	0.22	0.16
	(0.85)	(0.81)	(0.18)	(0.17)
log revenue	0.38***	0.26***	0.07***	0.05***
	(0.08)	(0.06)	(0.02)	(0.01)
foreign ownership:log revenue	−0.08	−0.05	−0.02	−0.01
	(0.11)	(0.10)	(0.02)	(0.02)
log PAC contributions		0.15**		0.03**
		(0.05)		(0.01)
Num.Obs.	1577	1577	1577	1577
R2	0.212	0.240	0.214	0.244
R2 Adj.	0.141	0.171	0.144	0.176
Industry FEs	✓	✓	✓	✓
State FEs	✓	✓	✓	✓

Robust SEs in parentheses. + $p < 0.1$, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Appendix C: Legitimacy of Domestic Subsidiaries?

Extant literature on the lobbying activities of domestic subsidiaries of foreign MNCs held a view that the subsidiaries are constrained in their activities due to legitimacy concerns. An anonymous reviewer also raised a similar point that U.S. voters may prefer giving policy favors to domestic firms but not to foreign firms. If so, and in response, policymakers tend to require a premium for 'doing a favor' for foreign-connected clients, domestic subsidiaries originating from home countries that are considered a 'non-ally' are likely to lobby more than those originating from 'close ally' countries. To test this idea, I downloaded data from the 2016 YouGov survey responses, where each country was ranked from strongest ally (1st) to strongest enemy (144th) of the United States.[38]

Figure C1 plots the density of America's ally and non-ally countries among the home countries from which domestic subsidiaries that lobbied in 2016 have originated from. As shown, the bulk of the subsidiaries lobbying under the LDA originate from close allies. Therefore, the idea that domestic subsidiaries are likely constrained in their activities due to lack of legitimacy or a liability of foreignness is not very persuasive in this context. More importantly, the disproportionate lobbying by domestic subsidiaries found in this paper does not seem to be driven by differences between domestic and foreign firms. 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 C1. In fact, the direction of the relationship does not support an alternative hypothesis that subsidiaries originating from countries perceived to be less friendly spend more lobbying than closer countries in order to compensate for their foreignness.

[38]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 C1: Home countries of lobbying domestic subsidiaries

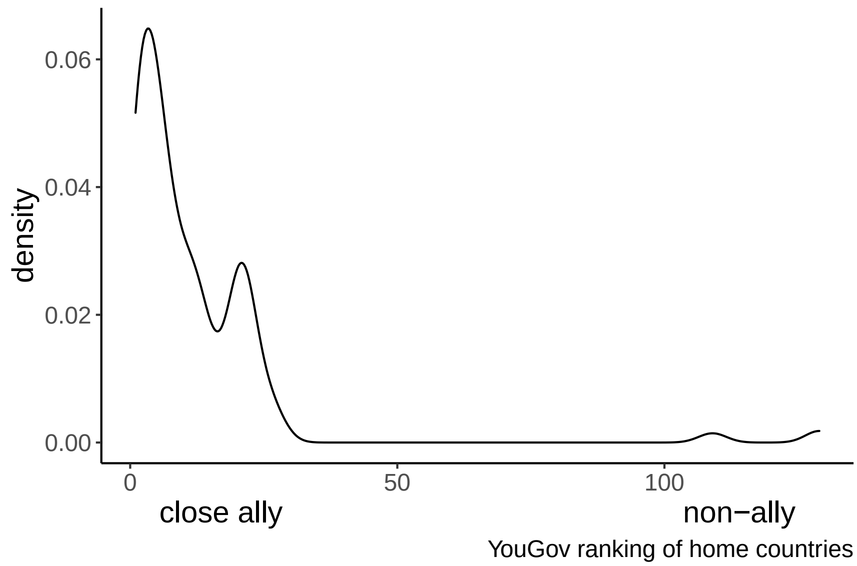

Table C1: Liability of foreignness & foreign-connected LDA lobbying

	Dollar amount of giving, logged
log revenue of domestic subsidiary	0.24^{*}
	(0.10)
log revenue of foreign parent	0.24^{*}
	(0.09)
log YouGov measure	-0.28
	(0.32)
Observations	336
Note:	*p<0.05; **p<0.01; ***p<0.001

Appendix D: Lobbying Issue Codes

Table D1: 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

Appendix E: FARA Corporate Clients

Table E1: Corporate principals that reported with the FARA in 2016

Principal	Country	Spending	Notes
Deutsche Telekom	Germany	$14,453,047	State-owned.
Korean Broadcasting Co.	South Korea	$14,202,613	Public.
Japan Broadcasting Corp.	Japan	$11,153,050	Public.
China Daily of Beijing	China	$6,190,000	State-owned.
Kingdom 5-KR-215 Ltd.	Saudi Arabia	$1,120,074	State-owned.
INOVO BV	Turkey	$570,000	Private.
Urenco	Great Britain	$547.542	Mostly state-owned.
Mer Security & Communication Systems	Israel	$500,000	Private.
VTB Group	Russia	$429,872	State-owned.
Bombardier Inc.	Canada	$345,854	Private.
Adalid Business Consulting DMCC	Iraq	$339,975	Representing Iraqi Sunni Community.
Brandworth Corp.	Malaysia	$321,772	State-related.
Corporacion Dinant	Honduras	$198,478	Private.
Aveiro LP	Ukraine	$161,260	Shell company of former Prime Minister.
Ojsc Belarusian Potash	Belarus	$132,805	Main distributor of largest state-owned company.
Osaka University	Japan	$131,154	Public.
Polska Grupa Zbrojeniowa	Poland	$122,230	State-owned.
Ocean Advisory & Consulting WLL	Qatar	$120,540	Private.
Canadian Commercial Corp.	Canada	$120,000	State-owned.
Open Joint Stock Co. Belaruskali	Belarus	$110,000	State-owned.
Perfect Headlines	Sri Lanka	$99,800	Private.
Canadian Broadcasting Corp.	Canada	$96,125	State-owned.
Top Sport	Lithuania	$70,000	Private.
Open Joint Stock Co. Belarusian Potash Co.	Belarus	$63,750	State-owned.
Saudi Aramco	Saudi Arabia	$61,800	State-owned.
American University of Nigeria	Nigeria	$61,244	Private.
Tokyo Electric Power	Japan	$55,338	Private.
Millennium Group Services	Lebanon	$50,903	Private.
Entel International BVI Corp.	Chile	$50,000	State-owned.
Kreab & Gavin Anderson	Japan	$43,318	Private.
Crown Investment Corp. of Saskatchewan	Canada	$37,500	State-owned.
Tredje Ap-Fonden	Sweden	$22,026	Part of Swedish pension system.
Andra AP-fonden	Sweden	$22,026	Part of Swedish pension system.
Dentsu Public Relations	Japan	$18,705	Private.
Avianca	Colombia	$1,719	Private.

Source: OpenSecrets' Foreign Lobby Watch database (notes added by author).
Note: Two of the above foreign principals also lobbied under the LDA: Deutsche Telekom also spent $11,717,400 through its subsidiaires, T-mobile and Voicestream Wireless Corp.; the Province of Saskatchewan also spent $400,000 under the LDA.