Cross-Border Lobbying: How Multinationals Shape Deep Trade Policies*

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Abstract

Trade policy is increasingly deep, covering many regulatory measures such as environmental and labor standards. There are widespread concerns about the role of multinational corporations (MNCs) in shaping these measures. We construct a unique dataset on lobbying on deep trade policies and show that this is indeed dominated by domestic MNCs and affiliates of foreign MNCs. We develop a theoretical model to study the welfare implications of cross-border lobbying on deep trade policies. When policies are set unilaterally, allowing foreign MNCs to lobby can be good or bad for welfare, depending on whether the interests of domestic and foreign firms are in conflict or aligned. In turn, this depends on the type of deep trade policy, whether firms lobby from their home country or through their foreign subsidiaries and, in the latter case, on the type of FDI. We determine the conditions under which trade negotiations can increase (lower) welfare in the presence of cross-border lobbying, by tightening (weakening) regulations.

JEL classifications: F13, F53, F61.

Keywords: Lobbying, deep trade policies, multinational corporations.

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