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

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An Industry Standard in China

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

NB

中华人民共和国能源行业标准

额定电压 0.6/1kV 铝合金导体
交联聚乙烯绝缘电缆

Cross-linked polyethylene insulated cables with aluminum alloy conductor for rated voltage of 0.6/1kV
An Industry Standard in China

- Labels many Chinese manufacturers as low-quality
- Heavily influenced by General Cable, a U.S. firm
- Why?
- Drafted during a wave of SOE-led industry integration
We argue:
Foreign firms are *more likely* to participate in regulation drafting in host countries when domestic interest groups benefit from industry concentration.
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- A theory of political collusion between domestic and foreign firms
- Existing studies focus on the political competition (e.g., Grossman and Helpman (1994))
- An understudied mechanism by which foreign firms acquire policy influence
Politically connected firms benefit from a higher regulatory barrier:

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

Politically connected firms benefit from a higher regulatory barrier:

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Why collude with foreign firms:

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

Study 1: Analyses of Chinese National Standards

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

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

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

Study 3: Case Studies

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

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### Chinese National Standards

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

Types of Writers
- All Firms
- All Foreign Firms
- Wholly-Foreign-Owned

Year
Proportion

- 1990
- 1991
- 1992
- 1993
- 1994
- 1995
- 1996
- 1997
- 1998
- 1999
- 2000
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- 2011
- 2012
- 2013
- 2014
- 2015
- 2016
- 2017

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Industry Distribution (HS2)

Glass and glassware
Soap, organic surface-active agents
Plastics and articles thereof
Miscellaneous articles of base metal
Albuminoidal substances
Vegetable plaiting materials
Gums, resins and other vegetable saps and extracts
Toys, games and sports requisites
Clocks and watches and parts
Cork

WFO Drafted/Total

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

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

Effect of Average Profit Change

Connected Non-connected

Firm Types

Effect of Average Profit Change

Connected Non-connected

Firm Types
Conclusions

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

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