# How to best to address the fast-changing nature of the global economy?

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Major trends in international trade since the "Washington Consensus"

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- **Global value chains**: advances in information and communication technology and falling trade barriers $\rightarrow$ fragmentation of production process across countries

  - A Honda is made of 20,000 to 30,000 parts produced by hundreds of different firms (Bartelme and Gorodnichenko, 2015)

  - iPhone's software and product design are done by Apple, most parts are produced by independent suppliers around the world (Xing, 2011)

  - Intermediates account for 2/3 of total trade (Johnson and Noguera, 2012)

# The role of large firms

- Heterogeneity in productivity and fixed costs lead to selection into:

    - **Exporting** (Bernard and Jensen, 1999; Melitz, 2003)

    - **FDI** (Helpman *et al.*, 2004)

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- Granularity of international trade, which is dominated by a few large firms:

    - 0.4% of US firms account for 96% of **exports** (Bernard *et al.*, 2007)

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- Are the winners from trade dominating the political economy of trade agreements?

  - Rodrik (2018): "trade agreements are the result of rent-seeking, self-interested behavior of **politically well-connected firms** on the export side

  - However, no systematic empirical evidence and no theory

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- To rationalize these findings, we develop a new theoretical model of endogenous lobbying by heterogeneous on firms on a proposed FTA under political uncertainty

- We assess the validity of the model's predictions on firms' lobbying expenditures:

  Larger firms spend more lobbying in favor of an agreement ▶

  Individual firms spend more on agreements that

  - generate larger gains – in terms of reduction in tariffs on their final goods and inputs, depth of FTA, export and sourcing potential of FTA partners ▶
  - when legislators are less likely be in favor of ratification ▶

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- Understanding the **distributional effects** of trade across and within countries is key for the **political feasibility** of future regional/plurilateral/multilateral negotiations

**Thank you!**

**Number of agreements over time**
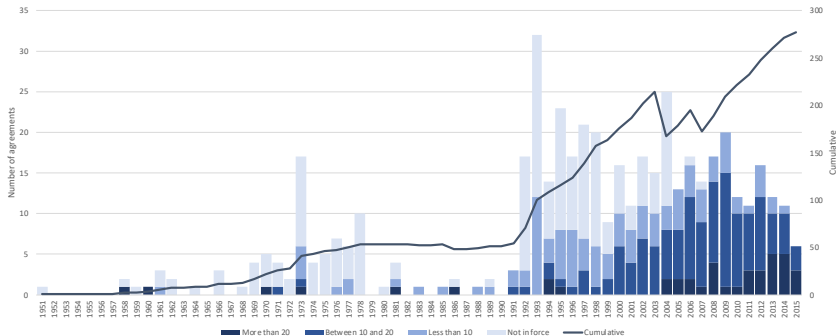
Lobbying expenditures on the ratification of FTAs negotiated by the U.S.
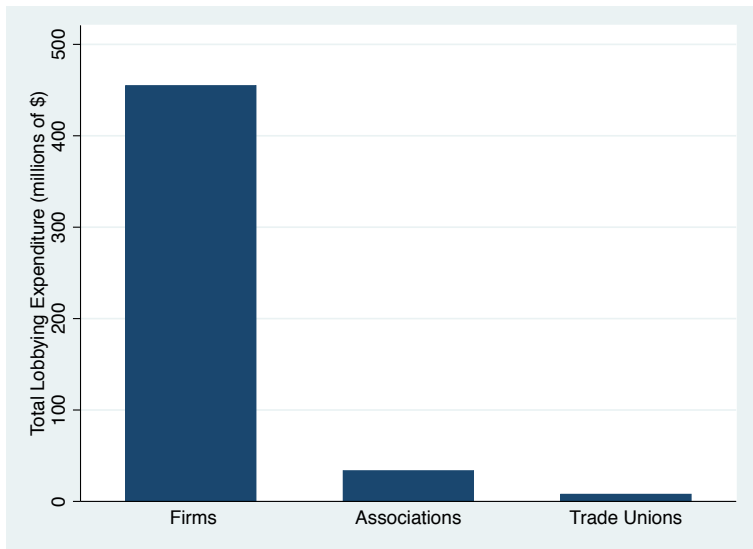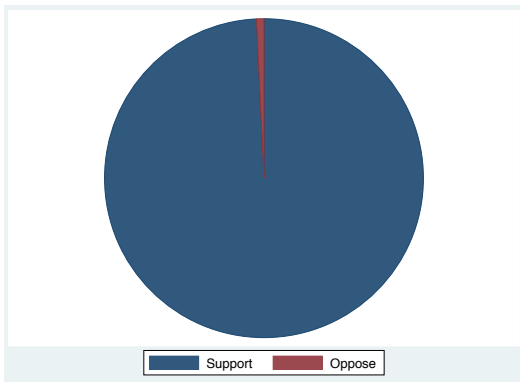
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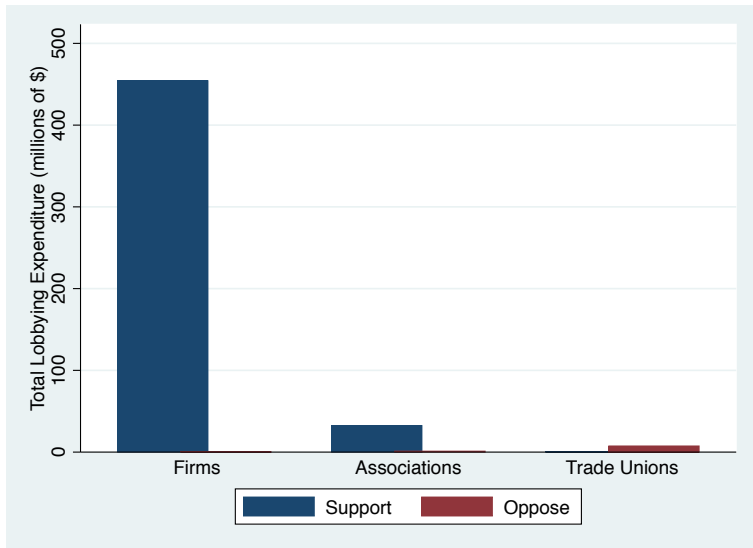
In virtually all of cases (99.25%), lobbying firms are in favor of FTAs

Firms's position on all FTAs (based on ratification bills)

# Larger firms are more likely to lobby on FTAs

## Sales distribution (lobbying vs non-lobbying firms)
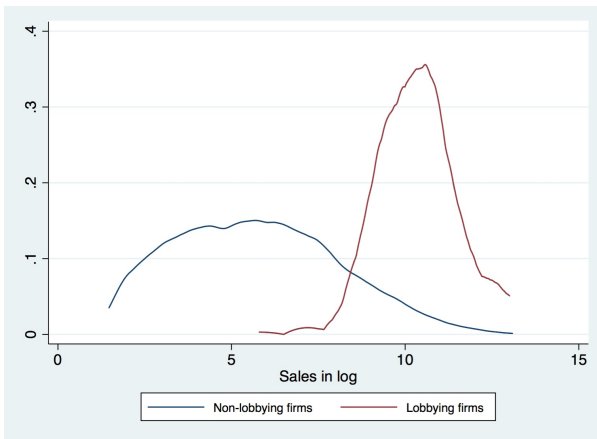
Employment distribution (lobbying vs non-lobbying firms)
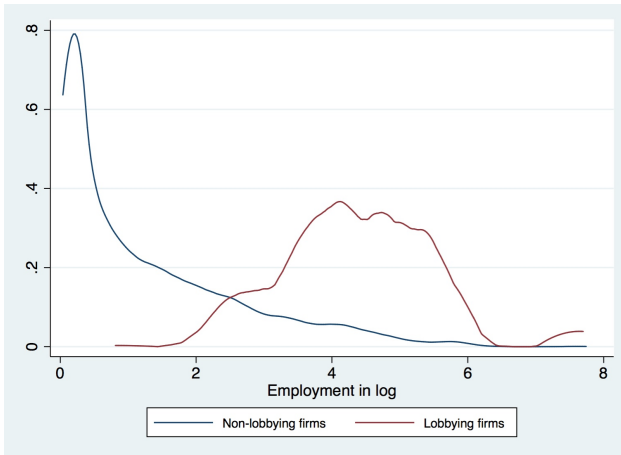
Probability of lobbying on FTAs and firm size

|  | (1) | (2) |
|---|---|---|
| log(Sales$_{f,t}$) | 0.004*** | |
|  | (0.0002) | |
| log(Employment$_{f,t}$) | | 0.004*** |
|  | | (0.0003) |
| FTA FE | Yes | Yes |
| Industry FE (SIC2) | Yes | Yes |
| N | 67,716 | 67,716 |
| pseudo R$^2$ | 0.504 | 0.463 |
| Predicted probability | 0.0037 | 0.0037 |

A 1% increase in firm size leads to a 1% increase in the predicted probability of lobbying

◄ Back

# Firms engaging in trade are more likely to lobby on FTAs

## Probability of lobbying on FTAs and trade participation

| | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| Tradable sector$_f$ | 0.005*** | 0.007*** | 0.010*** | | | |
| | ( 0.0001) | (0.0003) | (0.0006) | | | |
| Exporter and/or importer$_{f,t}$ | | | | 0.031*** | 0.017*** | 0.018*** |
| | | | | (0.0065) | (0.0053) | (0.0052) |
| log(Sales$_{f,t}$) | | 0.004*** | | | 0.010*** | |
| | | (0.0002) | | | (0.0006) | |
| log(Employment$_{f,t}$) | | | 0.004*** | | | 0.010*** |
| | | | (0.0002) | | | (0.0007) |
| FTA FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Industry FE (SIC2) | Yes | Yes | Yes | Yes | Yes | Yes |
| N | 64,112 | 64,112 | 64,112 | 12,429 | 12,429 | 12,429 |
| pseudo $R^2$ | 0.203 | 0.521 | 0.491 | 0.209 | 0.492 | 0.466 |
| Predicted probability | 0.0035 | 0.0036 | 0.0036 | 0.0109 | 0.0111 | 0.0111 |

Operating in tradable sectors increases the probability of lobbying on FTAs by 143%

Trade participation increases the probability of lobbying on FTAs by 278%

◂ Back

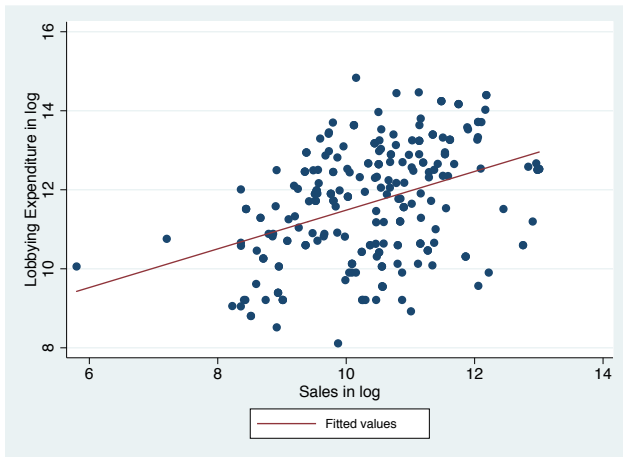# Firms engaging in trade are more likely to lobby on FTAs

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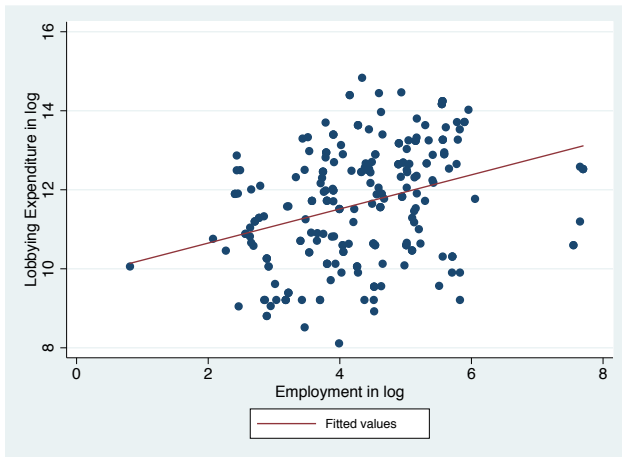| | (1) | (2) | (3) | (4) | (5) | (6) |
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◀ Back

Lobbying expenditures increase with firm size

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Lobbying expenditures on FTAs, variation in firm size

|  | (1) | (2) | (3) | (4) | (5) | (6) |
|---|---|---|---|---|---|---|
| log(Sales$_{f,t}$) | 0.257** | | 0.276** | | 0.299** | |
| | (0.1080) | | (0.1140) | | (0.1085) | |
| log(Employment$_{f,t}$) | | 0.285** | | 0.351** | | 0.411*** |
| | | (0.0900) | | (0.1249) | | (0.1132) |
| FTA FE | Yes | Yes | Yes | Yes | Yes | Yes |
| Industry FE (SIC1) | No | No | Yes | Yes | No | No |
| Industry FE (SIC2) | No | No | No | No | Yes | Yes |
| N | 1,731 | 1,731 | 1,731 | 1,731 | 1,731 | 1,731 |
| $R^2$ | 0.076 | 0.077 | 0.080 | 0.082 | 0.096 | 0.099 |

Lobbying expenditures increase with the level of pre-agreement tariffs

Lobbying expenditures on FTAs, variation in pre-agreement tariffs

|  | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| log(Tariff applied by FTA partners on the final good$_{j,a,t-1}$) | 0.304** | | | 0.507** |
| | (0.0935) | | | (0.1048) |
| log(Tariff applied by US on inputs$_{j,a,t-1}$) | | 2.239*** | | 3.354*** |
| | | (0.1941) | | (0.2873) |
| log(Tariff applied by US on the final good$_{j,a,t-1}$) | | | 0.092 | -0.021 |
| | | | (0.3768) | (0.3474) |
| Firm FE | Yes | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes |
| N | 1,150 | 1,323 | 878 | 645 |
| $R^2$ | 0.203 | 0.227 | 0.242 | 0.283 |

◄ Back

# Lobbying expenditures increase with depth of the agreement

### Lobbying expenditures on FTAs, variation in the depth of the agreements

|  | (1) | (2) | (3) |
|---|---|---|---|
| Depth DESTA (index)$_a$ | 0.185* | | |
|  | 0.0789 | | |
| Depth DESTA (latent)$_a$ | | 4.372*** | |
|  | | (0.8072) | |
| Depth World Bank$_a$ | | | 0.148*** |
|  | | | (0.0342) |
| Firm FE | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes |
| N | 1,732 | 1,732 | 1,732 |
| $R^2$ | 0.221 | 0.226 | 0.230 |

# Lobbying expenditures increase with the size of the FTA partners' market

Lobbying expenditures on FTAs, variation in the size of FTA partners

|  | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| log(GDP of FTA partners$_{a,t-1}$) | 0.310*** | | | |
|  | (0.0637) | | | |
| log(Export potential of FTA partners$_{j,a,t-1}$) | | 0.259** | | |
|  | | (0.0924) | | |
| log(Sourcing potential of FTA partners$_{j,a,t-1}$) | | | 0.076* | |
|  | | | (0.0371) | |
| Firm FE | Yes | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes |
| N | 1,821 | 1,294 | 1,327 | 863 |
| $R^2$ | 0.202 | 0.204 | 0.225 | 0.244 |

Lobbying expenditures increase with probability that legislators are against ratification

Lobbying expenditures on FTAs, variation in expected political support for ratification

| | (1) | (2) | (3) | (4) |
|---|---|---|---|---|
| Share of Democrats in Congress1$_t$ | 11.567** | | | |
| | (4.0433) | | | |
| Share of Democrats in Congress2$_t$ | | 12.462** | | |
| | | (4.0538) | | |
| Divided Government1$_t$ | | | 1.347*** | |
| | | | (0.2696) | |
| Divided Government2$_t$ | | | | 1.615*** |
| | | | | (0.3696) |
| Firm FE | Yes | Yes | Yes | Yes |
| Year FE | Yes | Yes | Yes | Yes |
| N | 1,821 | 1,821 | 1,821 | 1,821 |
| $R^2$ | 0.083 | 0.084 | 0.104 | 0.097 |