FOREIGN LOBBYING IN THE U.S. – A LATIN AMERICAN PERSPECTIVE

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Abstract

The following paper purports to analyzing the nature of lobbying by Latin American, and to some extent, Caribbean countries and its impact on trade policy formation in the U.S. from 1990 to 2000. In line with recent literature, which endogenizes lobbying as a function of policy making, we derive a highly significant relationship between the degree of marginal lobbying for export promotion, on the one hand, and the first moment of changes in export and import growth by Latin American and Caribbean countries. Despite the data limitations involved in the two-stage least-squares regression model used in the course of this paper, we confidently derive robust estimates to support viable recommendations as to the implementation of sustainable lobbying policy in the U.S.

Keywords: lobbying, trade barriers, trade policy, political economy

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1 INTRODUCTION: THE POLITICS OF LOBBYING

1.1 Objective

Lobbying is an instrument available to subjects interested in advocating and advancing their interests and objectives openly with respect to legislative and executive decision-making. We distinguish foreign and domestic lobbying by organizations, governments and individuals. Foreign lobbying generally tends to advocate the elimination of trade restrictions and restraints, while domestic lobbying is predicated on the protection of national industries by imposing distortions and tariffs on foreign products.

In the wake of an increased globalization of trade many industrialized and developing countries have espoused the concept of lobbying in the bid to advance national economic objectives by influencing political processes within countries home to major trading partners. As a “heavy weight” in global trade, the U.S. economy and its attendant political environment has become a major focus of lobbying by foreign governments and private organizations, which hire lobbyists to represent them and pursue their interests in the United States. Registered lobbying activities documented by the U.S. Department of Justice indicate that the number of lobbyists acting on behalf of foreign clients has increased steadily to the point that foreign lobbying has become an important industry in Washington, D.C., mainly because the political decisions made by the key public authorities in Washington, D.C., the executive and legislative branch of the U.S. administration, often significantly impacts world markets. Hence, foreign countries and corporations with substantial business interest in the U.S. not only need to monitor U.S. legislation and regulation on trade, but also consider lobbying individuals in government and U.S. Congress to achieve favorable economic conditions in trading with the U.S. Lobbyists representing foreign clients obtain and disseminate information, promote trade and investment, provide policy advice, give legal counsel and represent client, undertake litigation, influence policy formulation and mold U.S. public opinion. In 1944, only 144 registered lobbyists acted on behalf of foreign clients. In 1976 the number reached 590 and almost doubled in 1989, with around 1,000 so-called “foreign agents” registered with the U.S. Department of Justice. In 2000 Washington, D.C. boasted a lobbying market of more than 2,500 agents offering their services to foreign clients.

Foreign lobbying is particularly relevant in the context of trade relations of Latin American and Caribbean countries with the U.S. Given the contradictory and discriminatory nature of many rules, regulations and antidumping measures contained in the *North American Free Trade Agreement* (NAFTA) many Latin American and Caribbean countries have been constantly “investing” in lobbying in Washington, D.C. as a measure to reduce trade restrictions. Latin American and Caribbean lobbyist have been increasingly active in influencing policy making, as a way to participate in the U.S. political system in order to further their commercial interests, which are mainly predicated on export promotion. That is, a general mitigation of some restrictions on their products exported to the U.S. In 2000, the ratio of expenditure to total worldwide lobby expenditure was close to 30 percent.

This paper analyzes implications of Latin American lobbying on trade policy formation and the development of trading performance vis-à-vis the U.S. The purpose of this paper is fourfold: first, it defines the concept of lobbying and provides an introduction to the economic literature on lobbying; second, it describes the extent and nature of the activities of foreign agents representing Latin American and Caribbean interests and places lobbying within the context of the U.S. political decision-making process; third, it offers suggestions on how to advance commercial interests in Washington, D.C.; finally, it explores the role of lobbying for export promotion (as a major objective of lobbying) as regards the trading performance of Latin American countries to the U.S. between 1990 and 2000, before concluding on key insights derived from the quantitative analysis.

1.2 Definition and structure

In the U.S., lobbying *per se* constitutes a lawful opportunity available to interest groups to exert influence and to have an impact on policy. The right to lobby is implicitly derived from the First Amendment of the U.S. Constitution, which states "Congress shall make no law [...] abridging the freedom of speech or of the press; or the right of the people peaceably to assemble and to petition the Government for redress of grievances." The U.S. government does prohibit neither foreign governments nor other public and private from abroad to attempt to influence the Congress or the government, provided that foreign agents register and make their interests a matter of public record.

The rationale of lobbyists stems from the belief that a democratic society amid pluralistic and equitable intent of public representation does not necessarily guarantee equal access of individual opinion, and, hence, any tool to foster awareness of dissenting views and objectives ought to be allowed. In contrast, opponents of lobbying generally believe that democratic principles of deriving and exercising public authority are not for sale. They also entertain the notion that lobbyists would relegate democracy to the status of a consumption good that could be sold. According to their view, lobbying means denying the principle of equal representation and the very purpose of representative democracy. Nonetheless, this perception flies in the face of many political analysts who would discard the very view that representative democracy does in practice actually lives up to this principle.

Irrespective of the deeper truth of how far equal representation can actually exist in a democratic system, opponents of lobbyism lament the materialist aspect in what they consider a flawed effort of gaining influence in the political arena. The average citizen does not have the financial ability to retain professional lobbyists to lobby for the introduction and sponsorship of legislation. At the same time, lobbyists play a pivotal role in determining what legislation the U.S. Congress ultimately introduces. There are more bills introduced on behalf of the business community than any other stakeholder. The business community is represented by thousands of associations and professional lobbyists and law firms, whose business is determining what laws and regulations can be enacted or changed to support the business community.

One popular method among lobbyists is the donation of money to so-called political action committees (PAC), a voluntary sponsored or un-sponsored organization, which serves as the conduit between members of Congress and public interest. In this way lobbyist can financially support congressional elections, as contributions to political action committees are allocated to members of Congress that support a certain business, trade, or legislative philosophy. Although this mechanism guarantees accountability of lobbyists and public registration of funds used for lobbying efforts to sway congressional opinion, it is impossible, given the difficulties of measuring influence, to determine the exact extent to which lobbying affects the outcome of a specific issue or debate. Many intangibles operate to determine events and policy decisions. It is doubtful to credit specific lobbying activities with a critical role in the outcome or policy resolution of an issue.

The significant role of lobbyism in U.S. policy-making merits identifying factors that make lobbying successful and establish a relationship with general political outcomes. In the case of this paper we intend to explore the effect of lobbying on the trade relationship between the U.S. and Latin America as to its impact on export development. This does not mean, however, that we attempt to assess whether and to what extent lobbying has been effective in specific instances. In the remainder of this section we discuss the specific nature of foreign lobbying (and attendant recommendations for effective lobbying), which adds an additional layer of characteristics and requirements on top of the definition of domestic lobbying to do justice to the particular obstacles foreign lobbyists face aboard. In the second section we move on to outline the current regime of barriers to trade in the context of U.S. trade policy in the Americas. In the third part of the paper we introduce a model to explore the relationship between lobbyism and export performance. The paper concludes with a discussion of the obtained results.

1.3 Foreign Lobbying and Domestic Support

The pooling of similar interests appears to be vital in building robust lobbies. Against the background of systemic obstacles to foreign lobbying representing foreign interests in the domestic policy-making aims to combines both reaching a critical mass of domestic opinion to advance own objectives and establish sustainable relationships with important domestic decision-makers to make lobbying sustainable.

In the context of competing interests, the ability to influence events critically depends on the amount of support that can be solicited for a certain objective, since joining forces creates what is commonly termed “a synergy that can exceed the effectiveness of its components”. Similarly, if foreign and domestic interests, organizations, and groups share similar and/or complementary interests forming alliances and coalitions is an important way of generating a synergistic momentum in collective lobbying. For example, alliances among exporters, consumers and retailers, who could benefit from the approval of provisions to maintain or increase an import quota, will have a greater likelihood of succeeding than will isolated, individual efforts.

Foreign agents acknowledge the decisive role of domestic support. Since domestic interest groups can make political contributions and can influence an officeholder's re-election, many would argue that the influence of foreign lobbyists is contingent on a powerful domestic base. For instance, former U.S. Senator Charles Mc. Mathias (R-MD) believes that foreign lobbyists, by themselves, may win specific favors, but an indigenous interest group's capacity to influence an office holder's re-election is, in the long run, highly persuasive. According to Mathias (1981), the lobbying experiences of the former China lobby and the Republic of Korea lobby, as well as those of other countries for that matter exemplify that a lack of strong indigenous support limit foreign agents to acquire only limited or transient influence on American foreign policy, "even though a good deal of attention and publicity are periodically attracted by the activities of foreign lobbyists or agents (Mathias, 1981)."

Lahiri and Raimondos-Møller (2000) augment the benefits associated with the collaboration of domestic agents in sustainable and effective foreign lobbying. In their study about the allocation of development aid they explain how each ethnic group in the donor country by making political contributions to lobby the government to allocate more aid to its country of origin. They cite discrepancies between various regions of emerging market economies in the way the U.S. administers its development aid program. While the least developed countries in Sub-Saharan Africa and South Asia receive rather small amounts of aid, relatively prosperous developing countries with strong ethnic domestic support in the U.S. receive the lion's share of development assistance. Although this finding stretches the issue of lobbying beyond the scope of this paper, it highlights additional issues aside from the international trade lobbying aims to address. Nevertheless, there is a lesson to be learned from the study on effective foreign lobbying. The ability of lobbyists to influence U.S. policy in a sustainable way appears to be contingent on their capacity to obtain local support based on the emotional bonds of national origins, i.e. the support of groups with a common cultural background. By the same token, however, this relationship works in both directions. The domestic carriers of foreign lobbyism can only foster efforts of actively shaping policy-making if they mature into an effective domestic lobby. Prime examples of successful lobbying based on domestic, grass roots support are the American Israel Public Affairs Committee (AIPAC), as well as the Greek and Irish lobbies.

This kind of ethnically motivated lobbying has acute relevance for Latin America and Caribbean countries, since Hispanics and African-Americans have been oblivious to the importance of lobbying for far too long and have yet to organize themselves into coherent and effective foreign policy lobbies.

1.4 The Practice of Lobbying (with a Focus on U.S. Politics)

In order to gear political outcomes towards desired objectives, aspiring lobbyist need to understand the mechanics of lobbying to transpire economic interests most effectively. Practitioners of lobbying and political analysts agree on whether the advocacy and promotion of interests qualify as effective lobbying depends on the collective performance of multiple channels of exercising influence. Although several different actors affect legislative and/or executive action on a specific issue, foreign countries' diplomatic representatives, representatives of the private sector, and foreign agents seem to be the key foreign lobbying players to make ends meet.

Pastor (1987) proffers that there are no better advocates than the countries' own diplomatic representatives. Ambassadors and their staffs have been singled out as expatriate communicators of their countries' interests. With respect to trade-related lobbying especially commercial attachés are instrumental in building a productive commercial relationship with the host country, as they play a pivotal role in monitoring and participating in economic policy debates.

In the U.S. context of foreign lobbying (Pastor, 1987) good working relations with several government agencies, in particular on Capitol Hill, are considered basic for a dialogue, whose effectiveness requires "shirtsleeve diplomacy", activism, visibility and contacts. Conventional, low profile diplomacy through formal channels, however, is irrelevant in Washington, D.C. (Stanfield, 1989), while a diverse network of well-maintained relationships certainly is not. Zorack (1990), an observer of the political scene, notes the importance of developing contacts at all levels and with people of various political persuasions, mainly because the initial step of gaining access to decision makers is often through their staff. And yet, contacts should not be restricted to government. Also keeping an open mind to different opinion-makers and sustaining a cordial relationship with other influential members of the Washington, D.C. community – the press, academics, think tanks, and the general public – has good long term potential. Cultivating the favors of a diverse network of influential policy-makers appears to augur well with the idea of sustainable lobbying. According to Koo (1985) countries that have established a broad spectrum of political contacts with liberals, conservatives, and others seem to face fewer obstacles than those that are responsive to a narrow political group only.

Also groups of collective representation are an essential building block in the effective administration of foreign lobbying. Contacts between foreign business representatives, producer organizations, trade associations and similar groups in the host country enhance the potential of cooperation to influence policies and choices in areas of mutual interest.[1] Among others, these partnerships can take a variety of forms:

(i) bi-national business coalitions,

[1] Partnerships among Latin American businesspeople and with similar groups in the U.S. can be an important and constructive force in trade and investment affairs between these two trading partners. This point was suggested by Doreen L. Brown, a representative of Consumers for World Trade (CWT), an influential grass-roots organization that supports free trade.

(ii) issue-specific cooperation, and

(iii) policy alliances and regular contacts.

Additionally, political expertise of “institutional insiders” renders services of foreign agents particularly valuable and sometimes indispensable to both diplomatic and business representatives. The lobbyist’s “insider knowledge” can guide the direct advocacy exercised by the country’s own representatives (Pastor, 1987). Agents can contribute to the understanding of the complexities inherent of the U.S. government and the legislature. For instance, some areas purport to close monitoring, such as Congressional committees and subcommittees, with more than 20 committees in the House of Representatives and sixteen in the Senate in some way involved in international economic relations, let alone numerous agencies in the executive branch.

Finally, lawyer-lobbyists are an integral part of comprehensive lobbying for activities that require representation in legal or administrative matters. Sometimes professional counsel also includes expertise in public relations and marketing, which are relevant for export promotion and market entry in the form of foreign direct investment.

1.5 The Lobbying Market

As much as lobbying rests on garnering political allegiance through a multiplicity of different groups and agents, the inherent complexity and opacity of the lobbying market has hindered foreign lobbyists from making a well-informed choice of whom to hire.

Especially with respect to U.S. policy making lobbying has evolved into an expanding industry with thousands of practitioners and firms that provide a broad range of services. In Washington, D.C., the market includes seasoned former government officials and members of Congress – Washington's so called revolving door – as well as lawyers, public relations specialists, coalition builders, marketing experts, communicators, consultants and many others who have gained extensive experience with the government or on Capitol Hill.

Generally, more and more lobbying firms offer a wide range of services, and several aim to offer even the most comprehensive service packages, e.g. the variety of services that a potential client may obtain from one well known law firm and its subsidiaries can include legal services, Washington lobbying, grass roots lobbying, coalition building, public relations, media strategies, economic consulting, management consulting, political fund raising, issues monitoring. Other firms, offering media production, direct mail, political consulting and opinion polling and event planning frequently complement this list. Such a synergistic conduct of lobbying could in particular suit out-of-state companies as well as foreign firms and governments, who are unaware of the political environment of decision-making in Washington, D.C.

Many would consider the concept of these "legal supermarkets" a harbinger of a new type of business model, an all-encompassing lobbying firm, whose wide range of services increases efficiency and generates economies of scale. Others argue that such mega-firms come with strings attached, as they may suffer from diseconomies of scale, loss of quality control and added internal bureaucracy that far outweigh their advantages. Small firms and/or those specialized in offering a few services may be more adept at devoting clients more time and individual attention in personalized services.

Aside from large and small firms associations of affiliated lobbyists, so-called lobbying cooperatives are an alternative to law firms and full-fledged lobbying firms. These associations maintain a register of highly experienced members to match their expertise and skills to clients' needs.[2] Due to low administrative overhead these clearinghouses for lobbying services are primary suited to the concerns of small and medium-sized organizations, independent businesses and individuals with limited financial resources at their disposal, which seek the advice from skilled professionals at reasonable prices.

Alternatively, private businesses and think tanks periodically sponsor high-priced seminars on how politics is done in Washington. The market also includes nonprofit organizations, which provide counseling services and training in the means needed for lobbying in order to meet political ends in the legislative and executive process. These groups conduct workshops, which focus on the instruction of essential lobbying skills, such as influencing techniques, and walk participating organizations and individuals through the basic concepts of public interest advocacy.[3]

1.6 Suggestions for Effective Foreign Lobbying

Upon understanding of the systemic mechanics and the structure of the lobbying market we acknowledge the ensuing opportunities to strengthen the efficacy of lobbying – in particular with reference to international trade with Latin American and the Caribbean. The following suggestions are meant to guide to effective lobbying behavior at the diplomatic and private sector levels in Washington.

1.6.1 Diplomatic Level

Embassies should be provided with adequate resources to:

(i) permit effective monitoring of activities on Capitol Hill, in relevant government agencies, in courts, and in other offices; and

[2] This form of brokering expert advice is similar to the counseling service provided by the Small Business Administration (SBA) in the U.S., which offers pro bono advice to start-up ventures through a network of retired corporate executives.

[3] In the prolific market for lobbying instruction formal university courses on the dos and don'ts of lobbying find newcomers to the lobbying business as prime target audience. Self-study instruction is also available through many publications and sources on the topic, such numerous manuals available that offer advice about how to get things done in Washington, D.C.

(ii) establish direct contacts with individuals and policy makers in and out of the executive branch,

in order to justice to the need to acquire an enhanced understanding and deeper knowledge of the U.S. political system. Close monitoring of political issues and legislative processes aids foreign governments to deal more efficiently with matters of U.S. trade policy. It is for this reason that many economists commonly refer to foreign lobbying as a form of "investing" in trade.

Furthermore, the resource efficient conduct of lobbying on a diplomatic level can be accomplished by increased collective action around specific common interests, which can greatly enhance or complement other bilateral efforts. For instance, the *Caribbean Basin Initiative Embassy Group* (CBI) established to represent the diplomatic missions of CBI-beneficiary countries. This group is committed to jointly communicating its viewpoints in support of legislation for purposes of advancing the lobbying interests of CBI, which monitors debates about Caribbean countries in Congress and in other circles, keeps abreast of policy implementation and stands ready to express its interests and attempts to influence events.

Additionally, for the potential economies of scale generated from such an arrangement to come to fruition in a viable and sustainable way, formalized joint advocacy groups, such as the CBI Embassy Group, require perennial commitment of its members to engage in a routine exchange of information:

(i) on commercial issues of common interest, and

(ii) on lobbying sources, whose communication could be completed by means of a working database.

Such exchanges could take place at regular meetings between Latin American and Caribbean commercial attaches.

1.6.2 Private Sector

The collective power of key stakeholders to influence economic and political decisions affecting the trading relationship between the U.S. and one or more countries requires closely coordinated actions among private sector representatives for consensus to arise. The CBI Sugar Group, a producers' group formed to secure quotas and preferential access for its members' sugar exports to the U.S. market, is a typical example of how such co-operation might be executed in practice. In the light of protectionist U.S. trade policy in 1985, private sector representatives from Central America, Panama, the Dominican Republic and the Sugar Association of the Caribbean (Inc.) agreed that only a "coordinated approach to the U.S. authorities [would be] the only realistic possibility of obtaining better treatment for their sugar exports to the U.S."

CBI Sugar Group undertakes a concerted lobbying effort to restore part of the access lost by the Caribbean and Central America since sugar quotas were imposed in the U.S. in 1982. In the meantime the Sugar Group has grown into a powerful voice of Latin American and Caribbean interests in sugar trade with the U.S. Its main tasks include the assessment of current U.S. legislation in trade policy, relationship building with government officials and representatives of the U.S. Congress, forging alliances with domestic interest groups and exploring new sources of information to complement existing capabilities of sounding out the political sentiments as regards U.S. policies and regulations. Furthermore, the group allocates a portion of profits made per ton of sugar sold into a common trust fund, whose annual budget is earmarked for hiring foreign lobbying agents as need be.

As briefly mentioned in section 1.3 foreign lobbyists are best advised to devise an integrated lobbying that considers domestic support in the U.S. Alliances and cooperation between Latin American and Caribbean entrepreneurs, on the one hand, and U.S. private sector organizations, on the other hand, can foster a mutually beneficial and resource efficient realization of lobbying objectives.

An example of this type of private sector initiatives is the *Colombian Association of Flower Exporters* (ASOCOLFLORES), which formed a coalition with the *Florida Importers' Association*, the *Lower Retailers' Association* and the *National Supermarkets Association of the United States* to counteract a trade regulation initiative that would have placed restrictions on Colombian flower exports to the U.S. In addition, a joint strategy to promote the sale of roses was formulated with the U.S. rose producers' organizations (ECLAC, 1990). This joint lobbying exercise of Colombian and U.S. commercial interest, which resulted in a formal complaint to the U.S. Congress, also highlights a frequently overlooked public policy function of lobbying – a reality-check of regulatory efforts, which are deemed excessively restrictive or detrimental to business interests without improving public welfare.

Further aspects to bear in mind as regards private sector lobbying are:

(i) *Issue-specific cooperation with U.S. private groups can be mutually beneficial.*

In 1987, U.S. sugar producers agreed to lobby in favor of reallocation of U.S. import quotas and other measures beneficial to growers in the CBI region in return for CBI Sugar Group opposition to proposal of the U.S. administration to lower the U.S. support price for sugar from approximately U.S.$0.22 per pound to U.S.$0.12 (Washington Report on Latin America and the Caribbean, 1987).

(ii) *Common foreign and U.S. business interests need to be identified to explore shared policy positions.*

In 1986, *Florida Citrus Mutual*, a producer association, petitioned the *U.S. International Trade Commission* to apply antidumping penalties to frozen concentrated orange juice imports from Brazil. They alleged that unfairly priced imports could cause material injury. Representatives of *Lykes Pasco Packing Co.*, *Tropicana Products, Procter & Gamble Co.*, *Ben Hill Griffin Citrus* and *Coca-Cola Foods*, all processing companies interested in maintaining high quality and low prices to supply the market, testified against the antidumping petition (ECLAC, 1989).

(iii) *Existing organizations and associations can play an important role in channeling lobbying efforts.*

The *Association of American Chambers of Commerce in Latin America* (AACCLA) is a prime example of a well-respected organization, whose purpose is to foster trade and investment between the regions and bring "insights of its members to bear on U.S. executive and legislative policy makers."[4] The AACCLA is endowed with its own support staff and is headquartered in the U.S. Chamber of Commerce, a major private sector coalition builder and one of the most influential lobbying forces in Washington, D.C.

(iv) *A bilateral business coalition can be a vehicle of trade and investment promotion.*

Bilateral business coalitions between the U.S. and Latin American countries include the leading business organizations in their respective countries. Two of the most active lobbying groups are the *Brazil-U.S. Business Committee* and the *Mexico-U.S. Business Committee.*

The evolution of trade and investment relations between Mexico and the U.S. probably qualifies as one of the most successful examples of bilateral private sector cooperation and support. In the early 1980s business interests from both countries began to consider that cross-border trade and investment flows could increase within a formal bilateral framework. The chain of events that led to the implementation of a U.S.-Mexico framework agreement can be traced to a significant involvement and support of the private sector, which, as early as 1981, were crucial to the success of the initiative, as noted by some of the following key events that took place during the negotiations.[5]

In June 1981, the 36th plenary meeting of the *Mexico-U.S. Business Committee* discussed a proposal for a bilateral framework agreement in Washington, D.C. In October 1984, the *Mexican Business Council for International Affairs* (CEMAI) agreed to support the concept of a bilateral framework between both countries. A month later, the *Chamber of Commerce of the U.S.* followed CEMAI by announcing its unwavering advocacy. In April 1985, the *American Chamber of Commerce of Mexico*, testifying in Washington before the *International Trade Subcommittee of the House Committee on Ways and Means*, also

[4] information brochure published by the Association of American Chambers of Commerce in Latin America (AACCLA).
[5] Testimony of Guy F. Erb, Hearing on Bilateral Trade Agreements by the Subcommittee on International Trade, Committee on Finance, U.S. Senate, March 13th, 1989.

approved the initiative of formalizing a liberalization of trade between Mexico and the U.S. Six months later, the *Council of the Americas* also made its support of a bilateral framework agreement known to the U.S. government.

2 REASONS FOR TRADE CONFLICT AND INHIBITORS TO EXPORT

2.1 Current situation

The majority of trade between the U.S. and the Latin American region is largely conducted free from tariff and quotas, with almost 75 percent of all U.S. imports from the LAC region and 65 percent of all U.S. imports from Central America having entered the market duty free in 2000. Nonetheless, major issues stand to be resolved in the effort to create a more equitable framework of Pan-American trade. Latin American and Caribbean countries are under pressure by domestic lobby groups, who see their aspirations of strengthening their position in the U.S. market jeopardized by recent U.S. moves to adopt a more rigorous stance on antidumping laws.

Recent developments of U.S. trade policy have unfolded rather unfavorably for foreign trade of Latin American and Caribbean countries with the U.S. The Bush administration has yielded to domestic lobbying over protectionist policies on steel, textile and apparel trade by singling out textiles and apparel as an industrial sectors it intends to shield from foreign competition by means of restrictive quotas on imports from emerging market countries. Hence tariffs on textiles and apparel remain relatively high in the U.S. (three times higher that the average tariff). With employment in the textiles and apparel industry having fallen by half over the past three decades, with about a third of that decline having occurred during the last five years, by American workers and companies have proffered their distain for cheap foreign imports. Their support foes to the touted struggle to frustrate efforts by importers to gain a toehold in the U.S. textile market through dumping prices in these industries.

When Congress approved the Bush administration's fast-track trade promotion authority by the margin of one vote in December 2001, the newly gained infusion of executive authority for the promotion of liberalizing foreign trade came at a price. The legislative plan for fast-track approach came together only after the Bush administration conceded to demands by special interest groups by promising to roll back some of the access to American textile markets that had been granted to the countries of the Caribbean and Central America in the 2000 Trade and Development Act. This compromise has depressed some upbeat prospects of improvements in restriction to trade and tariffs between the U.S., on the one hand, and Latin America and the Caribbean, on the other hand.

2.2 Inefficiencies and transaction cost

Sustaining protectionist trade policy, however, means forestalling the advancement of more liberal trade and its attendant benefits for all parties involved. Protectionism creates, or at least does little to ameliorate, a wide variety of inefficiencies and substantial transaction cost associated with barriers to trade. Unilateral barriers to trade arguably manifest themselves in sizeable economic advantage as they boost the relative terms of trade of the protectionist country vis-á-vis other countries. However, this trading policy covertly backfires on demand for foreign products by residents of the protectionist country.

In the case of U.S. protectionism U.S. consumers will need to have deeper pockets to defray increased retail prices on imported goods if they so desire, as additional tariff cost is passed on by importers. Hence, tariffs create a dead weight loss to society and reduce public welfare, let alone the macroeconomic distortions to terms of trade and purchasing power parity across the globe.

Developing countries certainly suffer more from the negative effects emanating from the tariffs on trade. Olarreaga and Soloaga (1998) estimated in a study commissioned by the World Bank that protection on part of developed nations imposes an economic cost on developing nations, which amounts to twice the total value of the development aid they receive each year. Since developed countries maintain their highest barriers to trade in industries, which are the most prominent segments of economic activity of developing countries, such as agricultural produce and apparel, trade barriers thwart opportunities of these countries to partake in international trade on economic value-added products and grow out of poverty. Instead, developing countries are defaulted into the export of cheap natural resources without major tariffs and controls. Yet, the absence of substantial value-added in this form of trade policy relegates developing countries to continued disenfranchisement in matters of global trade – an all too familiar template of unequal terms of trade between rich and poor countries.

Besides the pure macroeconomic theory, the crude rationale of regulatory conventions adds to the problem of restrictive trading policy, which could possibly hinder further intensification of trade between the U.S. and Latin American and Caribbean countries. Under the current provisions stipulated by the antidumping (AD) law, the U.S. imposes duties on imported products if the Department of Commerce determines that the merchandise is being sold at a price that is below its retail price in the country of origin (home market), or at a price that is lower than the cost of production. The difference between the price in the foreign market and the price in the U.S. market defines the so-called “dumping margin”, which entails a commensurate customs duty according to the specifications of the U.S. Department of Commerce. Although Latin American trade lobbyists take issue at the antidumping law as a blatant instrument to inhibit trade, the underlying economic rationale involves a host of complex issues, which warrant a qualified moderation of this alleged criticism, whose economic substance is addressed within the scope of this paper. Nonetheless, it cannot be ignored that investigations are under way concerning the erroneous application of the antidumping law against Alloy Steel Standard Line Pipes from Mexico, hot-rolled carbon steel flat products and honey from Argentina, red raspberries, grapes, and salmon from Chile as well as Brazilian silicon metal and frozen concentrated orange juice, to cite just some of the most recent cases among many others.

Another prominent area of recent contention surrounds the issue of sugar trade with the U.S., which exemplifies the intricate nature of tariffs und antidumping provisions in international trade policy. In order to protect domestic sugar producers from a lower world price for sugar by virtue of the price limit set by antidumping provisions, the U.S. sugar program has deliberately maintained the domestic price of sugar, on average, nearly twice as high as the world price. Quotas are set on an annual basis for countries that export sugar. However, whenever there seems to be a shortage of sugar quota amounts may be adjusted to meet domestic demand of sugar consumption. Whereas countries with "most favored nation status" are subject to quotas at a rate of duty of is 0.625 cent per pound (raw value), most countries in Latin America and the Caribbean are exempt from this duty under the Generalized System of Preferences (GSP). The only country in Latin America whose exports do not receive duty free treatment under the GSP is Brazil due to its competitive advantage in this industry. Hence, Brazil features as a prime example of international trade when arguments of political economy and the neoclassical economic rational of efficient production are most misaligned.

Analogous to the case of sugar exports, also Canada's lumber industry is not spared from the reach of U.S. regulators in accordance with the antidumping legislation. In August 2001. The U.S. imposed a 19.3 percent tariff on softwood lumber from Canada, after it has come to the attention of the U.S. Department of Commerce that the Canadian government allegedly subsidized lumber companies in several provinces by charging low "stumpage" fees for logging on federal land. On December 15, pending the final decision on a formal complaint submitted by the Canadian government in March for further consideration, the U.S. government temporarily suspended the tariff only to eventually conclude that Canada exported wood to U.S. at illegally low "dumping" prices. In October, the U.S. imposed an additional 12.6 percent anti-dumping duty on Canadian softwood lumber. However, shortly after this unilateral import restraint had come into effect twelve U.S. senators, including the ranking Republican on the Senate Finance Committee, and two House members asked the President to reverse the U.S. Department of Commerce's preliminary countervailing duty and antidumping findings on shipments of softwood lumber from Canada, mainly because the impact the duties would have on the U.S. housing market. The Senators proffered that the 19.3 percent countervailing duties imposed in August 2001 could not only reduce U.S. GDP by between 0.05 and 0.11 percent but also increase the cost of a new U.S.$200,000 home by about U.S.$200 to U.S.$300 on average, as duties would allow U.S. mills to re-enter the market.

2.3 Present Regulation and Cases of Trade Restrictions / U.S. Import Restraints

As previously mentioned with reference to Brazilian sugar exports to the U.S. standards and regulations governing the conduct of trade policy may create major impediments to foreign market entry through exports. Besides the political rhetoric of anti-dumping, many barriers to trade have been encourage by legitimate government concern for consumer or environmental protection.

Gaining access to the U.S. market has proven to be a cumbersome and costly process that may take years (U.S. International Trade Commission, 2002). Especially exporters of agricultural products are hardest hit by rigid import restrictions imposed by the U.S. Department of Agriculture (USDA), as they must foot the bill of all USDA expenses for researching and approving their products. Moreover, phytosanitary barriers affect a large portion of the fruits and vegetables entering the U.S. market. For instance, grapes and apples require a special cold treatment, while yams and other vegetables require a methyl bromide treatment. Restrictions might also extend beyond the specifications of products upon arrival in the U.S.

Import quotas and outright bans of certain products are an inherent feature of U.S. trade policy and continue to exist until today. For instance, restrictions on imports of Mexican avocados have remained in effect since 1914, despite a formal request by the Mexican government to increase the wiggling space in avocado trade in May 2000. Mexico's move to ask the U.S. for permission to sell avocados as far west as Wyoming and extend the shipping season by two months is still pending.

Also Chile has its own case of country-specific barriers to trade due to U.S. consumer protection enforcement. On May 31, 2000, the U.S. Department of Agriculture imposed restrictions on the imports of certain fruit from the "First Region" (the northern part of Chile), and the "Metropolitan Region" (includes greater Santiago), due to the threat of the Mediterranean fruit fly. On October 31, 2000, the U.S. Department of Agriculture partially lifted its tight controls on the Metropolitan Region of Chile; however, restrictions continue to apply for the "First Region" to this day. Chile has to face barriers to trade in another area of agricultural exports as well. In November 2001 two senators from California and 29 members of the House called on the President to deny Chile any tariff concessions on wine in the context of a free trade agreement. In a letter to President Bush, these lawmakers argued that a further reduction of U.S. wine tariffs could hurt the local U.S. wine industry, let alone absence of significant U.S. benefits from more liberal trading policy on wine imports. In several instances free trade agreements have done little to help U.S. exporters of wine. For instance, wine tariffs are in the last basket for tariff elimination under Mexico's NAFTA commitments, while exporting U.S. vintners face a hefty 42 percent tariff in Israel. With reference to the present imbalance of wine trade with Chile – while Chile exported U.S.$134.3m in wine to the U.S. in 2000, its market for U.S. wine is close to negligible – lawmakers concluded that "U.S. wine tariffs should not be reduced. Instead, it is long overdue for our trading partners around the world to begin to reduce their wine tariffs to the U.S. level (Inside U.S. Trade, 2001)".

In most cases, major industrialized countries have resorted to the economic tactics of unilateral restrictions on imported goods as what essentially constitutes a smoke screen for straightforward trade barriers to frustrate foreign exports. Sometimes supranational agreements come in as legitimate justifications for imposing trade restrictions. On August 3, 2000, the government of Mexico requested formal emergency consultations with the U.S. government regarding the *Panama Declaration* to strengthen the *Inter-American Dolphin Conservation Program* (IADCP). Mexico charged the U.S. with not fulfilling its commitments to effectively open its markets under the agreement, when it restricted shrimp exports on the grounds of the International Dolphin Conservation Program. Currently, the U.S. prohibits the imports of shrimps harvested in ways that are harmful to sea turtles, unless the U.S. Department of State certifies that the harvesting nation either has a sea turtle protection program similar to that of the U.S., or has a fishing environment in which there is no threat to sea turtles.

The above issues interfere with market-based and undistorted trade among nations and prevent developing countries to close the gap with developed countries in their effort to gain access to foreign markets. In cognizance of these impediments many Latin American and Caribbean countries are doomed to continue "investing" in lobbying to counteract the adverse effect of U.S. trade barriers on Latin American economies.

We take issue at this phenomenon of transaction cost imposed by barriers to trade as we analyze the nature of lobbying on export promotion. The U.S. government routinely records data on the amount of funds spend by foreign agents to influence the formation and execution of U.S. trade policy and economic activity. The data reveals that a large number of countries purchase lobbying services in the U.S. in order to seek more favorable trade agreements, be they bilateral or multilateral within a free trade zone. Since the executive and legislative branches of the U.S. government have a significant impact on world markets, foreign countries need to both monitor U.S. legislation as well as lobby individuals in government and in Congress to reach an informed opinion in political decisions that ultimately impact the market access of foreign corporations and foreign countries.

3 Empirical Analysis – The Nature and Magnitude of Foreign Lobbying

3.1 Research Objective

The following model encapsulates a concept to measure the effect of lobbying. We commit empirical evidence of lobbying activity of Latin American countries in the U.S. to a theoretical model, which partly rests on the extensive literature about trade policy and trade liberalization (Grossman and Helpman, 1994; Kim, 1999; Mitra, 1999). The purpose is to describe the nature and magnitude of foreign lobbying on the basis of empirical evidence.

Data gathered for purposes of this study suggests many interesting avenues of research that could be explored, e.g. the effectiveness of lobbying expenditures as the changes in total industry exports to the U.S. or industry category-specific levels of U.S. exports, the relationship between expenditures on policy formulation and trade policy, and the different objectives between the degree of domestic lobbying (usually lobby for protection) and foreign lobby (usually lobby for a reduction in trade barriers) are likely to be fruitful areas for research. In this paper we confine ourselves to testing the nature of export promotion through lobbying and its effect on U.S. exports. We assume a direct causal relationship between the level of the degree of lobbying and changes of export growth in the targeted country (the U.S. in our case), controlling for foreign direct investment flows as well as imports and GDP growth.

3.2 Data

The database can be decomposed in three main sources of data:

(i) lobbying information has been extracted from descriptive data on foreign lobbying in the U.S. collected by the U.S. Department of Commerce under *The Foreign Agents Registration Act* (FARA);

(ii) macroeconomic data from the *Statistical Yearbook* of U.N. Economic Commission for Latin America and the Caribbean (ECLAC), the *Global Development Finance* database of the World Bank, and the *International Financial Statistics* of the International Monetary Fund (IMF); and

(iii) data on foreign direct investment in the U.S. from *Foreign Direct Investment in the United States – New Investment in 2001* of the U.S. Department of Commerce, Bureau of Economic Analysis.

3.2.1 Lobbying Expenditure

3.2.1.1 Definition

The Bureau of Economic Analysis of the U.S. Commerce periodically publishes the *Report of the Attorney General to the Congress of the U.S. on the Administration of the Foreign Agents Registration Act*, which is an annual compilation of registered foreign agents' activities required by the *Foreign Agents Registration Act* (FARA) of 1938 as amended in 1966. Such lobbying activities are measured as expenditure incurred by foreign agents in the U.S., who take interest in influencing political and economic decision-making on behalf of foreign interests. Established in 1938 as the Congress' response to the incessant increase of German propaganda in the years preceding WWII, FARA derives its legitimacy from the purposeful objective of informing the American public and its lawmakers about the source of "external" information (propaganda) intended to sway public opinion, legislative process and executive exercise of public authority. Hence, persuant to the *Foreign Agents Registration Act* (FARA) in its amended form of 1966 all persons must be registered as so-called foreign agents with the Department of Justice if they act as agents, representatives, employees or servants and engage directly or through any other person in any of the following activities (U.S. Department of Justice, 1966):

(i) political activity in the U.S. on behalf of the foreign principal. Foreign principals are defined as foreign governments, foreign political parties, a person or organization outside the U.S. (except U.S. citizens) and any entity organized under the laws of a foreign country or having its principal place of business in a foreign country;

(ii) acting as public relations counsel, publicity agent, information service employee, or political consultant for the principal

(iii) soliciting, collecting, disbursing or dispensing financial resources, e.g. contributions, loans, money or other items of value, for the foreign principal; or

(iv) representing the interests of the foreign principal before any agency or official of the U.S. government.

Exemptions include diplomatic or consular officers engaged exclusively in diplomatic activities recognized by the Department of State; persons engaged in private and non-political activities in furtherance of the bona fide trade or commerce of a foreign principal; those soliciting funds for medical aid and assistance, food and clothing to relieve human suffering, and those engaged in activities to further religious, academic or scientific pursuits. Finally, the exemption also covers any person qualified to practice law who is representing a disclosed foreign principal before any U.S. court or government agency, provided that the legal representation does not extend to attempts to influence or persuade agency personnel or officials beyond the scope of the legal proceeding.

Registration as a foreign agent must be completed within ten days of taking on a foreign client. The filing statement, which is to be updated by semi-annual reports, includes the agent's name, a comprehensive statement of the agent's business, a complete list of the agent's employees, and names and addresses of every foreign principal the agent represents. Additionally, every 60 days, the foreign agent must produce documentation, indicating the type and amount of compensation received, how the money was disposed of, and the activities in which he or she engaged on behalf of the client. Failure to provide such statement is punishable by law and could entail a fine up to $10,000 and/or imprisonment of up to five years for providing a false or incomplete registration. Lesser penalties are imposed for violations such as failing to label proper propaganda information.

Critics argue that inherent procedural weaknesses inhibit the application of the FARA accounting mechanism. Past experience indicates that inadequate und sluggish enforcement mechanisms have lead to underreporting of activities and spending by foreign lobbyists. The Justice Department has estimated, for instance, that the number of unregistered foreign agents ranges from 30 to 60 percent of the total number of registered agents, and a significant amount of lobbying expenditure has been unaccounted for by official figures in the light of pervasive underreporting (Levy, 1987).

New registration and reporting requirements for charities and other non-profit organizations, engaged in efforts to influence legislative and executive branch decisions, have been adopted by *The Lobbying Disclosure Act* of 1995, which was signed into law by President Clinton on December 19, 1995. In contrast to prior law, under which in most cases one or more individual employees of non-profit organizations registered as lobbyists, but not the organization itself, registration and filling of reports must now be done in the name of the organization. Registration forms and reports are to be filed with the Secretary of the Senate and the Clerk of the House of Representatives, as in the past. Also the reports are no longer due quarterly but semi-annually and filing deadlines for periodic reports have been extended. In the *Foundation Advocay Initiative* of the *Alliance for Justice* Michael Trister (2002) of the law firm Lichtman, Trister, Singer & Ross describes two qualitative tests – the degree of lobbying activities of an organization by the number of contractual relationships and returns generated from such activities – in determining whether a charitable and other nonprofit organization is required to register and report under the *Lobbying Disclosure Act of 1995*.

The refinement of the legal typology of exercising political influence by the Act is reflected in the option of nonprofit organizations (Internal Revenue Code, Section 501(c)(3)) to choose either the tax definition of "influencing legislation" (Internal Revenue Code, Sections 501(h) and 4911) or the Act's definition of "legislative activities" in the way they label their lobbying efforts. Provided that electing organizations already monitor the extent of their lobbying under the tax definition, verification is warranted as to whether their activities will be captured by the more restrictive "tax definition", which supersedes the reach of the registration requirements of the Act in some cases. For loss of eligibility of election under IRC sections 501 (h) and 4911, or based on deliberate choice, 501(c)(3) organizations[6] must use the Act's definition of "legislative activities" in determining whether to register.

Moreover, the Act augments the denotational spectrum of what constitutes lobbying activities. If an organization does not choose the "tax definition" of lobbying, the following definition of lobbying activities under the Act for both lobbying contracts[7] and efforts in support of such contracts apply:

(i) lobbying contracts include any oral or written communication relating to the formulation, modification or adoption of federal legislation (including legislative proposals); or of a federal rule, regulation, executive order, or any other program, policy, or position of the U.S. Government; or the administration or execution of a federal program or policy (including the

[6] Since some lobbying efforts of nonprofit organizations might fall outside the definition of the Act, if the rely on the "tax definition" rather than the regulations registered "legislative activities", the lobbying election in accordance with the IRC might be beneficial.
[7] This definition of lobbying contract does not include certain communications, such as formal testimony, written comments filed in response to public notice, information provided in response to an oral or written request, and communications made by the churches.

negotiation, award, or administration of a federal contract, grant, loan, permit, or license). The Act covers only those lobbying contracts that are made to covered legislative and executive branch officials (see U.S.C. §7511(b)(2)).[8]

(ii) efforts in support of lobbying contracts include preparation and planning activities prior or concurrent to lobbying activities; research and other background work that is intended at the time performed, for use in contracts; and coordination with the lobbying activities of others. Hence, research conducted solely in support of an activity unaccounted for my the definition "lobbying contracts" as much as grassroots efforts to influence the public with respect to legislation or executive branch actions are not affected by the Act.

Trister (2002) summarizes the types of activities covered by the Act and its attendant levels of enforcement and other supplementary provisions.

3.2.1.2 Activities

Contrary to the common perception that foreign agents just obtain access to decision makers, the information provided by the U.S. Department of Commerce exemplifies confirms a broader definition of the term lobbying. Lobbyists engage in many types of promotional and policy related activities, such as information gathering, monitoring of issues, public relations, political analysis and policy formulation. Husted (1990) classifies these activities into the following categories in relation to the lobbying in the U.S.:

(i) *information*: distribution of economic, political and social data;

(ii) *export/investment promotion*: direct advertising and promotional activities of products or services, including the dissemination of press releases, newsletters and other material, sponsoring of exhibits and travel shows as well as broadcast advertising and other marketing strategies, in order to increase exports/ attract U.S. investment;

(iii) *policy advice*: gathering information and analysis of U.S. government policies, such as information on U.S. import policies in a certain industry, and drafting strategies to attain trade policy objectives;

(iv) *representation*: legal representation in government or civil proceedings, such as countervailing duty and antidumping cases;

[8] Primarily members of Congress and their staff are considered legislative branch officials, while employees and officials in Executive Level and Schedule C positions and all employees in the Executive Office of the President belong to the executive branch.

(v) *policy formulation*: direct lobbying to affect the formulation of U.S. policy, e.g. expressing viewpoints regarding the Generalized System of Preferences before government and business leaders; and

(vi) *other activities*: all forms of lobbying activities that do not include non-trade and non-investment related activities.

Based on this broad categorization lobbying should be understood as an effort of advocating and/or advancing trade and investment interests in the sense that it includes trade-related activities mentioned in the previous section and it also encompasses other actions such as investment promotion. For the remainder of this paper, we will subsume all categories of lobbying activities to influence legislative and executive decisions, under the generic expression of lobbying. For purposes of simplification without loss of generality, in the subsequent statistical analysis, we treat export lobbying as *pars pro toto* of the total volume of lobbying attributed to a specific Latin American country for a given period of time.

3.2.1.3 Definition

For modeling purposes we define the amount of annual lobbying expenditures (and its first moment) as L_t (and $\Delta L_{t,t-1}$).

3.2.2 <u>Foreign Direct Investment</u>

We obtained information about the foreign direct investment in the U.S. from the Foreign Direct Investment in the U.S. – Balance of Payments and Direct Investment Position publication of the U.S. Department of Commerce, Bureau of Economic Analysis (2002). The data represented in this study was extracted from the ledger item “country detail for position, capital flows and income” for the period 1997 to 2001. We define annual foreign direct investment (and its first moment) as FDI_t (and $\Delta FDI_{t,t-1}$).

3.2.3 <u>Macroeconomic Parameters</u>

Three major parameters form the backbone of the macroeconomic component of determining the nature of lobbying activity in the U.S. by Latin American countries. Upon completion of exploratory factor analysis under the principal component procedure the following variable were considered sufficiently robust to be considered:

(i) EX_t and $\Delta EX_{t,t-1}$ - (individual) annual exports of goods and services (and its first moment) of each selected Latin American country to the U.S. from 1990-2000 (in U.S. Dollars, *U.N. ECLAC Economic Survey 2000-01*),

(ii) IM_t and $\Delta IM_{t,t-1}$ - (individual) annual imports of goods and services (and its first moment) of each selected Latin American country from the U.S. from 1990-2000 (in U.S. Dollars, *U.N. ECLAC Economic Survey 2000-01*),

(iii) *net import penetration ratio* (and its first moment) at current market prices (in U.S. Dollars): time series data on GDP and annual exports/imports to/from the U.S. have been extracted from the *U.N. ECLAC Statistical Yearbook* (2002) and the *U.N. ECLAC Economic Survey 2000-01* (2001) respectively. The export/import data was transformed from a time-series of annual export/import data ordered by sector for each country to annual stocks of sector-specific exports/imports ordered by country, before we matched the annual data on GDP (at current market prices and domestic currency) with exports/imports in domestic currency.[9] We calculate the net import penetration ratios from the perspective of the of Latin American countries (the corresponding U.S.-based figures with respect to each Latin American country would just carry the opposite sign): $IMP_t^{LA} = \frac{IM_t^{LA} - EX_t^{LA}}{GDP_t^{LA}}$ and $\Delta IMP_{t,t-1}^{LA} = \frac{IM_t^{LA} - EX_t^{LA}}{GDP_t^{LA}} - \frac{IM_{t-1}^{LA} - EX_{t-1}^{LA}}{GDP_{t-1}^{LA}}$ (based on the perspective of a Latin American country)

3.3 Descriptive Analysis

3.3.1 Lobbying in Latin America

3.3.1.1 Development of lobbying expenditures in a global perspective

With a notable exception in 1997 the development of foreign lobbying registered a significant decline in nominal terms. In 2000, the U.S. Department of Commerce saw total funds spent on influencing executive and legislative decisions in the U.S. by foreign agents to drop by more than 60 percent compared to absolute lobbying levels in 1990 (from U.S.$970m to little more than U.S.$378m, see Table 1). Much of the a transient momentum in 1997 (U.S.$752m) might have been lost to the restrictive effect of new lobbying regulation implemented at the end of 1995 as *The Lobbying Disclosure Act* took effect (see section 2.3 for details). The annual figures of lobbying expenditure reported under FARA include the financial outlays of 165 countries, whose total overall spending constitutes less than one percent of U.S. imports of goods and services for the respective years. Global advocacy of the free trade and its attendant benefits might not only have advanced efforts to further reduce protectionist trade policies and increases frictionless cross-border trade, but also partly rendered obsolete the need of countries to deploy foreign agents to influence the political decision-making in other countries, most notably the U.S. This might explain the gradual reduction in foreign lobby, as many countries abstain from sustaining

[9] It has to be noted that the calculation of the net import penetration ratio tends to cause problems if – as it happens in most cases by standard convention – import/export data is only available U.S. Dollar denominated.

the high levels of lobbying expenditure of the past in the wake of general trade liberalization. Certainly, other reasons for the observed decline could stem from procedural inadequacies, such as a lenient interpretation of FARA and poor enforcement of its provisions, which might result in erroneous reporting about the amount of lobbying done by foreign agents.

Table 1. Total Lobbying Expenditure by all Countries under FARA (in U.S.$ '000)

Year	*All countries* (in U.S.$ '000)
1990	970,040
1995	915,228
1996	500,927
1997	752,603
1998	513,137
1999	473,687
2000	387,146

Source: FARA Report (2001), U.S. Department of Justice, Washington, D.C.

In general, retaining at least one foreign agent in the U.S. is a common practice of most countries with an active U.S. trade relationship; nonetheless, the extent of lobbying involvement varies substantially by country.

Table 2 illustrates the countries with the largest lobbying expenditure in U.S. for year 2000 with Japan and France holding the leading the pack with an annual expenditure of more than U.S.$51m and U.S.$40 respectively. Both top spenders combined outnumber the annual lobbying bill of the third-ranked Bahamas threefold. The total lobbying cost of 33 countries represented in Table 2 amounts to approximately U.S.$ 338m, which represents 87 percent of total lobbying expenditure by foreign agents in the U.S. in 2000. The arena of foreign lobbying features large a wide range of countries from developed economies, such as Japan, France and Canada, to developing economies, such as Peru, India and Angola, which are at the forefront of what is considered the representation of foreign interests in the U.S. The major trading partners of the U.S., such as Canada, Mexico, member states of the European Community are among the largest purchasers of lobbying services. Ironically, Egypt, Pakistan and the Philippines, countries that receive substantial U.S. economic aid, are absent from the list of the top 33 countries with large lobbying expenditure in the U.S.

Table 2. Countries with the Largest Lobbying Expenditure in the U.S. (2000)

Country	*2000 (in U.S.$ '000)*	*Country*	*2000 (in U.S.$ '000)*
Japan	51,684	Scotland	4,934
France	40,715	Germany	4,894
Bahamas	31,510	Jamaica	4,160
British Virgin Islands	24,211	Barbados	3,598
South Korea	18,102	India	3,384
Hong Kong	16,954	Peru	3,183
Great Britain	16,399	Panama	2,831
Cayman Islands	13,492	Austria	2,743
Colombia	12,588	South Africa	2,683
Ireland	11,392	Canada	2,631
Israel	9,861	Suriname	2,608
Australia	9,468	Bermuda	2,559
Switzerland	9,213	Kazakhstan	2,554
Mexico	6,206	Angola	2,392
Taiwan	6,118	Thailand	2,236
Singapore	5,909	Northern Ireland	2,213
Gabon	4,945		

Source: FARA Report (2001), U.S. Department of Justice, Washington, D.C.

Latin American countries, with Colombia as the highest ranked, barely securing the ninth spot of the global ranking, trail the North American, European and Caribbean countries. The funds spent on lobbying by the top 13 countries alone square to approximately $266m, representing 69 percent of total lobby expenditure. These countries are primarily developed nations, with the exception of the Bahamas, the British Virgin Islands, the Cayman Islands, and Colombia.

The purposes of lobbying are diverse as the means by which it is conducted, backed out by the divergent objectives of industrialized and developing countries. Whereas registered lobbying cost of France, Great Britain and Japan qualify as promotional activity in support of trade and investment, the Caribbean countries amongst the highest ranked countries in Table 2, the Bahamas, the British Virgin Islands and the Cayman Islands mainly pursue lobbying to stimulate tourism as their main source of GDP. Needless to say, also emerging market countries, first and foremost Colombia and Mexico, actively resort to lobbying to firm up trade relationships. Hence, drawing inferences from the economic status of a country (industrialized/developing) as to the lobbying behavior yields a mixed bag of empirical evidence, even though lobbying generally appears to mirror key economic interests of (the) dominant sector(s) of industrial production and/or the delivery of services (e.g. tourism) of the country at hand. Developed countries and developing countries employ lobbying to advance their objectives in either trade and investments or tourism, or both – though at different degrees and different allocations to each of these goals. Especially some emerging economies defy a clear-cut classification of a prime lobby objective according to industrial development. Most developing countries are heavily reliant on foreign tourism in balancing their balance of payments, and, thus, could be conjectured to turn to lobbying as a viable mechanism of boosting demand. Nonetheless, the promotion of U.S. trade in general and increased coffee exports to the U.S. in particular has found Columbia representing its interests in the U.S. by way of a consistently high level of foreign lobbying (see Table 3).

Figure 1 shows the annual stock of lobbying expenditure by Latin American and Caribbean countries in the U.S. from 1990 to 2000. After having peaked at U.S.$297m in 1995, the amount of lobbying tapered off to U.S.$75m in 1999 – which coincided with the Asian financial crisis and its effects through contagion – before it temporarily recovered to levels observed in 1998. The cost of Latin American lobbying averaged to a reported U.S.$156m per annum.[10]

[10] The period from 1992-1994 is not includes in the graph, because the U.S. Department of Justice did not report on lobbying activity in these years.

Table 3. Lobbying Expenditure by Latin American Countries in the United States of America (1990-2000)

Country	*1990 (in U.S. $)*	*1991 (in U.S. $)*	*1995 (in U.S. $)*	*1996 (in U.S. $)*	*1997 (in U.S. $)*	*1998 (in U.S. $)*	*1999 (in U.S. $)*	*2000 (in U.S. $)*
Latin America and the Caribbean	183,333	123,053	297,399	211,083	140,357	105,454	74,682	110,925
South America	*47,803*	*44,149*	*193,448*	*85,014*	*33,434*	*3,310*	*19,180*	*18,590*
Argentina	371	550	291	447	120	163	151	45
Bolivia	50	52	1,006	151	269	88	350	180
Brazil	1,922	3,605	1,185	586	132	1,057	2,577	1,343
Chile	2,232	1,715	161,414	49,095	4,134	410	105	0
Columbia	39,663	34,091	28,091	33,489	26,221	0	425	12,588
Ecuador	113	125	147	0	47	27	0	26
Paraguay	0	400	0	0	96	168	23	0
Peru	27	20	6	0	189	249	186	3,183
Venezuela	3,425	3,591	1,308	1,246	2,226	1,148	15,363	1,225
Mexico and Central America	*38,365*	*19,455*	*21,700*	*14,116*	*13,815*	*11,488*	*7,022*	*9,813*
Mexico	35,034	18,107	19,472	12,244	12,967	10,432	5,290	6,206
Costa Rica	655	136	100	30	41	24	51	26
El Salavador	697	339	268	244	492	868	1,051	118
Guatemala	452	177	165	256	103	84	301	268
Honduras	292	257	44	45	0	80	140	364
Nicaragua	720	386	309	453	116	0	0	0
Panama	515	53	1,342	844	96	0	189	2,831
Caribbean	*97,151*	*59,846*	*82,243*	*111,935*	*93,994*	*90,652*	*48,480*	*82,519*
Antigua & Barbuda	1,688	1,911	226	922	263	97	0	0
Aruba	1,675	1,843	522	874	1,836	4,187	108	1,263
Bahamas	5,672	4,218	0	19,196	12,794	9,859	9,783	31,511
Barbados	4,365	5,744	2,299	1,749	251	549	1,889	3,598
Belize	0	0	0	0	0	87	0	0
Bermuda	31,258	14,436	36,662	39,460	23,016	12,989	574	2,559
British Virgin Islands	859	1,089	2,044	7,917	23,431	23,469	24,933	24,211
Cayman Islands	9,684	10,961	23,158	24,526	16,389	23,991	49	13,429
Curacao	2,027	2,993	975	0	0	0	40	0
Dominican Republic	45	77	58	48	14	32	51	371
Grenada	298	313	208	291	46	151	322	290
Guyana	0	101	33	61	63	40	75	0
Haiti	67	225	4,398	3,199	1,070	1,232	838	749
Jamaica	37,388	14,692	10,619	12,336	12,044	12,711	7,450	977
Netherlands Antilles	558	56	121	128	125	122	63	77
St. Lucia	612	855	410	586	908	186	281	629
Suriname	0	0	0	0	891	169	1,950	2,608
Trinidad and Tobago	955	332	454	300	853	781	74	247

Source: FARA Report (2001), U.S. Department of Justice, Washington, D.C.

Table 10a. Exports by Latin American Countries to the United States of America (1990-1995)

Country	1990		1991		1992		1993		1994		1995	
	Value (in U.S.$ '000)	*Volume (in '000 tons)*	*Value (in U.S.$ '000)*	*Volume (in '000 tons)*	*Value (in U.S.$ '000)*	*Volume (in '000 tons)*	*Value (in U.S.$ '000)*	*Volume (in '000 tons)*	*Value (in U.S.$ '000)*	*Volume (in '000 tons)*	*Value (in U.S.$ '000)*	*Volume (in '000 tons)*
Argentina	1,665,209	5,180,503	1,210,061	2,481,577	1,325,079	3,636,928	1,263,724	2,346,365	1,723,868	3,219,212	1,769,641	3,765,456
Bolivia	184,731	102,184	196,832	134,078	153,705	52,441	214,810	73,320	360,908	155,716	331,575	349,079
Brazil	7,593,117	13,864,678	6,265,574	10,631,737	6,933,099	10,657,187	7,877,059	12,533,271	8,816,196	15,005,197	8,682,787	15,023,719
Colombia	2,792,978	13,716,258	2,553,705	12,714,479	2,464,780	10,918,202	2,653,477	14,582,659	2,991,391	16,543,528	3,526,549	17,579,819
Costa Rica	527,030	958,545	605,331	1,119,925	770,144	1,528,289	827,469	1,477,066	927,065	1,457,727	1,032,633	1,616,728
Chile	1,428,464	2,389,187	1,388,231	2,009,915	1,581,938	2,028,106	1,525,742	2,339,920	1,861,228	4,559,624	2,138,325	3,106,006
Ecuador	1,317,725	1,567,550	1,384,115	1,510,051	1,388,795	1,431,417	1,368,326	1,054,594	1,588,582	1,088,007	1,831,151	8,886,246
El Salvador	164,785	N/A	124,691	177,697	182,257	224,679	207,964	184,057	177,475	138,211	167,944	91,978
Guatemala	450,279	1,012,936	444,524	1,210,940	453,198	1,290,284	502,035	1,317,899	479,384	1,225,865	598,561	1,283,490
Honduras	276,825	774,551	322,659	793,411	377,130	897,334	369,484	841,949	316,552	701,939	270,962	686,640
Mexico	18,448,900	17,845,653	18,672,329	17,895,738	37,234,951	121,674,801	42,841,998	71,743,930	51,067,286	75,897,671	66,226,065	87,156,540
Nicaragua	22,399	5,102	53,246	175,067	56,329	146,852	109,913	149,637	144,109	187,180	206,592	217,804
Paraguay	39,406	39,837	34,223	67,652	34,405	70,077	52,864	141,271	56,904	140,874	43,665	84,020
Peru	757,761	1,992,325	648,632	2,255,963	704,184	2,099,325	696,721	916,038	704,216	699,546	933,652	2,388,680
Uruguay	158,328	35,163	156,485	28,525	171,112	35,234	145,529	35,230	130,570	36,160	122,632	32,826
Venezuela	9,679,533	2,585,632	7,428,077	2,344,486	7,088,264	1,944,917	7,873,693	4,106,577	8,220,779	5,017,499	9,222,337	5,122,441
Latin America	45,507,470	62,070,104	41,488,715	55,551,241	60,919,370	158,636,073	68,530,808	113,843,783	79,566,513	126,073,956	97,105,071	147,391,472

Source: ECLAC, Statistical Yearbook (2001), Sanitago de Chile.

Table 4 demonstrates that the Latin American and Caribbean countries account, on average, for 25 percent of worldwide lobbying expenditure in the U.S. during the 1990-2000 period. Alone in 2000 lobbying by Latin American and Caribbean countries accounted for almost 30 percent of total foreign lobbying expenditure, which is principally directed to the promotion of trade and the reduction of tariffs and other customs duties.

3.3.1.2 Lobbying by sub-regions

We break down the role of lobbying by regional affiliation of the sponsoring country in the bid to evade generalized conclusions about the development of lobbying activity by Latin American and Caribbean countries. Table 4 shows disaggregated expenditures by regions using the capital outlays reported by the countries under FARA. In every year but 1999 total lobby expenditure exceeds U.S.$100m. We detect clearly discernible concentrations of expenditure by sub-region and countries in both Latin America and the Caribbean. In 2000, Caribbean countries accounted for more than half of the foreign lobbying expenditure in the U.S. Table 4 supplements Table 3 for detailed comparisons to be completed for across all registered Latin American countries for the period 1990-2000.[11]

[11] The period from 1992-1994 is not includes in the graph, because the U.S. Department of Justice did not report on lobbying activity in these years.

Table 4. Ratio Between Latin American and Carribean Countries Lobbying Expenditure and Total Lobbying Expenditure in the U.S. (1990-2000)

Year	*1990* *in U.S.$ m*	*1995* *in U.S.$ m*	*1996* *in U.S.$ m*	*1997* *in U.S.$ m*	*1998* *in U.S.$ m*	*1999* *in U.S.$ m*	*2000* *in U.S.$ m*
Lobbying by Latin American and Caribbean countries	183,333	297,399	211,083	140,357	105,454	74,682	110,925
Total lobbying expenditure in the U.S.	970,041	915,228	500,927	752,603	513,137	473,687	387,146
Approx. ratio of lobbying by Latin American and Caribbean countries/total lobbying	19.00	32.00	42.00	19.00	21.20	16.00	29.00

Source: Own calculations, U.N. ECLAC Washington, D.C.

Figure 2.
Ratio Between Latin American and Caribbean Countries Lobbying Expenditure and Total Lobbying Expenditure in the U.S.

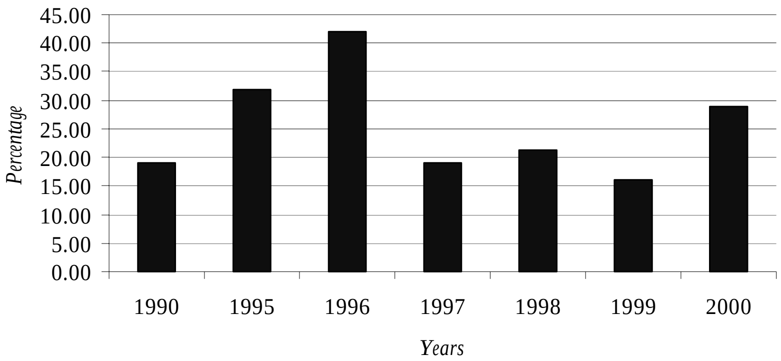


Table 5 shows the lobby expenditure by Latin American countries only from 1990-2000. Chile appears to be most vigilant in maintaining a consistent level of lobbying from 1990 to 2000 in order to support its strategy of additive regionalism, a process of sequentially negotiating bilateral free trade agreements with all of its significant trading partners (Harrison, 2000). So far Chile has already secured free trade agreement with Canada, and the MERCOSUR, and actively pursues further liberalization of trade restrictions in expected free trade agreement with NAFTA and the European Union.

Table 5. Lobbying Expenditure by Latin American Countries to the United States of America (1990-2000)

Country	*1990* (in U.S.$ '000)	*1991* (in U.S.$ '000)	*1995* (in U.S.$ '000)	*1996* (in U.S.$ '000)	*1997* (in U.S.$ '000)	*1998* (in U.S.$ '000)	*1999* (in U.S.$ '000)	*2000* (in U.S.$ '000)
Argentina	371.00	550.00	290.00	446.00	119.00	163.00	151.00	45.00
Bolivia	50.00	51.00	1,005.00	150.00	269.00	87.00	350.00	180.00
Brazil	1,921.00	3,604.00	1,184.00	1,748.00	131.00	1,057.00	2,576.00	1,343.00
Colombia	39,662.00	34,091.00	28,091.00	33,488.00	26,221.00	0.00	425.00	12,588.00
Costa Rica	655.00	135.00	99.00	30.00	40.00	24.00	50.00	26.00
Chile	2,232.00	1,715.00	161,413.00	49,094.00	4,134.00	409.00	104.00	0.00
Ecuador	112.00	125.00	147.00	0.00	46.00	26.00	0.00	6.00
El Salvador	697.00	339.00	267.00	243.00	491.00	868.00	73.00	117.00
Guatemala	452.00	177.00	164.00	255.00	102.00	151.00	301.00	268.00
Honduras	291.00	257.00	43.00	45.00	0.00	80.00	140.00	364.00
Mexico	35,033.00	18,106.00	18,472.00	12,244.00	12,966.00	10,432.00	5,290.00	977.00
Nicaragua	719.00	386.00	308.00	453.00	115.00	0.00	0.00	0.00
Paraguay	0.00	400.00	0.00	0.00	96.00	168.00	22.00	0.00
Peru	26.00	20.00	5.00	0.00	189.00	248.00	185.00	3,183.00
Uruguay	12.00	0.00	0.00	21.00	5.00	3.00	1.00	0.00
Venezuela	3,425.00	3,591.00	1,307.00	1,246.00	2,226.00	1,147.00	15,363.00	1,224.00
Latin America	183,332.00	123,053.00	297,343.00	210,742.00	140,356.00	105,454.00	74,682.00	110,925.00

Source: FARA Report (2001), U.S. Department of Justice, Washington, D.C.

In 1995 alone, Chile amassed lobby expenditure in the U.S. of around U.S.$161m for the promotion of trade, as it tried to negotiate a free trade agreement with the Clinton administration. However, lobby expenditure plummeted to U.S.$104,000 in 1999 only to recede to a zero balance in the subsequent year, once it had come through that a "fast track" option for Chile in committing the U.S. to a bilateral agreement seemed illusive. With the Bush administration reshaping its stance on foreign trade relations in achieving the *Trade Promotion Authority*, it Chile might seriously contemplate resuscitating its lobbying efforts to promote a reduction of tariffs to trade.

Colombia, Brazil and Mexico are further heavy-weights in the lobbying ring, whose efforts are directed towards trade promotion, such as the facilitation of coffee exports to the U.S.

– a case most heavily argued by the *National Federation of Coffee Growers* and by the *Asociacion Colombiana de Exportadores de Flores* (ASOCOFLORES). Also Mexican firms, including *Sidermex*, *Tubos de Acero de Mexico S.A.* and *Hylsa*, sought to counsel of law firms to provide information on certain aspects of U.S. trade policy and to contact U.S. government officials concerning the customs duties levied on Mexican steel.

Table 6 shows total and average lobbying expenditures by Latin American countries. It adds to the above assertion that especially Colombia, Chile and Mexico spearhead lobbying efforts on part of Latin American countries with an average annual lobbying expenditure of U.S.$25.2m, U.S.$20.4m and U.S.$15.3m respectively during the period from 1990 to 2000. Hence, all three countries taken together represent more than 40 percent of all Latin American lobbying in the U.S. on average.

Table 6. Total and Average Lobbying Expenditure by Latin American Countries to the United States of America (1990-2000)

Country	*Avg. Lobbying Expenditure[1] (1990-2000) in U.S.$ '000*	*Total Lobbying Expenditure[1] (1990-2000) in U.S.$ '000*
Argentina	344.09	3,785.00
Bolivia	208.64	2,295.00
Brazil	2,216.00	24,376.00
Colombia	25,167.18	276,839.00
Costa Rica	133.09	1,464.00
Chile	20,386.00	224,246.00
Ecuador	76.09	837.00
El Salvador	373.82	4,112.00
Guatemala	218.27	2,401.00
Honduras	181.00	1,991.00
Mexico	15,258.00	167,838.00
Nicaragua	285.36	3,139.00
Paraguay	171.45	1,886.00
Peru	356.00	3,916.00
Uruguay	3.82	42.00
Venezuela	3,663.82	40,302.00
Latin America (total)	146,822.36	1,615,046.00

Source: FARA Report (2001), U.S. Department of Justice, Washington, D.C.

1=assuming a constant (indexed to 1991) lobbying expenditure between 1992-1994 (when no data was published by FARA)

3.3.1.3 Areas of lobbying

In order to guard against foregone conclusions about the significance of lobbying, the distribution of lobbying expenditure is pivotal in interpreting the objective of Latin American and Caribbean lobbying in the U.S. between 1990 and 2000. Table 7 illustrates that most lobbying focuses on the promotion of exports, specifically for coffee and tourism, while the share of other lobbying categories remains minimal. On aggregate, Latin American countries spent only one in every 45 U.S. Dollars on influencing policy formulation (direct lobbying) in the U.S. Roughly 3 percent and 3.5 percent of all Latin American and Caribbean lobbying expenditures were allocated to representation in the U.S.

and policy advice respectively. The prevalence of export promotion-oriented lobbying is an important observation that substantiates the formulation of an explanatory model of the efficiency of lobbying activity in the U.S. In the subsequent econometric analysis of the endogenous lobbying behavior we consider the annual figures for export promotion as a catchall provision for total lobbying in the U.S.

Table 7. Distribution of Lobbying Expenditure by Latin American Countries (1990-2000)

Country	*Share of Total Lobbying Expenditure in U.S.$ '000*
Information	3.00%
Export Promotion	85.00%
Investment Promotion	3.00%
Policy Advice	3.50%
Representation	3.00%
Policy formulation	2.20%
Other	0.30%
Total	100.00%

Source: FARA Report (2001), U.S. Department of Justice, Washington, D.C.

Generally, Caribbean countries tend to lobby for the promotion of tourism, while Latin American countries are more inclined to lobby for trade promotion and the reduction of trade barriers imposed on their products. The top thirteen countries that spent the most for the 1990-2000 period (see Table 2) promoted either trade and tourism or both by means of continued lobbying activity.

Lobbying for export promotion still reigns supreme for “regional champions” Colombia, Mexico and the “Caribbean trio” British Virgin Islands, Cayman Islands and Jamaica, which clearly dominate U.S. lobbying of their respective sub-region (see Table 8). Colombian and Mexican lobbying for export promotion represents nearly all of export promotion-related lobbying of South America and Central America in either case, whereas two-thirds of Caribbean lobbying expenditures for export promotion is carried by the tourism-heavy Caribbean countries British Virgin Islands, Cayman Islands and Jamaica.

Despite being dwarfed by the export promotion as the prime objective expenditure for policy advice services is relatively significant for many Latin American and Caribbean countries in advancing political and economic interests in the U.S., most notably Argentina, Brazil, and Haiti. Issues of interest include a diverse range of trade-related matters, such as advice regarding payment of international financial obligations, shipping practices to the U.S., continued access to the U.S. market for orange juice and orange juice products as well as legislation that would impose economic sanctions. Interestingly, while having established a strong stance in export promotion, Bermuda's sustained lobbying efforts even more so apply to policy advice. Bermuda claims more than 83 percent of Caribbean and almost 63 percent of lobbying for policy advice by all Latin American and Caribbean countries combined between 1990 and 2000.

Lobbying for investment promotion and policy formulation see the Cayman Islands and Mexico with 80 percent and almost 50 percent of all Latin American and Caribbean lobbying expenditure combined as unchallenged frontrunners in gathering U.S. support for U.S. foreign direct investment and favorable U.S. legislation with respect to international trade and commerce.

3.3.1.4 Comparison of lobbying with other countries

A general comparison of lobbying expenditures between Latin American countries and major spenders like Japan, France and Great Britain reveals an inequitable distribution of lobbying funds to export promotion with the former countries, while more industrialized countries, such as Japan (see Table 9) show a more even allocation of funds, that is expenditures appear relatively diversified. Even though export promotion remains to be the mainstay of lobbying irrespective of the economic development or regional affiliation of the country in question, its proportional share in overall lobbying is significantly less than those in Latin American countries.

Table 8. Type of Lobbying Expenditure by Latin American Countries in the United States of America (1990-2000)

Country	Information (in U.S. $)	Export (in U.S. $)	Investment (in U.S. $)	Policy (in U.S. $)	Legal (in U.S. $)	Policy (in U.S. $)
Latin America and the Caribbean	3,090,082	87,976,812	10,989,705	9,133,703	3,904,709	2,630,056
South America	*115,000*	*12,080,733*	*170,873*	*1,362,898*	*617,287*	*498,258*
Argentina	-	-	50,873	-	-	112,392
Bolivia	-	-	-	-	-	87,500
Brazil	50,000	-	120,000	-	181,062	-
Chile	65,000	-	-	-	409,770	-
Columbia	-	12,078,133	-	77,811	6,206	-
Ecuador	-	2,600	-	-	16,878	7,390
Guyana	-	-	-	-	-	39,805
Paraguay	-	-	-	168,000	-	-
Peru	-	-	-	248,784	-	-
Suriname	-	-	-	126,962	-	41,700
Uruguay	-	-	-	-	3,371	-
Venezuela	-	-	-	741,341	-	209,471
Mexico and Central America	*2,813,814*	*3,506,813*	*2,125,995*	*899,136*	*501,063*	*1,597,451*
Mexico	2,707,614	3,422,619	2,038,619	379,425	430,863	1,297,955
Belize	-	-	87,376	-	-	-
Costa Rica	34,200	-	-	-	10,200	-
El Salavador	72,000	-	-	439,711	60,000	299,496
Guatemala	-	84,194	-	-	-	-
Honduras	-	-	-	80,000	-	-
Nicaragua	-	-	-	-	-	-
Panama	-	-	-	-	-	-
Caribbean	*161,268*	*72,389,266*	*8,692,837*	*6,871,669*	*2,786,359*	*534,347*
Antigua & Barbuda	-	84,098	-	13,163	-	-
Aruba	-	2,776,206	88,343	22,500	1,414,090	-
Bahamas	-	9,688,056	-	-	254,939	-
Barbados	18,757	2,400,262	349,883	30,616	-	-
Bermuda	5,610	7,064,851	-	5,723,038	193,318	2,608
British Virgin Islands	-	22,755,908	245,436	-	-	-
Cayman Islands	-	15,839,418	8,009,175	-	142,759	-
Dominican Republic	-	-	-	30,368	-	1,305
Grenada	-	151,316	-	-	-	-
Haiti	-	-	-	1,034,484	-	198,010
Jamaica	-	11,543,693	-	17,500	-	210,775
Netherlands Antilles	-	-	-	-	-	121,649
St. Kitts & Nevis	-	36,000	-	-	-	-
St. Lucia	136,901	49,458	-	-	-	-
Trinidad and Tobago	-	-	-	-	781,253	-

Source: FARA Report (2001), U.S. Department of Justice, Washington, D.C.

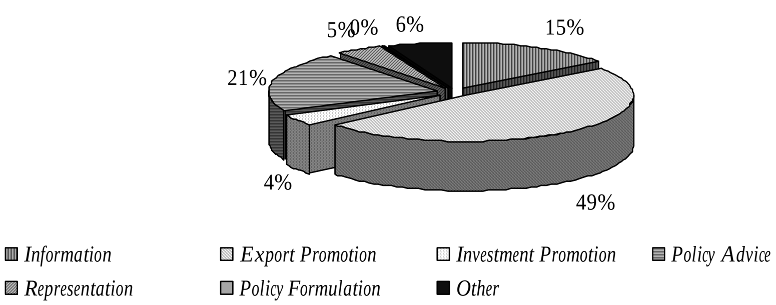
Table 9. Allocation of Lobbying Expenditure in Japan (2000)

Budget Item	*Allocation (in %)*
Information	15.00%
Export Promotion	49.00%
Investment Promotion	3.80%
Policy Advice	21.00%
Representation	4.70%
Policy Formulation	0.04%
Other	6.20%

Source: FARA Report (2001), U.S. Department of Justice, Washington, D.C.

Figure 3 exemplifies the allocation of lobby expenditure by Japan in 2000. While Latin American and Caribbean countries spent more than 85 percent of their lobbying expenditure on export promotion, Japan merely used half of its lobbying budget (49 percent) to sponsor what includes direct advertising and promotional activities of products or services, travel shows as well as marketing strategies. 21 percent of the lobbying expenditure as earmarked for policy advice, i.e. information and analysis of U.S. government policies, information on U.S. import policies, and draft strategies to attain trade policy objectives.

Figure 3.
Allocation of Lobbying Expenditure in Japan (2000)



Further decomposition of lobbying behavior underscores the fact that the governments of industrialized countries are the main source of funding for lobbying, with firms and producer associations being considerably more active than those in Latin American and Caribbean countries.

3.3.2 Exports to the U.S. by Latin American and Caribbean countries

Tables 10a and 10b demonstrate the growing importance of the U.S. as the prime export market for Latin American and Caribbean countries. Mexico's impressive track record of exports to the U.S. – a cumulative growth rate of more than 884 percent, from less than U.S.$18.5 billion in 1990 to slightly more than U.S.$147.6 billion in 2000 – makes it the Latin American country that has exported the most to the U.S. since 1990. ECLAC (2001) reports that Chile's and Brazil's growth rates of exports to the U.S. trail Mexico by a wide margin, with their value of exports having grown by more than 107 percent and 73 percent respectively since 1990.

The causal link between export growth and lobbying is still found wanting unless further in-depth analysis is considered (in the subsequent section of this paper). Nonetheless, it is in these figures that lobbying in the U.S. can be best explained. Export growth takes root in sustained lobbying for export promotion by Latin American and Caribbean countries. That is, lobbying seems to be a critical vehicle for their export industries seeking to lift restrictions to trade and promote their products inside the U.S.

3.4 Lobbying to Export Ratio

Before we explicate the endogenous relationship between exports and the level of lobbying we need to acquaint ourselves with the relative share of lobbying in the total export volume of each country analyzed. While most Latin American countries spend less than 1 percent of their exports on lobbying, many Caribbean countries, which economies depend mainly on tourism, spend a great deal of resources on foreign lobbying in the form of tourist promotion. One case in point is Bermuda, whose lobbying expenditure in 1996 outstretched total annual exports to the U.S. by factor three. Also Aruba and the Bahamas resort to lobbying on a major scale by investing more than 12 percent of the annual export levels. These high degree of lobbying expenditures set Caribbean nations apart from Latin American countries, which spend a lesser proportion of their U.S. exports on lobbying.

However, we also observe several Latin American countries, which do obey by this broad distinction. Due to the limitations on sufficient data on Caribbean countries, we have confined an overview of the lobbying-to-export ratio to Latin American countries only (see Table 11). The same selection of per-country data will later on be used to test our model empirically. Table 10 illustrates the ratio of lobbying expenditures in the U.S. to exports by Latin American countries to the U.S. from 1990 to 2000.

Table 10a. Exports by Latin American Countries to the United States of America (1990-1995)

Country	1990		1991		1992		1993		1994		1995	
	Value (in U.S.$ '000)	*Volume (in '000 tons)*	*Value (in U.S.$ '000)*	*Volume (in '000 tons)*	*Value (in U.S.$ '000)*	*Volume (in '000 tons)*	*Value (in U.S.$ '000)*	*Volume (in '000 tons)*	*Value (in U.S.$ '000)*	*Volume (in '000 tons)*	*Value (in U.S.$ '000)*	*Volume (in '000 tons)*
Argentina	1,665,209	5,180,503	1,210,061	2,481,577	1,325,079	3,636,928	1,263,724	2,346,365	1,723,868	3,219,212	1,769,641	3,765,456
Bolivia	184,731	102,184	196,832	134,078	153,705	52,441	214,810	73,320	360,908	155,716	331,575	349,079
Brazil	7,593,117	13,864,678	6,265,574	10,631,737	6,933,099	10,657,187	7,877,059	12,533,271	8,816,196	15,005,197	8,682,787	15,023,719
Colombia	2,792,978	13,716,258	2,553,705	12,714,479	2,464,780	10,918,202	2,653,477	14,582,659	2,991,391	16,543,528	3,526,549	17,579,819
Costa Rica	527,030	958,545	605,331	1,119,925	770,144	1,528,289	827,469	1,477,066	927,065	1,457,727	1,032,633	1,616,728
Chile	1,428,464	2,389,187	1,388,231	2,009,915	1,581,938	2,028,106	1,525,742	2,339,920	1,861,228	4,559,624	2,138,325	3,106,006
Ecuador	1,317,725	1,567,550	1,384,115	1,510,051	1,388,795	1,431,417	1,368,326	1,054,594	1,588,582	1,088,007	1,831,151	8,886,246
El Salvador	164,785	N/A	124,691	177,697	182,257	224,679	207,964	184,057	177,475	138,211	167,944	91,978
Guatemala	450,279	1,012,936	444,524	1,210,940	453,198	1,290,284	502,035	1,317,899	479,384	1,225,865	598,561	1,283,490
Honduras	276,825	774,551	322,659	793,411	377,130	897,334	369,484	841,949	316,552	701,939	270,962	686,640
Mexico	18,448,900	17,845,653	18,672,329	17,895,738	37,234,951	121,674,801	42,841,998	71,743,930	51,067,286	75,897,671	66,226,065	87,156,540
Nicaragua	22,399	5,102	53,246	175,067	56,329	146,852	109,913	149,637	144,109	187,180	206,592	217,804
Paraguay	39,406	39,837	34,223	67,652	34,405	70,077	52,864	141,271	56,904	140,874	43,665	84,020
Peru	757,761	1,992,325	648,632	2,255,963	704,184	2,099,325	696,721	916,038	704,216	699,546	933,652	2,388,680
Uruguay	158,328	35,163	156,485	28,525	171,112	35,234	145,529	35,230	130,570	36,160	122,632	32,826
Venezuela	9,679,533	2,585,632	7,428,077	2,344,486	7,088,264	1,944,917	7,873,693	4,106,577	8,220,779	5,017,499	9,222,337	5,122,441
Latin America	45,507,470	62,070,104	41,488,715	55,551,241	60,919,370	158,636,073	68,530,808	113,843,783	79,566,513	126,073,956	97,105,071	147,391,472

Source: ECLAC, Statistical Yearbook (2001), Sanitago de Chile.

Table 10b. Exports by Latin American Countries to the United States of America (1996-2000)

	1996		*1997*		*1998*		*1999*		*2000*		*2001*	
Country	*Value (in U.S.$ '000)*	*Volume (in '000 tons)*	*Value (in U.S.$ '000)*	*Volume (in '000 tons)*	*Value (in U.S.$ '000)*	*Volume (in '000 tons)*	*Value (in U.S.$ '000)*	*Volume (in '000 tons)*	*Value (in U.S.$ '000)*	*Volume (in '000 tons)*	*Value (in U.S.$ '000)*	*Volume (in '000 tons)*
Argentina	1,944,460	5,847,203	2,178,943	5,676,337	2,191,231	7,210,761	2,630,882	7,942,143	3,110,756	6,550,690		
Bolivia	237,315	267,315	264,104	290,727	303,123	376,235	465,301	304,149	349,452	127,097		
Brazil	9,182,557	17,477,465	9,275,730	16,645,244	9,740,859	18,408,796	10,674,750	20,912,270	13,180,492	22,661,482		
Colombia	4,140,494	20,562,835	4,262,323	21,371,992	4,048,522	28,204,819	5,615,478	35,473,398	6,527,418	30,541,273		
Costa Rica	1,491,614	1,791,643	1,777,543	1,726,778	1,978,397	1,251,004	3,094,255	2,031,789	2,692,172	1,978,039		
Chile	2,372,549	5,893,783	2,439,128	4,619,248	2,359,695	4,917,181	2,811,112	5,389,098	3,007,736	5,482,342		
Ecuador	1,707,199	6,941,342	1,997,655	7,779,365	1,595,489	7,045,213	1,667,933	7,143,404	1,801,672	7,377,179		
El Salvador	189,966	187,324	255,409	203,363	265,130	265,217	243,071	291,295	318,477	339,221		
Guatemala	743,909	1,963,355	839,672	2,298,741	837,193	2,665,362	837,672	2,445,793	971,423	2,616,815		
Honduras	491,279	753,916	697,200	944,230	528,891	804,818	432,559	513,268	148,003	265,336	N/A at the time of the study	
Mexico	80,387,385	104,302,484	94,293,788	48,172,287	103,053,059	111,728,410	120,337,488	118,200,469	147,641,338	250,253,298		
Nicaragua	290,953	238,089	300,289	212,945	207,280	207,910	179,072	131,652	237,888	142,458		
Paraguay	37,020	53,159	57,565	137,797	81,742	278,586	57,888	178,002	33,619	41,859		
Peru	1,154,566	2,871,611	1,582,881	3,800,534	1,823,140	4,471,657	1,703,592	3,190,803	1,902,060	2,134,838		
Uruguay	167,210	63,549	160,744	57,339	158,485	51,164	140,755	46,893	180,376	55,151		
Venezuela	13,539,031	5,543,264	12,434,929	6,079,546	7,987,118	7,280,157	9,802,198	6,949,843	15,921,722	7,041,625		
Latin America	118,077,507	174,758,337	132,817,903	120,016,473	137,159,354	195,167,290	160,694,006	211,144,269	198,024,604	337,608,703		

Source: ECLAC, Statistical Yearbook (2001), Sanitago de Chile.

Table 11. Percentage of Lobbying Expenditure on Total Exports by Latin American Countries to the United States of America (1990-2000)

Country	*1990*	*1991*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*
Argentina	0.022%	0.045%	0.016%	0.023%	0.005%	0.007%	0.005%	0.001%
Bolivia	0.027%	0.026%	0.303%	0.063%	0.102%	0.029%	0.100%	0.052%
Brazil	0.025%	0.058%	0.014%	0.019%	0.001%	0.011%	0.020%	0.010%
Colombia	1.420%	1.335%	0.797%	0.809%	0.615%	0.000%	0.007%	0.193%
Costa Rica	0.124%	0.022%	0.010%	0.002%	0.002%	0.001%	0.002%	0.001%
Chile	0.156%	0.124%	7.549%	2.069%	0.169%	0.017%	0.003%	0.000%
Ecuador	0.008%	0.009%	0.008%	0.000%	0.002%	0.002%	0.000%	0.000%
El Salvador	0.423%	0.272%	0.159%	0.128%	0.192%	0.327%	0.023%	0.037%
Guatemala	0.100%	0.040%	0.027%	0.034%	0.012%	0.018%	0.031%	0.028%
Honduras	0.105%	0.080%	0.016%	0.009%	0.000%	0.015%	0.095%	0.246%
Mexico	0.190%	0.097%	0.028%	0.015%	0.014%	0.010%	0.004%	0.001%
Nicaragua	3.210%	0.725%	0.149%	0.156%	0.038%	0.000%	0.000%	0.000%
Paraguay	0.000%	1.169%	0.000%	0.000%	0.167%	0.206%	0.065%	0.000%
Peru	0.003%	0.003%	0.001%	0.000%	0.012%	0.014%	0.010%	0.167%
Uruguay	0.008%	0.000%	0.000%	0.013%	0.003%	0.002%	0.001%	0.000%
Venezuela	0.035%	0.048%	0.014%	0.009%	0.018%	0.014%	0.096%	0.008%
Latin America	0.403%	0.297%	0.306%	0.178%	0.106%	0.077%	0.038%	0.056%

Source: FARA Report (2001), U.S. Department of Justice, Washington, D.C.

Chile's lobbying-to-exports ration registered peaks of 7.5 percent and 2 percent in 1995 and 1996, and Colombia maintained a ration of roughly 1 percent throughout the first half of the 1990s before it temporarily retracted most of its lobbying only to recommence a massive lobbying campaign in 2000 – against the grain of declining lobbying by Latin American countries in the U.S. in the late 1990s. Recently, also Honduras and Peru have featured significantly high lobbying-to-export ratios with 0.25 percent and 0.17 percent, given an average of 0.06 percent in Latin American on average in 2000.

4 LITERATURE REVIEW

4.1 General literature on the effects of lobbying

Lobbying – for purposes of export and trade promotion – represents the intersection of political economy and the neoclassical economic thought on efficiencies to trade. Free trade allows a country to use its limited resources in its most efficient and productive manner. Amongst other things, free trade eliminates inefficient industries and promotes the creation and growth of efficient ones. That is, trade allows any comparative advantages in production to foster international division of labor. Consequently, factors of production are moved from inefficient industries to efficient ones not only within a specific country but also across countries. Free trade precludes the perpetuation of inefficient production through tariffs and other barriers to trade from imposing a deadweight loss on consumer surplus. Hence, free trade is a Pareto efficient optimal policy, which increases public welfare. Nonetheless, Pareto efficient free trade does not seem to be a sustainable market equilibrium outcome for the international exchange of goods and services.

In reality, however, free trade in fact never seems to be the actual outcome in trade negotiations, e.g. NAFTA is infested with regulations and protective measures that inhibit trade. So, do trade restraints still prevail, although free trade is arguably more efficient ? Economists attribute this phenomenon to the impact of lobbying on the politics governing the organization of international trade. Lobbying is defined as the conduction of activities with the objective of influencing public officials and members of a legislative body with regard to legislation and other policy decisions. Lobbying groups can have an affect in the adoption and formation of trade policy. However, the outcomes do not always maximize the welfare of society. Usually domestic lobbying renders the outcome of trade negotiations suboptimal in terms of economic efficiency. That is, suboptimal outcome stems from allegedly inhibiting influence of what could be deemed political bias in the presence of lobbying. Although we are not able to exhaustively test this assumption, in the data analysis section of this paper (see section 5) we aim to analyze the effect of lobbying – be it positive or negative – on at least one fundamental aspect of trade policy, namely export growth and development.

4.2 Asymmetric information in democratic governance

Lobbying serves as a means of advancing economic and political objectives in the realm of executive and legislative decision-making processes of a given jurisdiction. Assuming a democratic system underlying the political authority vested in public representatives, one is left to wonder why the electorate would tolerate political decisions, influenced by lobbying, which clearly produce suboptimal economic results ? Why do voters not vote in their best interest ? Why do voters not vote for politicians who favor free trade ?

4.2.1 Free rider problem

The broad economic rationale for the sustainability of suboptimal lobbying outcomes is broadly explained by asymmetric information inherent in issues of political economy. One possible plausible argument attributes lobbying influence to the free rider problem of certain types of concerted efforts under democratic representation. Since lobbying requires substantial collective effort to pool sufficient resources, the ensuing benefits have to at least outweigh the cost incurred for each individual. Lobbying for free trade, however, results in marginal benefits for many individuals, while the ones who gain from protective measures are more concentrated and are able to appropriate a higher individual proportion of economic rents to be had from lobbying. Hence, a group of disseminated lobbyists will not contribute to a coalition to achieve a free trade outcome, as opposed to the latter group of a small number of powerful interest groups, which are able to overcome the free rider problem.

4.2.2 Voter ignorance

An alternative explanation for the paradoxical sustainability of lobbying in a democratic system could be the degree of voter information about the incentives of elected representatives. Since it may be costly to obtain information about their political objectives, voters are likely to remain ignorant to actual political outcomes, leaving representatives inclined to be lenient to concentrated lobbying efforts. Such voter ignorance may contribute to the explanation of why voters do not consciously choose candidates that would support efficient outcomes. At the same time, politicians as much as opponents to trade liberalization could cultivate the opacity of decision-making and, hence, increase the cost of information to the voting public. So the less transparent protectionist measures, the higher the costs to voters of availing themselves of accurate information about political outcomes. Additionally, this strategy also allows for increased moral hazard – the ability to pursue goals contrary to the agent's (i.e. the electorate in this case) objectives without being punished for it.

Therefore, in both theories the competing interests of the electorate and the highly organized and resourceful efforts of lobbyists are at the core of what constitutes possible suboptimal outcomes in political processes exposed to lobbyism. In democracies, governments shape trade policy not only in response to the general electorate, but also to political pressures exercised by special interest groups. Interest groups participate in the electoral game in order to influence policy outcomes in their favor. Politicians are frequently faced with opposite incentives. On the one hand, they need financial contributions from interest groups to finance their political campaigns and satisfy their personal incentive of re-election, and, on the other hand, they have to honor their representational function of creating policies in line with public will, so that they will not alienate their electorate.

Magee (1989) proposes a model of interaction between the political process and voter ignorance, where politicians seeking reelection need votes. The number of votes received is an increasing function of the amount of money politicians spent on their campaigns and a decreasing function of the number of special interests politicians are perceived to support. The model poses rational beliefs of the electorate about the credibility of representatives to advocate a certain political line as the incentive condition of political action. If voters are do not know or only vaguely perceive the degree to which politicians support special interests, voter ignorance lowers the cost to politicians of supporting lobbying groups. Hence, politicians would be in the position to profit from the upside of subjected themselves to the influence of lobbying groups without incurring the downside of being perceived as disloyal to voters' preferences. At the same time, politicians obtain money by being courted by lobbying groups with protection, which, in turn, increases their chances of reelection as they can replenish their campaign funds.

4.2.3 Conditions for free trade agreements

Based on the theory of voter ignorance, Grossman and Hillman (1994) draw the conclusion that, in a democratic system, campaign finance provides incentives for politicians to offer their policy influence to interest groups in return for material benefits amid the confrontation of interests between the electorate and the lobbyists. That is, as politicians are almost unchecked in the way address their immediate political incentive, namely reelection, voter preferences loose out to material benefits from lobbying in creating incentive compatibility between principal (electorate) and agent (politician). This observation translates into a scenario of political economy, where more efficient free trade gives way to protectionism due to political favors. Thus, increased efficiency is made unsustainable by externalities.

In their paper "Trade Wars and Trade Talks" Grossman and Hillman (1994) find higher tariff rates to emerge in industries that are politically organized. Along the line of the aforementioned free rider problem their evidence suggests a positive association between levels of protection and the extent to which an industry is politically organized, mainly because a concentration of stakeholders allows for concerted efforts of influencing political outcomes. Hence, the higher the gain from lobbying for suboptimal outcomes (in this case protectionist trade policy), the higher will be he tariffs imposed in certain industries. In their 1995 paper on

"The Politics of Free Trade Agreements" the authors conclude that in order to facilitate a free trade agreement , which will completely liberalize trade between neighbouring countries, two conditions need to be satisfied[12]:

(i) if the free trade agreement generates substantial welfare gains for the average voter and adversely affected interest groups fail to coordinate their efforts to defeat the accord (such that the free-rider problem is mitigated), and

(ii) if the agreement creates profit gains for actual exporters in excess of the losses suffered by competing importers, in addition to the political cost of any reduction of public welfare inflicted on the average voter (e.g. an increase in the unemployment level).

These conditions highlight the distorting influence of lobbying, for it holds the prospect of suboptimal outcome in absence of free trade.

4.2.4 Theories on lobbying outcomes

Research on the political economy of trade policy seeks to explain the equilibrium outcome of the lobbying process. There are different approaches in the literature (Hillman, 1989) that analyze this issue. A few of them are listed below:

(i) *political competition*

Brock (1978) and Magee (1989) propose models in accordance with the "voter ignorance" theory (see section 4.2.2), where competition occurs between two opposing candidates, which have different trade policies they would implement once elected. The two candidates represent protectionist and free trade interests respectively. Organized lobby groups evaluate the different policies and contribute resources to the party that promises them the highest level of economic benefits. The political candidates use the resources to sway voters, who are considered imperfectly informed about candidates' positions. The contributions are used to finance the campaign expenditures, which in turn affect the parties' probabilities of winning the election. The motivation for political contributions in this setting is to influence the election outcome to the detriment of public welfare.

[12] The effects of lobbying on trade policy seem to be similar in the Latin American context. MERCOSUR is an interesting case study in this regard. Modelled after the European Common Market MERCOSUR was scheduled to become a full customs union by January 1995. However, the union never came to fruition, mainly because member countries were allowed to deviate (upwards and downwards) from some tariff lines stipulated in the *Common External Tariff* (CET) agreement. MERCOSUR has also not been able to achieve a free trade area among members. Olarreaga and Soloaga (1998) found evidence that sector-industry lobbying is the fundamental cause for member countries to deviate from the CET and internal free trade, which renders the organising framework of MERCOSUR inoperable. The industry and products that deviate the most from free trade are textiles, paper products, footwear, iron, steel, and transportation equipment. These concentrated industries are able to organize themselves and affect trade policy formation through lobbying.

(ii) *political support*

The incumbent government is in a position to choose trade policy, but is constrained by the prospect of the next election (Long, 1991; Hillman, 1982; Stigler, 1971). The government recognizes that favors granted to special interest groups may elicit financial and other support but also may cause disaffect elements of the general electorate. Hence, the government selects an optimal policy to maximize its political support. The political support function has two arguments: (i) the gains to interest groups that get from trade protection and (ii) the deadweight loss that these policies impose on society at large. In this formulation campaign contributions do not enter directly into the analysis and the political competition of the next election is not explicitly considered.

(iii) *statist theories of foreign economic policy*

This strand of research considers executive institutions and officials independent players in the international arena, setting policies to serve only the national objectives while making only occasional and minimal concessions to domestic political groups (Cowhey, 1990). This theory presumes that the government is a benevolent servant of the national interest.

(iv) *endogenous tariff formation*

The theory of endogenous tariff formation views trade policy as a consequence of a political process, which treats interest groups as participants in a competition for political favors. Politicians primarily maximize their own benefits by appropriating economic rents from certain policies. Hence, the implicit contingent consent between the electorate and interest groups falls short of maximizing public welfare. The concept of endogenous tariff formation seeks also explains unabated trade protection and inefficient equilibrium structures of trade agreements, as political favors bias politicians to into protectionism if so desired by concentrated efforts of interest groups.

4.3 Conditions for effective and efficient lobbying

In general, the political economy literature (Olarreaga and Soloaga, 1998) on lobbying predicts that the level of protection received by an industry is higher when:

(i) *The industry concentration is high.*

The more concentrated the industry is in a country the easier it is to solve the free-riding problem, and the easier it is to organize a lobby force in order to achieve common goals for the industry.

(ii) *The import penetration ratio is low* (Grossman and Hillman, 1994).

The lower the import penetration ratio (i.e. the imports play a subordinated role to exports in the national economy), the lower is the relative weight of consumers compared to producers in the government's objective function. Hence, politicians face little "political cost" in the form of electoral votes if they submit to lobbying, since consumers would not benefit massively from a lower import penetration ratio, i.e. a liberalization of trade.

(iii) *The share of sector production purchased by other sectors as intermediates is low.*

The lower the need for imports in the intermediate production process, the lower the resistance to protective policies.

(iv) *The unionization of labor in this sector is high relative to total employment in the economy.*

The higher the employment in a sector with a high degree of unionization, the larger the strength of this sector's labor union to influence the political process.

In a democratic system, elected officials make trade policy. Frequently, political decisions made by elected representatives escape public scrutiny, as elections cover a multitude of issues and prevent voters being perfectly informed about trade issues. Hence, political representatives could turn to opportunistic policies that advance their own incentive of re-election rather than maximizing public welfare, the electorate's interest. That is, political decision-making would reflect a trade policy that does not maximize the welfare of the median voter. Other policies may better serve the politicians' goal of being reelected and any further objectives they may have. Consequently, dispersed public will in the election process constitutes a window of opportunity for lobbying, whose economic benefits increase in its capacity of frustrating voter activism by means of perpetuating the free-rider problem. We conclude that the "voter ignorance" establishes the incentive condition of lobbying, while the "free-rider problem" represents the participation constraint of incurring the opportunity cost of lobbying.

Finally, the political economy literature helps to adapt this observation in the framework of industrial organization. In general, we predict that highly concentrated sectors will obtain higher levels of protection (on the basis of lobbying), as free riding by firms lobbying for protection is easier to overcome in small groups. Similarly, declining industries are more susceptible to protection, as the opportunity cost of lobbying (i.e. the effort and resources allocated to lobbying, which would otherwise be used for productive activity) is lower in a slowly growing industry than in a dynamic sector. Moreover, it is declining industries that require protection as opposed to dynamic ones.[13]

4.4 The impact of lobbying – examining the relationship between the U.S. and countries in Latin American and the Caribbean

Imperfections in the pathology of legislative processes leading to the adoption of trade policy suggest the acute relevance of the above theories. In fact, evidence of barriers to trade, motivated by protectionist lobbying are all too prevalent. Unilateral moves to impose restrictions on imported products arguably improve the terms of trade of the protectionist country. However, the attendant cost of trade protection is substantial, mainly because its detrimental effect on the balance of payment of other countries inhibits the development of future export markets. The trading relationships between the U.S. and countries in Latin America and the Caribbean exemplify this argument.

Besides being the second fastest growing region in the world (after the Asia Pacific region), Latin America is one of the fastest growing markets for U.S. goods and services, and holds out many opportunities for U.S. exports to expand further. According to Gray (1997) Latin America will be one of the two primary export markets for the U.S. by the year 2010. From 1990 to 1994, U.S. exports to Latin America grew faster than any other region in the world, as export growth of 79 percent per annum outperformed a 38 percent increase of imports. The intensification of the relationship between the U.S. and Latin America has found many countries in this region recording record levels of goods imported from the U.S. in comparison with many industrialized nations. For instance, Brazil imports more goods from the U.S. than all of the Scandinavian countries, while Mexico’s demand for U.S. products exceeds U.S. exports to Germany, France and Italy combined. Chile supersedes Russia in total annual imports from U.S. goods. El Salvador imports more U.S. goods than Pakistan and Guatemala imports more U.S. goods than Portugal.

Most U.S. exports to Latin America are industrial goods – high-tech equipment and industrial goods (motor vehicles, parts and accessories, computers, telecommunications equipment, electronics, electrical machinery) – which belong to an industry segment the U.S. has been battling for global market power in direct competition with Japanese and other East Asian producers over the last 20 years. However, the demise of many U.S. industries, once the hallmark of post-WWII U.S. economic supremacy has stirred lobbying towards protectionist activism in foreign trade policy (see section 4.3(iv)). As a habitual and deeply ingrained element of the executive and legislative process, lobbying in the U.S. has gathered sufficient collective momentum to profoundly shape U.S. trade policy. This development has not resulted in the most efficient outcome of trading relationships with other nations. While some liberalization

[13] Economists point to the steel industry in the U.S., whose declining competitiveness induces interest groups to lobby the government for protectionist trade policy.

of international trade has helped allocating resources away from industries that are inefficient to areas where the U.S. has a comparative advantage. However, some unilaterally imposed U.S. trade restraints have distorted this incentive of efficient economic outcomes in vital areas of technological advancement. From the perspective of international division of labor, free trade should be the preferred mode of conduct of economic policy for an economy as large as the one of the U.S. Protectionist policies would only diminish the benefits of comparative advantage the U.S. enjoys in many areas of industrial production. At the same time, less protectionist measures would lead to (i) improved terms of trade with major U.S. trading partners, most notably Latin American countries, (ii) increased external purchasing power through capital exports to these countries and, eventually, (iii) expanded export markets for U.S. products in the wake of improved standards of living in Latin America.

Latin American countries are more important trading partners to the U.S. than many other larger countries across the globe. However, U.S. trade policy does little to adequately address the important role of Latin American countries as trade partners. More efficient economic outcomes of free trade are frustrated by protectionist efforts of specific interest groups, which wield significant power in U.S. commercial policy. In the light of various implicit and explicit restrictions to U.S. trade with Latin American and Caribbean countries, Latin American countries are hard pressed to embrace lobbying as a means to achieve mutual benefits from an increment in trade. Especially the U.S. manufacturing sector (automobile, computers, and telecommunications) and *not* the agricultural sector stands to gain from further integration of international trade. Yet, among other things, the public would benefit with cheaper prices in agricultural goods of protectionist provisions were lifted on part of the U.S. administration.

Foreign lobbying by Latin American countries in the U.S. observes a three-pronged strategy:

(i) to obtain beneficial domestic government policies,

(ii) to reduce existing domestic trade barriers, and

(iii) to change the tastes of domestic consumers in favor of imported products.

Given the prospect of efficiency gains from undistorted international trade, foreign lobbying for export and trade promotion amounts to some kind of “investment” in cultivating a more favorable U.S. trade policy towards Latin America. Hence, it does not necessarily shield inefficient economic activity from competition (like domestic lobbying) but rather serves to promote a reduction of trade restraints.

In the course of this paper we will refer to lobbying done by the domestic industry seeking protection from foreign competition as domestic lobbying, while the lobbying done by foreign governments and industries seeking to export their products and reduce trade restraints on part of the U.S. warrants the appellation of foreign lobbying.

4.5 Literature pertinent to the presented model

The proposed model of analyzing the nature of lobbying as to its effectiveness in promoting exports from Latin American and Caribbean countries to the U.S. draws on the extensive literature in the area of trade policy and political economy. In the spirit of Mitra (1999), we consider lobby formation endogenous to the effect on export performance of a given country. We recognize the fact that developing and industrialized countries appear to have different lobbying objectives (see section 3.3.1.4), be they primarily focused on export promotion, policy influence or policy advice. Hence, control for different country patterns of foreign lobbying (Kim, 1999), as we consider a cross-section of 17 Latin American countries, which have arguably similar patterns of foreign lobbying – mostly export promotion. We have deliberately excluded Caribbean countries, mainly because their driving force of lobbying is geared towards the promotion of tourism, which does not exactly meet the general framework of testing the effect of more liberalized trade on changes in exports of goods. We augment the dynamics of the model by exploring how the impact of favorable trading conditions (as a proxy for little regulatory interference in trade) are endorsed by other sources of export change (Peltzman, 1976), such as reciprocal agreements (and attendant increases in imports by the exporting country) and foreign direct investment as the next step beyond export in the effort of establishing a presence in foreign markets.

The theoretic foundation of our model of U.S. lobbying by Latin America countries takes root in the framework of protection theory related to the economic implications of trade barriers if treated endogenously. As opposed to the time series approach taken by Rama (1994) to test the effect of changes of trade restrictions, we avoid the concomitant problems of quantifying barriers to trade by using lobbying expenditures as a proxy of possible trade liberalization. Despite the contingent nature of lobbying, we draw comfort from Hillman and Ursprung (1988) in so far as a significant causal relationship between foreign efforts to influence executive and legislative decision-making, on the one hand, and export growth, on the other hand, could be indicative of the stimulating effect of lobbying on the liberalization of trade. Hence, our model espouses a more comprehensive, though admittedly less robust, addition to the past literature on barriers to trade between developing and industrialized economies.

5 DATA ANALYSIS

The data analysis of the available data on lobbying by Latin American countries in the U.S. (see section 3.3.1) is predicated on identifying significant determinants of successful lobbying (export promotion) in terms of sustained export growth. We propose a two-stage least-squares regression (see below) to determine the level of export growth based on an array of explanatory parameters, which are also considered as lagged components in order to increase the dynamics of the model. We employ a cross-sectional database, consisting of lobbying expenditures, macroeconomic and foreign direct investment variables on all Latin American countries from 1990 to 2000, where latter figures primarily serve as control parameters. The Latin American countries included in the sample are: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay and Venezuela.

Evidence about the independence of error terms of changes in annual Latin American exports to the U.S. and the commensurate lobbying activity by Latin American countries is inconclusive and, hence, does not square with the general assumptions of uncorrelated error terms in standard linear regression models (i.e. errors in the dependent variable are uncorrelated with the independent variables (e.g. bi-directional relationships between variables)). By way of ruling out ordinary least-squares regressions (OLS) to generate optimal model estimates, we turn to two-stage least-squares regression. At the first stage we compute the estimated values of the problematic predictors by using instrumented variables that do not exhibit correlated error terms with the predicted variable. Subsequently, these computed, “auxiliary” variables serve to estimate the optimal parameters of the linear regression model of the dependent model, since the computed values are based on variables that are uncorrelated with the error terms of the dependent variable.

5.1 Hypothesis

We assume the following expression to significantly describe the relationship between lobbying expenditure and exports to the U.S. by Latin American countries:

$$
\begin{aligned}
&\Delta EX_{t,t-1} = \alpha + \beta_1 \Delta LO_{t,t-1} + \beta_2 \Delta LO_{t-1,t-2} + \beta_3 \Delta LO_{t-2,t-3} + \\
&+\beta_4 \Delta IM_{t,t-1} + \beta_5 \Delta IM_{t-1,t-2} + \beta_6 \Delta IMP_{t,t-1} + \beta_7 \Delta IMP_{t-1,t-2} + \\
&+\beta_8 \Delta FDI_{t,t-1} + \varepsilon,
\end{aligned}
$$

where

Table 12. Parameter Definitions

Model parameter	*Specification in calculations*
$\Delta LO_{t,t-1}$	D_LO0099
$\Delta LO_{t-1,t-2}$	D_LO9998
$\Delta LO_{t-2,t-3}$	D_LO9897
$\Delta IM_{t,t-1}$	D_IM0099
$\Delta IM_{t-1,t-2}$	D_IM9998
$\Delta FDI_{t,t-1}$	DFD_0099
$\Delta IMP_{t,t-1}$	DIMP0099
$\Delta IMP_{t-1,t-2}$	DIMP9998

5.2 Model

In cognizance of correlated error terms of the first moments of annual exports, lobbying expenditures, imports and gross domestic product, we instrument the predictive variables of changes in exports on two different sets of variables (see Table 13) in order to derive reliable and verifiable model parameters. Moreover the second model augments the first model by incorporating the so-called net import penetration ratio in its normal and lagged form.

(i) *Model 1*:

In Model 1 we instrument predictors on the annual values of absolute lobbying expenditure for each Latin American country over the last four preceding periods $(LO_t, LO_{t-1}, LO_{t-2}, LO_{t-3})$ and absolute foreign direct investment by Latin American firms in the U.S. during the last two periods (FDI_t, FDI_{t-1}).

(ii) *Model 2*:

In Model 2 we instrument predictors on the annual values of absolute lobbying expenditure for each Latin American country over the last three preceding periods $(LO_t, LO_{t-1}, LO_{t-2})$, absolute foreign direct investment by Latin American firms in the U.S. during the last two periods (FDI_t, FDI_{t-1}) and the net import penetration ratio over the last three periods $(IMP_t, IMP_{t-1}, IMP_{t-2})$.

For loss of more extensive data we considering lagged effects of the above explanatory variables in a very simple design of a two-stage least-squares regression, instrumentalized on these commonly accepted explanatory variables. In Table 13 shows the regression results of the suggested models with standardized and unstandardized regression coefficients at 95 percent confidence intervals for each regression coefficient, whose model parameters do neither feature multicollinearity nor a heteroscedastic distribution of residuals. Both models have very high explanatory power with an adjusted R^2 of more than 96 percent. The corresponding correlation matrices for the parameter estimates are illustrated in Table 14. Given that lacking data forestalls the rich dynamics of time series regression, we certainly need to qualify the obtained results as to the limited scope of the data underlying the analysis.

Table 13. Estimation results for Two-Stage Least-Squares Regression

	Model 1					Model 2				
Variable	*Beta*	*Std. Error*	*Std. Beta*	*t-statistic*	*Sig.*	*Beta*	*Std. Error*	*Std. Beta*	*t-statistic*	*Sig.*
(Constant)	-42980.957	82297.682		-0.522	0.616	-12120.969	89326.459		-0.136	0.897
DFD_0099	1683.486	115.259	0.551	14.606	0.000**	1607.992	121.488	0.526	13.236	0.000**
D_LO9897	21.101	25.403	0.020	0.831	0.430	15.111	22.851	0.014	0.661	0.533
D_LO9998	376.608	54.668	0.300	6.889	0.000**	347.996	55.704	0.277	6.247	0.001**
D_LO0099	90.078	52.393	0.085	1.719	0.124	75.154	47.135	0.071	1.594	0.162
D_IM0099	0.809	0.073	0.804	11.148	0.000**	0.829	0.060	0.824	13.748	0.000**
D_IM9998	-0.416	0.107	-0.153	-3.878	0.004**	-0.440	0.085	-0.162	-5.187	0.002**
DIMP0099	-	-	-	-	-	-6674.709	8941.440	-0.007	-0.746	0.484
DIMP9998	-	-	-	-	-	3597.834	2434.726	0.007	1.478	0.190
N	17					17				
Analysis of Variance	*DF*	*Sum of Squares*	*Mean Square*	*F-Value*	*Sig.*	*DF*	*Sum of Squares*	*Mean Square*	*F-Value*	*Sig.*
Regression	6	1.809E+15	3.015E+14	7.813E+03	0.000E+00	8	1.810E+15	2.263E+14	7.577E+03	0.000E+00
Residuals	8	3.087E+11	3.859E+10			6	1.792E+11	2.987E+10		

**=significant at the 0.05-level

Table 14. Correlation Matrices for Parameter Estimates of Two-Stage Least-Squares Regression

Model 1

Variable	DFD_0099	D_LO9897	D_LO9998	D_LO0099	D_IM0099	D_IM9998
DFD_0099	1	-0.0175921	0.0094024	-0.0581156	-0.9043881	0.8711601
D_LO9897	-0.0175921	1	0.9158727	0.9516309	0.3120419	-0.1080147
D_LO9998	0.0094024	0.9158727	1	0.9742736	0.2927721	-0.0674162
D_LO0099	-0.0581156	0.9516309	0.9742736	1	0.3154753	-0.0764652
D_IM0099	-0.9043881	0.3120419	0.2927721	0.3154753	1	-0.9524317
D_IM9998	0.8711601	-0.1080147	-0.0674162	-0.0764652	-0.9524317	1

Model 2

Variable	D_LO0099	D_LO9998	D_LO9897	D_IM0099	D_IM9998	DFD_0099	DIMP0099	DIMP9998
D_LO0099	1	0.9045035	0.9392289	0.2933724	-0.0644067	0.0393272	0.1281071	-0.1261925
D_LO9998	0.9045035	1	0.7782984	0.1332354	-0.021614	0.3281869	0.4914279	0.0671064
D_LO9897	0.9392289	0.7782984	1	0.3401931	-0.1131793	-0.0376528	-0.0384051	-0.2266198
D_IM0099	0.2933724	0.1332354	0.3401931	1	-0.92113	-0.8255283	-0.2666024	-0.3363349
D_IM9998	-0.0644067	-0.021614	-0.1131793	-0.92113	1	0.6879745	0.0635363	0.2098832
DFD_0099	0.0393272	0.3281869	-0.0376528	-0.8255283	0.6879745	1	0.6413702	0.3958076
DIMP0099	0.1281071	0.4914279	-0.0384051	-0.2666024	0.0635363	0.6413702	1	0.3987588
DIMP9998	-0.1261925	0.0671064	-0.2266198	-0.3363349	0.2098832	0.3958076	0.3987588	1

5.3 Discussion

The model estimates backs out the pivotal importance of lobbying in promoting export growth. At the same time, the data also backs out similar significance of imports as a signal of reciprocal trade agreements, which do not only incur unilateral improvements of terms of trade. As opposed to imports, lobbying efforts appear to lack – at least statistically speaking – immediate effect on the development of exports, which might be attributable to the legislative cycles and the time required to create a critical mass of external influence on decision-makers to cultivate a favorable trade policy.

The proposed model does not satisfactorily confirm the concept of the net import penetration ratio as a signal of future trade policy. According to Grossman and Hillman (1994) a low import penetration ratio (i.e. the imports play a subordinated role to exports in the national economy) indicates a low relative weight of consumers compared to producers in the government's objective function. Politicians face little "political cost" in terms of electoral votes by subjecting themselves to lobbying, since consumers would not benefit greatly from a more efficient outcome, i.e. a liberalization of trade ("free rider problem"). In the context of our model have calculated the net import penetration ratio from the perspective of the trade balance of each Latin American country vis-á-vis the U.S. The higher the higher the net import penetration ratio for U.S. goods in Latin America, the lower the corresponding net import penetration ratio for Latin American goods exported to the U.S. Hence, a *low* Latin American import penetration ratio indicates a high potential for foreign lobbying by Latin American countries to influence trade policy for export promotion. Consequently, we would expect a *negative* relationship between the net import penetration ratio in Latin America and changes of foreign lobbying expenditure in the U.S. Our model, however, yields an almost significant *positive* relationship between marginal increases in exports and the importance of imports in the respective Latin American economy. In view of lacking statistical robustness we cannot derive conclusive and definite support for the disciplining power of consumer demand on the degree of protectionist lobbying.

The results obtained from the two-stage least-squares regression describes the profound and sustainable impact of lobbying for trade promotion on export growth by Latin American countries to the U.S. In both models – either with or without consideration of the net import penetration ratio as a signal of trade liberalization and an increased possibility of decision-makers to be more immune to lobbying due to higher consumer power (see section 4.2.1 about the free rider problem of lobbying) – the marginal change of lobbying efforts during the period preceding observed changes in exports as well as the first moments of foreign direct investments and imports during the preceding periods are significant. This result tallies with past research about the endogenous nature of trade policy (Rama, 1994), if we consider lobbying expenditure as a proxy for "unobservable" trade liberalization. Possible extensions to the presented model include extending the short time series about the lobbying history of 17 Latin American countries were used for purposes of this analysis.

6 CONCLUSION

This paper has tried to explain the nature of lobbying of Latin American and Caribbean countries for the promotion of trade with the U.S. Many of these countries have comparative advantage in the production of various goods; however, these goods are denied free access to the U.S. market due to substantial trade restraints and import restrictions, supported by a protectionist domestic lobby in the U.S. Free trade would allow Latin American and Caribbean countries to exploit their comparative advantage in agricultural production and some manufacturing industries, on the one hand, while the U.S., on the other hand, would continue to specialize in technology and higher manufacturing products, which could later be exported to Latin American and Caribbean countries. Although free trade is the most efficient outcome in international trade it is seldom the real outcome in trade negotiations. Interest groups have managed to successfully cultivate protectionist U.S. trade policy through carefully orchestrated lobbying. Hence, foreign lobby becomes a necessity for many countries in order to reduce trade barriers to their products. Latin American and Caribbean countries, as one of the major trade partners of the U.S., have increasingly resorted to foreign lobbying in the U.S. as a measure influence the legislative and executive decision-making process in their favor.

We have developed a model based on past literature, which suggests that the endogenous formation of barriers to trade could be successfully counteracted by means of the effective use of lobbying. We limit the conjectured positive relationship between trade liberalization and economic development of the lobbying country to the effect of export and trade promotion through lobbying on the export performance of a cross-section of Latin American countries from 1990 to 2000. Our results seems to be compatible with the notion that less trade restrictions improve overall efficiency of developing country's economy, increase the competitiveness of all industries and sectors, and encourage higher levels of investment funded from both within and outside these countries. In fact, export performance by Latin American countries to the U.S. between from 1990 to 2000 suggests that lobbying is imperative in creating sustainable trade relations.

Certainly, the scope of the completed data analysis operates on a very limited set of panel data. Consequently, several areas of possible extension emerge from this research. Certainly a longer time series to support an extended panel data analysis would add to the reliability and validity of estimates presented. Moreover, future enquiry in the nature of lobbying as a prime driver of trade liberalization could include further practical application of theories of information economics presented in section 4.2. For instance, advanced approaches could introduce a measure of concentration to test industry-specific effectiveness and economic benefits associated with lobbying according to the "free-rider problem" hypothesis.

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