Market Access for Sale

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Has foreign lobbying by exporters from the Western Hemisphere improved their access to U.S. markets?

For many countries foreign lobbying is likely to be associated with preferential rather than nondiscriminatory access to markets—for two reasons. First, there are stronger incentives to lobby for preferential access. Exporters expect to grab market share away from exporters from other countries, not just from domestic producers in the importing country—as under a most favored nation (MFN) tariff reduction. Second, developing countries have played little role in multilateral trade negotiations but have benefited from several bilateral and unilateral preference schemes when exporting to developed markets.

The recent proliferation of preferential agreements between the United States and its trade partners in the Americas indicates that their foreign lobbying is likely to focus on preferential access. In the early 1990s only about 15 percent of Latin American exports entered the United States under preferential schemes. By the early 2000s that share was 50 percent.

Kee, Olarreaga, and Silva explore the role of foreign lobbying in obtaining tariff preferences. They first develop a simple framework, based on a model developed by Grossman and Helpman, to explain the extent to which lobbying by foreign firms affects their preferential access to U.S. markets. They then estimate an equilibrium contribution schedule for 34 countries in the Western Hemisphere using data on foreign lobbying expenditures from the U.S. Department of Justice and on tariff preferences at the industry level from the International Trade Commission.

The authors find that foreign lobbying contributions explain variations in U.S. tariff preferences across products and countries at a statistically significant level. When setting preferences, the U.S. government puts five times more weight on foreign lobbying contributions than on forgone tariff revenues. These estimates suggest that market access is for sale—and foreign firms are buying it.

These striking results contrast with evidence on domestic lobbying. In a 2004 review of empirical approaches to the political economy of trade policy, Gawande and Krishna conclude that the weight granted to domestic producers and their lobbying in the U.S. government’s objective function is close to the weight granted to social welfare.

Kee, Olarreaga, and Silva offer two explanations for the difference between their estimates and those in the earlier literature. Their article assumes that contribution functions are not differentiable, so the Nash equilibrium solution to the lobbying game differs from the one in the Grossman and Helpman article. In this setup the government is left on its participation constraint, whereas in Grossman and Helpman’s work the government grabs part of the lobbying rent. This additional restriction implies that smaller amounts of foreign lobbying contributions will be sufficient to move the government away from welfare maximization, which may explain larger tariff preferences.

The authors also assume that the government grants different weights to tariff revenues than to other components of social welfare in its objective function. If the weight put on tariff revenues is lower than the weight put on other components of social welfare, that could explain the difference between the authors’ estimates and those in the rest of the literature.