OSSERVATORIO SULLE ECONOMIE EMERGENTI - TORINO
TURIN CENTRE ON EMERGING ECONOMIES
OEET

EMERGING ECONOMIES N. 14 | DECEMBER 2019

Edited by Xieshu Wang and Marta Marson, University of Turin and OEET

ALTERNATIVE INVESTMENT STRATEGIES BY NATIONS AND FIRMS. INSIGHTS FROM OEET-AISSEC WORKSHOP ON TRADE WARS AND GLOBAL CRISES

by Xieshu Wang and Marta Marson, University of Turin and OEET

Like the previous one this issue of Emerging Economies includes contributions presented at the 5th Workshop organized by OEET and AISSEC at the Department of Economics and Statistics "Cognetti de Martiis" of the University of Turin on 3rd and 4th of October 2019 (https://www.carloalberto.org/wp-content/uploads/2019/10/OEET-WORKSHOP-TRADE-Program.pdf), around the topic of "Trade Wars and Global Crises: The Outlook for Emerging and Advanced Countries".

In light of the escalating trade tensions, the workshop invited scholars and practitioners to reflect on how the changing geopolitical dynamics are impacting the trend of international exchanges, the structure of global value chains, and the economic outlooks of both developed and developing economies. This issue presents three contributions on international trade and investment agreements (and bans) in their relationship with investment decisions by nations and firms. The contributions offer insights on this relationship, on the extra-economic effects of agreements and bans, and on alternative means, other than treaties, for the promotion of foreign investments.

We start with M. Blanga-Gubbay and M. Hennicke who analyse the effects of the shock to U.S. trade policy introduced by the non-ratification of the Trans-Pacific Partnership (TPP) after the unexpected election of Donald Trump in the 2016 U.S. presidential election. They provide empirical evidence that stock prices of companies which lobbied in favour of the TPP underperformed after the election, pointing out the role of corporate lobbying in the negotiation of trade agreements and in their outcomes.

A. Mazzoni shows how the effects of a trade ban can go beyond the economic domain and encompass important environmental concerns, like in the case of Qatar with the 2017 trade ban imposed by Arab countries. While negative results on trade flows were only temporary, as new trade routes were opened and new trade relations developed, the environmental implications of the government programs for decreasing dependence from foreign food imports have a potential long-term impact on the water resources of the country.

Last, L. Benfratello, A. D'Ambrosio and A. Sangrigoli assess the drivers of Sino-African investments and how they differ between Chinese and non-Chinese FDI to Africa at the industry level. They find that Chinese investors react less to the presence of Bilateral Investment Treaties, while they seem to rely on a whole country-level system where they are part of a broader strategy aimed to expand China's presence in Africa via multiple channels. This involves an important role of State-owned enterprises and the direct engagement of the Chinese government, supplying capital under different forms and on ties and diplomatic relationships with African business and political actors, to increase China's "soft power" in the continent.

Betting on the wrong horse: lobbying on TPP and the 2016 U.S. presidential election

By M. Blanga-Gubbay[1] Université Libre de Bruxelles (ECARES) and University of Zurich (Kühne Center) and M. Hennicke Université Libre de Bruxelles (ECARES) and Université de Cergy-Pontoise

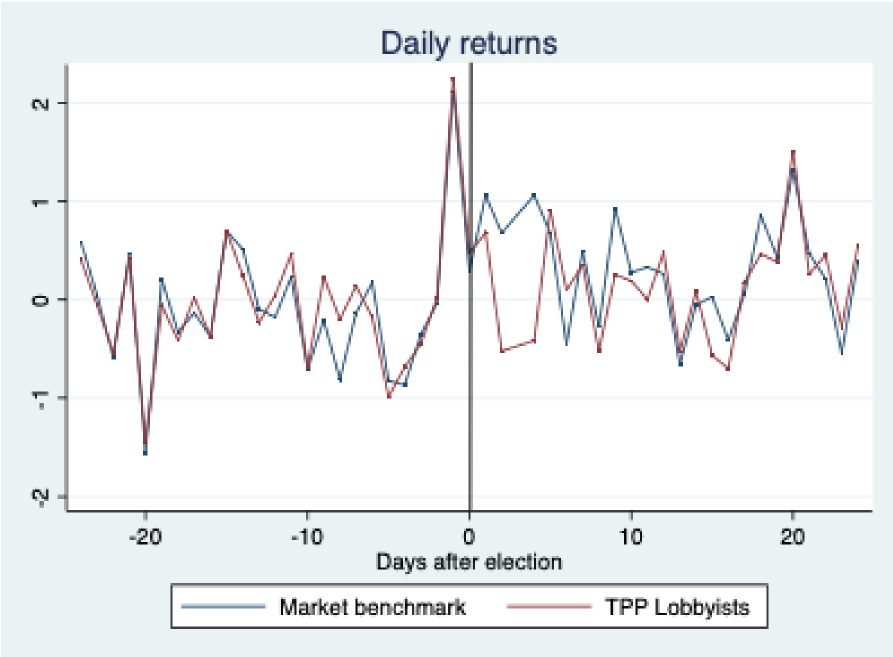
Recent trade agreements have moved beyond tariff reductions, encompassing provisions and obligations related to non-tariff issues. These aspects are often seen as the reflection of interest groups, able to manipulate and extract additional rents from the ratification of these agreements. We provide empirical evidence that corporate lobbying on trade agreements matters for corporate profits. We use the historical shock to U.S. trade policy – the non-ratification of the Trans-Pacific Partnership (TPP) – following the unexpected victory of Donald Trump in the 2016 U.S. presidential election. We find that stock prices of companies that lobbied in favour of the TPP underperformed following the election. On the intensive margin, we find a strong and positive relationship between the amount spent in lobbying and the cumulative losses of lobbying firms. Finally, by comparing the original TPP agreement with its newer version (CPTPP) without U.S. participation, we provide evidence that firms' lobbying activity was related to having some specific provisions included in the agreement.

A major trend has characterized international trade in recent decades: the proliferation of regional and free trade agreements (RTAs / FTAs). There are currently more than 300 RTAs in force, with many more being negotiated. RTAs have not only risen in number but have also become "deeper" over time, often encompassing provisions that go beyond traditional trade policy, such as rules on investment and intellectual property rights. Rodrik (2018) argues that deep trade agreements are "the result of rent-seeking, self-interested behaviour on the part of politically well-connected firms – international banks, pharmaceutical companies, multinational firms." Concerns about the influence of powerful multinational corporations have also stirred strong public opposition to recent multilateral trade agreements such as the Transatlantic Trade and Investment Partnership (TTIP) and the Trans-Pacific Partnership (TPP).

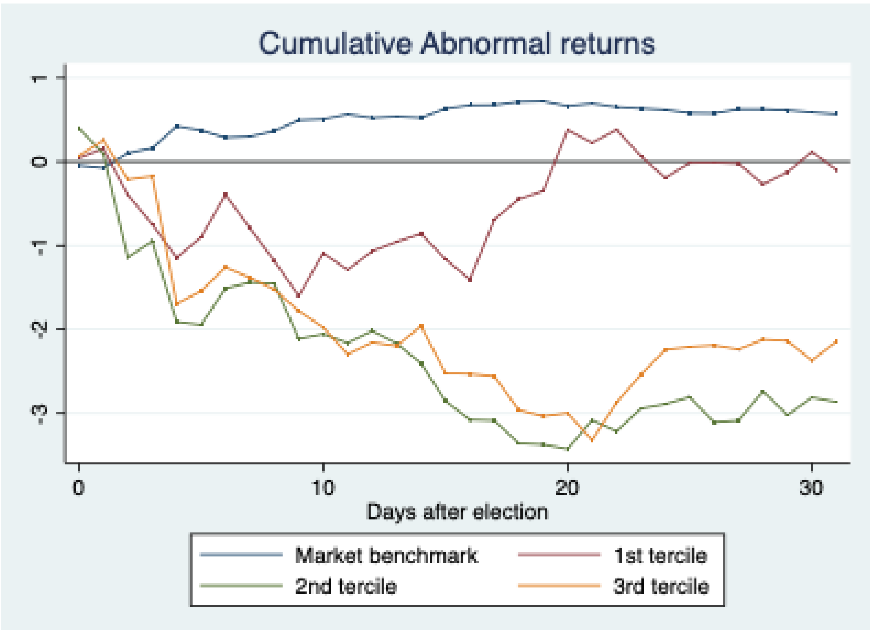
We study the effects of a unique protectionist shock to U.S. trade policies. We exploit Trump's strong opposition to the TPP agreement during the presidential campaign, combined with his unexpected victory at the 2016 U.S. presidential election, and provide empirical evidence that corporate lobbying on trade agreements matters for corporate expected profits.

First, using detailed information from lobbying reports available under the Lobbying Disclosure Act of 1995, we construct an original dataset that allows us to trace firms' lobbying expenditures on the TPP agreement negotiated by the United States. The reports provide information on the identity of the firm, how much it spent, and whether it supported or opposed the FTA. We first uncover that virtually all firms that lobby supported the TPP, confirming a result from Blanga-Gubbay et al. (2018). We then match our lobbying database with firms' returns in the US stock market. We find that stock prices of companies that lobbied in favour of the TPP underperformed following the election. Lobbying firms displayed four consecutive days of negative returns following Trump's election, compared to the market benchmark that remained positive over the same period.

[1] https://www.michaelblangagubbay.com



Analysing the cumulative impact of the shock, we show that this negative effect was persistent, lasting more than 5 weeks (30 working days). Moreover, on the intensive margin, we find a strong and positive relationship between the amount spent in lobbying and the cumulative losses of lobbying firms in the US stock market. We divide lobbying firms in three different categories, according to the total lobbying expenditure in favour of the ratification of the TPP agreement. Firms in the first tercile of the lobbying expenditure distribution – firms that spent less lobbying on TPP – experience the smaller losses, and recover quickly from the shock: after 20 days the cumulative abnormal returns are again positive. Firms in the second and third terciles of the lobbying expenditure distribution are the ones driving the effect, showing the strong correlation between lobbying expenditure and market losses.



Finally, we provide evidence of the determinants of corporate lobbying. Following the withdrawal of the U.S. from the TPP agreement the remaining 11 countries signed a new multilateral agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). We exploit the differences between the two agreements, and more specifically we look at the twenty-two items and provisions included in the original TPP that have been suspended under CPTPP. These items are most likely expression of U.S. firms' interests, given that the 11 remaining countries unanimously suspended them as soon as the U.S. withdrew from the agreement. We show that U.S. firms' probability of lobbying - and the total amount of lobbying expenditure - was related to these specific provisions that corporations were able to force into the agreement.

In our study, making use of an unprecedented shock to U.S. trade policies, we assess the impact of trade policies on firms' expected profits and returns. We use information from the lobbying reports as firms' revealed preferences over the TPP agreement – both at the extensive and intensive margin – and we find that, following the election of Donald Trump and the certainty of the non-ratification of the Trans-Pacific Partnership, firms that bet on the trade agreement displayed negative returns in the stock market.

References

Blanga-Gubbay, M., P. Conconi, and M. Parenti (2019). "Globalization for Sale," mimeo.

Rodrik, D. (2018). "What Do Trade Agreements Really Do?" *Journal of Economic Perspectives* 23, 73-90.

The economic and environmental effects of the blockade on Qatar's trade flows: a gravity approach

By Annamaria Mazzoni, Ph.D. Candidate of the University of Turin

This contribution briefly analyses the economic and environmental impacts of the blockade imposed on Qatar in June 2017 and contributes to the debate on the effectiveness of economic sanctions as an instrument for foreign policy. In particular, the study highlights how the negative impacts on Qatar's trade flows were concentrated mainly in the first months after the blockade (short-term), while already towards the end of 2017 new trade routes were opened and new trade relations developed. On the contrary, if we look at the "environmental" implications of the blockade, the numerous programs for increasing the local food production improving the national food security, decreasing the dependence from foreign imports to achieve higher self-sufficiency are potentially detrimental for the water resources of the country. In fact, while this can be seen as a strategic solution if the current situation will become the new status quo for the region, the scarcity of natural resources (land and water), represents a major constraint for the development of an efficient and sustainable agricultural system in the near future. Therefore, in order to study the feasibility of this autarkic response, I also explore the environmental effects of the blockade on the country's natural resources.

Economic sanctions are common instruments in foreign policy and aim to force the target country to comply with a determinate behaviour. Still, their effectiveness is still debatable and depends on many factors, related to timing, duration, and to both sender and target countries' financial capability. From my results, it emerges that the anticipated economic harm on Qatar was rapidly recovered by the country, while instead more attention is required in analysing the effects on the natural resources of Qatar, whose exploitation has increased since the blockade as the local food production has largely expanded.

Background on Qatar's Blockade. On the 5th of June 2017, a coalition of states comprising Bahrain, Egypt, Saudi Arabia and United Arab Emirates (UAE), declared a blockade against Qatar, cutting their diplomatic ties, and closing their air-space, sea and land routes, physically isolating Qatar. The main allegations against Qatar include, among others, the accusation of financial support to terrorism and the close relationship with Iran. A few days after the retaliation, the Saudi-led coalition sent a list of 13 requests for Qatar to comply with in order to have the embargo lifted. Qatar rejected all the demands claiming the requests constitute an attack on the country's sovereignty. The reasons behind the ongoing dispute can be traced back to the tension between Saudi Arabia and Qatar, as the latter is mainly responsible for following a foreign policy too independent from the Gulf Cooperation Council (GCC) countries' vision. Still, the embargo represents an unprecedented action against Qatar, and up to today the embargo became the status quo. Trade disruption, the creation of new trade routes and the increase of domestic food production were the main results of the blockade and shaped the current geopolitical condition.

Economic Effects of the Blockade. Qatar is a rentier state and its economy mainly relies on the revenues from the oil and natural gas, produced in the offshore North Field and shared with Iran, of which Qatar is also the first's world exporter. In 2018 the hydrocarbon sectors accounted for around 46% of the GDP and until the blockade, the economic integration among GCC countries was fairly developed. In particular, for what concerns the food sector, Qatar was importing about 90% of its food, and in 2016, about 60% of the food entering into the country was coming through the Saudi border and through the Jebel Ali Port in UAE. After the blockade, all the trade with the boycotting countries was interrupted. My results show that the majority of trade disruption is concentrated on the imports rather than on the exports, as the latter is almost entirely linked to the trade of Liquefied Natural Gas (LNG), whose sales remained solid after the blockade as the majority of contracts include non-boycotting countries.

Conversely, the drop in the imports from boycotting countries ranges up to 90%, but it is counterbalanced by an increase in trade with new partners by 39%. The food categories most impacted by the blockade are dairy, vegetables and animal products. Further analysis also suggests that the import volumes were back to normal by the Q4 of 2017, thanks to alternative trade partners, confirming the fact that the blockade effects on trade were less harmful than expected as the country was able to create new supply chains pretty fast.

Environmental Effects of the Blockade. The impacts of the blockade on Qatar's trade flow has also highlighted the food-insecurity that the country faces. Given the harsh environment, the lack of arable land and scarce water resources, the development of agricultural practices is quite challenging and the expansion of the food chain mainly relies on securing imports through different food markets. Nonetheless, in the aftermath of the blockade, the Ministry of Municipality and Environment (MME), started to elaborate a plan for Strategic Food Security, aimed at enhancing domestic food production to increase self-sufficiency and increase the ability to overcome future disruptions in the food supply chain. My study reveals, that given the high water requirements for producing food and the water constraints of Qatar, the food strategies of the MME will require to increase the water use for food production of almost three and half times by 2023 compared to 2016, with 9-14% increase to maintain the same strategies up to 2030.

In conclusion, the outcome of my research outline that while the economic effects of the blockade are substantial but concentrated in the short term and mainly on the imports and for some categories of products such dairy and livestock, from a food and water security perspective, the current food strategies put in place by the government are highly water-intensive. Therefore, more careful planning will be needed in planning what to produce (crop selection) and how to produce it (different water sources and more advanced agricultural technologies). Lastly, from a reputation and visibility perspective, it appears instead that the decisions taken by Qatar in terms of foreign and domestic policy during the embargo, helped the state to rule out the blockade and secure the needed support at regional and international level.

Foreign direct investments in Africa: are Chinese investors different?

By Luigi Benfratello, Anna D'Ambrosio, and Alida Sangrigoli, Politecnico di Torino, Italy

Chinese outward investments have dramatically increased in the last decades. Since the introduction of Deng Xiaoping's "Go Global Policy" in 1999, Chinese outward FDI stock grew by almost 70 times. The announcement of the creation of a new Silk Road, in 2013, referred to as the Belt and Road Initiative (BRI), showed clearly the will of the new Xi Jinping administration to make Chinese foreign investment policy more audacious and to become one of the largest FDI recipients and investors among the pool of the major global economic players.

China's increasing presence in Africa has been largely discussed by political and economic scientists in recent years. Chinese investment may represent a development opportunity for Africa, which, despite substantial improvements, still attracts less than 3% of global flows (UNCTAD, 2018). On the other hand, China's preference for resource rich countries has raised concerns on the motivations behind its investments in the continent (Taylor, 2006; Tull, 2006). Empirical evidence on the determinants of Chinese FDI in Africa, although scant, shows that Chinese and Western investors are driven by similar motivations when investing in the African continent and that natural resources are one among a number of determinants (Kolstad and Wiig, 2011; Cheung et al., 2012; Brautigam et al., 2014; among others).

The aim of this research is to understand what are the main drivers behind Sino-African investments and how location factors identified in the relevant literature differently attract Chinese and non-Chinese FDI to Africa. Some of the standard location factors do not appear to apply to African countries, whereas some others assume central importance. While it seems now quite clear that "Africa is different" as an FDI destination (Asiedu, 2002), this paper aims at understanding if "China is different" compared to other investors locating in Africa. To this purpose, alongside the standard FDI determinants identified in the literature, we explore the role of a set of less widely studied location factors, that are however likely to play an important role in the location of FDI into Africa as a whole and from Chinese investors in particular. This is the case of International Investment Agreements (IIA) and of different types of agglomeration effects, including those originating from co-location. We also take advantage of the availability of detailed investment-level data to study whether location determinants vary for different Multinational Enterprises (MNE) activities. To our knowledge, this is the first research to analyse such factors for Sino-African investments at the industry level. Analyses exploring the determinants of Chinese FDI in Africa have either focused on specific areas and sectors or analysed aggregate Sino-African inflows without accounting for sectoral differences. Moreover, all of them focused on the amount of the investments. We focus on the factors driving the decision of whether to invest in a specific African country, rather than of how much to invest. Furthermore, our study adds up to the relatively scant literature focusing on functional heterogeneity in the location choice of FDI in Africa and on the roles of co-location and IIA for African inward FDI.

We consider 8,659 greenfield FDI locating into 35 African countries from 116 origin countries worldwide over the 2003-2017 period. Of these, 329 Chinese and 8,330 are non-Chinese investments and cover different investment activities, such as manufacturing, services, extraction, electricity and construction. We study location choices of FDI in African countries via conditional logit models, assuming that the investor will choose the location that yields the highest possible utility (Train, 2009).

Our results show that, when looking at all investments jointly, similar location factors attract Chinese as well as other investors. The main distinction that emerges is that Chinese investors do not seem to require the same protection guarantees as other investors when choosing their locations: in particular, they rely significantly less on the firm-specific agglomeration economies arising from co-location. When looking more specifically at the industry activities, this result seems to be driven by the lower reliance of Chinese investors on co-location in Services. Also, Chinese investors appear to react less to the presence of Bilateral Investment Treaties, though this result is not statistically significant.

The results suggest that Chinese investments in Africa are not simply the effect of uncoordinated, atomistic choices of individual firms. Rather, a whole country-level system appears to be at play to support investors, who are part of a broader strategy aimed to expand Chinese presence in Africa via multiple channels. This involves an important role of State-owned enterprises and the direct engagement of the Chinese government, supplying capital under different forms, chiefly aid, loans and investments. Parallel to this, the establishment of Chinese cultural and educational institutes as well as the development of personal ties and diplomatic relationships with African business and political actors, referred to with the Chinese word *guanxi*, increases China's "soft power" in the continent. Overall, this may effectively reduce the "liability of foreignness" for Chinese investors, facilitating their access to business-relevant information and creating networks that may help protect them against risks related to political instability and expropriation. This systemic support arguably makes destination countries' institutions, BIT and co-location less relevant in affecting Chinese investors' location choice.

References

Asiedu, E. (2002). On the Determinants of Foreign Direct Investment to Developing Countries: Is Africa Different? *World Development*, 30(1):107-119.

Brautigam, D., Diao, X., McMillan, M., and Silver, J. (2014). Chinese Investment in Africa: How Much Do We Know? IFPRI Working Paper, 17.

Cheung, Y.-W., De Haan, J., Qian, X., and Yu, S. (2012). China's Outward Direct Investment in Africa. *Review of International Economics*, 20(2):201{220.

Kolstad, I. and Wiig, A. (2011). Better The Devil You Know? Chinese Foreign Direct Investment In Africa. *Journal of African Business*, 12(1):31{50.

Taylor, I. (2006). China's Oil Diplomacy in Africa. *International Affairs*, 82(5):937-959.

Train, K. E. (2009). Discrete Choice Methods With Simulation (2nd Edition). Cambridge University Press.

Tull, D. M. (2006). China's Engagement in Africa: Scope, Significance and Consequences. *The Journal of Modern African Studies*, 44(3):459-479.

UNCTAD (2018). World Investment Report. Investment and New Industrial Policies. Technical report, Geneva