

Media Bias against Foreign Firms as a Veiled Trade Barrier: Evidence from Chinese Newspapers

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While the rules of international trade regimes prevent governments from employing protectionist instruments, governments continue to seek out veiled means of supporting their national industries. This article argues that the news media can serve as one channel for governments to favor domestic industries. Focusing on media coverage of auto recalls in China, I reveal a systematic bias against foreign automakers in those newspapers under strict government control. I further analyze subnational reporting patterns, exploiting variation in the level of regional government interest in the automobile industry. The analysis suggests that the media's home bias is driven by the government's protectionist interests but rules out the alternative hypothesis that home bias simply reflects the nationalist sentiment of readers. I show that this home bias in news coverage has meaningful impact on actual consumer behavior, combining automobile sales data and information on recall-related web searches.

INTRODUCTION

An expansion of international trade regimes has increased the cost of employing protectionist measures. States have resorted to nontariff barriers (NTBs) as an alternative to raising tariffs (Mansfield and Busch 1995), but the World Trade Organization (WTO) has strengthened its regulations over NTBs under the core principle of national treatment (i.e., an equal treatment of local and foreign products). Nonetheless, many member states continue to exhibit interest in protecting domestic industries and seek out more veiled and indirect means of supporting their national industries. What measures can states employ when traditional measures become costly?

This article argues that the news media can serve as one means of protecting domestic industries. In countries where the government controls the media, it can influence media coverage to present domestic firms in a more favorable light than their foreign counterparts. By influencing a major source of product-related information, governments can indirectly shape consumption patterns. Yet, governments can circumvent possible disputes at the WTO due to the absence of explicit regulations and the difficulty of verifying government involvement.

In fact, firms doing business in foreign markets have repeatedly expressed concerns over unfavorable cov-

erage they receive in the local media. The *Wall Street Journal*, for instance, reported that “companies such as retailer Wal-Mart and energy giant ConocoPhillips face[d] a wave of critical coverage by state media of grievances against foreign companies.”¹ A series of empirical anecdotes alone, however, neither substantiates the existence of home bias (i.e., a systematic tendency to favor domestic firms over foreign ones) nor identifies whether media bias, if any, is driven by governments' protectionist incentives or demand-side factors such as the nationalist sentiment.

To explore the magnitude of media bias and its sources, I utilize a set of inferential strategies with an empirical focus on Chinese newspapers. I focus on one sector and examine instances of faulty production in the same sector to account for differences in product quality between domestic versus foreign firms. Examining news coverage of automobile recalls is an ideal test because product recalls have obvious negative implications on the products' quality, and their characteristics are comparable across different cases. Focusing on Chinese newspapers allows me to pin down government influence due to the variation in the level of government control over different newspapers. I further delineate the effect of protectionist interest by exploiting subnational variations in regional governments' ownership of automotive industries.

My analysis of auto recall coverage by 121 Chinese newspapers between 2005 and 2013 reveals a systematic home bias in government-controlled media. Official newspapers controlled by the central government are nearly twice as likely to cover recalls by foreign automakers and publish lengthier and more negative stories about such events when compared to similar recalls involving domestic automakers. Further, a subnational analysis corroborates that the bias is driven by government interest in supporting the domestic industry. Official regional newspapers in provinces where the local governments own automotive enterprises exhibit

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¹ See Laurie Burkitt, “Foreign Firms Feel China's Heat.” *The Wall Street Journal*, October 19, 2011. For another instance, see Kazunori Takada and Samuel Shen, “China Media Train Fire on U.S. Food Giants over Chicken Scare.” *Reuters*, January 17, 2013.

a home bias, but this tendency is less pronounced in nonofficial newspapers located in the same provinces and among official newspapers in provinces without any direct stake in the automotive industry.

I also provide evidence for the effect of home bias on consumer behavior. Through the analysis of recall-related web searches, I find that recalls of foreign cars receive more public attention than those of domestic cars. The effect of recalls on automobile sales is also negative for foreign automakers, while the recall effect for domestic firms is ambiguous. My analysis demonstrates that news coverage largely accounts for why foreign firms face more negative consequences from their recalls.

The finding has direct implications for challenges faced by automakers in the world's largest automobile market. China's accession to the WTO in 2001 attracted keen interest from global automakers due to its enormous and fast-growing market. Despite its commitment to tempering its protectionist policies, however, the Chinese government has demonstrated a continued interest in promoting its automobile industry (Gerth 2012). In fact, opening its market resulted only in a sluggish increase in automobile imports, from 2.2% of total car sales in 1998 to 5.9% in 2012, despite the reduction of Chinese tariffs on vehicles from 101.1% (1996) to 25.0% (since 2007).² This is partly due to the presence of joint ventures, but my findings also provide a potential explanation for this phenomenon, namely that encouraging Chinese consumers to purchase Chinese products "violate[s] neither the WTO rules nor the market economic rules," as asserted by the former chief negotiator for China's WTO accession (Gerth 2012, 213). The utilization of government-controlled media provides one such channel for influencing consumer decisions.

More broadly, this article contributes to the study of international political economy by expanding the discussion of NTBs. While previous research has focused on ways governments can directly affect demand, supply, and prices of domestic and foreign goods (Naoi 2009; Rickard 2012), this article illuminates an indirect protectionist mechanism through which governments affect the flow of product-related information. Individual consumers play a significant role in international trade relations, since their demand for domestic and foreign products ultimately determines the trade flow. Government's attempts to indirectly foster a consumer preference for domestic products could constitute a serious barrier to trade.

This article also provides an implication for the effectiveness of international trade institutions. The findings suggest that states can pursue concealed measures to protect domestic industries when trade policy is otherwise constrained. Indirect measures might not be as effective as direct measures such as tariffs or quotas. However, they may exacerbate the difficulties of mon-

itoring and regulating protectionist behavior by international institutions, which are not particularly effective at addressing indirect or disguised protectionism (Kim 2016; Rickard and Kono 2014). Compared to government procurement or health and safety policies, the use of news media is even more opaque, hindering effective regulation. Even if governments were to make an unlikely commitment to ensure equal treatment of foreign goods in media coverage, it would be almost impossible for international institutions to enforce.

The next section further discusses the broader literature on protectionism and outlines theoretical expectations regarding the sources of home bias in the media. I then describe my empirical strategy and dataset. The following section presents the findings and a series of robustness tests, followed by an analysis on the possible effects of home bias on consumer behavior. The final section discusses the applicability of my findings beyond China, as well as related implications for the study of regime type and trade policy.

EXPLAINING HOME BIAS IN THE MEDIA

Building on the literature on protectionism, I provide the government-centered explanation of the home bias in the media. Namely, the media bias reflects the government's incentive to employ less visible trade barriers without violating the rules of international trade institutions. Alternatively, the home bias may reflect the nationalist sentiment of readers. I discuss these two potential sources of media bias, in turn, and derive observable implications for testing the existence of government-driven bias.

The Argument: News Media as a Protectionist Measure

International trade agreements have made imposing tariffs costly, and the use of NTBs as substitutes has become more pervasive over the past few decades (Kono 2006; Mansfield and Busch 1995). Those alternative strategies have themselves become costlier, however, as the WTO and other international trade agreements have caught on to this trend (Rickard and Kono 2014; Staiger 2012). For instance, the WTO significantly strengthened national treatment obligations through the Technical Barriers to Trade Agreement and the Sanitary and Phytosanitary Measures Agreement, both of which require member states to treat imported and locally produced goods equally (Staiger 2012).

The costs of violating these rules may not be prohibitive, but member states are certainly discouraged from employing visible protectionist instruments. Since the inception of the WTO, the use of a dispute settlement mechanism has become very common, especially with regard to subsidies, countervailing measures, and antidumping duties. The accused country needs to correct its protectionist practices once they are ruled WTO-inconsistent, and it also pays a reputational cost when its violations become widely known (Maggi 1999), on top of the monetary cost of engaging in

² The tariff is based on the HS-code 8703 (motor cars and other vehicles principally designed for the transport of persons) from the WTO Tariff databases. The import rate is the author's own calculation based on the *China Auto Market Almanac* series.

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