

Foreign Policy in the European Parliament: Influence of Foreign Direct Investment

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Paper prepared for the Political Economy of International
Organization (PEIO) Seminar, on March 29, 2021.

How do Members of the European Parliament (MEPs) form policy positions on foreign affairs? What is the role of economic ties with foreign countries when MEPs vote on foreign affairs policy? Foreign aid and trade agreements are two of the EU's most important foreign policy instruments, over which the European Parliament (EP) has veto power. Yet, few studies address MEP's role in foreign policy.

My paper argues that MEPs consider economic interdependence with major foreign powers when voting on foreign policy positions in the EP. Specifically, I analyze MEPs' support for aid and trade with Ukraine and inflows of Foreign Direct Investment (FDI) from Russia, a country whose outward FDI is largely state-owned or state-influenced (Kalotay and Sulstarova 2010). I test my predictions empirically using an original dataset on EP votes concerning financial assistance and trade with Ukraine during the 8th European Parliament, coinciding with the years immediately following the 2014 Euromaidan protests in Ukraine. Policies towards Ukraine were among the most prominent foreign policy issues for the EU, as they cut against Russia's position that Ukraine should join the Russia-dominated Eurasian Economic Union instead of growing closer to the EU. I find that large FDI inflows from Russia to EU member states reduce the likelihood that MEPs vote in favor of aid and trade policies in support of Ukraine, and increases the likelihood that they take a pro-Russian policy position. The association between Russian FDI inflows and support for pro-Russian policies remains significant when breaking down FDI inflows to EP electoral districts for MEPs who are elected on the subnational district-level.

A large literature is emerging concerning the EU as a global actor (Wong and Hill 2012; Keukeleire and Delreux 2014; Orenstein and Kelemen 2017; Juncos 2017; Aggestam and Johansson 2017; Hadfield et al. 2017, to name a few). As the EU has risen as an actor on the

world stage since 2010 and the powers of the European Parliament (EP) have increased considerably in relation to other EU institutions, the EP has gained influence over EU foreign policy. MEPs are now important actors in the EU's foreign policy since the Parliament has veto power over both financial aid and trade agreements with third countries. Despite the new powers of the EP, there is little scholarly knowledge about MEPs' foreign policy positioning.

My paper introduces an original argument to advance our understanding of how the directly elected European Parliament chooses policy positions on foreign affairs. Existing scholarship on EP voting typically emphasize political ideology, party group belonging and Euroskepticism to explain MEPs' policy positions. I add to these findings the argument that MEPs take into consideration economic interdependence when voting on foreign aid and trade. I offer a causal pathway where major foreign powers leverage economic ties, specifically their outward foreign direct investments, to influence public debates to support the foreign nation's preferred policies. MEPs are career-driven and do not want to risk political backlash for approving EU policy that go against the interests of foreign powers with high levels of investment in their districts.

I test this association empirically by analyzing EP-voting on five policies concerning EU financial assistance and trade with Ukraine during 2014-2018. My original dataset includes Russian FDI into EU member states during five years prior to the vote. For EU countries that have subnational EP-electoral districts, including Belgium, Italy, Ireland, Poland, and the UK, I use Russian FDI into subnational districts. I find that MEPs from districts with higher levels of FDI from Russia are less supportive of aid and trade with Ukraine. In terms of voting in the EP, it means that MEPs representing regions with significant FDI inflows from Russia are more

likely to be swayed by Russian interests and take the pro-Russian policy position when voting in the EP.

My findings make three scholarly contributions. First, I present a new theoretical model on policy positioning in the EP related to economic interdependence. Existing accounts of MEP position-taking in foreign policy are incomplete without attention to economic relations with major foreign powers. My findings indicate that MEPs are susceptible to external economic influence. Second, my paper advances our knowledge of the EP as a foreign policy actor. Third, I contribute to the scholarly literature on one of the most consequential foreign policy issues: the EU-Russia relationship.

European Parliament Voting and Foreign Affairs

Traditionally, foreign affairs is an area where the EP held a limited role, as is the case for many national parliaments (Keukeleire and Delreux 2014, 85; Raunio and Wagner 2016). As the EU has risen as an actor on the world stage since 2010 and the powers of the EP have increased considerably in relation to other institutions (Klüver and Spoon 2015; Servent 2017; Kreppel and Webb 2019), the EP has gained influence over EU foreign policy. Institutionally, the Common Foreign and Security Policy (CFSP) is led by the Council, and supported by the High Representative and the European External Action Service (EEAS). Yet the EP is involved in a number of ways in deciding the foreign policy of the EU: it has power to veto major political agreements with partner countries around the world; it can veto all international trade agreements – a right which it has practiced in past years; it approves the EU’s budget including foreign aid and financing of the EU’s civilian and military operations; it approves Commissioners with a

foreign policy portfolio, including the High Representative/Vice President, Trade Commissioner, Development Commissioner and Enlargement Commissioner (Cini and Perez-Solórzano 2016, 249). It decides on resolutions on foreign affairs issues such as partner country progress reports, international crises and human rights violations, and has over forty Interparliamentary Delegations who hold dialogues with third countries' parliaments (Stavridis and Irrera 2015).

Voting in the EP is regularly explained with the left-right dimension (Kreppel and Tsebelis 1999), party group cohesion (Hix 2002; Hix et al. 2007) and national party identity (Hix 2002; Faas 2003; Finke 2013; Meserve et al. 2017). Voting cohesion following party lines appears to depend on the saliency of the issue – MEPs are more likely to rebel against their EP party group on issues that are salient in their home countries (Klüver and Spoon 2015; Chiru and Stoian 2019). After the Eurozone crisis and Brexit, EP scholarship has put more emphasis on the pro-EU/Euroskeptic dimension when explaining MEP's policy positioning (Otjes and van der Veer 2016).

MEPs have an important foreign policy role in approving financial aid and trade agreements with third countries. Yet, studies that focus specifically on MEPs' voting behavior in foreign policy are missing, with a few exceptions: Chiru and Stoian (2019) analyze MEP voting on directives relating to surveillance and the fight against terrorism; Norrevik (2020) analyze MEPs' policy positions on comprehensive trade agreements with third countries. Relating specifically to the EU-Russia relationship, Braghiroli (2014) analyzes the role of MEPs' party group affiliation and nationality and their stance towards Russia using EP voting records between 2004 and 2012. His findings emphasize the role of partisanship over nationality. Other studies investigate the EU's relationship with Russia in general, where the EP is mentioned as an

“increasingly audacious and outspoken EU institution on foreign policy” (David et al. 2013, 204), although the role of the EP is not further analyzed.

The use of roll call voting in studies of the European Parliament has been a topic of scholarly debate. In the past only a small portion of votes in the EP was taken by roll call. The use of voting records in studies of EP legislative behavior was considered “dubious” (Carrubba et al. 2006, 691) and “poorly suited” (Høyland 2010), as roll call votes in the EP were subject to selection bias. With the EP’s 2009 amendment of its Rules of Procedure, roll call voting is now required for all final legislative votes. As a result, roll call voting has become more reliable and is today a mainstream data source in EP scholarship (Høyland 2015; Yordanova and Mühlböck 2015; Kaniok and Mocek 2017; Hix et al. 2018; Lindstädt et al. 2012; Chiru and Stoian 2019).

MEP’s Foreign Policy Positions and Economic Interdependence with Foreign Powers

While the dimensions of EP politics have been established in the literature – party group cohesion, political ideology, and Euroskepticism – the theoretical underpinnings to study MEPs as policy actors remains underdeveloped, specifically MEPs’ policy positioning on foreign affairs issues.

Foreign aid and trade are often used in combination to advance specific foreign policy goals. The combination of aid and trade towards neighboring countries, with the prospect of future membership, has been one of the EU’s most successful foreign policy instruments. A case in point is the EU’s ability to influence Central and Eastern European countries’ internal and external policies by offering membership when political and economic conditions were met

(Smith 2004). Post-enlargement, the EU's normative pro-democracy influence has waned (Juncos and Whitman 2015; Pomorska and Noutcheva 2017; Meyerrose 2021).

A central assumption for my study is that major foreign nations pursue activities to influence and shape the EU's foreign policy. Recent scholarship establishes that foreign meddling, or side-taking, is common among major powers (Bush and Prather 2020; Corstange and Marinov 2012). Foreign economic policy is often subject to side-taking by foreign powers, in the form of public statements, technical advice, material support and other "economic carrots and sticks" (Bush and Prather 2020, 3). While studies on foreign meddling in the European Parliament are missing, existing research shows that legislators are receptive to influence from interest groups and foreign nations (Milner and Tingley 2016, 78).

The mechanisms for influence and advocacy are manifold; foreign powers use both bottom-up advocacy (shaping citizens preferences) and top-down lobbying (persuading elites to take the side of the foreign power). In societies that enjoy strong economic interdependence with the foreign power, policymakers are more vulnerable as economic ties can be used as leverage to promote the interest of the foreign power. The relationship between high levels of economic interdependence with a foreign power, and policy makers' unwillingness to impose sanctions of that same power has been detected in the sanctions literature (Weber and Schneider 2020, 5; Bapat and Kwoon 2015): sanction decisions are often vetoed (or not enforced) by countries that have strong economic interdependence with the target state. Economic ties with the target state may undermine the senders' domestic competitiveness, providing a disincentive to impose sanctions. Similarly, research in multilateral foreign aid shows that domestic groups with economic interests in foreign economic policy pressure legislators in favor of their preferred policy (McLean 2015, 105). Specifically, case studies suggest that Russia, with high levels of

government influenced FDI, use economic leverage to advance their foreign policy interests in Europe (Conley et al. 2016).

Legislators, including MEPs, are cognizant of government influenced FDI from major powers. Foreign policy advocacy is conducted by official representatives including ambassadors¹ and non-government officials including high-profile individuals associated with state-controlled enterprises. An example of the latter is former Chancellor of Germany, Gerhard Schröder, now chairman of Russian energy company Rosneft and a prominent advocate of the Nord Stream 2 pipeline in Northern Europe. Notably, several Russian state-controlled companies are listed in the EU's Transparency Register, including Gazprom, which is required for organizations that meet with officeholders in EU institutions to influence EU policy-making.

For example, Russian government officials publicly advocate for changes in the EU's policy towards Ukraine and leverage Russia's economic presence in EU member states to advance its interests (Conley et al. 2016, 11). Several Russian officials, including Foreign Minister Sergey Lavrov, have reiterated the strategy of using economic cooperation as leverage on European policy relating to Russian interests:

“Despite our differences, Russia and the EU are important trade and economic partners [...]. By the way, if it were not for the EU's biased position in the context of Ukrainian developments, Russia-EU trade would have reached \$500 billion, becoming a global factor comparable to the EU's trade with the United States or China.” - Sergey Lavrov in *Rossiyskaya Gazeta*, December 18, 2019

¹ Public officials' advocacy efforts are evidenced by op-eds in EU member states and through participation in policy debates in European capitals (see for example Azimov (2020)).

Argument and Expectations

With its upgraded role since 2010 the EP can now block major EU foreign policy decisions. EP scholarship has established that MEPs are career-driven and try to satisfy their constituents (Faas 2003; Frech 2016). I argue that major foreign powers use their economic leverage to shape public debates and foreign policy narratives in districts and countries where they have a prominent presence of outward FDI. Because MEPs are career-driven and do not want to go against the economic interests of their constituents, they are cognizant of government influenced FDI from major powers. MEPs do not want to risk the loss of economic ties as a result of political backlash for adopting EU policy that go against the interests of the major power and source of FDI in their districts.

To test my argument, I collect data on Russian FDI in EU member states and sub-national districts to check whether there is an association with MEPs' policy positions on financial aid and trade with Ukraine. I expect that MEPs with higher FDI inflows from Russia in their home countries are more likely to vote along the pro-Russian line and not support EU financial aid and trade with Ukraine.

My expectations are as follows:

Expectation 1: MEPs from countries with high FDI inflows from Russia are less likely to vote in favor of Ukraine aid and trade.

Expectation 2: MEPs from electoral districts with high FDI inflows from Russia are less likely to vote in favor of Ukraine aid and trade.

MEPs know that citizens value the economic investments and job opportunities that come with FDI and do not want to risk a change of the status quo. As much as MEPs value the welfare of their citizens, they are also career-driven, and do not want to be associated with casting votes that may receive political and economic backlash from foreign investors. Jensen (2003; 2008; also, Jensen et al. 2012, 31) argues that voters can punish democratic leaders for poor relationships with investors through the mechanism of audience costs. Hence, I expect MEPs from countries with higher Russian FDI to be more inclined to take pro-Russian policy positions as they are more easily swayed by Russian interest groups' economic leverage. With little or none Russian FDI, MEPs are more likely to support Ukraine's integration with the EU, as pro-Russian interests have difficulty to mobilize opinion for their cause in these EU member states.

Russian FDI into the EU

Existing scholarship on FDI² is typically dominated by studies on multinational firms based in advanced nations, with investments in developing countries (Dunning 1988; Graham 1994). Only twenty percent of global FDI outflows in 2016 came from developing countries, a number which is up from 3 percent in 1980 (World Bank 2017). A growing literature considers the political economy of Chinese investments abroad (Tuman and Shirali 2017; Gonzales-Vicente

² FDI can be defined as “the purchase of physical assets or a significant amount of the ownership (stock) of a company in another country to gain a measure of management control (Jensen et al. 2012, 1).

2012), and to a smaller extent Russia, a country that has emerged as a major source of outward FDI in the 2000s (Kalotay and Sulstarova 2010; Liuhto and Majuri 2014; Panibratov 2013).

Whereas standard foreign investment models explain decisions of FDI with multinational corporations' (MNCs) assessment of the benefits over competitors, based on ownership, location and internalization (Dunning 1995), FDI from Russia has a prominent political dimension. State involvement in OFDI is not unique for Russia; it is discussed in studies on FDI from BRICS countries in general. China in particular has a high level of government involvement in foreign investment (Tuman and Shirali 2017).

Given the scholarly uncertainty about FDI from Russia to the EU, my argument relies on two observations relating to Russian FDI in Europe. First, Russia has been pursuing a strategy of increased commercial and economic cooperation with Europe since the early 2000s to exert influence (Chang 2018; Conley et al. 2016). As Russia recovered from its 1998 financial crisis, it sought new economic ties with European nations on a “mutually advantageous basis” in the early 2000s (described by Deputy Foreign Minister Sergei Razov in 2002 (Chang 2018)). From 2000 to 2013 Russian OFDI stock (accumulated outward FDI) increased from 20 billion USD to 500 billion USD (Liuhto and Majuri 2014).

Second, government control of Russian MNCs increased during the same time as OFDI was rising. Relationships between the government and Russian businesses became increasingly blurred. For example, in 2008 the former chairman of Russian MNC Gazprom, Dmitri Medvedev, became President of Russia and the former chairman of Rosneft, Igor Sechin, became Deputy Prime Minister of Russia. Notably, the development of increased state intervention and state support to Russian MNCs overlap with Putin's tenure as President and Prime Minister that began in 2000.

To be clear, the main goal of OFDI from Russia is not to influence MEPs to take pro-Russian policy positions. What I argue is that pro-Russian interests in EU member states use FDI as leverage when attempting to influence public debates. If the EP approves policies at odds with Russian interests, MEPs with significant levels of Russian FDI fear that investments from Russia could dry up as a political punishment, which would change the status quo of investments in their district and disappoint voters. Hence, Russian FDI serves as a motivation for strategic voting in the EP.

In comparison to Russian FDI to the EU, FDI from Ukraine to the EU is not economically nor politically prominent. In 2012 – before the 2014 crisis in Ukraine – Ukrainian FDI stock in the EU was 6,046 million US dollars, compared to 275,646 million US dollars FDI stock from Russia in the same year (UNCTAD 2019). Since its peak in 2007,³ single year FDI outflows from Ukraine to the EU is negligible. For this reason, FDI from Ukraine is not a relevant predictor of MEPs policy preferences, and I focus on Russian FDI into EU member states and MEPs' foreign policy positions.

³ Ukrainian FDI outflows to the EU peaked in 2007 with 5,852 million US dollars. In the following years and until 2014, FDI outflows from Ukraine to the EU ranged between 0 and 630 million US dollars. In comparison, Russian FDI outflows to the EU was 32,301 million US dollars in 2007 and remained at comparable levels until 2014. (UNCTAD, 2019).

Empirical Analysis

Dependent Variable

I test my argument on five policies concerning support for Ukraine through financial aid and trade. The current conflict between Ukraine and Russia is one of the top concerns for EU foreign affairs. Ukraine is in the EU's immediate neighborhood, is a "priority partner" for the EU (European External Action Service 2020) and has been on a path to integrate with the EU since 2005. For Russia, the most consequential EU policies during the 2014-2019 period concern economic sanctions on Russia and integration of Ukraine with the EU, which contradicts Russia's larger foreign policy goals. Of these EU policies, the EP can only veto policies concerning aid and trade with Ukraine. EU sanctions targeting Russia do not require approval by the EP, as they are approved by the Council solely. For this reason, I include votes on financial aid and trade with Ukraine in my analysis.

All votes were held during the 8th European Parliament, and after the Euromaidan protests and Russia's invasion in Ukraine in 2014. Four of the votes were conducted in the Committee on International Trade (INTA), and the fifth vote was conducted in the Foreign Affairs Committee (AFET). VoteWatch Europe provide the data for my dependent variable, MEPs names and political affiliation. The following five votes are included:

- Customs duties on goods from Ukraine, on October 23, 2014 (631 votes, 497 in favor)
- Macro-financial assistance to Ukraine, on March 25, 2015 (612 votes, 492 in favor)
- Introduction of temporary autonomous trade measure for Ukraine, on June 1st, 2017 (638 votes, 475 in favor)

- Further macro-financial assistance to Ukraine, on June 13, 2017 (680 votes, 527 in favor)
- EU-Ukraine Association Agreement: Explanatory Statement, from December 12th, 2018 (568 votes, 433 in favor). This vote was prepared in the Foreign Affairs Committee.

The dependent variable is a vote in support of cooperation policies with Ukraine. Since MEPs are able to reject each of these policies in the co-decision procedure (where the Council is the other veto player), I consider a vote against the policy as a vote against aid and trade with Ukraine.

As with most social scientific studies that do not involve random controlled trials, there is a potential for causality in the opposite direction. To address this possibility, my data is based on aggregated FDI inflows five years before the vote, to indicate an association between MEPs' policy positions and FDI inflows. While it is possible that Russian FDI is reduced due to political backlash from Russia after an EP vote, it will not have an effect on the association between votes and FDI prior to the vote. Another concern is the possibility of a spurious correlation, where a third variable accounts for the observed association. I therefore include a number of control variables that are likely to be associated with MEPs' voting rationale. These are explained in the following.

Explanatory Variables

My main explanatory variable is *Russian FDI/GDP*, which I measure as the aggregate FDI investment in the host country five years prior to the vote, divided by the host country's GDP to

indicate the strength of the economic relationship with the host country compared to other countries. For example, the vote *Customs duties on goods from Ukraine* was conducted in October 2014; hence, I include all FDI from Russia between 2010 and 2014 (calendar year) in the measure for *Russian FDI/GDP*. Russian MNCs that undertake FDI in Europe are concentrated in a few sectors, such as energy (Lukoil, Gazprom, Yukos), infrastructure (Russian Railways), metals (Novolipetsk Steel), automotive (Kamaz, owned by Rostec, UAZ), ICT and telecom (Kaspersky lab, Luxoft). The largest investments are undertaken in the oil and gas industry. I retrieve data on Russian outward investments in Europe from FDI Markets (2019) and calculate the total value of investments in the five-year interval for each vote. I manually calculate the value of investments at the subnational district-level based on investment location provided by FDI Markets.

To test the association of FDI and pro-Russian voting at the electoral EP-district level, I divide district-level Russian FDI by total population in the electoral district (subnational for five member states, national for the remaining 23 member states) to indicate the relative impact of FDI in the EP district. Subnational electoral EP districts do not have consistent GDP data available; hence, I use FDI/capita as the explanatory variable for both subnational and national districts in this fine-grained analysis. I use this measure as an alternative main explanatory variable. I expect these alternative measures to be associated with MEPs adopting a pro-Russian position on the votes, that is, a negative association with support for financial aid and trade with Ukraine.

As a control variable for economic size I include total *GDP (logged)* (in current prices, purchasing power standard and logged to reduce skewness) in MEPs' home countries. *GDP (logged)* measures aggregate economic output, and its inclusion is consistent with the gravity

model of trade where the size of the economy is an established predictor of trade. The votes included in my data concern economic cooperation with Ukraine; hence, there is reason to expect a positive coefficient associated with aid and trade with Ukraine following the gravity model of trade. On the other hand, smaller countries in the EU are typically more dependent on trade as they cannot specialize in as many sectors as larger countries, which would make them more supportive of increased trade with Ukraine. For this reason, I expect to find a negative coefficient for *GDP (logged)*.

MEPs' political ideology and European party group membership are the most common predictors for voting in the EP. Since the 2000s, scholarship on the EP emphasizes the role of European Party Groups to explain voting patterns among MEPs (Hix 2002; Hix et al. 2007). However, policy positions of EP party groups are endogenous, and related to the composition of MEPs in each party group. The Ukraine crisis was unfolding at the same time as parties were forming groups in the EP during spring and summer 2014 (EP elections were held in May 2014). Before the Ukraine crisis, European parties paid little attention to Russia (Onderco 2019, 527). Thus, it is unlikely that MEPs' national parties dictated policy positions on Ukraine and Russia as MEPs were taking their seats. Even if voting cohesion in EP party groups is high, typically 90 percent or more, it is not an exogenous factor unrelated to MEPs' home countries. If pro-Russian actors target MEPs whose home countries have economic ties to Russia through FDI, these MEPs may, in turn, try to influence their party groups to adopt a pro-Russian policy. Thus, I expect to detect an association between high levels of Russian FDI in MEPs' home countries and voting for the pro-Russian policy position even when controlling for ideology and party groups. I control for ideology by including a dummy variable, *Left ideology*. Traditional ideological cleavages are found in the economic left-right dimension. The variable *Left ideology* takes the

value of 1 for MEPs that belong to left-leaning party groups, including the Progressive Alliance of Socialists and Democrats (S&D), the Confederal Group of the European United Left/Nordic Green Left (GUE-NGL), and the Greens-European Free Alliance (Greens-EFA). All other party groups are assigned a 0.

My data consists of EP votes concerning trade policy and foreign aid policy, which leads to conflicting expectations for how MEPs' ideology affects their policy positions. Following Milner and Judkins (2004), left-leaning MEPs are less likely to support trade policy, as right-leaning parties are more supportive of trade in general. On the other hand, Tingley (2010) finds that right-leaning (conservative) legislators are less likely to support foreign aid. Consequently, I expect mixed results for the association between MEPs' ideology and policy positions on aid and trade with Ukraine. Onderco (2019) notes that both the far-right and far-left parties in Europe are associated with pro-Russian beliefs, and that "*it is difficult to point to ideology as an influential factor in the attitudes toward Russia*".⁴ To control for a more nuanced ideological variable, I combine far-right and far-left parties in *Far-left/right ideology*. It takes the value of 1 for MEPs that belong to any of the party groups Europe of Nations and Freedom Group (ENF), Europe of Freedom and Direct Democracy (EFDD), European Conservatives and Reformists Group (ECR), the Confederal Group of the European United Left/Nordic Green Left (GUE-NGL), as well as Non-attached Members. I expect MEPs in the *Far-left/right ideology* category to take more pro-Russian policy positions when voting in the EP compared to other MEPs. In additional robustness checks available in the Appendix, I include the control *Far-right ideology* for MEPs

⁴ In his analysis of European political parties' Russia policy positions, Onderco (2019) emphasize temporal variation as a decisive factor: prior to 2015, European parties were more positive in their views of Russia. This change in policy points to the watershed moment of the Ukraine crisis and 2014 invasion of Crimea for European political parties' view of Russia.

that belong to EP party groups ENF, EFDD, ECR, and Non-attached MEPs who belong to far-right national parties, such as Hungarian *Jobbik*, Belgian *Vlaams Belang* and French *Front National*.

I also control for the presence of a *Russian diaspora*, measured as a country's stock of foreign population by nationality provided by OECD and the European Commission, divided by a thousand. The presence of a large Russian diaspora in MEPs' home countries should be associated with a more pro-Russian line. However, not all Russians in Europe are supportive of their kin-state's policy, and some may resist the Russian line and favor Ukraine's integration with the EU instead of Russia – after all, they live in the EU and not Russia. For this reason, the association could be mixed, but I expect the average effect is supportive of the pro-Russian policy position, and against EU aid and trade with Ukraine. Nearly two million Russian-born persons live in the EU.⁵ Nearly all EU member states allow dual citizenship (in some countries under certain conditions), which increases politicians' incentives to pay attention to diasporas' preferences. The role of immigrant groups and diasporas in policy-making has been studied for decades in international relations (Shain and Barth 2003; Bermeo and Leblang 2015; Pevehouse and Vabulas 2013). Immigrant groups tend to lobby host country governments on policies toward to their kin-state (Bermeo and Leblang 2015, 627), although these policies may range between support for kin-state governments and punishing the kin-state through economic sanctions (Kuestra 2020). Data on immigrants from Russia is provided by OECD's International Migration Database (2020) and for countries that are non-OECD members I turn to European

⁵ About one million Ukrainian-born persons live in the EU, which represents about .2 percent of the total EU population (Eurostat, 2015). For this reason, I do not control for Ukrainian diaspora in my main models, but I include it in robustness models, and obtain similar results for my key variables.

Commission data. Five countries do not report data of citizenship among immigrants in my data (Croatia, Cyprus, Ireland, Malta, and Romania).

To control for systematic differences in MEPs' policy preferences due to their home countries' historic experiences and geography, I construct three control variables. First, I include a control for *Eastern European* member states, which includes the eleven countries that entered the EU in the 2000s. Following Onderco (2019, 530), I expect Eastern European MEPs to be more negatively predisposed toward Russia than Western European MEPs. The reason is that that these countries have historical experiences of Russian occupation or Russian interference, whereas Western European MEPs have a lower threat perception of Russia in general. Naturally, exceptions exist; some parties in Eastern Europe have strong ties with Russia based on linguistic or geographic proximity. Beesley (2020) shows that citizens favor foreign relations with countries based on both ethnolinguistic identity and geographic proximity to trade partners, based on survey data among Ukrainians. Second, I include a geographic control, *Russia border*, a binary measure indicating if MEPs' home countries share a border with Russia. Similar to MEPs from Eastern European nations, I expect MEPs from these five countries to be less likely to hold the pro-Russian position when voting on aid and trade with Ukraine. Third, I include *Distance to Kiev* as a control variable, measured as the distance in kilometers (in thousands) between MEPs' home capitals and the capital of Ukraine. Following the gravity model of trade, the closer distance to Kiev, the more likely it is that MEPs are supportive of aid and trade policies with Ukraine. In robustness tests I also include a control for *Distance to Moscow*, which does not change the results for my main variable.

Within studies of trade policy, scholars have in the last two decades emphasized the role of sociotropic attitudes to predict preferences for trade (Mansfield and Mutz 2009). For example,

attitudinal or symbolic predispositions are factors that shape preferences toward trade policy (Rankin 2001; Edwards 2006; Mansfield and Mutz 2009). Ethnocentrism and nationalism are considered intransigent attitudinal predispositions that are associated with reduced support for outsourcing (Mansfield and Mutz 2013). EU policies of financial aid and trade with Ukraine involve conditions that improve Ukrainians' ability to travel and work in the EU, which may be viewed negatively among EU populations that are more ethnocentric. Consequently, I include a control for member states' aggregated attitudes toward immigration, *Negative view of immigrants*, provided by Eurobarometer (2014). Respondents in Eurobarometer surveys express feelings toward immigration of people from outside the EU. The variable *Negative view of immigrants* represents the total share of respondents who hold negative views toward immigration from outside the EU. These sentiments should be negatively associated with MEPs' support for aid and trade with Ukraine.

Finally, I control for MEPs' home governments' voting alignment with Russia in the United Nations General Assembly, *UNGA voting alignment*. I use a measure of foreign policy similarity with Russia, derived from Bailey et al. (2017) ideal point estimates, for each year corresponding to the year of the EP vote. I expect to find a negative association between the foreign policy alignment in the UN between MEPs' home countries and Russia and MEPs' support for financial aid and trade with Ukraine in the EP.

Method

My dependent variable, *Support for Ukraine*, has a binary outcome; hence, I estimate a multilevel (mixed) logistic regression model that allows for random variation both across and

within countries. My data includes primarily member state characteristics, but also individual characteristics (such as MEPs' ideology). Variation is likely to be found both across and within countries, around the mean for the EP vote. Therefore, I use a mixed model that includes fixed effects and random effects to estimate predictors of voting on financial aid and trade with Ukraine. The majority of predictors in my models are country-level characteristics, while *Left ideology* is nested within countries and allowed to vary by country.

The fixed effects variables in the model are level-2 predictors which are country-level characteristics. Since I assume the variables *Left ideology* and *Far-left/right ideology* to be nested within countries, this variable is estimated with a random slope allowed to vary by country.

Findings and Discussion

I estimate the effects of FDI inflows from Russia to MEPs' home countries on support for the pro-Russian policy position of voting against financial aid and trade with Ukraine. Results show that *Russian FDI* in MEPs' home countries is associated with less support for aid and trade with Ukraine based on votes in the EP, thus, following the pro-Russian policy. When estimating *Russian FDI* in MEPs' electoral districts for countries that have subnational electoral divisions (including Belgium, Italy, Ireland, Poland, and the UK), combined with member state data for countries that have national EP districts, the association remains negative and significant. Table 1 presents the results of the estimations. Negative coefficients indicate that associated variables increase the probability that MEPs take a pro-Russian policy position of not supporting EU financial aid and trade with Ukraine.

Models 1-4 show that *Russian FDI/GDP* is associated with less support for EU-Ukraine cooperation at conventional levels of significance, providing support for my expectation that MEPs' votes are more likely to favor the pro-Russian policy when their home countries have received more Russian outward FDI. Similarly, Model 5 shows that *Russian FDI/capita* into MEPs' electoral districts is associated with less support for EU aid and trade with Ukraine, at statistically significant levels.⁶ An increase of 100 USD in *Russian FDI/capita* to MEPs' electoral districts, yields a .57 decrease in the odds ratio of voting for likelihood that MEPs vote for aid and trade with Ukraine.

Figure 1 plots the predicted probabilities of voting in favor of aid and trade with Ukraine at different levels of FDI/capita in electoral districts. An increase in *Russian FDI/capita* in the five-year period prior to the vote from .05 to .1 (a difference of 50 US dollars) equals a decrease in the odds ratio of voting for EU-Ukraine cooperation of .067, on average, and the result is statistically significant. High levels of *Russian FDI/capita* appear to make MEPs more receptive to influence from pro-Russian interest groups, who use economic leverage as part of their advocacy strategy. MEPs are aware of the high degree of political control of Russian MNCs and prefer to keep the status quo of foreign investments, by aligning themselves with Russia. By taking this action, they do not risk losing job opportunities created by Russian FDI in their districts. Low levels of FDI/capita, in contrast, reduce the opportunity for economic leverage on European policy-makers.

⁶ The negative coefficient for *Russian FDI/capita* in Model 5, which is a more fine-grained analysis of Russian outward FDI in MEPs' districts, is fifty times the size of the coefficient for *Russian FDI/GDP* in Models 1-4, however, they represent different units.

Figure 1. Predicted Probabilities of MEPs' Voting for EU-Ukraine cooperation and Russian FDI

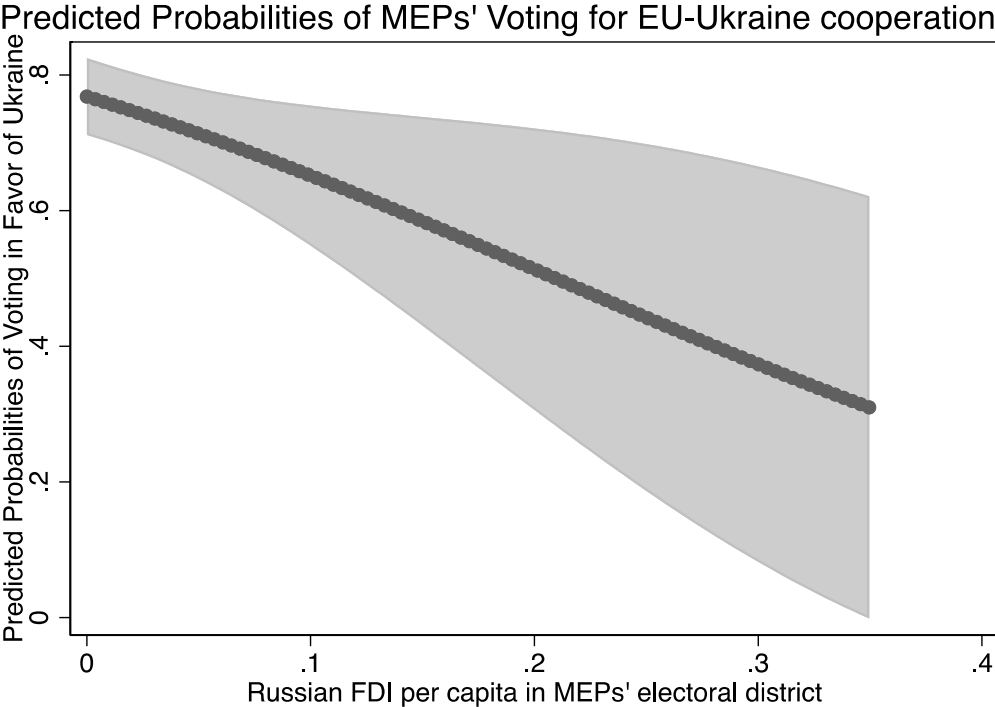


Table 1. Voting On Financial Aid And Trade With Ukraine in the European Parliament and Russian FDI to EU Member States and Electoral Districts

	Model 1	Model 2 (including Russia border)	Model 3 (including Distance to Kiev)	Model 4 (including Far- left/right ideology)	Model 5 (FDI/Electoral districts)
Russian FDI/GDP	-0.111** (0.0548)	-0.101* (0.0598)	-0.131** (0.0548)	-0.0790** (0.0393)	
Russian FDI/capita, per electoral district					-5.716*** (2.219)
Left ideology	-0.275 (0.286)	-0.274 (0.287)	-0.292 (0.297)		0.256 (0.266)
Far-left/right ideology				-3.067*** (0.635)	
Russian diaspora	0.0079** (0.003)	0.0083** (0.003)	0.0102*** (0.003)	-0.0007 (0.001)	0.0092*** (0.003)
Eastern European	1.472*** (0.405)	1.468*** (0.404)	1.970*** (0.404)	0.534** (0.237)	1.584*** (0.297)
GDP (logged)	-0.407*** (0.150)	-0.420*** (0.152)	-0.493*** (0.142)	0.0891 (0.0853)	-0.585*** (0.131)
Neg. view of immigrants	-3.359*** (1.262)	-3.352*** (1.258)	-2.893** (1.128)	-0.977 (0.641)	-3.859*** (1.255)
UN voting alignment	-3.319* (2.002)	-3.186 (2.026)	-4.309** (2.013)	-2.617 (1.977)	-3.224 (2.011)
Russia border		-0.435 (1.036)			
Distance to Kiev			0.658*** (0.247)		
Random Effects:					
Left ideology	1.460* (.519)	1.475* (.525)	1.599* (.564)		1.834* (.602)
Far-left/right ideology				6.817* (3.170)	
Observations	3,014	3,014	3,014	3,167	3,014
Number of groups	23	23	23	23	48
Intra-class correlation (ICC)	.071	.070	.050	.000	.0837

Note: The dependent variable, *Support for Ukraine*, is a binary measure of voting in support for EU financial aid and trade with Ukraine based on five votes in the 8th European Parliament.

Standard errors in parentheses.

*** p<0.01, ** p<0.05, * p<0.1

The likelihood that MEPs support aid and trade with Ukraine at zero Russian investments during the past five years is .756 compared to .665 when Russian FDI/capita is .079 (90th percentile).

Among the control variables, *Left ideology* of MEPs is associated with voting in support of financial aid and trade with Ukraine, and against the pro-Russian policy. When estimated with a random slope allowed to vary by country, the coefficient for *Left ideology* is positive and significant at conventional levels. The coefficient is not significant when estimated with fixed effects. The reason for this positive association could be that it is predominantly far-right groups, such as EP groups Europe of Nations and Freedom (ENF) and Europe of Freedom and Direct Democracy (EFDD) that vote along the pro-Russian line in the EP. While Onderco (2019) notes that both far-right and far-left parties in Europe tend to be supportive of Russia based on an analysis of party manifestos, the pro-Russian far-left in the EP may weigh the benefits of supporting Ukraine based on people-to-people solidarity over the benefits of voting along the pro-Russian line, whereas the far-right are worried about increased immigration from Ukraine, or concerned about increased spending on foreign aid (Tingley 2010).

My control for MEPs in the far ends of the ideological spectrum, *Far-left/right ideology*, is associated with reduced support for aid and trade with Ukraine and is significant when estimated with a random slope allowed to vary by country. It is unsurprising that far-right and far-left MEPs are less willing to support aid and trade with Ukraine, as they are generally pro-Russian (Onderco 2019) and Eurosceptic. In additional tests for robustness (found in the Appendix) I include a control for MEPs with *Far-right ideology*. These results do not change the sign or significance of my main variable *Russian FDI/capita, per electoral district*, however my variable *Russian FDI/GDP* (by country) does not reach significance below .05, only below the .1-level of significance.

A large *Russian diaspora* in MEPs' home countries is associated with increased support for financial aid and trade with Ukraine, across all models and with conventional levels of significance. Following Kuestra (2020) it is possible that a large share of Russian immigrants in EU member states are not supportive of their kin-state's preferred policy, and may be willing to punish the kin-state through sanctions and policies that go against its interests. Similarly, *Eastern European* MEPs are more likely to support EU-Ukraine cooperation and not follow the pro-Russian policy. This association could relate to Eastern European countries' history of interference from Russia and the Soviet Union, which has led to a higher threat perception from Russia (Onderco 2020). Hence, these MEPs are more willing to support Ukraine's integration with the EU instead of integration with the Eurasian Economic Union and Russia.

GDP (logged) is associated with reduced support for aid and trade with Ukraine at conventional levels of statistical significance, in all models except Model 4 (when controlling for *Far-left/right ideology*). MEPs from countries with smaller economies appear to be more likely to vote in support for EU-Ukraine cooperation, against the pro-Russian policy. A possible explanation for this association is that small economies in the EU are more dependent on trade than large economies, since these countries' domestic production is limited compared to larger member states. Similarly, consumption is more limited in small countries, and producers often depend on exports. Thus, MEPs from these countries are more inclined to open up trade with Ukraine as it has potential to benefit exports and imports.

Citizens' attitudes toward immigration are also associated with MEPs' support for EU-Ukraine cooperation. *Negative view of immigrants* in MEPs' home countries reduces MEPs' support for aid and trade with Ukraine with statistical significance. This is unsurprising, given that the policies voted upon will increase EU-Ukraine cooperation and integration, and make it

easier for Ukrainians to move to Europe. Hence, MEPs representing citizens who tend to oppose immigration are less likely to vote for closer economic ties with Ukraine.

MEPs whose home governments tend to vote with Russia in the UN General Assembly, as measured by *UN voting alignment*, are more likely to take a pro-Russian policy position when voting on aid and trade with Ukraine in the EP. The finding is significant at conventional levels and across all models. There could be two causal explanations for this association. First, most MEPs have – to some extent – ties to their home governments. Some MEPs belong to the same party as the government, while others maintain relationships with the government due to their political importance as MEPs. It is common that MEPs regularly meet representatives from their home governments, and during meetings they can receive information from their government on foreign policy issues, which may influence their voting in the EP. The other causal explanation is that both voting in the UN General Assembly and voting in the EP rely on an underlying variable, such as economic ties. Member state governments and MEPs are both targets of pro-Russian advocacy, including from officials, that emphasize economic ties. For example, as Croatia assumed the presidency of the Council in 2020, the Russian Ambassador to Croatia wrote an op-ed with a call to normalize relations between the EU and Russia, alluding to economic partnership and the role of Russia in Europe:

“Moscow and Brussels remain important trade and economic partners and largest neighbours. [...] Geographically, historically, economically and culturally, Russia has been, is, and will remain an inseparable part of Europe.” (Anvar Azimov, Euractiv.hr, January 29, 2020)

Finally, the coefficient for *Russia border* is not significant at conventional levels. MEPs from countries that share a border with Russia are no more (or less) likely than other MEPs to support

aid and trade cooperation with Ukraine in the EP. Notably, the coefficient for *Eastern European* remains positive and significant in specifications including *Russia border* (four of the five countries that share a border with Russia are also included in the variable *Eastern European*⁷).

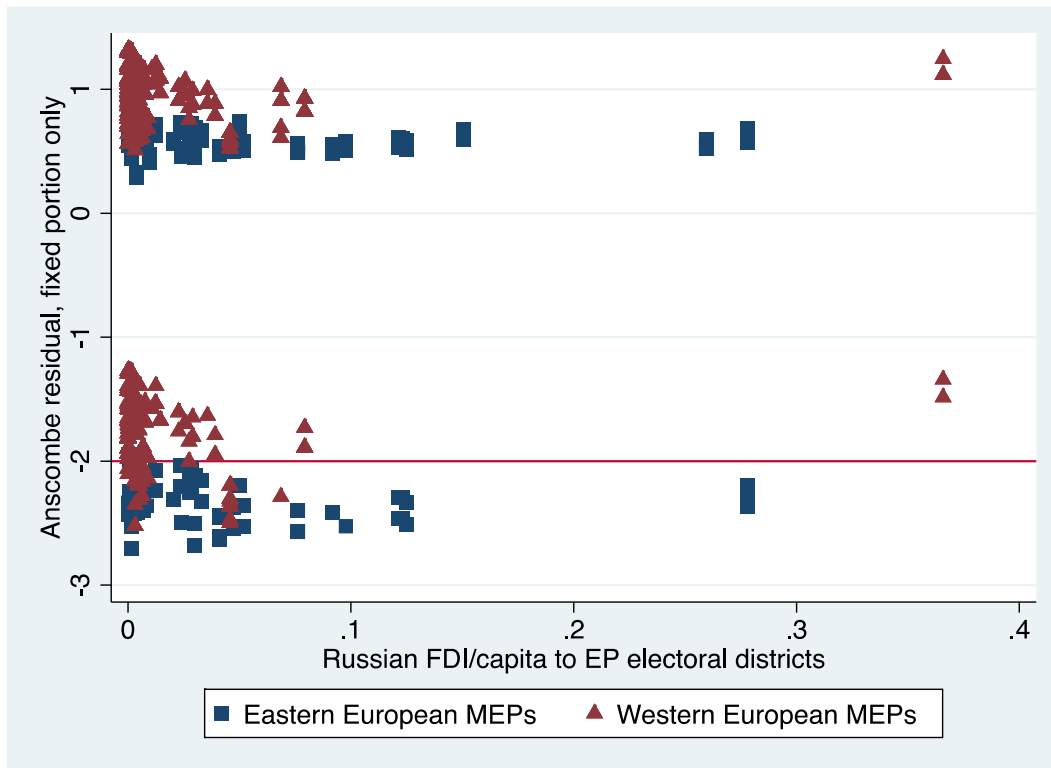
To see if there is a systematic difference between the different types of economic agreements, I estimate separate models for aid proposals (Macro-financial assistance to Ukraine, 2015, and Further macro-financial assistance to Ukraine, 2017) and trade proposals (Customs duties on goods from Ukraine, 2014, and Introduction of temporary autonomous trade measure for Ukraine, 2017). The 2018 vote on the EU-Ukraine Association Agreement is excluded from both estimations, since it includes both types of economic policies. Results from these estimations show that my main explanatory variable, *Russian FDI/GDP*, remains negative and significant. These models are found in the Appendix.

I calculate Anscombe residuals to check for outliers.⁸ 90 percent of observations are smaller than 2 in absolute value; hence, they are a good fit for the particular observation. Further, calculations show that MEPs from Eastern European member states (that joined the EU in 2004 or later) are overrepresented among the outliers, i.e., the model is better at predicting probabilities for MEPs from Western European member states. I also check if there is a difference in goodness of fit for left-leaning and right-leaning MEPs, but do not find a difference.

⁷ Finland is not considered Eastern European in this sample, since it was not part of the Warsaw Pact during the Cold War, and Finland joined the EU ten years prior to the 2004 Eastern enlargement.

⁸ See Hardin and Hilbe (2007, 54), Hilbe (2009, 279) for general properties of Anscombe residuals.

Figure 2. Anscombe Residuals



Conclusion

How do MEPs formulate policy positions in foreign relations? Despite the rise of the EU as a global actor in combination with the increased powers of the EP, there is little scholarly knowledge about the EP as a foreign policy actor. Existing scholarship on EP voting in general tends to focus on party group cohesion and Euroskepticism as predictors for MEPs' policy positioning. These studies under-theorize the origins of policy positions in issue areas such as foreign policy. I identify a new and significant determinant of MEPs' positioning in foreign policy-making – economic ties with major powers. MEPs are aware of the state-controlled and

state-influenced nature of FDI from major powers. For this reason, Russian FDI is perceived, to some extent, as controlled from the Kremlin. MEPs do not want to risk a change of investment status quo in their districts, which may entail the loss of jobs and tax revenues because of deteriorating political relations between the foreign investor and the EU, which may lead to political backlash for MEPs.

I show an empirical association between MEPs' voting on foreign policy and FDI inflows into their districts, while controlling for traditional predictors of EP voting. Specifically, I find evidence of a relationship between Russian FDI in MEPs' electoral districts and MEPs' voting on aid and trade with Ukraine, with statistical significance. MEPs whose electoral districts receive higher levels of Russian FDI during five years prior to the vote are more likely to take a pro-Russian policy position, that is, not support EU-Ukraine cooperation. In the wake of the 2014 Ukraine crisis, Russian officials and other pro-Russian actors in Europe have advocated for pro-Russian policies. EU policy toward Ukraine is crucial for Russia, since Russia wants Ukraine to be part of its sphere of influence and not integrate with the EU. Accordingly, Russia uses its economic leverage in EU member states to influence elites, including MEPs, to take pro-Russian policy positions.

My findings have policy implications. While MEPs who vote in favor of the pro-Russian policy were not numerous enough to sway the vote, I show that FDI is a factor that has bearings on MEPs' policy positions. Since the time of these votes, the EP has changed composition with the opening of the 9th European Parliament. The EU's leadership in the Commission and the Council has changed as well. At the same time, Russia's strategy of advancing its interests by leveraging its economic presence remains steady, as noted by Russia's Foreign Minister: "The

new institutional cycle in the EU history offers an opportunity to relaunch relations with Russia” (Sergey Lavrov in *Rossiyskaya Gazeta*, December 18, 2019).

Future studies on foreign policy positions in the EP may strengthen the evidence of economic ties as a predictor for MEPs’ position taking. My argument suggests that the rationale for voting along the pro-Russian line in this study depends on the perception of political control over Russian FDI, based on the high share of state- influenced MNCs (Kalotay and Sulstarova 2010). For this reason, my argument may not be generalizable for FDI that originates in countries with little state control over MNCs. Yet, Russia is not unique in its high degree of state-controlled FDI. China is another major power that has increased its economic presence around the world through FDI from predominantly state-controlled enterprises (Morck et al. 2008). State-controlled or state-influenced FDI may originate from countries with less authoritarian regimes as well. In times of economic crisis, the share of state-controlled MNCs increases in countries that put a premium on free-market capitalism, as governments take over MNCs to save them from bankruptcy.

In the wake of the coronavirus pandemic, these governments may use economic leverage to sway other countries to adopt their preferred foreign policies by engaging with constituents and policy-makers. Accordingly, policy-makers must be aware of possible policy consequences that may come from their own legislatures as a result of foreign investments, as they navigate this new environment.

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