

# Foreign Policy or Industrial Policy? The Design of Trade Bureaucracy

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# Is trade foreign policy or industrial policy?

- Trade as a cross-cutting issue:
  - Central role in economic growth; tool of **industrial policy**
  - Foundation of interdependence; instrument of **diplomacy**
- Different design choices for which ministry holds oversight:
  - US Trade Representative (USA)
  - Global Affairs (Canada)
  - Ministry of Trade, Industry, and Energy (Korea)

# Overview

- Research question: When is trade policy treated as foreign policy or industrial policy?
- The trade-offs underlying bureaucratic design of trade policy
- Mapping Trade Policy Design
  - WTO Trade Policy Review and WTO Ministerial Records as source of new dataset for research on comparative trade policy
  - Analyze correlates of bureaucratic structure design choices
- Exploring effect of bureaucratic structure on trade policy
  - Examine preferential trade agreements
  - Topic modeling of WTO Ministerial plenary session speeches

# The Bureaucratic Design of Trade Policy

- Tradeoff between cooptation of trade as foreign policy or capture by economic interests
  - Issue Linkage: common personnel coordinate across issues
    - Targeting trade sanctions, licensing technology, or procurement are complex decisions
  - Firewalls: stakeholder relationships engage different actors
    - Consular officials and industry associations offer critical information
  - Delegation: legislature allocates authority
    - Asymmetric information and concern about agent slack

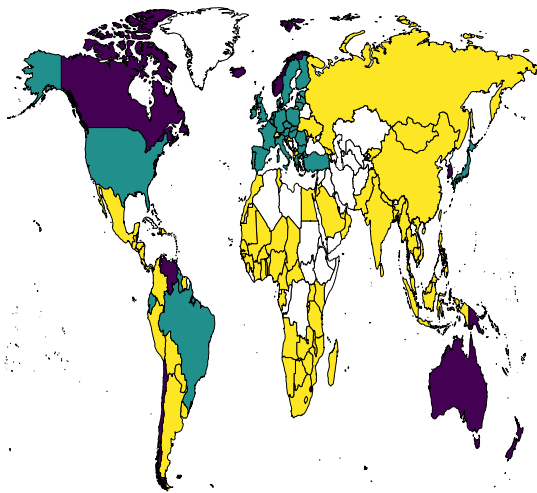
# Government priorities and Bureaucratic Structure

- 1 Foreign policy lead:** *Governments with an active foreign policy will be more likely to locate trade policy within the foreign ministry.*
  - Issue linkages support economic statecraft
  - Firewall limits resistance from industry
- 2 Industrial policy lead:** *Governments with an active industrial policy will be more likely to locate trade policy within commerce ministry.*
  - Issue linkages support development goals
  - Firewall prevents foreign policy interference
- 3 Institutional complementarity:** *Parliamentary government supports delegation of trade policy to the foreign ministry.*

# Trade Policy Jurisdiction Data

- Scope
  - 134 countries from 1995 to 2017
- Source
  - WTO Trade Policy Review reports
  - WTO Ministerial Conference plenary speeches
- Three categories of trade policy design
  - Foreign Affairs Ministry Lead
  - Industry/Commerce Ministry Lead
  - Independent Trade Bureaucracy Lead

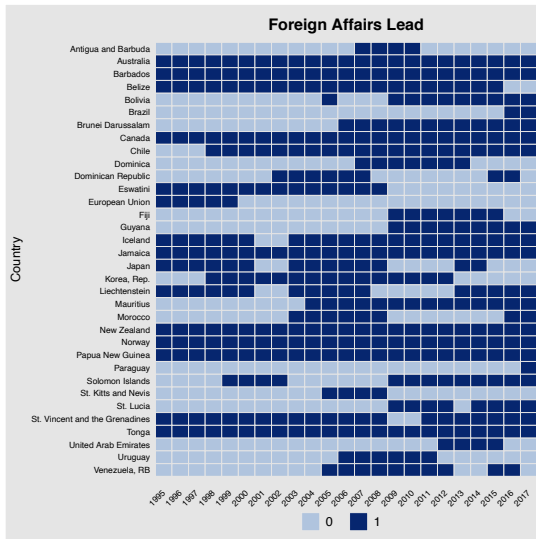
# Cross-National Variation: Bureaucratic Lead (Mode)



Bureaucratic Lead:  foreign affairs  independent/joint  industry  NA



# Foreign Affairs Lead: Variation over Time





# Modeling Choice of Lead Ministry

- Multinomial Logit regression model
  - estimate log-odds for each category (foreign or independent) relative to base category of industry lead
  - country-year unit of analysis, all covariates lagged one year
  - main estimates focus on cross-section, robustness checks add country fixed effects
- Explanatory variables for three hypotheses:
  - Foreign policy activism
  - Industrial policy activism
  - Parliamentary government
- Control variables: income, polity score, trade share of GDP

# Foreign Policy and Choice of Bureaucratic Lead

## Measuring Foreign Policy Activism

- Outward engagement: Embassies
- Multilateralism: IGO membership
- Conflict involvement: MIDs

## Findings

- States not taking consistent position on design
- Foreign policy indicators correlate with independent trade ministry
  - IGO membership → 7% higher odds
  - Embassies →  $\approx$  3% higher odds
  - Consistent with USTR case
- Conflict involvement corresponds to industry-lead trade policy

# Industrial Policy and Choice of Bureaucratic Lead

## Measuring Industrial Policy Activism

- Protection levels: MFN tariffs
- Industrialization: Manufacturing share

## Findings

- States not taking consistent position on bureaucratic design
- MFN tariffs  $\rightarrow \approx 8\%$  lower odds for independent lead
- Higher manufacturing share  $\rightarrow \approx 11\%$  higher odds of independent lead

# Political System and Choice of Bureaucratic Lead

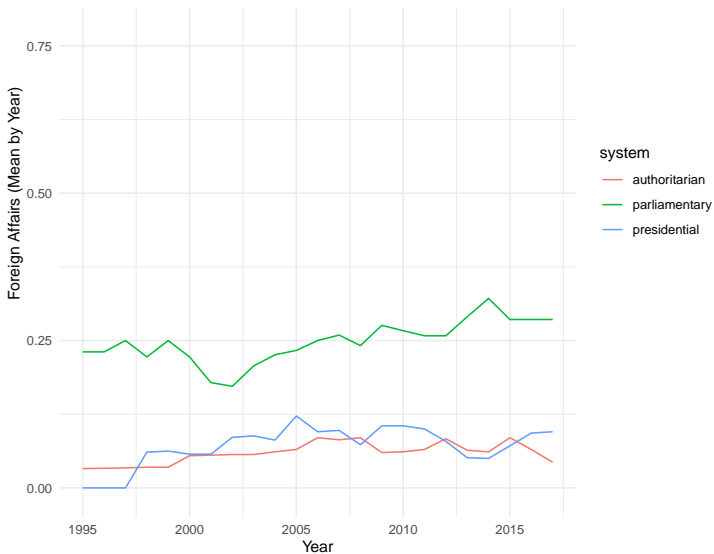
## Institutional Complementarity

- Examine association between parliamentary government and foreign affairs ministry lead for trade policy
- Political systems measure from Database of Political Institutions

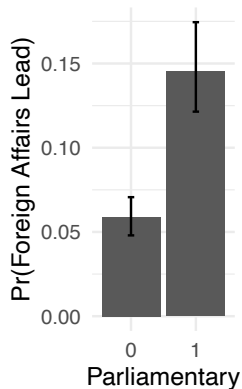
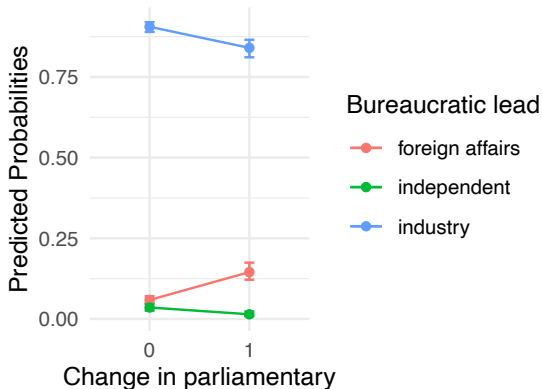
## Findings

- Strong support for institutional complementarity hypothesis
- Hypothetical change of political system to parliamentary government triples the likelihood of foreign affairs lead over trade

# Political System and Bureaucratic Design



# Marginal Effect of Parliamentary System



# Do Design Choices Impact Policy Outcomes?

## *Bureaucratic structure shapes incentives over policy*

- Foreign affairs ministry:
  - Broader agenda for national interest
  - Prioritize strategic considerations outside of market access
  - Politicization of Trade
- Observable implications for FA lead:
  1. **Partner choice**: More likely to sign PTAs with allies ✗
  2. **PTA terms**: More likely to include provisions related to security ✓
  3. **Interactive effect**: More likely to include security clauses with non-allies ✓

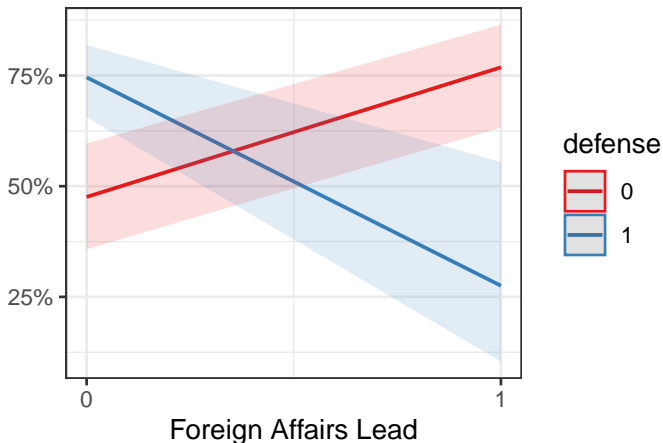
# Bureaucratic Lead and PTA Security Clauses

- **Model:** Logistic regression, PTA-level specification  
(each observation represents an agreement)
- **Outcome:** Indicator, = 1 if an agreement refers to security  
(military cooperation, anti-terrorism, peace-building, arms-control)
  - Source: DESTA, Milewicz et al. 2018
  - Coverage: 1995-2009;  $\approx$  500 agreements
- **Key explanatory variable:** Combined foreign affairs indicator  
(= 1 if at least 1 country in the dyad has foreign affairs-led bureaucracy)
- **Controls (dyad-mean):** Regime type; log GDP; GDP per capita; checks and balances; bilateral agreement indicator; parliamentary system indicator; trade as percentage of GDP; defensive alliance indicator, MID's count, period dummy



# Marginal Effect of FA Lead on Security Clauses

## Predicted Probabilities Security Clauses



# Ministers and the Trade Agenda

- WTO Ministerial Conference plenary speech text as data
  - Prepared statements by each member over 11 Ministerial conferences from 1996 to 2017
  - 1143 speeches by 131 governments
- Keyword Assisted Topic Model (Eshima et al, 2021)
  - Select 17 topics and provide keywords, allow 3 unstructured topics
  - Analyze proportion of speeches allocated across topics
- Compare attention to foreign policy and industrial policy

# Topic Modeling of Ministerial Speech Data

geopolitics	human security	environmental policy	e-commerce	textiles	agriculture, fisheries	manufacturing, services
<b>value</b>	<b>food</b>	global	members*	<b>cotton</b>	<b>agriculture</b>	<b>services</b>
global	<b>human</b>	crisis	<b>electronic</b>	<b>textiles</b>	<b>agricultural</b>	<b>goods</b>
<b>security</b>	<b>security</b>	<b>change</b>	<b>commerce</b>	<b>clothing</b>	developing*	foreign
political	permanent	protectionism	facilitation	framework	<b>food</b>	<b>service</b>
society	<b>hunger</b>	<b>climate</b>	development*	initiative	domestic	financial
<b>stability</b>	farmers	financial	fisheries*	<b>textile</b>	special	business
<b>war</b>	mechanism	recovery	<b>e-commerce</b>	origin	export	regional
challenge	sids	aid	domestic	integrated	members*	import
<b>peace</b>	context	<b>sustainable</b>	global	partners	elimination	changes
common	prices	protectionist	msms	c-4	areas	gdp

- Top 10 words for each topic, keywords in bold

# What do Trade Ministers Talk About?

## Geopolitics

“We have come today to denounce the international financial blockade against our country, which has resulted in the discontinuation of operations of 19 correspondent accounts, thus preventing our population’s access to food, medicines and raw materials. These unlawful sanctions, applied in a unilateral and arbitrary manner, violate international law and human rights.”

(Venezuela, 2017)

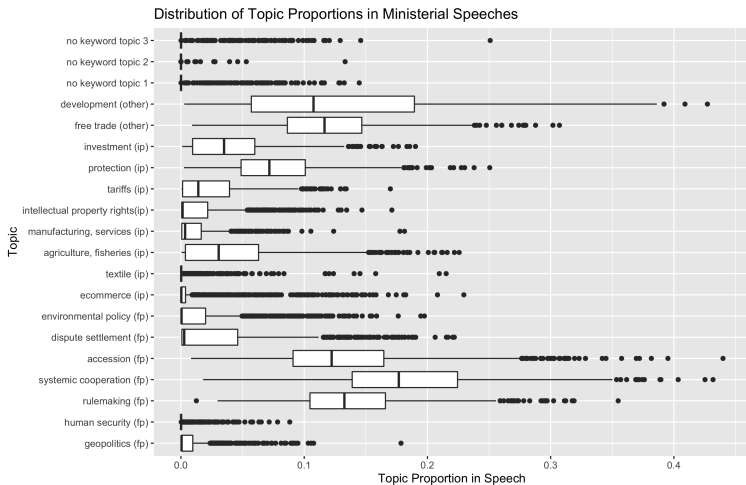
## Textile

“In order to reach equitable solutions, it is also extremely important to dissociate the cotton issue as set out in the sectoral initiative on cotton, which we support, and the suggestion of linking cotton and artificial fibres, as proposed by the major industrial producers of cotton.

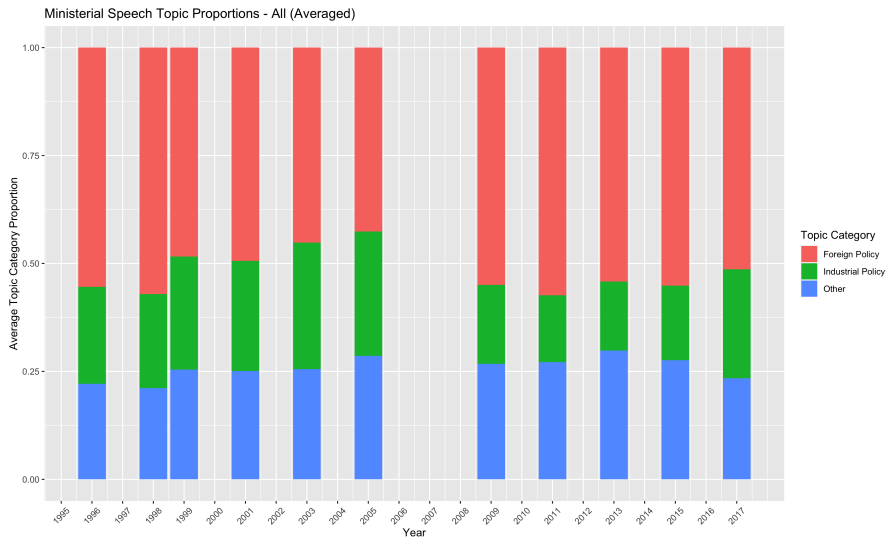
(Central African Republic, 2003)



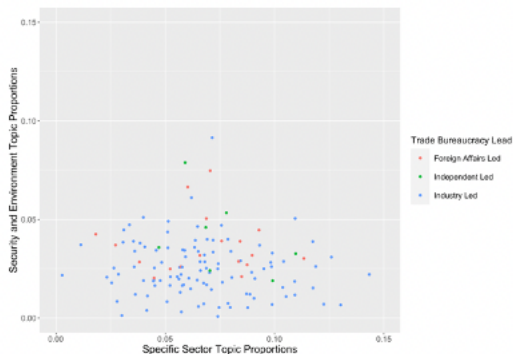
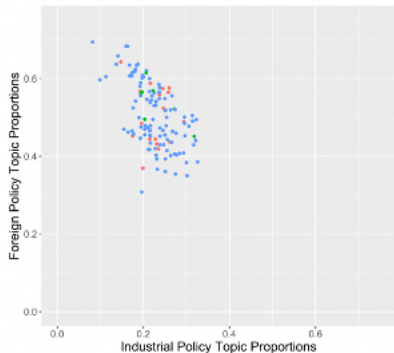
# What do Trade Ministers Talk About?



# Topic Trends Over Time

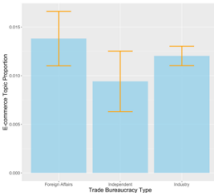
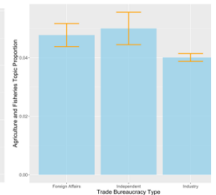
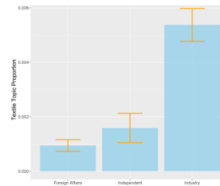
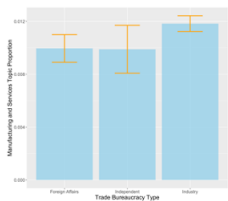
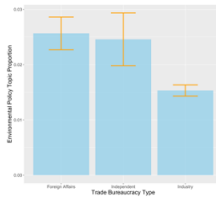
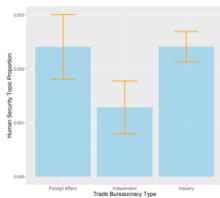
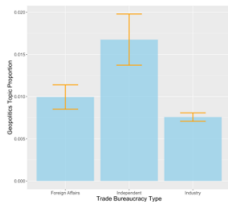


# Does Bureaucratic Structure Impact Agenda-Setting?



No clear pattern . . .

# Comparison of Topic Proportions



- Foreign ministry favors environment topic (plot 3)
- Industry ministry favors textile topic (plot 5)

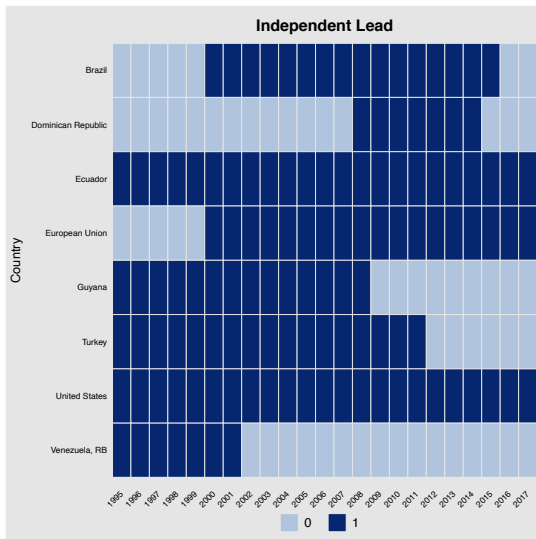


# Takeaways

- Variation and debate over design, but mixed evidence for impact
- Foreign policy orientation → independent trade design
- Pattern of complementary institutional structures as parliamentary governments delegate to the foreign ministry
- Strategic actions by governments with foreign ministry lead to use security clauses in PTAs
- More work ahead for studying trade ministerial speeches!

# Appendix

# Independent Trade Ministry: Variation over Time



# Multinomial logistic model: foreign policy activism

	Model 1		Model 2		Model 3	
	FA	Indep.	FA	Indep.	FA	Indep.
IGO memberships	1.009 (0.006)	1.075*** (0.011)				
Embassies Sent			0.992*** (0.003)	1.027*** (0.003)		
MIDs (3 yrs prior, logged)					0.754*** (0.106)	1.989*** (0.123)
GDP per capita (1000s)	1.046*** (0.005)	1.016* (0.008)	1.052*** (0.005)	1.004 (0.009)	1.050*** (0.005)	1.030*** (0.008)
Trade as share of GDP	0.995*** (0.002)	0.996 (0.004)	0.991*** (0.002)	0.997 (0.003)	0.992*** (0.002)	0.992** (0.004)
Parliamentary	2.804*** (0.169)	0.679 (0.258)	2.689*** (0.160)	0.512*** (0.232)	2.827*** (0.167)	0.441*** (0.242)
Polity	1.086*** (0.017)	1.206*** (0.036)	1.103*** (0.016)	1.212*** (0.034)	1.089*** (0.016)	1.274*** (0.039)
Constant	0.025*** (0.483)	0.0001*** (0.971)	0.082*** (0.227)	0.005*** (0.424)	0.064*** (0.211)	0.013*** (0.402)
Observations	2,200	2,200	2,530	2,530	2,311	2,311

Exponentiated coefficients; *t* statistics in parentheses

\*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

# Effect of foreign affairs bureaucracy on including security clauses in PTAs

	<i>Dependent variable:</i>	
	NTI Security Clauses in PTAs	
	(1)	(2)
<b>Foreign Affairs Bureaucracy</b>	0.576** (0.268)	1.297*** (0.316)
<b>Foreign Affairs x Defense</b>		-3.342*** (0.716)
Checks and Balances	-0.212** (0.089)	-0.218** (0.091)
Trade as share of GDP	0.011*** (0.003)	0.012*** (0.003)
Defensive Alliance (Indicator)	0.653** (0.261)	1.174*** (0.293)
MIDs (lag t-1)	-1.627* (0.885)	-1.238 (0.912)
Period	0.386** (0.152)	0.422*** (0.157)
Constant	-4.494*** (1.737)	-4.692*** (1.792)
Observations	486	486

Note:

\*p<0.1; \*\*p<0.05; \*\*\*p<0.01