

Agents or Advisers?

Bureaucratic Structure and the Politics of Trade Protection

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Motivation

1. Substantial variation in how states design their bureaucracies
 - level of centralization
 - number of political appointees
 - allocating jurisdictions etc.
2. Ample evidence groups try to influence the bureaucracy
 - **direct lobbying:** > 20000 lobbyists contact the EC daily
 - **advisory role:** > 3000 interest groups meetings with Mexico's Ministry of Trade during NAFTA negotiations

Does bureaucratic structure affect the ability of private actors to shape trade?

Bureaucratic structure in practice: Japan's TPP Headquarters

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TPP: from laggard to leader

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Reluctant to participate

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TPP: from laggard to leader

2009-2014:	Reluctant to participate
2016:	Signs TPP in historic transition
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"The Trans Pacific Partnership negotiations were completely different than prior negotiations with Japan."

(former USTR official)

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Key bureaucratic restructuring
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Broader phenomena: Bureaucracy as central to politics and more than just an administrative agent

How does bureaucratic structure shape trade?

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Structure affects the ability of private actors to influence policy decisions

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Mechanisms:

1. Differentially channels stakeholder preferences into policy

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Structure affects the ability of private actors to influence policy decisions

Mechanisms:

1. Differentially channels stakeholder preferences into policy
2. Determines number of veto players

Evidence

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Quantitative cross-national over time test

- When trade is led by an independent bureaucracy, governments are more likely to have free trade policies
- Governments with fragmented processes and formalized stakeholder participation raise more trade barriers

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Case study of Japan: mechanism process tracing

- When bureaucratic reforms erode autonomy, interest group access to bureaucrats increases

Domestic institutions & economic policymaking

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Literature

1. Legislative and democratic institutions shape trade (Mansfield & Busch 1995, McGillivray & Smith 2004, Milner & Kubota 2005, Kono 2009, Rickard 2015)

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My project

- ↪ Non-elected, non-democratic bureaucracies also explain important variation in trade policy

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- ~> Substantial inter-agency heterogeneity
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- ↪ Non-elected, non-democratic bureaucracies also explain important variation in trade policy
- ↪ Substantial inter-agency heterogeneity → structure determines interplay
- ↪ Original data on structure (135 countries × 20 yrs)

Argument: Bureaucracies & trade policymaking

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2. Structures that increase bureaucratic influence → fewer exceptions to liberalization

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 - ↪ Leverage support of groups with aligned preferences

From theoretical dimensions to systematic cross-country comparison

	Independence	Expertise	Example
Agency			
Ministry			
Advisory			

From theoretical dimensions to systematic cross-country comparison

	Independence	Expertise	Example
Agency	high	specialized	USITC
Ministry			
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- Agencies: Legally independent organization (based on statutes)

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2. Higher number of ministries → more exceptions to liberalization
3. Higher number of advisory groups → more exceptions to liberalization

Interest Groups → Bureaucratic Structure → Trade Policy

- Cross-national: Tests relationship between structure and trade policy
 - Comparison of trade policy in 135 countries over 20 years \rightsquigarrow external validity
 - Offers inferential leverage given big changes in bureaucratic structure are rare
- Japan case: Tests how reduction in bureaucratic autonomy influences access
 - Analyzes bureaucratic changes and interest group access at more granular level

Research design

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Comparative trade policy bureaucracy dataset



WORLD TRADE
ORGANIZATION

RESTRICTED

WT/TPR/S/397

22 January 2020

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Trade Policy Review Body

TRADE POLICY REVIEW

REPORT BY THE SECRETARIAT

JAPAN

This report, prepared for the fourteenth Trade Policy Review of Japan, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from Japan on its trade policies and practices.

Any technical questions arising from this report may be addressed to Mr. Sergios Stannas (tel.: 022 739 5382); Mr. Pierre Latrille (tel.: 022 739 5266) and Ms. Katie Waters (tel.: 022 739 5067).

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- 1995: Transition from GATT to WTO
→ Addition of monitoring function

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WTO Trade Policy Reviews

- 1995: Transition from GATT to WTO
→ Addition of monitoring function
- Reviews members' trade policy conduct
- Identify key institutions involved in trade
- Common review standard → meaningful comparison across countries & over time

Sample data structure

Unstructured Text



Country	Year	Institution	Type	Main Responsibility
Japan	2008	Ministry of Economy, Trade, and Industry	ministry	all trade related issues	
Japan	2008	Ministry of Finance	ministry	trade remedies; salt, tobacco ...	
Japan	2008	Japan External Trade Organization	agency	export promotion	
⋮	⋮	⋮	⋮	⋮	⋮



Country	Year	Ministries	Agencies	Advisory groups
Japan	2008	?	?	?	
⋮	⋮	⋮	⋮	⋮	⋮

Classification of bureaucratic types

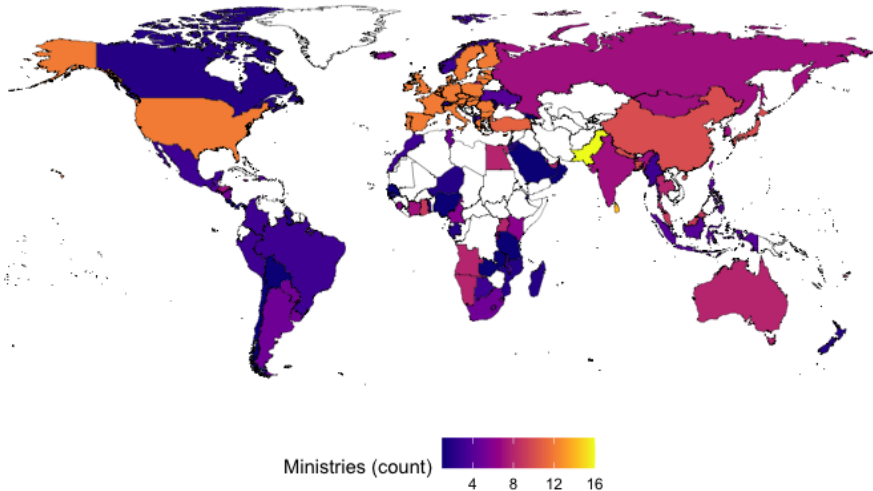
Challenges:

- Over 1000 distinct institutions
- Names are not always informative:
 - Is Japan External Trade **Organization** an agency?
 - Do all 'agencies' have independence?
- Status may change over time despite organizational continuity

To ensure comparability:

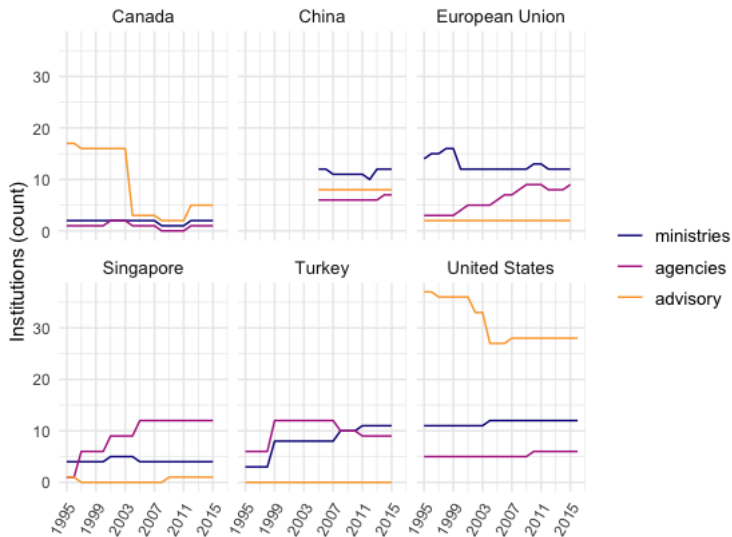
- Check countries' original administrative laws for all institutions in the sample

How much variation in bureaucracy? (2012)



▶ United States

How much variation in bureaucracy?



Estimation: effect of bureaucratic structure on TTBs

Dependent variable: Temporary Trade Barriers (TTBs)

- **Economically important:** substantially large estimates on their effect on trade
- Non-ambiguous relationship to lobbying efforts
- Involve bureaucratic discretion → influence policy via bureaucratic channels
- Helps mitigate some endogeneity and reverse causality concerns

► Definitions

► Process

Estimation: effect of bureaucratic structure on TTBs

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Zero-Inflated Negative Binomial

- Model two possible data generating processes:
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 2. Among TTB users, structure may reduce TTB incidence

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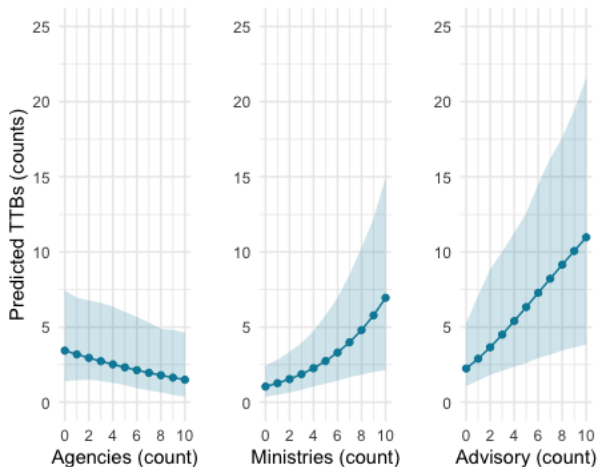
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Covariates:

1. Regime type
 2. Veto players
 3. GDP growth (lagged)
 4. Import growth (lagged)
 5. Real exchange rate (lagged)
 6. Mean MFN applied rate (lagged)
 7. Government effectiveness
- } confounders for institutional design
- } macroeconomic shocks

Effect of bureaucratic structure on TTB filing



Predicted TTBs by Type of Bureaucracy,
Upper Middle Income Countries

Findings:

- H1 ↑ Agencies ↓ Exceptions
- H2 ↑ Ministries ↑ Exceptions
- H3 ↑ Advisory groups ↑ Exceptions

Substantively significant:

- One additional advisory group
→ 2.4 additional TTBs
- Brazil, a top user of TTBs,
averaged 9 antidumping
measures per year

Effect of bureaucratic change on TTBs

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Next step: robustly identify effect of within-country variation

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Matching with Weighted Difference-in-Differences

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Matching with Weighted Difference-in-Differences

Comparison:

- Countries that experienced change in structure with countries that did not
- But are similar on pre-treatment covariates and treatment histories

Effect of bureaucratic change on TTBs

Next step: robustly identify effect of within-country variation

Matching with Weighted Difference-in-Differences

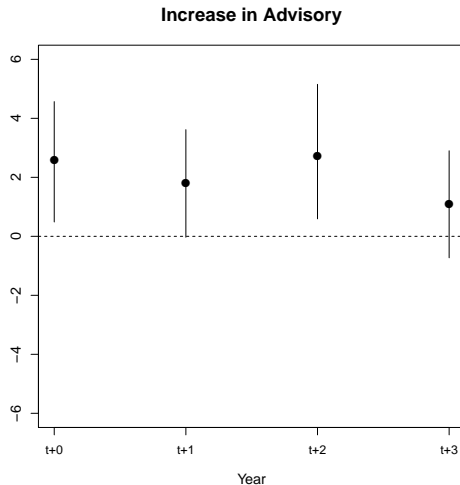
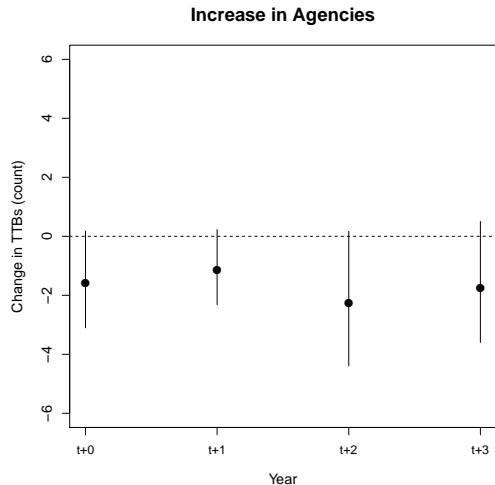
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Method:

1. Select set of control observations with identical treatment histories
2. Refine control set to keep only observations with similar covariates
3. Adjust for time-invariant unobserved variables via diff-in-diff estimator

Effect of bureaucratic change on TTBs



DV: TTB initiations (count). X-axis shows the treatment effect up to 3 years after a country experienced institutional changes. Treated observations are matched using their outcome histories for 3 years prior to bureaucratic changes.

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Challenges

1. Bureaucratic reforms are infrequent
2. Lack of systematic data on access (often incomplete, convenience samples)

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Solution: Japan case

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Solution: Japan case

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 2. 2009 reform to Japan's National Civil Service Act mandates reports of re-employment of civil servants
- Full network of interest group - bureaucratic connections

Personnel reforms: eroding bureaucratic autonomy

Reforms	Year	Autonomy	Consolidation
Personnel affairs:			
Act on Personnel Exchange	1999	-	
Government Policy Evaluation Act	2002	-	
National Civil Service Law	2007	-	
DPJ reforms	2009	-	
Cabinet Bureau of Personnel Affairs	2013	-	
TPP Headquarters	2014	+	+

As reforms erode bureaucratic autonomy, we should observe:

1. increased interest group access
2. decreased liberalization

Revolving-door as access

Amakudari: hiring former bureaucrats in private sector positions

- Central channel of informal access in Japan
- Brings connections and know-how

What type of experience helps lobby bureaucrats?

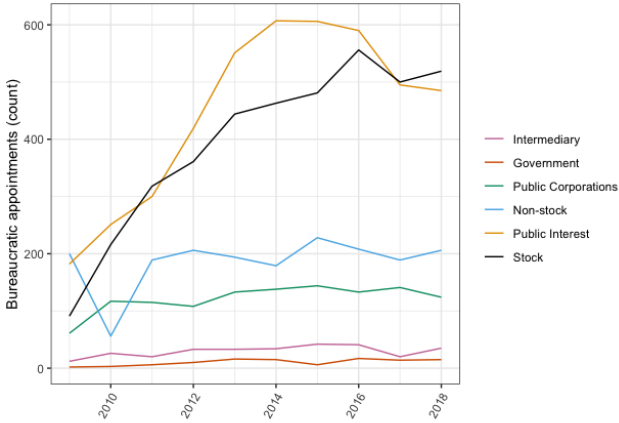
“Networks are important. But most important is an understanding of bureaucratic internal procedures.”

(Interview conducted by author with former METI bureaucrat currently working for a multinational corporation)

Amakudata: A database of revolving-door in Japan

- With Trevor Incerti (Yale), Sayumi Miyano (Princeton), and Hikaru Yamagishi (Yale)
- A list of approximately **13,000 former civil servants** who have “retired” from the bureaucracy over the past decade, including information about:
 - Name of the official.
 - Date of retirement from the civil service.
 - Age of retirement.
 - Former ministry and bureau/agency of employment.
 - Former bureaucratic position title.
 - New company or agency of new employment.
 - New place of employment position title.

As autonomy decreased firms gained access



Number of former bureaucrats appointed in revolving-door positions (x-axis) by type of employment

A decade of mixed liberalization

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(METI Trade White Paper 2010:501)

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- Low liberalization rates (Solis and Katada 2015)
- Low utilization rates (Ando and Urata 2018)

*“The liberalization rate of the EPA’s concluded by Japan [...] is about 86 – 87% on a tariff line basis. This **reflects the fact that Japan has set up many exceptions to liberalization.***

(METI Trade White Paper 2010:501)

A decade of mixed liberalization

- Large number of Economic Partnership Agreements
- Low liberalization rates (Solis and Katada 2015)
- Low utilization rates (Ando and Urata 2018)

*“The liberalization rate of the EPA’s concluded by Japan [...] is about 86 – 87% on a tariff line basis. This **reflects the fact that Japan has set up many exceptions to liberalization.** [...] there is no denying that the liberalization rate of the FTAs concluded by Japan thus far has been low.”*

(METI Trade White Paper 2010:501)

Declining group access after TPP Headquarters

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*“To keep our hand on the pulse and get a sense of the redline, in TPP Headquarters we cooperated with ministries to get information on what stakeholders wanted. We fed back to ministries with where negotiations were at. So it worked **without us directly communicating with industry.**”*

(Interview conducted by author with former TPP negotiator, July 2018)

Deep Liberalization

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under the TPP...

*“TPP represented a **monumental shift** by the Japanese government in pushing back against domestic political protectionism and embracing extensive trade liberalization measures the country had long opposed.”*

(Pempel 2018:212)

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(Pempel 2018:212)

... and Japan-EU EPA

*“Japan [has **liberalized**] 97% of tariff lines and **99% of imports**. On the 3% of tariff lines not fully liberalised, Japan has given significant concessions in terms of tariff rate quotas and tariff reductions.”*

(European Union 2018:1)

Takeaways of Japan case study

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 - Increased interest group access during periods of lower autonomy
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 - Reforms aimed to eliminate ministry sectionalism and vested interests by reducing autonomy
 - Yet they had opposite effect

Conclusion

Conceptualizing & measuring bureaucracy

Substantial inter-agency heterogeneity and need for inter-agency coordination

~> Move beyond conceptualizing the bureaucracy as monolithic

Politics of bureaucratic design

Bureaucratic structure often contested

~> Important to study how different arrangements affect policy

Democratic accountability

Proposals for increasing political control claim it will increase democratic accountability

~> Less bureaucratic autonomy empowers groups outside government, often in informal processes

Supplemental slide list

Cross-national

- ▶ Motivation: Expanding Trade Scope
- ▶ Bureaucratic Typology Validation
- ▶ Data Distribution
- ▶ Data Distribution: Income Level
- ▶ Data Distribution: Regime Type
- ▶ Data: Confounders
- ▶ Data: Coding Validity
- ▶ Descriptives: Cross-Sectional Variation
- ▶ Estimation: OLS

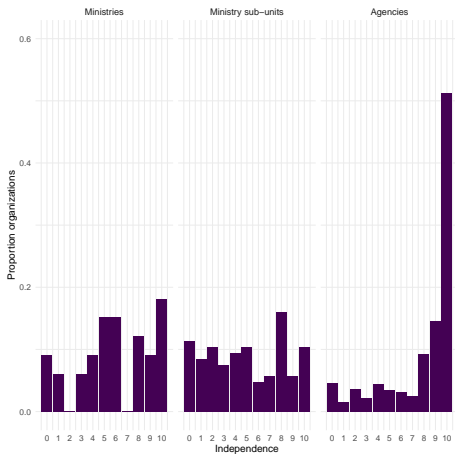
Japan

- ▶ Alternative Explanation: Competitive Diffusion
- ▶ Alternative Explanation: Electoral Mechanisms
- ▶ Access: Personnel Exchanges
- ▶ TPP Access: Industry Views
- ▶ Revolving door data description
- ▶ Amakudata: Firm types
- ▶ Observable Implications: Trade
- ▶ PTA Exceptions
- ▶ TTBs

US

- ▶ Trade agencies
- ▶ TTBs: Investigation Process
- ▶ TTBs: Definitions

Typology Validation



The x-axis shows independence, from 0—no independence—to 10—most independence. The y-axis shows the proportion of organizations within each organizational independence score. Total observations: 553 institutions.

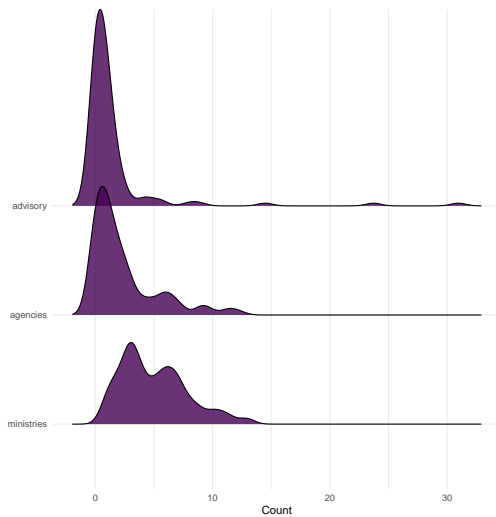
Alternative Explanations: Competitive Diffusion

- Trade/Investment diversion from PTA proliferation incentivizes countries to pursue PTAs
- Expectation: Japan's PTA will also vary with competitive pressures in the region
- late 1990s: competitive diffusion logic played a role in Japan's decision to start pursuing preferential trade liberalization
- 2000s: rising differences in FTA commitments between Japan and South Korea → new competitive pressures for deeper liberalization
- Acknowledged by politicians, interest groups, and bureaucrats (Yoshimatsu 2015)
- Yet Japan delayed negotiations with partners it recognized as important

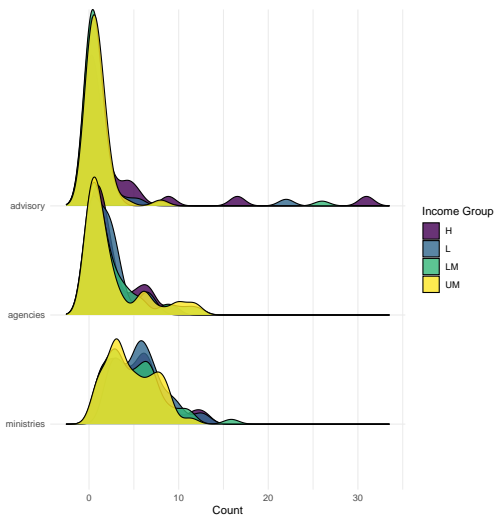
Alternative Explanations: Electoral Mechanisms

- Extensive empirical support for proposition that regime type affects PTAs
- Mechanism is electoral: democratic leaders use PTAs to signal to voters commitment to liberalization
- Expectation: Proportional representation systems will incentivize leaders to target benefits broadly
- Expectation: after 1994 reforms, Japanese politicians will have fewer incentives to give protection to groups they previously relied on, so will prioritize foreign economic policy
- Yet bureaucrats and not politicians drove Japan's earlier PTA efforts
- Timeline mismatch as well: Japan embarked in PTA agenda after 2001, but we know in other policy areas 1994 electoral reform changes led to a shift in electoral strategies as early as 1997 election

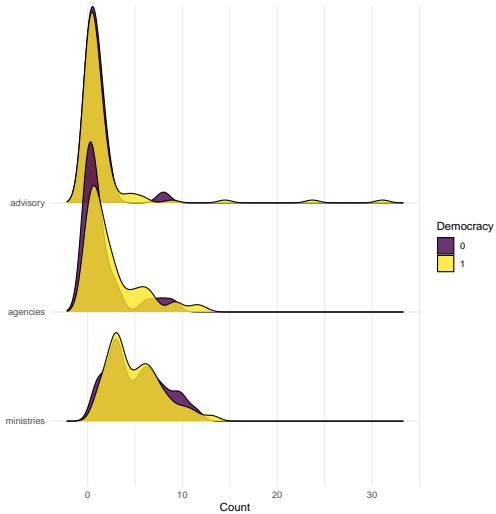
Distributions of Bureaucracy Variables



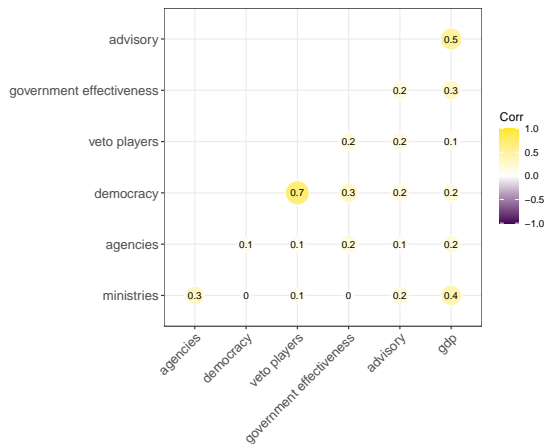
Distributions of Bureaucracy Variables vs Income Level



Distributions of Bureaucracy Variables vs Regime Type



Weak Correlation with Confounders for Institutional Design



Member agencies of the Trade Policy Review Group (TPRG)

- Department of Commerce
- Department of Agriculture
- Department of State
- Department of Treasury
- Department of Labor
- Department of Justice
- Department of Defense
- Department of Interior
- Department of Transportation
- Department of Energy
- Department of Health and Human Services
- Environmental Protection Agency
- Office of Management and Budget
- International Development Cooperation Agency
- International Trade Commission (non-voting member)

Coding validity

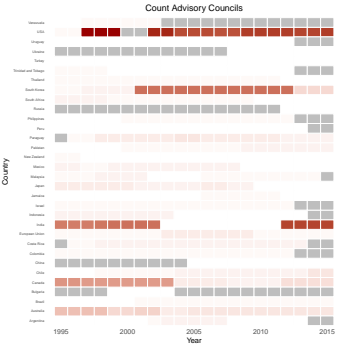
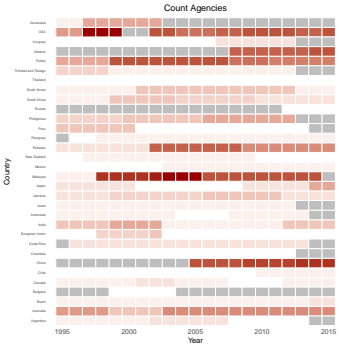
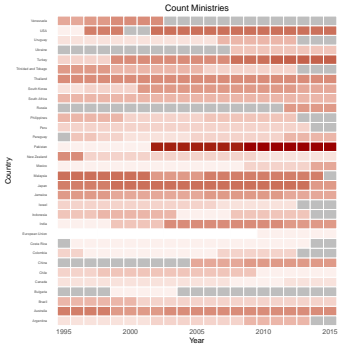
9. There has been little change in the basic institutional framework governing the formulation and implementation of Japan's trade and investment policies, except for the regulatory regime concerning financial services. Responsibility for trade-related issues remains with several ministries, particularly Foreign Affairs (MOFA), International Trade and Industry (MITI), Finance (MOF), Agriculture, Forestry and Fisheries (MAFF), Construction (MOC), Transport (MOT), Health and Welfare (MHW), and Posts and Telecommunications (MPT), as well as with the Economic Planning Agency (EPA), and the Japan Fair Trade Commission (JFTC) . The financial services sector is regulated by the Financial Supervisory Agency, established in June 1998 as a result of a regulatory reform in MOF (Chapter IV(5) (ii)) .

16. The ministries and agencies in the Government are to undergo major restructuring in January 2001; thus, the existing Prime Minister's Office and 22 ministries and agencies will be reorganized into the Cabinet office and 12 ministries and agencies, each of which will be established under a new law.

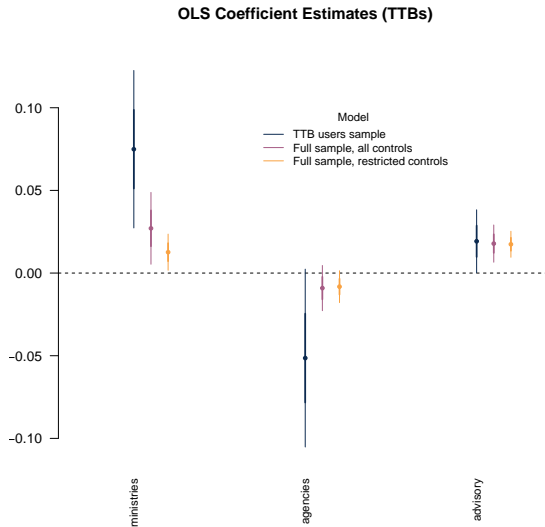
3.91. JETRO is the official agency responsible for promoting exports through information, research, support for, and participation in, international trade fairs, and other activities to promote exports from, and investment in, Japan. JETRO was originally established in 1958 but now operates as an incorporated administrative agency under the Japan External Trade Organization Incorporated Administrative Agency Act of 2002. JETRO currently has 74 offices around the world.

Excerpts from WT/TPR/S/76 (2000) & WT/TPR/S/310 (2013) of Japan.

Cross-Sectional Variation (AD users subsample)



Effect Over Time: trade-weighted TTB stock



AD Investigation Process

- A petition is filed
- Department of Commerce (DOC) summary investigation to determine if there is adequate information in the petition to support the allegation of dumping
- International Trade Commission (ITC) preliminary investigation to see if there is 'reasonable indication' of injury
- DOC investigation to determine if there is evidence of dumping and calculation of the dumping margin
- ITC final injury determination

TTB Definitions

- **Dumping:** “Dumping” is defined in section 771(34) of the Act (19 U.S.C. § 1677(34)) as “the sale or likely sale of goods at less than fair value.” In more specific terms, dumping is defined as selling a product in the United States at a price which is lower than the price for which it is sold in the home market (the “normal value”), after adjustments for differences in the merchandise, quantities purchased, and circumstances of sale.
- **Safeguards:** taken where a surge of imports causes or threatens to cause, serious material injury to a domestic industry. It allows a country to respond to unexpected and unforeseen increased imports which have caused serious material injury.
- **Countervailing:** countermeasure employed against unfairly subsidized imports.

Declining group access after TPP Headquarters

- Interest group representatives also highlighted differences in coordination after the creation of the TPP Headquarters:

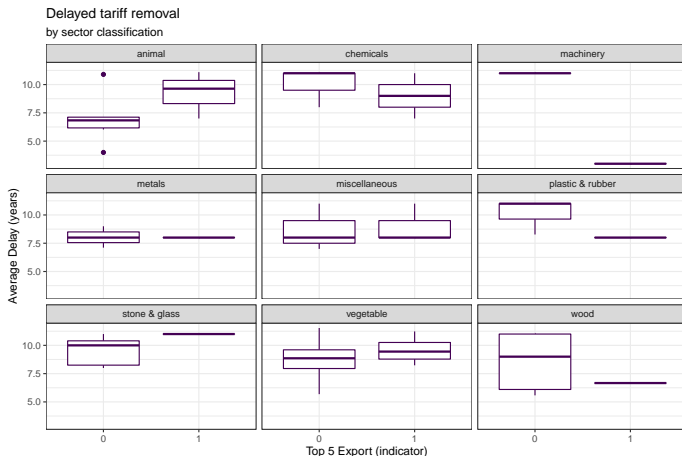
*“During TPP, there was an agreement for **non-disclosure outside of the TPP negotiating team even in government**. So, we were not allowed to access this information, but we could still exchange opinions with the ministries. Of course, it was different not seeing the text.”*

(Interview conducted by author with Keidanren official, June 2018)

Japan: Observable Implications for Trade

1. As autonomy decreases, exceptions proliferate
2. When interest groups have more access to the bureaucracy:
 - 2.1 Exceptions will be more diffuse across sectors
 - 2.2 Even those interest groups with lower stakes in a trade agreement will try to influence the negotiations agenda

Average Years of Delay by Sector Classification and Partner Competitiveness



Boxplots show average years of tariff removal delay (y-axis) by sector. The x-axis is an indicator variable that equals 1 if the sector ranks in the top 5 exported sectors of the partner country. *Data source: van Lieshout 2020*

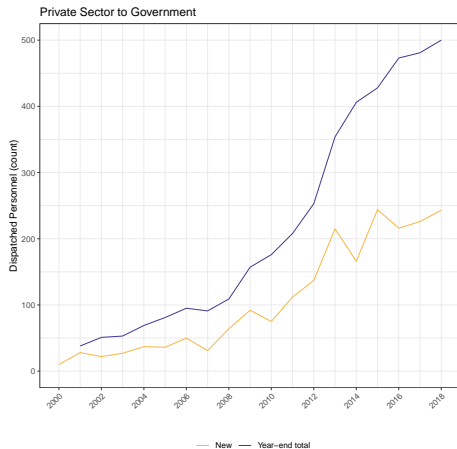
TTBs in Japan

Very limited usage of TTBs, although this is gradually changing

- Few advisory groups around trade
- Strong informal channels of ministries - sectoral groups cooperation
- But also lack of demand from industry for TTBs

“Industry already moved production outside, so they perceive METI’s shift to a more permissive trade remedy environment as too late. They experienced METI’s previous attitude with respect to remedies, when METI refused to accept petitions. In addition, the 2001 safeguard case was seen as a bad experience, and unlike the United States, we do not have a good established practice.” (Interview conducted by author)

Rising access through personnel exchanges



Number of private sector representatives seconded to work in a ministry (y-axis) by year of appointment (x-axis). *Data source: compiled from Annual Report FY2018, National Personnel Authority, Government of Japan.*

Amakudata: A database of revolving-door in Japan

- With Trevor Incerti (Yale), Sayumi Miyano (Princeton), and Hikaru Yamagishi (Yale)
- A list of approximately **13,000 former civil servants** who have “retired” from the bureaucracy over the past decade, including information about:
 - Name of the official.
 - Date of retirement from the civil service.
 - Age of retirement.
 - Former ministry and bureau/agency of employment.
 - Former bureaucratic position title.
 - New company or agency of new employment.
 - New place of employment position title.

▶ [Appendix](#)

▶ [Main](#)

Amakudata: Firm types

- **Intermediary:** Credit/business cooperatives; Health insurance societies; Mutual life insurance companies
- **Public Interest:** Foundations; Incorporated associations; Social welfare corporations; Educational institutions; Medical institutions
- **Government:** Embassies; Bank of Japan; Upper House; Lower House
- **Public Corporations:** Incorporated administrative agencies; Local government
- **Non-stock:** Limited liability company; Limited partnership company; Independent businesses
- **Stock**

Expansion in trade scope may increase importance of bureaucracy

▶ Appendix

Expansion in trade scope may increase importance of bureaucracy

Changes in objectives set by selected US trade laws, 1962-2002:

▶ Appendix

Expansion in trade scope may increase importance of bureaucracy

Changes in objectives set by selected US trade laws, 1962-2002:

1962	1974	2002
Duties or other import restrictions	Agricultural and industrial trade barriers and distortions	Trade barriers and distortions
Conservation of fishery resources	GATT revision	Fish industry
	Developing countries	Reciprocal trade in agriculture
	Safeguards	Border taxes
	Access to supplies	Improvement of WTO and multilateral trade agreements
	Freedom of emigration from Communist countries	WTO-extended negotiations (civil aircraft and rules of origin)
		Trade-remedy laws
		Dispute-settlement and enforcement
		Trade in services
		Intellectual property
		Foreign investment
		Transparency
		Labour and the environment
		Worst forms of child labour
		Anti-corruption
		Regulatory practices
		Electronic commerce
		Textile negotiations