Foreign Policy or Industrial Policy? The Design of Trade Bureaucracy

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Harvard University

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Trade as a Cross-Cutting Issue

- Central role in economic growth; tool of \textit{industrial policy}
- Foundation of interdependence; instrument of \textit{diplomacy}

\textit{Cannot separate domestic and international levels of policy-making}
Research question: When is trade policy treated as foreign policy or industrial policy?

Different design choices for which ministry holds oversight:
- Diplomacy first: Foreign Affairs Ministry
- Industrial policy first: Commerce Ministry
- Independence/joint management: Trade Ministry

*Inter-ministry coordination, but one ministry leads*
Trade Policy Dilemma

- Tradeoff between cooptation of trade as foreign policy or capture by economic interests
  - Issue Linkage
  - Firewalls
  - Delegation
Hypotheses

1. **Foreign policy lead**: Governments with an active foreign policy will be more likely to locate trade policy within the foreign ministry.

2. **Industrial policy lead**: Governments with an active industrial policy will be more likely to locate trade policy within the ministry of commerce.

3. **Institutional complementarity**: Parliamentary government supports higher levels of delegation to the foreign ministry including the jurisdiction over trade policy.
Motivating Cases

- Creation of USTR through series of legislative acts (1962-1979)
  - Congress protects trade from foreign policy linkage
- Canada integrates trade within foreign affairs ministry
  - Brief debate about separation in 2003 ends without change
- Korea alternates ministry control over trade policy
  - Industry-led trade policy as developmental state
  - In 1998, foreign affairs ministry is given authority over trade to promote free trade negotiations
  - Revive Ministry of Trade, Industry, and Energy in 2013
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 Ministry Lead
  - Independent Bureaucracy Lead
Empirical Analysis

Foreign Affairs Lead: Variation over Time

![Foreign Affairs Lead Chart]

- Australia
- Barbados
- Brazil
- Brunei Darussalam
- Burundi
- Canada
- Chile
- Croatia
- Dominica
- Dominican Republic
- Eswatini
- European Union
- Fiji
- Guyana
- Iceland
- Jamaica
- Japan
- Korea, Rep.
- Liechtenstein
- Mauritius
- Morocco
- New Zealand
- Norway
- Papua New Guinea
- Paraguay
- Solomon Islands
- St. Kitts and Nevis
- St. Lucia
- St. Vincent and the Grenadines
- Tonga
- United Arab Emirates
- Uruguay
- Venezuela, RB

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Empirical Analysis

Independent Trade Ministry: Variation over Time

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Modeling Choice of Lead Ministry

Explanatory variables

- Foreign policy activism
  - Outward engagement (embassies count)
  - Multilateralism (IGO membership count)
  - Conflict involvement (MIDs)

- Industrial policy activism
  - Protection levels (MFN tariffs)
  - Industrialization (manufacturing share)

- Parliamentary government indicator

Control variables: income, polity score, trade share of GDP

Multinominal logit regression model
## Analysis of Bureaucratic Design of Trade Policy

<table>
<thead>
<tr>
<th></th>
<th>Model 1 FA</th>
<th>Model 1 Industry</th>
<th>Model 2 FA</th>
<th>Model 2 Industry</th>
<th>Model 3 FA</th>
<th>Model 3 Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>IGO memberships</td>
<td>0.958</td>
<td>0.956</td>
<td>0.975*</td>
<td>0.986</td>
<td>0.527</td>
<td>0.703</td>
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<tr>
<td></td>
<td>(-1.64)</td>
<td>(-1.86)</td>
<td>(-2.46)</td>
<td>(-1.91)</td>
<td>(-1.56)</td>
<td>(-1.09)</td>
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<tr>
<td>Embassies Sent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.975*</td>
<td>0.986</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>(-2.46)</td>
<td>(-1.91)</td>
</tr>
<tr>
<td>MIDs (logged, 3yrs prior)</td>
<td>1.014</td>
<td>0.960*</td>
<td>1.020</td>
<td>0.961</td>
<td>1.006</td>
<td>0.947*</td>
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<tr>
<td></td>
<td>(0.82)</td>
<td>(2.18)</td>
<td>(0.84)</td>
<td>(-1.69)</td>
<td>(0.27)</td>
<td>(-2.43)</td>
</tr>
<tr>
<td>GDP per capita (1000s)</td>
<td>0.997</td>
<td>1.004</td>
<td>0.994</td>
<td>1.004</td>
<td>0.997</td>
<td>1.006</td>
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<tr>
<td></td>
<td>(-0.28)</td>
<td>(0.40)</td>
<td>(-0.66)</td>
<td>(0.47)</td>
<td>(-0.25)</td>
<td>(0.56)</td>
</tr>
<tr>
<td>Trade as share of GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(2.19)</td>
<td>(1.08)</td>
<td>(2.56)</td>
<td>(1.52)</td>
<td>(2.33)</td>
<td>(1.25)</td>
</tr>
<tr>
<td>Polity</td>
<td>0.989</td>
<td>0.894</td>
<td>0.988</td>
<td>0.883*</td>
<td>0.955</td>
<td>0.866*</td>
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<tr>
<td></td>
<td>(-0.16)</td>
<td>(-1.70)</td>
<td>(-0.17)</td>
<td>(-1.96)</td>
<td>(-0.65)</td>
<td>(-2.15)</td>
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<tr>
<td>N</td>
<td>2160</td>
<td>2487</td>
<td>1829</td>
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</tr>
</tbody>
</table>

Exponentiated coefficients; \( t \) statistics in parentheses

* \( p < 0.05 \), ** \( p < 0.01 \), *** \( p < 0.001 \)
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<td>MFN tariffs (weighted)</td>
<td>1.044 (0.48)</td>
<td>1.045 (0.50)</td>
<td>0.936 (-0.84)</td>
<td>0.929 (-1.73)</td>
</tr>
<tr>
<td>Manufacturing Share (%)</td>
<td></td>
<td></td>
<td>0.999 (-0.06)</td>
<td>0.941** (-2.74)</td>
</tr>
<tr>
<td>GDP per capita (1000s)</td>
<td>0.999 (-0.06)</td>
<td>0.941** (-2.74)</td>
<td>0.995 (-0.23)</td>
<td>0.943** (-2.83)</td>
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<tr>
<td>Trade as share of GDP</td>
<td>1.006 (0.50)</td>
<td>1.012 (1.14)</td>
<td>1.011 (0.99)</td>
<td>1.020 (1.88)</td>
</tr>
<tr>
<td>Parliamentary</td>
<td>7.285* (2.18)</td>
<td>3.246 (1.35)</td>
<td>8.428* (2.13)</td>
<td>4.056 (1.63)</td>
</tr>
<tr>
<td>Polity</td>
<td>0.985 (-0.19)</td>
<td>0.852* (-2.11)</td>
<td>0.973 (-0.37)</td>
<td>0.885 (-1.78)</td>
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<tr>
<td>N</td>
<td>1688</td>
<td>2152</td>
<td></td>
<td></td>
</tr>
</tbody>
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Exponentiated coefficients; t statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$
Result: Marginal Effect of Parliamentary System
Conclusion

Mixed results
- Little evidence of relation between policy orientation (foreign policy vs industrial policy) and the bureaucratic design of trade policy.
- Pattern of complementary institutional structures as parliamentary governments delegate to the foreign ministry.

Next steps
- Modeling nonlinear relation between industrial policy activism and trade bureaucracy design.
- What are the effects of trade bureaucracy design?