

Foreign Policy or Industrial Policy? The Design of Trade Bureaucracy

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Trade as a Cross-Cutting Issue

- Central role in economic growth; tool of **industrial policy**
- Foundation of interdependence; instrument of **diplomacy**

Cannot separate domestic and international levels of policy-making

The Bureaucratic Design of Trade Policy

- 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.*

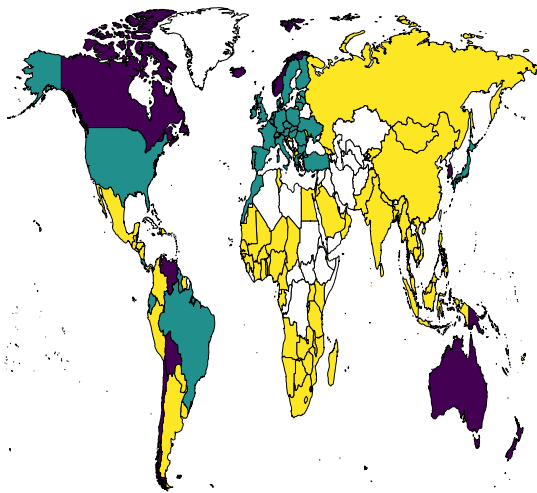
Motivating Cases

- 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

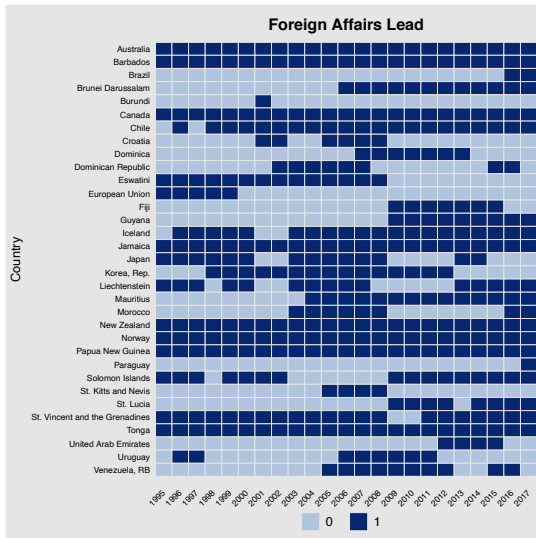
- Scope
 - 134 countries from 1995 to 2017
- Source
 - WTO Trade Policy Review reports
 - WTO Ministerial Conference plenary speeches
- Three categories of trade policy design
 - Foreign Affairs Ministry Lead
 - Industry Ministry Lead
 - Independent Bureaucracy Lead

Mapping Trade Policy

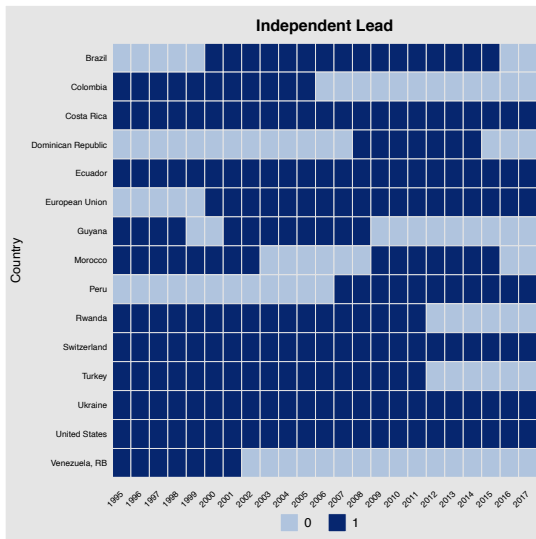


Bureaucratic Lead: ■ foreign affairs ■ independent/joint ■ industry NA

Foreign Affairs Lead: Variation over Time



Independent Trade Ministry: Variation over Time



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
- Multinomial logit regression model

Analysis of Bureaucratic Design of Trade Policy

	Model 1		Model 2		Model 3	
	FA	Industry	FA	Industry	FA	Industry
IGO memberships	0.958 (-1.64)	0.956 (-1.86)				
Embassies Sent			0.975* (-2.46)	0.986 (-1.91)		
MIDs (logged, 3yrs prior)					0.527 (-1.56)	0.703 (-1.09)
GDP per capita (1000s)	1.014 (0.82)	0.960* (-2.18)	1.020 (0.84)	0.961 (-1.69)	1.006 (0.27)	0.947* (-2.43)
Trade as share of GDP	0.997 (-0.28)	1.004 (0.40)	0.994 (-0.66)	1.004 (0.47)	0.997 (-0.25)	1.006 (0.56)
Parliamentary	6.173* (2.19)	2.321 (1.08)	7.762* (2.56)	2.863 (1.52)	6.594* (2.33)	2.452 (1.25)
Polity	0.989 (-0.16)	0.894 (-1.70)	0.988 (-0.17)	0.883* (-1.96)	0.955 (-0.65)	0.866* (-2.15)
<i>N</i>	2160		2487		1829	

Exponentiated coefficients; *t* statistics in parentheses

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

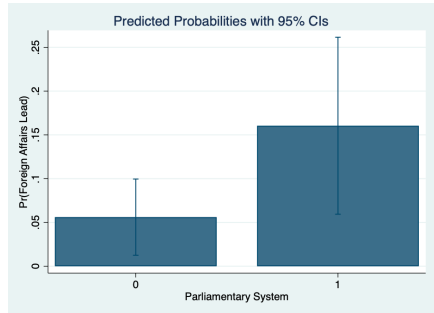
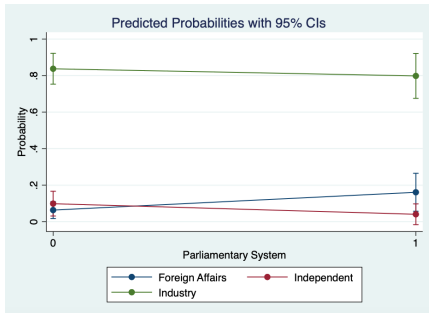
Analysis of Bureaucratic Design of Trade Policy

	Model 1		Model 2	
	FA	Industry	FA	Industry
MFN tariffs (weighted)	1.044 (0.48)	1.045 (0.50)		
Manufacturing Share (%)			0.936 (-0.84)	0.929 (-1.73)
GDP per capita (1000s)	0.999 (-0.06)	0.941** (-2.74)	0.995 (-0.23)	0.943** (-2.83)
Trade as share of GDP	1.006 (0.50)	1.012 (1.14)	1.011 (0.99)	1.020 (1.88)
Parliamentary	7.285* (2.18)	3.246 (1.35)	8.428* (2.13)	4.056 (1.63)
Polity	0.985 (-0.19)	0.852* (-2.11)	0.973 (-0.37)	0.885 (-1.78)
<i>N</i>	1688		2152	

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?