

# 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?

# Domestic institutions & economic policymaking

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- ↪ Original data on structure (135 countries × 20 yrs)

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  - Leverage support of groups with aligned preferences



## From theoretical dimensions to systematic cross-country comparison

	Independence	Expertise	Example	Trade Exceptions
Agency				
Ministry				
Advisory				

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## Dependent variable: Temporary Trade Barriers (TTBs)

- Non-ambiguous relationship to lobbying efforts
- Involve bureaucratic discretion → influence policy via bureaucratic channels
- Helps mitigate some endogeneity and reverse causality concerns

▶ Definitions

▶ Process

# Comparative trade policy bureaucracy dataset



WORLD TRADE  
ORGANIZATION

**RESTRICTED**

**WT/TPR/S/397**

22 January 2020

(20-0553)

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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.

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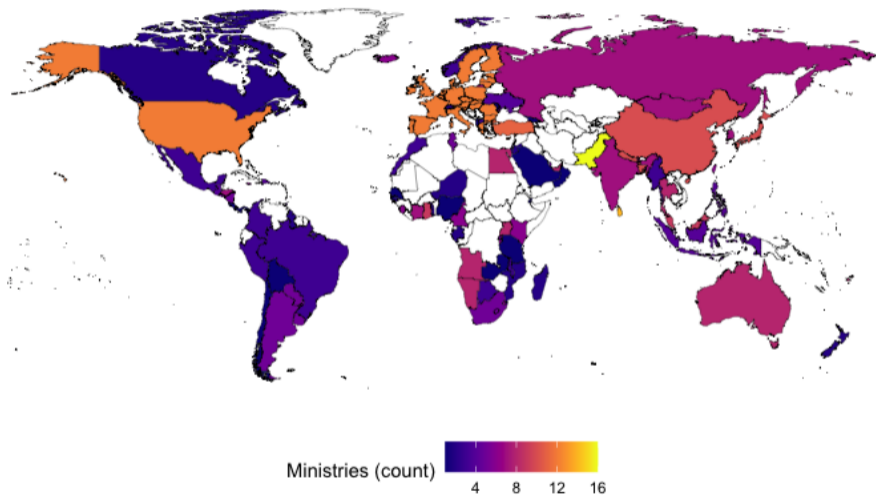
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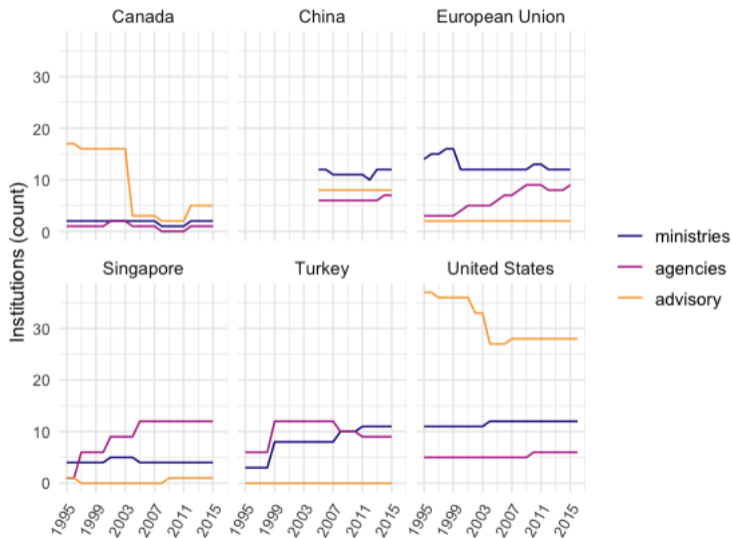
## WTO Trade Policy Reviews

- 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

# How much variation in bureaucracy? (2012)



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## Estimation: effect of bureaucratic structure on TTBs

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## Zero-Inflated Negative Binomial

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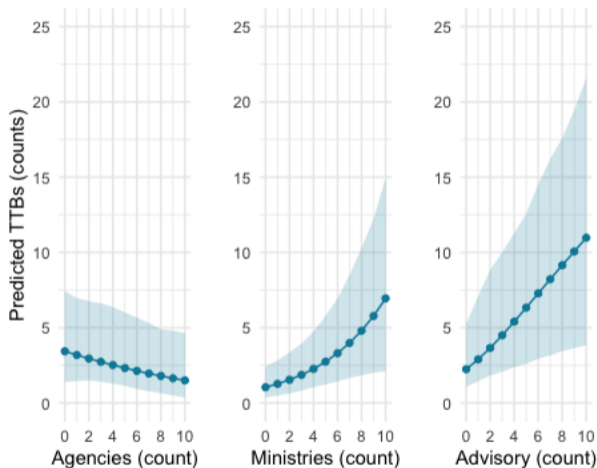
- Model two possible data generating processes:
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### Covariates:

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  $\uparrow$  Agencies  $\downarrow$  Exceptions
- H2  $\uparrow$  Ministries  $\uparrow$  Exceptions
- H3  $\uparrow$  Advisory groups  $\uparrow$  Exceptions

## Substantively significant:

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

# Takeaways

## 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

## Policy outcomes

Bureaucracy can promote economic growth

~> Fragmented processes & formalized group participation → more trade barriers

# Supplemental slide list

## Cross-national

- ▶ Bureaucratic Typology Validation
- ▶ Data Distribution
- ▶ Data Distribution: Income Level
- ▶ Data Distribution: Regime Type
- ▶ Data: Confounders
- ▶ Data: Coding Validity
- ▶ Descriptives: Cross-Sectional Variation
- ▶ Estimation: OLS
- ▶ Matching DiD: estimation
- ▶ Matching DiD: results

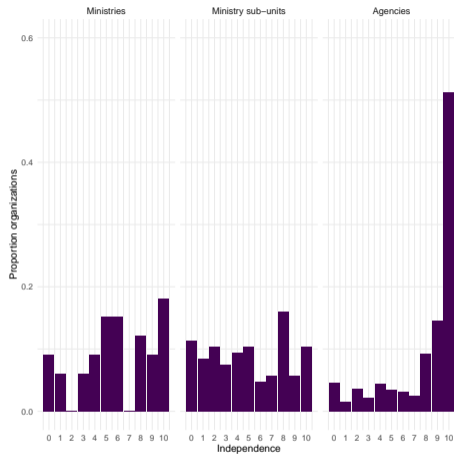
## Japan

- ▶ Mechanisms
- ▶ Personnel Reforms
- ▶ Access: Revolving-door
- ▶ Access: Personnel Exchanges
- ▶ Access: Descriptives
- ▶ Revolving door data description
- ▶ Amakudata: Firm types
- ▶ 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.



# 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

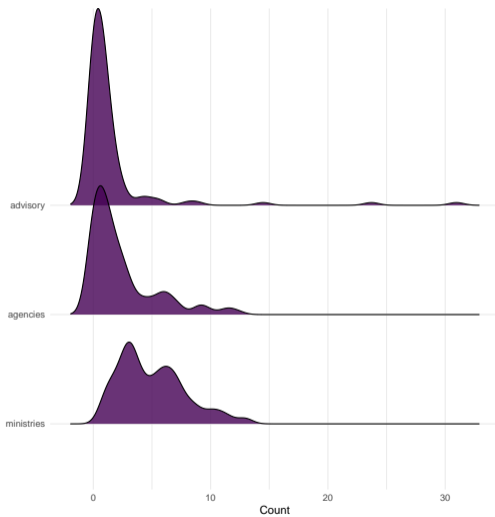
## Challenges:

- 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

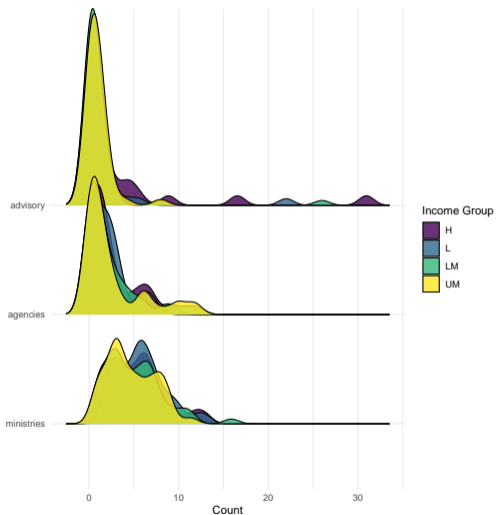
## To ensure comparability:

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

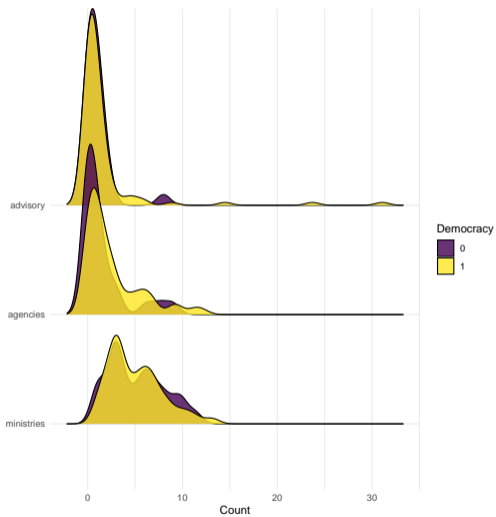
# Distributions of Bureaucracy Variables



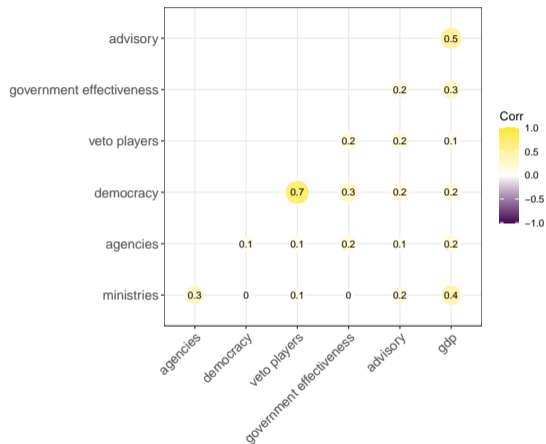
# Distributions of Bureaucracy Variables vs Income Level



# 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)) .

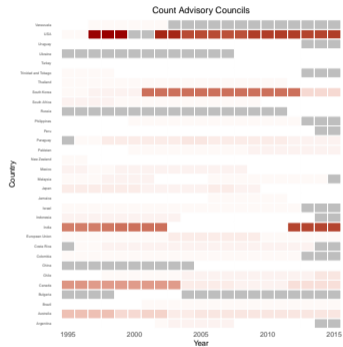
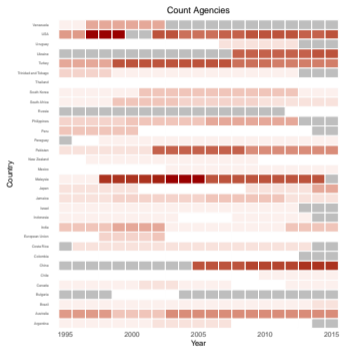
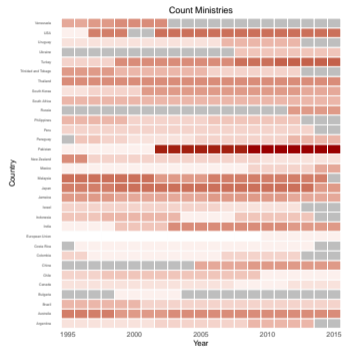
16. The ministries and agencies in the Government are to undergo major restructuring in January 2001; thus, the existing Prime Minister's Office and 22 ministries and agencies will be reorganized into the Cabinet office and 12 ministries and agencies, each of which will be established under a new law.

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.

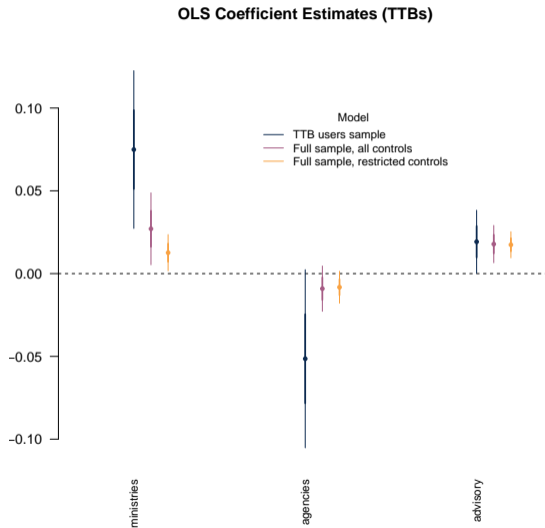
Excerpts from WT/TPR/S/76 (2000) & WT/TPR/S/310 (2013) of Japan.



# Cross-Sectional Variation (AD users subsample)



# Effect Over Time: trade-weighted TTB stock



# 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

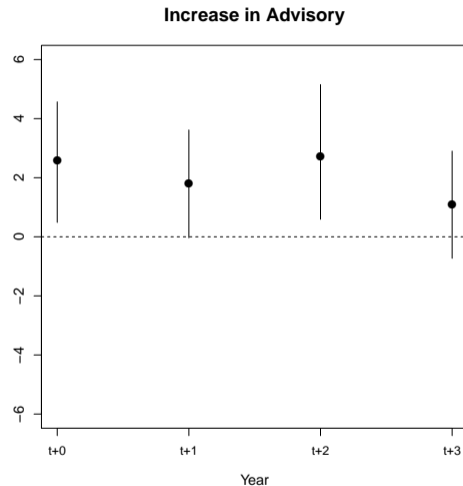
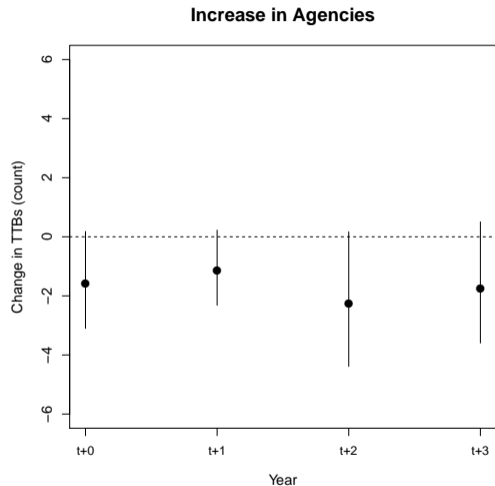
### Comparison:

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- But are similar on pre-treatment covariates and treatment histories

### 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.



# 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.

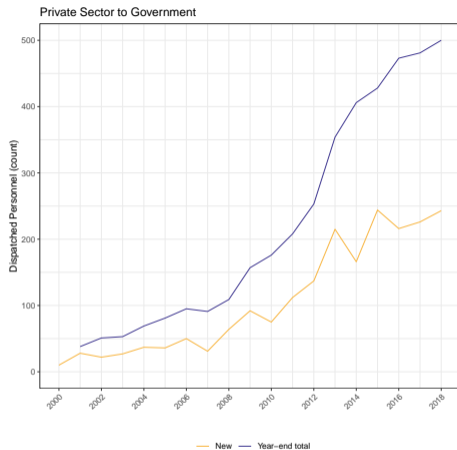
## TTBs in Japan

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.

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## 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**

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- Full network of interest group - bureaucratic connections

## Personnel reforms: eroding bureaucratic autonomy

Reforms	Year	Autonomy
Act on Personnel Exchange	1999	-
Government Policy Evaluation Act	2002	-
National Civil Service Law	2007	-
DPJ reforms	2009	-
Cabinet Bureau of Personnel Affairs	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

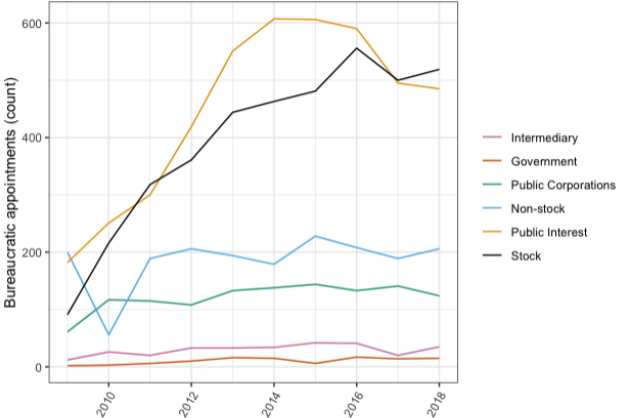
## What type of experience helps lobby bureaucrats?

*“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)*



# As autonomy decreased firms gained access



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